

11 March 2025

NatWest South East Growth Tracker

Business conditions in South East show
positive trends in February



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by **S&P Global**

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Key findings

February 2025

Confidence for region remains robust

Employment numbers trimmed amid signs of spare capacity

Cost pressures among softest in the UK

The NatWest South East Growth Tracker provides a timely snapshot of regional economic performance.

The report tracks monthly changes in business activity, demand, employment, backlogs, prices and the year-ahead outlook. The data are compiled from local companies that participate in S&P Global's UK manufacturing and services PMI surveys.

For more reports on 12 UK nations and regions, visit www.natwest.com/business/insights/economics





Business conditions in South East show positive trends in February

The February NatWest Regional Growth Tracker moved in the right direction following a challenging end to 2024, showing signs of optimism for the South East.

According to the latest NatWest Regional Growth Tracker, firms remained confident towards the future and enjoyed softer cost pressures.

The headline South East 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 - posted at 48.6 in February, up from 48.2 in January. The pace of contraction in February was the least pronounced for four months.

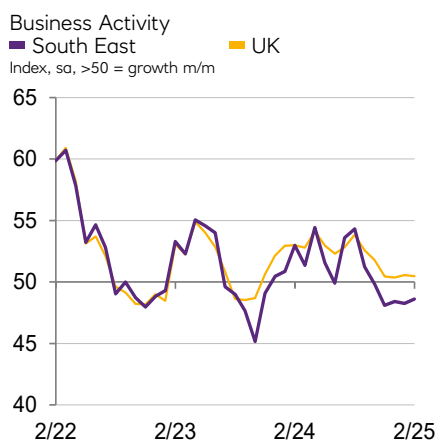
Of the 12 monitored UK areas, the South East ranked joint-ninth in terms of output, with the downturn largely in line with those seen across the East of England, the West Midlands, Yorkshire & Humber.

NatWest South East Business Activity Index February 2025

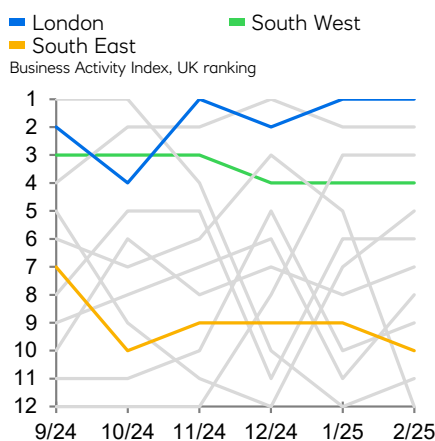
48.6

The Business Activity Index is a diffusion index calculated from companies' responses to a question on monthly changes in the volume of business activity. The index varies between 0 and 100 and is the sum of the percentage of 'higher' responses and half the percentage of 'unchanged' responses. A reading above 50 indicates an increase compared to the previous month, and below 50 a decrease. The index is seasonally adjusted.

Data compiled 10-26 February



Sources: NatWest, S&P Global PMI. ©2025 S&P Global.



Sources: NatWest, S&P Global PMI. ©2025 S&P Global.



NatWest

Comment

**Catherine van Weenen,
Territory Head of
Commercial Mid Market at
NatWest, commented:**

"The South East trend for activity is moving in the right direction. Although just in contraction territory, the rate was the slowest seen for four months in February.

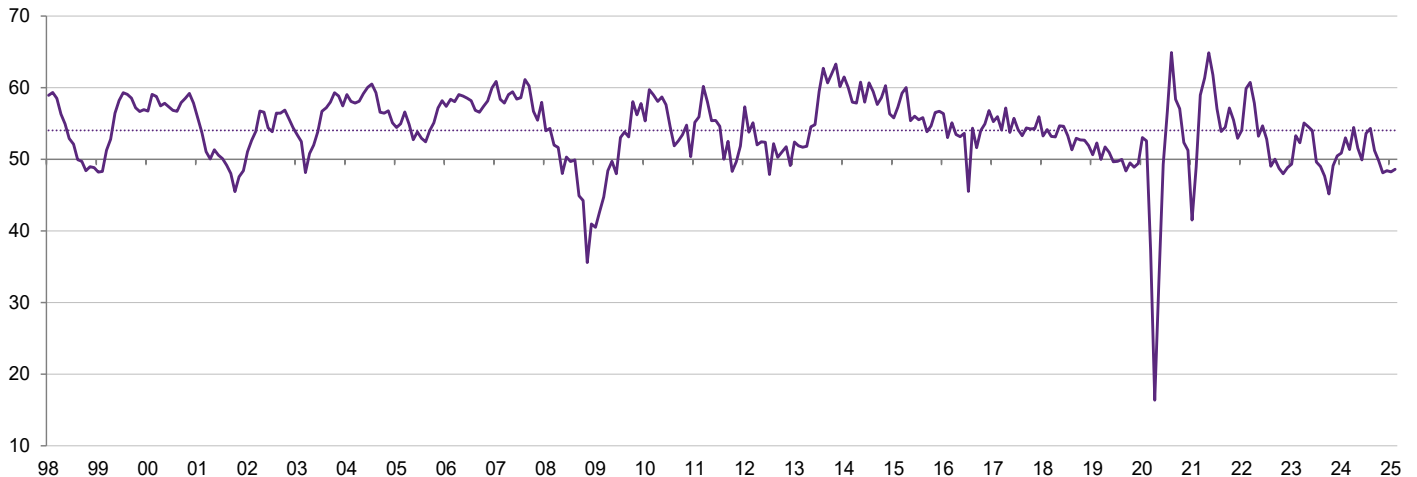
"The degree of confidence towards the year-ahead remained robust and was slightly stronger the national average, with many firms projecting growth.

"There was some positive news on the price front, as both cost and charge inflation cooled. Cost pressures across the region were softer than seen on average over the UK."



Business Activity

Index, sa, >50 = growth m/m. Dots = long-run average since 1998.



Sources: NatWest, S&P Global PMI. ©2025 S&P Global.



Demand and outlook

Steeper decline in new business fails to dampen confidence towards the future

Latest data pointed to a fourth consecutive monthly drop in new orders placed at South East companies. The speed of the downturn was its fastest in 16 months and strong overall. The sustained decline was linked by panellists to a demand slowdown and challenging economic conditions.

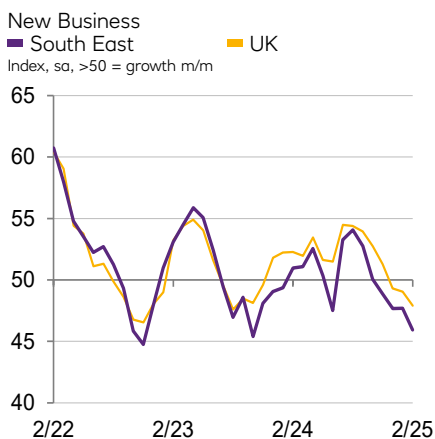
Placing above the East Midlands, the North West and Northern Ireland, the South East placed ninth in the

regional rankings for new orders.

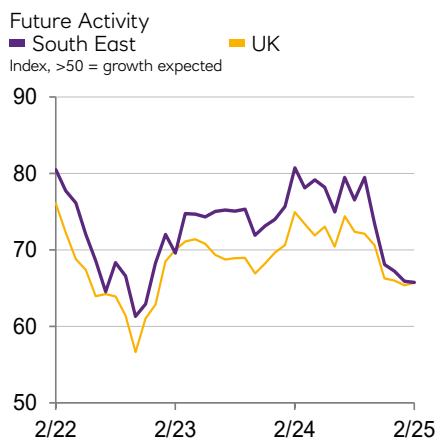
The Future Activity Index remained firmly in positive territory in February, with a number of firms foreseeing an improvement in market conditions and growth over the coming 12 months.

The degree of optimism was little changed from January and in line with the UK average.

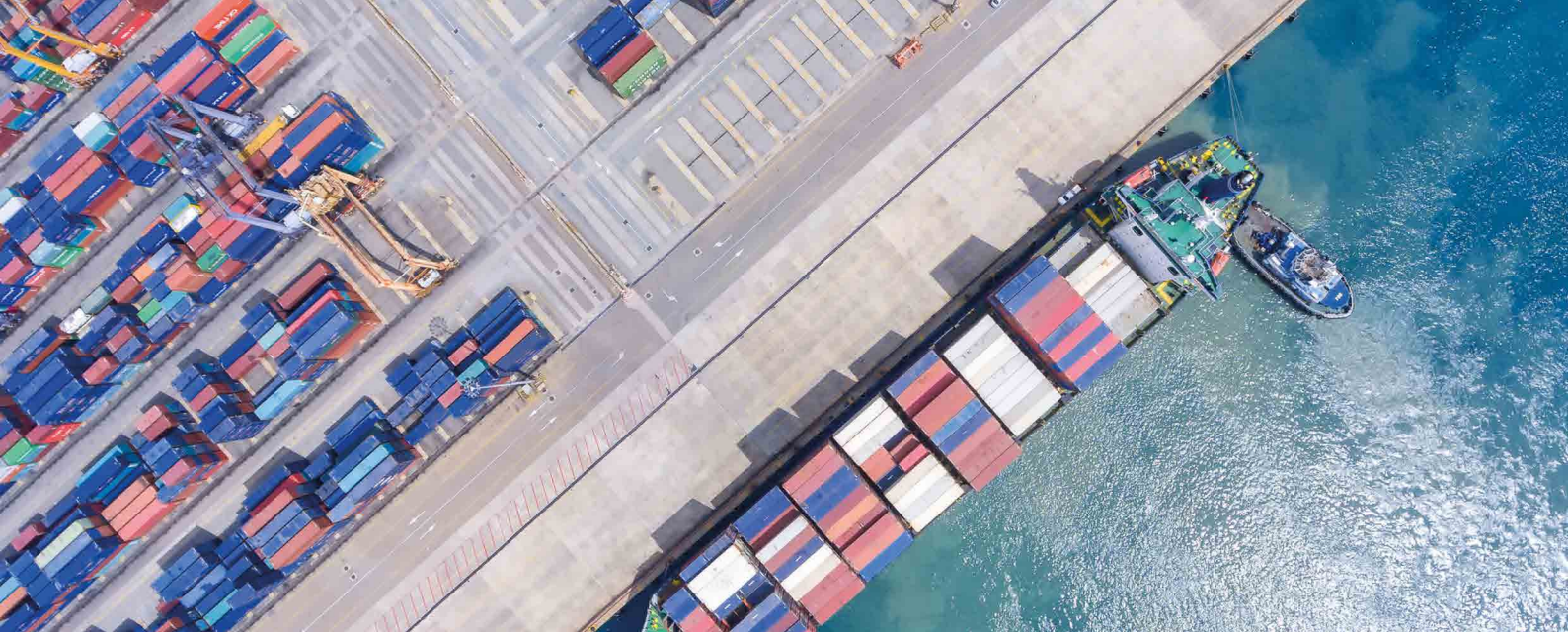
"The degree of confidence towards the year-ahead remained robust and was slightly stronger the national average, with many firms projecting growth."



Sources: NatWest, S&P Global PMI. ©2025 S&P Global.



Sources: NatWest, S&P Global PMI. ©2025 S&P Global.



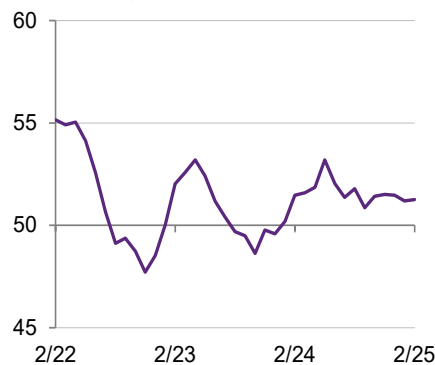
Export markets

February sees trade opportunities improve slightly for the South East

As has been the case in each month since the start of 2024, the South East ECI remained in growth territory in February (51.3, up fractionally from 51.2 in January).

The US, Germany and Ireland recorded sustained activity growth, but only the latter posted a sharper upturn. There was a further, albeit slightly softer, decrease in output in the Netherlands, while France posted its fastest drop in activity in just over a year.

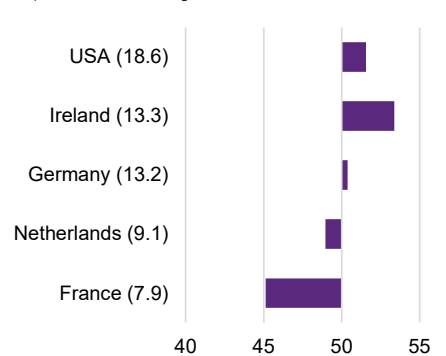
Export Conditions
Index, sa, >50 = growth m/m



Sources: NatWest, S&P Global PMI. ©2025 S&P Global.

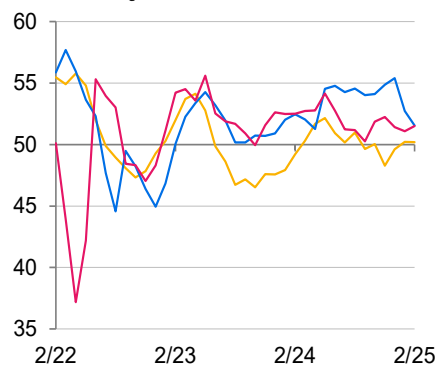
The South East Export Climate Index (ECI) is an indicator for the economic health of the region's export markets. It is calculated by combining national PMI output data, weighted according to each nation's share of manufacturing exports of the South East. A reading above 50 signals an improvement in export conditions, and below 50 a deterioration.

Top export markets, South East
% share of exports shown in brackets
Output Index, sa, >50 = growth m/m



Sources: NatWest, S&P Global PMI. ©2025 S&P Global.

Output
Index, sa, >50 = growth m/m



Sources: NatWest, S&P Global PMI. ©2025 S&P Global.



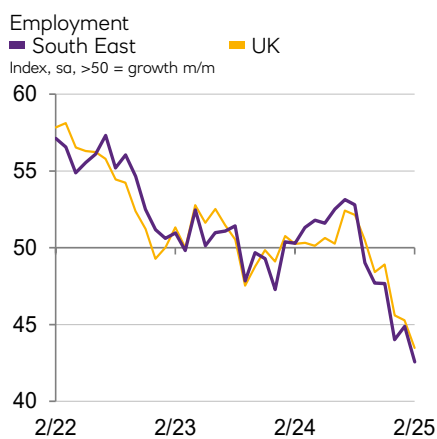
Jobs and capacity

Backlogs and employment down at sharper rates in February

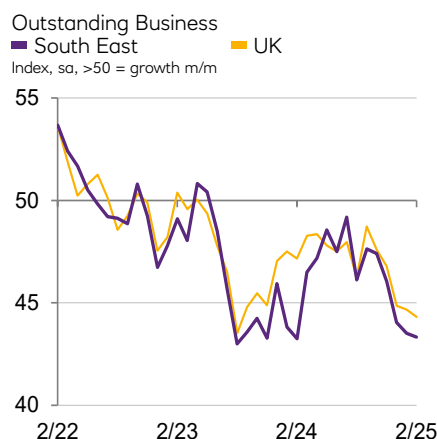
As has been the case in each month since mid-2023, there was a further decrease in work outstanding across the South East private sector in February. Panellists often stated that they were able to keep on top of orders while new business inflows remained subdued.

Still substantial, the rate of backlog depletion was its most pronounced for a year, and remained slightly faster than the national average.

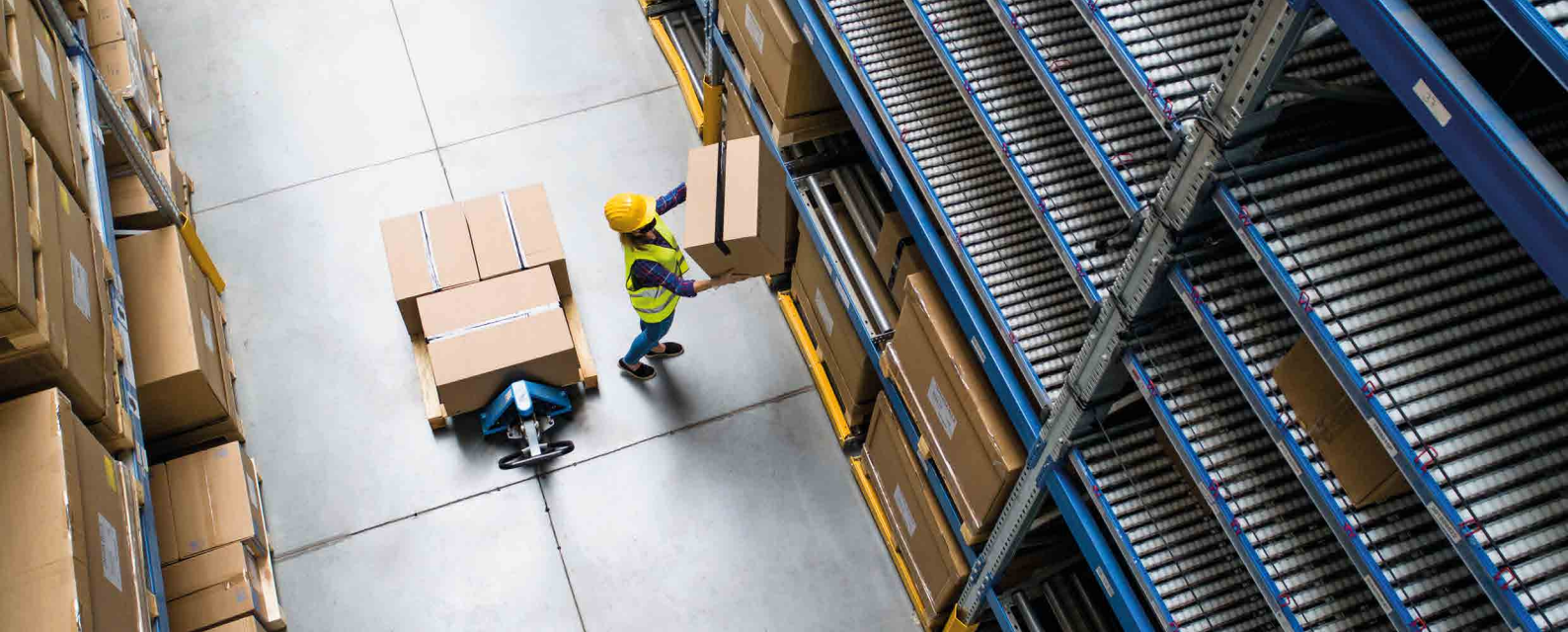
Amid ongoing signs of spare capacity, South East companies reduced their staffing levels at a noticeable rate in February. The decrease reflected a combination of the non-replacement of leavers and a reduction in temporary workers, often linked to the incoming National Insurance and Minimum Wage hikes. The rate of reduction was its fastest in four-and-a-half years, and slightly faster than the UK average.



Sources: NatWest, S&P Global PMI. ©2025 S&P Global.



Sources: NatWest, S&P Global PMI. ©2025 S&P Global.



Inflation

Cost pressures cool, but remain historically elevated

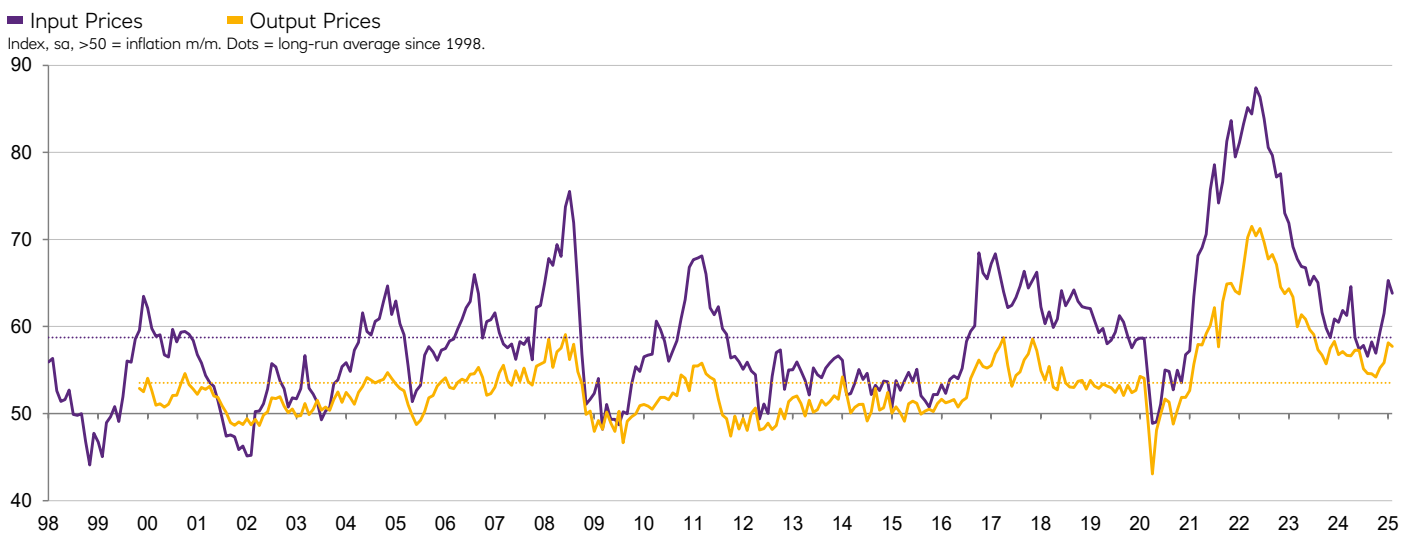
Average input costs rose at a noticeable rate across the South East private sector economy in February, reflective mainly of increased wage burdens. The rate of inflation slowed from January's 18-month high and came in weaker than the UK average.

At the same time, prices charged for South East goods and services

were raised further midway through the opening quarter. Panellists often mentioned that they had increased their selling prices to cover higher costs. The rate of charge inflation ticked down slightly on the month, but was nevertheless steep and historically elevated.

The South East sat near the middle of the regional rankings for prices charged, having posted a rate of inflation in line with the UK average.

"Both cost and charge inflation cooled. Cost pressures across the region were softer than seen on average over the UK."



Sources: NatWest, S&P Global PMI. ©2025 S&P Global.

UK Regional Growth Tracker

Business Activity

London topped the rankings for business activity growth in February, having enjoyed another robust expansion, ahead of the North East, Wales and South West, respectively. Lower output was seen in several nations and regions, however. The steepest falls were registered in the East Midlands and Northern Ireland*.

Employment

Workforces numbers were streamlined across each of the 12 UK nations and regions monitored by the survey in February, the first time this has happened for a little over four years. Employment fell only slightly in the likes of the North East and Scotland, however. The most marked decreases were seen in the East of England and West Midlands.

Future Activity

Year-ahead growth expectations improved in the majority of areas in February. Firms in the West Midlands were the most optimistic about future activity, while those in the North East reported the greatest upswing in confidence since January. At the other end of the scale, Northern Ireland recorded the weakest business sentiment, although it did pick up somewhat from the low seen at the start of the year.

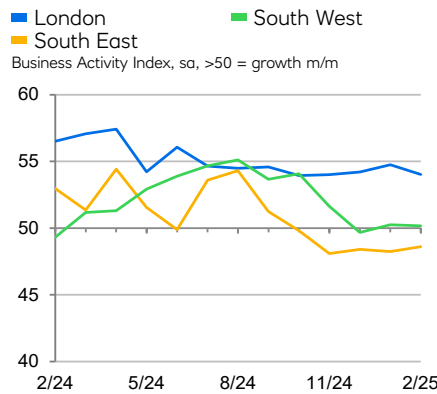
*As well as manufacturing and services, coverage in Northern Ireland also includes construction and retail.



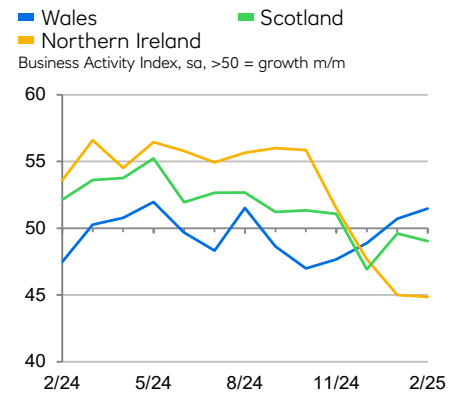
Sources: NatWest, S&P Global PMI. ©2025 S&P Global.



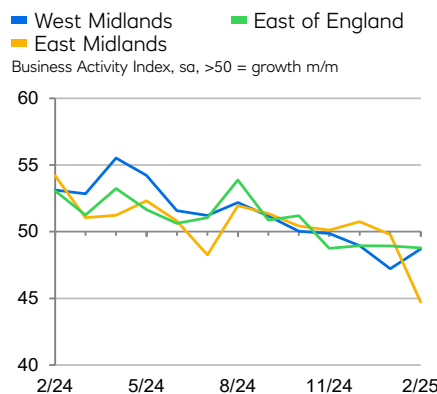
Sources: NatWest, S&P Global PMI. ©2025 S&P Global.



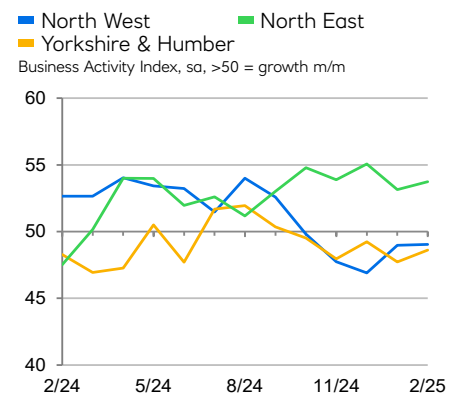
Sources: NatWest, S&P Global PMI. ©2025 S&P Global.



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Sources: NatWest, S&P Global PMI. ©2025 S&P Global.



Sources: NatWest, S&P Global PMI. ©2025 S&P Global.



Growth Tracker heat map

February 2025

Darker colour = higher business growth

South East

Business Activity Index
sa, >50 = growth m/m

48.6



Sources: NatWest, S&P Global PMI. ©2025 S&P Global.

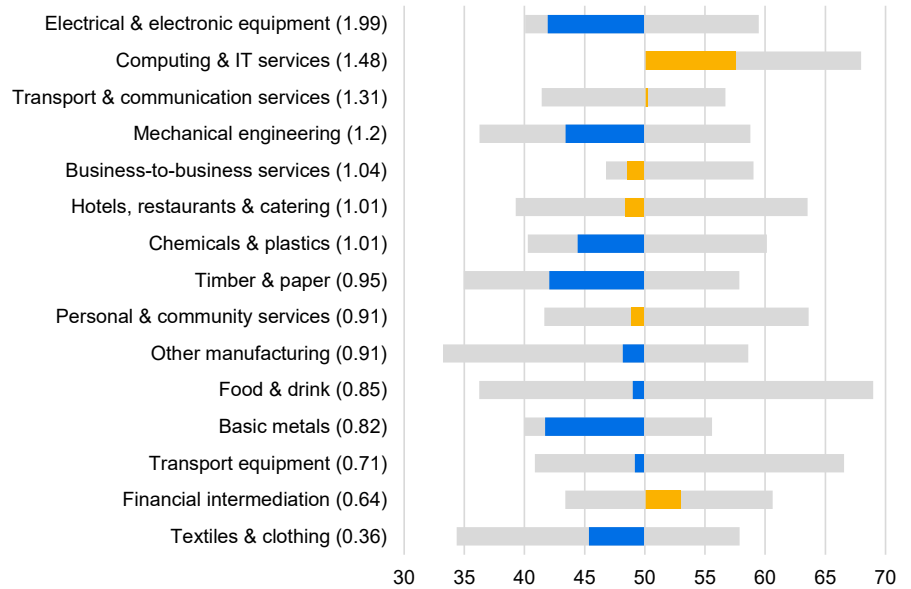
UK sectors

Sector specialisation: South East

The chart shows UK output indices by sector, ranked by location quotients for the South East. Location quotients (LQs) 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.

UK sectors ranked by importance to the South East economy
 ■ Manufacturing ■ Services ■ 3-year range
 UK Output Index, sa, >50 = growth m/m Feb '25



Sources: NatWest, S&P Global PMI. ©2025 S&P Global.
 Location quotients for the South East are shown in brackets. Latest data are smoothed as three-month moving averages (3mma).

Sector in focus: Mechanical engineering

Output in the UK's mechanical engineering sector contracted in the three months to February, according to underlying PMI data. The decline was steep and followed growth throughout most of 2024. A lack of new orders, particularly from abroad, was the defining factor behind the sector's recent downturn.

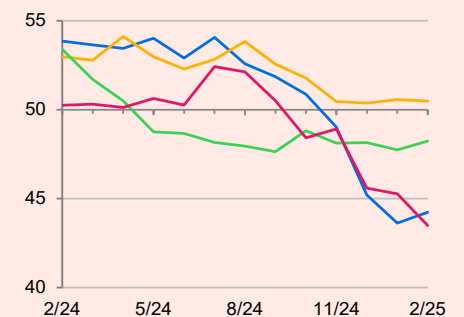
Shrinking backlogs of work at mechanical engineering companies led to further job losses. This extended the current sequence of job shedding seen since spring last year. Inventories were also scaled

back, especially stocks of inputs.

Prices paid for purchases rose at a steady rate that was below the long-run series average. Firms managed to pass on a sizeable proportion of the cost increases they faced, with the pace of output price inflation ticking up to its highest for almost a year and running above its historic trend level.

Looking ahead, firms in the sector were optimistic about growth prospects in the coming year, though less so than at almost any time since the pandemic.

Output / Employment
 ■/■ Mechanical engineering*
 ■/■ Manufacturing & services
 Index, sa, >50 = growth m/m



Sources: NatWest, S&P Global PMI. ©2025 S&P Global.
 *Data are smoothed as three-month moving average (3mma).

Methodology

The NatWest South East Growth Tracker 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

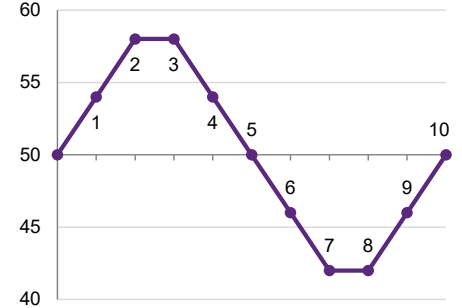
overall decrease. The indices are then seasonally adjusted.

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.

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 survey methodology, please contact economics@spglobal.com.

Index interpretation
Index, sa, >50 = growth m/m



Sources: NatWest, S&P Global PMI. ©2025 S&P Global.

Key

- 1 Growth, from no change
- 2 Growth, faster rate
- 3 Growth, same rate
- 4 Growth, slower rate
- 5 No change, from growth
- 6 Decline, from no change
- 7 Decline, faster rate
- 8 Decline, same rate
- 9 Decline, slower rate
- 10 No change, from decline

Data

South East manufacturing and services Index, sa, 50 = no change over previous month. *50 = no change over next 12 months.

	Business Activity	New Business	Export Climate Index	Employment	Outstanding Business	Future Activity	Input Prices	Output Prices
9/24	51.2	52.8	50.9	49.0	47.6	79.5	58.2	54.6
10/24	49.8	50.1	51.4	47.7	47.4	73.5	56.9	54.2
11/24	48.1	48.9	51.5	47.7	46.0	68.1	59.3	55.2
12/24	48.4	47.7	51.5	44.0	44.0	67.2	61.5	55.8
1/25	48.2	47.7	51.2	44.9	43.5	65.9	65.3	58.1
2/25	48.6	45.9	51.3	42.6	43.3	65.8	63.8	57.7

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