



# NatWest South West PMI®

## Business activity growth eases in October

### Key Findings

Slower rises in activity and new business

Employment expands at slowest pace for four months

Price pressures remain elevated

### South West Business Activity Index



Last six months SW v UK



The South West private sector registered a loss of growth momentum in October, according to the latest NatWest PMI® data. Business activity and new orders both rose at the weakest rates for three months, while companies signalled the slowest increase in headcounts since June. At the same time, firms reported a further steep increase in input costs, with the rate of inflation holding close to September's recent high. Consequently, businesses raised their output charges solidly.

The headline South West Business Activity Index – a seasonally adjusted index that measures the combined output of the region's manufacturing and service sectors – posted 52.0 in October, down from a six-month high of 53.9 in September. The latest reading pointed to only a modest rise in business activity at South West private sector firms that was the slowest seen since July. That said, business activity rose at a similar pace across the UK as a whole.

Data broken down by sector indicated that activity rose across manufacturers and service providers in the region, with the former registering the steeper rate of growth.

### Demand

The amount of new orders placed with South West private sector firms increased for the twenty-seventh month running in October. That said, the pace of expansion was the slowest seen since July and below its long-run trend. However, growth in new orders

continued to outpace that seen across the UK as a whole.

### Capacity

In line with softer rises in activity and new work, South West private sector firms increased their headcounts at a slower rate in October. Notably, the latest increase in payrolls was the least marked for four months.

The amount of unfinished work at South West private sector firms also rose in October. However, the pace of accumulation softened since September and was moderate.

### Prices

Average input costs faced by South West private sector businesses continued to rise sharply at the start of the final quarter of 2018. This was despite the rate of inflation easing slightly from September's 18-month high. As a result, firms raised their prices charged again in October, and at the same solid pace that was recorded in the previous month.

### Outlook

Private sector firms in the South West maintained a firmly optimistic outlook with regard to their growth prospects over the coming 12-month period. This was despite the degree of positive sentiment slipping from September. Confidence was commonly linked to ongoing company expansions, new marketing strategies and the introduction of new products.

South West Business Activity Index

sa, >50 = growth since previous month



## New Business Index



### Softer increase in new business

The amount of new work placed with South West private sector firms continued to increase at the start of the final quarter of 2018. However, the rate of growth eased to a modest pace that was the slowest seen for three months. Sector data showed that new orders rose across both manufacturing and services companies in the region.

New business also expanded at a weaker pace across the UK as a whole, one that was slightly softer than that seen in the South West.

### New Business Index

sa, >50 = growth since previous month



## Outstanding Business Index



### Modest rise in backlogs of work

In a sign of ongoing strain on capacity at South West private sector companies, outstanding business rose for the third month running in October. The rate of accumulation eased since September and was moderate overall. A number of companies linked the increase in unfinished workloads to difficulties in recruiting staff.

In contrast, the level of work-in-hand (but not yet completed) declined slightly at the national level in October.

### Outstanding Business Index

sa, >50 = growth since previous month



## Employment Index



### Employment growth eases to four-month low

Private sector companies in the South West continued to expand their workforce numbers during October. That said, the rate of growth was modest and the slowest seen since the current period of expansion began in June. Higher employment was seen at both goods producers and services companies in the region, with some firms citing increased workloads.

Despite softening since September, the rate of job creation in the South West was broadly in line with the UK-wide trend.

### Employment Index

sa, >50 = growth since previous month



## Input Prices Index



### Input costs continue to rise sharply

Latest data showed a further sharp rise in average input costs faced by South West private sector businesses during October. Notably, the rate of inflation held close to September's 18-month high and was firmly above the series average. Cost burdens rose across both manufacturers and service providers in the region.

Cost burdens also rose markedly across the UK as a whole, though the pace of inflation remained slightly softer than that seen in the South West.

### Input Prices Index

sa, >50 = inflation since previous month



## Prices Charged Index



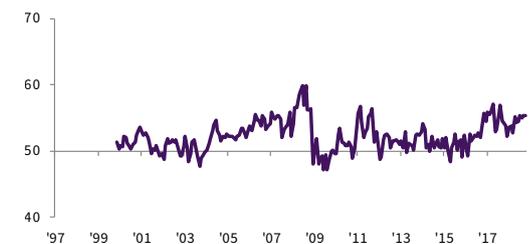
### Firms raise their prices charged at solid rate

Greater input prices led South West private sector firms to raise their output charges again in October. The rate of inflation was similar to those seen in the prior three months and solid. The increase was broad-based, with both monitored sectors registering higher prices at the start of the fourth quarter.

As has been the case since July, the rate of charge inflation in the South West was quicker than the UK average.

### Prices Charged Index

sa, >50 = inflation since previous month



## Future Business Activity Index



### Business expectations remain strongly positive

South West private sector companies were strongly optimistic that output would increase over the next year. Despite easing slightly from September, the level of positive sentiment remained greater than seen on average over the series history. Manufacturers in the region continued to express a higher degree of confidence than service providers.

At the UK level, business expectations also softened since the previous month, and was below the average for the South West.

### Future Business Activity Index

>50 = growth expected over next 12 months



## South West Export Climate Index

Note: Export markets are defined as non-UK.



Last six months



### Slowest improvement in export climate for two years

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 53.4 in October, the South West Export Climate Index fell from 53.7 to signal a further improvement in export conditions. That said, the latest upturn was the slowest seen for two years. Of the top five export destinations for South West output, Germany, Ireland and the UAE all registered weaker rates of expansion compared to the previous month. Meanwhile rates of growth improved in France and the US.

### Export Climate Index

sa, >50 = improving export climate since previous month



### Top export markets, South West

Rank	Market	Weight	Output Index, Oct-18
1	USA	16.2%	54.9
2	Germany	12.9%	53.4
3	France	12.0%	54.1
4	UAE	5.9%	58.6
5	Ireland	3.8%	56.1

## 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, Oct-18 (3mma)
1	Electrical & Electronic	1.50	
2	Transport Equipment	1.41	
3	Other Manufacturing	1.20	
4	Machinery & Equipment	1.09	
5	Wood & Paper	0.87	
6	Metals & Metal Products	0.87	
7	Chemicals, Rubber & Plastics	0.82	
8	Textiles & Clothing	0.78	
9	Food & Drink	0.76	

40 45 50 55 60 65

### Services specialisation: South West

Rank	Sector	LQ	UK Business Activity Index, Oct-18 (3mma)
1	Hotels, Restaurants & Catering	1.46	
2	Business-to-business Services	1.07	
3	Other personal/consumer Services	0.98	
4	Transport & Communication Services	0.86	
5	Financial Intermediation	0.86	
6	Computing & IT Services	0.80	

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## UK Sector Focus: Metals & Metal Products

Output Index



Last six months\*



\*3mma

### Falling exports weigh on basic metals sector growth

Growth at the UK's basic metals producers remained subdued heading into the fourth quarter, marking a turnaround from the relatively solid pace of expansion observed during the first half of the year.

One of the main drags on the metals sector's performance remained weakness in export sales, which have shown a downward trend for the past three months. Anecdotal evidence from the PMI surveys has pointed to slowing demand from the automotive sector, as well as Brexit uncertainty causing some customers to source inputs outside the UK.

More positively, however, employment continued to grow at a relatively healthy rate in the three months to October, albeit with the pace of job creation down on the highs seen around the turn of the year.

Output Index

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



New Export Orders Index

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



## UK Regional Rankings

### Business Activity

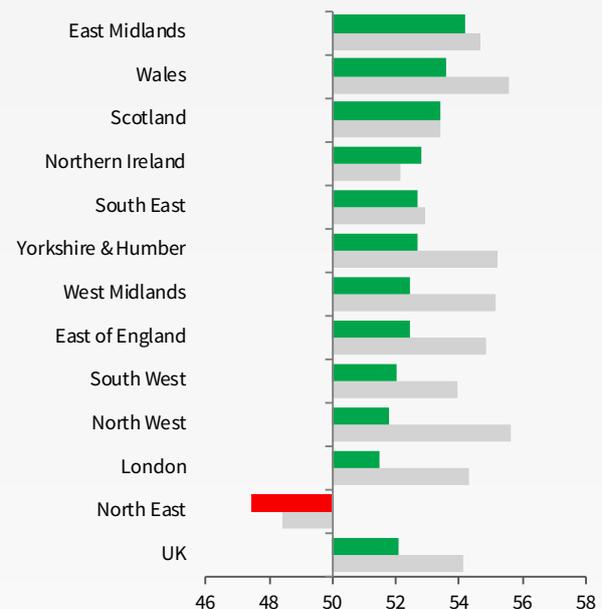
The East Midlands recorded the strongest business activity growth in October, ahead of Wales. Both, however, saw the rate of expansion moderate compared with September, in line with the trend seen across most regions. Scotland, ranked third overall, was an exception, maintaining its rate of growth from the month before. Only Northern Ireland saw a faster increase in business activity, as the rate of expansion here rebounded from a 23-month low at the end of the third quarter. Growth slowed particularly sharply in both London and the North West, while business activity in the North East fell at the fastest rate since July 2016 – the month after the EU referendum.

### Employment

Employment growth at the UK regional level was led by the East of England, where the pace of job creation was at an eight-month high. Solid gains in workforce numbers were also recorded across Yorkshire & Humber, the West Midlands and Wales. The North East saw the only decrease in employment, with the rate of decline in the region accelerating to the joint-quickest in over six years.

### Output Index by region

sa, >50 = growth since previous month, Oct-18 ■ (Sep-18 ■)



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### 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

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