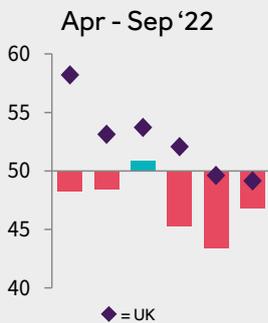




NatWest North East PMI[®]

North East firms signal slower decline in business activity at end of third quarter

North East Business Activity Index



Key findings

Output falls at solid, albeit softer, rate

Downturn in sales moderates, but among worst seen across the UK

Input cost inflation ticks higher

Acute inflationary pressures, recession fears and the cost-of-living crisis dampened output volumes across the North East economy, the NatWest Regional PMI[®] 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 — posted 46.8 in September, signalling a third consecutive monthly contraction. Although solid, the rate of reduction eased from August (43.4) when the downturn had intensified to the sharpest since January 2021. Yet, the region saw a steeper drop in business activity than that recorded at the UK level.

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

"The survey shows us that businesses and clients were clearly worried about an economic recession in September. This, combined with rising prices and reduced budgets led households to cutback on goods and services expenditure. Among companies, the challenging scenario resulted in the scaling back of output and downbeat projections for the outlook. These economic woes were not centered on the North East, but it was here that some of the worst regional figures were recorded.

"Input price inflation showed no signs of abating, with September's increase the fastest in three months. Local firms absorbed some of this additional cost burden in efforts to secure new work, signalled by a softer upturn in selling prices, then again the rate of charge inflation remained historically steep."

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

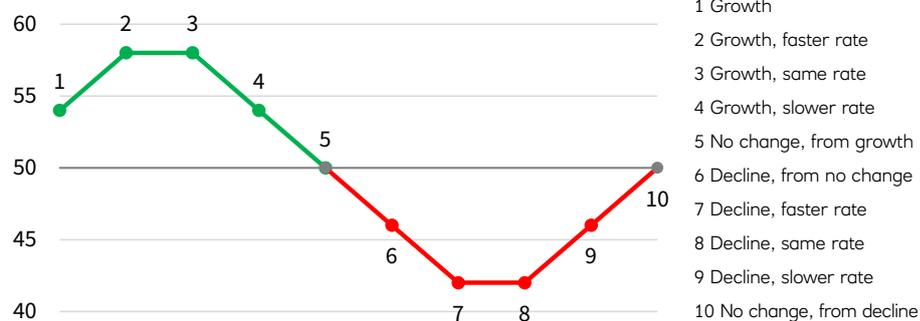
calculated from a single question that asks for changes in the volume of business activity (at service providers) or output (at manufacturers) compared with one month previously. The North East Business Activity Index is comparable to the UK Composite Output Index. It is sometimes referred to as the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

New business inflows decline further

North East companies signalled another decrease in new work intakes during September, the seventh in as many months. Despite easing from August, the rate of reduction was marked. The latest drop was attributed by survey participants to price rises, subdued demand conditions, the cost-of-living crisis and concerns of an economic downturn.

The local trend for sales was among the worst across the monitored UK areas, with a faster contraction only seen in Northern Ireland.

Business sentiment remains negative in September

As was the case in August, North East firms were downbeat towards the year-ahead outlook for output. Recession worries, interest rate hikes, acute price pressures and falling real wages were among the reasons mentioned for pessimistic forecasts. However, the Future Activity Index rose from August and was close to the 50.0 neutral mark.

Negative sentiment was also recorded in Northern Ireland, while optimism was registered across the other ten UK regions.

Exports

Export conditions worsen further at end of third quarter

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.

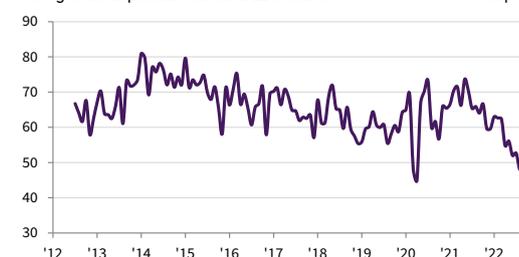
Posting 48.5 in September, the ECI was in contraction territory for the second straight month. Little-changed from August's figure of 48.7, the ECI was indicative of a slight deterioration in trade prospects.

Output decreased in each of the top five export markets for the North East. Moreover, rates of reduction accelerated from those seen mid-quarter across key European export markets such as the Netherlands, Germany and Italy. Germany recorded the sharpest downturn since the first COVID-19 lockdown.

New Business Index
sa, >50 = growth since previous month
44.6
Sep '22



Future Activity Index
>50 = growth expected over next 12 months
49.8
Sep '22



Export Climate Index
sa, >50 = growth since previous month
48.5
Sep '22

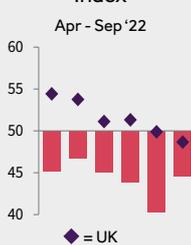


Top export markets, North East

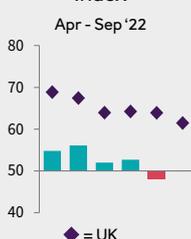
Rank	Market	Weight	Output Index, Sep '22
1	Netherlands	13.6%	46.4
2	USA	12.9%	49.3*
3	Germany	12.8%	45.7
4	Spain	6.8%	48.4
5	Italy	5.6%	47.6

*US based on Flash PMI data

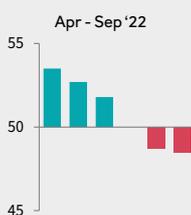
New Business Index



Future Activity Index



Export Climate Index



Business capacity

Employment continues to fall in September

Private sector companies in the North East again reported lower payroll numbers in September, stretching the current sequence of job shedding to four months. According to survey members, resignations, labour shortages, reduced demand and concerns about the economy all led to a decline in headcounts. The overall rate of contraction was only slight, however, and softened from August.

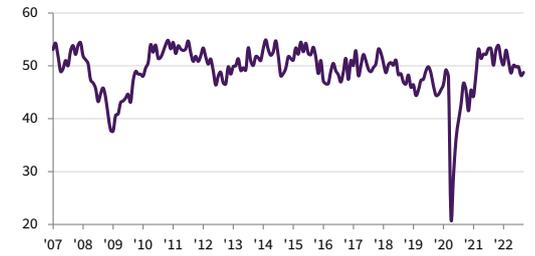
The North East was at the bottom of the regional rankings for employment at the end of the third quarter.

Backlogs decrease at marked, albeit softer, pace

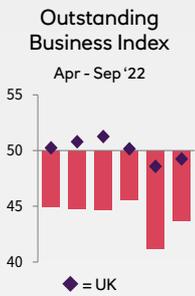
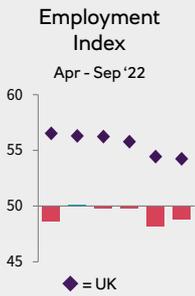
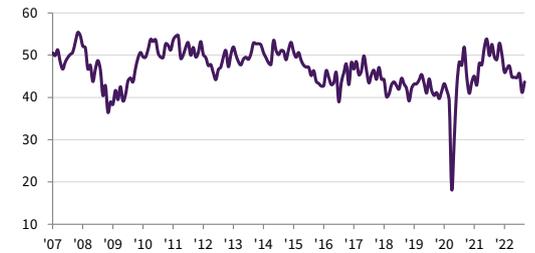
Companies operating the North East private sector continued to signal spare capacity in September. Outstanding business volumes declined for the ninth month running and markedly, but at a softer rate than in August. In some instances, panellists indicated that lower sales enabled them to clear pending workloads.

Only Northern Ireland recorded a sharper drop in backlogs than that seen locally, while London and the East Midlands were the only parts of the UK that posted growth.

Employment Index
sa, >50 = growth since previous month
48.8
Sep '22



Outstanding Business Index
sa, >50 = growth since previous month
43.7
Sep '22



Prices

Faster upturn in input costs

Overall expenses of private sector companies in the North East continued to rise in September, taking the current sequence of inflation to 28 months. Moreover, the rate of increase quickened to a three-month high and was well above its long-run average. Survey members reported greater beverage, energy, food, labour and transportation costs. In some instances, hikes were attributed to Brexit, the war in Ukraine and the depreciation of the pound.

Average cost burdens in the North East increased at a faster pace than that seen across the UK as a whole.

Charge inflation eases to three-month low

Ongoing efforts to transfer rising cost burdens to clients underpinned a further upturn in prices charged for goods and services in the North East. That said, in contrast to the trend for input costs, the rate of charge inflation continued to moderate. The latest rise was the slowest since February, having eased throughout the third quarter.

Slower rates of increase in selling prices were noted in seven other UK regions.

Input Prices Index

sa, >50 = inflation since previous month

79.3

Sep '22

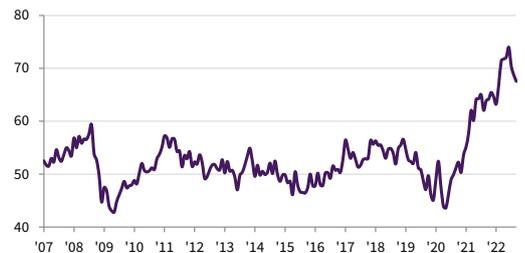


Prices Charged Index

sa, >50 = inflation since previous month

67.5

Sep '22



Input Prices Index

Apr - Sep '22



Prices Charged Index

Apr - Sep '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, Sep '22*
1	Chemicals & Plastics	1.58	48
2	Timber & Paper	1.17	48
3	Mechanical Engineering	1.17	48
4	Basic Metals	1.13	48
5	Transport	0.91	48
6	Other Manufacturing	0.71	50
7	Textiles & Clothing	0.70	48
8	Electrical & Optical	0.69	52
9	Food & Drink	0.54	48

North East specialisation: Services

Rank	Sector	LQ	UK Business Activity Index, Sep '22*
1	Transport & Communication	1.51	48
2	Hotels, Restaurants & Catering	1.20	48
3	Personal & Community Services	1.13	48
4	Business-to-business Services	0.90	48
5	Financial Intermediation	0.75	52
6	Computing & IT Services	0.57	58

UK sector focus

Business-to-Business Services

The UK's large Business-to-Business Services sector suffered a downturn in activity in the three months to September, latest PMI data showed. Output levels fell, albeit only slightly, for the first time since the third national lockdown at the start of 2021.

High inflation and waning confidence among customers acted as headwinds to growth, according to surveyed businesses. With rising interest rates forecast to further dampen demand, firms' expectations towards future activity fell to the lowest for almost two-and-a-half years.

Employment continued to rise across the sector. However, whilst still solid by historical standards, the pace of job creation slowed to the weakest since early-2021.

On the price front, rates of both input cost and output charge inflation remained elevated but maintained a steady decline from their recent record highs in Q2.

Output Index

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



*3-month moving average



UK Regional PMI overview

Business Activity

Nine of the 12 monitored regions recorded lower levels of business activity in September. The fastest rates of contraction were seen in Northern Ireland* and the South West. London was the best-performing region, despite seeing growth slow to a 20-month low, ahead of Yorkshire & Humber. Business activity in the South East was unchanged on the month, after having fallen slightly in August.

Employment

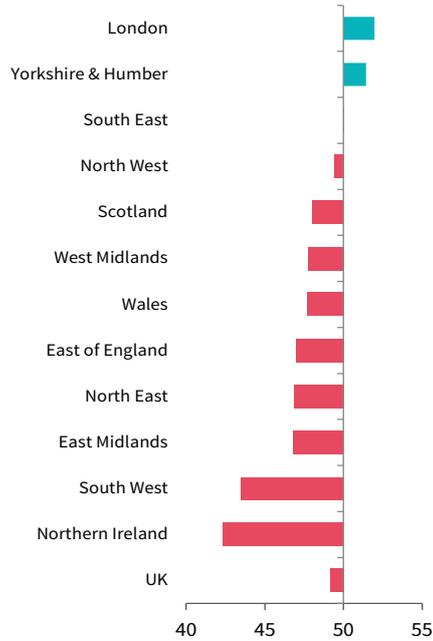
Although employment rose in most regions in September, rates of job creation slowed in the majority of cases. This included the East of England, which nevertheless topped the rankings ahead of the South East. Workforce numbers fell in the North East for the fourth month running, whilst the South West recorded its first decline since February 2021.

Future Activity

Business confidence towards future output fell across three-quarters of the surveyed regions in September. Yorkshire & Humber recorded the strongest optimism, despite seeing the greatest reduction in expectations from the previous month. Business sentiment was generally positive, with the exception of Northern Ireland and the North East.

Business Activity Index

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



Employment Index

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



Future Activity Index

>50 = growth expected over next 12 months Sep '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
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	51.8	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

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