

11 March 2025

NatWest South West Growth Tracker

Business activity continues to expand
slightly in February



NatWest

PMI[®]

by S&P Global

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NatWest South West Growth Tracker

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Key findings

February 2025

Output rises marginally despite dip in sales

Job shedding persists amid greater cost pressures

Companies express greater optimism around the year-ahead

The NatWest South West Growth Tracker provides a timely snapshot of regional economic performance.

The report tracks monthly changes in business activity, demand, employment, backlogs, prices and the year-ahead outlook. The data are compiled from local companies that participate in S&P Global's UK manufacturing and services PMI surveys.

For more reports on 12 UK nations and regions, visit www.natwest.com/business/insights/economics





South West business activity increases marginally

Latest survey data indicated that business activity across the South West rose slightly for the second straight month in February.

The marginal uptick in output occurred despite relatively muted demand conditions, with firms registering a further drop in new business. At the same time, input costs continued to rise sharply, which led firms to shed staff at a quicker pace. Encouragingly, firms expressed much greater optimism around the 12-month outlook for output.

At 50.2 in February, the South West Growth Tracker 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 – was unchanged from January and signalled a further slight rise in output.

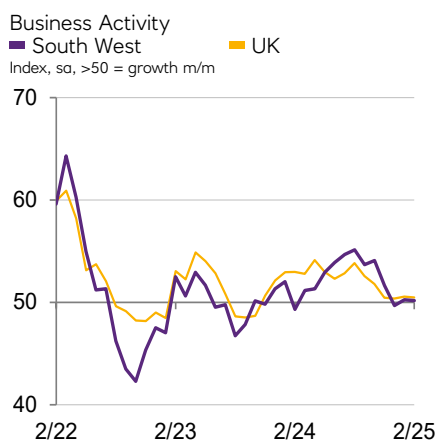
Growth of output was often attributed to investment in new sites and the commencement of new projects. However, a number of firms noted that market conditions remained sluggish overall.

NatWest South West Business Activity Index February 2025

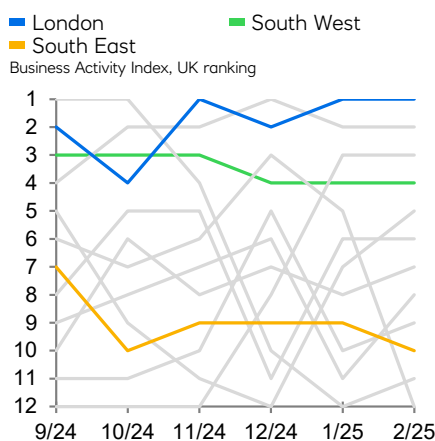
50.2

The Business Activity Index is a diffusion index calculated from companies’ responses to a question on monthly changes in the volume of business activity. The index varies between 0 and 100 and is the sum of the percentage of ‘higher’ responses and half the percentage of ‘unchanged’ responses. A reading above 50 indicates an increase compared to the previous month, and below 50 a decrease. The index is seasonally adjusted.

Data compiled 10-26 February



Sources: NatWest, S&P Global PMI. ©2025 S&P Global.



Sources: NatWest, S&P Global PMI. ©2025 S&P Global.



NatWest

Comment

Faye Long, Chair of the NatWest South West Regional Board, commented:

"Latest PMI data indicated that South West private sector firms saw a further slight uplift in overall activity levels in February, but demand conditions remained sluggish overall.

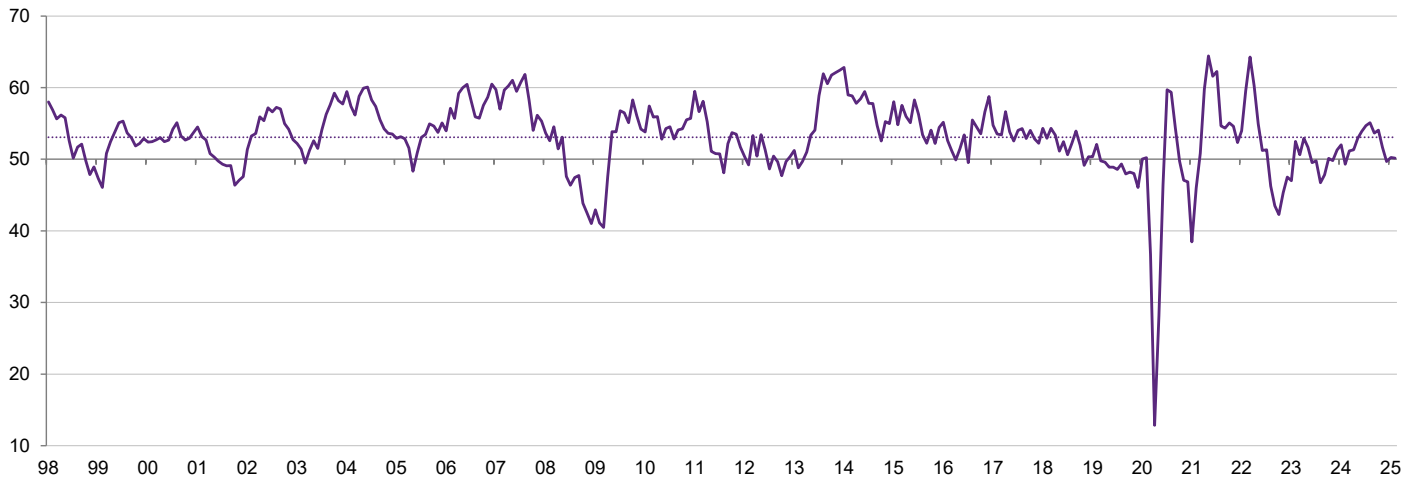
"While the current climate looks subdued, particularly with further job cuts, it was encouraging to see

business confidence rebound in February. Moreover, out of 12 UK regions, only firms in the Midlands were more upbeat about the year-ahead outlook.

"Inflation remains a key concern, however, with the latest survey showing price pressures stuck at historically elevated levels."

Business Activity

Index, sa, >50 = growth m/m. Dots = long-run average since 1998.



Sources: NatWest, S&P Global PMI. ©2025 S&P Global.



Demand and outlook

New orders fall modestly, but business confidence rebounds in February

The amount of new work received by South West private sector firms fell for the third successive month in February. That said, the pace of decline was little-changed from January and only mild.

Across the 12 UK regions monitored by the survey, eight registered faster drops in new business than that seen in the South West.

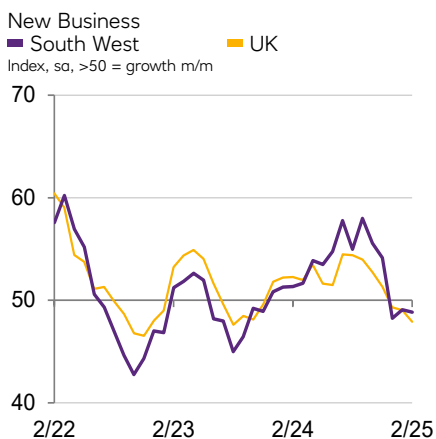
There were reports that relatively muted market conditions and tighter client budgets had dampened

demand. Nevertheless, some firms indicated that improvements in client spending and successful marketing campaigns had supported sales.

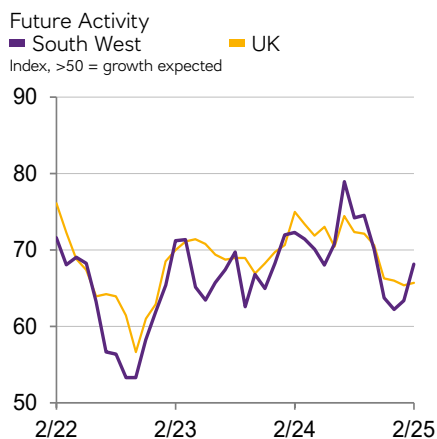
When assessing the 12-month outlook for output, South West companies expressed a much greater level of optimism in February. Notably, the degree of positive sentiment picked up to the highest in four months and was above the UK-wide average.

Planned company expansions, new product releases and projections of higher customer demand all supported growth forecasts.

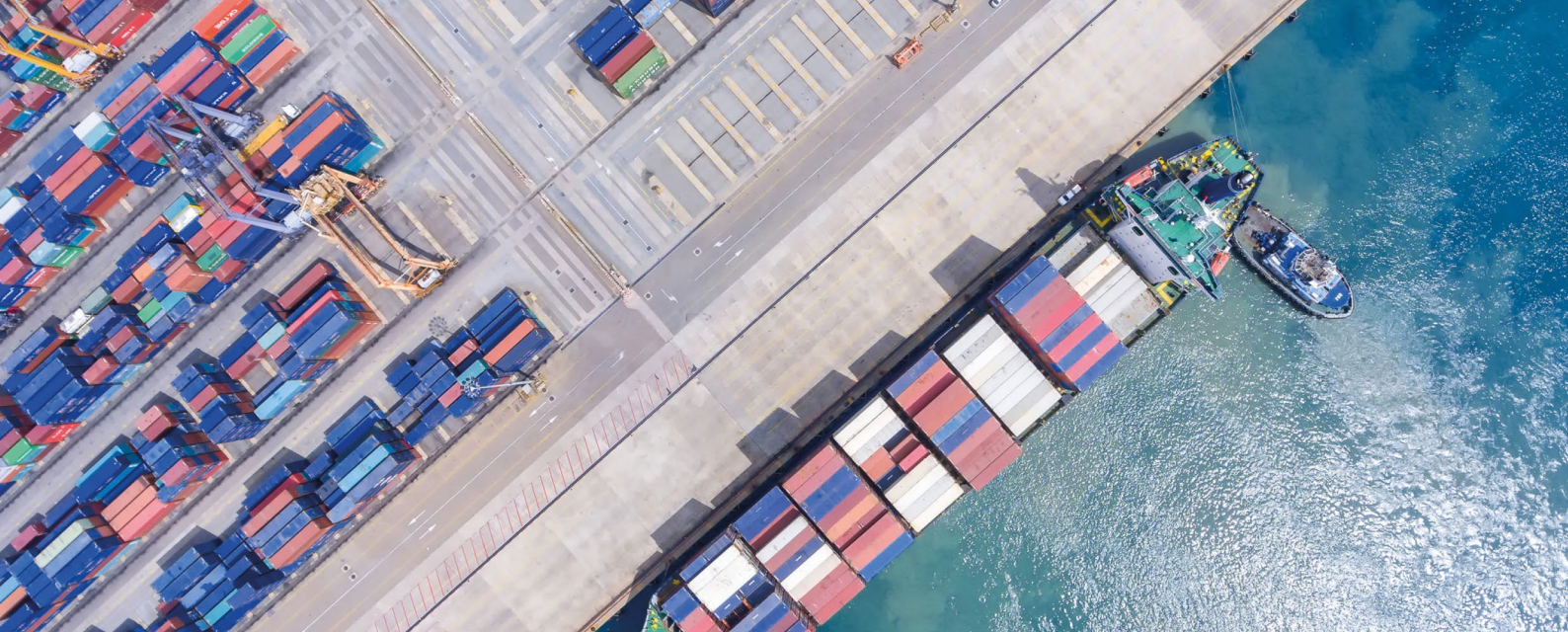
"Latest PMI data indicated that companies across the South West struggled to get back into expansion mode in February as demand conditions remained sluggish"



Sources: NatWest, S&P Global PMI. ©2025 S&P Global.



Sources: NatWest, S&P Global PMI. ©2025 S&P Global.



Export markets

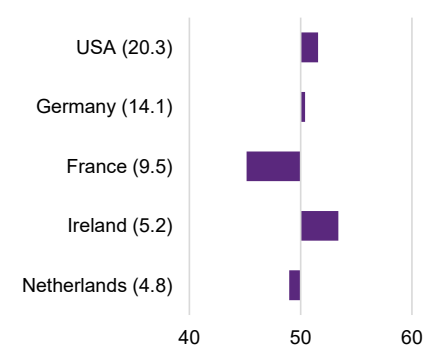
Further modest improvement in export climate in February

The ECI posted 51.2 in February, down slightly from 51.4 at the start of the year, and indicated an improvement in export conditions for the sixteenth month in a row.

The latest reading was the lowest recorded since last September, however, and consistent with only a modest rate of expansion.

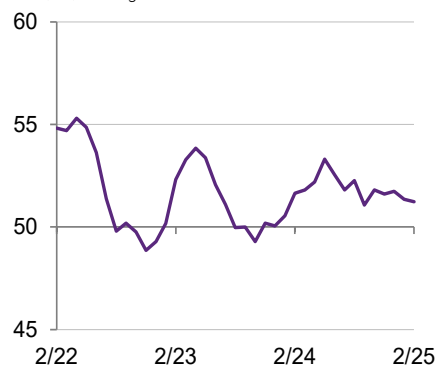
Business activity fell in two of the top five export markets for the region – France and the Netherlands – while output growth in the US slowed to a ten-month low. Ireland was the best performer with a solid increase in output.

Top export markets, South West
% share of exports shown in brackets
Output Index, sa, >50 = growth m/m



Sources: NatWest, S&P Global PMI. ©2025 S&P Global.

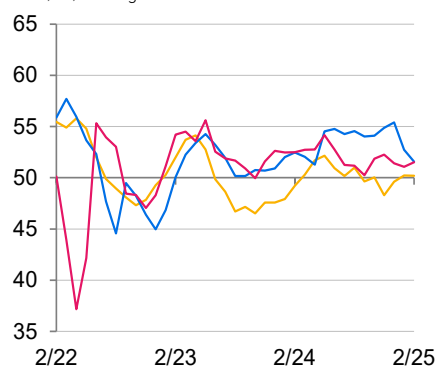
Export Conditions
Index, sa, >50 = growth m/m



Sources: NatWest, S&P Global PMI. ©2025 S&P Global.

The South West Export Climate Index (ECI) is an indicator for the economic health of the region's export markets. It is calculated by combining national PMI output data, weighted according to each nation's share of manufacturing exports of the South West. A reading above 50 signals an improvement in export conditions, and below 50 a deterioration.

Output
Eurozone US China
Index, sa, >50 = growth m/m



Sources: NatWest, S&P Global PMI. ©2025 S&P Global.



Jobs and capacity

Employment falls at faster rate across the South West amid rising costs and signs of spare capacity

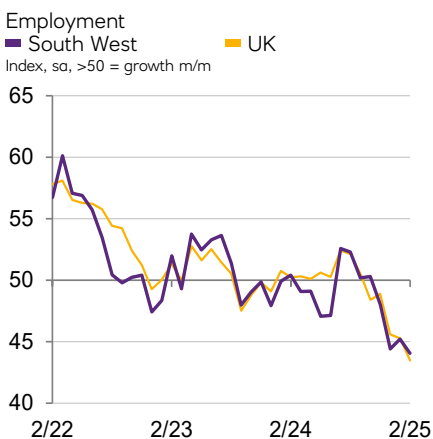
The level of employment at South West private sector companies declined for the fourth straight month in February. Furthermore, the rate of job shedding was the steepest recorded since November 2020.

All 12 UK regions registered lower staffing levels in February, with five areas noting steeper job cuts than that seen in the South West.

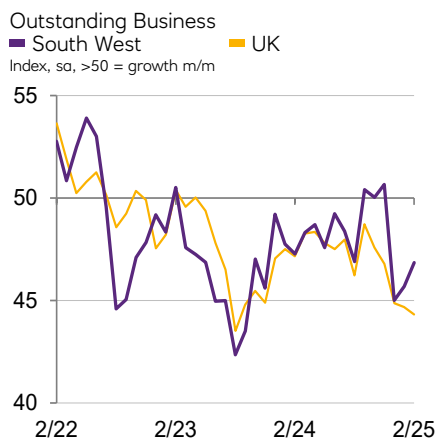
Firms that reduced their headcounts often linked this to higher payroll costs, muted market demand and the non-replacement of voluntary leavers.

At the same time, companies signalled a further reduction in the level of work-in-hand (but not yet completed). Backlogs have now fallen for three consecutive months, with the latest decline solid overall. That said, outstanding business fell at a sharper pace across the UK as a whole.

"While the current climate looks subdued, particularly with further job cuts, it was encouraging to see business confidence rebound in February"



Sources: NatWest, S&P Global PMI. ©2025 S&P Global.



Sources: NatWest, S&P Global PMI. ©2025 S&P Global.



Inflation

Operating costs continue to rise sharply, leading to further hike in selling prices

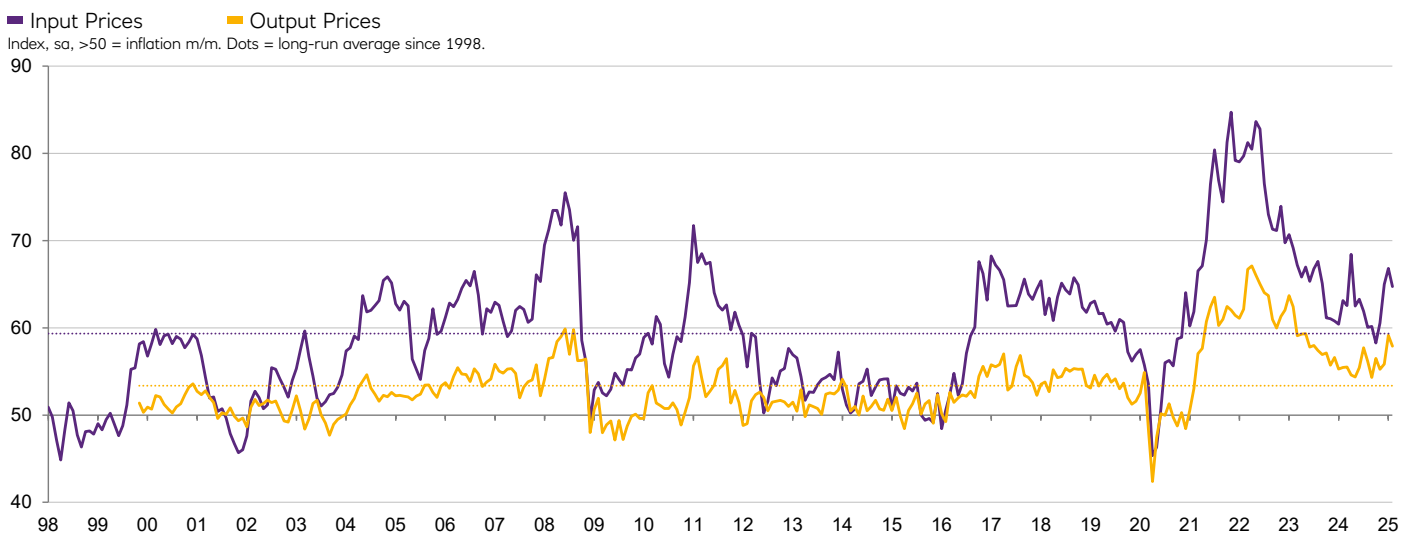
Private sector firms operating in the South West continued to signal a substantial increase in average input costs during February. Despite easing from January's recent record, the rate of inflation was among the quickest seen over the past 18 months and broadly in line with that seen across the UK as a whole.

Companies often noted that higher

wage, energy and raw material costs had pushed up expenses.

Higher costs were partially passed on to customers in the form of increased selling prices. Although the rate of output charge inflation slowed on the month, it remained sharp overall and well above the series average.

"Inflation remains a key concern, with the latest survey showing price pressures stuck at historically elevated levels"



Sources: NatWest, S&P Global PMI. ©2025 S&P Global.

UK Regional Growth Tracker

Business Activity

London topped the rankings for business activity growth in February, having enjoyed another robust expansion, ahead of the North East, Wales and South West, respectively. Lower output was seen in several nations and regions, however. The steepest falls were registered in the East Midlands and Northern Ireland*.

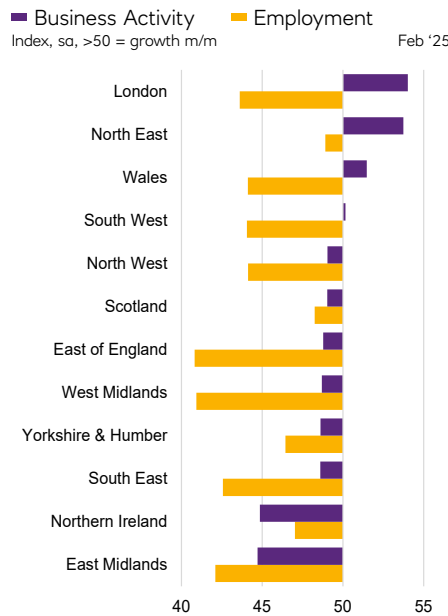
Employment

Workforces numbers were streamlined across each of the 12 UK nations and regions monitored by the survey in February, the first time this has happened for a little over four years. Employment fell only slightly in the likes of the North East and Scotland, however. The most marked decreases were seen in the East of England and West Midlands.

Future Activity

Year-ahead growth expectations improved in the majority of areas in February. Firms in the West Midlands were the most optimistic about future activity, while those in the North East reported the greatest upswing in confidence since January. At the other end of the scale, Northern Ireland recorded the weakest business sentiment, although it did pick up somewhat from the low seen at the start of the year.

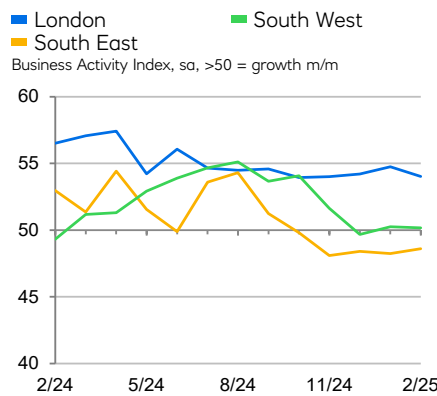
*As well as manufacturing and services, coverage in Northern Ireland also includes construction and retail.



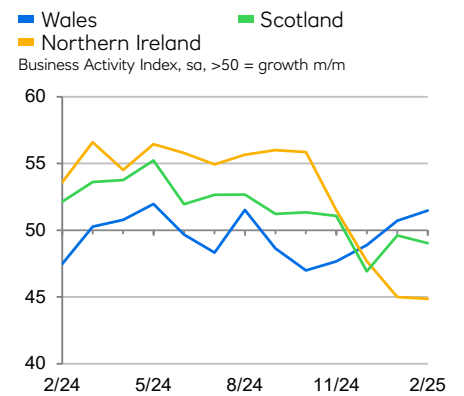
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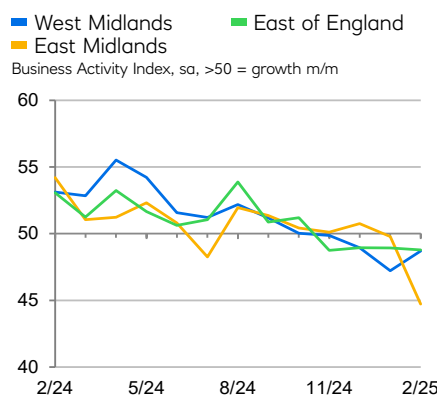
Sources: NatWest, S&P Global PMI. ©2025 S&P Global.



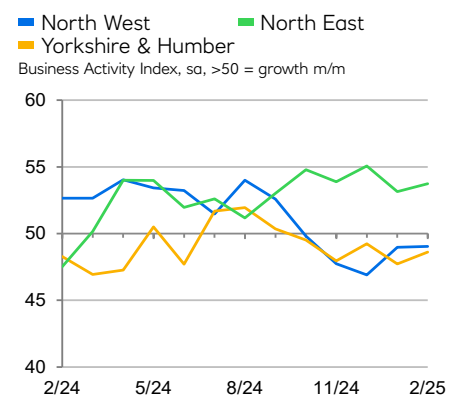
Sources: NatWest, S&P Global PMI. ©2025 S&P Global.



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Growth Tracker heat map

February 2025

Darker colour = higher business growth

South West
Business Activity Index
sa, >50 = growth m/m

50.2



44.7 44.9 48.6 48.7 48.8 49 50.2 51.5 53.7 54

Sources: NatWest, S&P Global PMI. ©2025 S&P Global.

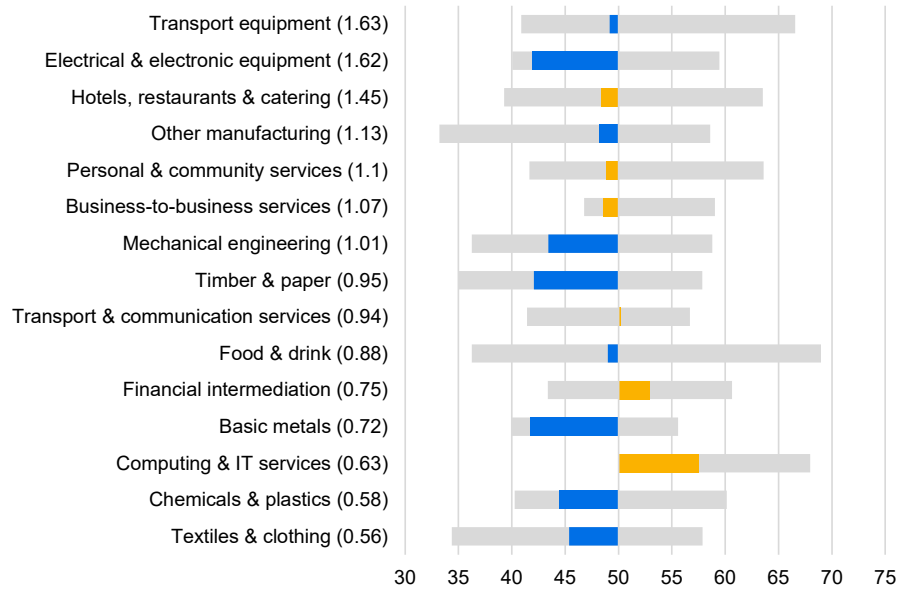
UK sectors

Sector specialisation: South West

The chart shows UK output indices by sector, ranked by location quotients for the South West. Location quotients (LQs) 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.

UK sectors ranked by importance to the South West economy
 ■ Manufacturing ■ Services ■ 3-year range
 UK Output Index, sa, >50 = growth m/m Feb '25



Sources: NatWest, S&P Global PMI. ©2025 S&P Global.
 Location quotients for the South West are shown in brackets. Latest data are smoothed as three-month moving averages.

Sector in focus: Mechanical engineering

Output in the UK's mechanical engineering sector contracted in the three months to February, according to underlying PMI data. The decline was steep and followed growth throughout most of 2024. A lack of new orders, particularly from abroad, was the defining factor behind the sector's recent downturn.

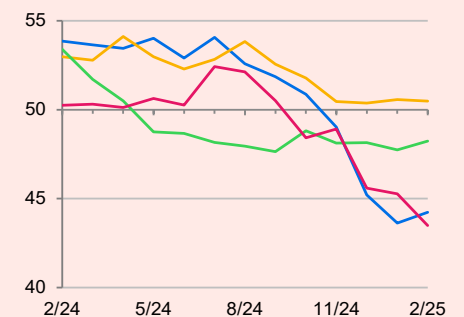
Shrinking backlogs of work at mechanical engineering companies led to further job losses. This extended the current sequence of job shedding seen since spring last year. Inventories were also scaled

back, especially stocks of inputs.

Prices paid for purchases rose at a steady rate that was below the long-run series average. Firms managed to pass on a sizeable proportion of the cost increases they faced, with the pace of output price inflation ticking up to its highest for almost a year and running above its historic trend level.

Looking ahead, firms in the sector were optimistic about growth prospects in the coming year, though less so than at almost any time since the pandemic.

Output / Employment
 ■/■ Mechanical engineering*
 ■/■ Manufacturing & services
 Index, sa, >50 = growth m/m



Sources: NatWest, S&P Global PMI. ©2025 S&P Global.
 *Data are smoothed as three-month moving average (3mma).

Methodology

The NatWest South West Growth Tracker 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

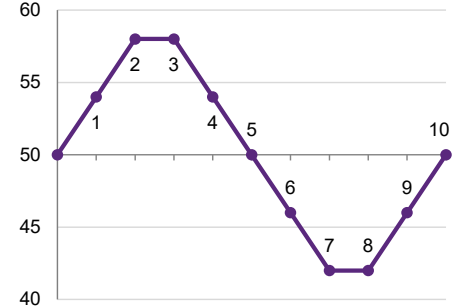
overall decrease. The indices are then seasonally adjusted.

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.

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 survey methodology, please contact economics@spglobal.com.

Index interpretation
Index, sa, >50 = growth m/m



Sources: NatWest, S&P Global PMI. ©2025 S&P Global.

Key

- 1 Growth, from no change
- 2 Growth, faster rate
- 3 Growth, same rate
- 4 Growth, slower rate
- 5 No change, from growth
- 6 Decline, from no change
- 7 Decline, faster rate
- 8 Decline, same rate
- 9 Decline, slower rate
- 10 No change, from decline

Data

South West manufacturing and services Index, sa, 50 = no change over previous month. *50 = no change over next 12 months.

| | Business Activity | New Business | Export Climate Index | Employment | Outstanding Business | Future Activity* | Input Prices | Output Prices |
|-------|-------------------|--------------|----------------------|------------|----------------------|------------------|--------------|---------------|
| 9/24 | 53.7 | 58.0 | 51.1 | 50.2 | 50.4 | 74.5 | 60.2 | 54.3 |
| 10/24 | 54.1 | 55.6 | 51.8 | 50.3 | 50.0 | 70.1 | 58.3 | 56.5 |
| 11/24 | 51.6 | 54.1 | 51.6 | 48.0 | 50.7 | 63.7 | 60.5 | 55.3 |
| 12/24 | 49.7 | 48.2 | 51.7 | 44.4 | 45.0 | 62.2 | 65.0 | 55.8 |
| 1/25 | 50.2 | 49.1 | 51.4 | 45.2 | 45.7 | 63.4 | 66.8 | 59.1 |
| 2/25 | 50.2 | 48.8 | 51.2 | 44.1 | 46.9 | 68.1 | 64.7 | 57.9 |

Further information

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