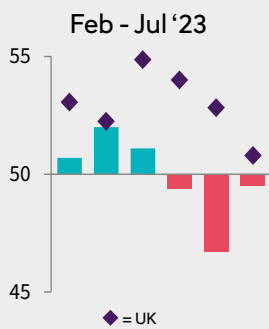


NatWest Wales PMI[®]

Output falls further amid sharper decline in new business in July

Wales Business Activity Index



Key findings

Steepest drop in new orders since October 2022

Cost pressures strengthen, but output charges rise at slower pace

Renewed increase in employment

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 49.5 in July, up from 46.7 in June, to signal a further, but slower fall in output at Welsh firms. The latest decline extended the current sequence of contraction to three months, but was the weakest in this period. Where a decrease in business activity was noted, firms linked this to muted demand conditions and a drop in new orders. The slight downturn contrasted with a marginal expansion seen at the UK level.

Gemma Casey, NatWest Ecosystem Manager for Wales, commented:

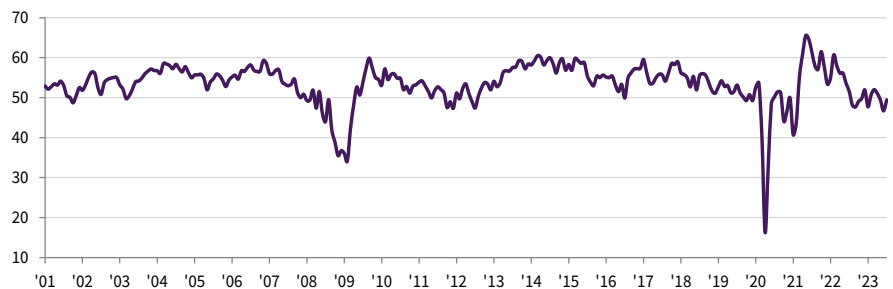
"Welsh firms faced a difficult start to the second half of the year, as output remained in contraction and new orders fell at a sharper rate. Weak demand conditions and pressure on customer purchasing power from the rising cost of living and higher borrowing costs weighed on overall sales."

"Nonetheless, firms were optimistic regarding the future outlook, as employment returned to growth. The filling of long-held vacancies supported another marked decline in outstanding business."

"Meanwhile, inflationary pressures remained well below the levels seen throughout 2021 and 2022. Although input costs rose at a slightly faster pace, the rate of inflation stayed softer than the long-run average as some raw material costs were reported to have fallen. That said, efforts to stimulate demand put strain on margins and reduced pricing power at firms."

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

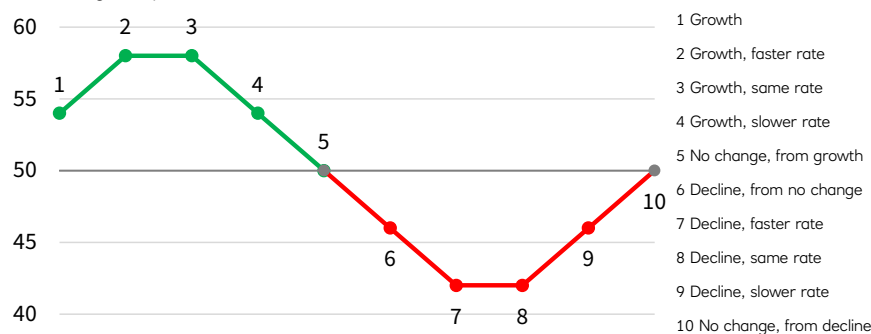
calculated from a single question that asks for changes in the volume of business activity (at service providers) or output (at manufacturers) compared with one month previously. The Wales Business Activity Index is comparable to the UK Composite Output Index. It is sometimes referred to as the 'Wales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

Decline in new business fastest since October 2022

July data signalled a sharper decrease in new orders at Welsh firms, with the pace of decline accelerating to the steepest since October 2022. The fall in new business was linked to weaker demand conditions and the impact of high interest rates and the greater cost of living.

Of the 12 monitored UK areas, Welsh firms registered the quickest contraction in new orders. Manufacturers saw little change in new orders, but service providers recorded a faster decrease in new business.

Output expectations weakest since January

Welsh private sector firms remained upbeat regarding the outlook for output over the coming year at the start of the third quarter. Confidence was reportedly due to hopes of greater client demand and investment in new staff. Although the degree of optimism was above the series average, it dropped to the lowest since January and was weaker than the UK trend.

Exports

Fractional improvement in export conditions in July

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 50.3 in July to signal only a fractional upturn in the export climate for Welsh firms. Down from 51.2, the index was at its lowest since January.

Weighing on the improvement were contractions in output seen across key export markets including Germany, France and the Netherlands. Meanwhile, firms in the Republic of Ireland saw output unchanged on the month, bringing to an end a seven-month sequence of growth.

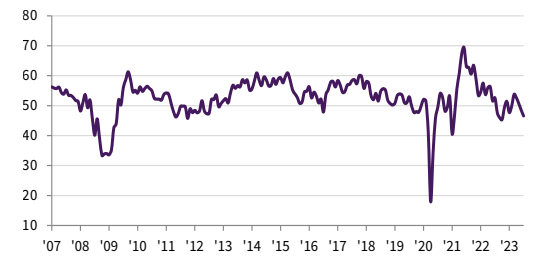
The USA continued to record greater business activity in July, although the pace of expansion eased to the slowest since February.

New Business Index

sa, >50 = growth since previous month

46.6

Jul '23

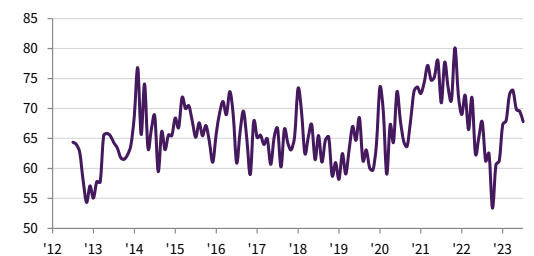


Future Activity Index

>50 = growth expected over next 12 months

67.8

Jul '23

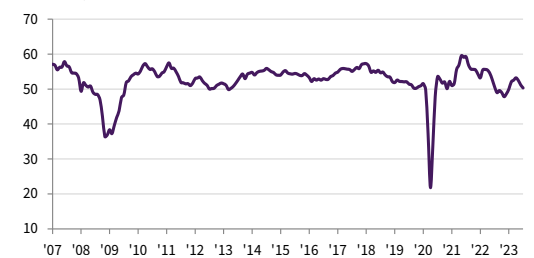


Export Climate Index

sa, >50 = growth since previous month

50.3

Jul '23

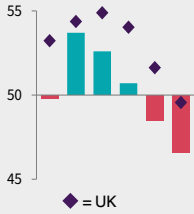


Top export markets, Wales

Rank	Market	Weight	Output Index, Jul '23
1	USA	19.3%	52.0
2	Ireland	17.4%	50.0
3	Germany	14.5%	48.5
4	France	8.9%	46.6
5	Netherlands	7.4%	48.3

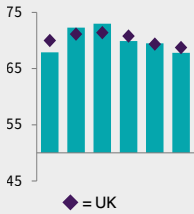
New Business Index

Feb - Jul '23



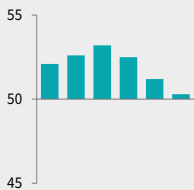
Future Activity Index

Feb - Jul '23



Export Climate Index

Feb - Jul '23



Business capacity

Fastest rise in employment since October 2022

July data indicated a marginal expansion in workforce numbers at Welsh firms. The rise was the first increase in employment in 2023 so far and the sharpest since October 2022. The rate of job creation was broadly in line with the UK average, as Welsh service providers drove the upturn.

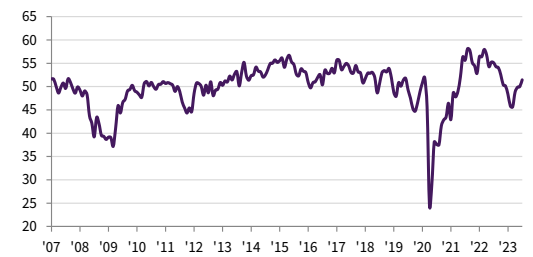
Firms stated that greater employment stemmed from efforts to fill long-held vacancies.

Employment Index

sa, >50 = growth since previous month

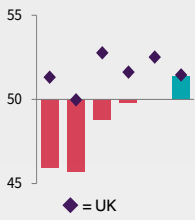
51.4

Jul '23



Employment Index

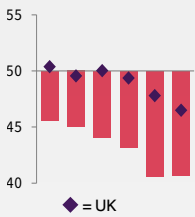
Feb - Jul '23



◆ = UK

Outstanding Business Index

Feb - Jul '23



◆ = UK

Marked drop in outstanding business in July

Welsh firms registered a fifteenth successive monthly decrease in backlogs of work during July, with the pace of contraction little-changed from that seen in the previous survey period. Companies continued to note that the ability to complete unfinished business was due to weak client demand and another decline in new orders.

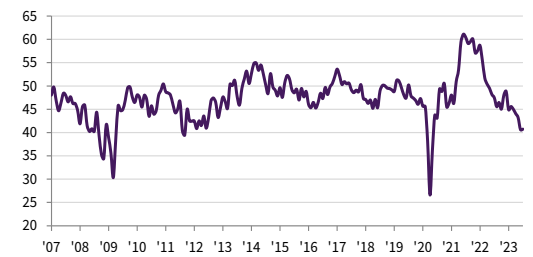
The rate of decline far exceeded that seen at the UK level.

Outstanding Business Index

sa, >50 = growth since previous month

40.7

Jul '23



Prices

Cost inflation quickens but among slowest in two-and-a-half years

Welsh firms recorded a marked rise in average cost burdens at the start of the third quarter. The rate of inflation quickened from that seen in June, but was nonetheless the second-slowest since November 2020. The pace of increase was far weaker than the UK average, with only Northern Ireland registering a softer uptick in operating expenses.

Service providers drove the increase in costs, with manufacturers seeing a decrease in input prices amid reports of lower transportation and material costs.

Selling prices rise at slowest pace since February 2021

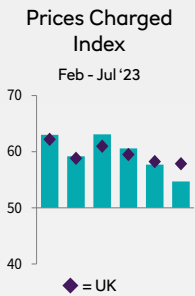
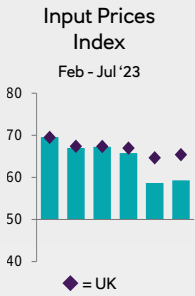
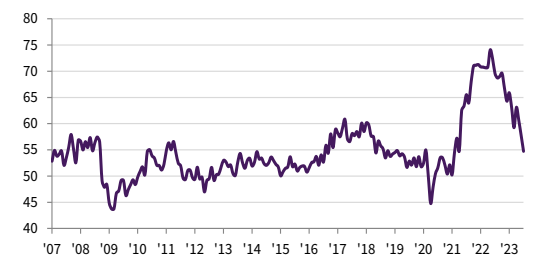
July data indicated a solid rise in output charges at Welsh private sector firms. The rate of increase was solid overall and slightly faster than the long-run series average. Nonetheless, the pace of inflation slowed for the third month running and was the softest since February 2021.

Of the 12 monitored UK areas, only Northern Ireland recorded a slower rise in output charges.

Input Prices Index 59.3
sa, >50 = inflation since previous month Jul '23



Prices Charged Index 54.7
sa, >50 = inflation since previous month Jul '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, Jul '23 ⁺
1	Electrical & Optical	1.17	48
2	Transport	1.17	52
3	Other Manufacturing	1.06	51
4	Timber & Paper	1.04	47
5	Basic Metals	0.97	46
6	Chemicals & Plastics	0.97	48
7	Food & Drink	0.96	52
8	Mechanical Engineering	0.88	48
9	Textiles & Clothing	0.44	52

Wales specialisation: Services

Rank	Sector	LQ	UK Business Activity Index, Jul '23 ⁺
1	Hotels, Restaurants & Catering	1.62	48
2	Personal & Community Services	1.27	52
3	Transport & Communication	1.07	48
4	Financial Intermediation	0.94	58
5	Business-to-business Services	0.87	50
6	Computing & IT Services	0.43	52

UK sector focus

Financial Intermediation

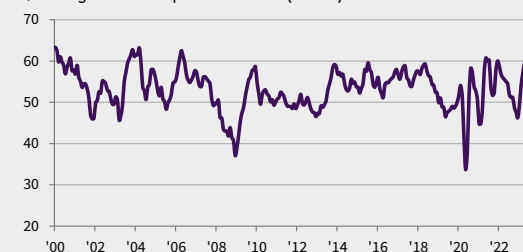
The UK's Financial Intermediation sector displayed strong growth in the three months to July, recording one of the fastest rates of increase in business activity since the global financial crisis. The upturn in performance followed a notable slowdown in the second half of 2022.

Growth was the strongest among the six services sub-sectors monitored by the survey and fuelled by a steep increase in inflows of new business in recent months. With firms' backlogs of work increasing, they continued to take on staff at a historically strong rate and were optimistic about the year-ahead outlook for activity.

Input costs in the sector continued to rise steeply, however, growing at the fastest rate in 2023 so far. This in turn led to a sharp and accelerated increase in prices charged. The rate of output price inflation was surpassed only by that seen in the Hotels, Restaurants and Catering sector.

Output Index

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



⁺ 3-month moving average



UK Regional PMI overview

Business Activity

Only half of the 12 monitored regions and nations recorded growth in business activity in July. London posted the strongest rate of expansion but saw a notable loss of momentum as growth slowed to a six-month low. The South East and Northern Ireland* fell the joint-most places in the rankings as both returned to contraction territory, though the steepest overall decline in activity was recorded in the North East.

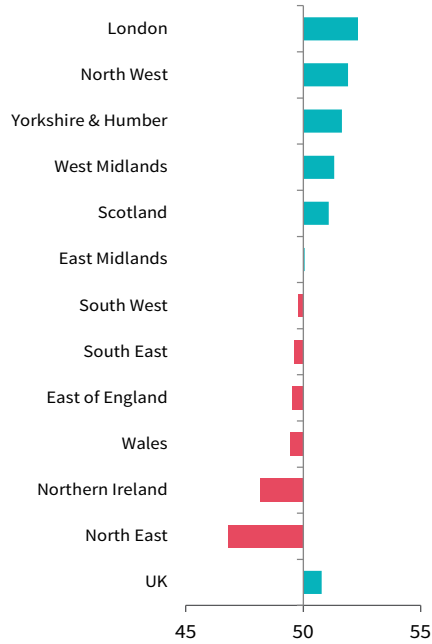
Employment

The strongest rate of job creation in July was seen in the South West, followed by the East of England and then London. Northern Ireland also posted a solid rise in workforce numbers. At the other end of the scale, there were renewed declines in staffing levels in both the East Midlands and North East, while no change in employment in the West Midlands ended a 28-month sequence of growth in the region.

Future Activity

Trends in business confidence were mixed, with half of the 12 monitored areas registering an improvement in sentiment and the rest seeing a decline. The West Midlands, South East and Yorkshire & Humber topped the rankings and were among those that saw expectations rise since June. Firms in Scotland were the least optimistic about the year-ahead outlook, with sentiment there hitting a six-month low.

Business Activity Index
sa, >50 = growth since previous month, Jul '23



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



Future Activity Index
>50 = growth expected over next 12 months, Jul '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
Feb '23	50.7	49.8	52.1	67.9	45.9	45.6	69.6	63.0
Mar '23	52.0	53.7	52.6	72.3	45.7	45.0	67.0	59.2
Apr '23	51.1	52.6	53.2	73.0	48.8	44.1	67.3	63.1
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

Contact

Noel Davies
Regional Campaign Manager
Natwest
+44 (0) 7970 332 895
noel.davies@natwest.com

Siân Jones
Principal Economist
S&P Global Market Intelligence
T: +44-1491-461-017
sian.jones@spglobal.com

Sabrina Mayeen
Corporate Communications
S&P Global Market Intelligence
T: +44 (0)-7967-447030
sabrina.mayeen@spglobal.com

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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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