



NatWest South East PMI®

Private sector output falls in October as uncertainty persists

Key Findings

Business activity declines for second consecutive month

New business falls amid weak client demand

Expectations remain historically subdued, despite strengthening

South East Business Activity Index



Last six months SE v UK



Private sector activity across the South East continued to decline in October, according to the latest NatWest PMI® data. This marked the second back-to-back contraction in five months, although the latest fall was only fractional and eased from September. Dragging on output was a sixth consecutive monthly fall in new business, with panellists reporting weak demand conditions. Meanwhile, backlogs fell moderately and firms cut workforce numbers for a third successive month. Despite falling business activity, expectations improved during the latest survey period, although remained subdued in the context of historical data.

The headline NatWest South East Business Activity Index – a seasonally adjusted index that measures the combined output of the region’s manufacturing and service sectors – posted 49.5 in October, rising from 48.4 in September to signal only a marginal contraction in private sector output. Business activity has fallen in all but one of the last five months, with survey respondents linking the recent decline to continued political and economic uncertainty.

Demand

Unfavourable demand conditions weighed on private sector output in the South East, as signalled by a sixth consecutive fall in new business. Panellists attributed the decline to client hesitancy amid continued Brexit uncertainty. That said, the pace of reduction eased to the softest since July.

Capacity

With incoming new business falling in October, private sector companies continued to reduce their backlogs, stretching the current sequence of decline to over a year. The rate of backlog deterioration eased to the slowest since February, however.

Less pressure on capacity led firms to cut employment further during the latest survey period. The decline in workforce numbers was the third in successive months and mild overall.

Prices

Input prices rose sharply in October, with a number of firms linking higher cost burdens to greater wages and unfavourable exchange rates, which pushed up the price of imported goods. The rise was the slowest since June, however.

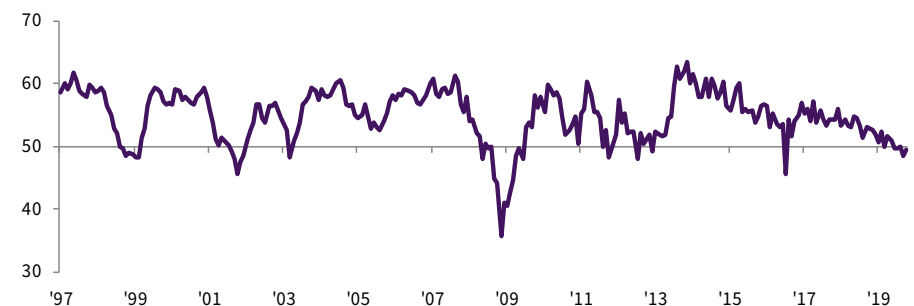
In line with rising cost burdens, private sector firms in the South East continued to increase their output charges in October. The rise was moderate and the joint-quickest since April. Moreover, the rate of charge inflation in the South East was the fastest across the 12 monitored UK regions.

Outlook

Expectations for business activity strengthened in October, with sentiment at its highest for three months. Optimism remained subdued in the context of historical data however, with some panellists noting continued Brexit uncertainty had weighed on expectations.

South East Business Activity Index

sa, >50 = growth since previous month



New Business Index



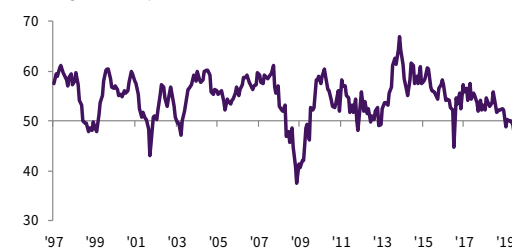
Slowest fall in new business for three months

October data signalled a sixth consecutive fall in new business received by private sector firms in the South East. Respondents associated the reduction with client hesitancy amid continued Brexit uncertainty. The rate of decline eased, however, to the slowest since July and was only modest overall. By sector, manufacturing drove the overall reduction with a sharp fall, while services firms signalled a fractional rate of contraction.

Order book volumes also fell at the UK level. The pace of decline was slight, with the rate of decrease in the South East outpacing that of the UK average.

New Business Index

sa, >50 = growth since previous month



Outstanding Business Index



Backlogs decline at softest rate since February

Private sector firms across the South East reported a fall in outstanding business in October, extending the current sequence of decline to over a year. Anecdotal evidence linked the reduction to falling new orders. That said, the latest decrease was the softest since February and only moderate overall.

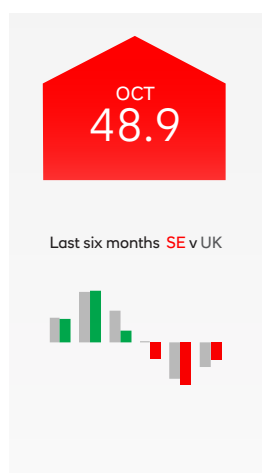
Outstanding business also fell across the UK as a whole. The decline at the national level was solid, albeit softer than that seen in September. Of the 12 monitored UK regions that registered a fall in backlogs, the South East noted the slowest reduction.

Outstanding Business Index

sa, >50 = growth since previous month



Employment Index



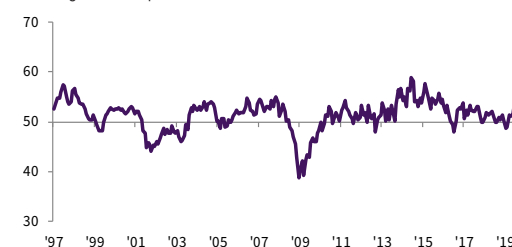
Private sector employment falls for the third month in a row

Employment across the South East's private sector declined in October, extending the current sequence of reduction to three months. Panellists attributed the contraction to weak demand conditions which have weighed on activity. That said, the slide in workforce numbers was only slight overall, with job shedding easing from September.

The fall in the South East was slightly softer than that seen across the UK as a whole. Workforce numbers declined for a second straight month at the UK level, with 10 of the 12 monitored UK regions signalling a reduction.

Employment Index

sa, >50 = growth since previous month



Input Prices Index



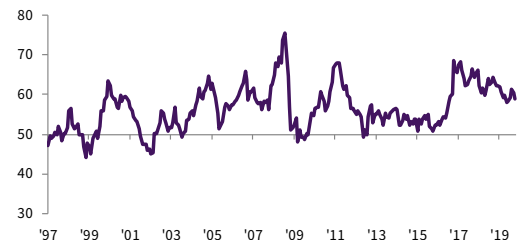
Input prices rise sharply, but at slower pace

October data signalled a further rise in input prices, extending the current sequence of rising cost burdens which began in August 2012. Respondents associated the latest increase, which was sharp overall, with higher staff costs and unfavourable exchange rates. That said, the rate of price inflation was the softest since June.

Input prices rose solidly across the UK, although the rate of increase was the weakest for over three years. The rise in input costs reported in the South East was slightly quicker than that seen across the UK as a whole.

Input Prices Index

sa, >50 = inflation since previous month



Prices Charged Index



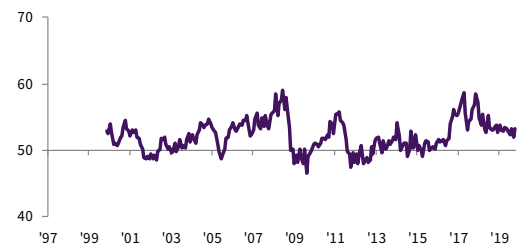
Joint-fastest rate of charge inflation since April

Average prices charged by businesses in the South East increased in October, as has been the case in every month for over four years. The latest rise was the joint-quickest since April and solid overall. Panellists linked the uptick in charges to the pass-through of higher input costs to clients.

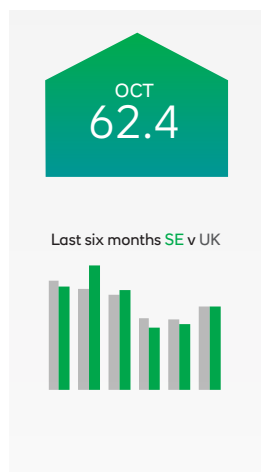
The increase in output prices was mirrored at the national level, with the UK as a whole reporting a mild rise. Moreover, of the 12 monitored UK regions, the rate of charge inflation was fastest in the South East.

Prices Charged Index

sa, >50 = inflation since previous month



Future Business Activity Index



Output expectations strengthen in October

Private sector firms across the South East reported stronger expectations for business activity over the next 12 months in October. Anecdotal evidence associated optimism with forecasts of growth in new business. Moreover, the level of positive sentiment was the highest in three months and broadly in line with the UK average.

That said, sentiment remained subdued in the context of the series history. Some respondents noted that continued Brexit uncertainty had weighed on confidence.

Future Business Activity

>50 = growth expected over next 12 months



South East Export Climate Index

Note: Export markets are defined as non-UK.



Last six months



South East's export conditions improve only fractionally

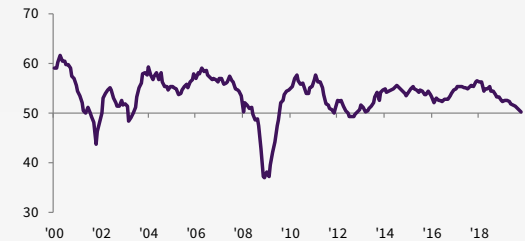
The South East Export Climate Index is calculated by weighting together national PMI output data according to their importance to the manufacturing exports of the South East. This produces an indicator for the economic health of the region's export markets.

The Export Climate Index, posted 50.4 in October, down from 50.6 in September, to signal only fractional growth across the South East's top export markets. Moreover, the pace of improvement in export conditions was the slowest since April 2013.

Weighing on growth was a further deterioration in Germany, alongside the first contraction in output in the Netherlands since April 2013. Meanwhile, growth eased in the USA to only a marginal rate. Concurrently, China reported the fastest rate of expansion in activity for six months, while output growth in France accelerated from September and was moderate overall.

Export Climate Index

sa, >50 = improving export climate since previous month



Top export markets, South East

Rank	Market	Weight	Output Index, Oct-19
1	USA	18.1%	50.9
2	Germany	10.4%	48.9
3	China	9.6%	52.0
4	Netherlands	8.1%	49.7
5	France	7.3%	52.6

South East Industry Specialisation

Location quotients (LQs) are useful measures of regional economic specialisation and offer a means to 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 sub-sectors. The UK Output Index for each sub-sector is also displayed.

Manufacturing specialisation: South East

Rank	Sector	LQ	UK Output Index, Oct-19 (3mma)
1	Electrical & Electronic	2.20	
2	Wood & Paper	1.16	
3	Other Manufacturing	1.15	
4	Chemicals, Rubber & Plastics	1.12	
5	Machinery & Equipment	1.01	
6	Metals & Metal Products	0.93	
7	Transport Equipment	0.65	
8	Food & Drink	0.61	
9	Textiles & Clothing	0.38	

40 45 50 55

Services specialisation: South East

Rank	Sector	LQ	UK Business Activity Index, Oct-19 (3mma)
1	Computing & IT Services	1.65	
2	Transport & Communication Services	1.12	
3	Business-to-business Services	1.05	
4	Hotels, Restaurants & Catering	0.94	
5	Other personal/consumer Services	0.93	
6	Financial Intermediation	0.63	

40 45 50 55

UK Sector Focus: Transport Equipment

Output Index



Last six months*



*3mma

Has the downturn in the transport equipment sector bottomed-out?

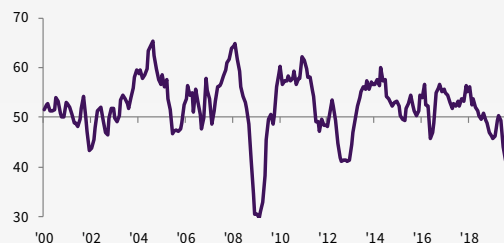
The downturn in UK transport equipment continued in the three months to October. However, with rates of decline in output, new orders and employment all easing for the second month in a row, there were tentative signs of a turnaround in the sector.

Production fell at the slowest rate since the three months to June, though the extent of the decrease was still marked and meant that transport equipment remained one of the worst-performing across the UK private sector. Two forward-looking indicators – the Future Output Index and the ratio of new orders to stocks of finished goods – also ticked up but remained close to their recent lows.

Job shedding has been a feature across the sector since the second quarter of 2018 amid efforts to adjust capacity in line with demand and control costs. Input cost inflation has, however, reached a near three-and-half-year low, to show that pressures on this front are easing.

Output Index

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



Input Prices Index

>50 = inflation since previous month (3mma)



UK Regional Rankings

Business Activity

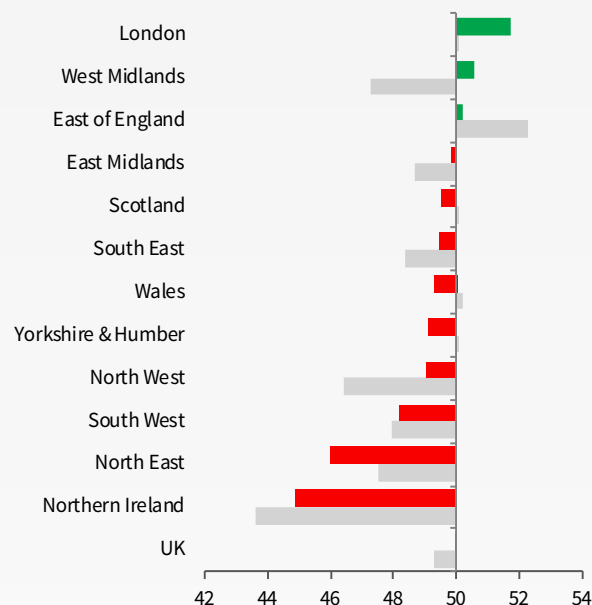
London recorded an accelerated increase in business activity in October to lead the regional rankings for the first time in almost four years. The pace of expansion in the capital was nevertheless only modest. The only other regions to record higher output were the West Midlands and the East of England, though growth was marginal in both cases. The East Midlands saw broadly no change in business activity, while all remaining areas recorded contractions. Northern Ireland recorded the fastest rate of decline, followed by the North East and South West respectively.

Employment

The only bright spots on the employment front in October were modest increases in workforce numbers in London and the South West, with the latter recording the slightly faster rate of job creation. Staffing levels fell in all other areas, albeit with rates of shedding easing in five out of the ten cases. The North East was at the foot of the rankings, with Wales and the East Midlands making up the bottom-three places.

Output Index by region

sa, >50 = growth since previous month, Oct-19 (Sep-19 ■)



Contact

NatWest

Jonathan Rennie
Regional PR Manager
07769 932 102
jonathan.rennie@rbs.co.uk

IHS Markit

Lewis Cooper
Economist
+44 1491 461 019
lewis.cooper@ihsmarkit.com

Katherine Smith
Corporate Communications
+1 781 301 9311
katherine.smith@ihsmarkit.com

Methodology

The NatWest South East PMI® is compiled by IHS Markit from responses to questionnaires sent to South East companies that participate in IHS Markit'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.

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. To learn more go to ihsmarkit.com/products/pmi.html.

About NatWest

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.

NatWest has been running MoneySense, an impartial financial education programme for 5–18 year-olds, for more than 21 years. By the end of 2018, NatWest will help another 1 million young people to understand and take control of their finances.

About IHS Markit

IHS Markit (NYSE: INFO) is a world leader in critical information, analytics and solutions for the major industries and markets that drive economies worldwide. The company delivers next-generation information, analytics and solutions to customers in business, finance and government, improving their operational efficiency and providing deep insights that lead to well-informed, confident decisions. IHS Markit has more than 50,000 business and government customers, including 80 percent of the Fortune Global 500 and the world's leading financial institutions.

IHS Markit is a registered trademark of IHS Markit Ltd. and/or its affiliates. All other company and product names may be trademarks of their respective owners © 2019 IHS Markit Ltd. All rights reserved.

Disclaimer

The intellectual property rights to the NatWest South East PMI® provided herein are owned by or licensed to IHS Markit. Any unauthorised use, including but not limited to copying, distributing, transmitting or otherwise of any data appearing is not permitted without IHS Markit's prior consent. IHS Markit shall not have any liability, duty or obligation for or relating to the content or information ("data") contained herein, any errors, inaccuracies, omissions or delays in the data, or for any actions taken in reliance thereon. In no event shall IHS Markit be liable for any special, incidental, or consequential damages, arising out of the use of the data. Purchasing Managers' Index® and PMI® are either registered trade marks of Markit Economics Limited or licensed to Markit Economics Limited. NatWest uses the above marks under licence. IHS Markit is a registered trademark of IHS Markit Ltd. and/or its affiliates.