



## Lloyds TSB North East PMI®

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Part of Lloyds Banking Group, Lloyds TSB Commercial provides banking services and tailored lending for small and medium-sized enterprises with an annual turnover of up to £15 million.

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**The Lloyds TSB North East PMI® (Purchasing Managers' Index®)** is produced for Lloyds TSB Commercial by Markit.

The report features original survey data collected in July 2013 from a representative panel of companies based in the North East and operating in both manufacturing and service sectors.

The North East survey forms part of a series of ten regional surveys published by Lloyds TSB Commercial and is derived from the highly regarded national PMI surveys produced by Markit.

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12th August 2013

## Business activity increases strongly in July

### Key findings:

- Sharpest rate of new order growth since April 2010
- Employment levels increase at marked pace, following three months of decline
- Input price inflation remains historically weak

Latest data signalled a further expansion of output in the North East private sector in July. Furthermore, it was the sharpest rate of growth since March 2011. Similarly, new order growth accelerated over the month, reaching the fastest rate since April 2010. Staffing levels meanwhile increased for the first time in four months and at a marked pace. In contrast, backlogs of work declined for the fifth month in a row, albeit marginally.

### Output and demand

The headline **Lloyds TSB North East Business Activity Index** – a seasonally adjusted index that measures the combined output of the region's manufacturing and service sectors – posted 56.4 in July, up from 51.7 in June, signalling the sharpest increase of business activity since March 2011. However, the region saw a slower expansion of activity than the UK economy average.

Total new orders followed a similar trend to output, and increased sharply in the North East during July. Furthermore, it was the fastest increase in new work since April 2010, with both manufacturers and service providers in the region noting an expansion of order book volumes. Across the UK economy as a whole, new work increased at a slightly faster rate than in the North East.

### Employment and backlogs

Staffing levels in the North East private sector increased for the first time since March, and at a marked pace. Payroll numbers across the UK economy as a whole also increased in July, and at a similar rate to that recorded in the North East.

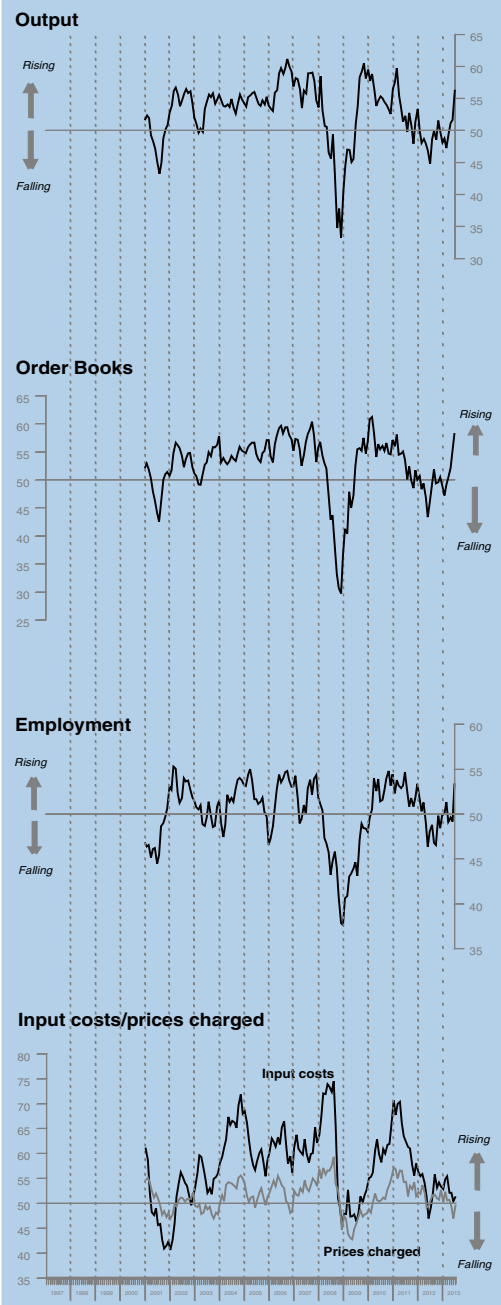
Volumes of outstanding business fell for the fifth month in a row at North East firms. However, the rate of backlog depletion was only marginal. Conversely, the UK private sector economy as a whole saw a modest accumulation of work-in-hand (but not yet completed).

### Input and output prices

Average input costs faced by private sector firms in the North East continued to increase in July. That said, the rate of input price inflation was only modest and substantially weaker than the historical average.

Meanwhile, North East private sector firms reduced their output charges for the third month in a row in July. However, the rate of discounting was only fractional.

### North East Business Conditions

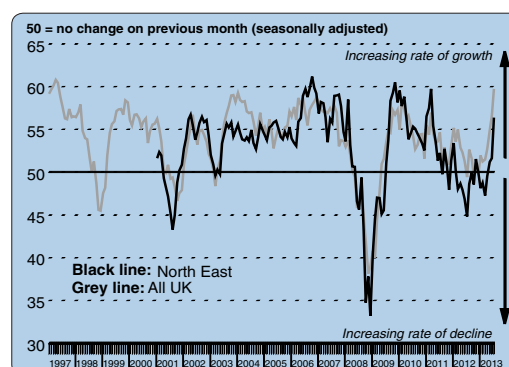




## Output / Business Activity

Q. Is the level of output or business activity at your company higher, the same or lower this month than one month ago?

		North East Companies				All UK	
		Higher %	Same %	Lower %	Index 50=no chg	S.Adj'd Index	S.Adj'd Ind
2012	Nov	16.7	62.5	20.8	47.9	51.6	50.3
	Dec	13.0	61.1	25.9	43.5	49.9	49.8
2013	Jan	26.0	50.0	24.0	51.0	48.1	52.0
	Feb	28.6	49.0	22.4	53.1	48.7	51.3
	Mar	21.2	63.5	15.4	52.9	47.3	51.5
	Apr	19.1	61.7	19.1	50.0	49.5	52.7
	May	18.5	61.1	20.4	49.1	51.2	54.9
	Jun	25.5	52.9	21.6	52.0	51.7	56.6
	Jul	33.3	58.3	8.3	62.5	56.4	59.8

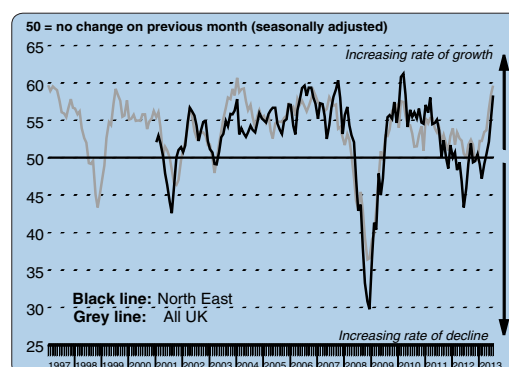


Business activity in the North East private sector increased for the third successive month in July. Furthermore, the rate of expansion accelerated to the sharpest since March 2011, with exactly one-third of respondents reporting higher output in the latest survey period. Sector data signalled that activity increased across both the manufacturing and service industries in the region, with manufacturers noting the stronger rate of growth. However, output in the region was below the UK private sector economy average, which posted the sharpest rate of expansion in over 16 years.

## New Orders / Incoming New Business

Q. Is the level of new orders or incoming new business at your company higher, the same or lower this month than one month ago?

		North East Companies				All UK	
		Higher %	Same %	Lower %	Index 50=no chg	S.Adj'd Index	S.Adj'd Ind
2012	Nov	20.8	52.1	27.1	46.9	49.6	49.6
	Dec	26.4	47.2	26.4	50.0	50.5	49.8
2013	Jan	30.0	36.0	34.0	48.0	49.2	52.3
	Feb	25.5	48.9	25.5	50.0	47.2	52.3
	Mar	28.0	56.0	16.0	56.0	49.2	53.5
	Apr	34.0	42.6	23.4	55.3	50.5	53.7
	May	26.4	60.4	13.2	56.6	52.2	56.6
	Jun	36.0	52.0	12.0	62.0	55.3	58.4
	Jul	31.3	54.2	14.6	58.3	58.4	59.7

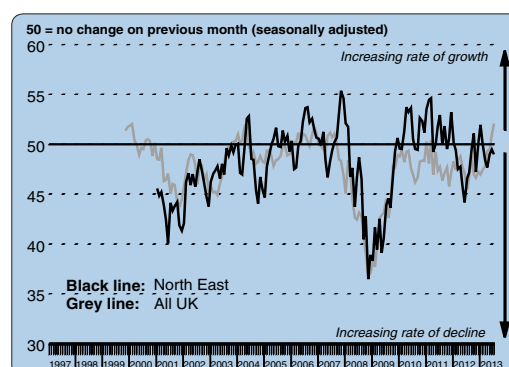


Total new orders placed at North East private sector firms increased for the fourth month in a row in July. As was the case with output, growth quickened since June, with new orders expanding at the sharpest rate since April 2010. Higher new order volumes were recorded in both monitored sectors, with manufacturers noting the faster rate of growth amid reports of new client wins. The UK private sector economy as a whole also noted a sharp expansion of new orders, and at a slightly faster pace than that recorded in the North East.

## Business Outstanding

Q. Is the level of business outstanding at your company higher, the same or lower this month than one month ago?

		North East Companies				All UK	
		Higher %	Same %	Lower %	Index 50=no chg	S.Adj'd Index	S.Adj'd Ind
2012	Nov	18.2	56.8	25.0	46.6	47.3	46.7
	Dec	15.7	62.7	21.6	47.1	50.2	47.3
2013	Jan	20.9	65.1	14.0	53.5	52.0	47.0
	Feb	18.2	68.2	13.6	52.3	50.1	47.4
	Mar	10.9	71.7	17.4	46.7	48.5	47.9
	Apr	18.6	60.5	20.9	48.8	47.7	49.4
	May	14.3	67.3	18.4	48.0	49.1	49.6
	Jun	19.6	67.4	13.0	53.3	49.5	51.0
	Jul	9.3	86.0	4.7	52.3	49.0	52.1

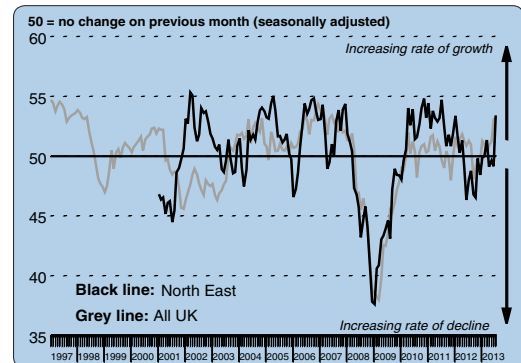


Backlogs of work decreased for the fifth consecutive month in July. After adjusting for seasonality, the rate of backlog depletion quickened slightly since June, but remained marginal. According to sector data, volumes of outstanding business fell slightly across both the manufacturing and service sectors in the region over the month. The UK private sector economy average meanwhile signalled a modest accumulation of work-in-hand (but not yet completed).

## Employment

Q. Is the level of employment at your company higher, the same or lower this month than one month ago?

		North East Companies				All UK	
		Higher %	Same %	Lower %	Index 50=no chg	S.Adj'd Index	S.Adj'd Ind
<b>2012</b>	Nov	17.0	63.8	19.1	48.9	<b>49.8</b>	<b>49.8</b>
	Dec	11.3	67.9	20.8	45.3	<b>48.4</b>	<b>49.7</b>
<b>2013</b>	Jan	14.0	74.0	12.0	51.0	<b>49.9</b>	<b>51.3</b>
	Feb	14.3	73.5	12.2	51.0	<b>50.0</b>	<b>51.0</b>
	Mar	13.5	80.8	5.8	53.8	<b>51.4</b>	<b>50.3</b>
	Apr	8.5	76.6	14.9	46.8	<b>49.1</b>	<b>50.9</b>
	May	11.1	77.8	11.1	50.0	<b>49.6</b>	<b>51.2</b>
	Jun	14.0	74.0	12.0	51.0	<b>49.2</b>	<b>53.1</b>
	Jul	21.3	70.2	8.5	56.4	<b>53.4</b>	<b>53.2</b>

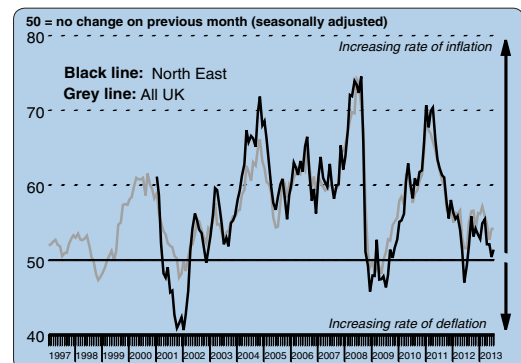


Staffing levels in the North East private sector increased for the first time since March in July. Furthermore, the rate of job creation was marked, with more than 21% of panellists reporting an expansion of payroll numbers. Service providers in the region drove the overall increase in workforce numbers, while manufacturers reported further job shedding. The UK private sector economy as a whole also noted increased employment levels, though the rate of growth was fractionally slower than that recorded in the North East.

## Input Prices / Costs

Q. Have average input prices or input costs risen, fallen or remained unchanged this month compared to one month ago?

		North East Companies				All UK	
		Higher %	Same %	Lower %	Index 50=no chg	S.Adj'd Index	S.Adj'd Ind
<b>2012</b>	Nov	8.7	82.6	8.7	50.0	<b>54.2</b>	<b>54.1</b>
	Dec	9.6	80.8	9.6	50.0	<b>53.4</b>	<b>56.3</b>
<b>2013</b>	Jan	14.6	75.0	10.4	52.1	<b>52.9</b>	<b>56.2</b>
	Feb	14.6	81.3	4.2	55.2	<b>54.9</b>	<b>57.2</b>
	Mar	20.4	75.5	4.1	58.2	<b>55.5</b>	<b>55.9</b>
	Apr	17.8	77.8	4.4	56.7	<b>52.1</b>	<b>54.9</b>
	May	19.2	73.1	7.7	55.8	<b>52.1</b>	<b>52.7</b>
	Jun	10.0	84.0	6.0	52.0	<b>50.4</b>	<b>54.2</b>
	Jul	10.6	78.7	10.6	50.0	<b>51.4</b>	<b>54.3</b>

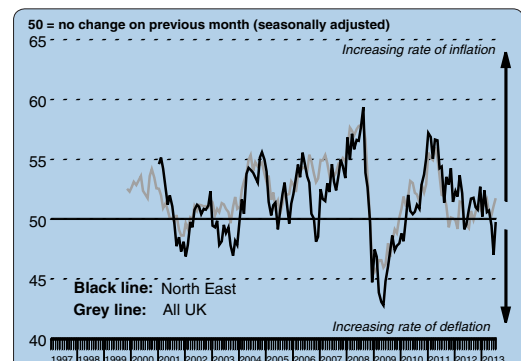


Average input costs in the North East private sector continued to increase in July. The rate of input price inflation quickened slightly since June's 11-month low, but was only modest overall. Furthermore, the rate of inflation was substantially slower than the solid rate recorded in the UK private sector economy as a whole. Sector data for the region signalled that operating costs rose sharply at service providers, but fell further in manufacturing.

## Output Prices

Q. Are the average prices charged for goods and services by your company higher, the same or lower this month than one month ago?

		North East Companies				All UK	
		Higher %	Same %	Lower %	Index 50=no chg	S.Adj'd Index	S.Adj'd Ind
<b>2012</b>	Nov	4.3	91.5	4.3	50.0	<b>50.8</b>	<b>51.1</b>
	Dec	5.7	92.5	1.9	51.9	<b>52.7</b>	<b>50.8</b>
<b>2013</b>	Jan	6.1	87.8	6.1	50.0	<b>50.2</b>	<b>51.5</b>
	Feb	13.0	76.1	10.9	51.1	<b>52.4</b>	<b>51.3</b>
	Mar	4.0	92.0	4.0	50.0	<b>50.6</b>	<b>51.7</b>
	Apr	10.9	84.8	4.3	53.3	<b>50.7</b>	<b>50.5</b>
	May	9.4	79.2	11.3	49.1	<b>49.4</b>	<b>50.4</b>
	Jun	6.1	83.7	10.2	48.0	<b>47.0</b>	<b>51.1</b>
	Jul	8.5	85.1	6.4	51.1	<b>49.8</b>	<b>51.8</b>

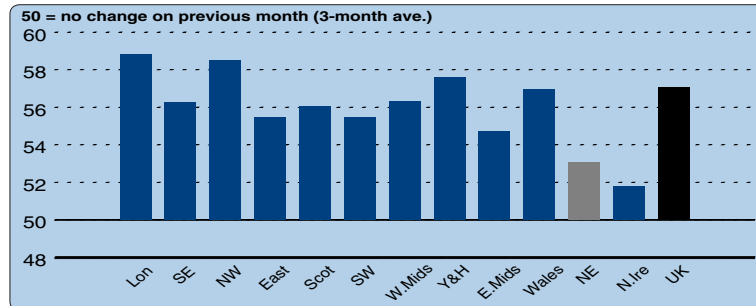


Private sector companies in the North East cut their output charges for the third month in a row during July. However, the seasonally adjusted Output Prices Index signalled only a fractional reduction of tariffs in the region. Firms in both monitored sectors lowered their selling prices in July which, according to panellists, was primarily due to competitive market pressures. The UK private sector economy as a whole meanwhile recorded a modest increase in output charges over the month.



## Regional Comparisons: Output

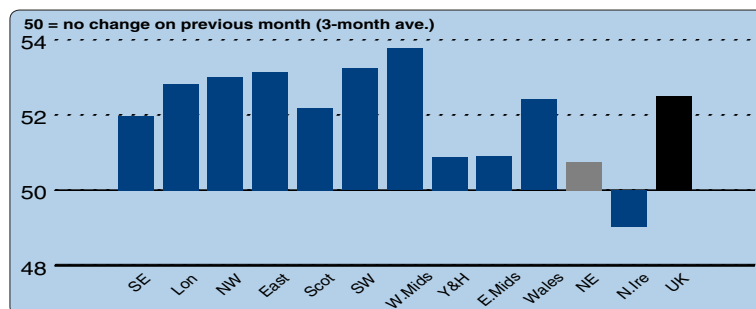
The graph below shows the regional PMI Output Indexes for the UK. An average of the latest three months is used (see also the table to the right). A return to growth in Northern Ireland meant that all 12 UK regions recorded an expansion of business activity on average in the three months to July. London posted the fastest rise in output levels, followed closely by the North West.



	Share of UK GVA, 2010 (National Statistics)	PMI Output Index		
		Last 12 months	Latest 3 months	Latest month
London	(21.5%)	53.8	58.8	61.8
South East	(14.7%)	52.6	56.3	59.5
North West	(9.5%)	52.9	58.5	62.3
East of England	(8.7%)	52.3	55.4	59.1
Scotland	(8.3%)	52.4	56.0	56.7
South West	(7.7%)	51.2	55.4	58.9
West Midlands	(7.3%)	52.2	56.3	58.8
Yorks & Humber	(7.0%)	53.9	57.6	59.8
East Midlands	(6.4%)	52.1	54.7	57.3
Wales	(3.6%)	54.2	57.0	57.6
North East	(3.2%)	50.1	53.1	56.4
N.Ireland	(2.2%)	47.0	51.8	56.1
UK	(100.0%)	52.7	57.1	59.8

## Regional Comparisons: Employment

The graph below shows the regional PMI Employment Indexes for the UK. An average of the latest three months is used (see also the table to the right). Staffing levels increased in 11 of the 12 UK regions on average during the three months to July, with Northern Ireland the exception. Companies in the West Midlands posted the strongest pace of job creation, followed by those operating in the South West.



	Contribution to UK Employment, 2008 (National Statistics)	PMI Employment Index		
		Last 12 months	Latest 3 months	Latest month
South East	(14.6%)	51.4	52.0	52.3
London	(12.3%)	50.3	52.8	53.4
North West	(10.9%)	49.9	53.0	55.4
East of England	(9.6%)	51.0	53.1	53.7
Scotland	(8.7%)	51.0	52.2	52.1
South West	(8.6%)	50.3	53.2	54.1
West Midlands	(8.6%)	51.9	53.8	54.9
Yorks & Humber	(8.2%)	50.2	50.9	51.3
East Midlands	(7.3%)	51.8	50.9	52.7
Wales	(4.6%)	50.9	52.4	53.2
North East	(3.9%)	49.4	50.7	53.4
N.Ireland	(2.7%)	48.1	49.0	51.0
UK	(100.0%)	50.7	52.5	53.2

## PMI Survey Methodology

### PMI surveys

Purchasing Managers' Indexes (or PMIs) are monthly surveys of carefully selected companies which provide an advance indication of what is really happening in the private sector economy by tracking variables such as output, new orders, employment and prices across both manufacturing and service sectors. The PMI® surveys are based on fact, not opinion, and are the first indicators of economic conditions each month. The data are collected using identical methods in all countries and regions so that accurate comparisons may be made.

Questionnaires are completed in the latter half of each month and are collected and processed by economists at Markit Economics. Respondents are asked to state whether business conditions for a number of variables have improved, deteriorated or stayed the same compared with the previous month.

### Index numbers

Index numbers are calculated from the percentages of respondents reporting an improvement, no change or decline. These indices vary between 0 and 100 with readings of exactly 50.0 signalling no change on the previous month. Readings above 50.0 signal an increase or improvement; readings below 50.0 signal a decline or deterioration.

Reasons given by survey respondents for any changes are analysed to provide insight into the causes of movements in the indices and are also used to adjust for expected seasonal variations. The indexes are seasonally adjusted to take into consideration expected variations for the time of year, such as summer holiday shutdowns and national holidays such as Christmas.

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**Markit Economics** is a specialist compiler of business surveys and economic indices, including the Purchasing Managers' Index® (PMI®) series, which is now available for 32 countries and key regions including the Eurozone.

The PMIs have become 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.