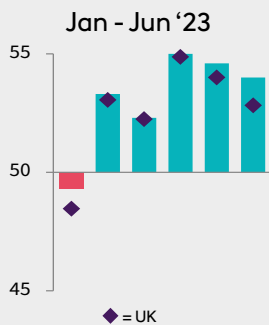


NatWest South East PMI[®]

Business activity rises markedly as price pressures recede

South East Business Activity Index



Key findings

Output and new orders continue to expand

Input cost inflation retreats to 28-month low

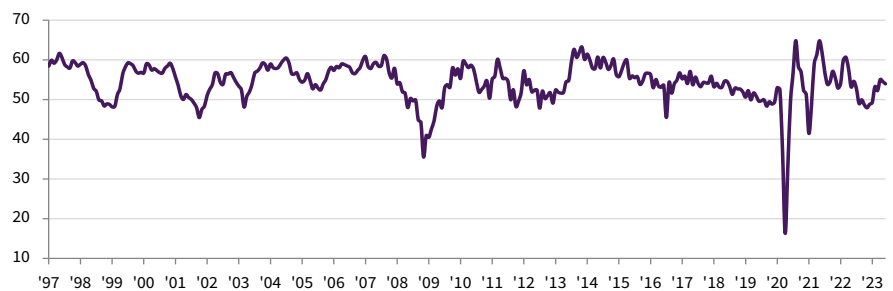
Selling prices rise at slowest rate since August 2021

Operating conditions in the South East continued to improve in June, according to NatWest PMI[®] data, as demand resilience positively influenced several other measures. The latest results showed sustained growth of new orders, output and employment as well as a pick-up in business confidence. Moreover, with input cost inflation slipping to a 28-month low, there was a softer increase in output charges. Posting 54.0 in June, down only marginally from 54.6 in May, 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 — signalled a marked expansion in output. Companies linked the upturn to new business gains and fruitful advertising.

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

"It's encouraging to witness the South East region positioning itself near the top of the output growth rankings as firms positively reacted to greater intakes of new business. Despite the release of less favourable economic data in recent months, firms remained highly optimistic about the medium-term growth prospects amid the planned launch of new products & services, acquisitions and demand resilience. Another notable highlight from the PMI results revolves around price pressures, with lower commodity, energy, fuel and shipping costs playing a role in curbing input cost inflation to a 28-month low. This restraint in expenses limited hikes to selling prices, enhancing the potential for favourable sales opportunities."

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

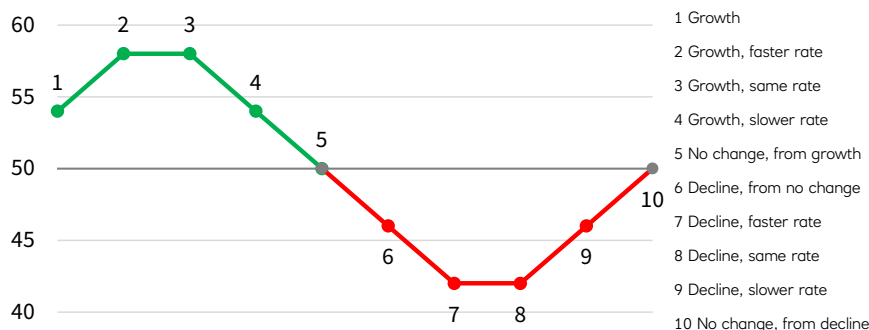
calculated from a single question that asks for changes in the volume of business activity (at service providers) or output (at manufacturers) compared with one month previously. The South East Business Activity Index is comparable to the UK Composite Output Index. It is sometimes referred to as the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

Improved tourism, proactive marketing and greater client bases reportedly underpinned a further increase in new business placed with South East companies during June. The latest rise was the sixth in successive months, though moderate and the slowest since January. Anecdotal evidence indicated that reduced client budgets, housing market weakness, subdued investment and prior overstocking among some customers curbed growth.

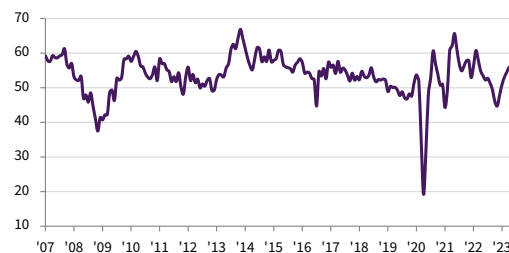
The local expansion in sales was stronger than the UK average.

Companies more optimistic towards the outlook

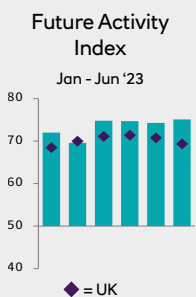
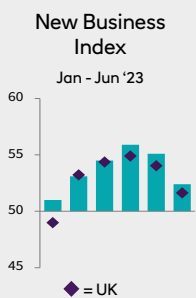
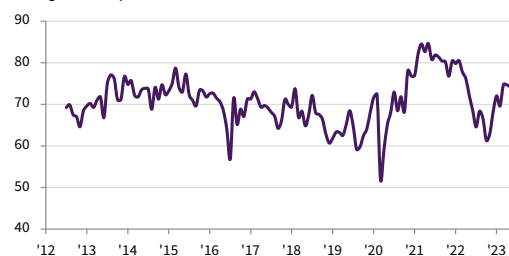
June data continued to show upbeat expectations among South East firms towards output growth prospects. Moreover, the overall level of business confidence rose to a 14-month high. When explaining their positive assessments, panellists mentioned the launch of new products and services, acquisitions and demand resilience as the key opportunities for growth.

The South East topped the regional rankings for business confidence.

New Business Index
sa, >50 = growth since previous month
52.4
Jun '23



Future Activity Index
>50 = growth expected over next 12 months
75.1
Jun '23



Business capacity

Employment rises for third successive month

As has been the case since April, private sector employment in the South East increased at the end of the second quarter. Although only slight, the rate of job creation quickened since May. Companies that reported higher payroll numbers attributed this to greater inflows of new business, cover for staff on long-term sickness absence and strong confidence towards growth prospects.

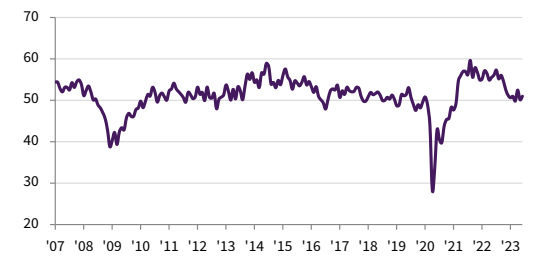
The rate of job creation in the South East was below the national average.

Employment Index

sa, >50 = growth since previous month

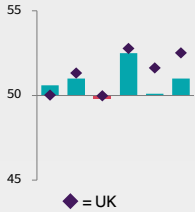
51.0

Jun '23



Employment Index

Jan - Jun '23



Renewed decline in outstanding business

Following back-to-back increases in unfinished business volumes, South East firms noted a reduction during June. Around one-in-four survey participants reported lower backlogs, citing subdued sales growth, efficiency gains and better supply-chain conditions. By comparison, close to 20% of panellists indicated an accumulation in work-in-hand due to staff shortages. The overall rate of depletion was modest.

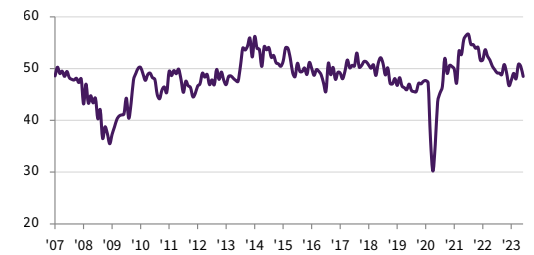
The South East registered the second-weakest fall in backlogs out of the 11 regions that posted reductions. Only London saw an accumulation.

Outstanding Business Index

sa, >50 = growth since previous month

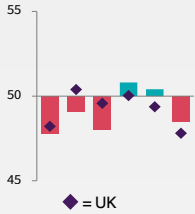
48.5

Jun '23



Outstanding Business Index

Jan - Jun '23

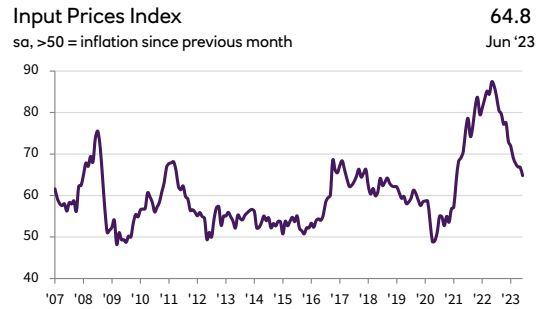


Prices

Input costs rise at slowest pace since February 2021

Operating expenses at private sector companies in the South East continued to rise during June. The rate of inflation remained above its long-run average, but slipped to a 28-month low. Increases were associated with greater personnel expenses — often due to retention efforts — and higher prices for key inputs. Lower commodity, energy, fuel and shipping costs reportedly curbed the upturn.

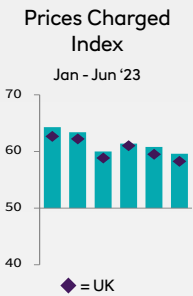
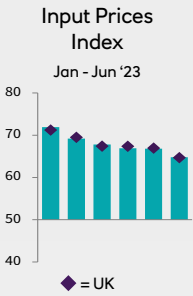
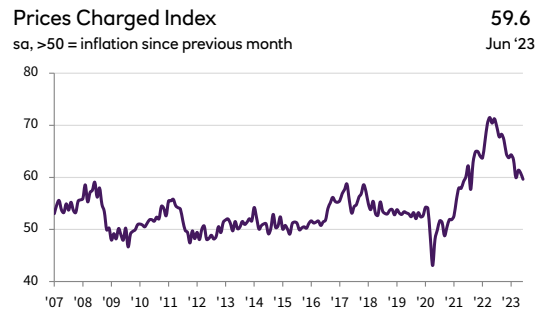
The rate of cost inflation in the South East was broadly in line with the UK average.



Output charge inflation softens to 22-month low

Amid reports of greater raw material, staff and overhead costs, companies in the South East hiked their fees during June. Although historically elevated, the overall rate of charge inflation softened to the weakest since August 2021. The rise was restricted by the passing on of savings made from lower energy and fuel prices to customers. Competitive pressures was also cited as a key factor preventing upward revisions to selling prices in some instances.

The South East came first in the regional rankings for charge inflation.



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 '23*
1	Electrical & Optical	2.03	55
2	Chemicals & Plastics	1.22	50
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	55
8	Food & Drink	0.57	50
9	Textiles & Clothing	0.39	50

South East specialisation: Services

Rank	Sector	LQ	UK Business Activity Index, Jun '23*
1	Computing & IT Services	1.65	60
2	Transport & Communication	1.14	50
3	Business-to-business Services	1.03	55
4	Hotels, Restaurants & Catering	0.91	55
5	Personal & Community Services	0.90	55
6	Financial Intermediation	0.62	60

UK sector focus

Food & Drink

The UK's Food & Drink sector enjoyed a strong second quarter, posting its fastest rise in output for two years. It saw the quickest rate of expansion of the nine manufacturing sectors monitored.

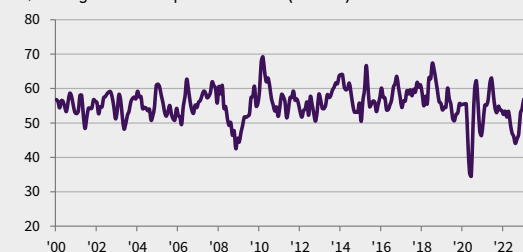
Growth of Food & Drink production in the three months to June was driven by a sharp upturn in demand. This was underscored by a steep and accelerated rise in inflows of new work across the sector.

On the price front, latest data showed a considerable slowdown in the rate of input cost inflation to the lowest for over seven years. This in turn contributed to a slower rise in prices charged, the weakest since Q2 2020.

With firms reporting declining backlogs of work, they showed a reluctance to hire as employment in the sector fell slightly in the three months to June. This was despite strong optimism towards the year-ahead outlook.

Output Index

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



* 3-month moving average



UK Regional PMI overview

Business Activity

Just seven out of the 12 monitored regions and nations recorded growth in business activity in June, the fewest since January. London was once again the best performer but posted its slowest rise in output for three months. Only Scotland (ranked third), Northern Ireland* (fifth) and the East of England (sixth) saw growth accelerate. The steepest drop in activity was in Wales.

Employment

A rise in employment was recorded in all areas except Wales, where workforce numbers were unchanged following a five-month sequence of job losses. London recorded the steepest rise in staffing levels, its sharpest since August last year, followed by Northern Ireland and the East of England. Last month's leader for job creation, Scotland, moved down to eighth in the rankings.

Future Activity

Business confidence weakened in the majority of regions and nations in June. The biggest drop in expectations was in the North East, which slipped to the bottom of the rankings. The South East recorded the greatest optimism and was one of the few areas where sentiment improved, along with the South West, East Midlands and North West.

Business Activity Index

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



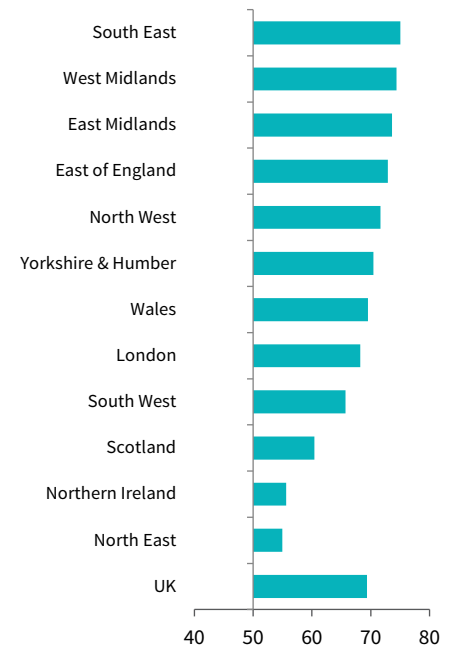
Employment Index

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



Future Activity Index

>50 = growth expected over next 12 months, Jun '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
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
Mar '23	52.3	54.5	52.4	74.8	49.8	48.0	67.8	60.0
Apr '23	55.0	55.9	53.0	74.7	52.5	50.8	66.9	61.4
May '23	54.6	55.1	52.1	74.3	50.1	50.4	66.8	60.8
Jun '23	54.0	52.4	50.7	75.1	51.0	48.5	64.8	59.6

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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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