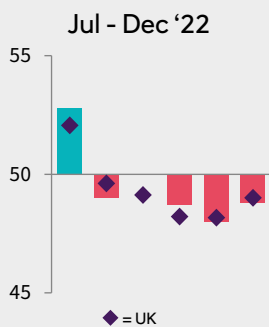


NatWest South East PMI[®]

Contractions in new business and output soften at end of 2022

South East Business Activity Index



Key findings

Business activity falls at slower and only slight pace

Weakest decline in sales in three months

Employment growth softens

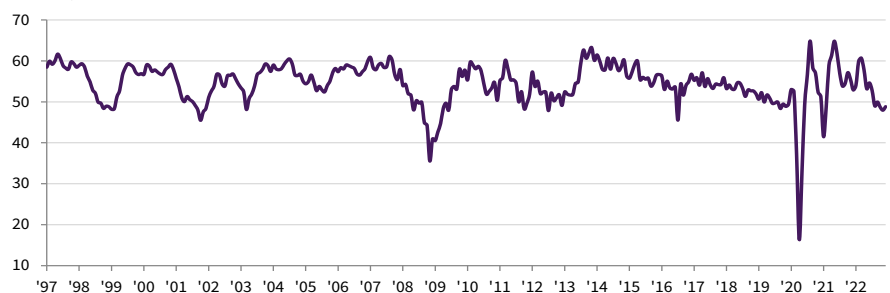
In line with a notably softer decline in new business, there was a slower contraction in South East output during December, according to the NatWest PMI[®]. The headline NatWest South East PMI[®] Business Activity Index — a seasonally adjusted index that measures the month-on-month change in the combined output of the region's manufacturing and service sectors — increased from 48.0 in November to 48.8, signalling the weakest rate of reduction in three months and one that was only slight. Firms generally attributed lower output to subdued client demand, the postponement of orders, squeezed client budgets, inflation and recession risks. The local fall in business activity was broadly in line with that seen at the UK level.

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

"South East firms encountered several challenges at the end of 2022. Firstly, many clients either cut or postponed purchases in light of an increasingly challenging economic scenario and acute price pressures. Secondly, recruiting the right skills remained difficult and some workers quit in search of better pay elsewhere. Thirdly, their expenses continued to increase sharply amid a combination of wage pressures, rising borrowing costs and greater prices for a wide range of items. All of this combined meant that local economic output fell further and business confidence stayed historically weak. However, those with a glass-half-full disposition will point to the fact that the declines in output and new orders slowed in December, rates of inflation eased and business expectations have recovered somewhat from their 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

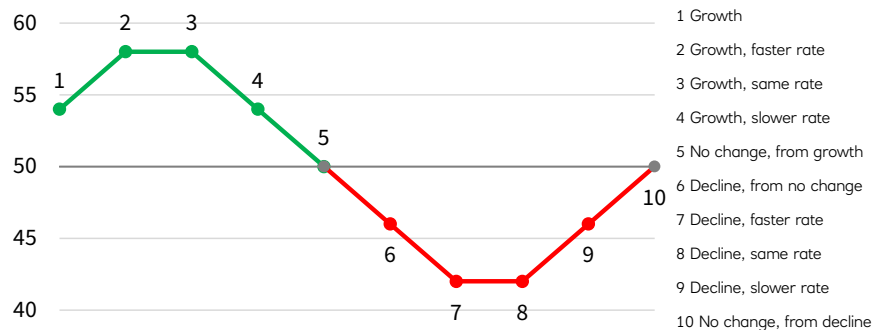
calculated from a single question that asks for changes in the volume of business activity (at service providers) or output (at manufacturers) compared with one month previously. The South East Business Activity Index is comparable to the UK Composite Output Index. It is sometimes referred to as the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

Softer contraction in new business inflows

New orders received by private sector companies in the South East decreased for the fourth month running in December. That said, the pace of reduction softened to the slowest since September and was moderate overall. Where a fall was reported, survey participants suggested that clients trimmed spending budgets due to challenging economic conditions and acute price pressures. There were also mentions that the cost-of-living crisis restricted household demand for goods and services.

Optimism strengthens at year-end

South East companies became more upbeat towards the year-ahead outlook for business activity in December. The overall level of sentiment rose to a four-month high, but remained below its long-run average. Some panellists foresee a recovery in demand in 2023, helped by new product releases, and expect inflation to recede. Investment and expansion into new markets also boosted confidence. That said, several firms remained concerned about rising interest rates and the possibility of a recession.

Exports

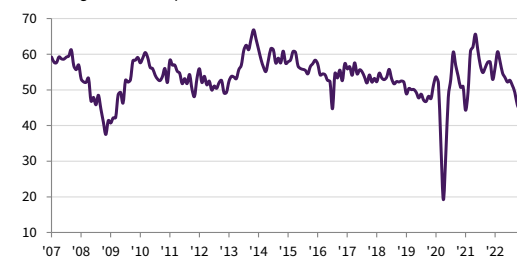
Trade prospects deteriorate further

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.

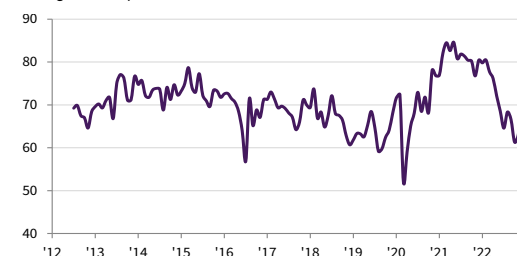
Posting 48.4 in December, the ECI signalled a further worsening of export conditions. However, rising from 47.7 in November, the latest figure highlighted a slower and only modest rate of contraction.

There were further declines in output across four of the top five markets for the South East. The US led the downturn and was the only nation to post a faster reduction. Ireland bucked the wider trend and recorded renewed growth of activity at the end of the year.

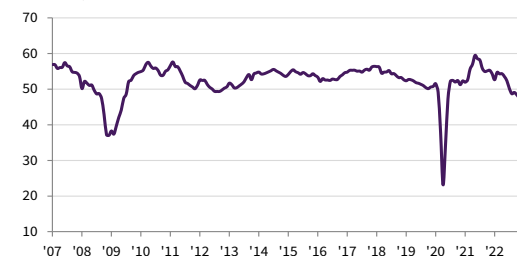
New Business Index
sa, >50 = growth since previous month
48.0
Dec '22



Future Activity Index
>50 = growth expected over next 12 months
68.3
Dec '22



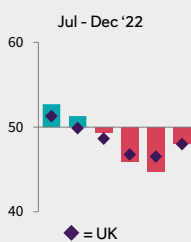
Export Climate Index
sa, >50 = growth since previous month
48.4
Dec '22



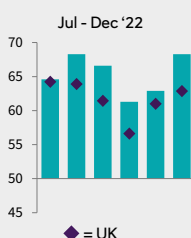
Top export markets, South East

Rank	Market	Weight	Output Index, Dec '22
1	USA	16.4%	45.0
2	Germany	12.0%	49.0
3	Netherlands	6.3%	46.2
4	France	6.1%	49.1
5	Ireland	6.0%	50.5

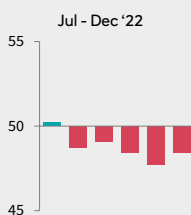
New Business Index
Jul - Dec '22



Future Activity Index
Jul - Dec '22



Export Climate Index
Jul - Dec '22

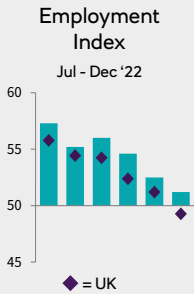
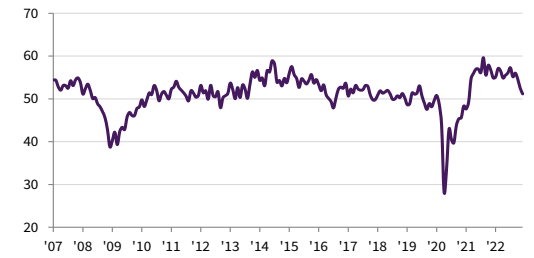


Business capacity

Jobs rise at slowest pace in 22 months

Although private sector employment in the South East continued to increase in December, the rate of growth eased to the slowest in the current 22-month sequence of expansion and was only slight. In some instances, firms linked hiring activity to the rebuilding of workforces and greater focus on backlog clearing. Other companies indicated that cost-cutting measures and recruitment challenges prevented them from taking on additional staff. There were also mentions of workers leaving voluntarily in search of higher pay elsewhere or due to elevated travel costs.

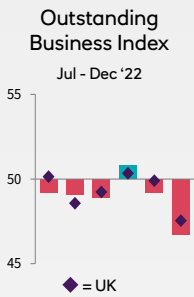
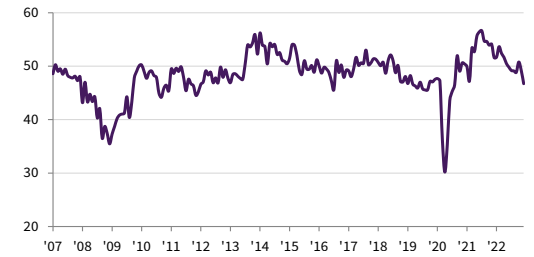
Employment Index
sa, >50 = growth since previous month
51.2
Dec '22



Fastest drop in outstanding business since August 2020

December data pointed to back-to-back declines in outstanding business volumes at South East companies. Moreover, the rate of depletion was solid and the quickest in almost two-and-a-half years. Around twice as many survey respondents noted a fall (30%) as those that signalled growth (16%). Where a contraction was signalled, panellists mentioned subdued sales and reduced pressure on supply chains. The local reduction in backlogs was sharper than the UK average.

Outstanding Business Index
sa, >50 = growth since previous month
46.7
Dec '22

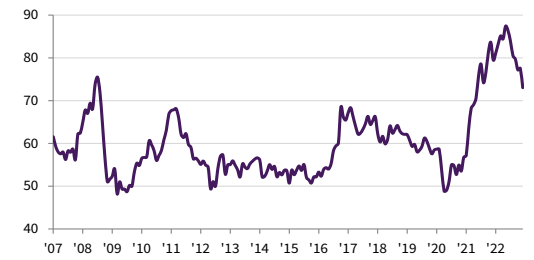


Prices

Input cost inflation retreats in December

The latest results indicated a further increase in input costs at South East companies, but the rate of inflation moderated to a 19-month low during December. Yet, the respective seasonally adjusted index remained well above its long-run average. According to survey participants, interest rate hikes, wage pressures and rising prices for energy and materials in general continued to lead to greater operating expenses. The South East registered the fourth-highest rate of cost inflation out of the 12 monitored UK regions.

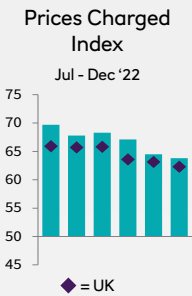
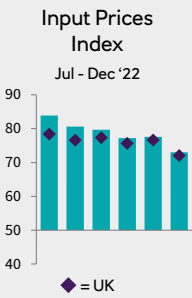
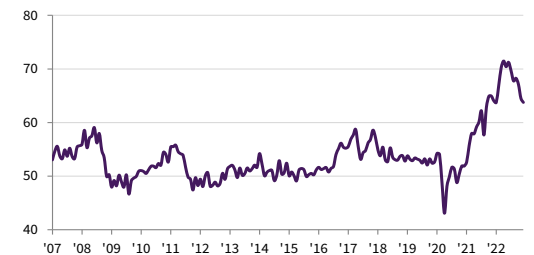
Input Prices Index
sa, >50 = inflation since previous month
73.0
Dec '22



Slowest, albeit sharp, rise in selling prices for 11 months

In line with the trend for input costs, there was a softer increase in average prices charged for goods and services in the South East. The rate of inflation was the weakest since January 2022, but elevated in the context of historical data and the third-highest regionally. Local companies commonly linked the latest upward revision in charges to the passing on of greater cost burdens to clients. Competitive pressures and efforts to secure new work reportedly curbed charge inflation.

Prices Charged Index
sa, >50 = inflation since previous month
63.8
Dec '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, Dec '22*
1	Electrical & Optical	2.03	50
2	Chemicals & Plastics	1.22	45
3	Mechanical Engineering	1.15	52
4	Timber & Paper	1.03	40
5	Other Manufacturing	1.01	48
6	Basic Metals	0.88	48
7	Transport	0.63	48
8	Food & Drink	0.57	52
9	Textiles & Clothing	0.39	45

South East specialisation: Services

Rank	Sector	LQ	UK Business Activity Index, Dec '22*
1	Computing & IT Services	1.65	52
2	Transport & Communication	1.14	48
3	Business-to-business Services	1.03	49
4	Hotels, Restaurants & Catering	0.91	48
5	Personal & Community Services	0.90	48
6	Financial Intermediation	0.62	48

UK sector focus

Chemicals & Plastics

Chemicals & Plastics manufacturing saw a sharp drop in output in the three months to December, making it one of the UK's worst-performing sectors in the final quarter of 2022.

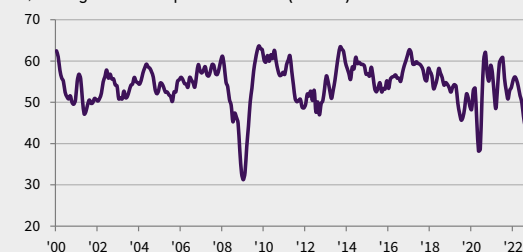
The result reflected a deepening decline in new orders, led by rapidly falling international demand. The trend in new export orders was in fact the weakest in the entire series history stretching back to 1996.

Accordingly, businesses across the sector were firmly in retrenchment mode, scaling down not only workforce numbers but also purchasing activity and inventories. Amid easing supply bottlenecks, input price inflation was at its lowest in over two years.

Looking ahead, expectations among Chemicals & Plastics firms towards future activity were historically subdued.

Output Index

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



* 3-month moving average



UK Regional PMI overview

Business Activity

Of the 12 UK regions and nations monitored, only Wales and London recorded a rise in business activity in December, while the North West saw no change. This nevertheless represented an improvement from the broad-based decline seen in November. Northern Ireland* meanwhile moved to the bottom of the rankings, having seen a sharp and accelerated fall in output.

Employment

The number of areas of the UK reporting falling employment levels increased from just two in November to seven in December. The steepest reduction in headcounts was in the North East. By contrast, the North West saw the fastest rate of job creation, with the South East, West Midlands and Wales also posting further, albeit marginal, rises in workforce numbers.

Future Activity

Business sentiment towards future activity generally remained subdued in December, with expectations in all regions and nations remaining below their respective historical series averages. That said, confidence improved in most areas. This included the South East, which topped the rankings ahead of Yorkshire & Humber. Only in Northern Ireland did pessimists outnumber optimists.

Business Activity Index

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



Employment Index

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



Future Activity Index

>50 = growth expected over next 12 months, Dec '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
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
Dec '22	48.8	48.0	48.4	68.3	51.2	46.7	73.0	63.8

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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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