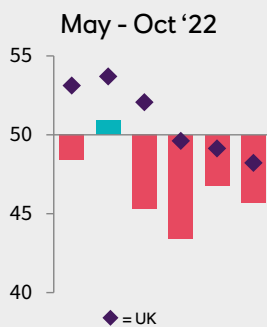


# NatWest North East PMI<sup>®</sup>

## Sentiment at record low as recession fears mount

### North East Business Activity Index



### Key findings

Confidence at North East firms worst since series began in 2012

Faster declines in output and new business in October

Input price inflation eases but still higher than pre-2021 levels

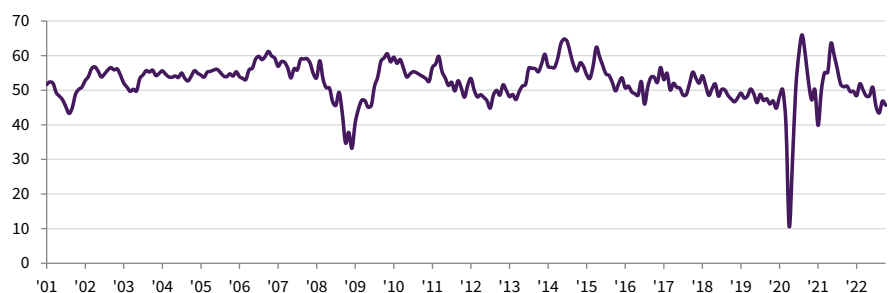
Faster declines in output and new work were accompanied by the weakest 12-month outlook on record in October as firms widely expected a recession, the NatWest Regional PMI<sup>®</sup> data showed. The headline NatWest North East Business Activity Index — a seasonally adjusted index that measures the month-on-month change in the combined output of the region's manufacturing and service sectors — fell to 45.7 in October, down from 46.8 in September and signalling a sharper reduction in output across the manufacturing and service sectors. Activity has declined nine times in the past 12 months and the North East posted the third-fastest contraction across the 12 UK regions in October, slower only than those noted in the South West and Northern Ireland.

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

*"The October PMI data paint a challenging picture for the North East economy, with both the current and forward-looking indicators deteriorating. Total activity fell at one of the sharpest rates since the global financial crisis, reflecting a steeper drop in new orders. Moreover, companies' widespread fears of a looming recession resulted in the 12-month outlook for activity dropping to the lowest since this series was first compiled in 2012, and the second-weakest across the UK. The North East is also under-performing compared to the UK as a whole, and was the only region to record a fall in employment in October. Inflationary pressures have come down from their June peaks, but remain very high and are clearly weighing on demand."*

North East Business Activity Index

sa, >50 = growth since previous month



## Contents

- [About the report](#)
- [Demand and outlook](#)
- [Exports](#)
- [Business capacity](#)
- [Prices](#)
- [UK Sector PMI](#)
- [UK Regional PMI](#)
- [Data summary](#)
- [Contact](#)

## 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

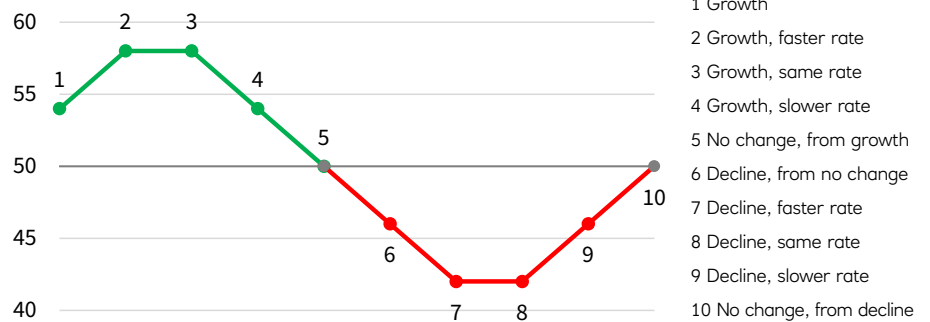
calculated from a single question that asks for changes in the volume of business activity (at service providers) or output (at manufacturers) compared with one month previously. The North East Business Activity Index is comparable to the UK Composite Output Index. It is sometimes referred to as the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

### Index interpretation

50.0 = no change since previous month



## Demand and outlook

### New business falls for eighth month running

The volume of new work received by private sector firms in the North East fell for the eighth month running in October. Moreover, the rate of decline was the second-sharpest since May 2020. Firms reported squeezed client budgets, reduced consumer spending power and high levels of economic uncertainty weighing on demand.

Across the 12 UK regions, the North East posted the joint-second fastest decline in new work, alongside the South West and behind Northern Ireland.

### Output forecasts lowest since series began in 2012

The Future Activity Index remained below the no-change mark of 50.0 in October, signalling a third successive month of overall pessimism regarding the next 12 months. Moreover, sentiment was at its lowest level since the series tracking the year-ahead outlook began in July 2012. Companies widely expected a UK recession, and a possible global downturn.

The outlook in the North East was much weaker than all other UK regions monitored except Northern Ireland.

## Exports

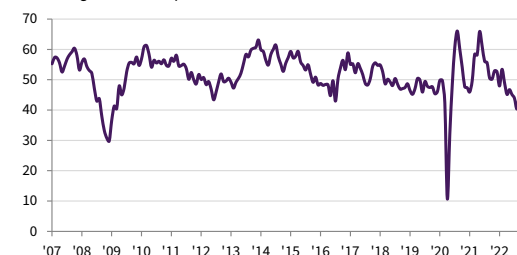
### Export conditions deteriorate for third month running in October

The North East Export Climate Index (ECI) 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.

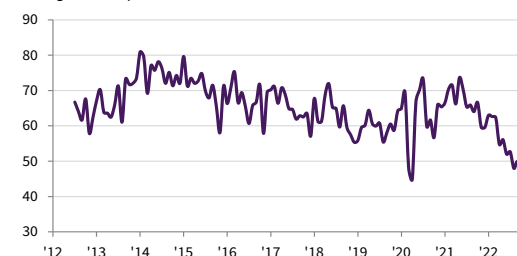
The Index fell to 47.8 in October, from 48.5 in September, signalling a third successive deterioration in output across the North East's main export markets that was the sharpest since June 2020.

The five largest export markets for the North East all registered lower output in October. The sharpest declines were in Germany, the Netherlands and Italy, with comparatively modest contractions seen in Spain and the US.

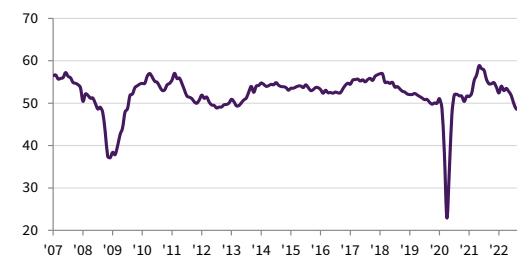
New Business Index  
sa, >50 = growth since previous month  
42.7  
Oct '22



Future Activity Index  
>50 = growth expected over next 12 months  
43.3  
Oct '22

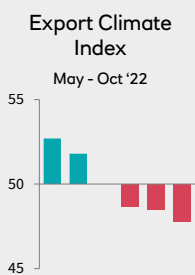
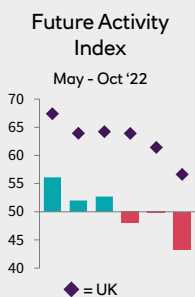
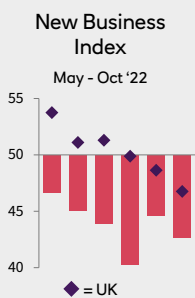


Export Climate Index  
sa, >50 = growth since previous month  
47.8  
Oct '22



Top export markets, North East

Rank	Market	Weight	Output Index, Oct '22
1	Netherlands	13.6%	45.6
2	USA	12.9%	48.2
3	Germany	12.8%	45.1
4	Spain	6.8%	48.0
5	Italy	5.6%	45.8



## Business capacity

### Jobs cut at fastest rate since January 2021

The level of employment across the combined manufacturing and service sectors of the North East fell for the fifth successive month in October. The rate of job shedding was the strongest since January 2021, although softer than the trend shown in 2019-20. Firms reported redundancies, losing staff to better paid roles elsewhere and a freeze on recruitment due to very weak demand.

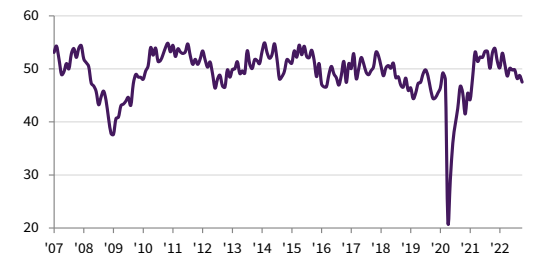
The fall in staffing in the North East contrasted with growth across all other UK regions, led by the South East.

### Slower decline in backlogs

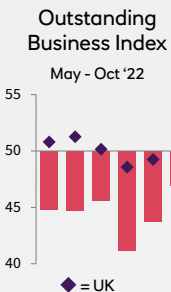
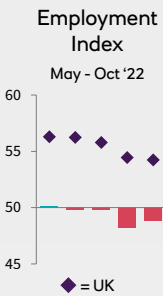
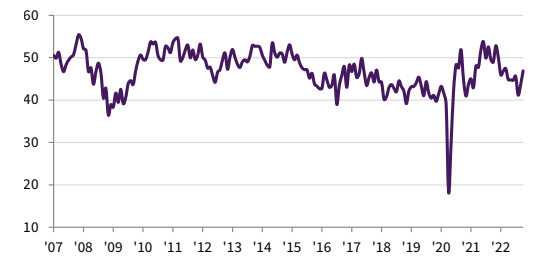
North East companies reported a tenth consecutive monthly decline in outstanding business in October, signalling ongoing spare capacity in the private sector economy. Firms indicated clearing backlogs due to a lack of new work. That said, the rate of reduction eased further to the weakest since March.

Although backlogs rose slightly across the UK as a whole, this largely reflected a solid increase in London as eight regions saw outstanding business decline.

Employment Index  
sa, >50 = growth since previous month  
47.5  
Oct '22



Outstanding Business Index  
sa, >50 = growth since previous month  
46.9  
Oct '22



## Prices

### Cost pressures ease but remain historically high

Average input prices increased for the twenty-ninth successive month in October, linked to energy, fuel, materials and sterling weakness. The rate of inflation eased to a 20-month low, but remained higher than in any survey period prior to March 2021.

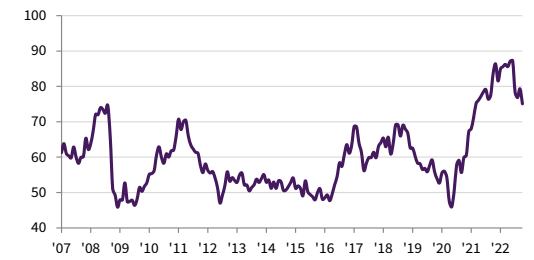
Input price inflation across the UK as a whole eased to a 13-month low in October, and was slightly higher than the rate seen in the North East.

### Prices charged increase at slowest rate for 18 months

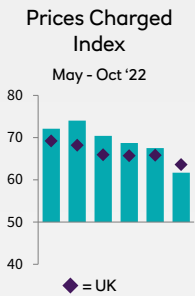
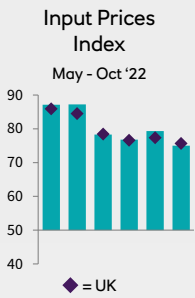
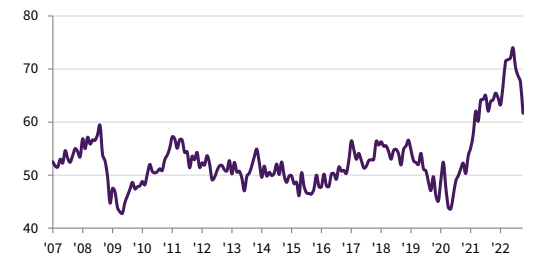
North East private sector firms raised their prices charged for goods and services for the twenty-sixth consecutive month in October, and the rate of inflation remained historically strong. That said, output price inflation eased to an 18-month low, reflecting both a recent moderation in cost pressures and efforts to remain competitive and attract new business.

The North East registered the third-weakest rise in charges across the UK regions, ahead of the South West and East of England.

Input Prices Index 75.0  
sa, >50 = inflation since previous month Oct '22



Prices Charged Index 61.7  
sa, >50 = inflation since previous month Oct '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, Oct '22*
1	Chemicals & Plastics	1.58	
2	Timber & Paper	1.17	
3	Mechanical Engineering	1.17	
4	Basic Metals	1.13	
5	Transport	0.91	
6	Other Manufacturing	0.71	
7	Textiles & Clothing	0.70	
8	Electrical & Optical	0.69	
9	Food & Drink	0.54	

#### North East specialisation: Services

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

## UK sector focus

### Transport

UK Transport manufacturers reported a steep and accelerated reduction in output levels in the three months to October, latest PMI data showed. The sector's performance was its worst since the initial COVID-related shutdowns in early-2020.

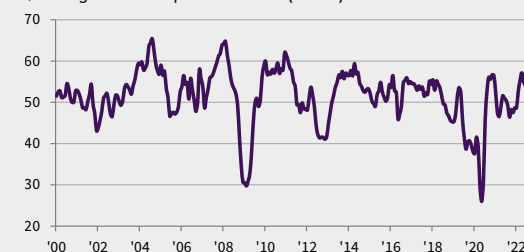
Alongside a softening of demand, which was evidenced by a fall in inflows of new orders, the reduction in production reflected shortages of materials and parts. Surveyed firms continued to report longer lead times on inputs, albeit with the incidence of delays having shown some improvement from the record levels a year earlier.

Cost pressures remained historically high, and even intensified slightly in the three months to October.

Despite these challenges, producers of Transport goods were more upbeat about the outlook for output than those in any other manufacturing sector. As such, they continued to add to workforce numbers.

#### Output Index

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



\*3-month moving average



## UK Regional PMI overview

### Business Activity

October saw a fall in business activity across all 12 monitored regions, the first time this has been the case since the third national lockdown in January 2021. The South West posted the steepest decline, followed by Northern Ireland\* and the North East respectively. London's fall in activity was only marginal, but nonetheless its first for over a year-and-a-half.

### Employment

Employment continued to rise across almost every region during October, the only exception being the North East where workforce numbers fell for a fifth straight month. However, in most cases, rates of job creation slowed. This included the South East - the region at the top of the rankings for employment growth.

### Future Activity

Business expectations, although often still positive, weakened in most cases in October. Firms in Northern Ireland and the North East even noted increased pessimism towards the outlook. Business confidence in the South West was unchanged from September's record low, while Scotland went against the broader trend and registered the strongest optimism for three months.

Business Activity Index

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



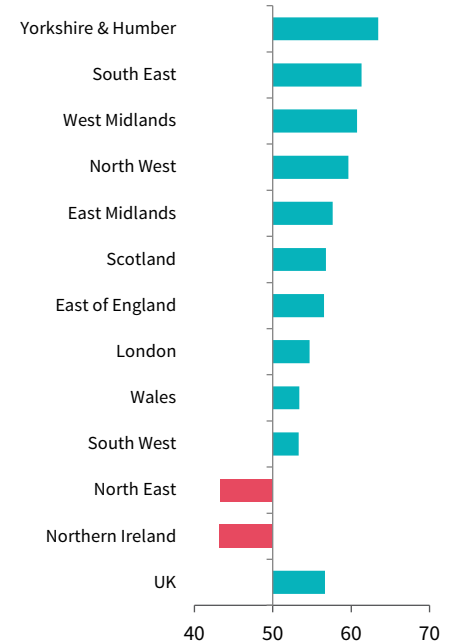
Employment Index

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



Future Activity Index

>50 = growth expected over next 12 months Oct '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
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
Aug '22	43.4	40.3	48.7	48.0	48.2	41.2	76.8	68.7
Sep '22	46.8	44.6	48.5	49.8	48.8	43.7	79.3	67.5
Oct '22	45.7	42.7	47.8	43.3	47.5	46.9	75.0	61.7

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### 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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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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