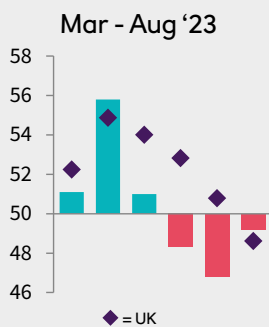


NatWest North East PMI[®]

Downturn in new business worsens in August

North East Business Activity Index



Key findings

Firms clear backlogs to support activity levels

North East firms cut jobs at fastest rate of all UK regions

Output price inflation eases to 31-month low

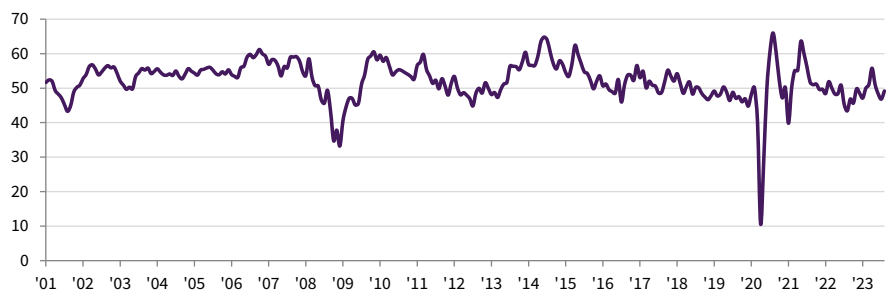
The headline NatWest North East PMI[®] Business Activity Index – a seasonally adjusted index that measures the month-on-month change in the combined output of the region’s manufacturing and service sectors – signalled a third straight monthly decline in private sector output in August. The Index rose to 49.2, from 46.8 in July, indicating a slower fall that reflected an increased rate of backlog clearance as new business declined more sharply. The North East recorded the worst 12-month outlook among all 12 UK regions, and the fastest drop in private sector employment. Data on prices signalled that cost pressures remained stubbornly high, albeit one that was among the lowest for over two-and-a-half years. Prices charged for goods and services increased at the slowest rate since January 2021, but one that remained historically high.

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

"You have to look beyond the headline figure to get a complete picture of business conditions in the North East private sector in August. Although total activity declined more slowly than in July, this was achieved by firms finishing existing business as the downturn in demand accelerated. Moreover, the outlook for the next 12 months was the weakest in the UK, mirrored in the steepest drop in workforce numbers. In terms of prices, both indices remained well above their long-run averages in August but the latest dip in the Prices Charged Index is encouraging."

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

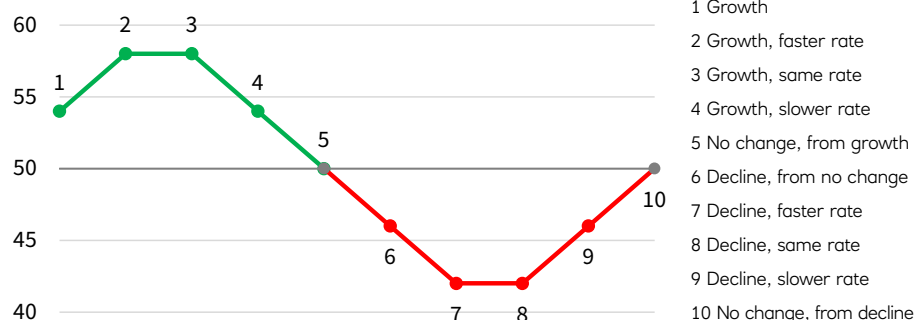
calculated from a single question that asks for changes in the volume of business activity (at service providers) or output (at manufacturers) compared with one month previously. The North East Business Activity Index is comparable to the UK Composite Output Index. It is sometimes referred to as the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

Index interpretation

50.0 = no change since previous month



Demand and outlook

New work contracts for fourth consecutive month

There was a fourth successive monthly decline in new work received by private sector firms in the North East in August. Moreover, the rate of contraction accelerated since July to the strongest since October 2022. Demand across the UK as a whole declined for the second month running, and also at a faster rate.

The North East registered the fourth-strongest drop in new orders among the 12 UK regions monitored in August.

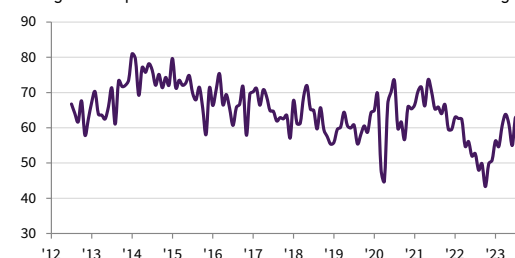
New Business Index
sa, >50 = growth since previous month 46.5
Aug '23



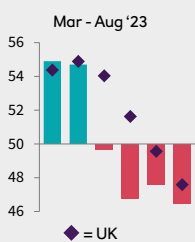
Outlook weakest of all 12 UK regions

Output expectations among private sector firms in the North East remained positive overall in August, but deteriorated since July and were the weakest seen across all 12 UK regions. Sentiment remained above the rolling 12-month average, however, as some firms expected a recovery in demand once wider inflationary pressures eased.

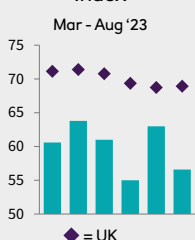
Future Activity Index
>50 = growth expected over next 12 months 56.6
Aug '23



New Business Index
Mar - Aug '23



Future Activity Index
Mar - Aug '23



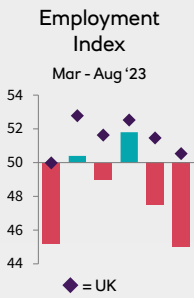
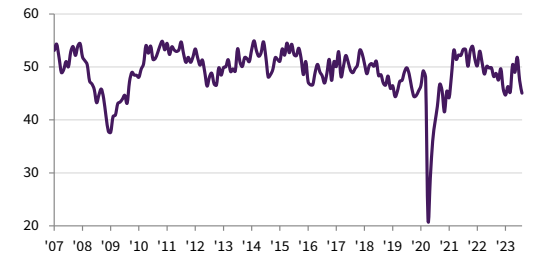
Business capacity

North East posts fastest fall in workforce numbers in UK

Private sector employment in the North East fell for the second month running in August, and at the fastest rate since January. Moreover, among the 12 UK regions monitored the North East registered the sharpest decline.

The rate of workforce growth across the UK eased to the slowest in the current five-month period of expansion.

Employment Index
sa, >50 = growth since previous month
45.0
Aug '23

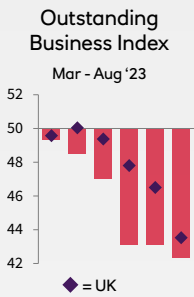
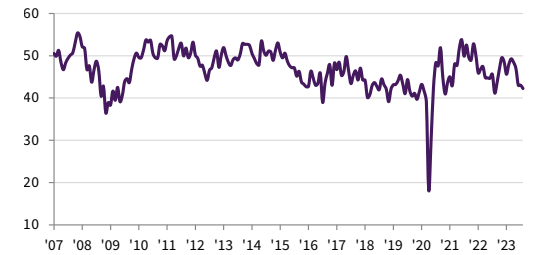


Outstanding work down at fastest rate for a year

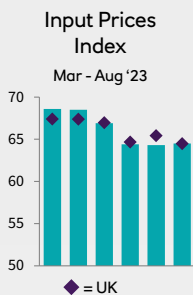
The steeper drop in new orders in August resulted in firms clearing backlogged work at a sharper rate to support total activity levels. Outstanding business fell at the fastest pace since August 2022, and one that was in excess of the UK average.

Backlogs in the North East have fallen for 20 successive months, the longest current sequence of all UK regions.

Outstanding Business Index
sa, >50 = growth since previous month
42.3
Aug '23



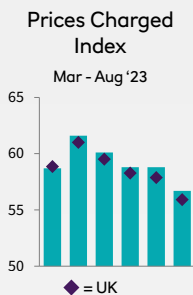
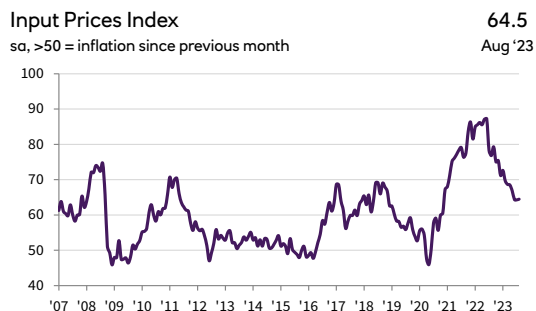
Prices



Input price inflation remains among lowest in over two-and-a-half years

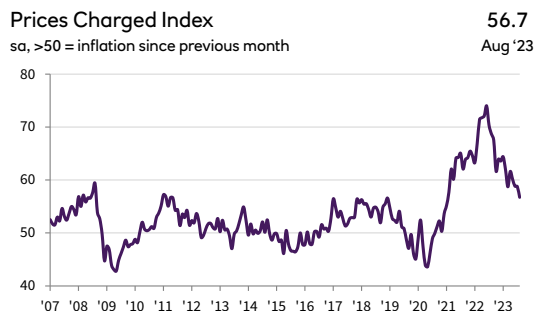
Average input prices rose in August, extending the current sequence of inflation to 39 months. The rate of increase was little-changed from the two-and-a-half-year lows seen in June and July, but remained well above the long-run series average. Companies attributed cost pressures to wages, fuel, interest rates and Brexit.

Input price inflation in the North East was identical to the UK trend in August.



Weakest rise in prices charged for goods and services since January 2021

Private sector companies in the North East continued to raise their prices charged for goods and services in August as they passed on greater input costs to clients. The rate of inflation remained strong in the context of historical data and above the UK trend, but eased to a 31-month low.



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 '23*
1	Chemicals & Plastics	1.58	48
2	Timber & Paper	1.17	49
3	Mechanical Engineering	1.17	51
4	Basic Metals	1.13	50
5	Transport	0.91	48
6	Other Manufacturing	0.71	49
7	Textiles & Clothing	0.70	49
8	Electrical & Optical	0.69	44
9	Food & Drink	0.54	52

North East specialisation: Services

Rank	Sector	LQ	UK Business Activity Index, Aug '23*
1	Transport & Communication	1.51	48
2	Hotels, Restaurants & Catering	1.20	45
3	Personal & Community Services	1.13	51
4	Business-to-business Services	0.90	49
5	Financial Intermediation	0.75	53
6	Computing & IT Services	0.57	51

UK sector focus

Electrical & Optical

There was a sharp decrease in output across the UK's Electrical & Optical sector in the three months to August. The rate of contraction was the quickest seen since the initial pandemic-related shutdowns in spring 2020 and by far the fastest among the nine manufacturing sectors monitored.

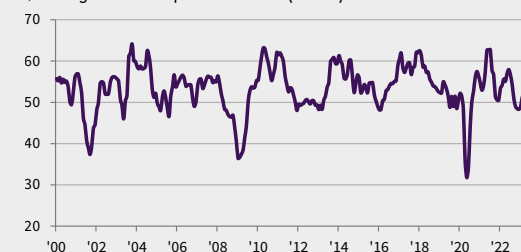
The downturn was driven by a deepening decline in new orders, with export sales falling particularly sharply. With firms reporting a rapid depletion of backlogs of work, job creation in the sector eased to the slowest for over two-and-a-half years.

On the supply side, firms faced a sustained shortening of delivery times on purchases, albeit with the rate of improvement easing. Input cost inflation meanwhile ticked up slightly, but it remained close to its recent three-year low. Output price inflation exhibited an almost identical trend.

Expectations towards future output remained subdued by historical standards despite inching up.

Output Index

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



*3-month moving average



UK Regional PMI overview

Business Activity

Of the 12 monitored regions and nations, only Wales and London recorded growth in business activity in August. Even here, however, the rates of expansion were marginal. Output was unchanged in Scotland and the West Midlands, while all remaining areas recorded contractions. The steepest decline in activity was seen in Northern Ireland*, followed by the South West.

Employment

The majority of areas recorded a rise in employment in August, although rates of job creation often slowed. Northern Ireland recorded the most marked rise in workforce numbers despite the pace of hiring there slowing to a seven-month low. The North East saw a notable drop in staffing levels, while there were more modest declines in the East Midlands, Wales and West Midlands.

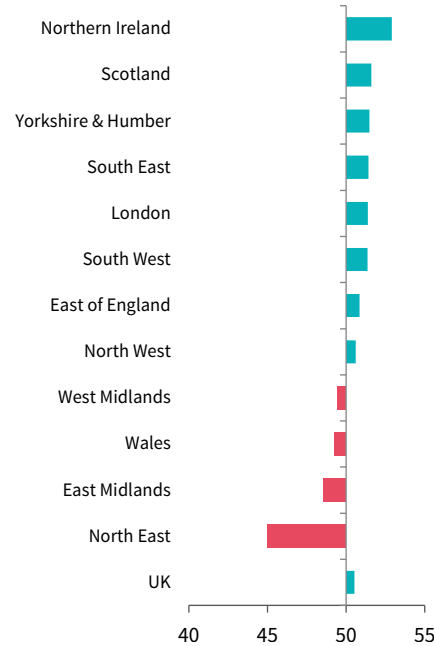
Future Activity

There were varying trends in business expectations, with confidence towards future activity rising in just under half of cases in August. The West Midlands topped the rankings for a second month running and saw sentiment improve to the joint-highest since January 2022. By contrast, the North East recorded the greatest loss of confidence as well as the lowest overall degree of optimism.

Business Activity Index
sa, >50 = growth since previous month, Aug '23



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



Future Activity Index
>50 = growth expected over next 12 months Aug '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
Mar '23	51.1	54.9	52.3	60.6	45.2	49.3	68.6	58.7
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

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