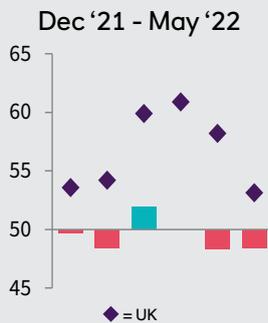


NatWest North East PMI[®]

Further reduction in business activity in May

North East Business Activity Index



Key findings

Sustained falls in activity and new order inflows

Fresh record increases in input prices and output charges

Positive sentiment picks up for the first time in four months

Businesses based in the North East pointed to a further reduction in business activity, according to the latest NatWest Regional PMI[®] data. At 48.4 in May, 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 — was broadly unchanged from 48.3 in April. This signalled a modest contraction that was the second in as many months. Firms noted that the rise in COVID-19 cases in mainland China as well as Brexit had exacerbated price and supply pressures, thereby weighing on activity and demand (notably from international customers). Moreover, the North East was the weakest performing region of the 12 monitored UK areas for the tenth month in a row.

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

"Private sector firms in the North East reported a second successive contraction in business activity in May, as price and supply pressures were compounded by Brexit and trade disruptions. Both activity and new orders were scaled back, with the latter falling for the third month running. Raw material and labour shortages remained marked, which led North East based businesses to report a fresh series record increase in average cost burdens. Higher input costs were partially passed through to clients as prices charged for goods and services rose at a record rate for the fourth month in a row. Positively, business optimism regarding the year-ahead outlook for activity strengthened for the first time since January amid hopes that a broad recovery in supply chains would help to stimulate a strong rebound in activity and demand."

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

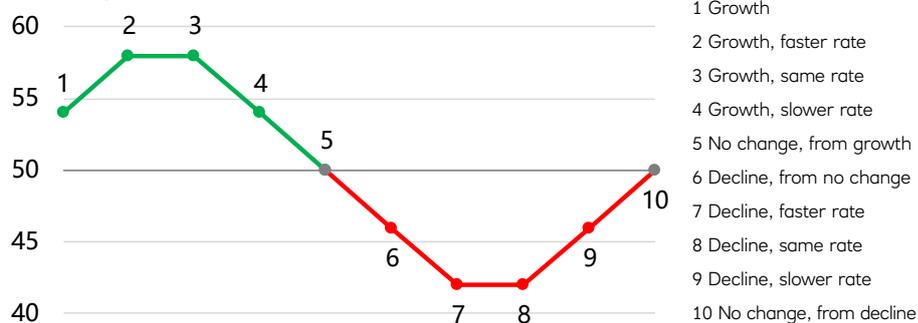
calculated from a single question that asks for changes in the volume of business activity (at service providers) or output (at manufacturers) compared with one month previously. The North East Business Activity Index is comparable to the UK Composite Output Index. It is sometimes referred to as the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

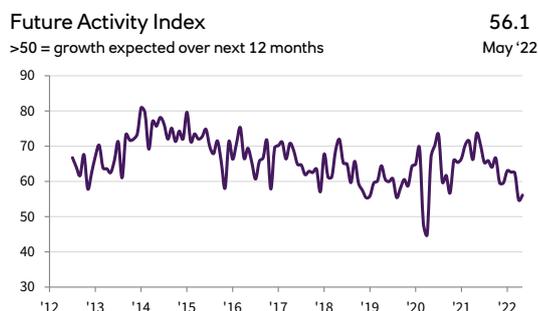
Further decline in new business

Private sector businesses in the North East signalled a contraction in new business for the third consecutive month in May. The rate of decline eased from April, yet remained solid overall. Survey members often indicated that reduced trade amid Brexit and international COVID-19 restrictions had led to cancelled orders and weaker demand. The North East also saw the second-lowest reading of the seasonally adjusted New Business Index of the 12 monitored UK regions, ahead of Northern Ireland.



Business optimism strengthens in May

Latest data indicated that firms in the North East private sector displayed strong optimism about the year-ahead outlook for activity, with confidence underpinned by hopes that supply chains would stabilise and aid a recovery in activity and sales. Positive sentiment strengthened for the first time in four months in May, yet was the second-lowest of all UK regions, ahead only of Northern Ireland and considerably softer than the national average.

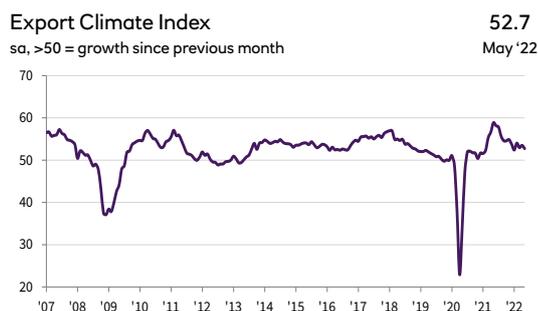


Exports

Softer improvement 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 52.7 in May, the Export Climate Index dipped from 53.5 in April, signalling the twenty-third consecutive monthly improvement in export conditions in the North East. That said, this was the lowest reading since January. Output growth eased notably across four of the top five export markets for the region. The only exception was Spain, where the rate of expansion was unchanged from the previous survey period and the strongest of the five aforementioned markets.



Top export markets, North East

Rank	Market	Weight	Output Index, May '22
1	Netherlands	13.6%	53.1
2	USA	12.9%	53.6
3	Germany	12.8%	53.7
4	Spain	6.8%	55.7
5	Italy	5.6%	52.4

New Business Index
Dec '21 - May '22

Future Activity Index
Dec '21 - May '22

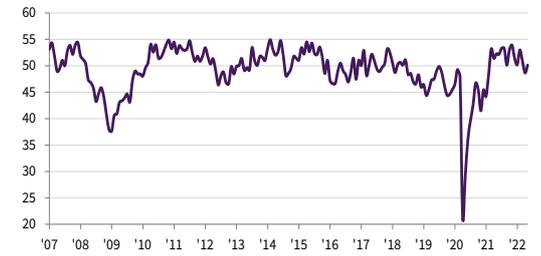
Export Climate Index
Dec '21 - May '22

Business capacity

Employment levels rise fractionally

Businesses in the North East private sector noted a renewed rise in employment levels in the latest survey period. Adjusted for seasonal variance, the Employment Index was above the neutral 50.0 mark for the fourteenth time in 15 months, albeit only fractionally. Where job creation was reported, firms commented that higher pay was attracting additional staff, though this was partially offset by some firms reducing their workforces in response to subdued demand.

Employment Index
sa, >50 = growth since previous month
50.1
May '22



Sustained reduction in outstanding business

Reflecting lower new business intakes, outstanding business at North East companies decreased for the fifth month running during May. Survey respondents commented that capacity and input stocks had been redirected towards the completion of existing orders amid subdued demand. The latest reading for the North East was also the lowest of the 12 monitored UK regions.

Outstanding Business Index
sa, >50 = growth since previous month
44.8
May '22



Prices

Unprecedented rise in input prices

Firms operating in the North East pointed to a further rise in average cost burdens in May. The rate of inflation strengthened from April and reached the highest in the history of the series. Businesses widely attributed increased expenses to higher staff and raw material costs. Moreover, the overall rise in cost burdens was quicker than the national average.

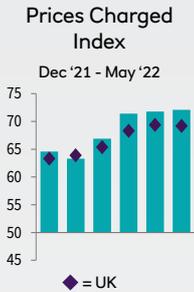
Input Prices Index
sa, >50 = inflation since previous month
87.1
May '22



Record uptick in selling prices

Average prices charged for goods and services in the North East increased at a survey-record rate for the fourth time in as many months. Respondents commonly mentioned that additional cost burdens were partially passed on to customers through higher output prices. The rise in prices charged in the North East was also the third-strongest of the 12 monitored regions, behind Northern Ireland and Wales.

Prices Charged Index
sa, >50 = inflation since previous month
72.1
May '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, May '22*
1	Chemicals & Plastics	1.58	55
2	Timber & Paper	1.17	48
3	Mechanical Engineering	1.17	55
4	Basic Metals	1.13	58
5	Transport	0.91	55
6	Other Manufacturing	0.71	55
7	Textiles & Clothing	0.70	48
8	Electrical & Optical	0.69	58
9	Food & Drink	0.54	50

North East specialisation: Services

Rank	Sector	LQ	UK Business Activity Index, May '22*
1	Transport & Communication	1.51	50
2	Hotels, Restaurants & Catering	1.20	58
3	Personal & Community Services	1.13	60
4	Business-to-business Services	0.90	55
5	Financial Intermediation	0.75	55
6	Computing & IT Services	0.57	58

UK sector focus

Transport & Communication

The UK's Transport & Communication sector saw only a modest rise in business activity in the three months to May. Although the rate of growth was the fastest seen since the three months to January, it was the slowest among the six services-related sectors monitored by the survey.

Businesses in the Transport & Communication sector faced subdued demand conditions, with latest data showing a slight decline in inflows of new work, in line with the trend seen throughout most of 2022 so far. A marginal drop in employment in the three months to May contrasted with jobs growth elsewhere across the service sector and partly reflected comparatively low business confidence.

Cost pressures meanwhile remained elevated, with the rate of input price inflation staying close to its recent peak. Businesses looked to offset some of the burden via an unprecedented rise in output prices.

Output Index

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



*3-month moving average



UK Regional PMI overview

Business Activity

Latest data showed a general slowdown in growth across the UK regions in May, with nine out of the 12 monitored areas recording a weaker rise in business activity. London once again topped the rankings in terms of business activity growth, ahead of Wales and Scotland. Elsewhere, output declined in the West Midlands, Northern Ireland* and the North East.

Employment

London led a broad-based rise in employment in May. The rate of job creation in the capital even ticked up slightly, as was the case in four other areas (namely the South East, West Midlands, Scotland and Northern Ireland). The North East remained at the bottom of the rankings, although it did see a fractional increase in workforce numbers, following a decline in April.

Future Activity

Firms in Yorkshire & Humber recorded the strongest optimism towards future activity. Here, business confidence recovered somewhat since April, as was also the case for the North West, which ranked second overall. Seven of the 12 monitored areas saw a decline in expectations, however, including Northern Ireland where sentiment turned negative for the first time since October 2020.

Business Activity Index

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



Employment Index

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



Future Activity Index

>50 = growth expected over next 12 months May '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
Dec '21	49.7	52.6	53.8	59.6	51.4	50.1	81.5	64.6
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

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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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We are widely sought after by many of the world's leading organizations to provide credit ratings, benchmarks, analytics and workflow solutions in the global capital, commodity and automotive markets. With every one of our offerings, we help the world's leading organizations plan for tomorrow, today.

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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