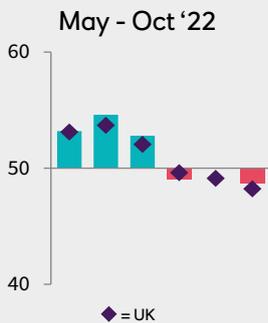




NatWest South East PMI®

Business activity declines in October

South East Business Activity Index



Key findings

Business activity falls at fastest pace in 21 months

New orders decline at sharp and accelerated pace

Sentiment drops to weakest for two-and-a-half years

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 – posted at 48.7 in October, down from 50.0 in September to signal a marginal decline in activity. The rate of contraction was the quickest since January 2021, but softer than that seen across the UK as a whole.

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

"The start of the fourth and final quarter of 2022 revealed a decline in private sector activity in the South East. Business conditions were dampened by weak client spending as concerns over the global macroeconomy and higher interest rates hindered growth. Sentiment in turn dipped to a two-and-a-half year low with firms reportedly concerned of a recession as well as the implications of the weak sterling.

"Nevertheless, companies in the South East remained committed to hiring staff and increased their headcounts sharply in October. Anecdotal evidence suggested firms anticipate a recovery in demand and as a result hired to fill vacancies where they could source skilled labour.

"There were also positives on the price front with inflationary pressures continuing to ease. Input price and output charge inflation moderated to 13- and eight-month lows, respectively, suggesting the peak in inflation may have passed."

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

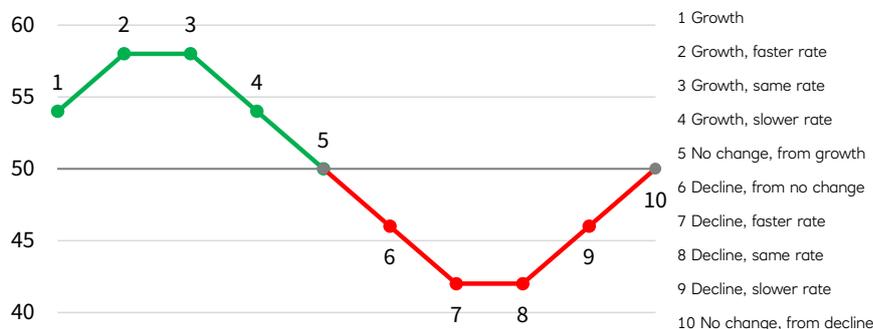
calculated from a single question that asks for changes in the volume of business activity (at service providers) or output (at manufacturers) compared with one month previously. The South East Business Activity Index is comparable to the UK Composite Output Index. It is sometimes referred to as the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

Accelerated contraction in new orders

Private sector firms in the South East recorded a sharp and accelerated downturn in new orders during October, with the rate of decline the quickest since January 2021. Firms indicated rising interest rates and the challenging economic environment deterred clients from placing orders.

Similarly, new business fell sharply across the UK as a whole though the rate of decline was slightly softer than that seen in the region.

Sentiment falls to two-and-a-half year low

Sentiment with regards to business activity in the year-ahead remained in positive territory in October, but the degree of optimism dropped to the lowest in two-and-a-half years. While firms expect new product launches and greater demand to provide a boost to activity, others noted concerns of a recession and the weak pound.

Exports

Export Climate Index falls to 28-month low

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.

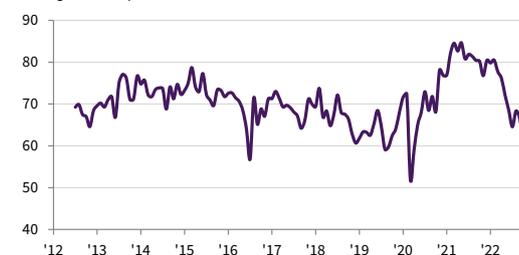
The Export Climate Index registered at 48.4 in October, down from 49.1 in September, to signal three consecutive contractions in export market conditions for firms in the region.

Across the South East's top five export markets, the quickest contraction was recorded in Germany and for the second month running, followed by the Netherlands. The US, meanwhile, registered a modest decline. France saw output expand fractionally while Ireland recorded a marginal uptick.

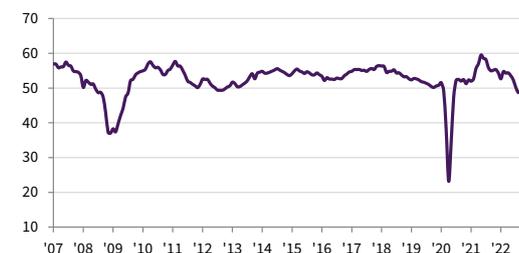
New Business Index
sa, >50 = growth since previous month
45.9
Oct '22



Future Activity Index
>50 = growth expected over next 12 months
61.3
Oct '22



Export Climate Index
sa, >50 = growth since previous month
48.4
Oct '22



Top export markets, South East

Rank	Market	Weight	Output Index, Oct '22
1	USA	16.4%	48.2
2	Germany	12.0%	45.1
3	Netherlands	6.3%	45.6
4	France	6.1%	50.2
5	Ireland	6.0%	52.1

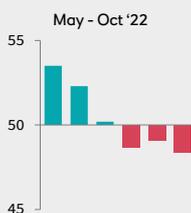
New Business Index



Future Activity Index



Export Climate Index



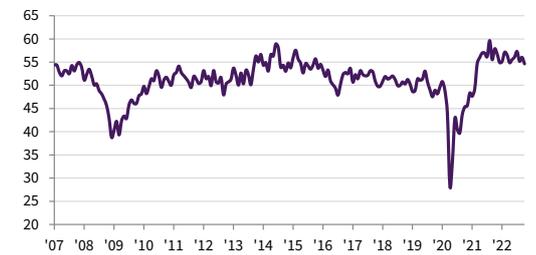
Business capacity

Staffing levels rise for the twentieth month running

The start of the fourth quarter revealed another expansion in headcounts at South East private sector firms. The overall rate of growth was sharp, despite being the slowest in the current 20-month sequence of job creation. Firms sought to hire staff in anticipation of greater future demand.

Employment trends were stronger in the service sector than in manufacturing.

Employment Index 54.6
sa, >50 = growth since previous month Oct '22



Renewed uptick in backlogs of work

October data revealed a renewed increase in outstanding businesses held at private sector companies in the South East. Adjusted for seasonal influences, the Outstanding Business Index posted marginally above the 50.0 neutral value for the first time since May, thereby ending four successive months of falling backlogs. Firms indicated issues sourcing raw materials and other inputs.

Outstanding Business Index 50.8
sa, >50 = growth since previous month Oct '22



Prices

Input Prices Index

May - Oct '22



Input cost inflation eases to 13-month low

Private sector companies in the South East registered a rise in input costs, thereby bringing the period of inflation to 29 months. Respondents linked higher prices to rising energy costs and unfavourable exchange rate movements. Moreover, input prices rose at a quicker pace in the South East than across the UK as a whole.

That said, the overall rate of input cost inflation was the weakest since September 2021.

Input Prices Index

sa, >50 = inflation since previous month

77.2

Oct '22



Prices Charged Index

May - Oct '22



Selling prices increase at the weakest pace for eight months

October data signalled another rise in selling prices across private sector firms in the South East. Higher prices were linked to firms passing on higher cost burdens, particularly for energy. That said, the overall rate of inflation was the weakest since February.

That said, at the regional level, the South East ranked joint-second with only Wales registering a steeper rate of output charge inflation.

Prices Charged Index

sa, >50 = inflation since previous month

67.1

Oct '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, Oct '22*
1	Electrical & Optical	2.03	50
2	Chemicals & Plastics	1.22	45
3	Mechanical Engineering	1.15	50
4	Timber & Paper	1.03	45
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, Oct '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	45
5	Personal & Community Services	0.90	45
6	Financial Intermediation	0.62	50

UK sector focus

Transport

UK Transport manufacturers reported a steep and accelerated reduction in output levels in the three months to October, latest PMI data showed. The sector's performance was its worst since the initial COVID-related shutdowns in early-2020.

Alongside a softening of demand, which was evidenced by a fall in inflows of new orders, the reduction in production reflected shortages of materials and parts. Surveyed firms continued to report longer lead times on inputs, albeit with the incidence of delays having shown some improvement from the record levels a year earlier.

Cost pressures remained historically high, and even intensified slightly in the three months to October.

Despite these challenges, producers of Transport goods were more upbeat about the outlook for output than those in any other manufacturing sector. As such, they continued to add to workforce numbers.

Output Index

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



* 3-month moving average



UK Regional PMI overview

Business Activity

October saw a fall in business activity across all 12 monitored regions, the first time this has been the case since the third national lockdown in January 2021. The South West posted the steepest decline, followed by Northern Ireland* and the North East respectively. London's fall in activity was only marginal, but nonetheless its first for over a year-and-a-half.

Employment

Employment continued to rise across almost every region during October, the only exception being the North East where workforce numbers fell for a fifth straight month. However, in most cases, rates of job creation slowed. This included the South East - the region at the top of the rankings for employment growth.

Future Activity

Business expectations, although often still positive, weakened in most cases in October. Firms in Northern Ireland and the North East even noted increased pessimism towards the outlook. Business confidence in the South West was unchanged from September's record low, while Scotland went against the broader trend and registered the strongest optimism for three months.

Business Activity Index

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



Employment Index

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



Future Activity Index

>50 = growth expected over next 12 months, Oct '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
May '22	53.2	53.5	53.5	72.1	55.5	50.5	87.4	70.4
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

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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.

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

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