

12 November 2024

NatWest South West Growth Tracker

Marked rise in new business fuels output
growth



NatWest

PMI[®]

by **S&P Global**

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Key findings

October 2024

Sales growth remains substantial despite easing

Output expands at quicker pace

Weakest rise in input costs in over four years

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





Marked rise in new business fuels output growth

The NatWest Regional Growth Tracker data showed that favourable demand for South West goods and services underpinned growth of sales and output in October.

The latest increase in new business was substantial and above the long-run series average, despite slowing from September's two-and-a-half-year high. Subsequently, local firms scaled up output. The trend for employment remained muted, however, as firms observed a lack of pressure on operating capacity.

Meanwhile, cost pressures receded to their lowest in over four years but charge inflation ticked higher.

Up from 53.7 in September to 54.1 in October, the headline South West Growth Tracker 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 – highlighted a marked rate of growth.

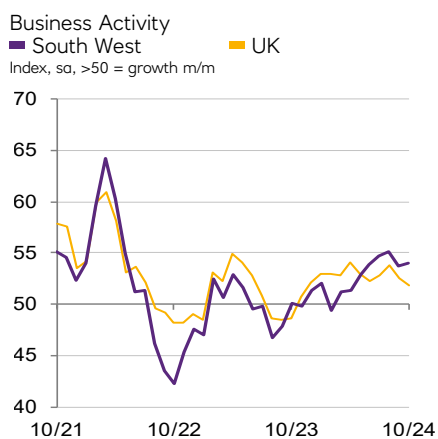
The local rise in output was the third-fastest of the 12 monitored UK regions and nations.

NatWest South West Business Activity Index October 2024

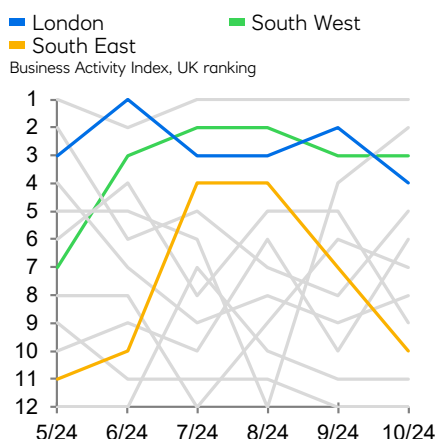
54.1

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 10-29 October



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



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



NatWest

Comment

Faye Long, Chair of the NatWest South West Regional Board, commented:

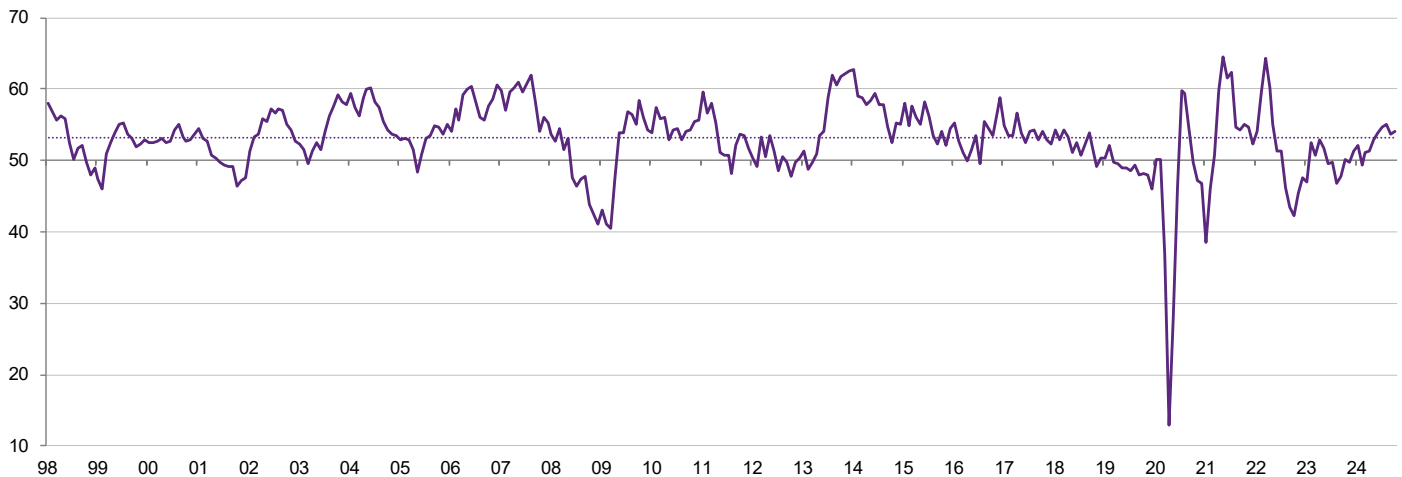
"October data showed a desirable combination of strengthening output growth and receding cost inflation across the South West. Even with a softer increase in sales, the region remained among the top performers of the 12 monitored areas of the UK. Hiring was relatively muted, but again this trend was better than in most parts of the UK.

"Local firms welcomed reduced price pressures from some of their expenses such as electricity, fuel, gas and materials like aluminium, glass, paper and timber. October was the first month in four years in which cost inflation was below its trend level.

"With demand conditions remaining favourable, local companies were more aggressive in their pricing strategies, though the rate of charge inflation remained below that for input costs."

Business Activity

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



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



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Demand and outlook

Demand for South West goods and services improves substantially, albeit to lesser extent

Private sector companies indicated a sharp increase in new business intakes at the start of the fourth quarter, which they attributed to positive client appetite.

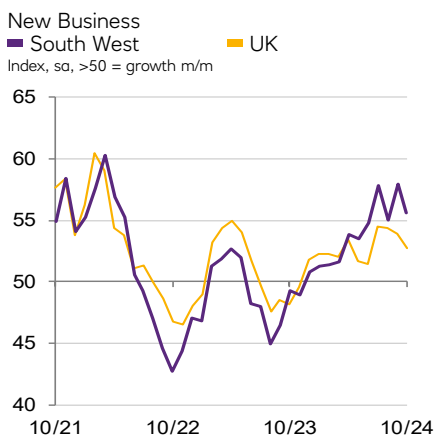
The rate of expansion retreated from September's 30-month high, but remained among the strongest over this period and outpaced its long-run average. Moreover, compared to all 12 regions and nations monitored by the survey, the

South West registered the third-best growth rate behind London and the North East.

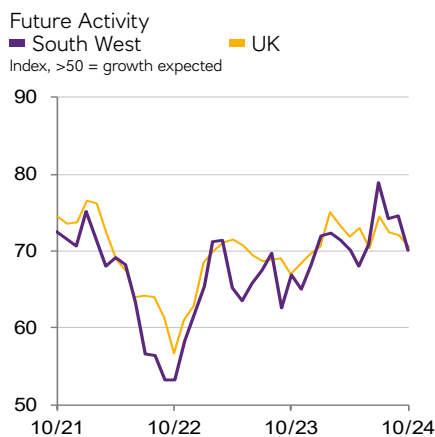
Local companies remained strongly confident of a rise in output over the course of the coming year, buoyed by the prospects of contract renewals, expansion plans and marketing initiatives.

The overall level of positive sentiment slipped to a five-month low, however, amid some uncertainty arising from the late-October government budget. Firms were slightly less upbeat than the UK average.

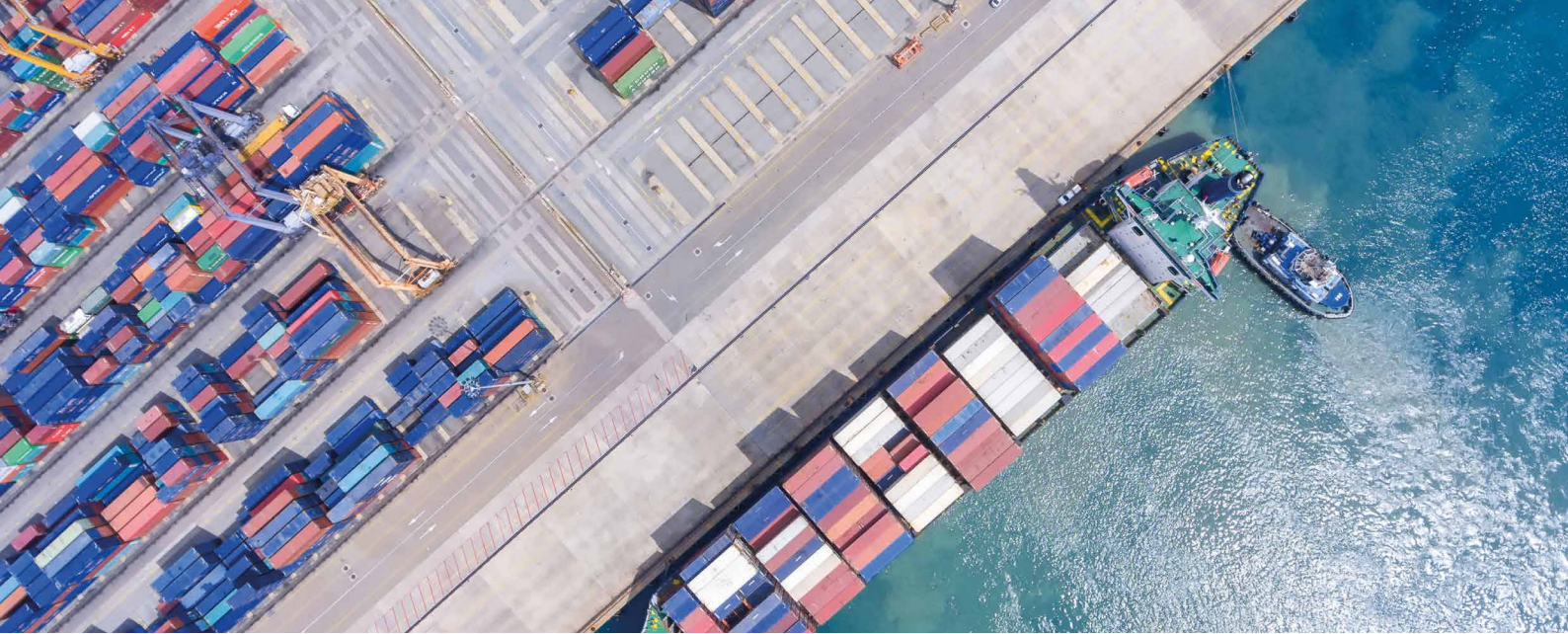
"Even with a softer increase in sales, the region remained among the top performers of the 12 monitored areas of the UK"



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



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



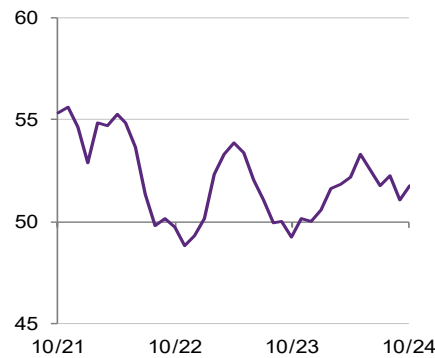
Export markets

Moderate improvement in export climate

At 51.8 in October, up from 51.1 in September, the ECI signalled a moderate improvement in trade opportunities for South West companies. Moreover, the latest reading continued a year-long sequence of expansion in export conditions.

Among the top five export markets for the South West, however, only Ireland and the US posted economic growth as France, Germany and the Netherlands remained in contraction.

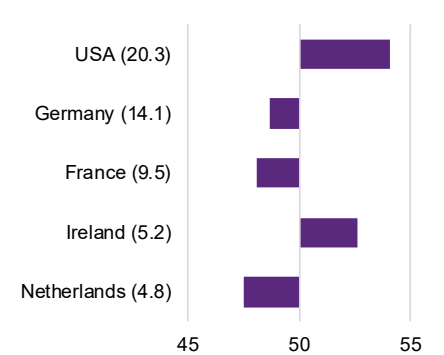
Export Conditions
Index, sa, >50 = growth m/m



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

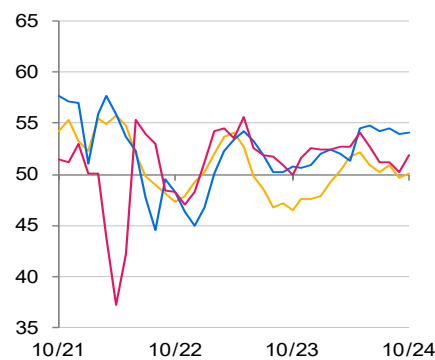
The South West Export Climate Index (ECI) is an indicator for the economic health of the region's export markets. It is calculated by combining national PMI output data, weighted according to each nation's share of manufacturing exports of the South West. A reading above 50 signals an improvement in 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
Eurozone US China
Index, sa, >50 = growth m/m



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



Jobs and capacity

Hiring growth remains negligible in October

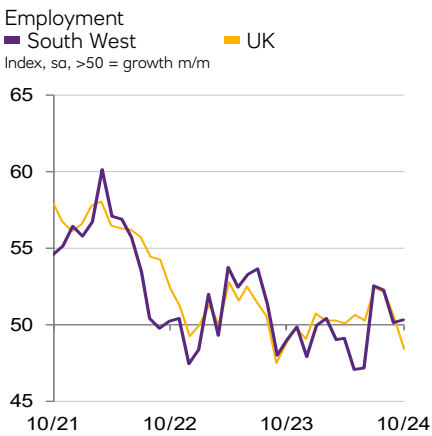
As was the case in September, there was only a fractional increase in private sector employment across the South West. Restructuring efforts at some companies and a lack of pressure on operating capacities were some of the factors that hindered job creation.

Nevertheless, the South West was one of only four UK areas to see an increase in workforce numbers at the start of the fourth quarter.

October data pointed to stable levels of outstanding work at South West companies. Following a fractional rise in September, the respective seasonally adjusted index registered at the 50.0 no-change mark.

London and the North East recorded fractional increases in backlogs, with declines evidenced elsewhere.

"Hiring was relatively muted, but again this trend was better than in most parts of the UK."



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



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



Inflation

Slowest increase in business expenses in over four years

The overall rate of input cost inflation across the South West slipped to its lowest in over four years, and was below its long-run average.

Companies reported greater wage bills and licence fees, but observed reduced pressure from electricity, fuel, gas and various materials including aluminium, glass, paper and timber.

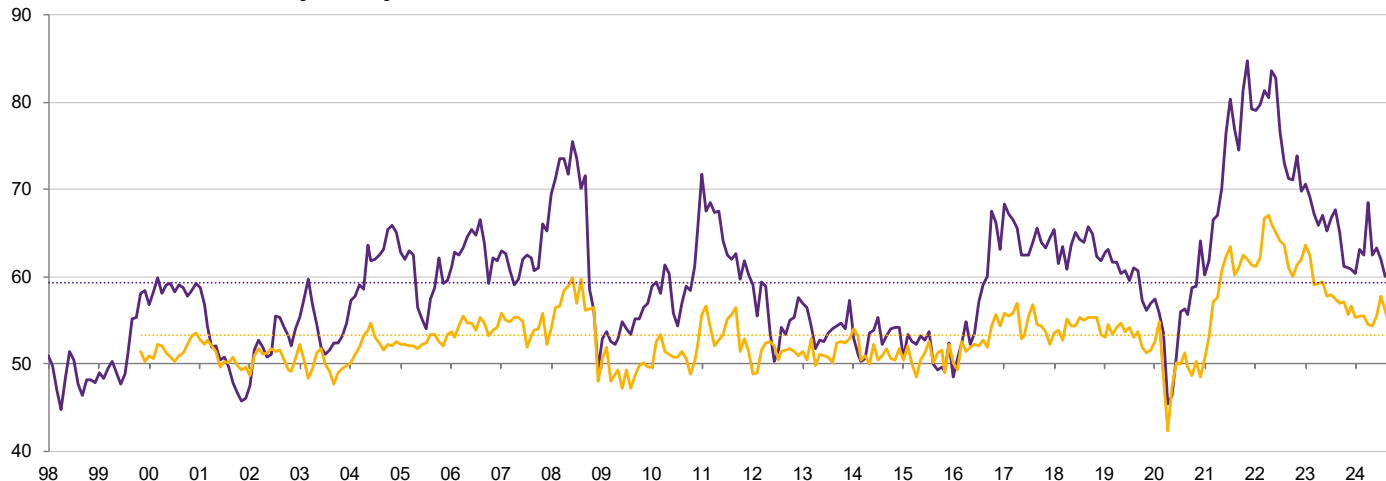
Relative to other parts of the UK tracked by the survey, the South West came fourth in the input cost inflation rankings.

Sustained increases in cost burdens fuelled charge inflation in October. Selling prices rose to the greatest extent in three months.

On this front, the South West topped the regional rankings.

"October was the first month in four years in which cost inflation was below its trend level."

■ Input Prices ■ Output Prices
 Index, sa, >50 = inflation m/m. Dots = long-run average since 1998.



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

UK Regional Growth Tracker

Business Activity

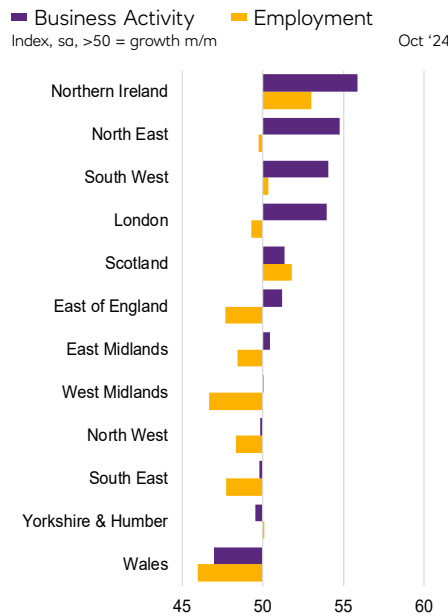
Just over half of the 12 UK nations and regions saw a rise in business activity in October, down from 11 in September. Northern Ireland continued to see the strongest growth, while there were also solid increases in output across the North East, South West and London. Wales recorded the steepest drop in activity and was joined in contraction by Yorkshire & Humber, the South East and North West.

Employment

Most areas of the UK recorded a reduction in employment as the final quarter of the year got underway. As was the case with business activity, Wales recorded the most marked decline – its sharpest for nine months. Other notable decreases were seen in the West Midlands, East of England and South East. For the fourth month running, the strongest rate of job creation was registered in Northern Ireland.

Future Activity

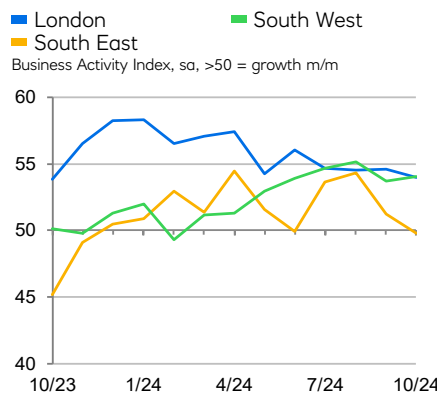
Business expectations remained positive across the board, but in just over half of cases there was a decrease in optimism from the month before. This included Northern Ireland, which saw sentiment weaken to a ten-month low and recorded the lowest degree of business confidence UK-wide. At the other end of the scale, the North West saw expectations improve notably to the highest since July.



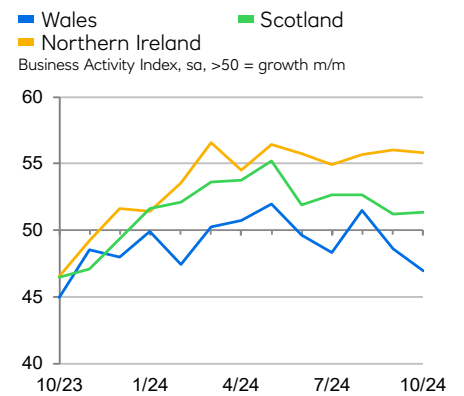
Sources: NatWest, S&P Global PMI. ©2024 S&P Global.



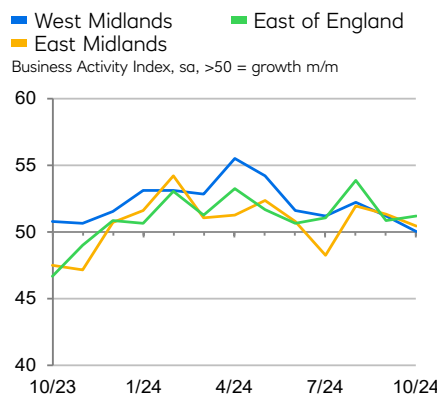
Sources: NatWest, S&P Global PMI. ©2024 S&P Global.



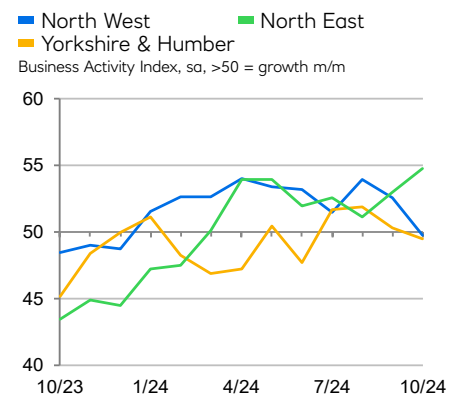
Sources: NatWest, S&P Global PMI. ©2024 S&P Global.



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



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Growth Tracker heat map

October 2024

Darker colour = higher business growth

South West

Business Activity Index
sa, >50 = growth m/m

54.1



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

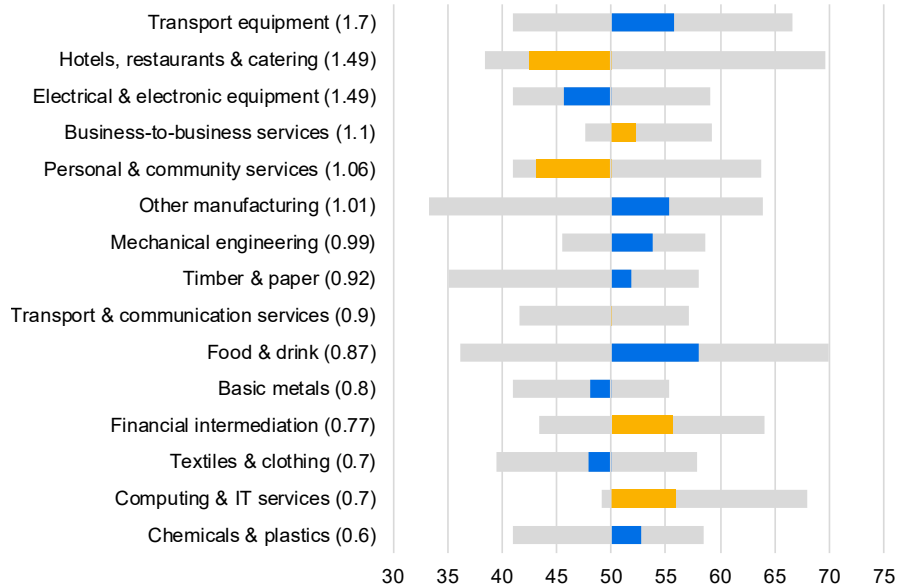
UK sectors

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 Oct '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: Basic metals

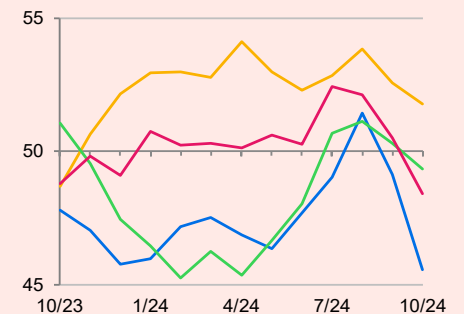
The basic metals sector acted as a notable drag on overall UK economic growth in the three months to October. It recorded the steepest drop in output since Q2 2023 and was the worst-performing sector of those monitored across manufacturing and services.

Basic metals producers reported persistent weakness in demand, with new orders having been in decline for almost two-and-a-half years. A lack of export sales was a contributing factor, underlying data showed.

Employment was also down in the three months to October, following a brief spell of job creation over the summer months. This reversal in recruitment activity coincided with a dip in optimism towards the outlook.

Turning to prices, the basic metals sector saw muted inflationary pressures, with both input costs and output prices rising at rates well below their respective historical averages. Supply-side conditions were relatively stable, as highlighted by only a fractional increase in average lead times on inputs.

Output / Employment
 ■/■ Basic metals*
 ■/■ 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

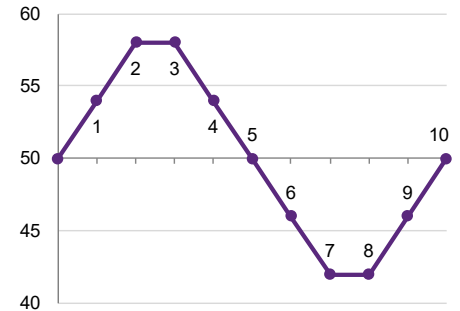
overall decrease. The indices are then seasonally adjusted.

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.

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
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
8/24	55.1	55.0	52.3	52.3	46.9	74.2	60.1	56.2
9/24	53.7	58.0	51.1	50.2	50.4	74.5	60.2	54.3
10/24	54.1	55.6	51.8	50.3	50.0	70.1	58.3	56.5

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www.natwest.com/business/insights/economics

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