

NatWest South West PMI®

Business activity returns to growth in February

South West Business Activity Index



Key findings

Fresh increases in activity, new orders and employment

Business confidence hits one-year high

Inflationary pressures remain historically sharp

At 52.5 in February, the headline NatWest South West PMI® Business Activity Index – a seasonally adjusted index that measures the month-on-month change in the combined output of the region’s manufacturing and service sectors – increased from 47.0 at the start of 2023. This signalled the first increase in activity across the region for seven months, albeit one that was modest and slightly softer than the UK average.

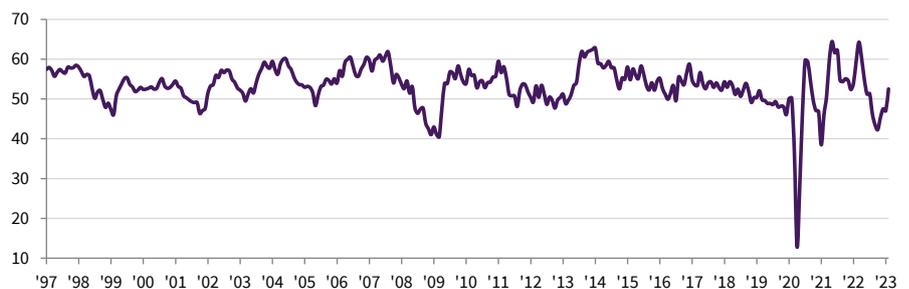
Supporting the fresh rise in activity was a renewed upturn in new business, which firms often attributed to firmer underlying demand conditions. This translated into improved confidence around the 12-month outlook for activity, which hit a one-year high in February, and the first expansion of staffing levels for three months. However, inflationary pressures remained elevated, with companies seeing further marked increases in input costs and output charges.

Paul Edwards, Chair, NatWest South West Regional Board, commented:

"The latest PMI data painted a positive picture of South West private sector performance in February, with firms seeing fresh rises in output, sales and employment. The turnaround in conditions was reportedly due to improved customer demand and stronger confidence around the outlook, which led clients to push on with projects and place more orders. Notably, business confidence around the year-ahead improved to its highest since February 2022 as firms anticipate a sustained recovery in economic activity and increased investment. However, strong cost pressures persisted, driven in part by rising staff and energy costs. Although input price inflation slipped to a 22-month low, it remained much higher than the historical average, and contributed to a further marked increase in selling prices."

South West Business Activity Index

sa, >50 = growth since previous month



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About the South West PMI® report

The NatWest South West PMI® is compiled by S&P Global from responses to questionnaires sent to South West companies that participate in S&P Global's UK manufacturing and services PMI surveys.

Survey responses are collected in the second half of each month and indicate the direction of change compared to the previous month. A diffusion index is calculated for each survey variable. The index is the sum of the percentage of 'higher' responses and half the percentage of 'unchanged' responses. The indices vary between 0 and 100, with a reading above 50 indicating an overall increase compared to the previous month, and below 50 an overall decrease. The indices are then seasonally adjusted.

The headline figure is the Business Activity Index. This is a diffusion index

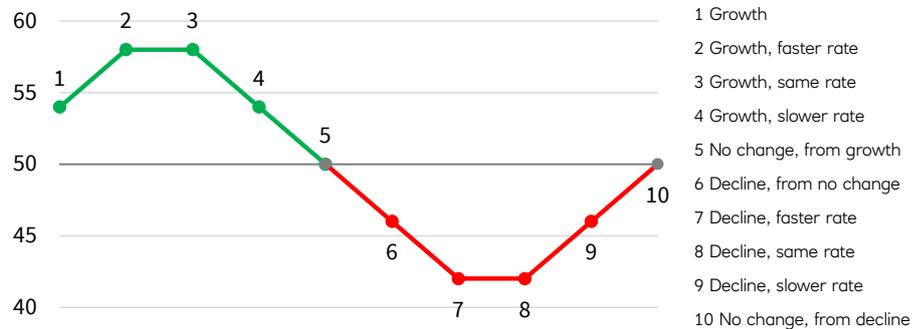
calculated from a single question that asks for changes in the volume of business activity (at service providers) or output (at manufacturers) compared with one month previously. The South West Business Activity Index is comparable to the UK Composite Output Index. It is sometimes referred to as the 'South West PMI', but is not comparable with the headline UK Manufacturing PMI figure.

Underlying survey data are not revised after publication, but seasonal adjustment factors may be revised from time to time as appropriate which will affect the seasonally adjusted data series.

For further information on the PMI survey methodology, please contact economics@ihsmarkit.com.

Index interpretation

50.0 = no change since previous month



Demand and outlook

Fresh rise in new business in February

The amount of new business placed with South West private sector firms increased during February, thereby ending a seven-month sequence of decline. The rate of expansion was mild, however, and slower than the UK-wide average. Companies that registered higher sales often mentioned that customer demand had strengthened amid improved sentiment around the outlook.

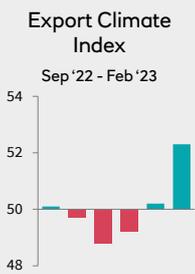
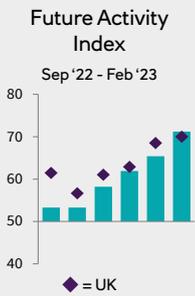
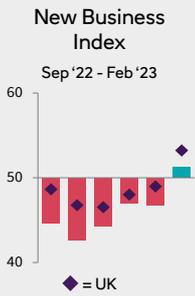
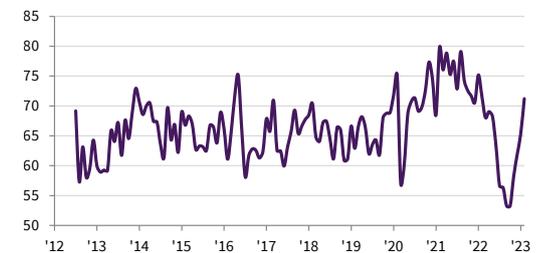
New Business Index
sa, >50 = growth since previous month
Feb '23



Optimism around the outlook hits one-year high

Private sector companies operating in the South West expressed a greater degree of optimism regarding the 12-month outlook for output in February. Notably, the overall level of positive sentiment hit a one-year high. It also exceeded the series long-run trend and that seen at the national level. Upbeat forecasts were often linked to business expansion plans, investment in new technology, improved marketing and new contract wins.

Future Activity Index
>50 = growth expected over next 12 months
Feb '23



Exports

Modest improvement in export conditions

The South West Export Climate Index is calculated by weighting together national PMI output data according to their importance to the manufacturing exports of the South West. This produces an indicator for the economic health of the region's export markets.

The Export Climate Index increased from 50.2 in January to 52.3 in February, to indicate a second successive monthly improvement in export conditions for South West private sector firms. Though modest, the rate of improvement was the quickest seen since June 2022.

Business activity rose across all of the top five export markets for the region, with the steepest rate of growth seen in Ireland. The USA, which is the South West's biggest export market, noted the softest rate of expansion, with output rising only fractionally overall.

Export Climate Index
sa, >50 = growth since previous month
Feb '23



Top export markets, South West

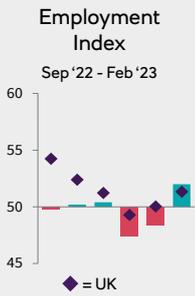
Rank	Market	Weight	Output Index, Feb '23
1	USA	21%	50.1
2	Germany	12%	50.7
3	France	10%	51.7
4	Netherlands	6%	50.4
5	Ireland	5%	54.5

Business capacity

Renewed upturn in employment

Having fallen in the previous two months, staffing levels at South West private sector businesses increased during February. The rate of job creation was mild, but nevertheless the best seen since July 2022. The upturn was also slightly quicker than that seen across the UK as a whole. Anecdotal evidence indicated that firms had added to their payroll numbers due to improved confidence around the outlook, the filing of vacancies and new projects.

Employment Index
sa, >50 = growth since previous month

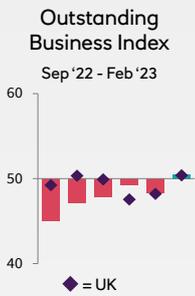


Marginal increase in backlogs of work

Latest survey data pointed to a fresh rise in unfinished work at private sector firms in the South West. Though only slight, it marked the first increase in backlogs since June 2022. Outstanding workloads rose at a similarly marginal pace at the national level.

Panel members linked higher levels of work-in-hand (but not yet completed) to increased sales and staff shortages.

Outstanding Business Index
sa, >50 = growth since previous month



Prices

Input price inflation slips to 22-month low

The seasonally adjusted Input Prices Index posted comfortably above the neutral 50.0 level in February, signalling a further substantial increase in cost burdens faced by South West private sector companies. Expenses were pushed up by a number of factors, according to panellists, most notably for staff, utilities, food and raw materials. That said, the pace of increase slipped to a near two-year low.

Input cost inflation also cooled to a 22-month low at the national level, and was broadly in line with that seen in the South West.

Input Prices Index
sa, >50 = inflation since previous month
69.2
Feb '23

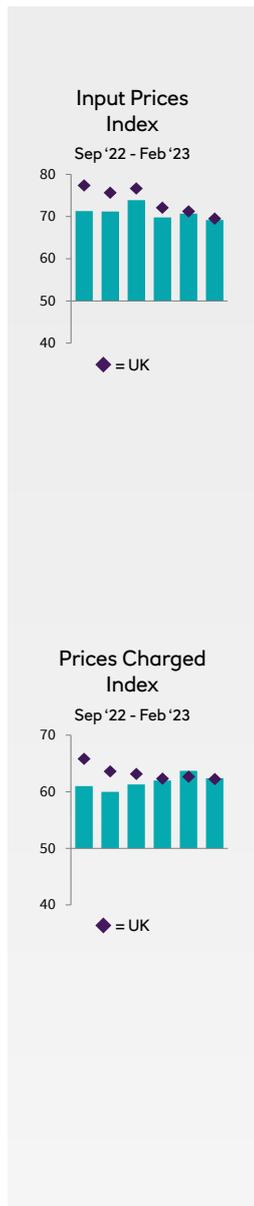
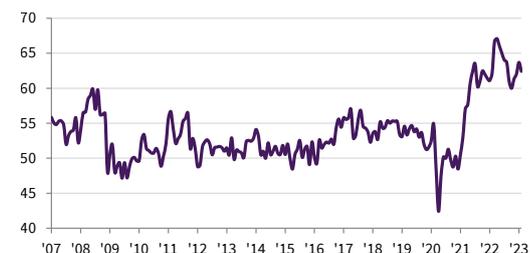


Further steep increase in selling prices

Output charges set by South West private sector companies rose again in February, thereby stretching the current sequence of inflation to 26 months. There were widespread reports of firms raising their selling prices as part of efforts to pass on additional expenses to customers. The pace of increase softened from February, but nevertheless remained sharp overall.

Across the UK as a whole, the rate of output price inflation edged down to an 18-month low and was similar to that recorded in the South West.

Prices Charged Index
sa, >50 = inflation since previous month
62.4
Feb '23



UK Sector PMI

Sector specialisation: South West

Location quotients (LQs) are useful measures of regional economic specialisation and can identify industry clusters at a local level. They are ratios derived by comparing the share of sector output (or gross value added) in regions with the national share of output in the same sector.

Focusing on the manufacturing and service sectors in isolation, a location quotient is calculated by taking a sector's proportion of regional output and comparing it with the UK-wide share of output in the sector. An LQ of 1.0 in a sector means that the region and the UK as a whole are equally specialised in that sector. An LQ greater than 1.0 indicates that the sector has a greater economic footprint in the region than it does for the UK as a whole.

The tables below rank the location quotients for the South West, broken down by manufacturing and services. The UK Output Index for each sub-sector is also displayed.

South West specialisation: Manufacturing

Rank	Sector	LQ	UK Output Index, Feb '23*
1	Transport	1.50	48
2	Electrical & Optical	1.45	52
3	Other Manufacturing	1.02	52
4	Mechanical Engineering	0.99	52
5	Basic Metals	0.90	52
6	Timber & Paper	0.86	42
7	Food & Drink	0.83	55
8	Textiles & Clothing	0.78	45
9	Chemicals & Plastics	0.67	45

South West specialisation: Services

Rank	Sector	LQ	UK Business Activity Index, Feb '23*
1	Hotels, Restaurants & Catering	1.42	55
2	Business-to-business Services	1.09	52
3	Personal & Community Services	0.98	52
4	Transport & Communication	0.88	45
5	Financial Intermediation	0.86	52
6	Computing & IT Services	0.69	52



UK sector focus

Other Manufacturing

The UK's 'Other Manufacturing' sector - which comprises mainly consumer goods such as furniture, jewellery, sports items and household ceramics - saw a rise in production levels in the three months to February, following several months of declining output. Production was supported by easing supply constraints - the incidence of delivery delays having fallen sharply compared to the situation a year ago - which enabled businesses to catch up on backlogs of work.

Underlying demand continued to exhibit a weak trend, however, as underscored by a sustained decrease in new orders. That said, the rate of decline slowed in the three months to February and firms became more optimistic about the outlook.

Cost pressures in the sector meanwhile eased from the record high levels observed over the previous two years. Selling price inflation nevertheless remained historically elevated.

Output Index

sa, >50 = growth since previous month (3mma)*



*3-month moving average

UK Regional PMI overview

Business Activity

February saw a rise in business activity across all but one of the regions and nations monitored by the survey. The North East was the only exception, although output there did at least stabilise after a seven-month sequence of contraction. London recorded by far the strongest activity growth, registering its best performance since last July, with the South East a distant second place.

Employment

The number of areas recording an increase in employment rose from seven in January to ten in February, with the South West, East of England and Scotland each seeing renewed job creation. Northern Ireland was at the top of the rankings for workforce growth for a second straight month. Further decreases in employment were meanwhile recorded in both Wales and the North East.

Future Activity

There was an improvement in business confidence in two-thirds of areas in February. The most marked upswings in sentiment were in Northern Ireland and Scotland, although these two remained towards the bottom end of the scale for overall levels optimism. Expectations were highest in the West Midlands, as was the case in January, and lowest in the North East, which saw confidence wane slightly.

* Coverage in Northern Ireland also includes retail and construction, alongside manufacturing and services.

Business Activity Index

sa, >50 = growth since previous month, Feb '23



Employment Index

sa, >50 = growth since previous month, Feb '23



Future Activity Index

>50 = growth expected over next 12 months, Feb '23



Index summary

South West

sa, 50 = no change over previous month. *50 = no change over next 12 months.

	Business Activity	New Business	Export Climate	Future Activity*	Employment	Outstanding Business	Input Prices	Prices Charged
Sep '22	43.5	44.6	50.1	53.3	49.8	45.0	71.3	61.0
Oct '22	42.3	42.7	49.7	53.3	50.2	47.1	71.2	60.0
Nov '22	45.3	44.3	48.8	58.2	50.4	47.8	73.9	61.3
Dec '22	47.5	47.0	49.2	61.9	47.4	49.2	69.8	62.0
Jan '23	47.0	46.8	50.2	65.4	48.4	48.3	70.7	63.7
Feb '23	52.5	51.2	52.3	71.2	52.0	50.5	69.2	62.4

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About NatWest

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Alongside a wide range of banking services, NatWest offers businesses specialist sector knowledge in areas such as manufacturing and technology, as well as access to specialist entrepreneurial support.

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About PMI

Purchasing Managers' Index™ (PMI™) surveys are now available for over 40 countries and also for key regions including the eurozone. They are the most closely watched business surveys in the world, favoured by central banks, financial markets and business decision makers for their ability to provide up-to-date, accurate and often unique monthly indicators of economic trends.

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