

9 October 2024

NatWest South West Growth Tracker

New business rises at fastest rate since
March 2022



NatWest

PMI[®]

by **S&P Global**

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NatWest South West Growth Tracker

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Key findings

September 2024

South West leads widespread rise in sales regionally

Output growth and business confidence among highest in UK

Charge inflation lowest since February 2021

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





New business rises at fastest rate since March 2022

Private sector firms in the South West welcomed a sharp upturn in new business intakes with a further expansion in output, the NatWest Regional Growth Tracker data showed.

Despite a quicker increase in sales, however, there were softer expansions in business activity and employment. On the price front, input costs rose at the second-slowest pace since January 2021, resulting in the weakest rate of charge inflation in over three-and-a-half years.

Falling from 55.1 in August to 53.7 in September, 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 – indicated the softest rate to expansion since May.

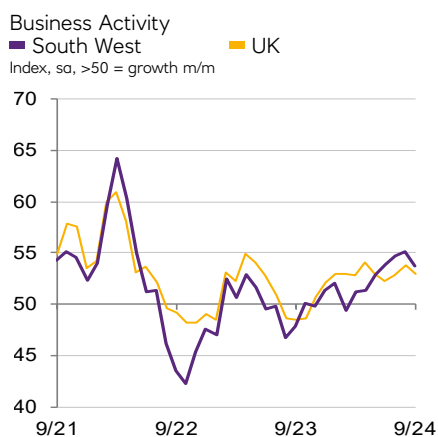
The upturn was nonetheless marked and the third-best of the 12 monitored UK regions and nations.

NatWest South West Business Activity Index September 2024

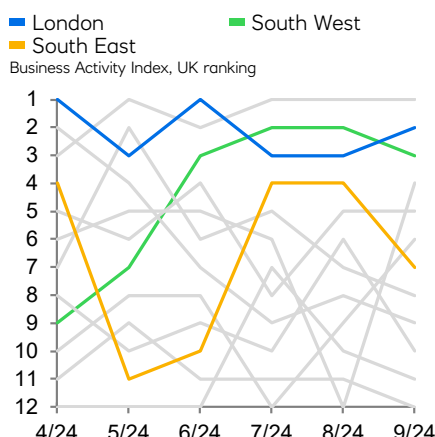
53.7

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 12-26 September



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 reclaimed its top position in the regional sales growth rankings, amid the steepest rise for two-and-a-half years. While this substantial upturn, coupled with improved business confidence, is promising, the latest results showed softer expansions in output and jobs.

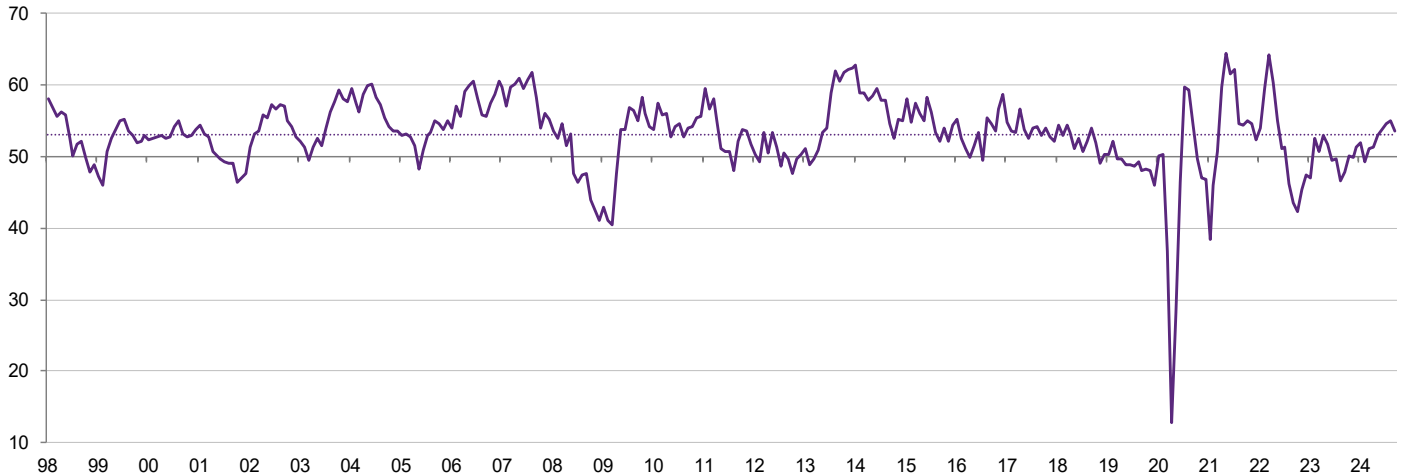
"Local firms remained engaged in restructuring efforts and

redundancies, with some even suggesting that severance packages added to their cost burdens.

"There were encouraging trends for prices in September, as charge inflation receded to its slowest in over three-and-a-half years alongside one of the weakest increases in input costs since the start of 2021. If these trends continue, price stability could lead to a more favourable interest rate environment, supporting sales and local economic growth."

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 sales growth among all UK areas

There was a substantial improvement in growth of new business placed with private sector firms in the South West. The sharp upturn in sales seen in September was the strongest in two-and-a-half years and the highest of the 12 monitored UK regions and nations.

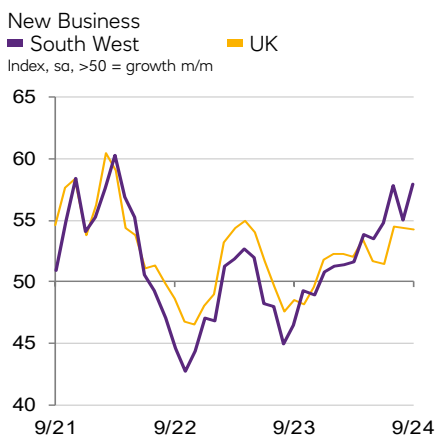
According to survey participants, marketing efforts, new client wins and AI roll-out fuelled sales growth.

Expectations that demand conditions would remain positive in

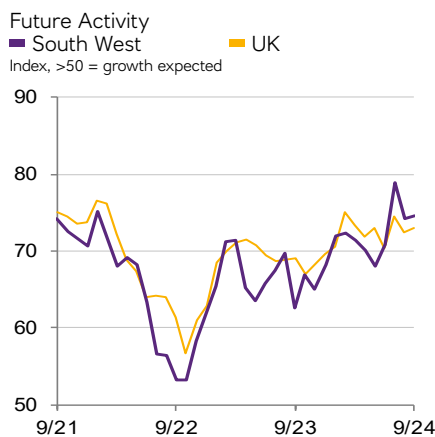
the year ahead underpinned upbeat forecasts for output. The overall level of positive sentiment was one of the highest seen since the start of 2022. Advertising, capacity expansion and investment in innovation all fuelled optimism.

Local companies were among the most upbeat across the UK, with only the South East and London signalling stronger confidence.

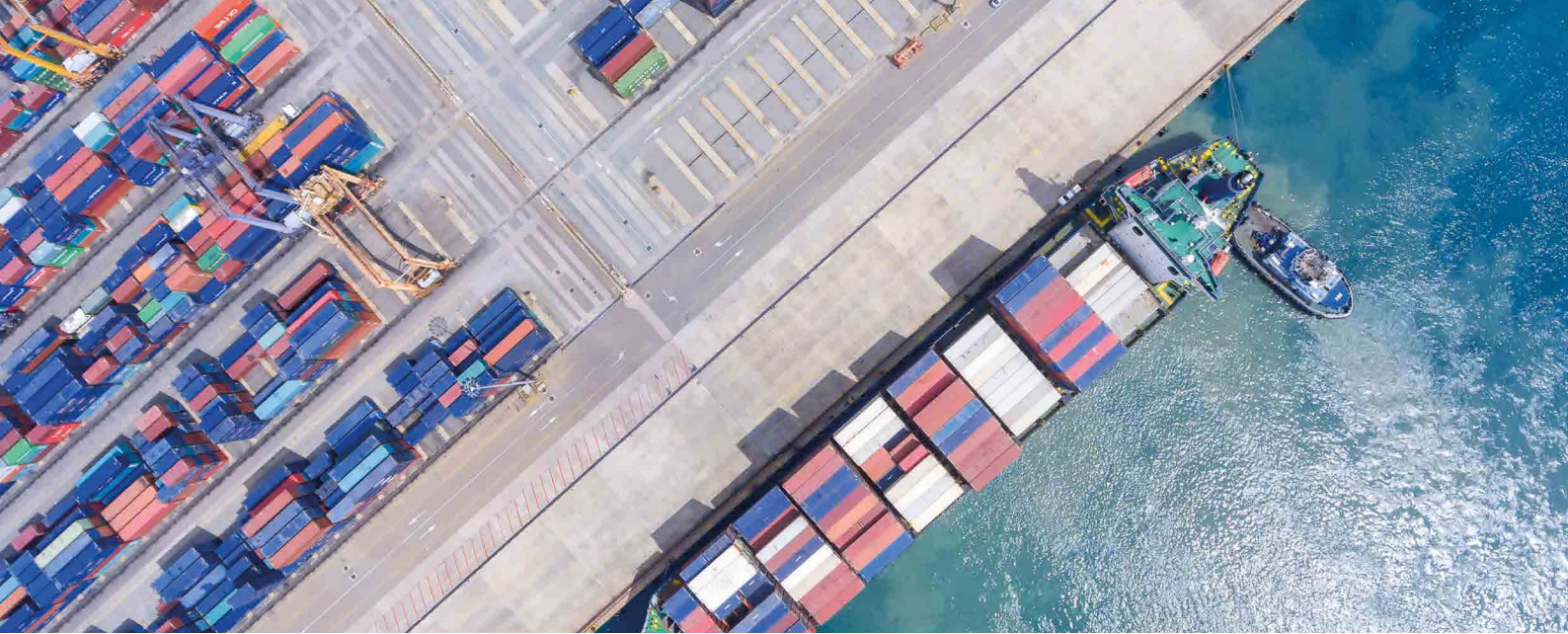
"The South West reclaimed its top position in the regional sales growth rankings, amid the steepest rise for two-and-a-half years"



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



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



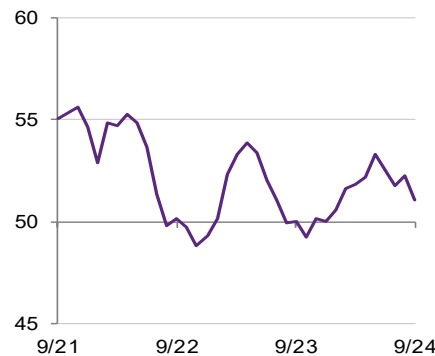
Export markets

Mild progress in trade landscape

Registering 51.1 in September, the ECI remained above the neutral mark of 50.0 and signalled growth among the South West's key export markets for the eleventh straight month. However, falling from 52.3 in August, the latest reading highlighted the weakest improvement in export conditions since January.

Sustained increases in output across the US and Ireland contrasted with further reductions in Germany and the Netherlands. France slipped into contraction after seeing the first rise for four months in August.

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



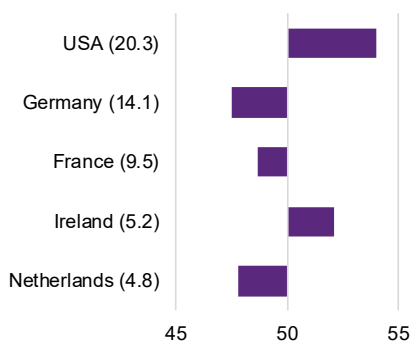
Sources: NatWest, S&P Global PMI. ©2024 S&P Global.

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

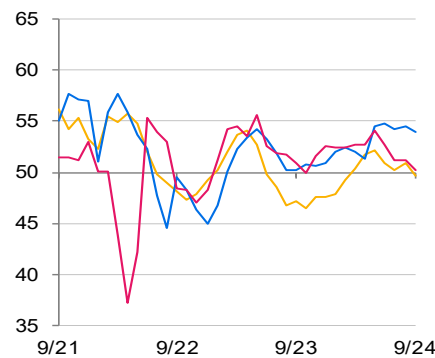
Sep '24



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

Output

Legend: Eurozone (yellow), US (blue), China (red)
Index, sa, >50 = growth m/m



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



Jobs and capacity

Hiring growth nearly stalls

September data showed a third consecutive monthly increase in South West private sector employment, but the pace of growth was fractional and the weakest over this sequence.

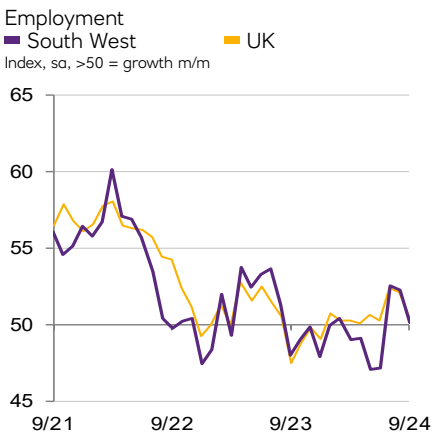
Although some firms recruited extra staff in line with demand strength and predictions of continued mid-term growth, others shed jobs. There were mentions of voluntary resignations, layoffs and restructuring efforts among the qualitative part of the survey.

Among the 12 monitored UK regions and nations, only six posted job creation and the South West saw the slowest rise. The quickest contraction was in Wales.

Local firms signalled an increase in outstanding business volumes at the end of the third quarter. The rise was marginal, but compared with depletion in each of the previous 18 months.

The only other area of the UK to post an increase in backlogs was Northern Ireland.

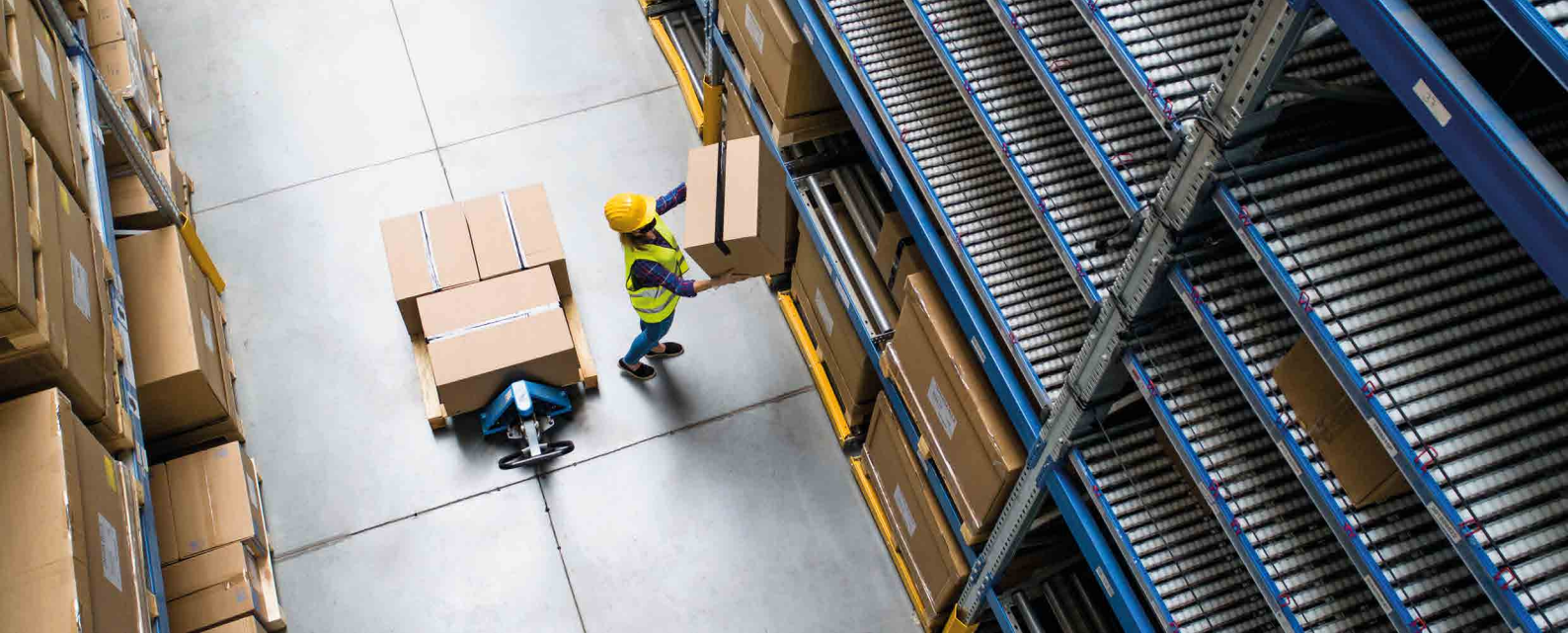
"Local firms remained engaged in restructuring efforts and redundancies, with some even suggesting that severance packages added to their cost burdens"



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



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



Inflation

Cost inflation remains among weakest in four years

South West firms reported a further increase in operating expenses during September. Redundancy payouts, insurance premiums, transportation and greater material prices featured as the main determinants of cost pressures among panel member reports.

The South West came third in the rankings for cost inflation, just behind the East Midlands and

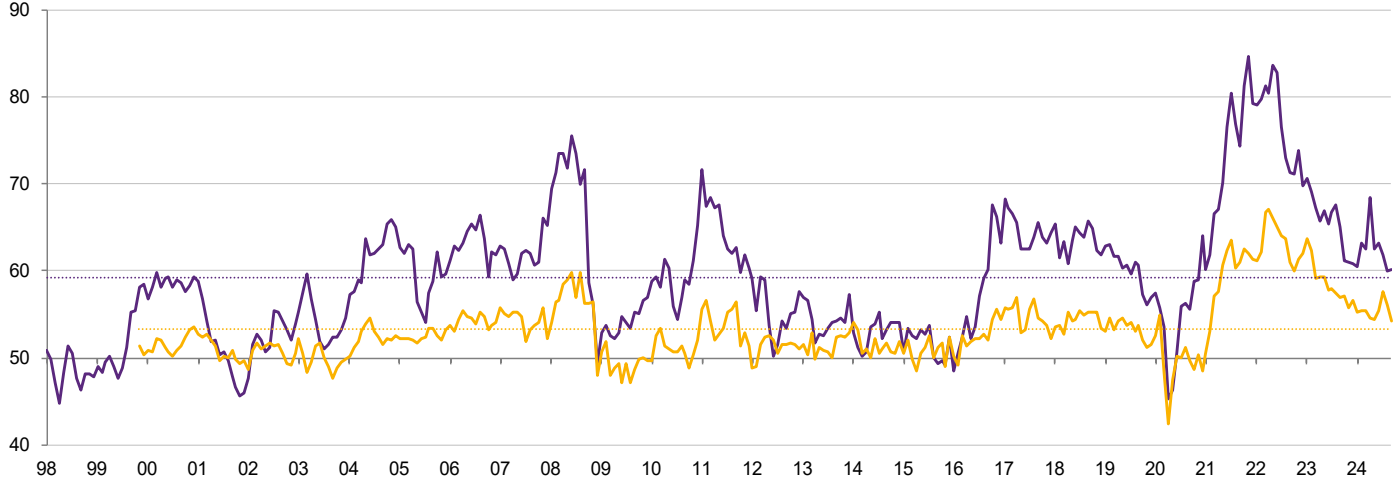
London.

The local rate of inflation was among the slowest in four years, however, as firms paid less for energy, fuel and key raw materials.

There was also a softer increase in prices charged for the provision of South West goods and services, the weakest in over three-and-a-half years. The rate of inflation was above the long-run series trend, but broadly aligned with the UK average.

"There were encouraging trends for prices in September, as charge inflation receded to its slowest in over three-and-a-half years"

■ 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

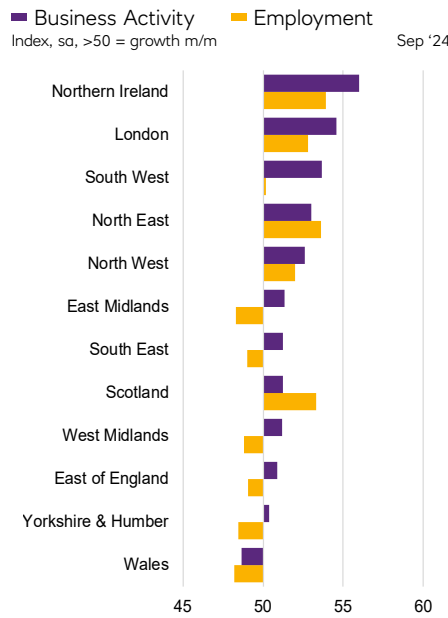
A renewed – albeit only slight – decrease in business activity in Wales in September prevented a second successive month of universal growth across the UK. Notably, rates of expansion generally eased compared to those seen in August. Northern Ireland was one of the exceptions, cementing its position at the top of the growth rankings with its fastest rise in output since May.

Employment

Employment growth in September was also led by Northern Ireland, as was the case throughout the third quarter. Only half of the 12 UK nations and regions monitored reported a rise in workforce numbers, down from ten in August. Wales saw the steepest drop in staffing levels, although the decline was only modest overall.

Future Activity

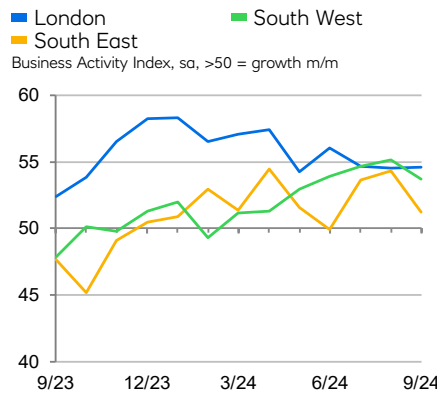
Trends in business expectations varied in September. Just over half of the monitored nations and regions reported a reduction in business confidence, but sentiment nevertheless remained positive across the board. Firms in the South East recorded not only the strongest overall growth expectation, but also the biggest upswing in optimism.



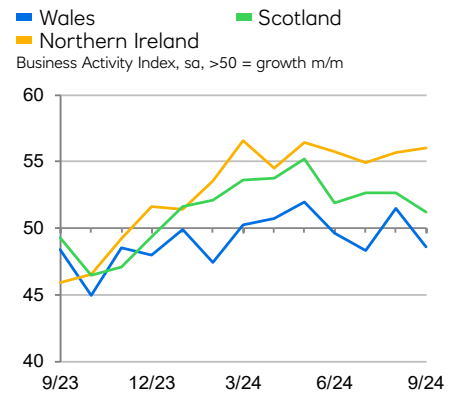
Sources: NatWest, S&P Global PMI. ©2024 S&P Global.



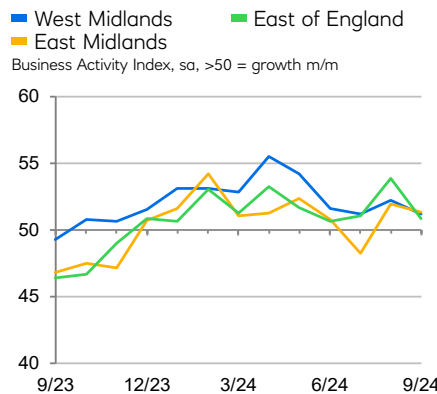
Sources: NatWest, S&P Global PMI. ©2024 S&P Global.



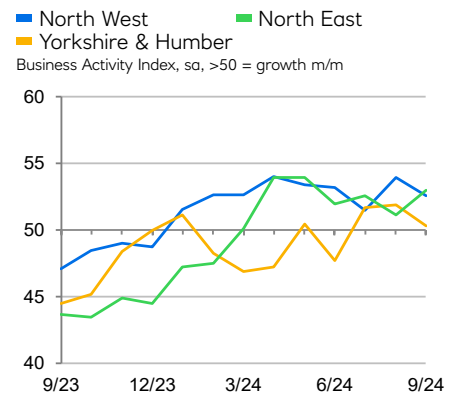
Sources: NatWest, S&P Global PMI. ©2024 S&P Global.



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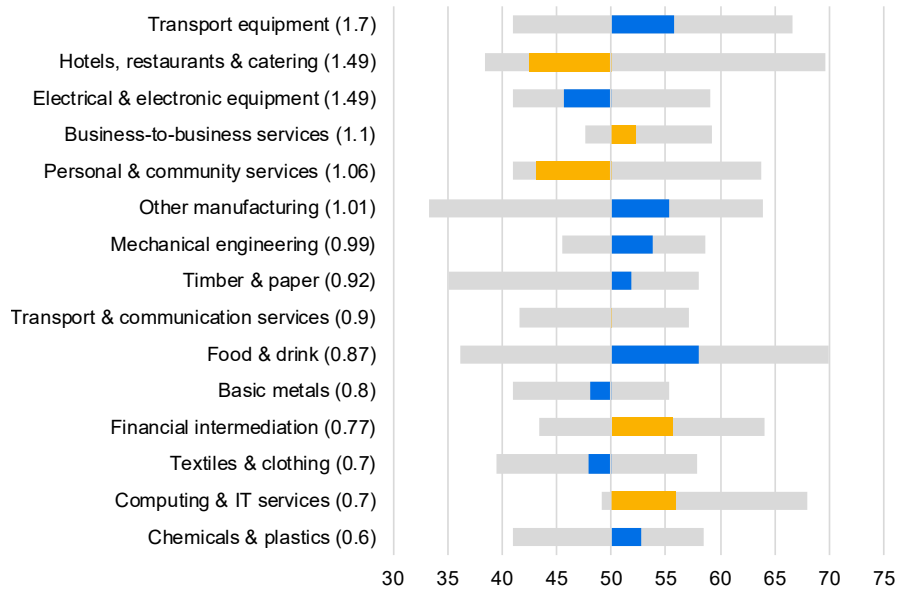
UK sectors

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 Sep '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: Business-to-business services

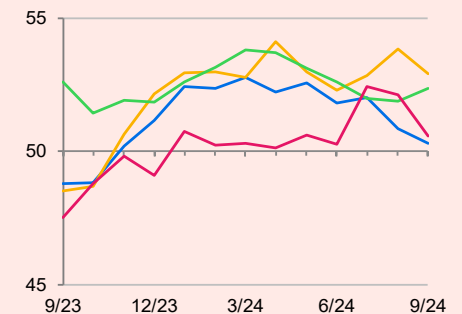
Growth in the UK's Business-to-business services sector came close to stalling in the third quarter. Activity rose only marginally and at the weakest rate for almost a year, with the lack of growth momentum reflecting only modest gains in new business in recent months. Firms in the sector increasingly turned to backlogged work to support growth, with outstanding business falling at a faster rate in the three months to September.

Latest data nevertheless showed sustained job creation across

business-to-business services, continuing a sequence of rising employment that stretches back to early 2021. The rate at which staffing levels rose even ticked up slightly and exceeded the average across the UK private sector as a whole.

As for prices, rates of inflation in both input costs and output charges remained among the lowest seen over the past three-and-a-half years, although they were still above their respective pre-pandemic long-run averages.

Output / Employment
 ■/■ Business-to-business services*
 ■/■ 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

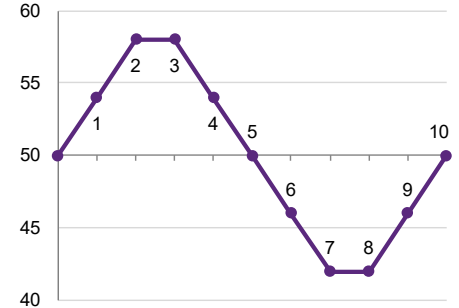
overall decrease. The indices are then seasonally adjusted.

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
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
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

Further information

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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.

www.natwest.com/business/insights/economics

www.linkedin.com/company/natwest-business/

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