

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 June 2010

Output continued to rise at marked pace, supporting further jobs growth.

Key findings:

- Activity growth remained among sharpest of all UK regions.
- New order growth slowed to eight-month low.
- Employment rose for second month running.

The South East PMI® report signalled a continuation of the rebound in private sector activity in the region during May. The latest figures also suggested that South East output continued to grow at a relatively sharp rate compared to the rest of the UK. Both manufacturing and services posted above-trend activity growth, with the former recording another marked increase in output. Meanwhile, inflationary pressures were slightly weaker than the nationwide trend.

Output and demand

The South East recorded an eleventh successive monthly rise in private sector business activity in May. The rate of growth remained strong, and close to the trend over the first five months of 2010. Manufacturing again posted a relatively sharp rate of expansion, although services activity continued to rise at a rate that was stronger than the historic trend.

Higher levels of incoming new business continued to support the overall expansion in activity during May. New orders have increased every month since July 2009. However, the rate of growth in the latest period was the weakest since September 2009.

Employment and backlogs

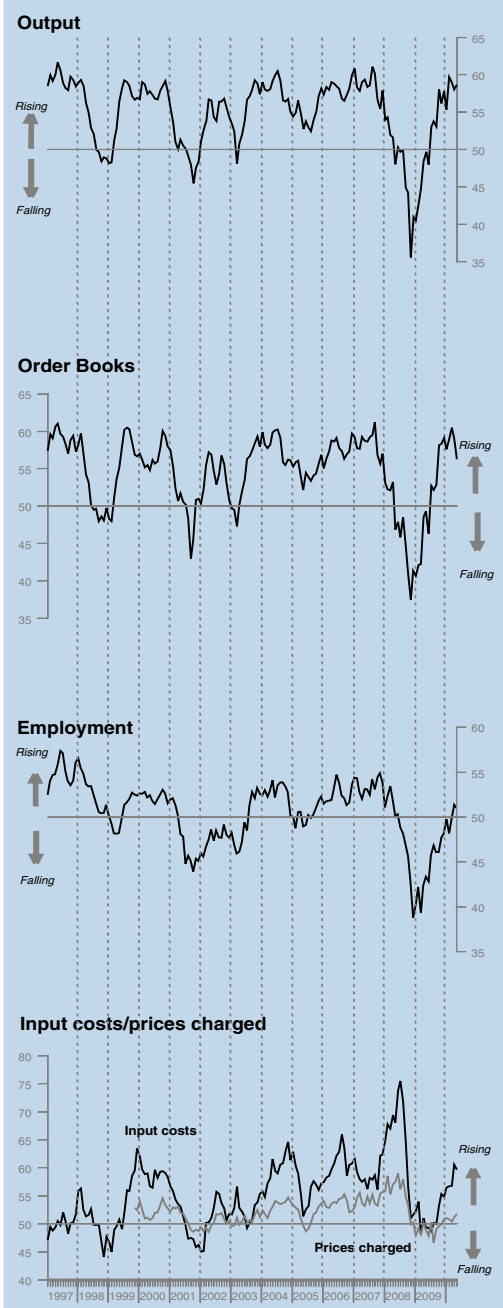
Private sector manufacturing and services employment rose overall for the second month running in May. The latest expansion reflected increased recruitment in both sectors, and was mainly linked to rising workloads and new clients.

South East companies reported another decline in backlogs in May. There was a divergence across manufacturing and services, with the former posting growth of outstanding work. This reflected further marked growth of new orders at manufacturers.

Input and output prices

May data signalled further upward pressure on both input and output prices. Average input costs rose for the eighth month running, and at the second-fastest rate since September 2008. Metals, timber and oil-related products were frequently mentioned as sources of inflationary pressure. That said, the South East posted a weaker rate of cost inflation than the UK as a whole. The same trend was signalled for output prices, where the rate of inflation was muted in May.

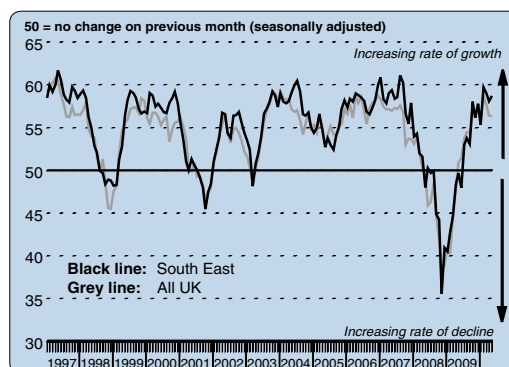
South East Business Conditions



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	Sep	27.4	51.0	21.7	52.9	53.1	54.4
	Oct	29.9	56.1	14.0	58.0	58.1	57.0
	Nov	26.4	54.1	19.5	53.5	56.2	56.5
	Dec	33.1	49.4	17.5	57.8	57.8	57.3
2010	Jan	25.8	49.0	25.2	50.3	55.3	55.6
	Feb	35.2	52.2	12.6	61.3	59.7	58.7
	Mar	38.1	48.1	13.8	62.2	59.0	57.6
	Apr	35.0	52.5	12.5	61.3	58.1	56.4
	May	34.5	46.7	18.8	57.9	58.7	56.4

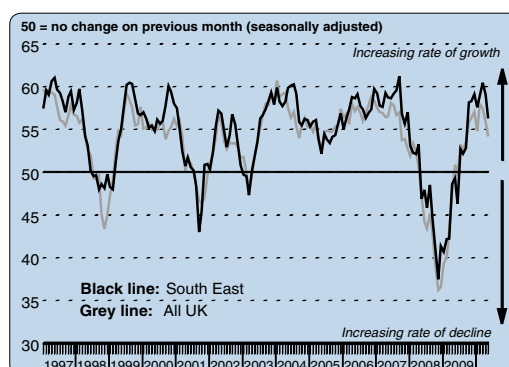


Private sector output in the South East rose for the eleventh successive month in May. The rate of growth accelerated slightly, having eased during the previous two months from February's recent high. Moreover, expansion has been sharper than the UK-wide trend for the past four months. More than one-third of panellists reported growth of activity at their units in May, with the latest sector data signalling that manufacturing production continued to rise markedly. Firms generally linked higher activity to increased volumes of incoming new business.

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	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	56.4
	Dec	32.5	47.7	19.9	56.3	59.1	57.1
2010	Jan	29.7	47.3	23.0	53.4	57.6	54.8
	Feb	37.6	45.2	17.2	60.2	59.0	58.0
	Mar	39.9	47.5	12.7	63.6	60.5	57.5
	Apr	39.5	48.4	12.1	63.7	59.1	55.9
	May	31.9	47.2	20.9	55.5	56.3	54.2

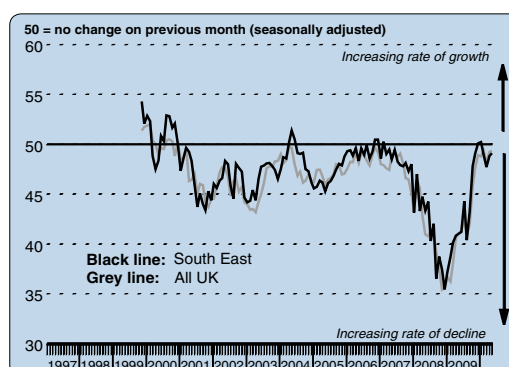


The seasonally adjusted Incoming New Business Index remained above the no-change mark of 50.0 for the eleventh month running in May, signalling rising new work received by private sector firms in the South East. The rate of expansion remained higher than the UK average, and greater than the long-run series trend, despite slowing to an eight-month low. A number of firms reported that new business growth was export-driven, while financial services and the autos sector were also reported as areas of improving demand.

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	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
	Feb	19.3	61.4	19.3	50.0	49.0	49.4
	Mar	17.8	59.6	22.6	47.6	47.7	48.2
	Apr	21.2	62.3	16.4	52.4	48.9	49.3
	May	14.8	64.5	20.6	47.1	49.1	49.4

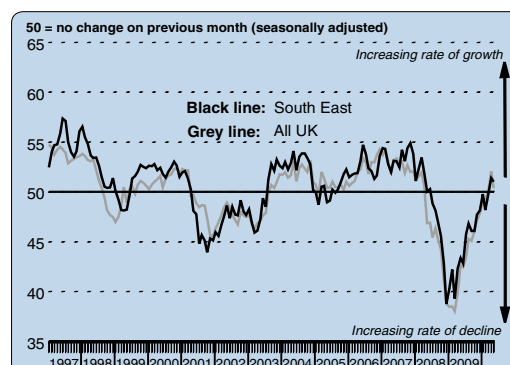


Outstanding business declined for the fourth month running in May. That said, the rate of contraction was marginal and the weakest in the sequence. A variety of factors were put forward for lower backlogs, including the completion of large projects, expanded capacity, the loss of contracts to competitors and stable demand that allowed better planning of workloads. The decline in backlogs in the South East was broadly in line with the UK trend. Outstanding business fell in services, and rose slightly in manufacturing.

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	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	47.2
	Dec	10.4	77.9	11.7	49.4	48.2	47.9
2010	Jan	7.3	80.0	12.7	47.3	49.8	49.1
	Feb	8.9	80.9	10.2	49.4	48.2	49.3
	Mar	11.2	78.9	9.9	50.6	49.8	50.1
	Apr	13.1	77.5	9.4	51.9	51.4	52.1
	May	17.0	73.9	9.1	53.9	51.0	50.4

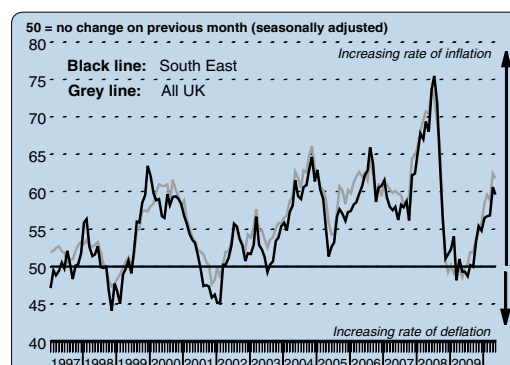


The private sector workforce in the South East rose for the second month running in May. The rate of job creation remained modest and eased fractionally since April, but was slightly greater than the UK average. Reasons given for recruitment during the month included higher workloads, takeovers and new clients. The latest sector data signalled growth of staffing in both manufacturing and services. The extent of the overall increase in employment was limited as a number of firms reported filling only existing vacancies and, in a number of cases, not replacing leavers.

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	Sep	11.5	80.1	8.3	51.6	50.0	51.8
	Oct	14.7	77.6	7.7	53.5	53.4	53.9
	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
	Feb	22.8	69.6	7.6	57.6	56.7	59.6
	Mar	26.4	69.2	4.4	61.0	56.8	58.9
	Apr	37.5	60.6	1.9	67.8	60.6	62.5
	May	31.5	66.1	2.4	64.5	59.7	61.9

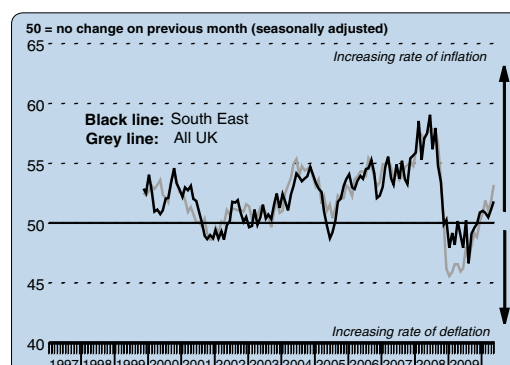


The seasonally adjusted Input Prices Index eased from April's nineteen-month high, but remained well above the long-run trend (55.4), signalling further strong inflation of private sector companies' average input costs in May. Sources of upward pressure included metals (particularly steel), oil, paper and fuel. Input prices have increased for the past eight months. The latest sector data signalled that manufacturers continued to face sharper increases in costs than service providers, partly reflecting shortages of raw materials at suppliers.

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?

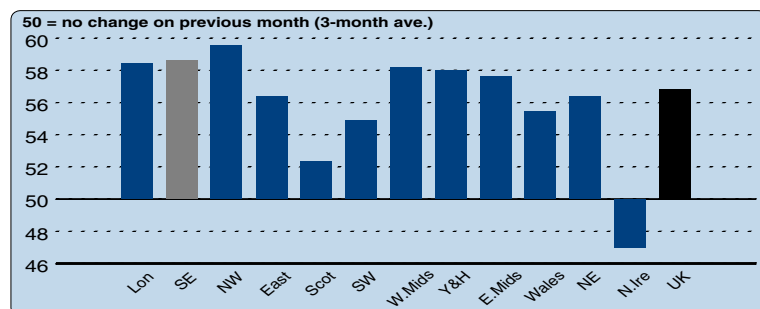
		South East Companies			All UK		
		Higher %	Same %	Lower %	Index 50=no chg	S.Adj'd Index	S.Adj'd Ind
2009	Sep	7.1	85.3	7.7	49.7	49.1	48.1
	Oct	6.5	85.8	7.7	49.4	49.6	49.2
	Nov	7.6	84.1	8.3	49.7	49.9	48.9
	Dec	5.2	89.6	5.2	50.0	50.9	50.2
2010	Jan	11.3	81.3	7.3	52.0	51.0	50.9
	Feb	9.6	83.4	7.0	51.3	50.9	51.9
	Mar	10.1	83.6	6.3	51.9	50.5	51.1
	Apr	17.2	77.7	5.1	56.1	51.2	51.9
	May	12.3	83.4	4.3	54.0	51.8	53.2



Average prices charged by private sector companies in the South East rose for the sixth month running in May. The rate of inflation sharpened slightly to the fastest in that sequence, but remained weaker than the trend seen across the UK as a whole. Anecdotal evidence mainly attributed higher charges to rising input costs, while there was also mention of the end of sales promotions. The extent of the latest increase in output prices was limited by ongoing price competition. Weak pricing power was centred on services, as manufacturing output prices rose strongly.

Regional Comparisons: Output

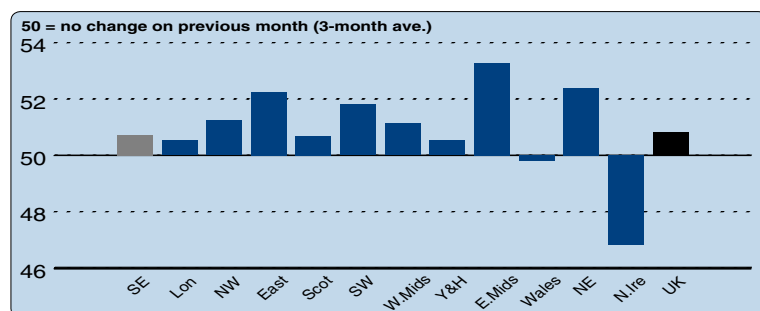
The graph below shows the regional PMI Output Indexes for the UK. An average of the latest three months is used (see also the table to the right). Growth was recorded in eleven of the twelve UK regions in the latest three-month period. The North West, South East and London posted the fastest rates of output growth, and Scotland the weakest. Activity in Northern Ireland continued to fall.



	Share of UK GVA, 2007 (National Statistics)	PMI Output Index		
		Last 12 months	Latest 3 months	Latest month
London	(21.0%)	57.8	58.5	56.4
South East	(14.4%)	55.9	58.6	58.7
North West	(9.6%)	57.2	59.6	58.8
East of England	(8.9%)	55.3	56.4	58.0
Scotland	(8.2%)	52.2	52.3	53.1
South West	(7.8%)	55.6	54.9	52.8
West Midlands	(7.5%)	54.5	58.2	56.8
Yorks & Humber	(7.1%)	55.1	58.0	58.7
East Midlands	(6.3%)	55.5	57.6	58.5
Wales	(3.6%)	55.5	55.4	56.0
North East	(3.2%)	56.1	56.4	53.8
N.Ireland	(2.3%)	46.4	47.0	46.3
UK	(100.0%)	55.8	56.8	56.4

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). All nine English regions and Scotland posted growth of employment over the three months to May. The strongest rates of job creation were in the East Midlands and the North East. Wales posted a marginal decline, while employment in Northern Ireland fell markedly.



	Contribution to UK Employment, 2008 (National Statistics)	PMI Employment Index		
		Last 12 months	Latest 3 months	Latest month
South East	(14.6%)	47.8	50.7	51.0
London	(12.3%)	46.3	50.5	49.9
North West	(10.9%)	49.1	51.2	49.7
East of England	(9.6%)	48.0	52.2	51.7
Scotland	(8.7%)	49.4	50.7	51.2
South West	(8.6%)	47.7	51.8	51.0
West Midlands	(8.6%)	46.0	51.1	50.1
Yorks & Humber	(8.2%)	47.2	50.5	49.7
East Midlands	(7.3%)	47.6	53.3	54.3
Wales	(4.6%)	48.5	49.8	51.1
North East	(3.9%)	48.3	52.4	52.6
N.Ireland	(2.7%)	46.4	46.8	47.3
UK	(100.0%)	47.4	50.8	50.4

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. 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. Markit do not revise underlying survey data after first publication, but seasonal adjustment factors may be revised from time to time as appropriate which will affect the seasonally adjusted data series.

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.