

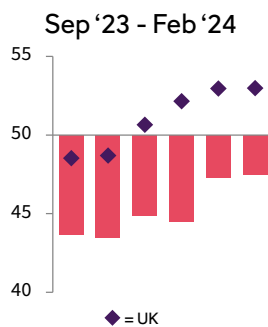


NatWest

NatWest North East PMI[®]

North East records softer declines in activity and new business in February

North East Business Activity Index



Key findings

Firms scale back activity while demand conditions remain muted

Job cutting continues, albeit at a slower pace

Rapid rise in cost pressures lead to sharper increase in selling prices

The headline NatWest North East PMI[®] 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 – signalled a ninth successive monthly decrease in private sector output midway through the opening quarter of 2024. The index picked up from 47.3 in January to 47.5 to signal a moderate and softer decline in activity. Anecdotal evidence showed that destocking among clients and the higher cost of living, alongside subdued customer confidence and demand retrenchment, triggered the latest fall. Having been the worst performer of the 12 UK regions and nations in January, the North East was joined by Wales in recording the joint-worst performance in the rankings for output.

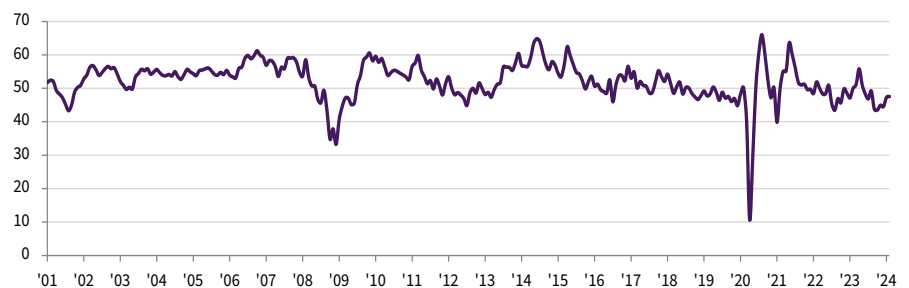
Malcolm Buchanan, Chair of the NatWest North Regional Board, commented:

"Though it is clear that private sector firms across the North East are still facing challenging business conditions, February's PMI results provided some comfort that the downturn is slowing. The softest drop in demand since last May led firms to reduce activity to the least extent for six months. That said, of the 12 monitored UK regions and nations, the North East remained at the bottom of the rankings for output in February.

"Though North East firms' optimism was the weakest of all 12 UK areas in February, companies reported the softest rate of job cutting for eight months. At the same time, price pressures remained sharply elevated, with both cost and charge inflation creeping up in February."

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

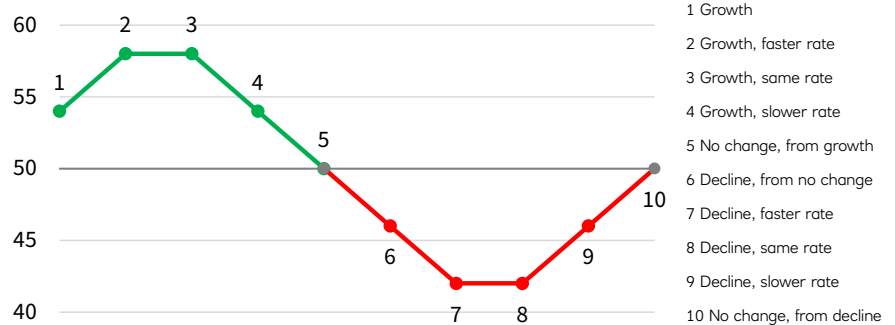
calculated from a single question that asks for changes in the volume of business activity (at service providers) or output (at manufacturers) compared with one month previously. The North East Business Activity Index is comparable to the UK Composite Output Index. It is sometimes referred to as the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

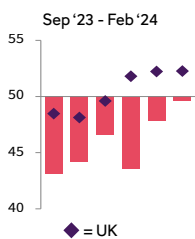
Index interpretation

50.0 = no change since previous month



Demand and outlook

New Business Index



New work declines again, but only marginally

The decline in new business across the North East private sector extended to a tenth straight month in February. Firms blamed the contraction on ongoing subdued demand conditions. That said, the pace at which order intakes fell was the softest for nine months and only marginal overall.

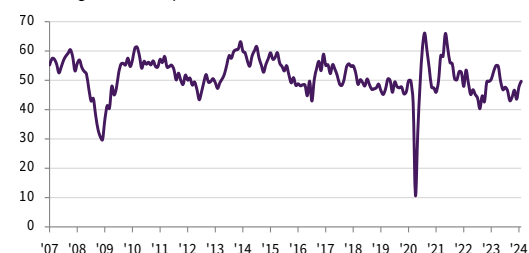
Only Wales and Yorkshire registered sharper reductions in sales than the North East.

New Business Index

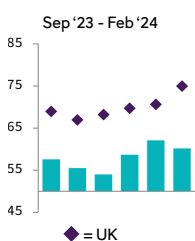
sa, >50 = growth since previous month

49.6

Feb '24



Future Activity Index



Confidence towards future output dips in February

North East firms remained optimistic about their growth prospects for the coming year in February. Companies cited the launch of new products and services and winning new contracts as drivers of confidence.

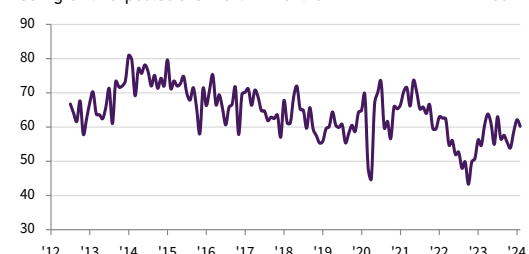
However, the degree of optimism across the North East dipped on the month and was the least pronounced of the 12 UK areas, with local businesses generally worried about economic conditions.

Future Activity Index

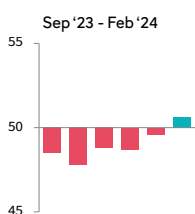
>50 = growth expected over next 12 months

60.2

Feb '24



Export Climate Index



Exports

Export conditions improve marginally

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.

Export conditions for firms in the North East improved for the first time in eight months, with the respective seasonally adjusted index increasing to 50.6 in February, from 49.6 in January.

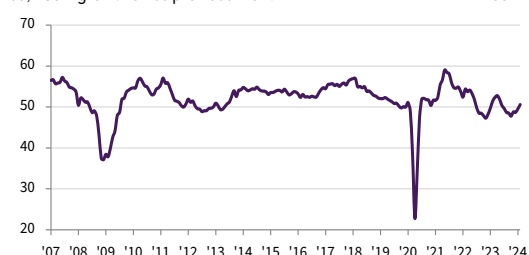
Considering the top five export markets for the North East, the US and Italy recorded sharper activity growth. Though remaining in contraction territory, the Netherlands and France saw output fall at softer rates. Germany recorded an accelerated downturn, however.

Export Climate Index

sa, >50 = growth since previous month

50.6

Feb '24



Top export markets, North East

Rank	Market	Weight	Output Index, Feb '24
1	Germany	15.6%	46.3
2	USA	14.5%	52.5
3	Netherlands	10.1%	49.7
4	France	9.6%	48.1
5	Italy	6.4%	51.1

Business capacity

Softest job shedding for eight months

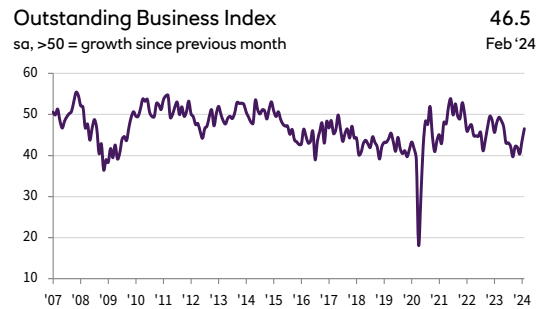
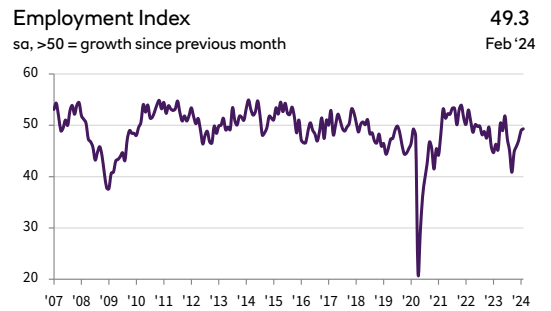
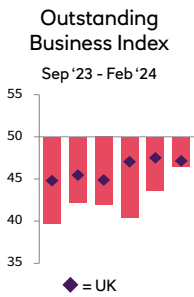
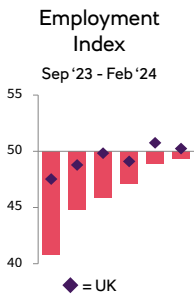
Job shedding remained on the agenda for companies across the North East, marking an eighth successive drop in employment levels in February. Survey respondents linked the latest reduction to adverse demand conditions and the non-replacement of leavers. That said, the rate of job cuts was the softest in the current sequence and only marginal overall.

Although, payroll numbers rose at the UK level, North East was one of five areas to record job shedding in February.

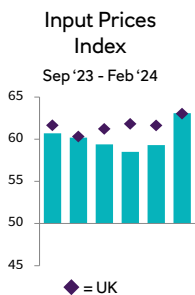
Downturn in unfinished orders moderates

February survey data indicated a further fall in the level of outstanding business across the North East, thereby continuing the trend of decline which began in January 2022. Panellists noted that they were able to work through incomplete orders due to ongoing demand weakness. Despite being solid, the rate of depletion was the slowest in nine months.

The North East registered a quicker decrease in work-in-hand than the UK average.



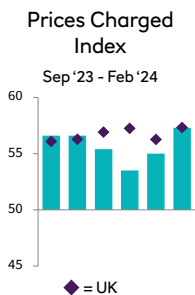
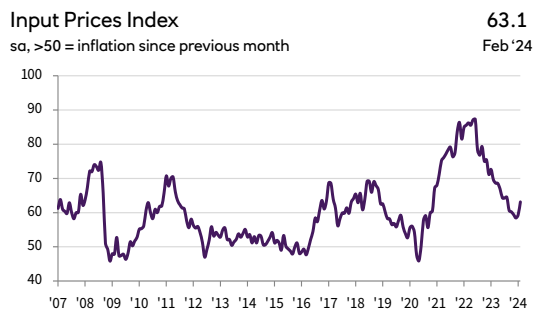
Prices



Input prices rise at quickest rate since last August

Cost pressures faced by firms across the North East remained strong overall in February, linked to greater raw material prices, salary costs and shipping fees. The rate of cost inflation picked up notably from January to record a six-month high.

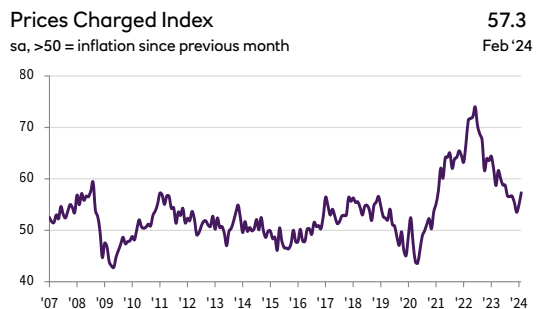
Of the 12 monitored UK areas, only London saw a faster increase than the North East.



Sharp rise in selling prices in February

As they sought to pass on higher costs to customers, firms across the North East increased their selling prices in February, thereby continuing the trend of upticks which began three-and-a-half years ago. The rate of charge inflation was marked and the most pronounced in seven months.

The local rise in selling prices was the fastest of the 12 UK areas monitored by the survey, excluding London and the East of England.



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, Feb '24 ⁺
1	Chemicals & Plastics	1.65	50
2	Basic Metals	1.21	48
3	Timber & Paper	1.08	50
4	Mechanical Engineering	1.08	55
5	Electrical & Optical	0.80	48
6	Transport	0.75	55
7	Textiles & Clothing	0.71	48
8	Other Manufacturing	0.63	48
9	Food & Drink	0.50	50

North East specialisation: Services

Rank	Sector	LQ	UK Business Activity Index, Feb '24 ⁺
1	Transport & Communication	1.42	55
2	Personal & Community Services	1.34	48
3	Hotels, Restaurants & Catering	1.17	55
4	Business-to-business Services	0.92	55
5	Financial Intermediation	0.60	55
6	Computing & IT Services	0.55	55

UK sector focus

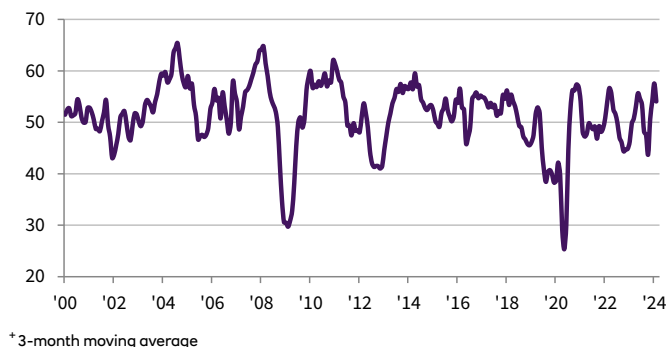
Transport Manufacturing

Transport manufacturers recorded solid output growth in the three months to February. This was in contrast to the sustained downturn in overall UK goods production over the same period.

That said, the upturn in Transport output merely represented a rebound from the decline seen last autumn, and underlying demand in the sector remained weak. New orders continued falling in line with the trend throughout the second half of last year, albeit with the rate of decline easing. Lower sales from abroad were a factor. The disparity between rising output and shrinking order books contributed to a marked rise in stocks of finished goods in the three months to February.

Production expectations in the Transport manufacturing sector were close to the lowest seen over the past three years. Latest data meanwhile showed employment falling – albeit marginally – for the first time since the first quarter of 2023, with firms also cutting back on purchasing activity.

Output Index
sa, >50 = growth since previous month (3mma)⁺



UK Regional PMI overview

Business Activity

Two-thirds of the monitored UK nations and regions recorded business activity growth in February. London remained out in front despite seeing its pace of expansion ease to a three-month low. At the other end of the scale, Wales posted a solid and accelerated fall in output, while declines were also seen in the North East, Yorkshire & Humber and South West.

Employment

Scotland topped the rankings for employment growth for the fourth time in the past five months in February, pushing London back down into second place. The East of England, Northern Ireland*, South West and South East all saw slight increases in workforce numbers, while the North West recorded no change. Job cuts were seen everywhere else.

Future Activity

Business expectations improved in the majority of areas midway through the opening quarter. The South East recorded the highest degree of optimism, the first time this has been the case for eight months. Confidence was lowest in the North East, which was one of just two areas where sentiment weakened from the month before (along with the West Midlands).

Business Activity Index

sa, >50 = growth since previous month, Feb '24



Employment Index

sa, >50 = growth since previous month, Feb '24

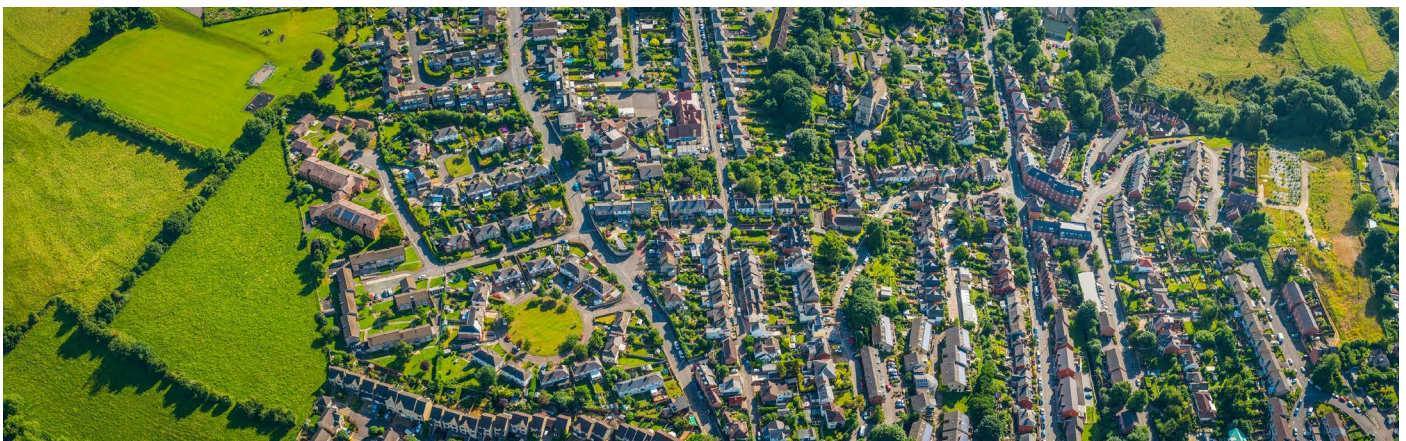


Future Activity Index

>50 = growth expected over next 12 months, Feb '24



* 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
Sep '23	43.7	43.1	48.5	57.6	40.8	39.7	60.7	56.6
Oct '23	43.5	44.2	47.8	55.5	44.8	42.2	60.2	56.6
Nov '23	44.9	46.6	48.8	54.0	45.9	41.9	59.4	55.4
Dec '23	44.5	43.6	48.7	58.7	47.1	40.4	58.5	53.5
Jan '24	47.3	47.8	49.6	62.1	48.9	43.6	59.3	55.0
Feb '24	47.5	49.6	50.6	60.2	49.3	46.5	63.1	57.3

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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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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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