

11 February 2025

NatWest South East Growth Tracker

Contraction in activity remains modest in
January



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by **S&P Global**

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Key findings

January 2025

Firms retain positive outlook despite sustained drop in activity

Backlogs depleted at strongest rate for nearly a year

Output expected to rise across the private sector through 2025

The NatWest South East Growth Tracker provides a timely snapshot of regional economic performance.

The report tracks monthly changes in business activity, demand, employment, backlogs, prices and the year-ahead outlook. The data are compiled from local companies that participate in S&P Global's UK manufacturing and services PMI surveys.

For more reports on 12 UK nations and regions, visit www.natwest.com/business/insights/economics





Contraction in activity remains modest in January

A sustained, albeit only modest decrease in new business led South East companies to focus on clearing backlogs.

Despite increasing signs of spare capacity, the rate of job shedding lost slight momentum and firms retained a positive 12-month outlook for activity.

The headline South East Business Activity Index - a seasonally adjusted index that measures the month-on-month change in the combined output of the region's manufacturing and service sectors - posted at

48.2 in January, down slightly from 48.4 at the end 2024. Although the reading was indicative of reduced private sector output, the rate of decrease was only modest in nature and largely unchanged from that seen in the previous two months. In anecdotal evidence, firms attributed lower output to reduced inflows of new business and increased uncertainty in part due to the Autumn Budget.

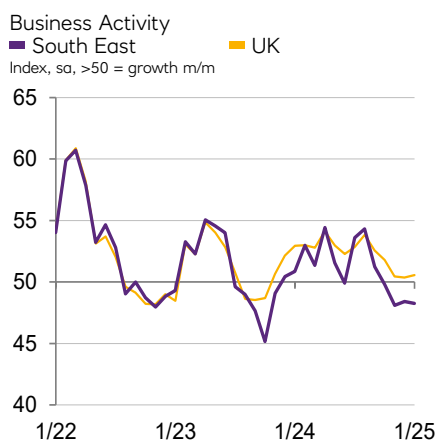
Moreover, Yorkshire & Humber, the West Midlands and Northern Ireland all posted faster contractions in activity than seen locally.

NatWest South East Business Activity Index January 2025

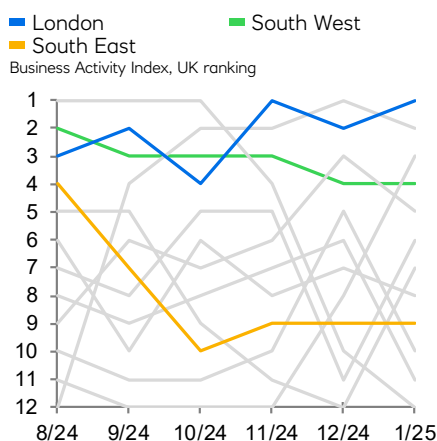
48.2

The Business Activity Index is a diffusion index calculated from companies' responses to a question on monthly changes in the volume of business activity. The index varies between 0 and 100 and is the sum of the percentage of 'higher' responses and half the percentage of 'unchanged' responses. A reading above 50 indicates an increase compared to the previous month, and below 50 a decrease. The index is seasonally adjusted.

Data compiled 9-29 January



Sources: NatWest, S&P Global PMI. ©2025 S&P Global.



Sources: NatWest, S&P Global PMI. ©2025 S&P Global.



NatWest

Comment

**Catherine van Weenen,
Territory Head of
Commercial Mid Market at
NatWest, commented:**

"The trajectory of the South East private sector remained little changed entering the new year, as declines in activity and new business remained only modest. Encouragingly, the region looked to the future with greater optimism than on average across the UK. South East firms' increasing ability to finalise orders amid a sustained period of workforce reduction could

also reflect some productivity gains.

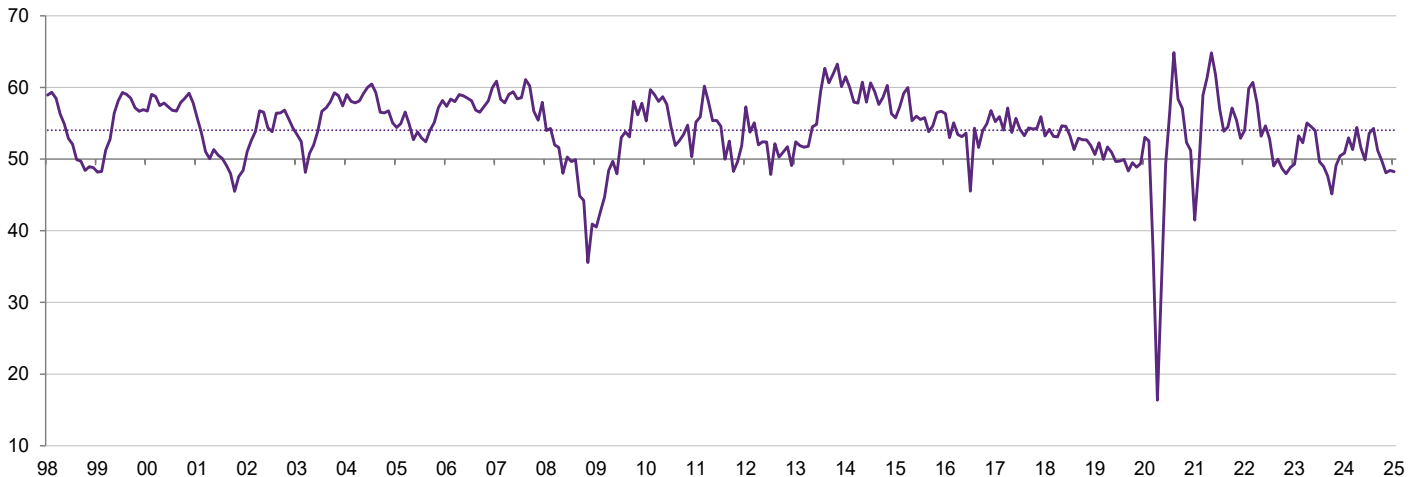
"The region was not alone in experiencing noticeable cost pressures in January, as input price inflation came in level with the UK average. Seeking to protect margins, firms passed on raised costs to their clients in the form of hiked charges, reflecting some confidence in demand conditions.

"The Bank of England's interest rate cut last week means that policy is now less restrictive, with further loosening expected in the year ahead."



Business Activity

Index, sa, >50 = growth m/m. Dots = long-run average since 1998.



Sources: NatWest, S&P Global PMI. ©2025 S&P Global.



Demand and outlook

Confidence in the outlook exceeds UK average, despite sustained reduction in orders

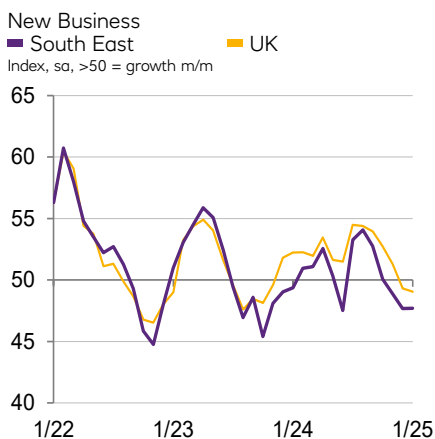
Adjusted for seasonal factors, the New Business Index remained below the 50.0 no-change mark in January, to signal a third drop in new orders placed at South East firms in consecutive months. Panellists linked the reduction to a slowdown in demand, often related to raised economic uncertainty.

The pace of the downturn was moderate, unchanged from that seen in December, and slightly faster than the national average.

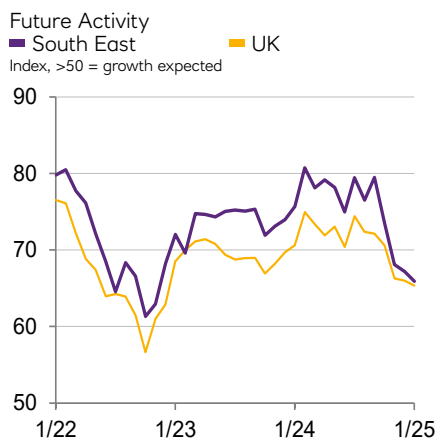
Private sector firms across the South East looked towards the next 12 months with optimism, with the respective index firmly above the crucial 50.0 mark in January. New product launches and growth forecasts linked to strong pipelines and increased marketing efforts were reasons for positive sentiment. Local companies also expressed greater confidence than seen on average across the UK.

The degree of optimism did however dip to its lowest for over two years during the latest survey period.

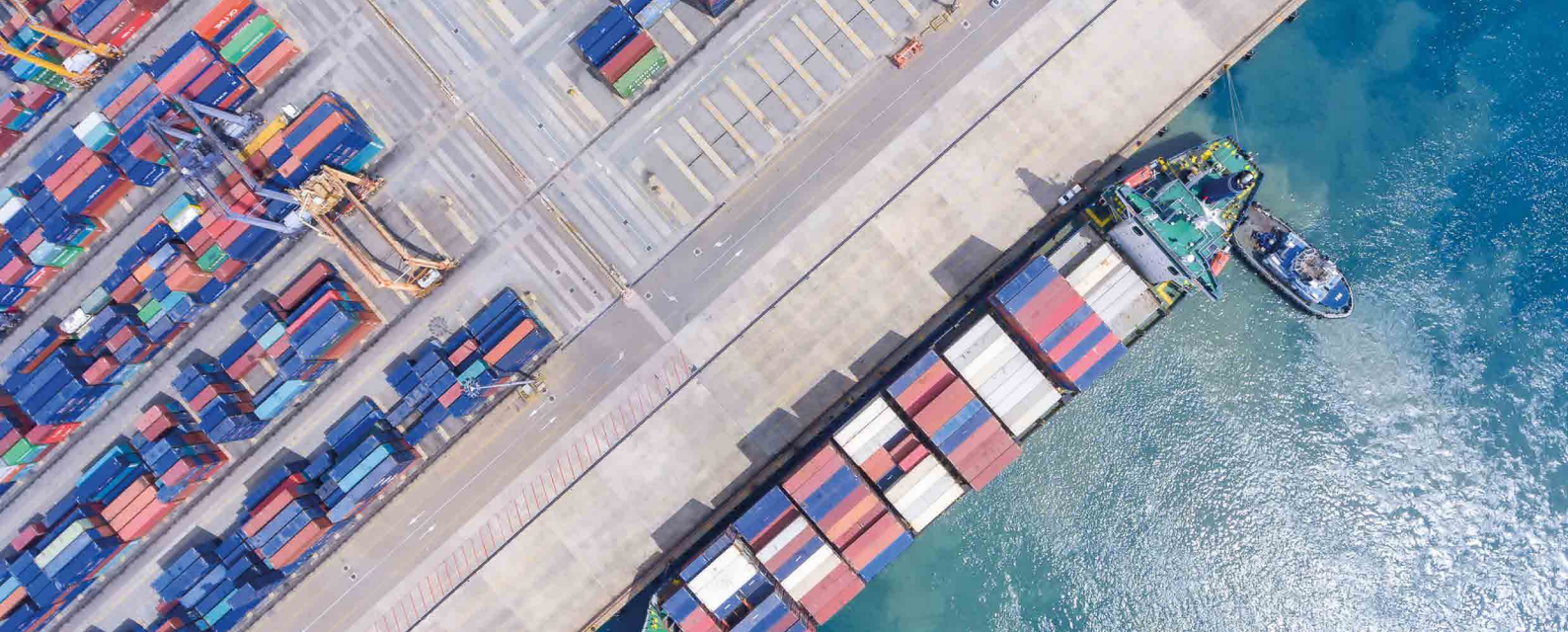
"Encouragingly, the region looked to the future with greater optimism than on average across the UK."



Sources: NatWest, S&P Global PMI. ©2025 S&P Global.



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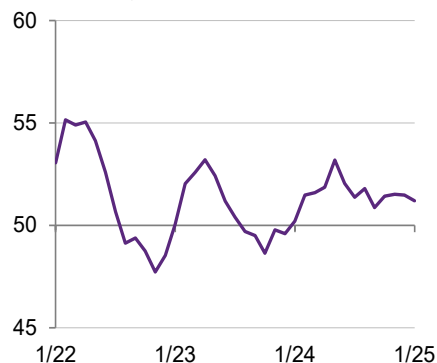
Export markets

Another marginal pick-up in export climate signalled

The Export Climate Index ticked down slightly from 51.5 in December to 51.2 in January. Although pointing to a strengthening of export conditions for South East exports, the latest reading signalled the weakest improvement for four months.

Germany joined Ireland and the US in posting a rise in activity. Although, in the latter the upturn slowed on the month. By contrast, France and the Netherlands recorded sustained declines in output in January.

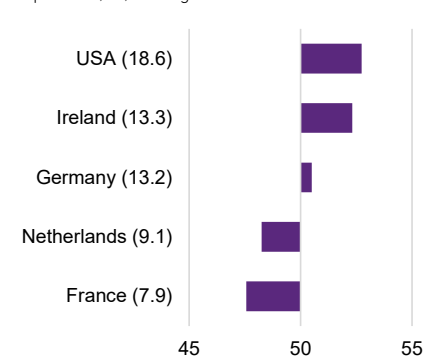
Export Conditions
Index, sa, >50 = growth m/m



Sources: NatWest, S&P Global PMI. ©2025 S&P Global.

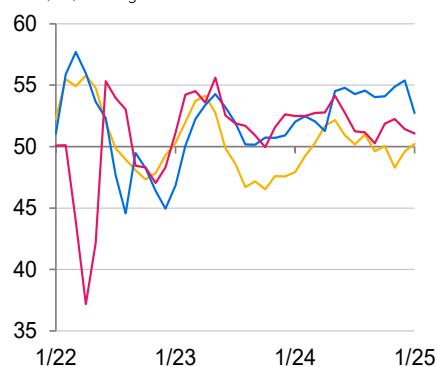
The South East Export Climate Index (ECI) is an indicator for the economic health of the region's export markets. It is calculated by combining national PMI output data, weighted according to each nation's share of manufacturing exports of the South East. A reading above 50 signals an improvement in export conditions, and below 50 a deterioration.

Top export markets, South East
% share of exports shown in brackets
Output Index, sa, >50 = growth m/m



Sources: NatWest, S&P Global PMI. ©2025 S&P Global.

Output
Index, sa, >50 = growth m/m



Sources: NatWest, S&P Global PMI. ©2025 S&P Global.



Jobs and capacity

Employment levels lowered at softer rate, though excess capacity remains evident

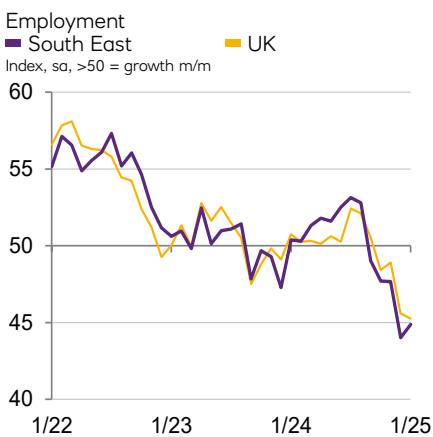
Private sector firms across the South East continued to make noticeable cuts to their workforce levels at the start of 2025, stretching the current trend of job shedding to five months. Although marked, the rate of reduction eased on the month and was similar to the UK average (45.3).

Some firms reportedly lowered headcounts as part of cost cutting initiatives and ahead of the National Insurance increase. Others noted difficulties in finding skilled staff.

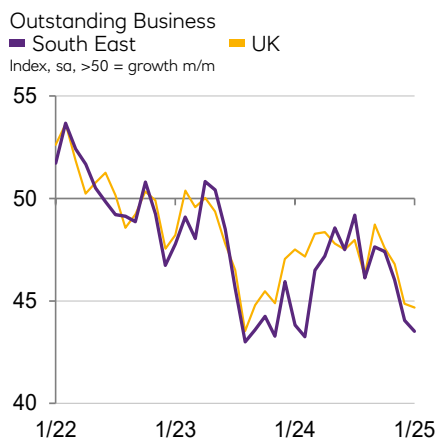
Nevertheless, South East private sector companies made greater inroads to their backlogged orders in January. Survey respondents linked the decrease to subdued incoming new work and resolved stock issues.

As well as substantial, the rate of depletion was the strongest for nearly a year and quicker than the national trend.

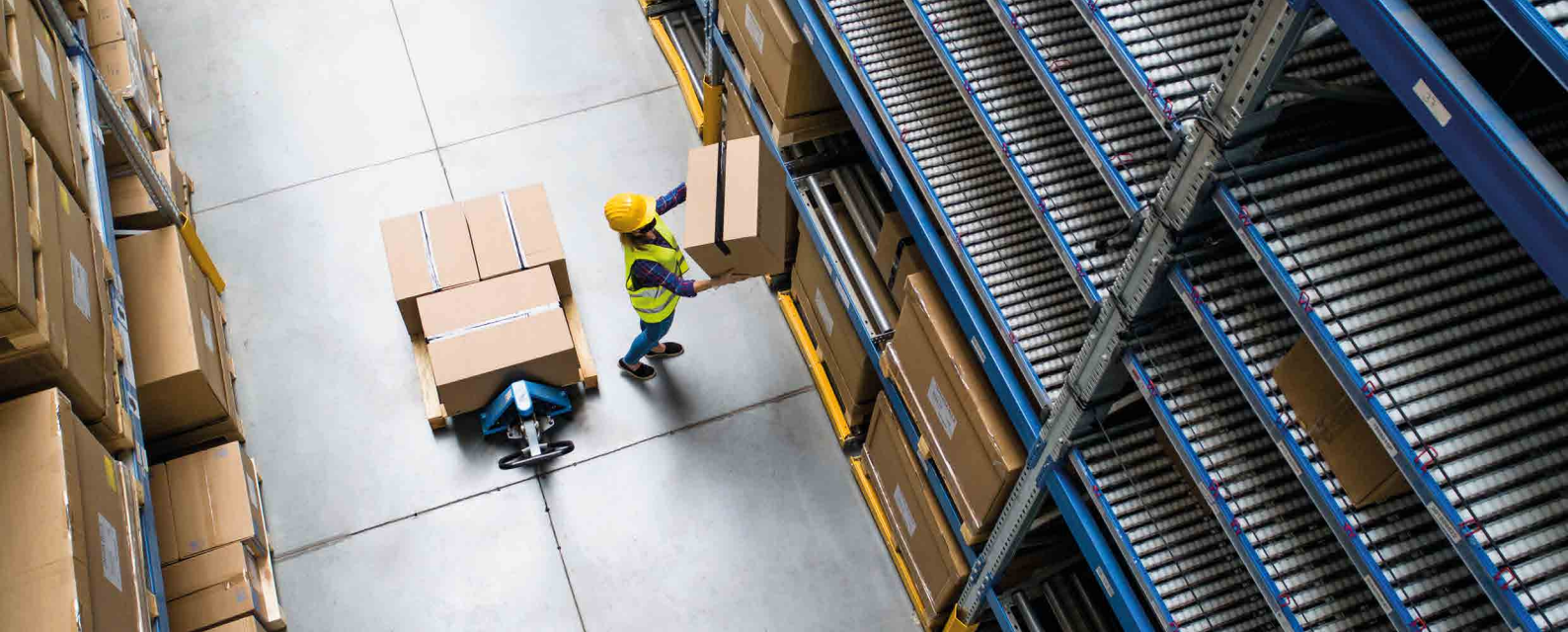
"South East firms' increasing ability to finalise orders amid a sustained period of workforce reduction could also reflect some productivity gains."



Sources: NatWest, S&P Global PMI. ©2025 S&P Global.



Sources: NatWest, S&P Global PMI. ©2025 S&P Global.



Inflation

Cost inflation accelerates to 18-month high

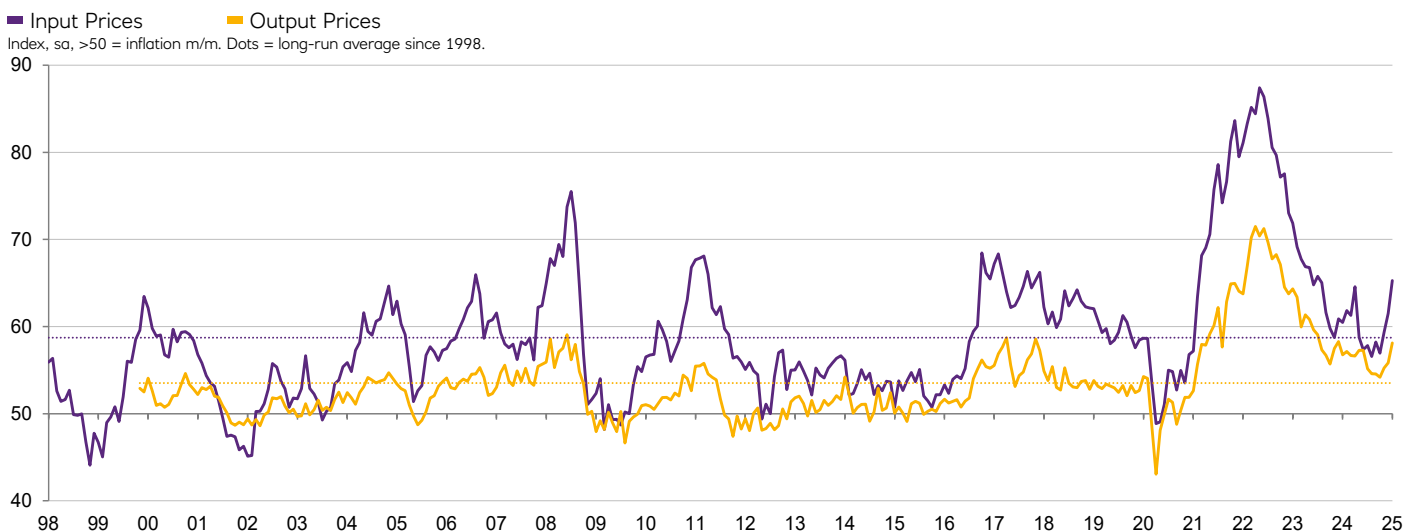
Reflective of increased wage pressures and higher raw material costs, operating expenses at South East firms rose at a sharper rate in January. In fact, inflation was its strongest for one-and-a-half years.

Though robust, local cost pressures were exactly in line with the average seen across the UK.

Meanwhile, the pass through of increased costs to customers was seen by a pick-up in output charges during January. The rate of selling price inflation was substantial, its most pronounced for just over a year and largely in line with national average.

Though panellists often blamed increased cost burdens, others reportedly inflated fees ahead of the upcoming UK Minimum Wage increase.

"The region was not alone in experiencing noticeable cost pressures in January, as input price inflation came in level with the UK average."



Sources: NatWest, S&P Global PMI. ©2025 S&P Global.

UK Regional Growth Tracker

Business Activity

London was the fastest-growing region for business activity in January, followed by the North East. The only other areas to see increases in output were Wales and the South West, although in both cases rates of expansion were only marginal. Northern Ireland meanwhile moved to the bottom of the rankings, recording a steep and accelerated decrease in business activity*.

Employment

For the second month running, all but one of the 12 monitored nations and regions recorded a decrease in employment in January. The exception was once again Northern Ireland, although employment there rose only fractionally and at the slowest rate for over two years. The West Midlands saw the steepest drop in workforce numbers, followed closely by East of England.

Future Activity

Expectations towards growth in the coming year remained positive across the board, but optimism weakened in many cases. This included Northern Ireland, which recorded its lowest business confidence for just over two years. Firms in London were the most positive about the year-ahead outlook ahead of those in the West Midlands, with both regions going against the general trend and seeing sentiment improve.

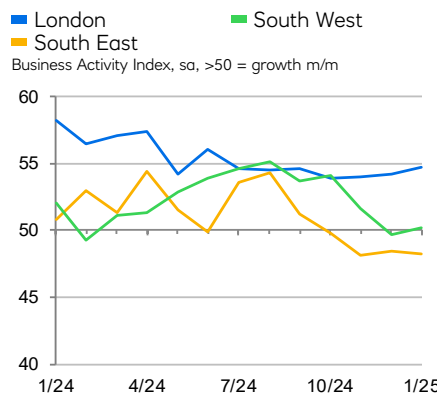
*As well as manufacturing and services, coverage in Northern Ireland also includes construction and retail.



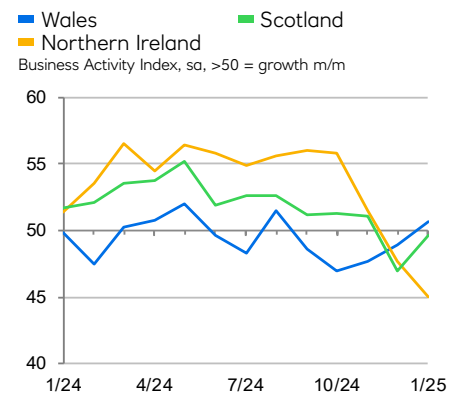
Sources: NatWest, S&P Global PMI. ©2025 S&P Global.



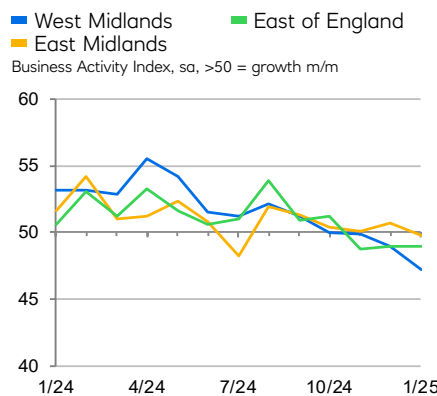
Sources: NatWest, S&P Global PMI. ©2025 S&P Global.



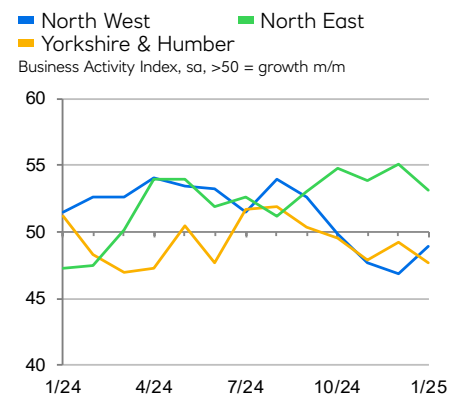
Sources: NatWest, S&P Global PMI. ©2025 S&P Global.



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Growth Tracker heat map

January 2025

Darker colour = higher business growth



South East

Business Activity Index
sa, >50 = growth m/m

48.2



Sources: NatWest, S&P Global PMI. ©2025 S&P Global.

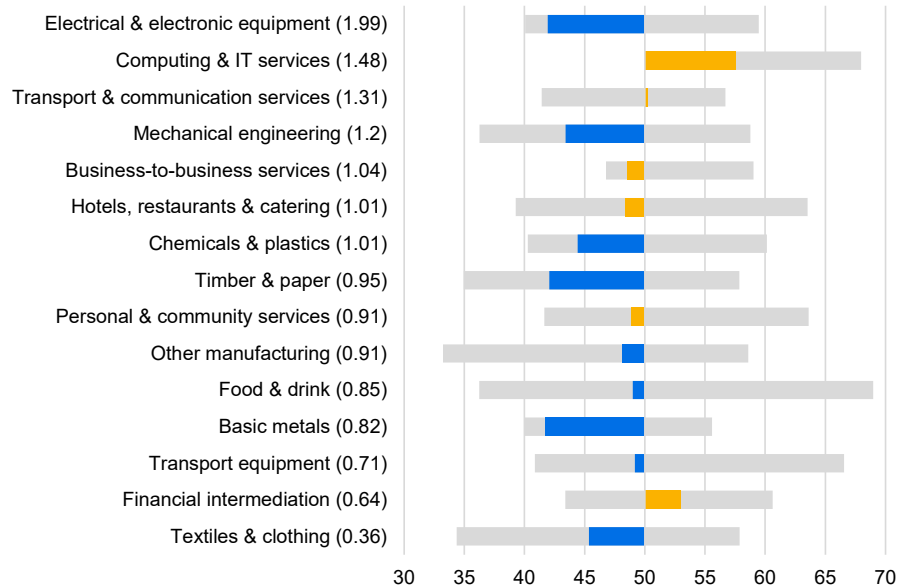
UK sectors

Sector specialisation: South East

The chart shows UK output indices by sector, ranked by location quotients for the South East. Location quotients (LQs) 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.

UK sectors ranked by importance to the South East economy
 ■ Manufacturing ■ Services ■ 3-year range
 UK Output Index, sa, >50 = growth m/m Jan '25



Sources: NatWest, S&P Global PMI. ©2025 S&P Global.
 Location quotients for the South East are shown in brackets. Latest data are smoothed as three-month moving averages (3mma).

Sector in focus: Personal & community services

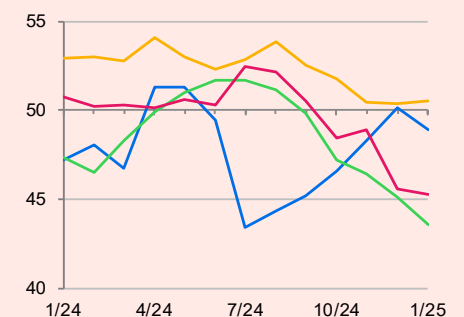
The UK's personal & community services sector underperformed the wider economy in the three months to January. Business activity fell back into contraction following some stability in the latter stages of 2024, weighed down by a marked decline in demand. Qualitative evidence gathered by the PMI surveys highlighted a reduction in confidence and discretionary spending among UK consumers in recent months.

At the same time, businesses in the sector came under pressure from rising costs, including increases in

energy prices and wages. Average prices charged by firms showed a slightly slower rate of inflation, however, pointing to a squeeze on profit margins.

Business confidence towards future growth prospects was meanwhile the lowest on record, excluding the initial phase of the pandemic. The combination of increasing labour costs and muted growth expectations led personal & community services firms to cut workforce numbers at the fastest rate for nearly four years.

Output / Employment
 ■/■ Personal & community services*
 ■/■ Manufacturing & services
 Index, sa, >50 = growth m/m



Sources: NatWest, S&P Global PMI. ©2025 S&P Global.
 *Data are smoothed as three-month moving average (3mma).

Methodology

The NatWest South East Growth Tracker is compiled by S&P Global from responses to questionnaires sent to South East companies that participate in S&P Global'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

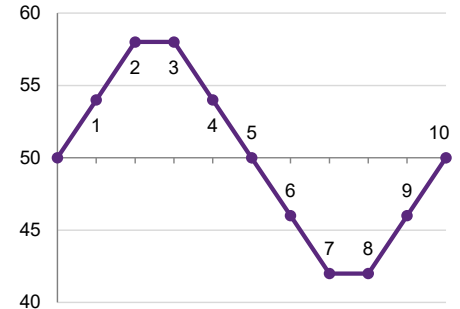
overall decrease. The indices are then seasonally adjusted.

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.

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 survey methodology, please contact economics@spglobal.com.

Index interpretation
Index, sa, >50 = growth m/m



Sources: NatWest, S&P Global PMI. ©2025 S&P Global.

Key

- 1 Growth, from no change
- 2 Growth, faster rate
- 3 Growth, same rate
- 4 Growth, slower rate
- 5 No change, from growth
- 6 Decline, from no change
- 7 Decline, faster rate
- 8 Decline, same rate
- 9 Decline, slower rate
- 10 No change, from decline

Data

South East manufacturing and services Index, sa, 50 = no change over previous month. *50 = no change over next 12 months.

	Business Activity	New Business	Export Climate Index	Employment	Outstanding Business	Future Activity	Input Prices	Output Prices
8/24	54.3	54.1	51.8	52.8	46.1	76.5	56.6	54.6
9/24	51.2	52.8	50.9	49.0	47.6	79.5	58.2	54.6
10/24	49.8	50.1	51.4	47.7	47.4	73.5	56.9	54.2
11/24	48.1	48.9	51.5	47.7	46.0	68.1	59.3	55.2
12/24	48.4	47.7	51.5	44.0	44.0	67.2	61.5	55.8
1/25	48.2	47.7	51.2	44.9	43.5	65.9	65.3	58.1

Further information

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