

South East PMI

Sponsored by England's Regional Development Agencies

The PMI® (Purchasing Managers' Index®) South East Report is produced for SEEDA by Markit Economics.

The report features original survey data collected from a representative panel of companies based in the South East and operating in both manufacturing and service sectors.

The South East survey forms part of a series of nine regional surveys published by the Regional Development Agencies and Markit Economics and is derived from the highly regarded national PMI surveys produced by Markit.

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SEEDA has one aim - to support the economic development of our world-class region. We work at a local, regional, national and international level to attract inward investment, to help businesses reach their full potential and to win practical support from a range of partners. We bring funding into the region to help the economic growth of the South East.

SEEDA works to secure sustainable prosperity through expert interventions, expert deal-making and expert advice. We provide businesses with the support they need to grow, through our in-depth knowledge of their needs and the economic conditions, in which they operate.

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8th February 2010

Activity grew further in January, as new business rose sharply.

Key findings:

- Activity increased for seventh month running.
- New business continued to rise markedly.
- Employment only fractionally lower than one month ago.

The South East PMI® signalled an ongoing recovery in the region at the start of 2010 as private sector output rose further. Having rebounded sharply in Q4, the rate of expansion moderated to a level close to the long-run series trend. New business continued to rise at a marked rate that was greater than the survey's historic average. The labour market also showed signs of stabilising, with the rate of job shedding slowing to only a marginal pace.

Output and demand

The current sequence of rising output in the South East was extended to seven months in January. The rate of expansion slowed since December, but was broadly in line with the UK average. It was also comparable with the long-run average since regional data began in January 1997.

Manufacturing remained the cornerstone of the revival in overall activity growth, as services expansion was again subdued. However, new business at service providers rose sharply in January. Manufacturing new orders also rose markedly during the month, resulting in total new business rising for the seventh month running and at a rate greater than the long-run series average.

Employment and backlogs

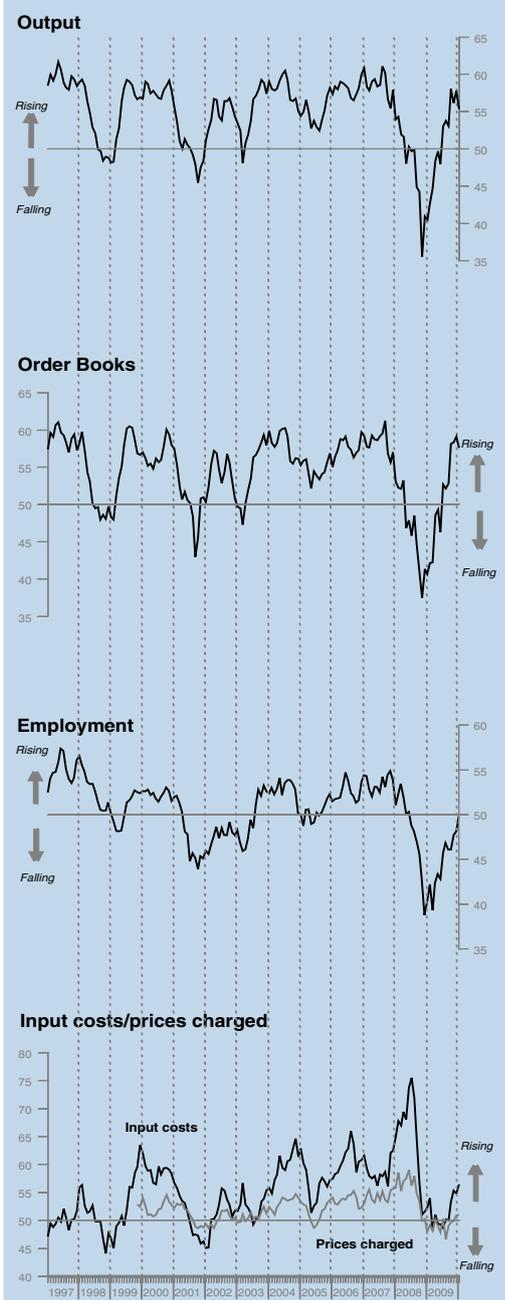
The level of private sector employment in the South East fell in January, extending the current period of decline to nineteen months. Firms usually attributed lower workforce numbers to phased redundancies or the non-replacement of leavers. However, the rate of job shedding slowed further during the month, to a marginal pace that was the weakest in the current sequence. Continued streamlining of workforces reflected a lack of capacity pressures in the sector, as the volume of outstanding business rose only fractionally.

Input and output prices

Renewed inflationary pressures were evident in January. Input prices rose for the fourth month running, with the rate of inflation the sharpest since October 2008 and greater than the long-run series average. Firms reported higher fuel and energy costs during the month, while manufacturers noted rising prices for packaging and plastics in particular.

The strength of cost pressures was sufficient to lead to a further rise in output prices in January. However, the rate of charge inflation was weak as intense competitive pressures remained.

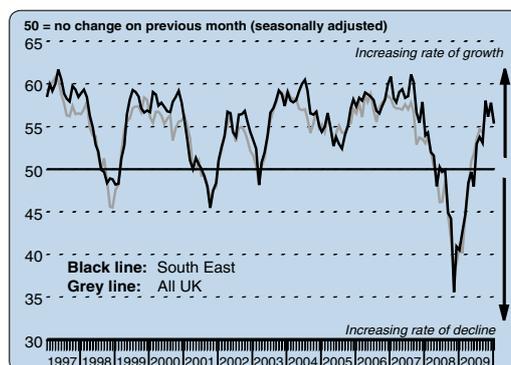
South East Business Conditions



Output / Business Activity

Q. Is the level of output or business activity at your company higher, the same or lower this month than one month ago?

		South East Companies			Index	S.Adj'd	All UK
		Higher %	Same %	Lower %	50=no chg	Index	S.Adj'd Ind
2009	May	21.9	51.9	26.3	47.8	49.7	51.0
	Jun	19.8	56.2	24.1	47.8	48.0	51.8
	Jul	25.9	57.6	16.5	54.7	53.0	53.6
	Aug	26.8	51.6	21.6	52.6	53.8	54.7
	Sep	27.4	51.0	21.7	52.9	53.1	54.3
	Oct	29.9	56.1	14.0	58.0	58.1	56.9
	Nov	26.4	54.1	19.5	53.5	56.2	56.5
	Dec	33.1	49.4	17.5	57.8	57.8	57.2
2010	Jan	25.8	49.0	25.2	50.3	55.3	55.5

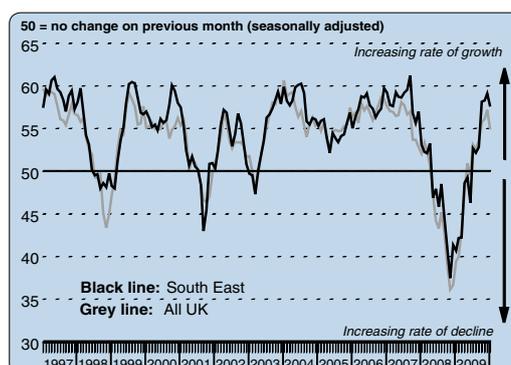


The seasonally adjusted Business Activity Index remained above the no-change mark of 50.0 in January, signalling growth of private sector output in the South East. The rate of growth slowed to a pace weaker than that seen throughout the fourth quarter, but one which remained above the long-run trend. It was broadly in line with the UK average as a whole in the latest period. Higher activity volumes were linked to rising new business, as market conditions showed further signs of recovery. Manufacturing production continued to rise at a faster rate than services activity.

New Orders / Incoming New Business

Q. Is the level of new orders or incoming new business at your company higher, the same or lower this month than one month ago?

		South East Companies			Index	S.Adj'd	All UK
		Higher %	Same %	Lower %	50=no chg	Index	S.Adj'd Ind
2009	May	25.5	43.9	30.6	47.5	49.3	50.9
	Jun	25.8	42.8	31.4	47.2	46.3	49.6
	Jul	30.1	52.6	17.3	56.4	52.7	53.1
	Aug	24.8	51.0	24.2	50.3	52.2	52.6
	Sep	26.9	54.5	18.6	54.2	52.9	53.6
	Oct	34.2	52.6	13.2	60.5	58.2	55.8
	Nov	32.3	48.4	19.4	56.5	58.3	56.1
	Dec	32.5	47.7	19.9	56.3	59.1	57.2
2010	Jan	29.7	47.3	23.0	53.4	57.6	54.9

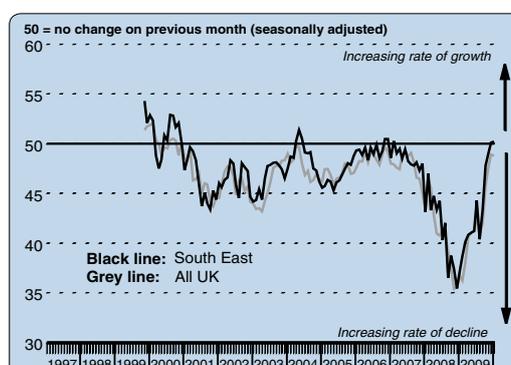


New business growth in the South East's private sector economy remained marked in January, despite easing to its weakest in four months. The region recorded a faster rate of expansion than all other areas of the UK except London. The seasonally adjusted Incoming New Business Index has signalled growth for the past seven months, and the rate of expansion has been greater than the UK average since last October. Sector data signalled similarly marked increases in manufacturing and services. A number of firms quoted that export demand had supported growth of new workloads.

Business Outstanding

Q. Is the level of business outstanding at your company higher, the same or lower this month than one month ago?

		South East Companies			Index	S.Adj'd	All UK
		Higher %	Same %	Lower %	50=no chg	Index	S.Adj'd Ind
2009	May	12.3	60.3	27.4	42.5	41.1	41.1
	Jun	12.2	60.1	27.7	42.2	41.2	41.3
	Jul	18.6	57.2	24.1	47.2	44.3	42.7
	Aug	11.7	59.9	28.5	41.6	40.4	40.9
	Sep	13.6	64.6	21.8	45.9	43.3	42.1
	Oct	15.2	66.2	18.6	48.3	47.8	45.8
	Nov	17.2	60.0	22.8	47.2	49.1	47.7
	Dec	14.9	66.7	18.4	48.2	50.1	48.9
2010	Jan	15.8	64.0	20.1	47.8	50.2	48.8

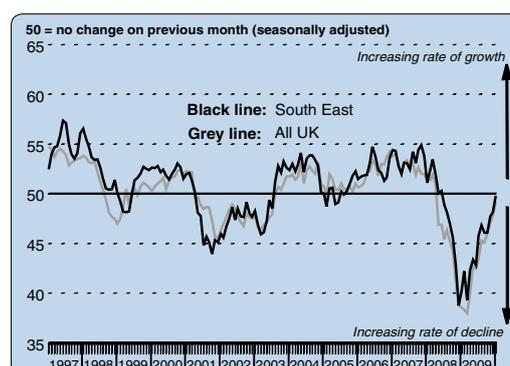


January data signalled fractional growth of outstanding business at private sector firms in the South East. Anecdotal evidence linked backlogs growth to rising new orders. The seasonally adjusted Business Outstanding Index remained just above the no-change mark of 50.0, signalling a very marginal rate of increase. Rising backlogs were mainly registered at manufacturers, as service sector outstanding business continued to fall. Rising volumes of outstanding business contrasted with a drop in backlogs across the UK as a whole in the latest period.

Employment

Q. Is the level of employment at your company higher, the same or lower this month than one month ago?

		South East Companies			All UK		
		Higher %	Same %	Lower %	Index 50=no chg	S.Adj'd Index	S.Adj'd Ind
2009	May	7.5	74.2	18.2	44.7	43.4	42.7
	Jun	6.2	78.3	15.5	45.3	42.9	42.5
	Jul	6.4	81.5	12.1	47.1	45.8	43.5
	Aug	11.2	77.0	11.8	49.7	46.9	45.3
	Sep	7.1	80.1	12.8	47.1	46.1	45.1
	Oct	7.7	77.4	14.8	46.5	46.1	46.1
	Nov	7.6	82.3	10.1	48.7	47.8	47.1
	Dec	10.4	77.9	11.7	49.4	48.2	47.8
2010	Jan	7.3	80.0	12.7	47.3	49.8	49.2

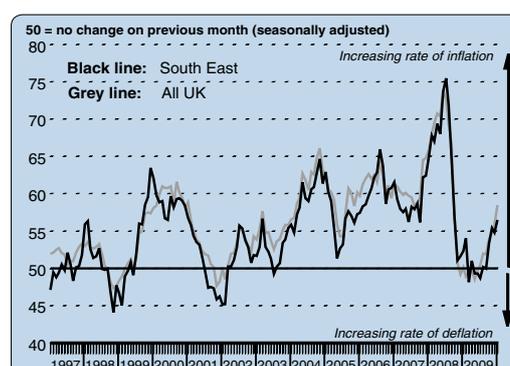


Firms in the South East continued to shed staff in January. Workforce numbers in the region have now contracted for nineteen successive months. However, the seasonally adjusted Employment Index rose for the third month running, and signalled only a marginal rate of job shedding. Of the eleven UK regions to record falling jobs in January (the exception being the North West), the South East posted the weakest rate of decline. A number of companies reported that voluntary leavers had not been replaced. Job losses were mainly concentrated at service providers.

Input Prices / Costs

Q. Have average input prices or input costs risen, fallen or remained unchanged this month compared to one month ago?

		South East Companies			All UK		
		Higher %	Same %	Lower %	Index 50=no chg	S.Adj'd Index	S.Adj'd Ind
2009	May	13.2	74.8	11.9	50.6	49.3	48.5
	Jun	14.8	69.1	16.0	49.4	49.3	49.8
	Jul	10.8	75.8	13.4	48.7	48.7	50.4
	Aug	11.8	78.9	9.2	51.3	50.2	52.0
	Sep	11.5	80.1	8.3	51.6	50.0	51.9
	Oct	14.7	77.6	7.7	53.5	53.4	54.0
	Nov	19.1	73.9	7.0	56.1	55.4	54.7
	Dec	10.4	84.4	5.2	52.6	54.8	55.9
2010	Jan	19.5	75.8	4.7	57.4	56.5	58.5

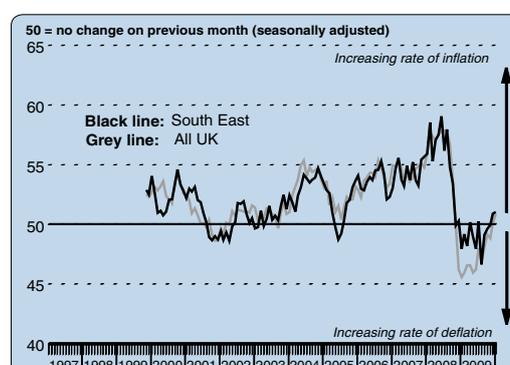


Average input prices paid by South East firms rose for the fourth month running in January. The rate of inflation accelerated to its highest since October 2008 and was greater than its long-run trend, but remained weaker than the average for the UK private sector as a whole. Sources of upward pressure on costs included fuel, energy and, at manufacturers, packaging and plastics. Almost one-fifth of survey respondents reported higher input prices during the month. By sector, prices rose more sharply at manufacturers than service providers.

Output Prices

Q. Are the average prices charged for goods and services by your company higher, the same or lower this month than one month ago?

		South East Companies			All UK		
		Higher %	Same %	Lower %	Index 50=no chg	S.Adj'd Index	S.Adj'd Ind
2009	May	6.9	84.9	8.2	49.4	48.9	46.0
	Jun	7.4	83.3	9.3	49.1	47.9	46.2
	Jul	7.6	86.0	6.4	50.6	50.2	48.0
	Aug	3.3	86.8	9.9	46.7	46.6	46.9
	Sep	7.1	85.3	7.7	49.7	49.1	48.1
	Oct	6.5	85.8	7.7	49.4	49.6	49.2
	Nov	7.6	84.1	8.3	49.7	49.9	48.9
	Dec	5.2	89.6	5.2	50.0	50.9	50.2
2010	Jan	11.3	81.3	7.3	52.0	51.0	50.9



January marked a second successive month of rising prices charged by private sector firms in the South East. The seasonally adjusted Output Prices Index was indicative of a rate of inflation little-changed from December, and one broadly in line with the UK-wide average. The latest month also marked the first back-to-back rise in output charges since October 2008. However, the Index was below its long-run trend, as firms reported limited pricing power due to competitive pressures. Manufacturers recorded robust increases in output prices, while service providers' charges fell further.

Regional Comparisons: Output

The graph below shows the regional PMI Output Indexes for the UK. An average of the latest three months is used (see also the table to the right). Eleven of the twelve UK regions recorded an increase in business activity during the three months to January, with Northern Ireland the only exception. The sharpest rises were in London and the North East, followed by the South East.



	Share of UK GVA, 2007 (National Statistics)	PMI Output Index		
		Last 12 months	Latest 3 months	Latest month
London	(21.0%)	53.6	60.8	60.6
South East	(14.4%)	51.7	56.4	55.3
North West	(9.6%)	52.9	56.2	57.4
East of England	(8.9%)	52.0	55.0	53.0
Scotland	(8.2%)	48.7	53.0	50.6
South West	(7.8%)	52.3	54.7	53.8
West Midlands	(7.5%)	48.6	54.3	53.3
Yorks & Humber	(7.1%)	50.9	54.4	52.0
East Midlands	(6.3%)	51.0	55.9	54.1
Wales	(3.6%)	51.6	54.2	53.1
North East	(3.2%)	52.5	59.4	59.6
N.Ireland	(2.3%)	43.6	47.7	43.9
UK	(100.0%)	52.0	56.4	55.5

Regional Comparisons: Employment

The graph below shows the regional PMI Employment Indexes for the UK. An average of the latest three months is used (see also the table to the right). Job shedding was recorded in eleven of the twelve UK regions in the three months to January. Only the North West registered an expansion of workforce numbers. The steepest rates of job shedding were in the West Midlands, Yorkshire & Humber and Northern Ireland.



	Contribution to UK Employment, 2008 (National Statistics)	PMI Employment Index		
		Last 12 months	Latest 3 months	Latest month
South East	(14.6%)	45.1	48.6	49.8
London	(12.3%)	43.0	47.3	49.4
North West	(10.9%)	45.3	50.4	52.3
East of England	(9.6%)	44.1	49.1	49.0
Scotland	(8.7%)	47.0	49.5	48.1
South West	(8.6%)	43.8	47.5	48.7
West Midlands	(8.6%)	41.2	45.3	47.8
Yorks & Humber	(8.2%)	43.5	47.0	48.1
East Midlands	(7.3%)	42.6	47.8	49.4
Wales	(4.6%)	45.7	49.4	48.8
North East	(3.9%)	45.1	48.3	48.0
N.Ireland	(2.7%)	43.6	47.1	46.3
UK	(100.0%)	43.8	48.1	49.2

PMI Survey Methodology

PMI surveys

Purchasing Managers' Indexes (or PMIs) are monthly surveys of carefully selected companies which provide an advance indication of what is really happening in the private sector economy by tracking variables such as output, new orders, employment and prices across both manufacturing and service sectors. The PMI surveys are based on fact, not opinion, and are the first indicators of economic conditions each month. The data are collected using identical methods in all countries and regions so that accurate comparisons may be made.

Questionnaires are completed in the latter half of each month and are collected and processed by economists at Markit Economics. Respondents are asked to state whether business conditions for a number of variables have improved, deteriorated or stayed the same compared with the previous month.

Index numbers

Index numbers are calculated from the percentages of respondents reporting an improvement, no change or decline. These indices vary between 0 and 100 with readings of exactly 50.0 signalling no change on the previous month. Readings above 50.0 signal an increase or improvement; readings below 50.0 signal a decline or deterioration.

Reasons given by survey respondents for any changes are analysed to provide insight into the causes of movements in the indices and are also used to adjust for expected seasonal variations. The indexes are seasonally adjusted to take into consideration expected variations for the time of year, such as summer holiday shutdowns and national holidays such as Christmas.

About SEEDA and Markit Economics

SEEDA is one of England's nine Regional Development Agencies with responsibility for creating sustainable economic development in their regions. It was established in 1999 and has led the development and implementation of the Regional Economic Strategy (RES) for South East England.

SEEDA undertakes high quality research to inform the development of the RES and economic policy for the South East. In addition to monthly snapshots and annual monitoring reports, a wide range of research projects is undertaken on issues of current importance.

SEEDA is wholly focused on supporting economic development in the South East – the engine room of the UK economy. Economic growth brings regeneration and enables people and places to grow and ultimately to build their futures. To achieve growth we work at the strategic level – through partnerships in the public and private sectors – and manage practical programmes to support businesses, champion innovation, attract investment and drive global competitiveness.

Independent research by PricewaterhouseCoopers provided evidence of SEEDA's performance between 2002 and 2007. For

every £1 invested by SEEDA, £5.60 was returned to the South East economy, and for every £1 invested in attracting foreign investment, there was a return of £14.60.

Under legislation currently progressing through Parliament, the RES 2006-2016 will be placed alongside the South East Plan (the Regional Spatial Strategy) to form a Single Regional Strategy. SEEDA and the South East England Leaders Board, which represents local government, are working together as the South East England Partnership Board to develop and deliver a new integrated Single Regional Strategy.

Markit Economics is a specialist compiler of business surveys and economic indices, including the Purchasing Managers' Index (PMI) series, which is now available for 26 countries and key regions including the Eurozone and BRIC. The PMIs have become 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.