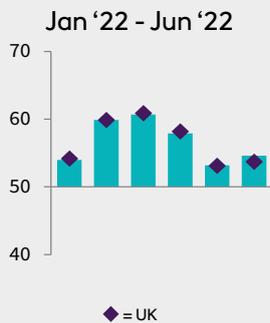


NatWest South East PMI[®]

New order growth slows to 16-month low while charge inflation quickens

South East Business Activity Index



Key findings

Activity growth quickens in June, while new orders rise at softer pace

Sharp and accelerated increase in staffing levels

Near-record increase in output price and input cost inflation

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 – rose from 53.2 in May to 54.6 in June. The latest reading pointed to a quicker expansion in output, despite the softest uptick in new orders for 16 months.

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

"Private sector companies in the South East recorded a quicker expansion in activity to end the second quarter of the year. At the same time, firms continued to raise their staffing levels at robust rates which allowed them to reduce their backlogs for the first time in well over a year.

"That said, issues continued to arise with price pressures more than elevated. In fact, near-record increases were registered for both input and output price inflation following persistent supply friction, fuel surcharges, and the war in Ukraine which exacerbated expenses in June. Firms had no choice but to increase their selling fees in the middle of a cost of living crisis resulting in the weakest increase in new orders for 16 months.

"A testing second half of the year is sure to follow."

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

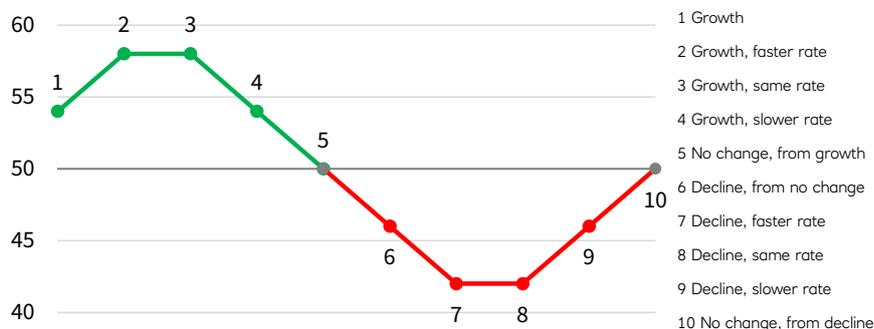
calculated from a single question that asks for changes in the volume of business activity (at service providers) or output (at manufacturers) compared with one month previously. The South East Business Activity Index is comparable to the UK Composite Output Index. It is sometimes referred to as the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

New order growth moderates to 16-month low

Adjusted for seasonal influences, the New Business Index slipped to its lowest reading since February 2021 in June. Growth was marginal and weaker than the long-run series average amid weak domestic demand and the war in Ukraine.

New orders rose at a quicker pace in the South East compared to the UK as a whole, however.

New Business Index
sa, >50 = growth since previous month
52.2
Jun '22



Sentiment dips to lowest for 20 months

Firms' expectations with regards to activity over the next 12 months remained in positive territory in June, a trend observed since the series began in July 2012. That said, the degree of optimism eased for the fourth month in a row to the weakest since October 2020. A number of firms reported hopes of greater demand in the coming months, while others foresee economic hardship and persistent inflationary pressures.

Future Activity Index
>50 = growth expected over next 12 months
68.5
Jun '22



Exports

Export demand growth softens to 17-month low

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 53.5 in May to 52.3 in June to indicate a modest - albeit weaker - improvement in export market conditions.

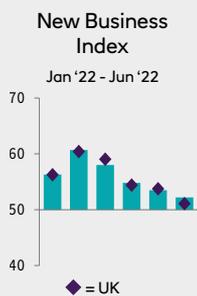
Across the South East's top five export markets, Ireland recorded the strongest expansion, and for the fifth month running. France and the US followed, though here the rates of growth eased and were the softest for 14 and 23 months, respectively. The Netherlands recorded the softest expansion for 19 months.

Export Climate Index
sa, >50 = growth since previous month
52.3
Jun '22



Top export markets, South East

Rank	Market	Weight	Output Index, Jun '22
1	USA	16.4%	52.3
2	Germany	12.0%	51.3
3	Netherlands	6.3%	52.1
4	France	6.1%	52.5
5	Ireland	6.0%	52.8



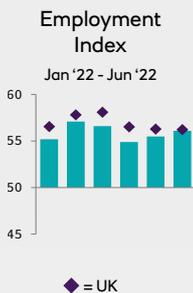
Business capacity

Headcounts rise at marked and accelerated pace

Employment levels in the South East's private sector rose for the sixteenth month in succession during June. Moreover, the rate of growth quickened to a three-month high and was much faster than the long-run series average. Firms raised their headcounts in anticipation of greater demand and as part of efforts to reduce backlogs.

Sub-sector data indicated service providers raised their staffing levels at a quicker rate than manufacturers.

Employment Index 56.1
sa, >50 = growth since previous month Jun '22

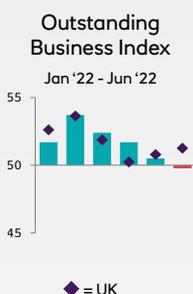


Renewed decline in outstanding business

June data revealed a slight decline in backlogs at private sector firms in the South East, thereby ending 15 consecutive months of accumulation. The reduction mainly reflected weaker inflows of new orders. The rate of contraction was only slight, however. Firms that registered higher backlogs continued to cite staff shortages.

A slight fall in outstanding business in the South East contrasted with a solid uptick across the UK as a whole.

Outstanding Business Index 49.8
sa, >50 = growth since previous month Jun '22



Prices

Input price inflation at near-record high

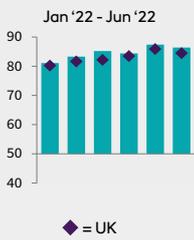
Average cost burdens faced by private sector firms in the South East rose substantially in June. In fact, the rate of inflation was the second strongest in the survey's history, surpassed only by that seen in May. Higher prices were reported for fuel, energy, raw materials and labour. According to panellists, Brexit, the war in Ukraine, material scarcity and supply issues exerted upward pressure on prices.

Input prices rose markedly at both manufacturers and service providers, although the former saw a much steeper rate of inflation.

Input Prices Index
sa, >50 = inflation since previous month
86.4
Jun '22



Input Prices Index
Jan '22 - Jun '22



◆ = UK

Prices Charged Index
Jan '22 - Jun '22



◆ = UK

Selling prices rise at the second-strongest rate in the series history

In line with rising cost burdens, selling prices levied by private sector firms in the South East rose markedly in June. Moreover, the rate of increase accelerated from May and was the second-quickest in the series history, surpassed only by that seen in April. Higher material, fuel, energy and transportation costs were passed on to clients, according to respondents.

Selling prices also rose across the UK as a whole, although at a softer pace than that seen in the region.

Prices Charged Index
sa, >50 = inflation since previous month
71.3
Jun '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, Jun '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, Jun '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

Textiles & Clothing

Latest data showed a decline in production levels across the UK's Textiles & Clothing sector during the second quarter. It was one of three manufacturing categories (out of nine monitored) to record lower output, alongside Timber & Paper and Food & Drink.

Weaker underlying demand was a driving factor, with inflows of new work falling in the three months to June. This was despite a slight upturn in export sales over the same period.

Cost pressures continued to build across the Textiles & Clothing sector during the second quarter, reaching a near-record high. With many firms looking to pass on at least part of the burden to customers, output price inflation quickened to a rate unseen for over two decades.

Positively, and despite waning business confidence, employment in the sector continued to rise, with the rate of job creation quickening to a 12-month high.

Output Index

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



* 3-month moving average



UK Regional PMI overview

Business Activity

Regional performances varied markedly in terms of business activity in June. London led the growth rankings by some margin with a steep and accelerated rise in output. However, three areas recorded lower business activity, one being Northern Ireland*, where output fell for the second month running and at the quickest rate since February 2021.

Employment

Employment rose in almost every region in June, the only exception being the North East. Here, staffing numbers fell - albeit fractionally - for the second time in the past three months. London recorded the strongest rate of job creation, as has been the case in each month since February. Five areas recorded a slower rate of employment growth than the month before, however.

Future Activity

Firms' expectations for activity in the year ahead generally worsened in June. Of the 12 monitored areas, only the West Midlands and Wales recorded stronger business confidence. Despite seeing sentiment weaken, Yorkshire & Humber remained the most optimistic region. Expectations were lowest in Northern Ireland, where they turned more pessimistic.

Business Activity Index

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



Employment Index

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



Future Activity Index

>50 = growth expected over next 12 months, Jun '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
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
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

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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

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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