



NatWest South East PMI[®]

Business activity declines at fastest pace since November 2008

Key Findings

Most marked contraction in activity for over 11 years

New business falls at sharpest pace on record

Workforce numbers decline at quickest rate for over a decade

South East Business Activity Index



Last six months SE v UK



Private sector activity in the South East of England dropped at the steepest rate since November 2008 in March, according to the latest NatWest PMI[®] data. Central to the renewed downturn was the fastest fall in incoming new business since data collection began in January 1997. Respondents linked declines in both output and order book volumes to the coronavirus disease 2019 (COVID-19) pandemic. Amid weak demand conditions, firms continued to cut staff numbers in March, with the rate of job shedding the quickest since June 2009 and sharp overall.

The headline NatWest South East Business Activity Index – a seasonally adjusted index that measures the combined output of the region’s manufacturing and service sectors - posted 37.2 in March, tumbling from 52.0 in February, to signal a renewed reduction in private sector activity in the South East. Panellists associated the fall with the COVID-19 outbreak. Moreover, the rate of contraction was the most marked since late-2008.

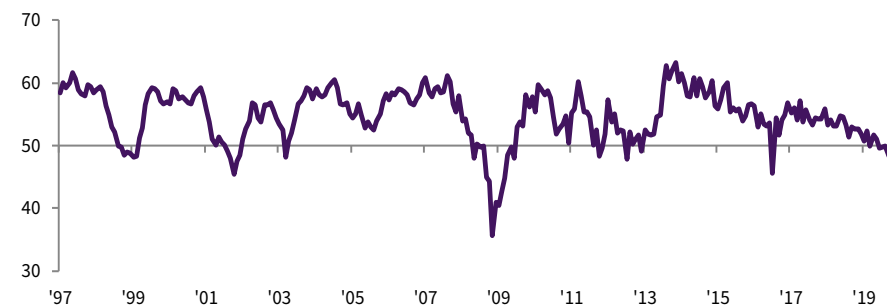
At the UK level, activity declined at the fastest rate on record during March. As was the case in the South East, the strength of the downturn was unprecedented.

Demand

Private sector firms in the South East signalled a renewed fall in incoming new business during March, with the rate of decline the steepest recorded in over 23 years of data collection. According to respondents, the coronavirus pandemic led client demand to collapse.

South East Business Activity Index

sa, >50 = growth since previous month



Capacity

Amid weak demand conditions, private sector firms in the South East continued to reduce workforce numbers in March. The rate of job shedding was the fastest for nearly 11 years and sharp overall.

March data highlighted a reduction in the level of outstanding business, as has been the case in each month since October 2018. According to panellists, lower activity requirements allowed firms to direct resources to unfinished orders. The rate of backlog depletion was the quickest since December 2008.

Prices

Cost burdens facing the South East's private sector firms rose further during March. The rate of input price inflation was the softest for over four years, however, and moderate.

Meanwhile, average prices charged for goods and services declined for the first time since August 2015. Panellists reported that firms were discounting to remain competitive amid weak demand conditions. Although only mild overall, the fall was the quickest since late-2012.

Outlook

Nonetheless, private sector firms in the South East, remain optimistic with regards to activity over the coming 12 months. The level of positive sentiment fell to the lowest on record, however, with respondents noting that the COVID-19 outbreak weighed on expectations.

New Business Index



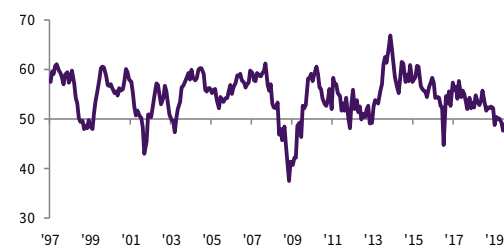
Record rate of contraction in new business

Private sector firms in the South East reported a renewed reduction in new business during March, with the rate of decline the steepest since data collection began January 1997. According to respondents, the COVID-19 pandemic led client demand to plummet.

Similarly, new business contracted at the quickest rate on record at the UK level during March. The fall in the South East outstripped that seen at the national level, however.

New Business Index

sa, >50 = growth since previous month



Outstanding Business Index



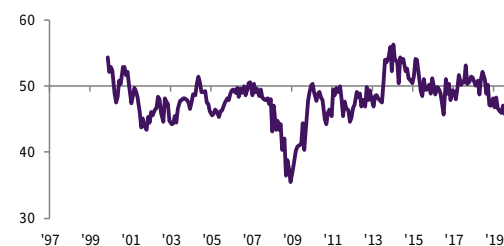
Quickest drop in backlogs since December 2008

As has been the case in each month since October 2018, the level of outstanding business at private sector firms in the South East fell during March. Panellists reported that weak demand conditions allowed firms to direct resources to unfinished orders. Furthermore, the rate of backlog depletion was the most marked since December 2008.

At the sector level, the decline was broad-based, with service providers recording a quicker reduction in outstanding business than manufacturers.

Outstanding Business Index

sa, >50 = growth since previous month



Employment Index



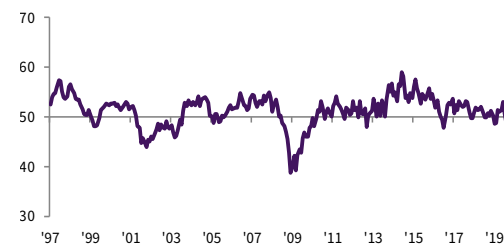
Firms cut jobs at sharpest pace for more than a decade

Private sector firms in the South East recorded a further reduction in workforce numbers during March, as has been the case in all but one of the last eight months. Respondents associated the fall in staffing levels to weak demand conditions amid the coronavirus pandemic. Moreover, the rate of job shedding was the fastest since June 2009 and sharp overall.

Employment also declined at the aggregate UK level in March and outpaced that in the South East.

Employment Index

sa, >50 = growth since previous month



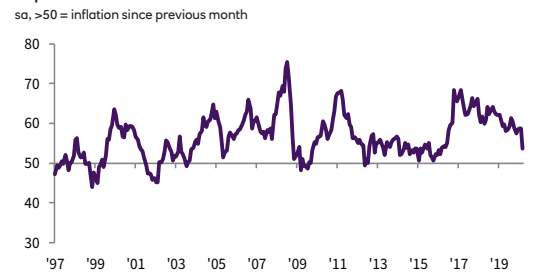
Input Prices Index



Input cost inflation weakens in March

March data highlighted an increase in cost burdens facing private sector firms in the South East, as has been the case in each month since August 2012. Anecdotal evidence linked the latest rise to higher raw material costs and unfavourable exchange rates. The rate of price inflation, albeit moderate, was the slowest since February 2016 and softer than the series long-run average.

Input Prices Index



Prices Charged Index

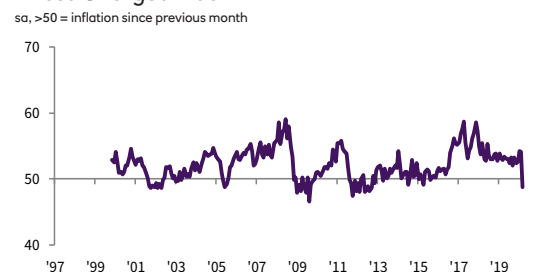


Selling prices fall at quickest rate since late-2012

For the first time since August 2015, private sector firms in the South East reported a reduction in average prices charged for goods and services during March. According to respondents, companies were discounting due to weak demand conditions. Moreover, the rate of decline was the sharpest since September 2012.

Selling prices also declined at the UK level during March, with the rate of reduction broadly similar to that in the South East.

Prices Charged Index



Future Business Activity Index



Sentiment collapses to record low

Confidence with regards to business activity over the coming year collapsed in March. Although companies expect output will increase over the coming year, the level of positive sentiment dropped to the lowest since the data were first compiled in July 2012. Some panellists noted that uncertainty stemming from the COVID-19 pandemic had weighed on expectations.

By comparison, the outlook turned pessimistic at the UK level during March, with firms expecting output to fall over the next 12 months for the first time in the series' history.

Future Business Activity Index



South East Export Climate Index

Note: Export markets are defined as non-UK.



Last six months



Export climate index falls to over 11 year low

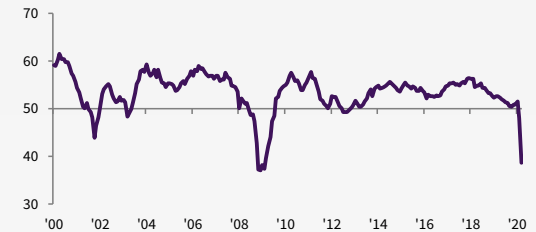
The South East Export Climate Index is calculated by weighting together national PMI output data according to their importance to the manufacturing exports of the South East. This produces an indicator for the economic health of the region's export markets.

The Export Climate Index posted 38.7 in March, falling from 48.0 in February, to signal a steep deterioration in conditions across the South East's export markets for the second month running. Moreover, the contraction was the steepest since February 2009.

Across the South East's five biggest export markets, the most marked contraction was recorded in France, with the fall the sharpest in more than 21 years of data collection. Output in Germany also fell at the quickest rate on record, while the decline in the USA was the sharpest since April 2009. After falling at a record pace in February, output in China fell at a softer rate. Elsewhere, the Netherlands recorded a renewed contraction, although it was only mild overall.

Export Climate Index

sa, >50 = improving export climate since previous month



Top export markets, South East

Rank	Market	Weight	Output Index, Mar-20
1	USA	18.1%	40.9
2	Germany	10.4%	35.0
3	China	9.6%	46.7
4	Netherlands	8.1%	48.5
5	France	7.3%	28.9

South East Industry Specialisation

Location quotients (LQs) are useful measures of regional economic specialisation and offer a means to identify industry clusters at a local level. They are ratios derived by comparing the share of sector output (or gross value added) in regions with the national share of output in the same sector.

Focusing on the manufacturing and service sectors in isolation, a location quotient is calculated by taking a sector's proportion of regional output and comparing it with the UK-wide share of output in the sector. An LQ of 1.0 in a sector means that the region and the UK as a whole are equally specialised in that

sector. An LQ greater than 1.0 indicates that the sector has a greater economic footprint in the region than it does for the UK as a whole.

The tables below rank the location quotients for the South East, broken down by manufacturing and services sub-sectors. The UK Output Index for each sub-sector is also displayed.

Manufacturing specialisation: South East

Rank	Sector	LQ	UK Output Index, Mar-20 (3mma)
1	Electrical & Electronic	2.21	
2	Chemicals, Rubber & Plastics	1.20	
3	Other Manufacturing	1.02	
4	Wood & Paper	1.01	
5	Machinery & Equipment	0.93	
6	Metals & Metal Products	0.85	
7	Transport Equipment	0.61	
8	Food & Drink	0.59	
9	Textiles & Clothing	0.38	

35 40 45 50 55 60

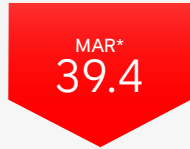
Services specialisation: South East

Rank	Sector	LQ	UK Business Activity Index, Mar-20 (3mma)
1	Computing & IT Services	1.68	
2	Transport & Communication Services	1.13	
3	Business-to-business Services	1.04	
4	Hotels, Restaurants & Catering	0.91	
5	Other personal/consumer Services	0.89	
6	Financial Intermediation	0.63	

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UK Sector Focus: Personal & Community Services

Output Index



Last six months*



*3mma

UK consumer services see record fall in activity amid the COVID-19 outbreak

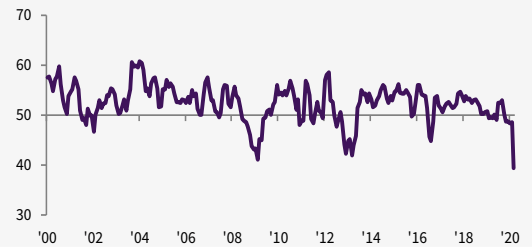
The COVID-19 outbreak and resulting containment measures have impacted large swathes of the UK economy, with the effects particularly stark in those sectors reliant on social contact, like Personal & Community Services. Here, latest PMI data showed business activity falling in the opening quarter of 2020 at the fastest rate in more than two decades of data collection.

Despite government support, firms in the sector have been swift to cut staffing numbers in line with falling workloads. Employment showed the steepest drop since the depths of the global financial crisis in the three months to March, the reduction extending a series-record sequence of decline stretching back to mid-2018.

Uncertainty towards the impact and lasting effects of the COVID-19 crisis weighed heavily on business confidence in the Personal & Community Services sector, which showed an unprecedented fall.

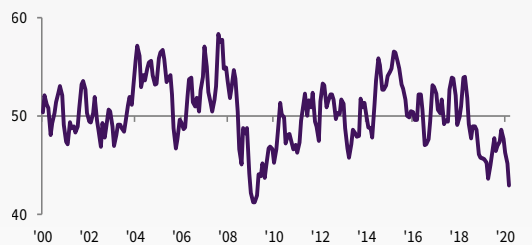
Output Index

sa, >50 = growth since previous month (3mma)



Employment Index

sa, >50 = growth since previous month (3mma)



UK Regional Rankings

Business Activity

The COVID-19 outbreak and associated public health measures to contain the disease severely disrupted business activity across all areas of the UK in March. The steepest declines in output of goods and services were seen in Northern Ireland, Scotland and London, with the capital registering the largest ever month-on-month drop in the Business Activity Index. Indeed, for these three regions and the South West, the decreases in output were all the steepest on record. The shallowest declines were registered in Yorkshire & Humber, the North West and East of England, though even here the rates of contraction were the fastest since at least February 2009.

Employment

March saw a broad-based decrease in employment across all UK regions. The declines were led by deep cuts to staff numbers in Scotland, the West Midlands, Northern Ireland and London. At the other end of the scale, the North West, North East and East of England saw relatively moderate job losses.

Output Index by region

sa, >50 = growth since previous month, Mar-20 (Feb-20)



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Methodology

The NatWest South East PMI® is compiled by IHS Markit from responses to questionnaires sent to South East companies that participate in IHS Markit's UK manufacturing and services PMI surveys.

Survey responses are collected in the second half of each month and indicate the direction of change compared to the previous month. A diffusion index is calculated for each survey variable. The index is the sum of the percentage of 'higher' responses and half the percentage of 'unchanged' responses. The indices vary between 0 and 100, with a reading above 50 indicating an overall increase compared to the previous month, and below 50 an overall decrease. The indices are then seasonally adjusted.

The headline figure is the Business Activity Index. This is a diffusion index calculated from a single question that asks for changes in the volume of business activity (at service providers) or output (at manufacturers) compared with one month previously. The South East Business Activity Index is comparable to the UK Composite Output Index. It is sometimes referred to as the 'South East PMI', but is not comparable with the headline UK Manufacturing PMI figure.

Underlying survey data are not revised after publication, but seasonal adjustment factors may be revised from time to time as appropriate which will affect the seasonally adjusted data series.

For further information on the PMI survey methodology, please contact economics@ihsmarkit.com.

About PMI

Purchasing Managers' Index® (PMI®) surveys are now available for over 40 countries and also for key regions including the eurozone. They are 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. To learn more go to [ihsmarkit.com/products/pmi.html](https://www.ihsmarkit.com/products/pmi.html).

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