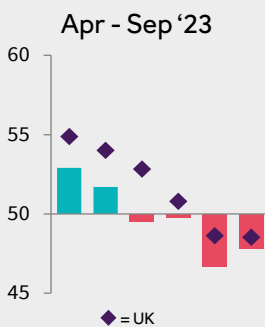


# NatWest South West PMI®

## Business activity contracts again amid further drop in new orders

### South West Business Activity Index



### Key findings

Business activity and sales fall for fourth straight month

Firms cut staffing levels for first time since March

Inflationary pressures ease but remain historically 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 – picked up from August’s nine-month low of 46.7 to 47.8 in September. The index has now posted in contraction territory for four successive months, though the latest reduction in activity was only modest. Across the UK as a whole, business activity fell for the second straight month, though the rate of contraction remained softer than that seen in the South West.

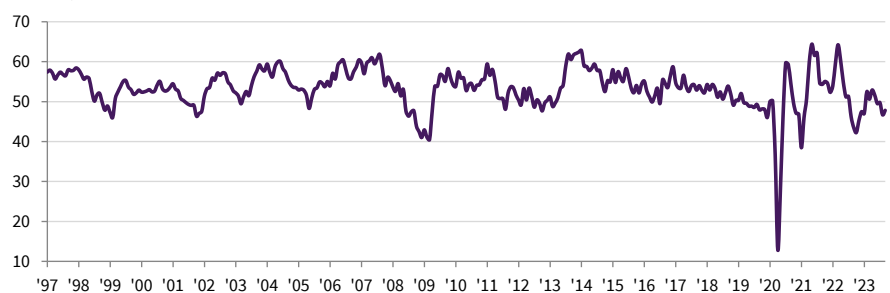
Paul Edwards, Chair of the NatWest South West Regional Board, commented:

*"Private sector companies across the South West continued to face challenging market conditions in September, with weak demand leading to a further decline in business activity. High interest rates, the rising cost of living and uncertainty over the economic outlook all weighed on customer spending, with budgets coming under greater scrutiny. While there were signs of overall inflationary pressures easing in September, rates of both input cost inflation and output charge inflation remained elevated by historical standards to underscore how stubborn cost pressures still are."*

*"This gloomier assessment of the outlook also fed through to confidence, which slipped to the lowest level in 2023 to date. At the same time, efforts to contain costs contributed to the first reduction in employment across the South West for six months. As backlogs of work continued to fall sharply, which points to spare capacity across the region, it's likely that firms could cut back further on output until we see demand revive."*

### 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

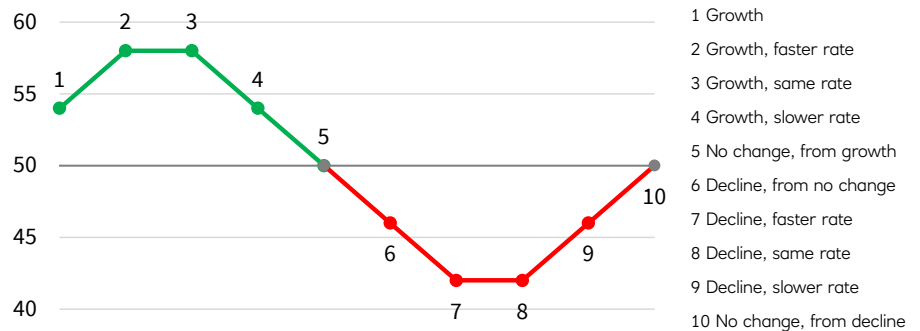
calculated from a single question that asks for changes in the volume of business activity (at service providers) or output (at manufacturers) compared with one month previously. The South West Business Activity Index is comparable to the UK Composite Output Index. It is sometimes referred to as the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

### Index interpretation

50.0 = no change since previous month



## Demand and outlook

### New orders decline again in September

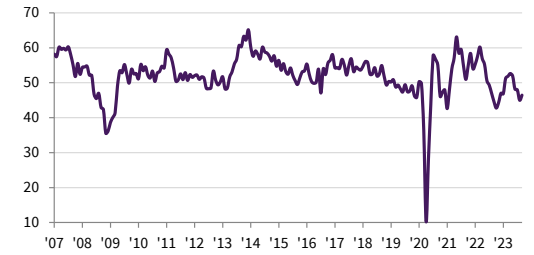
Private sector companies in the South West recorded a further reduction in overall new business during September, thereby stretching the current period of decline to four months. Whilst not as severe as that seen in August, the rate of contraction was solid overall. Tighter client budgets, elevated inflation and weaker confidence all weighed on customer spending, according to panellists.

New orders also fell across the UK as a whole, though the pace of decline remained weaker than that seen in the South West.

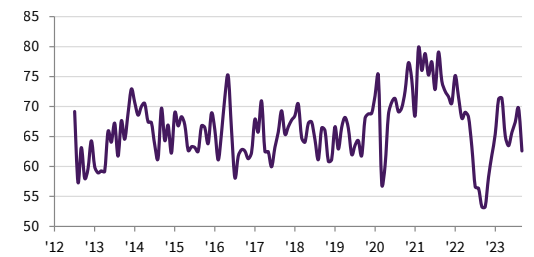
### Optimism slips to nine-month low

Although South West private sector firms anticipate business activity to expand over the next year, the level of positive sentiment weakened in September. Notably, the degree of optimism was the lowest seen in 2023 to date and below the UK-wide average. While some companies expressed hopes that economic conditions will improve and investment in new technology and marketing will aid growth, there were concerns related to tighter financial conditions and the associated pressure on client expenditure going forward.

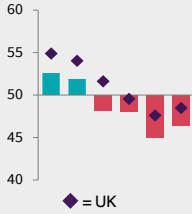
New Business Index  
sa, >50 = growth since previous month  
46.4  
Sep '23



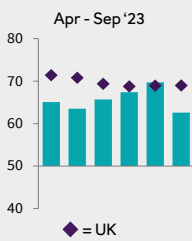
Future Activity Index  
>50 = growth expected over next 12 months  
62.6  
Sep '23



New Business Index  
Apr - Sep '23



Future Activity Index  
Apr - Sep '23



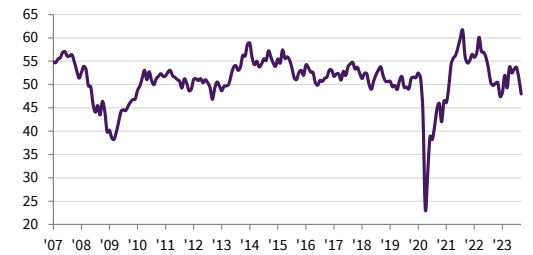
## Business capacity

### Payrolls cut for first time in six months

After rising in each of the five prior months, workforce numbers at South West private sector firms declined in September. Though modest, the rate of job shedding was the quickest recorded since December 2022. According to panellists, the non-replacement of voluntary leavers and cost control measures had weighed on recruitment.

A fresh fall in employment was also seen at the national level, with the rate of reduction slightly quicker than that seen in the South West.

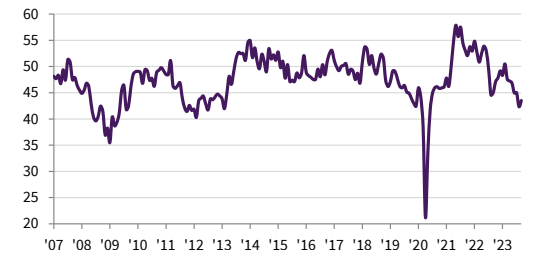
Employment Index  
sa, >50 = growth since previous month  
48.0  
Sep '23



### Further sharp reduction in outstanding business

Backlogs of work continued to fall sharply at private sector companies in the South West during September. Notably, the rate of depletion eased only slightly from August's 38-month record and remained steeper than the UK-wide trend. Fewer new orders and improved supply chain performance had supported the latest decline in outstanding work, according to survey respondents.

Outstanding Business Index  
sa, >50 = growth since previous month  
43.5  
Sep '23

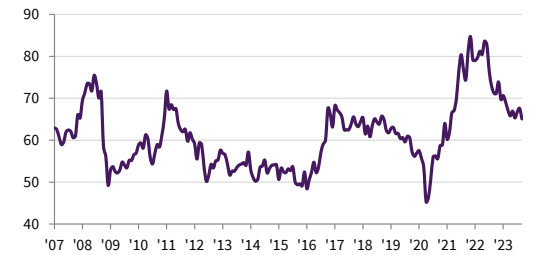


## Prices

### Softest rise in input costs in just over two-and-a-half years

As has been the case since June 2020, average input prices across the South West private sector increased at the end of the third quarter. The rate of inflation edged down slightly to the lowest in 31 months, but remained sharper than the historical trend. The upturn also continued to outpace that seen on average across the UK. Where higher cost burdens were reported, firms generally linked this to greater fuel, energy and staff expenses.

Input Prices Index  
sa, >50 = inflation since previous month  
65.1  
Sep '23

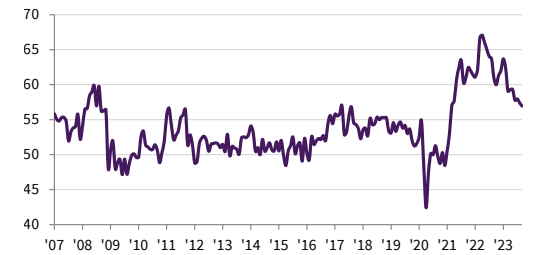


### Output charges increase at slower pace

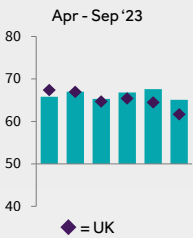
Adjusted for seasonal factors, the Prices Charged Index posted above the neutral 50.0 threshold to signal a further rise in average selling prices set by South West private sector firms in September. Whilst the rate of charge inflation was the softest in 31 months, it remained well above the long-run average. Companies often mentioned raising their own prices to pass on higher operating expenses to customers.

Output charges also rose at a historically strong pace at the national level, albeit one that remained slightly softer than that seen in the South West.

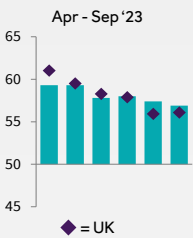
Prices Charged Index  
sa, >50 = inflation since previous month  
56.9  
Sep '23



Input Prices Index  
Apr - Sep '23



Prices Charged Index  
Apr - Sep '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, Sep '23*
1	Transport	1.50	50
2	Electrical & Optical	1.45	45
3	Other Manufacturing	1.02	50
4	Mechanical Engineering	0.99	50
5	Basic Metals	0.90	50
6	Timber & Paper	0.86	45
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, Sep '23*
1	Hotels, Restaurants & Catering	1.42	45
2	Business-to-business Services	1.09	50
3	Personal & Community Services	0.98	50
4	Transport & Communication	0.88	45
5	Financial Intermediation	0.86	50
6	Computing & IT Services	0.69	50

## UK sector focus

### Business-to-business services

The UK's large Business-to-business services sector contracted during the third quarter. Activity fell at a solid rate that was the fastest for over three years.

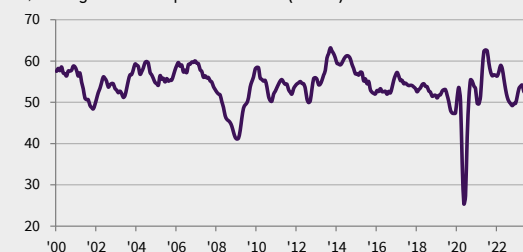
The downturn reflected a softening of demand across the sector, with firms recording a notable decline in inflows of new work in the three months to September. Business confidence towards the outlook was at its lowest since the start of the year and subdued by historical standards.

Although employment in the sector continued to rise, the rate of job creation slowed to the weakest in the year-to-date as firms made increasingly rapid inroads into their backlogs of work.

On the price front, input cost inflation remained historically elevated, driven by rising salaries and fuel prices, but it slowed to a two-and-a-half year low. It was a similar story for prices charged.

#### Output Index

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



\*3-month moving average



## UK Regional PMI overview

### Business Activity

Business activity fell across all but one of the 12 monitored UK regions and nations, the exception being London. Furthermore, output in the capital increased at an accelerated rate. The North East recorded the sharpest drop in business, its quickest for more than a year, followed by neighbouring Yorkshire & Humber.

### Employment

Employment growth was confined to just Northern Ireland\* and Scotland in September, albeit with the rates of job creation there slowing to a crawl. Ten of the 12 monitored areas recorded a reduction in staffing levels, the highest number since January 2021. For the third month running, the deepest job cuts were seen in the North East.

### Future Activity

As was the case throughout the third quarter, firms in the West Midlands were the most optimistic about future activity in September. Next in the rankings was the South East, which was one of seven regions where confidence improved. The most marked increase in sentiment was in the East of England. Expectations were lowest in 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 '23



#### Employment Index

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



#### Future Activity Index

>50 = growth expected over next 12 months, Sep '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
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
Jul '23	49.8	48.0	51.3	67.4	53.7	45.0	66.8	58.0
Aug '23	46.7	45.0	50.2	69.7	51.4	42.3	67.6	57.4
Sep '23	47.8	46.4	50.1	62.6	48.0	43.5	65.1	56.9

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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.

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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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