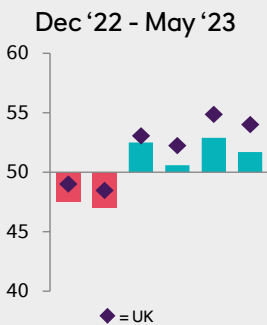


NatWest South West PMI[®]

Private sector growth slows in May

South West Business Activity Index



Key findings

Softer increases in business activity, new orders and employment

Input costs continue to rise sharply

Business confidence slips to five-month low

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 – fell from an 11-month high of 52.9 in April to 51.7 in May. Although this marked an expansion of overall business activity for the fourth successive month, the rate of growth was modest and softer than that seen across the UK as a whole.

The slowdown coincided with a weaker upturn in new business, which increased at a similarly mild rate. Employment growth also moderated, though a further rise in staff numbers helped to deplete backlogs of work. The rate of input cost inflation quickened for the first time since January, driving a further increase in output charges.

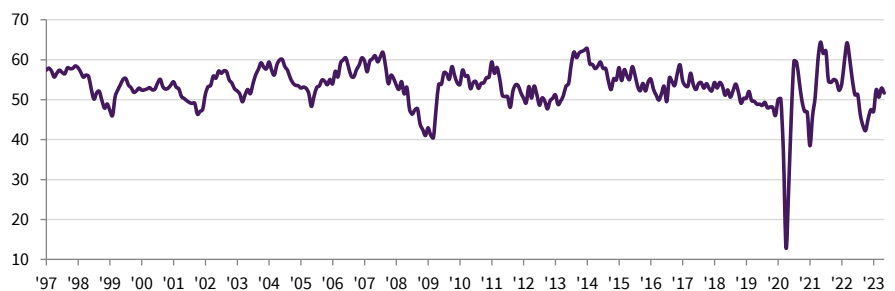
Paul Edwards, Chair of the NatWest South West Regional Board, commented:

"After posting the best growth for nearly a year in April, the latest PMI data for the South West point to a renewed slowdown in momentum across the region in May. Companies registered softer upturns in output and new orders, which translated into a weaker rise in employment."

"Uncertainty over the outlook and marked cost pressures constrained the performance of the sector, and pushed down business confidence to a five-month low. Notably, the rate of input cost inflation across the region remained rapid overall, having picked up from April, and meant firms had to hike their own prices again. Until we see cost pressures cool and an improvement in market confidence, it will be challenging for the sector to maintain a strong recovery."

South West Business Activity Index

sa, >50 = growth since previous month



Contents

- [About the report](#)
- [Demand and outlook](#)
- [Exports](#)
- [Business capacity](#)
- [Prices](#)
- [UK Sector PMI](#)
- [UK Regional PMI](#)
- [Data summary](#)
- [Contact](#)

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

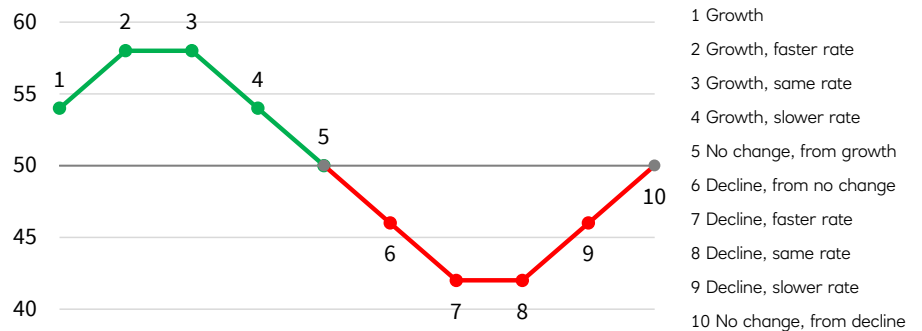
calculated from a single question that asks for changes in the volume of business activity (at service providers) or output (at manufacturers) compared with one month previously. The South West Business Activity Index is comparable to the UK Composite Output Index. It is sometimes referred to as the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

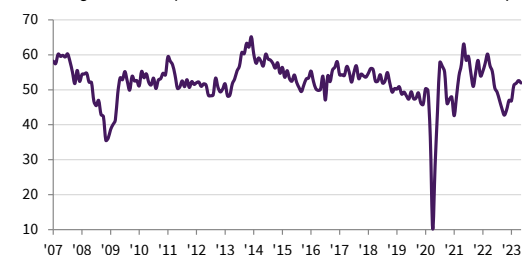


Demand and outlook

New orders expand for fourth straight month in May

Adjusted for seasonal factors, the New Business Index signalled an increase in total new orders received by South West private sector firms for the fourth successive month in May. Businesses that experienced higher sales often attributed this to firmer demand conditions and new marketing strategies. That said, the rate of expansion softened from April and was modest overall. The upturn was also weaker than seen at the national level, as has been the case in each of the past four months.

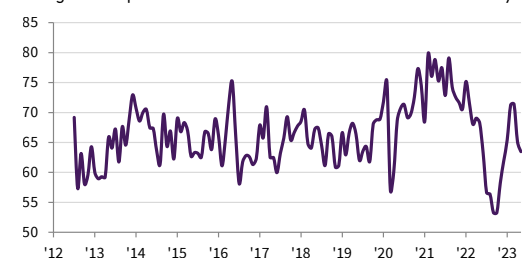
New Business Index
sa, >50 = growth since previous month
51.9
May '23



Optimism around the year ahead slips to 2023 low

Private sector firms in the South West were generally optimistic that output would rise over the next 12 months during May. Upbeat projections for the year ahead were widely linked to hopes of stronger economic conditions and improvements in sales. The level of positive sentiment slipped to the lowest seen in 2023 so far, however, and was weaker than the series average. Some firms expressed concerns over the rising cost of living and subsequent squeeze on customer budgets. Business confidence in the region was also softer than that seen on average across the UK as a whole.

Future Activity Index
>50 = growth expected over next 12 months
63.5
May '23



Exports

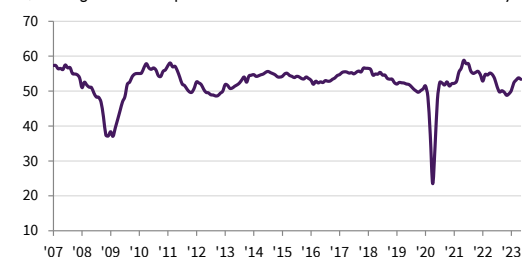
Further solid improvement in export conditions

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 53.4 in May, the seasonally adjusted Export Climate Index edged down from an 11-month high of 53.8 in April to signal a further solid improvement in export conditions for the South West. Conditions have now strengthened in each of the first five months of 2023.

Steep increases in business activity were seen across the region's two biggest export markets; the US and Germany. Modest expansions in output were meanwhile recorded in France and Ireland. The Netherlands remained stuck in a downturn, however.

Export Climate Index
sa, >50 = growth since previous month
53.4
May '23



Top export markets, South West

Rank	Market	Weight	Output Index, May '23
1	USA	21%	54.3
2	Germany	12%	53.9
3	France	10%	51.2
4	Netherlands	6%	44.2
5	Ireland	5%	51.9

New Business Index
Dec '22 - May '23

◆ = UK

Future Activity Index
Dec '22 - May '23

◆ = UK

Export Climate Index
Dec '22 - May '23

Business capacity

Softer rise in employment

Staffing levels at South West private sector businesses increased for the third time in the past four months in May. The rate of job creation slowed from April, but remained solid overall. Furthermore, the rate of payroll growth remained quicker than that seen at the national level.

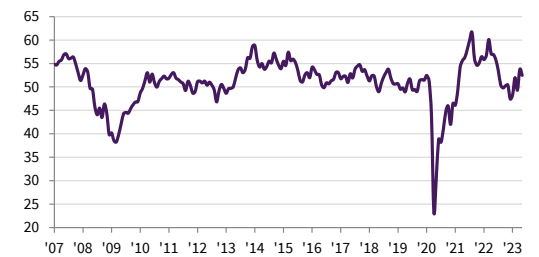
Companies that hired additional workers often mentioned efforts to fill vacancies and capacity expansion plans.

Solid drop in backlogs of work during May

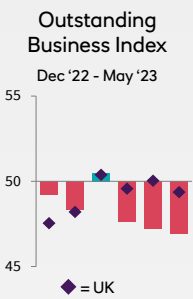
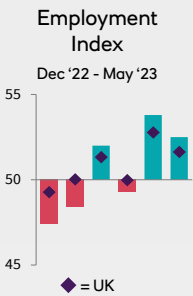
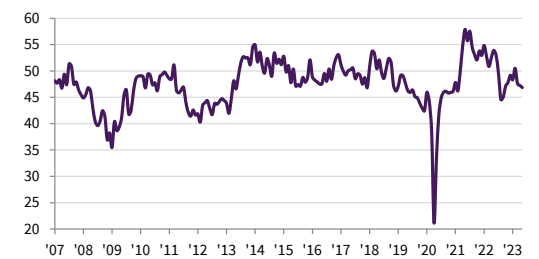
The seasonally adjusted Outstanding Business Index pointed to a further decline in backlogs at South West private sector firms during May. Unfinished workloads have now fallen in ten of the past 11 months. Moreover, the rate of depletion was the fastest recorded since September 2022 and outpaced that seen at the UK level.

Lower amounts of work-in-hand (but not yet completed) were often linked to efficiency gains and higher staff numbers. Some companies noted relatively muted sales had enabled them to work through outstanding orders.

Employment Index
sa, >50 = growth since previous month
52.5
May '23



Outstanding Business Index
sa, >50 = growth since previous month
46.9
May '23



Prices

Input costs increase at quicker pace

Average input prices across the South West private sector continued to rise sharply midway through the second quarter of the year. The rate of inflation picked up for the first time in four months and was historically sharp overall. Companies frequently mentioned higher wage costs and increased prices for food and raw materials.

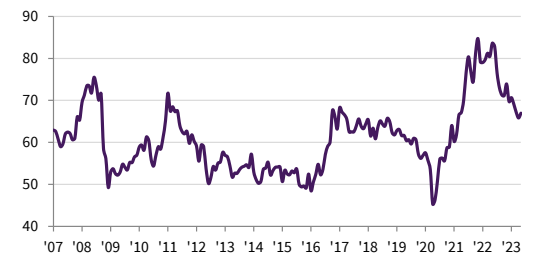
Operating expenses rose at an identical and rapid pace across the UK as a whole.

Output charge inflation remains sharp in May

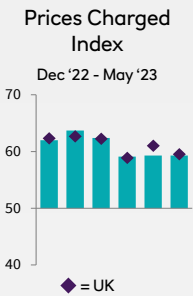
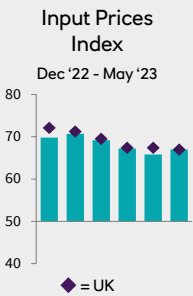
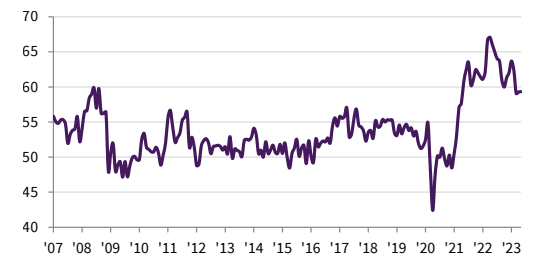
South West private sector firms raised their average selling prices for the twenty-ninth month in a row in May. The rate of inflation was unchanged from April and comfortably above the survey average. Companies that hiked their charges commented that this was to pass through rising operating costs to customers.

A softer upturn in selling prices was meanwhile seen at the UK level, and one that was broadly in line with that seen in the South West.

Input Prices Index
sa, >50 = inflation since previous month
67.0
May '23



Prices Charged Index
sa, >50 = inflation since previous month
59.3
May '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, May '23*
1	Transport	1.50	55
2	Electrical & Optical	1.45	50
3	Other Manufacturing	1.02	50
4	Mechanical Engineering	0.99	50
5	Basic Metals	0.90	48
6	Timber & Paper	0.86	40
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, May '23*
1	Hotels, Restaurants & Catering	1.42	55
2	Business-to-business Services	1.09	55
3	Personal & Community Services	0.98	55
4	Transport & Communication	0.88	48
5	Financial Intermediation	0.86	60
6	Computing & IT Services	0.69	60

UK sector focus

Transport & Communication

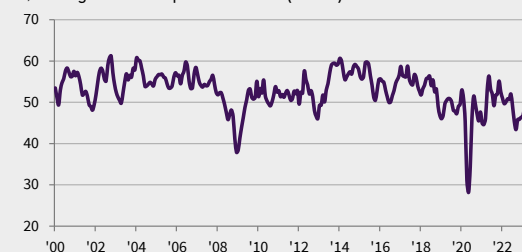
Almost all areas of the UK services economy saw growth in business activity in the three months to May, the only exception being the Transport & Communications sector. Here, activity fell - albeit only slightly - in the latest three-month period, thereby resuming a downward trend after a brief return to growth in Q1.

The survey data pointed to weakness in underlying demand, with inflows of new work in decline. Businesses in the sector reacted to falling workloads by reducing workforce numbers, in line with the trend seen since the end of last year. That said, the latest round of job cuts was only marginal as firms showed greater confidence towards the outlook.

Cost pressures remained historically elevated, although they did at least ease further from the record highs seen in 2022. This was reflected in a slower rise in prices charged, the weakest for almost two-and-a-half years.

Output Index

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



*3-month moving average



UK Regional PMI overview

Business Activity

Almost all UK nations and regions saw a rise in business activity in May, the only exception being Wales where output fell marginally and for the first time in four months. London once again recorded by far the strongest growth rate, albeit one that was slightly slower than in April. In fact, only the West Midlands saw an acceleration in the rate of expansion in business activity.

Employment

The vast majority of areas monitored by the survey recorded an increase in private sector employment in May. Scotland topped the rankings for job creation for the first time since June 2018, pushing Northern Ireland* into second position. Only the North East and Wales saw decreases in staffing levels, and even there the declines were modest and marginal respectively.

Future Activity

Business expectations remained positive across the board in May, although they weakened in three-quarters of the areas monitored. The West Midlands went against the trend and recorded the strongest overall optimism for the fifth month running. At the other end of the scale, firms in Northern Ireland were the least upbeat towards the outlook.

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

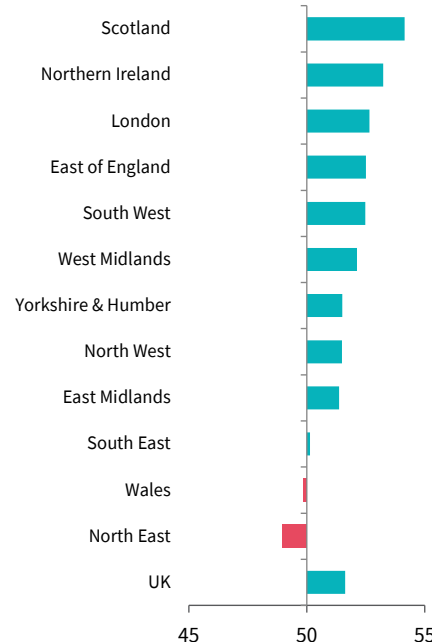
Business Activity Index

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



Employment Index

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



Future Activity Index

>50 = growth expected over next 12 months, May '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
Dec '22	47.5	47.0	49.2	61.9	47.4	49.2	69.8	62.0
Jan '23	47.0	46.8	50.2	65.4	48.4	48.3	70.7	63.7
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

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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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