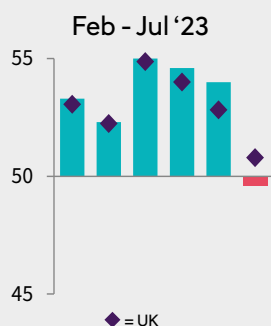


# NatWest South East PMI<sup>®</sup>

## South East output falls marginally, charge inflation continues its descent

### South East Business Activity Index



### Key findings

July sees renewed declines in business activity and sales

Hiring continues and outlook remains upbeat

Selling prices rise at slowest rate in 23 months

Economic growth across the South East stalled in July, according to NatWest PMI<sup>®</sup> data, as firms responded to lower intakes of new business by trimming output. Input cost inflation ticked higher, but prices charged for goods and services rose at the slowest rate in just under two years. Encouragingly, job creation continued and firms were strongly upbeat towards the outlook.

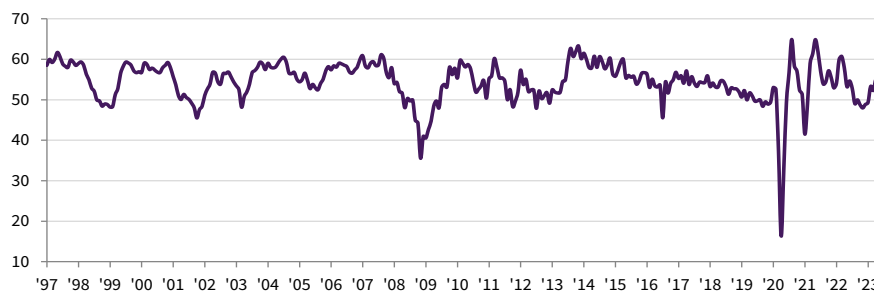
At 49.6 in July, down from 54.0 in June, the headline NatWest South East PMI<sup>®</sup> Business Activity Index — a seasonally adjusted index that measures the month-on-month change in the combined output of the region's manufacturing and service sectors — was in sub-50.0 territory for the first time in six months and therefore signalled a contraction in activity. Adverse sales developments, strikes and elevated interest rates reportedly constrained output. The rate of reduction was, however, only marginal.

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

*"Despite revealing renewed declines in new orders and business activity in July, the South East PMI showed some positive developments such as ongoing hiring growth and improved sentiment among local companies towards the year-ahead outlook for output. Also, competitive conditions and efforts to secure new contracts dragged down prices charged inflation to its lowest since August 2021. Should inflation continue its descent, there could be a revival in households' demand for goods and services in the coming months."*

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

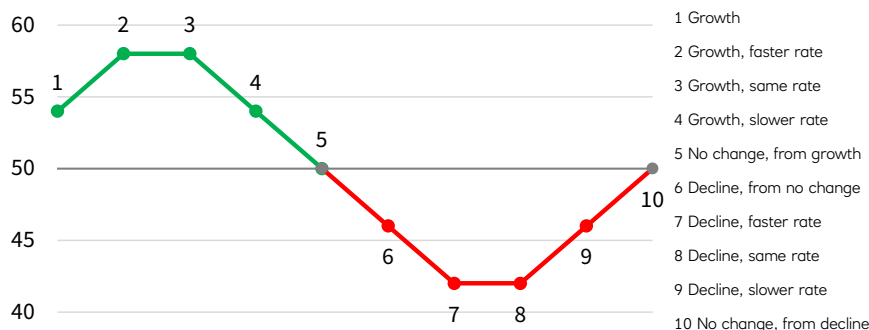
calculated from a single question that asks for changes in the volume of business activity (at service providers) or output (at manufacturers) compared with one month previously. The South East Business Activity Index is comparable to the UK Composite Output Index. It is sometimes referred to as the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

Private sector firms in the South East signalled lower intakes of new business in July, ending a six-month sequence of growth. Where a fall was reported, panellists indicated that high interest rates dampened demand and led to delayed investment decisions. Strikes and the cost-of-living crisis were also cited as factors restricting sales. That said, the overall rate of reduction was only marginal.

The rate of decline in new business locally was broadly in line with the UK average.

### Level of positive sentiment ticks higher

The Future Activity Index signalled a mild improvement in the overall degree of optimism at South East companies during July. Around 56% of survey members predict output growth in the coming 12 months, with advertising and new product releases boosting confidence. Some firms also foresee contained inflation, lower interest rates and an improvement in demand conditions.

The South East registered the second-highest level of confidence out of the 12 monitored UK regions and nations, behind the West Midlands.

## Exports

### Export growth prospects fade in July

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

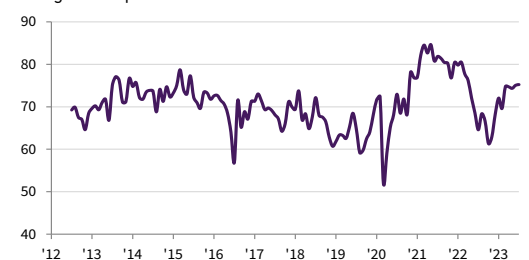
The ECI fell for the third month running in July, from 50.7 in June to 50.1. The latest figure was only fractionally above the no-change mark of 50.0, therefore signalling broadly unchanged export opportunities for South East firms.

Among the top five export markets for the South East, only the US registered economic growth in July. Germany joined France and the Netherlands in contraction, while output stagnated in Ireland.

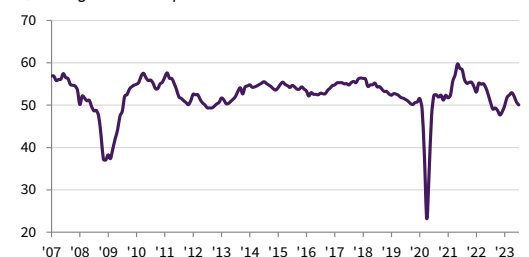
New Business Index  
sa, >50 = growth since previous month Jul '23



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



Export Climate Index  
sa, >50 = growth since previous month Jul '23



Top export markets, South East

Rank	Market	Weight	Output Index, Jul '23
1	USA	17.8%	52.0
2	Germany	13.5%	48.5
3	France	12.7%	46.6
4	Ireland	11.0%	50.0
5	Netherlands	10.6%	48.3



## Business capacity

### South East firms remain in hiring mode

Despite faltering demand, companies in the South East continued to take on extra staff in July, extending the current sequence of expansion to four months. According to panel members, job creation stemmed from the filling of existing positions and the hiring of temporary workers to cover staff on long-term sickness absence. The overall increase in employment was only slight, however, with growth curbed by subdued sales and shortages of skilled candidates.

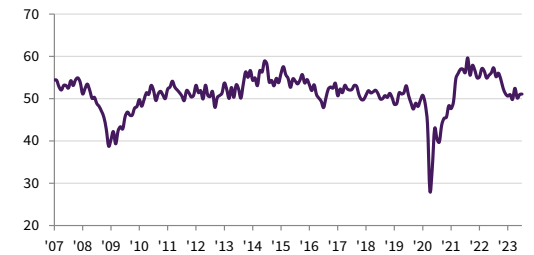
The local uptick in jobs was softer than that seen at the UK level.

### Clearing of pending workloads gathers pace

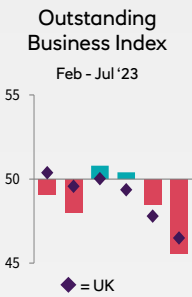
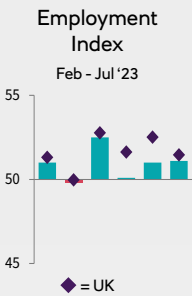
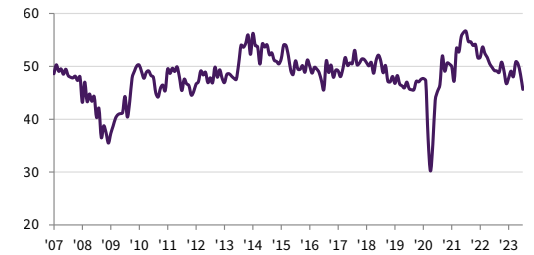
July data pointed to an increasing degree of spare capacity among South East firms, evidenced by a faster contraction in outstanding business. The latest decline was the second in successive months and the most pronounced in three years. Demand weakness, better input availability at suppliers and growing workforce numbers reportedly facilitated a reduction in unfinished business.

South East companies registered a quicker fall in backlogs than that seen across the UK.

Employment Index  
sa, >50 = growth since previous month  
51.1  
Jul '23



Outstanding Business Index  
sa, >50 = growth since previous month  
45.6  
Jul '23



## Prices

### Input cost inflation quickens slightly in July

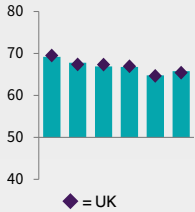
After retreating to a 28-month low in June, the rate of increase in input costs faced by South East companies quickened in July. Although historically high, the rate of inflation was the second-slowest over the aforementioned period. Upward pressures stemmed from food, insurance, labour and raw material costs, according to survey participants. Concurrently, firms noted lower prices for fuel and energy.

The South East came fourth in the regional rankings for input cost inflation.

Input Prices Index 65.8  
 sa, >50 = inflation since previous month Jul '23



Input Prices Index  
 Feb - Jul '23

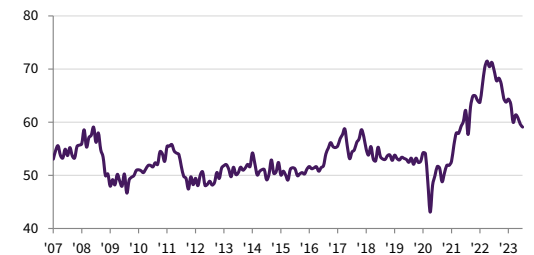


### Slowest rise in selling charges in just under two years

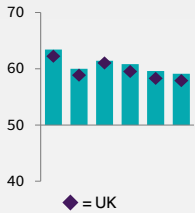
Prices charged for goods and services in the South East rose further in July, with panellists attributing the increase to the need to pass on greater overall expenses to clients. The rate of output price inflation was sharp and above its long-run average, though slipped to its lowest since August 2021. Efforts to secure new contracts, competition and reduced energy prices curtailed the rise, anecdotal evidence showed.

Out of the 12 monitored UK regions and nations, only London recorded a stronger rate of charge inflation than the South East.

Prices Charged Index 59.1  
 sa, >50 = inflation since previous month Jul '23



Prices Charged Index  
 Feb - Jul '23



## 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, Jul '23 <sup>+</sup>
1	Electrical & Optical	2.03	52
2	Chemicals & Plastics	1.22	48
3	Mechanical Engineering	1.15	48
4	Timber & Paper	1.03	48
5	Other Manufacturing	1.01	52
6	Basic Metals	0.88	48
7	Transport	0.63	55
8	Food & Drink	0.57	52
9	Textiles & Clothing	0.39	52

#### South East specialisation: Services

Rank	Sector	LQ	UK Business Activity Index, Jul '23 <sup>+</sup>
1	Computing & IT Services	1.65	58
2	Transport & Communication	1.14	48
3	Business-to-business Services	1.03	50
4	Hotels, Restaurants & Catering	0.91	48
5	Personal & Community Services	0.90	52
6	Financial Intermediation	0.62	60

## UK sector focus

### Financial Intermediation

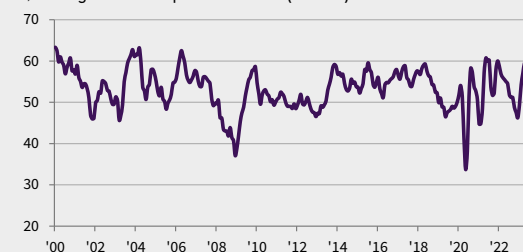
The UK's Financial Intermediation sector displayed strong growth in the three months to July, recording one of the fastest rates of increase in business activity since the global financial crisis. The upturn in performance followed a notable slowdown in the second half of 2022.

Growth was the strongest among the six services sub-sectors monitored by the survey and fuelled by a steep increase in inflows of new business in recent months. With firms' backlogs of work increasing, they continued to take on staff at a historically strong rate and were optimistic about the year-ahead outlook for activity.

Input costs in the sector continued to rise steeply, however, growing at the fastest rate in 2023 so far. This in turn led to a sharp and accelerated increase in prices charged. The rate of output price inflation was surpassed only by that seen in the Hotels, Restaurants and Catering sector.

#### Output Index

sa, >50 = growth since previous month (3mma<sup>+</sup>)



<sup>+</sup> 3-month moving average



## UK Regional PMI overview

### Business Activity

Only half of the 12 monitored regions and nations recorded growth in business activity in July. London posted the strongest rate of expansion but saw a notable loss of momentum as growth slowed to a six-month low. The South East and Northern Ireland\* fell the joint-most places in the rankings as both returned to contraction territory, though the steepest overall decline in activity was recorded in the North East.

### Employment

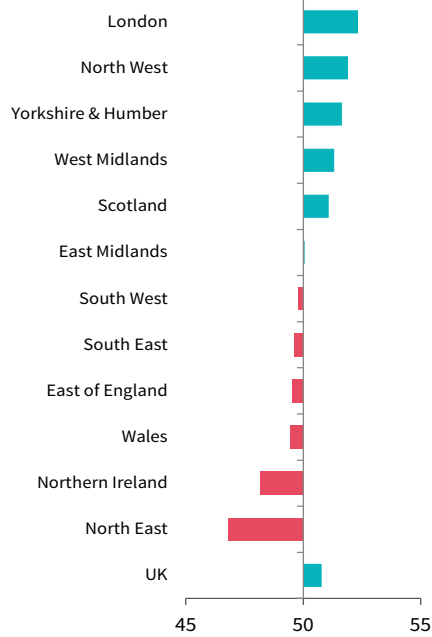
The strongest rate of job creation in July was seen in the South West, followed by the East of England and then London. Northern Ireland also posted a solid rise in workforce numbers. At the other end of the scale, there were renewed declines in staffing levels in both the East Midlands and North East, while no change in employment in the West Midlands ended a 28-month sequence of growth in the region.

### Future Activity

Trends in business confidence were mixed, with half of the 12 monitored areas registering an improvement in sentiment and the rest seeing a decline. The West Midlands, South East and Yorkshire & Humber topped the rankings and were among those that saw expectations rise since June. Firms in Scotland were the least optimistic about the year-ahead outlook, with sentiment there hitting a six-month low.

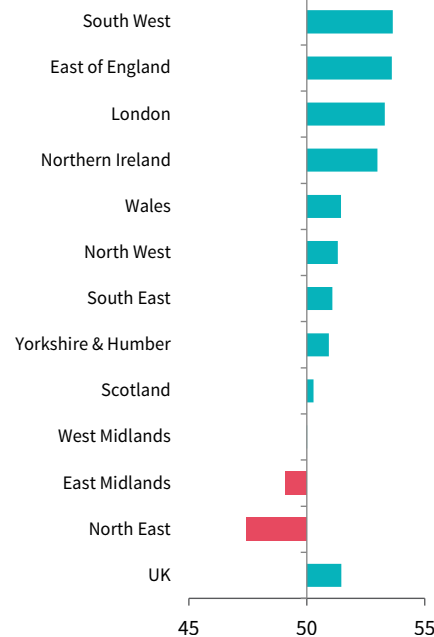
Business Activity Index

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



Employment Index

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



Future Activity Index

>50 = growth expected over next 12 months, Jul '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
Feb '23	53.3	53.1	51.9	69.6	51.0	49.1	69.2	63.4
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

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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.

### 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.

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

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