

NatWest North East PMI[®]

Output falls further but new orders dip only slightly in December

North East Business Activity Index



Key findings

Output declines for sixth month running, albeit modestly

Slowest fall in new business in current ten-month sequence

Input price inflation slides to 22-month low

The NatWest Regional PMI[®] data for the North East showed a slightly faster decline in activity in December, but a slower fall in new business and easing price pressures. 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 — fell to 48.5 in December from 49.8 in November, indicating a sixth consecutive monthly reduction in output. The rate of decline accelerated slightly in the final month of the year, but remained softer than those registered between July and October. The North East registered a rate of decline that was slightly faster than the UK average in December.

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

"Output in the North East may have fallen at a slightly faster rate in December than November, but the trend over the fourth quarter definitely improved compared to the third quarter. Of further encouragement, new business fell at the slowest rate in the current ten-month sequence of contracting demand."

"The other positive to take from the latest survey findings is that both price indices resumed their recent downward trends, after having ticked up in November. Input price inflation now stands at its lowest in nearly two years, although it still has some way to fall before it returns to its long-run average. The sharp drop in employment in December may help to keep a lid on pay demands and ward off a wage-price spiral."

North East Business Activity Index

sa, >50 = growth since previous month



Contents

- [About the report](#)
- [Demand and outlook](#)
- [Exports](#)
- [Business capacity](#)
- [Prices](#)
- [UK Sector PMI](#)
- [UK Regional PMI](#)
- [Data summary](#)
- [Contact](#)

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

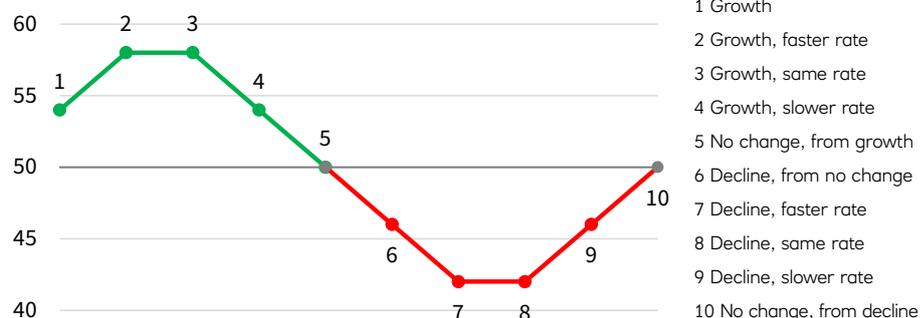
calculated from a single question that asks for changes in the volume of business activity (at service providers) or output (at manufacturers) compared with one month previously. The North East Business Activity Index is comparable to the UK Composite Output Index. It is sometimes referred to as the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

Downturn in new work eases further at year-end

The level of new business received by private sector firms in the North East fell for the tenth consecutive month in December, linked to cost cutting at customers and weak demand generally. That said, the rate of decline in new work in the final month of 2022 was the slowest in the current downturn, and only marginal overall.

The North East continued to fare well compared with other parts of the UK. It posted the slowest decline in new work among the 11 regions that recorded contractions in December. Wales was the only region to post growth of new business.

Expectations turn positive, but remain weak

North East firms were, on balance, optimistic of growth over the course of 2023. That said, confidence was weak overall with the Future Activity Index only slightly above 50.0 and well below its long-run average (since 2012) of 65.1. High inflation and a possible recession continued to weigh on expectations. The North East had the lowest expectations of any UK region except Northern Ireland where pessimism was registered.

Exports

Export conditions deteriorate for fifth month running

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.

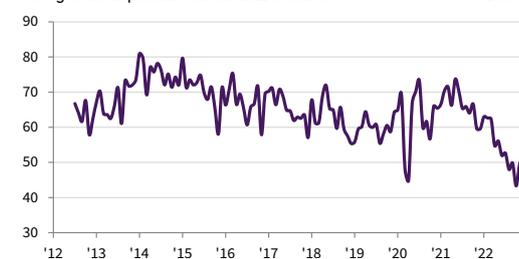
The ECI rose to 48.2 in December, but still indicated an overall drop in activity across the North East export markets. The rate of decline was the weakest in three months.

Among the largest export markets, the Netherlands and the US posted sharp declines in output in December, while the contractions in Germany, Italy and Spain were only modest.

New Business Index
sa, >50 = growth since previous month
49.6
Dec '22



Future Activity Index
>50 = growth expected over next 12 months
50.8
Dec '22

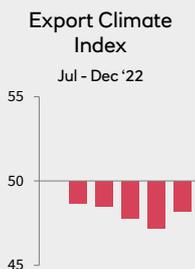
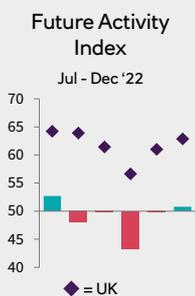
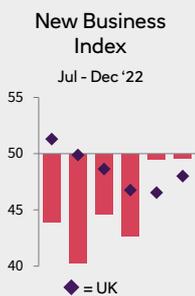


Export Climate Index
sa, >50 = growth since previous month
48.2
Dec '22



Top export markets, North East

Rank	Market	Weight	Output Index, Dec '22
1	Netherlands	13.6%	43.2
2	USA	12.9%	46.4
3	Germany	12.8%	46.3
4	Spain	6.8%	49.6
5	Italy	5.6%	48.9



Business capacity

North East sees steepest job cuts of all UK regions

Private sector firms in the North East shed staff for the seventh consecutive month in December. Moreover, the rate of decline was the fastest since January 2021, and the strongest of all 12 UK regions. UK private sector employment as a whole also declined in December, the first month of job shedding since February 2021.

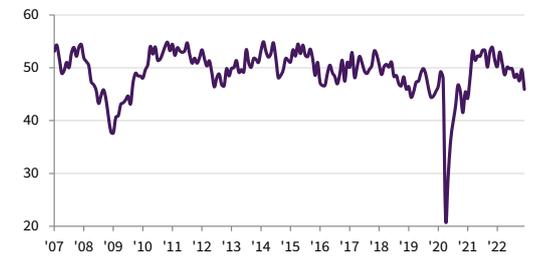
Across 2022 the North East posted falling headcounts eight times, six more than both the East Midlands and South West, the next-weakest areas in terms of private sector jobs.

Backlogs cleared further in December

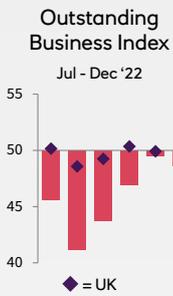
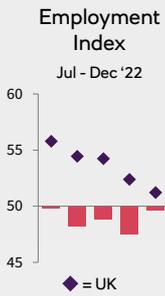
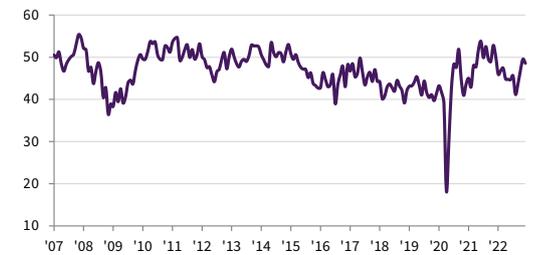
The sustained fall in new business, albeit only marginal, enabled firms to further reduce their levels of outstanding work in December. This completed a full year of declining backlogs in the North East, although the last two reductions were the weakest in 2022.

For the first time since January 2021, all 12 UK regions recorded falling backlogs in December. The sharpest decline was in the East Midlands, while the North East registered one of the slowest reductions.

Employment Index
sa, >50 = growth since previous month
45.9
Dec '22



Outstanding Business Index
sa, >50 = growth since previous month
48.6
Dec '22



Prices

Slowest rise in average input prices since February 2021

Cost pressures in the North East private sector abated in December. The rate of input price inflation eased for the fourth time in the second half of 2022, to the weakest since February 2021. The seasonally adjusted Input Prices Index has shed 16 points since hitting a record high of 87.2 in June. That said, it remained well above its long-run average of 59.3, as firms highlighted wage pressures and higher import prices due to weak sterling and Brexit.

Input price inflation across the UK as a whole eased to a 19-month low in December, with the weakest rate seen in the North West and the strongest in Northern Ireland.

Charge inflation eases further from June's peak

North East firms raised their prices for the twenty-eighth successive month in December, as they attempted to recoup higher costs. The rate of inflation eased for the fifth time in six months, to the second-weakest since January 2022. That said, it remained sharper than in any period prior to May 2021.

Rates of charge inflation remained elevated in all 12 UK regions, with the strongest in the West Midlands and the weakest in the North West.

Input Prices Index

sa, >50 = inflation since previous month

71.2

Dec '22

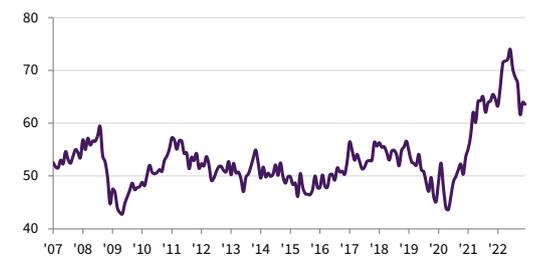


Prices Charged Index

sa, >50 = inflation since previous month

63.6

Dec '22



Input Prices Index

Jul - Dec '22



◆ = UK

Prices Charged Index

Jul - Dec '22



◆ = UK



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, Dec '22*
1	Chemicals & Plastics	1.58	45
2	Timber & Paper	1.17	40
3	Mechanical Engineering	1.17	50
4	Basic Metals	1.13	45
5	Transport	0.91	45
6	Other Manufacturing	0.71	45
7	Textiles & Clothing	0.70	45
8	Electrical & Optical	0.69	50
9	Food & Drink	0.54	50

North East specialisation: Services

Rank	Sector	LQ	UK Business Activity Index, Dec '22*
1	Transport & Communication	1.51	45
2	Hotels, Restaurants & Catering	1.20	45
3	Personal & Community Services	1.13	45
4	Business-to-business Services	0.90	50
5	Financial Intermediation	0.75	45
6	Computing & IT Services	0.57	50

UK sector focus

Chemicals & Plastics

Chemicals & Plastics manufacturing saw a sharp drop in output in the three months to December, making it one of the UK's worst-performing sectors in the final quarter of 2022.

The result reflected a deepening decline in new orders, led by rapidly falling international demand. The trend in new export orders was in fact the weakest in the entire series history stretching back to 1996.

Accordingly, businesses across the sector were firmly in retrenchment mode, scaling down not only workforce numbers but also purchasing activity and inventories. Amid easing supply bottlenecks, input price inflation was at its lowest in over two years.

Looking ahead, expectations among Chemicals & Plastics firms towards future activity were historically subdued.

Output Index

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



*3-month moving average



UK Regional PMI overview

Business Activity

Of the 12 UK regions and nations monitored, only Wales and London recorded a rise in business activity in December, while the North West saw no change. This nevertheless represented an improvement from the broad-based decline seen in November. Northern Ireland* meanwhile moved to the bottom of the rankings, having seen a sharp and accelerated fall in output.

Employment

The number of areas of the UK reporting falling employment levels increased from just two in November to seven in December. The steepest reduction in headcounts was in the North East. By contrast, the North West saw the fastest rate of job creation, with the South East, West Midlands and Wales also posting further, albeit marginal, rises in workforce numbers.

Future Activity

Business sentiment towards future activity generally remained subdued in December, with expectations in all regions and nations remaining below their respective historical series averages. That said, confidence improved in most areas. This included the South East, which topped the rankings ahead of Yorkshire & Humber. Only in Northern Ireland did pessimists outnumber optimists.

Business Activity Index

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



Employment Index

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



Future Activity Index

>50 = growth expected over next 12 months Dec '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
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
Sep '22	46.8	44.6	48.5	49.8	48.8	43.7	79.3	67.5
Oct '22	45.7	42.7	47.8	43.3	47.5	46.9	75.0	61.7
Nov '22	49.8	49.5	47.2	49.8	49.6	49.5	75.4	63.9
Dec '22	48.5	49.6	48.2	50.8	45.9	48.6	71.2	63.6

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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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