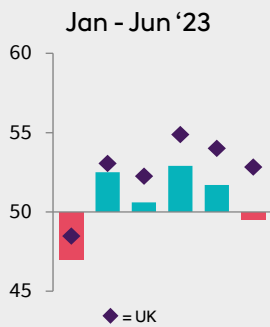


NatWest South West PMI[®]

Business activity declines for first time since January

South West Business Activity Index



Key findings

Renewed falls in output and new business

Input costs rise at weakest rate in over two years

Further increase in employment helps drive solid fall in backlogs

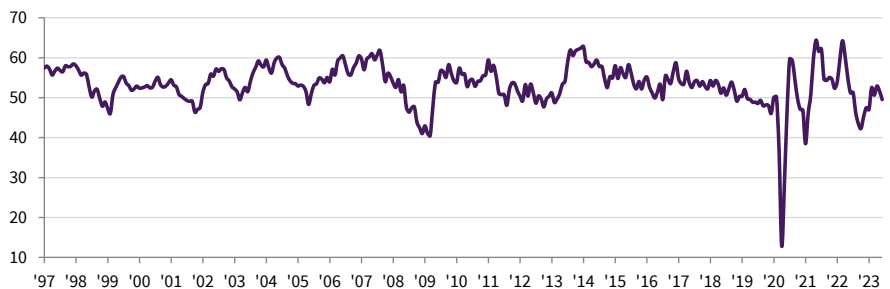
At 49.5 in June, the headline NatWest South West PMI[®] Business Activity Index – a seasonally adjusted index that measures the month-on-month change in the combined output of the region’s manufacturing and service sectors – dropped from 51.7 in May and below the neutral 50.0 threshold to signal a renewed fall in business activity. Though only slight, it marked the first reduction in private sector activity across the South West since January, and contrasted with a solid expansion of output across the UK as a whole.

The fresh fall in activity was linked to weaker demand conditions, with new business also contracting for the first time in five months. Inflationary pressures meanwhile eased, with both input costs and selling prices rising at the weakest rates in over two years. Encouragingly, optimism around the 12-month outlook for output strengthened, which supported a solid rise in employment.

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

"The South West's economy had a disappointing end to the second quarter, with businesses noting lower levels of activity and new work for the first time in five months. Greater pressure on client budgets due to the rising cost of living and higher borrowing costs had reportedly strained sales, while there were also reports of customers reining in spending due to the weaker economic climate. However, optimism around the 12-month outlook for output improved to a three-month high. This upbeat mood supported a further strong rise in employment, which in turn led to a steeper fall in backlogs. Cost pressures meanwhile eased to their weakest in over two years, adding to hopes that the worst of the cost of living crisis is now behind us."

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

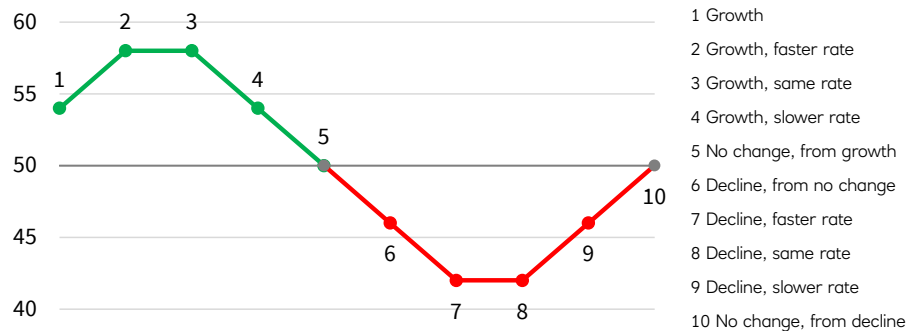
calculated from a single question that asks for changes in the volume of business activity (at service providers) or output (at manufacturers) compared with one month previously. The South West Business Activity Index is comparable to the UK Composite Output Index. It is sometimes referred to as the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

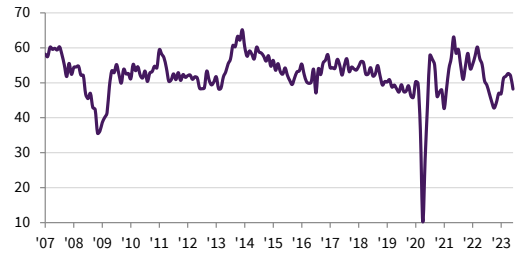
After rising in each of the previous four months, the amount of new business placed with private sector firms in the South West declined during June. Though modest, the reduction contrasted with a mild expansion in new orders across the UK as a whole. Firms that registered lower sales often linked this to squeezed client budgets due to the rising cost of living and tighter financial conditions. There were also reports of customers adopting more cautious inventory policies due to economic uncertainty.

New Business Index

sa, >50 = growth since previous month

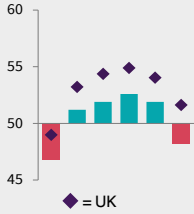
48.2

Jun '23



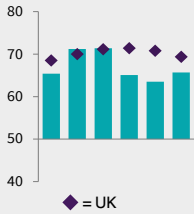
New Business Index

Jan - Jun '23



Future Activity Index

Jan - Jun '23



Business confidence rises to three-month high

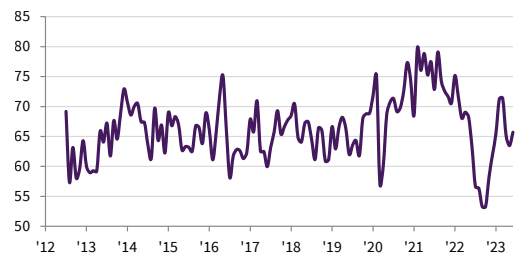
Although companies reported weaker output and new order trends in June, optimism around the year-ahead improved to its highest for three months. Firms anticipated that forecasts of stronger economic conditions, planned company expansions and new project starts could support growth of output over the next 12 months. That said, the overall degree of positive sentiment remained below the national average, with some firms expressing concerns over the impact of higher interest rates on client spending.

Future Activity Index

>50 = growth expected over next 12 months

65.7

Jun '23

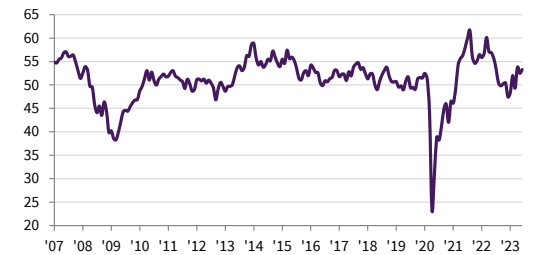


Business capacity

Employment expands for third month in a row

The seasonally adjusted Employment Index posted above the neutral 50.0 threshold in June, signalling a third consecutive monthly rise in staff numbers at private sector firms in the South West. The rate of payroll expansion picked up to a solid pace that was the second-quickest since July 2022. The pace of job creation also remained quicker than the UK-wide trend. Anecdotal evidence indicated that companies added to their workforce numbers to increase capacity, often in anticipation of firmer demand conditions in the months ahead.

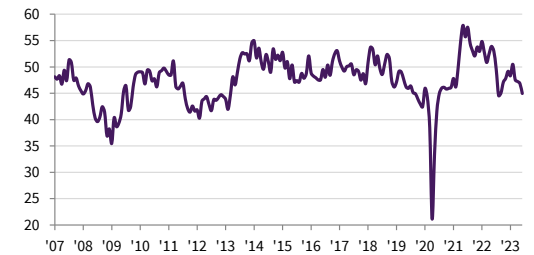
Employment Index
sa, >50 = growth since previous month
53.3
Jun '23



Backlogs fall at quickest rate for nine months

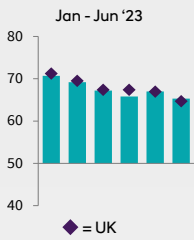
The sustained upturn in staffing levels helped to improve capacity and enabled South West private sector firms to reduce their level of outstanding business for the fourth month in a row in June. There were also reports that lower intakes of new work had meant that companies could process and complete orders in a more timely manner. Notably, the rate of backlog depletion was the sharpest seen since September 2022 and exceeded that seen at the national level.

Outstanding Business Index
sa, >50 = growth since previous month
45.0
Jun '23



Prices

Input Prices Index
Jan - Jun '23



Input cost inflation slips to 28-month low

June data pointed to a further sharp rise in operating expenses faced by South West private sector firms. Where greater cost burdens were reported, companies often mentioned increased staff wages and utility payments. However, the overall rate of inflation edged down to a 28-month low.

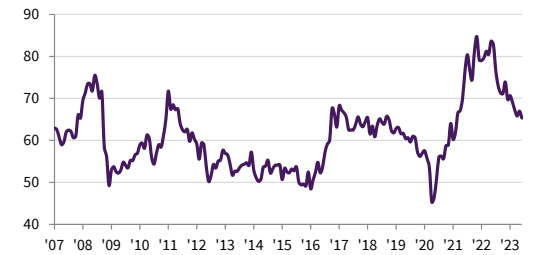
Average input costs also rose at a weaker pace across the UK as a whole, and one that was slightly softer than that seen in the South West.

Input Prices Index

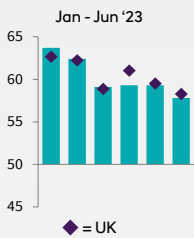
sa, >50 = inflation since previous month

65.3

Jun '23



Prices Charged Index
Jan - Jun '23



Selling prices increase at slowest rate since April 2021

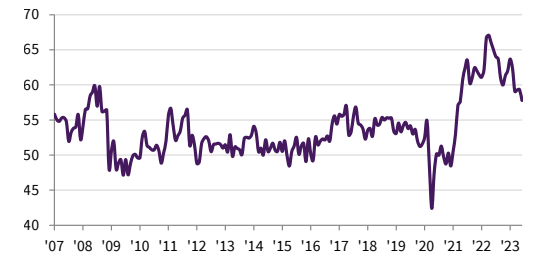
Adjusted for seasonal factors, the Prices Charged Index indicated an increase in average selling prices set by private sector companies in the South West during June. Charges have risen continuously on a monthly basis since January 2021. The pace of inflation was the softest recorded in over two years, but still sharp by historical standards. Where higher output prices were recorded, these were widely linked to the pass through of higher input costs to clients and efforts to reduce strain on operating margins.

Prices Charged Index

sa, >50 = inflation since previous month

57.8

Jun '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, Jun '23*
1	Transport	1.50	55
2	Electrical & Optical	1.45	50
3	Other Manufacturing	1.02	50
4	Mechanical Engineering	0.99	50
5	Basic Metals	0.90	50
6	Timber & Paper	0.86	40
7	Food & Drink	0.83	50
8	Textiles & Clothing	0.78	50
9	Chemicals & Plastics	0.67	50

South West specialisation: Services

Rank	Sector	LQ	UK Business Activity Index, Jun '23*
1	Hotels, Restaurants & Catering	1.42	55
2	Business-to-business Services	1.09	55
3	Personal & Community Services	0.98	55
4	Transport & Communication	0.88	50
5	Financial Intermediation	0.86	60
6	Computing & IT Services	0.69	60

UK sector focus

Food & Drink

The UK's Food & Drink sector enjoyed a strong second quarter, posting its fastest rise in output for two years. It saw the quickest rate of expansion of the nine manufacturing sectors monitored.

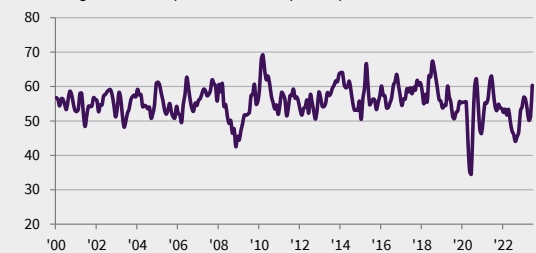
Growth of Food & Drink production in the three months to June was driven by a sharp upturn in demand. This was underscored by a steep and accelerated rise in inflows of new work across the sector.

On the price front, latest data showed a considerable slowdown in the rate of input cost inflation to the lowest for over seven years. This is turn contributed to a slower rise in prices charged, the weakest since Q2 2020.

With firms reporting declining backlogs of work, they showed a reluctance to hire as employment in the sector fell slightly in the three months to June. This was despite strong optimism towards the year-ahead outlook.

Output Index

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



*3-month moving average



UK Regional PMI overview

Business Activity

Just seven out of the 12 monitored regions and nations recorded growth in business activity in June, the fewest since January. London was once again the best performer but posted its slowest rise in output for three months. Only Scotland (ranked third), Northern Ireland* (fifth) and the East of England (sixth) saw growth accelerate. The steepest drop in activity was in Wales.

Employment

A rise in employment was recorded in all areas except Wales, where workforce numbers were unchanged following a five-month sequence of job losses. London recorded the steepest rise in staffing levels, its sharpest since August last year, followed by Northern Ireland and the East of England. Last month's leader for job creation, Scotland, moved down to eighth in the rankings.

Future Activity

Business confidence weakened in the majority of regions and nations in June. The biggest drop in expectations was in the North East, which slipped to the bottom of the rankings. The South East recorded the greatest optimism and was one of the few areas where sentiment improved, along with the South West, East Midlands and North West.

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

Business Activity Index

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



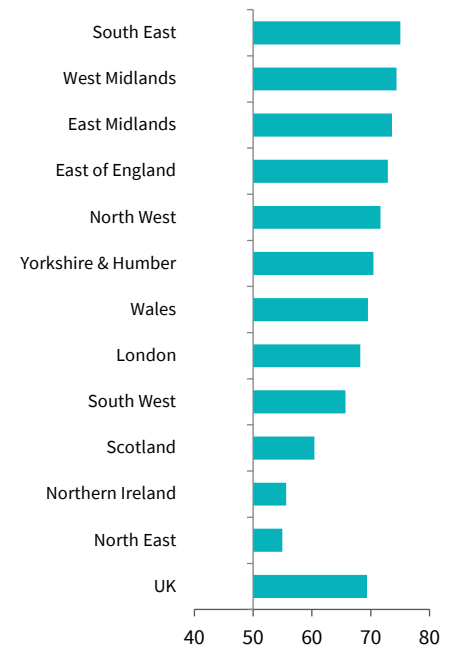
Employment Index

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



Future Activity Index

>50 = growth expected over next 12 months, Jun '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
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
Mar '23	50.6	51.9	53.2	71.4	49.3	47.6	67.2	59.1
Apr '23	52.9	52.6	53.8	65.1	53.8	47.2	65.8	59.3
May '23	51.7	51.9	53.4	63.5	52.5	46.9	67.0	59.3
Jun '23	49.5	48.2	52.0	65.7	53.3	45.0	65.3	57.8

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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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