

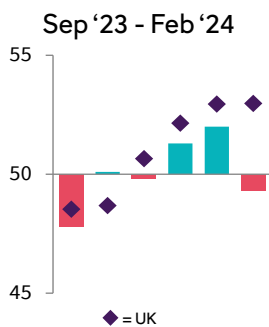
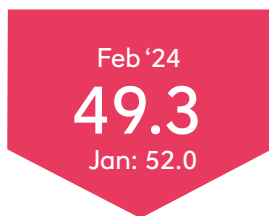


NatWest

# NatWest South West PMI<sup>®</sup>

## Business activity falls slightly in February

### South West Business Activity Index



### Key findings

Output falls for first time in three months amid subdued sales growth

Optimism around the year-ahead improves, lifting employment

Input costs increase at quickest rate in five months

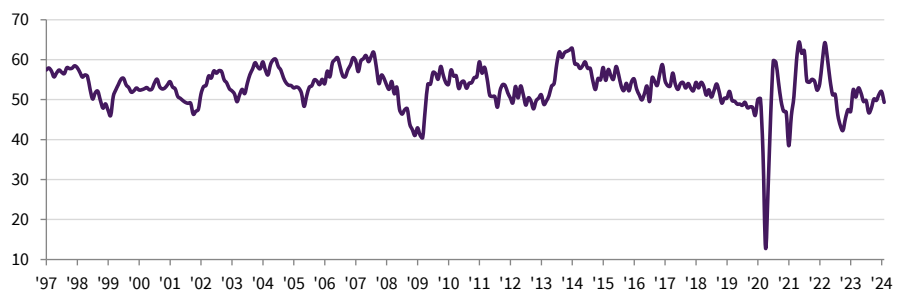
The headline NatWest South West PMI<sup>®</sup> Business Activity Index – a seasonally adjusted index that measures the month-on-month change in the combined output of the region’s manufacturing and service sectors – slipped from 52.0 at the start of 2024 to below the neutral 50.0 level at 49.3 in February. This signalled a reduction in business activity across the region for the first time in three months, albeit one that was only marginal. Nevertheless, this contrasted with a solid rise in output at the UK level.

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

*"The latest PMI survey hinted that the recovery in business conditions across the South West took a slight step back in February, as relatively subdued demand conditions led to a marginal fall in activity. Nevertheless, companies were keen to look through the current challenging market conditions and were more upbeat about their prospects for the year ahead. This optimism translated into the first uptick in staffing levels for six months, as companies anticipated stronger economic conditions and rising customer spending to support growth in the months ahead. However, the latest survey also indicated that both input costs and selling prices rose at faster rates than in January, suggesting that we are yet to see a sustained softening of inflationary pressures."*

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

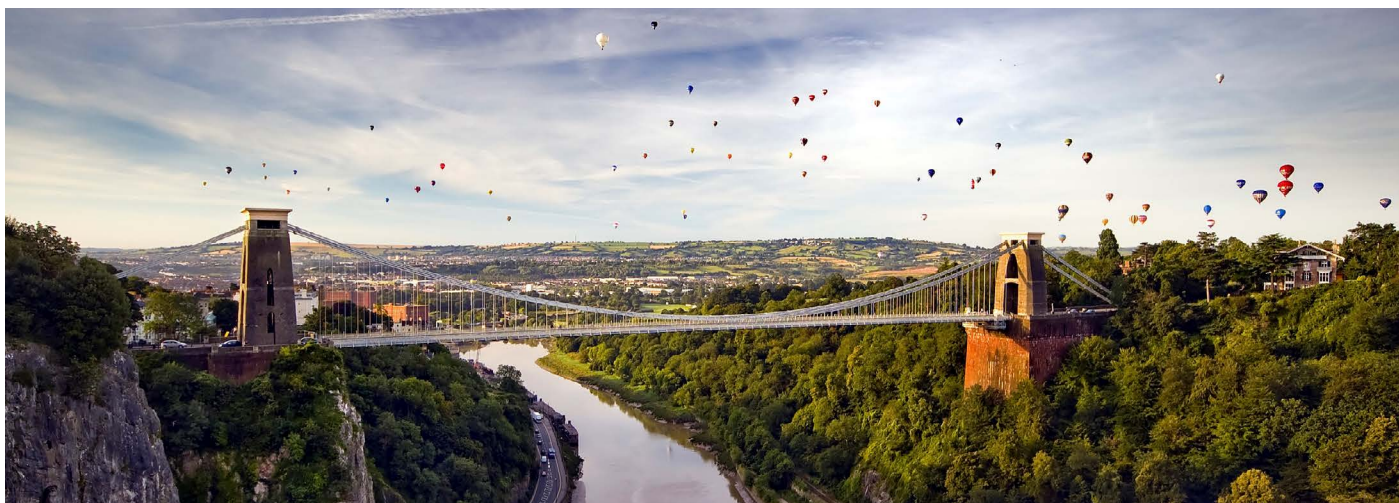
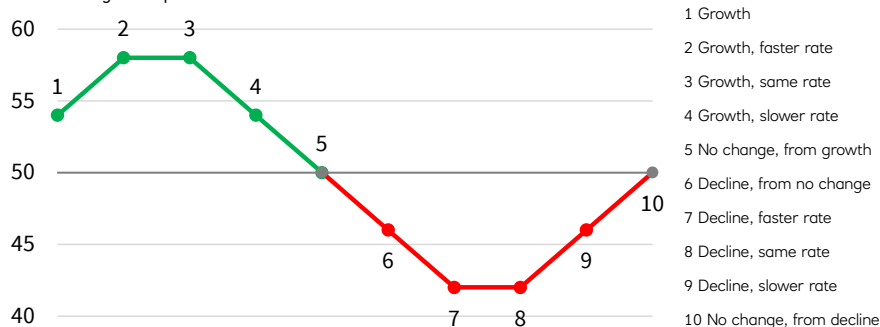
calculated from a single question that asks for changes in the volume of business activity (at service providers) or output (at manufacturers) compared with one month previously. The South West Business Activity Index is comparable to the UK Composite Output Index. It is sometimes referred to as the '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@spglobal.com](mailto:economics@spglobal.com).

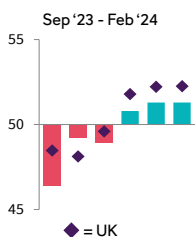
### Index interpretation

50.0 = no change since previous month



## Demand and outlook

### New Business Index



### New business continues to expand modestly

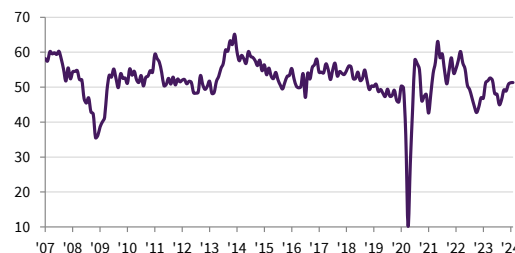
The seasonally adjusted New Business Index posted above the neutral 50.0 level to signal an increase in new work placed with South West companies for the third month running in February. That said, the rate of expansion was unchanged from January and only modest. The upturn was also slightly softer than the UK-wide trend. Where higher sales were reported, this was generally linked to firmer customer demand and improved marketing. However, some companies noted that weaker economic conditions and strong inflation had weighed on new orders.

### New Business Index

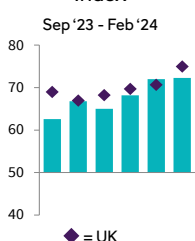
sa, >50 = growth since previous month

51.3

Feb '24



### Future Activity Index



### Optimism around the outlook edges up to 25-month high

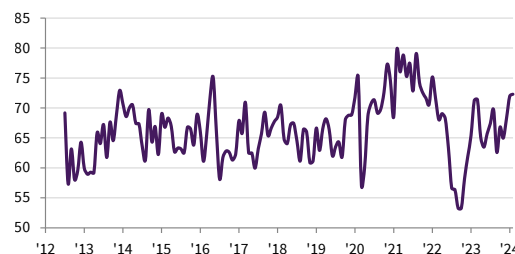
Firms based in the South West expressed slightly stronger confidence towards the year-ahead outlook for output in February. Moreover, the degree of optimism was the highest seen since the start of 2022. Stronger economic conditions, greater investment and new product lines were all anticipated to boost business activity over the next 12 months. However, sentiment in the region was slightly softer than the average seen across the UK as a whole.

### Future Activity Index

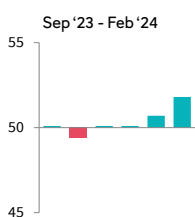
>50 = growth expected over next 12 months

72.3

Feb '24



### Export Climate Index



### 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.

At 51.8, the Export Climate Index increased from 50.7 in January to point to an improvement in trading conditions faced by South West firms for the fourth consecutive month. Though modest, the rate of improvement was the most pronounced since June 2023.

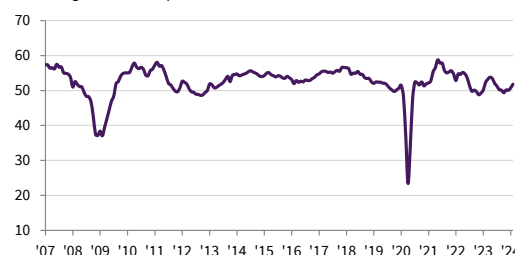
The upturn was supported by stronger output growth across USA and Ireland. Downturns meanwhile eased across France and the Netherlands, but Germany recorded a slightly quicker drop in activity.

### Export Climate Index

sa, >50 = growth since previous month

51.8

Feb '24

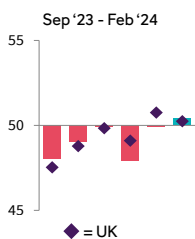


### Top export markets, South West

Rank	Market	Weight	Output Index, Feb '24
1	USA	21.2%	52.5
2	Germany	12.2%	46.3
3	France	9.8%	48.1
4	Netherlands	5.8%	49.7
5	Ireland	4.8%	54.4

## Business capacity

### Employment Index



### Staff numbers increase for first time in six months

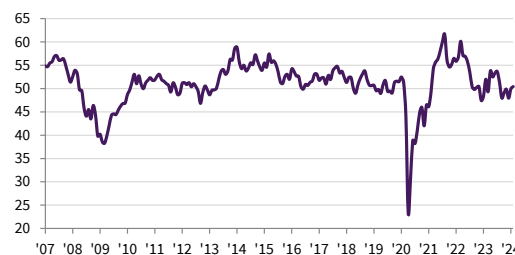
After falling in each of the prior five months, employment at South West private sector businesses increased during February. That said, the rate of job creation was only marginal and broadly in line with that seen at the national level. Companies that added to their payrolls often attributed this to efforts to increase capacity and fill outstanding vacancies.

### Employment Index

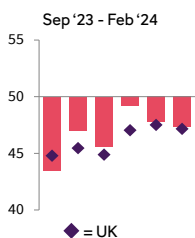
sa, >50 = growth since previous month

50.4

Feb '24



### Outstanding Business Index



### Backlogs of work decline again in February

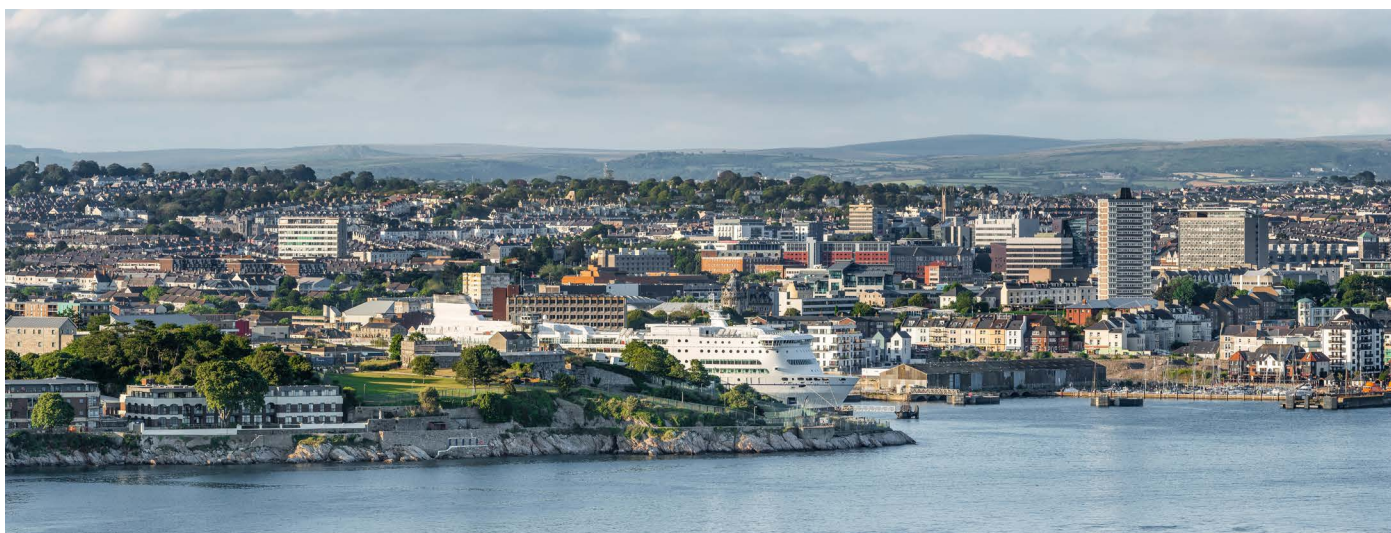
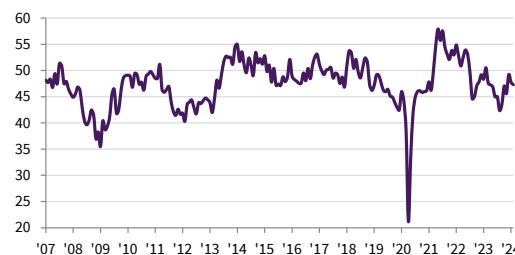
Efforts to increase capacity and relatively subdued inflows of new orders supported a further drop in unfinished business at South West firms during February. Though modest, the rate of backlog depletion was the quickest recorded in three months and similar to the UK-wide average. Outstanding workloads in the region have now declined in each month for the past year.

### Outstanding Business Index

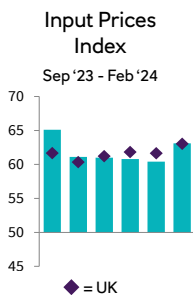
sa, >50 = growth since previous month

47.3

Feb '24



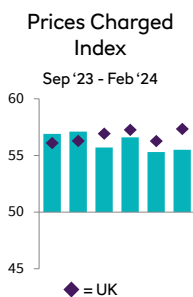
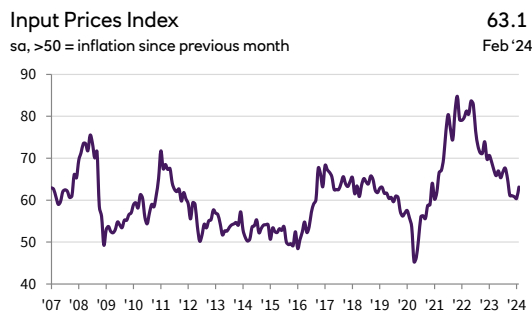
## Prices



### Steepest increase in input costs since September 2023

As has been the case since June 2020, average cost burdens faced by South West companies increased during February. The rate of inflation quickened to a five-month high and was sharp in the context of historical data. Input costs rose at a near-identical pace across the UK as a whole.

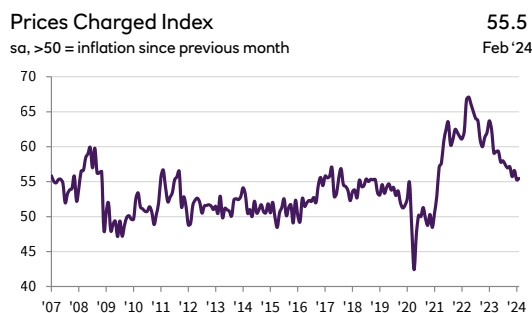
Anecdotal evidence suggested that a range of factors had pushed up expenses midway through the opening quarter of the year, including labour, energy and raw materials.



### Selling prices continue to increase sharply

Adjusted for seasonal factors, the Prices Charged Index signalled that South West private sector firms raised their selling prices for the thirty-eighth month in a row during February. Whilst sharp and above the series average, the rate of increase quickened only slightly from January's near three-year low. The hike in output charges was also softer than that seen at the national level.

Companies that raised their selling prices generally linked this to the pass-through of higher expenses to clients.



## 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 '24
1	Transport	1.70	
2	Electrical & Optical	1.49	
3	Other Manufacturing	1.01	
4	Mechanical Engineering	0.99	
5	Timber & Paper	0.92	
6	Food & Drink	0.87	
7	Basic Metals	0.80	
8	Textiles & Clothing	0.70	
9	Chemicals & Plastics	0.60	

40 45 50 55 60

#### South West specialisation: Services

Rank	Sector	LQ	UK Business Activity Index, Feb '24
1	Hotels, Restaurants & Catering	1.49	
2	Business-to-business Services	1.10	
3	Personal & Community Services	1.06	
4	Transport & Communication	0.90	
5	Financial Intermediation	0.77	
6	Computing & IT Services	0.70	

40 45 50 55 60

## UK sector focus

### Transport Manufacturing

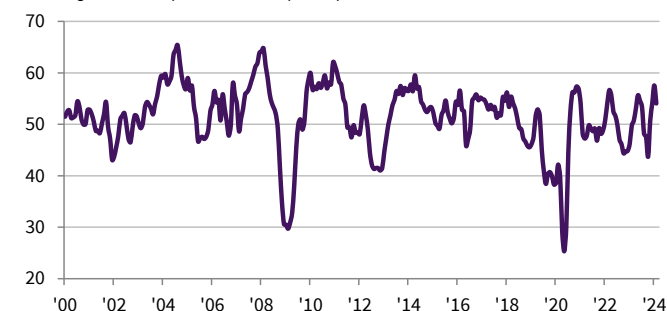
Transport manufacturers recorded solid output growth in the three months to February. This was in contrast to the sustained downturn in overall UK goods production over the same period.

That said, the upturn in Transport output merely represented a rebound from the decline seen last autumn, and underlying demand in the sector remained weak. New orders continued falling in line with the trend throughout the second half of last year, albeit with the rate of decline easing. Lower sales from abroad were a factor. The disparity between rising output and shrinking order books contributed to a marked rise in stocks of finished goods in the three months to February.

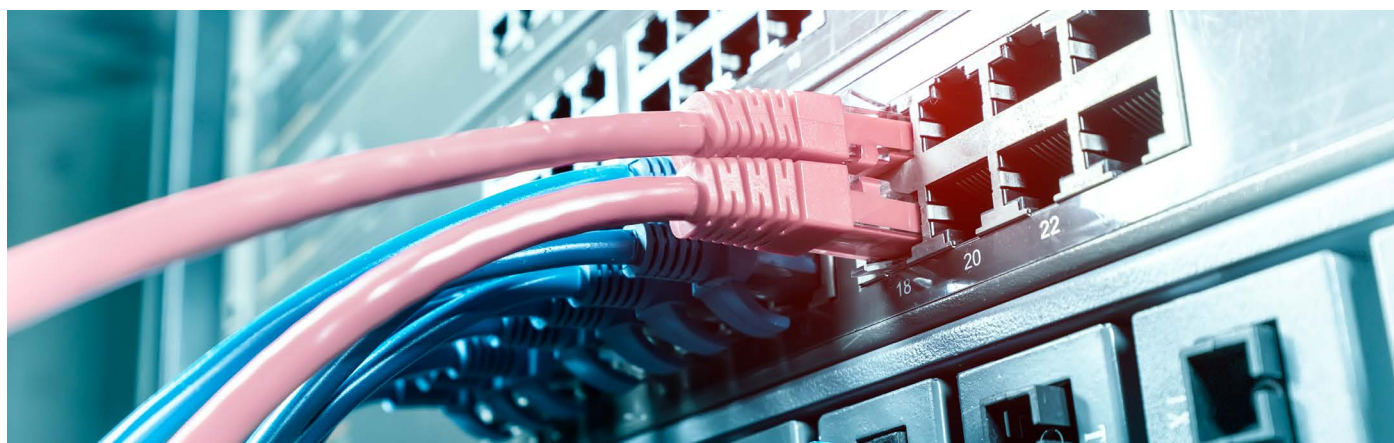
Production expectations in the Transport manufacturing sector were close to the lowest seen over the past three years. Latest data meanwhile showed employment falling – albeit marginally – for the first time since the first quarter of 2023, with firms also cutting back on purchasing activity.

#### Output Index

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



\* 3-month moving average



## UK Regional PMI overview

### Business Activity

Two-thirds of the monitored UK nations and regions recorded business activity growth in February. London remained out in front despite seeing its pace of expansion ease to a three-month low. At the other end of the scale, Wales posted a solid and accelerated fall in output, while declines were also seen in the North East, Yorkshire & Humber and South West.

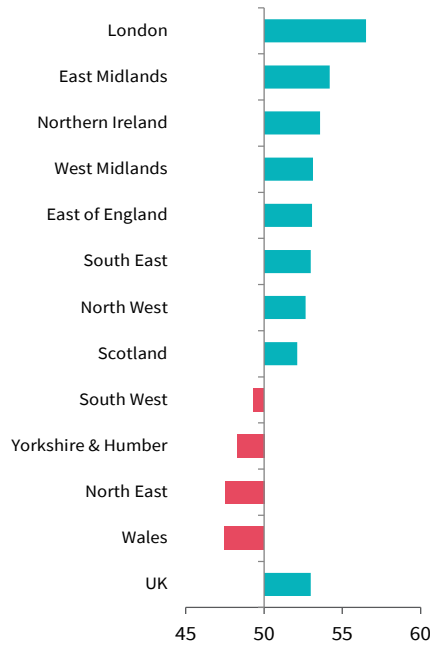
### Employment

Scotland topped the rankings for employment growth for the fourth time in the past five months in February, pushing London back down into second place. The East of England, Northern Ireland\*, South West and South East all saw slight increases in workforce numbers, while the North West recorded no change. Job cuts were seen everywhere else.

### Future Activity

Business expectations improved in the majority of areas midway through the opening quarter. The South East recorded the highest degree of optimism, the first time this has been the case for eight months. Confidence was lowest in the North East, which was one of just two areas where sentiment weakened from the month before (along with the West Midlands).

Business Activity Index  
sa, >50 = growth since previous month, Feb '24



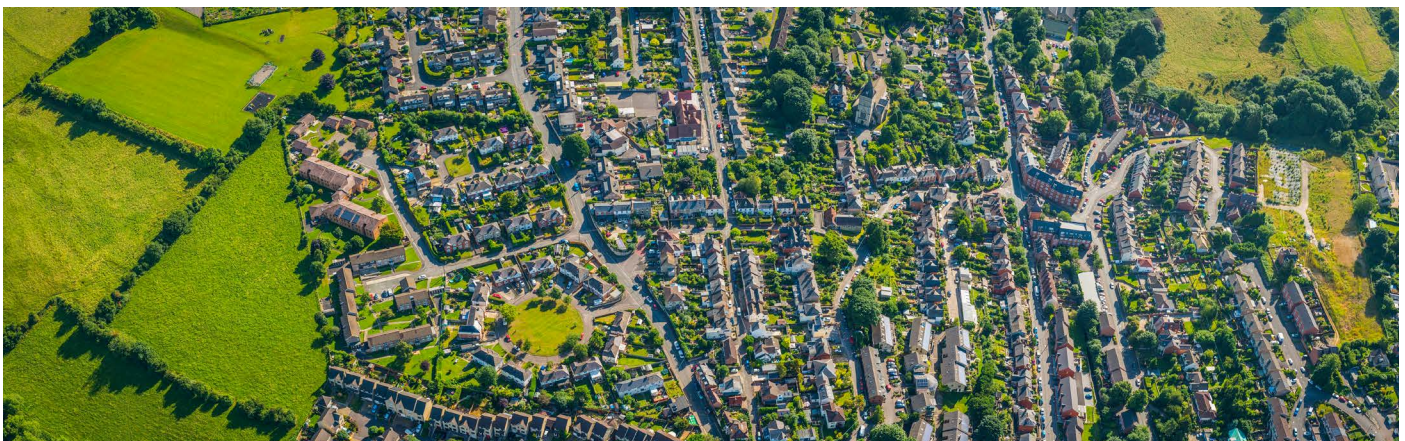
Employment Index  
sa, >50 = growth since previous month, Feb '24



Future Activity Index  
>50 = growth expected over next 12 months, Feb '24



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



## 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 '23	47.8	46.4	50.1	62.6	48.0	43.5	65.1	56.9
Oct '23	50.1	49.2	49.4	66.8	49.0	47.0	61.1	57.1
Nov '23	49.8	48.9	50.1	65.0	49.9	45.6	61.0	55.7
Dec '23	51.3	50.8	50.1	68.2	47.9	49.2	60.8	56.6
Jan '24	52.0	51.3	50.7	72.0	49.9	47.8	60.4	55.3
Feb '24	49.3	51.3	51.8	72.3	50.4	47.3	63.1	55.5

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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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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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