

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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11th January 2010

Growth of new business reached twenty-seven month high in December.

Key findings:

- Activity continued to rebound markedly.
- Faster increase in incoming new work.
- Employment fell at slowest rate for sixteen months.

The South East PMI® signalled a strong increase in business activity in the region's private sector economy during December. Output was driven higher by a further expansion of new work, which rose at the fastest pace in over two years. Outstanding business was unchanged on the month, while employment posted its smallest decline since August 2008. Output prices rose for the first time in five months, largely reflecting higher input costs.

Output and demand

December data pointed to another rise in output across the South East private sector, in line with the trend recorded throughout the second half of 2009. Growth was close to October's twenty-five month high and marginally above the UK average. Data suggested that expansion was stronger in manufacturing than services.

Underpinning the increase in activity was a substantial rise in the volume of new business placed with South East firms during December. The rate of growth of new work accelerated to the sharpest since September 2007. Panellists attributed new contract wins to improving business confidence.

Employment and backlogs

Staffing levels in the South East private sector economy decreased for an eighteenth consecutive month in December. However, the rate of contraction was only modest and the weakest since August 2008.

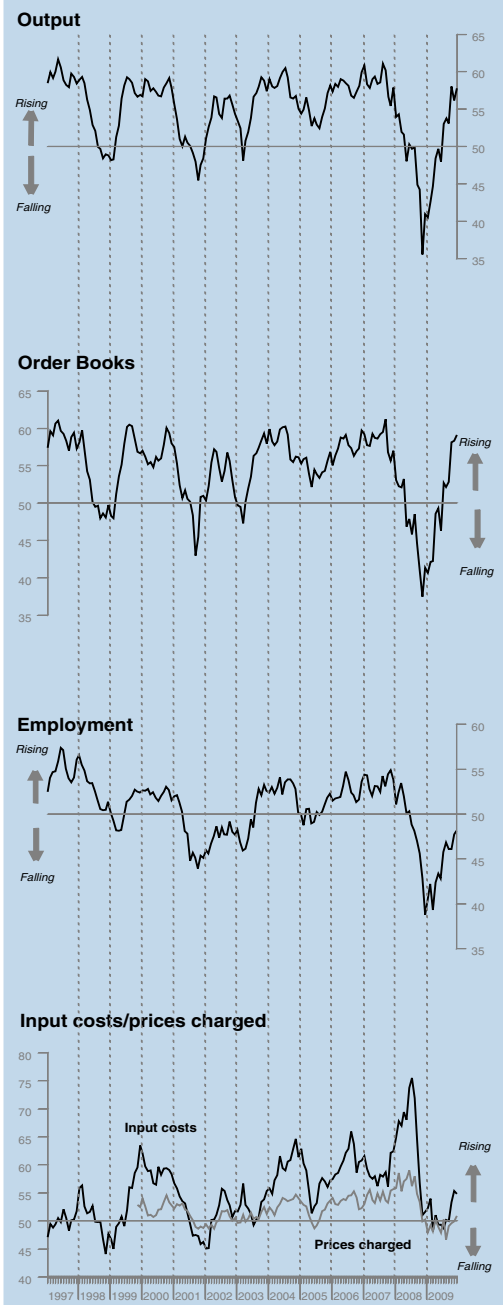
Slower job shedding in part reflected a stabilisation of backlogs of work in December. Prior to this, outstanding business had declined for thirty-three consecutive months. Higher levels of unfinished work at manufacturers offset a reduction at service providers.

Input and output prices

Input prices in the South East private sector rose for the third month running in December. The rate of inflation was solid, albeit slightly below the UK average. Raw materials and fuel were identified by panellists as sources of cost inflation.

Prices charged by South East firms increased for the first time in five months. However, the rate of charge inflation was only marginal, as competitive pressures continued to weigh on pricing power. Manufacturers reported a further rise in their factory gate prices, but service providers registered another decline in tariffs.

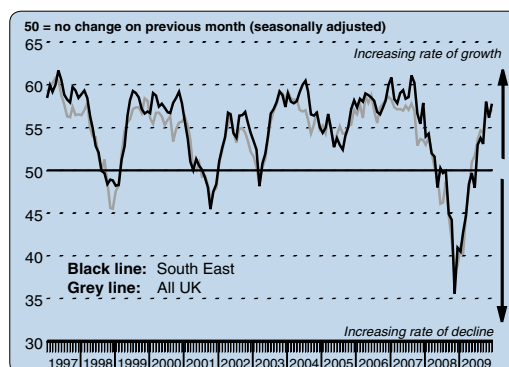
South East Business Conditions



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	Apr	23.5	49.4	27.2	48.1	48.4	47.8
	May	21.9	51.9	26.3	47.8	49.7	51.0
	Jun	19.8	56.2	24.1	47.8	48.0	51.7
	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	54.4
	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	57.1

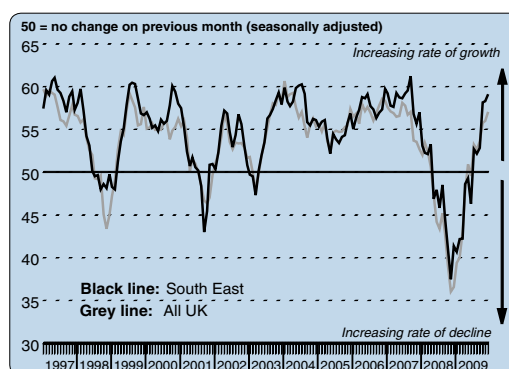


South East private sector firms reported an increase in output for the sixth consecutive month in December. At 57.8, up from 56.2 in November, the seasonally adjusted Business Activity Index signalled a robust and accelerated rate of expansion. Around one-third of panellists reported a rise in activity, which they primarily attributed to higher levels of incoming new business. Manufacturers recorded a faster expansion of output than service providers during the latest survey period. The region posted a slightly higher rate of activity growth than the UK average.

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	Apr	26.4	45.3	28.3	49.1	48.6	47.8
	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	53.3
	Aug	24.8	51.0	24.2	50.3	52.2	52.7
	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	56.0
	Dec	32.5	47.7	19.9	56.3	59.1	57.1

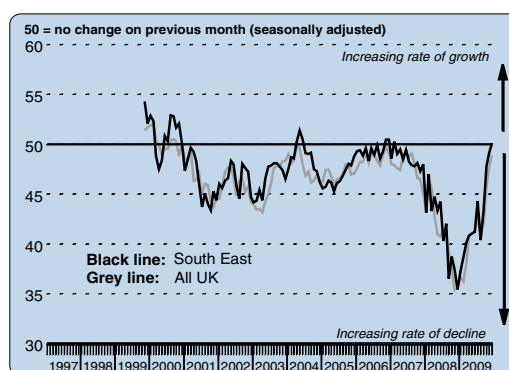


Growth of new business in the South East private sector accelerated to a twenty-seven month high in December. This was signalled by the seasonally adjusted Incoming New Business Index recording 59.1, up from 58.3 in November and above the equivalent index for the UK as a whole. Anecdotal evidence suggested that improved client confidence had led to a number of new contract wins. New orders increased throughout the second half of 2009, and the rise in December was broad-based across both manufacturing and services.

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	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
	Dec	14.9	66.7	18.4	48.2	50.1	48.9

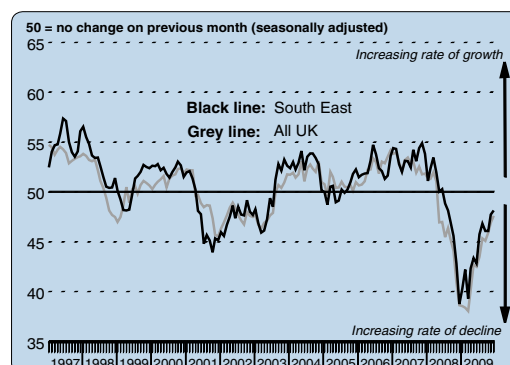


At 50.1 in December, the seasonally adjusted Business Outstanding Index signalled that backlogs of work at South East private sector firms remained broadly unchanged. That brought to an end a thirty-three month period of contraction. Data indicated that rising levels of unfinished work in the manufacturing sector offset a further decline at service providers. Across the UK overall, outstanding business continued to fall during December, although the rate of contraction eased to the slowest since August 2007.

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	Apr	5.6	73.9	20.5	42.5	42.4	40.2
	May	7.5	74.2	18.2	44.7	43.4	42.8
	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	45.4
	Sep	7.1	80.1	12.8	47.1	46.1	45.1
	Oct	7.7	77.4	14.8	46.5	46.1	45.9
	Nov	7.6	82.3	10.1	48.7	47.8	46.9
	Dec	10.4	77.9	11.7	49.4	48.2	47.6

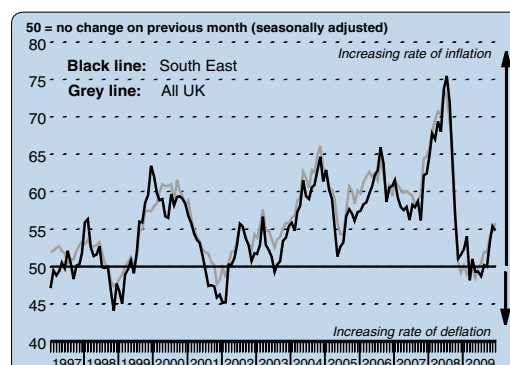


Employment at South East private sector companies continued to fall in December. There were reports of ongoing redundancy programmes, whilst a number of firms indicated that they had chosen not to replace voluntary leavers. The current period of job shedding now extends to eighteen months. However, the latest drop in staffing levels was only modest and the weakest since August 2008, as signalled by the seasonally adjusted Employment Index climbing from 47.8 to 48.2. The South East continued to register a slightly slower pace of decline in employment than the UK overall during December.

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	Apr	18.1	70.6	11.3	53.4	51.0	49.7
	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	54.1
	Nov	19.1	73.9	7.0	56.1	55.4	54.7
	Dec	10.4	84.4	5.2	52.6	54.8	55.8

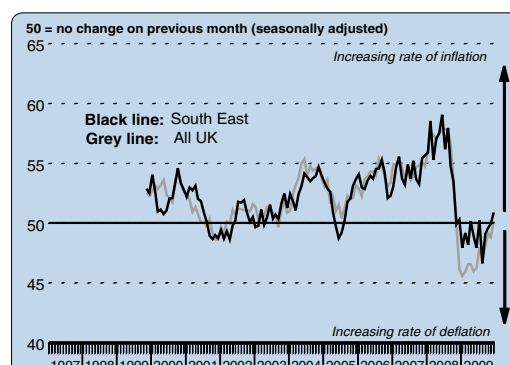


Input price inflation in the South East private sector was recorded for the third month running during December. Although slipping from 55.4 in November to 54.8, the seasonally adjusted Input Prices Index still pointed to a solid increase in costs. Manufacturers commented on higher prices paid for a number of raw materials, often linked to shortages at suppliers. Service providers frequently noted that higher fuel prices had driven up their costs. Around 10% of panellists signalled an increase in input prices, double the proportion that reported a decline.

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?

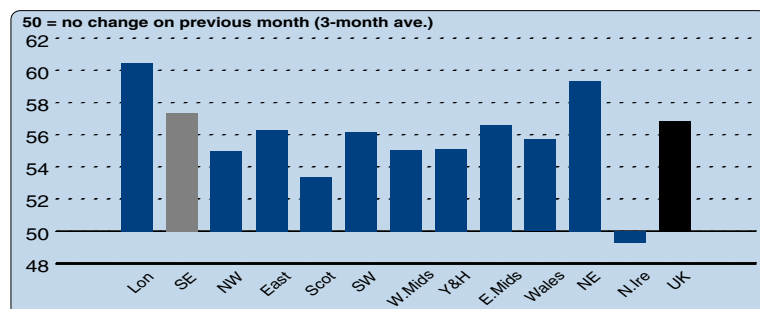
		South East Companies				All UK	
		Higher %	Same %	Lower %	Index 50=no chg	S.Adj'd Index	S.Adj'd Ind
2009	Apr	10.6	82.0	7.5	51.6	50.2	46.6
	May	6.9	84.9	8.2	49.4	48.9	46.0
	Jun	7.4	83.3	9.3	49.1	47.9	46.2
	Jul	7.6	86.0	6.4	50.6	50.2	48.0
	Aug	3.3	86.8	9.9	46.7	46.6	46.9
	Sep	7.1	85.3	7.7	49.7	49.1	48.1
	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
	Dec	5.2	89.6	5.2	50.0	50.9	50.2



December data signalled a rise in output prices for the first time in five months. However, the increase was only marginal, as indicated by a seasonally adjusted Output Prices Index reading of 50.9. Panellists reported that competitive pressures remained a constraint on their pricing power, preventing them from passing on a higher proportion of their increased costs to customers. Inflation of output prices was largely confined to the manufacturing sector, as service providers recorded a further decline in charges.

Regional Comparisons: Output

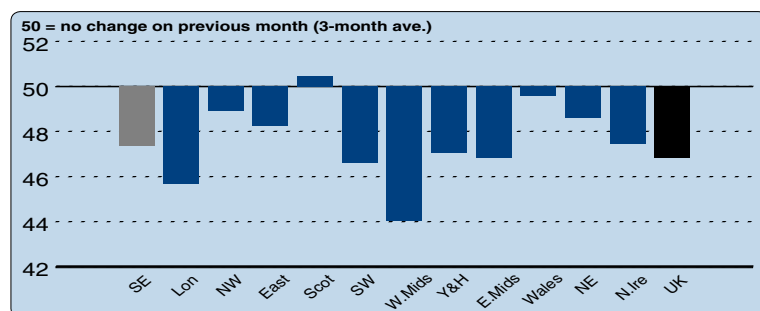
The graph below shows the regional PMI Output Indexes for the UK. An average of the latest three months is used (see also the table to the right). Output growth was recorded across all nine English regions on average in the final quarter of 2009, with the rate of expansion fastest in London. Increased activity was also seen in Scotland and Wales, but Northern Ireland registered a slight drop in private sector output.



	Share of UK GVA, 2007 (National Statistics)	PMI Output Index		
		Last 12 months	Latest 3 months	Latest month
London	(21.0%)	52.3	60.5	61.5
South East	(14.4%)	50.5	57.3	57.8
North West	(9.6%)	51.1	55.0	55.9
East of England	(8.9%)	50.8	56.3	56.5
Scotland	(8.2%)	47.7	53.4	54.1
South West	(7.8%)	51.4	56.2	54.2
West Midlands	(7.5%)	47.0	55.0	55.7
Yorks & H'Side	(7.1%)	49.8	55.1	55.8
East Midlands	(6.3%)	49.6	56.6	56.3
Wales	(3.6%)	50.2	55.7	54.6
North East	(3.2%)	50.9	59.3	58.2
N.Ireland	(2.3%)	42.6	49.3	49.2
UK	(100.0%)	50.8	56.8	57.1

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). Lower private sector workforce numbers were recorded in all nine English regions on average in the final three months of 2009, with the steepest decline in the West Midlands. Job shedding was also seen in Wales and NI, while Scotland saw a slight rise in employment.



	Contribution to UK Employment, 2008 (National Statistics)	PMI Employment Index		
		Last 12 months	Latest 3 months	Latest month
South East	(14.6%)	44.3	47.3	48.2
London	(12.3%)	42.1	45.7	46.6
North West	(10.9%)	44.0	48.9	50.0
East of England	(9.6%)	43.4	48.3	49.8
Scotland	(8.7%)	46.3	50.5	50.2
South West	(8.6%)	43.1	46.6	46.9
West Midlands	(8.6%)	40.1	44.0	44.4
Yorks & H'Side	(8.2%)	42.5	47.0	45.7
East Midlands	(7.3%)	41.6	46.8	46.9
Wales	(4.6%)	44.9	49.6	49.1
North East	(3.9%)	44.2	48.6	48.4
N.Ireland	(2.7%)	42.9	47.5	48.1
UK	(100.0%)	42.9	46.8	47.6

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.