

# 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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12th July 2010

## South East growth slowed in June, but remained stronger than UK average.

### Key findings:

- Business activity rose at weakest rate for five months.
- New orders grew at slowest pace since September 2009.
- Fastest increase in employment since March 2008.

Growth of private sector business activity in the South East continued in June, according to the latest PMI® report for the region. The rate of output expansion slowed to a five-month low, but was sharper than all other UK areas covered with the exception of the East of England. The moderation in growth mainly stemmed from the slowest increase in new business since last September. Nevertheless, firms added to payrolls at the fastest rate in over two years, and continued to raise output prices.

### Output and demand

Growth of total business activity across manufacturing and services was maintained for the twelfth successive month in June. Firms reported that demand continued to improve, supported by both domestic and export business. However, the rate of output growth eased to the weakest since January, with the slowdown emanating from services.

New business continued to increase in June, but at the slowest rate in nine months. Weaker gains in new work were partly linked to concerns over the outlook for the wider UK economy. Manufacturing new orders continued to rise at a sharp rate, but growth in services was muted.

### Employment and backlogs

Private sector employment in the South East rose for the third month running in June. Moreover, the rate of job creation strengthened to its highest since March 2008. This mainly reflected recruitment by manufacturers, although services employment also rose.

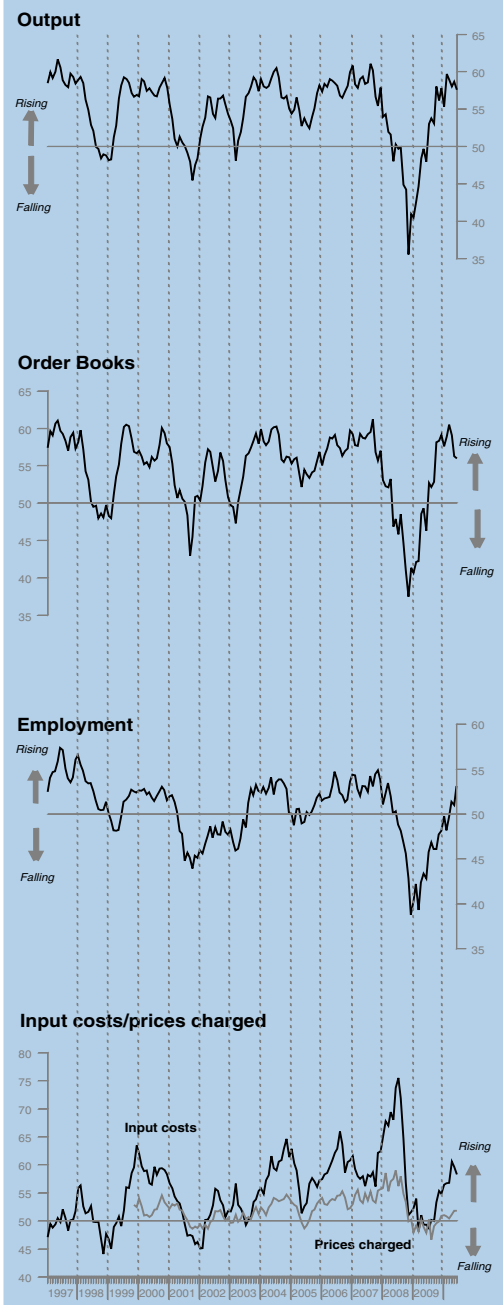
Outstanding business continued to fall in June, extending the current sequence to five months. Moreover, the rate of backlog depletion accelerated since May, reflecting the slower rise in new work in June.

### Input and output prices

Input price inflation eased further from April's recent peak, but was nevertheless strong in the context of historical survey data. Sources of rising costs included metals, oil-based items and staff wages. Manufacturers again faced a steeper rate of input cost inflation than their service sector counterparts.

In line with the wider UK trend, output prices rose for the seventh month running in June. The rate of charge inflation was modest, but nonetheless the fastest since October 2008. However, the overall rise masked a further modest decline in service providers' charges.

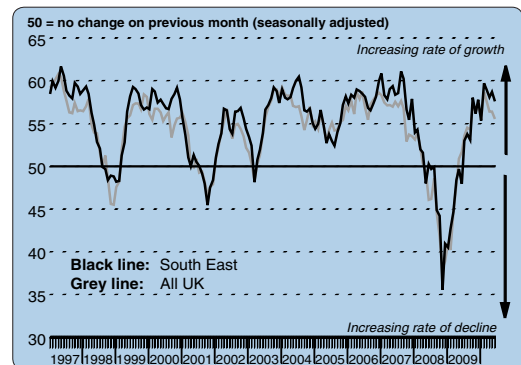
### South East Business Conditions



**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	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
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	57.7
	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
	Jun	32.1	51.8	16.1	58.0	57.6	55.5

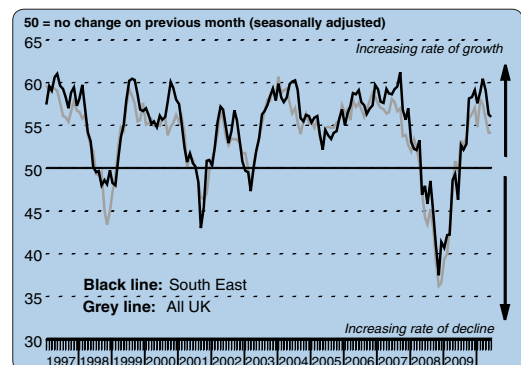


Private sector activity growth remained strong in June, despite easing to a five-month low. Moreover, the average rate of growth over Q2 picked up slightly since Q1 and was the fastest since Q3 2007. In June, the region recorded the second-fastest rate of expansion of all UK areas covered, behind the East of England. Firms mainly linked rising workloads to improving demand from both domestic and export markets. The current sequence of expansion now stretches to twelve months, with manufacturing again out-pacing services in June.

**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	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	55.8
	May	31.9	47.2	20.9	55.5	56.3	54.1
	Jun	35.0	46.0	19.0	58.0	56.0	54.2

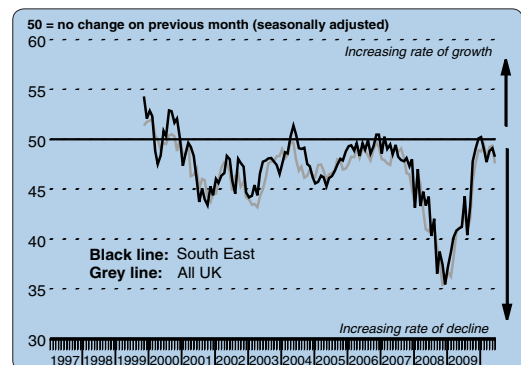


The seasonally adjusted Incoming New Business Index fell marginally in June, and signalled the weakest rise in new work at South East private sector companies since September 2009. That said, it remained faster than the UK-wide trend, and was the twelfth successive monthly increase. Sources of new business growth included successful product launches, new customers, exports, and marketing activity. By sector, manufacturing new orders rose rapidly, while new contracts in services increased at a subdued pace.

**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	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
	Jun	20.6	60.6	18.7	51.0	48.3	47.6

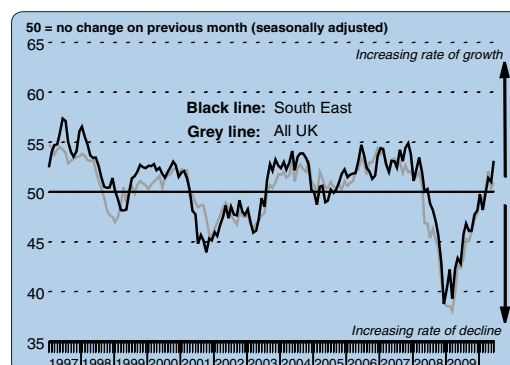


Outstanding workloads in the South East private sector declined for the fifth successive month in June. The rate of contraction accelerated slightly compared to May, but remained modest overall. Falling backlogs were mostly concentrated in services, where firms noted that slower new business growth had freed up some capacity. In contrast, manufacturing backlogs continued to rise, albeit at a moderate pace. The seasonally adjusted Business Outstanding Index remained above its long-run trend level of 47.0 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	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	48.0
2010	Jan	7.3	80.0	12.7	47.3	49.8	49.2
	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
	Jun	18.0	74.3	7.8	55.1	53.1	51.0

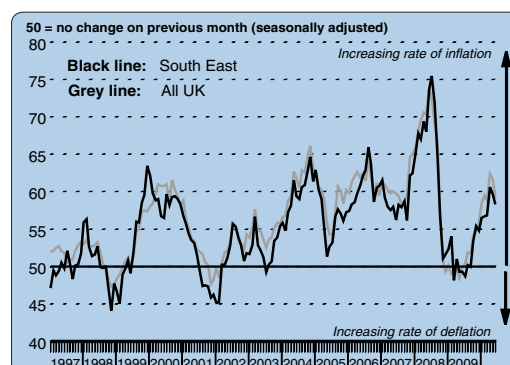


Private sector firms operating in the South East expanded their workforces on average in June. The current sequence of jobs growth in the region now stretches to three months. Moreover, the seasonally adjusted Employment Index rose since May, and signalled the fastest rate of job creation since March 2008. Recruitment was linked to rising demand and subsequent growth in workloads, but a number of firms reported that they had made only temporary appointments. Employment growth was broad-based across manufacturing and services, with the former registering the sharper rate of increase.

## 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	Oct	14.7	77.6	7.7	53.5	53.4	54.0
	Nov	19.1	73.9	7.0	56.1	55.4	54.8
	Dec	10.4	84.4	5.2	52.6	54.8	56.0
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	59.5
	Mar	26.4	69.2	4.4	61.0	56.8	58.9
	Apr	37.5	60.6	1.9	67.8	60.6	62.4
	May	31.5	66.1	2.4	64.5	59.7	61.7
	Jun	30.1	66.9	3.0	63.6	58.3	59.1

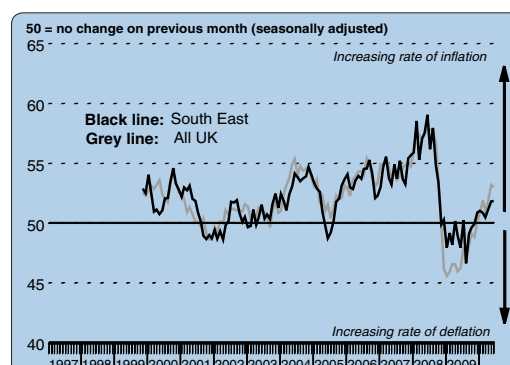


Input prices in the South East's private sector economy continued to rise sharply in June. The seasonally adjusted Input Prices Index eased further from April's nineteen-month high, but remained greater than its long-run trend (55.5). A wide range of inputs were reported to have risen in price during the month, including metals, oil-based products and labour costs. By sector, manufacturing continued to post a sharper rate of input cost inflation than the services economy.

## 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?

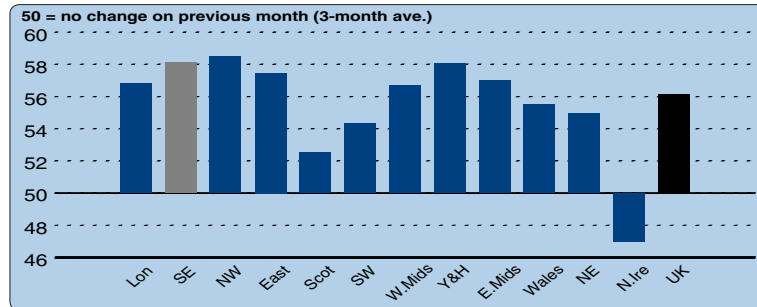
		South East Companies				All UK	
		Higher %	Same %	Lower %	Index 50=no chg	S.Adj'd Index	S.Adj'd Ind
2009	Oct	6.5	85.8	7.7	49.4	49.6	49.2
	Nov	7.6	84.1	8.3	49.7	49.9	48.9
	Dec	5.2	89.6	5.2	50.0	50.9	50.2
2010	Jan	11.3	81.3	7.3	52.0	51.0	50.9
	Feb	9.6	83.4	7.0	51.3	50.9	51.9
	Mar	10.1	83.6	6.3	51.9	50.5	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
	Jun	13.3	80.0	6.7	53.3	51.9	53.0



Prices charged by private sector firms in the South East rose for the seventh month running in June. The rate of output price inflation remained modest overall, but was nevertheless the sharpest since October 2008. Higher tariffs were primarily linked by survey respondents to rising input prices. Service providers continued to cut their output prices, citing efforts to win new business and changing customer requirements. Manufacturers' output prices rose markedly, reflecting sharp upward pressure on costs. Overall, the South East registered a weaker rate of charge inflation than the UK average during the month.

## 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). Scotland, Wales and all nine English regions recorded higher levels of private sector activity on average in the second quarter. The fastest pace of expansion was in the North West, followed by the South East and Yorkshire & Humber.



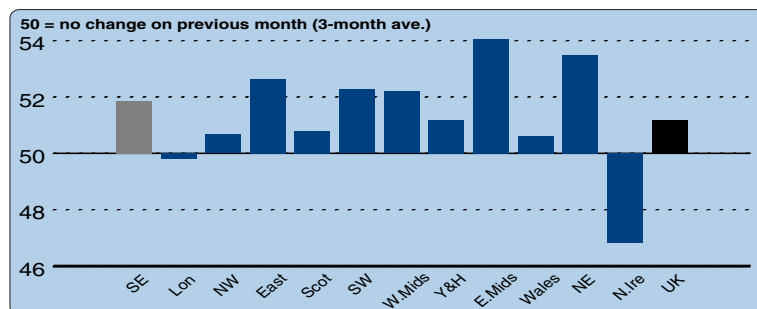
\* Average of three months to May for Northern Ireland.

	Share of UK GVA, 2007 (National Statistics)	PMI Output Index		
		Last 12 months	Latest 3 months	Latest month
London	(21.0%)	58.2	56.8	56.7
South East	(14.4%)	56.7	58.1	57.6
North West	(9.6%)	57.2	58.5	57.0
East of England	(8.9%)	55.6	57.5	58.5
Scotland	(8.2%)	52.5	52.5	52.9
South West	(7.8%)	55.6	54.3	54.3
West Midlands	(7.5%)	55.0	56.7	54.3
Yorks & Humber	(7.1%)	55.4	58.1	56.6
East Midlands	(6.3%)	55.8	57.0	56.2
Wales	(3.6%)	55.8	55.5	54.9
North East	(3.2%)	56.9	55.0	54.6
N.Ireland*	(2.3%)			
<b>UK</b>	<b>(100.0%)</b>	<b>56.1</b>	<b>56.1</b>	<b>55.5</b>

\* Next release of NI data is on 14th July 2010.

## 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). Higher business activity led to jobs growth in Scotland, Wales and eight English regions on average in the second quarter. London was the only English region to record a fall in staffing levels in the three months to June, but the rate of contraction was only marginal.



\* Average of three months to May for Northern Ireland.

	Contribution to UK Employment, 2008 (National Statistics)	PMI Employment Index		
		Last 12 months	Latest 3 months	Latest month
South East	(14.6%)	48.7	51.9	53.1
London	(12.3%)	46.9	49.8	48.7
North West	(10.9%)	49.6	50.7	49.8
East of England	(9.6%)	48.8	52.6	52.2
Scotland	(8.7%)	49.8	50.8	51.0
South West	(8.6%)	48.4	52.3	52.7
West Midlands	(8.6%)	47.3	52.2	53.9
Yorks & Humber	(8.2%)	47.9	51.2	51.1
East Midlands	(7.3%)	48.8	54.1	53.9
Wales	(4.6%)	49.0	50.6	50.1
North East	(3.9%)	49.1	53.5	53.9
N.Ireland*	(2.7%)			
<b>UK</b>	<b>(100.0%)</b>	<b>48.1</b>	<b>51.2</b>	<b>51.0</b>

\* Next release of NI data is on 14th July 2010.

## 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.