



# NatWest South West PMI®

## Quickest drop in business activity for nearly seven years

### Key Findings

Output declines at quicker pace amid further reduction in new orders

Backlogs fall at fastest rate since March 2013

Optimism wanes and employment falls again

### South West Business Activity Index



Last six months SW v UK



NatWest PMI® data signalled that business conditions in the South West deteriorated at a quicker pace in September. Companies registered the steepest reduction in activity for close to seven years as new order volumes continued to contract. Fewer sales and efforts to curb costs led firms to trim their headcounts again, while backlogs of work declined sharply. Operating expenses continued to rise markedly, which led to a further increase in selling prices. Looking ahead, companies expressed the weakest degree of optimism towards the one-year business outlook for nine months amid lingering Brexit uncertainty.

The headline South West Business Activity Index - a seasonally adjusted index that measures the combined output of the region's manufacturing and service sectors - fell from 49.3 in August to 48.0 in September, to signal a further reduction in business activity. Furthermore, the latest contraction was the steepest seen since October 2012. Private sector output in the region has now declined in each of the past seven months. At the UK level, business activity fell only slightly.

### Demand

Driving the latest reduction of output was a further decline in total new business received by South West private sector firms. Although the rate of decrease softened slightly since August, it remained solid and quicker than the UK average. Panel members widely commented that market uncertainty had

continued to dampen sales in September.

### Capacity

A lack of incoming new orders enabled firms to reduce the level of outstanding business at their units in September. Furthermore, the rate of backlog depletion quickened to the most marked since March 2013. The reduction also outpaced that seen across the UK as a whole.

Subdued demand conditions and efforts to contain costs drove a further decrease in employment across the South West private sector. That said, the rate of job shedding was only marginal and weaker than the UK-wide trend.

### Prices

September data pointed to a further sharp rise in operating expenses faced by South West private sector firms. Increased staffing costs and adverse exchange rate movements were linked to the latest rise in cost burdens.

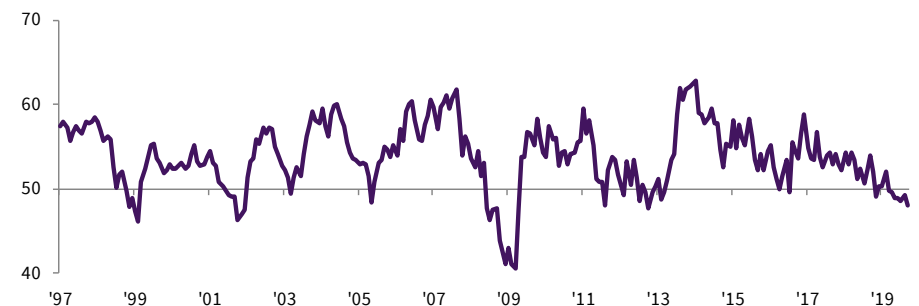
As a result, companies raised their output charges again in September. The rate of inflation was solid and quicker than that seen for the UK as a whole.

### Outlook

The level of optimism towards the one-year outlook for output slipped to a nine-month low in September. Political and economic uncertainty remained key factors weighing on sentiment.

South West Business Activity Index

sa, >50 = growth since previous month



## New Business Index

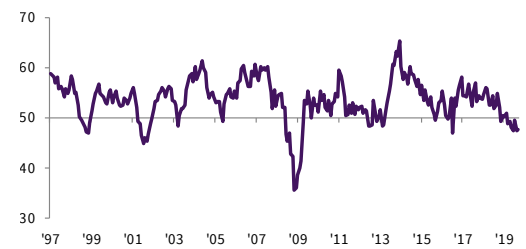


### New business declines further

Adjusted for seasonal variation, the New Business Index signalled a sustained reduction in total new orders placed with South West private sector firms in September. The rate of decline was little-changed from August and solid overall, with both monitored sectors registering a fall. Anecdotal evidence highlighted that Brexit-related uncertainty and intense competition for new work had contributed to lower sales. New order volumes also fell at the national level, albeit at a modest pace.

### New Business Index

sa, >50 = growth since previous month



## Outstanding Business Index

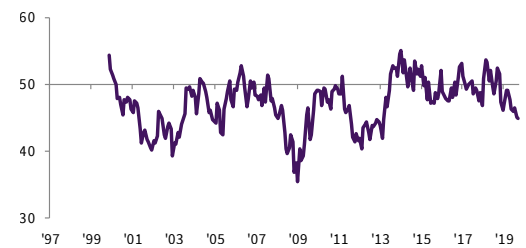


### Backlogs of work continue to fall sharply

As has been the case in each month since November 2018, the amount of backlogged work at South West private sector firms fell in September. A lack of incoming new orders had reportedly freed up capacity to complete outstanding work. Sector data indicated that unfinished orders at services companies continued to decline at a faster pace than at manufacturers in the region. A further marked reduction in backlogs was also seen across the UK as a whole, albeit one that was less marked than seen in the South West.

### Outstanding Business Index

sa, >50 = growth since previous month



## Employment Index

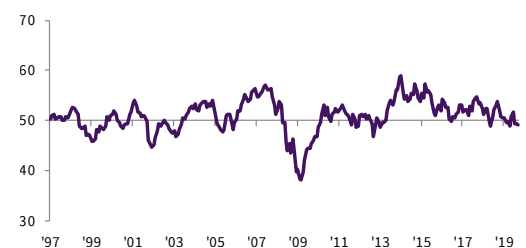


### Employment falls for third month in a row

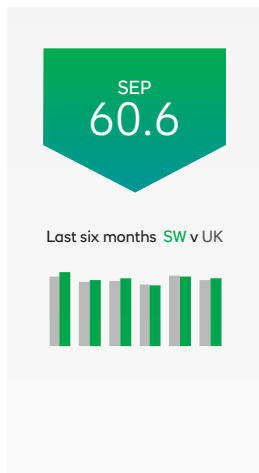
South West private sector companies signalled a third successive monthly fall in workforce numbers in September. The rate of job shedding quickened since August, but remained marginal overall. Nonetheless, it was among the fastest seen since 2012. Reports from panel members indicated that the non-replacement of voluntary leavers and efforts to contain costs were behind the latest drop in payrolls. Employment also fell at the national level, and at a steeper rate than seen in the South West.

### Employment Index

sa, >50 = growth since previous month



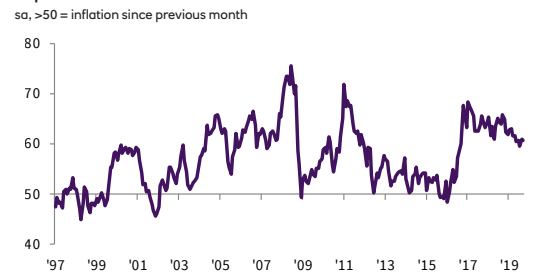
## Input Prices Index



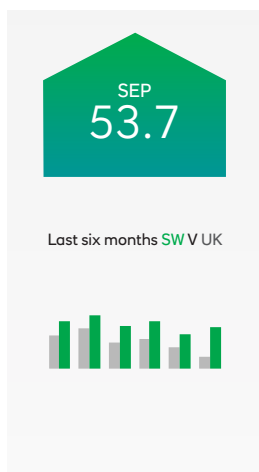
### Input price inflation remains marked

The seasonally adjusted Input Prices Index continued to signal a sharp rise in operating expenses faced by businesses in the South West. This was despite the index edging down slightly from August. The service sector once again recorded a steeper rate of input cost inflation than goods producers. Higher staffing costs and exchange rate movements were cited as key factors pushing up cost burdens in the latest survey period. Input prices rose at a similarly sharp rate across the UK as a whole.

### Input Prices Index



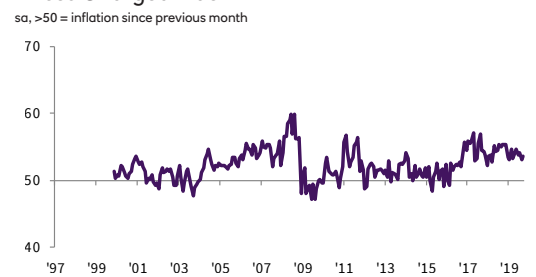
## Prices Charged Index



### Solid increase in prices charged

South West private sector companies increased their average selling prices again in September, thereby stretching the current period of rising charges to 43 months. The rate of inflation was solid overall, having quickened slightly from August, and was faster than the UK average. Firms that hiked their output charges generally linked this to rising input costs and exchange rate movements.

### Prices Charged Index



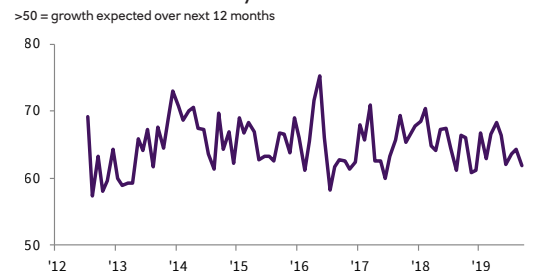
## Future Business Activity Index



### Positive sentiment slips to lowest for nine months

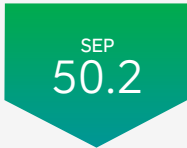
Although private sector companies in the South West remained more optimistic than the average UK firm with regards to the 12-month business outlook, the overall degree of sentiment fell in September. Notably, companies in the region were the least upbeat for nine months. Brexit-related uncertainty was the dominant factor undermining confidence at the end of the third quarter.

### Future Business Activity Index



## South West Export Climate Index

Note: Export markets are defined as non-UK.



Last six months



### September sees only fractional improvement in export conditions

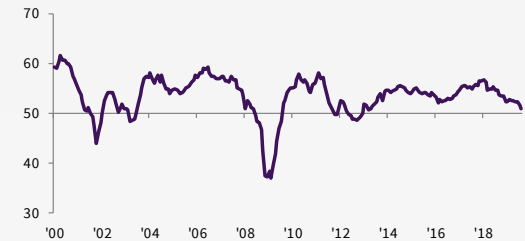
The South West Export Climate Index is calculated by weighting together national PMI output data according to their importance to the manufacturing exports of the South West. This produces an indicator for the economic health of the region's export markets.

The South West Export Climate Index fell from 50.8 in August to 50.2 in September, to signal only a fractional improvement in export conditions. Furthermore, the reading was the lowest seen since the current run of improvement began in January 2013.

A key factor dampening the headline figure was a renewed fall in activity across the region's second-biggest export market, Germany. Meanwhile, growth slowed to marginal rates across France and Ireland. In the US, the region's biggest export destination, output also expanded at a subdued pace.

### Export Climate Index

sa, >50 = improving export climate since previous month



### Top export markets, South West

Rank	Market	Weight	Output Index, Sep-19
1	USA	18%	51.0
2	Germany	13%	48.5
3	France	11%	50.8
4	UAE	5%	56.0
5	Ireland	4%	51.0

## South West Industry Specialisation

Location quotients (LQs) are useful measures of regional economic specialisation and offer a means to 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.

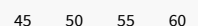
The tables below rank the location quotients for the South West, broken down by manufacturing and services sub-sectors. The UK Output Index for each sub-sector is also displayed.

### Manufacturing specialisation: South West

Rank	Sector	LQ	UK Output Index, Sep-19 (3mma)
1	Transport Equipment	1.51	55
2	Electrical & Electronic	1.42	50
3	Other Manufacturing	1.11	50
4	Metals & Metal Products	0.97	50
5	Machinery & Equipment	0.95	50
6	Wood & Paper	0.84	50
7	Textiles & Clothing	0.83	50
8	Food & Drink	0.74	50
9	Chemicals, Rubber & Plastics	0.73	50

### Services specialisation: South West

Rank	Sector	LQ	UK Business Activity Index, Sep-19 (3mma)
1	Hotels, Restaurants & Catering	1.42	50
2	Business-to-business Services	1.07	50
3	Other personal/consumer Services	0.97	50
4	Transport & Communication Services	0.89	50
5	Financial Intermediation	0.87	50
6	Computing & IT Services	0.76	50



## UK Sector Focus: Transport & Communication Services

Output Index



Last six months\*



\*3mma

### Downturn in Transport & Communication services continues

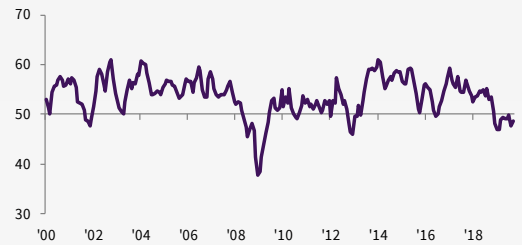
Transport & Communications remained a key drag on the performance of the UK service sector during the third quarter of the year. Activity has fallen throughout 2019 so far, with only Hotels & Restaurants seeing a more marked contraction in the three months to September.

Inflows of new work remained subdued, linked in part to Brexit uncertainty and ongoing weakness in manufacturing. The same factors also weighed on firms' expectations for the year ahead, which slumped to the lowest since the depth of the financial crisis.

The combination of dwindling order book backlogs and low business confidence was reflected in overall job losses across the sector in the latest three-month period. Transport & Communication firms were also under pressure to cut costs amid sharply rising input prices, with the rate of inflation second only to that seen across Hotels & Restaurants.

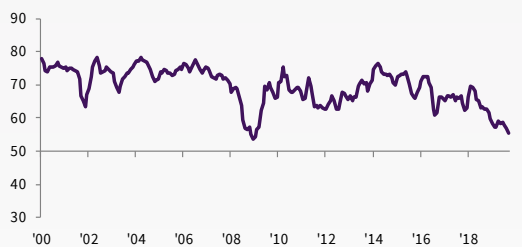
Output Index

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



Future Output Index

sa, >50 = growth over next 12 months (3mma)



## UK Regional Rankings

### Business Activity

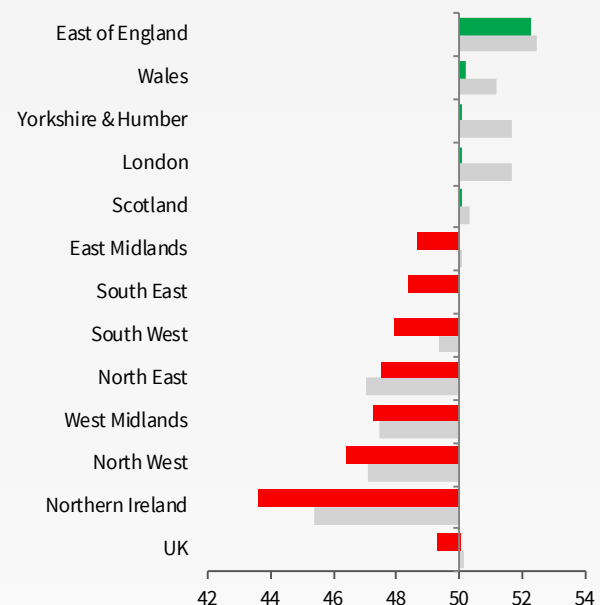
The East of England topped for the rankings for business activity growth for the second straight month in September, and was the only region to see any notable increase in output. Wales, Yorkshire & Humber and London all saw negligible rises, while Scotland stagnated. The remaining seven monitored areas recorded contractions in business activity, the most since the aftermath of the EU referendum in July 2016. There were renewed contractions in the East Midlands and South East, while rates of decline accelerated in all remaining regions except the North East.

### Employment

A decrease in employment was recorded across all 12 monitored regions in September. The East Midlands and Wales registered the joint-fastest rates of decline, followed by the North East and Northern Ireland respectively. At the other end of the spectrum, only a marginal decrease in workforce numbers was seen in Yorkshire & Humber.

### Output Index by region

sa, >50 = growth since previous month, Sep-19 (Aug-19)



---

## Contact

### NatWest

Jonathan Rennie  
Regional PR Manager  
07769 932 102  
jonathan.rennie@rbs.co.uk

### IHS Markit

Annabel Fiddes  
Principal Economist  
+44 1491 461 010  
annabel.fiddes@ihsmarkit.com

Joanna Vickers  
Corporate Communications  
+44 207 260 2234  
joanna.vickers@ihsmarkit.com

---

### Methodology

The NatWest South West PMI® is compiled by IHS Markit from responses to questionnaires sent to South West companies that participate in IHS Markit'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@ihsmarkit.com](mailto:economics@ihsmarkit.com).

### 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. To learn more go to [ihsmarkit.com/products/pmi.html](http://ihsmarkit.com/products/pmi.html).

### About NatWest

NatWest serves customers in England, Wales and Western Europe, supporting them with their personal, private, and business banking needs. NatWest helps customers 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.

NatWest has been running MoneySense, an impartial financial education programme for 5–18 year-olds, for more than 21 years. By the end of 2018, NatWest will help another 1 million young people to understand and take control of their finances.

### About IHS Markit

IHS Markit (NYSE: INFO) is a world leader in critical information, analytics and solutions for the major industries and markets that drive economies worldwide. The company delivers next-generation information, analytics and solutions to customers in business, finance and government, improving their operational efficiency and providing deep insights that lead to well-informed, confident decisions. IHS Markit has more than 50,000 business and government customers, including 80 percent of the Fortune Global 500 and the world's leading financial institutions.

IHS Markit is a registered trademark of IHS Markit Ltd. and/or its affiliates. All other company and product names may be trademarks of their respective owners © 2019 IHS Markit Ltd. All rights reserved.

### Disclaimer

The intellectual property rights to the NatWest South West PMI® provided herein are owned by or licensed to IHS Markit. Any unauthorised use, including but not limited to copying, distributing, transmitting or otherwise of any data appearing is not permitted without IHS Markit's prior consent. IHS Markit shall not have any liability, duty or obligation for or relating to the content or information ("data") contained herein, any errors, inaccuracies, omissions or delays in the data, or for any actions taken in reliance thereon. In no event shall IHS Markit be liable for any special, incidental, or consequential damages, arising out of the use of the data. Purchasing Managers' Index® and PMI® are either registered trade marks of Markit Economics Limited or licensed to Markit Economics Limited. NatWest uses the above marks under licence. IHS Markit is a registered trademark of IHS Markit Ltd. and/or its affiliates.