

Business recovery in South West continues but firms hit by rising energy and staffing costs

Companies in the South West continued to secure more business in October but the rising cost of energy, raw materials and staff drove the “steepest increase” in operating expenses for 25 years, new research shows.

The latest regional PMI data from NatWest showed an accelerated rise in business activity across the region, but found private sector firms were being forced to charge more for products and services as the rate of inflation hit a three-month high.

The headline NatWest South West 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 – rose from 54.3 in September to 55.1 last month, signalling the quickest increase in output since July. However, growth remained slower than across the UK as a whole.

According to the survey, stronger demand across new and existing customer bases lifted sales, but supply chain issues and uncertainty related to the pandemic restricted overall growth of new business.

Companies in the South West generally anticipate business activity to increase over the next year, but the level of positive sentiment weakened for the second month in a row. Overall, the degree of optimism was the lowest since January and weaker than the UK-wide trend.

While some businesses anticipate a further recovery from the

pandemic, stronger customer demand and planned company expansions to boost activity, others said labour shortages, supply chain delays and lingering Covid-19 uncertainty were a concern.

Recruitment at private sector firms also increased for the eighth month in a row during October, but the rate of job creation was the softest recorded since March. Higher payroll numbers were often attributed to greater amounts of new work and efforts to expand, but some firms noted difficulties recruiting and retaining staff due to tight labour market conditions.

NatWest is the national partner of BusinessLive. n
The banking group is teaming up with BusinessLive on a series of [events throughout the year](#) aimed at entrepreneurs and business leaders.

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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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The research found there was a rise in backlogs of work at the start of the final quarter, with suggestions that higher sales and supply constraints had contributed to the latest upturn in unfinished business.

Paul Edwards, chair of NatWest South West Regional Board, said: "Latest NatWest PMI data showed a stronger increase in business activity across the South West, fuelled by a notable rebound in overall new work.

"Companies commented on higher sales across both new and existing client bases as business conditions continue to normalise. However, the recovery has been accompanied by a rapid upturn in input prices."

He added: "Labour shortages, supplier delays and lingering Covid-19 uncertainty all dampened optimism towards the year ahead, which slipped to a nine-month low, and are likely to limit firms' abilities to expand in the months ahead."