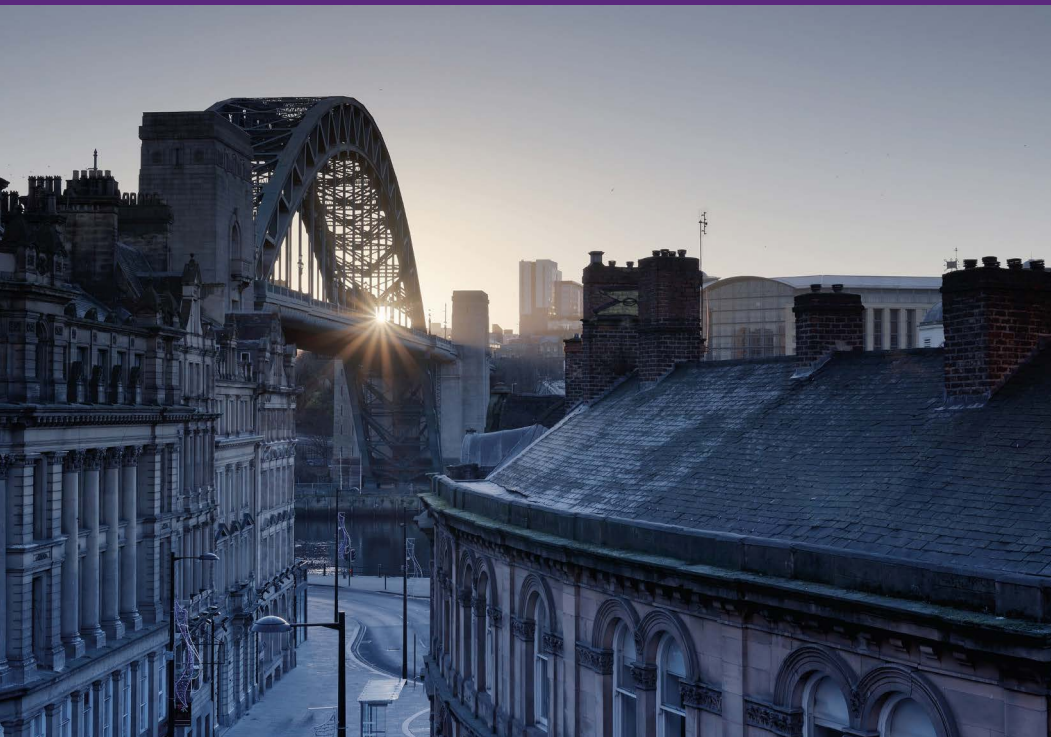


12 November 2024

NatWest North East Growth Tracker

Strongest rise in North East business
activity since April 2023



NatWest

PMI[®]

by **S&P Global**

12 November 2024

NatWest North East Growth Tracker

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Key findings

October 2024

Steepest rise in new business since July 2021

Renewed reduction in jobs

Softest rise in charges in 2024 so far

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





Strongest rise in North East business activity since April 2023

The North East's private sector growth momentum quickened in October, according to the latest Natwest Growth Tracker.

Businesses in the region recorded healthy order book volumes, which were a major contributor to stronger output at the start of the fourth quarter. There was also a further easing in inflationary pressures, with firms noting the softest rise in output charges in the year to date. That said, private sector companies opted to cut workforce numbers slightly in October, marking the first reduction in eight months.

On the price front, private sector firms

continued to register a strong increase in operating expenses, though the latest increase eased from the previous survey period and was below the historical trend. As a result, companies in the North East raised their selling prices at the least marked rate in 2024 to date.

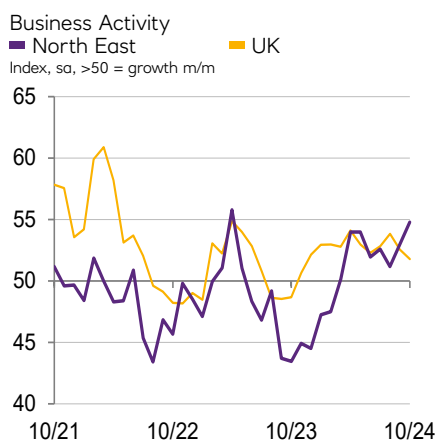
The headline North East Growth Tracker Business Activity Index – a seasonally adjusted index that measures the month-on-month change in the combined output of the region's manufacturing and service sectors – increased from 53.0 in September to 54.8 in October, to signal an eighth consecutive monthly improvement in business conditions that was the strongest in one-and-a-half years and sharp overall.

NatWest North East Business Activity Index October 2024

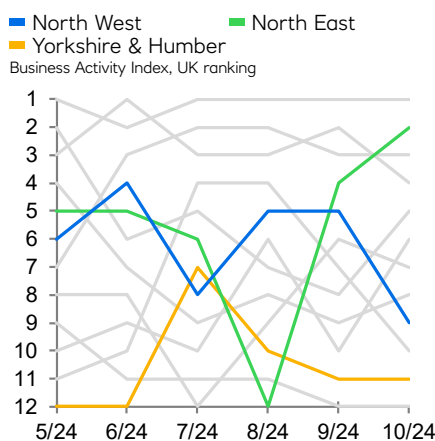
54.8

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 10-29 October



Sources: NatWest, S&P Global PMI. ©2024 S&P Global.



Sources: NatWest, S&P Global PMI. ©2024 S&P Global.



Comment

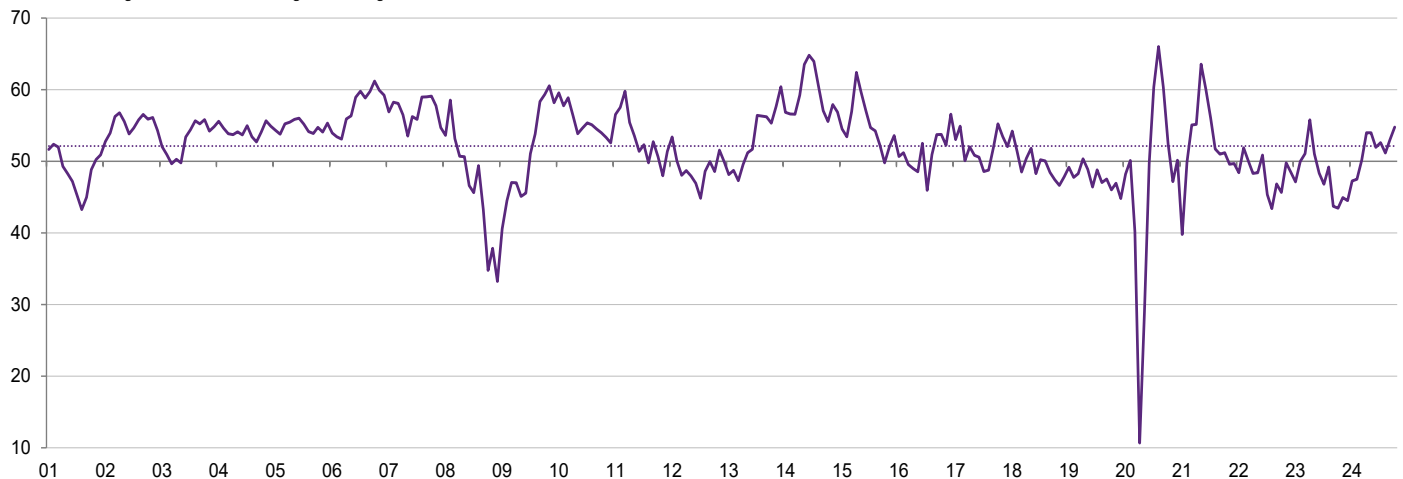
Sebastian Burnside, Chief Economist, NatWest Group, commented:

"The North East remained on solid footing in October, data from the NatWest Growth Tracker revealed. New business placed with private sector firms rose again, and at a sharp pace that was the most pronounced since July 2021. In turn, activity growth strengthened, with the rate of increase the strongest in a year-and-a-half. Moreover, receding cost pressures contributed to the softest rise in charges in 2024 so far.

"Looking to the future, there were some mixed signals. The increase in demand placed pressure on capacity in the private sector, resulting in a renewed rise in outstanding business. That said, firms opted to reduce staffing levels for the first time in eight months. Optimism about activity levels for the coming year were also broadly similar to that seen in September, with North East companies among the least upbeat regionally."

Business Activity

Index, sa, >50 = growth m/m. Dots = long-run average since 1998.



Sources: NatWest, S&P Global PMI. ©2024 S&P Global.



Demand and outlook

New business inflows rose for the seventh month in a row, while optimism regarding the outlook was broadly unchanged

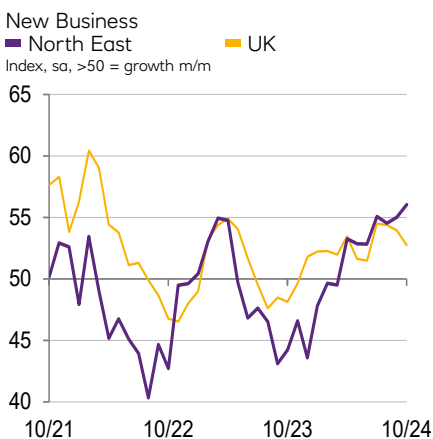
October survey data revealed an uplift in new business received by private sector firms in the North East, thereby extending the current sequence of growth to seven months. The rate of expansion was strong and the most pronounced since July 2021. New customer wins and a positive outlook regarding the economy reportedly drove the latest upturn.

The local rise in new work was the second-strongest of the 12 monitored regions and nations, behind London.

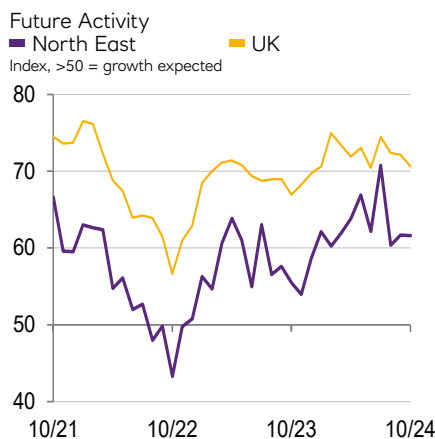
Firms also remained confident regarding the outlook over the coming 12 months, as the Future Activity Index registered above the neutral 50.0 mark. Optimism was linked to growth expectations and new contract awards.

That said, the level of positive sentiment was the second-lowest of the 12 monitored UK areas, ahead of Northern Ireland.

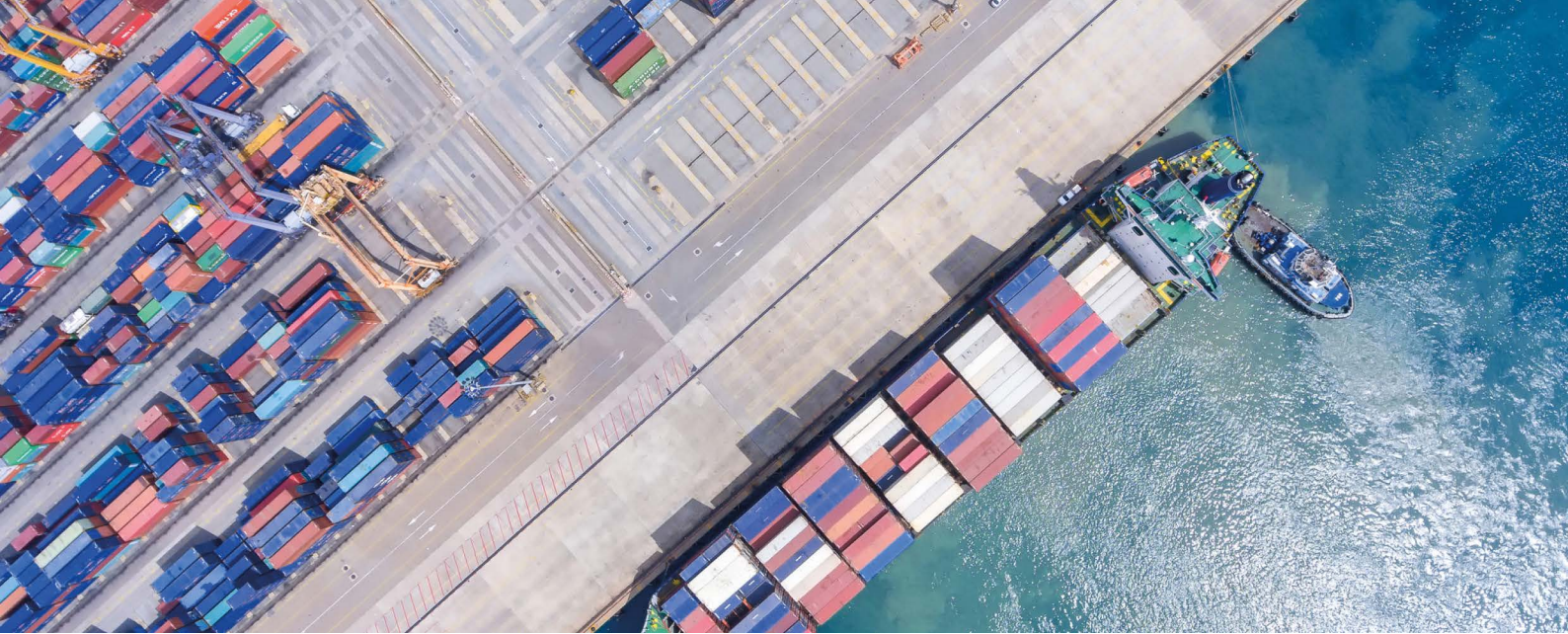
"New business placed with private sector firms rose again, and at a sharp pace that was the most pronounced since July 2021"



Sources: NatWest, S&P Global PMI. ©2024 S&P Global.



Sources: NatWest, S&P Global PMI. ©2024 S&P Global.



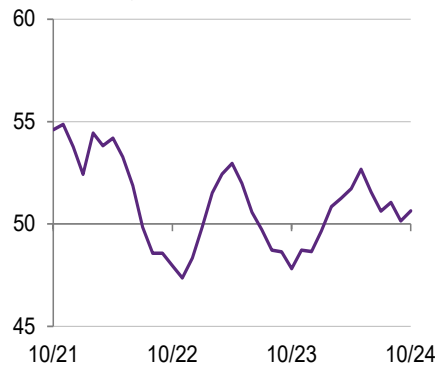
Export markets

Marginal improvement in export climate in October

After posting an eight-month low of 50.2 in September, the ECI rose slightly to 50.6 in October to indicate a stronger yet still marginal improvement in trade conditions.

Across the North East's top five export markets, Germany, France and the Netherlands all recorded contractions in activity. The US meanwhile posted a sustained and solid rise in output, while growth was reinstated in Italy.

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



Sources: NatWest, S&P Global PMI. ©2024 S&P Global.

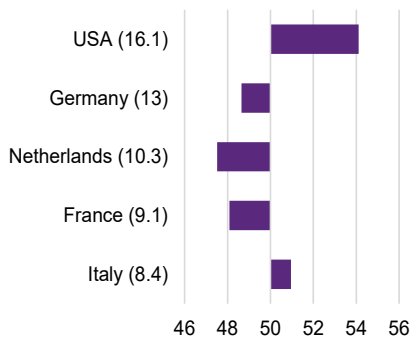
The North East Export Climate Index (ECI) is an indicator for the economic health of the region's export markets. It is calculated by combining national PMI output data, weighted according to each nation's share of manufacturing exports of the North East. A reading above 50 signals an improvement in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

Oct '24

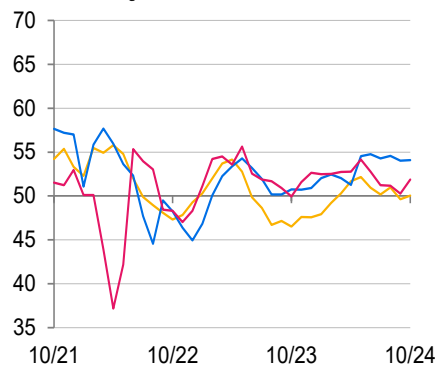


Sources: NatWest, S&P Global PMI. ©2024 S&P Global.

Output

Index, sa, >50 = growth m/m

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



Sources: NatWest, S&P Global PMI. ©2024 S&P Global.



Jobs and capacity

The North East saw job losses for the first time in eight months at the start of the fourth quarter

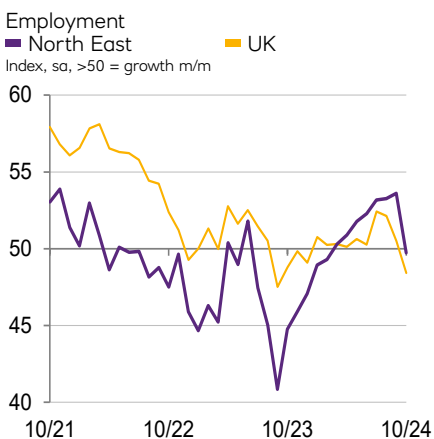
Private sector companies in the North East signalled job shedding during October, ending a sequence of seven months of rising employment. The pace of deterioration was only fractional, however. Where a decrease was recorded, firms cited the non-replacement of voluntary leavers and uncertainty regarding employment laws.

At the same time however, there

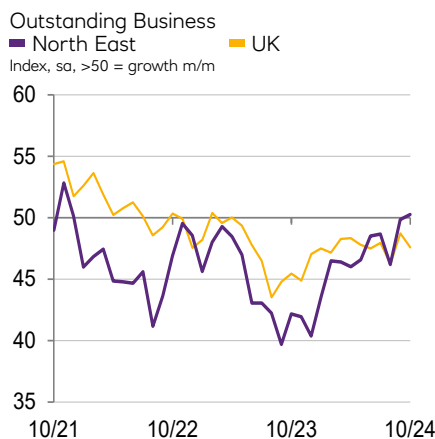
was evidence that capacity pressures were building in the North East private sector, as October marked the first accumulation of backlogs since December 2021. Firms often mentioned stronger new order growth as the main reason behind rising levels of unfinished work.

The North East and London were the only areas to post increases in outstanding business volumes.

"Firms opted to reduce staffing levels for the first time in eight months"



Sources: NatWest, S&P Global PMI. ©2024 S&P Global.



Sources: NatWest, S&P Global PMI. ©2024 S&P Global.



Inflation

Private sector firms raised charges to the softest degree in 2024, amid a mild slowdown in input price inflation

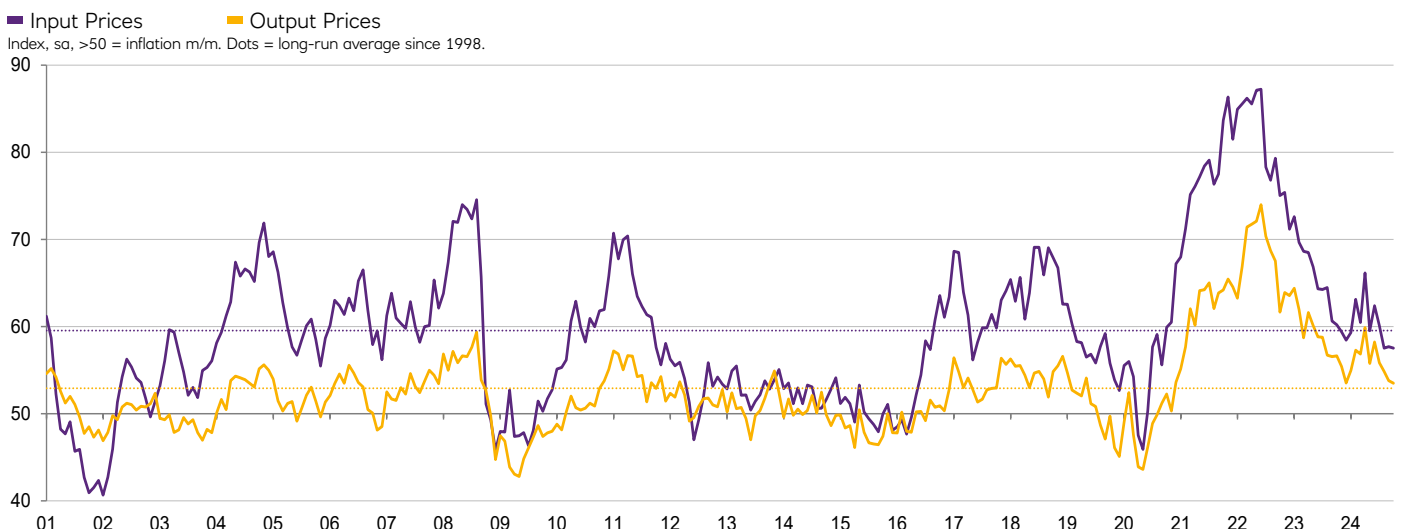
North East private sector firms faced a strong rise in operating expenses during October, though the rate of increase retreated from that seen in the previous survey period and therefore remained below its historical trend. Higher wage pressures were cited as a key factor behind the latest increase.

The local rate of input price inflation was also softer than the UK average.

The seasonally adjusted Prices Charged Index posted above the 50.0 no-change threshold again in October to signal ongoing charge inflation across the North East private sector. That said, prices were raised to the slowest extent since December 2023.

Regionally, only Northern Ireland and Wales registered softer output price inflation than the North East.

"Receding cost pressures contributed to the softest rise in charges in 2024 so far."



Sources: NatWest, S&P Global PMI. ©2024 S&P Global.

UK Regional Growth Tracker

Business Activity

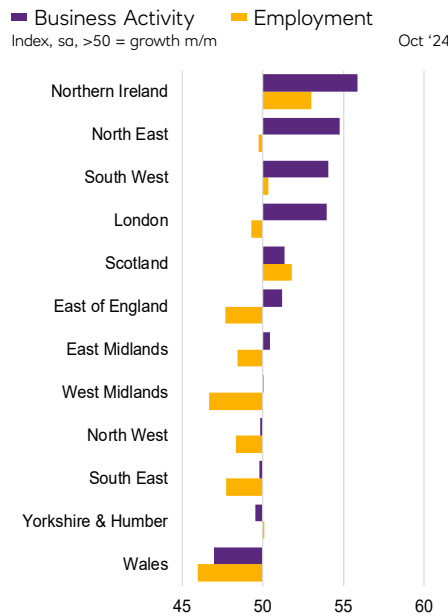
Just over half of the 12 UK nations and regions saw a rise in business activity in October, down from 11 in September. Northern Ireland continued to see the strongest growth, while there were also solid increases in output across the North East, South West and London. Wales recorded the steepest drop in activity and was joined in contraction by Yorkshire & Humber, the South East and North West.

Employment

Most areas of the UK recorded a reduction in employment as the final quarter of the year got underway. As was the case with business activity, Wales recorded the most marked decline – its sharpest for nine months. Other notable decreases were seen in the West Midlands, East of England and South East. For the fourth month running, the strongest rate of job creation was registered in Northern Ireland.

Future Activity

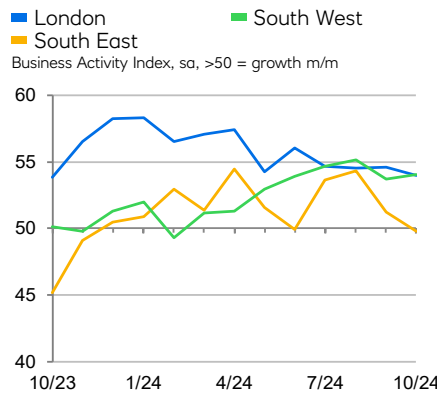
Business expectations remained positive across the board, but in just over half of cases there was a decrease in optimism from the month before. This included Northern Ireland, which saw sentiment weaken to a ten-month low and recorded the lowest degree of business confidence UK-wide. At the other end of the scale, the North West saw expectations improve notably to the highest since July.



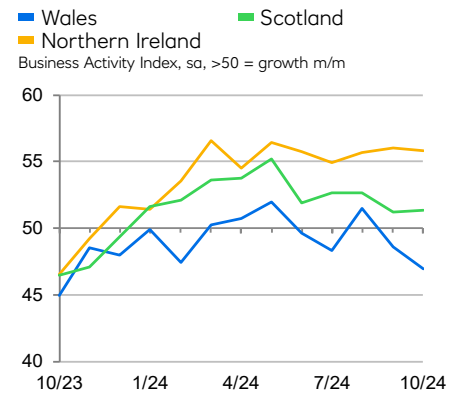
Sources: NatWest, S&P Global PMI. ©2024 S&P Global.



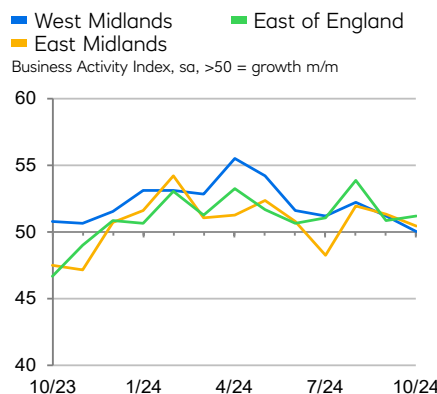
Sources: NatWest, S&P Global PMI. ©2024 S&P Global.



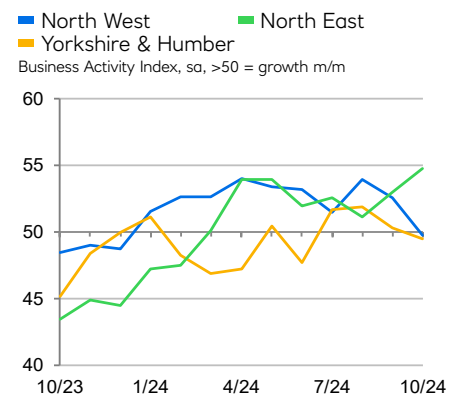
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Sources: NatWest, S&P Global PMI. ©2024 S&P Global.

Growth Tracker heat map

October 2024

Darker colour = higher business growth

North East

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

54.8



Sources: NatWest, S&P Global PMI. ©2024 S&P Global.

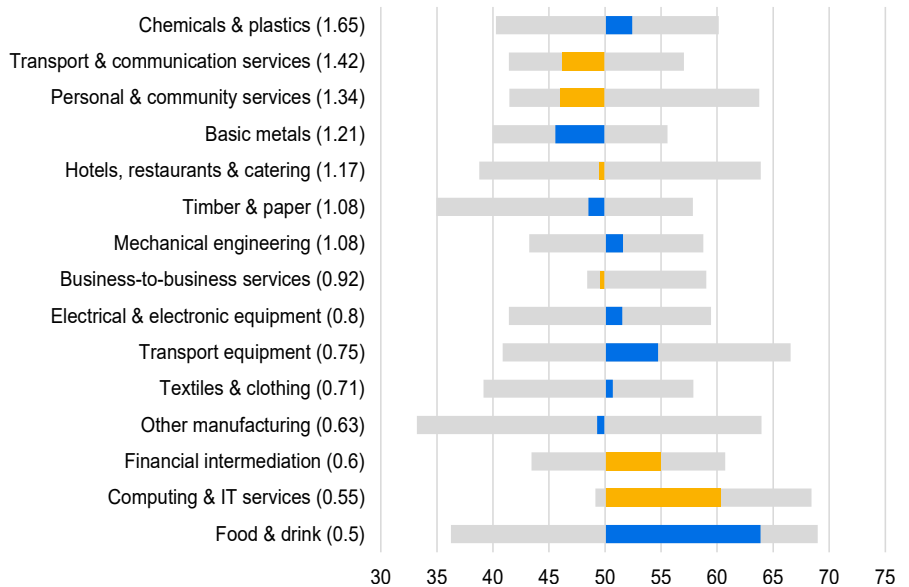
UK sectors

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 Oct '24



Sources: NatWest, S&P Global PMI. ©2024 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: Basic metals

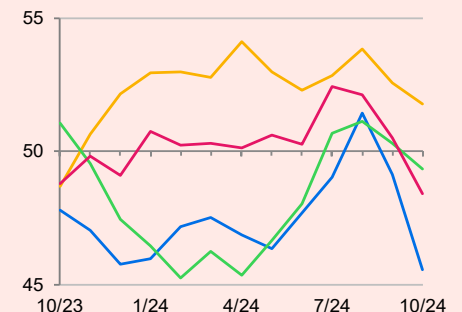
The basic metals sector acted as a notable drag on overall UK economic growth in the three months to October. It recorded the steepest drop in output since Q2 2023 and was the worst-performing sector of those monitored across manufacturing and services.

Basic metals producers reported persistent weakness in demand, with new orders having been in decline for almost two-and-a-half years. A lack of export sales was a contributing factor, underlying data showed.

Employment was also down in the three months to October, following a brief spell of job creation over the summer months. This reversal in recruitment activity coincided with a dip in optimism towards the outlook.

Turning to prices, the basic metals sector saw muted inflationary pressures, with both input costs and output prices rising at rates well below their respective historical averages. Supply-side conditions were relatively stable, as highlighted by only a fractional increase in average lead times on inputs.

Output / Employment
 ■/■ Basic metals*
 ■/■ Manufacturing & services
 Index, sa, >50 = growth m/m



Sources: NatWest, S&P Global PMI. ©2024 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.

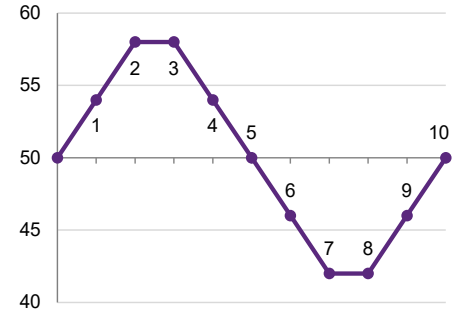
The headline figure is the Business Activity Index. This is a diffusion index calculated from a single question that asks for changes in the volume of business activity (at service providers) or output (at manufacturers) compared with one month previously. The North East Business Activity Index is comparable 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. ©2024 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
5/24	54.0	52.8	52.7	51.8	46.6	66.9	59.5	55.8
6/24	52.0	52.8	51.6	52.3	48.5	62.1	62.4	58.2
7/24	52.6	55.1	50.6	53.2	48.7	70.7	60.1	55.9
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

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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.

www.natwest.com/business/insights/economics

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