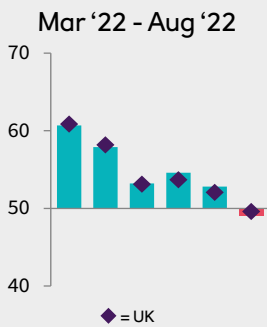


# NatWest South East PMI<sup>®</sup>

## Activity falls for the first time in 18 months

### South East Business Activity Index



### Key findings

New orders rise at the softest pace in a year-and-a-half

Headcounts continue to expand sharply, however

Price pressures remain elevated, but ease during August

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 – fell from 52.8 to 49.0 in August. The overall rate of decline was marginal but ended 17 consecutive months of growth.

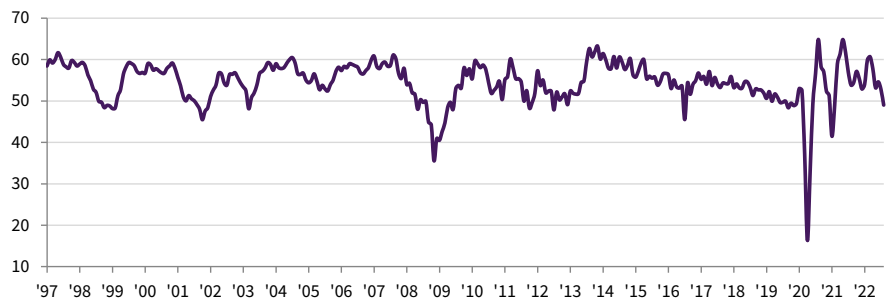
Catherine Van Weenen, NatWest London and the South East Regional Board:

*"August data confirmed a contraction in business activity in the South East's private sector. New orders rose at the softest pace in 18 months as the cost of living crisis continued to hit demand hard. Customers grew hesitant about the macroeconomic environment as they prepare for a difficult winter. At the same time, firms were optimistic of output growth in the year ahead, but sentiment was subdued with anecdotal comments pointing to fears over a recession."*

*"Some relief came on the price front, however, amid moderations in price pressures. Nevertheless, firms continue to face rates of inflation only seen in the last year. The UK's energy and cost of living crisis is set to deepen while interest rates increase at the same time. Firms will brace for a tough autumn and even tougher winter."*

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

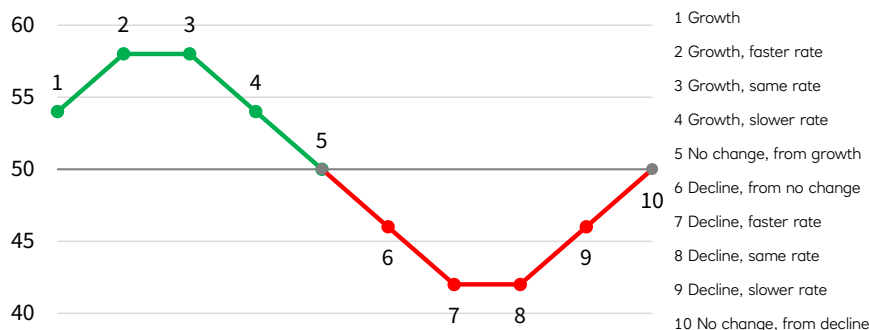
calculated from a single question that asks for changes in the volume of business activity (at service providers) or output (at manufacturers) compared with one month previously. The South East Business Activity Index is comparable to the UK Composite Output Index. It is sometimes referred to as the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

### New orders rise at weakest pace in 18 months

Private sector firms in the South East recorded a rise in new order book volumes for the eighteenth month running in August. That said, the rate of expansion was mild, eased to the weakest in the current sequence of growth and was softer than the long-run series average. Firms indicated that weak demand conditions and client hesitancy weighed on new order growth.

However, an expansion in order book volumes in the South East contrasted with a decline at the UK level.

### Sentiment improves from July, but remains historically weak

August data revealed optimism in the South East with firms confident of output growth over the year ahead. The degree of positivity strengthened from July but was the second-weakest since October 2020. Firms were hopeful that greater investment and marketing would support an expansion, but others feared a recession

## Exports

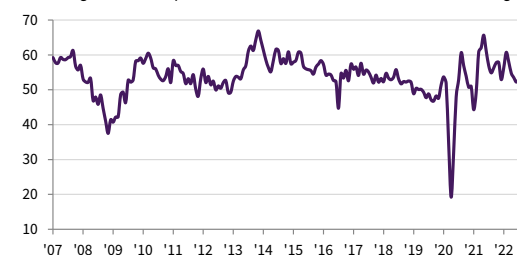
### Export climate deteriorates for the first time in over two years

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.

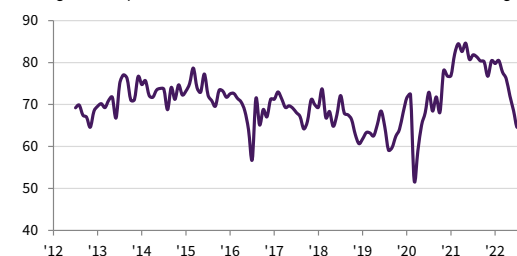
The Export Climate Index fell from 50.2 in July, to 48.7 in August, signalling a renewed decline in output across the South East's major export markets.

Two of the top five export markets registered output growth in August with Ireland seeing the strongest increase and for the seventh month in a row. France, meanwhile, recorded only a marginal increase. The Netherlands registered a renewed decline while Germany and the US saw sharp and accelerated contractions.

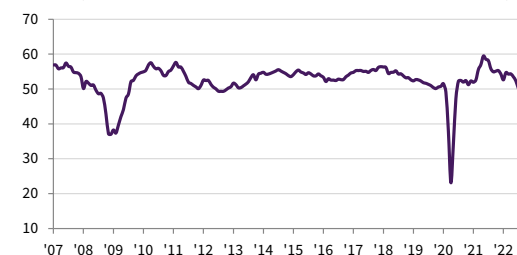
New Business Index  
sa, >50 = growth since previous month  
51.3  
Aug '22



Future Activity Index  
>50 = growth expected over next 12 months  
68.3  
Aug '22

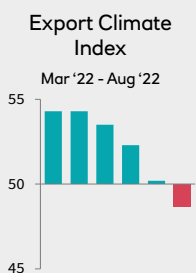
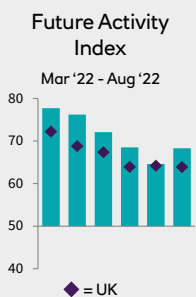
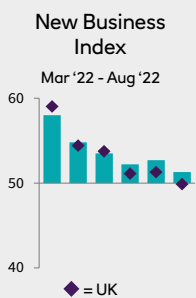


Export Climate Index  
sa, >50 = growth since previous month  
48.7  
Aug '22



Top export markets, South East

Rank	Market	Weight	Output Index, Aug '22
1	USA	16.4%	44.6
2	Germany	12.0%	46.9
3	Netherlands	6.3%	49.4
4	France	6.1%	50.4
5	Ireland	6.0%	51.0



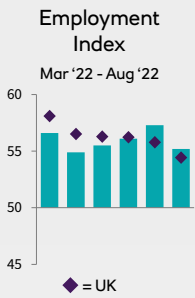
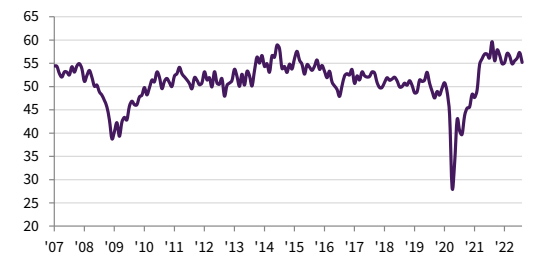
## Business capacity

### Staffing levels continue to grow sharply

Private sector firms in the South East continued to signal job creation in August as indicated by the respective seasonally adjusted index registering above the 50.0 value for the eighteenth month running. Despite moderating to a four-month low, the rate of growth was sharp and above the long-run series average.

At the sector level, headcounts rose at a quicker pace at manufacturing firms compared to service providers.

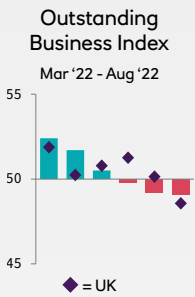
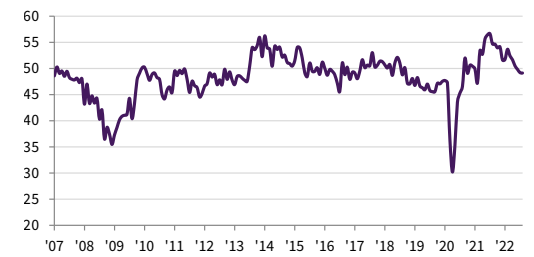
Employment Index  
sa, >50 = growth since previous month  
55.2  
Aug '22



### Outstanding business falls at the quickest pace in three months

August data highlighted a further reduction in outstanding business at private sector firms in the South East, as has been the case in each month since June. Anecdotal evidence associated the latest fall with subdued order book volumes, allowing firms to work through outstanding business. Moreover, the rate of backlog depletion quickened to the steepest in three months.

Outstanding Business Index  
sa, >50 = growth since previous month  
49.1  
Aug '22



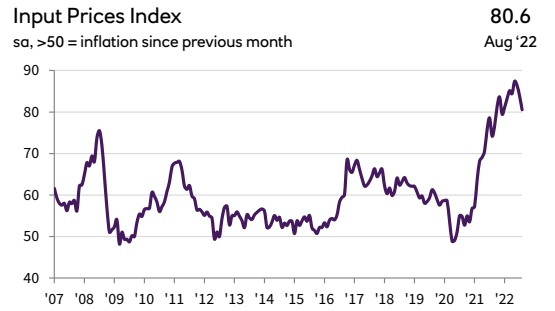


## Prices

### Input price inflation eases to eight-month low

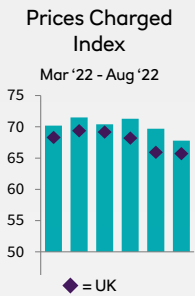
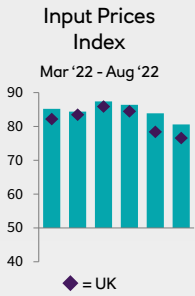
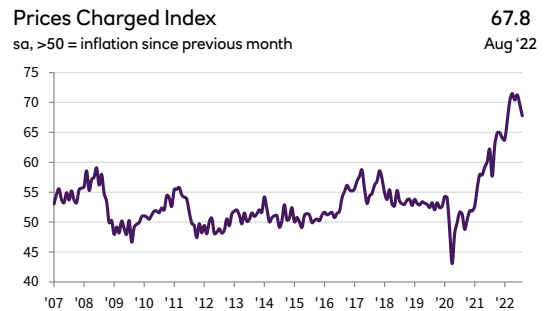
Average cost burdens faced by private sector firms in the South East rose substantially in August, with the latest increase sharp compared to the historical average. Despite the rate of inflation easing for the third month in a row, it was still among the sharpest in the survey's history. Higher commodity, energy, transportation and metal costs were linked to the increase.

Input prices rose at a weaker pace at the national level compared to that seen in the South East.



### Output prices rise substantially in August

As has been the case in each month since October 2020, average prices charged by private sector firms in the South East increased in August. Anecdotal evidence linked inflation with the pass through of higher input costs to clients. That said, output prices rose at the softest pace in six months.



## 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, Aug '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, Aug '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

### Timber & Paper

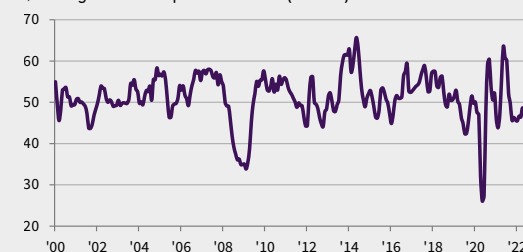
Latest UK PMI data showed a sustained downturn in activity across the Timber & Paper sector. Output levels fell sharply in the three months to August, maintaining a period of contraction stretching back a year.

Inflows of new orders decreased at an even faster rate, thereby leading to markedly reduced levels of outstanding business and a near-record build-up of finished goods. By contrast, pre-production inventories returned to contraction.

Positively, delays in the receipt of inputs were the lowest in almost two-and-a-half years. The easing of supply-chain pressures was further reflected in a moderation in the rate of input price inflation, down the lowest since the start of 2021, although it still remained elevated by historical standards. Similarly, there was a further sharp, albeit notably slower, rise in output prices across the sector.

#### Output Index

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



\* 3-month moving average



## UK Regional PMI overview

### Business Activity

Just three out of the 12 monitored UK regions recorded a rise in business activity in August. Growth in London was solid but eased notably since July, whilst both the North West and Yorkshire & Humber recorded only modest rates of expansion. Activity fell elsewhere, with the steepest declines registered in the North East and East of England.

### Employment

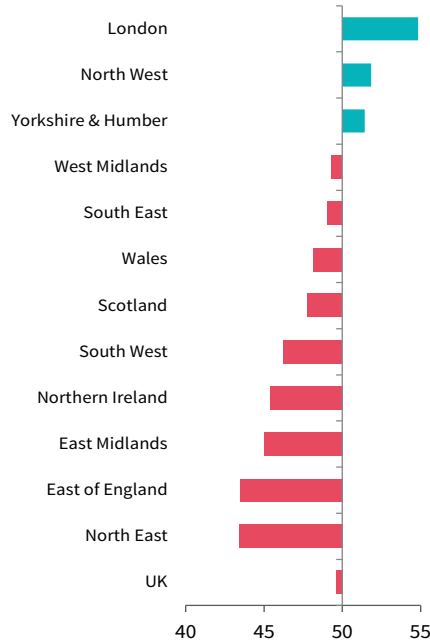
Despite signs of weakness in activity and demand, almost all regions recorded a rise in employment in August. The only exception was the North East, where workforce numbers fell for the third month running. Rates of job creation not only slowed, however, but they varied widely, with a further steep rise in workforce numbers in London contrasting with only marginal growth in the South West.

### Future Activity

The majority of regions recorded a drop in business confidence towards the outlook in August. The three highest-ranked areas, Yorkshire & Humber, the South East and London, went against the broader trend and recorded improved sentiment, as did the East Midlands (ranked eighth). Expectations turned negative in the North East, while firms in Northern Ireland\* grew more pessimistic.

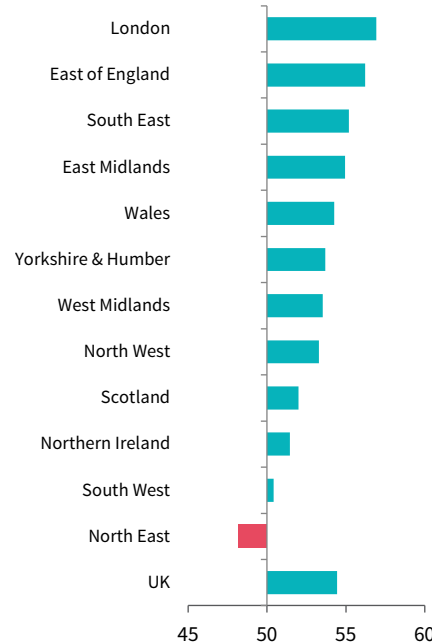
Business Activity Index

sa, >50 = growth since previous month, Aug '22



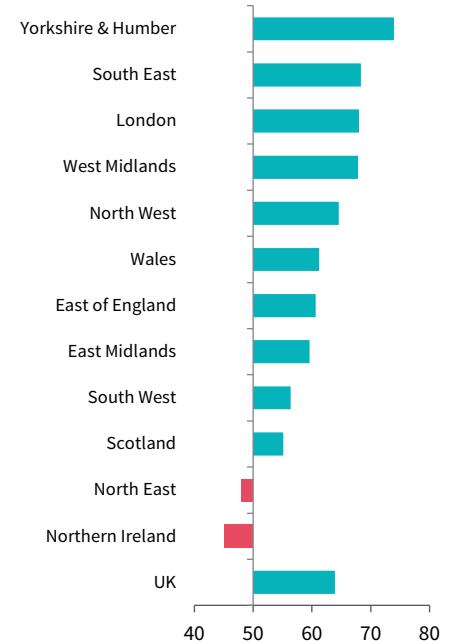
Employment Index

sa, >50 = growth since previous month, Aug '22



Future Activity Index

>50 = growth expected over next 12 months, Aug '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
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
May '22	53.2	53.5	53.5	72.1	55.5	50.5	87.4	70.4
Jun '22	54.6	52.2	52.3	68.5	56.1	49.8	86.4	71.3
Jul '22	52.8	52.7	50.2	64.6	57.3	49.2	83.9	69.7
Aug '22	49.0	51.3	48.7	68.3	55.2	49.1	80.6	67.8

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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.

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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.

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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.

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