

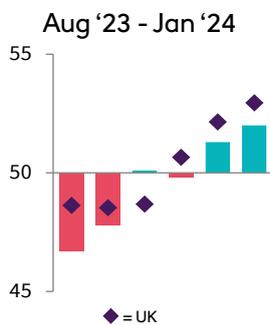


NatWest

NatWest South West PMI[®]

January sees strongest rise in business activity for nine months

South West Business Activity Index



Key findings

Companies signal quicker increases in output and new business

Business confidence improves to two-year high

Cost pressures continue to moderate, but remain historically elevated

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 – picked up from 51.3 in December to 52.0 at the start of 2024, to signal a back-to-back expansion of business activity across the region. Though modest, the rate of growth was the best recorded since last April, with firms often linking the upturn to improved demand conditions and higher sales.

Expectations that economic conditions will strengthen further buoyed confidence regarding the year-ahead, with sentiment hitting the highest in two years. At the same time, there were signs that inflationary pressures continued to ease, but rates of both input cost and output charge inflation remained elevated by historical standards.

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

"Business conditions faced by South West companies continued to improve at the start of 2024, with the latest PMI data indicating stronger growth momentum for the second straight month. Companies anticipate the recovery to continue in the months ahead, driving overall optimism around the outlook to a two-year high. Signs that inflationary pressures continued to cool at the start of the year will also provide some much-needed relief for businesses. However, price indices are still pointing to steep cost pressures overall, and the recent disruption to supply chains in the Red Sea have the potential to push up expenses further in the months ahead."

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

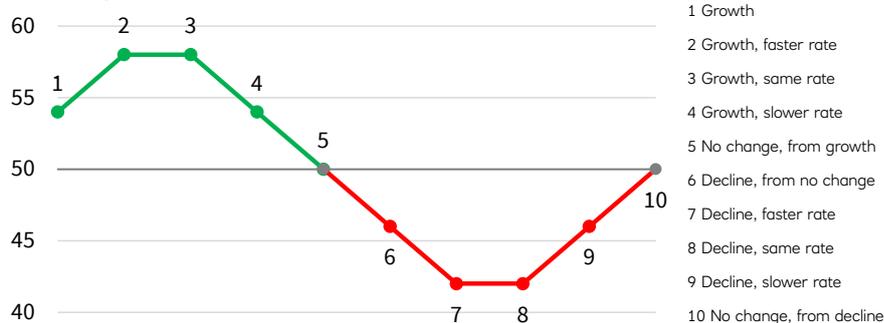
calculated from a single question that asks for changes in the volume of business activity (at service providers) or output (at manufacturers) compared with one month previously. The South West Business Activity Index is comparable to the UK Composite Output Index. It is sometimes referred to as the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

Index interpretation

50.0 = no change since previous month



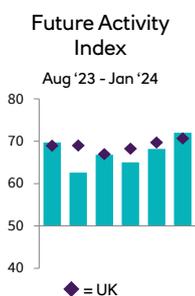
Demand and outlook



New order growth improves to eight-month high

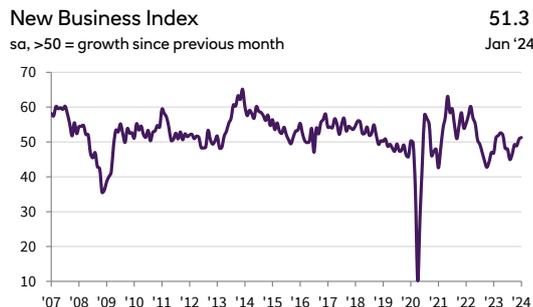
Companies in the South West registered a back-to-back increase in new business at the start of 2024. Though modest, the rate of expansion was the most pronounced since last May. Reports from panel members indicated that improved marketing and new client wins had supported the latest upturn in sales.

New orders also expanded across the UK as a whole for the second month in a row, and at a slightly quicker pace than in the South West.



Business confidence hits two-year high

Optimism towards the 12-month outlook for output strengthened across the South West at the beginning of the year. Notably, the level of positive sentiment hit the highest in two years. Expectations were also firmer than that seen on average across the UK as a whole. Companies often anticipate that stronger economic conditions, improved sales, and investment in marketing and technology will boost output over the year.



Exports

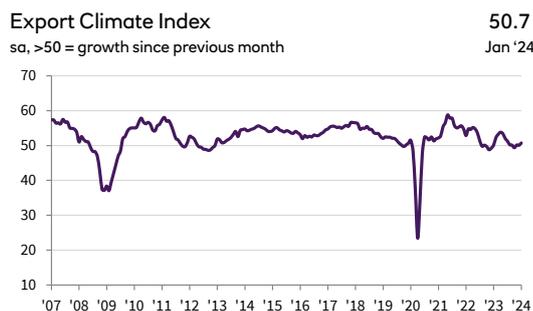


Export conditions improve slightly in January

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.

The Export Climate Index rose from 50.1 in December to 50.7 in January, to signal an improvement in export conditions for South West firms for the third straight month. Though only marginal, the latest upturn was the most pronounced since last July.

The stronger pace of improvement was helped by quicker growth in the US and a further expansion of output in Ireland. Activity continued to decline across Germany, France and the Netherlands, however.

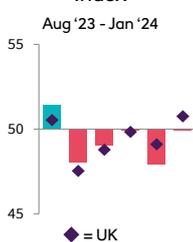


Top export markets, South West

Rank	Market	Weight	Output Index, Jan '24
1	USA	21.2%	52.0
2	Germany	12.2%	47.0
3	France	9.8%	44.6
4	Netherlands	5.8%	48.2
5	Ireland	4.8%	50.7

Business capacity

Employment Index



Employment broadly stable at start of 2024

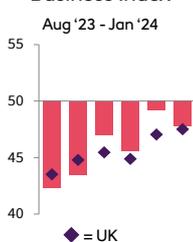
Staffing levels at South West companies were broadly stable in January, as highlighted by the respective seasonally adjusted index posting fractionally below the neutral 50.0 threshold. This contrasted with a modest decline in payrolls at the end of 2023. While some firms added to their headcounts to support plans for growth, others cited difficulties in filling open roles and also redundancies.

Across the UK as a whole, employment increased for the first time in five months, albeit only slightly.

Employment Index



Outstanding Business Index

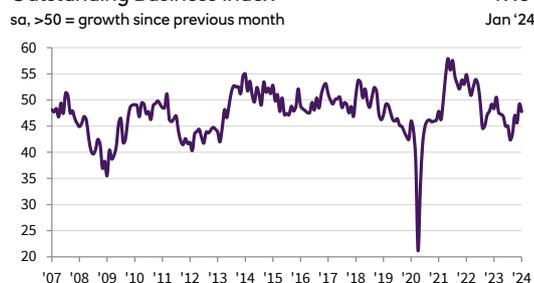


Modest reduction in outstanding business

The level of work-in-hand (but not yet completed) at South West companies declined again in January, thereby stretching the current period of backlog depletion to 11 months. Despite quickening on the month, the rate of reduction was modest and broadly in line with the national trend.

Businesses that recorded lower amounts of unfinished work generally linked this to sufficient capacity to deal with new and existing orders.

Outstanding Business Index



Prices



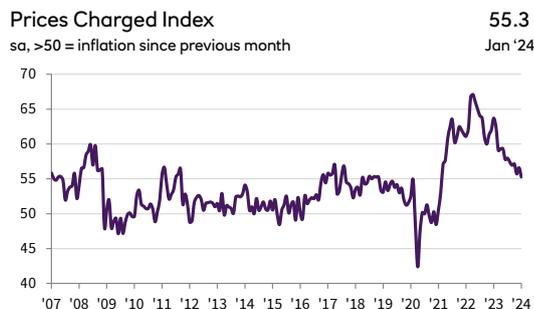
Input price inflation dips to three-year low

Companies based in the South West signalled a further sharp rise in average input costs at the start of the year. According to anecdotal evidence, a variety of costs had gone up over the month due to the strong inflationary environment, with salaries, raw materials and energy mentioned in particular. However, the rate of inflation edged down to the lowest seen in three years and was weaker than the UK-wide average.



Output charges rise at slowest pace since February 2021

The latest survey indicated that prices charged by South West companies continued to increase during January. Firms often mentioned raising their selling prices as part of efforts to pass on higher operating expenses to customers. Whilst solid and above the series average, the rate of charge inflation was the slowest recorded in just under three years. It was also softer than that seen across the UK as a whole.



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

South West specialisation: Services

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

UK sector focus

Personal & Community Services

Activity across the UK's Personal & Community Services sector fell in the three months to January. It was in fact the only broad category within the UK service sector to record a reduction in activity over that period.

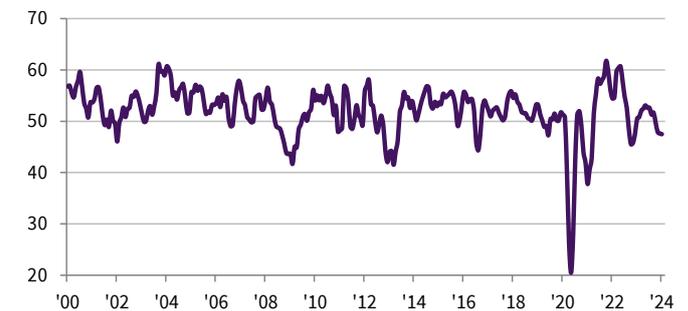
The downturn reflected falling demand, with the decline in new business that began in late-2023 extending into the new year. A lack of pressure on business capacity – as evidenced by falling backlogs of work – led firms in the sector to cut workforce numbers. It continued a run of job losses seen since the middle of last year.

Cost pressures among Personal & Community Services firms meanwhile remained elevated, due in large part to growing wages. Although below the averages in 2022 and 2023, the rate of input price inflation was still above its long-run trend. The increase in prices charged was more subdued by comparison, registering one of the slowest rises in the past two-and-a-half years.

Lastly, latest data showed business expectations in the sector slipping to the lowest for almost a year.

Output Index

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



* 3-month moving average



UK Regional PMI overview

Business Activity

The majority of UK regions and nations saw a rise in business activity in January. London once again recorded the strongest growth, followed by the West Midlands. Output fell further in the North East, but the rate of contraction slowed notably to the weakest since last August. Activity in Wales was broadly unchanged, following a four-month sequence of decline.

Employment

January saw a general improvement in labour market trends, with employment either rising more quickly or falling at a reduced rate in almost all cases. London topped the rankings, recording its fastest rate of job creation for six months. Wales recorded the most marked drop in workforce numbers, but the pace of staff shedding did at least ease to the weakest since last October.

Future Activity

Eight of the 12 monitored regions and nations registered improved business expectations in January. Confidence was highest in the West Midlands, followed by the South East. The greatest upswing in sentiment was seen in Northern Ireland*. Scotland was one of the areas that went against the trend and recorded the lowest overall degree of optimism.

Business Activity Index

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



Employment Index

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



Future Activity Index

>50 = growth expected over next 12 months, Jan '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
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
Jan '24	52.0	51.3	50.7	72.0	49.9	47.8	60.4	55.3

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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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