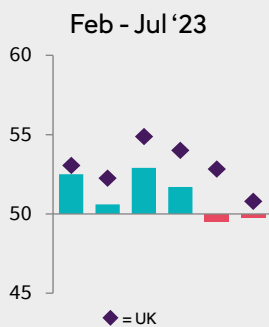


NatWest South West PMI[®]

Sustained drop in sales dampens business activity across the South West

South West Business Activity Index



Key findings

Output and new orders decline for second straight month

Inflationary pressure remains historically strong

Employment continues to rise amid optimism around the year ahead

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 slightly from 49.5 in June to 49.8 at the start of the third quarter. However, the reading remained below the crucial 50.0 level that separates growth from contraction, to signal a back-to-back decline in business activity across the region. Though only fractional, the reduction contrasted with a marginal expansion of business activity across the UK as a whole.

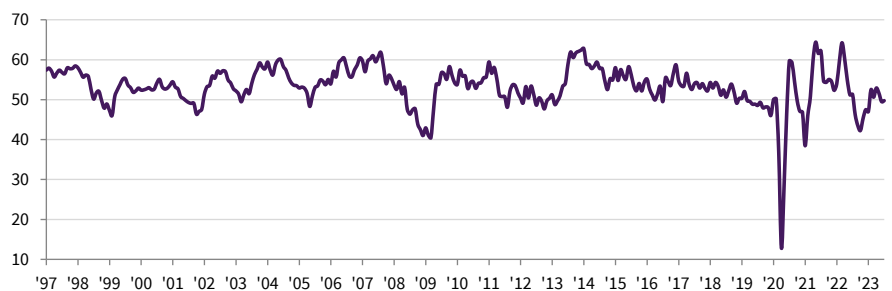
Paul Edwards, Chair of the NatWest South West Regional Board, commented:

"Private sector firms in the South West remained under pressure at the start of the third quarter, as a back-to-back decline in new work led to another slight drop in business activity. Higher borrowing costs and increased economic uncertainty meant that client budgets are not only being squeezed, but businesses are more hesitant to commit to orders right now. The prices data show that inflationary pressure may be stickier than anticipated, partly due to stronger wage inflation, which is something that needs to be tracked carefully."

"Employment across the South West remained a bright spot, however, as firms continued to add to their payrolls amid expectations of rising business requirements in the months ahead. It was particularly encouraging to see that the rate of job creation in the South West was the best seen of all 12 monitored UK regions."

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

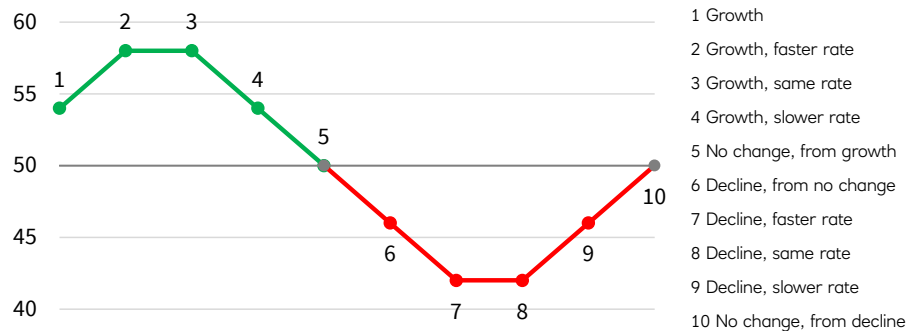
calculated from a single question that asks for changes in the volume of business activity (at service providers) or output (at manufacturers) compared with one month previously. The South West Business Activity Index is comparable to the UK Composite Output Index. It is sometimes referred to as the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

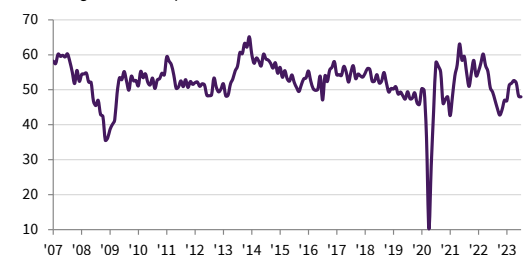


Demand and outlook

Further modest decline in new orders

July survey data signalled a back-to-back reduction in new orders received by South West private sector companies. Anecdotal evidence indicated that a general slowdown in market conditions and higher interest rates had weighed on customer spending. The rate at which sales declined remained modest overall, but was steeper than that seen across the UK as a whole.

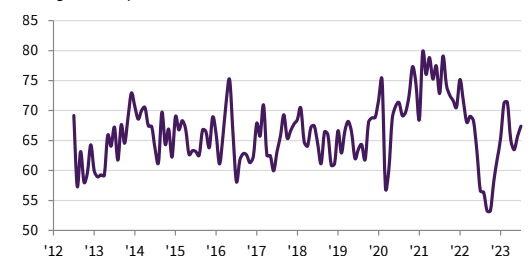
New Business Index
sa, >50 = growth since previous month
48.0
Jul '23



Optimism around the outlook hits highest since March

The Future Activity Index posted comfortably above the neutral 50.0 level in July, to signal that South West private sector firms were upbeat when assessing the 12-month outlook for business activity. Growth forecasts were generally underpinned by expectations that new project starts, planned company expansions and stronger economic conditions will help to boost activity. The level of positive sentiment improved to a four-month high and was above the series trend. That said, companies in the region remained slightly less upbeat than the average UK firm.

Future Activity Index
>50 = growth expected over next 12 months
67.4
Jul '23



Exports

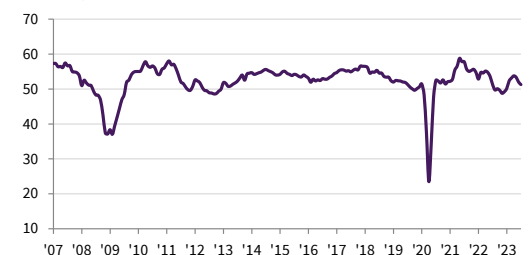
Export conditions improve at slowest rate since January

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 index slipped from 52.0 in June to 51.3 at the start of the third quarter, to signal only a mild improvement in export conditions faced by South West private sector companies. Notably, the upturn was the softest recorded since January.

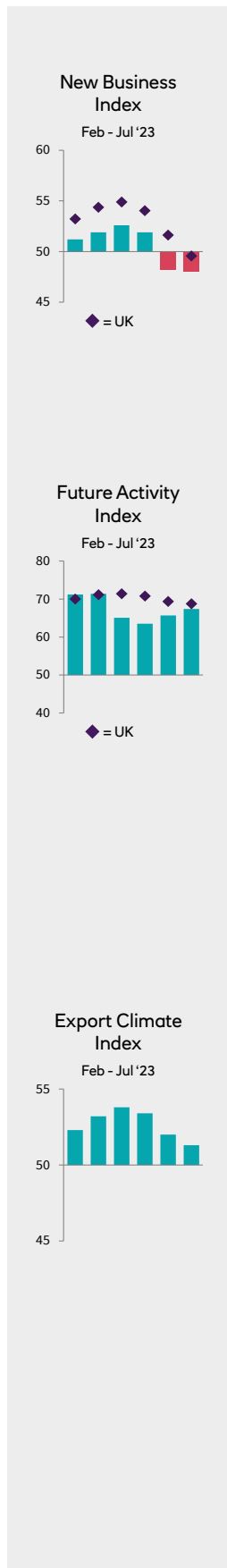
Of the region's top five export markets, only the US registered an expansion of business activity during July. Output meanwhile stagnated in Ireland and fell in Germany, France and the Netherlands. The steepest drop in activity was seen in France, where output contracted at the quickest rate for over two-and-a-half years.

Export Climate Index
sa, >50 = growth since previous month
51.3
Jul '23



Top export markets, South West

Rank	Market	Weight	Output Index, Jul '23
1	USA	21%	52.0
2	Germany	12%	48.5
3	France	10%	46.6
4	Netherlands	6%	48.3
5	Ireland	5%	50.0



Business capacity

Employment Index



Solid increase in employment

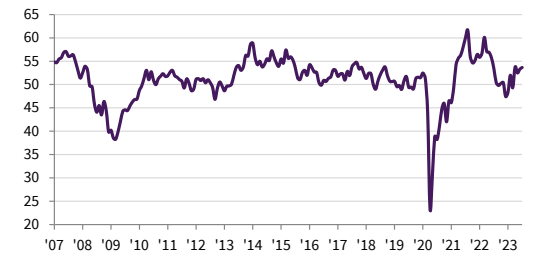
Latest data revealed a fourth successive monthly increase in overall workforce numbers at South West private sector firms in July. Furthermore, the rate of job creation edged up to a three-month high and was solid overall. The South West also recorded the quickest rate of job creation of all 12 monitored UK regions. There were frequent reports of businesses adding to their payrolls in anticipation of new projects and growth plans for the year ahead.

Employment Index

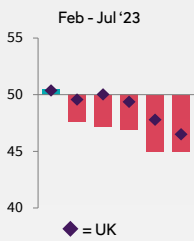
sa, >50 = growth since previous month

53.7

Jul '23



Outstanding Business Index



Outstanding business continues to fall sharply

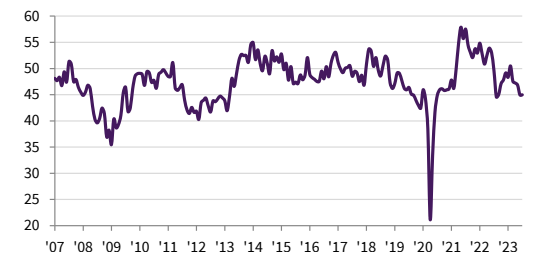
The level of work-in-hand (but not yet completed) at South West private sector firms declined for the fifth straight month in July. The rate of depletion was identical to that seen in June and sharp, with a number of companies stating that fewer inflows of new work had enabled them to clear backlogs in the latest survey period.

Outstanding Business Index

sa, >50 = growth since previous month

45.0

Jul '23



Across the UK as a whole, unfinished business declined at a steeper rate, albeit one that remained softer than that seen in the South West.

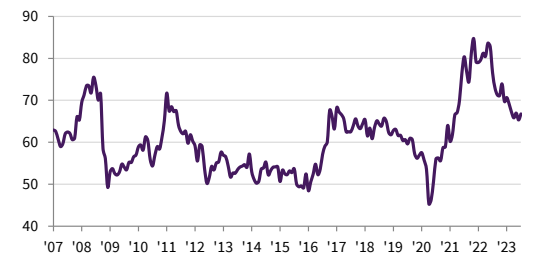


Prices

Input cost inflation remains marked

Private sector companies based in the South West registered a further increase in average input costs during July, thereby stretching the current run of inflation to 38 months. The rate of growth quickened slightly from June and was sharp, but remained much softer than the average over 2022. Panel members often mentioned that the uptick in expenses was broad based amid the strong inflationary environment, with wages, rent and energy costs cited in particular. The rate of cost inflation in the South West was slightly quicker than the national average.

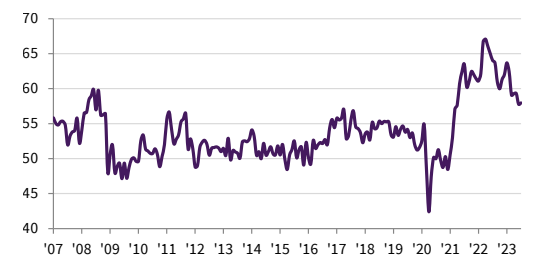
Input Prices Index 66.8
 sa, >50 = inflation since previous month Jul '23



Selling prices continue to rise at historically strong rate

The seasonally adjusted Prices Charged Index signalled a sustained and strong increase in selling prices across the South West private sector during July. The rate of inflation was fractionally quicker than that seen in June and nearly identical to that seen across the UK as a whole. Higher selling prices were generally linked to the pass-through of higher expenses to customers.

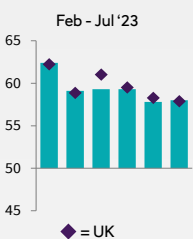
Prices Charged Index 58.0
 sa, >50 = inflation since previous month Jul '23



Input Prices Index



Prices Charged Index



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, Jul '23*
1	Transport	1.50	55
2	Electrical & Optical	1.45	45
3	Other Manufacturing	1.02	52
4	Mechanical Engineering	0.99	48
5	Basic Metals	0.90	48
6	Timber & Paper	0.86	48
7	Food & Drink	0.83	52
8	Textiles & Clothing	0.78	52
9	Chemicals & Plastics	0.67	45

South West specialisation: Services

Rank	Sector	LQ	UK Business Activity Index, Jul '23*
1	Hotels, Restaurants & Catering	1.42	48
2	Business-to-business Services	1.09	52
3	Personal & Community Services	0.98	52
4	Transport & Communication	0.88	45
5	Financial Intermediation	0.86	55
6	Computing & IT Services	0.69	52

UK sector focus

Financial Intermediation

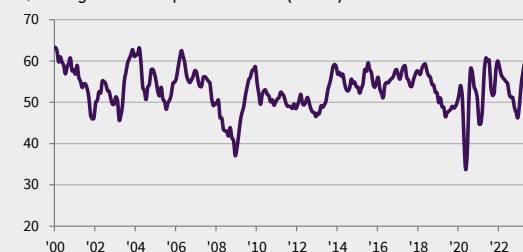
The UK's Financial Intermediation sector displayed strong growth in the three months to July, recording one of the fastest rates of increase in business activity since the global financial crisis. The upturn in performance followed a notable slowdown in the second half of 2022.

Growth was the strongest among the six services sub-sectors monitored by the survey and fuelled by a steep increase in inflows of new business in recent months. With firms' backlogs of work increasing, they continued to take on staff at a historically strong rate and were optimistic about the year-ahead outlook for activity.

Input costs in the sector continued to rise steeply, however, growing at the fastest rate in 2023 so far. This in turn led to a sharp and accelerated increase in prices charged. The rate of output price inflation was surpassed only by that seen in the Hotels, Restaurants and Catering sector.

Output Index

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



*3-month moving average



UK Regional PMI overview

Business Activity

Only half of the 12 monitored regions and nations recorded growth in business activity in July. London posted the strongest rate of expansion but saw a notable loss of momentum as growth slowed to a six-month low. The South East and Northern Ireland* fell the joint-most places in the rankings as both returned to contraction territory, though the steepest overall decline in activity was recorded in the North East.

Employment

The strongest rate of job creation in July was seen in the South West, followed by the East of England and then London. Northern Ireland also posted a solid rise in workforce numbers. At the other end of the scale, there were renewed declines in staffing levels in both the East Midlands and North East, while no change in employment in the West Midlands ended a 28-month sequence of growth in the region.

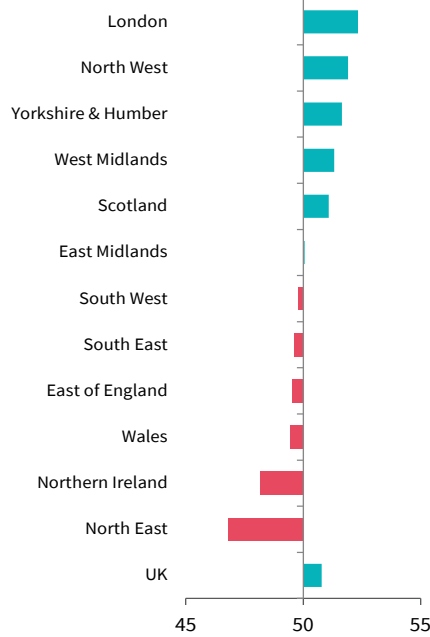
Future Activity

Trends in business confidence were mixed, with half of the 12 monitored areas registering an improvement in sentiment and the rest seeing a decline. The West Midlands, South East and Yorkshire & Humber topped the rankings and were among those that saw expectations rise since June. Firms in Scotland were the least optimistic about the year-ahead outlook, with sentiment there hitting a six-month low.

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

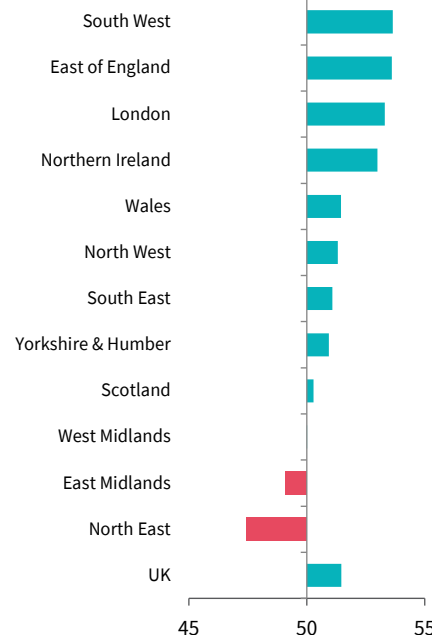
Business Activity Index

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



Employment Index

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



Future Activity Index

>50 = growth expected over next 12 months, Jul '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
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
Jul '23	49.8	48.0	51.3	67.4	53.7	45.0	66.8	58.0

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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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