



# NatWest South East PMI<sup>®</sup>

## Private sector activity unchanged at the end of the third quarter

### South East Business Activity Index



### Key findings

Renewed decline in new orders

Headcounts rise at sharp and accelerated pace

Output charge inflation accelerates

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 – posted at 50.0 in September, up from 49.0 in August to signal a stabilisation in activity. The region ranked third out of the 12 monitored regions with only London and Yorkshire & Humber registering output growth at the end of the third quarter.

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

*"The close of the third quarter revealed some challenging results for the South East's private sector, as well as for the UK as a whole, with activity stalling while demand softened for the first time in 19 months. The impact of the cost of living crisis saw clients delay placing orders for goods or services. Alongside this we saw sentiment drop to one of its lowest levels since the initial wave of the pandemic amid growing concerns over a recession. However, it should be noted that the South East ranked third in the regional rankings suggesting a more positive position compared to the overall national picture. Moreover, there are tentative signs that inflationary pressures - although high - are starting to ease. Businesses also welcome government support on energy prices, though firms will hope this extends beyond the planned six months."*

South East Business Activity Index

sa, >50 = growth since previous month



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## About the South East PMI<sup>®</sup> report

The NatWest South East PMI<sup>®</sup> 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

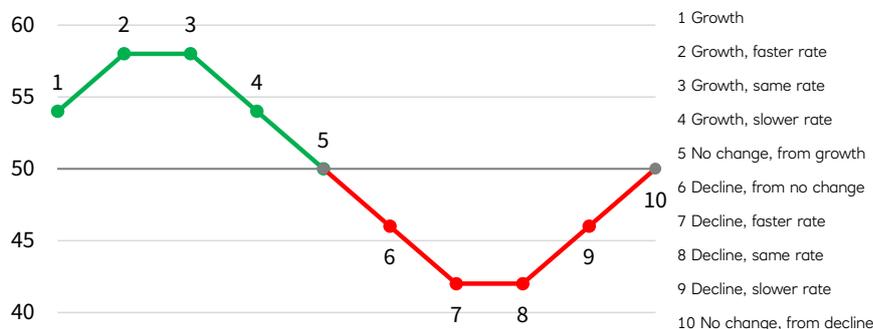
calculated from a single question that asks for changes in the volume of business activity (at service providers) or output (at manufacturers) compared with one month previously. The South East Business Activity Index is comparable to the UK Composite Output Index. It is sometimes referred to as the '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 business declines, ending 18 successive months of growth

Private sector firms in the South East reported a renewed reduction in new business during September. The rate of decline was marginal, but the first monthly contraction since February 2021. According to respondents, clients kept a closer eye on their budgets in the wake of the cost of living crisis. The weak economic environment was also blamed.

New Business Index  
sa, >50 = growth since previous month  
49.3  
Sep '22



### Sentiment moderates amid recessionary concerns

Firms remained optimistic that output levels would improve in the coming 12 months with sentiment again in positive territory, a trend observed since the question was first asked in July 2012. That said, the degree of positivity was weaker than the series average amid concerns of a recession. Firms also mentioned the cost of living crisis had weighed on confidence.

Future Activity Index  
>50 = growth expected over next 12 months  
66.6  
Sep '22



That said, only Yorkshire & Humber registered a stronger degree of optimism than the South East.

## Exports

### Back-to-back declines in export conditions

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 49.1 in September, up slightly from 48.7 in August, to signal two consecutive contractions in export market conditions for firms in the region.

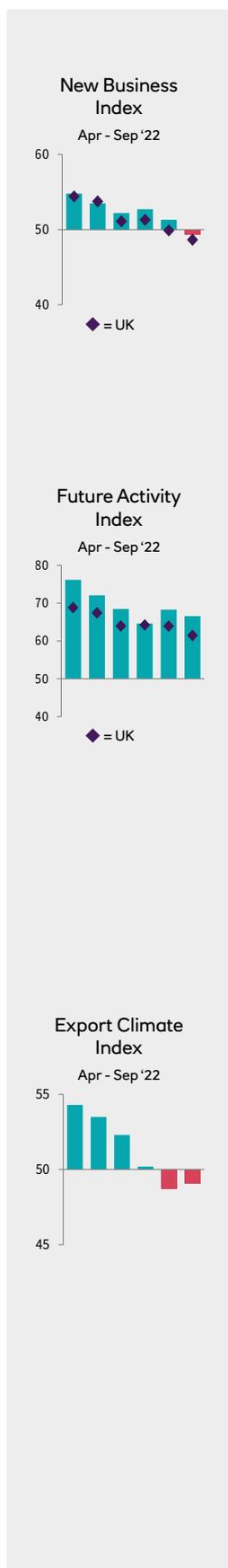
Among the region's key export destinations, only two registered an expansion, namely Ireland and France. Meanwhile, the US saw output fall marginally while back-to-back contractions were recorded in the Netherlands. Germany registered a sharp and accelerated reduction in activity during September.

Export Climate Index  
sa, >50 = growth since previous month  
49.1  
Sep '22



Top export markets, South East

Rank	Market	Weight	Output Index, Sep '22
1	USA	16.4%	49.5
2	Germany	12.0%	45.7
3	Netherlands	6.3%	46.4
4	France	6.1%	51.2
5	Ireland	6.0%	52.2



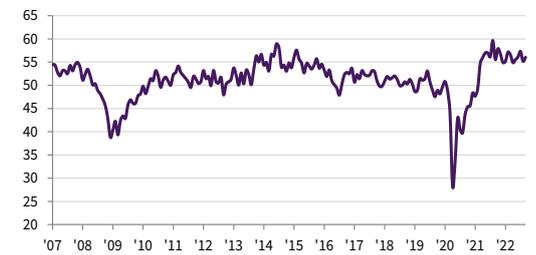
## Business capacity

### Headcounts rise at a marked and accelerated pace

Staffing levels in the South East's private sector increased for the nineteenth month in a row during September. Moreover, the rate of growth quickened from August and was sharp compared to the long-run series average. Firms sought to build their workforces ahead of expectations of greater demand.

Service providers registered a stronger rate of employment growth compared to their manufacturing counterparts.

Employment Index  
sa, >50 = growth since previous month  
56.0  
Sep '22



### Backlogs fall for the fourth consecutive month

The seasonally adjusted Backlogs of Work Index registered below the 50.0 neutral value for the fourth month in a row during September. The rate of decline was modest and broadly in line with that seen in August. Panellists blamed the reduction on weak inflows of new work.

At the sector level, manufacturers recorded a much steeper decline in outstanding business than service providers.

Outstanding Business Index  
sa, >50 = growth since previous month  
48.9  
Sep '22



## Prices

Input Prices Index  
Apr - Sep '22



### Input price inflation moderates to nine-month low

Average cost burdens faced by private sector firms in the South East increased for the twenty-eighth month in succession in September amid rising energy, wage, transportation and material costs. That said, the overall rate of inflation slowed to a nine-month low.

The region recorded a quicker increase compared to the UK as a whole.

Input Prices Index

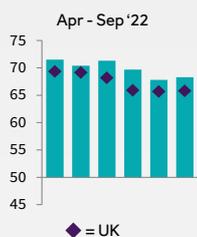
sa, >50 = inflation since previous month

79.7

Sep '22



Prices Charged Index  
Apr - Sep '22



### Selling prices rise sharply in September

Prices charged for goods and services by private sector companies in the South East rose at a sharp and accelerated pace at the end of the third quarter. Moreover, the rate of inflation was among the sharpest in the series history. Panel comments indicated that firms passed on higher costs to customers.

Manufacturing firms reported a steeper rate of inflation than service providers.

Prices Charged Index

sa, >50 = inflation since previous month

68.3

Sep '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, Sep '22*
1	Electrical & Optical	2.03	52
2	Chemicals & Plastics	1.22	48
3	Mechanical Engineering	1.15	49
4	Timber & Paper	1.03	47
5	Other Manufacturing	1.01	50
6	Basic Metals	0.88	46
7	Transport	0.63	47
8	Food & Drink	0.57	48
9	Textiles & Clothing	0.39	47

#### South East specialisation: Services

Rank	Sector	LQ	UK Business Activity Index, Sep '22*
1	Computing & IT Services	1.65	58
2	Transport & Communication	1.14	48
3	Business-to-business Services	1.03	50
4	Hotels, Restaurants & Catering	0.91	47
5	Personal & Community Services	0.90	48
6	Financial Intermediation	0.62	52

## UK sector focus

### Business-to-Business Services

The UK's large Business-to-Business Services sector suffered a downturn in activity in the three months to September, latest PMI data showed. Output levels fell, albeit only slightly, for the first time since the third national lockdown at the start of 2021.

High inflation and waning confidence among customers acted as headwinds to growth, according to surveyed businesses. With rising interest rates forecast to further dampen demand, firms' expectations towards future activity fell to the lowest for almost two-and-a-half years.

Employment continued to rise across the sector. However, whilst still solid by historical standards, the pace of job creation slowed to the weakest since early-2021.

On the price front, rates of both input cost and output charge inflation remained elevated but maintained a steady decline from their recent record highs in Q2.

#### Output Index

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



\* 3-month moving average



## UK Regional PMI overview

### Business Activity

Nine of the 12 monitored regions recorded lower levels of business activity in September. The fastest rates of contraction were seen in Northern Ireland\* and the South West. London was the best-performing region, despite seeing growth slow to a 20-month low, ahead of Yorkshire & Humber. Business activity in the South East was unchanged on the month, after having fallen slightly in August.

### Employment

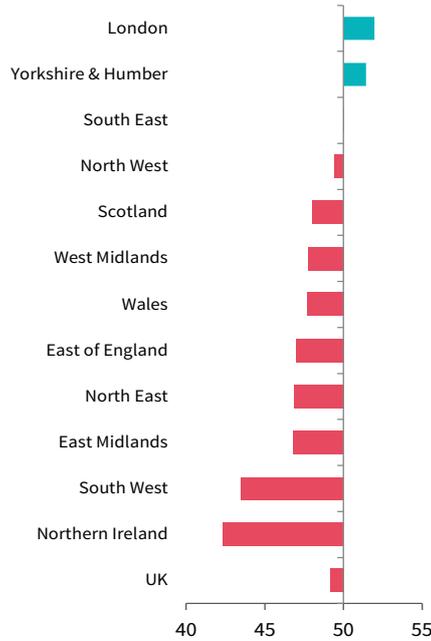
Although employment rose in most regions in September, rates of job creation slowed in the majority of cases. This included the East of England, which nevertheless topped the rankings ahead of the South East. Workforce numbers fell in the North East for the fourth month running, whilst the South West recorded its first decline since February 2021.

### Future Activity

Business confidence towards future output fell across three-quarters of the surveyed regions in September. Yorkshire & Humber recorded the strongest optimism, despite seeing the greatest reduction in expectations from the previous month. Business sentiment was generally positive, with the exception of Northern Ireland and the North East.

Business Activity Index

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



Employment Index

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



Future Activity Index

>50 = growth expected over next 12 months, Sep '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
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
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

## Contact

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

Shreeya Patel  
Economist  
S&P Global Market Intelligence  
+44 134 432 8196  
[shreeya.patel1@spglobal.com](mailto:shreeya.patel1@spglobal.com)

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

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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.

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