

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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14th December 2009

New business received by South East firms rose at fastest rate since September 2007.

Key findings:

- Stronger demand underpinned further robust growth of activity.
- Slowest fall in employment for fifteen months.
- Cost inflation highest for just over a year.

The South East PMI® signalled a further expansion of output in the region's private sector economy during November. Business activity was driven higher by a strong and accelerated rise in incoming new work. Meanwhile, the pace of job losses eased during the latest survey period. Input cost inflation quickened, but charges were broadly unchanged amid weak pricing power.

Output and demand

Private sector firms in the South East reported a fifth consecutive month of output growth in November. The pace of expansion remained robust, despite easing from October's twenty-five month high. Manufacturers continued to signal a stronger increase in output than service providers.

Activity increased in response to further gains in new business during November. The rate of expansion of new work picked up to the fastest in over two years, with panellists commenting on improved demand conditions and clients becoming more willing to proceed with projects which had previously been on hold.

Employment and backlogs

South East companies continued to reduce their staffing levels during November. Anecdotal evidence suggested that, in many cases, jobs were cut in line with ongoing restructuring strategies. However, the rate of decline eased to only a modest pace that was the weakest since August 2008.

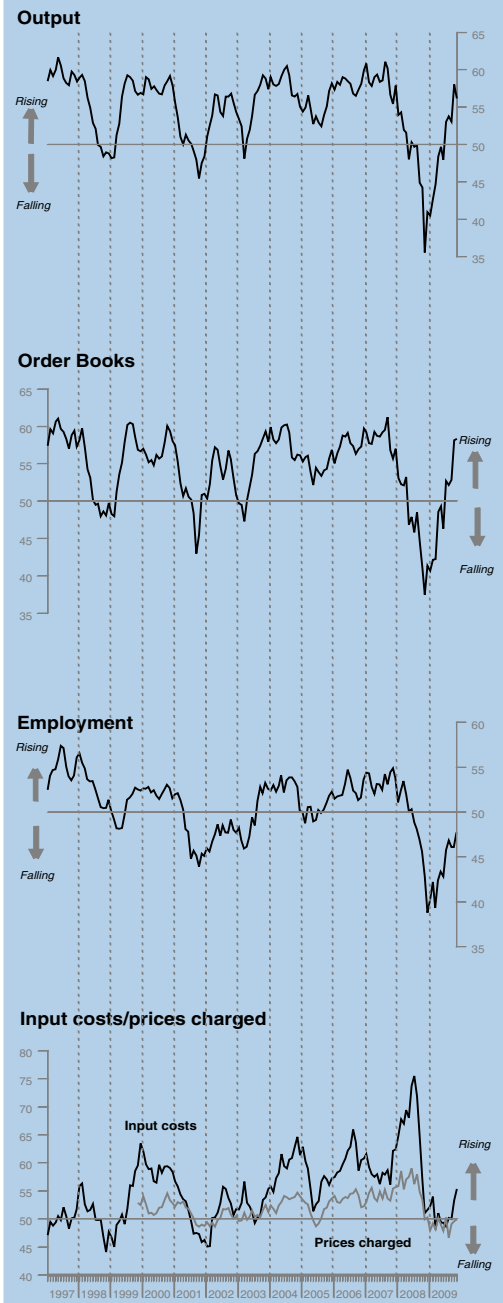
Continued falls in employment in part reflected the existence of spare capacity at companies in the region. This was highlighted by a further slight decline in backlogs of work.

Input and output prices

Input costs in the South East private sector rose further in November, amid reports of higher fuel prices and increased supplier tariffs. Moreover, the rate of cost inflation accelerated to a fifteen-month high.

In contrast, prices charged by South East firms remained broadly unchanged during the latest survey period. Panellists indicated that competitive pressures continued to dampen their pricing power, often preventing them from passing on increased input costs to customers. This was particularly the case in the service sector, where a further reduction in charges was recorded. In contrast, manufacturers signalled an increase in output prices.

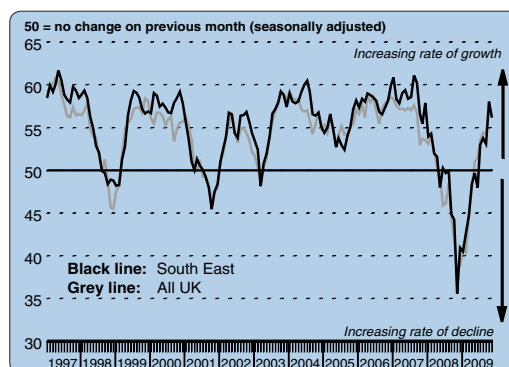
South East Business Conditions



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				All UK	
		Higher %	Same %	Lower %	Index 50=no chg	S.Adj'd Index	S.Adj'd Ind
2009	Mar	20.1	51.6	28.3	45.9	44.7	44.8
	Apr	23.5	49.4	27.2	48.1	48.4	47.9
	May	21.9	51.9	26.3	47.8	49.7	51.0
	Jun	19.8	56.2	24.1	47.8	48.0	51.5
	Jul	25.9	57.6	16.5	54.7	53.0	53.5
	Aug	26.8	51.6	21.6	52.6	53.8	54.4
	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

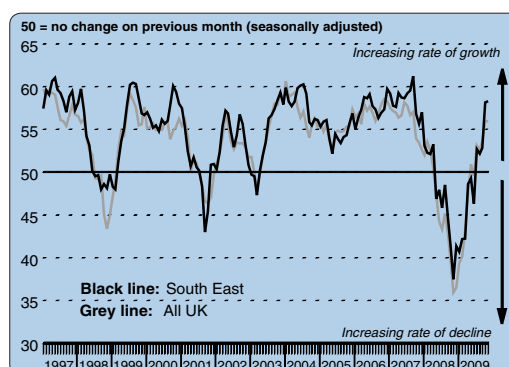


Business activity in the South East private sector rose for a fifth consecutive month in November. Although easing from 58.1 in October to 56.2, the seasonally adjusted Business Activity Index still pointed to a robust rate of expansion. Around 26% of panellists reported an increase in output during the latest survey period, compared with just under 20% that signalled a decline. Respondents indicated that higher activity was underpinned by a further rise in incoming new business. Data suggested that the manufacturing sector was the principal driver of growth.

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				All UK	
		Higher %	Same %	Lower %	Index 50=no chg	S.Adj'd Index	S.Adj'd Ind
2009	Mar	22.8	43.7	33.5	44.6	42.2	43.2
	Apr	26.4	45.3	28.3	49.1	48.6	47.6
	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	53.2
	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	56.0
	Nov	32.3	48.4	19.4	56.5	58.3	56.0

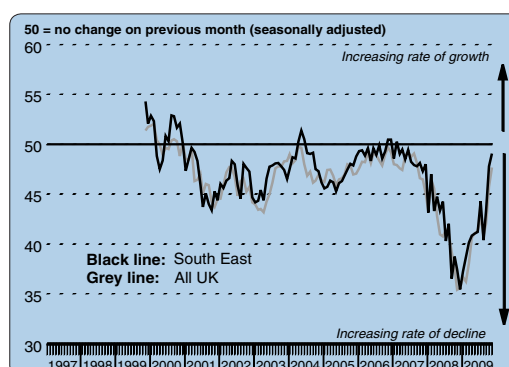


Latest data signalled a further increase in the volume of new work placed with private sector companies in the South East during November. Almost one-third of the survey panel registered higher new business compared with the previous month, which they attributed to stronger demand conditions and an increased willingness amongst clients to proceed with new projects. The seasonally adjusted Incoming New Business Index rose fractionally from 58.2 to 58.3, its highest level since September 2007 and indicative of a strong rate of expansion.

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				All UK	
		Higher %	Same %	Lower %	Index 50=no chg	S.Adj'd Index	S.Adj'd Ind
2009	Mar	8.3	66.0	25.7	41.3	40.2	38.1
	Apr	12.6	62.2	25.2	43.7	40.9	40.6
	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

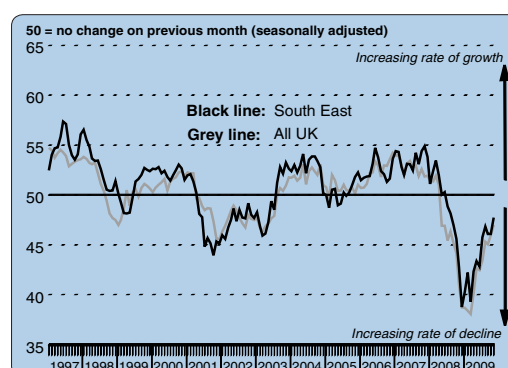


Outstanding business in the South East private sector economy fell again in November. However, the rate of decline eased to only a marginal pace that was the slowest since June 2007. This was signalled by the seasonally adjusted Business Outstanding Index rising from 47.8 to 49.1, above the equivalent index for the UK as a whole. Where a reduction in backlogs was recorded (at around 23% of firms), this was attributed to spare capacity and increased operating efficiency. Those panellists that indicated growth of unfinished work (approximately 17%) generally cited higher new business.

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	Mar	6.3	68.6	25.2	40.6	39.3	38.1
	Apr	5.6	73.9	20.5	42.5	42.4	40.1
	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	46.0
	Nov	7.6	82.3	10.1	48.7	47.8	47.0

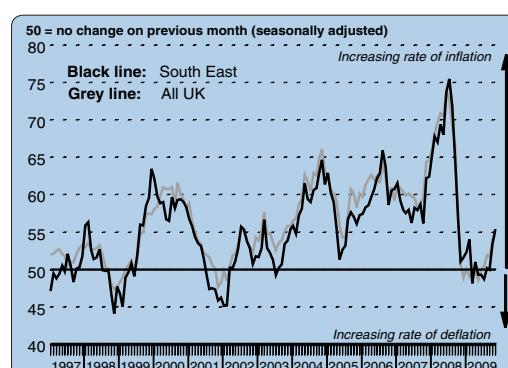


Private sector firms in the South East reported another month of job shedding in November. The current period of workforce contraction now extends to seventeen months. However, the pace of decline eased to the slowest since August 2008, as indicated by a rise in the seasonally adjusted Employment Index from 46.1 to 47.8. Anecdotal evidence suggested that cuts to staffing levels reflected both redundancies and the non-replacement of voluntary leavers. Approximately 10% of the survey panel signalled a drop in employment, compared with just under 8% that reported a rise.

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	Mar	15.1	64.8	20.1	47.5	48.2	49.6
	Apr	18.1	70.6	11.3	53.4	51.0	49.8
	May	13.2	74.8	11.9	50.6	49.3	48.7
	Jun	14.8	69.1	16.0	49.4	49.3	49.9
	Jul	10.8	75.8	13.4	48.7	48.7	50.5
	Aug	11.8	78.9	9.2	51.3	50.2	51.9
	Sep	11.5	80.1	8.3	51.6	50.0	51.7
	Oct	14.7	77.6	7.7	53.5	53.4	54.1
	Nov	19.1	73.9	7.0	56.1	55.4	54.7

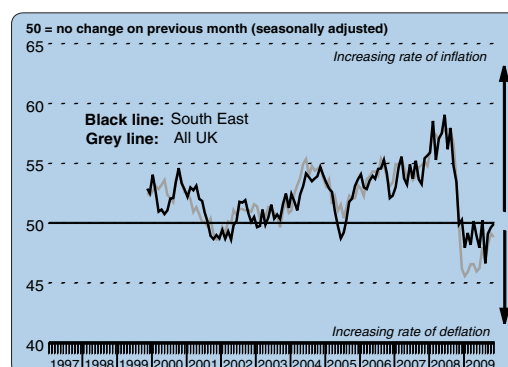


Input cost inflation in the South East private sector economy accelerated to the sharpest for just over a year in November. At 55.4, up from 53.4 in October, the seasonally adjusted Input Prices Index pointed to a robust rise in costs, albeit one much slower than the steep increases seen in mid-2008. Around 19% of panellists reported an increase in input prices, which they attributed to higher fuel costs and suppliers raising their tariffs. Similar rates of cost inflation were recorded in the manufacturing and service sectors.

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?

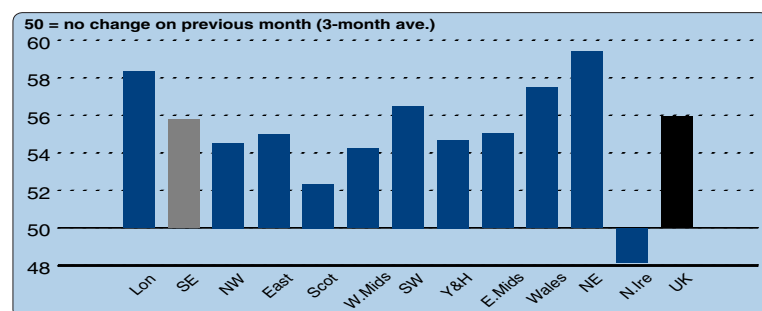
		South East Companies				All UK	
		Higher %	Same %	Lower %	Index 50=no chg	S.Adj'd Index	S.Adj'd Ind
2009	Mar	8.2	78.0	13.8	47.2	48.2	46.6
	Apr	10.6	82.0	7.5	51.6	50.2	46.6
	May	6.9	84.9	8.2	49.4	48.9	46.0
	Jun	7.4	83.3	9.3	49.1	47.9	46.2
	Jul	7.6	86.0	6.4	50.6	50.2	48.0
	Aug	3.3	86.8	9.9	46.7	46.6	46.9
	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



Prices charged by private sector firms in the South East remained broadly unchanged in November. This was signalled by a seasonally adjusted Output Prices Index reading of 49.9, up marginally from 49.6 in October. Diverging trends were recorded between sectors, as manufacturers indicated a rise in charges whilst service providers registered a decline. Survey responses suggested that competitive pressures remained a constraint on firms' pricing power, often preventing them from passing on higher input costs to customers.

Regional Comparisons: Output

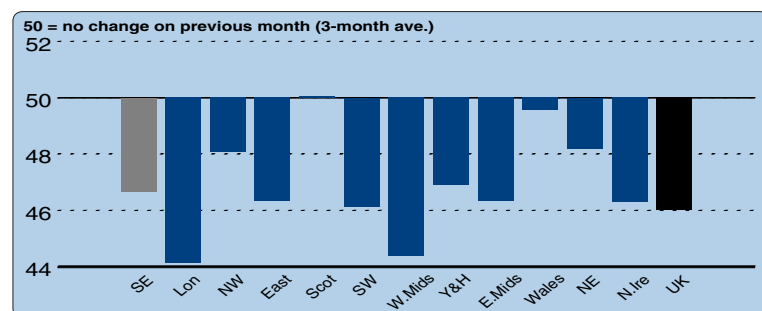
The graph below shows the regional PMI Output Indexes for the UK. An average of the latest three months is used (see also the table to the right). With the exception of Northern Ireland, where output fell modestly, activity levels rose across all UK regions in the three months to November. The strongest gains were recorded in the North East, London and Wales.



	Share of UK GVA, 2007 (National Statistics)	PMI Output Index		
		Last 12 months	Latest 3 months	Latest month
London	(17.4%)	50.8	58.3	60.3
South East	(15.7%)	49.1	55.8	56.2
North West	(9.9%)	49.4	54.5	55.2
Eastern England	(9.7%)	49.1	55.0	55.6
Scotland	(8.1%)	46.2	52.4	54.3
West Midlands	(7.9%)	45.1	54.2	54.1
South West	(7.9%)	50.3	56.5	56.1
Yorks & H'Side	(7.3%)	48.0	54.7	55.4
East Midlands	(6.6%)	47.6	55.1	57.4
Wales	(3.8%)	48.7	57.5	55.1
North East	(3.4%)	48.8	59.4	60.5
N.Ireland	(2.3%)	41.3	48.2	50.0
UK	(100.0%)	49.3	55.9	56.5

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 November. Of these, rates of contraction remained the sharpest in London and the West Midlands. Meanwhile, staffing numbers in Scotland were broadly maintained.



	Contribution to UK Employment, 2008 (National Statistics)	PMI Employment Index		
		Last 12 months	Latest 3 months	Latest month
South East	(14.6%)	43.5	46.7	47.8
London	(12.3%)	41.5	44.1	45.8
North West	(10.9%)	43.4	48.1	48.7
Eastern England	(9.6%)	42.4	46.3	48.5
Scotland	(8.7%)	45.6	50.1	50.0
South West	(8.6%)	42.5	46.1	46.8
West Midlands	(8.6%)	39.4	44.4	43.8
Yorks & H'Side	(8.2%)	41.6	46.9	47.2
East Midlands	(7.3%)	40.8	46.3	47.0
Wales	(4.6%)	44.0	49.6	50.3
North East	(3.9%)	43.3	48.2	48.5
N.Ireland	(2.7%)	42.0	46.3	46.9
UK	(100.0%)	42.2	46.0	47.0

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.