

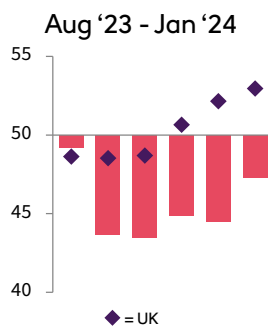
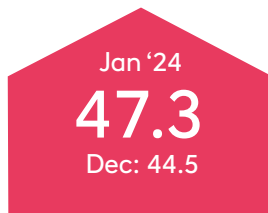


NatWest

NatWest North East PMI[®]

Moderate decline in business activity during January

North East Business Activity Index



Key findings

North East ranks bottom in terms of output and new work in January

Firms continue to make job cuts, while backlogs fall further

Price pressures intensify

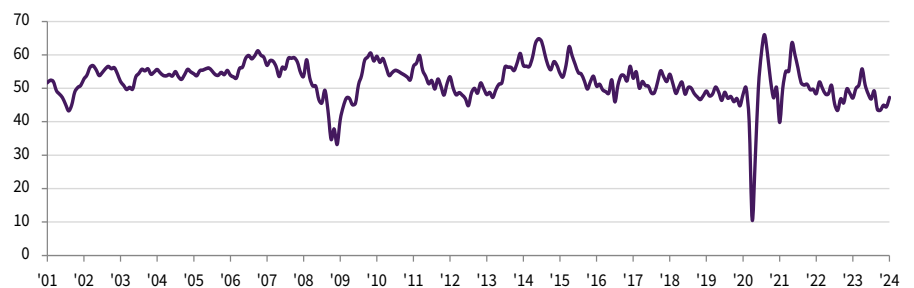
The headline NatWest North East PMI[®] Business Activity Index – a seasonally adjusted index that measures the month-on-month change in the combined output of the region’s manufacturing and service sectors – rose from 44.5 in December to 47.3 in January, but remained below 50.0 and thereby signalled an eighth successive decline in activity. Still, the latest downturn was the least pronounced in five months and moderate overall. Of the 12 monitored UK regions and nations, the North East recorded the fastest decline in activity, with the only other contraction registered in Wales. In contrast, output increased solidly across the UK as a whole during the opening month of 2024.

Malcolm Buchanan, Chair of the NatWest North Regional Board, commented:

"North East firms faced ongoing difficulties at the start of the year. Considering the 12 monitored areas of the UK, the comparative performance of the North East was generally weak, but nevertheless companies indicated some improvements in January. Both activity and new business declined moderately, and at the slowest rates in five and eight months respectively. Companies responded to subdued demand conditions by cutting employment levels in January, but only marginally. As a result, the level of outstanding work decreased at the softest rate in eight months. Meanwhile, with downturns decelerating, firms' confidence toward the outlook picked up in January. Finally, inflationary pressures continued to trouble firms across the region, with both cost and charge inflation accelerating in January."

North East Business Activity Index

sa, >50 = growth since previous month



Contents

- [About the report](#)
- [Demand and outlook](#)
- [Exports](#)
- [Business capacity](#)
- [Prices](#)
- [UK Sector PMI](#)
- [UK Regional PMI](#)
- [Data summary](#)
- [Contact](#)

About the North East PMI® report

The NatWest North East PMI® is compiled by S&P Global from responses to questionnaires sent to North 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

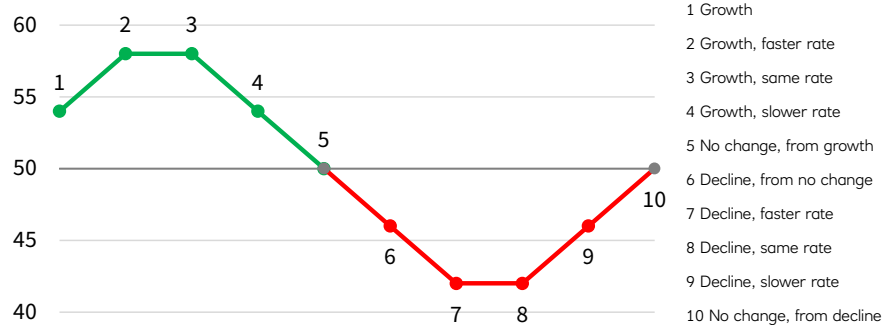
calculated from a single question that asks for changes in the volume of business activity (at service providers) or output (at manufacturers) compared with one month previously. The North East Business Activity Index is comparable to the UK Composite Output Index. It is sometimes referred to as the 'North 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@spglobal.com.

Index interpretation

50.0 = no change since previous month



Demand and outlook

Sustained but softer contraction in new work

New work placed with North East private sector firms decreased again in January, thereby stretching the current sequence of decline to nine months. According to panellists, the latest downturn was linked to current economic climate. The rate of contraction decelerated to the slowest in eight months, however, and was moderate overall.

North East firms again recorded the fastest drop in sales of the 12 monitored UK regions and nations.

Confidence at six-month high

The Future Activity Index remained well above the neutral 50.0 level in January, signalling sustained confidence in the outlook for output across the North East. Furthermore, the degree of positive sentiment picked up to a six-month high. Firms noted their plans to expand their businesses, while some anticipate an improvement in economic conditions.

Local business sentiment was among the weakest of the 12 monitored UK regions and nations, ahead only of Scotland.

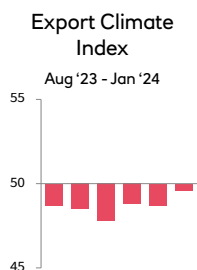
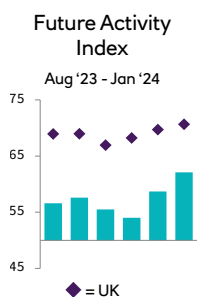
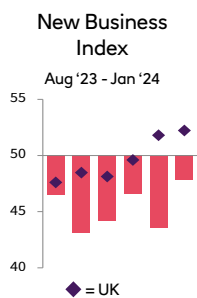
Exports

Trade prospects deteriorate slightly

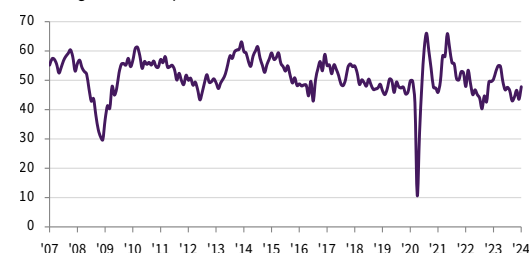
The North East Export Climate Index (ECI) is calculated by weighting together national PMI output data according to their importance to the manufacturing exports of the North East. This produces an indicator for the economic health of the region's export markets.

The index picked up from 48.7 in December to 49.6, indicating a fractional decline in trade conditions that was the slowest in six months. The ECI was inside contraction territory for the seventh straight month.

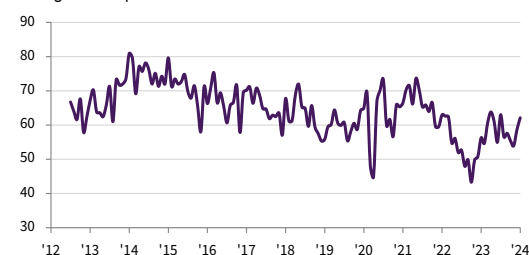
The latest uptick was supported by a renewed improvement in business activity in Italy and a steeper rise in the US. At the same time, there was a slower deterioration in the Netherlands and faster reductions across Germany and France.



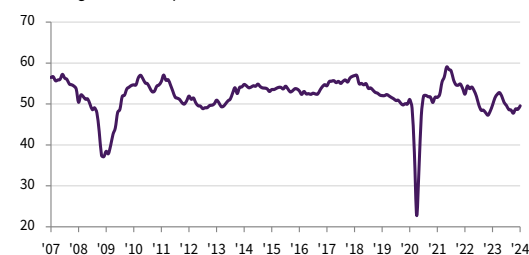
New Business Index 47.8
sa, >50 = growth since previous month Jan '24



Future Activity Index 62.1
>50 = growth expected over next 12 months Jan '24



Export Climate Index 49.6
sa, >50 = growth since previous month Jan '24

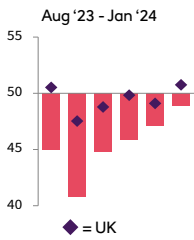


Top export markets, North East

Rank	Market	Weight	Output Index, Jan '24
1	Germany	15.6%	47.0
2	USA	14.5%	52.0
3	Netherlands	10.1%	48.2
4	France	9.6%	44.6
5	Italy	6.4%	50.7

Business capacity

Employment Index

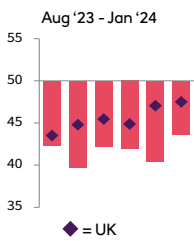


Employment cut for seventh month running

Private sector firms across the North East reduced their staffing levels in January, thereby marking a seventh consecutive month of job cuts. The rate of job shedding was marginal and the least pronounced over this sequence, however. According to anecdotal evidence, the latest drop in payroll numbers was linked to the non-replacement of leavers.

Only Wales registered a faster decrease in workforce levels compared to that seen locally.

Outstanding Business Index



Backlogs fall at the slowest pace for eight months

The seasonally adjusted Outstanding Business Index registered below the 50.0 no-change mark in January, signalling a further drop in backlogged work at North East private sector firms. This extended the current sequence of depletion to just over two years. Though sharp, the rate of reduction was the softest since last May.

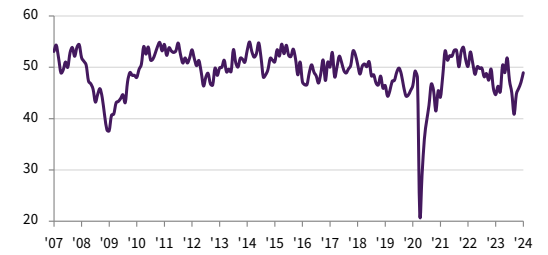
The North East recorded the quickest fall in incomplete work of all areas of the UK monitored by the survey.

Employment Index

sa, >50 = growth since previous month

48.9

Jan '24

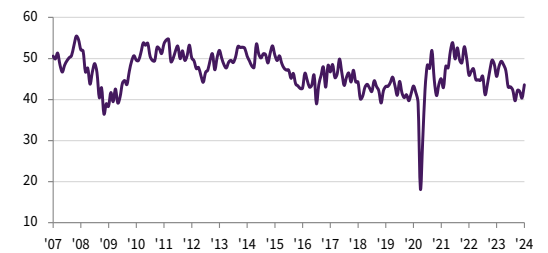


Outstanding Business Index

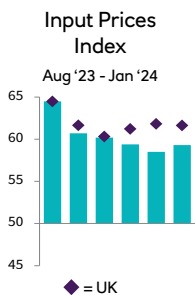
sa, >50 = growth since previous month

43.6

Jan '24



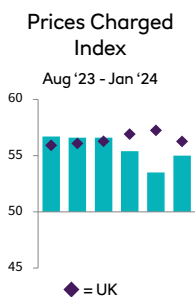
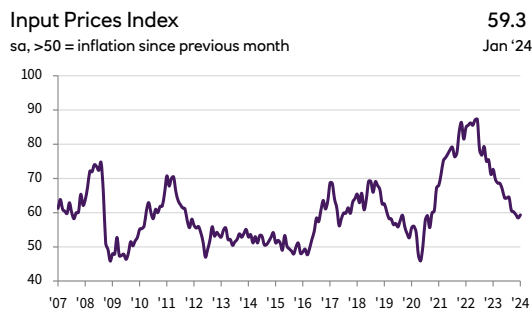
Prices



Cost pressures persist, but remain below average

Operating expenses faced by private sector firms across the North East increased again in January. Some firms mentioned that greater cost burdens were driven by increased raw material prices and freight costs. The rate of inflation was elevated but, despite edging up from December, remained below the national average.

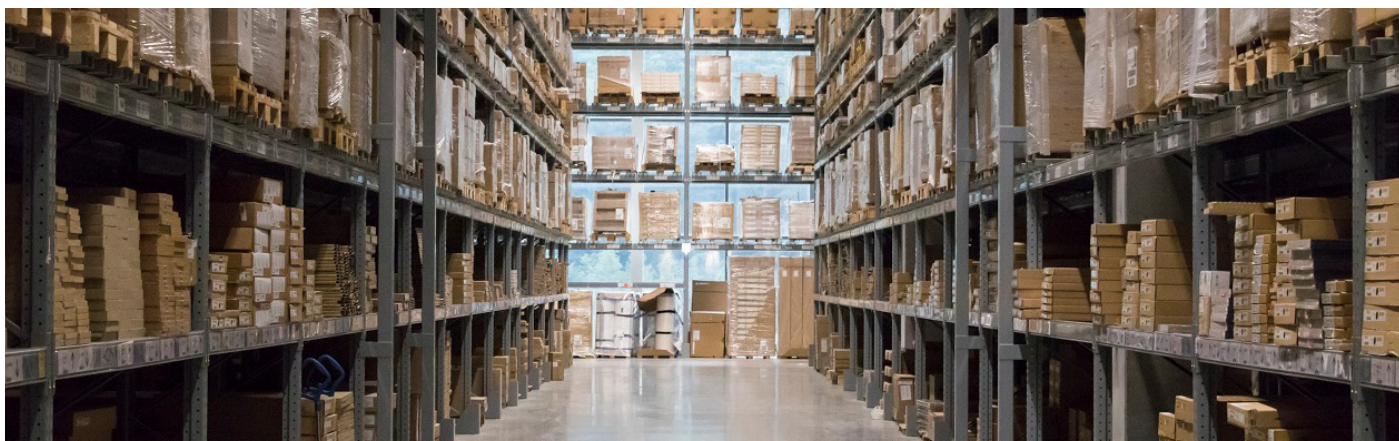
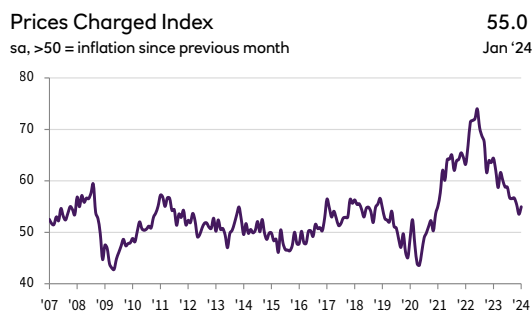
In fact, only Northern Ireland and the North West registered softer cost pressures than that seen locally.



Strong increase in charges in January

Prices charged by firms across the North East continued along an upward trend in January. The latest rise in selling prices was strong, having accelerated from December. As a result, the rate of inflation pushed further above the series average. Panellists reportedly hiked their fees due to higher input and labour costs.

That said, the local upturn in selling prices remained slower than that seen at the UK level in January.



UK Sector PMI

Sector specialisation: North East

Location quotients (LQs) are useful measures of regional economic specialisation and can 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 North East, broken down by manufacturing and services. The UK Output Index for each sub-sector is also displayed.

North East specialisation: Manufacturing

Rank	Sector	LQ	UK Output Index, Jan '24 ⁺
1	Chemicals & Plastics	1.65	48
2	Basic Metals	1.21	48
3	Timber & Paper	1.08	48
4	Mechanical Engineering	1.08	52
5	Electrical & Optical	0.80	48
6	Transport	0.75	55
7	Textiles & Clothing	0.71	50
8	Other Manufacturing	0.63	45
9	Food & Drink	0.50	50

North East specialisation: Services

Rank	Sector	LQ	UK Business Activity Index, Jan '24 ⁺
1	Transport & Communication	1.42	52
2	Personal & Community Services	1.34	48
3	Hotels, Restaurants & Catering	1.17	55
4	Business-to-business Services	0.92	52
5	Financial Intermediation	0.60	55
6	Computing & IT Services	0.55	55

UK sector focus

Personal & Community Services

Activity across the UK's Personal & Community Services sector fell in the three months to January. It was in fact the only broad category within the UK service sector to record a reduction in activity over that period.

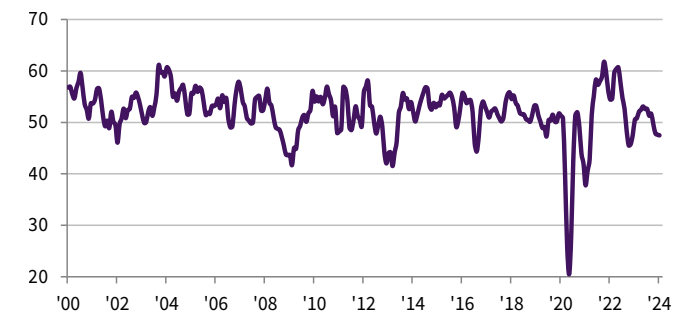
The downturn reflected falling demand, with the decline in new business that began in late-2023 extending into the new year. A lack of pressure on business capacity – as evidenced by falling backlogs of work – led firms in the sector to cut workforce numbers. It continued a run of job losses seen since the middle of last year.

Cost pressures among Personal & Community Services firms meanwhile remained elevated, due in large part to growing wages. Although below the averages in 2022 and 2023, the rate of input price inflation was still above its long-run trend. The increase in prices charged was more subdued by comparison, registering one of the slowest rises in the past two-and-a-half years.

Lastly, latest data showed business expectations in the sector slipping to the lowest for almost a year.

Output Index

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



⁺ 3-month moving average



UK Regional PMI overview

Business Activity

The majority of UK regions and nations saw a rise in business activity in January. London once again recorded the strongest growth, followed by the West Midlands. Output fell further in the North East, but the rate of contraction slowed notably to the weakest since last August. Activity in Wales was broadly unchanged, following a four-month sequence of decline.

Employment

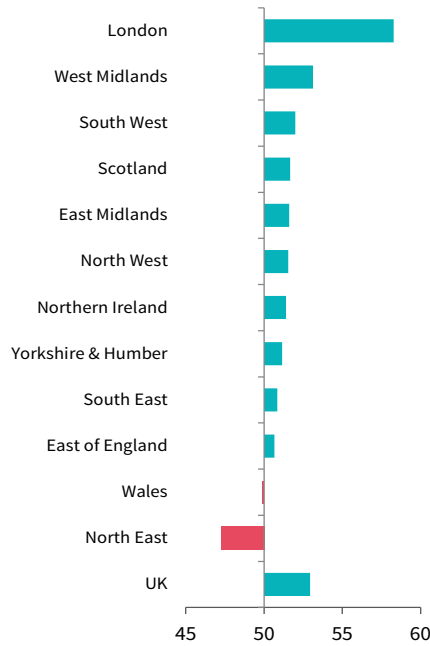
January saw a general improvement in labour market trends, with employment either rising more quickly or falling at a reduced rate in almost all cases. London topped the rankings, recording its fastest rate of job creation for six months. Wales recorded the most marked drop in workforce numbers, but the pace of staff shedding did at least ease to the weakest since last October.

Future Activity

Eight of the 12 monitored regions and nations registered improved business expectations in January. Confidence was highest in the West Midlands, followed by the South East. The greatest upswing in sentiment was seen in Northern Ireland*. Scotland was one of the areas that went against the trend and recorded the lowest overall degree of optimism.

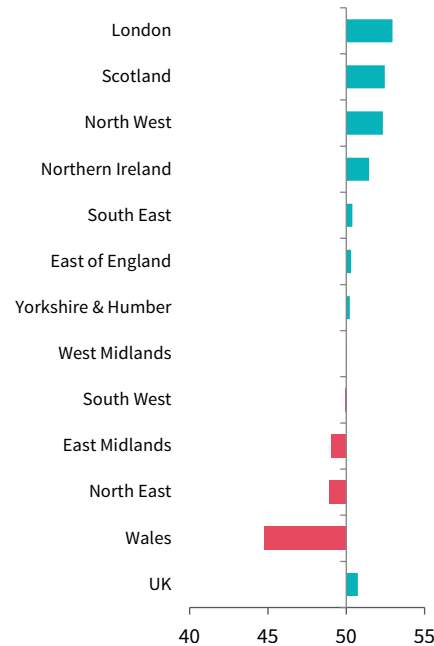
Business Activity Index

sa, >50 = growth since previous month, Jan '24



Employment Index

sa, >50 = growth since previous month, Jan '24



Future Activity Index

>50 = growth expected over next 12 months, Jan '24



* Coverage in Northern Ireland also includes retail and construction, alongside manufacturing and services.



Index summary

North East

sa, 50 = no change over previous month. *50 = no change over next 12 months.

	Business Activity	New Business	Export Climate	Future Activity*	Employment	Outstanding Business	Input Prices	Prices Charged
Aug '23	49.2	46.5	48.7	56.6	45.0	42.3	64.5	56.7
Sep '23	43.7	43.1	48.5	57.6	40.8	39.7	60.7	56.6
Oct '23	43.5	44.2	47.8	55.5	44.8	42.2	60.2	56.6
Nov '23	44.9	46.6	48.8	54.0	45.9	41.9	59.4	55.4
Dec '23	44.5	43.6	48.7	58.7	47.1	40.4	58.5	53.5
Jan '24	47.3	47.8	49.6	62.1	48.9	43.6	59.3	55.0

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About NatWest

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Alongside a wide range of banking services, NatWest offers businesses specialist sector knowledge in areas such as manufacturing and technology, as well as access to specialist entrepreneurial support.

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