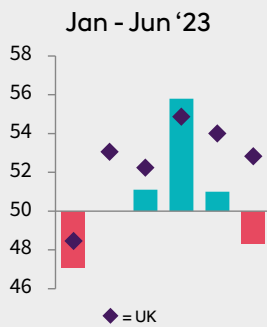


NatWest North East PMI[®]

Renewed decline in output as new business falls at faster pace

North East Business Activity Index



Key findings

First reduction in activity since January

Fastest drop in new work since last October

Input price inflation at 31-month low

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 fresh downturn in private sector output in June. The Index fell from 51.0 in May to below the no-change mark of 50.0, at 48.3, indicating the first decline since January. The North East was one of four UK regions to record a contraction in June, the others being Wales, the East Midlands and the South West. New business fell at the steepest rate since last October, although jobs growth rebounded. Price pressures eased further during the month, but remained elevated.

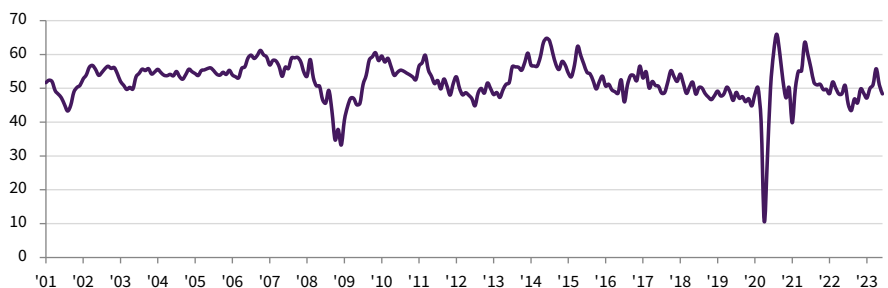
Malcolm Buchanan, Chair of the NatWest North Regional Board, commented:

"The North East's private sector economy stuttered in June as new business fell at a steeper rate, dragging overall activity down for the first time since the start of the year. The New Business Index was broadly in line with its 2022 trend level, and the absence of new sales hit sentiment during the month. The main positive finding was a renewed rise in employment as some firms reported filling long-standing vacancies.

"Both price indices continued to move in the right direction, but inflationary pressures remained elevated and have yet to drop to levels that will spur demand. Wage pressures and non-energy utilities were reported as inflationary factors during the month."

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

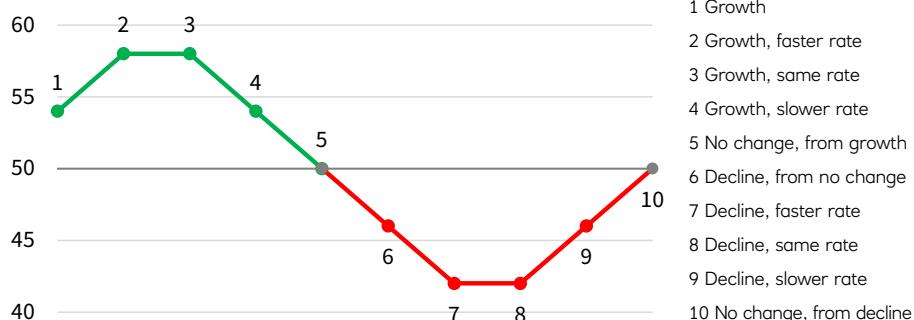
calculated from a single question that asks for changes in the volume of business activity (at service providers) or output (at manufacturers) compared with one month previously. The North East Business Activity Index is comparable to the UK Composite Output Index. It is sometimes referred to as the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

Fastest drop in demand in eight months

There was a second successive monthly decline in new work received by private sector firms in the North East in June. Moreover, the rate of decline accelerated to the fastest since October 2022. In contrast, demand across the UK as a whole continued to rise, albeit at a slower rate.

New Business Index

sa, >50 = growth since previous month

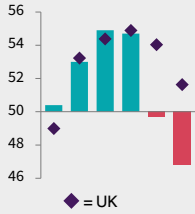
46.8

Jun '23



New Business Index

Jan - Jun '23



◆ = UK

Outlook weakens notably in June

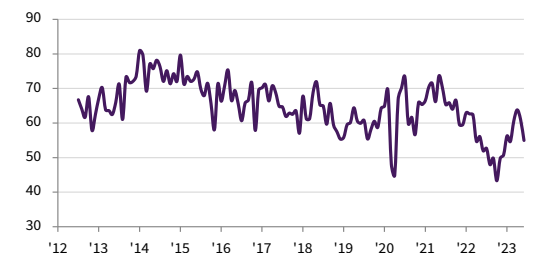
Private sector firms in the North East remained optimistic of growth of output over the next 12 months in June. That said, a sharper fall in new business during the month meant that confidence slipped further from April's recent high to the weakest since February. Moreover, the North East had the weakest expectations of all 12 UK regions in the latest period.

Future Activity Index

>50 = growth expected over next 12 months

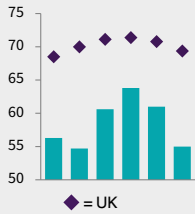
55.0

Jun '23



Future Activity Index

Jan - Jun '23



◆ = UK

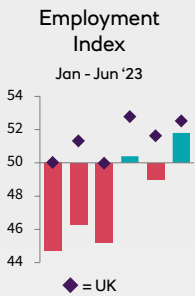
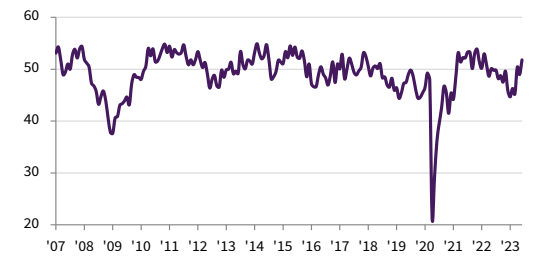
Business capacity

Private sector jobs growth strongest since February 2022

Although new business fell in June, private sector firms expanded their payrolls. The seasonally adjusted Employment Index rose above the no-change mark of 50.0 and signalled the fastest rate of job creation since February 2022.

The North East still registered a rate of workforce growth that was below the UK average, but climbed from twelfth to joint-seventh in the rankings, its highest position since March 2021.

Employment Index
sa, >50 = growth since previous month
51.8
Jun '23

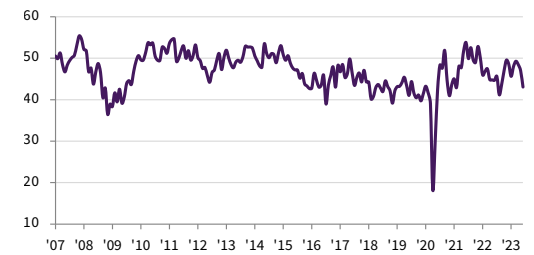


◆ = UK

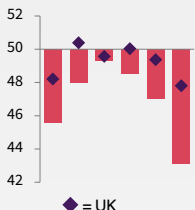
Backlogs cleared at much quicker pace

A combination of falling new orders and rising employment resulted in the fastest drop in outstanding work in ten months. Backlogs at private sector firms in the North East have declined continuously since January 2022, the longest sequence of all 12 UK regions. It registered the second-strongest fall in June, ahead of Wales.

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



Outstanding Business Index
Jan - Jun '23

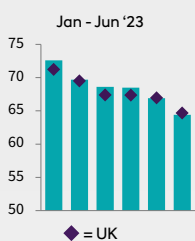


◆ = UK



Prices

Input Prices Index
Jan - Jun '23



Input price inflation eases to 31-month low

Cost pressures remained strong overall in June, linked to wages, non-energy utilities, office supplies and consultants. That said, the rate of inflation eased to the weakest since November 2020 as firms reported lower prices for energy, materials and fuel.

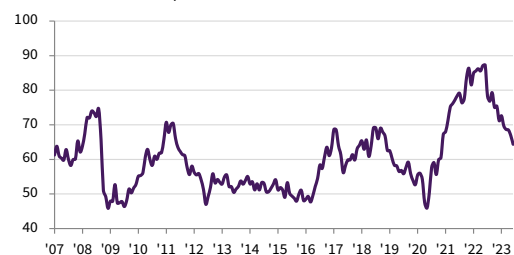
The North East registered a rate of input price inflation that was broadly in line with the UK average in June.

Input Prices Index

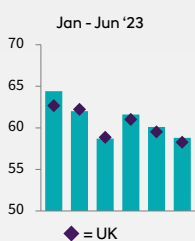
sa, >50 = inflation since previous month

64.4

Jun '23



Prices Charged Index
Jan - Jun '23



Selling price inflation second-weakest in over two years

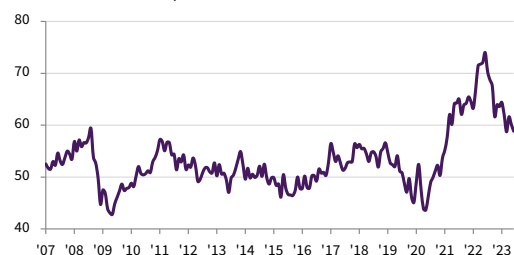
Companies in the North East continued to raise their prices charged for goods and services in June as they sought to pass on higher costs to customers. The rate of inflation eased further to the second-weakest in over two years, but was still well above the long-run series average.

Prices Charged Index

sa, >50 = inflation since previous month

58.8

Jun '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, Jun '23 ⁺ |
|------|------------------------|------|---------------------------------------|
| 1 | Chemicals & Plastics | 1.58 | 55 |
| 2 | Timber & Paper | 1.17 | 50 |
| 3 | Mechanical Engineering | 1.17 | 50 |
| 4 | Basic Metals | 1.13 | 55 |
| 5 | Transport | 0.91 | 55 |
| 6 | Other Manufacturing | 0.71 | 50 |
| 7 | Textiles & Clothing | 0.70 | 50 |
| 8 | Electrical & Optical | 0.69 | 50 |
| 9 | Food & Drink | 0.54 | 55 |

North East specialisation: Services

| Rank | Sector | LQ | UK Business Activity Index, Jun '23 ⁺ |
|------|--------------------------------|------|--|
| 1 | Transport & Communication | 1.51 | 55 |
| 2 | Hotels, Restaurants & Catering | 1.20 | 50 |
| 3 | Personal & Community Services | 1.13 | 55 |
| 4 | Business-to-business Services | 0.90 | 55 |
| 5 | Financial Intermediation | 0.75 | 55 |
| 6 | Computing & IT Services | 0.57 | 55 |

UK sector focus

Food & Drink

The UK's Food & Drink sector enjoyed a strong second quarter, posting its fastest rise in output for two years. It saw the quickest rate of expansion of the nine manufacturing sectors monitored.

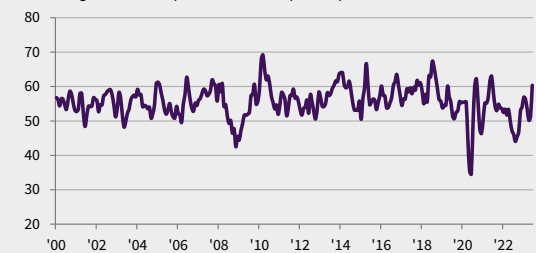
Growth of Food & Drink production in the three months to June was driven by a sharp upturn in demand. This was underscored by a steep and accelerated rise in inflows of new work across the sector.

On the price front, latest data showed a considerable slowdown in the rate of input cost inflation to the lowest for over seven years. This is turn contributed to a slower rise in prices charged, the weakest since Q2 2020.

With firms reporting declining backlogs of work, they showed a reluctance to hire as employment in the sector fell slightly in the three months to June. This was despite strong optimism towards the year-ahead outlook.

Output Index

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



⁺3-month moving average



UK Regional PMI overview

Business Activity

Just seven out of the 12 monitored regions and nations recorded growth in business activity in June, the fewest since January. London was once again the best performer but posted its slowest rise in output for three months. Only Scotland (ranked third), Northern Ireland* (fifth) and the East of England (sixth) saw growth accelerate. The steepest drop in activity was in Wales.

Employment

A rise in employment was recorded in all areas except Wales, where workforce numbers were unchanged following a five-month sequence of job losses. London recorded the steepest rise in staffing levels, its sharpest since August last year, followed by Northern Ireland and the East of England. Last month's leader for job creation, Scotland, moved down to eighth in the rankings.

Future Activity

Business confidence weakened in the majority of regions and nations in June. The biggest drop in expectations was in the North East, which slipped to the bottom of the rankings. The South East recorded the greatest optimism and was one of the few areas where sentiment improved, along with the South West, East Midlands and North West.

Business Activity Index

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



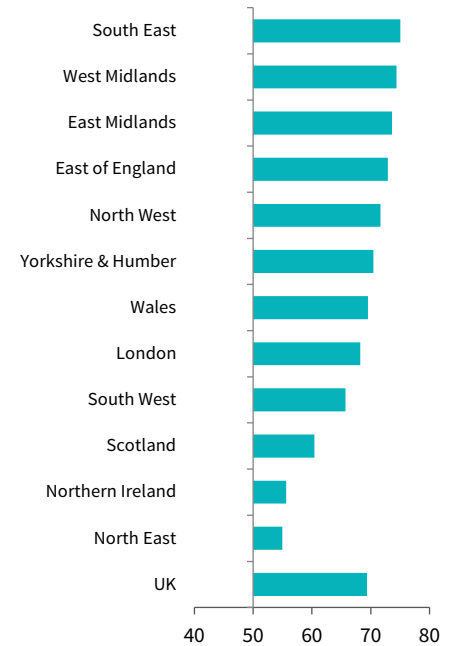
Employment Index

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



Future Activity Index

>50 = growth expected over next 12 months Jun '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 |
|---------|-------------------|--------------|----------------|------------------|------------|----------------------|--------------|----------------|
| Jan '23 | 47.1 | 50.4 | 49.8 | 56.3 | 44.7 | 45.6 | 72.6 | 64.4 |
| 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 |

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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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