

11 March 2025

NatWest North East Growth Tracker

Stronger rise in North East business activity



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by **S&P Global**

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Contents

Key findings

Business activity

Comment

Demand and outlook

Export markets

Jobs and capacity

Inflation

UK Regional Growth Tracker

UK sectors

Methodology and data

Further information



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Key findings

February 2025

Sustained increase in new business drives activity growth

Slight reduction in jobs

Softest rise in charges in three months

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



Stronger rise in North East business activity

The North East's private sector growth momentum quickened in February, according to the latest NatWest Growth Tracker.

Businesses in the region continued to record healthy order book volumes, which were a major contributor to stronger output at the midpoint of the first quarter. There was also a further easing in inflationary pressures, with firms noting the softest rise in output charges for three months. That said, private sector companies opted to cut workforce numbers for the

third consecutive month, despite the strongest accumulation of backlogs since November 2021.

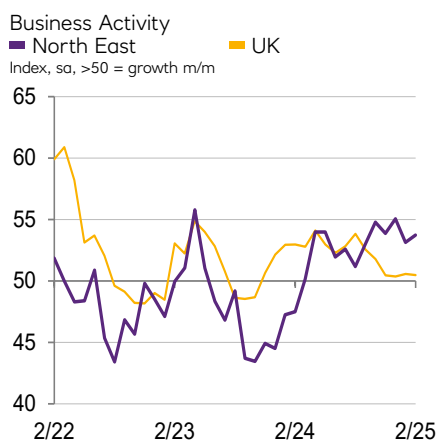
The headline North East Growth Tracker Business Activity Index – a seasonally adjusted index that measures the month-on-month change in the combined output of the region's manufacturing and service sectors – increased from 53.1 in January to 53.7 in February, to signal a monthly improvement for the twelfth consecutive month. The upturn was solid overall. According to panellists, output was supported by rising intakes of new business.

NatWest North East Business Activity Index February 2025

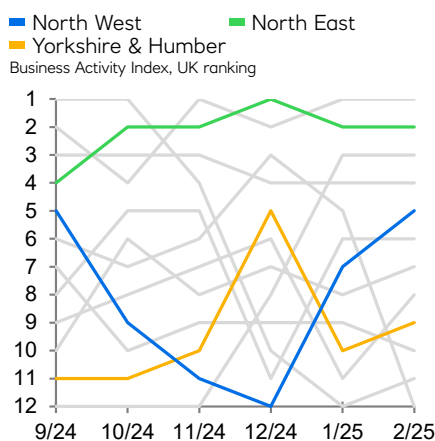
53.7

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 10-26 February



Sources: NatWest, S&P Global PMI. ©2025 S&P Global.



Sources: NatWest, S&P Global PMI. ©2025 S&P Global.



Comment

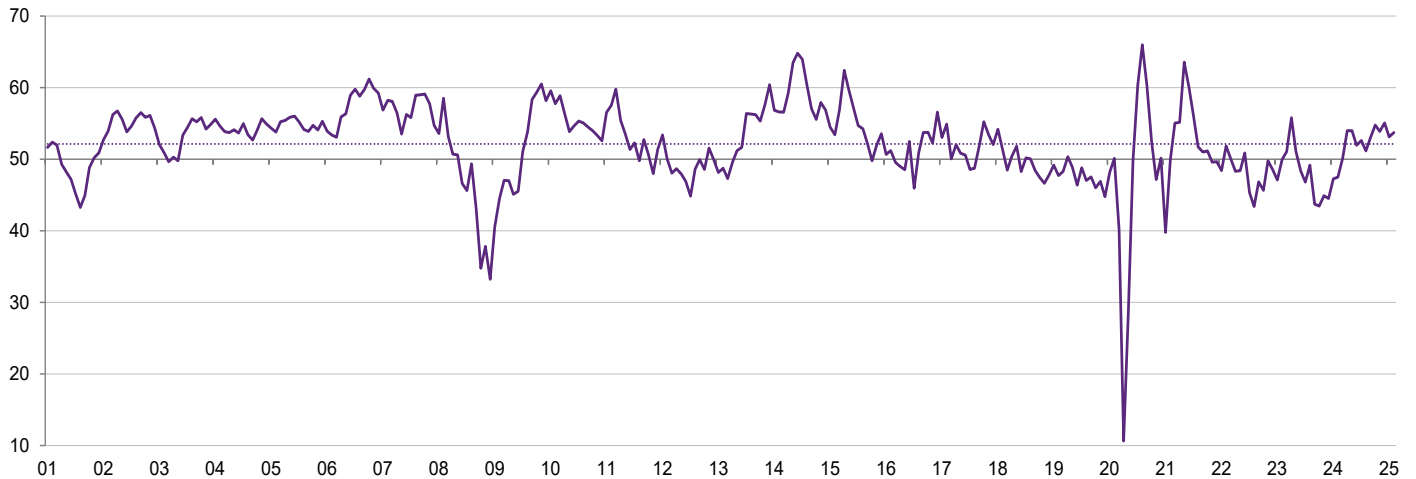
Sebastian Burnside, Chief Economist at NatWest, commented:

"The North East remained on solid footing in February, data from the NatWest Growth Tracker revealed. New business placed with private sector firms rose again, extending the current period of growth to 11 months. The expansion was moderate and broadly similar to that seen in January. In turn, activity growth strengthened, with the rate of increase solid overall. Moreover, receding cost pressures contributed to the softest rise in charges in three months.

"The increase in demand placed pressure on private sector business capacity, resulting in the steepest rise in outstanding business since November 2021. That said, firms opted to reduce staffing levels for the third consecutive month amid concerns about pending employment law and tax changes. Optimism about activity levels for the coming year strengthened nonetheless."

Business Activity

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



Sources: NatWest, S&P Global PMI. ©2025 S&P Global.



Demand and outlook

New business inflows rose for the eleventh month in a row in February, while optimism regarding the outlook strengthened.

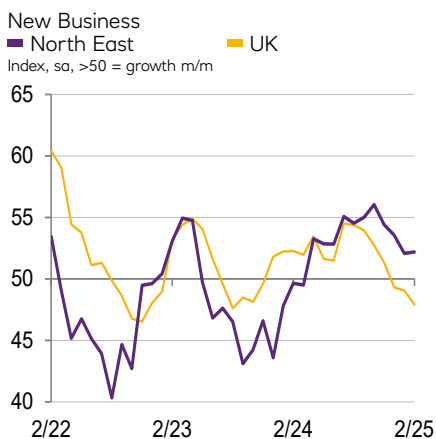
February survey data revealed an uplift in new business received by private sector firms in the North East, with the rate of expansion broadly similar to that seen in January and moderate overall. The local trend for new work was also the best of the 12 monitored UK regions and nations.

Firms also remained confident

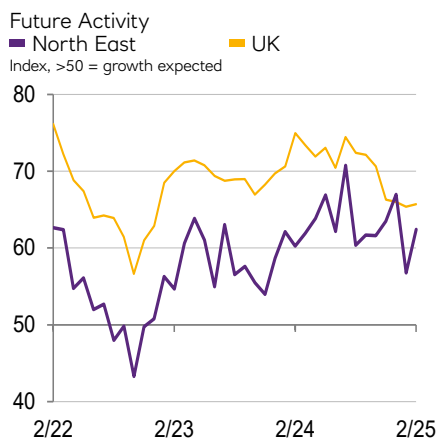
regarding output prospects over the coming 12 months, as the Future Activity Index registered well above the neutral 50.0 mark. Optimism was linked to new contract awards and hopes that the current boost in demand would be sustained.

The level of positive sentiment ticked up from the start of the year, but was among the weakest of the 12 monitored UK areas, ahead only of Scotland and Northern Ireland.

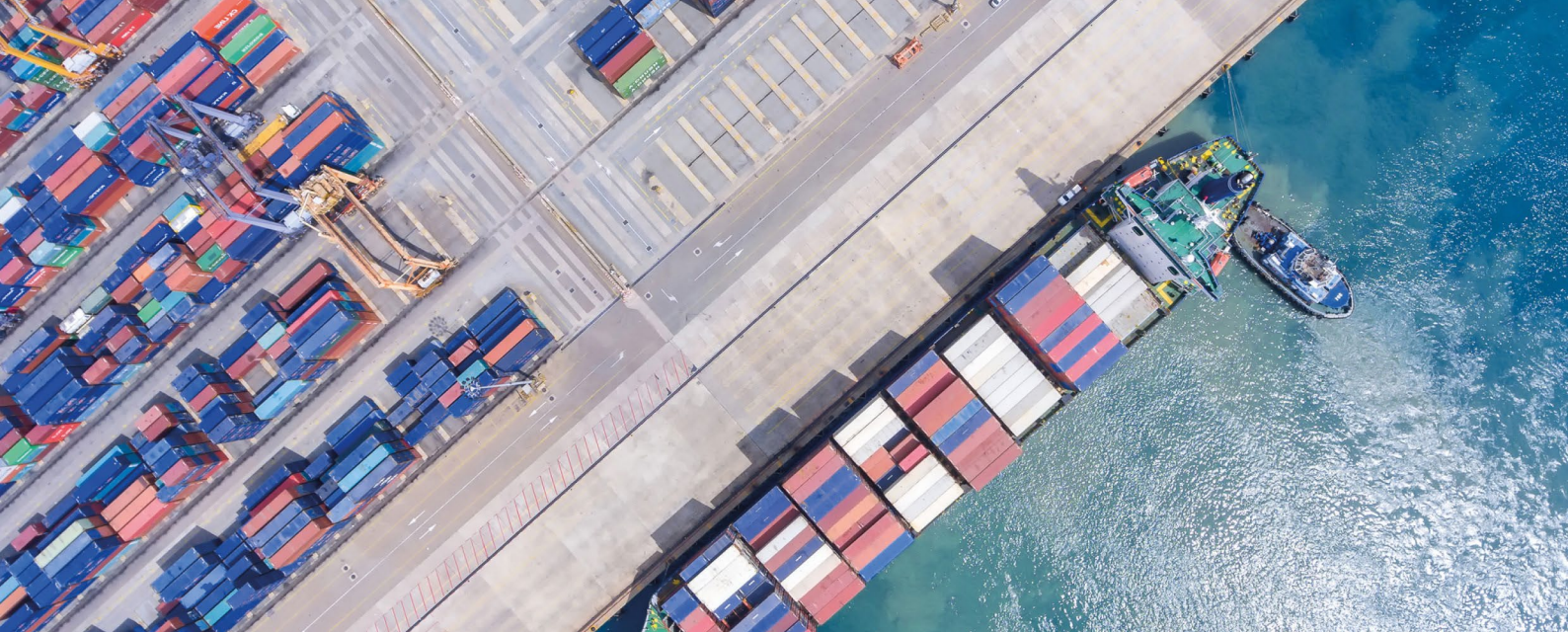
"New business placed with private sector firms rose again, extending the current period of growth to 11 months, albeit at a broadly similar rate to that seen in January."



Sources: NatWest, S&P Global PMI. ©2025 S&P Global.



Sources: NatWest, S&P Global PMI. ©2025 S&P Global.



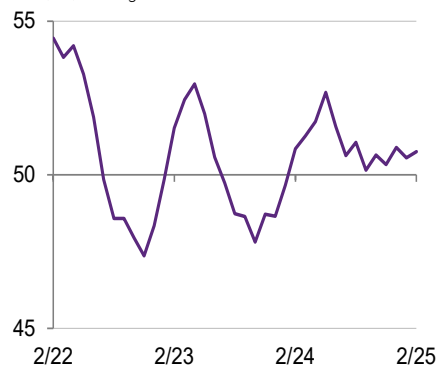
Export markets

Marginal improvement in export climate in February

The ECI edged up slightly from 50.6 in January to 50.8 in February to indicate a stronger, yet still marginal, improvement in trade conditions. The rate of expansion was nevertheless broadly aligned with the average seen across the current 13-month sequence of growth.

Across the North East's top five export markets, Germany, Italy and the US all recorded expansions in activity. The Netherlands posted a softer reduction in output, while there was a stronger contraction in France.

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



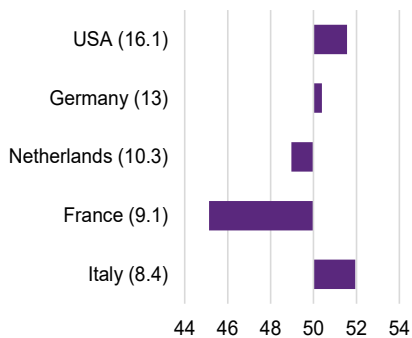
Sources: NatWest, S&P Global PMI. ©2025 S&P Global.

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

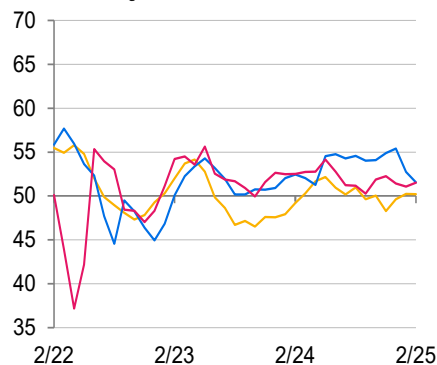
Feb '25



Sources: NatWest, S&P Global PMI. ©2025 S&P Global.

Output

Index, sa, >50 = growth m/m



Sources: NatWest, S&P Global PMI. ©2025 S&P Global.



Jobs and capacity

The North East saw job losses for the third month in a row in February

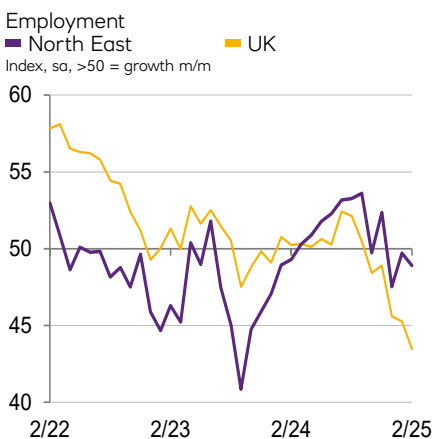
Private sector companies in the North East signalled a decline in employment levels midway through the first quarter. The pace of reduction was only modest, however. Where a decrease was recorded, firms cited cost-cutting measures and workforce adjustments ahead of changes in employment law and national insurance contributions.

At the same time, however, there was evidence that capacity

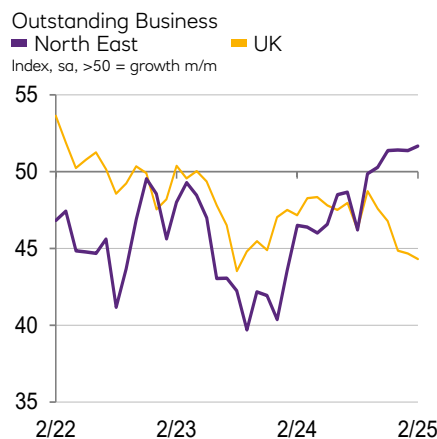
pressures were building in the North East, as February marked the fifth consecutive accumulation of backlogs. Moreover, the increase was the most pronounced since November 2021. Firms often mentioned sustained new order growth and the late delivery of raw materials as key reasons behind rising levels of unfinished work.

The North East recorded the slowest fall in employment and the only rise in outstanding business of the 12 monitored UK regions and nations.

"...firms opted to reduce staffing levels for the third consecutive month amid concerns about pending employment law and tax changes."



Sources: NatWest, S&P Global PMI. ©2025 S&P Global.



Sources: NatWest, S&P Global PMI. ©2025 S&P Global.



Inflation

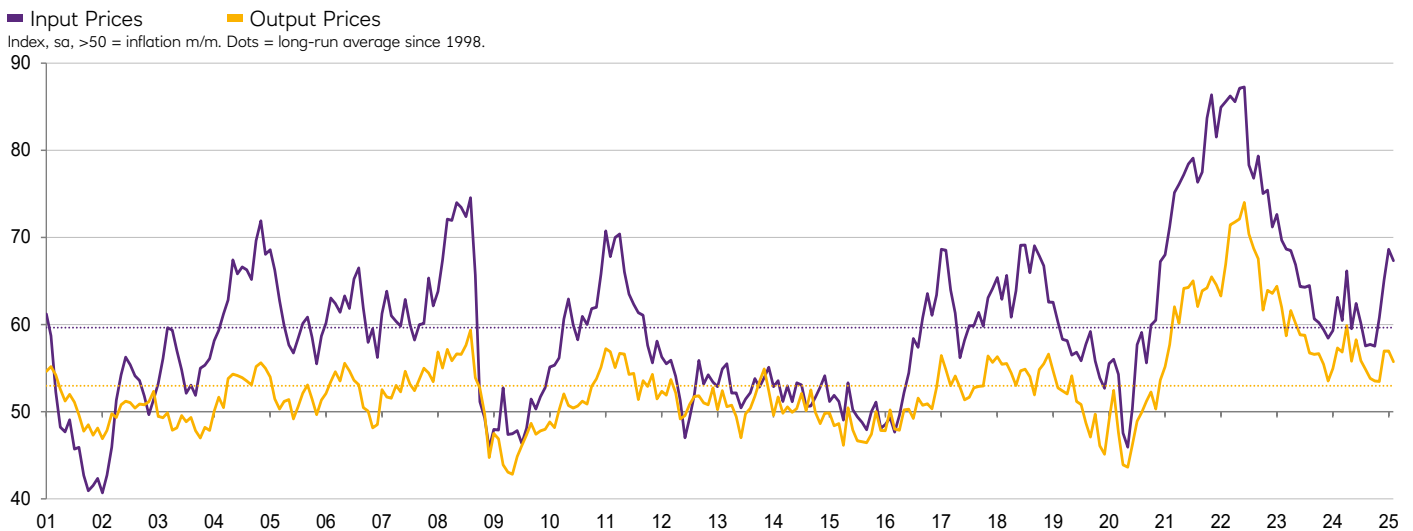
Private sector firms raised charges to the softest degree since November 2024 amid a slight slowdown in input price inflation

North East private sector firms continued to face a strong rise in operating expenses during February. While the rate of increase retreated from that seen in the previous survey period, it remained above its historical trend. Higher wages and increased tax burdens were cited as the main reasons behind the latest

increase. The local rate of input price inflation was above the UK average, and only softer than that seen in Northern Ireland and the East of England.

The seasonally adjusted Prices Charged Index posted above the 50.0 no-change threshold again in February, to signal ongoing charge inflation across the North East private sector. The rate of increase was solid, but the slowest since last November and the weakest of the 12 monitored UK regions and nations.

"...receding cost pressures contributed to the softest rise in charges in three months."



Sources: NatWest, S&P Global PMI. ©2025 S&P Global.

UK Regional Growth Tracker

Business Activity

London topped the rankings for business activity growth in February, having enjoyed another robust expansion, ahead of the North East, Wales and South West, respectively. Lower output was seen in several nations and regions, however. The steepest falls were registered in the East Midlands and Northern Ireland*.

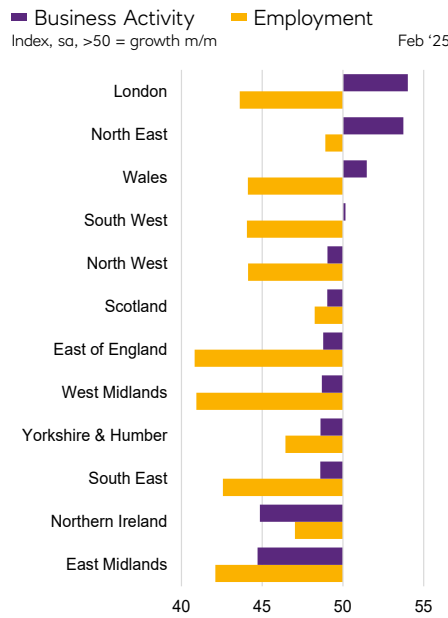
Employment

Workforces numbers were streamlined across each of the 12 UK nations and regions monitored by the survey in February, the first time this has happened for a little over four years. Employment fell only slightly in the likes of the North East and Scotland, however. The most marked decreases were seen in the East of England and West Midlands.

Future Activity

Year-ahead growth expectations improved in the majority of areas in February. Firms in the West Midlands were the most optimistic about future activity, while those in the North East reported the greatest upswing in confidence since January. At the other end of the scale, Northern Ireland recorded the weakest business sentiment, although it did pick up somewhat from the low seen at the start of the year.

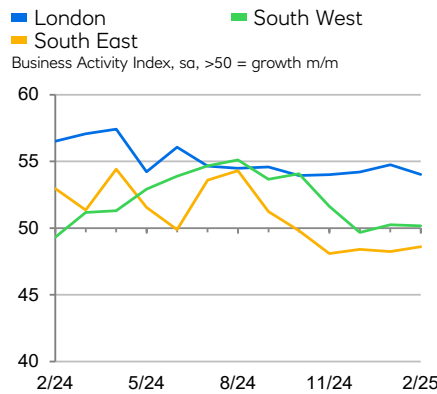
*As well as manufacturing and services, coverage in Northern Ireland also includes construction and retail.



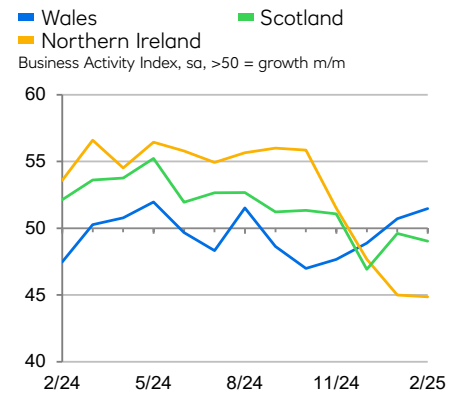
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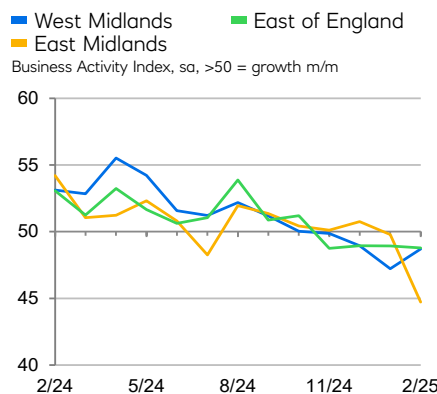
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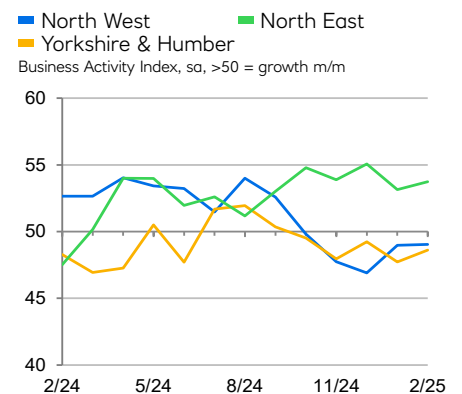
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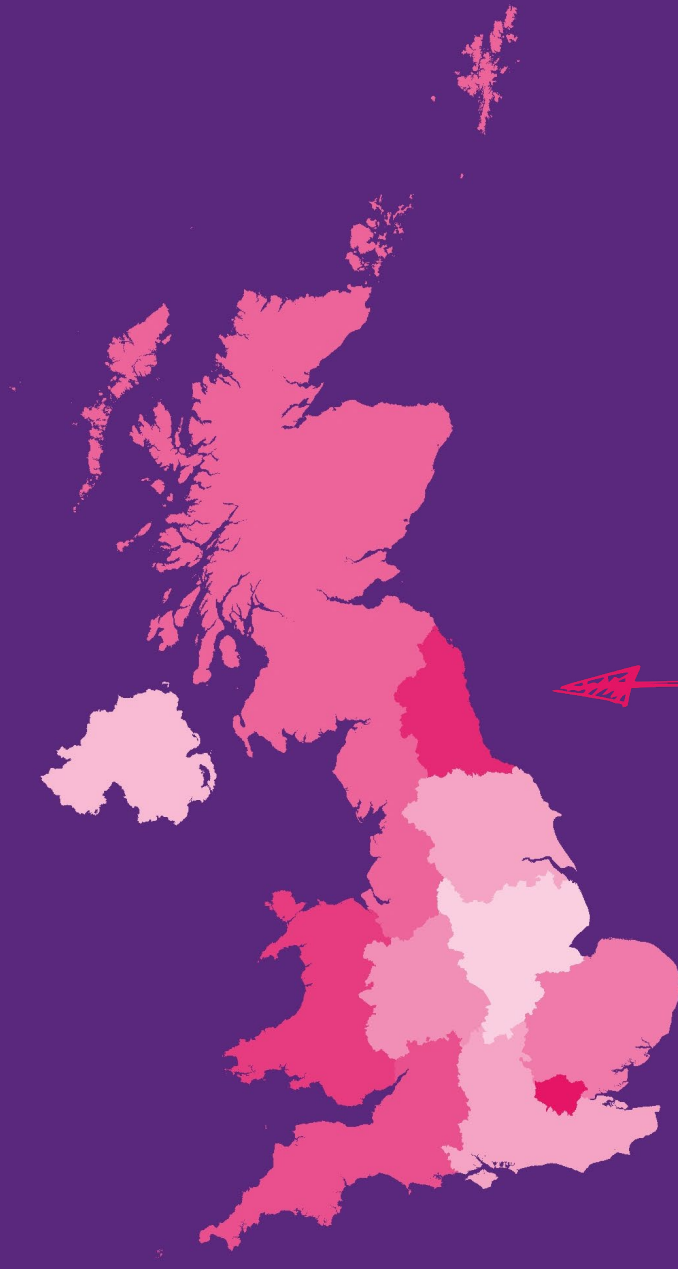


Sources: NatWest, S&P Global PMI. ©2025 S&P Global.

Growth Tracker heat map

February 2025

Darker colour = higher business growth



North East

Business Activity Index
sa, >50 = growth m/m

53.7



Sources: NatWest, S&P Global PMI. ©2025 S&P Global.

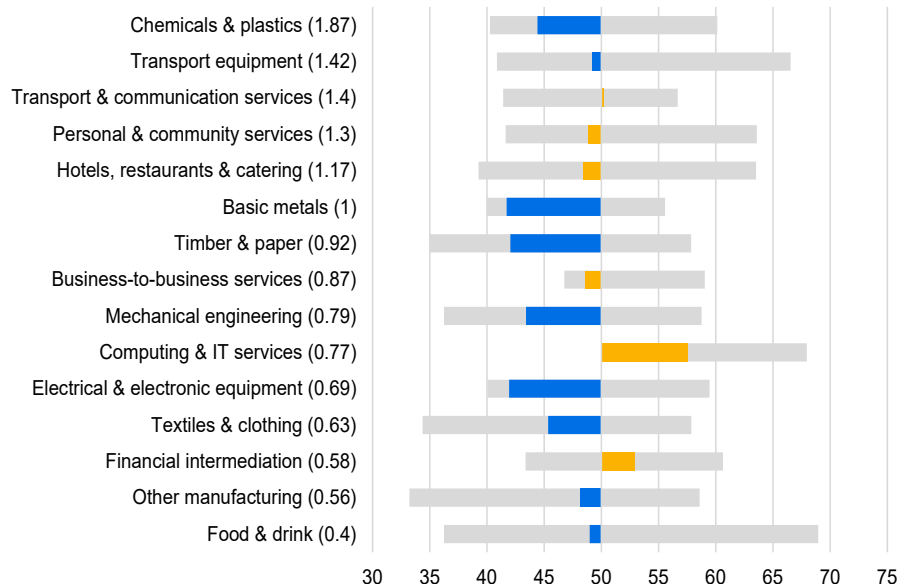
UK sectors

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 Feb '25



Sources: NatWest, S&P Global PMI. ©2025 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: Mechanical engineering

Output in the UK's mechanical engineering sector contracted in the three months to February, according to underlying PMI data. The decline was steep and followed growth throughout most of 2024. A lack of new orders, particularly from abroad, was the defining factor behind the sector's recent downturn.

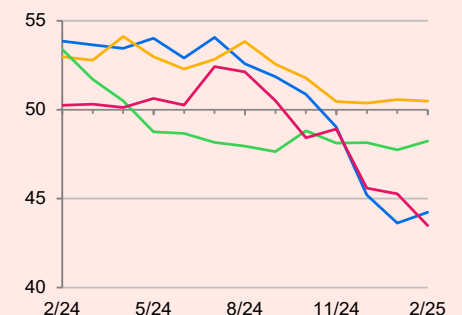
Shrinking backlogs of work at mechanical engineering companies led to further job losses. This extended the current sequence of job shedding seen since spring last year. Inventories were also scaled

back, especially stocks of inputs.

Prices paid for purchases rose at a steady rate that was below the long-run series average. Firms managed to pass on a sizeable proportion of the cost increases they faced, with the pace of output price inflation ticking up to its highest for almost a year and running above its historic trend level.

Looking ahead, firms in the sector were optimistic about growth prospects in the coming year, though less so than at almost any time since the pandemic.

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



Sources: NatWest, S&P Global PMI. ©2025 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

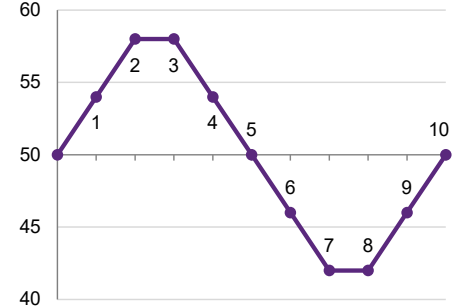
overall decrease. The indices are then seasonally adjusted.

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. ©2025 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
9/24	53.0	55.0	50.2	53.6	49.9	61.7	57.7	53.8
10/24	54.8	56.0	50.6	49.7	50.3	61.6	57.5	53.5
11/24	53.9	54.4	50.3	52.4	51.4	63.5	60.8	53.5
12/24	55.1	53.6	50.9	47.5	51.4	67.0	65.1	57.0
1/25	53.1	52.1	50.6	49.7	51.4	56.8	68.6	56.9
2/25	53.7	52.2	50.8	48.9	51.7	62.4	67.3	55.7

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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.

www.natwest.com/business/insights/economics

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