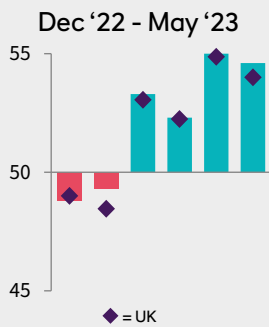




# NatWest South East PMI<sup>®</sup>

## Sales and output rise further as price pressures recede

### South East Business Activity Index



### Key findings

May sees marked increases in new business and output

Employment stagnates despite upbeat growth forecasts

Slowest increase in input costs since February 2021

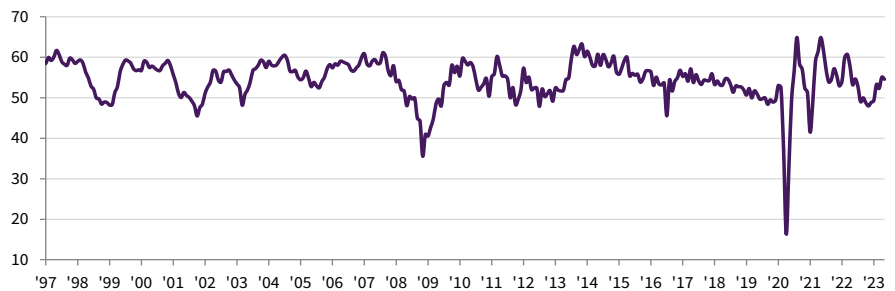
South East companies signalled a desirable combination of receding price pressures and sustained economic growth in May, NatWest PMI<sup>®</sup> data showed. Despite falling from 55.0 in April to 54.6, the headline NatWest South East PMI<sup>®</sup> Business Activity Index — a seasonally adjusted index that measures the month-on-month change in the combined output of the region's manufacturing and service sectors — pointed to a marked rate of expansion that was the second-strongest in almost one year. Positive client interest and buoyant demand conditions were highlighted as the main reasons for the latest upturn in private sector output. Moreover, the local rate of growth was the second-best of the 12 monitored UK regions and nations.

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

*"The rise in output levels recorded in the South East PMI report reflected surging new business, as companies geared up to meet the growing demands of their clientele. The data also highlighted reduced inflationary pressures locally, offering a respite to businesses and consumers alike. Such a retreat could help to create a stable economic environment, enabling firms to plan and invest with greater confidence. It could also give a potential boost to consumer purchasing power, ultimately contributing to enhanced economic stability and improved living standards. While the job market was stagnant, the overall picture is one of optimism, emphasising the region's ability to adapt and thrive in a dynamic economic landscape."*

South East Business Activity Index

sa, >50 = growth since previous month



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## About the South East PMI® report

The NatWest South East PMI® 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

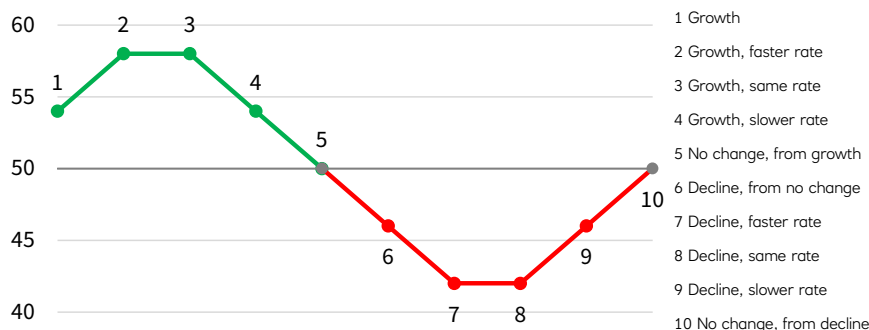
calculated from a single question that asks for changes in the volume of business activity (at service providers) or output (at manufacturers) compared with one month previously. The South East Business Activity Index is comparable to the UK Composite Output Index. It is sometimes referred to as the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

### Second-fastest rise in new business since March 2022

Private sector companies in the South East noted a substantial increase in new business during May. The upturn was attributed by survey participants to advertising, buoyant demand conditions and reduced hesitancy among clients to place new orders. Despite easing from April, the overall rate of expansion in sales was the second-best in over a year.

Growth of local new orders was the second-strongest of the 12 monitored UK regions and nations, behind London.

### Business confidence remains historically high

Firms in the South East forecast output growth over the course of the coming 12 months. New product releases, marketing initiatives, brand recognition, positive demand trends, workforce investment and predictions of softer cost pressures underpinned optimism. Little-changed from April, the overall level of positive sentiment was among the highest seen over the past year.

Regionally, the South East came third in the rankings for business confidence.

## Exports

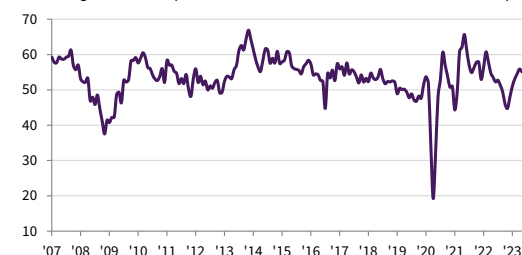
### Export climate remains favourable in May

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.

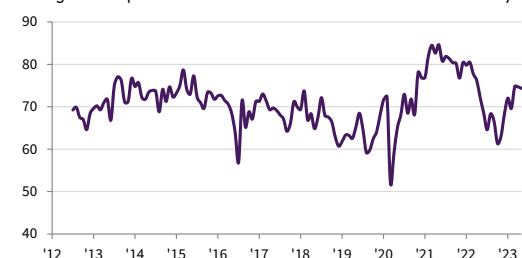
At 52.1 in May, above the neutral level of 50.0, the ECI signalled a fourth successive improvement in trade prospects. That said, falling from 53.0 in April, the latest reading pointed to a softer rate of expansion.

As was the case at the start of the second quarter, four of the top five export markets for the South East recorded output growth. The Netherlands bucked the wider trend and saw a third successive contraction. The US led the upturn, followed by Germany.

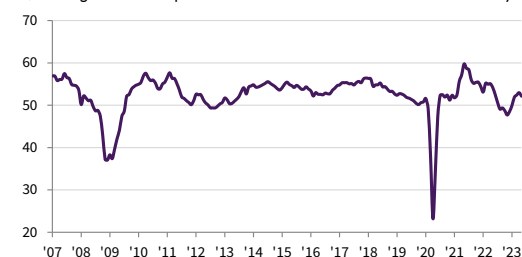
New Business Index  
sa, >50 = growth since previous month  
55.1  
May '23



Future Activity Index  
>50 = growth expected over next 12 months  
74.3  
May '23



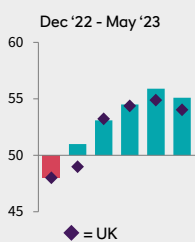
Export Climate Index  
sa, >50 = growth since previous month  
52.1  
May '23



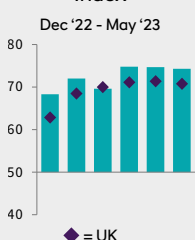
Top export markets, South East

Rank	Market	Weight	Output Index, May '23
1	USA	17.8%	54.3
2	Germany	13.5%	53.9
3	France	12.7%	51.2
4	Ireland	11.0%	51.9
5	Netherlands	10.6%	44.2

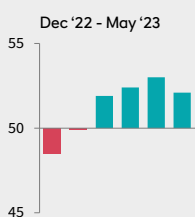
New Business Index  
Dec '22 - May '23



Future Activity Index  
Dec '22 - May '23



Export Climate Index  
Dec '22 - May '23



## Business capacity

### Employment broadly stagnates during May

The latest results pointed to little-change to employment levels across the South East, following a renewed increase in April. This was signalled by the respective seasonally adjusted index slipping close to the 50.0 threshold. Anecdotal evidence showed that job creation at firms that sought to fill vacant positions and meet rising demand was offset by resignations, redundancies, retirements and cost-cutting efforts elsewhere.

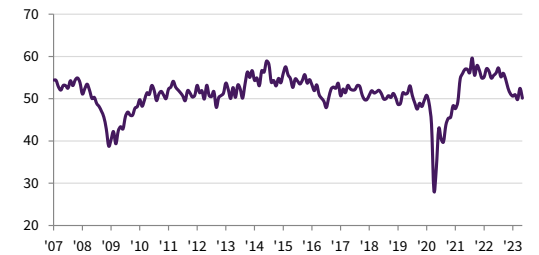
The local trend for jobs compared unfavourably with employment growth at the national level.

### Back-to-back increases in outstanding business

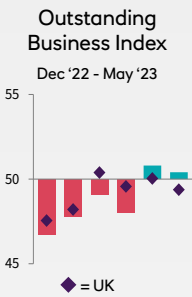
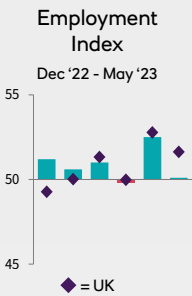
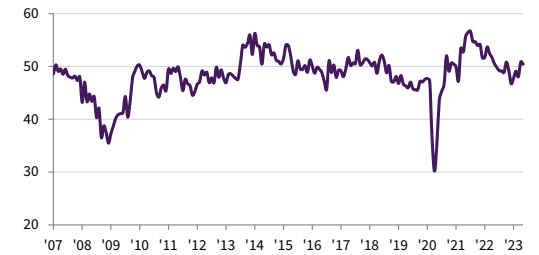
As was the case in April, South East companies signalled higher volumes of unfinished business in May. However, the rate of accumulation softened from that seen in the prior month and was only marginal. Where growth was reported, panel members cited input and staff shortages. Companies that indicated a fall mentioned reduced pressure on supply chains and expanded capacities.

The South East was one of only two regions to record growth of backlogs, alongside London.

Employment Index  
sa, >50 = growth since previous month  
50.1  
May '23



Outstanding Business Index  
sa, >50 = growth since previous month  
50.4  
May '23



## Prices

### Slowest increase in input costs since February 2021

Input costs facing South East companies rose further in May, stretching the current sequence of monthly increases to three years. Despite being sharp and above its long-run average, the rate of inflation softened to a 27-month low. Upward cost pressures reportedly stemmed from higher salary bills amid the cost-of-living crisis as well as greater expenses on food and insurance. Concurrently, panellists noted lower energy, transportation and raw material prices.

The local rate of input cost inflation was broadly similar to the UK average.

Input Prices Index 66.8  
sa, >50 = inflation since previous month May '23

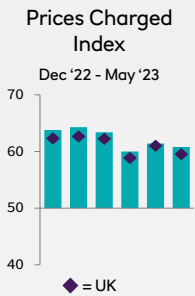
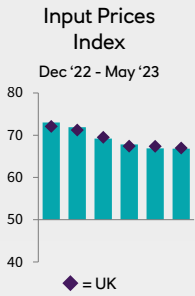
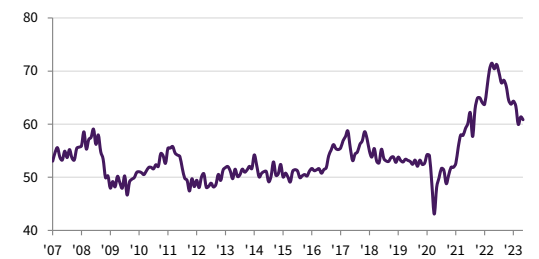


### Output charge inflation eases

Prices charged for South East goods and services continued to rise midway through the second quarter, but the overall rate of inflation softened since April. Although indicative of a sharp rate of inflation, the respective seasonally adjusted index was at its second-lowest level in 21 months. Some firms linked hikes to recent increases in operating expenses, while others offered discounts due to competitive conditions and retreating cost pressures.

The South East topped the regional rankings for output charge inflation in May.

Prices Charged Index 60.8  
sa, >50 = inflation since previous month May '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, May '23 <sup>+</sup>
1	Electrical & Optical	2.03	55
2	Chemicals & Plastics	1.22	50
3	Mechanical Engineering	1.15	48
4	Timber & Paper	1.03	40
5	Other Manufacturing	1.01	50
6	Basic Metals	0.88	48
7	Transport	0.63	55
8	Food & Drink	0.57	50
9	Textiles & Clothing	0.39	48

#### South East specialisation: Services

Rank	Sector	LQ	UK Business Activity Index, May '23 <sup>+</sup>
1	Computing & IT Services	1.65	60
2	Transport & Communication	1.14	50
3	Business-to-business Services	1.03	55
4	Hotels, Restaurants & Catering	0.91	55
5	Personal & Community Services	0.90	55
6	Financial Intermediation	0.62	60

## UK sector focus

### Transport & Communication

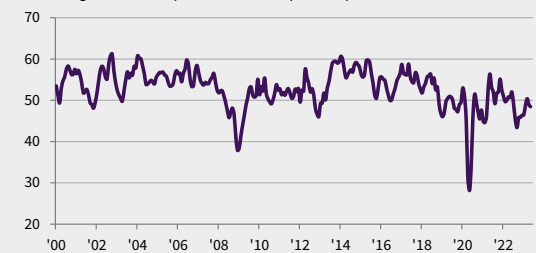
Almost all areas of the UK services economy saw growth in business activity in the three months to May, the only exception being the Transport & Communications sector. Here, activity fell - albeit only slightly - in the latest three-month period, thereby resuming a downward trend after a brief return to growth in Q1.

The survey data pointed to weakness in underlying demand, with inflows of new work in decline. Businesses in the sector reacted to falling workloads by reducing workforce numbers, in line with the trend seen since the end of last year. That said, the latest round of job cuts was only marginal as firms showed greater confidence towards the outlook.

Cost pressures remained historically elevated, although they did at least ease further from the record highs seen in 2022. This was reflected in a slower rise in prices charged, the weakest for almost two-and-a-half years.

#### Output Index

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



\* 3-month moving average



## UK Regional PMI overview

### Business Activity

Almost all UK nations and regions saw a rise in business activity in May, the only exception being Wales where output fell marginally and for the first time in four months. London once again recorded by far the strongest growth rate, albeit one that was slightly slower than in April. In fact, only the West Midlands saw an acceleration in the rate of expansion in business activity.

### Employment

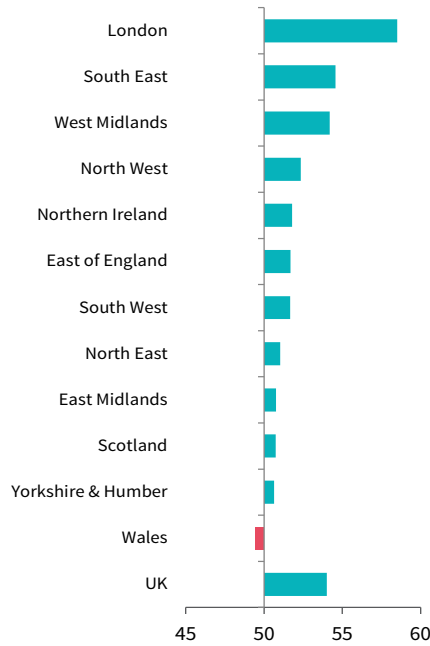
The vast majority of areas monitored by the survey recorded an increase in private sector employment in May. Scotland topped the rankings for job creation for the first time since June 2018, pushing Northern Ireland\* into second position. Only the North East and Wales saw decreases in staffing levels, and even there the declines were modest and marginal respectively.

### Future Activity

Business expectations remained positive across the board in May, although they weakened in three-quarters of the areas monitored. The West Midlands went against the trend and recorded the strongest overall optimism for the fifth month running. At the other end of the scale, firms in Northern Ireland were the least upbeat towards the outlook.

Business Activity Index

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



Employment Index

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



Future Activity Index

>50 = growth expected over next 12 months, May '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
Dec '22	48.8	48.0	48.5	68.3	51.2	46.7	73.0	63.8
Jan '23	49.3	51.0	49.9	72.0	50.6	47.8	71.9	64.3
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

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### About NatWest

NatWest serves customers in England, Wales and Western Europe, supporting them with their personal, private, and business banking needs. NatWest helps customers from opening student accounts, to buying their first home, setting up a business, and saving for retirement.

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.

### About S&P Global

S&P Global (NYSE: SPGI) S&P Global provides essential intelligence. We enable governments, businesses and individuals with the right data, expertise and connected technology so that they can make decisions with conviction. From helping our customers assess new investments to guiding them through ESG and energy transition across supply chains, we unlock new opportunities, solve challenges and accelerate progress for the world.

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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