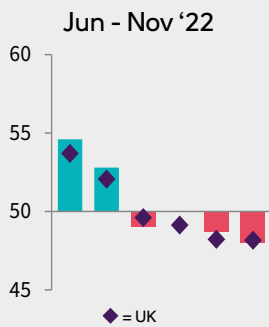




NatWest South East PMI[®]

South East output falls further amid sharper downturn in new business

South East Business Activity Index



Key findings

November sees back-to-back declines in business activity

Sales contract at fastest pace since start of 2021

Input cost inflation quickens, but charges rise at slower rate

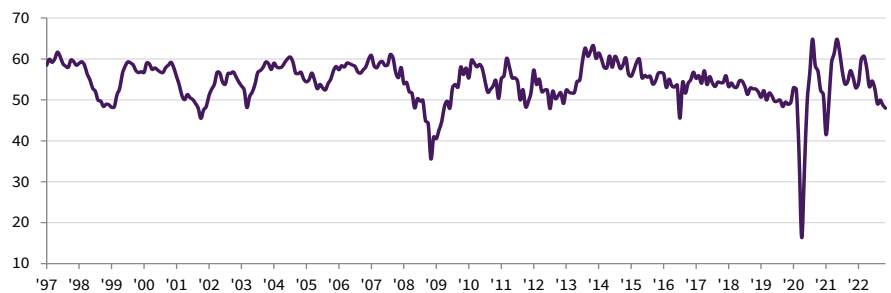
A marked and accelerated deterioration in demand for South East goods and services led to a second consecutive reduction in local output, according to the NatWest PMI[®]. The headline NatWest South East PMI[®] Business Activity Index — a seasonally adjusted index that measures the month-on-month change in the combined output of the region’s manufacturing and service sectors — fell from 48.7 in October to 48.0, signalling a moderate but quicker pace of contraction. Firms linked lower output to weaker sales, the cost-of-living crisis, the postponement of projects, acute price pressures and subdued market confidence.

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

"South East firms responded to a sharper downturn in new work intakes by scaling back output and restricting hiring activity in November. Spending caution was amplified due to financial pressures, rising interest rates, cost-saving measures and heightened recession fears as uncertainty looms over the outlook for the national economy. The PMI results also showed an intensification of cost pressures — driven by interest rate hikes, the energy crisis, logistics issues and the war in Ukraine — but selling price inflation was curbed by competitive pressures and a lack of new work. Business confidence towards growth prospects remained historically subdued, but at least improved from October's recent low."

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

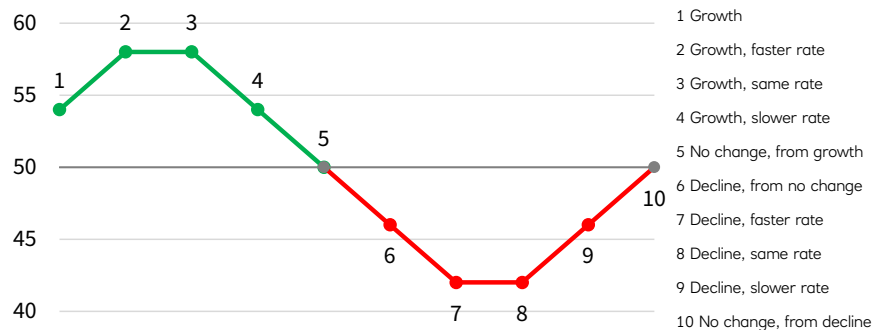
calculated from a single question that asks for changes in the volume of business activity (at service providers) or output (at manufacturers) compared with one month previously. The South East Business Activity Index is comparable to the UK Composite Output Index. It is sometimes referred to as the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



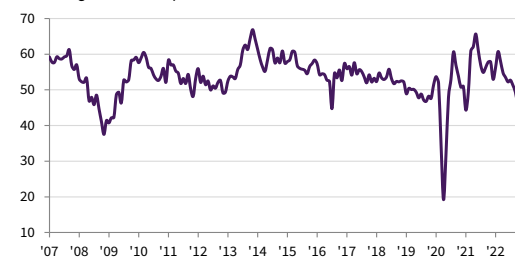
Demand and outlook

New business drops at quickest pace since January 2021

South East companies indicated a third successive monthly decline in new work intakes during November. Moreover, the pace of contraction was marked and the fastest since the start of 2021. According to monitored firms, subdued market confidence, higher interest rates, tempered spending, the cost-of-living crisis, acute price pressures and recession fears all dampened sales.

The local reduction in new orders was sharper than that seen at the national level.

New Business Index
sa, >50 = growth since previous month
44.7
Nov '22

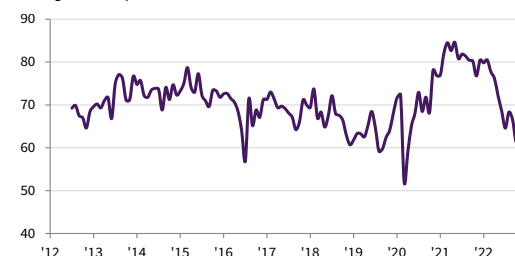


Business sentiment strengthens, but remains historically subdued

The Future Activity Index rose from October's two-and-a-half-year low, pointing to improved confidence among South East firms. That said, the latest reading remained below its long-run average. Some companies expect new product releases, tourism, brand recognition and green energy projects to support output in the year ahead. Others were concerned about the negative impacts of the energy crisis, squeezed budgets, recession and inflation on the outlook.

Regionally, only Yorkshire & Humber and the West Midlands recorded a higher degree of optimism than the South East.

Future Activity Index
>50 = growth expected over next 12 months
62.9
Nov '22



Exports

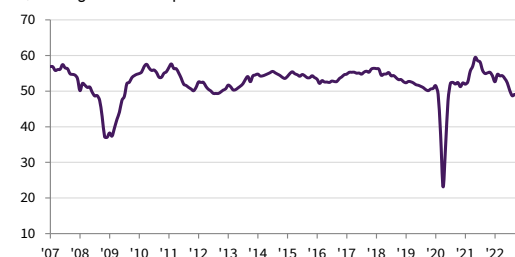
Sharpest decline in export opportunities since June 2020

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.

Falling from 48.4 in October to 47.7 in November, the ECI highlighted the quickest deterioration in export conditions in just under two-and-a-half years.

Contractions in output were registered in each of the top five markets for the South East, as growth in France and Ireland came to an end. Faster reductions in the Netherlands and the US compared with a slower decline in Germany.

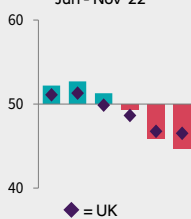
Export Climate Index
sa, >50 = growth since previous month
47.7
Nov '22



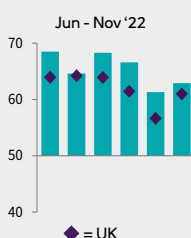
Top export markets, South East

| Rank | Market | Weight | Output Index, Nov '22 |
|------|-------------|--------|-----------------------|
| 1 | USA | 16.4% | 46.4 |
| 2 | Germany | 12.0% | 46.3 |
| 3 | Netherlands | 6.3% | 43.2 |
| 4 | France | 6.1% | 48.7 |
| 5 | Ireland | 6.0% | 48.8 |

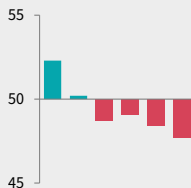
New Business Index
Jun - Nov '22



Future Activity Index
Jun - Nov '22



Export Climate Index
Jun - Nov '22



Business capacity

Employment rises at slowest pace in 21 months

Despite a sustained decline in sales, firms in the South East continued to take on additional staff halfway through the final quarter. That said, the upturn was moderate and the weakest in the current 21-month sequence of job creation. Cost-saving measures, redundancies and the non-replacement of voluntary leavers reportedly stymied growth. Several firms also suggested that short-term employment had been terminated.

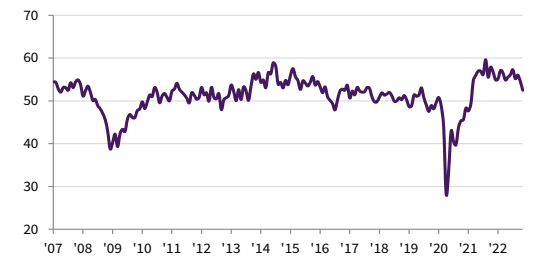
Local jobs nevertheless increased at the second-strongest pace of all 12 UK regions, behind the West Midlands.

November data shows signs of spare capacity among firms

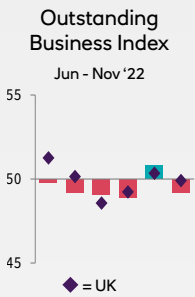
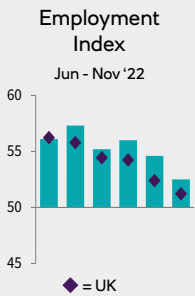
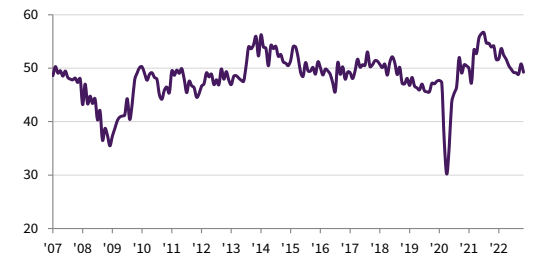
There was a renewed fall in outstanding business volumes at South East firms during November, following a slight increase in October. Those companies that signalled lower backlogs indicated that reduced intakes of new business and expanded capacities enabled them to complete pending workloads. The overall contraction was mild, albeit the fifth in six months.

In addition to the South East, eight other regions posted a fall in outstanding business.

Employment Index
sa, >50 = growth since previous month
52.5
Nov '22



Outstanding Business Index
sa, >50 = growth since previous month
49.2
Nov '22



Prices

Input costs increase at sharper rate

November data pointed to a stronger upturn in cost burdens among private sector companies in the South East, following slowdowns in each month after May's peak. The rate of inflation was steep and outpaced all of those seen prior to July 2021. Anecdotal evidence highlighted pound weakness, interest rate hikes, the war in Ukraine, logistics issues and a generally inflated market. In particular, panellists mentioned higher energy, material, transportation, utility and wage costs.

The South East came third in the regional rankings for input cost inflation, behind the East Midlands and London.

Output charge inflation eases to ten-month low

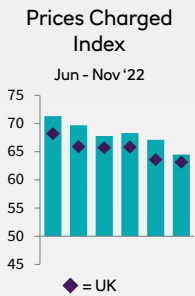
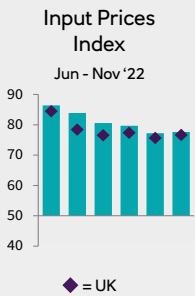
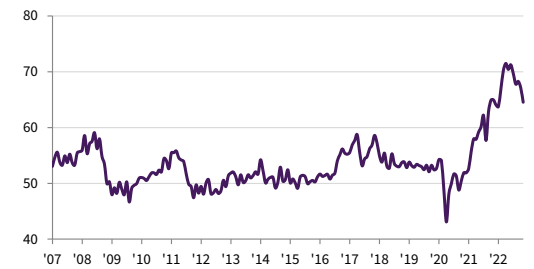
Prices charged for goods and services in the South East rose further in November, taking the current stretch of inflation to 26 months. Despite being sharp and much higher than its long-run average, the rate of increase slipped to its lowest since January. Several firms indicated that greater cost burdens had been transferred to clients, while others refrained from hiking their fees due to competitive pressures.

Three areas of the UK recorded a higher rate of inflation than the South East, namely Wales, the East Midlands and the West Midlands.

Input Prices Index
sa, >50 = inflation since previous month
77.6
Nov '22



Prices Charged Index
sa, >50 = inflation since previous month
64.5
Nov '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, Nov '22* |
|------|------------------------|------|---------------------------|
| 1 | Electrical & Optical | 2.03 | 50 |
| 2 | Chemicals & Plastics | 1.22 | 45 |
| 3 | Mechanical Engineering | 1.15 | 50 |
| 4 | Timber & Paper | 1.03 | 40 |
| 5 | Other Manufacturing | 1.01 | 50 |
| 6 | Basic Metals | 0.88 | 45 |
| 7 | Transport | 0.63 | 45 |
| 8 | Food & Drink | 0.57 | 50 |
| 9 | Textiles & Clothing | 0.39 | 45 |

South East specialisation: Services

| Rank | Sector | LQ | UK Business Activity Index, Nov '22* |
|------|--------------------------------|------|--------------------------------------|
| 1 | Computing & IT Services | 1.65 | 55 |
| 2 | Transport & Communication | 1.14 | 45 |
| 3 | Business-to-business Services | 1.03 | 50 |
| 4 | Hotels, Restaurants & Catering | 0.91 | 40 |
| 5 | Personal & Community Services | 0.90 | 45 |
| 6 | Financial Intermediation | 0.62 | 50 |

UK sector focus

Computing & IT Services

Computing & IT Services was the UK's top-performing sector by far in the three months to November. In fact, it was the only part of the services economy to see a rise in business activity.

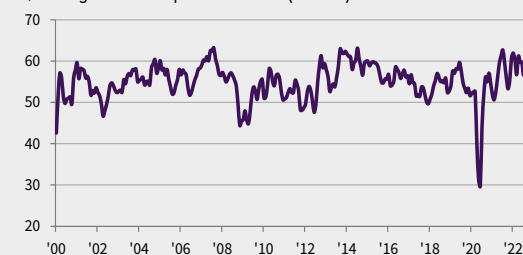
The sector did, however, exhibit a loss of momentum, with the rate of business activity growth slowing to its weakest since the opening quarter of 2021. This reflected a softening trend in new business.

Computing & IT Services firms remained optimistic about the year-ahead outlook, and more so than any other services sector, which in turn helped drive a sustained rise in employment. That said, both expectations and the pace of job creation eased to the lowest since late-2020.

Cost pressures remained much higher than normal, according to latest data. However, they were relatively subdued compared to other parts of the services economy, with the rate of input cost inflation the lowest among the six monitored sectors.

Output Index

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



* 3-month moving average



UK Regional PMI overview

Business Activity

All 12 monitored regions recorded a further fall in business activity in November. However, rates of contraction slowed in just over half of cases, including Wales and the North East, the two top-ranked areas, where activity came close to stabilising. Scotland recorded the most marked fall in output, followed by the South West.

Employment

Workforce numbers rose across the majority of regions and nations in November, albeit more slowly in most instances. The West Midlands saw the fastest pace of job creation, moving ahead of the South East in the rankings. The East Midlands and North East went against the trend and recorded lower employment.

Future Activity

Business expectations improved almost universally in November. Yorkshire & Humber was the most optimistic region and saw the joint-sharpest increase in sentiment from the previous month, with Wales. Firms in Northern Ireland and the North East remained pessimistic, albeit less so than in October.

Business Activity Index

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



Employment Index

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



Future Activity Index

>50 = growth expected over next 12 months, Nov '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 |
|---------|-------------------|--------------|----------------|------------------|------------|----------------------|--------------|----------------|
| Jun '22 | 54.6 | 52.2 | 52.3 | 68.5 | 56.1 | 49.8 | 86.4 | 71.3 |
| Jul '22 | 52.8 | 52.7 | 50.2 | 64.6 | 57.3 | 49.2 | 83.9 | 69.7 |
| Aug '22 | 49.0 | 51.3 | 48.7 | 68.3 | 55.2 | 49.1 | 80.6 | 67.8 |
| Sep '22 | 50.0 | 49.3 | 49.1 | 66.6 | 56.0 | 48.9 | 79.7 | 68.3 |
| Oct '22 | 48.7 | 45.9 | 48.4 | 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 |

Contact

Marion Rannard
Regional Campaign Manager
NatWest
+44 (0) 7966 300 969
marion.rannard@natwest.com

Pollyanna De Lima
Economics Associate Director
S&P Global Market Intelligence
+44 149 146 1075
pollyanna.delima@spglobal.com

Sabrina Mayeen
Corporate Communications
S&P Global Market Intelligence
+44 (0) 7967 447030
sabrina.mayeen@spglobal.com

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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.

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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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