

NatWest South West PMI[®]

Business activity growth remains muted in July

South West Business Activity Index



Key findings

Firms signal further mild increase in business activity...

...as new orders drop for the first time in 17 months

Business confidence hits record low

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 – rose only fractionally from 51.2 in June to 51.3 in July. The latest reading signalled that output continued to expand modestly overall, and at a much weaker rate than those seen earlier in 2022. The upturn was also softer than that seen on average across the UK as a whole.

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

“The latest PMI survey data for the South West highlighted an increasingly gloomy outlook for the region's private sector, with new business dropping for the first time in nearly a year-and-a-half, and business activity remaining muted. Furthermore, confidence regarding the year-ahead outlook for output fell to its lowest since the series began a decade ago, underscoring heightened concerns over the cost-of-living crisis, rising interest rates and a slowing global economy.

“There were some bright spots, however, as firms continued to add to their workforce numbers, and inflationary pressures showed signs of easing as both input costs and output charges rose at softer rates. That said, mounting headwinds around the outlook suggest that firms may cut back on capacity in the months ahead as firms juggle sharply rising costs and weakening demand.”

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

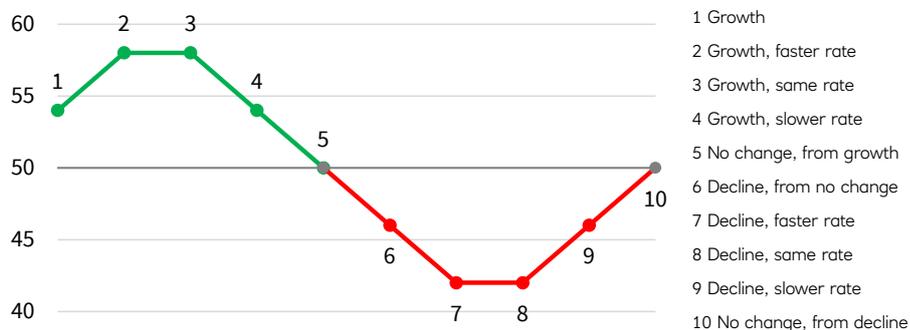
calculated from a single question that asks for changes in the volume of business activity (at service providers) or output (at manufacturers) compared with one month previously. The South West Business Activity Index is comparable to the UK Composite Output Index. It is sometimes referred to as the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

New business falls for first time since February 2021

The amount of new work received by private sector firms in the South West fell during July, thereby ending a 16-month period of expansion. Though only marginal, the reduction contrasted with a modest increase in new work across the UK as a whole. Lower amounts of new business were often linked by panellists to sharply rising costs and reduced market confidence amid greater economic uncertainty.

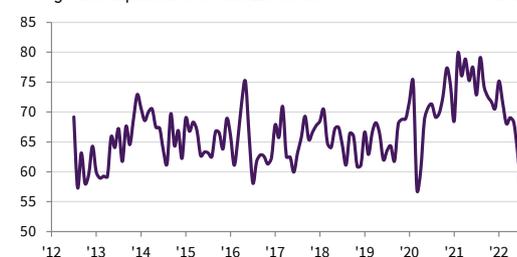
New Business Index
sa, >50 = growth since previous month
49.3
Jul '22



Business confidence at record low in July

Latest survey data pointed to a notable drop in business confidence regarding the year-ahead outlook for output at South West private sector firms. Furthermore, the level of optimism fell to the lowest seen since the series began in July 2012. While many firms anticipate stronger customer demand and new products to support growth, there were often concerns that intense inflationary pressure, tighter financial conditions and a slowing global economy could dampen activity levels over the next 12 months.

Future Activity Index
>50 = growth expected over next 12 months
56.6
Jul '22



Exports

Export market conditions improve at softest pace in 20 months

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 fell from 53.6 in June to 51.4 in July, to indicate only a mild improvement in export market conditions. Moreover, the rate of improvement was the slowest seen since November 2020.

The index was partly dampened by renewed falls in activity across the top two export markets for the region - the US and Germany. The UAE meanwhile remained the strongest-performing export market.

Export Climate Index
sa, >50 = growth since previous month
51.4
Jul '22



Top export markets, South West

Rank	Market	Weight	Output Index, Jul '22
1	USA	20%	47.7
2	Germany	11%	48.1
3	France	9%	51.7
4	UAE	4%	62.5
5	Ireland	4%	52.9

New Business Index
Feb '22 - Jul '22

◆ = UK

Future Activity Index
Feb '22 - Jul '22

◆ = UK

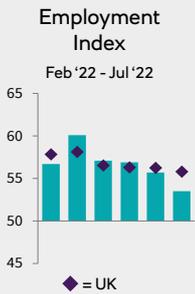
Export Climate Index
Feb '22 - Jul '22

Business capacity

Employment growth softens again in July

Workforce numbers at South West private sector firms expanded for the seventeenth month running in July. Though solid, the rate of job creation was the softest seen over this period and weaker than the UK-wide trend. Higher employment was generally linked to the filling of vacancies and efforts to expand capacity. However, there were some reports of difficulties finding suitable replacement staff and greater efforts to contain costs.

Employment Index
sa, >50 = growth since previous month
53.5 Jul '22

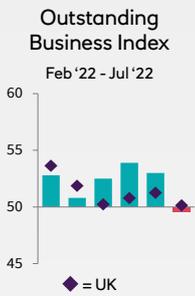


Renewed fall in backlogs of work

Private sector companies operating in the South West signalled a fresh decline in outstanding workloads during July. Though only slight, it marked the first reduction since February 2021. Anecdotal evidence suggested that weaker inflows of new work and sufficient capacity had enabled firms to tackle their outstanding business.

Across the UK as a whole, unfinished workloads were broadly stable after a 16-month period of accumulation.

Outstanding Business Index
sa, >50 = growth since previous month
49.6 Jul '22



Prices

Input Prices Index



Input price inflation slips to 10-month low

Although South West private sector firms continued to see a sharp rise in average input costs during July, the rate of inflation softened for the second month in a row. Notably, the rate of increase was the slowest recorded since September 2021. The upturn was also weaker than the national trend. Where higher input costs were reported, firms often cited greater prices for raw materials, fuel, energy and staff.

Input Prices Index

sa, >50 = inflation since previous month

76.5

Jul '22



Prices Charged Index



Softest increase in output prices since February

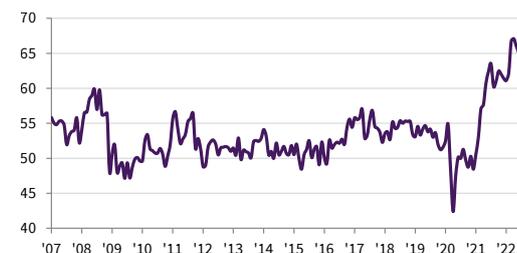
Adjusted for seasonal variation, the Prices Charged Index remained above the neutral 50.0 level to signal a sustained rise in output prices set by South West private sector businesses in July. Though sharp and well above the series average, the rate of inflation was the softest seen in five months. Panel members often mentioned raising their prices in order to pass through higher operating expenses to customers.

Prices Charged Index

sa, >50 = inflation since previous month

64.0

Jul '22



The rate of output charge inflation also softened across the UK as a whole, though it remained quicker than that seen in the South West.



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, Jul '22*
1	Transport	1.50	55
2	Electrical & Optical	1.45	55
3	Other Manufacturing	1.02	50
4	Mechanical Engineering	0.99	55
5	Basic Metals	0.90	50
6	Timber & Paper	0.86	45
7	Food & Drink	0.83	45
8	Textiles & Clothing	0.78	45
9	Chemicals & Plastics	0.67	45

South West specialisation: Services

Rank	Sector	LQ	UK Business Activity Index, Jul '22*
1	Hotels, Restaurants & Catering	1.42	45
2	Business-to-business Services	1.09	50
3	Personal & Community Services	0.98	55
4	Transport & Communication	0.88	45
5	Financial Intermediation	0.86	50
6	Computing & IT Services	0.69	55

UK sector focus

Financial Intermediation

The UK's Financial Intermediation sector saw an increase in business activity in the three months to July. However, having been solid throughout the opening half of the year, the rate of growth slowed sharply and was among the softest seen since the current sequence of expansion began in the spring of last year.

The loss of momentum reflected a deepening decline in inflows of new work across the sector, with reports from surveyed firms highlighting the influence market and economic uncertainty, high inflation and rising interest rates. Expectations towards future activity deteriorated accordingly, dropping to their lowest in over two years.

On the price front, Financial Intermediation firms raised charges at a near-record rate in the three months to July, with underlying cost pressures close to the highest seen in over 25 years of data collection.

Output Index

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



*3-month moving average



UK Regional PMI overview

Business Activity

Eight of the 12 monitored UK regions recorded higher business activity in July, the lowest number since February 2021 (four). London saw by far the strongest growth, but even here the rate of expansion slowed, as was the case in six other areas. Northern Ireland* remained at the bottom of the rankings, while lower output was also seen in the North East, East of England and East Midlands.

Employment

Rates of job creation generally remained robust across the UK in July. In fact, four regions even saw slightly faster increases in employment than the month before, including the South East which moved to the top of the rankings. The North East once again went against the broader trend, registering another marginal decline in workforce numbers, its third in the past four months.

Future Activity

Firms' expectations for future activity remained positive for the most part in July, with only those in Northern Ireland anticipating a decline in output over the next 12 months. Businesses in Yorkshire & Humber were the most optimistic about the outlook, despite confidence in the region have weakened from the previous month. Expectations also fell in the West Midlands, South East, East Midlands and South West.

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

Business Activity Index

sa, >50 = growth since previous month, Jul '22



Employment Index

sa, >50 = growth since previous month, Jul '22



Future Activity Index

>50 = growth expected over next 12 months, Jul '22



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
Feb '22	59.6	57.6	54.8	71.6	56.7	52.8	79.7	62.1
Mar '22	64.3	60.2	54.7	68.1	60.1	50.8	81.3	66.7
Apr '22	60.3	56.9	55.4	69.1	57.1	52.5	80.5	67.1
May '22	55.0	55.2	55.1	68.2	56.9	53.9	83.6	66.0
Jun '22	51.2	50.6	53.6	63.3	55.7	53.0	82.8	65.0
Jul '22	51.3	49.3	51.4	56.6	53.5	49.6	76.5	64.0

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 1491 461 010
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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We are widely sought after by many of the world's leading organizations to provide credit ratings, benchmarks, analytics and workflow solutions in the global capital, commodity and automotive markets. With every one of our offerings, we help the world's leading organizations plan for tomorrow, today.

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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