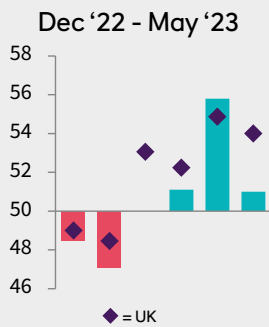


# NatWest North East PMI<sup>®</sup>

## New business falls slightly in May but inflationary pressures ease

### North East Business Activity Index



### Key findings

New business declines for first time in 2023 so far

Activity rises only modestly, supported by backlog depletion

Input price inflation eases to two-and-a-half-year low

The headline NatWest North East PMI<sup>®</sup> 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 third successive monthly expansion in private sector output in May. That said, the Index fell from April’s 21-month high of 55.8 to 51.0, indicating a slower rate of growth. Having been the second-strongest performer of 12 UK regions in April, the loss of momentum in May saw the North East slip to eighth in the rankings. A slight fall in new work weighed on output in May, leading to a renewed decline in employment. More positively, input price inflation eased to the weakest since November 2020 despite ongoing wage pressures.

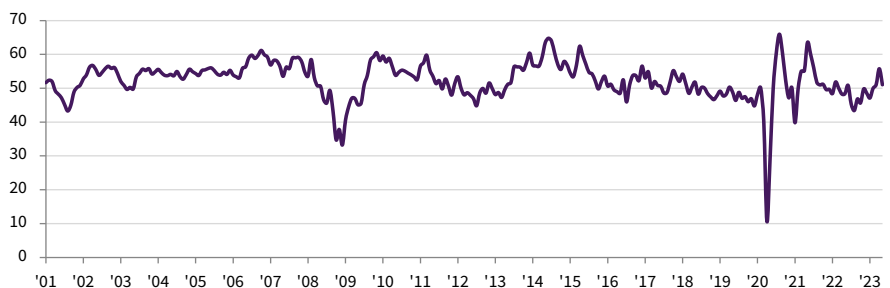
Malcolm Buchanan, Chair of the NatWest North Regional Board, commented:

*"There were both positives and negatives to take from the latest set of PMI data. The renewed fall in new orders was the main weak point, although the decline was only marginal and followed three solid increases. Growth of total activity inevitably slowed, but again should be viewed in the context of April's strong expansion."*

*"A sustained recovery hinges on inflation coming down in the second half of the year, and the two price indices moved in the right direction in May. Input price inflation eased to a two-and-a-half-year low, although wage pressures remained a key factor. Charge inflation also softened but remained historically 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

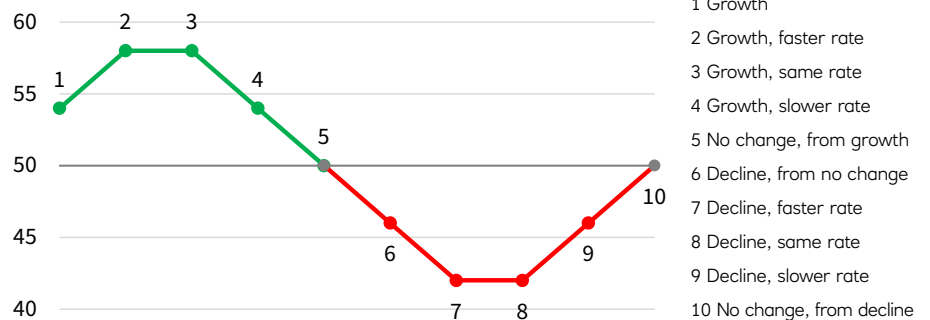
calculated from a single question that asks for changes in the volume of business activity (at service providers) or output (at manufacturers) compared with one month previously. The North East Business Activity Index is comparable to the UK Composite Output Index. It is sometimes referred to as the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

### Index interpretation

50.0 = no change since previous month



## Demand and outlook

### New work contracts for first time in 2023 so far

Private sector firms in the North East registered lower incoming new work in May, ending a four-month period of expansion. The rate of contraction was only marginal, however.

The North East was one of only three UK regions to post lower demand in May, the others being the neighbouring areas of Yorkshire & Humber and the North West.

### Outlook second-highest in over a year

The Future Activity Index fell from April's 18-month high in May, indicating a moderation of the 12-month outlook held by North East companies. That said, confidence was still the second-highest in over a year as firms expect economic conditions to improve and client destocking to end.

Business confidence in the North East remained among the lowest in the UK, with only Northern Ireland posting a weaker Index reading in May. The North East has consistently ranked among the bottom-three UK regions since August 2020.

## Exports

### Export conditions improve at slower pace

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 ECI remained above the 50.0 threshold at 51.9 in May, signalling a fourth successive month-on-month improvement in export market conditions for firms in the North East. That said, the Index fell from April's 11-month high of 52.8 to a three-month low.

Solid increases in activity were indicated in Germany and the US, the region's top two export markets. More modest expansions were registered in France and Italy, while the Netherlands recorded a further decline.

New Business Index

sa, >50 = growth since previous month

49.7

May '23

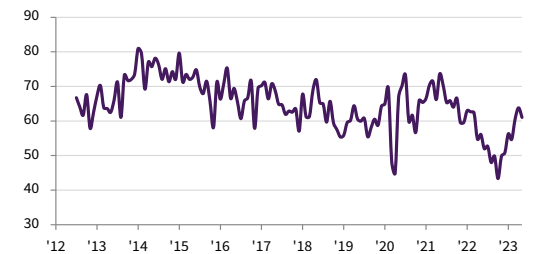


Future Activity Index

>50 = growth expected over next 12 months

61.0

May '23

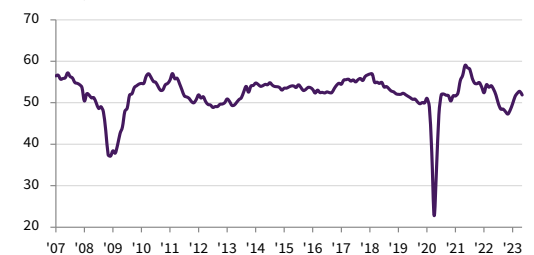


Export Climate Index

sa, >50 = growth since previous month

51.9

May '23

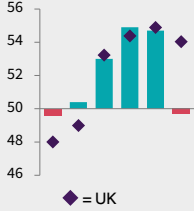


Top export markets, North East

Rank	Market	Weight	Output Index, May '23
1	Germany	15.6%	53.9
2	USA	14.5%	54.3
3	Netherlands	10.1%	44.2
4	France	9.6%	51.2
5	Italy	6.4%	52.0

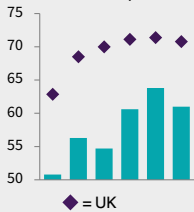
New Business Index

Dec '22 - May '23



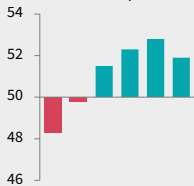
Future Activity Index

Dec '22 - May '23



Export Climate Index

Dec '22 - May '23



## Business capacity

### Renewed fall in private sector employment

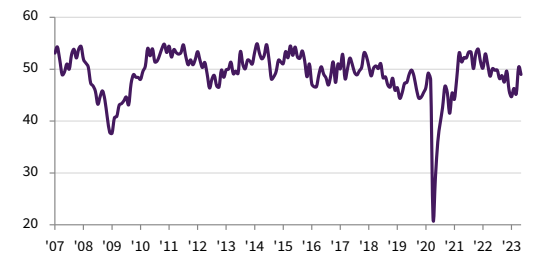
The seasonally adjusted Employment Index fell back below the no-change mark of 50.0 in May, signalling a decline in staffing levels for the twelfth time in the past 14 months. That said, the latest rate of job shedding was only marginal and partly linked to the release of agency as opposed to permanent staff.

The only other UK region to see falling private sector employment in May was Wales. The strongest increases were in Scotland and Northern Ireland.

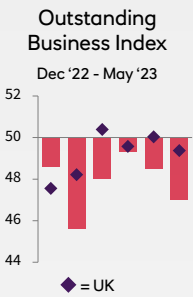
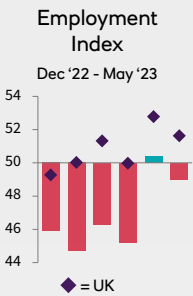
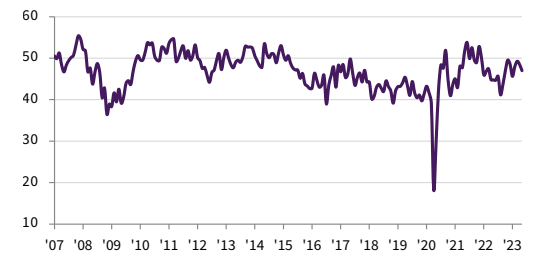
### Falling new orders enable faster decline in backlogs

The renewed decline in incoming new business in May relieved pressure on capacity, resulting in the fastest drop in outstanding work in four months. Backlogs at private sector firms in the North East have declined continuously since January 2022, the longest sequence of all 12 UK regions.

Employment Index  
sa, >50 = growth since previous month  
49.0  
May '23



Outstanding Business Index  
sa, >50 = growth since previous month  
47.0  
May '23



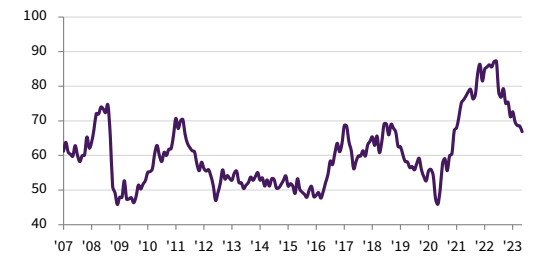
## Prices

### Input price inflation eases to 30-month low

Average input prices rose at the slowest rate in two-and-a-half years in May. Some companies linked easing cost pressures to a reduction in fuel prices. That said, the seasonally adjusted Input Prices Index was still well above its long-run average of 59.5 (since 2001). Anecdotal evidence again highlighted wage pressures.

Input price inflation in the North East tracked broadly in line with the UK trend.

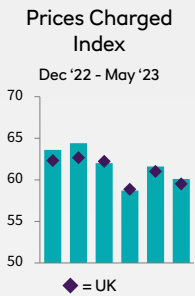
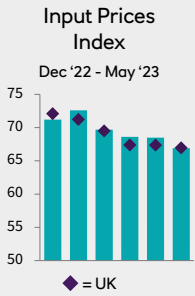
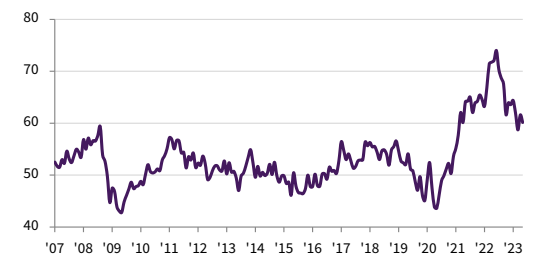
Input Prices Index  
sa, >50 = inflation since previous month  
66.9  
May '23



### Charge inflation second-weakest in over two years

Prices charged for goods and services in the North East rose sharply again in May, linked to the pass-through of increased wages and material costs to customers. The rate of inflation eased since April and was the second-weakest in just over two years, but still above anything seen prior to March 2021.

Prices Charged Index  
sa, >50 = inflation since previous month  
60.1  
May '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, May '23 <sup>+</sup>
1	Chemicals & Plastics	1.58	55
2	Timber & Paper	1.17	45
3	Mechanical Engineering	1.17	50
4	Basic Metals	1.13	50
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	50

#### North East specialisation: Services

Rank	Sector	LQ	UK Business Activity Index, May '23 <sup>+</sup>
1	Transport & Communication	1.51	55
2	Hotels, Restaurants & Catering	1.20	55
3	Personal & Community Services	1.13	55
4	Business-to-business Services	0.90	55
5	Financial Intermediation	0.75	60
6	Computing & IT Services	0.57	60

## UK sector focus

### Transport & Communication

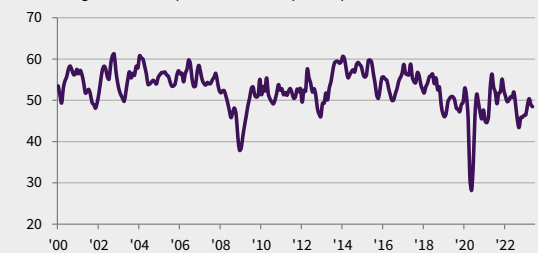
Almost all areas of the UK services economy saw growth in business activity in the three months to May, the only exception being the Transport & Communications sector. Here, activity fell - albeit only slightly - in the latest three-month period, thereby resuming a downward trend after a brief return to growth in Q1.

The survey data pointed to weakness in underlying demand, with inflows of new work in decline. Businesses in the sector reacted to falling workloads by reducing workforce numbers, in line with the trend seen since the end of last year. That said, the latest round of job cuts was only marginal as firms showed greater confidence towards the outlook.

Cost pressures remained historically elevated, although they did at least ease further from the record highs seen in 2022. This was reflected in a slower rise in prices charged, the weakest for almost two-and-a-half years.

#### Output Index

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



<sup>+</sup>3-month moving average



## UK Regional PMI overview

### Business Activity

Almost all UK nations and regions saw a rise in business activity in May, the only exception being Wales where output fell marginally and for the first time in four months. London once again recorded by far the strongest growth rate, albeit one that was slightly slower than in April. In fact, only the West Midlands saw an acceleration in the rate of expansion in business activity.

### Employment

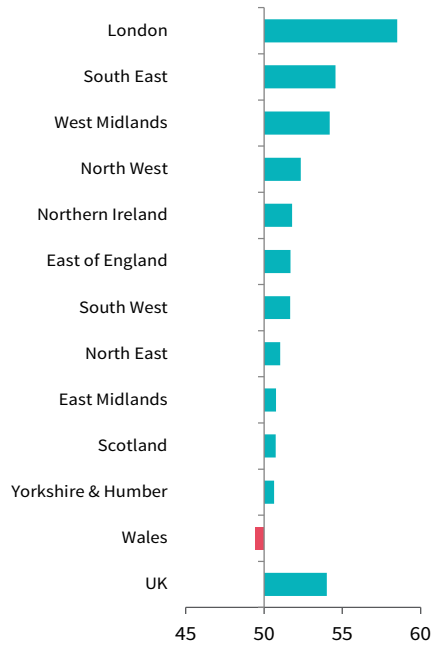
The vast majority of areas monitored by the survey recorded an increase in private sector employment in May. Scotland topped the rankings for job creation for the first time since June 2018, pushing Northern Ireland\* into second position. Only the North East and Wales saw decreases in staffing levels, and even there the declines were modest and marginal respectively.

### Future Activity

Business expectations remained positive across the board in May, although they weakened in three-quarters of the areas monitored. The West Midlands went against the trend and recorded the strongest overall optimism for the fifth month running. At the other end of the scale, firms in Northern Ireland were the least upbeat towards the outlook.

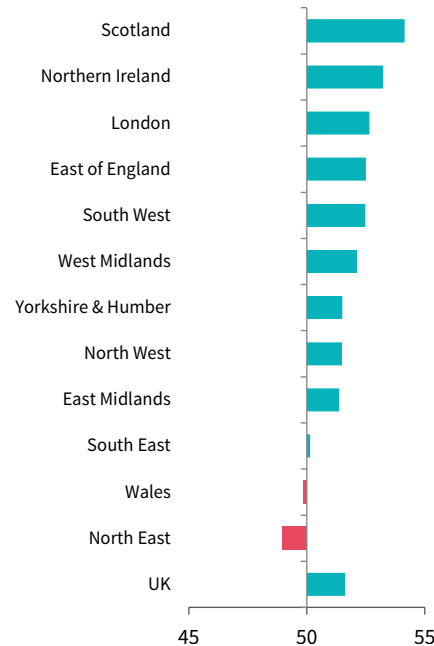
Business Activity Index

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



Employment Index

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



Future Activity Index

>50 = growth expected over next 12 months May '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
Dec '22	48.5	49.6	48.3	50.8	45.9	48.6	71.2	63.6
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

## Contact

Emily Potts  
Regional Campaign Manager  
NatWest  
+44 (0) 7890 892 748  
[emily.potts@natwest.com](mailto:emily.potts@natwest.com)

Trevor Balchin  
Economics Director  
S&P Global Market Intelligence  
+44 149 146 1065  
[trevor.balchin@spglobal.com](mailto:trevor.balchin@spglobal.com)

Sabrina Mayeen  
Corporate Communications  
S&P Global Market Intelligence  
+44 (0) 7967 447 030  
[sabrina.mayeen@spglobal.com](mailto:sabrina.mayeen@spglobal.com)

### About NatWest

NatWest serves customers in England and Wales, supporting them with their personal, private, and business banking needs. NatWest helps customers at all stages in their lives, from opening student accounts, to buying their first home, setting up a business, and saving for retirement.

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.

### About S&P Global

S&P Global (NYSE: SPGI) S&P Global provides essential intelligence. We enable governments, businesses and individuals with the right data, expertise and connected technology so that they can make decisions with conviction. From helping our customers assess new investments to guiding them through ESG and energy transition across supply chains, we unlock new opportunities, solve challenges and accelerate progress for the world.

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.

### About PMI

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.

[ihsmarket.com/products/pmi.html](https://ihsmarket.com/products/pmi.html)

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