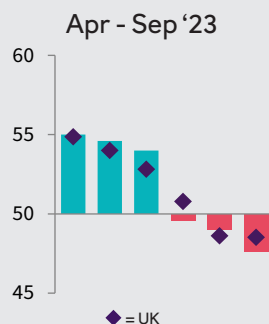


# NatWest South East PMI®

## Output falls further into contraction territory in September

### South East Business Activity Index



### Key findings

Activity and new business decline for a third consecutive month

Inflation rates ease, with firms remaining confident in the future

Payroll numbers fall for the first time since March

Operating conditions in the South East continued to decline in September, according to NatWest PMI® data, which signalled further deteriorations in output and new work. Unlike that of new orders, the pace of the downturn in business activity picked up compared to August to signal the fastest decline since January 2021. Furthermore, hiring decisions at firms were put on hold amid a moderate reduction in employment in September, the first decline since March.

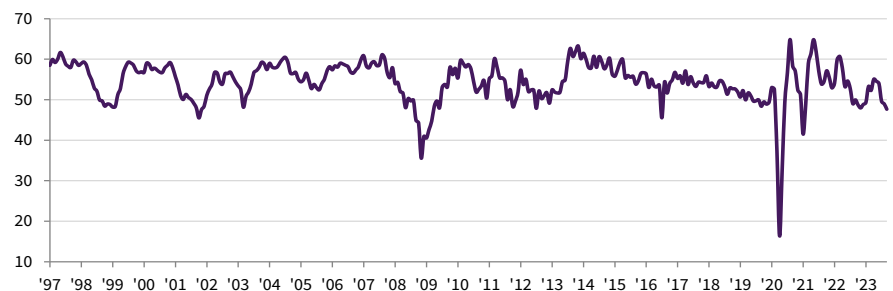
At 47.6 in September, down from 49.0 in August, the headline NatWest South East PMI® Business Activity Index — a seasonally adjusted index that measures the month-on-month change in the combined output of the region's manufacturing and service sectors — signalled a moderate contraction in business activity in September. With the rate of decline quickening on the month, output in the South East fell at a faster pace than that of the UK as a whole.

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

*"High inflation and interest rates continued to burden firms in the South East in September with companies reporting weak demand for a third month running. September registered a first month of job shedding in the region since March as firms noted weakened demand conditions leading to redundancies and the non-replacement of departing staff. Meanwhile, rate of inflation continued to slow, and firms' confidence was upheld."*

### 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

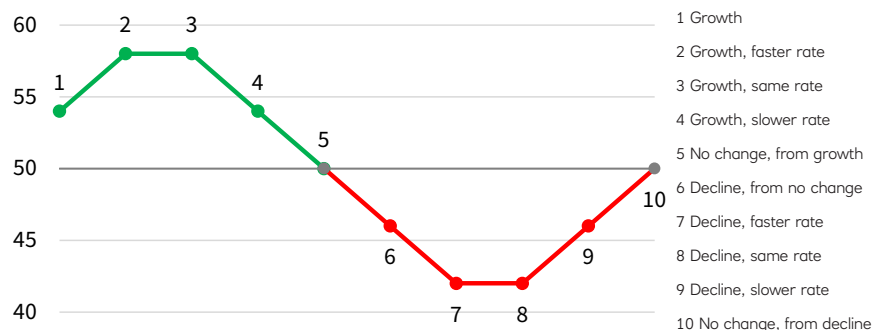
calculated from a single question that asks for changes in the volume of business activity (at service providers) or output (at manufacturers) compared with one month previously. The South East Business Activity Index is comparable to the UK Composite Output Index. It is sometimes referred to as the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

### Index interpretation

50.0 = no change since previous month



PMI®

by **S&P Global**

## Demand and outlook

### Third consecutive month of deterioration in demand

Private sector companies in the South East registered a marginal fall in new orders in September, with the respective seasonally adjusted index posting below the 50.0 no-change mark for a third consecutive month. Anecdotal evidence attributed the sustained decline to generally weaker demand conditions amid the cost-of-living crisis. That said, the pace of contraction was softer than in August.

The pace of decrease in new sales reported by firms in the South East was broadly in line with that of the UK as a whole.

### Sentiment holds strong in September

September data saw a strong degree of optimism among firms in the South East. Compared to August, confidence edged up fractionally to the highest since April 2022. Some panellists mentioned the introduction of new products and hopes of an economic recovery as the cause of positive sentiment. Others mentioned hope of an end to current strikes.

Of the 12 monitored UK regions, optimism in the South East was second strongest, only weaker than that seen at firms in the West Midlands.

New Business Index

Apr - Sep '23



Future Activity Index

Apr - Sep '23

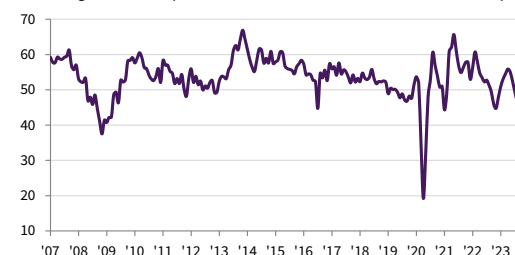


New Business Index

sa, >50 = growth since previous month

48.6

Sep '23

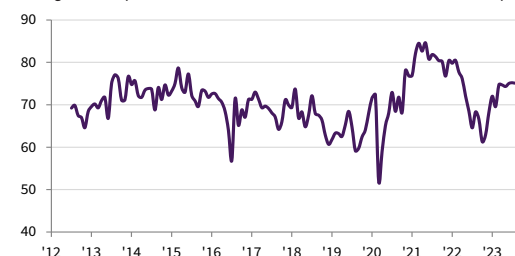


Future Activity Index

>50 = growth expected over next 12 months

75.3

Sep '23

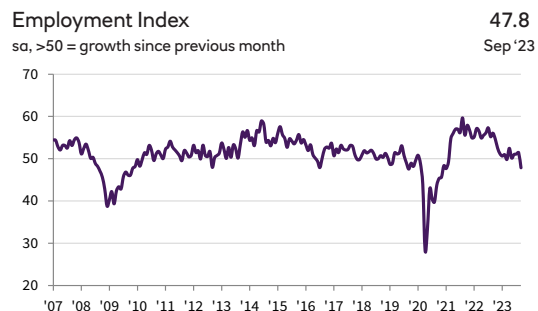


## Business capacity

### First drop in staffing levels since March

The South East experienced its first month of job shedding since March at the end of the third quarter. Companies indicated that they had adapted their payroll numbers in line with weak demand conditions, with redundancies and the non-replacement of voluntary leavers often mentioned. Although the rate of job cuts was modest, it was the quickest since January 2021.

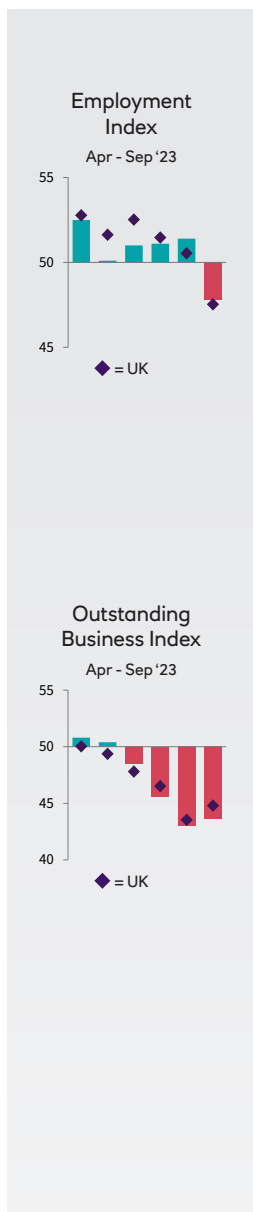
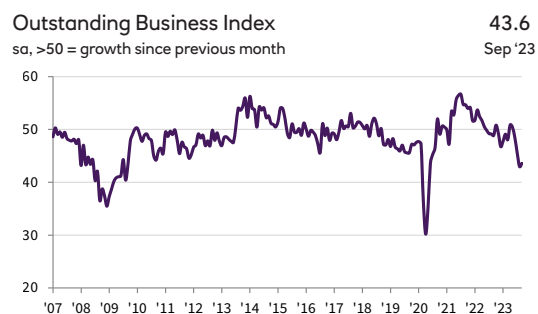
The South East registered a slower reduction in headcounts than that seen at the UK level.



### Marked decrease in work pending completion

Orders pending completion depleted sharply in September to signal a fourth consecutive month of contraction. Firms attributed the fall in incomplete business to lower activity, signalling excess capacity. That said, the pace of contraction was slightly softer than that of August.

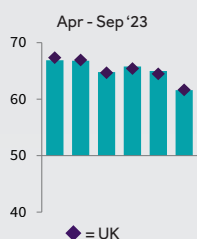
Outstanding business in the South East declined at a faster rate when compared to that seen at the UK level. For a third consecutive month, depletions were seen in each of the 12 monitored UK regions.





## Prices

Input Prices Index  
Apr - Sep '23



### Input price inflation at 32-month low

September data pointed to another hike in input prices in the South East. The respective seasonally adjusted index posted above the 50.0 no-change mark for a fortieth consecutive month, as firms noted that higher wage bills pushed up cost burdens. Others reported that suppliers had raised prices and the cost of fuel increased.

The rate of inflation was notably softer than that in August and eased to the slowest since January 2021. Furthermore, the pace of increase in input costs in the South East was broadly in line with that seen at the UK level.

Input Prices Index

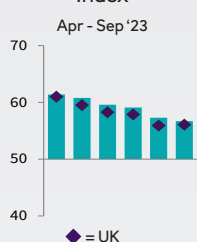
sa, >50 = inflation since previous month

61.6

Sep '23



Prices Charged Index  
Apr - Sep '23



### Selling prices rise at slowest rate since February 2021

Average prices charged by firms saw another monthly increase in the South East in September. Anecdotal evidence suggested that output prices rose as firms passed on the burden of greater input costs to customers. Similar to the trend for input prices, the rate of inflation slowed, and was the weakest since February 2021.

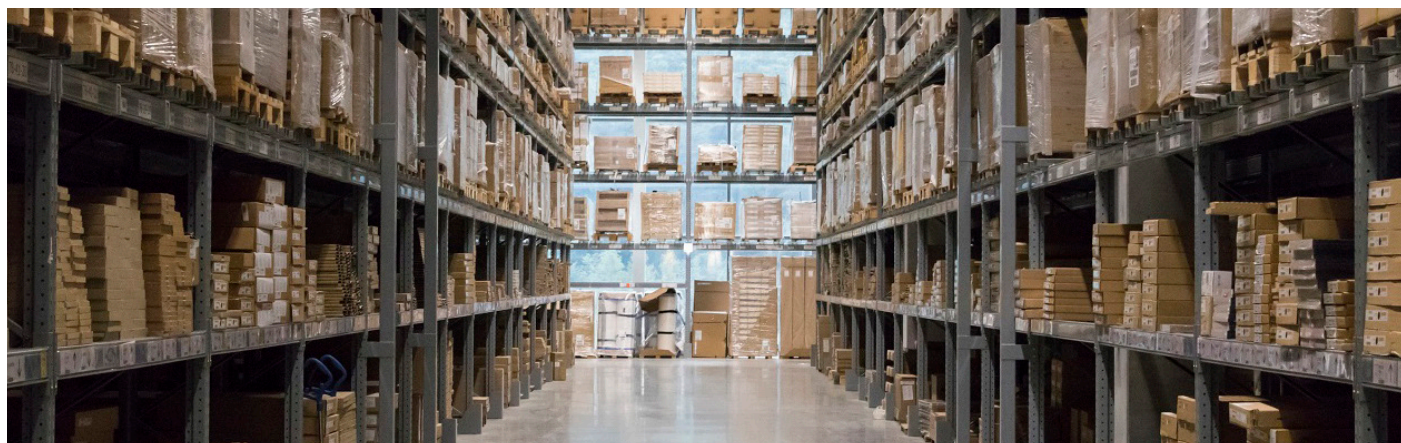
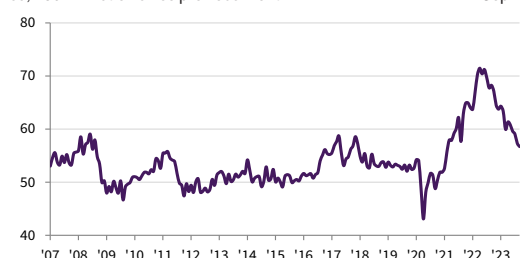
That said, selling prices in the South East rose slightly more quickly than the UK average.

Prices Charged Index

sa, >50 = inflation since previous month

56.7

Sep '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, Sep '23*
1	Electrical & Optical	2.03	48
2	Chemicals & Plastics	1.22	48
3	Mechanical Engineering	1.15	50
4	Timber & Paper	1.03	45
5	Other Manufacturing	1.01	48
6	Basic Metals	0.88	48
7	Transport	0.63	48
8	Food & Drink	0.57	48
9	Textiles & Clothing	0.39	48

#### South East specialisation: Services

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

## UK sector focus

### Business-to-business services

The UK's large Business-to-business services sector contracted during the third quarter. Activity fell at a solid rate that was the fastest for over three years.

The downturn reflected a softening of demand across the sector, with firms recording a notable decline in inflows of new work in the three months to September. Business confidence towards the outlook was at its lowest since the start of the year and subdued by historical standards.

Although employment in the sector continued to rise, the rate of job creation slowed to the weakest in the year-to-date as firms made increasingly rapid inroads into their backlogs of work.

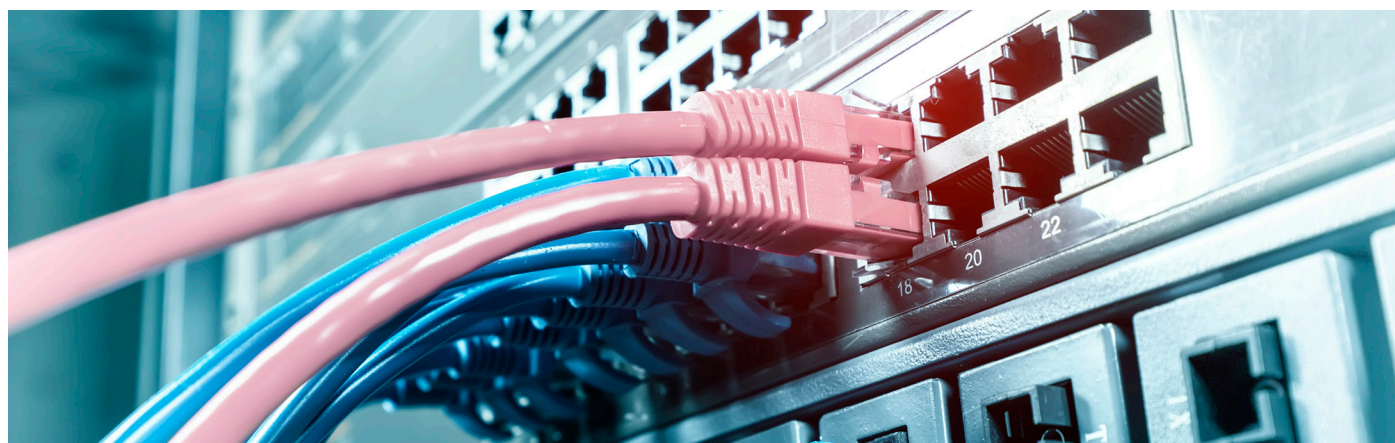
On the price front, input cost inflation remained historically elevated, driven by rising salaries and fuel prices, but it slowed to a two-and-a-half year low. It was a similar story for prices charged.

#### Output Index

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



\* 3-month moving average





## UK Regional PMI overview

### Business Activity

Business activity fell across all but one of the 12 monitored UK regions and nations, the exception being London. Furthermore, output in the capital increased at an accelerated rate. The North East recorded the sharpest drop in business, its quickest for more than a year, followed by neighbouring Yorkshire & Humber.

### Employment

Employment growth was confined to just Northern Ireland\* and Scotland in September, albeit with the rates of job creation there slowing to a crawl. Ten of the 12 monitored areas recorded a reduction in staffing levels, the highest number since January 2021. For the third month running, the deepest job cuts were seen in the North East.

### Future Activity

As was the case throughout the third quarter, firms in the West Midlands were the most optimistic about future activity in September. Next in the rankings was the South East, which was one of seven regions where confidence improved. The most marked increase in sentiment was in the East of England. Expectations were lowest in the North East.

Business Activity Index

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



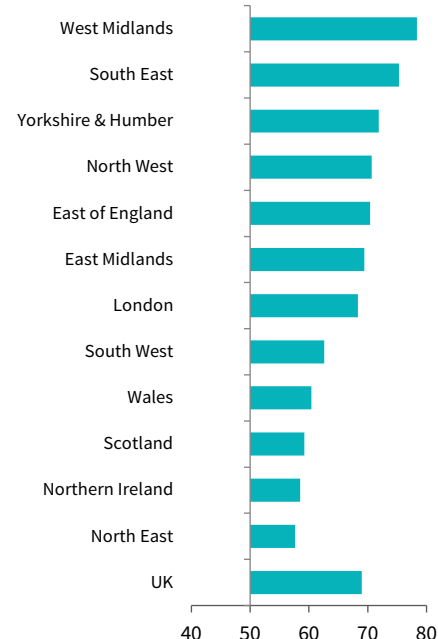
Employment Index

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



Future Activity Index

>50 = growth expected over next 12 months, Sep '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
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
Sep '23	47.6	48.6	48.9	75.3	47.8	43.6	61.6	56.7

## Contact

Marion Rannard  
Regional Campaign Manager  
NatWest  
+44 (0) 7966 300 969  
[marion.rannard@natwest.com](mailto:marion.rannard@natwest.com)

Eleanor Dennison  
Economist  
S&P Global Market Intelligence  
+44 149 146 1075  
[eleanor.dennison@spglobal.com](mailto:eleanor.dennison@spglobal.com)

Sabrina Mayeen  
Corporate Communications  
S&P Global Market Intelligence  
+44 (0) 7967 447030  
[sabrina.mayeen@spglobal.com](mailto:sabrina.mayeen@spglobal.com)

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

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