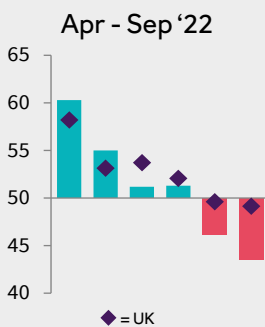




# NatWest South West PMI<sup>®</sup>

## Output contracts at quickest rate since January 2021

### South West Business Activity Index



### Key findings

Accelerated falls in output and new business

Staffing levels decline for first time in 19 months

Business confidence sinks to fresh record low

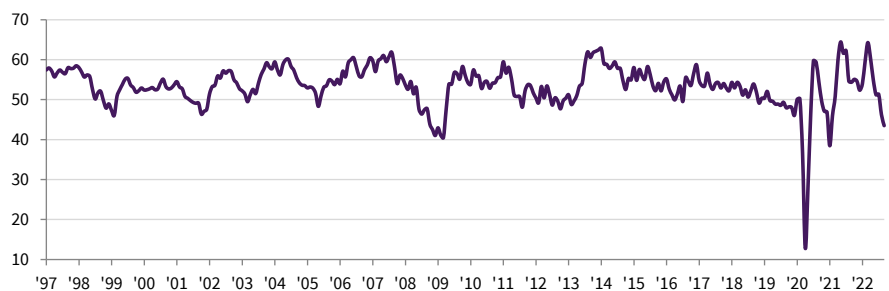
The headline NatWest South West PMI<sup>®</sup> Business Activity Index – a seasonally adjusted index that measures the month-on-month change in the combined output of the region’s manufacturing and service sectors – dropped from 46.2 in August to 43.5 in September, to signal a sharp and accelerated reduction in business activity. Notably, the rate of contraction was the steepest seen since January 2021, and was much quicker than that seen across the UK as a whole. According to anecdotal evidence, the weaker economic climate and reduced customer spending had driven the latest fall in business activity.

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

*“Latest PMI data showed that the downturn in private sector activity across the South West gathered pace in September, with firms reporting the steepest falls in output and new orders since January 2021. The deteriorating economic outlook and high inflation were reportedly behind the latest falls in activity and demand, as customers often cut back on expenditure or delayed projects. The weaker economic climate also weighed on business confidence for the year ahead, which dropped to its lowest on record in September, and led to the first reduction in employment for just over a year-and-a-half. At the same time, companies continued to see rapid increases in costs, as higher payments for energy, wages and raw materials all pushed up expenses. This in turn fed through to another sharp rise in selling prices, as firms looked to pass on additional costs to clients as part of efforts to protect operating margins.”*

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

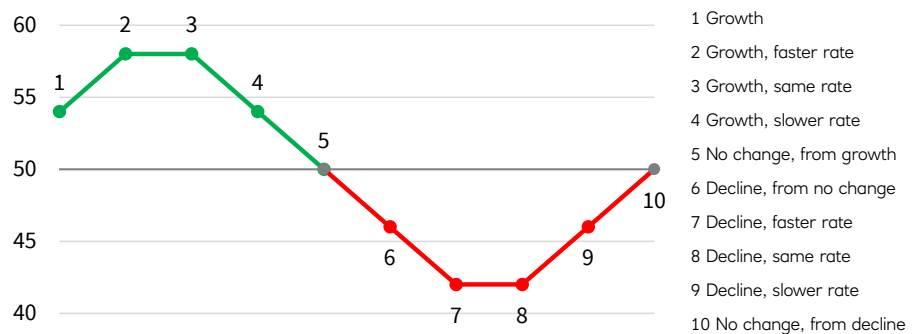
calculated from a single question that asks for changes in the volume of business activity (at service providers) or output (at manufacturers) compared with one month previously. The South West Business Activity Index is comparable to the UK Composite Output Index. It is sometimes referred to as the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

### New business declines at accelerated rate

South West private sector firms signalled a fall in total new work during September, as has been the case throughout the third quarter. Furthermore, the rate of contraction accelerated for the second month running and was the sharpest seen since the start of 2021. The drop in sales in the South West was also much quicker than that seen across the UK as a whole. Companies often mentioned that a weaker economic climate and rising costs had led clients to cut back on spending or delay projects.

### Business confidence hits fresh record low in September

Sentiment regarding output levels in the year ahead waned again in September, to hit its lowest since the series began over a decade over. While some firms anticipate that greater investment, export opportunities and a recovery in overall demand conditions would support growth, others cited concerns over a weak economic outlook, labour shortages, rising interest rates and the cost of living crisis. Expectations in the South West were also much weaker than that seen across the UK private sector as a whole.

## Exports

### Slight improvement in export conditions during September

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 rose from 49.6 in August to 50.3 in September, to signal a renewed improvement in export market conditions. That said, the pace of expansion was only slight.

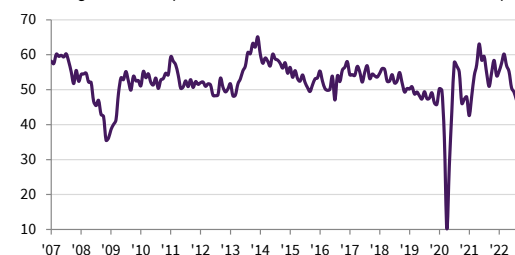
Three of the region's top five export markets recorded increased output in September, led by the UAE. Rates of growth meanwhile quickened slightly in France and Ireland. In contrast, Germany registered the steepest fall in activity since May 2020, and the US saw a mild drop in output.

New Business Index

sa, >50 = growth since previous month

44.6

Sep '22

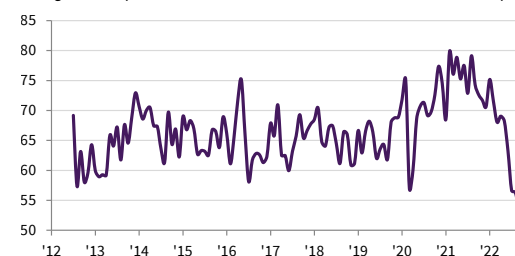


Future Activity Index

>50 = growth expected over next 12 months

53.3

Sep '22

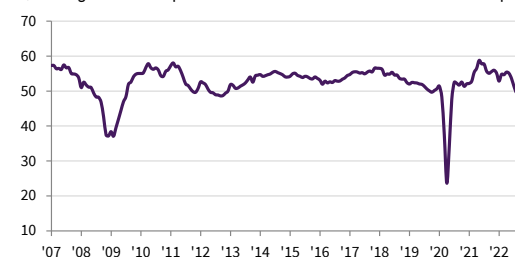


Export Climate Index

sa, >50 = growth since previous month

50.3

Sep '22



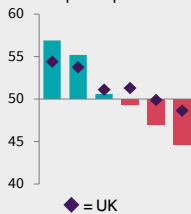
Top export markets, South West

Rank	Market	Weight	Output Index, Sep '22
1	USA*	20%	49.3
2	Germany	11%	45.7
3	France	9%	51.2
4	UAE	4%	61.7
5	Ireland	4%	52.2

\*September 'flash' data.

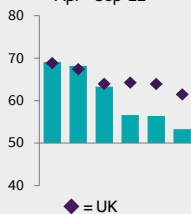
New Business Index

Apr - Sep '22



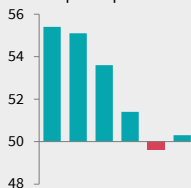
Future Activity Index

Apr - Sep '22



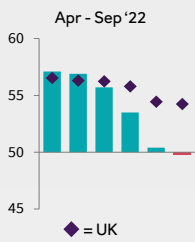
Export Climate Index

Apr - Sep '22



## Business capacity

### Employment Index



### Employment falls slightly

After rising at the weakest rate for a year-and-a-half in August, employment across the South West private sector declined during September. Though only slight, it marked the first reduction in headcounts since February 2021. Anecdotal evidence suggested that the non-replacement of voluntary leavers and redundancies had driven the renewed fall in staffing levels.

The South West was only one of two UK regions to register lower employment in September, with the North East recording a modest reduction in payrolls.

### Outstanding Business Index



### Outstanding business continues to decline markedly

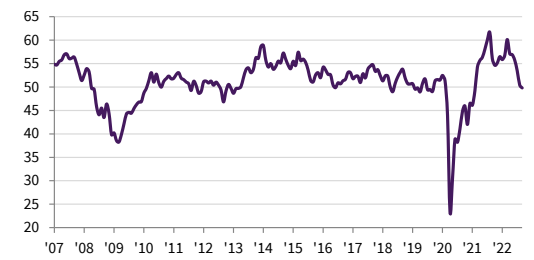
The amount of unfinished work at South West private sector firms declined for the third month running in September. Notably, the rate of backlog depletion was little-changed from that seen in August and sharp overall. The reduction was also much quicker than that seen at the UK level, with only the North East and Northern Ireland registering faster rates of contraction. Businesses often mentioned that reduced intakes of new work had enabled them to work through backlogs.

### Employment Index

sa, >50 = growth since previous month

49.8

Sep '22

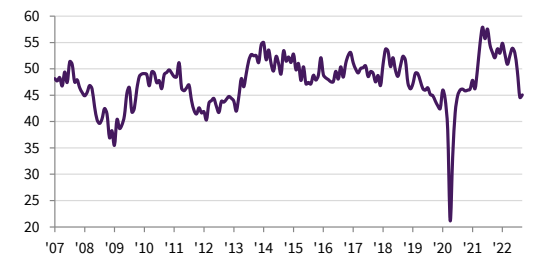


### Outstanding Business Index

sa, >50 = growth since previous month

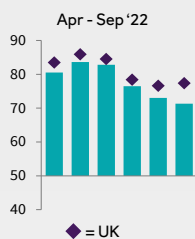
45.0

Sep '22



## Prices

Input Prices Index  
Apr - Sep '22



### Input cost inflation edges down to 16-month low

The rate of input price inflation across the South West private sector softened for the fourth month running in September, to reach its lowest since May 2021. Nevertheless, the upturn remained rapid overall and much quicker than the series average. Panel members commented on across the board price increases, with energy, wages and raw materials mentioned in particular.

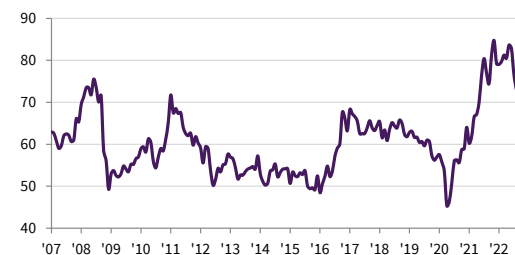
Across the UK as a whole, operating expenses increased at a sharper pace and one that exceeded that seen in the South West.

Input Prices Index

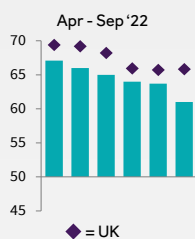
sa, >50 = inflation since previous month

71.3

Sep '22



Prices Charged Index  
Apr - Sep '22



### Softest increase in output charges for a year

South West private sector companies raised their average selling prices for the twenty-first month in a row in September. Though sharp by historical standards, the rate of inflation was the softest seen in a year. Companies that hiked their fees often mentioned passing on additional costs to clients via higher selling prices.

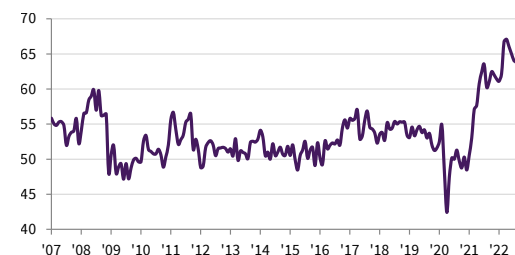
On a regional basis, only Scotland recorded a slower increase in output charges than the South West.

Prices Charged Index

sa, >50 = inflation since previous month

61.0

Sep '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, Sep '22*
1	Transport	1.50	50
2	Electrical & Optical	1.45	52
3	Other Manufacturing	1.02	50
4	Mechanical Engineering	0.99	48
5	Basic Metals	0.90	46
6	Timber & Paper	0.86	46
7	Food & Drink	0.83	46
8	Textiles & Clothing	0.78	48
9	Chemicals & Plastics	0.67	44

#### South West specialisation: Services

Rank	Sector	LQ	UK Business Activity Index, Sep '22*
1	Hotels, Restaurants & Catering	1.42	50
2	Business-to-business Services	1.09	50
3	Personal & Community Services	0.98	50
4	Transport & Communication	0.88	48
5	Financial Intermediation	0.86	52
6	Computing & IT Services	0.69	58

## UK sector focus

### Business-to-Business Services

The UK's large Business-to-Business Services sector suffered a downturn in activity in the three months to September, latest PMI data showed. Output levels fell, albeit only slightly, for the first time since the third national lockdown at the start of 2021.

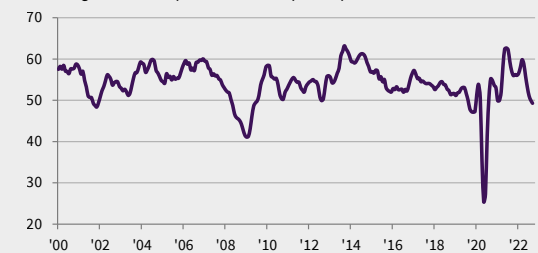
High inflation and waning confidence among customers acted as headwinds to growth, according to surveyed businesses. With rising interest rates forecast to further dampen demand, firms' expectations towards future activity fell to the lowest for almost two-and-a-half years.

Employment continued to rise across the sector. However, whilst still solid by historical standards, the pace of job creation slowed to the weakest since early-2021.

On the price front, rates of both input cost and output charge inflation remained elevated but maintained a steady decline from their recent record highs in Q2.

#### Output Index

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



\*3-month moving average



## UK Regional PMI overview

### Business Activity

Nine of the 12 monitored regions recorded lower levels of business activity in September. The fastest rates of contraction were seen in Northern Ireland\* and the South West. London was the best-performing region, despite seeing growth slow to a 20-month low, ahead of Yorkshire & Humber. Business activity in the South East was unchanged on the month, after having fallen slightly in August.

### Employment

Although employment rose in most regions in September, rates of job creation slowed in the majority of cases. This included the East of England, which nevertheless topped the rankings ahead of the South East. Workforce numbers fell in the North East for the fourth month running, whilst the South West recorded its first decline since February 2021.

### Future Activity

Business confidence towards future output fell across three-quarters of the surveyed regions in September. Yorkshire & Humber recorded the strongest optimism, despite seeing the greatest reduction in expectations from the previous month. Business sentiment was generally positive, with the exception of Northern Ireland and the North East.

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

#### Business Activity Index

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



#### Employment Index

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



#### Future Activity Index

>50 = growth expected over next 12 months, Sep '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
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
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

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### About NatWest

NatWest serves customers in England and Wales, supporting them with their personal, private, and business banking needs. NatWest helps customers at all stages in their lives, from opening student accounts, to buying their first home, setting up a business, and saving for retirement.

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.

### About S&P Global

S&P Global (NYSE: SPGI) S&P Global provides essential intelligence. We enable governments, businesses and individuals with the right data, expertise and connected technology so that they can make decisions with conviction. From helping our customers assess new investments to guiding them through ESG and energy transition across supply chains, we unlock new opportunities, solve challenges and accelerate progress for the world.

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.

[ihsmarkit.com/products/pmi.html](https://ihsmarkit.com/products/pmi.html)

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