

13 August 2024

NatWest South East Growth Tracker

Activity rebounds as demand strengthens
in July



NatWest

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by **S&P Global**

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Key findings

July 2024

Renewed growth of activity and new business

Fastest workforce expansion for 21 months

Softest charge inflation for three-and-a-half years

The NatWest South East Growth Tracker provides a timely snapshot of regional economic performance.

The report tracks monthly changes in business activity, demand, employment, backlogs, prices and the year-ahead outlook. The data are compiled from local companies that participate in S&P Global's UK manufacturing and services PMI surveys.

For more reports on 12 UK nations and regions, visit www.natwest.com/business/insights/economics





Activity rebounds as demand strengthens in July

Regional Growth Tracker survey data from NatWest revealed that the South East economy bounced-back from June's slowdown.

There were concurrent increases in activity and new business in July following a decline in June. Though inflationary pressures remained elevated, charges were raised at the softest rate for three-and-a-half years. Hiring plans were accelerated and job creation was its most pronounced for 21 months.

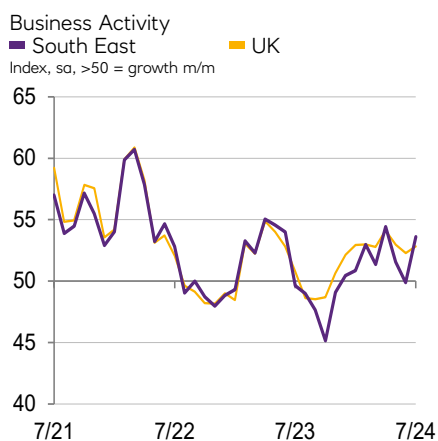
The headline South East Growth Tracker Business Activity Index – a seasonally adjusted index that measures the month-on-month change in the combined output of the region's manufacturing and service sectors – rose from 49.9 in June to 53.6 in July. Having signalled broadly no change in June, activity rose at a solid pace that was the quickest for three months and faster than the UK average. Survey respondents linked the renewed expansion to pent-up demand, including improved export sales.

NatWest South East Business Activity Index July 2024

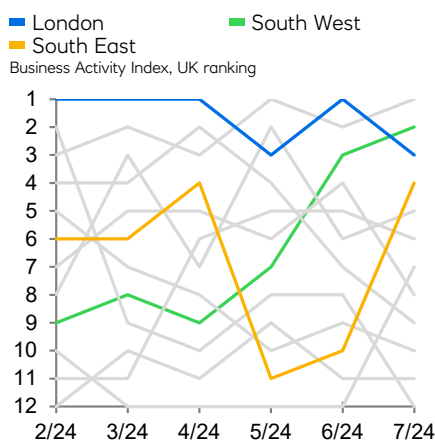
53.6

The Business Activity Index is a diffusion index calculated from companies' responses to a question on monthly changes in the volume of business activity. The index varies between 0 and 100 and is the sum of the percentage of 'higher' responses and half the percentage of 'unchanged' responses. A reading above 50 indicates an increase compared to the previous month, and below 50 a decrease. The index is seasonally adjusted.

Data compiled 11-29 July



Sources: NatWest, S&P Global PMI. ©2024 S&P Global.



Sources: NatWest, S&P Global PMI. ©2024 S&P Global.



NatWest

Comment

Catherine van Weenen, Territory Head of Commercial Mid Market at NatWest, commented:

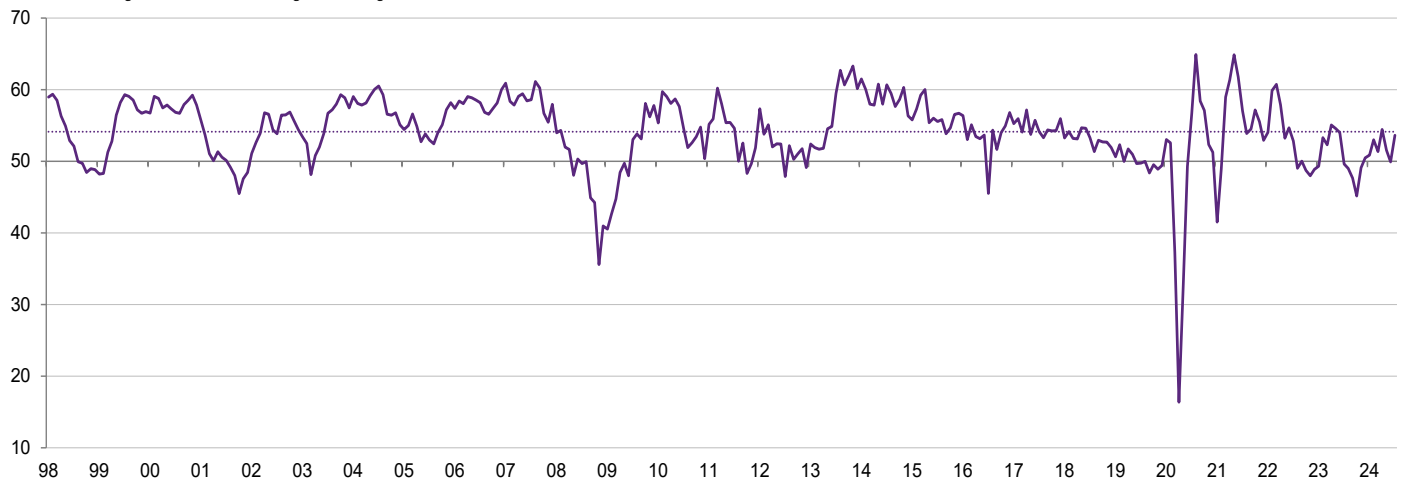
"As suspected, the latest NatWest South East Growth Tracker revealed that the downturn in June, linked to the general election, was in fact short-lived. Both demand and activity rebounded at solid rates. Some businesses suggested there was pent-up demand, while others noticed increased interest from customers, some new. It was apparent from the data that firms in the South East feel confident about the future. The South East was the most optimistic part of the UK for a second month in a row. Cost pressures picked up slightly due to elevated shipping and wage costs, but nevertheless hiring activity increased to support new business inflows."

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Business Activity

Index, sa, >50 = growth m/m. Dots = long-run average since 1998.



Sources: NatWest, S&P Global PMI. ©2024 S&P Global.



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Demand and outlook

South East businesses signalled a demand recovery at the start of the second half of the year.

July saw a renewed rise in new business placed at South East private sector firms following a month of decline in June. Some panellists linked the upturn to an influx of new orders and improved client interest, while others mentioned that demand had rebounded from a relatively quiet period in June.

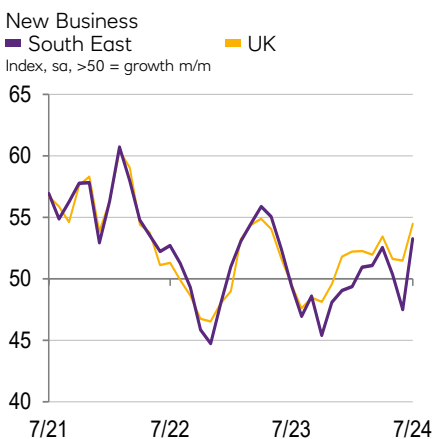
New business rose solidly and at the sharpest rate for 14 months, but

the upturn was softer than the UK average.

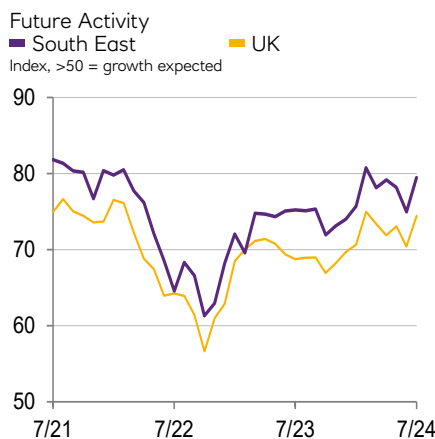
Businesses based in the South East were optimistic towards the year-ahead outlook for activity in July. The degree of confidence was its strongest for five months and the most upbeat of all 12 monitored UK areas for a second month in a row.

The introduction of new products, growth expectations and hopes of improved economic conditions were all cited as drivers of positive sentiment.

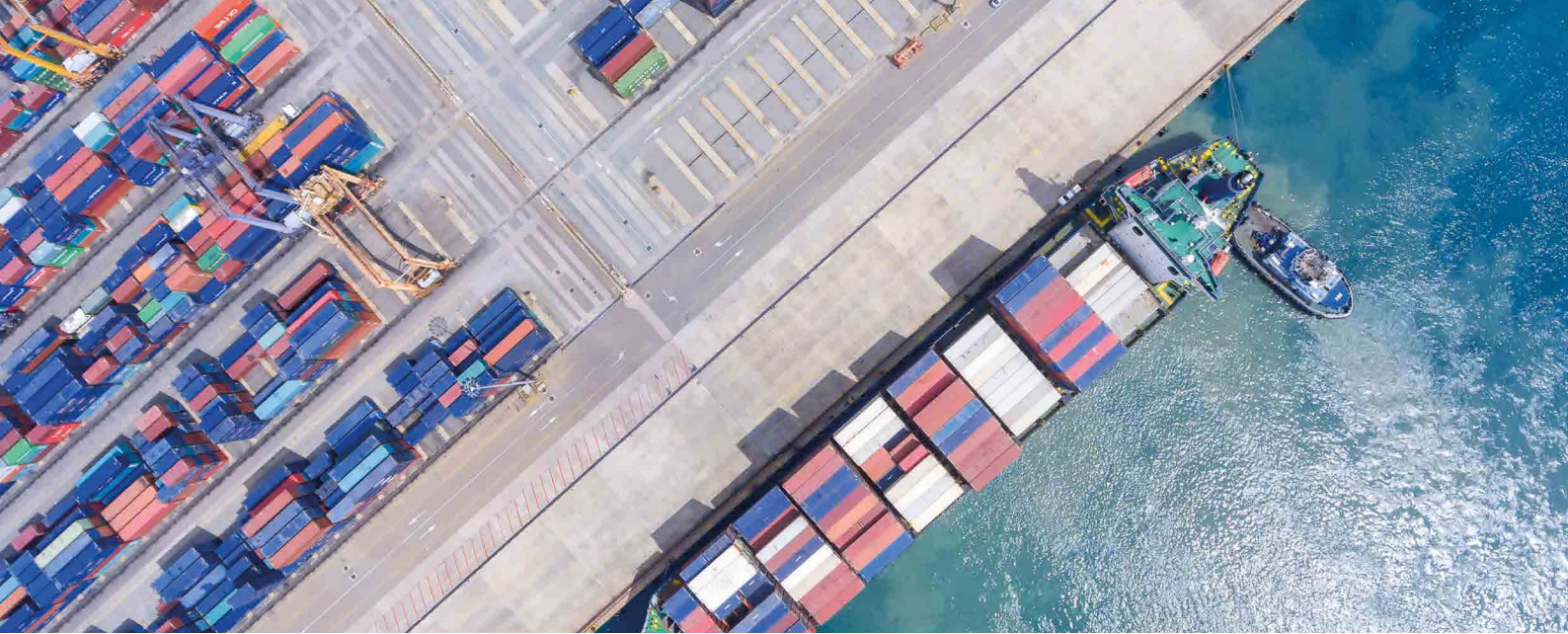
"Both demand and activity rebounded at solid rates."



Sources: NatWest, S&P Global PMI. ©2024 S&P Global.



Sources: NatWest, S&P Global PMI. ©2024 S&P Global.



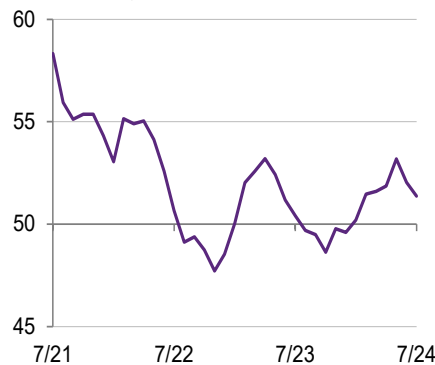
Export markets

Sustained improvement in trade conditions

As has been the case since the start of 2024, the ECI posted a further improvement in export opportunities in July. That said, at 51.4 the upturn was the least pronounced since January.

Of the five top export markets for South East goods, the two largest, the US and Ireland, both recorded a rise in activity and led the upturn in the ECI in July. Meanwhile, output contracted in Germany, France and the Netherlands, with the latter posting the fastest downturn.

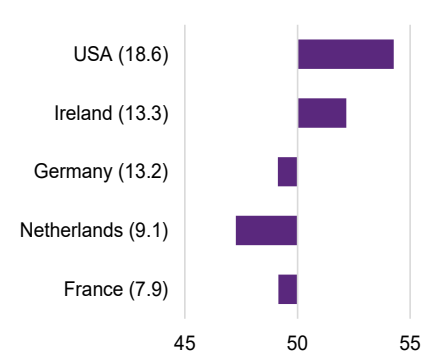
Export Conditions
Index, sa, >50 = growth m/m



Sources: NatWest, S&P Global PMI. ©2024 S&P Global.

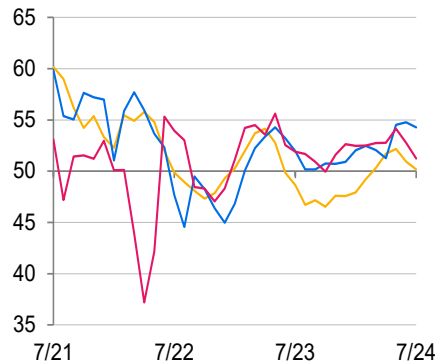
The South East Export Climate Index (ECI) is an indicator for the economic health of the region's export markets. It is calculated by combining national PMI output data, weighted according to each nation's share of manufacturing exports of the South East. A reading above 50 signals an improvement in export conditions, and below 50 a deterioration.

Top export markets, South East
% share of exports shown in brackets
Output Index, sa, >50 = growth m/m



Sources: NatWest, S&P Global PMI. ©2024 S&P Global.

Output
Index, sa, >50 = growth m/m



Sources: NatWest, S&P Global PMI. ©2024 S&P Global.



Jobs and capacity

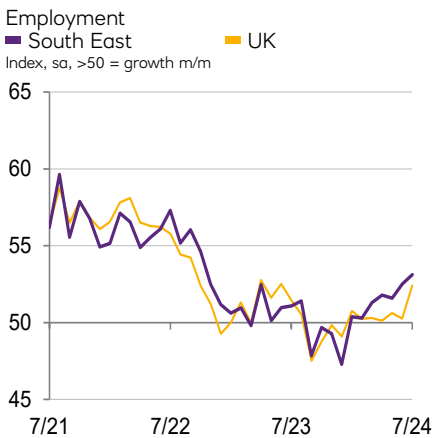
Employment levels raised at quickest rate since late 2022.

Private sector firms across the South East continued to recruit additional staff in July, as has been the case since the start of the year. Panel member reports often stated that increased capacity was required to support inflows of new work. A number of businesses mentioned hiring staff on full-time contracts in particular. As well as being the strongest recruitment drive for 21 months, the local rate of jobs growth was faster than that seen at the UK-wide level.

The seasonally adjusted Outstanding Business Index for the South East posted just below the crucial 50.0 mark in July, to signal a further decrease in unfinished orders. The decline was only marginal and the softest in the current 14-month run of depletion. Firms reportedly had sufficient capacity to run down levels of work-in-hand.

Of the 12 monitored parts of the UK, only London recorded a softer decline in outstanding business than in the South East, while Northern Ireland recorded an expansion.

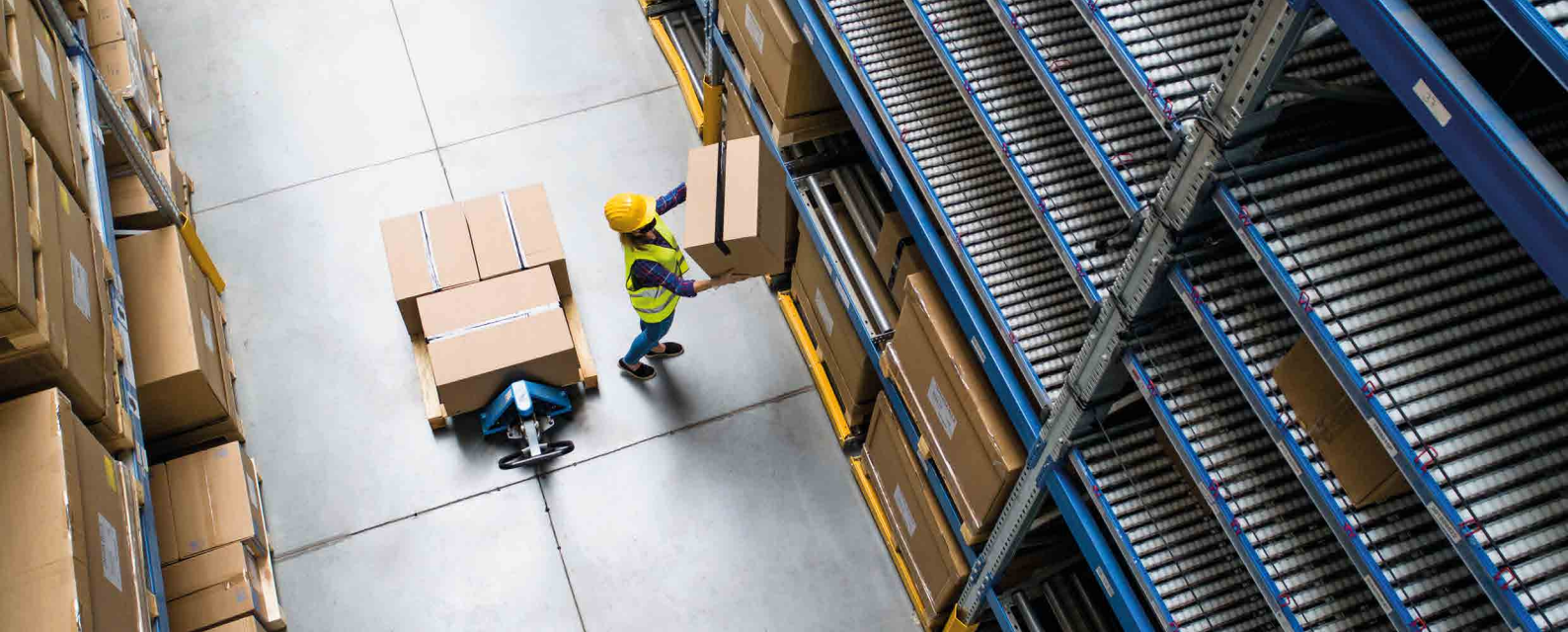
"Hiring activity increased to support new business inflows."



Sources: NatWest, S&P Global PMI. ©2024 S&P Global.



Sources: NatWest, S&P Global PMI. ©2024 S&P Global.



Inflation

Prices paid for inputs creep up across the South East in July.

The latest increase in cost pressures faced by South East businesses was the fiftieth rise in as many months. Wage and shipping costs were cited as the key drivers of inflation in panel member reports.

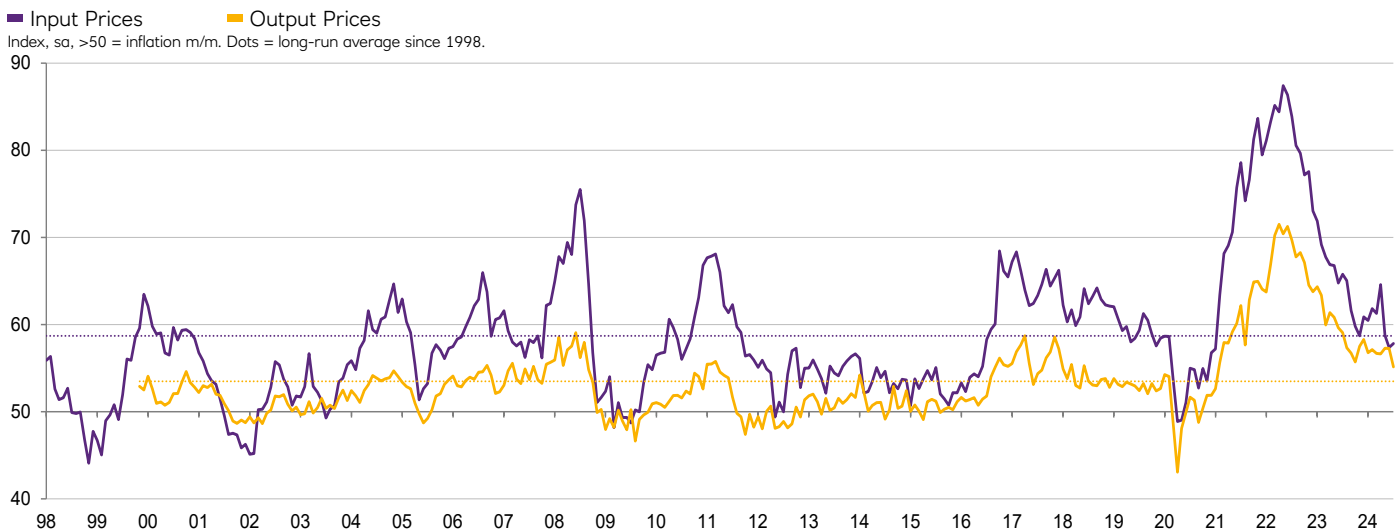
Despite ticking up slightly, the rate of input price inflation in the South East was below its long-term average and the softest of all 12 UK areas.

Meanwhile, South East firms were

less aggressive in their price setting in July. Though still strong, charge inflation was the least pronounced for three-and-a-half years. Where firms opted to raise fees, this was partly due to the passing through of increased costs and wages in particular.

Output charges locally were raised at a similar pace to that seen at the UK level.

"Cost pressures picked up slightly due to elevated shipping and wage costs"



Sources: NatWest, S&P Global PMI. ©2024 S&P Global.

UK Regional Growth Tracker

Business Activity

Business activity growth was led by Northern Ireland for the second time in the past three months in July. Just behind was the South West, which continued to gain momentum and recorded its steepest rise in output for more than two years. At the other end of the scale, Wales and the East Midlands both recorded modest reductions in business activity.

Employment

Northern Ireland also topped the rankings for employment growth at the start of the third quarter, recording its fastest rate of job creation since April 2023. The North East posted the next-steepest rise in employment, followed by Wales. As was the case for business activity, the East Midlands was one of just two areas to see a decrease in employment, this time alongside the West Midlands.

Future Activity

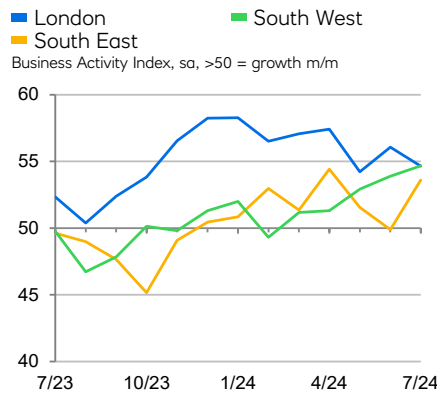
Growth expectations generally improved across the UK in July. The only exception was Northern Ireland, which saw business confidence slip to a six-month low. Firms in the South East were the most upbeat about the outlook, as has been the case in three of the past four months, followed by those in South West. The biggest upswing in optimism was recorded in Yorkshire & Humber.



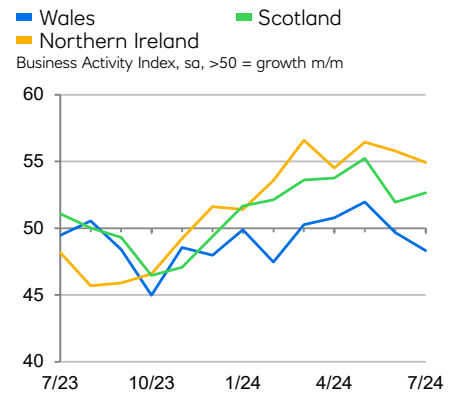
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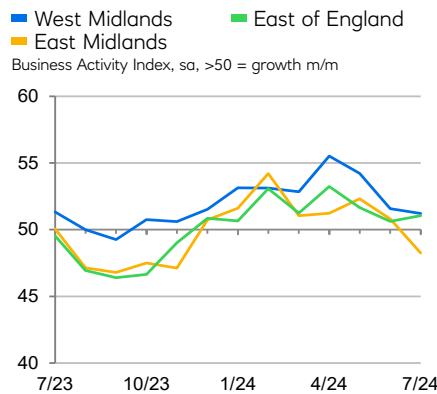
Sources: NatWest, S&P Global PMI. ©2024 S&P Global.



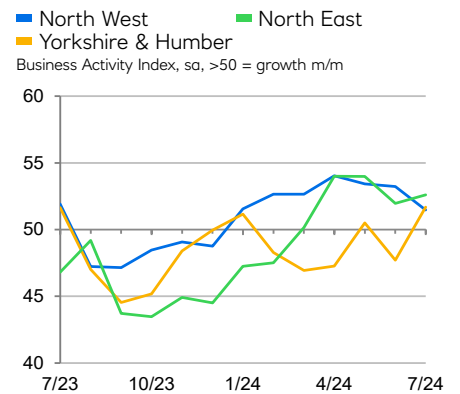
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UK sectors

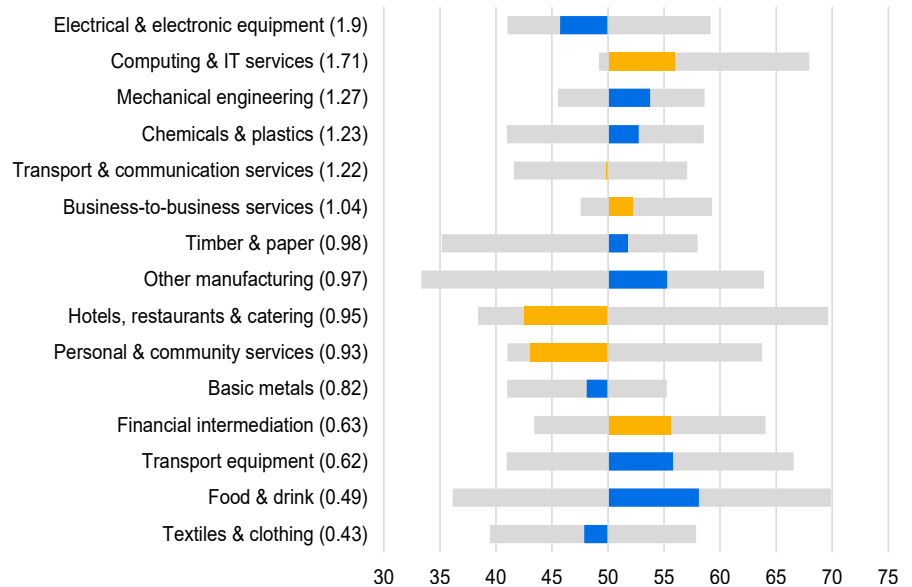
Sector specialisation: South East

The chart shows UK output indices by sector, ranked by location quotients for the South East. Location quotients (LQs) 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.

UK sectors ranked by importance to the South East economy

■ Manufacturing ■ Services ■ 3-year range
UK Output Index, sa, >50 = growth m/m Jul '24



Sources: NatWest, S&P Global PMI. ©2024 S&P Global. Location quotients for the South East are shown in brackets. Latest data are smoothed as three-month moving averages (3mma).

Sector in focus: Financial intermediation

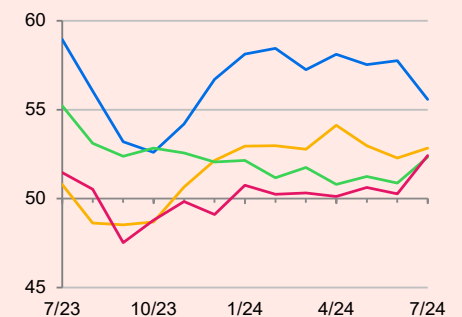
The Financial Intermediation sector was a key growth engine for the UK economy in the three months to July. Business activity rose markedly and at one of the quickest rates recorded among the detailed sectors covered by PMI data. This was despite a loss of momentum that saw growth ease to the weakest since late last year.

Buoyed by strong inflows of new work and high expectations for growth in the coming year, financial intermediation firms upped the rate of job creation in the three months

to July. Employment has risen continuously in the sector since early 2021.

Input prices faced by financial intermediation firms meanwhile rose at the slowest rate for just over three years. Cost pressures were still elevated by historical standards, however, which contributed to another steep rise in average prices charged by businesses in the sector. The rate of output price inflation remained well above the average over the series history stretching back to 1996.

Output / Employment
■/■ Financial intermediation*
■/■ Manufacturing & services
Index, sa, >50 = growth m/m



Sources: NatWest, S&P Global PMI. ©2024 S&P Global. *Data are smoothed as three-month moving average

Methodology

The NatWest South East Growth Tracker 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.

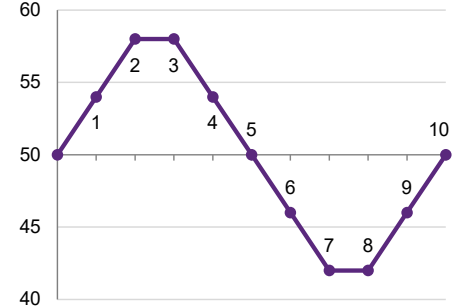
The headline figure is the Business Activity Index. This is a diffusion index calculated from a single question that asks for changes in the volume of business activity (at service providers) or output (at manufacturers) compared with one month previously. The South East Business Activity Index is comparable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

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 survey methodology, please contact economics@spglobal.com.

Index interpretation

Index, sa, >50 = growth m/m



Sources: NatWest, S&P Global PMI. ©2024 S&P Global.

Key

- 1 Growth, from no change
- 2 Growth, faster rate
- 3 Growth, same rate
- 4 Growth, slower rate
- 5 No change, from growth
- 6 Decline, from no change
- 7 Decline, faster rate
- 8 Decline, same rate
- 9 Decline, slower rate
- 10 No change, from decline

Data

South East manufacturing and services

Index, sa, 50 = no change over previous month. *50 = no change over next 12 months.

	Business Activity	New Business	Export Climate Index	Employment	Outstanding Business	Future Activity	Input Prices	Output Prices
2/24	53.0	51.0	51.5	50.3	43.3	80.7	61.8	57.1
3/24	51.4	51.1	51.6	51.3	46.5	78.1	61.3	56.7
4/24	54.4	52.6	51.9	51.8	47.2	79.2	64.6	56.6
5/24	51.6	50.3	53.2	51.6	48.6	78.2	58.8	57.3
6/24	49.9	47.5	52.0	52.5	47.5	75.0	57.4	57.3
7/24	53.6	53.3	51.4	53.1	49.2	79.5	57.8	55.2

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