

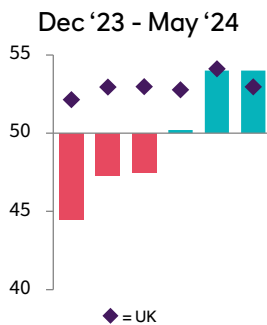


NatWest

# NatWest North East PMI<sup>®</sup>

## North East maintains solid growth momentum in May

### North East Business Activity Index



### Key findings

Sustained uplift in new business supports further solid increase in activity

Joint-quickest rise in jobs since February 2022

Inflationary pressure softens

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 – posted at 54.0 in May, to indicate a solid rate of growth that was equal to April. Given this, the pace of increase was the joint-strongest for 13 months and more pronounced than the UK average. The uplift followed an improvement in client demand, according to panel members.

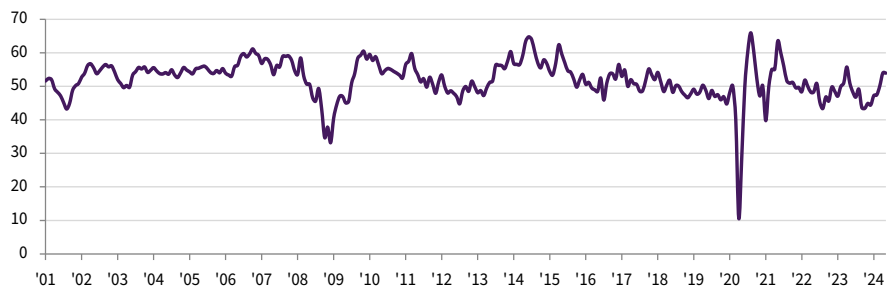
Malcolm Buchanan, Chair of the NatWest North Regional Board, commented:

*"The North East region steadied midway through the second quarter, as companies signalled another solid rise in activity that matched that of April. Fuelling firms' decisions on output was sustained growth of new business. It is likely that notably eased cost pressure also played a part here. Though input price inflation was robust, it was slightly softer than both the historical and UK averages. Selling prices meanwhile rose at a weaker pace in May, but the local rate of inflation was still one of the strongest of the 12 monitored UK areas.*

*"There were positive signals from firms' hiring decisions in May, as job creation picked up to the joint-fastest for over two years. Furthermore, expectations towards future activity were at their brightest for just shy of three years."*

### North East Business Activity Index

sa, >50 = growth since previous month



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## About the North East PMI<sup>®</sup> report

The NatWest North East PMI<sup>®</sup> 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

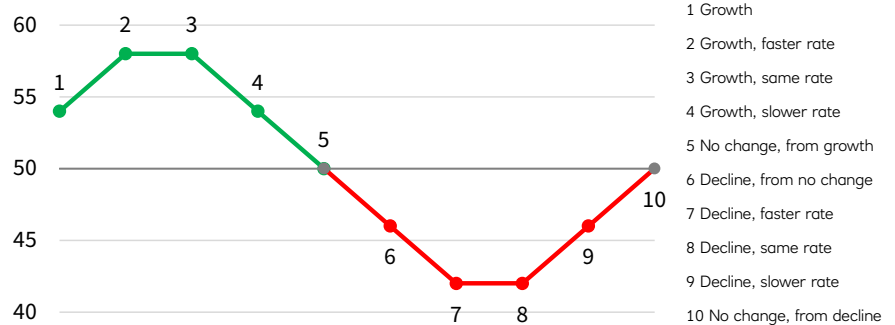
calculated from a single question that asks for changes in the volume of business activity (at service providers) or output (at manufacturers) compared with one month previously. The North East Business Activity Index is comparable to the UK Composite Output Index. It is sometimes referred to as the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

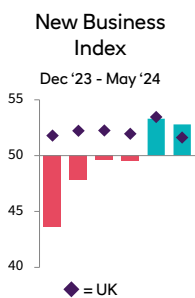
For further information on the PMI survey methodology, please contact [economics@spglobal.com](mailto:economics@spglobal.com).

### Index interpretation

50.0 = no change since previous month



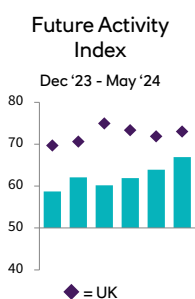
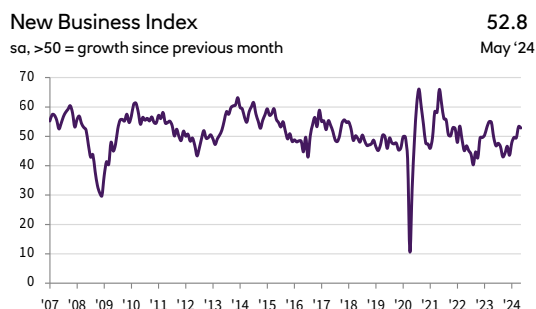
## Demand and outlook



### Second successive monthly rise in new work

For a second month in a row, new business placed with North East private sector firms picked up. Survey respondents linked the increase in sales to improved demand conditions. The rate of expansion slowed on the month, but was solid overall.

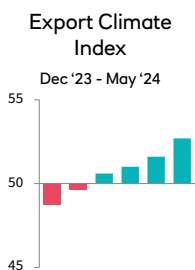
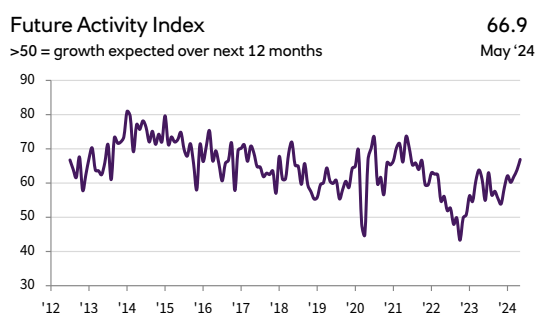
Growth of new business locally was faster than the UK average.



### Optimism strengthens to near three-year high

The Future Activity Index edged further above the neutral 50.0 mark in May, to signal increasingly upbeat output expectations among North East firms. Upbeat growth forecasts and hopes that economic conditions will improve generally underpinned optimism. Moreover, confidence was the strongest for nearly three years.

Yet, only Scotland and Northern Ireland signalled a weaker degree of positive sentiment than that seen locally.



## Exports

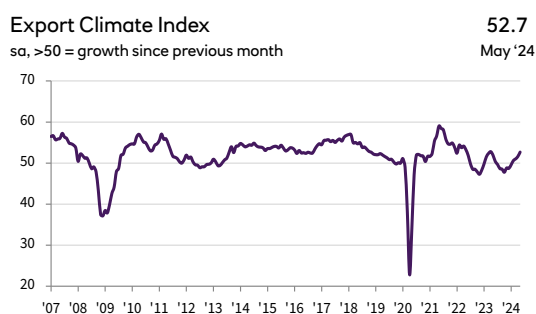
### Export Climate Index rises for fifth month in a row

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 North East Export Climate Index posted at 52.7 in May, an increase from 51.7 in April. As a result, the index was at its highest for just over a year.

The uplift was led by accelerated output growth across three of the five top export markets, namely the US, Germany and the Netherlands.

In contrast, there was slower growth in Italy and a renewed contraction in activity in France.



Top export markets, North East

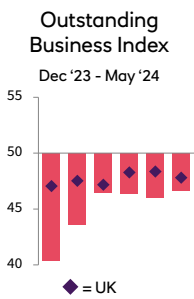
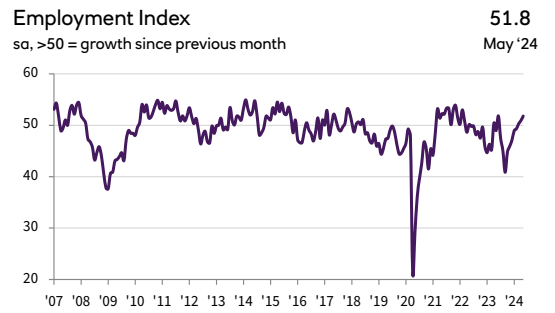
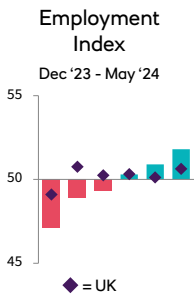
Rank	Market	Weight	Output Index, May '24
1	USA	16.1%	54.5
2	Germany	13.0%	52.4
3	Netherlands	10.3%	55.1
4	France	9.1%	48.9
5	Italy	8.4%	52.3

## Business capacity

### Jobs growth sustained for third month running

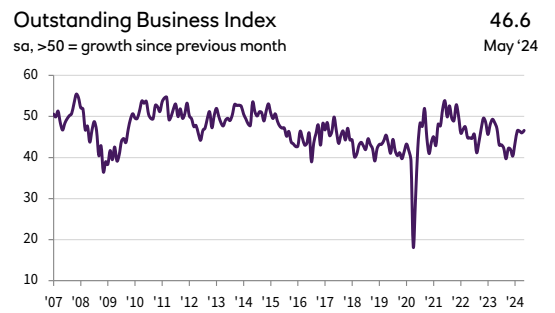
The seasonally adjusted Employment Index posted above the 50.0 no-change mark for the third month in row in May, to signal a further rise in payroll number at North East firms. Though only modest, the rate of job growth was the quickest seen since mid-2023. Panellists mentioned that headcounts were increased in line with greater output requirements.

In addition, job creation locally was faster than the UK average.

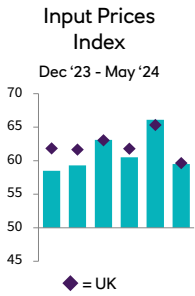


### Backlogs of work fall at slowest rate for a year

The level of outstanding business at North East private sector companies fell again midway through the second quarter, aided by increased capacity following ongoing workforce expansions. Though solid, the rate of backlog depletion was the least pronounced for a year. That being said, the pace of reduction was faster than the UK average.



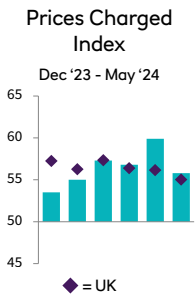
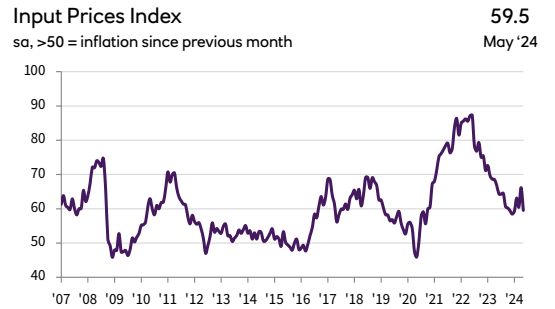
## Prices



### Cost inflation eases to four-month low

May survey data pointed to a further rise in input prices across the North East, thereby extending the current sequence of rises to exactly four years. That said, the rate of inflation eased notably on the month to its lowest since January. According to anecdotal evidence, inflation stemmed largely from higher wage costs, due in part to the rise in the National Minimum Wage.

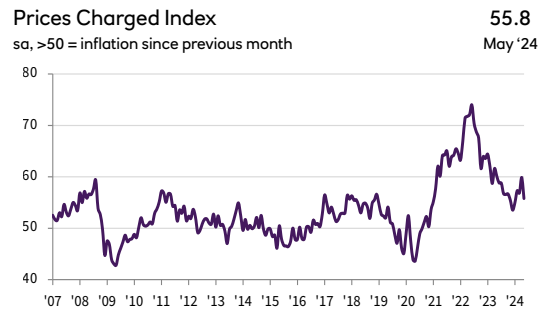
The local increase in input prices was broadly consistent with the UK average.



### North East ranks near top in terms of charge inflation

Private sector firms across the North East raised their charges for goods and services again in May, thereby marking 45 months of consecutive hikes. The latest uptick reflected the pass-through of greater cost burdens to clients. Though strong, the rate of charge inflation dipped to its lowest in four months.

Only the South East posted a sharper rise in selling prices, whereas inflation in London matched that seen locally.



## 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 '24 <sup>+</sup>
1	Chemicals & Plastics	1.65	55
2	Basic Metals	1.21	48
3	Timber & Paper	1.08	50
4	Mechanical Engineering	1.08	52
5	Electrical & Optical	0.80	45
6	Transport	0.75	50
7	Textiles & Clothing	0.71	50
8	Other Manufacturing	0.63	52
9	Food & Drink	0.50	55

#### North East specialisation: Services

Rank	Sector	LQ	UK Business Activity Index, May'24 <sup>+</sup>
1	Transport & Communication	1.42	48
2	Personal & Community Services	1.34	50
3	Hotels, Restaurants & Catering	1.17	48
4	Business-to-business Services	0.92	52
5	Financial Intermediation	0.60	55
6	Computing & IT Services	0.55	55

## UK sector focus

### Transport & Communication

The UK's Transport & Communication services sector saw a fall in business activity in the three months to May. Over that period, it was the worst performing of the six broad services sub-sectors monitored by PMI data.

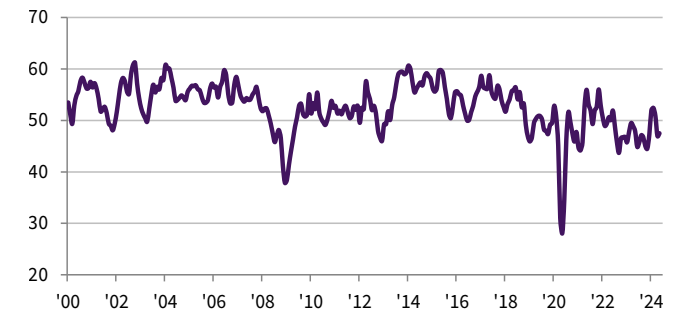
Amid a lack of incoming new work and shrinking backlogs, workforce numbers were scaled back. Employment has in fact fallen continuously in the sector since the end of 2022.

On the cost front, businesses reported pressures from shipping rates, fuel prices and wages. Input cost inflation in the three months to May was the fastest seen since last autumn. Prices charged also increased in the latest three-month period, though the rate of inflation ticked down due in part to competition for new work.

Looking ahead, Transport & Communication firms expected activity to pick up over the next 12 months. Expectations were close to the long-run average stretching back to 1996.

#### Output Index

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



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



## UK Regional PMI overview

### Business Activity

For the first time in more than a year, all 12 nations and regions monitored by the survey recorded a rise in business activity. Growth was led by Northern Ireland\*, where output expanded at a sharp and accelerated rate, followed by Scotland. At the other end of the scale, Yorkshire & Humber saw activity increase for the first time since January, albeit marginally.

### Employment

Labour market performances continued to vary across the UK, with just over half of the monitored nations and regions recording a rise in employment. Job creation was led by Northern Ireland for the third month in a row, with the North West and Scotland close behind. The South West meanwhile posted the steepest fall in workforce numbers – its largest for over three years.

### Future Activity

The West Midlands recorded the highest overall degree of optimism towards future activity for the ninth time in the past 11 months. It was one of seven areas where sentiment strengthened since April. Despite also seeing confidence improve from the month before, Scotland registered at the bottom of the rankings for the second month running.

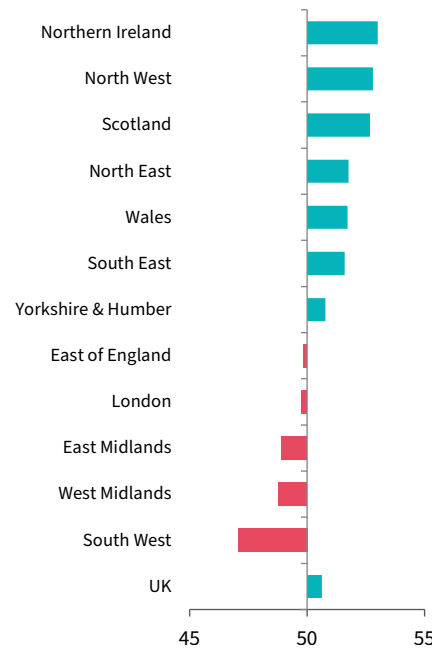
Business Activity Index

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



Employment Index

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

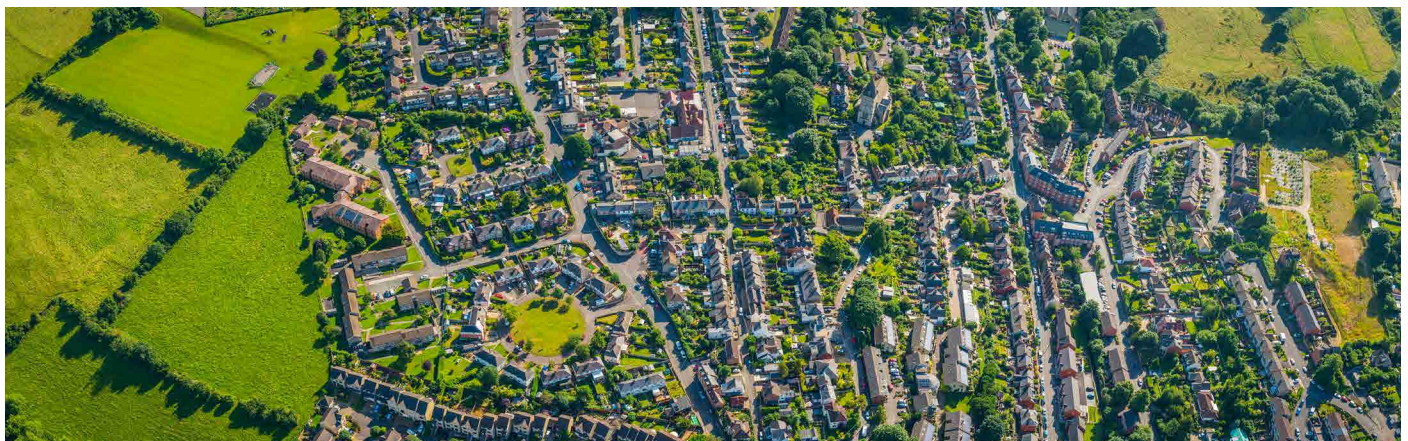


Future Activity Index

>50 = growth expected over next 12 months, May '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
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
Feb '24	47.5	49.6	50.6	60.2	49.3	46.5	63.1	57.3
Mar '24	50.2	49.5	51.0	61.9	50.3	46.4	60.5	56.8
Apr '24	54.0	53.3	51.6	63.9	50.9	46.0	66.1	59.9
May '24	54.0	52.8	52.7	66.9	51.8	46.6	59.5	55.8

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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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### 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.

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