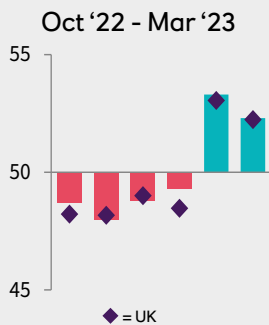


NatWest South East PMI[®]

Demand conditions improve in March as inflation retreats

South East Business Activity Index



Key findings

South East firms see strongest rise in sales for almost a year

Output expands, but recruitment challenges prevent job creation

Slower, albeit sharp, increases in input costs and output charges

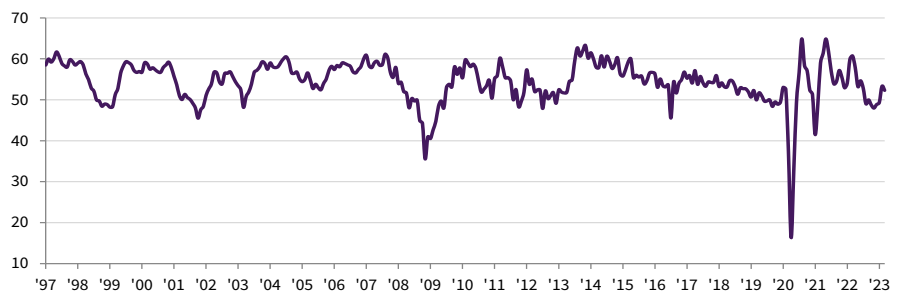
Economic conditions in the South East continued to strengthen, according to the NatWest PMI[®], with data for March showing a faster expansion in new business intakes and back-to-back increases in output. Moreover, business confidence ticked higher and price pressures receded. Posting 52.3 in March, 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 — indicated a second successive rise in business activity. That said, falling from 53.3 in February, the latest reading pointed to a slower and moderate rate of expansion. Anecdotal evidence indicated that growth stemmed from higher sales and the clearing of backlogs, but was curbed by shortages of some inputs, staff absences and hiring difficulties.

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

"South East companies were encouraged by retreating inflationary pressures and the positive impact of recent investments in labour capacity. However, although firms experienced the fastest upturn in new work intakes for nearly a year in March, some barriers restricted output growth. Local businesses again noted input and labour shortages, the latter associated with a lack of skilled candidates and the cost-of-living crisis exerting upward pressure on starting salaries. Some panellists also mentioned staff resigning in search of better pay elsewhere. Companies were upbeat towards the outlook, with optimism somewhat pinned on hopes that inflation will continue on a downward path."

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

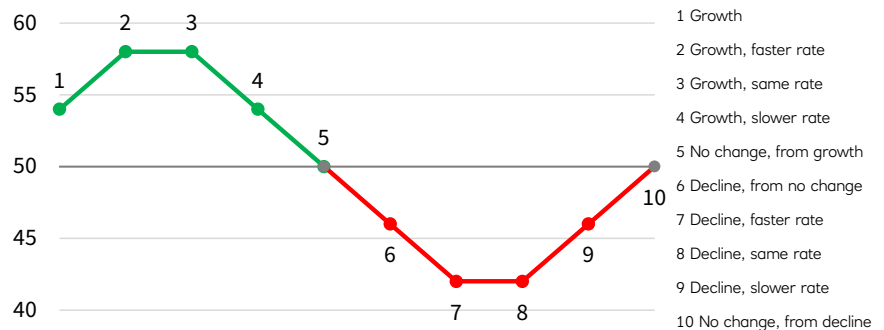
calculated from a single question that asks for changes in the volume of business activity (at service providers) or output (at manufacturers) compared with one month previously. The South East Business Activity Index is comparable to the UK Composite Output Index. It is sometimes referred to as the '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 business growth hits 11-month high in March

South East firms signalled a further increase in new work intakes during March, extending the sequence of growth seen since the start of 2023. Moreover, the pace of expansion was solid and the strongest in 11 months. Companies reported an improvement in demand conditions, organic growth and positive outcomes from investment in sales resource.

The South East noted the third-quickest upturn in new orders out of the 12 monitored UK regions and nations.

Local companies more buoyant towards growth prospects

There was an improvement in the overall level of positive sentiment among South East companies. The respective index rose to its highest mark in nearly a year and was above its long-run average. Panellists that forecast higher output volumes in the coming 12 months pinned optimism on new product releases, acquisitions, advertising and investment. Some also hope for a better economic climate and a retreat of inflationary pressures.

Regionally, only firms in the West Midlands and Yorkshire & Humber were more confident than those in the South East.

Exports

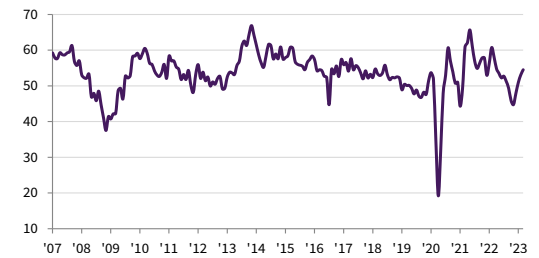
Export conditions improve during March

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.

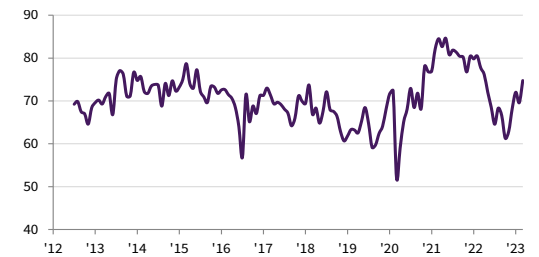
At 52.4 in March, the ECI was in expansion territory for the second straight month. Moreover, rising from 51.9 in February to a nine-month high, the latest figure highlighted the strongest rate of increase since mid-2022.

Better output trends were noted in three of the top five export markets for the South East, with growth quickening in the US, Germany and France. There was a slower rise in business activity across Ireland, and a renewed contraction in the Netherlands.

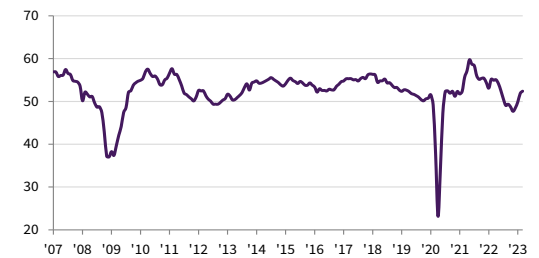
New Business Index
sa, >50 = growth since previous month
54.5
Mar '23



Future Activity Index
>50 = growth expected over next 12 months
74.8
Mar '23



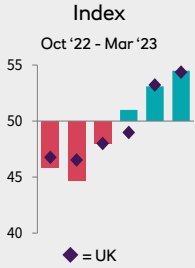
Export Climate Index
sa, >50 = growth since previous month
52.4
Mar '23



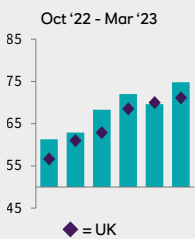
Top export markets, South East

Rank	Market	Weight	Output Index, Mar '23
1	USA	17.8%	52.3
2	Germany	13.5%	52.6
3	France	12.7%	52.7
4	Ireland	11.0%	52.8
5	Netherlands	10.6%	48.2

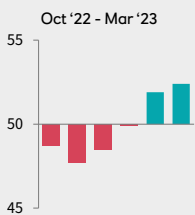
New Business Index



Future Activity Index



Export Climate Index



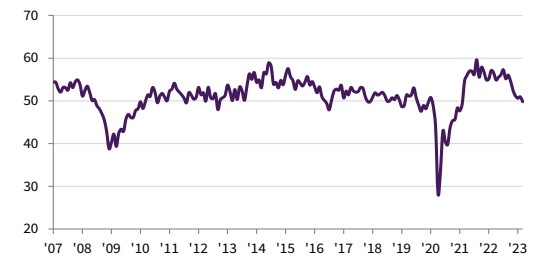
Business capacity

Little change to local employment in March

After lifting payroll numbers on a monthly basis for two years, South East firms registered broadly unchanged headcounts in March. This was signalled by the respective seasonally adjusted index posting only fractionally below the neutral mark of 50.0. Some companies associated a fall with cost-cutting efforts, hiring challenges and the non-replacement of voluntary leavers. Others attributed growth to recruitment campaigns, efforts to clear backlogs and greater sales volumes.

Concurrently, employment stagnated at the UK level.

Employment Index
sa, >50 = growth since previous month
49.8
Mar '23

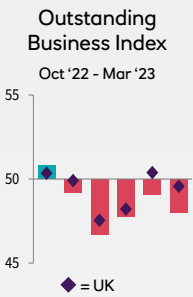
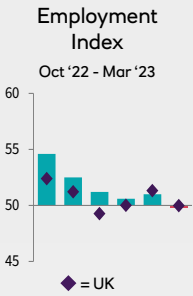
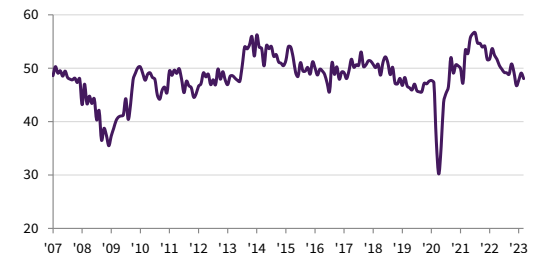


Quicker decline in outstanding business volumes

South East companies continued to make inroads into their backlogs in March, reducing them for the fifth month in succession. Although moderate, the rate of depletion accelerated from February. More stable raw material supply and efforts to deliver delayed orders reportedly underpinned the latest contraction in unfinished business.

Out of the 12 monitored UK regions, only London and Northern Ireland recorded higher backlogs in March.

Outstanding Business Index
sa, >50 = growth since previous month
48.0
Mar '23



Prices

Slowest rise in input costs in over two years

The rate of input cost inflation across the South East softened in March, as has been the case in all but one month since the peak reached in May 2022. Although substantial by historical standards, the latest increase was the weakest in 25 months. Survey participants noted higher advertising, equipment, food, material, utility and wage costs. At the same time, firms signalled reduced price pressure from energy, commodities, natural gas and shipping.

The local upturn in overall expenses was broadly aligned with the national average.

Input Prices Index
sa, >50 = inflation since previous month
67.8
Mar '23

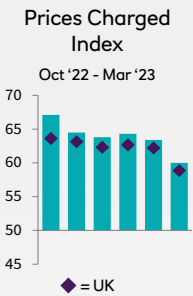
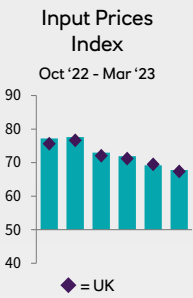
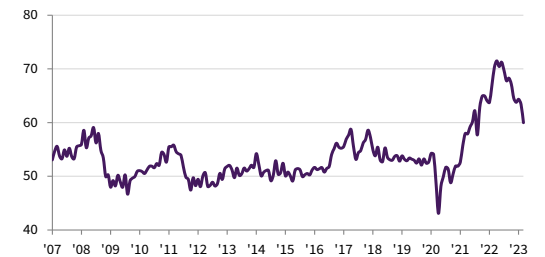


Output prices increase at slowest pace in over a year-and-a-half

With overall expenses rising further in March, prices charged for South East goods and services continued to increase. Despite slowing to the weakest in 19 months, the overall rate of charge inflation was historically sharp. Indeed, almost a quarter of all survey members (24%) signalled higher selling prices, while 1% noted a reduction.

The South East again topped the regional rankings for charge inflation.

Prices Charged Index
sa, >50 = inflation since previous month
60.0
Mar '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, Mar '23*
1	Electrical & Optical	2.03	52
2	Chemicals & Plastics	1.22	48
3	Mechanical Engineering	1.15	52
4	Timber & Paper	1.03	42
5	Other Manufacturing	1.01	55
6	Basic Metals	0.88	52
7	Transport	0.63	50
8	Food & Drink	0.57	52
9	Textiles & Clothing	0.39	48

South East specialisation: Services

Rank	Sector	LQ	UK Business Activity Index, Mar '23*
1	Computing & IT Services	1.65	58
2	Transport & Communication	1.14	50
3	Business-to-business Services	1.03	55
4	Hotels, Restaurants & Catering	0.91	60
5	Personal & Community Services	0.90	52
6	Financial Intermediation	0.62	55

UK sector focus

Hotels, Restaurants & Catering

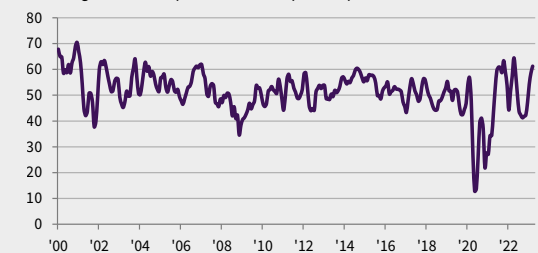
Latest data showed a sharp rebound in business activity across the UK's Hotels, Restaurants & Catering sector in the opening quarter, following a sustained downturn in the second half of last year. The rise in activity was the steepest among the services sub-sectors monitored by the survey and supported by a robust rise in new business.

Prices pressures in the sector meanwhile remained elevated. Although input cost inflation was down from its record peak in 2022, it remained higher than at any time before the pandemic and drove a sustained sharp (and even slightly accelerated) rise in output prices.

Business confidence among Hotels, Restaurants & Catering firms perked up in the three months to March, reaching its highest for almost a year. Nevertheless, data showed a continued fall in sector workforce numbers, in line with the trend since the middle of last year.

Output Index

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



* 3-month moving average



UK Regional PMI overview

Business Activity

Nearly all areas of the UK recorded a rise in business activity in March, the only exception being the East of England where output was unchanged. However, growth slowed in the majority of cases, including the top-ranked region, London. The most notable upswing in momentum was in Northern Ireland, where business activity rose at the quickest rate for a year.

Employment

March data showed divergent trends in regional employment. Northern Ireland saw a steep and accelerated rise in workforce numbers and was one of only two areas where the pace of job creation quickened, alongside Scotland. At the other end of the scale, the North East and Wales both saw deepening declines in staffing levels. In most other areas, employment was little-changed.

Future Activity

Business expectations were optimistic across the board in March. Furthermore, confidence improved in just over half of the monitored areas, rising sharpest in the North East (although it remained at the foot of the rankings). Firms in the West Midlands were the most upbeat about the outlook, as was the case in both January and February, followed by those in Yorkshire & Humber.

Business Activity Index

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



Employment Index

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



Future Activity Index

>50 = growth expected over next 12 months, Mar '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
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
Mar '23	52.3	54.5	52.4	74.8	49.8	48.0	67.8	60.0

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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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