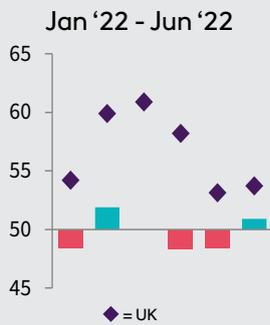


NatWest North East PMI[®]

Renewed rise in business activity masks underlying weakness in the North East

North East Business Activity Index



Key findings

Sharp fall in new orders despite first rise in activity since February

Record upturn in cost burdens and output charges

Business optimism cools to 26-month low

Firms based in the North East of England reported a renewed rise in business activity during June, 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 — rose from 48.4 in May to 50.9 in June, indicating an expansion in activity that was the first for four months. That said, the rate of growth was considerably softer than that seen for the UK as a whole. Firms commented that work on existing orders had boosted activity, however the rising cost of living, inflationary pressures and concerns about the economy had weighed on demand.

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

"North East private sector activity returned to expansion territory in June, with output rising for the first time since February. The rate of growth was only mild however, as firms noted that new business fell at the sharpest pace in just over two years amid weaker demand due to concerns about inflation, Brexit and the potential of a recession. Firms reported a record rise in cost burdens amid further surges in labour, fuel and energy costs, which contributed to a record increase in output charges for the fifth month running. The aforementioned downside risks weighed on business expectations for activity in the year ahead, as the level of positive sentiment fell sharply at the end of the second quarter. Local businesses were at their least optimistic in 26 months."

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

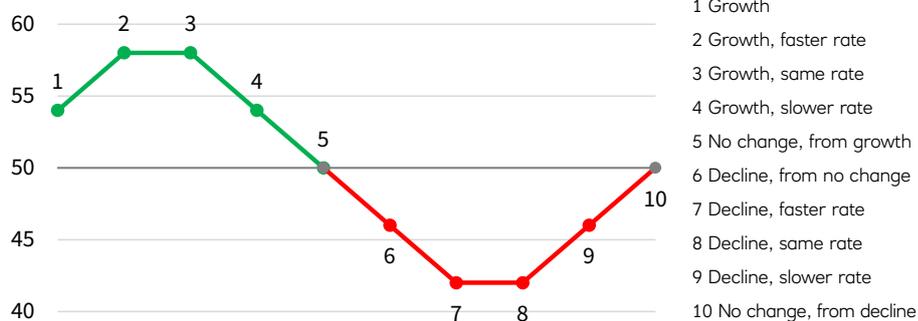
calculated from a single question that asks for changes in the volume of business activity (at service providers) or output (at manufacturers) compared with one month previously. The North East Business Activity Index is comparable to the UK Composite Output Index. It is sometimes referred to as the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

Stronger downturn in new business

Latest data signalled a further fall in new business received by firms in the North East private sector. New orders fell for the fourth month in a row, with the latest contraction the quickest since May 2020. Panel members commented on weaker demand and subdued confidence amid growing uncertainty surrounding Brexit and the cost of living. Moreover, the local trend for sales was the second-worst of the 12 UK regions, ahead only of Northern Ireland.

Business confidence softens in June

Private sector businesses based in the North East saw the overall degree of optimism regarding the year-ahead outlook ease sharply in June. Confidence was at its lowest level for 26 months and historically subdued. Firms cited increasing concerns about the detrimental impact of supply-chain disruption, inflationary pressures and Brexit on output. The level of sentiment in the North East was the weakest of all regions except Northern Ireland, where companies were pessimistic.

Exports

Export conditions continue to soften

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.

The Export Climate Index dipped to 51.7 in June, signalling a modest improvement in export conditions at local firms that was the slowest since January 2021. Softer conditions were the result of slower output growth across the top five export markets for the North East. Growth in Spain was the strongest and solid overall, while the expansion in the Netherlands — which is the top export market — was the slowest since November 2020.

New Business Index

sa, >50 = growth since previous month

45.1

Jun '22



Future Activity Index

>50 = growth expected over next 12 months

52.0

Jun '22



Export Climate Index

sa, >50 = growth since previous month

51.7

Jun '22



Top export markets, North East

Rank	Market	Weight	Output Index, Jun '22
1	Netherlands	13.6%	52.1
2	USA	12.9%	52.3
3	Germany	12.8%	51.3
4	Spain	6.8%	53.6
5	Italy	5.6%	51.3

New Business Index

Jan '22 - Jun '22



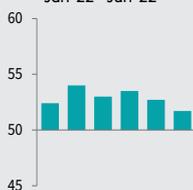
Future Activity Index

Jan '22 - Jun '22



Export Climate Index

Jan '22 - Jun '22

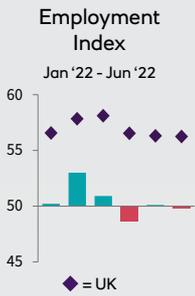
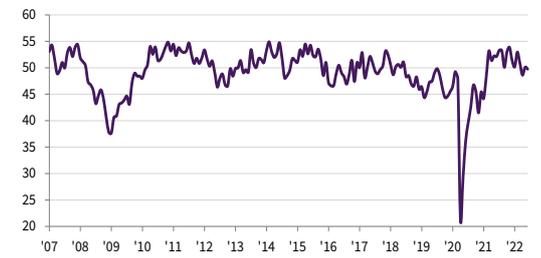


Business capacity

Renewed job shedding in June

Employment levels among North East private sector firms fell for the second time in three months at the end of the second quarter. Where workforce numbers declined, anecdotal evidence pointed to a shortage of available and suitably-skilled workers. The rate of job shedding was only fractional, yet the North East was the only monitored region to post a reduction.

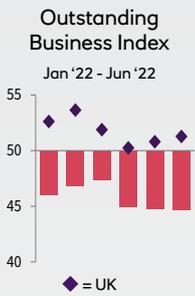
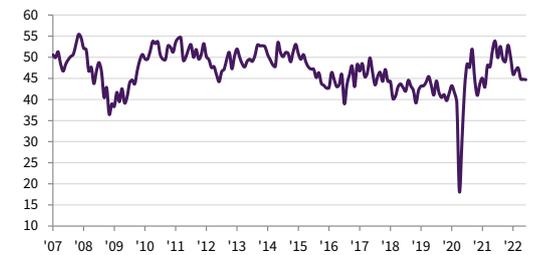
Employment Index **49.8**
 sa, >50 = growth since previous month Jun '22



Further fall in outstanding business

In line with the trend for new orders, North East firms saw outstanding business volumes decrease at a quicker pace in June. The rate of backlog depletion was steep, and the strongest since February 2021. Moreover, the respective index reading for the North East was the lowest of the 12 monitored UK regions for the seventh successive month.

Outstanding Business Index **44.7**
 sa, >50 = growth since previous month Jun '22



Prices

Fastest rise in input prices in survey history

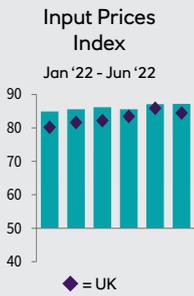
June data signalled that private sector firms operating in the North East faced another unprecedented rise in average input prices. Moreover, the rate of inflation was at a record high for the second month running. Panellists widely attributed this to steep rises in wages, fuel and energy costs. The increase in cost burdens in the North East was the second-quickest of the 12 monitored regions, behind Northern Ireland.

Input Prices Index

sa, >50 = inflation since previous month

87.2

Jun '22



Output charges rise at record rate

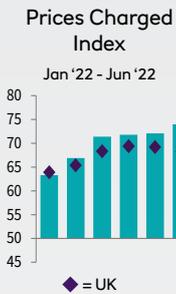
Average prices charged for goods and services in the North East rose for the twenty-second month in a row in the latest survey period. The uptick was rapid and the fastest recorded in the history of the survey for the fifth consecutive month. Local businesses often linked the rise in prices charged to the partial pass-through of greater cost burdens to customers. The rate of charge inflation was the second-fastest of the 12 monitored regions and well above the UK average.

Prices Charged Index

sa, >50 = inflation since previous month

74.0

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

North East specialisation: Services

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

UK sector focus

Textiles & Clothing

Latest data showed a decline in production levels across the UK's Textiles & Clothing sector during the second quarter. It was one of three manufacturing categories (out of nine monitored) to record lower output, alongside Timber & Paper and Food & Drink.

Weaker underlying demand was a driving factor, with inflows of new work falling in the three months to June. This was despite a slight upturn in export sales over the same period.

Cost pressures continued to build across the Textiles & Clothing sector during the second quarter, reaching a near-record high. With many firms looking to pass on at least part of the burden to customers, output price inflation quickened to a rate unseen for over two decades.

Positively, and despite waning business confidence, employment in the sector continued to rise, with the rate of job creation quickening to a 12-month high.

Output Index

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



*3-month moving average



UK Regional PMI overview

Business Activity

Regional performances varied markedly in terms of business activity in June. London led the growth rankings by some margin with a steep and accelerated rise in output. However, three areas recorded lower business activity, one being Northern Ireland*, where output fell for the second month running and at the quickest rate since February 2021.

Employment

Employment rose in almost every region in June, the only exception being the North East. Here, staffing numbers fell — albeit fractionally — for the second time in the past three months. London recorded the strongest rate of job creation, as has been the case in each month since February. Five areas recorded a slower rate of employment growth than the month before, however.

Future Activity

Firms' expectations for activity in the year ahead generally worsened in June. Of the 12 monitored areas, only the West Midlands and Wales recorded stronger business confidence. Despite seeing sentiment weaken, Yorkshire & Humber remained the most optimistic region. Expectations were lowest in Northern Ireland, where they turned more pessimistic.

Business Activity Index

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



Employment Index

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



Future Activity Index

>50 = growth expected over next 12 months Jun '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
Jan '22	48.4	47.9	52.4	63.0	50.2	46.0	84.9	63.3
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	51.7	52.0	49.8	44.7	87.2	74.0

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About PMI

Purchasing Managers' Index™ (PMI™) surveys are now available for over 40 countries and also for key regions including the eurozone. They are the most closely watched business surveys in the world, favoured by central banks, financial markets and business decision makers for their ability to provide up-to-date, accurate and often unique monthly indicators of economic trends.

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