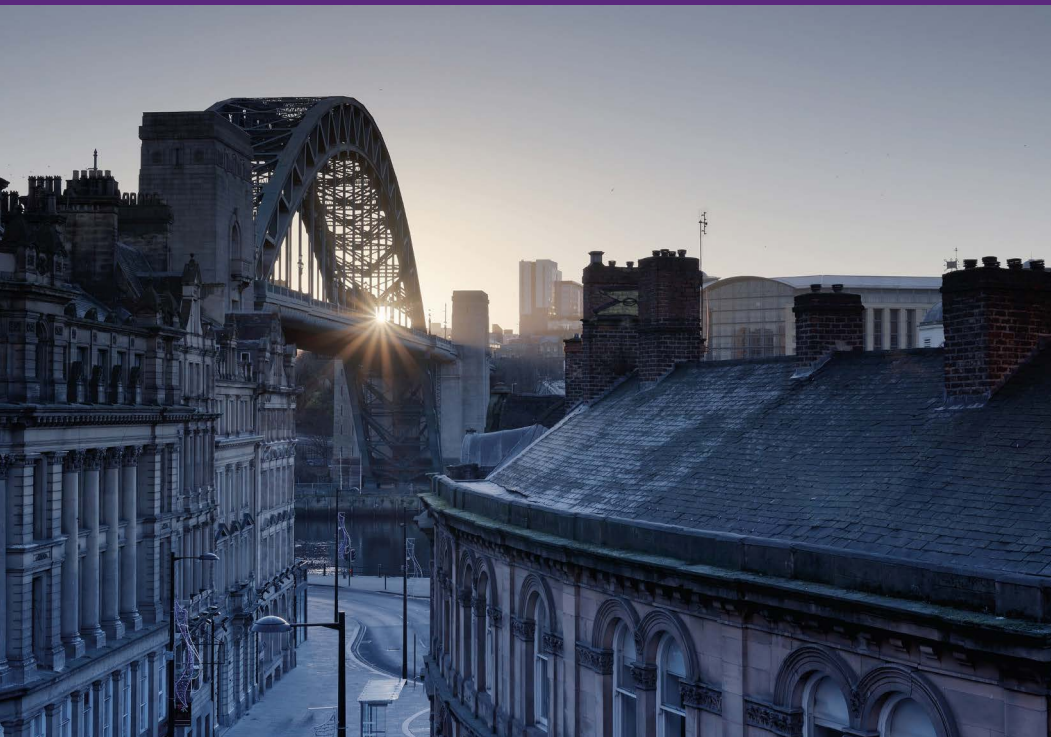


9 October 2024

NatWest North East Growth Tracker

North East sees solid growth amid stronger
new business inflows



NatWest

PMI[®]

by S&P Global

9 October 2024

NatWest North East Growth Tracker

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Key findings

September 2024

Strongest expansion in activity since May

Quickest rise in jobs since November 2021

Output charge inflation softens

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





North East sees solid growth amid stronger new business inflows

The North East region saw growth of both activity and demand strengthen at the end of the third quarter, according to the latest Growth Tracker data from NatWest.

Private sector companies in the North East experienced stronger demand conditions in September, which contributed to a steeper rise in output. In turn, firms responded with greater hiring activity. Cost pressures meanwhile edged slightly higher from that in August, but firms displayed stronger confidence in the

outlook for activity over the coming year.

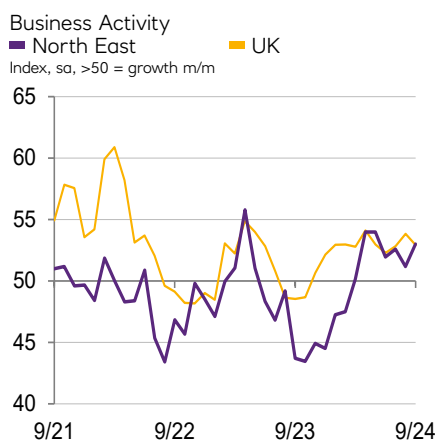
At 53.0 in September, the headline North East Growth Tracker Business Activity Index – a seasonally adjusted index that measures the month-on-month change in the combined output of the region’s manufacturing and service sectors – rose from 51.2 in August to indicate a solid rise in business activity. The latest increase was the strongest in four months and above the UK average.

NatWest North East
Business Activity Index
September 2024

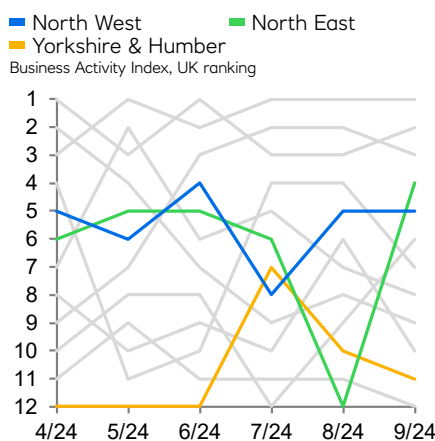
53.0

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 12-26 September



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



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



Comment

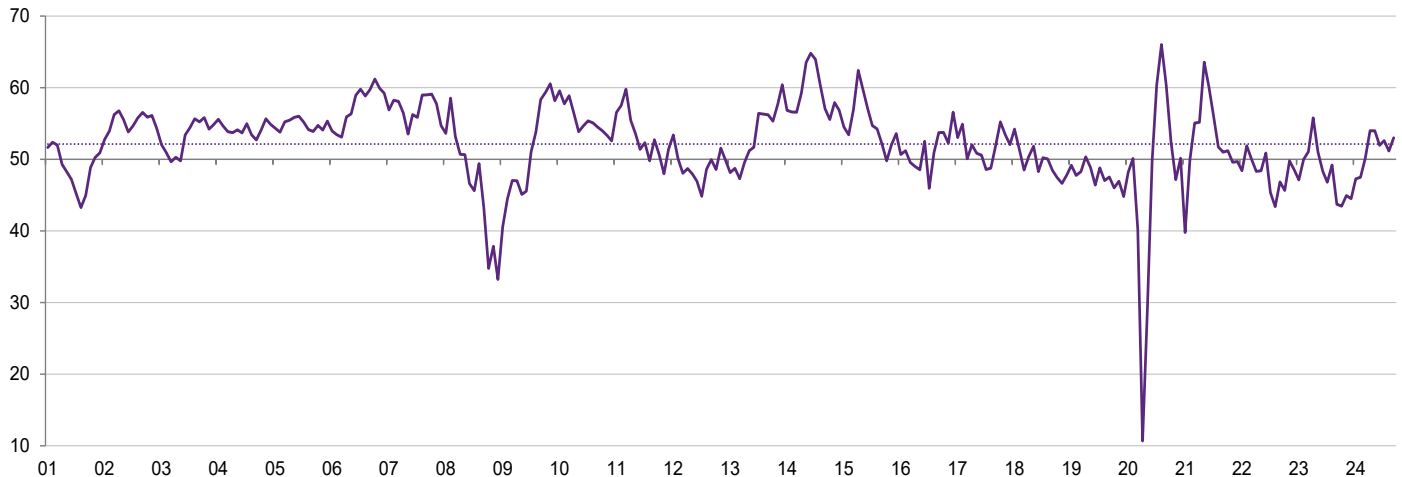
Malcolm Buchanan, Chair of the NatWest North Regional Board, commented:

"The North East region saw overall operating conditions strengthen at the end of the third quarter of 2024, as companies signalled another solid rise in business activity. The rate of expansion was the most pronounced for four months and largely fuelled by a steeper rise in new business. Positive trends here encouraged private sector firms to continue to raise employment levels during September, pushing job creation to the highest in close to three years.

"While the rate of input price inflation edged slightly up on the month, in the context of the historical data the increase was modest, and the second-weakest of the 12 monitored UK regions and nations. Concurrently, North East firms raised output charges at the softest rate in the year to date, and one that was the slowest of all areas of the UK."

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

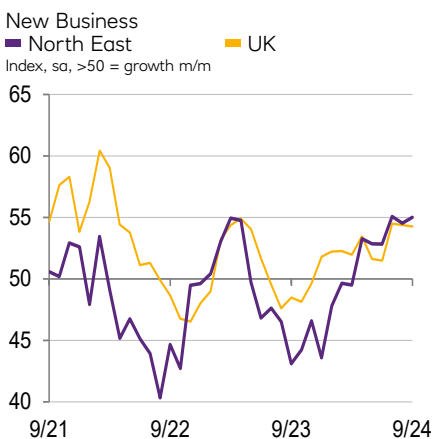
North East private sector firms see sharp rise in new business inflows in September, and remained confident regarding the year-ahead

For the sixth month in a row, new business placed with North East firms increased. Survey respondents often linked the rise in sales to improved demand conditions. Moreover, the rate of expansion accelerated to the second-highest in the sequence, and was among the fastest of the 12 monitored UK regions and nations.

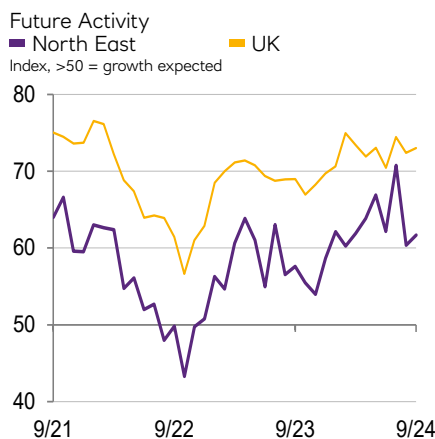
When asked about their expectations for activity over the next 12 months, North East private sector firms noted robust optimism that strengthened from that in August. Hopes of new client wins and new product launches were key factors behind the positive outlook.

Despite broad-based confidence across the monitored areas of the UK, the level of sentiment in the North East was the lowest.

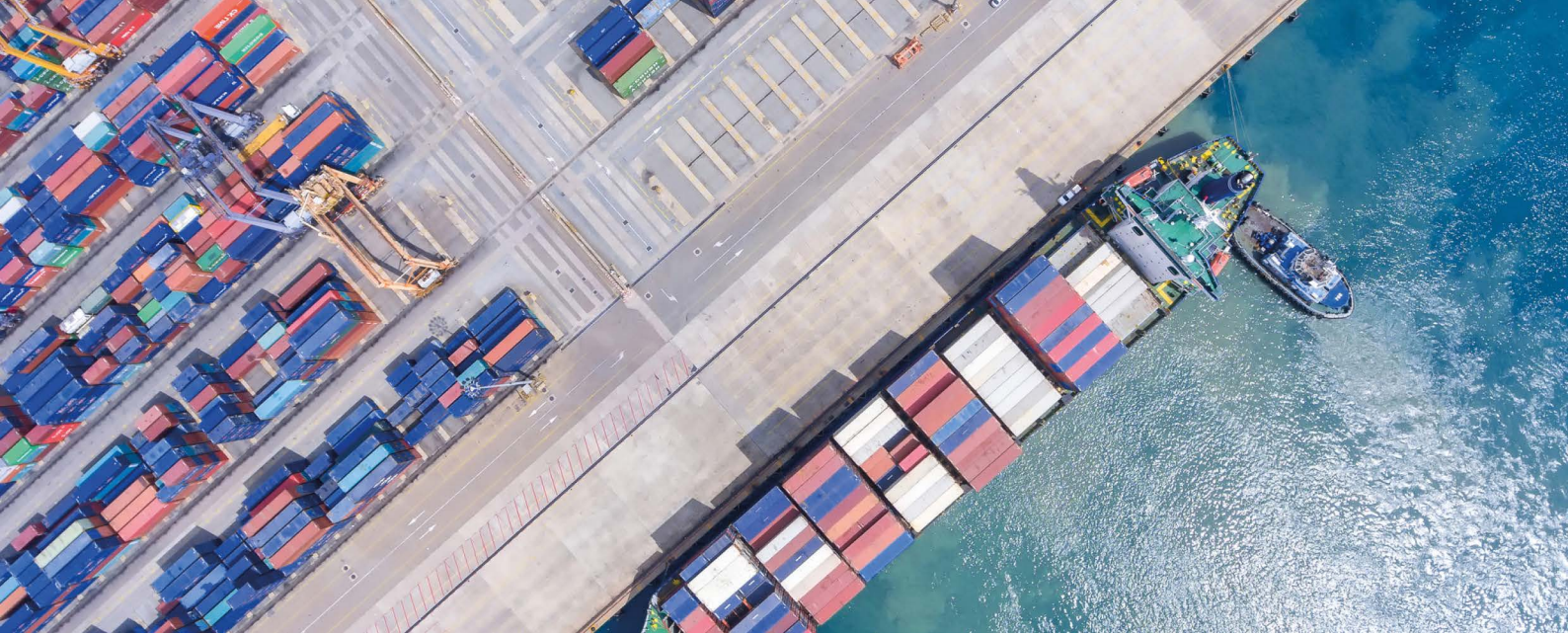
"The rate of expansion in output was the most pronounced for four months and largely fuelled by a steeper rise in new business"



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



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



Export markets

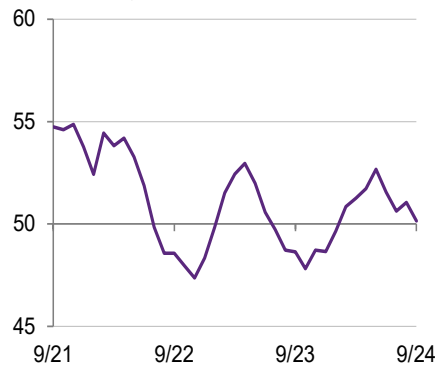
North East export climate stagnates in September

The North East ECI posted at 50.2 in September, down from 51.1 in August to signal a broad stagnation in export conditions for the region.

Four of the five largest export markets for the North East saw output levels fall at the end of the third quarter, namely France, Germany, Italy and the Netherlands.

This was offset by a solid and sustained increase in US output.

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



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

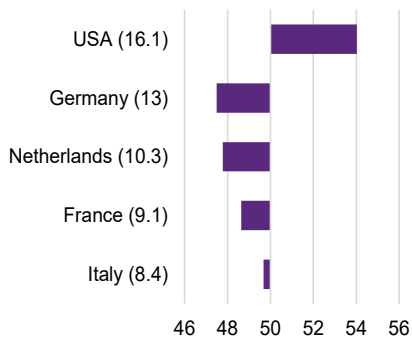
The North East Export Climate Index (ECI) is an indicator for the economic health of the region's export markets. It is calculated by combining national PMI output data, weighted according to each nation's share of manufacturing exports of the North East. A reading above 50 signals an improvement in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

Sep '24

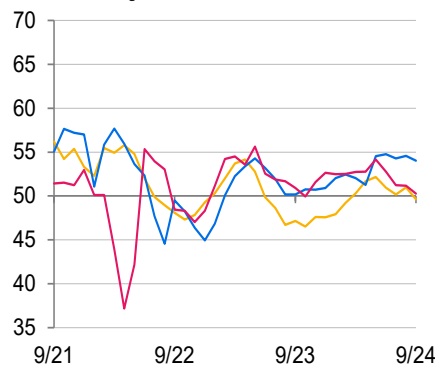


Sources: NatWest, S&P Global PMI. ©2024 S&P Global.

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

Job creation in the North East climbs to 34-month high during September

Adjusted for seasonal factors, the Employment Index posted above the 50.0 no-change mark for the seventh consecutive month in September, signalling a further rise in workforce numbers in the North East. The rate of job creation was solid and the quickest seen since November 2021. Panellists mentioned that headcounts were increased in line with greater output requirements.

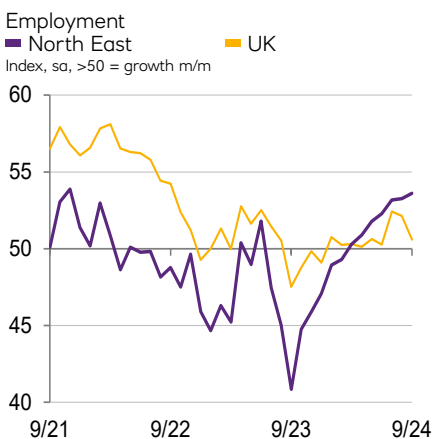
In addition, job creation in the North

East was the second-strongest across the UK, behind only Northern Ireland.

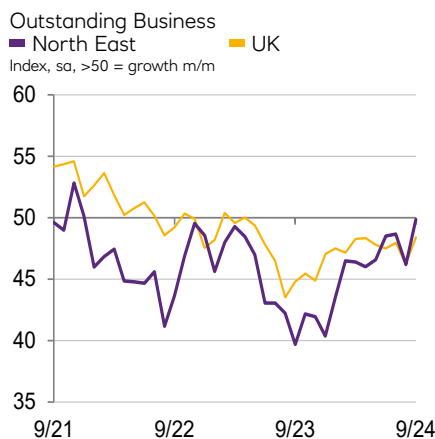
Increased output requirements placed some pressure on North East private sector firms, as the level of outstanding business broadly stabilised in September following successive declines since January 2022. The latest reading of the respective seasonally adjusted index was only fractionally below the neutral mark of 50.0.

Only Northern Ireland and the South West saw backlog accumulation in September.

"...private sector firms continued to raise employment levels during September, pushing job creation to the highest in close to three years"



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



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



Inflation

Input cost inflation edged slightly higher in September, but firms raised charges at softer rate

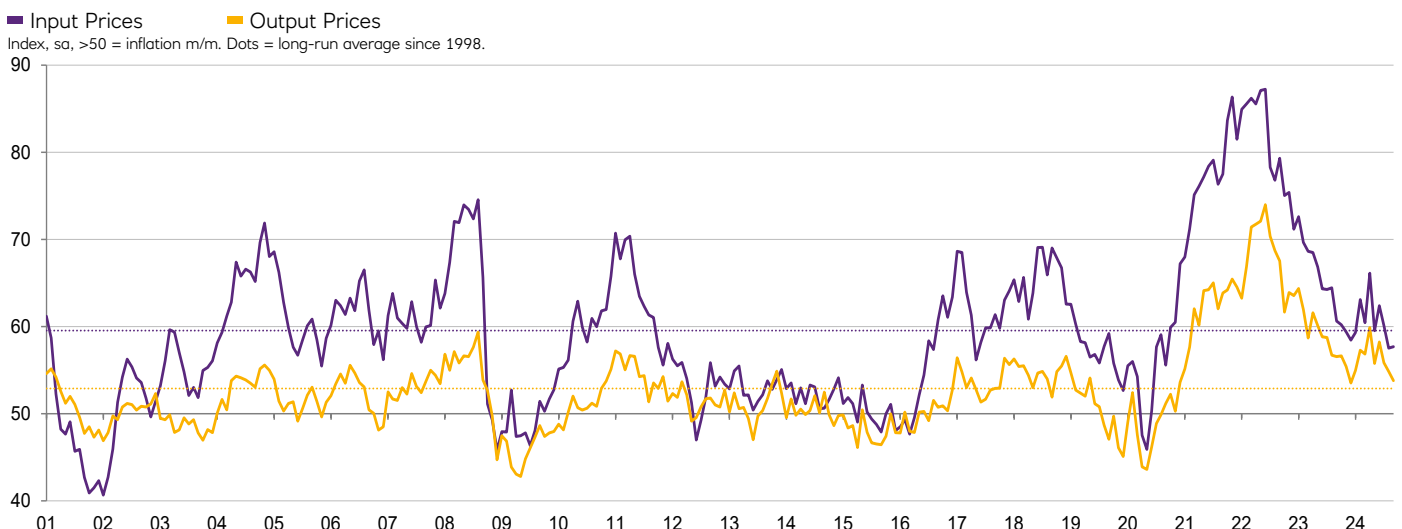
Latest survey data pointed to a further rise in input prices across the North East, extending the current sequence of increase to four years and four months. The rate of inflation picked up fractionally from August but was weaker than the series average (59.6). Anecdotal evidence suggested that wage

cost pressures were a key driver of higher operating expenses.

The rise in the North East was the second-softest of the 12 UK regions and nations, ahead only of the North West.

Private sector firms in the North East raised their charges for goods and services again in September, taking the current sequence of increase to just over four years. That said, the rate of charge inflation eased to the slowest in 2024 so far, and was the softest of all UK areas.

"North East firms raised output charges at the softest rate in the year to date, and one that was the slowest of all areas of the UK"



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

UK Regional Growth Tracker

Business Activity

A renewed – albeit only slight – decrease in business activity in Wales in September prevented a second successive month of universal growth across the UK. Notably, rates of expansion generally eased compared to those seen in August. Northern Ireland was one of the exceptions, cementing its position at the top of the growth rankings with its fastest rise in output since May.

Employment

Employment growth in September was also led by Northern Ireland, as was the case throughout the third quarter. Only half of the 12 UK nations and regions monitored reported a rise in workforce numbers, down from ten in August. Wales saw the steepest drop in staffing levels, although the decline was only modest overall.

Future Activity

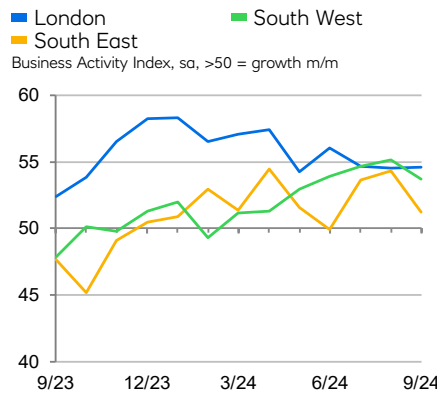
Trends in business expectations varied in September. Just over half of the monitored nations and regions reported a reduction in business confidence, but sentiment nevertheless remained positive across the board. Firms in the South East recorded not only the strongest overall growth expectation, but also the biggest upswing in optimism.



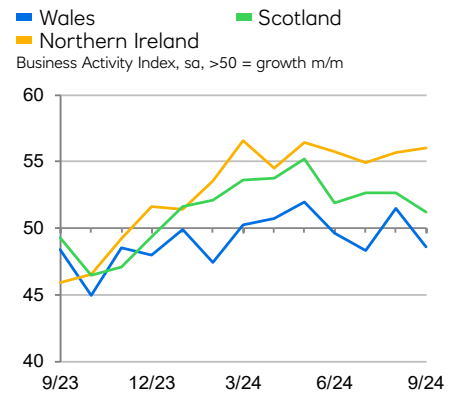
Sources: NatWest, S&P Global PMI. ©2024 S&P Global.



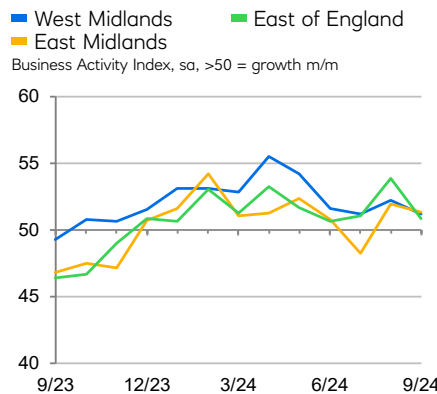
Sources: NatWest, S&P Global PMI. ©2024 S&P Global.



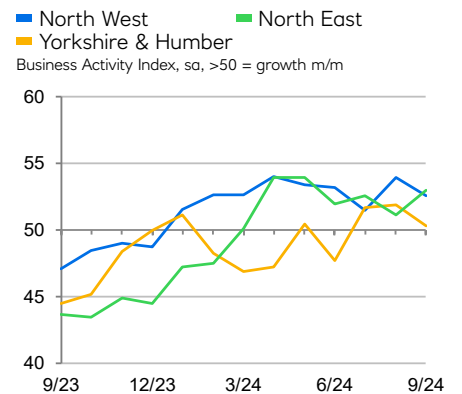
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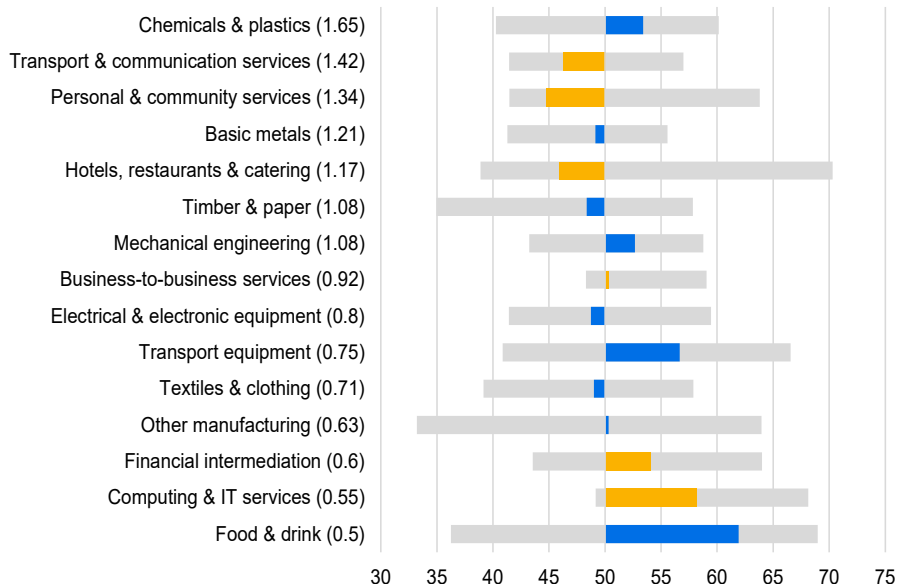
UK sectors

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 Sep '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: Business-to-business services

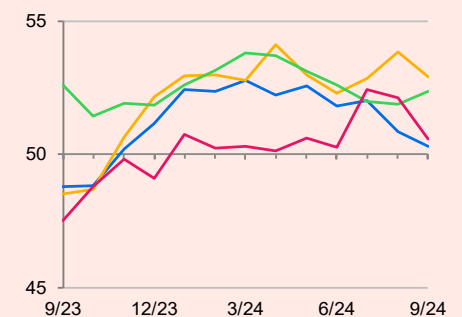
Growth in the UK's Business-to-business services sector came close to stalling in the third quarter. Activity rose only marginally and at the weakest rate for almost a year, with the lack of growth momentum reflecting only modest gains in new business in recent months. Firms in the sector increasingly turned to backlogged work to support growth, with outstanding business falling at a faster rate in the three months to September.

Latest data nevertheless showed sustained job creation across

business-to-business services, continuing a sequence of rising employment that stretches back to early 2021. The rate at which staffing levels rose even ticked up slightly and exceeded the average across the UK private sector as a whole.

As for prices, rates of inflation in both input costs and output charges remained among the lowest seen over the past three-and-a-half years, although they were still above their respective pre-pandemic long-run averages.

Output / Employment
 ■/■ Business-to-business services*
 ■/■ 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

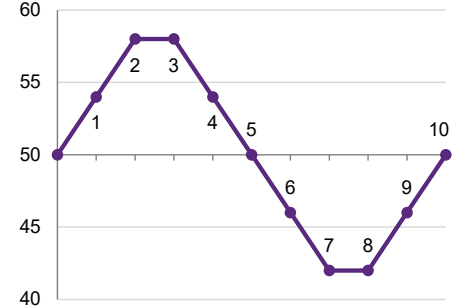
overall decrease. The indices are then seasonally adjusted.

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 |
|------|-------------------|--------------|----------------------|------------|----------------------|------------------|--------------|---------------|
| 4/24 | 54.0 | 53.3 | 51.7 | 50.9 | 46.0 | 63.9 | 66.1 | 59.9 |
| 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 |

Further information

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