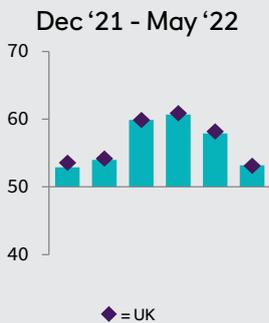


# NatWest South East PMI<sup>®</sup>

## Activity growth slows while input price inflation hits new record high

### South East Business Activity Index



### Key findings

New orders rise at the softest pace for five months

Input price inflation accelerates to fresh series high

Sentiment dips to 19-month low in May

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 – fell from 57.9 in April to 53.2 in May. The latest reading pointed to the second-softest expansion in activity in the current 15-month sequence of growth.

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

*"May PMI data revealed a marked slowdown in activity growth in the South East's private sector. Output and new orders rose at the softest pace for five months while backlogs neared stability. Employment continued to expand sharply, however, with staffing levels rising at a quicker pace amid hopes that clients would increase their orders.*

*"That said, data for the region was gloomy, especially on the price front. Inflationary pressures continue to build and show no signs of letting up. In fact, input and output price inflation were at record and near-record rates, respectively, with the war in Ukraine exacerbating prices for fuel, materials, energy and transportation. Brexit also hasn't helped matters, adding an extra headwind to firms.*

*"Companies in the South East subsequently lowered their expectations for output growth which remained positive, but dipped to the lowest for just over a-year-and-a-half."*

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

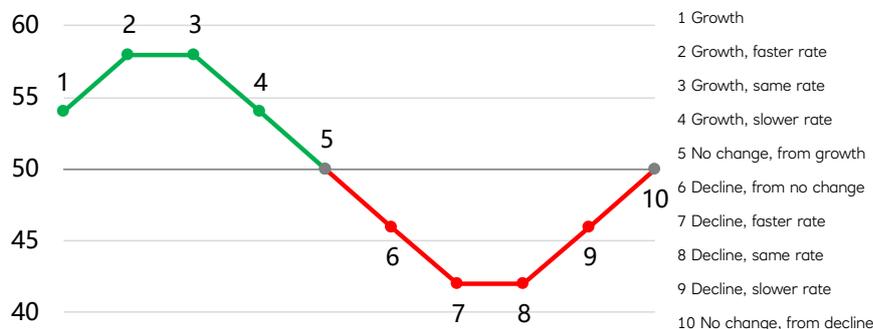
calculated from a single question that asks for changes in the volume of business activity (at service providers) or output (at manufacturers) compared with one month previously. The South East Business Activity Index is comparable to the UK Composite Output Index. It is sometimes referred to as the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

### New order growth slows for the third month running

Private sector firms in the South East reported another increase in new business during May. However, the rate of growth eased to the weakest since last December and was slower than the long-run series average. Anecdotal evidence suggested that while some companies faced greater demand, others reported that clients were reluctant to spend.



### Sentiment dips to weakest in over a-year-and-a-half.

Sentiment regarding output levels over the year-ahead remained positive in May. That said, the degree of optimism dropped to a 19-month low amid concerns surrounding the global economy, inflation, the war in Ukraine and material scarcity.



More positively, only Yorkshire & Humber and the North West recorded a stronger level of optimism than the South East.

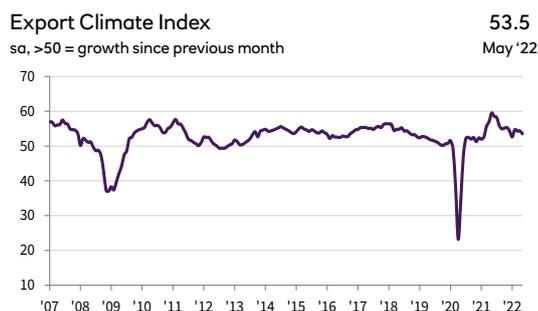
## Exports

### Export conditions continue to improve in May

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.

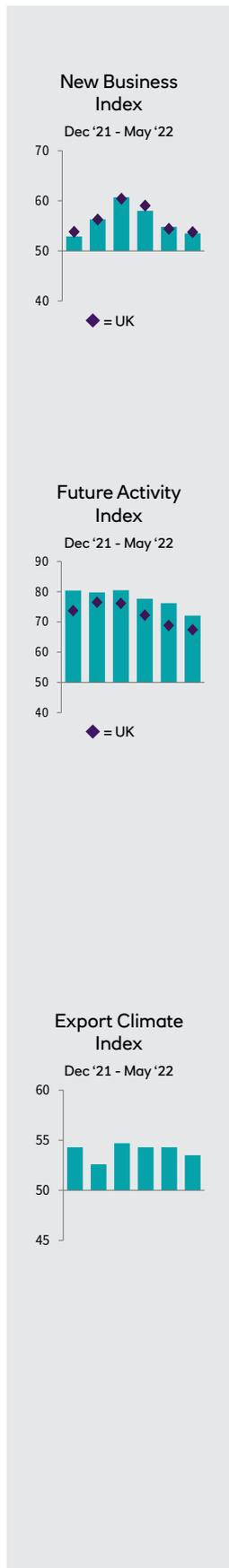
At 53.5 in May, down from 54.3 in April the Export Climate Index signalled 23 consecutive months of improvement in export conditions faced by South East businesses.

Of the region's top five export markets, Ireland recorded the strongest expansion and for the fourth month in a row while France recorded a robust uptick. Germany and the US saw output growth moderate in May. Meanwhile, the Netherlands registered the softest expansion for a-year-and-a-half.



#### Top export markets, South East

Rank	Market	Weight	Output Index, May '22
1	USA	16.4%	53.6
2	Germany	12.0%	53.7
3	Netherlands	6.3%	53.1
4	France	6.1%	57.0
5	Ireland	6.0%	57.5



## Business capacity

### Staffing levels rise at sharp and accelerated pace

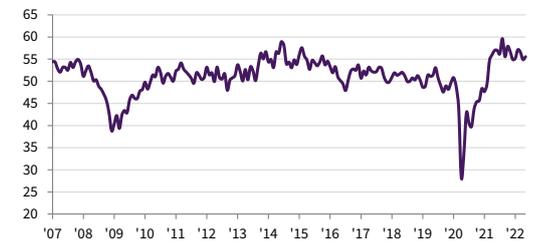
Private sector firms in the South East continued to add to their headcounts in May, thereby extending the run of job creation to 15 months. Moreover, the rate of growth was marked, quickened from April and was much faster than the long-run series average. Panel comments suggested that firms sought to employ staff ahead of marketing campaigns and business expansions.

At the sector level, service providers registered a stronger increase in headcounts than goods producers.

### Backlogs rise at the softest pace in 15 months

Outstanding business accumulated by private sector companies in the South East rose for the fifteenth month in a row during May. The rate of increase was mild, however, and the softest in the aforementioned sequence of expansion. Panel comments indicated softer new order growth allowed some firms to work through their existing orders.

Employment Index  
sa, >50 = growth since previous month  
55.5  
May '22



Outstanding Business Index  
sa, >50 = growth since previous month  
50.5  
May '22



## Prices

### Input-price inflation quickens to new record high

Cost burdens faced by businesses in the South East continued to rise substantially in May. In fact, the rate of inflation quickened to a fresh series high, surpassing March's previous peak. The war in Ukraine exacerbated prices for fuel, energy and raw materials. Firms also reported higher labour, transportation and commodity costs.

Sector data indicated that manufacturers continued to register a steeper rate of input price inflation than service providers.

Input Prices Index 87.4  
sa, >50 = inflation since previous month May '22



Input Prices Index  
Dec '21 - May '22



◆ = UK

### Charge inflation second-strongest in the series history

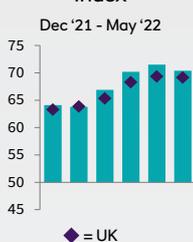
Amid rising input prices, private sector companies in the South East increased their selling prices in May. The latest uptick moderated from April's previous peak but was still the second-strongest in the series history. Firms reportedly hiked their fees in line with larger cost burdens. Output charges have now risen in each of the last 20 months.

Selling prices rose at a quicker pace in the region than at the UK level.

Prices Charged Index 70.4  
sa, >50 = inflation since previous month May '22



Prices Charged Index  
Dec '21 - May '22



◆ = UK



## 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, May '22 <sup>†</sup>
1	Electrical & Optical	2.03	58
2	Chemicals & Plastics	1.22	52
3	Mechanical Engineering	1.15	55
4	Timber & Paper	1.03	48
5	Other Manufacturing	1.01	53
6	Basic Metals	0.88	57
7	Transport	0.63	54
8	Food & Drink	0.57	50
9	Textiles & Clothing	0.39	47

#### South East specialisation: Services

Rank	Sector	LQ	UK Business Activity Index, May '22 <sup>†</sup>
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	62
6	Financial Intermediation	0.62	53

## UK sector focus

### Transport & Communication

The UK's Transport & Communication sector saw only a modest rise in business activity in the three months to May. Although the rate of growth was the fastest seen since the three months to January, it was the slowest among the six services-related sectors monitored by the survey.

Businesses in the Transport & Communication sector faced subdued demand conditions, with latest data showing a slight decline in inflows of new work, in line with the trend seen throughout most of 2022 so far. A marginal drop in employment in the three months to May contrasted with jobs growth elsewhere across the service sector and partly reflected comparatively low business confidence.

Cost pressures meanwhile remained elevated, with the rate of input price inflation staying close to its recent peak. Businesses looked to offset some of the burden via an unprecedented rise in output prices.

#### Output Index

sa, >50 = growth since previous month (3mma<sup>†</sup>)



<sup>†</sup> 3-month moving average



## UK Regional PMI overview

### Business Activity

Latest data showed a general slowdown in growth across the UK regions in May, with nine out of the 12 monitored areas recording a weaker rise in business activity. London once again topped the rankings in terms of business activity growth, ahead of Wales and Scotland. Elsewhere, output declined in the West Midlands, Northern Ireland\* and the North East.

### Employment

London led a broad-based rise in employment in May. The rate of job creation in the capital even ticked up slightly, as was the case in four other areas (namely the South East, West Midlands, Scotland and Northern Ireland). The North East remained at the bottom of the rankings, although it did see a fractional increase in workforce numbers, following a decline in April.

### Future Activity

Firms in Yorkshire & Humber recorded the strongest optimism towards future activity. Here, business confidence recovered somewhat since April, as was also the case for the North West, which ranked second overall. Seven of the 12 monitored areas saw a decline in expectations, however, including Northern Ireland where sentiment turned negative for the first time since October 2020.

Business Activity Index

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



Employment Index

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



Future Activity Index

>50 = growth expected over next 12 months, May '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
Dec '21	52.9	52.9	54.3	80.4	54.9	51.6	79.5	64.1
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

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### About NatWest

NatWest serves customers in England, Wales and Western Europe, supporting them with their personal, private, and business banking needs. NatWest helps customers from opening student accounts, to buying their first home, setting up a business, and saving for retirement.

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.

[ihsmarkit.com/products/pmi.html](https://ihsmarkit.com/products/pmi.html)

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