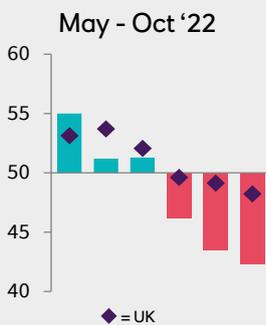




NatWest South West PMI[®]

Private sector downturn gathers pace in October

South West Business Activity Index



Key findings

Firms see sharper falls in output and new business

Employment broadly stable

Inflationary pressures remain marked

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 – fell from 43.5 in September to 42.3 in October, to indicate a third successive monthly drop in overall business activity across the region. Furthermore, the rate of contraction was the sharpest seen since the start of 2021 and was much quicker than that seen at the national level. Companies often reported that weaker demand conditions due to greater political and economic uncertainty had dampened business activity in October.

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

“October’s PMI survey showed that both business activity and new work across the South West private sector fell at accelerated rates, as heightened political uncertainty and a gloomy economic outlook led clients to delay or cut back on spending. Barring the pandemic lockdowns, this marked the weakest performance for the region since the depths of the global financial crisis in March 2009. Against a backdrop of rapid inflation and a cost of living crisis, rising interest rates and weakening demand the survey also showed that business confidence was stuck at a record low as recessionary fears set in. While employment data held up relatively well, pointing to broadly stable staffing levels, this too is likely to come under greater pressure in the months ahead unless there is a notable turnaround in demand conditions.”

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

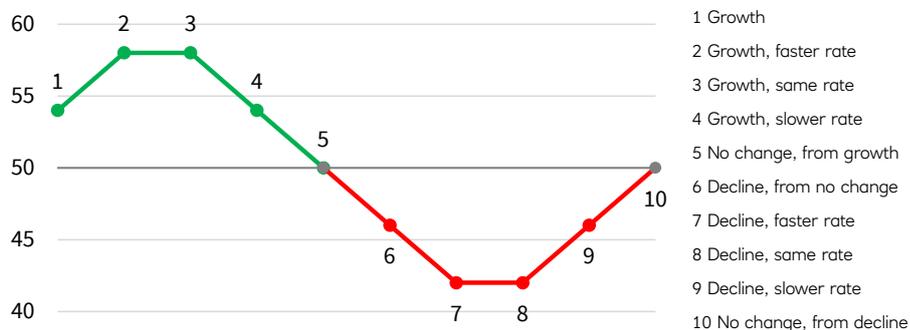
calculated from a single question that asks for changes in the volume of business activity (at service providers) or output (at manufacturers) compared with one month previously. The South West Business Activity Index is comparable to the UK Composite Output Index. It is sometimes referred to as the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

Sharper reduction in new orders

October data pointed to a sharp and accelerated fall in overall new work received by South West private sector firms. New business has now declined in each of the past four months, with the latest reduction the steepest recorded since January 2021 and outpacing that seen across the UK as a whole. Where lower intakes of new orders were reported, firms generally attributed this to reduced client confidence and greater hesitancy to commit to projects amid increased political and economic uncertainty.

Optimism around the outlook remains at all-time low

Although companies in the South West private sector generally anticipated an expansion of output over the next year, the level of positive sentiment was unchanged from September's record low in October. While a number of firms expected market conditions and customer demand to improve over the next 12 months, many businesses expressed concerns over the deterioration in the economic climate, the cost of living crisis and rising interest rates.

At the national level, business confidence slumped to its lowest since April 2020, but remained stronger than that seen in the South West.

Exports

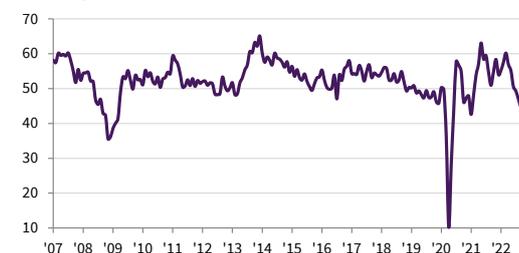
Export conditions broadly stagnant in October

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.

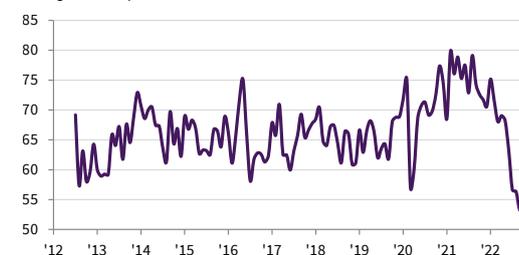
The Export Climate Index fell from 50.3 in September to 49.9 in October, to signal that export conditions were little-changed after a mild improvement in the previous month.

Underlying data showed that contractions of output across the region's top two export markets, the US and Germany, broadly offset upturns in France, Ireland and the UAE. The latter continued to post the strongest expansion of activity overall.

New Business Index
sa, >50 = growth since previous month
42.7
Oct '22



Future Activity Index
>50 = growth expected over next 12 months
53.3
Oct '22



Export Climate Index
sa, >50 = growth since previous month
49.9
Oct '22



Top export markets, South West

Rank	Market	Weight	Output Index, Oct '22
1	USA	20%	48.2
2	Germany	11%	45.1
3	France	9%	50.2
4	UAE	4%	62.8
5	Ireland	4%	52.1

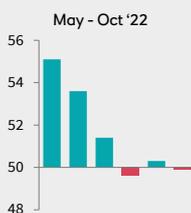
New Business Index
May - Oct '22



Future Activity Index
May - Oct '22



Export Climate Index
May - Oct '22



Business capacity

Employment Index



Staffing levels rise fractionally in October

South West private sector companies signalled a fractional rise in employment in October. This followed a slight reduction in headcounts during September. Staffing levels have now increased in 19 of the past 20 months, with the latest expansion linked to efforts to boost capacity and to be able to support higher workloads in future.

The South West registered the slowest upturn in employment of all 12 UK regions, with only the North East recording a weaker performance (of falling staff numbers).

Outstanding Business Index



Modest fall in backlogs of work

Outstanding workloads at South West private sector firms fell again in October, as signalled by the respective seasonally adjusted index posting below the neutral 50.0 level for the fourth month in a row. That said, the rate of decline eased to a modest pace that was the softest since July. Where backlogs rose, staff and material shortages were often mentioned.

Across the UK as a whole, unfinished business increased slightly for the first time in three months.

Employment Index

sa, >50 = growth since previous month

50.2
Oct '22



Outstanding Business Index

sa, >50 = growth since previous month

47.1
Oct '22



Prices

Input cost inflation eases but remains historically sharp

Cost pressures across the South West private sector remained historically elevated at the start of the fourth quarter. This was despite the rate of input price inflation edging down to a 17-month low. According to panel members, higher energy prices were a key driver of inflation, alongside greater costs for transport, raw materials, food and staff.

Nevertheless, the South West registered the slowest rate of input cost inflation of all 12 monitored UK regions.

Output charges increase at softest pace for 18 months

As part of efforts to pass on higher expenses to clients and protect profit margins, South West private sector firms raised their selling prices again in October. Though marked and well above the series average, the rate of inflation was the softest seen for a year-and-a-half. The pace of increase was also the weakest seen of all 12 UK regions. Some firms mentioned passing on any cost savings where possible, in order to stimulate demand.

Input Prices Index

sa, >50 = inflation since previous month

71.2

Oct '22

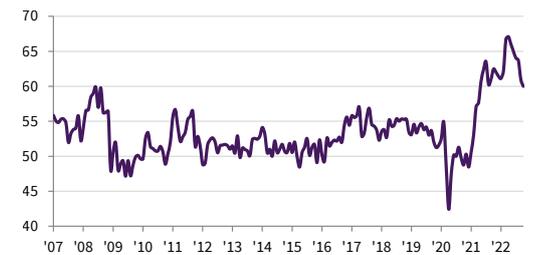


Prices Charged Index

sa, >50 = inflation since previous month

60.0

Oct '22



Input Prices Index

May - Oct '22



◆ = UK

Prices Charged Index

May - Oct '22



◆ = UK



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, Oct '22*
1	Transport	1.50	48
2	Electrical & Optical	1.45	48
3	Other Manufacturing	1.02	48
4	Mechanical Engineering	0.99	48
5	Basic Metals	0.90	45
6	Timber & Paper	0.86	45
7	Food & Drink	0.83	48
8	Textiles & Clothing	0.78	48
9	Chemicals & Plastics	0.67	45

South West specialisation: Services

Rank	Sector	LQ	UK Business Activity Index, Oct '22*
1	Hotels, Restaurants & Catering	1.42	48
2	Business-to-business Services	1.09	48
3	Personal & Community Services	0.98	48
4	Transport & Communication	0.88	48
5	Financial Intermediation	0.86	48
6	Computing & IT Services	0.69	55



UK sector focus

Transport

UK Transport manufacturers reported a steep and accelerated reduction in output levels in the three months to October, latest PMI data showed. The sector's performance was its worst since the initial COVID-related shutdowns in early-2020.

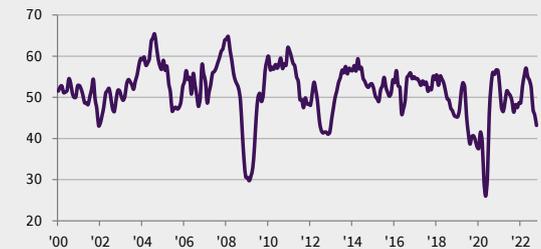
Alongside a softening of demand, which was evidenced by a fall in inflows of new orders, the reduction in production reflected shortages of materials and parts. Surveyed firms continued to report longer lead times on inputs, albeit with the incidence of delays having shown some improvement from the record levels a year earlier.

Cost pressures remained historically high, and even intensified slightly in the three months to October.

Despite these challenges, producers of Transport goods were more upbeat about the outlook for output than those in any other manufacturing sector. As such, they continued to add to workforce numbers.

Output Index

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



*3-month moving average

UK Regional PMI overview

Business Activity

October saw a fall in business activity across all 12 monitored regions, the first time this has been the case since the third national lockdown in January 2021. The South West posted the steepest decline, followed by Northern Ireland* and the North East respectively. London's fall in activity was only marginal, but nonetheless its first for over a year-and-a-half.

Employment

Employment continued to rise across almost every region during October, the only exception being the North East where workforce numbers fell for a fifth straight month. However, in most cases, rates of job creation slowed. This included the South East - the region at the top of the rankings for employment growth.

Future Activity

Business expectations, although often still positive, weakened in most cases in October. Firms in Northern Ireland and the North East even noted increased pessimism towards the outlook. Business confidence in the South West was unchanged from September's record low, while Scotland went against the broader trend and registered the strongest optimism for three months.

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

Business Activity Index

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



Employment Index

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



Future Activity Index

>50 = growth expected over next 12 months, Oct '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
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
Aug '22	46.2	47.0	49.6	56.4	50.4	44.6	73.0	63.7
Sep '22	43.5	44.6	50.3	53.3	49.8	45.0	71.3	61.0
Oct '22	42.3	42.7	49.9	53.3	50.2	47.1	71.2	60.0

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.

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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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