

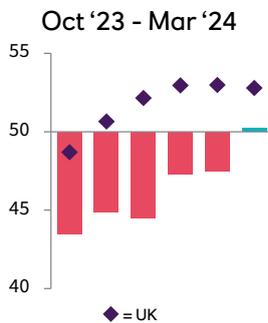


NatWest

# NatWest North East PMI<sup>®</sup>

## Business activity grows despite further decline in new business

### North East Business Activity Index



### Key findings

Activity increases in March, ending nine-month sequence of decline

New business contracts again and inflationary pressure eases

Job levels return to growth and business confidence brightens

The headline NatWest North East PMI<sup>®</sup> 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 – jumped up notably from 47.5 to 50.2 in March. Though the uplift in output was only fractional, it was the first in ten months. Some firms linked the increase in output to improved demand, while those reporting a decline blamed the subdued economic climate. Of the 12 monitored UK regions and nations, the North East was near the bottom of the rankings for activity, above only Yorkshire and Humber where a downturn was sustained.

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

*"Though operating conditions remained tricky for North East private sector companies and tougher than in most other nations or regions, the NatWest Regional PMI data for March saw some faint glimmers of hope. A positive reading for activity was recorded for the first time since last May, while new business remained only just inside negative territory. On both scores, however, the North East was near the bottom of the regional rankings, above only Yorkshire and Humber.*

*"Yet, North East firms took on new workers in March, after having made cuts in the previous eight months. That said, the rise in workforce levels across the North East was only fractional. Overall sentiment towards future activity was slightly more positive in March, albeit still weak compared to the historical trend."*

North East Business Activity Index

sa, >50 = growth since previous month



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## About the North East PMI<sup>®</sup> report

The NatWest North East PMI<sup>®</sup> 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

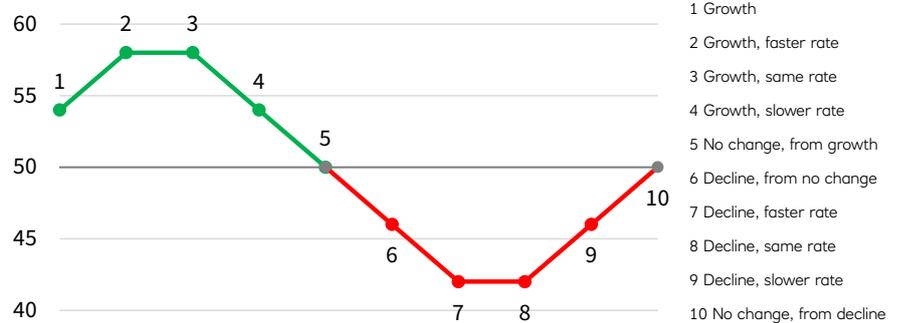
calculated from a single question that asks for changes in the volume of business activity (at service providers) or output (at manufacturers) compared with one month previously. The North East Business Activity Index is comparable to the UK Composite Output Index. It is sometimes referred to as the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

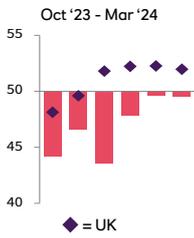
### Index interpretation

50.0 = no change since previous month



## Demand and outlook

### New Business Index

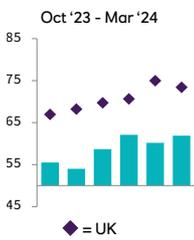


### Downturn in new work extends to nearly a year

March survey data saw new business fall again, thereby signalling nearly a year of successive monthly declines in demand for North East goods and services. Panellists linked the downturn to challenging economic conditions and subdued customer confidence. The rate of contraction was only slight, however.

The local trend was among the worst across the 12 monitored UK areas, with only Yorkshire & Humber posting a faster contraction.

### Future Activity Index



### Optimism ticks up, but remains historically subdued

Private sector firms across the North East were upbeat towards the outlook for activity over the coming year in March. The degree of positive sentiment picked up slightly on the month, with some firms noting their expectations for improved market conditions.

For the second month running, companies in the North East were the least confident of all 12 monitored UK regions or nations.

### New Business Index

sa, >50 = growth since previous month

49.5

Mar '24



### Future Activity Index

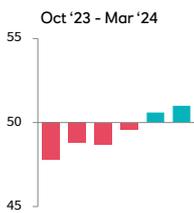
>50 = growth expected over next 12 months

61.9

Mar '24



### Export Climate Index



## Exports

### Strongest trade conditions since May 2023

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 ECI rose from 50.6 in February to 51.0 in March, to signal a stronger improvement in export conditions for North East firms and one that was the most pronounced in ten months.

Germany and France continued to report reductions in output, albeit at a softer pace. Of the remaining top five export markets for the North East, Italy saw a sharper rise in activity, while growth was reinstated in the Netherlands for the first time in over a year. Meanwhile, the pace of expansion slowed in the US.

### Export Climate Index

sa, >50 = growth since previous month

51.0

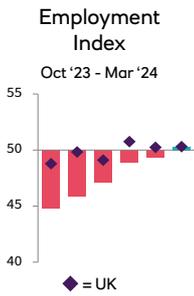
Mar '24



### Top export markets, North East

Rank	Market	Weight	Output Index, Mar '24
1	Germany	15.6%	47.7
2	USA	14.5%	52.1
3	Netherlands	10.1%	50.3
4	France	9.6%	48.3
5	Italy	6.4%	53.5

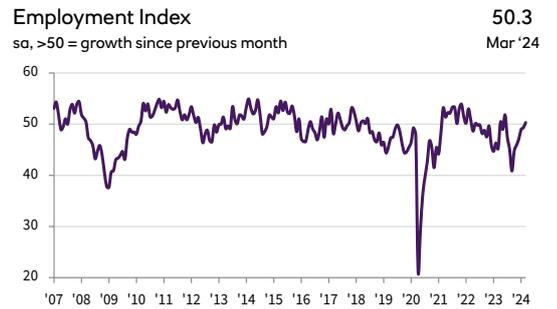
## Business capacity



### March sees renewed workforce expansion

Private sector firms across the North East added to their staffing levels in March, with the respective seasonally adjusted index posting just above the neutral 50.0 mark. The increase in headcounts was the first seen in nine months.

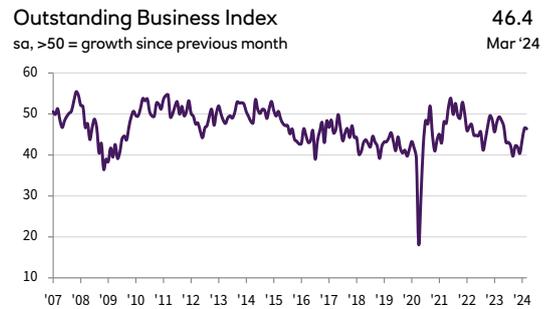
Though the pace of jobs growth across the North East was slight, it matched the UK average.



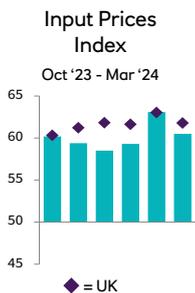
### Firms continue to work through backlogged orders

The level of outstanding business in the North East private sector economy dropped again in March, thereby stretching the current trend of decline to 27 months. The rate at which backlogs were depleted was solid and largely consistent with February. Some panel members noted that they were able to keep on top of workloads as order numbers remained subdued.

The local decrease in outstanding business was faster than that seen at the national level.



## Prices



### Cost inflation eases across the North East

Cost burdens facing private sector firms in the North East increased further in March, thereby continuing the trend of rises which began midway through 2020. Some survey respondents blamed the latest increase on greater transport costs. The rate of input price inflation dipped notably on the month, but nevertheless remained stronger than the historical average.

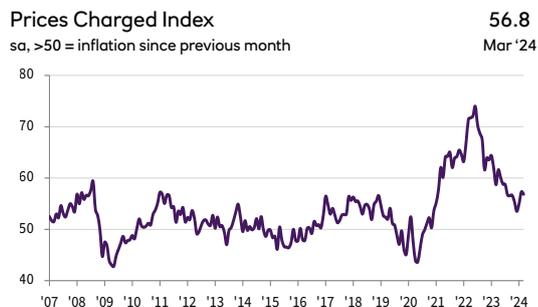
Cost inflation in the North East was softer than the UK average.



### Selling prices rise at rapid but softer pace in March

With average input costs continuing along an upward trend, North East private sector companies also raised their output charges in March. This reportedly reflected the passing on of greater wage and raw material costs to customers. Charge inflation eased on the month, but remained elevated compared to the long-run series trend.

The North East came third in the rankings for output price inflation, behind only London and Wales.



## 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.

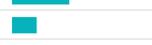
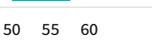
Focusing on the manufacturing and service sectors in isolation, a location quotient is calculated by taking a sector's proportion of regional output and comparing it with the UK-wide share of output in the sector. An LQ of 1.0 in a sector means that the region and the UK as a whole are equally specialised 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, Mar '24 <sup>+</sup>
1	Chemicals & Plastics	1.65	
2	Basic Metals	1.21	
3	Timber & Paper	1.08	
4	Mechanical Engineering	1.08	
5	Electrical & Optical	0.80	
6	Transport	0.75	
7	Textiles & Clothing	0.71	
8	Other Manufacturing	0.63	
9	Food & Drink	0.50	

#### North East specialisation: Services

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

## UK sector focus

### Hotels, Restaurants & Catering

The Hotels, Restaurants & Catering sector was one of the UK economy's strongest growth areas in the opening quarter of 2024. Business activity rose sharply, building on a solid end to 2023 and marking a reversal of fortunes following a sharp decline in activity last summer.

Furthermore, businesses in the sector looked to the future with increasing optimism, with confidence towards the 12-month outlook for activity reaching the highest for nearly two years. It did however remain just below the long-run series average.

Input prices continued to rise sharply across the Hotels, Restaurants & Catering sector in the three months March, linked to wage pressures and increased fuel and transportation costs. The rate of inflation was faster than in any other broad services sub-sector monitored by the survey, albeit below the averages in 2022 and 2023. Firms raised their output prices accordingly, although the increase was likewise among the weakest in the past three years.

#### Output Index

sa, >50 = growth since previous month (3mma)<sup>+</sup>



<sup>+</sup> 3-month moving average



## UK Regional PMI overview

### Business Activity

Business activity rose almost universally across the UK in March. Growth was recorded in 11 of the 12 monitored nations and regions, led by London. Close behind was Northern Ireland, which gathered considerable momentum to post its steepest rise in output for over two years. Yorkshire & Humber went against the trend and saw a second straight monthly contraction.

### Employment

The fastest rate of job creation in March was recorded in Northern Ireland where it reached the quickest since August last year. Six other nations and regions saw staffing levels rise during the month, although employment growth was generally only modest. The West Midlands meanwhile registered the most marked drop in workforce numbers, the fastest there in over three years.

### Future Activity

Business expectations remained positive in all areas in March, with confidence levels generally exceeding their long-run series averages. The West Midlands returned to the top of the rankings as the degree of optimism in the region reached the strongest since the start of 2022. In the majority of cases, however, sentiment slipped from the highs seen in February.

Business Activity Index

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



Employment Index

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



Future Activity Index

>50 = growth expected over next 12 months, Mar '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
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
Mar '24	50.2	49.5	51.0	61.9	50.3	46.4	60.5	56.8

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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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