

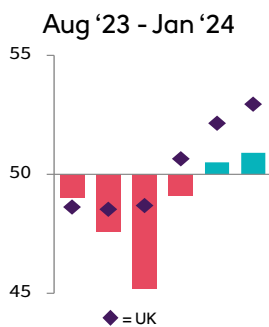


NatWest

NatWest South East PMI[®]

South East firms raise activity levels again, albeit marginally

South East Business Activity Index



Key findings

Firms increase output despite ongoing demand weakness

Degree of optimism posts 21-month high, while firms return to hiring

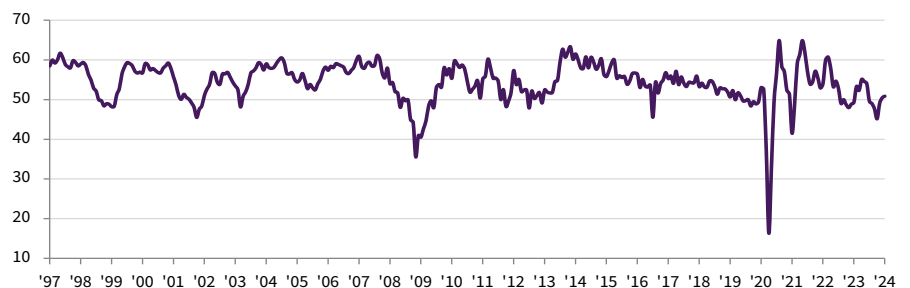
Cost pressures dip, but inflation remains elevated

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 50.5 in December to 50.9 in January, edging further above the stabilisation mark and signalling a second rise in output in as many months. The latest increase in activity was the quickest in seven months, though only marginal overall. The South East underperformed relative to the national picture for the fifth month running. According to anecdotal evidence, firms reportedly increased output levels amid signs of improving customer interest, though demand remained muted overall.

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

"The results of the latest PMI survey resembled the start of a recovery for firms in the South East region, with confidence towards future output at its strongest for 21 months. For the second month in a row, companies increased activity levels and at a quicker rate. This supported a renewed increase in workforce numbers, which was the first seen since last August. Additionally, demand for goods and services dipped at the softest rate for six months. While it is clear that firms are still not out of the woods, the overall picture is now looking more positive."

South East Business Activity Index
sa, >50 = growth since previous month



Contents

- About the report
- Demand and outlook
- Exports
- Business capacity
- Prices
- UK Sector PMI
- UK Regional PMI
- Data summary
- Contact

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

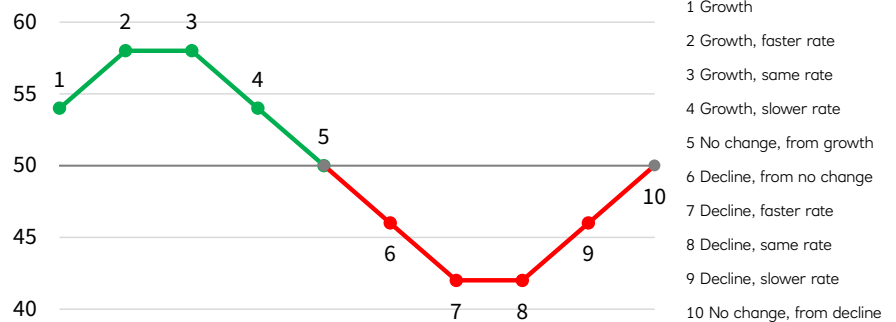
calculated from a single question that asks for changes in the volume of business activity (at service providers) or output (at manufacturers) compared with one month previously. The South East Business Activity Index is comparable to the UK Composite Output Index. It is sometimes referred to as the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

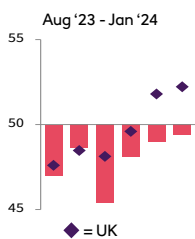
Index interpretation

50.0 = no change since previous month



Demand and outlook

New Business Index



New work falls at a slower pace in January

January data indicated a further drop in new business received by private sector firms across the South East, thereby stretching the current sequence of decline to seven months. That said, the pace of contraction fell to a six-month low and was only marginal. The latest reduction in new business was partly linked to ongoing weakness in economic conditions.

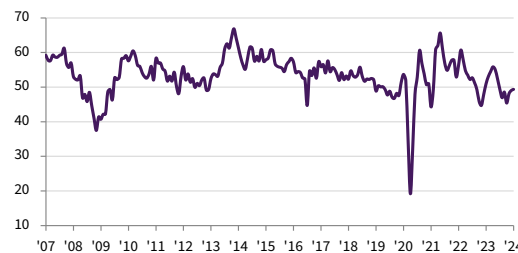
Remaining in growth territory, the UK average outperformed the South East in terms of sales in January.

New Business Index

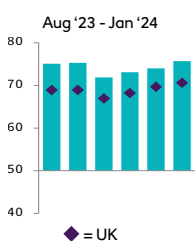
sa, >50 = growth since previous month

49.4

Jan '24



Future Activity Index



Highest degree of business optimism since April 2022

When asked about their outlook for output, confidence among firms in the South East picked up in January. Furthermore, the degree of optimism was the strongest in 21 months. The main drivers of positive sentiment included plans to improve marketing, growth expectations and hopes that economic conditions will stabilise.

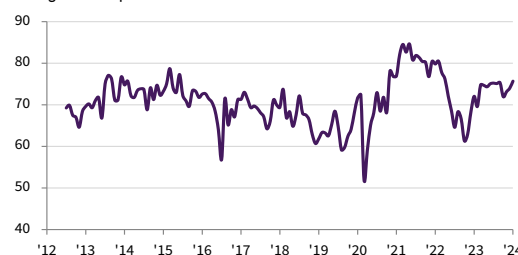
South East companies were the second-most upbeat of the 12 monitored regions and areas, behind only the West Midlands.

Future Activity Index

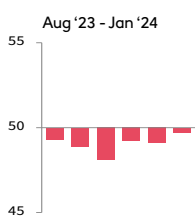
>50 = growth expected over next 12 months

75.7

Jan '24



Export Climate Index



Export conditions nearly stabilise

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.

Continuing the trend of decline which began last August, the ECI posted at 49.7 in January, up from 49.1 in December. The latest decrease was fractional and the slowest in six months.

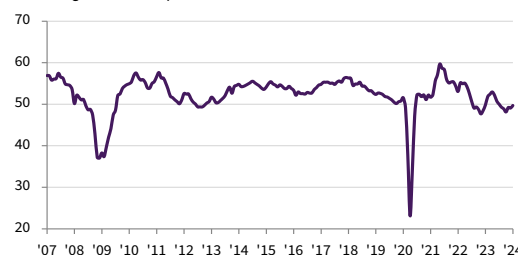
Looking at the top five export markets for the South East, Germany, France and the Netherlands were the main drags on the index given sustained downturns in activity. The US and Ireland remained the key bright spots in January. Growth eased across Ireland and was marginal, while the pace of expansion in the US improved and was moderate overall.

Export Climate Index

sa, >50 = growth since previous month

49.7

Jan '24

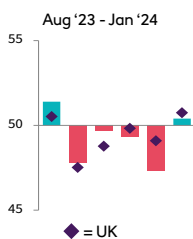


Top export markets, South East

Rank	Market	Weight	Output Index, Jan '24
1	USA	17.8%	52.0
2	Germany	13.5%	47.0
3	France	12.7%	44.6
4	Ireland	11.0%	50.7
5	Netherlands	10.6%	48.2

Business capacity

Employment Index



South East firms see renewed workforce expansion

Hiring was back on the agenda at private sector firms across the South East for the first time in five months. The rate of jobs growth was only marginal, however. According to panellists, workforce numbers were raised to cope with both current and projected workloads.

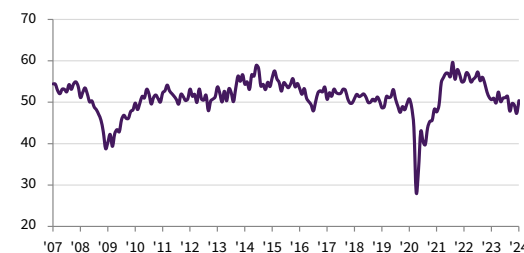
The UK average registered a slightly quicker pace of job creation than the South East.

Employment Index

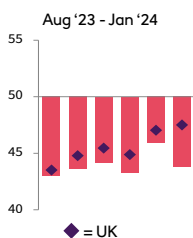
sa, >50 = growth since previous month

50.4

Jan '24



Outstanding Business Index



Sharp backlog clearance in January

The seasonally adjusted Outstanding Business Index remained firmly below the neutral level of 50.0 in January, indicating a further drop in unfinished orders. Furthermore, having gathered pace from December, the rate of depletion was marked. Some firms stated that outstanding work had fallen due to project completions, while others blamed subdued order numbers.

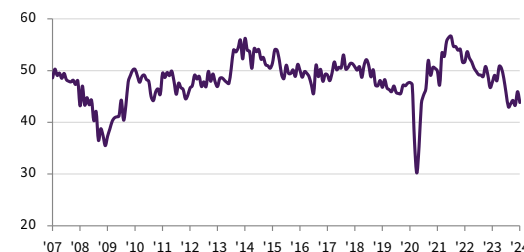
Of the 12 monitored UK regions and areas, only the North East recorded a faster decrease in incomplete work.

Outstanding Business Index

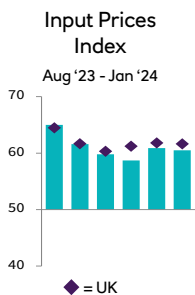
sa, >50 = growth since previous month

43.8

Jan '24



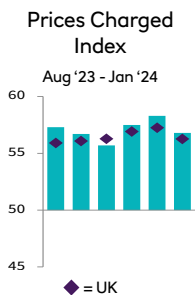
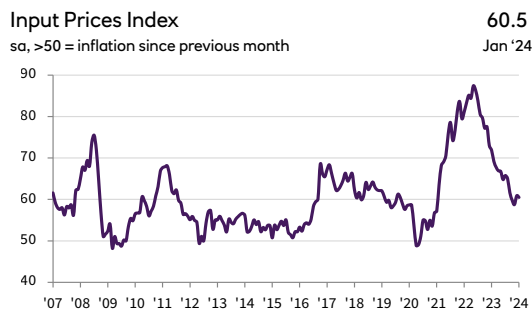
Prices



Input costs increase, but to a slightly lesser extent

Cost burdens faced by firms in the South East private sector continued to rise sharply during the first month of 2024. Despite easing slightly, the rate of inflation in January was quicker than the historical average. Survey respondents blamed raised salary costs and higher costs of freight, amid disruption to shipping in the Red Sea.

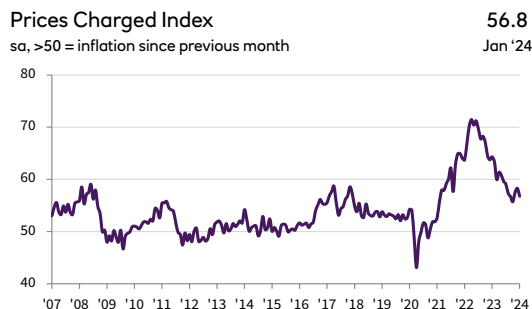
Compared to the UK average, input price hikes were softer for firms in the South East.



Further sharp rise in selling prices

Adjusted for seasonal effects, the Prices Charged Index recorded well above the 50.0 no-change mark in January, to signal a rise in prices for South East goods and services. Though sharp, the latest increase in charges was the least pronounced in three months. According to anecdotal evidence, some companies raised fees amid the pass-through of increased costs to customers.

Charge inflation locally was slightly faster than the UK average in January.



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, Jan '24 ⁺
1	Electrical & Optical	1.90	55
2	Mechanical Engineering	1.27	52
3	Chemicals & Plastics	1.23	50
4	Timber & Paper	0.98	48
5	Other Manufacturing	0.97	45
6	Basic Metals	0.82	48
7	Transport	0.62	55
8	Food & Drink	0.49	50
9	Textiles & Clothing	0.43	48

South East specialisation: Services

Rank	Sector	LQ	UK Business Activity Index, Jan '24 ⁺
1	Computing & IT Services	1.71	55
2	Transport & Communication	1.22	52
3	Business-to-business Services	1.04	50
4	Hotels, Restaurants & Catering	0.95	55
5	Personal & Community Services	0.93	48
6	Financial Intermediation	0.63	55

UK sector focus

Personal & Community Services

Activity across the UK's Personal & Community Services sector fell in the three months to January. It was in fact the only broad category within the UK service sector to record a reduction in activity over that period.

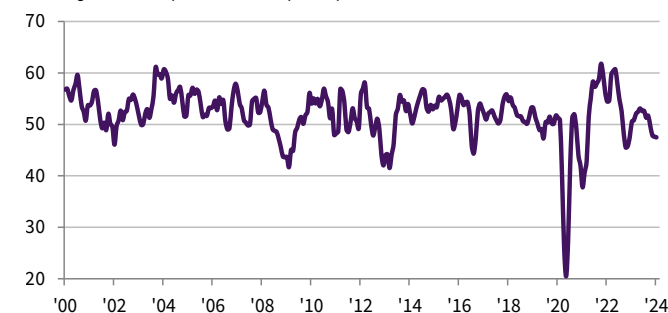
The downturn reflected falling demand, with the decline in new business that began in late-2023 extending into the new year. A lack of pressure on business capacity – as evidenced by falling backlogs of work – led firms in the sector to cut workforce numbers. It continued a run of job losses seen since the middle of last year.

Cost pressures among Personal & Community Services firms meanwhile remained elevated, due in large part to growing wages. Although below the averages in 2022 and 2023, the rate of input price inflation was still above its long-run trend. The increase in prices charged was more subdued by comparison, registering one of the slowest rises in the past two-and-a-half years.

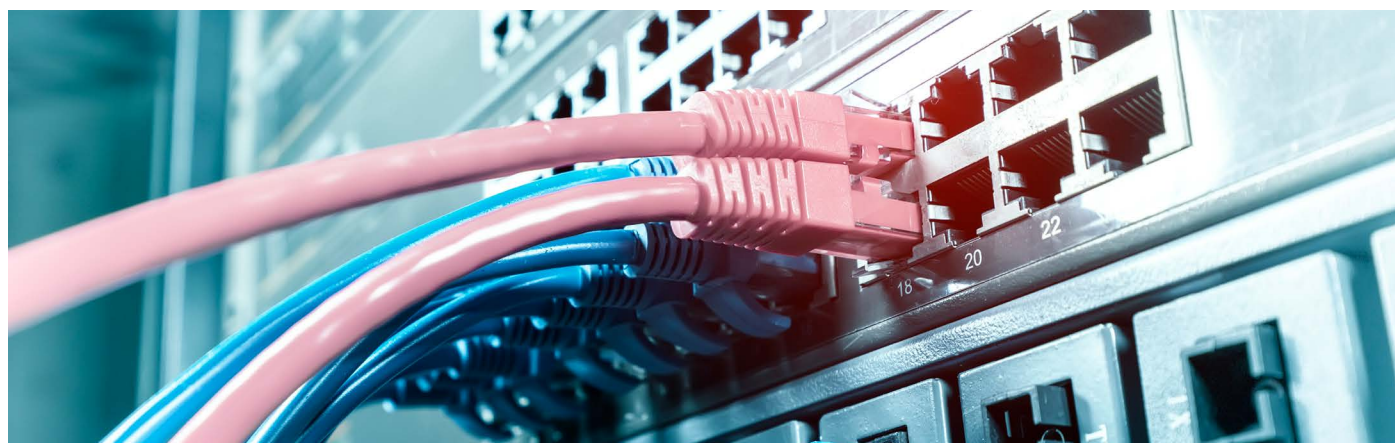
Lastly, latest data showed business expectations in the sector slipping to the lowest for almost a year.

Output Index

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



⁺ 3-month moving average



UK Regional PMI overview

Business Activity

The majority of UK regions and nations saw a rise in business activity in January. London once again recorded the strongest growth, followed by the West Midlands. Output fell further in the North East, but the rate of contraction slowed notably to the weakest since last August. Activity in Wales was broadly unchanged, following a four-month sequence of decline.

Employment

January saw a general improvement in labour market trends, with employment either rising more quickly or falling at a reduced rate in almost all cases. London topped the rankings, recording its fastest rate of job creation for six months. Wales recorded the most marked drop in workforce numbers, but the pace of staff shedding did at least ease to the weakest since last October.

Future Activity

Eight of the 12 monitored regions and nations registered improved business expectations in January. Confidence was highest in the West Midlands, followed by the South East. The greatest upswing in sentiment was seen in Northern Ireland*. Scotland was one of the areas that went against the trend and recorded the lowest overall degree of optimism.

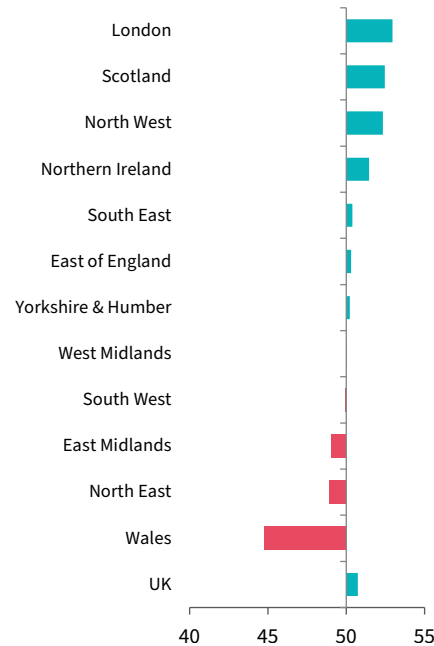
Business Activity Index

sa, >50 = growth since previous month, Jan '24



Employment Index

sa, >50 = growth since previous month, Jan '24

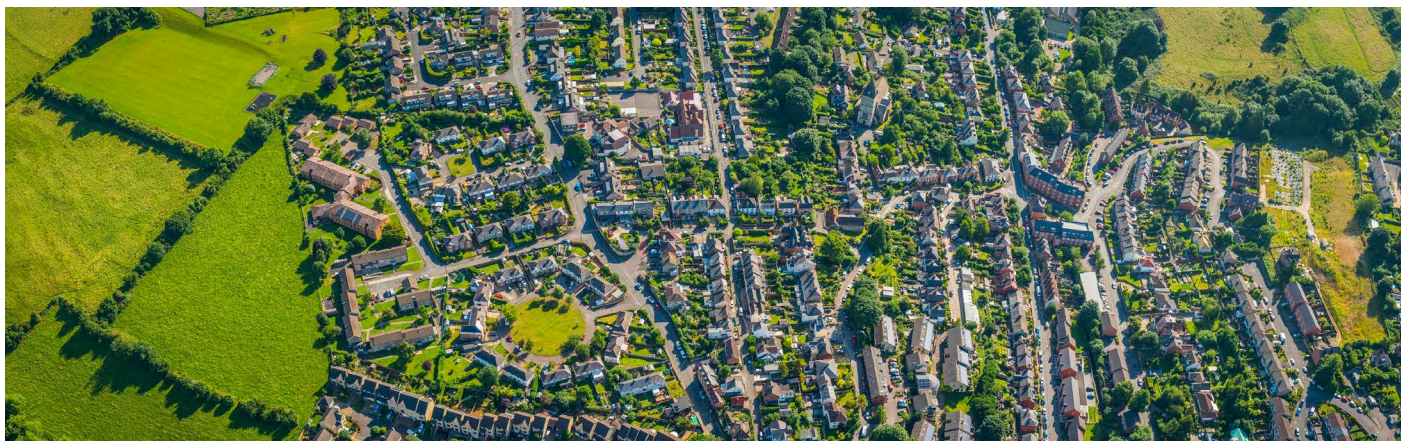


Future Activity Index

>50 = growth expected over next 12 months, Jan '24



* 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
Aug '23	49.0	47.0	49.3	75.1	51.4	43.0	65.0	57.3
Sep '23	47.6	48.6	48.9	75.3	47.8	43.6	61.6	56.7
Oct '23	45.2	45.4	48.1	71.9	49.7	44.2	59.8	55.7
Nov '23	49.1	48.1	49.2	73.1	49.3	43.3	58.7	57.5
Dec '23	50.5	49.0	49.1	74.0	47.3	45.9	60.9	58.3
Jan '24	50.9	49.4	49.7	75.7	50.4	43.8	60.5	56.8

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