

# 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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**8 November 2010**

## Output growth strengthened in October, but remained relatively weak.

### Key findings:

- Fastest rises in output and new business in three months.
- Employment growth maintained.
- Sharpest rates of input and output price inflation for over two years.

October PMI™ data indicated that the recovery in private sector output in the South East was maintained for the sixteenth successive month. Having slowed sharply during the summer, the rate of expansion picked up in the latest period, but remained weak compared to the survey's long-run trend.

### Output and demand

Growth of private sector activity strengthened further in October. Having eased from June through to August, the pace of growth picked up for the second month running. That said, it remained slightly below the UK average. Manufacturing production rose at a much slower pace than the marked rates seen earlier in 2010, while services activity growth was only slightly weaker than the trend seen so far this year.

Incoming new business increased for the sixteenth successive month in October. Some firms reported improved export demand for their products. The rate of growth was the fastest in three months, but remained below the average for the current sequence of expansion. Growth rates for both manufacturers and service providers remained below their respective long-run averages.

### Employment and backlogs

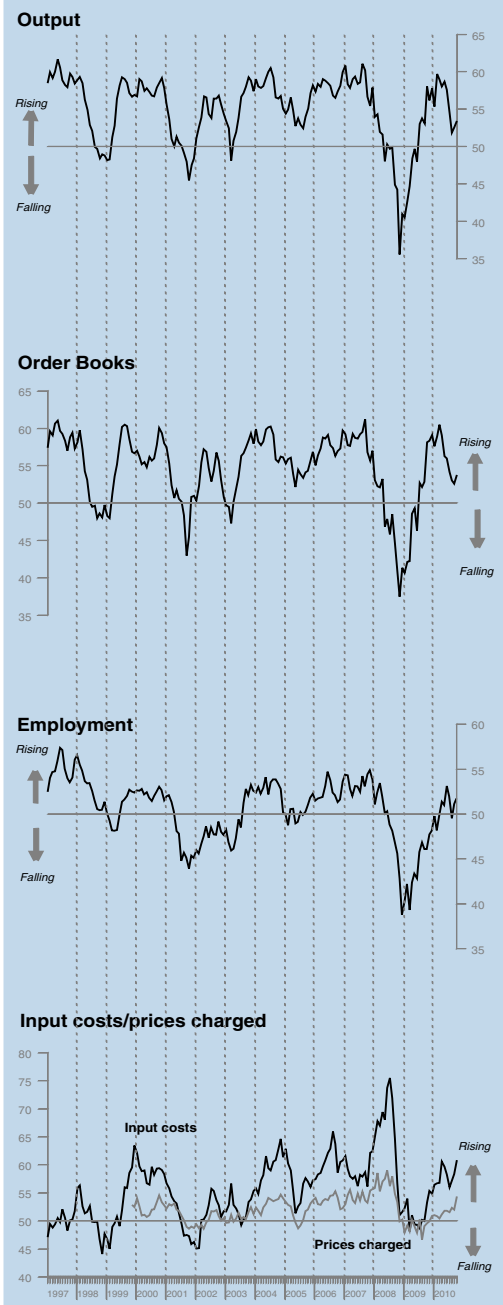
Growth of employment was sustained for the second month running in October, in line with the pattern for the UK as a whole. Moreover, the South East posted the fourth-fastest rate of job creation of the twelve regions covered. That said, the overall rise in workforces masked a marginal decline in services employment, as manufacturers took on more staff at a robust pace.

Survey data continued to signal a lack of pressure on capacity in October, as outstanding business fell for the ninth month running. Moreover, the rate of depletion remained sharp. Some firms commented that completed projects were not being replaced with new work.

### Input and output prices

Input price inflation remained sharp in October. The rate of inflation accelerated for the third month running to its fastest since September 2008. Metals, plastics, chemicals, paper, packaging and fuel were all reported to have risen in price during the month. Firms raised their output prices in response, and the rate of inflation was also the steepest since September 2008. Inflationary pressures were much stronger in manufacturing than services.

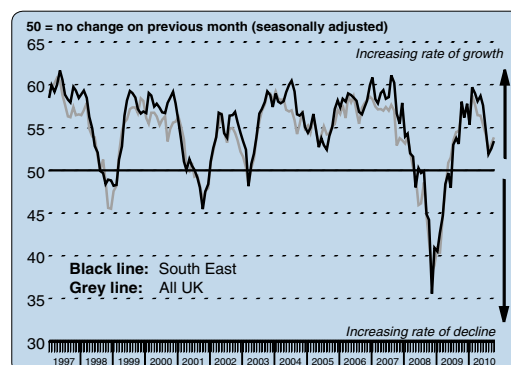
### South East Business Conditions



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
2010	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
	Oct	26.6	55.9	17.5	54.5	53.4	53.9

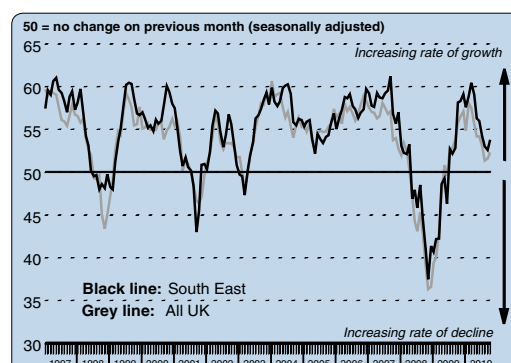


Private sector activity in the South East rose for the sixteenth successive month in October. The rate of growth picked up further from August's low, as signalled by a rise in the seasonally adjusted Business Activity Index, but was still weaker than the long-run survey average. It was also slightly below the UK average for the third month running. Just over one-quarter of companies reported higher activity, which they mostly linked to rising new orders. Detailed sector data suggested that service providers achieved faster growth of activity than their counterparts in manufacturing.

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	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	55.6
	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	53.0
	Aug	31.0	43.7	25.3	52.8	53.1	51.3
	Sep	29.3	43.9	26.8	51.3	52.6	51.6
	Oct	29.7	49.4	20.9	54.4	53.8	52.3

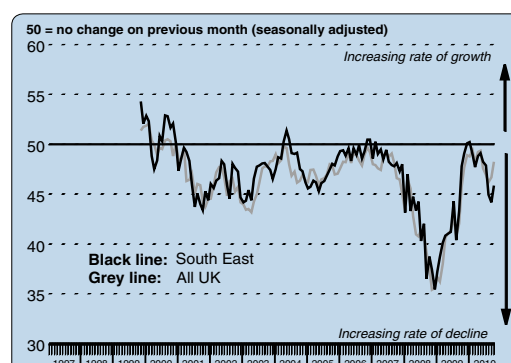


The volume of new contracts at private sector firms in the South East rose at the fastest rate for three months in October. The seasonally adjusted Incoming New Business Index remained above the no-change mark for the sixteenth successive month, in line with the trend seen across the UK as a whole. The Index rose from September's thirteen-month low, and signalled the strongest rate of growth since July. However, the pace of expansion remained weak in comparison with historic survey data. Growth rates in both manufacturing and services remained relatively muted.

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	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
	Oct	14.1	62.0	23.9	45.1	45.9	48.3

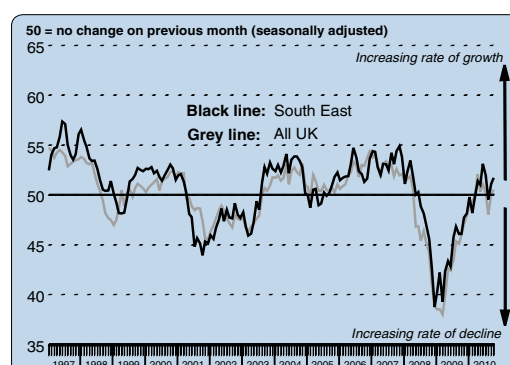


Outstanding workloads in the South East's private sector economy declined for the ninth month running in October. The rate of reduction was slower than those recorded in August and September, but still strong in the context of historic survey data. Some firms linked lower backlogs to rising capacity and reduced supply constraints, but others reported that completed contracts were not being replaced. Broken down by sub-sector, outstanding business fell more sharply in services than 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
2010	Feb	8.9	80.9	10.2	49.4	<b>48.2</b>	<b>49.3</b>
	Mar	11.2	78.9	9.9	50.6	<b>49.8</b>	<b>50.0</b>
	Apr	13.1	77.5	9.4	51.9	<b>51.4</b>	<b>52.1</b>
	May	17.0	73.9	9.1	53.9	<b>51.0</b>	<b>50.3</b>
	Jun	18.0	74.3	7.8	55.1	<b>53.1</b>	<b>51.1</b>
	Jul	15.2	79.1	5.7	54.7	<b>52.0</b>	<b>50.3</b>
	Aug	14.9	75.8	9.3	52.8	<b>49.6</b>	<b>48.0</b>
	Sep	16.1	73.9	9.9	53.1	<b>51.1</b>	<b>50.1</b>
	Oct	16.5	72.2	11.4	52.6	<b>51.7</b>	<b>50.6</b>

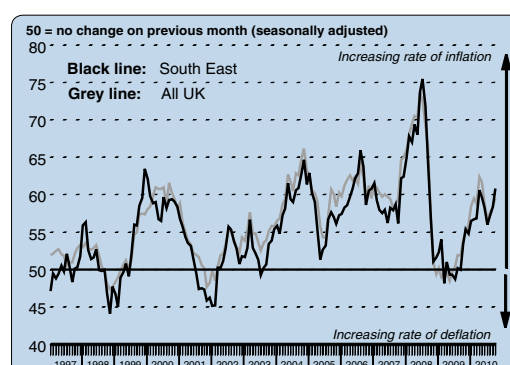


Private sector employment in the South East rose for the sixth time in seven months in October. The seasonally adjusted Employment Index edged up on the month, and was greater than its long-run average of 50.6. Of twelve UK regions covered, the South East registered the fourth-fastest rate of job creation in the latest period. Firms linked recruitment to company expansion plans. Sector data suggested that employment growth was concentrated in manufacturing, however, as services workforces contracted marginally on average during October.

## 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	Feb	22.8	69.6	7.6	57.6	<b>56.7</b>	<b>59.5</b>
	Mar	26.4	69.2	4.4	61.0	<b>56.8</b>	<b>58.9</b>
	Apr	37.5	60.6	1.9	67.8	<b>60.6</b>	<b>62.4</b>
	May	31.5	66.1	2.4	64.5	<b>59.7</b>	<b>61.6</b>
	Jun	30.1	66.9	3.0	63.6	<b>58.3</b>	<b>58.9</b>
	Jul	25.8	68.6	5.7	60.1	<b>56.0</b>	<b>56.6</b>
	Aug	29.2	67.1	3.7	62.7	<b>57.2</b>	<b>57.6</b>
	Sep	21.7	72.7	5.6	58.1	<b>58.4</b>	<b>58.5</b>
	Oct	26.7	68.8	4.5	61.1	<b>60.9</b>	<b>59.5</b>

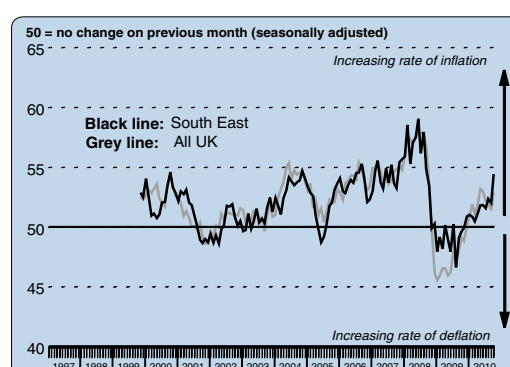


Input price inflation in the South East private sector accelerated for the third month running in October. The seasonally adjusted Input Prices Index rose to a twenty-five month high, and was also slightly above the average for the UK as a whole. The latest anecdotal evidence attributed inflationary pressure to a wide range of sources, including metals, plastics, packaging, paper, food, chemicals and fuel. Input prices continued to rise at a much sharper rate in manufacturing than services. The Index was comfortably above its long-run average of 55.5 during the latest period.

## 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?

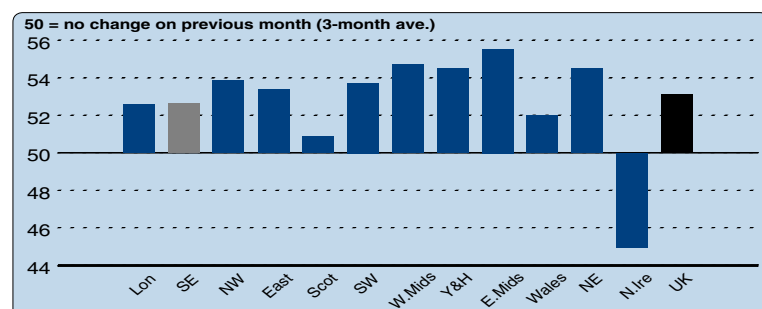
		South East Companies			All UK		
		Higher %	Same %	Lower %	Index 50=no chg	S.Adj'd Index	S.Adj'd Ind
2010	Feb	9.6	83.4	7.0	51.3	<b>50.9</b>	<b>51.9</b>
	Mar	10.1	83.6	6.3	51.9	<b>50.5</b>	<b>51.1</b>
	Apr	17.2	77.7	5.1	56.1	<b>51.2</b>	<b>51.9</b>
	May	12.3	83.4	4.3	54.0	<b>51.8</b>	<b>53.2</b>
	Jun	13.3	80.0	6.7	53.3	<b>51.9</b>	<b>53.0</b>
	Jul	13.3	82.3	4.4	54.4	<b>51.6</b>	<b>52.2</b>
	Aug	10.6	86.3	3.1	53.8	<b>52.4</b>	<b>52.1</b>
	Sep	8.2	86.2	5.7	51.3	<b>52.0</b>	<b>51.4</b>
	Oct	14.9	78.2	6.9	54.0	<b>54.4</b>	<b>52.9</b>



South East private sector companies raised charges for their goods and services in October. The seasonally adjusted Output Prices Index remained above the no-change mark of 50.0 for the eleventh successive month, and rose to signal the sharpest rate of inflation in selling prices since September 2008. Of the 15% of companies that reported higher charges, the majority linked this to rising cost pressures. Manufacturing output prices rose at a marked rate during the month, while service providers' charges were broadly unchanged on average since September.

## Regional Comparisons: Output

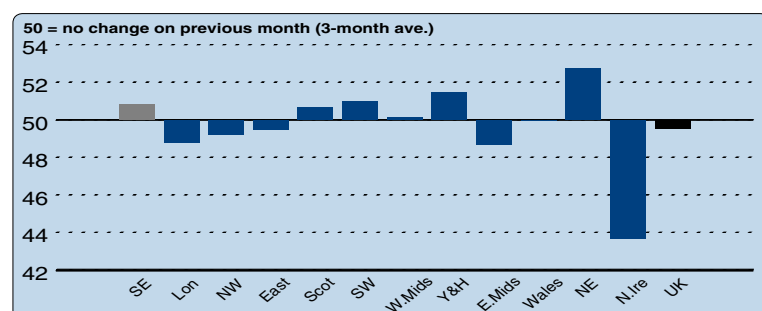
The graph below shows the regional PMI Output Indexes for the UK. An average of the latest three months is used (see also the table to the right). The East Midlands recorded the fastest expansion of business activity in the three months to October, followed by the West Midlands. Of the twelve UK regions, only Northern Ireland posted a decline 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%)	57.4	52.6	54.7
South East	(14.4%)	56.2	52.6	53.4
North West	(9.6%)	56.9	53.9	54.5
East of England	(8.9%)	55.2	53.4	53.6
Scotland	(8.2%)	52.4	50.9	49.9
South West	(7.8%)	54.7	53.7	54.2
West Midlands	(7.5%)	55.9	54.7	55.6
Yorks & Humber	(7.1%)	55.8	54.5	54.4
East Midlands	(6.3%)	56.5	55.5	57.4
Wales	(3.6%)	54.3	52.0	51.2
North East	(3.2%)	56.6	54.5	54.0
N.Ireland	(2.3%)	45.9	45.0	44.1
<b>UK</b>	<b>(100.0%)</b>	<b>55.6</b>	<b>53.1</b>	<b>53.9</b>

## 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). Six of the twelve UK regions posted an increase in staffing levels on average in the three months to October. The fastest rate of job creation was in the North East. Meanwhile, Northern Ireland continued to record by far the sharpest drop in staffing levels.



	Contribution to UK Employment, 2008 (National Statistics)	PMI Employment Index		
		Last 12 months	Latest 3 months	Latest month
South East	(14.6%)	50.3	50.8	51.7
London	(12.3%)	49.1	48.8	49.4
North West	(10.9%)	50.2	49.2	50.5
East of England	(9.6%)	50.3	49.5	50.6
Scotland	(8.7%)	50.3	50.7	50.4
South West	(8.6%)	50.3	51.0	51.8
West Midlands	(8.6%)	49.7	50.1	51.3
Yorks & Humber	(8.2%)	49.7	51.4	52.5
East Midlands	(7.3%)	50.4	48.7	50.6
Wales	(4.6%)	49.7	50.0	50.4
North East	(3.9%)	51.3	52.8	54.0
N.Ireland	(2.7%)	45.5	43.7	45.8
<b>UK</b>	<b>(100.0%)</b>	<b>49.7</b>	<b>49.6</b>	<b>50.6</b>

## 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.