

# NatWest North East PMI®

## North East sees renewed decline in business activity in May

### Key Findings

Output ticks down amid subdued demand conditions

Employment falls for eleventh straight month

Input costs rise at slowest rate for two years

### North East Business Activity Index



Last six months NE v UK



After seeing business activity rise for the first time in eight months in April, the North East private sector returned to contraction in May, according to the latest NatWest PMI® survey. A modest fall in output of goods and services across the region coincided with a further decrease in employment, with business confidence also weakening.

More positively, the recent sharp squeeze on company margins showed further signs of easing, as costs rose at the slowest rate for two years.

The headline NatWest North East Business Activity Index – a seasonally adjusted index that measures changes in the combined output of the region’s manufacturing and service sectors – registered 48.9 in May, down from an eight-month high of 50.3 in April and back below the 50.0 mark that separates growth from contraction.

Across the UK as a whole, the picture remained one of subdued growth. The strongest performing areas were Yorkshire & Humber and the North West.

### Demand

Firms in the North East reported lacklustre demand for goods and services in May. New orders were broadly unchanged, failing to build on the increase seen in April, which was the such rise in nine months. Uncertainty among businesses continued to be a factor undermining demand, according to anecdotal evidence.

### North East Business Activity Index

sa, >50 = growth since previous month



### Capacity

There remained a lack of pressure on business capacity across the North East private sector, as highlighted a sustained decrease in backlogs of work. Moreover, the rate of clearance was the quickest seen for three months.

Efforts by local companies to scale back operations saw regional private sector employment fall for an eleventh straight month in May, with data showing job losses across both manufacturing and services. That said, the extent of the overall decrease in workforce numbers was the least marked since November last year.

### Prices

Though firms in the North East faced higher costs in May, linked in large part to wage pressures, the overall rate of inflation was at a two-year low and weaker than the average since the start of the series in 2001. Anecdotal evidence highlighted the influence of lower raw materials, including a number of metals.

Firms continued to pass on part of the burden of higher costs in the form of increased charges for goods and services. Output price inflation ticked up to a four-month high in May, although remained well below that of input costs.

### Outlook

Finally, May saw a dip in business confidence regarding future activity, which arrested a sequence of improving optimism seen since the record low in December 2018.

## New Business Index



### New orders show little change in May

Demand for goods and services across North East showed little change in May. This was highlighted by the seasonally adjusted New Business Index registering broadly in line with the neutral 50.0 threshold. The latest reading was down from a nine-month high in April, when a slight increase in new orders was recorded.

Across the UK as a whole, new orders rose for the first time in the year-to-date, albeit increasing only marginally overall.

### New Business Index

sa, >50 = growth since previous month



## Outstanding Business Index



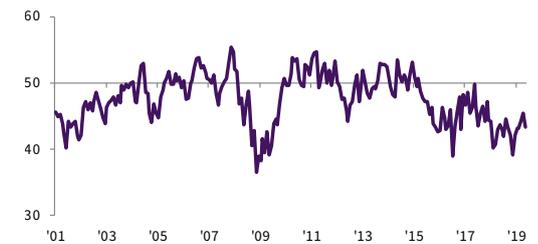
### Backlogs fall at fastest rate for three months

Latest data showed a marked and accelerated decrease in backlogs of work across the North East private sector, with the rate of decline in May being the fastest in three months. Furthermore, the decrease was the second-sharpest among the 12 areas monitored by the survey, next to that seen in Northern Ireland.

Data at the sector level indicated substantial decreases in outstanding business across both manufacturing and services.

### Outstanding Business Index

sa, >50 = growth since previous month



## Employment Index



### Firms continue to trim workforce numbers

Private sector firms in the North East maintained a preference for lower workforce numbers in May. Employment has now fallen for 11 consecutive months, which is the longest sequence of net job losses since the global financial crisis.

Though the rate of decline in staff numbers eased for a third successive month to the weakest since November last year, it remained quicker than in any other region.

### Employment Index

sa, >50 = growth since previous month



## Input Prices Index



### Input costs rise at slowest rate for two years

Falling for the seventh time in the past eight months, the seasonally adjusted Input Prices Index recorded its lowest reading for two years in May. It also signalled the weakest rate of cost inflation of all 12 monitored UK regions.

While there were a number of reports from local firms of higher wages driving up operating expenses (particularly in the service sector), a drop in price of some raw materials – including a range of metals – weighed on overall cost increases.

### Input Prices Index

sa, >50 = inflation since previous month



## Prices Charged Index



### Output price inflation ticks up to four-month high

Higher costs prompted firms across the North East to raise their prices charged for goods and services in May. Moreover, having ticked up to a four-month high, the rate of inflation moved back above the UK-wide average.

There were increases in selling prices across both monitored sectors, with manufacturers recording the more marked rise.

### Prices Charged Index

sa, >50 = inflation since previous month



## Future Business Activity Index



### Business confidence dips for first time in 2019 so far

May saw the Future Business Activity Index fall for the first time in the year-to-date, thereby halting a sustained recovery in business confidence from a record-low seen at the end of 2018.

Firms in the North East generally believed activity would rise over the next 12 months, though the latest survey highlighted concerns towards the uncertain political environment and the autos industry.

### Future Business Activity Index

>50 = growth expected over next 12 months



## North East Export Climate Index

Note: Export markets are defined as non-UK.



Last six months



### Export climate shows weakest improvement for nearly six years

The North East Export Climate Index 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 North East Export Climate Index slipped to 51.5 in May, down from 51.8 in April and its lowest in nearly six years.

The tougher environment for North East exporters largely reflected a notable slowdown in growth in the US\* – the region's third-largest international market. Business activity in Spain also increased more slowly.

More positively, the pace of expansion in Germany recovered further from the near six-year low seen in March, and output in the Netherlands continued to grow at a solid overall pace.

### Export Climate Index

sa, >50 = improving export climate since previous month



### Top export markets, North East

Rank	Market	Weight	Output Index, May-19
1	Netherlands	12.8%	53.6
2	Germany	10.0%	52.6
3	USA	9.2%	50.9*
4	Spain	8.1%	52.1
5	Italy	5.5%	49.9

\* Based on flash data.

## North East Industry Specialisation

Location quotients (LQs) are useful measures of regional economic specialisation and offer a means to 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 sub-sectors. The UK Output Index for each sub-sector is also displayed.

### Manufacturing specialisation: North East

Rank	Sector	LQ	UK Output Index, May-19 (3mma)
1	Machinery & Equipment	1.67	
2	Chemicals, Rubber & Plastics	1.46	
3	Wood & Paper	1.08	
4	Metals & Metal Products	1.06	
5	Transport Equipment	0.97	
6	Other Manufacturing	0.69	
7	Textiles & Clothing	0.66	
8	Electrical & Electronic	0.64	
9	Food & Drink	0.51	

45 50 55 60

### Services specialisation: North East

Rank	Sector	LQ	UK Business Activity Index, May-19 (3mma)
1	Transport & Communication Services	1.61	
2	Hotels, Restaurants & Catering	1.25	
3	Other personal/consumer Services	1.09	
4	Business-to-business Services	0.89	
5	Financial Intermediation	0.75	
6	Computing & IT Services	0.48	

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## UK Sector Focus: Business-to-Business Services

Output Index



Last six months\*



\*3mma

### Business-to-business services provides timely boost to UK employment

With recent PMI surveys having shown a reduced appetite among UK firms to hire new staff amid ongoing political uncertainty, an uptick in the pace of job creation across the large business-to-business (B2B) services sector has provided a timely boost to employment.

Workforce growth in B2B services in the three months to May was the fastest recorded since Q3 2017, outstripping hiring in all other parts of the services economy expect for the fast-growing computing & IT services.

The improved trend in job creation in B2B services partly reflected a renewed increase in new work across the sector and stronger optimism towards future activity.

Latest data meanwhile showed growth in overall business activity picking up slightly but remaining close to the weakest since 2012.

Output Index

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



Employment Index

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



## UK Regional Rankings

### Business Activity

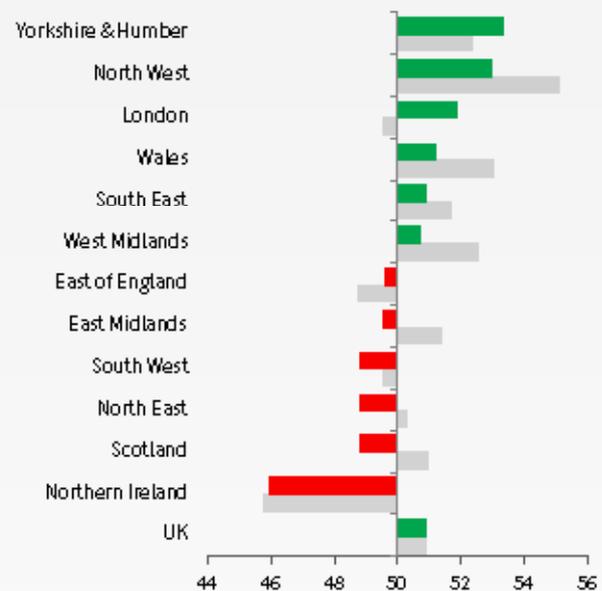
Yorkshire & Humber moved to the top of the rankings for business activity growth in May, as the region's firms reported the strongest rise in output for eight months. Last month's leader, the North West, dropped to second place, having seen growth slow to a six-month low. London was the biggest climber, up from joint-ninth position in April to third, as output in the capital rose for the first time five months and to the greatest extent since last September. At the other end of the scale, Northern Ireland recorded another marked drop in activity to sit at the foot of the table for a second straight month. Five other areas saw a fall in business activity. Notably, the East Midlands recorded a contraction for the first time since 2012.

### Employment

Regional job creation continued to be led by the West Midlands in May, ahead of Yorkshire & Humber and the East of England. The latter was the biggest climber in the rankings, followed by London. The steepest fall in employment was recorded in the North East, followed by Northern Ireland. Workforce numbers also dipped across the East Midlands, albeit falling only fractionally overall.

### Business Activity Index by region

sa, >50 = growth since previous month, May-19 (Apr-19)



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## Contact

### NatWest

Jonathan Rennie  
Regional PR Manager  
07769 932 102  
jonathan.rennie@rbs.co.uk

### IHS Markit

Phil Smith  
Principal Economist  
+44 1491 461 009  
phil.smith@ihsmarkit.com

Joanna Vickers  
Corporate Communications  
+44 207 260 2234  
joanna.vickers@ihsmarkit.com

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### Methodology

The NatWest North East PMI® is compiled by IHS Markit from responses to questionnaires sent to North East companies that participate in IHS Markit'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).

### 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. To learn more go to [ihsmarkit.com/products/pmi.html](http://ihsmarkit.com/products/pmi.html).

### About NatWest

NatWest serves customers in England, Wales and Western Europe, supporting them with their personal, private, and business banking needs. NatWest helps customers 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.

NatWest has been running MoneySense, an impartial financial education programme for 5–18 year-olds, for more than 21 years. By the end of 2018, NatWest will help another 1 million young people to understand and take control of their finances.

### About IHS Markit

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