

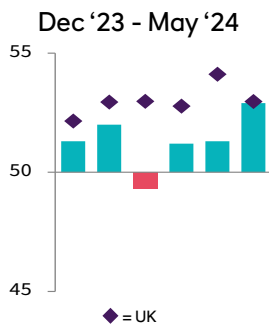


NatWest

# NatWest South West PMI<sup>®</sup>

## Output growth reaches 13-month high in May

### South West Business Activity Index



### Key findings

Business activity expands at faster rate

Second-strongest increase in sales for two years

Charge inflation eases to 39-month low

Economic growth in the South West improved in May, with receding price pressures supporting demand for goods and services. New business intakes expanded markedly, while business activity rose to the greatest extent in over a year. The NatWest PMI<sup>®</sup> data also showed that business sentiment remained strongly positive, despite election uncertainty and the high cost of living somewhat curbing optimism.

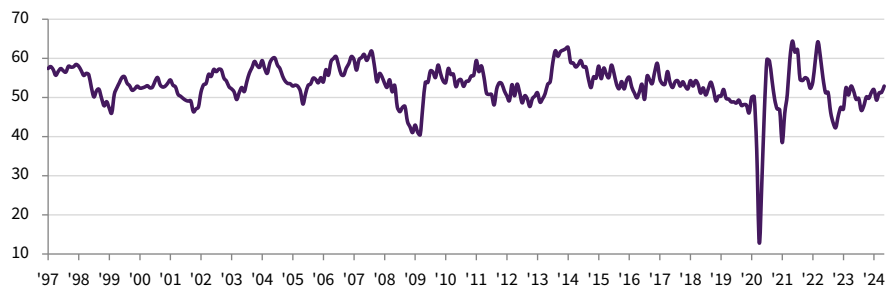
The headline NatWest South West PMI<sup>®</sup> Business Activity Index – a seasonally adjusted index that measures the month-on-month change in the combined output of the region’s manufacturing and service sectors – rose from 51.3 in April to 52.9 in May, highlighting the strongest rate of expansion for 13 months. Improved client confidence, new product releases and favourable demand conditions reportedly boosted growth.

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

*"The rise in South West output was broadly aligned with the national average, as local firms welcomed a further improvement in demand in May. The region was one of the UK's top performers with regards to new business gains, with only Northern Ireland seeing a stronger expansion. Price pressures retreated, with charge inflation in particular constrained by competitive pressures and sales-boosting efforts. Although election uncertainty and the higher cost of living dampened confidence, companies remained strongly upbeat towards growth prospects."*

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

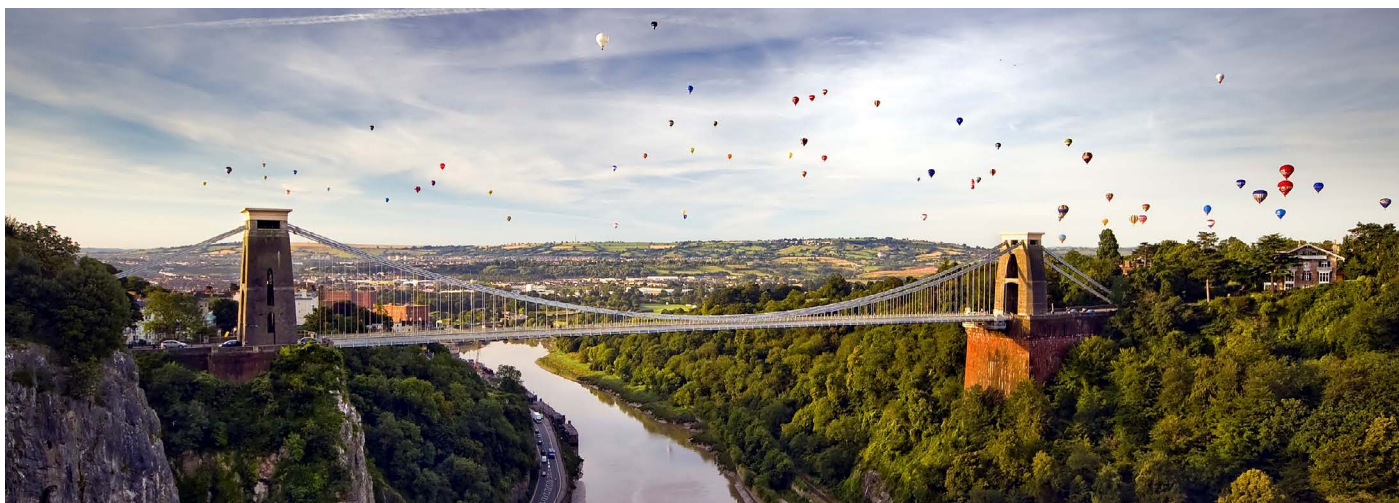
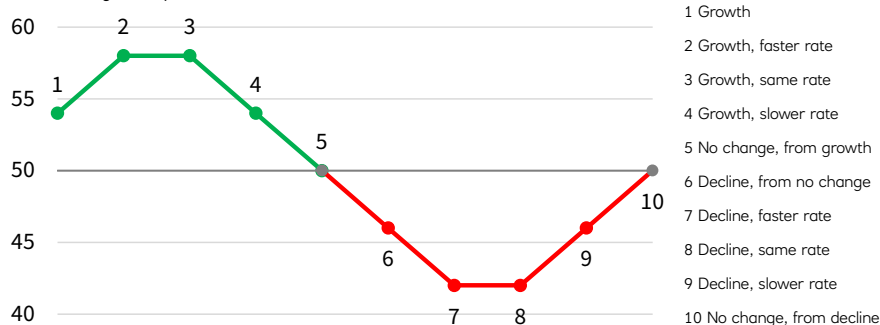
calculated from a single question that asks for changes in the volume of business activity (at service providers) or output (at manufacturers) compared with one month previously. The South West Business Activity Index is comparable to the UK Composite Output Index. It is sometimes referred to as the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

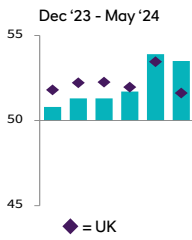
### Index interpretation

50.0 = no change since previous month



## Demand and outlook

### New Business Index

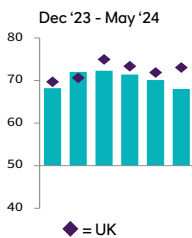


### New orders rise markedly in May

There was another increase in new business placed with private sector companies in the South West during May, stretching the current sequence of expansion to six months. Despite easing since April, the rate of growth was marked and the second-best in two years. Monitored companies linked the upturn to positive demand trends, with some also reporting greater international sales.

On this front, the South West shared the second spot in the regional rankings with the North West (behind Northern Ireland).

### Future Activity Index



### Businesses maintain optimistic projections for output

South West firms remained confident towards the year-ahead outlook for output during May. The overall level of positive sentiment slipped to a five-month low, but remained above its long-run average. Contracts pending approval and innovation, alongside new product releases and investment, underpinned optimism. Election uncertainty and the higher cost of living dampened confidence.

Business sentiment in the South West was weaker than the UK average.

### Export Climate Index



### Export conditions strongest in a year

The South West Export Climate Index (ECI) 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 ECI rose from 52.2 in April to 53.3 in May, indicating the most favourable export climate for local firms in a year. The latest improvement was the seventh in consecutive months.

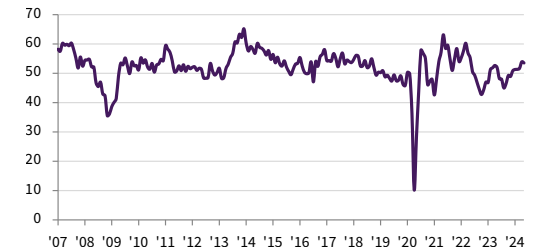
Out of the top five export markets for local firms, only France recorded a contraction in output. The decline was marginal, but compared with the first rise for 11 months in April. Meanwhile, economic growth quickened across the other four nations, with the sharpest increase in the Netherlands.

### New Business Index

sa, >50 = growth since previous month

53.5

May '24

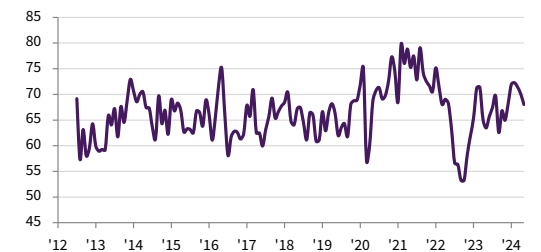


### Future Activity Index

>50 = growth expected over next 12 months

68.0

May '24

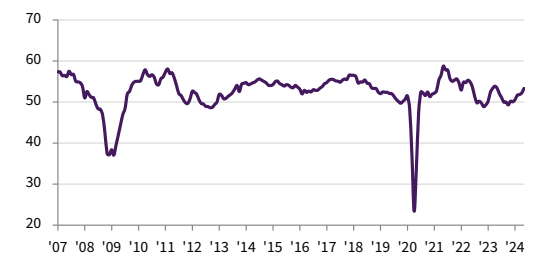


### Export Climate Index

sa, >50 = growth since previous month

53.3

May '24

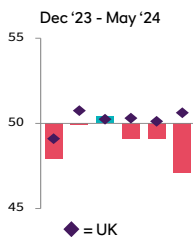


### Top export markets, South West

Rank	Market	Weight	Output Index, May '24
1	USA	20.3%	54.5
2	Germany	14.1%	52.4
3	France	9.5%	48.9
4	Ireland	5.2%	52.5
5	Netherlands	4.8%	55.1

## Business capacity

Employment Index



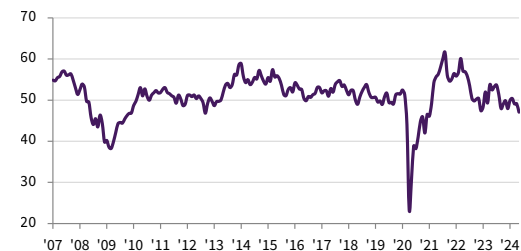
### May sees faster drop in local employment

Private sector companies in the South West signalled a further decline in staff numbers midway through the second quarter, thereby stretching the current sequence of job shedding to three months. Moreover, the pace of reduction was solid and the fastest since January 2021. The latest drop was associated with decisions to not replace retirees and voluntary leavers. There were also mentions of difficulties sourcing suitable candidates.

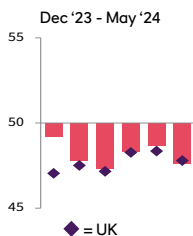
Employment Index

sa, >50 = growth since previous month

47.1  
May '24



Outstanding Business Index



### Spare capacity remains evident

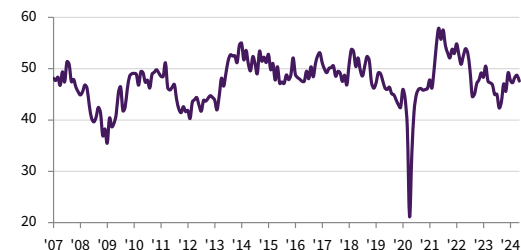
A further decline in outstanding business volumes at private sector companies in the South West continued to indicate spare capacity among local firms. Backlogs fell for the fifteenth straight month during May, and to the greatest extent since February.

The rate of contraction in work pending completion among local firms was broadly aligned with the national average.

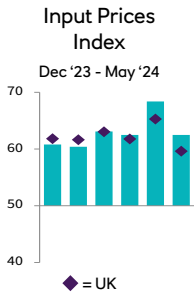
Outstanding Business Index

sa, >50 = growth since previous month

47.6  
May '24



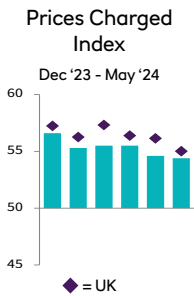
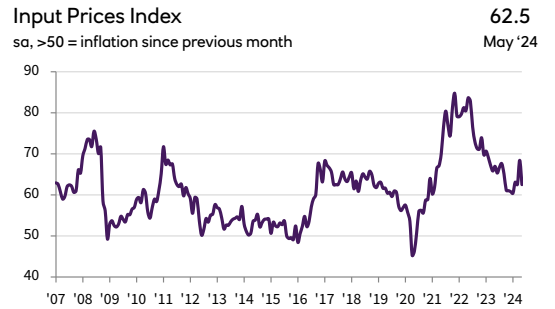
## Prices



### Cost inflation softens from April's 14-month high

The operating expenses of firms in the South West continued to rise sharply in May, though the rate of inflation eased from April's 14-month high and was below the post-pandemic average. Anecdotal evidence highlighted higher material, transportation and wage costs.

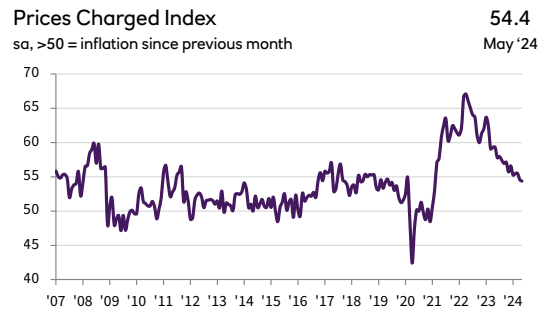
Out of the 12 monitored UK regions and nations, the South West posted the second-strongest upturn in input costs (behind Northern Ireland).



### Weakest increase in output charges in over three years

Selling prices across the South West rose further in May, as businesses continued to share part of their additional cost burdens with clients. Although solid, the rate of inflation softened to the slowest since February 2021. Monitored companies suggested that competitive pressures and efforts to boost sales through promotions suppressed charge inflation.

Selling prices at the national level rose to a greater degree than that seen locally.



## 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 '24
1	Transport	1.70	50
2	Electrical & Optical	1.49	45
3	Other Manufacturing	1.01	55
4	Mechanical Engineering	0.99	55
5	Timber & Paper	0.92	50
6	Food & Drink	0.87	55
7	Basic Metals	0.80	45
8	Textiles & Clothing	0.70	50
9	Chemicals & Plastics	0.60	55

#### South West specialisation: Services

Rank	Sector	LQ	UK Business Activity Index, May '24
1	Hotels, Restaurants & Catering	1.49	50
2	Business-to-business Services	1.10	55
3	Personal & Community Services	1.06	50
4	Transport & Communication	0.90	45
5	Financial Intermediation	0.77	55
6	Computing & IT Services	0.70	55

## UK sector focus

### Transport & Communication

The UK's Transport & Communication services sector saw a fall in business activity in the three months to May. Over that period, it was the worst performing of the six broad services sub-sectors monitored by PMI data.

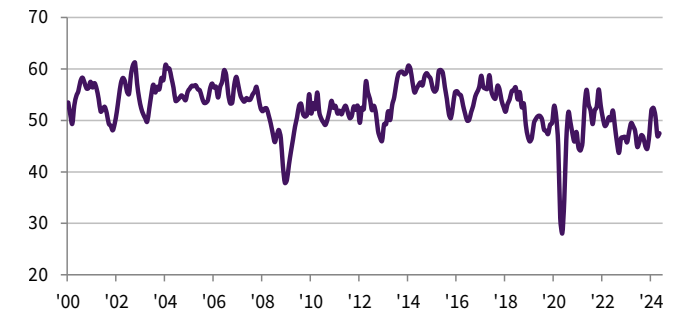
Amid a lack of incoming new work and shrinking backlogs, workforce numbers were scaled back. Employment has in fact fallen continuously in the sector since the end of 2022.

On the cost front, businesses reported pressures from shipping rates, fuel prices and wages. Input cost inflation in the three months to May was the fastest seen since last autumn. Prices charged also increased in the latest three-month period, though the rate of inflation ticked down due in part to competition for new work.

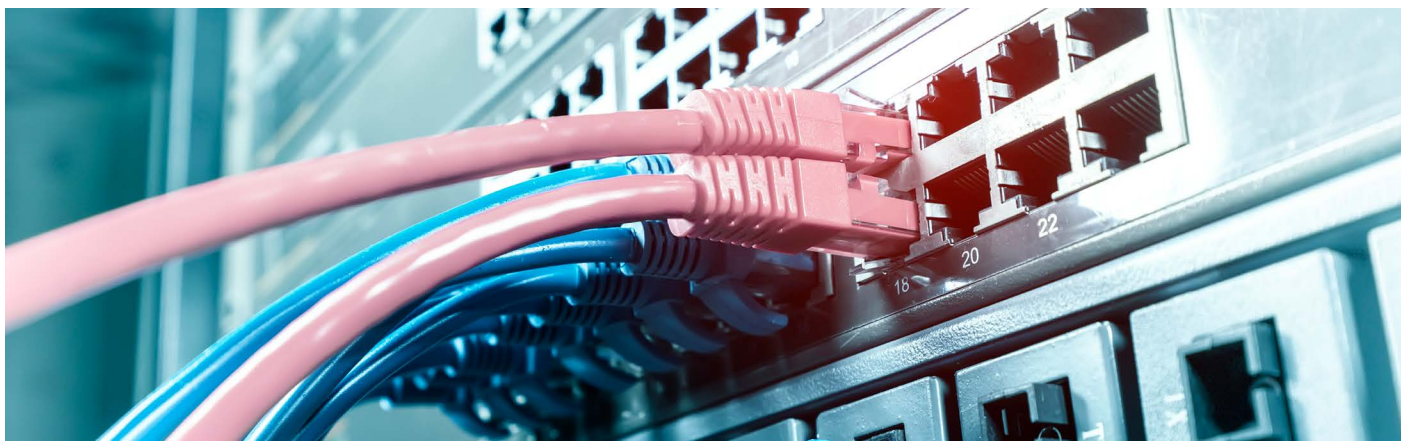
Looking ahead, Transport & Communication firms expected activity to pick up over the next 12 months. Expectations were close to the long-run average stretching back to 1996.

#### Output Index

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



\* 3-month moving average



## UK Regional PMI overview

### Business Activity

For the first time in more than a year, all 12 nations and regions monitored by the survey recorded a rise in business activity. Growth was led by Northern Ireland\*, where output expanded at a sharp and accelerated rate, followed by Scotland. At the other end of the scale, Yorkshire & Humber saw activity increase for the first time since January, albeit marginally.

### Employment

Labour market performances continued to vary across the UK, with just over half of the monitored nations and regions recording a rise in employment. Job creation was led by Northern Ireland for the third month in a row, with the North West and Scotland close behind. The South West meanwhile posted the steepest fall in workforce numbers – its largest for over three years.

### Future Activity

The West Midlands recorded the highest overall degree of optimism towards future activity for the ninth time in the past 11 months. It was one of seven areas where sentiment strengthened since April. Despite also seeing confidence improve from the month before, Scotland registered at the bottom of the rankings for the second month running.

Business Activity Index

sa, >50 = growth since previous month, May '24



Employment Index

sa, >50 = growth since previous month, May '24

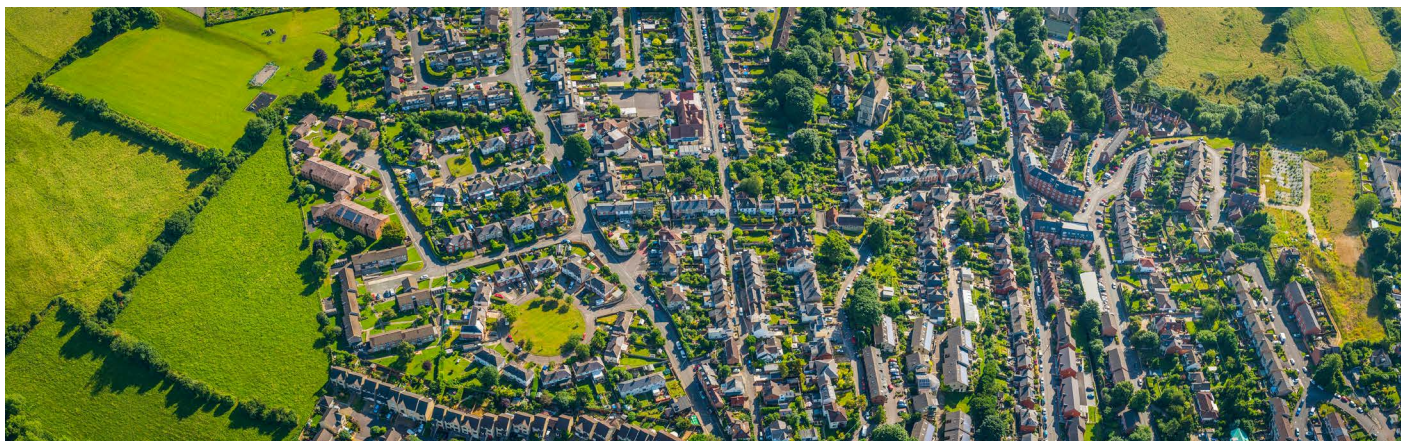


Future Activity Index

>50 = growth expected over next 12 months, May '24



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



## 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 '23	51.3	50.8	50.1	68.2	47.9	49.2	60.8	56.6
Jan '24	52.0	51.3	50.6	72.0	49.9	47.8	60.4	55.3
Feb '24	49.3	51.3	51.6	72.3	50.4	47.3	63.1	55.5
Mar '24	51.2	51.7	51.8	71.4	49.1	48.3	62.5	55.5
Apr '24	51.3	53.9	52.2	70.1	49.1	48.7	68.4	54.6
May '24	52.9	53.5	53.3	68.0	47.1	47.6	62.5	54.4

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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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### 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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