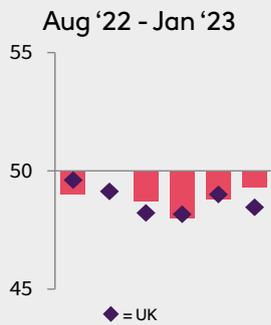




# NatWest South East PMI<sup>®</sup>

## South East output contracts further, but new business expands in January

### South East Business Activity Index



### Key findings

Slowest fall in output in four months

Mild rise in sales ends four-month period of reduction

Business confidence improves at start of 2023

A renewed improvement in demand for South East goods and services helped restrict the continued downturn in output, according to the NatWest PMI<sup>®</sup>. Rising from 48.8 in December to 49.3 in January, 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 — highlighted a slight rate of reduction that was the weakest in the current four-month period of contraction. Companies that signalled a fall mentioned the postponement of contracts, material shortages and fragile demand conditions. Those that reported growth cited efficiency enhancements and reduced competition. The South East saw the weakest decline in output out of the 11 regions that registered a reduction. Growth was only seen in the capital.

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

*"It is very positive news to see a return to growth of demand for South East goods and services, especially considering the current economic landscape and challenges facing households and firms. The region also performed well compared to other parts of the UK, noting the best trend for sales and the slowest fall in output of the 11 areas that were in contraction. Although local jobs increased further in January, growth was again dampened by skill shortages and staff resigning in search of higher pay elsewhere. There remain several headwinds to the outlook, but South East firms became more confident that business activity would expand over the course of the coming 12 months."*

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

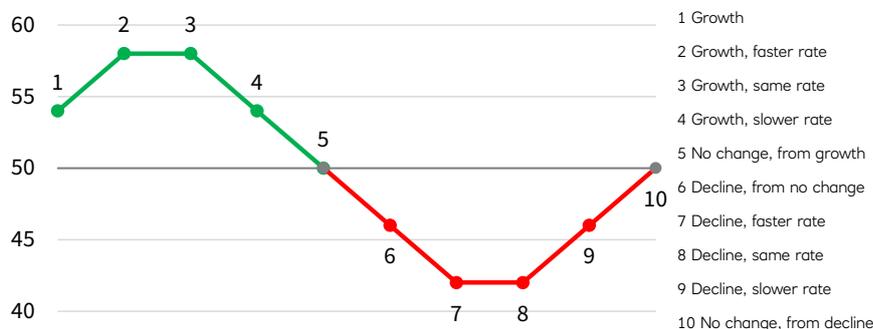
calculated from a single question that asks for changes in the volume of business activity (at service providers) or output (at manufacturers) compared with one month previously. The South East Business Activity Index is comparable to the UK Composite Output Index. It is sometimes referred to as the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

### Slight increase in new business

After falling in each of the prior four months, new business placed with South East firms rose in January. Where growth was reported, panellists mentioned cross-selling opportunities and clients bringing purchases forward to beat future price hikes. That said, the overall rate of expansion was slight and below its long-run average. Growth was reportedly curbed by subdued demand for certain goods and services, destocking among some customers and budget constraints.

The South East recorded the best trend for new business out of the 12 monitored UK regions.

### Business sentiment climbs to eight-month high in January

Optimism among South East companies towards the year-ahead outlook for output strengthened to an eight-month high at the start of 2023. New product releases, recruitment drives, investment and predictions of a recovery in demand were among the reasons associated with positive expectations.

Regionally, only the West Midlands and Yorkshire & Humber registered a higher level of confidence than that seen in the South East.

## Exports

### Tentative signs of stabilisation in trade opportunities

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 49.9 in January, up from 48.5 in December, the ECI was only fractionally below the neutral mark of 50.0. The latest figure pointed to nearly stable export conditions following deteriorations in each of the prior five months.

Economic growth was seen in two of the top five export markets for the South East, namely Ireland and the Netherlands. Concurrently, slower contractions were registered in Germany and the US, while France posted an equal rate of reduction to December.

New Business Index  
sa, >50 = growth since previous month  
51.0  
Jan '23



Future Activity Index  
>50 = growth expected over next 12 months  
72.0  
Jan '23



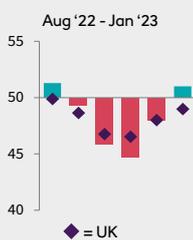
Export Climate Index  
sa, >50 = growth since previous month  
49.9  
Jan '23



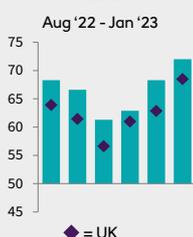
Top export markets, South East

Rank	Market	Weight	Output Index, Jan '23
1	USA	17.8%	46.8
2	Germany	13.5%	49.9
3	France	12.7%	49.1
4	Ireland	11.0%	52.0
5	Netherlands	10.6%	50.7

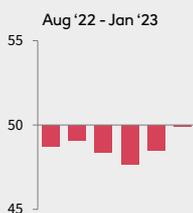
New Business Index  
Aug '22 - Jan '23



Future Activity Index  
Aug '22 - Jan '23



Export Climate Index  
Aug '22 - Jan '23



## Business capacity

### Employment rises further, albeit marginally

Companies operating in the South East private sector signalled a further increase in headcounts during January, stretching the current sequence of expansion to 23 months. That said, the rate of job creation was marginal and the slowest over this period. Some firms linked recruitment activity to growth projections and the filling of vacancies. Others signalled lower payroll numbers amid staff leaving in search of better pay elsewhere and troubles finding suitable workers.

The local upturn in employment compared with no change at the UK level.

Employment Index 50.6  
sa, >50 = growth since previous month Jan '23



### Unfinished business decreases for third straight month

January data pointed to another decline in outstanding business levels at private sector companies in the South East. The fall was the third in consecutive months, though moderate and slower than in December. Survey participants that signalled lower backlogs mentioned subdued intakes of new work and less challenging supply-chain conditions.

The South East registered a quicker contraction in unfinished business than the national average.

Outstanding Business Index 47.8  
sa, >50 = growth since previous month Jan '23



Employment Index



Outstanding Business Index



## Prices

### Cost pressures recede during January

Amid reports of higher food, insurance, material, utility and wage costs, average input prices facing South East companies continued to increase at the start of the year. However, although sharp, the rate of inflation eased to a 20-month low. Contained energy prices and lower transportation fees reportedly restricted the latest upturn in cost burdens.

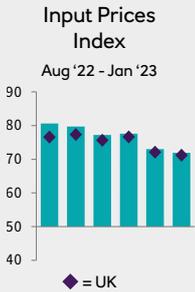
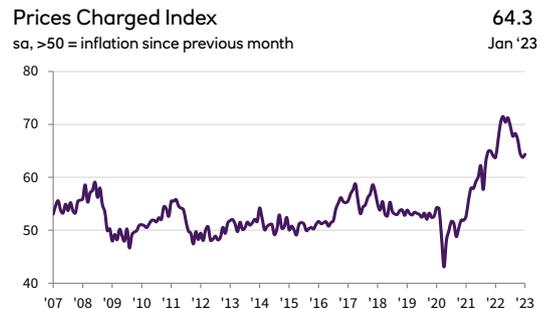
The South East came fifth in the regional rankings for input price inflation.



### Output charges rise at quicker rate

Prices charged for goods and services in the South East continued to increase in January, taking the current sequence of inflation to 28 months. Moreover, the latest upturn was sharp, quicker than in December and above its long-run average. Those firms that hiked their fees mentioned the pass through of ongoing cost rises to their clients.

Regionally, the South East came third in the rankings for charge inflation, behind Wales and the North East.



## 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, Jan '23*
1	Electrical & Optical	2.03	50
2	Chemicals & Plastics	1.22	45
3	Mechanical Engineering	1.15	55
4	Timber & Paper	1.03	40
5	Other Manufacturing	1.01	50
6	Basic Metals	0.88	48
7	Transport	0.63	48
8	Food & Drink	0.57	55
9	Textiles & Clothing	0.39	45

#### South East specialisation: Services

Rank	Sector	LQ	UK Business Activity Index, Jan '23*
1	Computing & IT Services	1.65	55
2	Transport & Communication	1.14	45
3	Business-to-business Services	1.03	52
4	Hotels, Restaurants & Catering	0.91	52
5	Personal & Community Services	0.90	50
6	Financial Intermediation	0.62	48

## UK sector focus

### Personal & Community Services

After seeing activity levels decline in the latter stages of last year, the UK's Personal & Community Services sector started 2023 on a more stable footing. Key to this was a renewed, albeit marginal, upturn in inflows of new businesses in the three months to January.

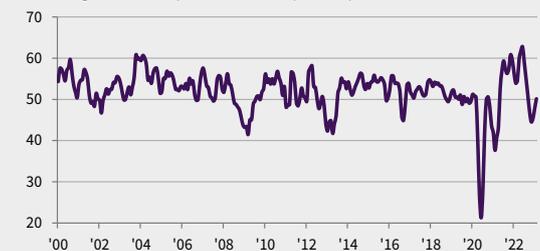
However, with survey data showing a lack of pressure on operating capacity, as evidenced by a marked and accelerated reduction in backlogs of work, firms reduced workforce numbers.

On the cost front, the rate of input price inflation eased only slightly and remained close to the record highs seen in 2022. Of the services sub-sectors mentioned, it was second only to that recorded by Hotels, Restaurants & Catering. Prices charged by Personal & Community Services firms meanwhile rose to the greatest extent since mid-2022.

Positively, expectations towards the year ahead improved, although they remained subdued by historical standards.

#### Output Index

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



\* 3-month moving average



## UK Regional PMI overview

### Business Activity

London was alone among the 12 UK regions monitored by the survey in recording higher activity in January. The rate of growth in the capital remained only marginal, however. There were renewed downturns in output in both Wales and the North West, while the steepest decrease in activity was once again recorded in Northern Ireland.

### Employment

Seven of the 12 regions and nations monitored posted a rise in employment in January, up from just four in December. Northern Ireland topped the rankings, registering its steepest rise in workforce numbers for six months, ahead of the West Midlands. The most marked fall in employment was in the North East, as had been the case in the previous survey period.

### Future Activity

January data showed a broad-based improvement in business expectations. The greatest increase in confidence was recorded in the West Midlands, which also saw the strongest overall optimism. Sentiment in Northern Ireland turned positive for the first time in nine months, although it remained lower than in any other region or nation.

#### Business Activity Index

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



#### Employment Index

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



#### Future Activity Index

>50 = growth expected over next 12 months, Jan '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
Aug '22	49.0	51.3	48.7	68.3	55.2	49.1	80.6	67.8
Sep '22	50.0	49.3	49.1	66.6	56.0	48.9	79.7	68.3
Oct '22	48.7	45.9	48.4	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

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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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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

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