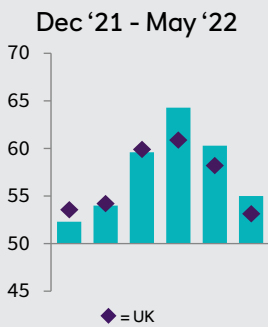




# NatWest South West PMI®

## Business activity growth slips to four-month low in May

### South West Business Activity Index



### Key findings

Slower rise in output as new orders expand at weaker pace

Staff numbers increase sharply amid solid upturn in backlogs

Input cost inflation accelerates to second-strongest on record

The latest NatWest PMI® data showed a further loss of growth momentum across the South West private sector in May, with companies registering softer rises in both business activity and new work. Some firms mentioned that greater global uncertainty and strong cost pressures had weighed on business conditions. Notably, input prices increased at the second-fastest rate on record, while prices charged also rose rapidly. However, a solid increase in backlogs and efforts to expand capacity helped to drive a further steep increase in employment.

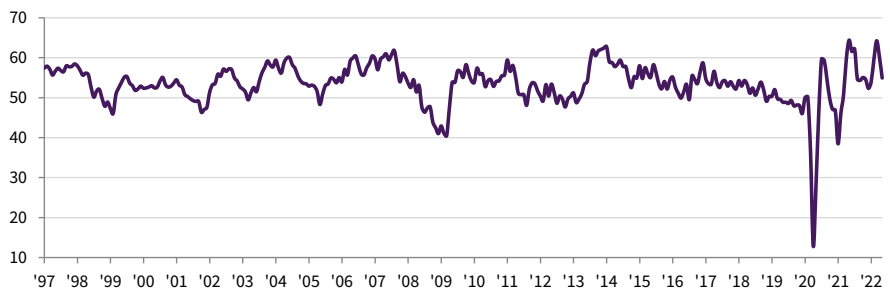
The headline NatWest South West Business Activity Index – a seasonally adjusted index that measures the month-on-month change in the combined output of the region’s manufacturing and service sectors – fell from 60.3 in April to 55.0 in May, to signal a slower expansion in overall business activity. Though marked and quicker than the UK average, the rate of growth was the softest seen for four months.

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

*“The latest PMI data showed a notable loss of growth momentum across the South West private sector for the second month running in May. Companies are facing a challenging environment of increased global uncertainties, sharply rising costs and supply chain disruption, which are all heavily impacting demand and firms’ operations. Notably, companies registered the second-quickest upturn in expenses on record, which many are having to pass onto already-squeezed customers amid the current cost of living crisis. One brighter spot was employment, which continued to expand sharply across the South West and at a rate that exceeded the UK-wide trend.”*

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

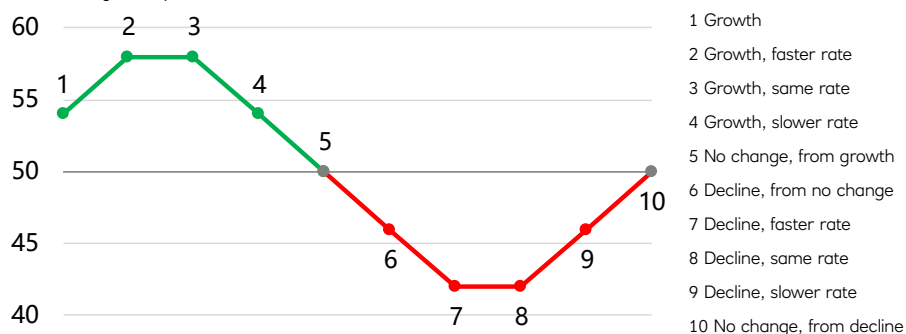
calculated from a single question that asks for changes in the volume of business activity (at service providers) or output (at manufacturers) compared with one month previously. The South West Business Activity Index is comparable to the UK Composite Output Index. It is sometimes referred to as the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

Adjusted for seasonality, the New Business Index pointed to an increase in total new work at South West private sector firms for the fifteenth successive month in May. Though solid and quicker than that seen across the UK as a whole, the rate of growth was the softest seen in 2022 to date. Higher sales were often linked to stronger demand conditions amid a further recovery from the pandemic and new client wins. However, some firms mentioned that increased global economic uncertainty had dampened the latest upturn in new orders.

### Future output expectations remain positive

South West private sector firms retained a positive outlook regarding future business activity in May. That said, the degree of optimism edged down from that seen at the start of the second quarter and was the second-lowest seen since April 2020. Survey respondents often commented on planned company expansions amid forecasts of rising customer demand and investment in new products. However, concerns over rising costs, higher interest rates and uncertainty over the housing market all weighed on overall confidence.

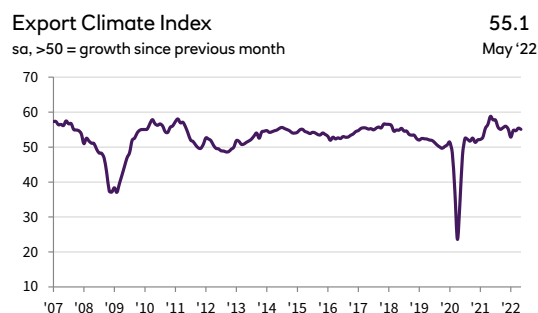
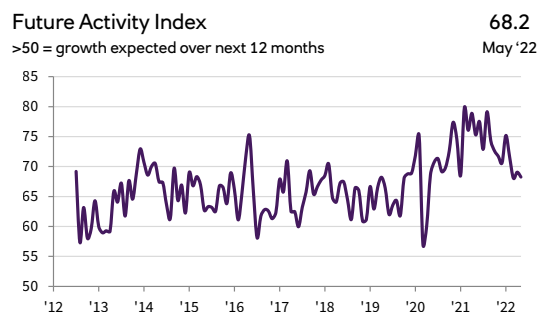
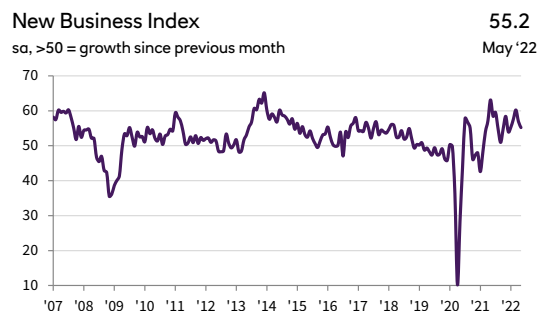
### Exports

### Further step improvement in export conditions

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.

At 55.1 in May, the Export Climate Index fell slightly from 55.4 in April. Nonetheless, this signalled a further sharp improvement in export conditions faced by South West private sector firms.

The UAE saw the quickest expansion of output across the top five export markets for the region. Sharp increases in activity were also noted in Ireland and France. The softest, but still solid, gains in output were registered in Germany and the US.



Top export markets, South West

Rank	Market	Weight	Output Index, May '22
1	USA	20%	53.6
2	Germany	11%	53.7
3	France	9%	57.0
4	UAE	4%	62.5
5	Ireland	4%	57.5

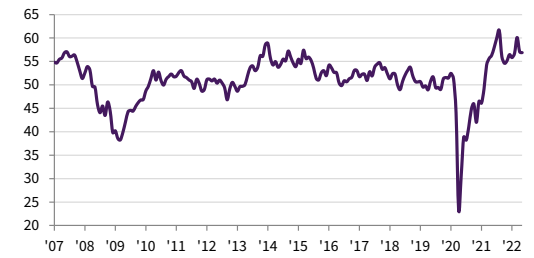


## Business capacity

### Employment continues to rise sharply during May

As has been the case since March 2021, private sector firms in the South West added to their staffing levels in May. Despite edging down to a three-month low, the rate of job creation remained historically sharp. In fact, of the 12 monitored UK regions only London saw a quicker rise in workforce numbers during May. A number of monitored companies mentioned hiring additional staff to increase capacity and fill outstanding vacancies. That said, some firms mentioned that recruitment was challenging due to difficulties finding candidates.

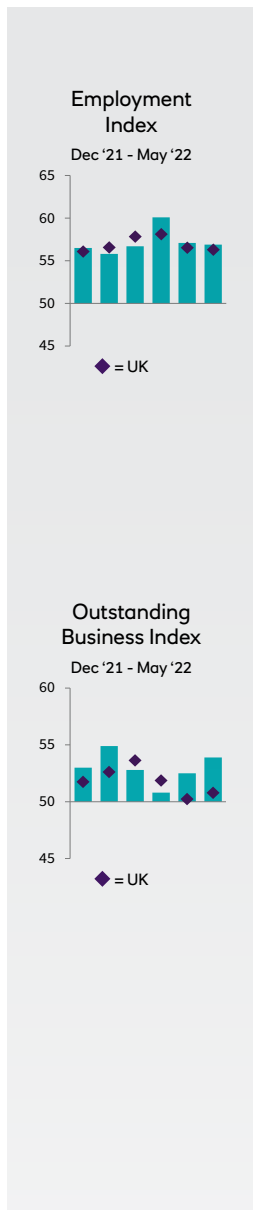
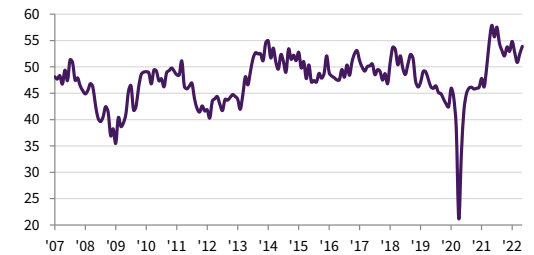
Employment Index  
sa, >50 = growth since previous month  
56.9  
May '22



### Solid increase in outstanding business

May survey data pointed to a solid and accelerated rise in backlogs of work at South West private sector firms. Not only was the rate of accumulation the quickest seen since January, it was also the strongest of all 12 monitored UK regions. Anecdotal evidence suggested that material and staff shortages alongside rising intakes of new work had driven the latest increase in unfinished business.

Outstanding Business Index  
sa, >50 = growth since previous month  
53.9  
May '22





## Prices

### Input costs rise at second-sharpest rate on record

South West private sector firms signalled a further steep increase in cost burdens during May. Notably, the rate of inflation picked up to the second-sharpest on record (after November 2021). Reports from panel members highlighted that greater costs for energy, food, raw materials, staff and transport had all contributed to the latest upturn in expenses.

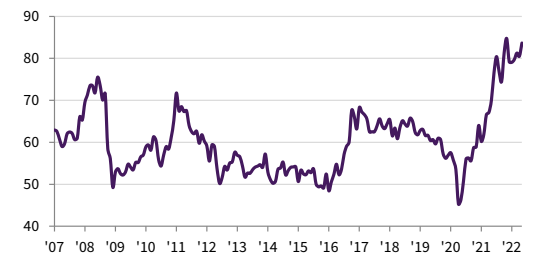
A sharper increase in input costs was also seen across the UK as a whole in May, and one that was slightly faster than that seen in the South West.

### Prices charged continue to increase markedly

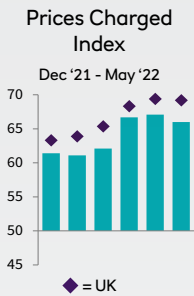
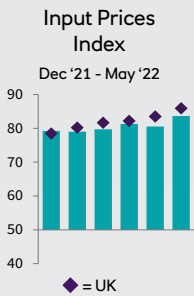
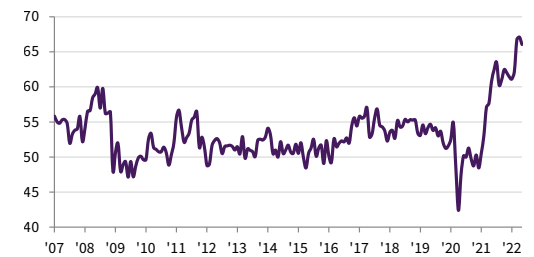
Average prices charged by South West private sector businesses rose further in May, extending the current sequence of increase to 17 months. Although the rate of inflation softened from April's all-time high, it was nonetheless the third-sharpest in the series history. Higher fees were frequently attributed to the pass-through of greater expenses to clients.

Though marked in the context of historical data, the rate of output charge inflation in the South West continued to lag the UK-wide trend, and was the softest seen of all 12 UK regions.

Input Prices Index  
sa, >50 = inflation since previous month  
83.6  
May '22



Prices Charged Index  
sa, >50 = inflation since previous month  
66.0  
May '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, May '22*
1	Transport	1.50	55
2	Electrical & Optical	1.45	58
3	Other Manufacturing	1.02	55
4	Mechanical Engineering	0.99	55
5	Basic Metals	0.90	58
6	Timber & Paper	0.86	48
7	Food & Drink	0.83	50
8	Textiles & Clothing	0.78	48
9	Chemicals & Plastics	0.67	52

#### South West specialisation: Services

Rank	Sector	LQ	UK Business Activity Index, May '22*
1	Hotels, Restaurants & Catering	1.42	58
2	Business-to-business Services	1.09	55
3	Personal & Community Services	0.98	58
4	Transport & Communication	0.88	50
5	Financial Intermediation	0.86	55
6	Computing & IT Services	0.69	58

## UK sector focus

### Transport & Communication

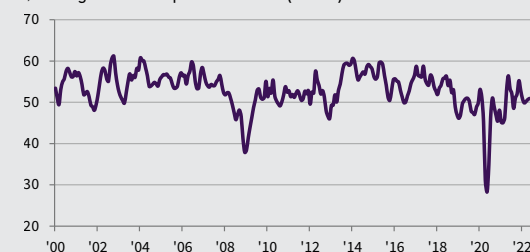
The UK's Transport & Communication sector saw only a modest rise in business activity in the three months to May. Although the rate of growth was the fastest seen since the three months to January, it was the slowest among the six services-related sectors monitored by the survey.

Businesses in the Transport & Communication sector faced subdued demand conditions, with latest data showing a slight decline in inflows of new work, in line with the trend seen throughout most of 2022 so far. A marginal drop in employment in the three months to May contrasted with jobs growth elsewhere across the service sector and partly reflected comparatively low business confidence.

Cost pressures meanwhile remained elevated, with the rate of input price inflation staying close to its recent peak. Businesses looked to offset some of the burden via an unprecedented rise in output prices.

#### Output Index

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



\*3-month moving average



## UK Regional PMI overview

### Business Activity

Latest data showed a general slowdown in growth across the UK regions in May, with nine out of the 12 monitored areas recording a weaker rise in business activity. London once again topped the rankings in terms of business activity growth, ahead of Wales and Scotland. Elsewhere, output declined in the West Midlands, Northern Ireland\* and the North East.

### Employment

London led a broad-based rise in employment in May. The rate of job creation in the capital even ticked up slightly, as was the case in four other areas (namely the South East, West Midlands, Scotland and Northern Ireland). The North East remained at the bottom of the rankings, although it did see a fractional increase in workforce numbers, following a decline in April.

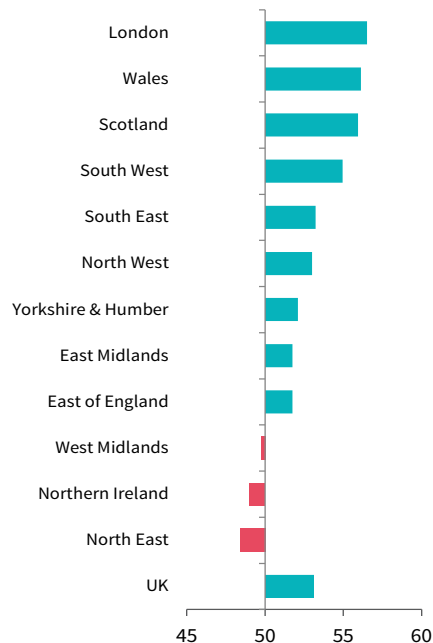
### Future Activity

Firms in Yorkshire & Humber recorded the strongest optimism towards future activity. Here, business confidence recovered somewhat since April, as was also the case for the North West, which ranked second overall. Seven of the 12 monitored areas saw a decline in expectations, however, including Northern Ireland where sentiment turned negative for the first time since October 2020.

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

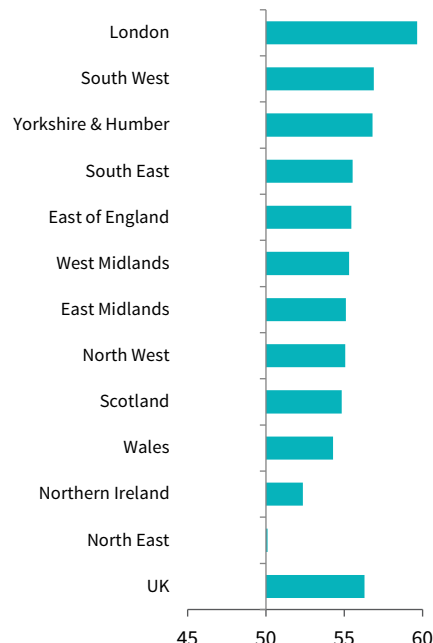
#### Business Activity Index

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



#### Employment Index

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



#### Future Activity Index

>50 = growth expected over next 12 months, May '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
Dec '21	52.3	54.0	55.2	70.6	56.5	53.0	79.2	61.4
Jan '22	54.0	55.3	52.8	75.2	55.8	54.9	79.0	61.1
Feb '22	59.6	57.6	54.8	71.6	56.7	52.8	79.7	62.1
Mar '22	64.3	60.2	54.7	68.1	60.1	50.8	81.3	66.7
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

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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.

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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.

### 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.

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