



# Lloyds Bank North East PMI®

## Lloyds Bank Commercial Banking

Lloyds Bank Commercial Banking provides comprehensive expert financial services to businesses of all sizes, from start-ups, through to small businesses, mid-sized businesses and multinational corporations. These corporate clients range from privately-owned firms to FTSE 100 PLCs, multinational corporations and financial institutions.

Maintaining a network of relationship teams across the UK, as well as internationally, Lloyds Bank Commercial Banking delivers the mix of local understanding and global expertise necessary to provide long-term support and advice to its clients.

Lloyds Bank Commercial Banking offers a broad range of finance beyond just term lending and this spans import and export trade finance, structured and asset finance, securitisation facilities and capital market funding. Its product specialists provide bespoke financial services and solutions including tailored cash management, international trade, treasury and risk management services.

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

The report features original survey data collected in February 2014 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 Bank Commercial Banking and is derived from the highly regarded national PMI surveys produced by Markit.

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10th March 2014

## Strongest expansion of staff numbers since April 2005

### Key findings:

- Business activity and new orders both expand at weaker rates
- Outstanding business declines for first time in seven months
- Input price inflation remains subdued

Growth of business activity and new work at North East private sector firms remained sharp in February, despite easing fractionally from the start of the year. Further expansions of both output and new orders led firms to increase their payroll numbers at the quickest rate in nearly nine years, which in turn supported a renewed reduction in work-in-hand. Meanwhile, average input cost inflation remained below trend, and output charges rose modestly.

### Output and demand

The headline Lloyds Bank Commercial Banking North East Business Activity Index – a seasonally adjusted index that measures the combined output of the region's manufacturing and service sectors – posted 56.6 in February, down fractionally from 56.8 in January. This signalled the weakest rise in business activity at North East private sector firms since October 2013. Furthermore, business activity growth in the region was weaker than the UK private sector economy average.

New order growth also eased for the second successive month in February. Moreover, the latest rise in new business was the slowest in six months. Nonetheless, growth of new work in the North East was broadly in line with the UK trend, with a number of surveyed companies citing improved demand conditions.

### Employment and backlogs

Staffing levels at North East private sector companies increased at the quickest pace for nearly nine years in February. Anecdotal evidence suggested that firms raised their staffing levels in line with higher incoming workloads. That said, employment growth was weaker than that recorded across the UK private sector economy as a whole.

Higher workforce numbers led to a reduced amount of outstanding work at private sector firms in the North East in February, and ended a six-month sequence of backlog accumulation.

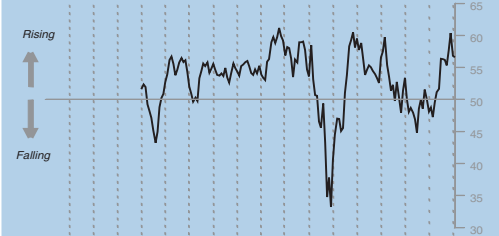
### Input and output prices

North East private sector firms signalled a further increase in cost burdens during February. The rate of inflation quickened slightly from January, but remained weaker than the historical average.

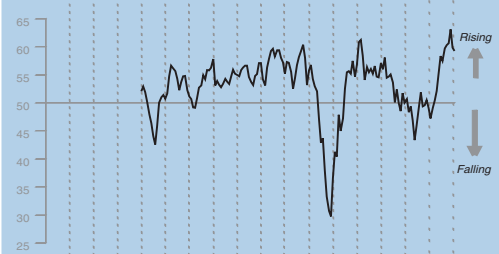
Following a slight reduction at the start of the year, private sector firms in the North East raised their selling prices modestly in February.

## North East Business Conditions

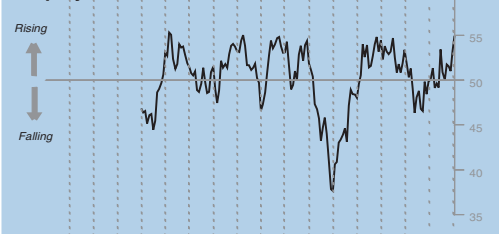
### Output



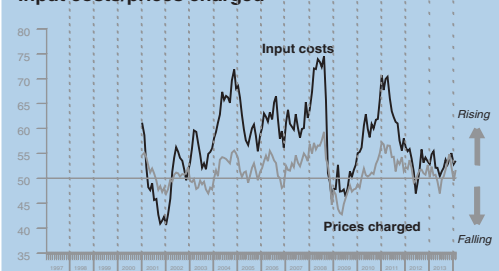
### Order Books



### Employment



### Input costs/prices charged

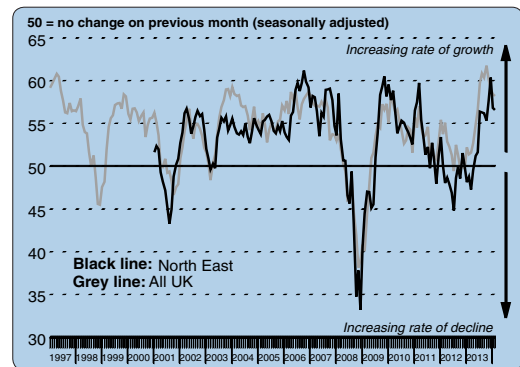




## Output / Business Activity

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
2013	Jun	25.5	52.9	21.6	52.0	51.7	56.6
	Jul	33.3	58.3	8.3	62.5	56.4	59.7
	Aug	27.9	53.5	18.6	54.7	56.3	60.9
	Sep	31.1	60.0	8.9	61.1	56.2	60.4
	Oct	23.4	63.8	12.8	55.3	55.3	61.8
	Nov	25.0	59.1	15.9	54.5	57.6	60.1
2014	Dec	28.9	53.3	17.8	55.6	60.4	59.0
	Jan	21.6	56.9	21.6	50.0	56.8	58.5
	Feb	36.2	51.1	12.8	61.7	56.6	58.2

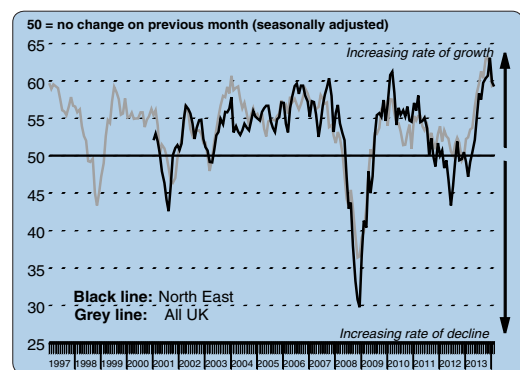


The seasonally adjusted Business Activity Index signalled increased business activity in the North East private sector during February, extending the current sequence of expansion to ten months. Though sharp, the rate of increase eased to a four-month low and was weaker than the UK private sector economy average. A number of survey respondents suggested that activity levels rose in line with new order growth. Sector data indicated that increased business activity was predominantly driven by manufacturers in the region, though service providers also registered solid growth.

## 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
2013	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
	Aug	23.8	57.1	19.0	52.4	57.5	61.3
	Sep	36.4	47.7	15.9	60.2	59.8	60.4
	Oct	38.3	40.4	21.3	58.5	60.4	63.0
	Nov	31.8	50.0	18.2	56.8	60.7	63.2
2014	Dec	34.8	54.3	10.9	62.0	63.1	61.7
	Jan	29.4	51.0	19.6	54.9	59.9	59.3
	Feb	45.7	37.0	17.4	64.1	59.3	59.5

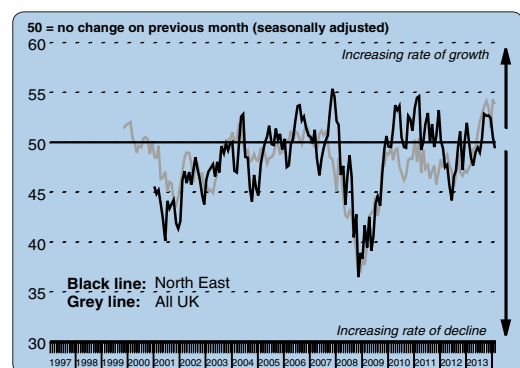


As has been the case in each month since April 2013, total new business placed at North East private sector companies rose in February. Despite easing to a six-month low, the rate of new order growth remained sharp overall, and was similar to that recorded across the UK private sector economy as a whole. Furthermore, nearly 46% of panellists noted higher volumes of new work, which were generally attributed to improved demand conditions. New business expanded sharply in both the manufacturing and service sectors, with firms in the latter signalling the strongest increase.

## 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
2013	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
	Aug	13.2	71.1	15.8	48.7	50.4	52.8
	Sep	23.1	61.5	15.4	53.8	52.9	53.5
	Oct	21.4	61.9	16.7	52.4	52.7	54.2
	Nov	18.4	68.4	13.2	52.6	52.7	53.5
2014	Dec	17.9	64.1	17.9	50.0	52.4	51.5
	Jan	15.6	66.7	17.8	48.9	50.6	54.3
	Feb	15.0	70.0	15.0	50.0	49.4	53.9



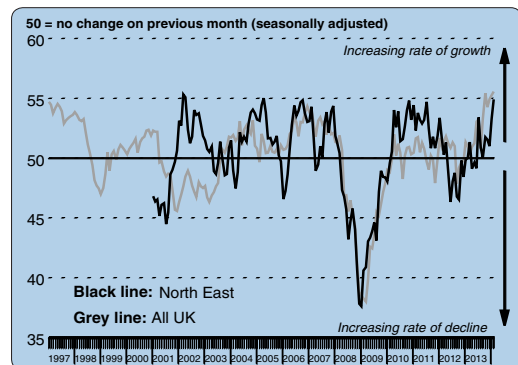
Private sector firms in the North East signalled a reduced amount of work-in-hand (but not yet completed) in February, ending a six-month sequence of accumulation. That said, the rate of backlog depletion was only slight. Meanwhile, outstanding business rose solidly across the UK private sector economy as a whole. Sector data for the North East signalled that manufacturers drove the overall reduction in unfinished business, as backlogs of work rose at service sector firms.



## 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
2013	Jun	14.0	74.0	12.0	51.0	49.2	53.1
	Jul	21.3	70.2	8.5	56.4	53.4	53.3
	Aug	20.9	72.1	7.0	57.0	50.9	50.8
	Sep	15.6	68.9	15.6	50.0	50.1	53.3
	Oct	17.0	72.3	10.6	53.2	51.8	55.4
	Nov	9.1	79.5	11.4	48.9	51.6	54.3
Dec	6.5	84.8	8.7	48.9	51.0	54.9	
2014	Jan	17.3	78.8	3.8	56.7	53.3	55.3
	Feb	19.1	72.3	8.5	55.3	54.9	55.6

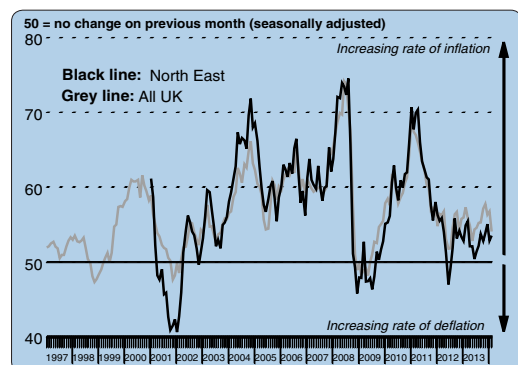


Employment levels at North East private sector companies increased for the eighth consecutive month in February. Furthermore, the rate of payroll expansion accelerated to the strongest since April 2005. However, staff numbers rose at a slightly faster rate across the UK private sector economy as a whole. Job creation was largely centred on service providers in the region, with a number of panellists hiring new staff in response to higher workloads.

## 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
2013	Jun	10.0	84.0	6.0	52.0	50.4	54.4
	Jul	10.6	78.7	10.6	50.0	51.4	54.6
	Aug	11.9	85.7	2.4	54.8	52.2	55.2
	Sep	11.6	83.7	4.7	53.5	53.8	55.3
	Oct	8.7	89.1	2.2	53.3	52.8	57.2
	Nov	7.0	90.7	2.3	52.3	53.9	57.8
Dec	11.1	84.4	4.4	53.3	55.1	56.4	
2014	Jan	6.0	86.0	8.0	49.0	52.9	56.8
	Feb	17.4	73.9	8.7	54.3	53.5	54.1

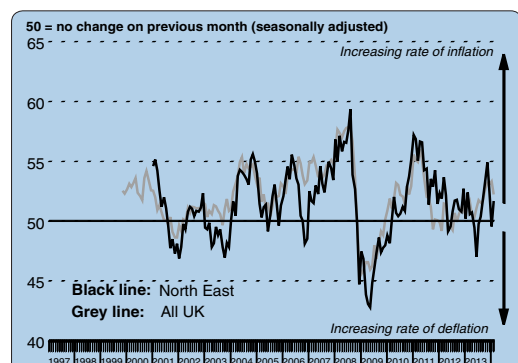


Average input costs in the North East private sector economy increased again in February, extending the current sequence of inflation to 19 months. Though marked, the rate of increase remained weak in the context of historical data and was slower than the UK private sector economy average. Sector data suggested that service providers in the region saw the faster increase in cost burdens, with higher energy prices mentioned by a number of surveyed companies.

## 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
2013	Jun	6.1	83.7	10.2	48.0	47.0	51.1
	Jul	8.5	85.1	6.4	51.1	49.8	51.8
	Aug	7.1	88.1	4.8	51.2	50.4	51.6
	Sep	6.8	88.6	4.5	51.1	51.8	51.7
	Oct	10.9	87.0	2.2	54.3	53.5	52.7
	Nov	9.3	90.7	0.0	54.7	54.9	53.2
Dec	2.2	95.6	2.2	50.0	52.4	53.1	
2014	Jan	2.0	88.2	9.8	46.1	49.6	53.3
	Feb	4.3	93.5	2.2	51.1	51.7	52.2

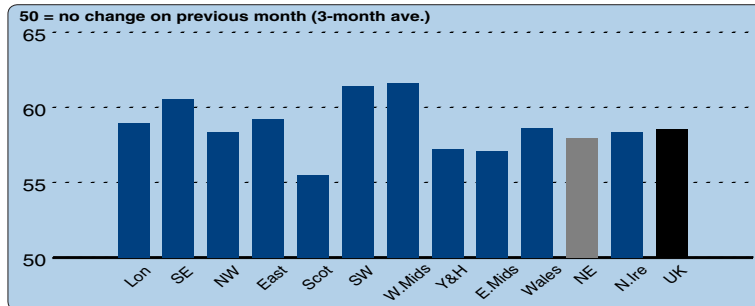


Following a slight reduction at the start of the year, output prices set by North East private sector companies increased during February. That said, the rate of increase was moderate and broadly in line with the series average. Moreover, output charge inflation was stronger across the UK private sector economy as a whole. According to anecdotal evidence, firms raised their selling prices over the month to reflect higher input costs.



## Regional Comparisons: Output

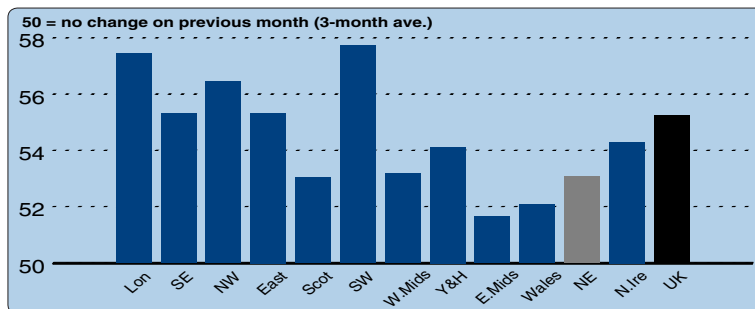
The graph below shows the regional PMI Output Indexes for the UK. An average of the latest three months is used (see also the table to the right). All 12 UK regions registered solid expansions of business activity in the three months to February. Output growth was fastest in the West Midlands and South West, while Scotland posted the slowest pace of expansion.



	Share of UK GVA, 2010 (National Statistics)	PMI Output Index		
		Last 12 months	Latest 3 months	Latest month
London	(22.8%)	59.4	58.9	59.5
South East	(14.9%)	58.5	60.5	60.0
North West	(9.6%)	58.3	58.3	57.0
East of England	(8.6%)	57.0	59.2	58.1
Scotland	(7.8%)	55.4	55.5	55.2
South West	(7.5%)	58.1	61.4	59.0
West Midlands	(7.2%)	57.4	61.6	62.2
Yorks & Humber	(6.9%)	57.2	57.2	58.1
East Midlands	(5.9%)	57.3	57.1	55.7
Wales	(3.5%)	57.5	58.6	59.2
North East	(3.1%)	54.6	58.0	56.6
N.Ireland	(2.2%)	55.3	58.3	58.1
<b>UK</b>	<b>(100.0%)</b>	<b>57.9</b>	<b>58.6</b>	<b>58.2</b>

## 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). Higher staffing levels were recorded across all 12 UK regions on average in the three months to February. The South West registered the strongest pace of job creation, while the weakest rise in workforce numbers was in the East Midlands.



	Share of UK GVA, 2010 (National Statistics)	PMI Employment Index		
		Last 12 months	Latest 3 months	Latest month
London	(22.8%)	54.2	57.4	56.4
South East	(14.9%)	53.3	55.3	54.9
North West	(9.6%)	53.6	56.5	58.3
East of England	(8.6%)	53.6	55.3	56.2
Scotland	(7.8%)	52.6	53.0	55.2
South West	(7.5%)	54.3	57.7	55.7
West Midlands	(7.2%)	54.0	53.2	52.8
Yorks & Humber	(6.9%)	51.3	54.1	55.7
East Midlands	(5.9%)	51.3	51.7	52.7
Wales	(3.5%)	52.3	52.1	52.5
North East	(3.1%)	51.4	53.1	54.9
N.Ireland	(2.2%)	51.1	54.3	53.4
<b>UK</b>	<b>(100.0%)</b>	<b>53.2</b>	<b>55.2</b>	<b>55.6</b>

## PMI Survey Methodology

### PMI surveys

*Purchasing Managers' Index*® (*PMI*®) surveys 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.

## About Lloyds Bank Commercial Banking and Markit Economics

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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 *PMI* surveys 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.