

NatWest South East PMI[®]

Private sector growth improves in September

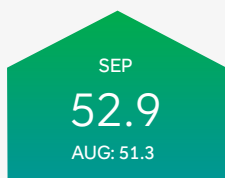
Key Findings

Headline Business Activity Index rises to 52.9, from 51.3

Stronger growth of new business

Input price pressures hit nine-month high

South East Business Activity Index



Last six months SE v UK



Private sector firms in the South East reported a faster rate of business activity growth during September, linked to stronger client demand. Nonetheless, the sector continued to underperform relative to the UK rate of expansion.

On the price front, input cost inflation was the strongest in nine months in September. Anecdotal evidence suggested that cost pressures arose from wage and fuel bills.

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 – was at 52.9 in September, up from 51.3 in August. Business activity has improved continuously on a month-by-month basis since August 2016.

Growth was broad-based across both the service and manufacturing sectors. That said, the latest overall expansion was slower than the UK-average for the fourth month in a row.

Demand

Demand for goods and services produced in the South East's private sector increased during September. The growth extended the current phase of expansion to 26 months.

Capacity

Stronger inflows of new orders led to higher capacity pressures in September. Backlogs of work built-up in the latest survey, following a contraction in August. The rate of growth was only fractional overall, however.

Employment across the South East's private sector increased for the first time since June. Anecdotal evidence given in the latest survey period linked job creation to higher output requirements.

Prices

September data indicated the strongest input price inflation for nine months. The rate of inflation was sharp overall and broadly in line with the historical average. Some panel respondents in the South East of England linked higher input price pressures to higher fuel and wage bills.

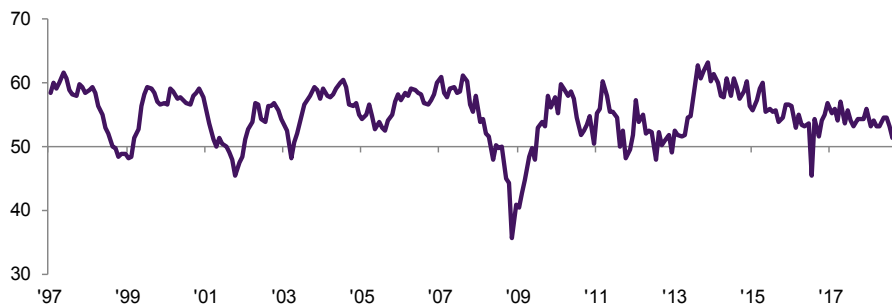
Despite sharper cost pressures, selling prices rose at a slower pace in the latest survey period. That said, the rate of output charge inflation remained above the long-average in September. The increase in selling prices was solid overall.

Outlook

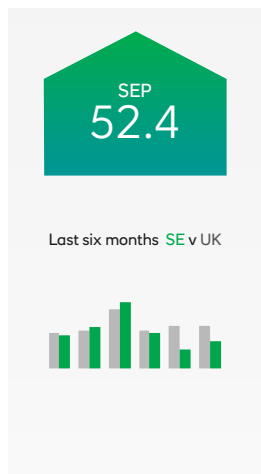
Business confidence towards future growth prospects decreased to a three-month low in September. Nonetheless, firms remained strongly optimistic towards the next 12 months. New product launches alongside marketing initiatives underpinned hopes of growth in the latest survey.

South East Business Activity Index

sa, >50 = growth since previous month



New Business Index

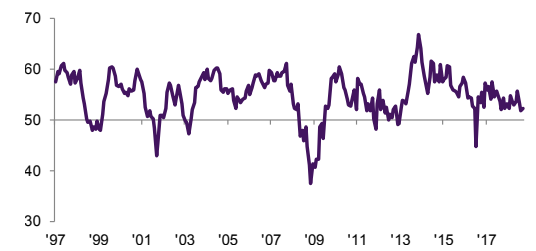


New business growth accelerates but remains muted overall

The seasonally adjusted New Business Index registered above the 50.0 no-change mark during September. The rate of growth signalled was only moderate overall, however, registering below the historical average and that recorded across the UK as a whole. Growth in new business was broad-based across the manufacturing and service sectors.

New Business Index

sa, >50 = growth since previous month



Outstanding Business Index

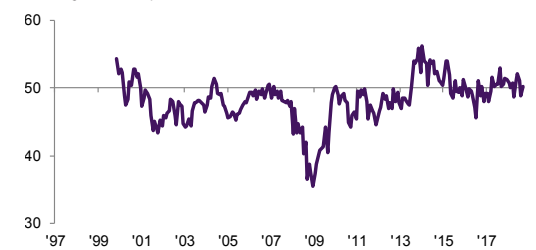


Work outstanding ticks up during September

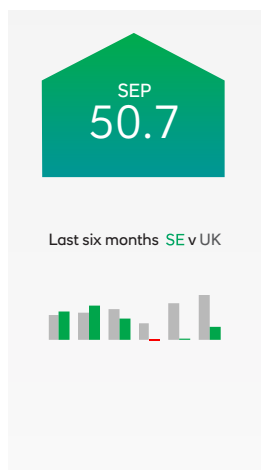
Private sector companies operating in the South East of England reported an increase in outstanding business during September. The finding followed a contraction in August. Some firms linked the increase to higher inflows of new orders. The rate of growth was only fractional overall, however.

Outstanding Business Index

sa, >50 = growth since previous month



Employment Index

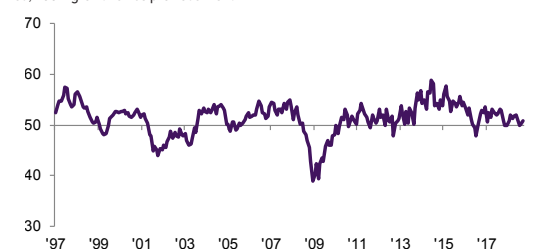


Employment growth remains muted

Despite the rate of job creation across the South East's private sector accelerating to a three-month high during the latest survey period, the overall level of hiring activity was muted and well below that recorded across the UK as a whole.

Employment Index

sa, >50 = growth since previous month



Input Prices Index

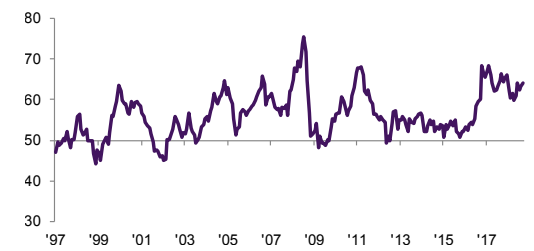


Input price inflation accelerates to nine-month high

Adjusted for seasonal variance, the Input Prices Index registered above the 50.0 threshold that delineates inflation from deflation during September. Average cost burdens have been rising on a month-by-month basis since August 2012. Moreover, the rate of inflation in the latest survey was the sharpest in nine months.

Input Prices Index

sa, >50 = inflation since previous month



Prices Charged Index

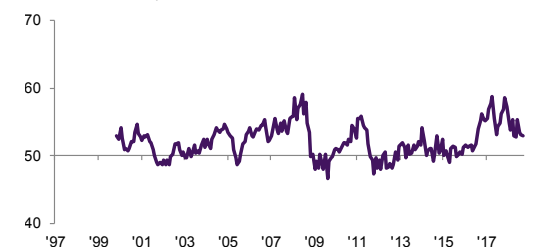


Selling prices increase at slower pace

September data signalled the slowest increase in selling prices across the South East's private sector since June. The rate of output charge inflation remained solid overall, however, and above the long-run average. Some firms linked higher selling prices to rising operating costs.

Prices Charged Index

sa, >50 = inflation since previous month



Future Business Activity Index



Business confidence remains strongly positive

Private sector firms operating in the South East remained optimistic towards future growth prospects during September. That said, the overall degree of positive sentiment was the lowest for three months. New product launches alongside marketing initiatives underpinned hopes of growth in the latest survey.

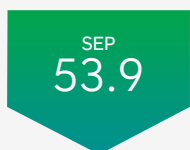
Future Business Activity Index

>50 = growth expected over next 12 months



South East Export Climate Index

Note: Export markets are defined as non-UK.



Last six months



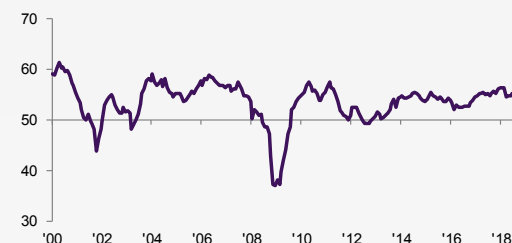
Export Climate Index falls in September

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.

September data signalled the slowest improvement in export climate conditions since October 2017 in the latest survey period. Nonetheless, at 53.9 in September, the seasonally adjusted South East Export Climate Index remained well above the neutral 50.0 threshold, thereby indicating a marked improvement in export conditions. The Netherlands, the region's fourth most important export location, registered the sharpest rate of growth in the most recent survey period.

Export Climate Index

sa, >50 = improving export climate since previous month



Top export markets, South East

Rank	Market	Weight	Output Index, Sep-18
1	USA	16.1%	53.9
2	Germany	10.6%	55.0
3	France	6.8%	54.0
4	Netherlands	6.8%	59.2
5	Ireland	5.3%	58.4

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, Sep-18 (3mma)
1	Electrical & Electronic	2.15	
2	Other Manufacturing	1.53	
3	Wood & Paper	1.21	
4	Chemicals, Rubber & Plastics	1.07	
5	Machinery & Equipment	1.04	
6	Metals & Metal Products	0.94	
7	Transport Equipment	0.67	
8	Food & Drink	0.57	
9	Textiles & Clothing	0.38	

40 45 50 55 60 65

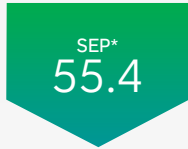
Services specialisation: South East

Rank	Sector	LQ	UK Business Activity Index, Sep-18 (3mma)
1	Computing & IT Services	1.72	
2	Transport & Communication Services	1.19	
3	Business-to-business Services	1.04	
4	Other personal/consumer Services	0.91	
5	Hotels, Restaurants & Catering	0.88	
6	Financial Intermediation	0.60	

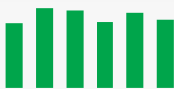
40 45 50 55 60

UK Sector Focus: Computing & IT Services

Output Index



Last six months*



*3mma

Job creation in computing & IT services accelerates in third quarter

Computing & IT services remained a key growth area for the UK economy in the third quarter.

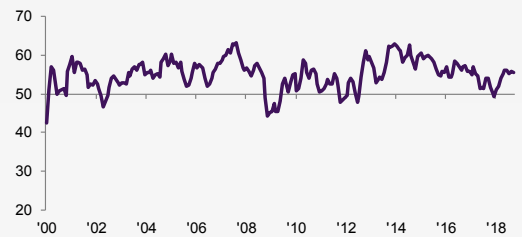
Business activity growth in the three months to September remained faster than that seen across the UK as a whole, maintaining a trend that has been seen since the first quarter of the year.

The sustained upturn in activity has led to an increasing number of firms in the sector taking on additional staff. Indeed, the rate of job creation in the third quarter reached the fastest for over four-and-a-half years.

Conditions for hiring have been helped by relatively low cost pressures, with computing & IT seeing the slowest rise in input prices in the three months to September of all UK sectors, except transport equipment.

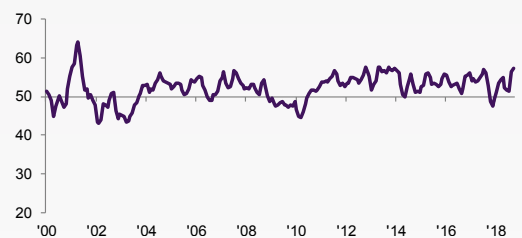
Output Index

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



Employment Index

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



UK Regional Rankings

Business Activity

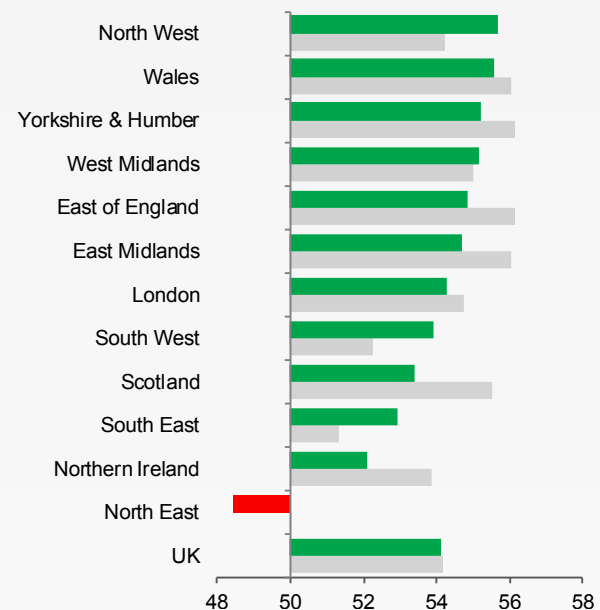
The North West and Wales were the two top performers for business activity growth in September, with the previous month's leader Yorkshire & Humber slipping back to third place in the rankings. The North West was in fact the month's biggest climber in the table, having seen growth accelerate further from July's two-year low to the quickest since February. The South East, South West and West Midlands also gained momentum in September. Elsewhere, output either rose at a slower rate or contracted, as was the case in the North East where business activity decreased for the first time in three months.

Employment

Employment increased in all monitored regions in September except the North East, where staffing numbers fell for the third month running and at the quickest rate in over two years. The North West led job creation ahead of Yorkshire & Humber and the West Midlands, respectively. The South East continued to underperform on the jobs front, seeing employment rise only marginally and for the first time in three months.

Output Index by region

sa, >50 = growth since previous month, Sep-18 ■ (Aug-18)



Contact

NatWest

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

IHS Markit

Sam Teague
Economist
+44 1491 461 018
sam.teague@ihsmarkit.com

Joanna Vickers
Corporate Communications
+44 207 260 2234
joanna.vickers@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

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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.

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.

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