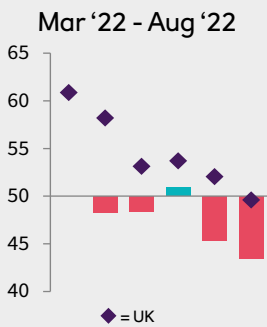


# NatWest North East PMI<sup>®</sup>

## August sees sharpest drop in North East output since start of 2021

### North East Business Activity Index



### Key findings

Business activity falls at quickest pace since January 2021

Demand worsens to greatest extent since first COVID-19 lockdown

Output charge inflation eases further, but is joint-highest regionally

Lower sales volumes, acute price pressures, tighter budgets and recession risks caused a fall in private sector output across the North East in August, according to the latest NatWest Regional PMI<sup>®</sup> data. At 43.4, down from 45.3 in July, the headline NatWest North East 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 — was in contraction territory for the second successive month and signalled the steepest rate of reduction since January 2021. The North East was at the bottom of the regional rankings for business activity.

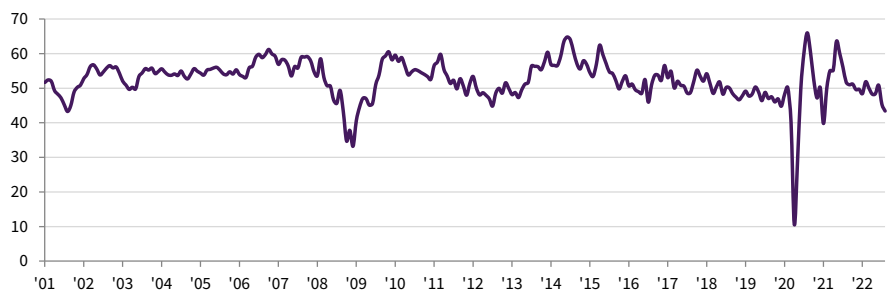
Malcolm Buchanan, Chair of the NatWest North Regional Board, commented:

*"Economic conditions in the North East remained difficult in August, with companies seeing new business shrink further as clients cut back on spending due to elevated inflation and the cost-of-living crisis. The drop in sales was the sharpest recorded by the PMI survey since May 2020, which in turn led to the fastest decline in output since the start of 2021. Although contractions in both business activity and sales were not restricted to the North East, as indicated by the vast majority of UK regions recording downturns, this area was the weakest link in August."*

*"Another challenge faced by local firms was an additional increase in their outlays during August. The rate of cost inflation eased to a one-year low, but was sharper than any seen prior to May 2021. Consequently, prices charged for goods and services rose again, which will likely drag down demand in the near term as households trim their expenses to be able to afford essentials."*

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

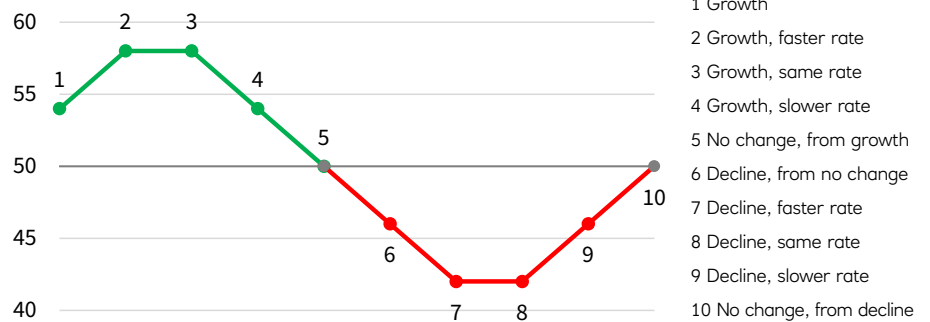
calculated from a single question that asks for changes in the volume of business activity (at service providers) or output (at manufacturers) compared with one month previously. The North East Business Activity Index is comparable to the UK Composite Output Index. It is sometimes referred to as the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

### Downturn in new work intakes deepens in August

Private sector firms in the North East signalled a further decline in new business during August. The contraction was the sixth in consecutive months and the most pronounced since the first wave of COVID-19 in the second quarter of 2020. According to panel members, sales fell due to the cost-of-living crisis, acute price pressures, weak underlying demand and economic uncertainty.

The trend for total sales was the worst of the 12 monitored UK regions.

### Companies foresee a contraction in output over next 12 months

For the first time in 28 months, North East companies were downbeat towards the year-ahead outlook for business activity. Around 34% of survey members forecast lower levels of output amid recession risks, elevated inflation, policy uncertainty and difficulties hiring suitable employees.

The overall level of confidence among North East firms was the second-lowest regionally, ahead only of Northern Ireland.

## Exports

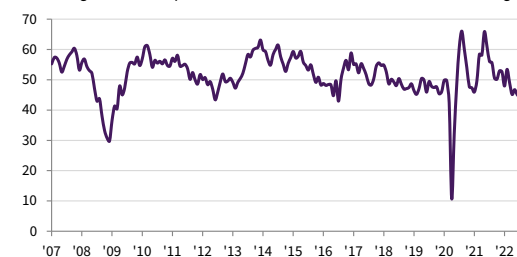
### Trade prospects worsen midway through third quarter

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.

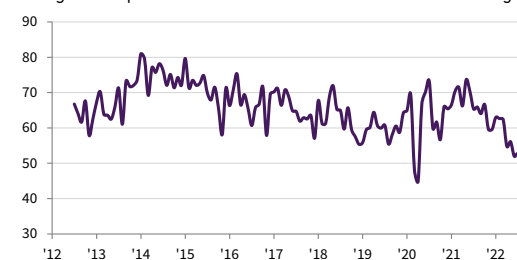
Falling from a neutral reading of 50.0 in July to 48.7 in August, the ECI pointed to the first deterioration in export conditions for local firms in over two years. That said, the rate of contraction was mild overall.

Among the top five export markets for the North East, only Spain registered economic growth, albeit at a pace that was only marginal. Rates of reduction in the US and Germany quickened, while the Netherlands slipped into contraction following two years of expansion. Finally, the downturn in Italy moderated.

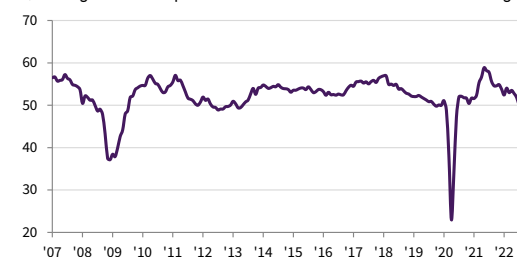
New Business Index  
sa, >50 = growth since previous month  
40.3  
Aug '22



Future Activity Index  
>50 = growth expected over next 12 months  
48.0  
Aug '22

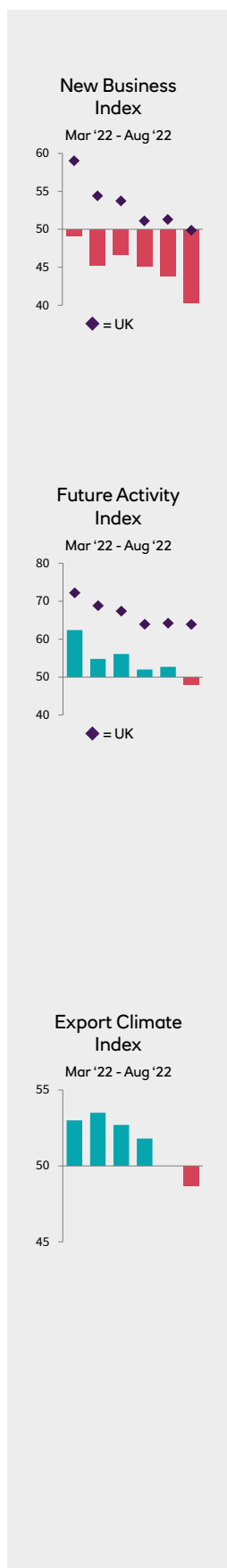


Export Climate Index  
sa, >50 = growth since previous month  
48.7  
Aug '22



Top export markets, North East

| Rank | Market      | Weight | Output Index, Aug '22 |
|------|-------------|--------|-----------------------|
| 1    | Netherlands | 13.6%  | 49.4                  |
| 2    | USA         | 12.9%  | 44.6                  |
| 3    | Germany     | 12.8%  | 46.9                  |
| 4    | Spain       | 6.8%   | 50.5                  |
| 5    | Italy       | 5.6%   | 49.6                  |



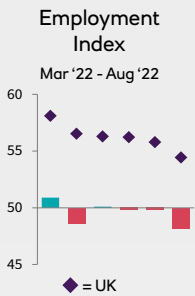
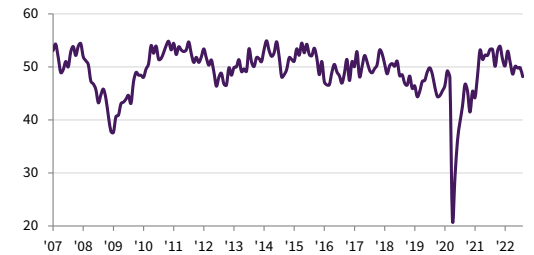
## Business capacity

### Third successive decline in payroll numbers

August data indicated that private sector employment in the North East decreased further. The fall was moderate, but the third in consecutive months and the fastest since the start of 2021. Where job shedding was signalled, panellists mentioned difficulties retaining staff, recession risks, the non-renewal of temporary contracts, fierce competition for scarce labour and a lack of suitable applicants.

The North East was the only UK region to record job shedding, though growth eased in all remaining areas.

Employment Index  
sa, >50 = growth since previous month  
48.2  
Aug '22

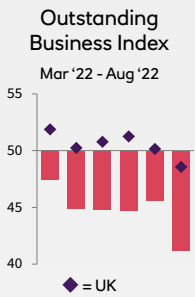
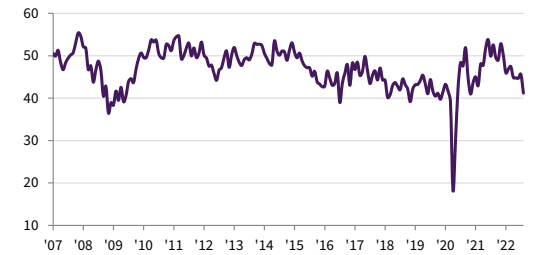


### Outstanding business falls at sharper rate

North East companies indicated another decline in unfinished business volumes midway through the third quarter, thereby stretching the current sequence of contraction to eight months. Moreover, the pace of depletion was sharp and the fastest since November 2020. Those companies that reported lower backlogs cited subdued demand conditions.

While 11 out of the 12 UK regions registered lower levels of outstanding business, with only London recording a rise, it was in the North East that the sharpest drop was seen.

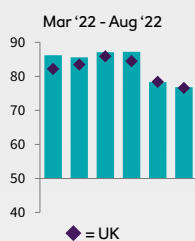
Outstanding Business Index  
sa, >50 = growth since previous month  
41.2  
Aug '22





## Prices

Input Prices Index  
Mar '22 - Aug '22



### Input cost inflation eases for second consecutive month

PMI data for August indicated another substantial upturn in the overall expenses of North East businesses. However, the rate of increase softened for the second month in a row to the slowest in a year. Anecdotal evidence pointed to greater energy, food, insurance, staff and raw material costs. Some firms signalled softer pressures from fuel, metal and transportation fees.

The local rate of input cost inflation was broadly in line with that seen at the national level.

Input Prices Index

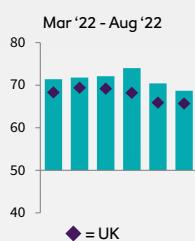
sa, >50 = inflation since previous month

76.8

Aug '22



Prices Charged Index  
Mar '22 - Aug '22



### Companies continue to transfer cost rises to clients

Amid reports of the passing on of rising expenses to clients, private sector companies in the North East hiked their fees once again in August. Despite easing to a six-month low, the overall rate of charge inflation was higher than any seen in the series history (since January 2001) prior to March. Exactly 44% of survey members signalled increased output prices, compared with 12% that indicated a reduction.

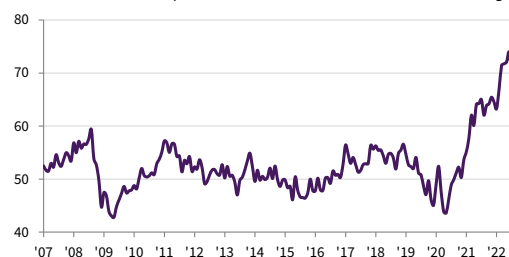
The North East shared the top spot in the regional rankings for charge inflation with Wales.

Prices Charged Index

sa, >50 = inflation since previous month

68.7

Aug '22



## 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, Aug '22* |
|------|------------------------|------|---------------------------|
| 1    | Chemicals & Plastics   | 1.58 |                           |
| 2    | Timber & Paper         | 1.17 |                           |
| 3    | Mechanical Engineering | 1.17 |                           |
| 4    | Basic Metals           | 1.13 |                           |
| 5    | Transport              | 0.91 |                           |
| 6    | Other Manufacturing    | 0.71 |                           |
| 7    | Textiles & Clothing    | 0.70 |                           |
| 8    | Electrical & Optical   | 0.69 |                           |
| 9    | Food & Drink           | 0.54 |                           |

#### North East specialisation: Services

| Rank | Sector                         | LQ   | UK Business Activity Index, Aug '22* |
|------|--------------------------------|------|--------------------------------------|
| 1    | Transport & Communication      | 1.51 |                                      |
| 2    | Hotels, Restaurants & Catering | 1.20 |                                      |
| 3    | Personal & Community Services  | 1.13 |                                      |
| 4    | Business-to-business Services  | 0.90 |                                      |
| 5    | Financial Intermediation       | 0.75 |                                      |
| 6    | Computing & IT Services        | 0.57 |                                      |

## UK sector focus

### Timber & Paper

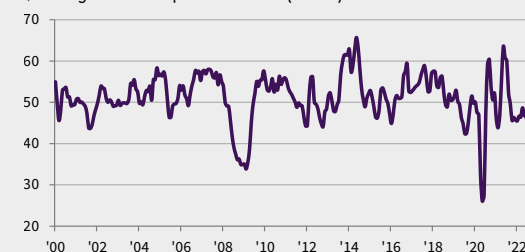
Latest UK PMI data showed a sustained downturn in activity across the Timber & Paper sector. Output levels fell sharply in the three months to August, maintaining a period of contraction stretching back a year.

Inflows of new orders decreased at an even faster rate, thereby leading to markedly reduced levels of outstanding business and a near-record build-up of finished goods. By contrast, pre-production inventories returned to contraction.

Positively, delays in the receipt of inputs were the lowest in almost two-and-a-half years. The easing of supply-chain pressures was further reflected in a moderation in the rate of input price inflation, down the lowest since the start of 2021, although it still remained elevated by historical standards. Similarly, there was a further sharp, albeit notably slower, rise in output prices across the sector.

#### Output Index

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



\*3-month moving average



## UK Regional PMI overview

### Business Activity

Just three out of the 12 monitored UK regions recorded a rise in business activity in August. Growth in London was solid but eased notably since July, whilst both the North West and Yorkshire & Humber recorded only modest rates of expansion. Activity fell elsewhere, with the steepest declines registered in the North East and East of England.

### Employment

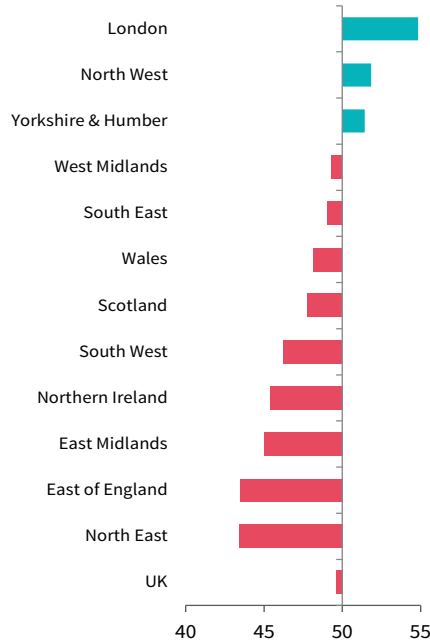
Despite signs of weakness in activity and demand, almost all regions recorded a rise in employment in August. The only exception was the North East, where workforce numbers fell for the third month running. Rates of job creation not only slowed, however, but they varied widely, with a further steep rise in workforce numbers in London contrasting with only marginal growth in the South West.

### Future Activity

The majority of regions recorded a drop in business confidence towards the outlook in August. The three highest-ranked areas, Yorkshire & Humber, the South East and London, went against the broader trend and recorded improved sentiment, as did the East Midlands (ranked eighth). Expectations turned negative in the North East, while firms in Northern Ireland\* grew more pessimistic.

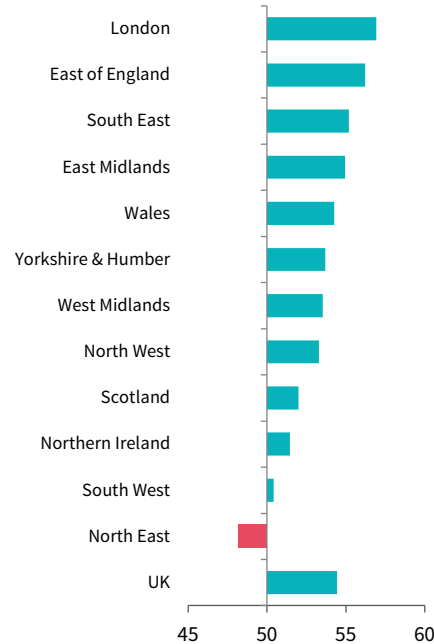
Business Activity Index

sa, >50 = growth since previous month, Aug '22



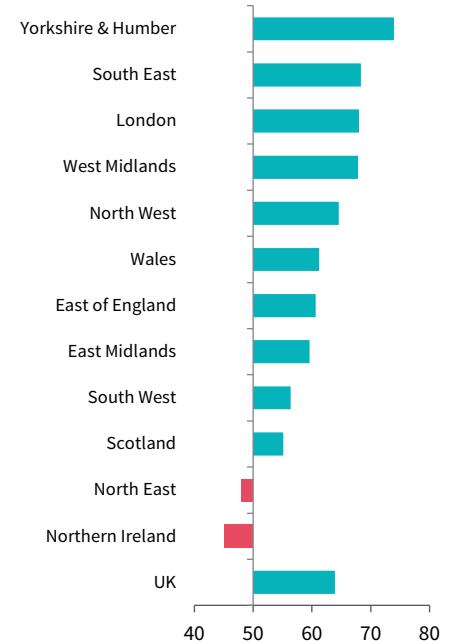
Employment Index

sa, >50 = growth since previous month, Aug '22



Future Activity Index

>50 = growth expected over next 12 months Aug '22



\* 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 |
|---------|-------------------|--------------|----------------|------------------|------------|----------------------|--------------|----------------|
| Mar '22 | 50.0              | 49.1         | 53.0           | 62.4             | 50.9       | 47.4                 | 86.2         | 71.4           |
| Apr '22 | 48.3              | 45.2         | 53.5           | 54.8             | 48.6       | 44.9                 | 85.6         | 71.8           |
| May '22 | 48.4              | 46.7         | 52.7           | 56.1             | 50.1       | 44.8                 | 87.1         | 72.1           |
| Jun '22 | 50.9              | 45.1         | 51.8           | 52.0             | 49.8       | 44.7                 | 87.2         | 74.0           |
| Jul '22 | 45.3              | 43.9         | 50.0           | 52.7             | 49.8       | 45.6                 | 78.3         | 70.4           |
| Aug '22 | 43.4              | 40.3         | 48.7           | 48.0             | 48.2       | 41.2                 | 76.8         | 68.7           |

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

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