

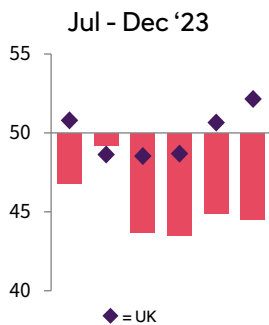


NatWest

NatWest North East PMI[®]

New business contracts at sharper pace but confidence picks up

North East Business Activity Index



Key findings

North East posts fastest declines in output and new work of all UK areas

Job shedding eases while backlog depletion accelerates

Inflationary pressures cool further

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 – slipped from 44.9 in November to 44.5, signalling a sustained and quicker downturn in activity during December. Furthermore, the latest contraction extended the current sequence of decline to seven months. The speed at which activity contracted was also the fastest of all 12 monitored UK regions and nations. According to survey respondents, the decrease reflected the ongoing deterioration in economic conditions, subdued demand and constrained customer budgets.

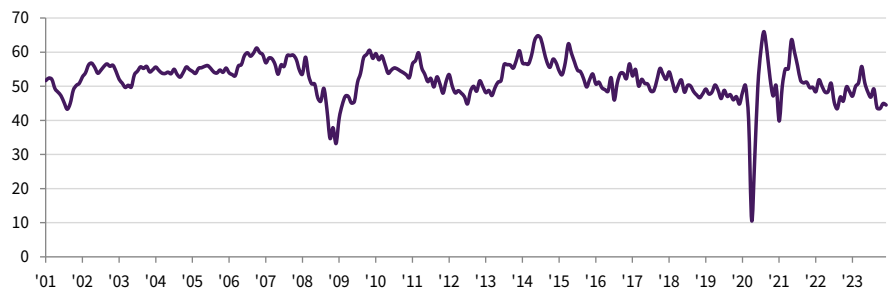
Malcolm Buchanan, Chair of the NatWest North Regional Board, commented:

"As 2023 drew to a close, North East firms signalled yet another month of onerous operating conditions. Steep contractions in both business activity and demand not only continued, but deepened, while inflationary pressures eased again."

"Although the rate of job cuts slowed in December, if new business inflows continue to fall and backlogs are depleted at the current rapid pace, firms may be forced to resort to harsher capacity reductions in the coming months. Nonetheless, the degree of optimism towards the outlook for output over 2024 strengthened in December, with some firms expressing plans for new project launches and expansions, in addition to hopes of a market recovery in the future."

North East Business Activity Index

sa, >50 = growth since previous month



PMI[®]

by S&P Global

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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

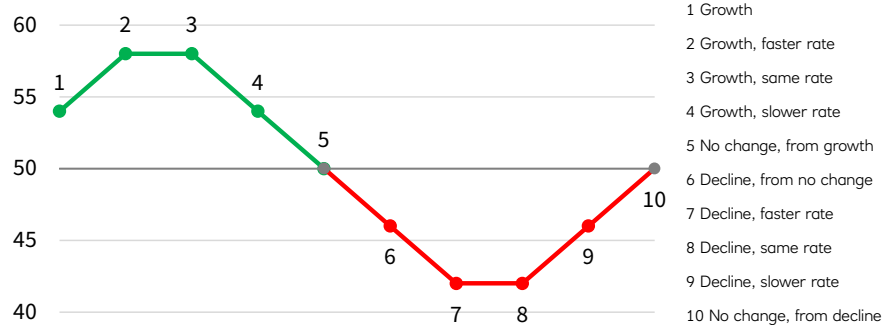
calculated from a single question that asks for changes in the volume of business activity (at service providers) or output (at manufacturers) compared with one month previously. The North East Business Activity Index is comparable to the UK Composite Output Index. It is sometimes referred to as the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

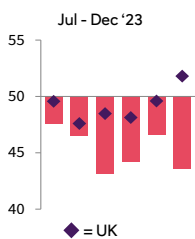
Index interpretation

50.0 = no change since previous month



Demand and outlook

New Business Index



North East firms post quickest decline in new work in the UK

December data signalled a contraction in new business inflows at firms across the North East, thereby extending the current sequence of decline to eight months. Where a decrease was reported, companies cited ongoing demand weakness and constrained customer budgets. The pace of contraction was marked and the fastest in three months.

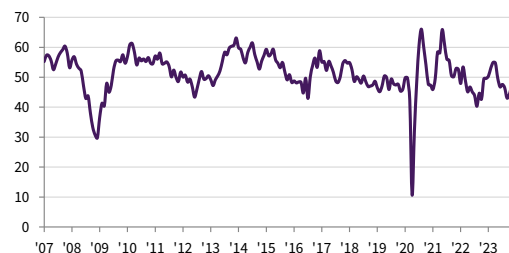
The local decline in sales was the fastest of the 12 monitored UK regions and nations.

New Business Index

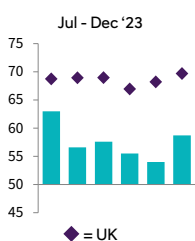
sa, >50 = growth since previous month

43.6

Dec '23



Future Activity Index



Outlook brightens in December

Although activity and new orders registered ongoing declines in December, private sector firms across the North East were increasingly optimistic that output would grow over 2024. Expectations of a market recovery, planned expansions and new projects were the main drivers of confidence. Furthermore, the degree of optimism was the most pronounced in five months.

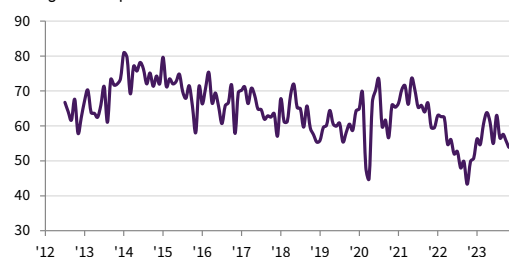
The level of sentiment among local firms was notably below the UK average.

Future Activity Index

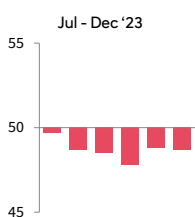
>50 = growth expected over next 12 months

58.7

Dec '23



Export Climate Index



Slight deterioration in export conditions

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.

Falling slightly from 48.8 in November to 48.7 in December, the ECI signalled a sixth consecutive month of contraction. The pace of decline remained only marginal, however.

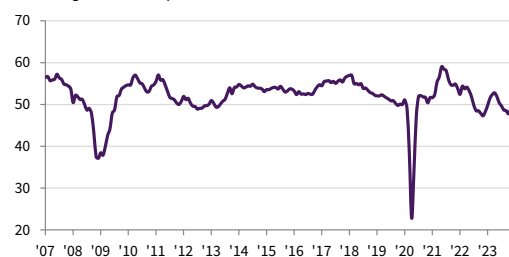
Of the top five export markets for the North East, only the US saw an increase in output during December as has been the case in each of the last six months. Slower contractions in France and Italy compared with sharper reductions in Germany and the Netherlands.

Export Climate Index

sa, >50 = growth since previous month

48.7

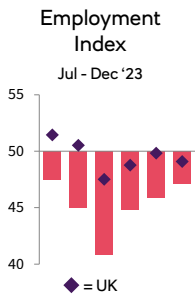
Dec '23



Top export markets, North East

Rank	Market	Weight	Output Index, Dec '23
1	Germany	15.6%	47.4
2	USA	14.5%	50.9
3	Netherlands	10.1%	44.7
4	France	9.6%	44.8
5	Italy	6.4%	48.6

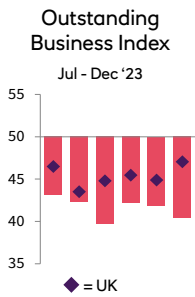
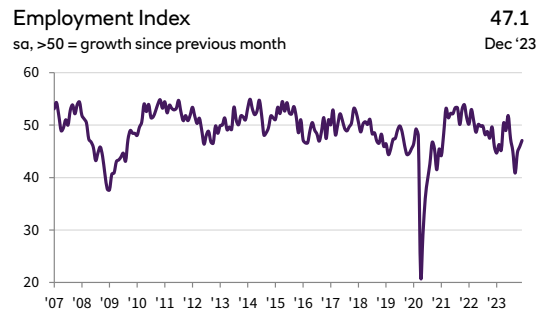
Business capacity



Slowest drop in employment since July

Companies operating in the North East scaled back their workforces in December for the sixth month in a row. Some survey respondents linked job cuts to difficulties replacing leavers, while others lowered employment to protect cashflow. That said, the pace of job shedding was the softest in five months and moderate overall.

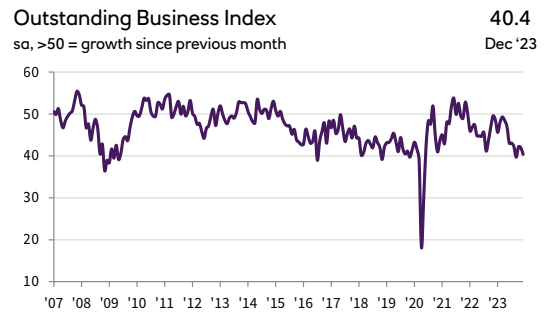
Aside from Wales, the North East registered the fastest drop in payroll numbers of the 12 monitored UK regions and nations.



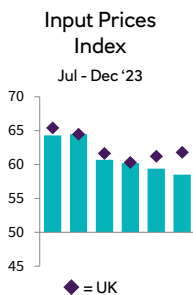
Outstanding work falls rapidly

Private sector firms in the North East continued to work through their backlogs in December, thereby extending the current sequence of decline to two years. Companies reportedly diverted existing capacity towards outstanding orders as demand conditions remained muted. As well as marked, the latest depletion was the quickest in three months.

Compared to the 12 areas of the UK, the local decline in outstanding work was the most pronounced.



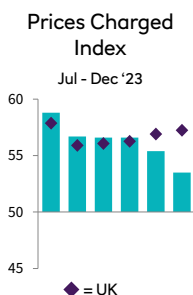
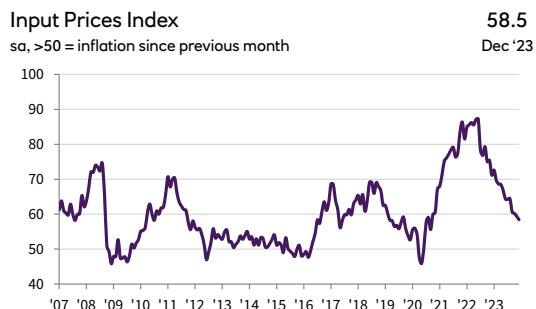
Prices



Input price inflation retreats, but remains substantial

December data signalled another steep rise in input prices faced by North East companies. Firms attributed the latest increase to raw material shortages and the current economic climate. That said, the rate of cost inflation recorded was the softest since September 2020.

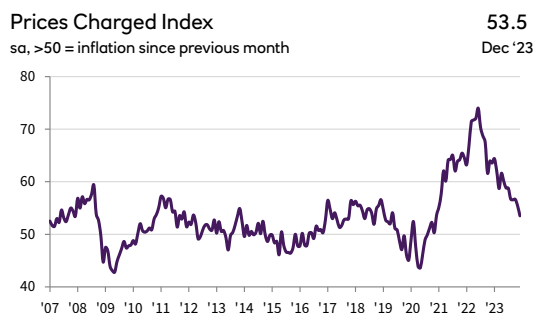
The North East was near the bottom of the UK rankings for cost burdens, ahead only of the West Midlands.



Charges rise at slowest rate in just over three years

Average selling prices for goods and services provided by North East firms rose further during the final month of 2023. The latest rise was mainly driven by recent input price increases, according to panellists. Although solid, the rate of charge inflation was the weakest seen since November 2020.

The North East posted the second-slowest rise in selling prices in the UK, faster only than Northern Ireland.



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, Dec '23
1	Electrical & Optical	1.30	48
2	Mechanical Engineering	1.26	45
3	Timber & Paper	1.21	48
4	Chemicals & Plastics	1.08	48
5	Other Manufacturing	1.03	52
6	Food & Drink	0.93	42
7	Basic Metals	0.93	50
8	Transport	0.66	45
9	Textiles & Clothing	0.43	52

North East specialisation: Services

Rank	Sector	LQ	UK Business Activity Index, Dec '23
1	Transport & Communication	1.17	48
2	Business-to-business Services	1.12	52
3	Hotels, Restaurants & Catering	1.03	48
4	Personal & Community Services	0.94	50
5	Computing & IT Services	0.87	52
6	Financial Intermediation	0.67	55

UK sector focus

Textiles & Clothing

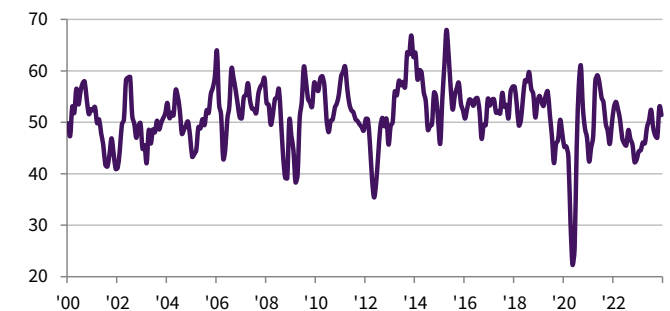
The UK's Textiles & Clothing sector saw a slight increase in production volumes in the three months to December. It was one of only three manufacturing sub-sectors monitored by PMI data to record growth, alongside Food & Drink and Transport. The result represented a marked turnaround from the solid rate of contraction seen in the opening quarter of 2023.

Driving the upturn was a strong increase in new orders, which in part reflected improved demand from abroad in recent months. Firms reacted by upping the pace of job creation to one of the quickest rates in the past five years. They also continued to build up stocks of both purchases and finished goods.

On the price front, latest data showed a sustained rebound in input costs following a decline during the middle part of 2023. Average factory gate charges meanwhile rose modestly, and at one of the slowest rates in the past three years.

Output Index

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



* 3-month moving average



UK Regional PMI overview

Business Activity

Seven of the 12 monitored regions and nations recorded higher business activity in December, the most since last June. Growth was once again led by North East, where output rose sharply during the month. At the other end of the scale, the North East recorded the most marked fall in output, followed by Wales.

Employment

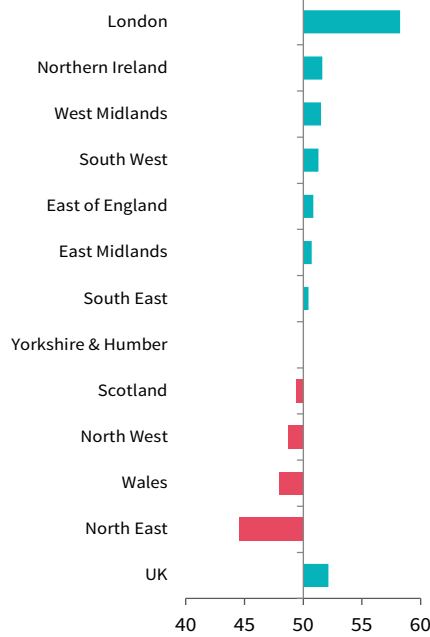
Labour market trends worsened in most cases in December. Just three areas saw employment rise, the fewest since last September, with rates of growth slowing in both Scotland and Northern Ireland*. For the second month running, Wales posted the sharpest drop in workforce numbers – its fastest since January 2021.

Future Activity

Business expectations improved in the majority of cases as 2023 drew to a close. This included the West Midlands, which topped the rankings ahead of the South East. The most marked upswing in confidence was in Wales, followed by the North East. Firms in Northern Ireland were the least optimistic about the year-ahead outlook.

Business Activity Index

sa, >50 = growth since previous month, Dec '23



Employment Index

sa, >50 = growth since previous month, Dec '23

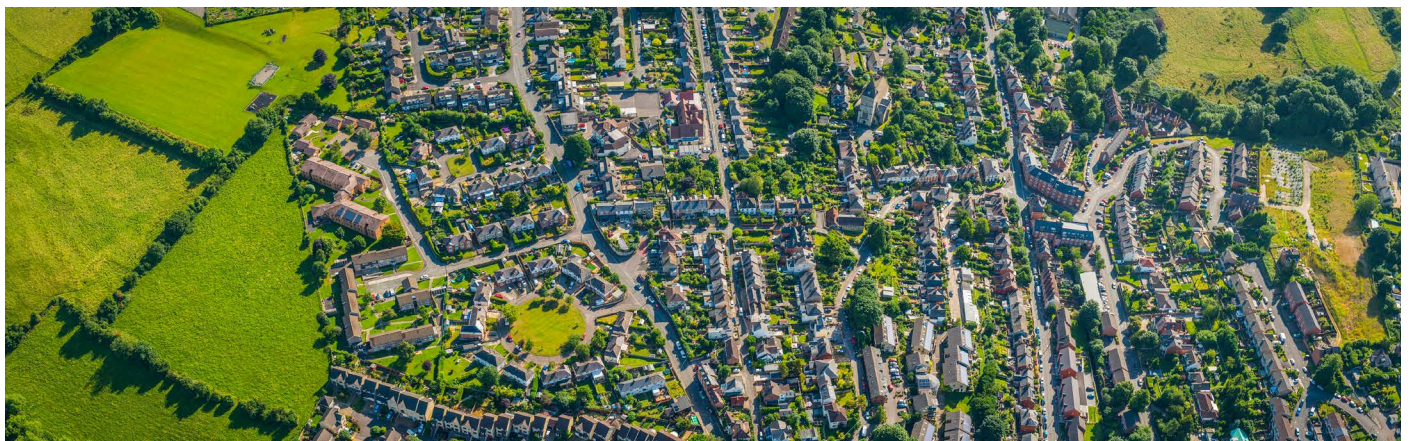


Future Activity Index

>50 = growth expected over next 12 months, Dec '23



* 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
Jul '23	46.8	47.6	49.7	63.0	47.5	43.1	64.3	58.8
Aug '23	49.2	46.5	48.7	56.6	45.0	42.3	64.5	56.7
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

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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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