



# NatWest South West PMI<sup>®</sup>

## Slowest increase in business activity since March 2021

### South West Business Activity Index



### Key findings

Weaker rises in business activity and new work

Inflationary pressures remain intense

Business confidence hits lowest since April 2020

June survey data signalled a further notable slowdown in the rate of business activity growth across the South West private sector. The latest NatWest PMI<sup>®</sup> data pointed to the weakest increase in output since March 2021 that was only mild overall. The softer rise in activity coincided with only a marginal expansion in new orders, as firms indicated that the cost of living crisis and increasingly uncertain economic outlook had led clients to become more hesitant to spend. Prices data indicated that inflationary pressures remained substantial, with rising costs and worries over the economy also dampening business confidence to its lowest level in over two years.

The headline NatWest South West 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 – declined from 55.0 in May to 51.2 in June, to signal only a modest increase in business activity. Notably, the rate of growth was the slowest seen for 15 months and weaker than the UK average.

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

*“The latest NatWest PMI data highlighted a further marked slowdown in business activity growth across the South West, suggesting that the performance of the sector over Q2 has been far less robust than that seen in the opening quarter of 2022. The current cost of living crisis, which is pushing up expenses for both companies and households, weighed heavily on expectations for the year ahead, which hit their lowest in over two years. Combined with rising interest rates and a slowdown in economic activity, this could dampen new business and output further in the months ahead.”*

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

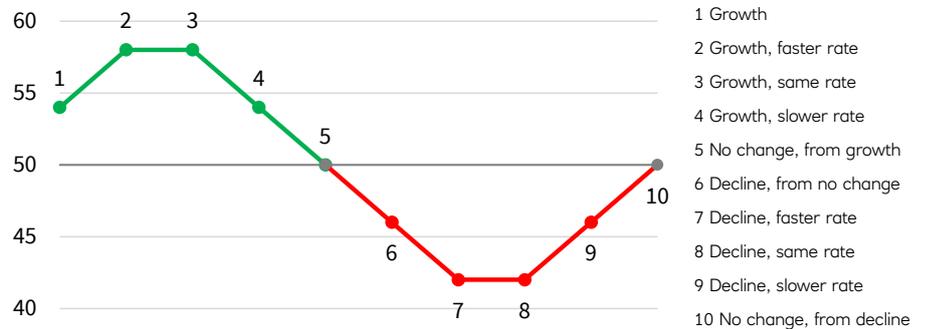
calculated from a single question that asks for changes in the volume of business activity (at service providers) or output (at manufacturers) compared with one month previously. The South West Business Activity Index is comparable to the UK Composite Output Index. It is sometimes referred to as the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

### Index interpretation

50.0 = no change since previous month



## Demand and outlook

### Weakest increase in new work for 16 months

Private sector firms in the South West registered a further increase in new orders during June, thereby stretching the current run of rising sales to 16 months. That said, the rate of growth slowed notably on the month to a marginal pace that was the slowest seen over this period. According to panel members, uncertainty over the economy and reduced client spending amid the cost of living crisis dampened new business.

New orders also expanded at a slightly slower rate at the national level and only slightly.

### Business confidence hits lowest since April 2020

Although South West private sector companies anticipate a further expansion in output over the next year, overall optimism weakened somewhat in June. Moreover, the level of positive sentiment was the lowest seen for 26 months and slightly weaker than the UK average. Businesses mentioned a number of headwinds to growth, including signs of an economic slowdown, higher interest rates, rising costs and strained supply chains.

## Exports

### Export conditions improve at softest pace for five 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 slipped from 55.1 in May to 53.6 in June, to signal a sustained improvement in export conditions. Though solid, the pace of improvement was the slowest seen for five months.

All five top export markets for the region noted softer expansions in output at the end of the second quarter. Slowdowns were particularly notable across Europe and the US, while the UAE maintained strong momentum overall.

New Business Index  
sa, >50 = growth since previous month  
50.6  
Jun '22



Future Activity Index  
>50 = growth expected over next 12 months  
63.3  
Jun '22



Export Climate Index  
sa, >50 = growth since previous month  
53.6  
Jun '22



Top export markets, South West

Rank	Market	Weight	Output Index, Jun '22
1	USA	20%	52.3
2	Germany	11%	51.3
3	France	9%	52.5
4	UAE	4%	60.7
5	Ireland	4%	52.8

### New Business Index

Jan '22 - Jun '22

◆ = UK

### Future Activity Index

Jan '22 - Jun '22

◆ = UK

### Export Climate Index

Jan '22 - Jun '22

## Business capacity

### Employment Index



### Employment growth edges down to seven-month low

Staffing levels at South West private sector firms increased for the sixteenth successive month in June. Though sharp and above the series average, the rate of job creation was the softest seen since last November. The upturn was also slightly weaker than that seen at the national level. While a number of firms stated that they had taken on extra staff due to rising business requirements, others commented on difficulties filling vacancies and subsequent challenges replacing staff leavers.

### Employment Index

sa, >50 = growth since previous month

55.7  
Jun '22



### Outstanding Business Index



### Backlogs of work continue to rise solidly

The seasonally adjusted Outstanding Business Index registered above the neutral 50.0 mark to signal a sustained rise in backlogs of work at South West private sector companies during June. There were reports that staff and material shortages had impacted firms' abilities to process and complete orders. The rate of accumulation slowed from May, but remained solid overall and was quicker than the UK-wide trend.

### Outstanding Business Index

sa, >50 = growth since previous month

53.0  
Jun '22



## Prices

Input Prices Index  
Jan '22 - Jun '22



### Input prices continue to rise at near-record rate

Average cost burdens faced by private sector firms in the South West continued to rise rapidly in June. Furthermore, the rate of inflation eased only slightly from May and was the third-sharpest on record (since January 1997). The rate of increase remained slightly softer than that seen across the UK as a whole, however.

Greater cost burdens were frequently linked by panel members to rising energy, fuel, food, raw materials and wage expenses. There were also reports of companies raising salaries due to greater competition for workers and efforts to improve staff retention.

Input Prices Index

sa, >50 = inflation since previous month

82.8  
Jun '22



Prices Charged Index  
Jan '22 - Jun '22



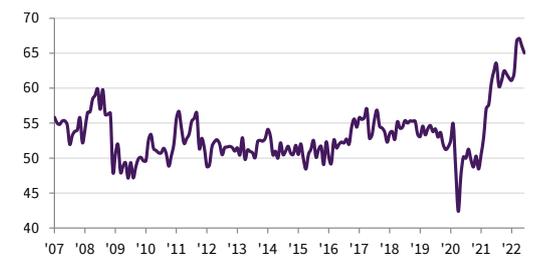
### Prices charged inflation slips to four-month low

In line with the trend seen for average input costs, prices charged by South West private sector businesses continued to rise markedly in June. That said, the rate of increase edged down to a four-month low and was among the softest seen of the 12 UK regions monitored by the survey. There were widespread reports of firms raising their fees to try and pass on additional costs to clients.

Prices Charged Index

sa, >50 = inflation since previous month

65.0  
Jun '22



## 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, Jun '22*
1	Transport	1.50	55
2	Electrical & Optical	1.45	58
3	Other Manufacturing	1.02	52
4	Mechanical Engineering	0.99	57
5	Basic Metals	0.90	56
6	Timber & Paper	0.86	48
7	Food & Drink	0.83	48
8	Textiles & Clothing	0.78	48
9	Chemicals & Plastics	0.67	50

#### South West specialisation: Services

Rank	Sector	LQ	UK Business Activity Index, Jun '22*
1	Hotels, Restaurants & Catering	1.42	52
2	Business-to-business Services	1.09	53
3	Personal & Community Services	0.98	58
4	Transport & Communication	0.88	51
5	Financial Intermediation	0.86	54
6	Computing & IT Services	0.69	57

## UK sector focus

### Textiles & Clothing

Latest data showed a decline in production levels across the UK's Textiles & Clothing sector during the second quarter. It was one of three manufacturing categories (out of nine monitored) to record lower output, alongside Timber & Paper and Food & Drink.

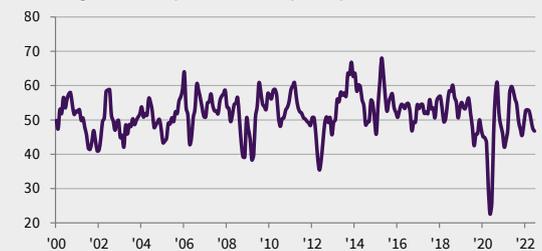
Weaker underlying demand was a driving factor, with inflows of new work falling in the three months to June. This was despite a slight upturn in export sales over the same period.

Cost pressures continued to build across the Textiles & Clothing sector during the second quarter, reaching a near-record high. With many firms looking to pass on at least part of the burden to customers, output price inflation quickened to a rate unseen for over two decades.

Positively, and despite waning business confidence, employment in the sector continued to rise, with the rate of job creation quickening to a 12-month high.

#### Output Index

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



\*3-month moving average



## UK Regional PMI overview

### Business Activity

Regional performances varied markedly in terms of business activity in June. London led the growth rankings by some margin with a steep and accelerated rise in output. However, three areas recorded lower business activity, one being Northern Ireland\*, where output fell for the second month running and at the quickest rate since February 2021.

### Employment

Employment rose in almost every region in June, the only exception being the North East. Here, staffing numbers fell - albeit fractionally - for the second time in the past three months. London recorded the strongest rate of job creation, as has been the case in each month since February. Five areas recorded a slower rate of employment growth than the month before, however.

### Future Activity

Firms' expectations for activity in the year ahead generally worsened in June. Of the 12 monitored areas, only the West Midlands and Wales recorded stronger business confidence. Despite seeing sentiment weaken, Yorkshire & Humber remained the most optimistic region. Expectations were lowest in Northern Ireland, where they turned more pessimistic.

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

#### Business Activity Index

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



#### Employment Index

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



#### Future Activity Index

>50 = growth expected over next 12 months, Jun '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
Jan '22	54.0	55.3	52.8	75.2	55.8	54.9	79.0	61.1
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

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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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