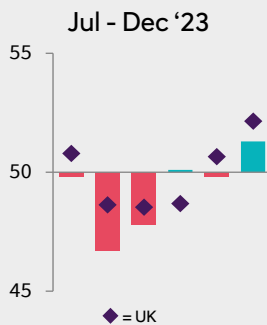




# NatWest South West PMI<sup>®</sup>

## South West private sector returns to growth in December

### South West Business Activity Index



### Key findings

Business activity revives amid increase in new orders

Business confidence strengthens

Input cost inflation eases but remains historically marked

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 – posted above the neutral mark of 50.0 at 51.3 in December. This was up from 49.8 in November and signalled the second time in the past three months that business activity across the region has expanded. Though modest and softer than seen at the national level, the rate of growth was the best recorded since May. According to panel members, improved demand conditions and a fresh rise in sales helped to revive business activity in December.

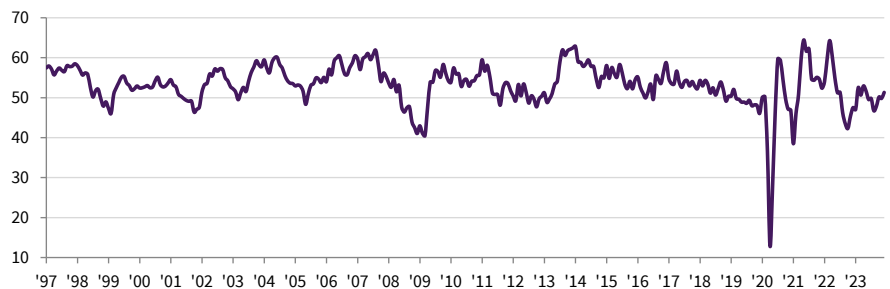
Paul Edwards, Chair of the NatWest South West Regional Board, commented:

*"Businesses in the South West had a positive end to 2023, according to the latest PMI survey data, with firms noting fresh increases in output and new orders. Firmer underlying demand conditions and improved marketing strategies reportedly helped to lift the region's performance in December, which in turn led firms to become more optimistic for the year ahead."*

*"However, inflationary pressures remain a prominent feature of the survey, and although we have seen the rate of cost inflation ease notably from post-pandemic highs, it remains sharp overall. This is leading to further steep increases in selling prices and a continued squeeze on margins. Amid strong cost pressures, firms also remained cautious around employment, and generally opted not to replace voluntary leavers which led to a further fall in staffing levels. It is hoped that firmer demand conditions in the months ahead will support renewed hiring efforts in 2024."*

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

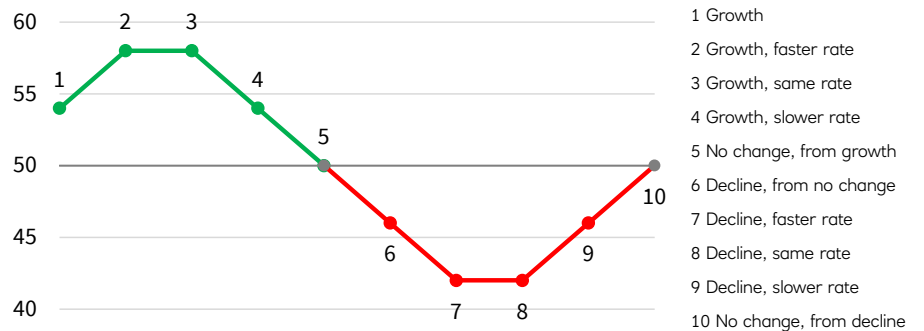
calculated from a single question that asks for changes in the volume of business activity (at service providers) or output (at manufacturers) compared with one month previously. The South West Business Activity Index is comparable to the UK Composite Output Index. It is sometimes referred to as the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

Adjusted for seasonal variation, the New Business Index posted above the neutral 50.0 level to signal a renewed increase in sales across the South West private sector in December. Though only marginal, it marked the first upturn in new work for seven months, with panellists often noting that improved marketing and firmer demand conditions had supported growth.

A renewed expansion in new business was also recorded across the UK as a whole, and one that was slightly quicker than that seen in the South West.

### Business confidence strengthens in December

South West private sector companies continued to express optimism when assessing the one-year outlook for output in December. The degree of positive sentiment picked up to a four-month high and was stronger than the series average, albeit softer than the UK-wide trend. Companies often anticipated that greater investment, new marketing strategies and a recovery in the broader economic climate would support higher levels of business activity over the course of 2024.

## Exports

### Export climate remains broadly stable

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 50.1 in December, the index was unchanged from November and pointed to broadly stable export conditions for the second month in a row.

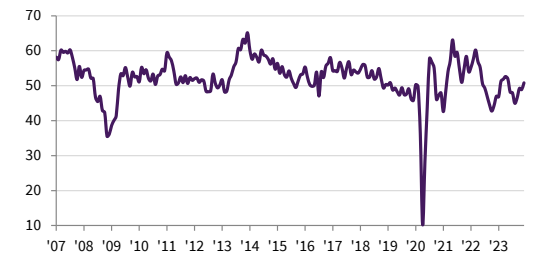
Across the region's top five export markets, contrasting trends continued to be observed. Ireland registered the strongest performance, where business activity rose modestly, while the US recorded a marginal expansion of output. Business activity fell elsewhere, however, led by solid reductions in the Netherlands and France.

### New Business Index

sa, >50 = growth since previous month

50.8

Dec '23

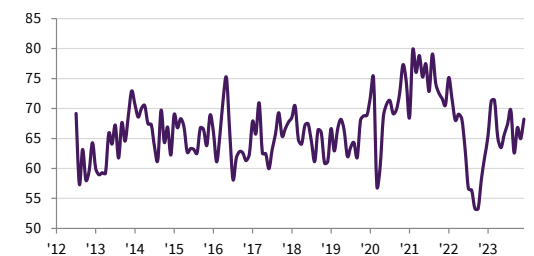


### Future Activity Index

>50 = growth expected over next 12 months

68.2

Dec '23

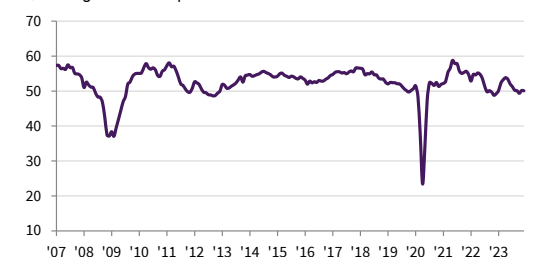


### Export Climate Index

sa, >50 = growth since previous month

50.1

Dec '23

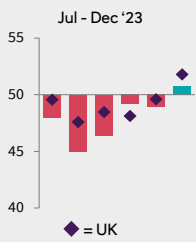


### Top export markets, South West

Rank	Market	Weight	Output Index, Dec '23
1	USA	21%	50.9
2	Germany	12%	47.4
3	France	10%	44.8
4	Netherlands	6%	44.7
5	Ireland	5%	51.5

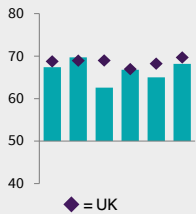
### New Business Index

Jul - Dec '23



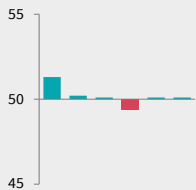
### Future Activity Index

Jul - Dec '23



### Export Climate Index

Jul - Dec '23



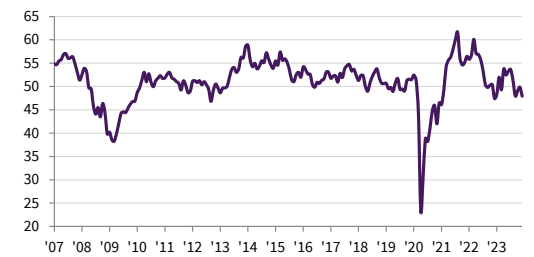
## Business capacity

### Job shedding persists at end of 2023

Private sector companies operating in the South West signalled a reduction in staff numbers for the fourth straight month in December. Though modest, the rate of job shedding was the most pronounced in all of 2023, with firms generally linking falls to the non-replacement of voluntary leavers.

Employment across the UK private sector as a whole also declined again at the end of the final quarter, although only marginally.

Employment Index  
sa, >50 = growth since previous month  
47.9  
Dec '23

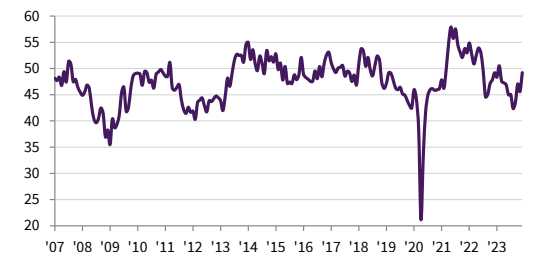


### Backlogs of work decline at softest pace in ten months

The level of outstanding business at South West private sector firms continued to decline in December, thereby stretching the current period of reduction to ten months. That said, the rate of backlog depletion was the weakest seen over this period and only marginal. The decline was also slower than the national average.

While some firms indicated that they had increased their efforts to clear unfinished workloads, others mentioned that greater inflows of new work had limited their scope to clear backlogs.

Outstanding Business Index  
sa, >50 = growth since previous month  
49.2  
Dec '23

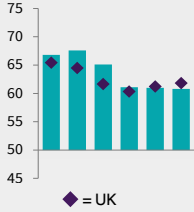




## Prices

### Input Prices Index

Jul - Dec '23



◆ = UK

### Input cost inflation edges down to 35-month low

Average input prices faced by South West private sector firms continued to increase at the end of the year. Although inching down to a 35-month low, the rate of inflation remained comfortably above the series average and sharp. Operating expenses also rose at a marked pace across the UK as a whole.

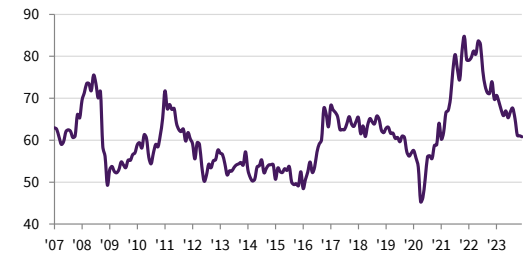
According to anecdotal evidence, suppliers had often hiked their prices due to the strong inflationary environment. Greater staff costs were also cited.

### Input Prices Index

sa, >50 = inflation since previous month

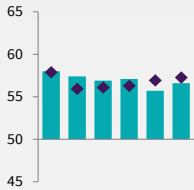
60.8

Dec '23



### Prices Charged Index

Jul - Dec '23



◆ = UK

### Selling prices continue to rise sharply

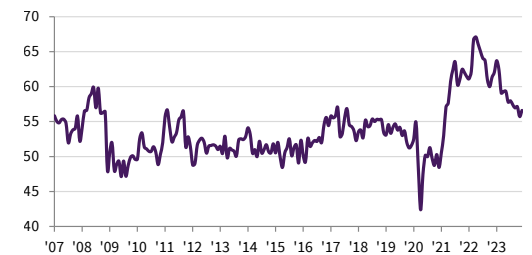
Companies in the South West generally responded to rising costs by hiking their own selling prices again in December. Output charges have now increased in each month for the past three years. Though sharp, the rate of inflation was the second-softest since February 2021, having remained on a broadly downward trend since the start of 2023. The pace of increase was also slightly below the national average.

### Prices Charged Index

sa, >50 = inflation since previous month

56.6

Dec '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, Dec '23*
1	Transport	1.50	55
2	Electrical & Optical	1.45	48
3	Other Manufacturing	1.02	42
4	Mechanical Engineering	0.99	48
5	Basic Metals	0.90	48
6	Timber & Paper	0.86	45
7	Food & Drink	0.83	55
8	Textiles & Clothing	0.78	52
9	Chemicals & Plastics	0.67	48

#### South West specialisation: Services

Rank	Sector	LQ	UK Business Activity Index, Dec '23*
1	Hotels, Restaurants & Catering	1.42	55
2	Business-to-business Services	1.09	50
3	Personal & Community Services	0.98	48
4	Transport & Communication	0.88	48
5	Financial Intermediation	0.86	55
6	Computing & IT Services	0.69	58



## UK sector focus

### Textiles & Clothing

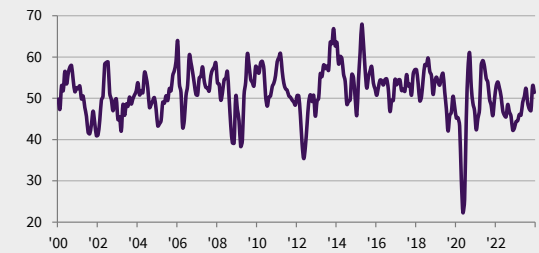
The UK's Textiles & Clothing sector saw a slight increase in production volumes in the three months to December. It was one of only three manufacturing sub-sectors monitored by PMI data to record growth, alongside Food & Drink and Transport. The result represented a marked turnaround from the solid rate of contraction seen in the opening quarter of 2023.

Driving the upturn was a strong increase in new orders, which in part reflected improved demand from abroad in recent months. Firms reacted by upping the pace of job creation to the one of the quickest rates in the past five years. They also continued to build up stocks of both purchases and finished goods.

On the price front, latest data showed a sustained rebound in input costs following a decline during the middle part of 2023. Average factory gate charges meanwhile rose modestly, and at one of the slowest rates in the past three years.

#### Output Index

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



\*3-month moving average

## UK Regional PMI overview

### Business Activity

Seven of the 12 monitored regions and nations recorded higher business activity in December, the most since last June. Growth was once again led by London, where output rose sharply during the month. At the other end of the scale, the North East recorded the most marked fall in output, followed by Wales.

### Employment

Labour market trends worsened in most cases in December. Just three areas saw employment rise, the fewest since last September, with rates of growth slowing in both Scotland and Northern Ireland\*. For the second month running, Wales posted the sharpest drop in workforce numbers – its fastest since January 2021.

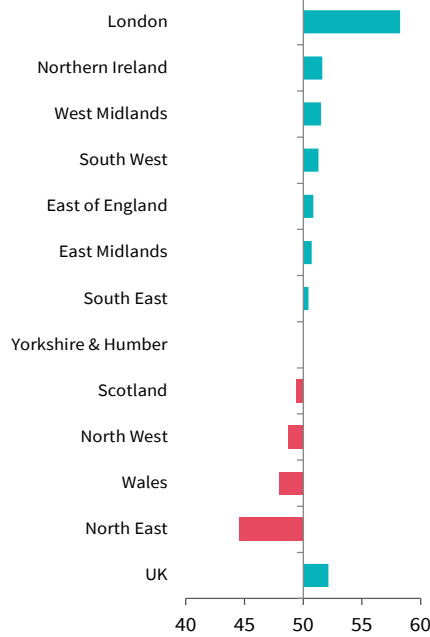
### Future Activity

Business expectations improved in the majority of cases as 2023 drew to a close. This included the West Midlands, which topped the rankings ahead of the South East. The most marked upswing in confidence was in Wales, followed by the North East. Firms in Northern Ireland were the least optimistic about the year-ahead outlook.

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

#### Business Activity Index

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



#### Employment Index

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



#### Future Activity Index

>50 = growth expected over next 12 months, Dec '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
Jul '23	49.8	48.0	51.3	67.4	53.7	45.0	66.8	58.0
Aug '23	46.7	45.0	50.2	69.7	51.4	42.3	67.6	57.4
Sep '23	47.8	46.4	50.1	62.6	48.0	43.5	65.1	56.9
Oct '23	50.1	49.2	49.4	66.8	49.0	47.0	61.1	57.1
Nov '23	49.8	48.9	50.1	65.0	49.9	45.6	61.0	55.7
Dec '23	51.3	50.8	50.1	68.2	47.9	49.2	60.8	56.6

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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.

### About S&P Global

S&P Global (NYSE: SPGI) S&P Global provides essential intelligence. We enable governments, businesses and individuals with the right data, expertise and connected technology so that they can make decisions with conviction. From helping our customers assess new investments to guiding them through ESG and energy transition across supply chains, we unlock new opportunities, solve challenges and accelerate progress for the world.

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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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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