

13 August 2024

# NatWest South West Growth Tracker

Strongest upturn in demand in over two  
years



NatWest

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by **S&P Global**

13 August 2024

# NatWest South West Growth Tracker

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# Key findings

July 2024

**Strongest increase in new business since March 2022**

**Output growth strengthens and jobs expand solidly**

**Cost inflation softens, while charges rise to greater extent**

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](http://www.natwest.com/business/insights/economics)







# Strongest upturn in demand in over two years

Latest Regional Growth Tracker survey data from NatWest showed quicker increases in new business inflows and output across the South West

Local firms welcomed the strongest upturn in new orders since early-2022 with renewed job creation and a marked expansion in output. Moreover, business confidence improved to its highest level in nearly three years. Price trends were mixed as a softer rise in input costs compared with the fastest increase in selling prices for a year.

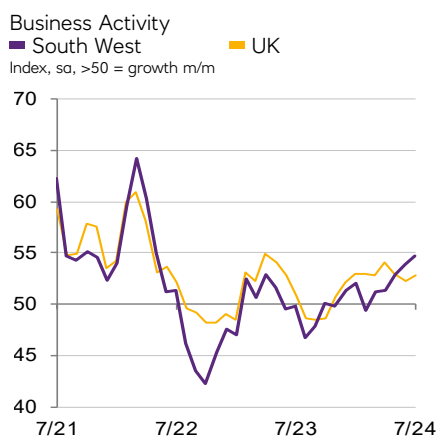
Rising from 53.9 in June to 54.7 in July, the headline South West Business Activity Index – a seasonally adjusted index that measures the month-on-month change in the combined output of the region’s manufacturing and service sectors – showed a marked rate of expansion that was the quickest since May 2022. Firms attributed growth to new business gains and demand resilience, as well as the release of pending projects and budget approvals at clients.

NatWest South West Business Activity Index July 2024

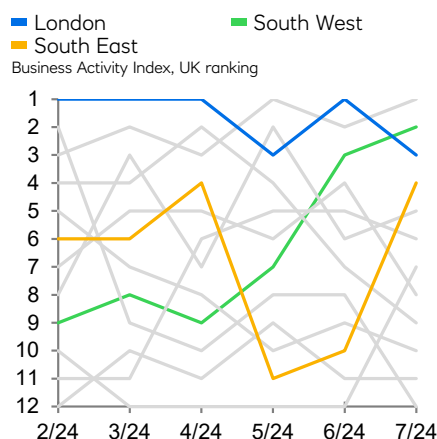
**54.7**

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 11-29 July



Sources: NatWest, S&P Global PMI. ©2024 S&P Global.



Sources: NatWest, S&P Global PMI. ©2024 S&P Global.



# Comment

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

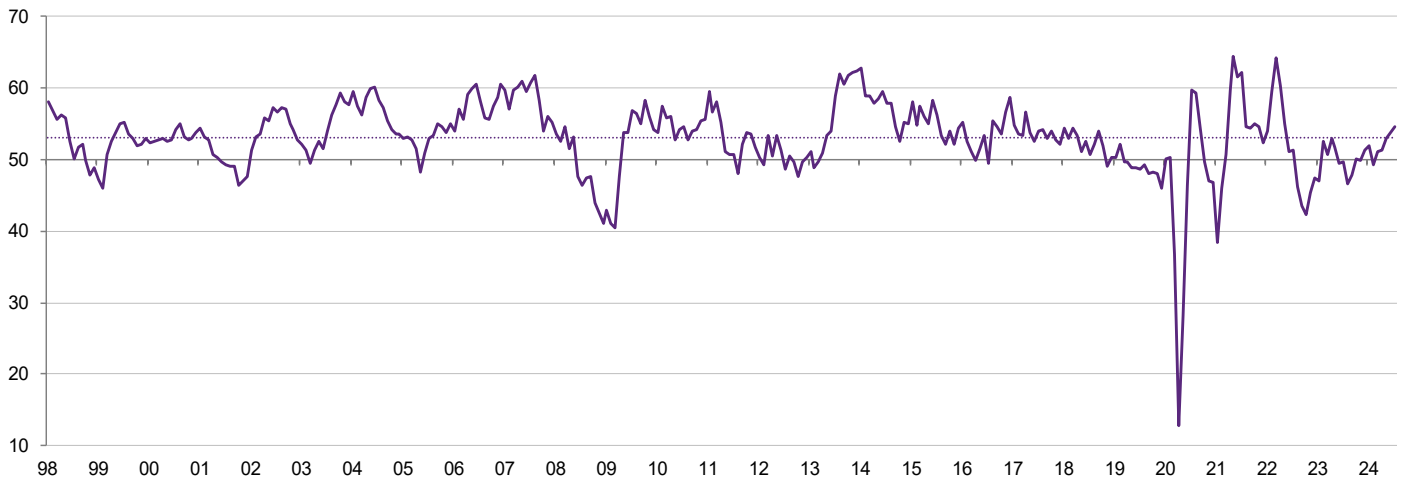
"The South West emerged as the leader of an almost broad-based increase in new business across the 12 monitored UK regions and nations, saving a fall in the East Midlands. Demand strength boosted local output growth, underpinned a renewed rise in employment and pushed business sentiment to a near three-year high. While cost inflation receded in July, there was a faster increase in selling prices as companies aimed to catch up with significant increases in operating expenses in recent years. Overall, the latest results indicate promising prospects for the region in the near term, as firms seem to have the necessary resources to meet growing workloads."

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### Business Activity

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



Sources: NatWest, S&P Global PMI. ©2024 S&P Global.





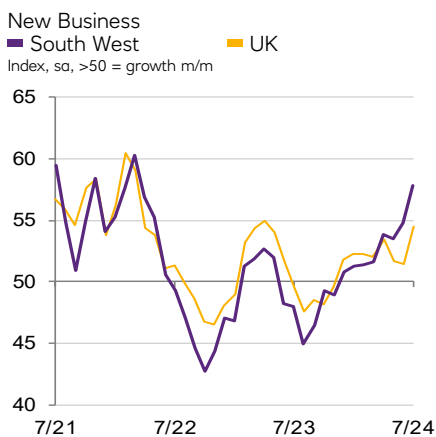
# Demand and outlook

## South West leads growth of new business among the 12 monitored UK regions and nations

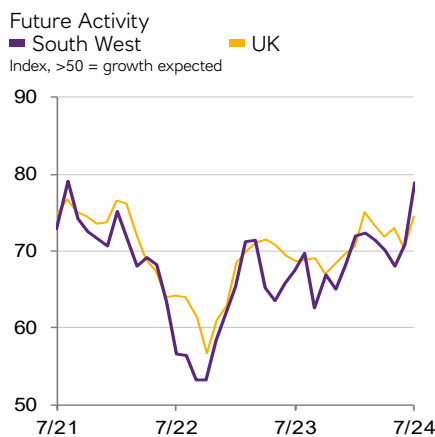
July's rise in new orders was the fastest for 28 months and also the strongest of all monitored areas of the UK. The sharp rate of expansion far outpaced the long-run series average. Local firms identified demand buoyancy, successful advertising and investment as the main determinants of sales growth.

Survey participants expect demand conditions to remain positive in the year ahead, which combined with investment in marketing and hopes of greater market shares boosted business confidence. Companies also see the prospect of lower interest rates as an opportunity to the outlook. The overall level of sentiment climbed to a 35-month high.

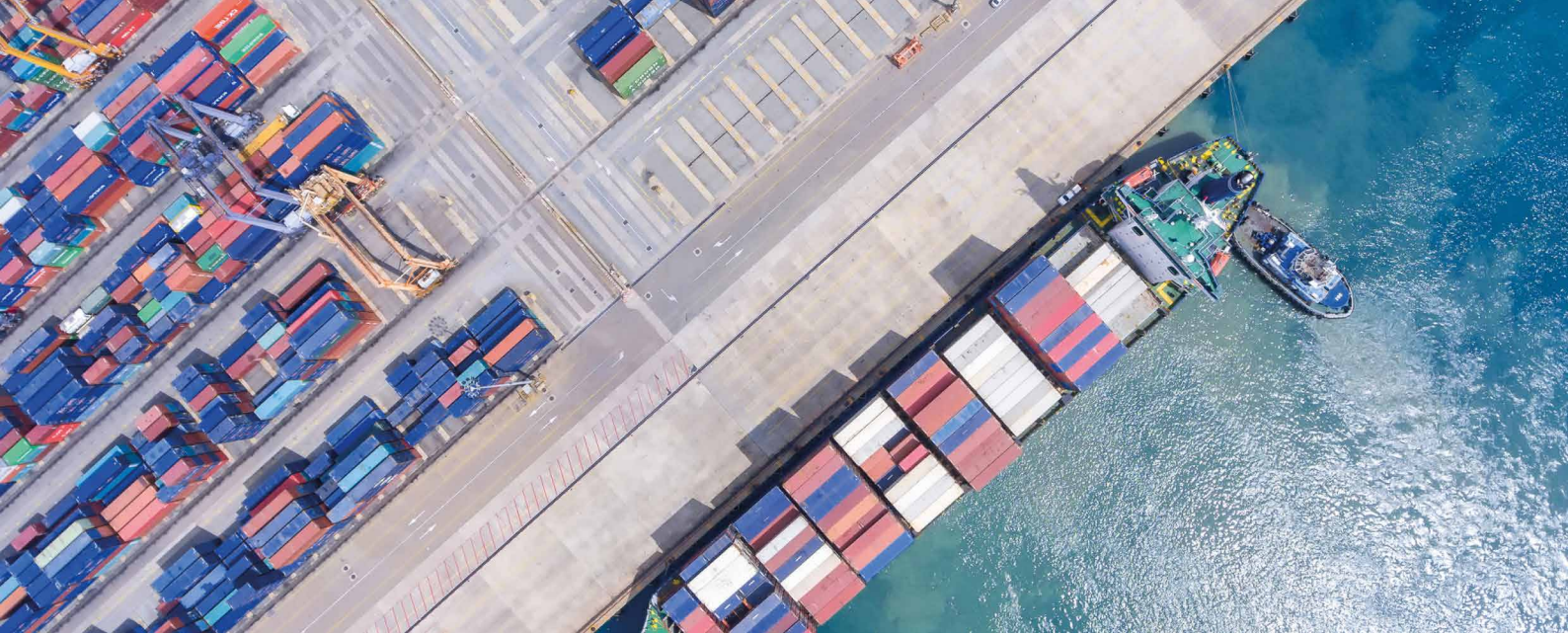
"The latest results indicate promising prospects for the region in the near term"



Sources: NatWest, S&P Global PMI. ©2024 S&P Global.



Sources: NatWest, S&P Global PMI. ©2024 S&P Global.



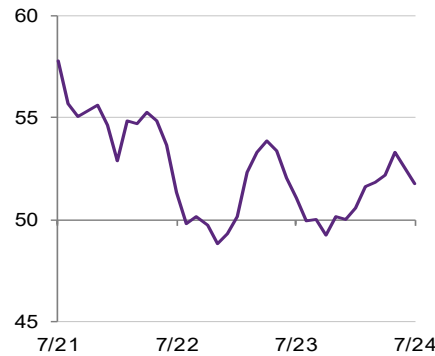
# Export markets

## Export climate improves further, albeit to lesser extent

At 51.8 in July, the ECI was above the critical 50.0 threshold for the ninth successive month. However, falling from 52.6 in June, the latest reading indicated the slowest rate of expansion since March.

Only two of the top five export markets for the South West registered economic growth, namely Ireland and the US. Meanwhile, contractions were registered in France, Germany and the Netherlands.

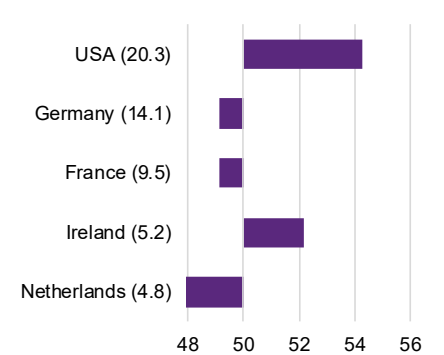
Export Conditions  
Index, sa, >50 = growth m/m



Sources: NatWest, S&P Global PMI. ©2024 S&P Global.

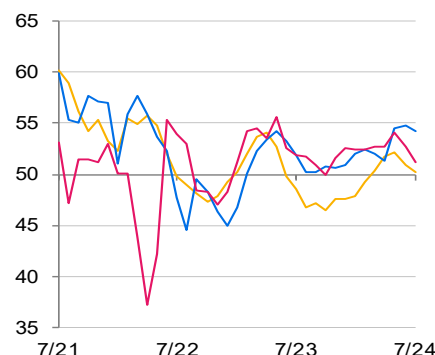
The South West Export Climate Index (ECI) is an indicator for the economic health of the region's export markets. It is calculated by combining national PMI output data, weighted according to each nation's share of manufacturing exports of the South West. A reading above 50 signals an improvement in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

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



Sources: NatWest, S&P Global PMI. ©2024 S&P Global.

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



Sources: NatWest, S&P Global PMI. ©2024 S&P Global.





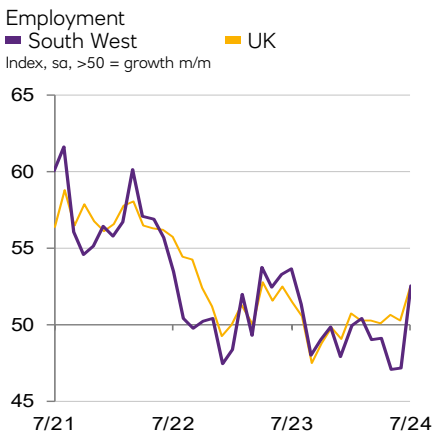
# Jobs and capacity

## July sees renewed rise in employment numbers

For the first time in five months, private sector employment in the South West increased at the start of the second half of 2024. The pace of job creation was solid, the fastest in a year and above its long-run average. Anecdotal evidence showed that growth was supported by rising intakes of new business and capacity expansion plans.

Outstanding business volumes declined in July, stretching the current sequence of reduction to nearly a year-and-a-half. Despite quickening from June, the pace of depletion was moderate and broadly similar to that seen at the UK level.

"Demand strength boosted local output growth and underpinned a renewed rise in employment "



Sources: NatWest, S&P Global PMI. ©2024 S&P Global.



Sources: NatWest, S&P Global PMI. ©2024 S&P Global.





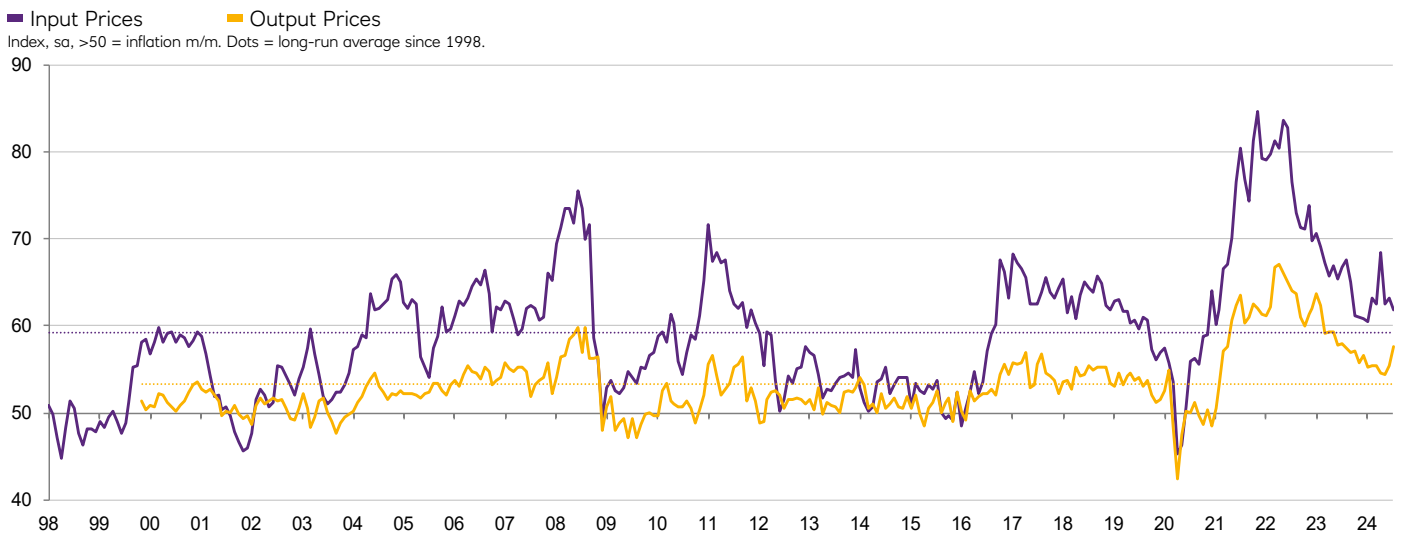
# Inflation

## Cost pressures recede while charge inflation ticks higher

Private sector companies in the South West indicated another monthly increase in their operating expenses during July. According to them, insurance premiums, labour, metal, paper and transportation costs rose since June. The rate of inflation, although still sharp, eased to the weakest in six months.

Ongoing increases in input costs underpinned a further upturn in prices charged for South West goods and services. The rise was sharp and the most pronounced in a year. As was the case for input costs, no other UK region or nation saw a stronger rate of selling price inflation than the South West.

"There was a faster increase in selling prices"



Sources: NatWest, S&P Global PMI. ©2024 S&P Global.

# UK Regional Growth Tracker

## Business Activity

Business activity growth was led by Northern Ireland for the second time in the past three months in July. Just behind was the South West, which continued to gain momentum and recorded its steepest rise in output for more than two years. At the other end of the scale, Wales and the East Midlands both recorded modest reductions in business activity.

## Employment

Northern Ireland also topped the rankings for employment growth at the start of the third quarter, recording its fastest rate of job creation since April 2023. The North East posted the next-steepest rise in employment, followed by Wales. As was the case for business activity, the East Midlands was one of just two areas to see a decrease in employment, this time alongside the West Midlands.

## Future Activity

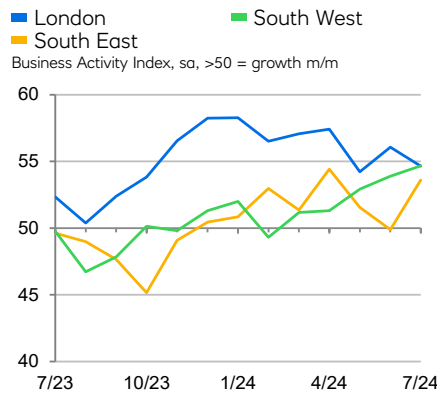
Growth expectations generally improved across the UK in July. The only exception was Northern Ireland, which saw business confidence slip to a six-month low. Firms in the South East were the most upbeat about the outlook, as has been the case in three of the past four months, followed by those in South West. The biggest upswing in optimism was recorded in Yorkshire & Humber.



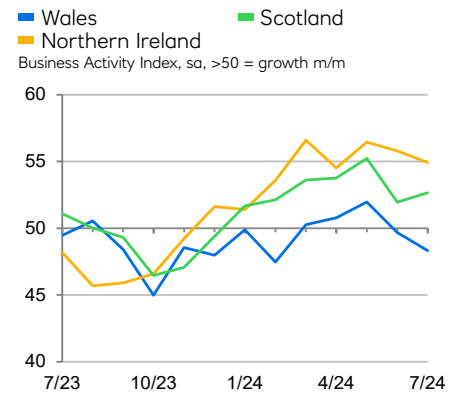
Sources: NatWest, S&P Global PMI. ©2024 S&P Global.



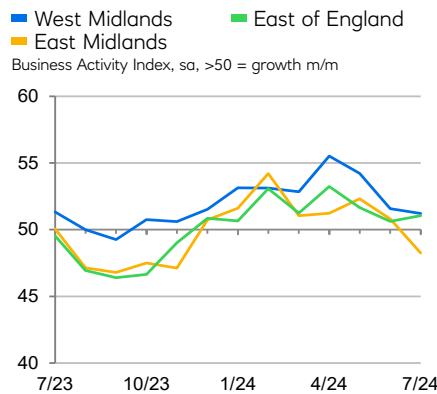
Sources: NatWest, S&P Global PMI. ©2024 S&P Global.



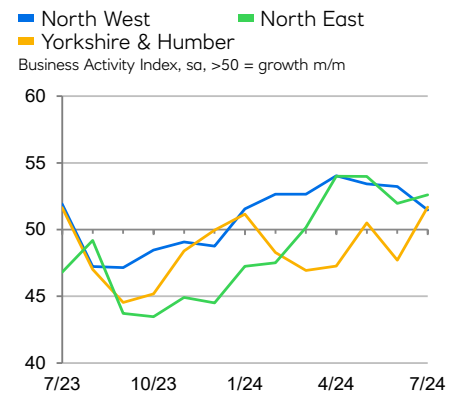
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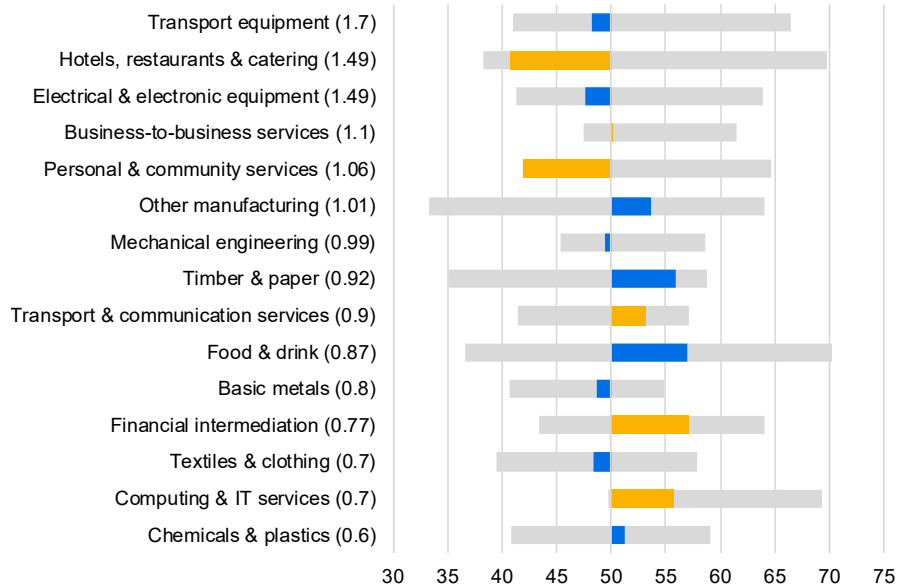
# UK sectors

## 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 Jul '24



Sources: NatWest, S&P Global PMI. ©2024 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: Financial intermediation

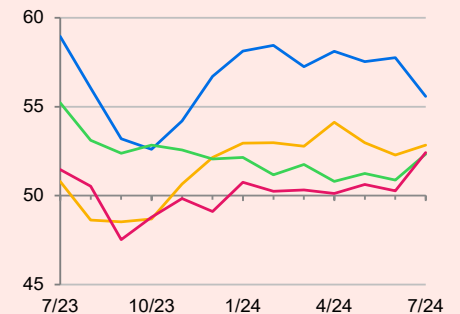
The Financial Intermediation sector was a key growth engine for the UK economy in the three months to July. Business activity rose markedly and at one of the quickest rates recorded among the detailed sectors covered by PMI data. This was despite a loss of momentum that saw growth ease to the weakest since late last year.

Buoyed by strong inflows of new work and high expectations for growth in the coming year, financial intermediation firms upped the rate of job creation in the three months

to July. Employment has risen continuously in the sector since early 2021.

Input prices faced by financial intermediation firms meanwhile rose at the slowest rate for just over three years. Cost pressures were still elevated by historical standards, however, which contributed to another steep rise in average prices charged by businesses in the sector. The rate of output price inflation remained well above the average over the series history stretching back to 1996.

Output / Employment  
 ■/■ Financial intermediation\*  
 ■/■ Manufacturing & services  
 Index, sa, >50 = growth m/m



Sources: NatWest, S&P Global PMI. ©2024 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.

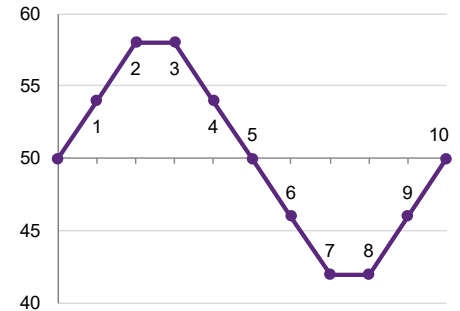
The headline figure is the Business Activity Index. This is a diffusion index calculated from a single question that asks for changes in the volume of business activity (at service providers) or output (at manufacturers) compared with one month previously. The South West Business Activity Index is comparable 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](mailto:economics@spglobal.com).

Index interpretation

Index, sa, >50 = growth m/m



Sources: NatWest, S&P Global PMI. ©2024 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
2/24	49.3	51.3	51.6	50.4	47.3	72.3	63.1	55.5
3/24	51.2	51.7	51.8	49.1	48.3	71.4	62.5	55.5
4/24	51.3	53.9	52.2	49.1	48.7	70.1	68.4	54.6
5/24	52.9	53.5	53.3	47.1	47.6	68.0	62.5	54.4
6/24	53.9	54.8	52.6	47.1	49.2	70.8	63.3	55.4
7/24	54.7	57.8	51.8	52.6	48.4	78.9	61.9	57.7

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