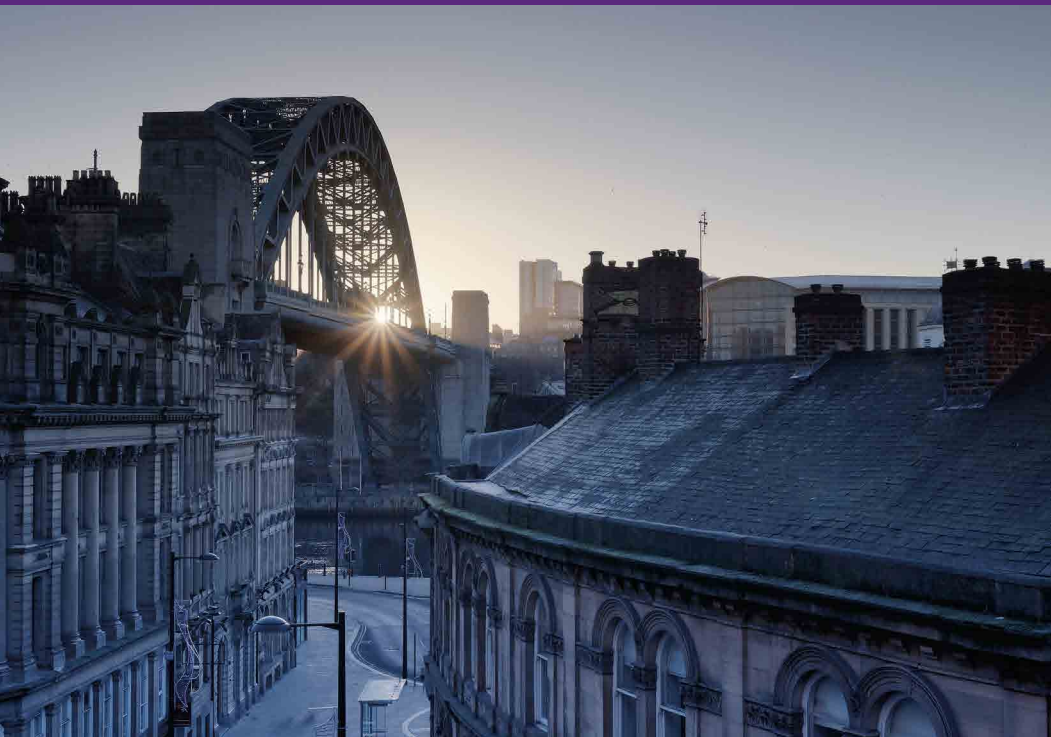


11 February 2025

NatWest North East Growth Tracker

Sustained growth in business activity in
January



NatWest

PMI[®]

by **S&P Global**

11 February 2025

NatWest North East Growth Tracker

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Key findings

January 2025

Activity rises amid ongoing new order growth

Marginal reduction in employment

Sharp and accelerated increase in input costs

The NatWest North 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



Sustained growth in business activity in January

The latest NatWest Growth Tracker data signalled further increases in output and new orders in January, but rates of expansion slowed and business confidence dropped.

The headline North East Growth Tracker Business Activity Index – a seasonally adjusted index that measures the month-on-month change in the

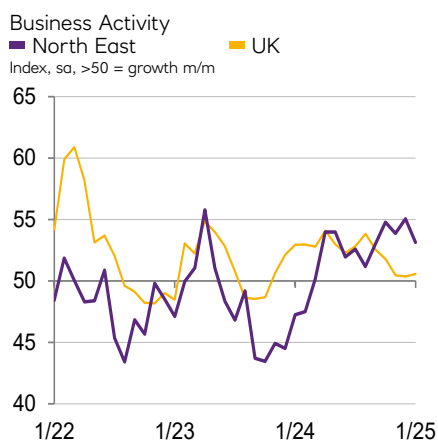
combined output of the region’s manufacturing and service sectors – posted 53.1 in January, down from 55.1 in December but remaining above the 50.0 no-change mark and signalling a solid monthly expansion in business activity. Respondents indicated that higher new orders were behind the increase in business activity. That said, there were signs of demand softening at the start of the year.

NatWest North East Business Activity Index January 2025

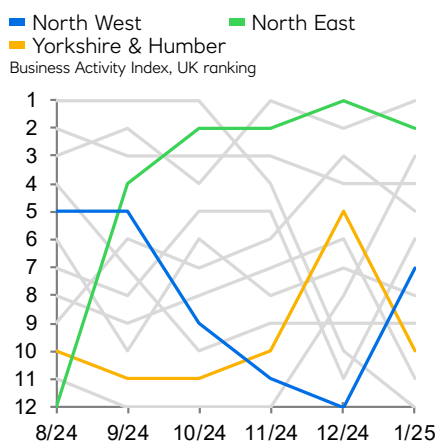
53.1

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.



Comment

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

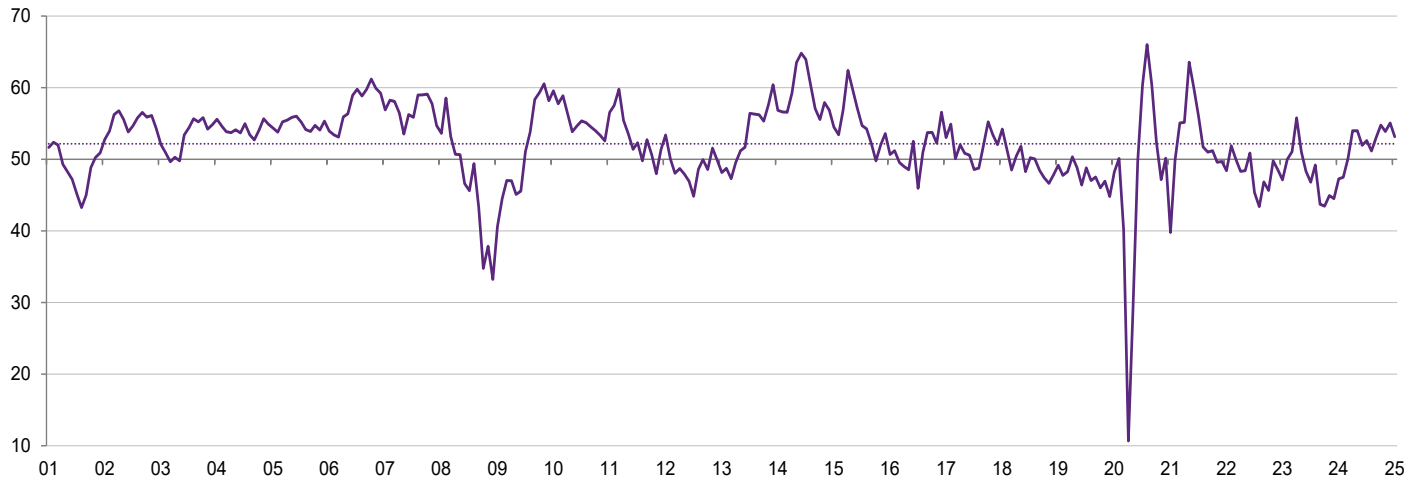
"The North East remains one of the standout performers across the UK at present, maintaining growth of output and new orders at a time when other parts of the country are struggling. There were some signs of rates of expansion easing though and business confidence took a hit amid concerns around wider economic performance.

"Elevated cost inflation is emerging as a key headwind for firms, with the North East seeing the sharpest rise in input prices of all UK areas.

"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

New orders continue to rise in January

Companies in the North East continued to see new orders increase in January, extending the current sequence of expansion to ten months. That said, the rate of growth was the slowest in this period.

The North East was one of only two UK regions and nations to see a rise in new business at the start of the year, alongside London.

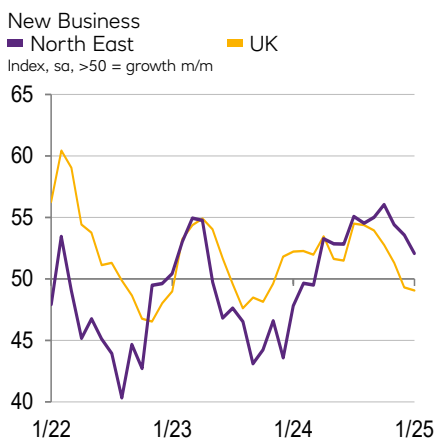
Despite sustained new order growth, there was a big drop in business confidence in January,

with sentiment the lowest since November 2023. Optimism in the region was also weaker than the UK average.

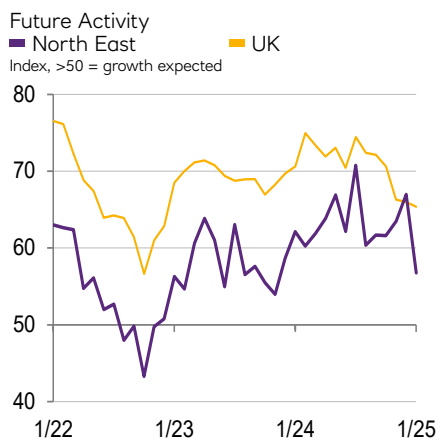
Anecdotal evidence suggested that the fall in confidence reflected worries about economic conditions and customer demand.

Those respondents that predicted a rise in output over the coming year linked this to increases in new orders.

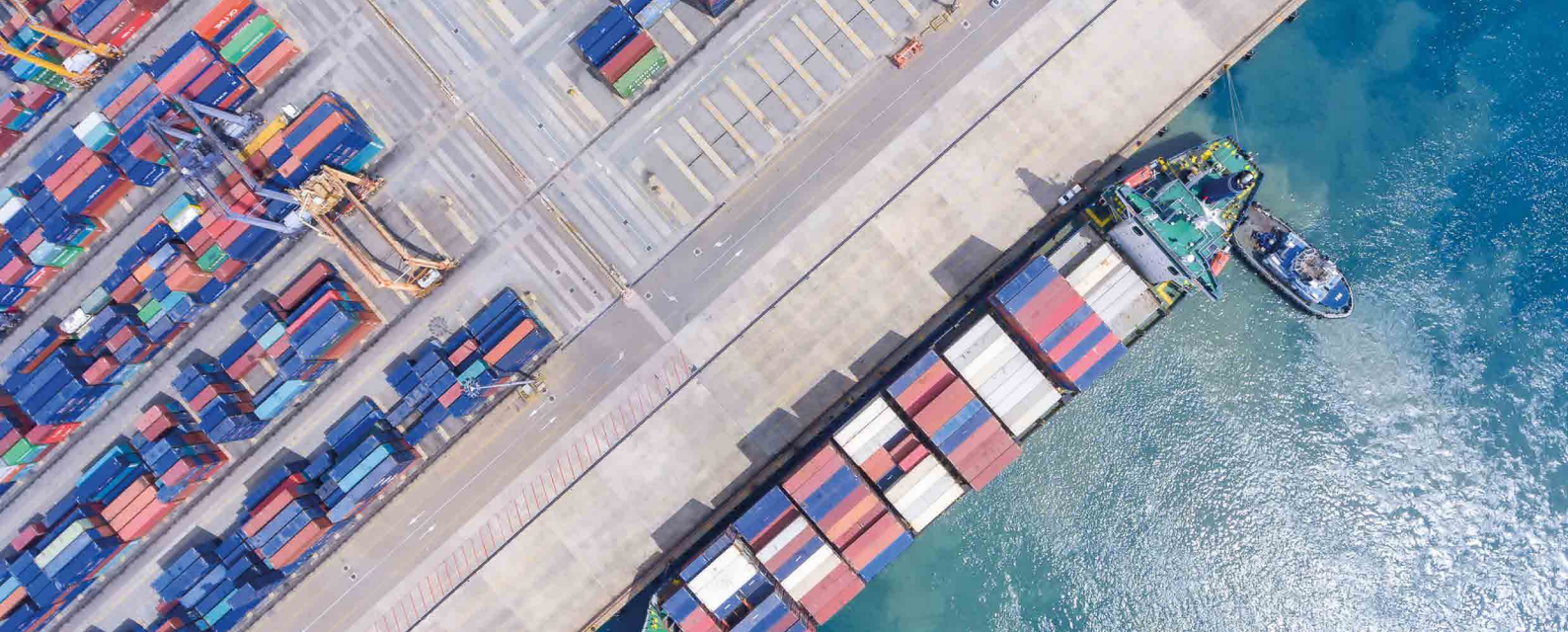
"The North East remains one of the standout performers across the UK at present, maintaining growth of output and new orders at a time when other parts of the country are struggling."



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



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



Export markets

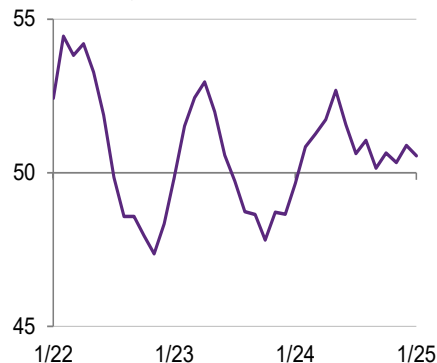
Export climate improves slightly

At 50.6 in January, the ECI was down from 50.9 in December, but still pointed to a modest improvement in export demand conditions at the start of the year. The export climate has now strengthened on a monthly basis throughout the past year.

The US recorded continued growth of business activity in January, while Germany posted a rise for the first time in seven months.

Meanwhile, the Netherlands, France and Italy continued to see output decrease.

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



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

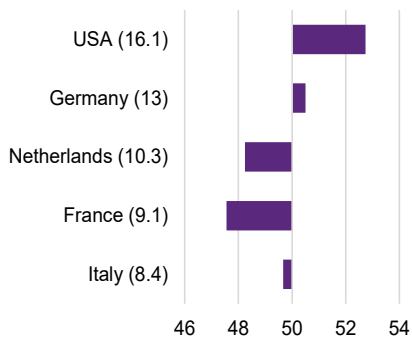
The North East Export Climate Index (ECI) is an indicator for the economic health of the region's export markets. It is calculated by combining national PMI output data, weighted according to each nation's share of manufacturing exports of the North East. A reading above 50 signals an improvement in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

Top export markets, North East

% share of exports shown in brackets

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

Jan '25

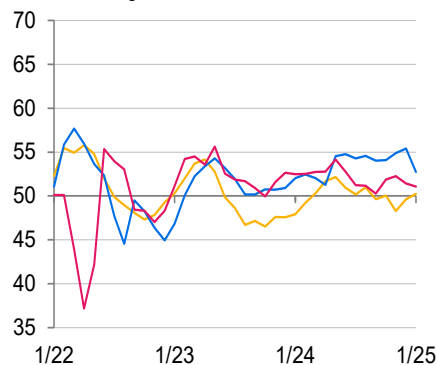


Sources: NatWest, S&P Global PMI. ©2025 S&P Global.

Output

Index, sa, >50 = growth m/m

Legend: Eurozone (yellow), US (blue), China (red)



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



Jobs and capacity

Slight reduction in employment

Lower business confidence and rising staff costs meant that companies in the North East lowered employment again in January.

Employment has decreased in three of the past four months, although the latest reduction was only marginal and softer than that seen in December.

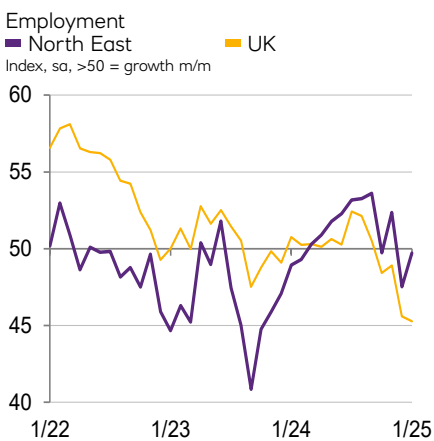
A combination of rising new orders and lower staffing levels meant that backlogs of work continued to accumulate in the opening month of

the year.

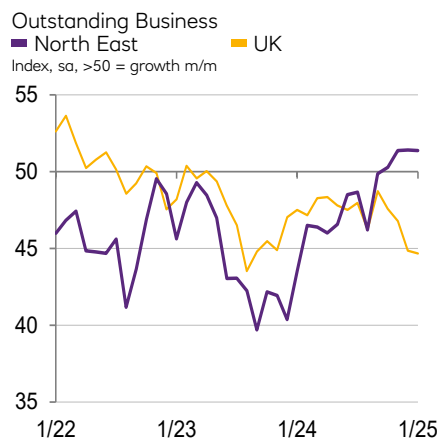
Outstanding business increased for the fourth consecutive month, with the pace of accumulation unchanged from December.

The North East was the only one of the 12 monitored UK regions and nations that saw a rise in backlogs of work in January.

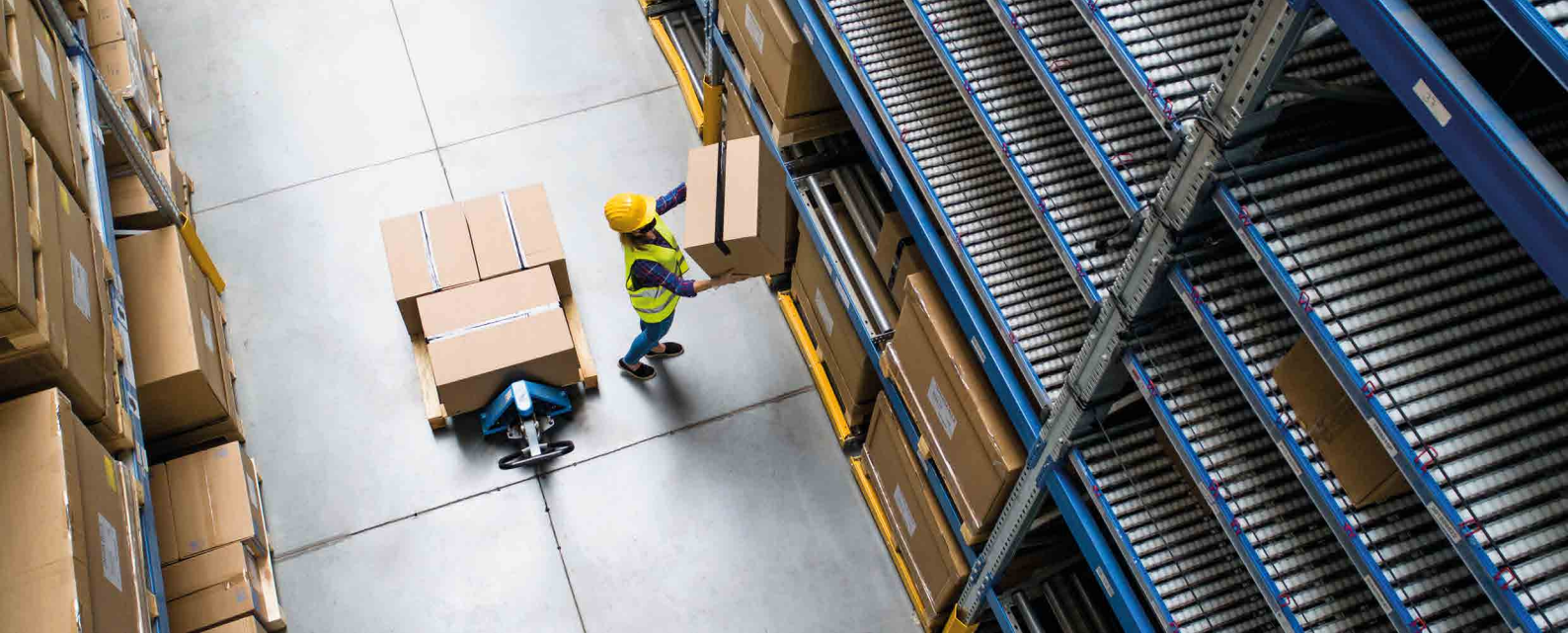
"The Bank of England's interest rate cut last week means that policy is now less restrictive, with further loosening expected in the year ahead."



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



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



Inflation

Input costs rise at fastest pace in 22 months

The rate of input cost inflation continued to quicken in January, accelerating for the third month running to the fastest since March 2023.

Moreover, the increase in the region was the strongest of all monitored UK regions and nations.

Higher staff costs and rising charges from suppliers were behind the latest increase in expenses,

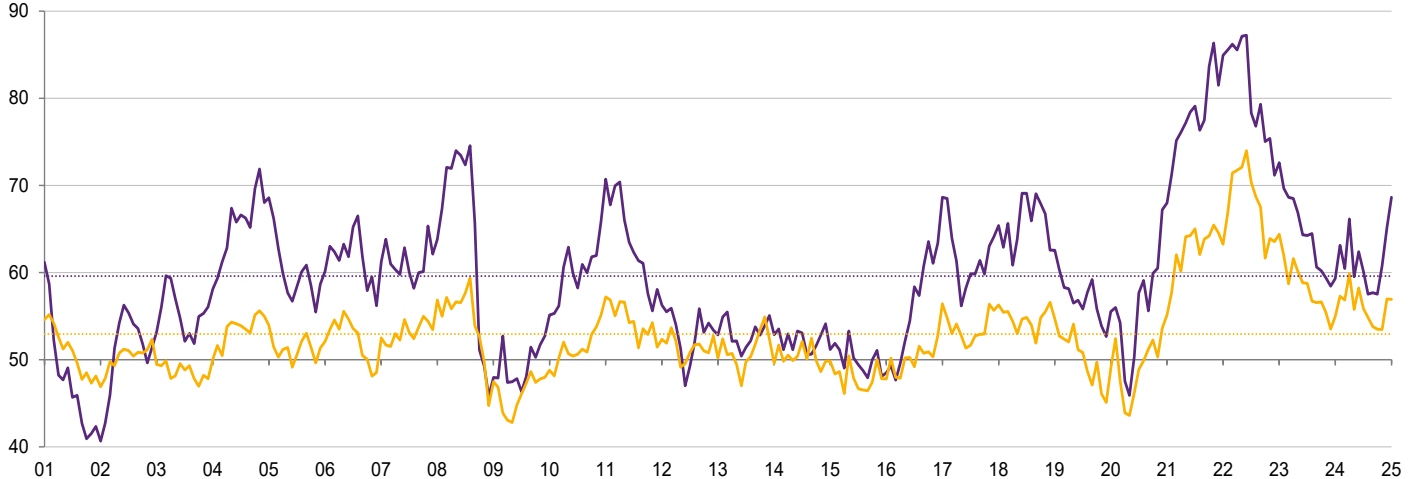
according to respondents.

Rising input costs were passed through to customers in January, continuing the trend which began in September 2020.

The rate of charge inflation was sharp and broadly in line with that seen in the previous survey period. That said, the rise was slower than the UK average.

"Elevated cost inflation is emerging as a key headwind for firms"

■ Input Prices ■ Output Prices
 Index, sa, >50 = inflation m/m. Dots = long-run average since 1998.



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*.

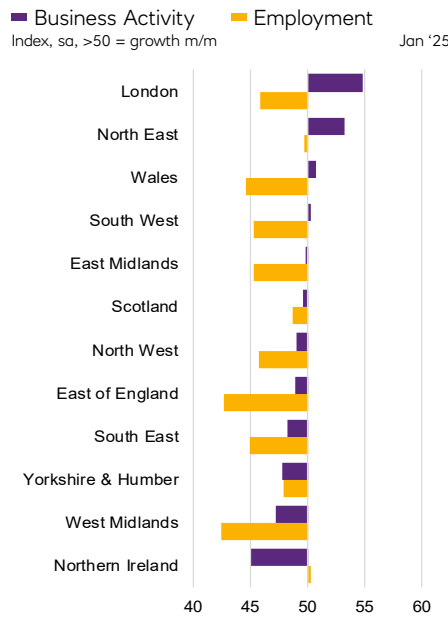
Employment

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.

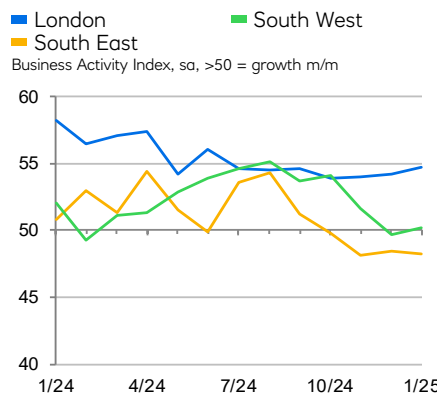
*As well as manufacturing and services, coverage in Northern Ireland also includes construction and retail.



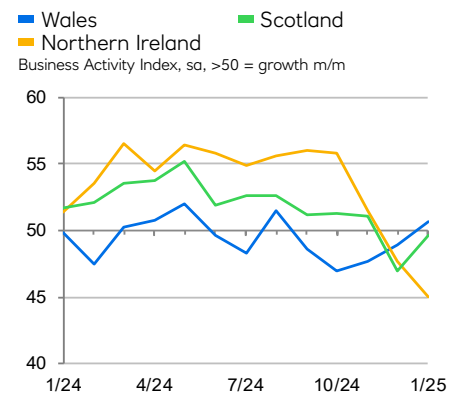
Sources: NatWest, S&P Global PMI. ©2025 S&P Global.



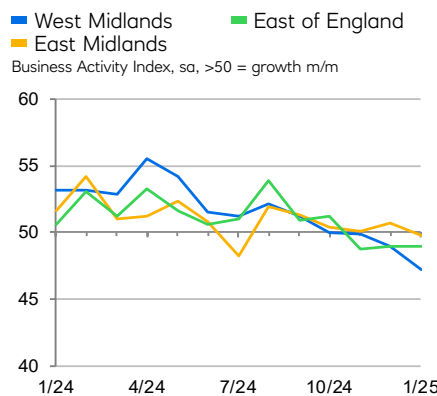
Sources: NatWest, S&P Global PMI. ©2025 S&P Global.



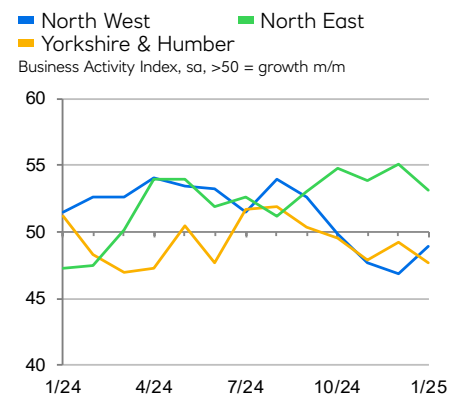
Sources: NatWest, S&P Global PMI. ©2025 S&P Global.



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Growth Tracker heat map

January 2025

Darker colour = higher business growth



North East

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

53.1



45 47.2 47.7 48.2 48.9 49 49.6 49.8 50.2 50.7 53.1 54.8

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

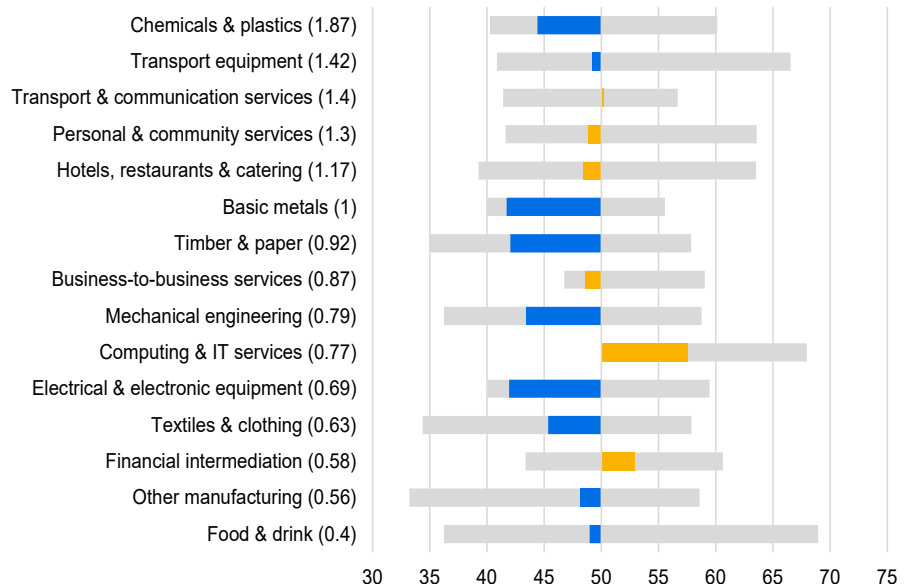
UK sectors

Sector specialisation: North East

The chart shows UK output indices by sector, ranked by location quotients for the North 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 North 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 North East are shown in brackets. Latest data are smoothed as three-month moving averages (3mma).

Sector in focus: Personal & community services

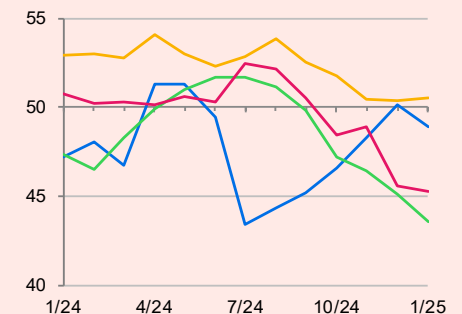
The UK's personal & community services sector underperformed the wider economy in the three months to January. Business activity fell back into contraction following some stability in the latter stages of 2024, weighed down by a marked decline in demand. Qualitative evidence gathered by the PMI surveys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

Methodology

The NatWest North East Growth Tracker 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

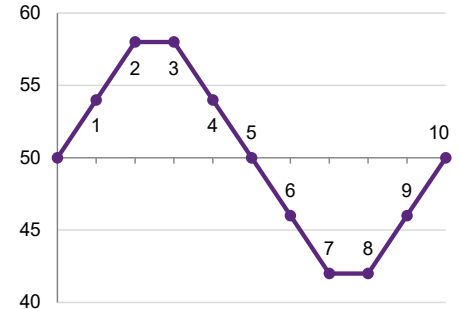
overall decrease. The indices are then seasonally adjusted.

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.

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

North 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	51.2	54.5	51.1	53.3	46.2	60.4	57.5	54.9
9/24	53.0	55.0	50.2	53.6	49.9	61.7	57.7	53.8
10/24	54.8	56.0	50.6	49.7	50.3	61.6	57.5	53.5
11/24	53.9	54.4	50.3	52.4	51.4	63.5	60.8	53.5
12/24	55.1	53.6	50.9	47.5	51.4	67.0	65.1	57.0
1/25	53.1	52.1	50.6	49.7	51.4	56.8	68.6	56.9

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