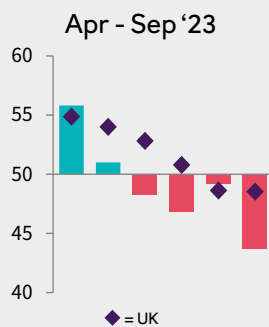


# NatWest North East PMI<sup>®</sup>

## Sharpest decline in business activity since August 2022

### North East Business Activity Index



### Key findings

Falls in output and new orders gather pace

Fastest drop in employment since July 2020

Inflationary pressures ease

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 notably faster decrease in output in September, as the headline figure dropped from 49.2 in August to 43.7. The steep drop in activity was the fastest since August 2022 and the quickest of the 12 monitored UK regions. Weak client demand and economic uncertainty stemming from high interest rates and elevated inflation reportedly hampered output.

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

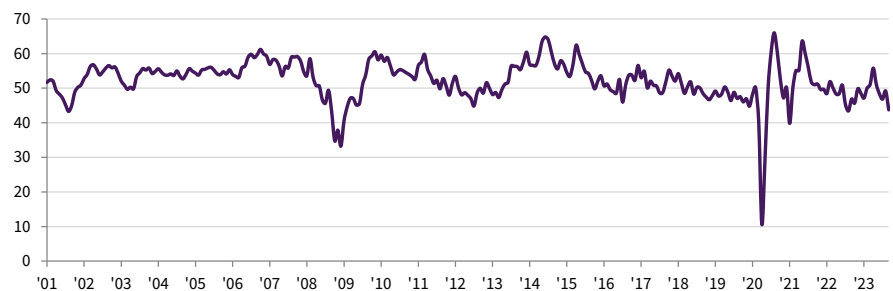
*"North East firms registered a tough end to the third quarter, as weak demand conditions and the cost-of-living crisis continued to weigh on new orders and output. The contraction in new business accelerated to the fastest in just under a year as customers tightened their spending as purchasing power fell. In fact, the North East was the worst performing UK region for output, new orders, employment and future activity."*

*"Firms entered a distinct period of retrenchment in September, as employment dropped at the sharpest pace since July 2020. Alongside cost cutting efforts, companies sought not to replace voluntary leavers. Spare capacity ballooned as backlogs fell at a pace not seen since the initial pandemic outbreak."*

*"Weak demand for inputs, goods and services led to slower upticks in input costs and selling prices."*

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

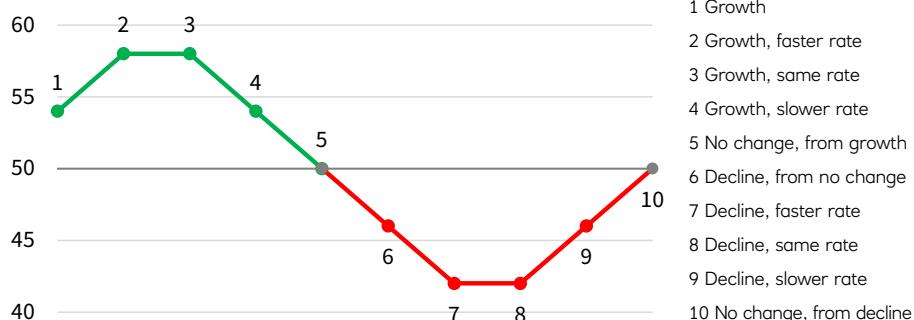
calculated from a single question that asks for changes in the volume of business activity (at service providers) or output (at manufacturers) compared with one month previously. The North East Business Activity Index is comparable to the UK Composite Output Index. It is sometimes referred to as the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

### Index interpretation

50.0 = no change since previous month



## Demand and outlook

### New business falls at fastest pace since October 2022

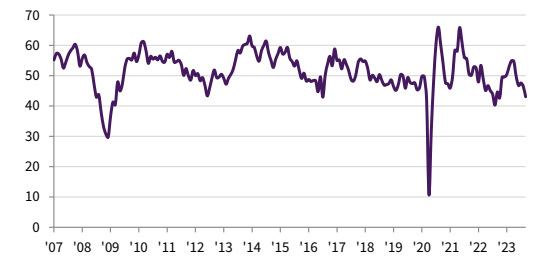
New orders at North East private sector firms contracted for the fifth month running in September. The rate of decline accelerated to the fastest in just under a year and was sharp overall. The decrease in new business was the strongest of the 12 monitored UK regions. Lower new business was commonly linked to weak client demand as the cost-of-living crisis and economic uncertainty dampened sales.

### New Business Index

sa, >50 = growth since previous month

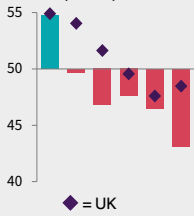
43.1

Sep '23



### New Business Index

Apr - Sep '23



◆ = UK

### Business confidence remains historically subdued

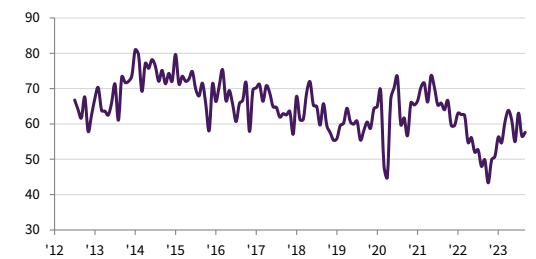
September data signalled further muted expectations for output over the coming year in the North East. Although firms still anticipate increased future activity, the degree of confidence was well below the long-run series average and was the weakest of the 12 monitored UK regions.

### Future Activity Index

>50 = growth expected over next 12 months

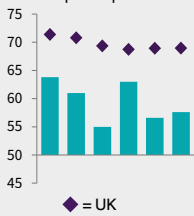
57.6

Sep '23



### Future Activity Index

Apr - Sep '23



◆ = UK

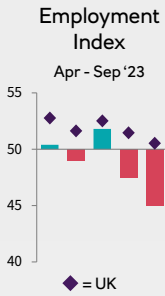
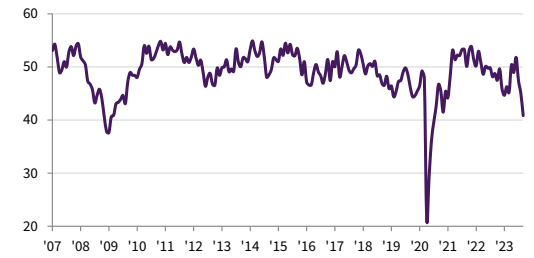
Subdued customer demand and concerns regarding high interest rates reportedly weighed on positive sentiment.

## Business capacity

### Sharpest drop in employment since July 2020

Private sector firms in the North East recorded a faster fall in workforce numbers during September. The pace of decline quickened to the fastest since July 2020 and was the sharpest of the 12 monitored UK regions. Panellists stated that lower staffing numbers was due to cost-cutting initiatives and the non-replacement of voluntary leavers.

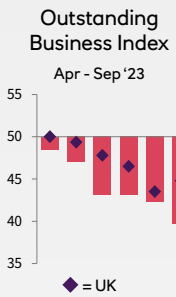
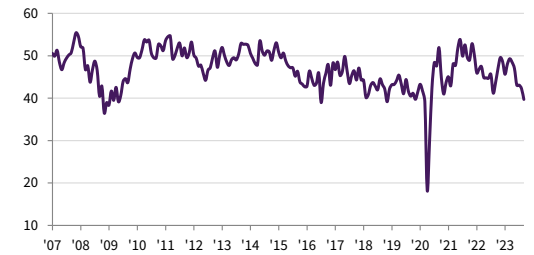
Employment Index  
sa, >50 = growth since previous month  
40.8  
Sep '23



### Marked decline in outstanding business in September

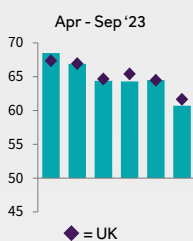
Firms in the North East saw a substantial drop in backlogs of work at the end of the third quarter. The level of outstanding business fell at the quickest pace since May 2020. Of the 12 monitored UK areas, only Wales recorded a steeper decrease in incomplete work. Anecdotal evidence largely attributed lower backlogs to reduced new orders and weak client demand.

Outstanding Business Index  
sa, >50 = growth since previous month  
39.7  
Sep '23



## Prices

Input Prices Index  
Apr - Sep '23



### Rate of input cost inflation softens

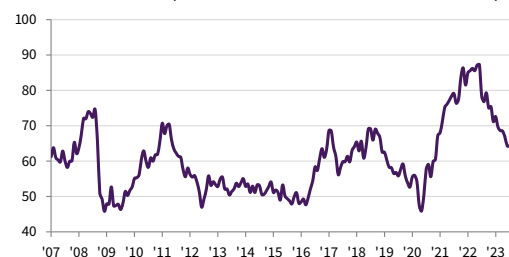
Average cost burdens at firms in the North East rose markedly in September, albeit at a softer pace. Nonetheless, the increase in operating expenses was linked to higher energy, fuel, transport and material prices.

The rate of cost inflation was quicker than the historic trend for the region, but slowed to the weakest since November 2020. At the sub-sector level, manufacturers recorded a faster decrease in input prices whereas service providers continued to see a marked rise in costs.

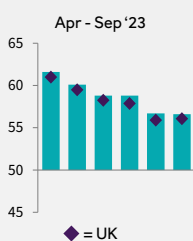
Input Prices Index

sa, >50 = inflation since previous month

60.7  
Sep '23



Prices Charged Index  
Apr - Sep '23



### Charges increase at softer pace

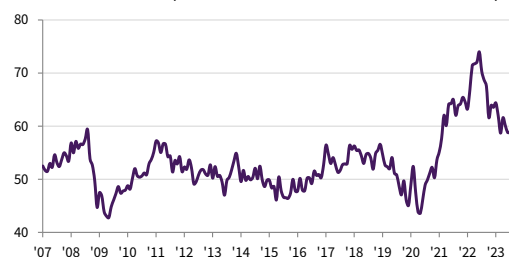
Selling prices at North East private sector firms continued to increase in September, but at the slowest pace since January 2021. Although companies continued to note efforts to pass-through higher costs to clients, and did so at a pace faster than the UK average, a few reports of discounting emerged amid weak client demand.

Unlike the trend seen for input costs, manufacturers and service providers registered upticks in selling prices.

Prices Charged Index

sa, >50 = inflation since previous month

56.6  
Sep '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, Sep '23* |
|------|------------------------|------|---------------------------|
| 1    | Chemicals & Plastics   | 1.58 | 50                        |
| 2    | Timber & Paper         | 1.17 | 45                        |
| 3    | Mechanical Engineering | 1.17 | 50                        |
| 4    | Basic Metals           | 1.13 | 50                        |
| 5    | Transport              | 0.91 | 50                        |
| 6    | Other Manufacturing    | 0.71 | 50                        |
| 7    | Textiles & Clothing    | 0.70 | 50                        |
| 8    | Electrical & Optical   | 0.69 | 45                        |
| 9    | Food & Drink           | 0.54 | 50                        |

#### North East specialisation: Services

| Rank | Sector                         | LQ   | UK Business Activity Index, Sep '23* |
|------|--------------------------------|------|--------------------------------------|
| 1    | Transport & Communication      | 1.51 | 50                                   |
| 2    | Hotels, Restaurants & Catering | 1.20 | 45                                   |
| 3    | Personal & Community Services  | 1.13 | 50                                   |
| 4    | Business-to-business Services  | 0.90 | 50                                   |
| 5    | Financial Intermediation       | 0.75 | 50                                   |
| 6    | Computing & IT Services        | 0.57 | 50                                   |

## UK sector focus

### Business-to-business services

The UK's large Business-to-business services sector contracted during the third quarter. Activity fell at a solid rate that was the fastest for over three years.

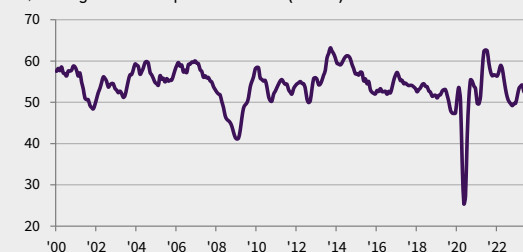
The downturn reflected a softening of demand across the sector, with firms recording a notable decline in inflows of new work in the three months to September. Business confidence towards the outlook was at its lowest since the start of the year and subdued by historical standards.

Although employment in the sector continued to rise, the rate of job creation slowed to the weakest in the year-to-date as firms made increasingly rapid inroads into their backlogs of work.

On the price front, input cost inflation remained historically elevated, driven by rising salaries and fuel prices, but it slowed to a two-and-a-half year low. It was a similar story for prices charged.

#### Output Index

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



\*3-month moving average



## UK Regional PMI overview

### Business Activity

Business activity fell across all but one of the 12 monitored UK regions and nations, the exception being London. Furthermore, output in the capital increased at an accelerated rate. The North East recorded the sharpest drop in business, its quickest for more than a year, followed by neighbouring Yorkshire & Humber.

### Employment

Employment growth was confined to just Northern Ireland\* and Scotland in September, albeit with the rates of job creation there slowing to a crawl. Ten of the 12 monitored areas recorded a reduction in staffing levels, the highest number since January 2021. For the third month running, the deepest job cuts were seen in the North East.

### Future Activity

As was the case throughout the third quarter, firms in the West Midlands were the most optimistic about future activity in September. Next in the rankings was the South East, which was one of seven regions where confidence improved. The most marked increase in sentiment was in the East of England. Expectations were lowest in the North East.

Business Activity Index

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



Employment Index

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



Future Activity Index

>50 = growth expected over next 12 months Sep '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 |
|---------|-------------------|--------------|----------------|------------------|------------|----------------------|--------------|----------------|
| 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           |
| Jul '23 | 46.8              | 47.6         | 49.7           | 63.0             | 47.5       | 43.1                 | 64.3         | 58.8           |
| Aug '23 | 49.2              | 46.5         | 48.7           | 56.6             | 45.0       | 42.3                 | 64.5         | 56.7           |
| Sep '23 | 43.7              | 43.1         | 48.5           | 57.6             | 40.8       | 39.7                 | 60.7         | 56.6           |

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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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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.

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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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