

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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11 October 2010

Output growth remained muted as new business increased at slower pace.

Key findings:

- Weakest rise in new business since August 2009.
- Activity rose at slower pace than UK trend for second month running.
- Fastest rise in average input costs for four months.

September PMI™ data for the South East underlined the weaker growth path of business activity in the region over the third quarter compared to the first half of 2010. The rate of expansion in output remained modest, as incoming new business rose at the slowest pace since August 2009. Staffing levels expanded, albeit at a weak rate, while inflationary pressures were broadly in line with the UK trend.

Output and demand

Growth of business activity in the South East accelerated slightly in September, but remained weak in the context of 2010 to date. Sector data suggested that service sector activity rose at a slightly sharper pace, while manufacturing production growth stagnated. Prior to August, manufacturing had registered stronger growth than services throughout the current sequence of expansion.

Growth of incoming new business in the South East moderated further in September, continuing the trend seen since April. The overall rate of new order growth was the slowest since August 2009, with similarly weak expansions seen across manufacturing and services.

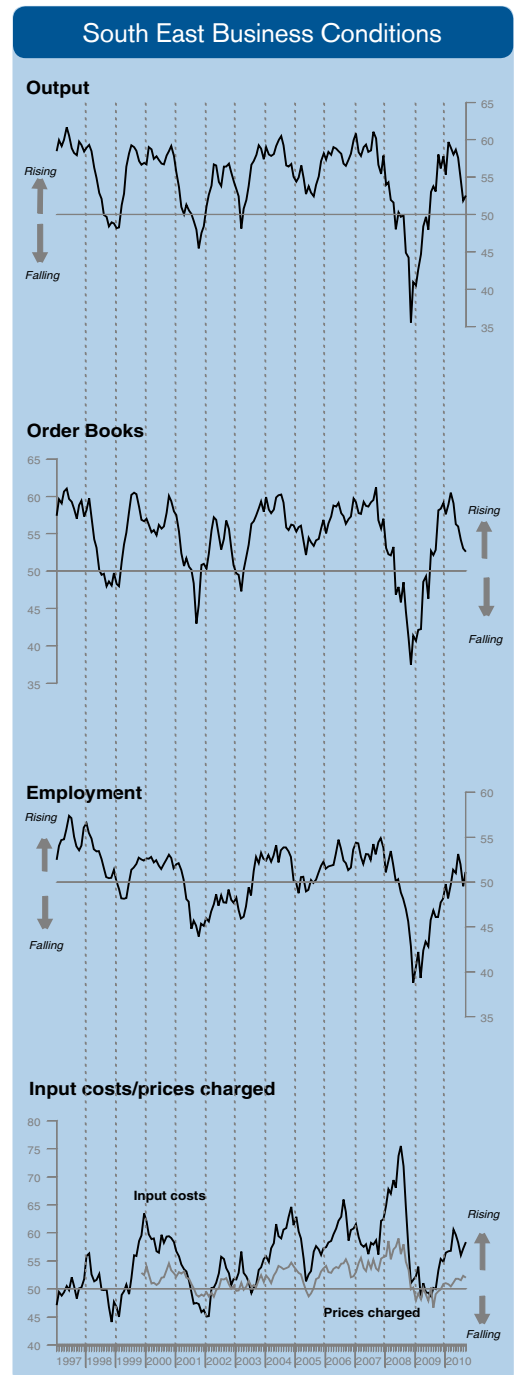
Employment and backlogs

Growth of workloads and new business in the South East private sector were sufficient to generate an overall expansion of the regional workforce. This was the fifth time in six months that employment had risen. The rate of job creation was slightly sharper than the long-run trend for the series since January 1997.

The relatively weak improvement in new business in the South East in September was underlined by a further decline in outstanding work. Backlogs have fallen continuously since February, and the rate of contraction was the steepest since September 2009.

Input and output prices

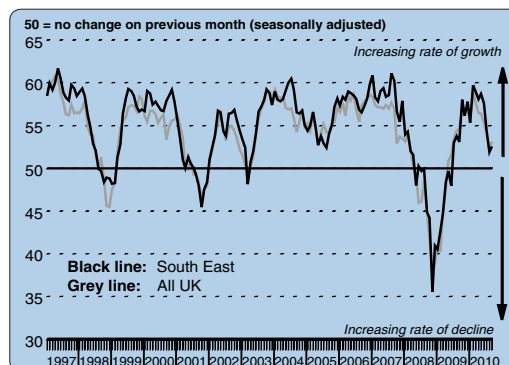
Input price inflation remained relatively sharp in the context of historic survey data in September. The rate of inflation accelerated to a four-month high, driven by a range of inputs including metals, timber, paper, plastics, foodstuffs and labour. Firms passed on higher input costs to customers by increasing charges at the second-fastest rate of the past 23 months. Output price inflation was broadly in line with the long-run series trend.



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
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	58.8
	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	55.4
	Jul	27.7	57.2	15.1	56.3	54.6	54.1
	Aug	26.7	49.1	24.2	51.2	51.9	52.3
	Sep	32.9	46.6	20.5	56.2	52.6	53.2

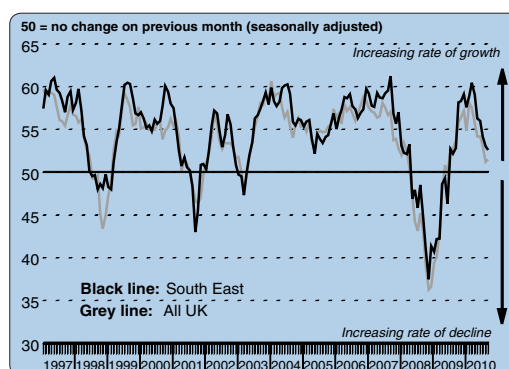


Private sector output in the South East rose for the fifteenth month running in September. The rate of expansion remained relatively weak, but picked up slightly from August's low. Firms linked higher activity to rising new business volumes and investment in capacity. By sector, services posted a sharper rate of expansion than manufacturing. Production growth in manufacturing slowed sharply in September to a marginal rate. For the second month running, the South East posted a slower rate of output growth than that recorded across the UK as a whole.

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
2010	Jan	29.7	47.3	23.0	53.4	57.6	54.9
	Feb	37.6	45.2	17.2	60.2	59.0	58.1
	Mar	39.9	47.5	12.7	63.6	60.5	57.6
	Apr	39.5	48.4	12.1	63.7	59.1	55.8
	May	31.9	47.2	20.9	55.5	56.3	54.2
	Jun	35.0	46.0	19.0	58.0	56.0	54.2
	Jul	27.3	51.3	21.4	52.9	54.2	53.1
	Aug	31.0	43.7	25.3	52.8	53.1	51.2
	Sep	29.3	43.9	26.8	51.3	52.6	51.5

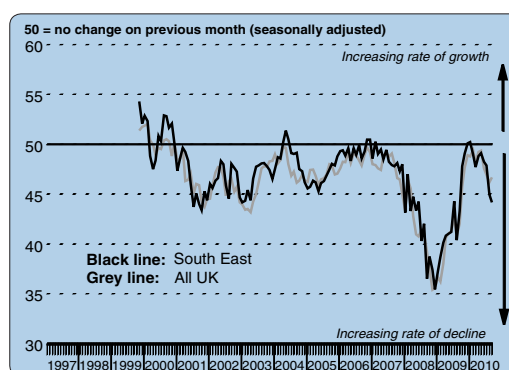


The volume of incoming new business in the South East private sector continued to grow in September. The current sequence of expansion now stretches to fifteen months. However, the seasonally adjusted Incoming New Business Index fell for the sixth successive month, signposting a further slowdown in the pace of growth. The latest figure remained above that for the whole of the UK, but signalled the weakest expansion since August 2009. Sector data indicated similarly moderate rates of growth across both manufacturing and services during September.

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
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
	Jul	13.1	63.4	23.4	44.8	47.9	46.9
	Aug	15.6	58.5	25.9	44.9	45.0	46.2
	Sep	16.3	56.5	27.2	44.6	44.2	46.7

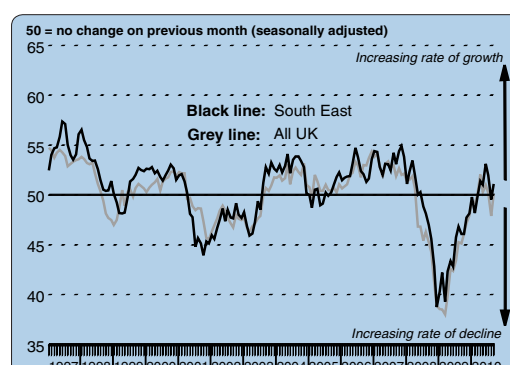


Outstanding business held at private sector companies in the South East fell for the eighth month running in September. Moreover, the rate of decline accelerated for the fourth month in a row, to the fastest in a year. A variety of factors were reported to have contributed to the latest contraction, including weaker than expected demand, quicker shipments to customers, and the completion of major contracts. Backlogs fell sharply in both manufacturing and services, and the overall rate of decline was sharper than the UK average for the second month running.

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
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	49.2
	Mar	11.2	78.9	9.9	50.6	49.8	50.0
	Apr	13.1	77.5	9.4	51.9	51.4	52.1
	May	17.0	73.9	9.1	53.9	51.0	50.3
	Jun	18.0	74.3	7.8	55.1	53.1	51.0
	Jul	15.2	79.1	5.7	54.7	52.0	50.2
	Aug	14.9	75.8	9.3	52.8	49.6	47.9
	Sep	16.1	73.9	9.9	53.1	51.1	50.1

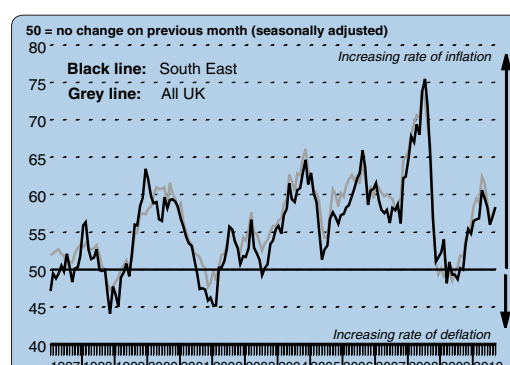


The combined workforce of the manufacturing and service sectors in the South East rose for the fifth time in the past six months in September. Having signalled a marginal reduction the previous month, the seasonally adjusted Employment Index rose above 50.0. Recruitment was mainly attributed by survey respondents to the expansion of capacity and new business. The latest Index figure signalled only a modest rate of job creation, albeit one slightly sharper than the UK-wide trend. Manufacturing was the main driver of employment growth in September.

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
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	61.7
	Jun	30.1	66.9	3.0	63.6	58.3	59.0
	Jul	25.8	68.6	5.7	60.1	56.0	56.6
	Aug	29.2	67.1	3.7	62.7	57.2	57.5
	Sep	21.7	72.7	5.6	58.1	58.4	58.2

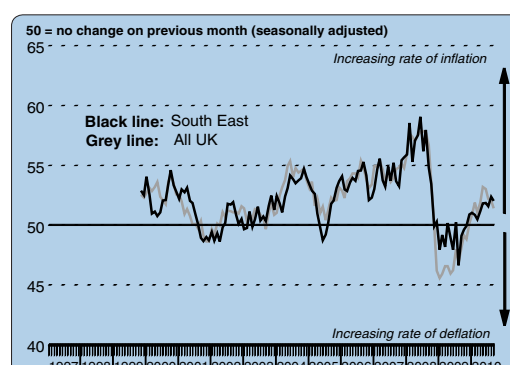


Average input prices paid by private sector companies in the South East rose at a faster rate in September. The seasonally adjusted Input Prices Index moved up to a four-month high, and continued to signal a broadly similar rate of input cost inflation as that registered across the UK as a whole. The Index was comfortably above its long-run trend during the month (55.5). Reported sources of higher input prices included timber and paper, plastics, foodstuffs, aluminium and labour costs. Manufacturers continued to record sharper increases in input prices than their counterparts in services.

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?

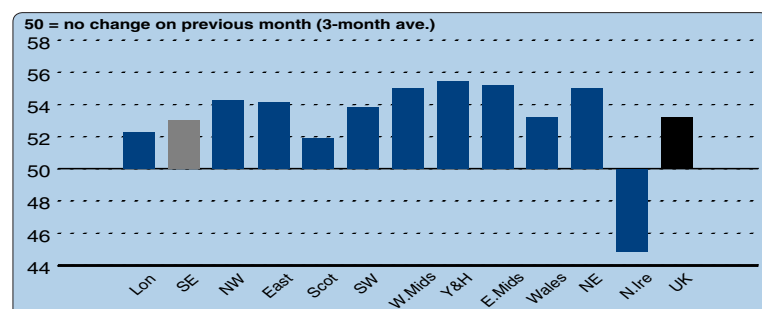
		South East Companies			All UK		
		Higher %	Same %	Lower %	Index 50=no chg	S.Adj'd Index	S.Adj'd Ind
2010	Jan	11.3	81.3	7.3	52.0	51.0	50.9
	Feb	9.6	83.4	7.0	51.3	50.9	51.9
	Mar	10.1	83.6	6.3	51.9	50.5	51.1
	Apr	17.2	77.7	5.1	56.1	51.2	51.9
	May	12.3	83.4	4.3	54.0	51.8	53.2
	Jun	13.3	80.0	6.7	53.3	51.9	53.0
	Jul	13.3	82.3	4.4	54.4	51.6	52.2
	Aug	10.6	86.3	3.1	53.8	52.4	52.1
	Sep	8.2	86.2	5.7	51.3	52.0	51.4



The seasonally adjusted Output Prices Index remained above the no-change mark of 50.0 for the tenth consecutive month in September, signalling a further increase in prices charged by private sector companies in the South East. The Index eased slightly from August's twenty-two month high, but still indicated the second-fastest rate of charge inflation over this period. It was also broadly in line with its long-run trend during September. Anecdotal evidence suggested that higher input prices were the principal driver of rising output charges during September.

Regional Comparisons: Output

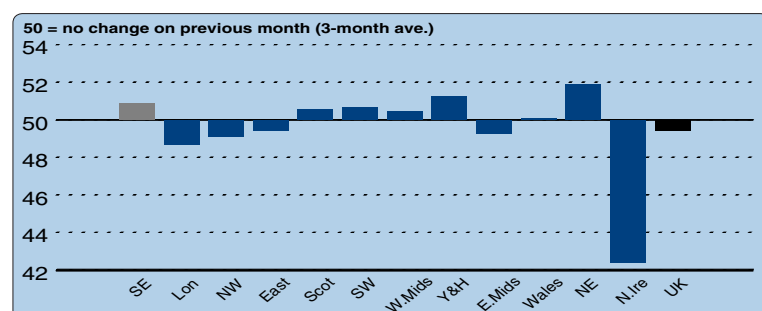
The graph below shows the regional PMI Output Indexes for the UK. An average of the latest three months is used (see also the table to the right). Business activity rose across all UK regions with the exception of Northern Ireland during the three months to September. The strongest growth was signalled in Yorkshire & Humber, closely followed by the East Midlands.



	Share of UK GVA, 2007 (National Statistics)	PMI Output Index		
		Last 12 months	Latest 3 months	Latest month
London	(21.0%)	57.8	52.3	53.2
South East	(14.4%)	56.6	53.0	52.6
North West	(9.6%)	56.8	54.3	54.6
East of England	(8.9%)	55.5	54.2	53.4
Scotland	(8.2%)	52.6	51.9	49.8
South West	(7.8%)	55.0	53.8	54.1
West Midlands	(7.5%)	55.9	55.0	54.0
Yorks & Humber	(7.1%)	55.8	55.4	54.4
East Midlands	(6.3%)	56.4	55.2	54.1
Wales	(3.6%)	54.9	53.2	52.8
North East	(3.2%)	57.0	55.0	54.5
N.Ireland	(2.3%)	46.2	44.9	45.3
UK	(100.0%)	55.9	53.2	53.2

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). Jobs growth was recorded in seven of the twelve UK regions in the three months to September. The fastest rise in employment was in the North East. Northern Ireland continued to post by far the steepest rate of job shedding.



	Contribution to UK Employment, 2008 (National Statistics)	PMI Employment Index		
		Last 12 months	Latest 3 months	Latest month
South East	(14.6%)	49.8	50.9	51.1
London	(12.3%)	48.7	48.7	50.2
North West	(10.9%)	50.0	49.1	49.0
East of England	(9.6%)	49.9	49.4	50.2
Scotland	(8.7%)	50.4	50.6	50.5
South West	(8.6%)	49.9	50.7	51.2
West Midlands	(8.6%)	49.1	50.4	49.0
Yorks & Humber	(8.2%)	49.3	51.3	51.7
East Midlands	(7.3%)	50.1	49.3	49.0
Wales	(4.6%)	49.6	50.1	49.4
North East	(3.9%)	50.9	51.9	52.7
N.Ireland	(2.7%)	45.6	42.4	43.7
UK	(100.0%)	49.3	49.4	50.1

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.

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.