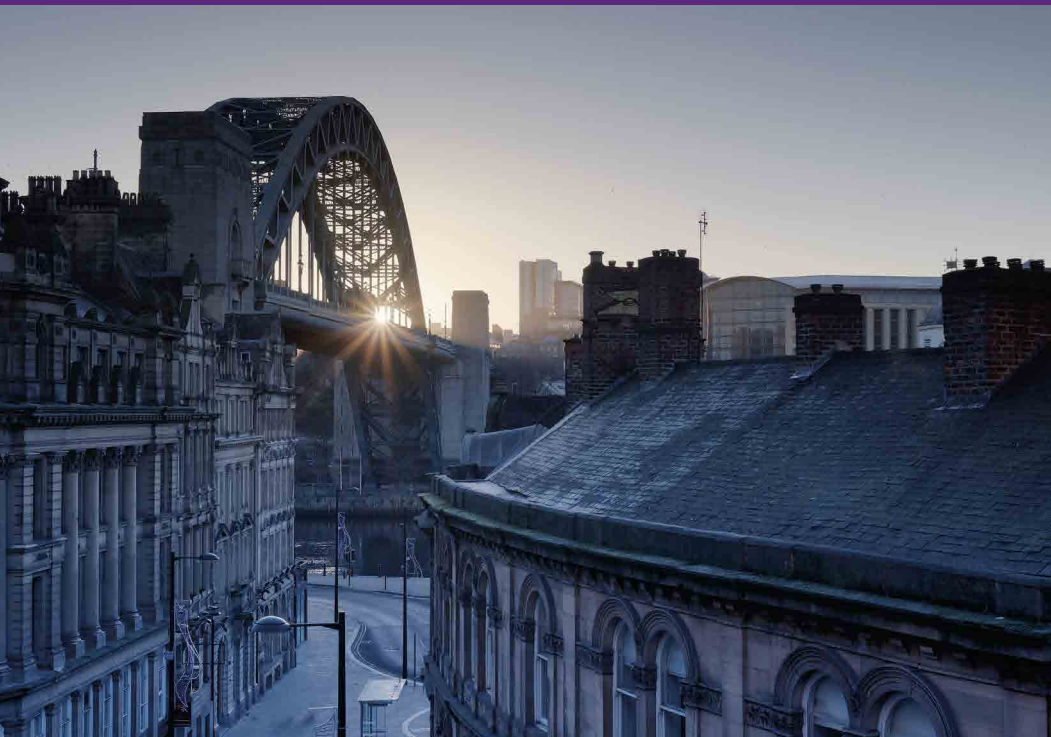


13 August 2024

NatWest North East Growth Tracker

Strongest rise in new business for nearly
three years



NatWest

PMI[®]

by **S&P Global**

13 August 2024

NatWest North East Growth Tracker

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by **S&P Global**

Key findings

July 2024

Fastest rise in new business since August 2021

Job creation most pronounced since late 2021

Brightest outlook for over three years

The NatWest North East Growth Tracker provides a timely snapshot of regional economic performance.

The report tracks monthly changes in business activity, demand, employment, backlogs, prices and the year-ahead outlook. The data are compiled from local companies that participate in S&P Global's UK manufacturing and services PMI surveys.

For more reports on 12 UK nations and regions, visit www.natwest.com/business/insights/economics





Strongest rise in new business for nearly three years

The latest Growth Tracker data from NatWest showed sustained growth in business activity across the North East economy in July.

North East private sector companies experienced stronger demand conditions at the start of the third quarter, to which they responded with greater hiring activity. Meanwhile, businesses in the region enjoyed cooler cost pressures and firms' confidence improved markedly.

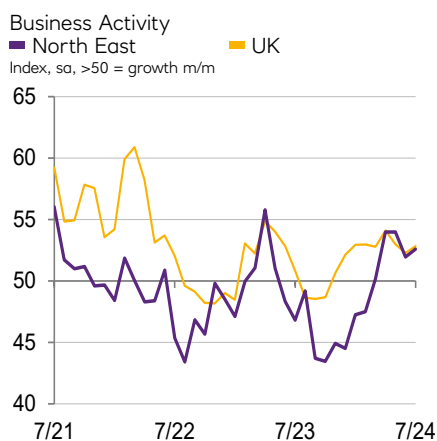
The headline North East Growth Tracker Business Activity Index – a seasonally adjusted index that measures the month-on-month change in the combined output of the region's manufacturing and service sectors – posted at 52.6 in July, up from 52.0 in June. The latest rise in activity was solid, stronger than in June and largely in line with the UK average. Panellists linked the upturn to an improved demand environment across the North East.

NatWest North East Business Activity Index July 2024

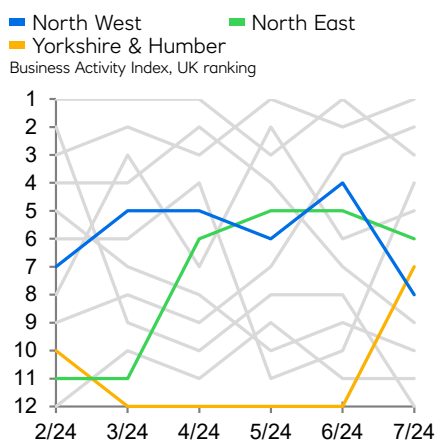
52.6

The Business Activity Index is a diffusion index calculated from companies' responses to a question on monthly changes in the volume of business activity. The index varies between 0 and 100 and is the sum of the percentage of 'higher' responses and half the percentage of 'unchanged' responses. A reading above 50 indicates an increase compared to the previous month, and below 50 a decrease. The index is seasonally adjusted.

Data compiled 11-29 July



Sources: NatWest, S&P Global PMI. ©2024 S&P Global.



Sources: NatWest, S&P Global PMI. ©2024 S&P Global.



Comment

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

"The North East private sector entered the second half of the year on strong footing, supported by favourable demand conditions and slightly cooler inflationary pressures. In fact, firms in the region enjoyed the strongest inflows of new business seen for nearly three years. Meanwhile, both cost and charge inflation eased in July.

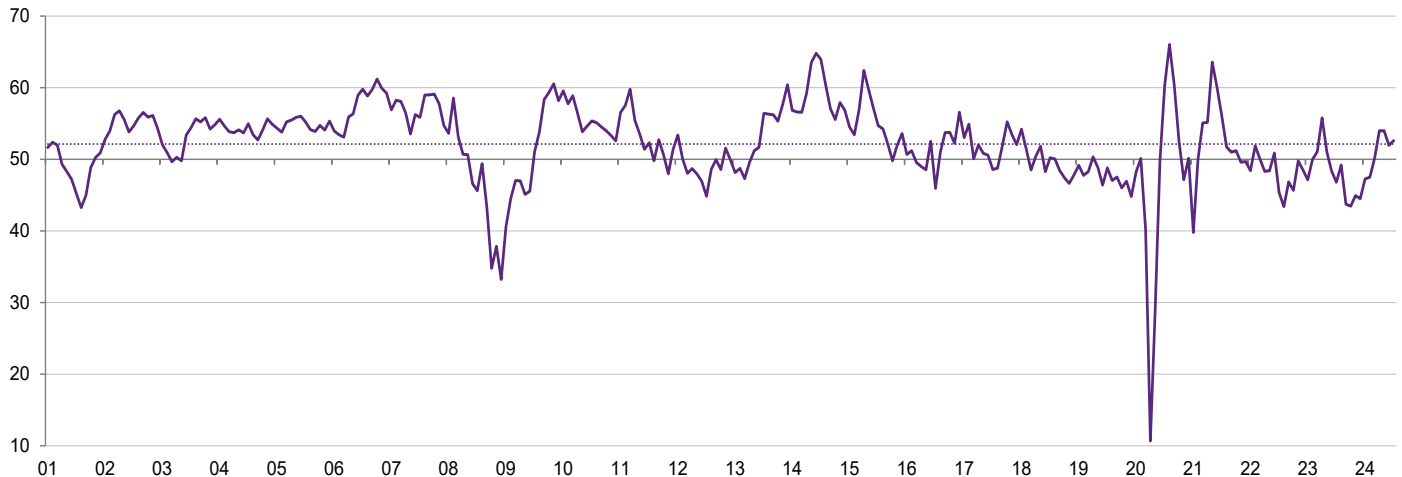
"The upward trend for activity in the North East was sustained for a fifth month running in July. There were also signs of improvement to come as businesses stepped up hiring, recording the fastest jobs growth since late 2021. With that, confidence in the outlook strengthened notably to its most upbeat for over three years."

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Business Activity

Index, sa, >50 = growth m/m. Dots = long-run average since 1998.



Sources: NatWest, S&P Global PMI. ©2024 S&P Global.



Demand and outlook

North East private sector firms see strong influx of new business in July.

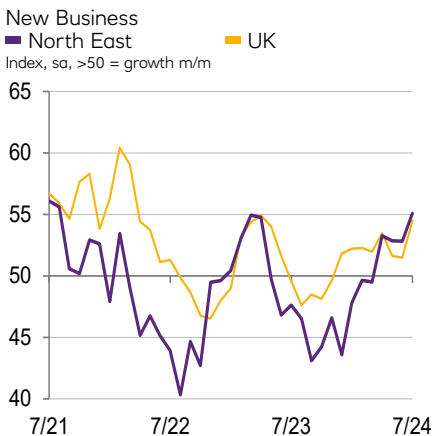
The North East economy entered the second half of the year on a stronger footing, as July marked the fourth successive month in which new order inflows rose. As well as strong, the rate of growth was the most pronounced for nearly three years and among the fastest of the 12 monitored UK areas.

Demand strength was centred on services firms given that manufacturers reported a fresh drop in order book volumes in July.

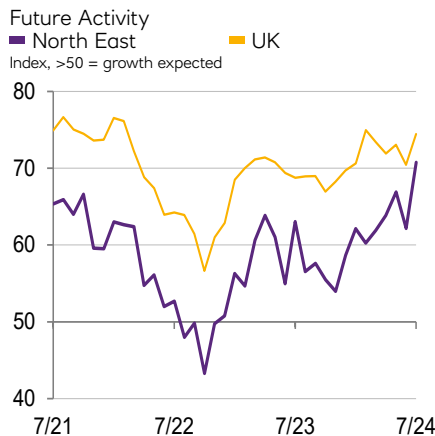
When asked about their expectations for activity over the next 12 months, North East companies were at their most upbeat for over three years. New product launches and hopes of new client wins reportedly underpinned firms' positivity.

Nevertheless, following widespread improvements in confidence across 11 of the 12 monitored UK regions and nations in July, the level of sentiment in the North East was among the lowest.

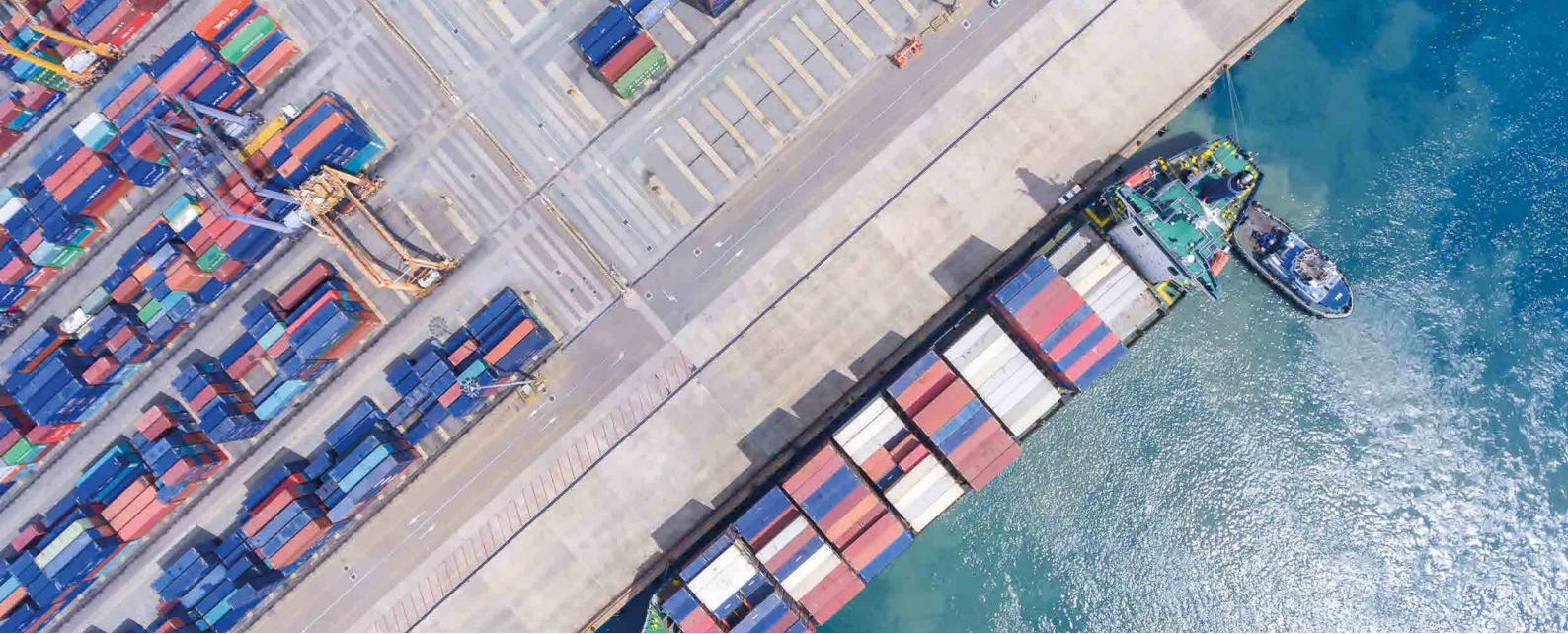
"Strongest inflows of new business seen for nearly three years."



Sources: NatWest, S&P Global PMI. ©2024 S&P Global.



Sources: NatWest, S&P Global PMI. ©2024 S&P Global.



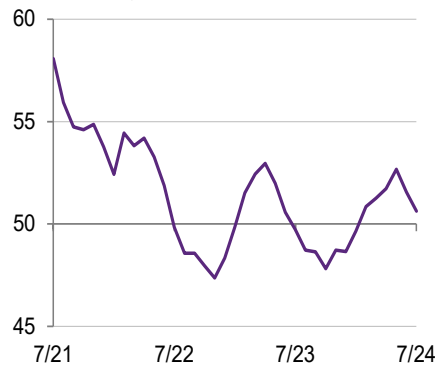
Export markets

North East export climate improves in July

The upward trend in export conditions seen since February was carried through to July. However, the ECI posted at 50.6, down from 51.6 in June and pointing to the weakest improvement in the current six-month sequence of expansion.

Of the North East's top five export markets, only the US and Italy registered activity growth, albeit at a softer rates. Meanwhile, there were renewed declines in output across the Netherlands and Germany, while the downturn in France was

Export Conditions
Index, sa, >50 = growth m/m



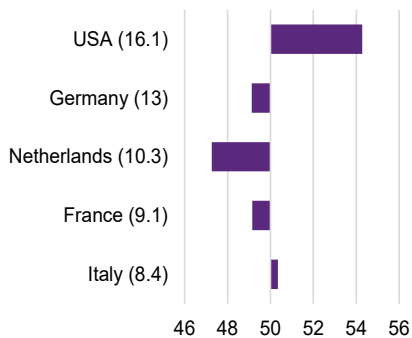
Sources: NatWest, S&P Global PMI. ©2024 S&P Global.

The North East Export Climate Index (ECI) is an indicator for the economic health of the region's export markets. It is calculated by combining national PMI output data, weighted according to each nation's share of manufacturing exports of the North East. A reading above 50 signals an improvement in export conditions, and below 50 a deterioration.

Top export markets, North East

% share of exports shown in brackets
Output Index, sa, >50 = growth m/m

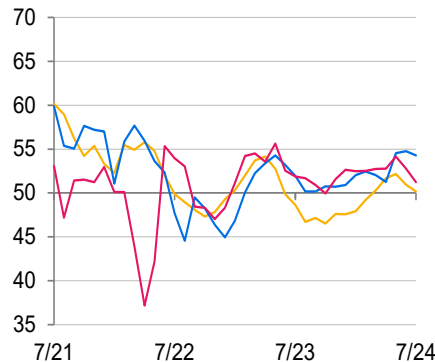
Jul '24



Sources: NatWest, S&P Global PMI. ©2024 S&P Global.

Output

Index, sa, >50 = growth m/m



Sources: NatWest, S&P Global PMI. ©2024 S&P Global.



Jobs and capacity

Job creation across the North East climbs to 32-month high in July.

Given the improved demand environment, North East private sector firms opted to add to their staffing levels at the start of the third quarter. This latest rise marked the fifth successive month of job creation. As well as solid, the pace of jobs growth was the fastest since late 2021 and broad-based across both the manufacturing and service sectors.

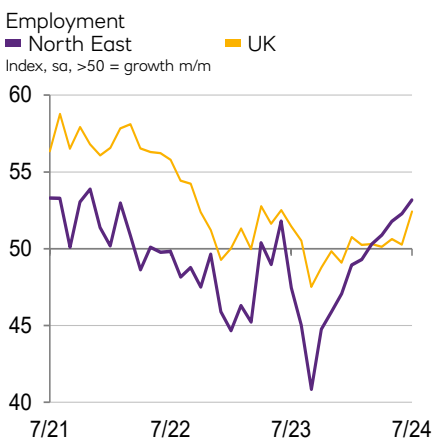
Of the 12 monitored UK areas, only Northern Ireland registered a faster

rise in payroll numbers than that seen locally.

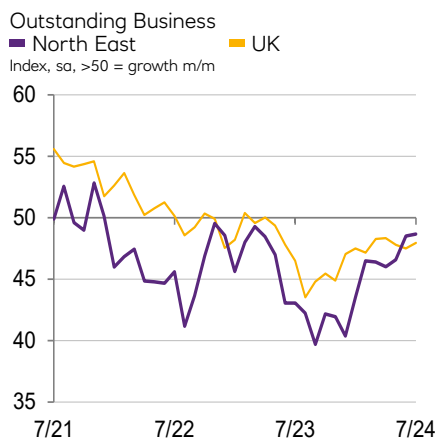
Increased headcounts aided further backlog clearing at North East companies, thereby extending the trend of decline which began at the start of 2022. Following reports of capacity expansion, the rate of depletion was the least pronounced for 16 months and only modest.

Outstanding business decreased at a softer pace locally, than at the UK-wide level.

"Signs of improvement to come as businesses stepped up hiring"



Sources: NatWest, S&P Global PMI. ©2024 S&P Global.



Sources: NatWest, S&P Global PMI. ©2024 S&P Global.



Inflation

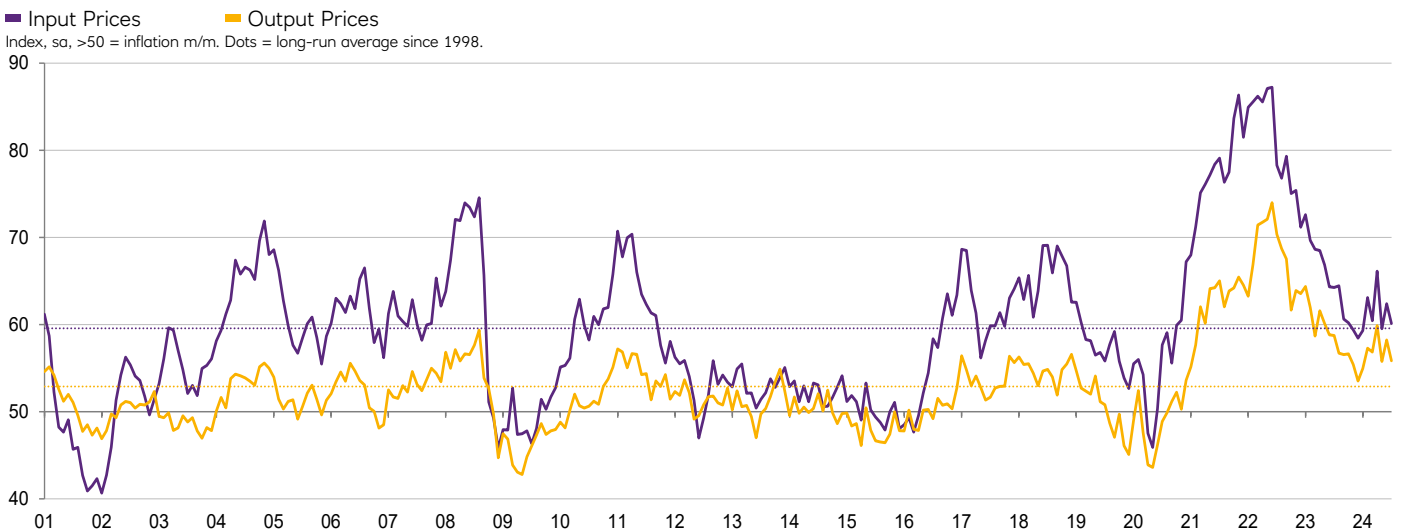
North East firms faced cooler cost pressures at the start of the second half of the year.

July marked the fiftieth successive month of increased input prices across the North East private sector. Firms blamed higher energy and wage costs in panel member reports. Though still substantial, cost pressures cooled to a rate largely in line with both the long-run and UK averages.

Meanwhile, there was a strong, but softer rise in selling prices across the North East in July. The latest increase extended the current run of charge inflation to just shy of four years.

Of the 12 monitored UK regions and nations, only the North West and South West registered stronger rates of charge inflation than that seen locally.

"Both cost and charge inflation eased in July."



Sources: NatWest, S&P Global PMI. ©2024 S&P Global.

UK Regional Growth Tracker

Business Activity

Business activity growth was led by Northern Ireland for the second time in the past three months in July. Just behind was the South West, which continued to gain momentum and recorded its steepest rise in output for more than two years. At the other end of the scale, Wales and the East Midlands both recorded modest reductions in business activity.

Employment

Northern Ireland also topped the rankings for employment growth at the start of the third quarter, recording its fastest rate of job creation since April 2023. The North East posted the next-steepest rise in employment, followed by Wales. As was the case for business activity, the East Midlands was one of just two areas to see a decrease in employment, this time alongside the West Midlands.

Future Activity

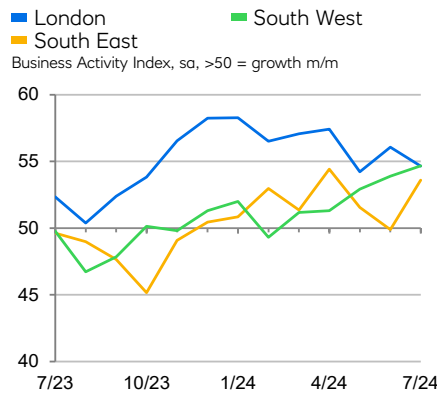
Growth expectations generally improved across the UK in July. The only exception was Northern Ireland, which saw business confidence slip to a six-month low. Firms in the South East were the most upbeat about the outlook, as has been the case in three of the past four months, followed by those in South West. The biggest upswing in optimism was recorded in Yorkshire & Humber.



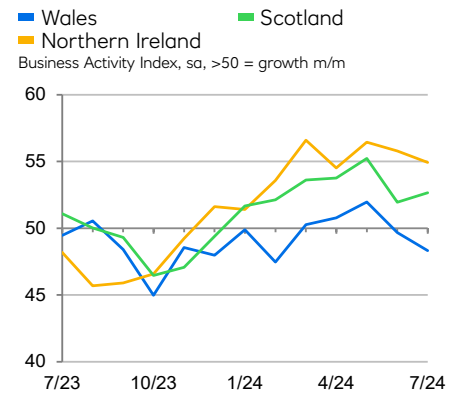
Sources: NatWest, S&P Global PMI. ©2024 S&P Global.



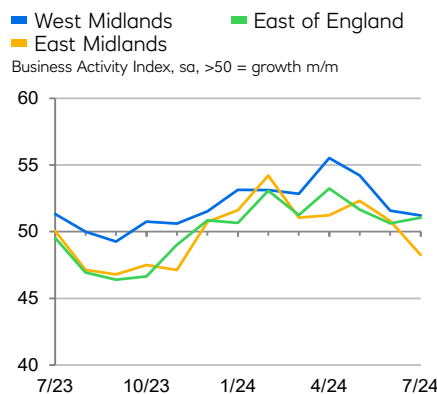
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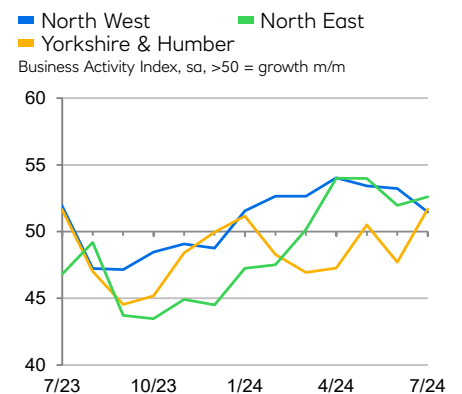
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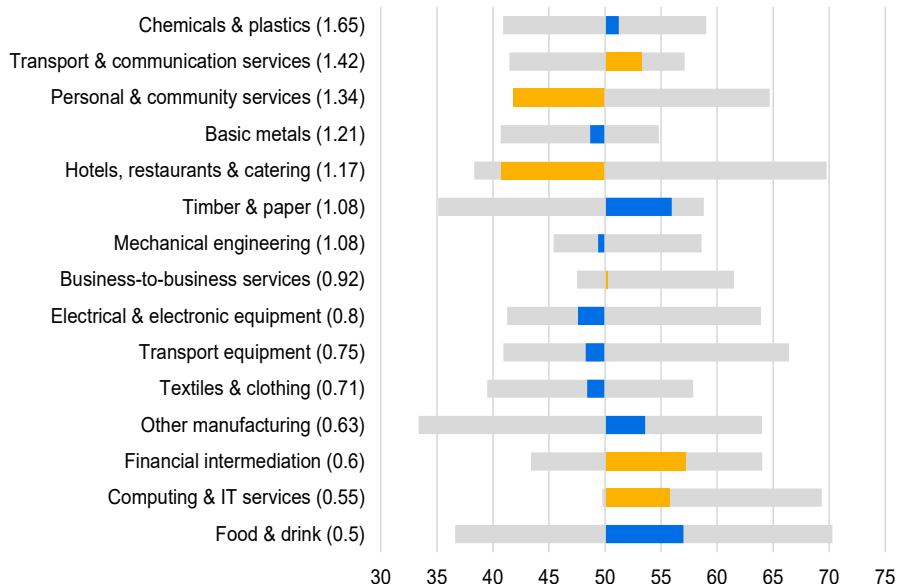
UK sectors

Sector specialisation: North East

The chart shows UK output indices by sector, ranked by location quotients for the North East. Location quotients (LQs) 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.

UK sectors ranked by importance to the North East economy
 ■ Manufacturing ■ Services ■ 3-year range
 UK Output Index, sa, >50 = growth m/m Jul '24



Sources: NatWest, S&P Global PMI. ©2024 S&P Global.
 Location quotients for the North East are shown in brackets. Latest data are smoothed as three-month moving averages (3mma).

Sector in focus: Financial intermediation

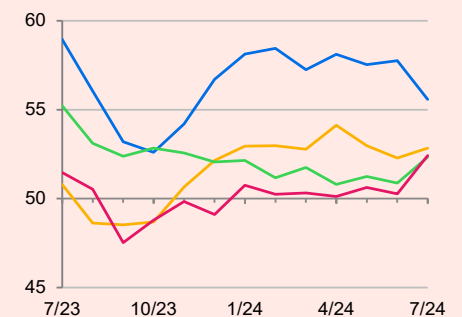
The Financial Intermediation sector was a key growth engine for the UK economy in the three months to July. Business activity rose markedly and at one of the quickest rates recorded among the detailed sectors covered by PMI data. This was despite a loss of momentum that saw growth ease to the weakest since late last year.

Buoyed by strong inflows of new work and high expectations for growth in the coming year, financial intermediation firms upped the rate of job creation in the three months

to July. Employment has risen continuously in the sector since early 2021.

Input prices faced by financial intermediation firms meanwhile rose at the slowest rate for just over three years. Cost pressures were still elevated by historical standards, however, which contributed to another steep rise in average prices charged by businesses in the sector. The rate of output price inflation remained well above the average over the series history stretching back to 1996.

Output / Employment
 ■/■ Financial intermediation*
 ■/■ Manufacturing & services
 Index, sa, >50 = growth m/m



Sources: NatWest, S&P Global PMI. ©2024 S&P Global.
 *Data are smoothed as three-month moving average

Methodology

The NatWest North East Growth Tracker 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

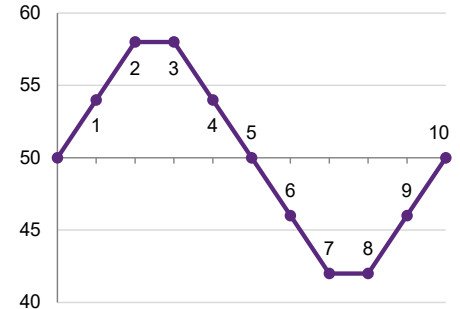
overall decrease. The indices are then seasonally adjusted.

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.

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 survey methodology, please contact economics@spglobal.com.

Index interpretation
Index, sa, >50 = growth m/m



Sources: NatWest, S&P Global PMI. ©2024 S&P Global.

Key

- 1 Growth, from no change
- 2 Growth, faster rate
- 3 Growth, same rate
- 4 Growth, slower rate
- 5 No change, from growth
- 6 Decline, from no change
- 7 Decline, faster rate
- 8 Decline, same rate
- 9 Decline, slower rate
- 10 No change, from decline

Data

North East manufacturing and services Index, sa, 50 = no change over previous month. *50 = no change over next 12 months.

	Business Activity	New Business	Export Climate Index	Employment	Outstanding Business	Future Activity	Input Prices	Output Prices
2/24	47.5	49.6	50.8	49.3	46.5	60.2	63.1	57.3
3/24	50.2	49.5	51.3	50.3	46.4	61.9	60.5	56.8
4/24	54.0	53.3	51.7	50.9	46.0	63.9	66.1	59.9
5/24	54.0	52.8	52.7	51.8	46.6	66.9	59.5	55.8
6/24	52.0	52.8	51.6	52.3	48.5	62.1	62.4	58.2
7/24	52.6	55.1	50.6	53.2	48.7	70.7	60.1	55.9

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