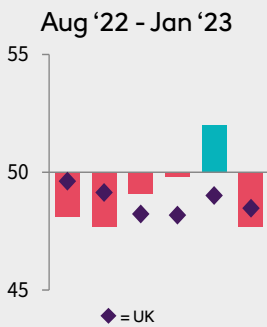




NatWest Wales PMI®

Renewed fall in business activity amid weak client demand

Wales Business Activity Index



Key findings

Output and new orders decrease at modest pace

First fall in employment since April 2021

Cost pressures soften, but charges rise at faster rate

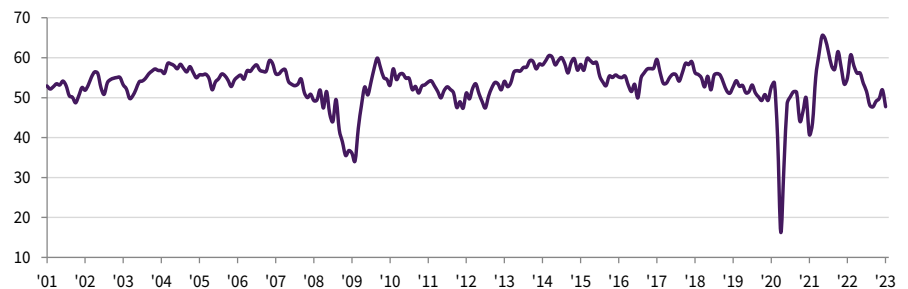
The headline NatWest Wales Business Activity Index – a seasonally adjusted index that measures the month-on-month change in the combined output of the region’s manufacturing and service sectors – registered 47.7 in January, down from 52.0 in December, to signal a renewed fall in business activity at the start of the year. The modest decrease in output was due to weak demand conditions and reduced customer spending following strong inflation, according to panellists. The downturn in activity was the fastest since last September and quicker than the UK average.

Gemma Casey, NatWest Wales Regional Board, commented:

"Welsh firms signalled a return to contraction territory for output and new business in January, as 2023 got off to a rocky start. Pressure on customer spending from high inflation stymied new sales and indicated a turnaround from that seen at the end of last year. Although cost pressures softened again on the month, firms sought to recoup additional expenses through a sharper rise in selling prices. In fact, output charges rose at the steepest rate across the UK."

"Despite business confidence picking up to a six-month high, Welsh companies were hesitant in their hiring decisions, contributing to a renewed fall in employment. The drop was the first for 21 months, with reduced new orders reportedly leading to ample capacity to process incoming work."

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

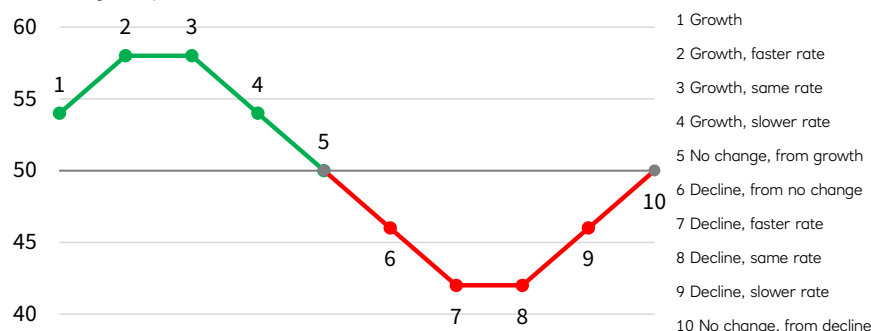
calculated from a single question that asks for changes in the volume of business activity (at service providers) or output (at manufacturers) compared with one month previously. The Wales Business Activity Index is comparable to the UK Composite Output Index. It is sometimes referred to as the 'Wales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

Index interpretation

50.0 = no change since previous month



Demand and outlook

New business returns to contraction territory in January

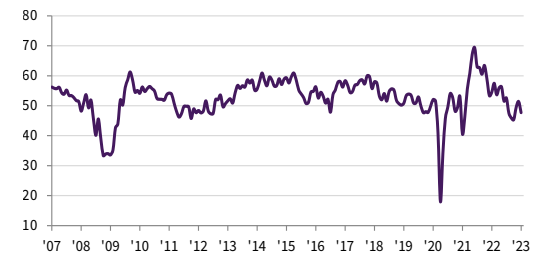
Welsh private sector businesses registered a renewed fall in new orders in the opening month of 2023. The decrease in new business was solid overall and the fastest since last October. The downturn was also quicker than the UK average. Companies noted that lower new business stemmed from weak demand conditions in domestic and external markets, as customers reduced spending following severe inflationary pressures.

New Business Index

sa, >50 = growth since previous month

47.7

Jan '23



Business optimism highest since July 2022

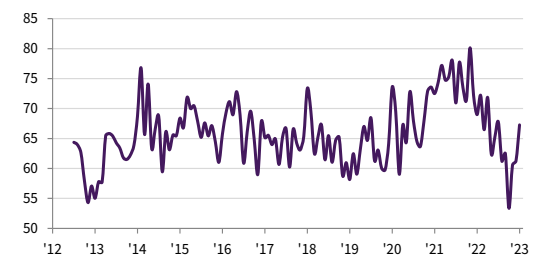
Output expectations for the year ahead across the Welsh private sector strengthened during January. The degree of optimism was the highest since July 2022 and above the long-run series average. Hopes for greater output were linked to investment in new product launches and increased marketing, alongside aspirations to acquire new clients.

Future Activity Index

>50 = growth expected over next 12 months

67.3

Jan '23



The level of positive sentiment was only slightly weaker than the UK average.

Exports

Export conditions unchanged on the month in January

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.

The Export Climate Index posted 50.0 in January, up from 48.7 in December, thereby bringing to an end a five-month sequence of deterioration in the export climate for Welsh firms.

Export conditions were unchanged following less marked contractions in output in the USA and Germany. Meanwhile, French firms recorded only a marginal drop in activity.

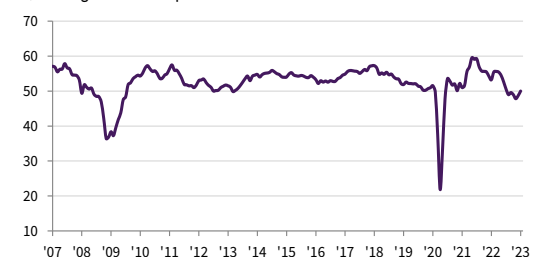
Supporting the uptick in the index reading was a return to output growth at companies in the Netherlands. At the same time, Irish firms registered a quicker and modest rise in activity.

Export Climate Index

sa, >50 = growth since previous month

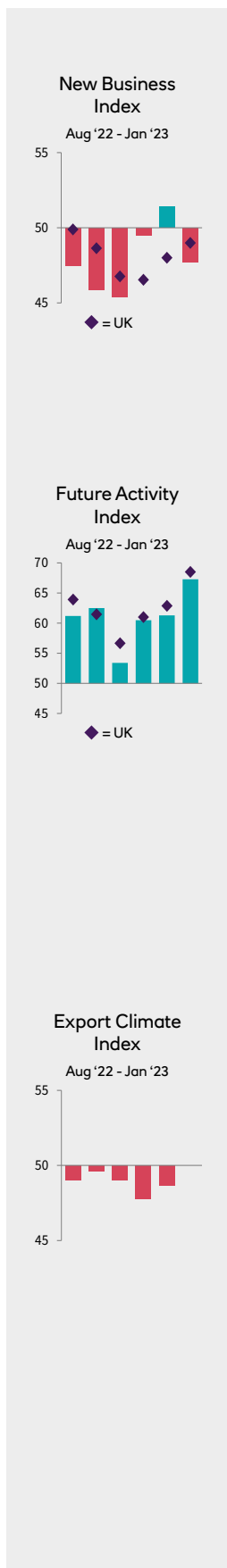
50.0

Jan '23



Top export markets, Wales

Rank	Market	Weight	Output Index, Jan '23
1	USA	19.3%	46.8
2	Ireland	17.4%	52.0
3	Germany	14.5%	49.9
4	France	8.9%	49.1
5	Netherlands	7.4%	50.7



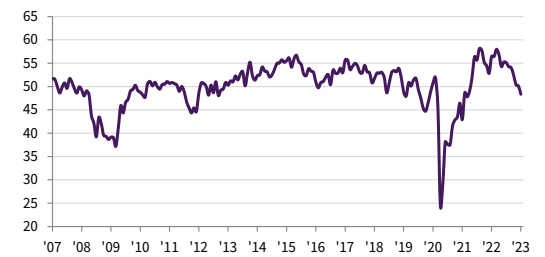
Business capacity

Renewed decline in employment during January

Welsh private sector firms signalled a return to job shedding in January, as companies cut employment for the first time since April 2021, albeit marginally. The fall in workforce numbers was attributed to lower business requirements following a drop in new orders.

The decrease in employment contrasted with unchanged levels of staff across the UK as a whole.

Employment Index 48.4
sa, >50 = growth since previous month Jan '23

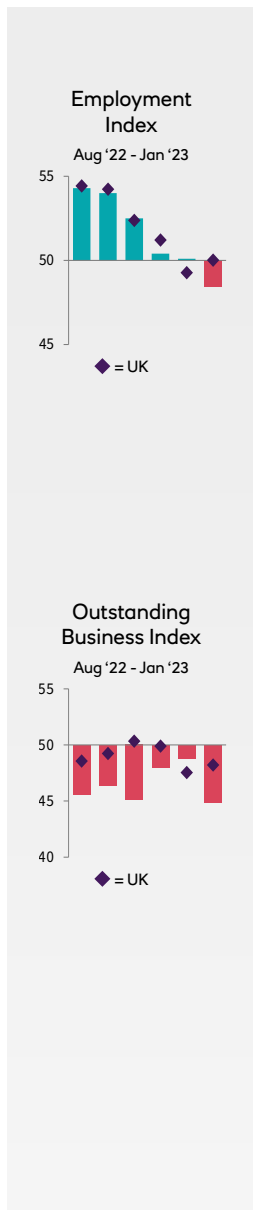
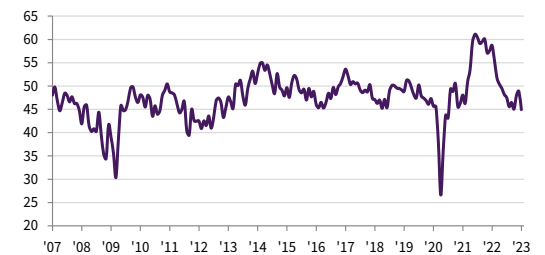


Fastest fall in backlogs of work since July 2020

January data signalled a strong decline in the level of outstanding business across the Welsh private sector. The rate of contraction accelerated to the sharpest since July 2020. The pace of decrease was among the fastest of the 12 monitored UK areas, with only Scotland registering a quicker fall in work-in-hand.

Welsh firms often noted that sufficient capacity and a drop in new business drove the fall in incomplete work.

Outstanding Business Index 44.9
sa, >50 = growth since previous month Jan '23

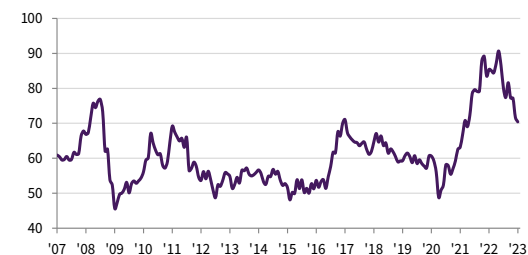


Prices

Input cost inflation slows again in January

Average cost burdens across the Welsh private sector increased at a marked rate again at the start of the year. Hikes in input prices were due to higher wage bills, alongside greater material, energy and utility costs. The rate of cost inflation eased to the slowest since April 2021 and was slightly weaker than the UK average, despite being historically elevated.

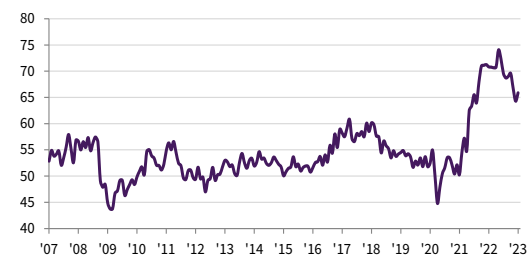
Input Prices Index 70.4
sa, >50 = inflation since previous month Jan '23



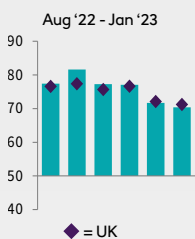
Charge inflation regains momentum in January

January data indicated a sharp rise in selling prices at Welsh private sector firms. The rate of charge inflation accelerated for the first time since October 2022 and was much steeper than the long-run average. The increase in output charges was also the quickest of the 12 monitored UK areas. Companies stated that higher selling prices were due to efforts to pass-through rising costs to clients.

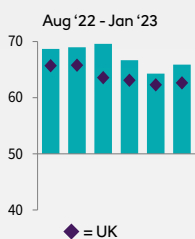
Prices Charged Index 65.9
sa, >50 = inflation since previous month Jan '23



Input Prices Index



Prices Charged Index



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, Jan '23 ⁺
1	Electrical & Optical	1.17	50
2	Transport	1.17	48
3	Other Manufacturing	1.06	50
4	Timber & Paper	1.04	40
5	Basic Metals	0.97	48
6	Chemicals & Plastics	0.97	45
7	Food & Drink	0.96	55
8	Mechanical Engineering	0.88	50
9	Textiles & Clothing	0.44	45

Wales specialisation: Services

Rank	Sector	LQ	UK Business Activity Index, Jan '23 ⁺
1	Hotels, Restaurants & Catering	1.62	52
2	Personal & Community Services	1.27	50
3	Transport & Communication	1.07	48
4	Financial Intermediation	0.94	48
5	Business-to-business Services	0.87	50
6	Computing & IT Services	0.43	52

UK sector focus

Personal & Community Services

After seeing activity levels decline in the latter stages of last year, the UK's Personal & Community Services sector started 2023 on a more stable footing. Key to this was a renewed, albeit marginal, upturn in inflows of new businesses in the three months to January.

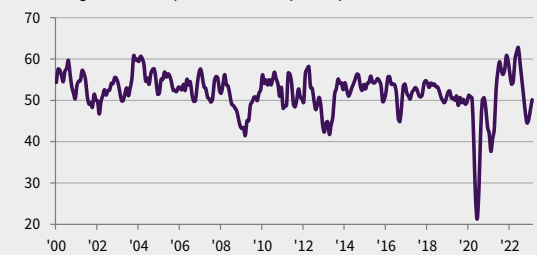
However, with survey data showing a lack of pressure on operating capacity, as evidenced by a marked and accelerated reduction in backlogs of work, firms reduced workforce numbers.

On the cost front, the rate of input price inflation eased only slightly and remained close to the record highs seen in 2022. Of the services sub-sectors mentioned, it was second only to that recorded by Hotels, Restaurants & Catering. Prices charged by Personal & Community Services firms meanwhile rose to the greatest extent since mid-2022.

Positively, expectations towards the year ahead improved, although they remained subdued by historical standards.

Output Index

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



⁺ 3-month moving average



UK Regional PMI overview

Business Activity

London was alone among the 12 UK regions monitored by the survey in recording higher activity in January. The rate of growth in the capital remained only marginal, however. There were renewed downturns in output in both Wales and the North West, while the steepest decrease in activity was once again recorded in Northern Ireland.

Employment

Seven of the 12 regions and nations monitored posted a rise in employment in January, up from just four in December. Northern Ireland topped the rankings, registering its steepest rise in workforce numbers for six months, ahead of the West Midlands. The most marked fall in employment was in the North East, as had been the case in the previous survey period.

Future Activity

January data showed a broad-based improvement in business expectations. The greatest increase in confidence was recorded in the West Midlands, which also saw the strongest overall optimism. Sentiment in Northern Ireland turned positive for the first time in nine months, although it remained lower than in any other region or nation.

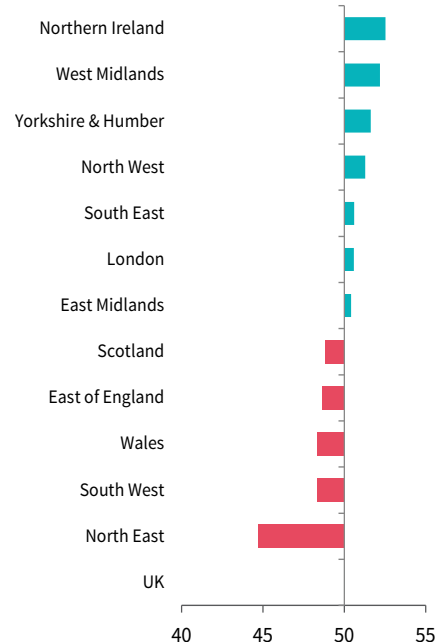
Business Activity Index

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



Employment Index

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



Future Activity Index

>50 = growth expected over next 12 months, Jan '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
Aug '22	48.1	47.5	49.0	61.2	54.3	45.6	77.4	68.7
Sep '22	47.7	45.9	49.6	62.5	54.0	46.4	81.6	69.0
Oct '22	49.1	45.4	49.0	53.4	52.5	45.1	77.3	69.6
Nov '22	49.8	49.5	47.8	60.5	50.4	48.0	77.1	66.7
Dec '22	52.0	51.4	48.7	61.3	50.1	48.8	71.7	64.3
Jan '23	47.7	47.7	50.0	67.3	48.4	44.9	70.4	65.9

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