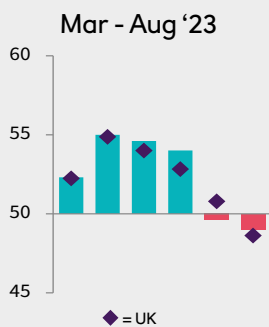




# NatWest South East PMI<sup>®</sup>

## Quicker fall in new business coincides with retreating price pressures

### South East Business Activity Index



### Key findings

Sales contract at fastest pace since last November

Output charges rise at slowest rate in 30 months...

...amid second-weakest increase in input costs since February 2021

The South East NatWest PMI<sup>®</sup> data for August showed deteriorating trends for output and new business, both of which fell at quicker rates, parallel to a better path for inflation. Input costs rose at the second-slowest pace since February 2021, while the increase in output charges was the weakest in two-and-a-half years.

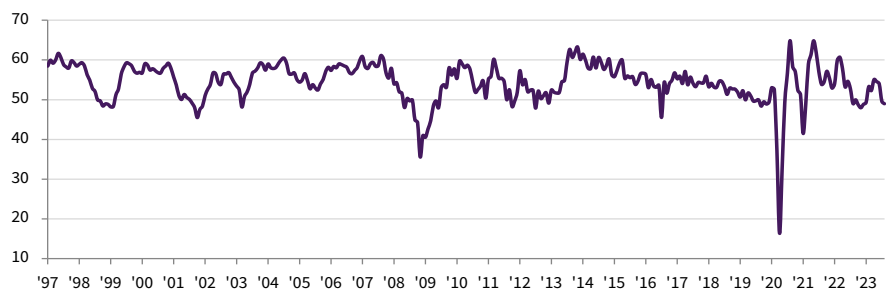
Down from 49.6 in July to 49.0 in August, the headline NatWest South East PMI<sup>®</sup> Business Activity Index — a seasonally adjusted index that measures the month-on-month change in the combined output of the region’s manufacturing and service sectors — indicated a quicker decline in business activity. The fall was the second in successive months, but slight overall. Monitored companies linked the latest reduction to lower intakes of new orders and the detrimental impact of high interest rates on demand.

Catherine van Weenen, NatWest London and the South East Regional Board:

*"South East firms felt the pinch in August, as new business took a bigger hit due to the negative consequences of tight household budgets and high interest rates on demand. Despite headwinds, companies in the region remained in hiring mode thanks to their positive growth outlook. Price trends were encouraging, with the second-slowest rise in input costs since early-2021 dragging charge inflation down to a 30-month low. This spells good news for potential buyers and bodes well for future sales prospects."*

South East Business Activity Index

sa, >50 = growth since previous month



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## About the South East PMI<sup>®</sup> report

The NatWest South East PMI<sup>®</sup> is compiled by S&P Global from responses to questionnaires sent to South East 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

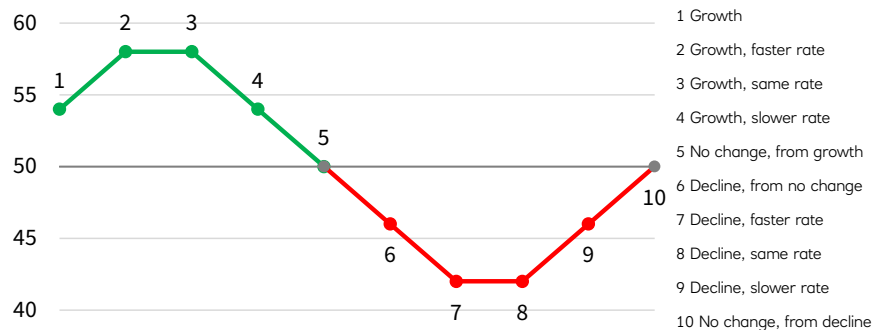
calculated from a single question that asks for changes in the volume of business activity (at service providers) or output (at manufacturers) compared with one month previously. The South East Business Activity Index is comparable to the UK Composite Output Index. It is sometimes referred to as the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

### Index interpretation

50.0 = no change since previous month



## Demand and outlook

### New business volumes fall at quicker pace

August data highlighted back-to-back declines in new business received by private sector companies in the South East. The pace of contraction accelerated since July and was solid overall. Those companies that noted a reduction commented on the damaging impact of high interest rates and the cost-of-living crisis on demand for goods and services.

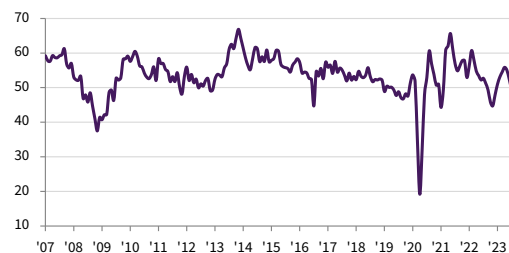
The drop in local sales was faster than the UK average.

### Degree of business optimism maintained in August

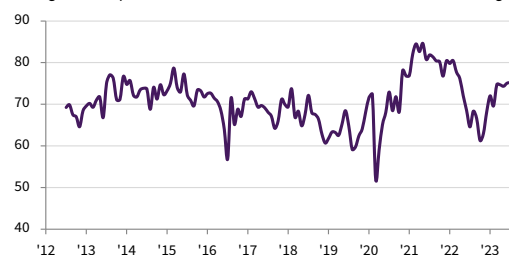
There was generally no change in the Future Activity Index in August, which indicated a broadly similar level of positive sentiment to those seen in the prior two months. Predictions of higher output levels in the year ahead stemmed from new product releases, hiring efforts, export opportunities and forecasts that inflation would recede.

The South East came second in the regional rankings for business confidence, behind the West Midlands.

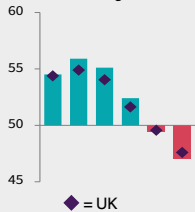
New Business Index  
sa, >50 = growth since previous month  
47.0  
Aug '23



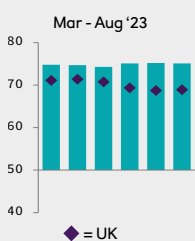
Future Activity Index  
>50 = growth expected over next 12 months  
75.1  
Aug '23



New Business Index  
Mar - Aug '23



Future Activity Index  
Mar - Aug '23



## Business capacity

### South East employment rises further

Private sector jobs in the South East increased for the fifth straight month in August. Although slight, the pace of expansion quickened to the fastest since April. According to monitored firms, hiring activity reflected efforts to replace voluntary leavers and staff on long-term sickness absence. Upbeat growth expectations also supported job creation, anecdotal evidence showed.

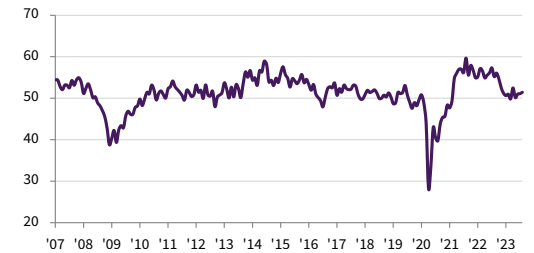
The South East recorded a stronger pace of employment growth than that seen at the UK level.

### Outstanding business falls at fastest pace since May 2020

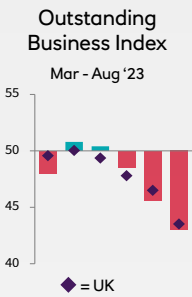
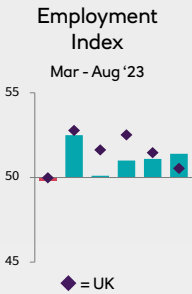
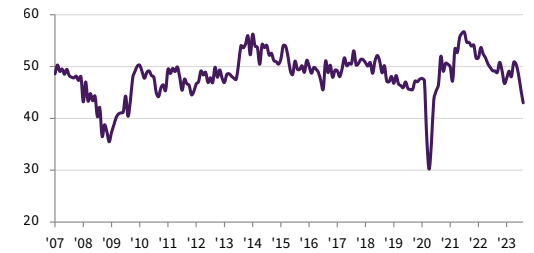
Ongoing recruitment efforts, coupled with adverse sales developments, aided the clearing of work pending completion among South East companies in August. The rate of backlog depletion was sharp and the quickest in just under three-and-a-half years.

Outstanding business volumes decreased in each of the 12 monitored UK regions and nations. The rate of contraction recorded locally was quicker than the national average.

Employment Index  
sa, >50 = growth since previous month  
51.4  
Aug '23



Outstanding Business Index  
sa, >50 = growth since previous month  
43.0  
Aug '23

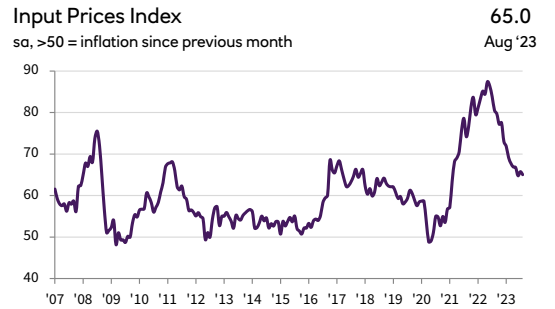


## Prices

### Firms signal slower increase in input costs

South East firms indicated another monthly rise in their expenses during August, which they attributed to greater food and labour costs. That said, the overall rate of inflation moderated to the second-weakest in two-and-a-half years (ahead of June). Lower prices for commodities and energy reportedly helped curb the upturn.

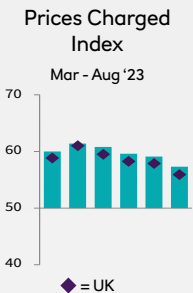
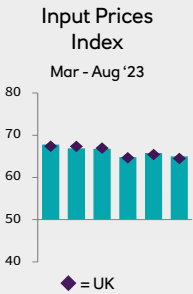
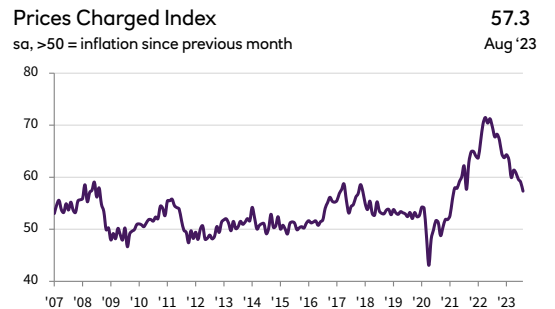
The South East registered a slightly quicker rate of increase in input costs than that seen at the UK level.



### Charge inflation softens to 30-month low

Similar to the trend for input costs, prices charged for South East goods and services increased at the slowest rate since February 2021 halfway through the third quarter. Some companies reportedly lifted their fees due to the passing on of additional cost burdens to clients, while others lowered their charges amid cost savings.

The South East posted the second-sharpest rise in output prices out of the 12 monitored UK regions and nations, behind the South West.



## UK Sector PMI

### Sector specialisation: South East

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 East, broken down by manufacturing and services. The UK Output Index for each sub-sector is also displayed.

#### South East specialisation: Manufacturing

Rank	Sector	LQ	UK Output Index, Aug '23*
1	Electrical & Optical	2.03	52
2	Chemicals & Plastics	1.22	50
3	Mechanical Engineering	1.15	51
4	Timber & Paper	1.03	50
5	Other Manufacturing	1.01	50
6	Basic Metals	0.88	50
7	Transport	0.63	50
8	Food & Drink	0.57	51
9	Textiles & Clothing	0.39	50

#### South East specialisation: Services

Rank	Sector	LQ	UK Business Activity Index, Aug '23*
1	Computing & IT Services	1.65	52
2	Transport & Communication	1.14	50
3	Business-to-business Services	1.03	50
4	Hotels, Restaurants & Catering	0.91	50
5	Personal & Community Services	0.90	51
6	Financial Intermediation	0.62	52

## UK sector focus

### Electrical & Optical

There was a sharp decrease in output across the UK's Electrical & Optical sector in the three months to August. The rate of contraction was the quickest seen since the initial pandemic-related shutdowns in spring 2020 and by far the fastest among the nine manufacturing sectors monitored.

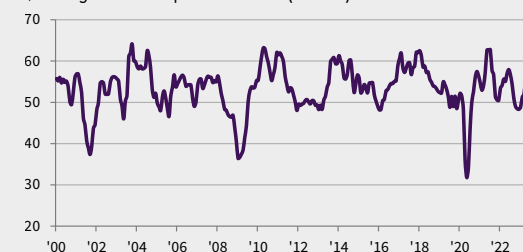
The downturn was driven by a deepening decline in new orders, with export sales falling particularly sharply. With firms reporting a rapid depletion of backlogs of work, job creation in the sector eased to the slowest for over two-and-a-half years.

On the supply side, firms faced a sustained shortening of delivery times on purchases, albeit with the rate of improvement easing. Input cost inflation meanwhile ticked up slightly, but it remained close to its recent three-year low. Output price inflation exhibited an almost identical trend.

Expectations towards future output remained subdued by historical standards despite inching up.

#### Output Index

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



\* 3-month moving average



## UK Regional PMI overview

### Business Activity

Of the 12 monitored regions and nations, only Wales and London recorded growth in business activity in August. Even here, however, the rates of expansion were marginal. Output was unchanged in Scotland and the West Midlands, while all remaining areas recorded contractions. The steepest decline in activity was seen in Northern Ireland\*, followed by the South West.

### Employment

The majority of areas recorded a rise in employment in August, although rates of job creation often slowed. Northern Ireland recorded the most marked rise in workforce numbers despite the pace of hiring there slowing to a seven-month low. The North East saw a notable drop in staffing levels, while there were more modest declines in the East Midlands, Wales and West Midlands.

### Future Activity

There were varying trends in business expectations, with confidence towards future activity rising in just under half of cases in August. The West Midlands topped the rankings for a second month running and saw sentiment improve to the joint-highest since January 2022. By contrast, the North East recorded the greatest loss of confidence as well as the lowest overall degree of optimism.

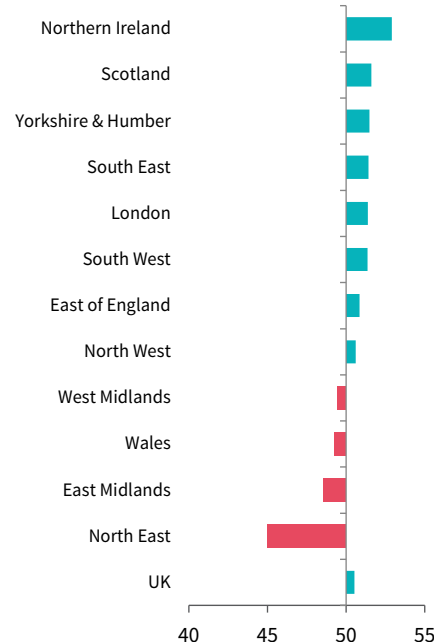
Business Activity Index

sa, >50 = growth since previous month, Aug '23



Employment Index

sa, >50 = growth since previous month, Aug '23



Future Activity Index

>50 = growth expected over next 12 months, Aug '23



\* Coverage in Northern Ireland also includes retail and construction, alongside manufacturing and services.



## Index summary

### South East

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
Mar '23	52.3	54.5	52.4	74.8	49.8	48.0	67.8	60.0
Apr '23	55.0	55.9	53.0	74.7	52.5	50.8	66.9	61.4
May '23	54.6	55.1	52.1	74.3	50.1	50.4	66.8	60.8
Jun '23	54.0	52.4	50.7	75.1	51.0	48.5	64.8	59.6
Jul '23	49.6	49.4	50.1	75.2	51.1	45.6	65.8	59.1
Aug '23	49.0	47.0	49.3	75.1	51.4	43.0	65.0	57.3

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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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We are widely sought after by many of the world's leading organizations to provide credit ratings, benchmarks, analytics and workflow solutions in the global capital, commodity and automotive markets. With every one of our offerings, we help the world's leading organizations plan for tomorrow, today.

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[ihsmarkit.com/products/pmi.html](https://ihsmarkit.com/products/pmi.html)

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