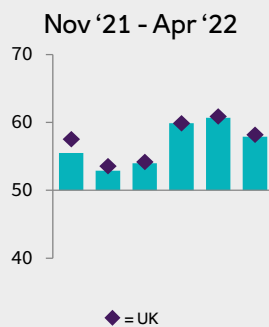


NatWest South East PMI[®]

Record rate of output price inflation in April

South East Business Activity Index



Key findings

Output and new order growth softens

Output price inflation hits record high for third month running

Firms remain upbeat, but sentiment dips to 18-month low

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 – fell from 60.7 in March to 57.9 in April to signal a weaker expansion in private sector activity. Nevertheless, growth was strong, quicker than the long-run average and broadly in line with that seen at the UK level.

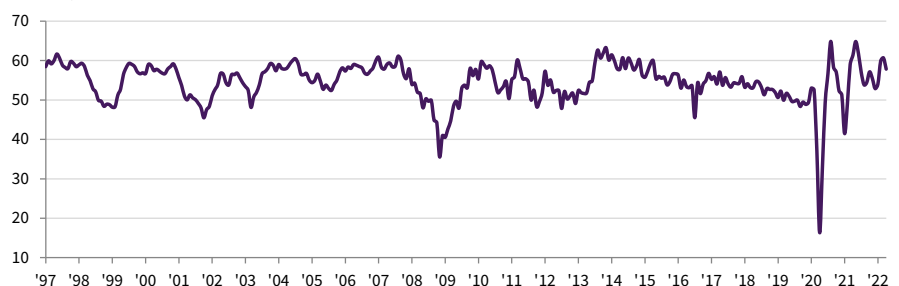
Catherine Van Weenen, NatWest London and the South East Regional Board:

“A lack of virus-related restrictions and the continuous movement towards normality once again supported private sector activity growth in the South East during April. Despite softening from March, both output and new orders rose markedly, and at above trend rates. Employment growth was also solid, even following reports of voluntary resignations, retirements and difficulties sourcing skilled candidates. Capacity pressures continued to emerge however, but at a relatively weak pace suggesting firms are somewhat keeping up with demand.

“However, the strong performance was once again overshadowed by record, and near-record increases in output prices and input costs respectively. Geopolitical tensions, lockdowns in China and supply-side issues have exacerbated costs over the last few months. We can expect elevated prices for at least the duration of the year, but firms will hope inflationary pressures subside before it takes too much of a toll on demand.”

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

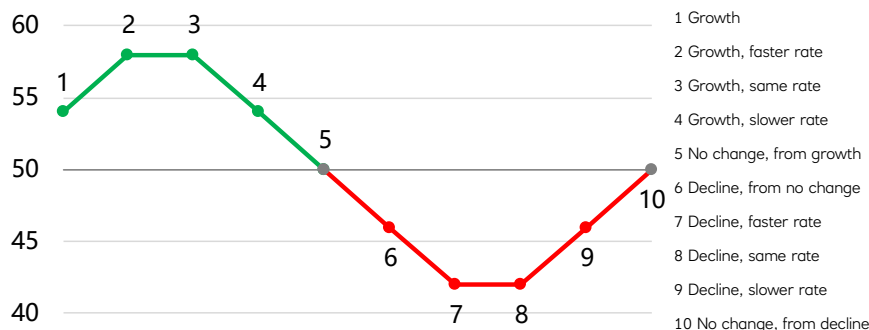
calculated from a single question that asks for changes in the volume of business activity (at service providers) or output (at manufacturers) compared with one month previously. The South East Business Activity Index is comparable to the UK Composite Output Index. It is sometimes referred to as the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

Index interpretation

50.0 = no change since previous month

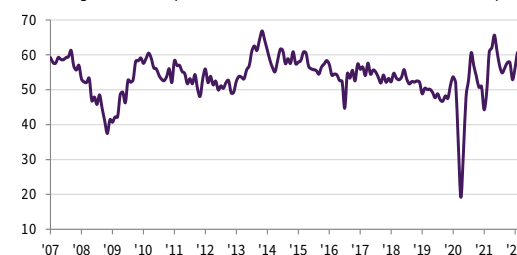


Demand and outlook

Growth of new business slows, but remains solid

Companies in the South East noted a fourteenth consecutive monthly expansion in new work intakes during April. The rate of growth was solid and quicker than the long-run series average. Where sales rose, panellists mentioned a pick-up in footfall following the easing of restrictions, and buoyant demand conditions in the service sector. That said, the rate of growth softened to a four-month low with some firms reporting that price hikes deterred sales.

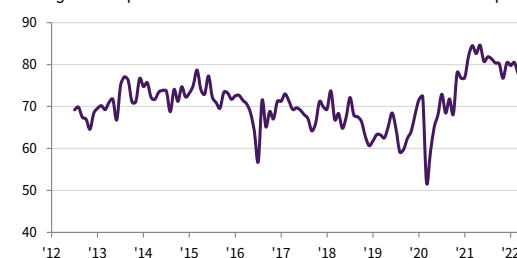
New Business Index
sa, >50 = growth since previous month
54.8
Apr '22



Sentiment dips to lowest in a year-and-a-half

Private sector companies in the South East remained optimistic that their output levels would expand over the course of the year as signalled by the Future Activity Index registering above the neutral threshold of 50.0. However, the degree of optimism moderated to an 18-month low amid concerns over COVID-19, the war in Ukraine and intensifying inflationary pressures.

Future Activity Index
>50 = growth expected over next 12 months
76.2
Apr '22



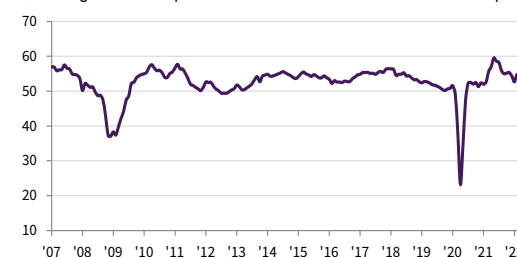
That said, of the 12 monitored regions, the South East recorded the strongest level of optimism in April.

Exports

Export conditions continue to improve solidly

The South East Export Climate Index 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.

Export Climate Index
sa, >50 = growth since previous month
54.3
Apr '22

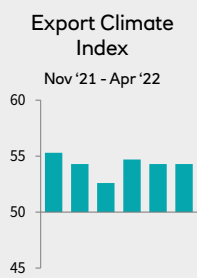
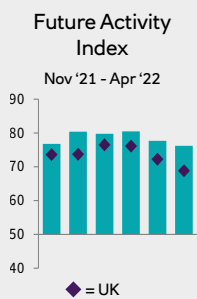
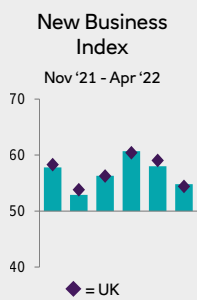


At 54.3 in April, unchanged from that in March, the Export Climate Index signalled a solid overall improvement in export conditions.

Of the key export destinations for South East firms, Ireland recorded the strongest expansion for the third month in succession. France followed, recording the quickest expansion in over four years. The US saw output growth moderate while the Netherlands registered a sharp uptick. Germany, meanwhile, noted the softest expansion for three months.

Top export markets, South East

Rank	Market	Weight	Output Index, Apr '22
1	USA	16.4%	56.0
2	Germany	12.0%	54.3
3	Netherlands	6.3%	55.7
4	France	6.1%	57.6
5	Ireland	6.0%	59.6



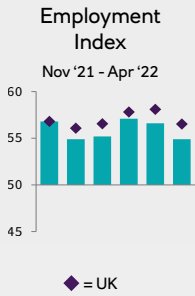
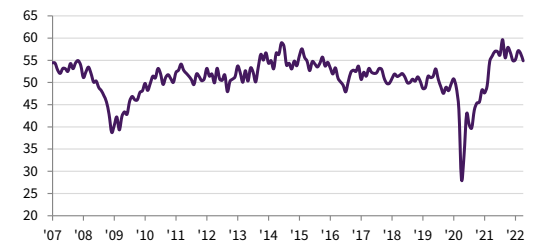
Business capacity

Staffing levels rise at the joint-softest pace for 13 months

April data revealed a fourteenth successive monthly rise in headcounts at private sector companies in the South East. That said, the rate of growth was the joint-weakest since March 2021. While some firms raised their headcounts in response to rising orders, others recorded voluntary resignations, retirements and a lack of skilled candidates.

Staffing levels rose at a quicker pace across the UK as a whole than in the South East.

Employment Index
sa, >50 = growth since previous month
54.9
Apr '22

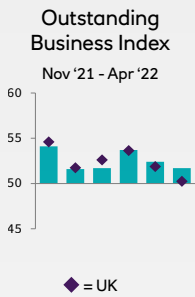
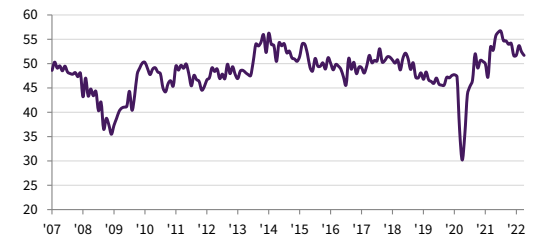


Capacity pressures subside in April

There were further signs of capacity pressures in the South East's private sector at the start of the quarter. That said, the rate of backlog accumulation eased from March and was the joint-softest in the year-to-date. Panellists indicated that while component shortages and delivery delays were prominent, firms were able to keep up with demand and delved into their stockpiles to fulfil orders.

Sector data revealed service providers faced a quicker rise in backlogs compared to their manufacturing counterparts.

Outstanding Business Index
sa, >50 = growth since previous month
51.7
Apr '22



Prices

Near-record increase in input prices

Private sector companies in the South East registered another monthly rise in overall cost burdens in April. In fact, the rate of inflation was substantial, and the second-quickest on record, surpassed only by that seen in the previous survey period. Panel comments continued to indicate surging prices for fuel, materials, wages, transportation and energy.

Once again, manufacturing companies saw the steeper increase in input prices compared to service providers.

Input Prices Index

sa, >50 = inflation since previous month

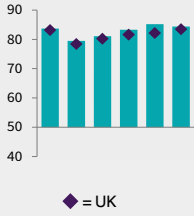
84.4

Apr '22



Input Prices Index

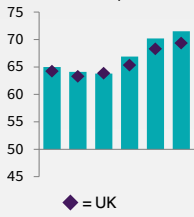
Nov '21 - Apr '22



◆ = UK

Prices Charged Index

Nov '21 - Apr '22



◆ = UK

Output price inflation accelerates to new record in April

Charges levied by private sector companies in the South East rose at a survey-record pace for the third month running during April. Global material shortages, the energy crisis and higher prices for a range of inputs prompted firms to hike their selling prices during the month.

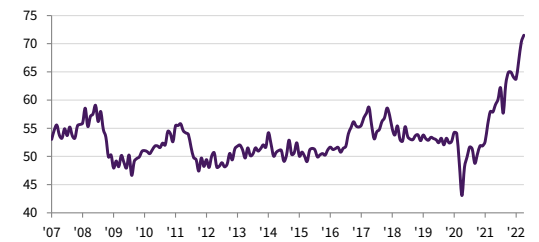
By comparison, average input costs rose at a quicker pace in the South East than the UK as a whole.

Prices Charged Index

sa, >50 = inflation since previous month

71.5

Apr '22



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, Apr '22*
1	Electrical & Optical	2.03	
2	Chemicals & Plastics	1.22	
3	Mechanical Engineering	1.15	
4	Timber & Paper	1.03	
5	Other Manufacturing	1.01	
6	Basic Metals	0.88	
7	Transport	0.63	
8	Food & Drink	0.57	
9	Textiles & Clothing	0.39	

South East specialisation: Services

Rank	Sector	LQ	UK Business Activity Index, Apr '22*
1	Computing & IT Services	1.65	
2	Transport & Communication	1.14	
3	Business-to-business Services	1.03	
4	Hotels, Restaurants & Catering	0.91	
5	Personal & Community Services	0.90	
6	Financial Intermediation	0.62	

UK sector focus

Mechanical Engineering

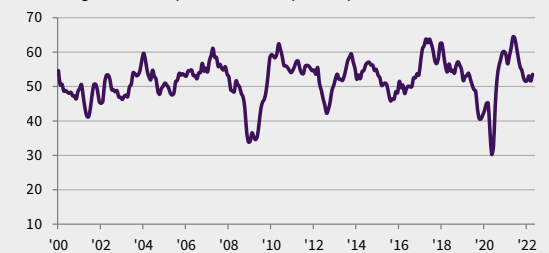
The UK's Mechanical Engineering sector saw sustained growth in output levels in the three months to April, albeit at a relatively subdued pace that was below the average for manufacturing as whole. The upturn was supported by rising inflows of new work.

Although easing from the record levels seen last year, supply chain bottlenecks remained a key issue facing businesses in the sector, leading to longer lead times on inputs, whilst also helping to fuel a continued surge in purchase prices. Higher costs were increasingly passed on to customers, with factory gate charge inflation reaching a survey-record high.

Still, Mechanical Engineering companies maintained a strongly positive outlook for output in the coming year and, as such, continued to add to workforce numbers at a rapid pace.

Output Index

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



* 3-month moving average



UK Regional PMI overview

Business Activity

In terms of business activity, April saw a general loss of momentum across the UK, with nine regions recording slower growth and the North East seeing a renewed contraction. London recorded the fastest overall rate of expansion, followed by the South West, while only the North West and Scotland registered quicker increases in business activity than the month before.

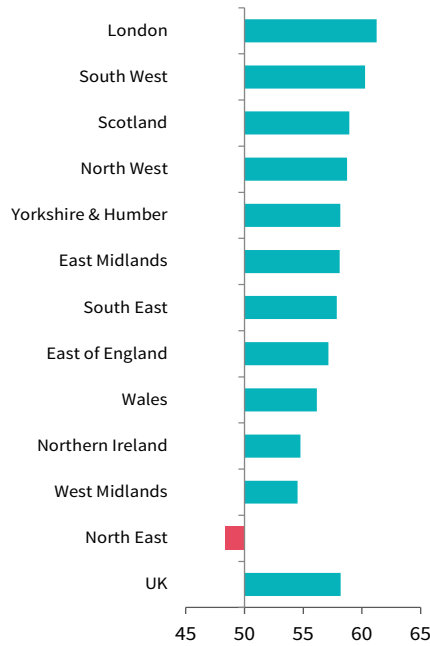
Employment

A rise in employment was recorded in 11 of the 12 regions monitored by the survey in April. The only exception was the North East, where workforce numbers fell for the first time in 14 months, albeit only slightly. Elsewhere, rates of job creation generally remained solid, although they eased in all cases bar the West Midlands. London recorded the strongest growth ahead of Yorkshire & Humber.

Future Activity

Although firms in all areas remained optimistic about the year-ahead outlook for activity in April, expectations eased in the majority of cases. Only Wales (ranked third out of 12), the South West (sixth), East of England (seventh) and Northern Ireland (twelfth and last) recorded improved confidence. Overall, businesses in the South East were the most upbeat, followed by those in Yorkshire & Humber.

Business Activity Index
sa, >50 = growth since previous month, Apr '22



Employment Index
sa, >50 = growth since previous month, Apr '22



Future Activity Index
>50 = growth expected over next 12 months, Apr '22



* 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
Nov '21	55.5	57.8	55.3	76.8	56.8	54.1	83.7	65.0
Dec '21	52.9	52.9	54.3	80.4	54.9	51.6	79.5	64.1
Jan '22	54.0	56.3	52.6	79.8	55.2	51.7	81.1	63.8
Feb '22	59.9	60.7	54.7	80.5	57.1	53.7	83.3	66.9
Mar '22	60.7	58.0	54.3	77.7	56.6	52.4	85.2	70.2
Apr '22	57.9	54.8	54.3	76.2	54.9	51.7	84.4	71.5

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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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