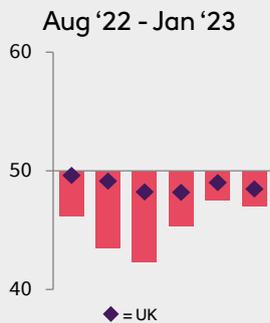




NatWest South West PMI[®]

Business activity falls solidly at start of 2023

South West Business Activity Index



Key findings

Output falls at quicker rate amid steep drop in new work

Staffing levels decline again, albeit at softer rate

Optimism around the year-ahead hits highest since May 2022

Business activity declined across the South West private sector for the sixth month in a row in January. 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 – slipped from 47.5 in December to 47.0 in January, to signal a solid rate of reduction overall. Notably, the fall was quicker than that seen across the UK as a whole (48.5). Lower activity levels were frequently attributed to weaker demand conditions, with new orders also falling at a solid pace. However, firms were increasingly upbeat about the 12-month outlook for output, with overall business confidence the highest in eight months.

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

"Companies in the South West had a tough start to 2023, with the latest PMI data pointing to further drops in output and new orders. Firms reported that increased pressure on clients' budgets due to rising costs and a weaker overall economic climate had weighed on sales and activity, and led firms to become more cautious around staffing levels in January. However, it was encouraging to see that confidence around the 12-month outlook continued to improve and hit an eight-month high in January, as firms anticipate new product launches and firmer customer demand to support a strong recovery over 2023. While this bodes well for future growth expectations, it will also be important to monitor whether there will be an easing of inflationary pressures in the months ahead, which would be much welcome news amid the ongoing cost of living crisis."

South West Business Activity Index

sa, >50 = growth since previous month



Contents

- [About the report](#)
- [Demand and outlook](#)
- [Exports](#)
- [Business capacity](#)
- [Prices](#)
- [UK Sector PMI](#)
- [UK Regional PMI](#)
- [Data summary](#)
- [Contact](#)

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

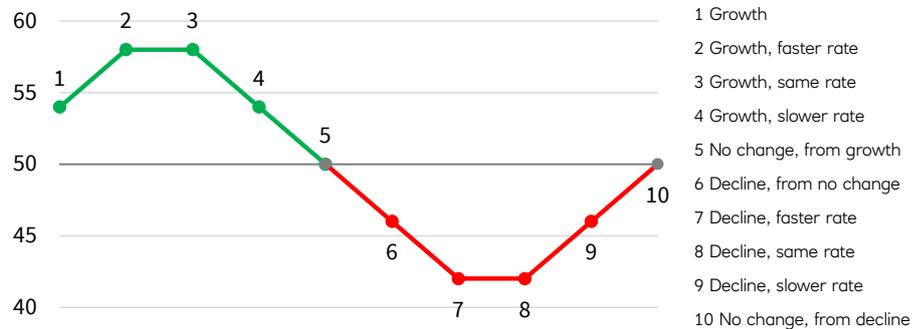
calculated from a single question that asks for changes in the volume of business activity (at service providers) or output (at manufacturers) compared with one month previously. The South West Business Activity Index is comparable to the UK Composite Output Index. It is sometimes referred to as the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

Further solid decline in new work during January

Adjusted for seasonal factors, the New Business Index pointed to a sustained fall in new work placed with private sector companies in the South West during January. The rate of contraction was little-changed from that seen in December and solid. Panel members often mentioned that clients had looked to cut back or delay spending due to rising costs and uncertainty over the outlook.

In contrast, new business fell at the slowest rate in five months at the national level and one that was only marginal overall.

Business confidence picks up again

Despite ongoing falls in activity and new orders, private sector companies in the South West expressed greater optimism towards the 12-month outlook for output at the start of the year. Notably, the overall level of positive sentiment improved to the highest for eight months. New product releases, planned company expansions and hopes of new clients wins and stronger export sales were all projected to lift activity over the next year. That said, expectations were not quite as upbeat as that seen across the UK as a whole.

Exports

Fractional improvement in overall 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.

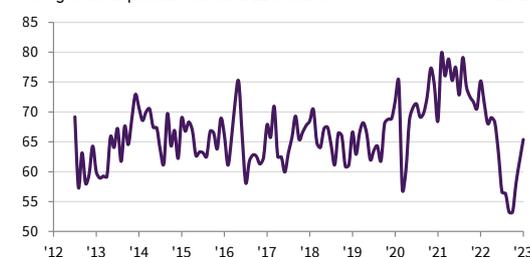
At 50.2 in January, the Export Climate Index rose from 49.2 in December and pointed to the first improvement in export conditions since last September. That said, the pace of improvement was only fractional overall.

The higher index reading was supported by increased business activity across the Netherlands and Ireland, who are the fourth and fifth biggest export markets for the region. However, output continued to decline across the three largest trading partners - the USA, Germany and France - with the steepest rate of contraction seen in the US.

New Business Index
sa, >50 = growth since previous month
46.8
Jan '23



Future Activity Index
>50 = growth expected over next 12 months
65.4
Jan '23

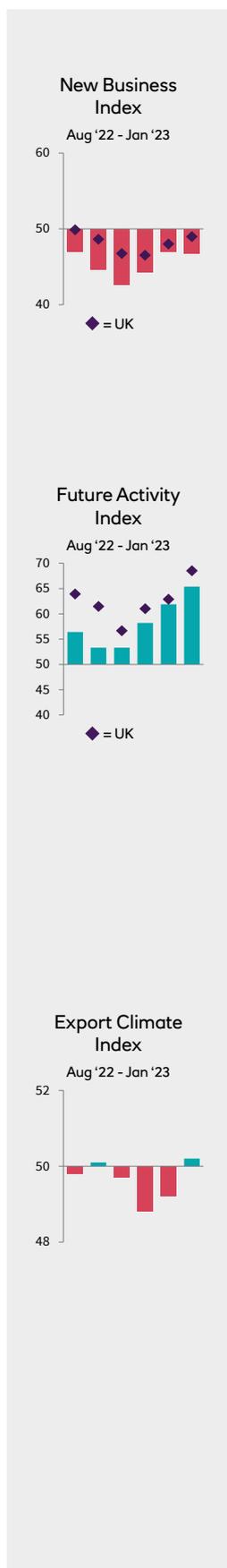


Export Climate Index
sa, >50 = growth since previous month
50.2
Jan '23



Top export markets, South West

Rank	Market	Weight	Output Index, Jan '23
1	USA	21%	46.8
2	Germany	12%	49.9
3	France	10%	49.1
4	Netherlands	6%	50.7
5	Ireland	5%	52.0



Business capacity

Softer fall in staff numbers

Employment at South West private sector companies fell for the second straight month in January. The rate of job shedding eased to a modest pace, however. Where lower workforce numbers were reported, firms generally attributed this to the non-replacement of voluntary leavers, often due to weaker economic conditions, and difficulties recruiting suitable staff.

Across the UK as a whole, employment was stable following a marginal reduction at the end of 2022.

Employment Index

sa, >50 = growth since previous month

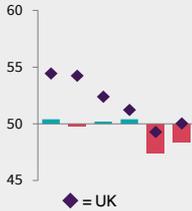
48.4

Jan '23



Employment Index

Aug '22 - Jan '23



Modest reduction in outstanding workloads

January survey data pointed to a further decline in backlogs of work at South West private sector firms, thereby stretching the current period of reduction to seven months. The rate of depletion quickened from December, but was mild overall and similar to the UK-wide average. Anecdotal evidence suggested that lower intakes of new work had enabled firms to process and complete unfinished business, while there were also mentions of increased staff efficiency.

Outstanding Business Index

sa, >50 = growth since previous month

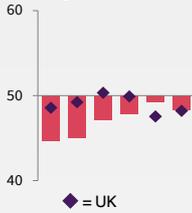
48.3

Jan '23



Outstanding Business Index

Aug '22 - Jan '23



Prices

Average input costs continue to rise sharply

As has been the case in each month since June 2020, average input costs faced by South West private sector businesses increased at the start of 2023. The rate of inflation picked up from December and was substantial overall. That said, the upturn remained softer than the UK-wide trend and was slower than the average seen over 2022 as a whole.

Greater staffing costs, driven by the higher cost of living, and increased costs for utilities, fuel, food and materials all contributed to the latest rise in operating expenses.

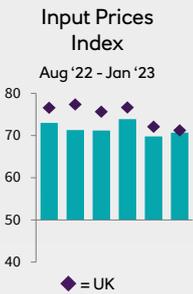
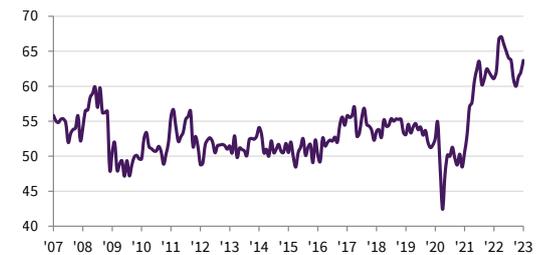
Output charge inflation quickens to five-month high

Private sector companies across the South West continued to increase their average selling prices during January. Furthermore, the rate of charge inflation was the sharpest seen since last August and was stronger than the national average. Surveyed companies often linked higher output prices to the pass-through of greater input costs to customers.

Input Prices Index 70.7
sa, >50 = inflation since previous month Jan '23



Prices Charged Index 63.7
sa, >50 = inflation since previous month Jan '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, Jan '23*
1	Transport	1.50	48
2	Electrical & Optical	1.45	48
3	Other Manufacturing	1.02	48
4	Mechanical Engineering	0.99	52
5	Basic Metals	0.90	48
6	Timber & Paper	0.86	38
7	Food & Drink	0.83	55
8	Textiles & Clothing	0.78	48
9	Chemicals & Plastics	0.67	48

South West specialisation: Services

Rank	Sector	LQ	UK Business Activity Index, Jan '23*
1	Hotels, Restaurants & Catering	1.42	52
2	Business-to-business Services	1.09	52
3	Personal & Community Services	0.98	50
4	Transport & Communication	0.88	45
5	Financial Intermediation	0.86	48
6	Computing & IT Services	0.69	55

UK sector focus

Personal & Community Services

After seeing activity levels decline in the latter stages of last year, the UK's Personal & Community Services sector started 2023 on a more stable footing. Key to this was a renewed, albeit marginal, upturn in inflows of new businesses in the three months to January.

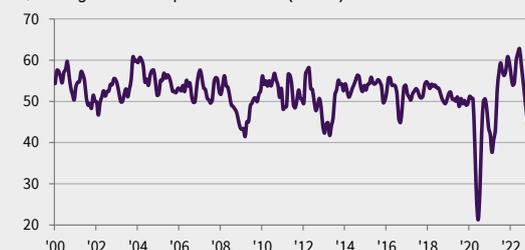
However, with survey data showing a lack of pressure on operating capacity, as evidenced by a marked and accelerated reduction in backlogs of work, firms reduced workforce numbers.

On the cost front, the rate of input price inflation eased only slightly and remained close to the record highs seen in 2022. Of the services sub-sectors mentioned, it was second only to that recorded by Hotels, Restaurants & Catering. Prices charged by Personal & Community Services firms meanwhile rose to the greatest extent since mid-2022.

Positively, expectations towards the year ahead improved, although they remained subdued by historical standards.

Output Index

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



*3-month moving average



UK Regional PMI overview

Business Activity

London was alone among the 12 UK regions monitored by the survey in recording higher activity in January. The rate of growth in the capital remained only marginal, however. There were renewed downturns in output in both Wales and the North West, while the steepest decrease in activity was once again recorded in Northern Ireland.

Employment

Seven of the 12 regions and nations monitored posted a rise in employment in January, up from just four in December. Northern Ireland topped the rankings, registering its steepest rise in workforce numbers for six months, ahead of the West Midlands. The most marked fall in employment was in the North East, as had been the case in the previous survey period.

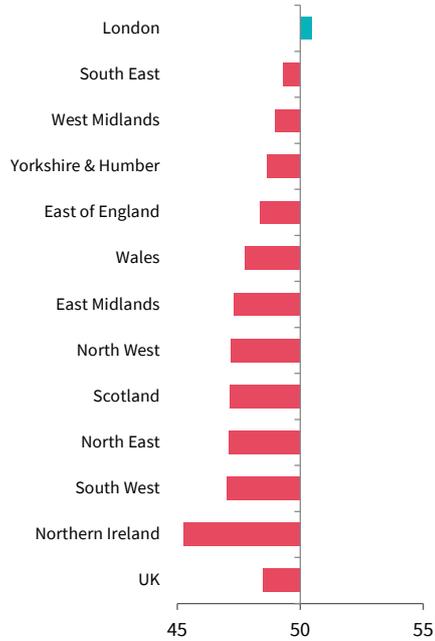
Future Activity

January data showed a broad-based improvement in business expectations. The greatest increase in confidence was recorded in the West Midlands, which also saw the strongest overall optimism. Sentiment in Northern Ireland turned positive for the first time in nine months, although it remained lower than in any other region or nation.

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

Business Activity Index

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



Employment Index

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



Future Activity Index

>50 = growth expected over next 12 months, Jan '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
Aug '22	46.2	47.0	49.8	56.4	50.4	44.6	73.0	63.7
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

Contact

Noel Davies
Regional Campaign Manager
NatWest
+44 (0) 7970 332 895
noel.davies@natwest.com

Annabel Fiddes
Economics Associate Director
S&P Global Market Intelligence
+44 149 1461 010
annabel.fiddes@spglobal.com

Sabrina Mayeen
Corporate Communications
S&P Global Market Intelligence
T: +44 (0) 7967 447030
sabrina.mayeen@spglobal.com

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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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