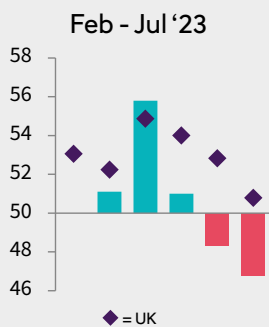


NatWest North East PMI[®]

Fastest fall in business activity since October 2022

North East Business Activity Index



Key findings

North East posts strongest decline in output among 12 UK regions

Downturn in new work eases slightly

Inflation rates little-changed since June

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 – signalled a sustained downturn in private sector output in July. The Index fell from June’s 48.3 to 46.8, indicating the fastest decline since October 2022. Moreover, the North East recorded the sharpest contraction of all 12 UK regions. New business fell for the third straight month, albeit less so than in June. Inflation rates for input costs and output prices were either broadly unchanged or equal to June.

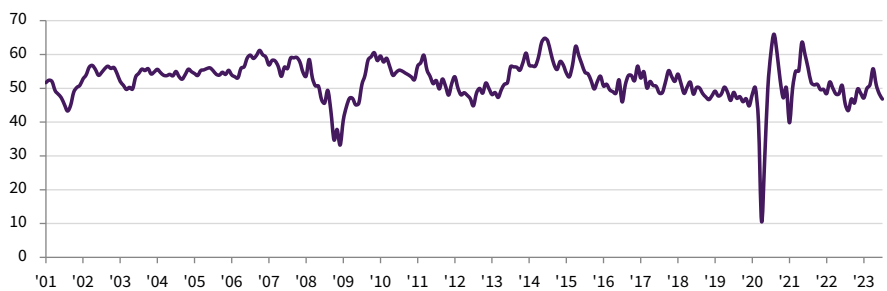
Malcolm Buchanan, Chair of the NatWest North Regional Board, commented:

"The July data corroborated the June findings that the North East private sector has entered a new downturn halfway through 2023, as inflation and rising interest rates have stifled demand. The North East has fared worse than other UK regions, being the only one to record concurrent declines in output, new orders and employment in July."

"The 12-month outlook has brightened, possibly reflecting the steeper-than-expected fall in official UK inflation for June. But the PMI price indices hardly budged in July, suggesting that price pressures remain stubbornly high."

North East Business Activity Index

sa, >50 = growth since previous month



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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

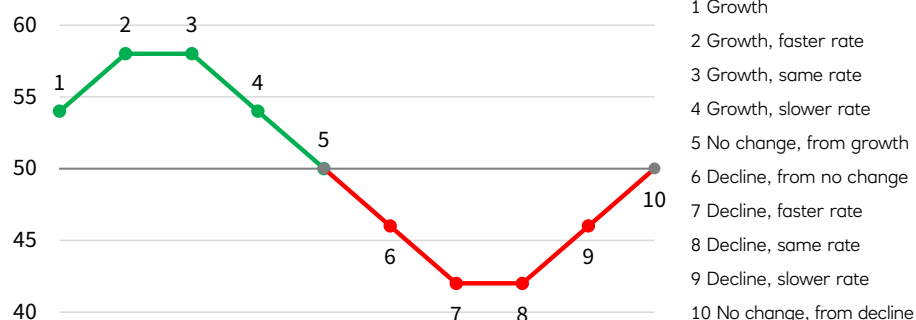
calculated from a single question that asks for changes in the volume of business activity (at service providers) or output (at manufacturers) compared with one month previously. The North East Business Activity Index is comparable to the UK Composite Output Index. It is sometimes referred to as the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

Index interpretation

50.0 = no change since previous month

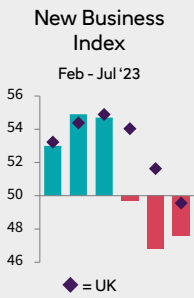


Demand and outlook

Slightly slower decline in new business

There was a third successive monthly decline in new work received by private sector firms in the North East in July. The rate of contraction was solid, but eased slightly since June. Demand across the UK as a whole fell for the first time since January, albeit marginally. Only Wales and Northern Ireland posted faster reductions in new business than the North East in July.

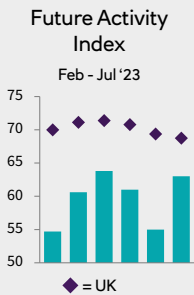
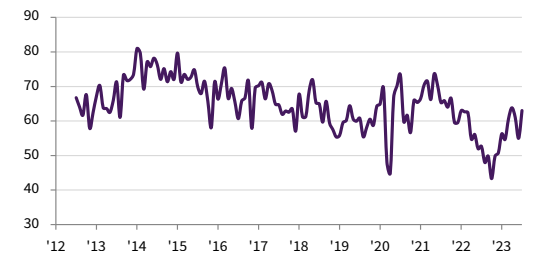
New Business Index
sa, >50 = growth since previous month
47.6
Jul '23



Outlook brightens in July

Although output and new work fell in July, private sector firms in the North East were increasingly optimistic of growth of output over the next 12 months as they hope to secure new customers and contracts. Sentiment picked up to the second-highest since January 2022, although the Future Activity Index remained below its long-run trend of 64.8.

Future Activity Index
>50 = growth expected over next 12 months
63.0
Jul '23



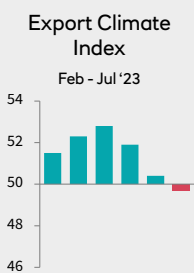
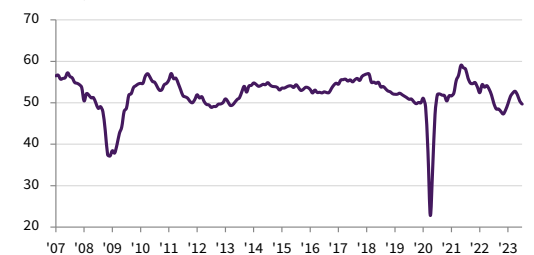
Local firms displayed a lower level of positive sentiment than that seen at the UK level.

Exports

Export conditions deteriorate slightly on European weakness

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.

Export Climate Index
sa, >50 = growth since previous month
49.7
Jul '23



The ECI fell below the 50.0 threshold in July, signalling the first month-on-month deterioration in export market conditions for firms in the North East for six months. That said, at 49.7 the Index indicated only a marginal downturn.

The North East's four largest European markets – Germany, Netherlands, France and Italy – , all posted declining output in July, which was partly offset by growth in the US.

Top export markets, North East

Rank	Market	Weight	Output Index, Jul '23
1	Germany	15.6%	48.5
2	USA	14.5%	52.0
3	Netherlands	10.1%	48.3
4	France	9.6%	46.6
5	Italy	6.4%	48.9

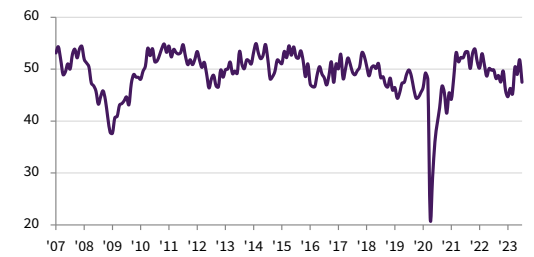
Business capacity

Renewed fall in private sector workforce

The sustained drop in new work was accompanied by a fresh decline in employment in July. The rate of job shedding was stronger than in May and broadly in line with the trend shown over the previous sequence of contraction between June 2022 and March 2023.

The North East was one of only two UK regions to record job losses in July, the other being the East Midlands. The rate of workforce growth across the UK eased to a four-month low.

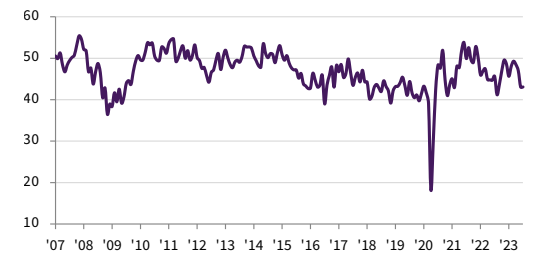
Employment Index 47.5
sa, >50 = growth since previous month Jul '23



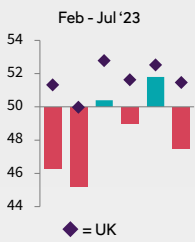
Outstanding work continues to fall sharply

There was further evidence of spare capacity in the North East private sector in July as backlogs of work fell for the nineteenth month running, and at a marked pace. The North East continued to see a stronger decline than all other UK regions except Wales.

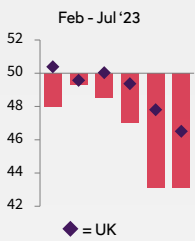
Outstanding Business Index 43.1
sa, >50 = growth since previous month Jul '23



Employment Index

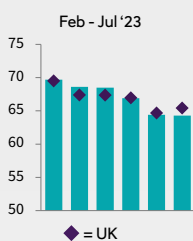


Outstanding Business Index



Prices

Input Prices Index



Input price inflation holds steady at two-and-a-half-year low

Average input prices rose further in July, extending the current inflationary sequence to 38 months. The rate of inflation was broadly in line with June's 31-month low but still well above the long-run series trend. The latest upturn in expenses was linked by firms to the ongoing cost-of-living crisis.

The North East registered a rate of input price inflation that was slightly below the UK average in July.

Input Prices Index

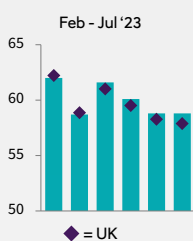
sa, >50 = inflation since previous month

64.3

Jul '23



Prices Charged Index



Selling price inflation holds steady at elevated rate

Private sector companies in the North East continued to raise their prices charged for goods and services in July as they passed on greater input costs to clients. Having slowed in June, the rate of charge inflation was unmoved in July. It remained well above the long-run average, however.

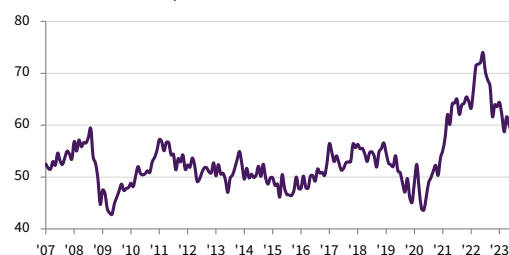
The North East came third in the regional rankings for charge inflation, behind London and the South East.

Prices Charged Index

sa, >50 = inflation since previous month

58.8

Jul '23



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, Jul '23 ⁺
1	Chemicals & Plastics	1.58	48
2	Timber & Paper	1.17	48
3	Mechanical Engineering	1.17	48
4	Basic Metals	1.13	48
5	Transport	0.91	52
6	Other Manufacturing	0.71	52
7	Textiles & Clothing	0.70	52
8	Electrical & Optical	0.69	45
9	Food & Drink	0.54	52

North East specialisation: Services

Rank	Sector	LQ	UK Business Activity Index, Jul '23 ⁺
1	Transport & Communication	1.51	48
2	Hotels, Restaurants & Catering	1.20	48
3	Personal & Community Services	1.13	52
4	Business-to-business Services	0.90	52
5	Financial Intermediation	0.75	58
6	Computing & IT Services	0.57	52

UK sector focus

Financial Intermediation

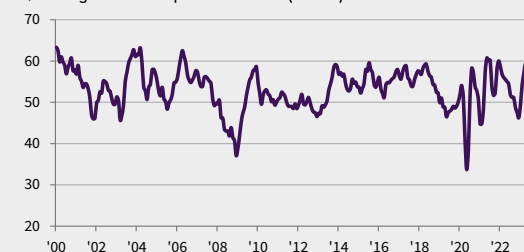
The UK's Financial Intermediation sector displayed strong growth in the three months to July, recording one of the fastest rates of increase in business activity since the global financial crisis. The upturn in performance followed a notable slowdown in the second half of 2022.

Growth was the strongest among the six services sub-sectors monitored by the survey and fuelled by a steep increase in inflows of new business in recent months. With firms' backlogs of work increasing, they continued to take on staff at a historically strong rate and were optimistic about the year-ahead outlook for activity.

Input costs in the sector continued to rise steeply, however, growing at the fastest rate in 2023 so far. This in turn led to a sharp and accelerated increase in prices charged. The rate of output price inflation was surpassed only by that seen in the Hotels, Restaurants and Catering sector.

Output Index

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



⁺3-month moving average



UK Regional PMI overview

Business Activity

Only half of the 12 monitored regions and nations recorded growth in business activity in July. London posted the strongest rate of expansion but saw a notable loss of momentum as growth slowed to a six-month low. The South East and Northern Ireland* fell the joint-most places in the rankings as both returned to contraction territory, though the steepest overall decline in activity was recorded in the North East.

Employment

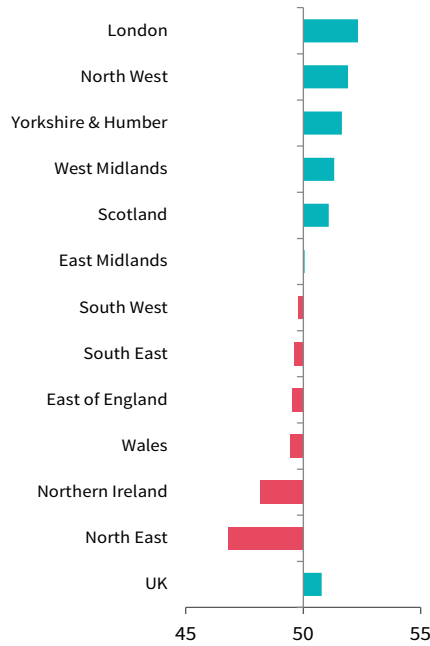
The strongest rate of job creation in July was seen in the South West, followed by the East of England and then London. Northern Ireland also posted a solid rise in workforce numbers. At the other end of the scale, there were renewed declines in staffing levels in both the East Midlands and North East, while no change in employment in the West Midlands ended a 28-month sequence of growth in the region.

Future Activity

Trends in business confidence were mixed, with half of the 12 monitored areas registering an improvement in sentiment and the rest seeing a decline. The West Midlands, South East and Yorkshire & Humber topped the rankings and were among those that saw expectations rise since June. Firms in Scotland were the least optimistic about the year-ahead outlook, with sentiment there hitting a six-month low.

Business Activity Index

sa, >50 = growth since previous month, Jul '23



Employment Index

sa, >50 = growth since previous month, Jul '23



Future Activity Index

>50 = growth expected over next 12 months Jul '23



* 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
Feb '23	50.0	53.0	51.5	54.7	46.3	48.0	69.7	62.0
Mar '23	51.1	54.9	52.3	60.6	45.2	49.3	68.6	58.7
Apr '23	55.8	54.7	52.8	63.8	50.4	48.5	68.5	61.6
May '23	51.0	49.7	51.9	61.0	49.0	47.0	66.9	60.1
Jun '23	48.3	46.8	50.4	55.0	51.8	43.1	64.4	58.8
Jul '23	46.8	47.6	49.7	63.0	47.5	43.1	64.3	58.8

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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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We are widely sought after by many of the world's leading organizations to provide credit ratings, benchmarks, analytics and workflow solutions in the global capital, commodity and automotive markets. With every one of our offerings, we help the world's leading organizations plan for tomorrow, today.

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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.

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