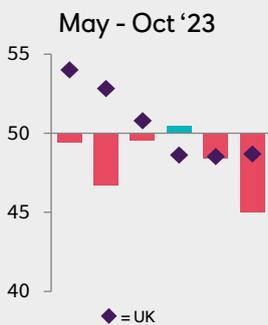




# NatWest Wales PMI<sup>®</sup>

## Business expectations improve despite further downward pressure on activity

### Wales Business Activity Index



### Key findings

Sharper drop in output as new orders decline at quicker rate

Inflationary pressures pick up

Business expectations rebound from September's recent low

The headline NatWest Wales 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 – registered 45.0 at the start of the fourth quarter, down from 48.4 in September, signalling the strongest downturn in output at Welsh firms since February 2021. The rate of decline accelerated amid reports of worsening demand conditions and a faster fall in new orders. With the exception of the North East, Welsh companies registered the steepest drop in activity of the 12 monitored UK areas.

Jessica Shipman, Chair, NatWest Cymru Regional Board, commented:

*"It's encouraging to see that hopes of stronger demand conditions domestically and internationally has spurred business confidence, which picked up from September's recent low.*

*"In the here and now, however, Welsh firms continued to signal one of the worst performances of the 12 monitored UK areas, as business activity tumbled following a sharper drop in new orders. Output and new business fell at the steepest rates since early-2021, as the cost-of-living crisis stymied customer spending and order postponements were noted.*

*"Meanwhile, paces of increase in cost burdens and selling prices gained momentum as greater business expenses were passed through to customers. Firms continued to seek to cut costs, however, as job shedding broadened. Alongside the non-replacement of voluntary leavers, there were some reports of redundancies as new orders dwindled."*

Wales Business Activity Index

sa, >50 = growth since previous month



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## About the Wales PMI® report

The NatWest Wales PMI® is compiled by S&P Global from responses to questionnaires sent to Welsh 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

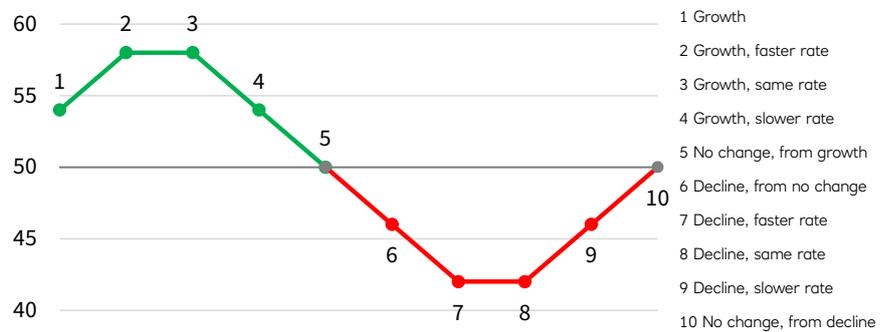
calculated from a single question that asks for changes in the volume of business activity (at service providers) or output (at manufacturers) compared with one month previously. The Wales Business Activity Index is comparable to the UK Composite Output Index. It is sometimes referred to as the 'Wales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

### Sharpest contraction in new orders since January 2021

Welsh private sector firms signalled a marked decline in new business at the start of the fourth quarter. The rate of contraction accelerated notably to the fastest since early 2021. Moreover, of the 12 monitored UK areas, only Yorkshire & Humber recorded a steeper drop in new order inflows.

Weak client demand reportedly drove the downturn amid challenges associated with the cost-of-living crisis and reports of order postponements.

### Business confidence ticks higher

October data signalled stronger optimism regarding the outlook for output over the coming year among Welsh firms. Confidence reportedly stemmed from hopes of investment in capacity expansion and improved demand conditions, especially among customers in Europe. Although the level of positive sentiment picked up, it was below the long-run series average and among the weakest of the 12 monitored UK areas.

## Exports

### Strongest decline in export conditions for almost a year

The Wales Export Climate Index is calculated by weighting together national PMI output data according to their importance to the manufacturing exports of Wales. This produces an indicator for the economic health of the region's export markets.

At 48.5 in October, the Export Climate Index was down from 49.4 in September and indicated the fastest deterioration in export conditions since November 2022. The demand climate for firms exporting goods and services declined for the third month running.

Of the key export markets for Welsh firms, only the USA registered an expansion in output, with the rate of growth quickening slightly.

Elsewhere, business activity in Ireland fell for the first time in almost a year, albeit only fractionally. At the same time, rates of contraction in output in Germany and the Netherlands accelerated, while France recorded a sharp decrease in activity.

New Business Index

sa, >50 = growth since previous month

43.8

Oct '23

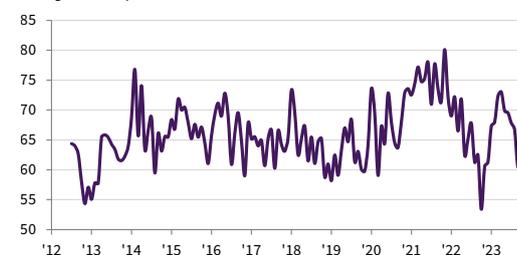


Future Activity Index

>50 = growth expected over next 12 months

64.3

Oct '23



Export Climate Index

sa, >50 = growth since previous month

48.5

Oct '23



Top export markets, Wales

Rank	Market	Weight	Output Index, Oct '23
1	USA	19.3%	50.7
2	Ireland	17.4%	49.7
3	Germany	14.5%	45.9
4	France	8.9%	44.6
5	Netherlands	7.4%	42.3

New Business Index

May - Oct '23



Future Activity Index

May - Oct '23



Export Climate Index

May - Oct '23



## Business capacity

### Further steep drop in employment

Welsh businesses registered a third successive monthly decline in workforce numbers during October. The rate of job shedding was broadly in line with that seen in September and was the second-sharpest of the 12 monitored UK areas, behind the North East.

A slowdown in new orders led firms to not replace voluntary leavers, and in some instances, make workers redundant. Manufacturers and service providers alike cut staffing numbers.

### Substantial, but slower, fall in backlogs of work

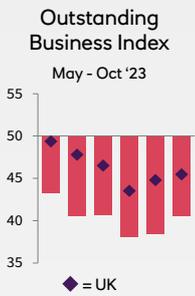
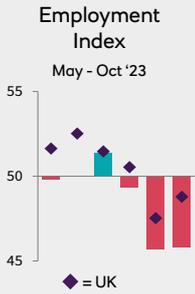
October data indicated a further contraction in outstanding business at Welsh firms, thereby extending the current sequence of decline to a year-and-a-half. The rate of decrease slowed to the weakest since July, but was stronger than the series average. Lower new orders enabled firms to clear backlogs, according to panellists.

Of the 12 monitored UK areas, only Yorkshire & Humber recorded a sharper drop in work-in-hand.

Employment Index  
sa, >50 = growth since previous month  
45.8  
Oct '23



Outstanding Business Index  
sa, >50 = growth since previous month  
40.5  
Oct '23



## Prices

### Cost burdens rise at fastest pace for five months

Welsh companies registered another marked rise in input prices during October, with the pace of increase quickening to the fastest for five months. Higher cost burdens were often linked to greater fuel and material prices. At the sector level, manufacturers continued to record lower operating expenses, while service providers signalled a marked rise.

The rate of inflation was slightly slower than the UK average.

### Input Prices Index

sa, >50 = inflation since previous month

59.7

Oct '23



### Selling prices rise at faster pace

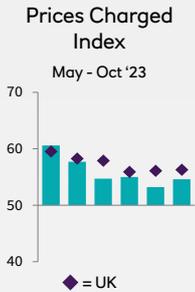
Average output charges at Welsh firms rose further in October, with the rate of inflation gathering pace. Companies continued to note the pass-through of higher costs to customers, with the pace of increase slightly sharper than the series trend. Nonetheless, the rate of charge inflation was slower than the average seen across the UK as a whole.

### Prices Charged Index

sa, >50 = inflation since previous month

54.6

Oct '23



## UK Sector PMI

### Sector specialisation: Wales

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 Wales, broken down by manufacturing and services. The UK Output Index for each sub-sector is also displayed.

#### Wales specialisation: Manufacturing

Rank	Sector	LQ	UK Output Index, Oct '23 <sup>+</sup>
1	Electrical & Optical	1.17	55
2	Transport	1.17	55
3	Other Manufacturing	1.06	50
4	Timber & Paper	1.04	45
5	Basic Metals	0.97	50
6	Chemicals & Plastics	0.97	50
7	Food & Drink	0.96	55
8	Mechanical Engineering	0.88	50
9	Textiles & Clothing	0.44	50

#### Wales specialisation: Services

Rank	Sector	LQ	UK Business Activity Index, Oct '23 <sup>+</sup>
1	Hotels, Restaurants & Catering	1.62	50
2	Personal & Community Services	1.27	50
3	Transport & Communication	1.07	50
4	Financial Intermediation	0.94	55
5	Business-to-business Services	0.87	50
6	Computing & IT Services	0.43	55

## UK sector focus

### Mechanical Engineering

The trend in production across the UK's Mechanical Engineering sector was one of broad stagnation in the three months to October. This was closely aligned with the sector's performance throughout the year so far, which has seen only marginal growth on average.

Output has in fact been largely supported by the clearing of backlogs of work as the supply of inputs has improved, with inflows of new work having been in decline for more than a year. Nevertheless, firms were optimistic about the 12-month outlook and maintained a trend of job creation that stretches back to the start of 2021.

Turning to prices, latest data showed only modest rises in both input costs and factory gate charges across the sector in the three months to October. Cost inflation was in fact at its joint-lowest since mid-2016, having surged throughout 2021 and 2022.

#### Output Index

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



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



## UK Regional PMI overview

### Business Activity

London remained the UK's top-performing region for activity growth in October. It was one of just three areas (out of 12 monitored) where output rose during the month, alongside the West Midlands and South West. Firms in the North East recorded the most marked decline in business activity, followed by those in Wales.

### Employment

Seven out of the 12 monitored regions and nations posted lower employment in October. However, this was down from ten in September, and where workforce numbers fell, rates of job shedding often eased. Scotland topped the rankings with a modest rise in staffing levels, with the West Midlands, Northern Ireland\*, North West and East of England also seeing increases.

### Future Activity

Confidence towards future activity weakened across the vast majority of areas in October, with only the South West and Wales going against the trend. Nevertheless, expectations were optimistic across the board, and nowhere more so than in the West Midlands, which topped the rankings for a fourth straight month ahead of the South East.

Business Activity Index

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



Employment Index

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



Future Activity Index

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



\* Coverage in Northern Ireland also includes retail and construction, alongside manufacturing and services.



## Index summary

### Wales

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
May '23	49.4	50.7	52.5	69.9	49.8	43.2	65.8	60.6
Jun '23	46.7	48.5	51.2	69.5	50.0	40.6	58.7	57.7
Jul '23	49.5	46.6	50.3	67.8	51.4	40.7	59.3	54.7
Aug '23	50.5	49.3	49.6	66.7	49.3	38.1	59.4	55.0
Sep '23	48.4	48.8	49.4	60.4	45.7	38.4	58.2	53.2
Oct '23	45.0	43.8	48.5	64.3	45.8	40.5	59.7	54.6

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### About NatWest

NatWest serves customers in England and Wales, supporting them with their personal, private, and business banking needs. NatWest helps customers at all stages in their lives, 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.

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We are widely sought after by many of the world's leading organizations to provide credit ratings, benchmarks, analytics and workflow solutions in the global capital, commodity and automotive markets. With every one of our offerings, we help the world's leading organizations plan for tomorrow, today.

### 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.

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