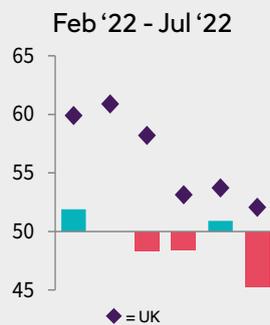


NatWest North East PMI[®]

Business activity falls at quickest rate for a year-and-a-half

North East Business Activity Index



Key findings

Sharpest reduction in new business intakes since May 2020

Input price and output charge inflation decelerate

Business confidence improves only modestly

The North East economy signalled a renewed contraction in July as business activity fell for the third time in four months. According to the latest NatWest Regional PMI[®] data, 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 from 50.9 in June to 45.3 in July to signal the sharpest reduction in private sector output for 18 months. Survey participants indicated that rising inflation, supply shortages, Brexit and interest rate hikes all curbed business activity. The performance in the North East was the second-weakest of the 12 monitored UK regions, ahead only of Northern Ireland.

Richard Topliss, Chairman of NatWest North Regional Board, commented:

"North East businesses faced a renewed reduction in business activity as economic uncertainty stemming from price and supply pressures hindered output and demand across the private sector. Moreover, new orders fell for the fifth month running and at a pace not seen since the initial wave of the pandemic in May 2020 forced business closures amid lockdowns. Weaker demand and tentative evidence of easing price pressures contributed to a softening of both input price and output charge inflation at the start of the second half of the year. While the level of positive sentiment picked up from June, the overall degree of optimism was only modest and well below the long-run average as heightened economic uncertainty dampened business confidence."

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

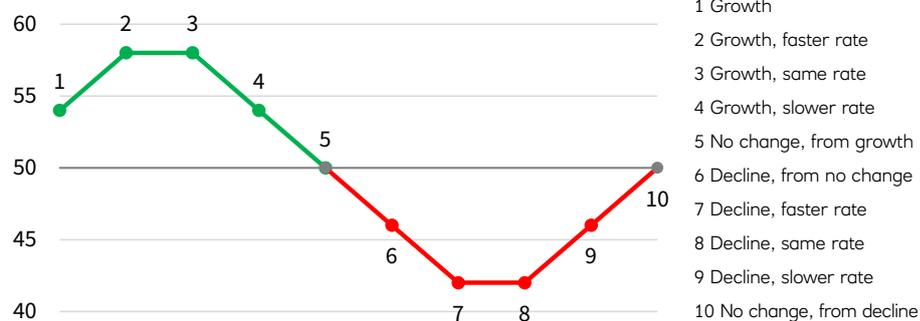
calculated from a single question that asks for changes in the volume of business activity (at service providers) or output (at manufacturers) compared with one month previously. The North East Business Activity Index is comparable to the UK Composite Output Index. It is sometimes referred to as the '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 business falls at fastest pace for 26 months

Companies based in the North East observed a fifth consecutive monthly decrease in new work intakes during July. The rate of decline was strong, and the steepest recorded since May 2020. Firms often linked falling orders to weakened demand due to the impacts of inflation, supply chain issues, Brexit and interest rate hikes.

The reduction in new business in the North East was the second-strongest out of the 12 monitored UK regions, ahead only of Northern Ireland.

Business sentiment improves slightly

Private sector companies in the North East displayed improved confidence regarding expectations of a rise in output over the course of the coming year. The overall level of positive sentiment picked up slightly from June, though was well below the long-term average (65.8). Predictions of new business gains as price and supply pressures ease underpinned growth projections but concerns regarding the Ukraine war and further economic uncertainty dampened optimism.

Exports

Broad stagnation in export conditions

The North East Export Climate Index 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.

At 50.0 in July, the index signalled a stagnation in export conditions for local firms. The latest reading was the lowest for just over two years, however, outside the initial pandemic phase between February and June 2020, it was the lowest since December 2019. Output fell in three of the top five markets for North East goods and services, including renewed and solid declines in the USA, Italy and Germany. Only Spain and the Netherlands signalled growth in July, albeit at slower rates.

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



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



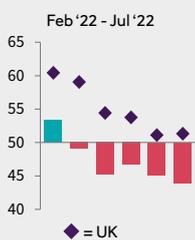
Export Climate Index
sa, >50 = growth since previous month Jul '22



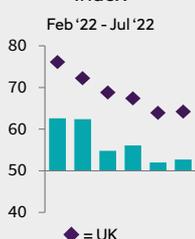
Top export markets, North East

Rank	Market	Weight	Output Index, Jul '22
1	Netherlands	13.6%	51.7
2	USA	12.9%	47.7
3	Germany	12.8%	48.1
4	Spain	6.8%	52.7
5	Italy	5.6%	47.7

New Business Index
Feb '22 - Jul '22



Future Activity Index
Feb '22 - Jul '22



Export Climate Index
Feb '22 - Jul '22

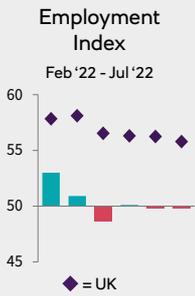
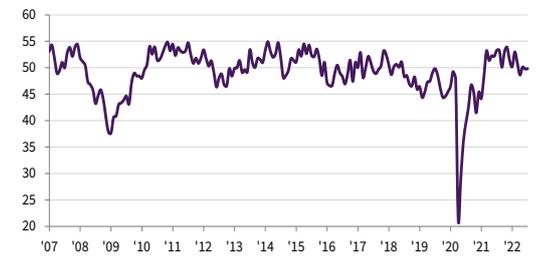


Business capacity

Employment levels fall further in July

Private sector jobs in the North East fell again at the start of the third quarter. The rate of job shedding was unchanged from the previous survey period and fractional overall. Anecdotal evidence suggested that difficulties recruiting suitable candidates and higher wage costs weighed on staffing levels. The North East was the sole region of the 12 monitored in the UK to record job shedding.

Employment Index 49.8
 sa, >50 = growth since previous month Jul '22

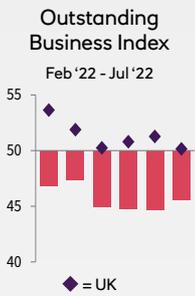
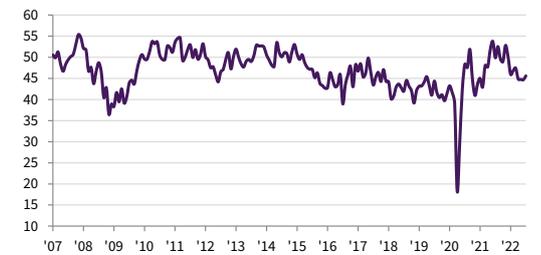


Backlogs of work fall at softer pace

Adjusted for seasonal variance, the Outstanding Business Index was in contraction territory for the seventh successive month in July. The latest decline was sharp, yet eased to the softest for four months.

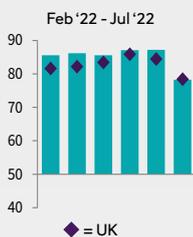
The depletion in outstanding business in the North East was the third-strongest of the 12 monitored regions, slower than only the North West and Northern Ireland.

Outstanding Business Index 45.6
 sa, >50 = growth since previous month Jul '22



Prices

Input Prices Index



Input prices increase at softer, yet still rapid pace

The rate of input price inflation decelerated for only the second time in 2022 (last in April), yet remained rapid overall. Input prices have increased in each of the last 26 months, though the latest rise was the softest since September 2021. Panellists often cited higher energy, electricity, fuel, raw material and wage costs.

The increase in input prices in the North East was broadly in line with that seen at the national level.

Input Prices Index

sa, >50 = inflation since previous month

78.3

Jul '22



Prices Charged Index



Output price inflation softens from series record

Prices charged for goods and services in the North East rose further during July, taking the current stretch of inflation to 23 months. The rate of inflation was substantial, but eased for the first time since January to the slowest for five months. Panel members indicated that selling prices were lifted due to steep increases in their expenses.

The rate of charge inflation was above the UK-wide average, and only softer than that seen in Northern Ireland.

Prices Charged Index

sa, >50 = inflation since previous month

70.4

Jul '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, Jul '22 ⁺
1	Chemicals & Plastics	1.58	50
2	Timber & Paper	1.17	45
3	Mechanical Engineering	1.17	55
4	Basic Metals	1.13	52
5	Transport	0.91	52
6	Other Manufacturing	0.71	50
7	Textiles & Clothing	0.70	48
8	Electrical & Optical	0.69	55
9	Food & Drink	0.54	48

North East specialisation: Services

Rank	Sector	LQ	UK Business Activity Index, Jul '22 ⁺
1	Transport & Communication	1.51	48
2	Hotels, Restaurants & Catering	1.20	45
3	Personal & Community Services	1.13	55
4	Business-to-business Services	0.90	50
5	Financial Intermediation	0.75	52
6	Computing & IT Services	0.57	55

UK sector focus

Financial Intermediation

The UK's Financial Intermediation sector saw an increase in business activity in the three months to July. However, having been solid throughout the opening half of the year, the rate of growth slowed sharply and was among the softest seen since the current sequence of expansion began in the spring of last year.

The loss of momentum reflected a deepening decline in inflows of new work across the sector, with reports from surveyed firms highlighting the influence market and economic uncertainty, high inflation and rising interest rates. Expectations towards future activity deteriorated accordingly, dropping to their lowest in over two years.

On the price front, Financial Intermediation firms raised charges at a near-record rate in the three months to July, with underlying cost pressures close to the highest seen in over 25 years of data collection.

Output Index

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



⁺3-month moving average



UK Regional PMI overview

Business Activity

Eight of the 12 monitored UK regions recorded higher business activity in July, the lowest number since February 2021 (four). London saw by far the strongest growth, but even here the rate of expansion slowed, as was the case in six other areas. Northern Ireland* remained at the bottom of the rankings, while lower output was also seen in the North East, East of England and East Midlands.

Employment

Rates of job creation generally remained robust across the UK in July. In fact, four regions even saw slightly faster increases in employment than the month before, including the South East which moved to the top of the rankings. The North East once again went against the broader trend, registering another marginal decline in workforce numbers, its third in the past four months.

Future Activity

Firms' expectations for future activity remained positive for the most part in July, with only those in Northern Ireland anticipating a decline in output over the next 12 months. Businesses in Yorkshire & Humber were the most optimistic about the outlook, despite confidence in the region have weakened from the previous month. Expectations also fell in the West Midlands, South East, East Midlands and South West.

Business Activity Index

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



Employment Index

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



Future Activity Index

>50 = growth expected over next 12 months Jul '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
Feb '22	51.9	53.4	54.0	62.6	53.0	46.8	85.6	66.9
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

Contact

Marion Rannard
Regional Campaign Manager
NatWest
+44 (0) 7966 300 969
marion.rannard@natwest.co.uk

Usamah Bhatti
Economist
S&P Global Market Intelligence
+44 1344 328 370
usamah.bhatti@spglobal.com

Sabrina Mayeen
Corporate Communications
S&P Global Market Intelligence
+44 (0) 7967 447 030
sabrina.mayeen@spglobal.com

About NatWest

NatWest serves customers in England and Wales, supporting them with their personal, private, and business banking needs. NatWest helps customers at all stages in their lives, from opening student accounts, to buying their first home, setting up a business, and saving for retirement.

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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