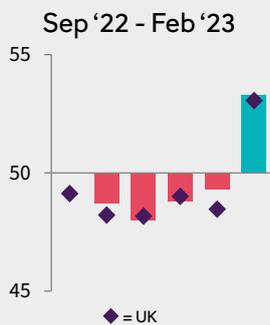


NatWest South East PMI[®]

Renewed increase in business activity as new orders rise further

South East Business Activity Index



Key findings

Private sector output expands for first time in seven months

New business growth accelerates

Inflationary pressures recede

There was a notable improvement in the South East business environment during February, with the NatWest PMI[®] showing a renewed expansion in output as new business continued to increase. 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 — climbed from 49.3 in January to 53.3 in February. This was the first above-50.0 reading seen since July 2022, and one that was consistent with a solid rate of expansion. Companies that reported higher levels of output mentioned new business gains and less challenging supply-chain conditions. Furthermore, the local upturn was the second-best of the 12 monitored UK regions and nations, behind London.

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

"The main feature of the latest results was the first increase in local output since July 2022, and one that was the second-best of the 12 monitored UK regions and nations. South East companies enjoyed a robust upturn in demand for goods and services, which anecdotal evidence suggested took some firms by surprise. In addition to more favourable economic data for the UK released in recent months, businesses and their clients were more prone to spend due to retreating price pressures. Rates of input cost and output charge inflation remained elevated, but nevertheless softened to the slowest in 22 and 17 months respectively."

South East Business Activity Index

sa, >50 = growth since previous month



Contents

- [About the report](#)
- [Demand and outlook](#)
- [Exports](#)
- [Business capacity](#)
- [Prices](#)
- [UK Sector PMI](#)
- [UK Regional PMI](#)
- [Data summary](#)
- [Contact](#)

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

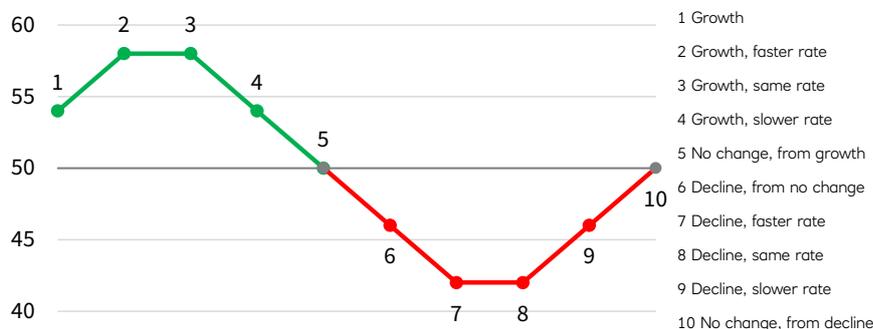
calculated from a single question that asks for changes in the volume of business activity (at service providers) or output (at manufacturers) compared with one month previously. The South East Business Activity Index is comparable to the UK Composite Output Index. It is sometimes referred to as the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

New business growth accelerates halfway through first quarter

February data highlighted back-to-back increases in new orders placed with private sector companies operating in the South East. Moreover, the rate of expansion was solid and the strongest in nine months. Survey participants linked the upturn to improved client confidence and better underlying demand in general.

The South East came fourth in the regional rankings for sales, with only Wales seeing a reduction since January.

Sentiment slips from January's eight-month high

South East firms remained confident that output would increase in the coming 12 months, but the overall level of sentiment fell from January's eight-month high. Companies that foresee growth mentioned that the development of new products and services, investment, expanded capacities and advertising should support activity. Optimism was dampened by concerns around inflation, higher borrowing costs and the cost-of-living crisis.

Local firms were slightly less upbeat than UK companies on average.

Exports

Trade opportunities improve in February

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.

Posting 51.9 in February, up from 49.9 in January, the ECI was in growth territory for the first time in seven months. The latest figure also showed the strongest improvement in the export climate since mid-2022.

Three of the top five export markets for the South East registered a renewed increase in output in February, France Germany and the US. Growth was sustained in Ireland and the Netherlands.

New Business Index
sa, >50 = growth since previous month
53.1
Feb '23



Future Activity Index
>50 = growth expected over next 12 months
69.6
Feb '23



Export Climate Index
sa, >50 = growth since previous month
51.9
Feb '23



Top export markets, South East

| Rank | Market | Weight | Output Index, Feb '23 |
|------|-------------|--------|-----------------------|
| 1 | USA | 17.8% | 50.1 |
| 2 | Germany | 13.5% | 50.7 |
| 3 | France | 12.7% | 51.7 |
| 4 | Ireland | 11.0% | 54.5 |
| 5 | Netherlands | 10.6% | 50.4 |



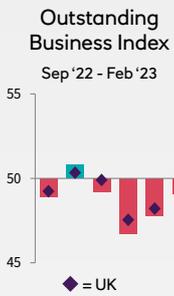
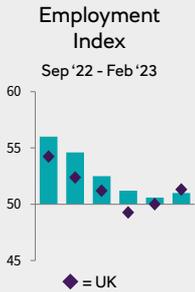
Business capacity

Slight upturn in private sector employment

Amid reports of greater inflows of new business, efforts to clear backlogs and predictions of demand resilience, South East companies hired extra staff in February. The rate of job creation picked up from January's near two-year low, but remained slight. Resignations, cost-cutting efforts and rising operating expenses reportedly curbed the latest expansion in payroll numbers.

The rate of increase in local jobs was below the national average.

Employment Index
sa, >50 = growth since previous month
51.0
Feb '23



Downturn in outstanding business softens in February

For the fourth consecutive month, there was a decline in unfinished business at private sector firms in the South East. Where a fall was reported, survey participants mentioned the easing of supply-chain issues and subdued sales of some items. Other panellists noted that rising levels of new work added pressure to their capacities. Overall, backlogs decreased at a marginal pace that was the slowest since last November.

The reduction seen locally contrasted with accumulation at the UK level.

Outstanding Business Index
sa, >50 = growth since previous month
49.1
Feb '23



Prices

Input costs rise at slowest rate since April 2021

South East companies signalled another increase in their operating expenses mid-way through the first quarter, which they attributed to higher food, insurance, material, utility and staff costs. That said, although still elevated, the overall rate of inflation moderated to the weakest in 22 months amid reduced pressure from commodity, gas, fuel and shipping prices. Average cost burdens have increased in each month since June 2020.

The South East saw a weaker rate of input cost inflation than that recorded at the UK level.

Input Prices Index 69.2
sa, >50 = inflation since previous month Feb '23

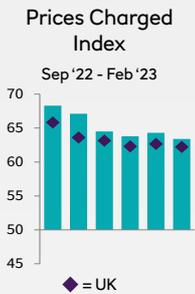


Output price inflation eases to 17-month low

Prices charged for goods and services in the South East continued to rise in February, stretching the current sequence of inflation to 29 months. Despite being sharp and above its long-run average, the rate of increase softened to the slowest since September 2021. Several companies sought to protect margins and share additional cost burdens with clients by lifting their fees, but others refrained from hiking their prices amid competitive conditions and softer cost pressures.

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

Prices Charged Index 63.4
sa, >50 = inflation since previous month Feb '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, Feb '23* |
|------|------------------------|------|---------------------------|
| 1 | Electrical & Optical | 2.03 | 50 |
| 2 | Chemicals & Plastics | 1.22 | 45 |
| 3 | Mechanical Engineering | 1.15 | 50 |
| 4 | Timber & Paper | 1.03 | 40 |
| 5 | Other Manufacturing | 1.01 | 50 |
| 6 | Basic Metals | 0.88 | 50 |
| 7 | Transport | 0.63 | 45 |
| 8 | Food & Drink | 0.57 | 55 |
| 9 | Textiles & Clothing | 0.39 | 45 |

South East specialisation: Services

| Rank | Sector | LQ | UK Business Activity Index, Feb '23* |
|------|--------------------------------|------|--------------------------------------|
| 1 | Computing & IT Services | 1.65 | 50 |
| 2 | Transport & Communication | 1.14 | 45 |
| 3 | Business-to-business Services | 1.03 | 50 |
| 4 | Hotels, Restaurants & Catering | 0.91 | 55 |
| 5 | Personal & Community Services | 0.90 | 50 |
| 6 | Financial Intermediation | 0.62 | 50 |

UK sector focus

Other Manufacturing

The UK's 'Other Manufacturing' sector - which comprises mainly consumer goods such as furniture, jewellery, sports items and household ceramics - saw a rise in production levels in the three months to February, following several months of declining output. Production was supported by easing supply constraints - the incidence of delivery delays having fallen sharply compared to the situation a year ago - which enabled businesses to catch up on backlogs of work.

Underlying demand continued to exhibit a weak trend, however, as underscored by a sustained decrease in new orders. That said, the rate of decline slowed in the three months to February and firms became more optimistic about the outlook.

Cost pressures in the sector meanwhile eased from the record high levels observed over the previous two years. Selling price inflation nevertheless remained historically elevated.

Output Index

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



* 3-month moving average



UK Regional PMI overview

Business Activity

February saw a rise in business activity across all but one of the regions and nations monitored by the survey. The North East was the only exception, although output there did at least stabilise after a seven-month sequence of contraction. London recorded by far the strongest activity growth, registering its best performance since last July, with the South East a distant second place.

Employment

The number of areas recording an increase in employment rose from seven in January to ten in February, with the South West, East of England and Scotland each seeing renewed job creation. Northern Ireland was at the top of the rankings for workforce growth for a second straight month. Further decreases in employment were meanwhile recorded in both Wales and the North East.

Future Activity

There was an improvement in business confidence in two-thirds of areas in February. The most marked upswings in sentiment were in Northern Ireland and Scotland, although these two remained towards the bottom end of the scale for overall levels of optimism. Expectations were highest in the West Midlands, as was the case in January, and lowest in the North East, which saw confidence wane slightly.

Business Activity Index

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



Employment Index

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



Future Activity Index

>50 = growth expected over next 12 months, Feb '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 |
|---------|-------------------|--------------|----------------|------------------|------------|----------------------|--------------|----------------|
| Sep '22 | 50.0 | 49.3 | 49.4 | 66.6 | 56.0 | 48.9 | 79.7 | 68.3 |
| Oct '22 | 48.7 | 45.9 | 48.7 | 61.3 | 54.6 | 50.8 | 77.2 | 67.1 |
| Nov '22 | 48.0 | 44.7 | 47.7 | 62.9 | 52.5 | 49.2 | 77.6 | 64.5 |
| 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 |

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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.

About S&P Global

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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

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