

Cost of living crisis sees South West confidence hit two-year low

South West business confidence has hit lows not seen since the start of the first national Covid lockdown according to a new report, with firms indicating they have been impacted by the cost of living crisis.

The region's private sector saw a further slowdown in business activity last month, the latest NatWest PMI found, with the weakest increase in output since March 2021.

The softer rise in activity coincided with only a marginal expansion in new orders, as firms indicated the increasingly uncertain economic outlook had made clients hesitant to spend.

Prices data indicated inflationary pressures remained "substantial", with rising costs and worries over the economy also dampening business confidence to its lowest level since April 2020.

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 – registered 51.2 in June down from 55.0 in May.

While surveyed companies registered an increased number of new orders – extending a 16-month run of rising sales – the rate of growth slowed on the month to the slowest pace seen over this period.

Staffing levels at South West firms also increased for the sixteenth successive month in June, though again job creation was at a reduced rate, the softest seen since last November.

A number of firms told NatWest they had taken on extra staff due to rising business requirements, while others commented on difficulties filling vacancies and replacing staff who had left.

The research recorded a sustained rise in backlogs of work at South West companies, with reports staff and material shortages had impacted firms' abilities to process and complete orders.

The rate of accumulation slowed from May, but remained solid overall and was quicker than the UK-wide trend.

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Average cost burdens continued to rise rapidly in June, while the rate of inflation eased only slightly from May and was the third-sharpest on record (since January 1997).

Greater cost burdens were frequently linked by those surveyed to rising energy, fuel, food, raw materials and wage expenses. Some companies also said they had raised salaries due to greater competition for workers and efforts to improve staff retention.

In line with the trend seen for average input costs, prices charged by firms in the region continued to rise in June, with many saying they had raised fees to try and pass on additional costs to clients.

The chair of NatWest's South West regional board Paul Edwards said: "The latest NatWest PMI data highlighted a further marked slowdown in business activity growth across the South West, suggesting that the performance of the sector over Q2 has been far less robust than that seen in the opening quarter of 2022.

"The current cost of living crisis, which is pushing up expenses for both companies and households, weighed heavily on expectations for the year ahead, which hit their lowest in over two years. Combined with rising interest rates and a slowdown in economic activity, this could dampen new business and output further in the months ahead."

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