

13 August 2024

NatWest Wales Growth Tracker

Faster fall in output in July, but new business recovers



NatWest

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by **S&P Global**

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Key findings

July 2024

Output falls further but new orders return to growth

Job creation fastest since September 2022

Business confidence highest since November 2021

The NatWest Wales Growth Tracker provides a timely snapshot of regional economic performance.

The report tracks monthly changes in business activity, demand, employment, backlogs, prices and the year-ahead outlook. The data are compiled from local companies that participate in S&P Global's UK manufacturing and services PMI surveys.

For more reports on 12 UK nations and regions, visit www.natwest.com/business/insights/economics





Faster fall in output in July, but new business recovers

Latest Wales Growth Tracker survey data from NatWest showed a sharper drop in business activity during July.

Welsh firms signalled a fall in output at the start of the second half of the year. Nonetheless, employment growth strengthened as new orders returned to expansion and business optimism picked up. Meanwhile, inflationary pressures intensified.

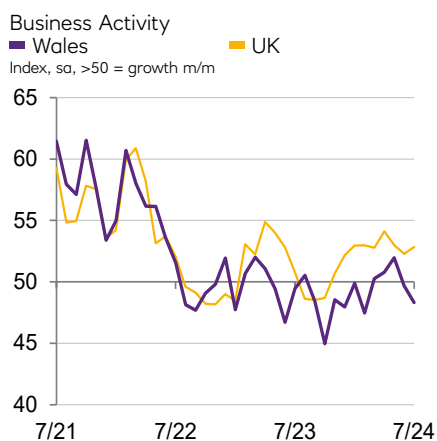
The headline Wales Business Activity Index – a seasonally adjusted index that measures the month-on-month change in the combined output of the area’s manufacturing and service sectors – registered 48.3, down from 49.7 in June to indicate a modest decline in output at Welsh firms. Anecdotal evidence attributed the downturn to previously subdued customer demand.

NatWest Wales Business Activity Index July 2024

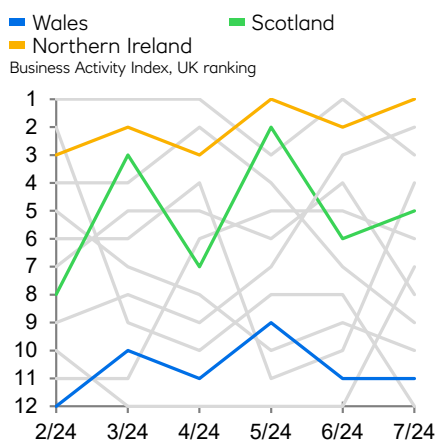
48.3

The Business Activity Index is a diffusion index calculated from companies’ responses to a question on monthly changes in the volume of business activity. The index varies between 0 and 100 and is the sum of the percentage of ‘higher’ responses and half the percentage of ‘unchanged’ responses. A reading above 50 indicates an increase compared to the previous month, and below 50 a decrease. The index is seasonally adjusted.

Data compiled 11-29 July



Sources: NatWest, S&P Global PMI. ©2024 S&P Global.



Sources: NatWest, S&P Global PMI. ©2024 S&P Global.



Comment

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

"Welsh firms noted challenges but also opportunities as the second half of 2024 began. Output continued to fall, with the rate of decline quickening from June amid previously muted demand conditions. Nonetheless, new business returned to growth, albeit only marginally, and confidence across the private sector improved to the strongest since November 2021. Moreover, firms were buoyed by optimism and raised their staffing numbers at the fastest pace for almost two years.

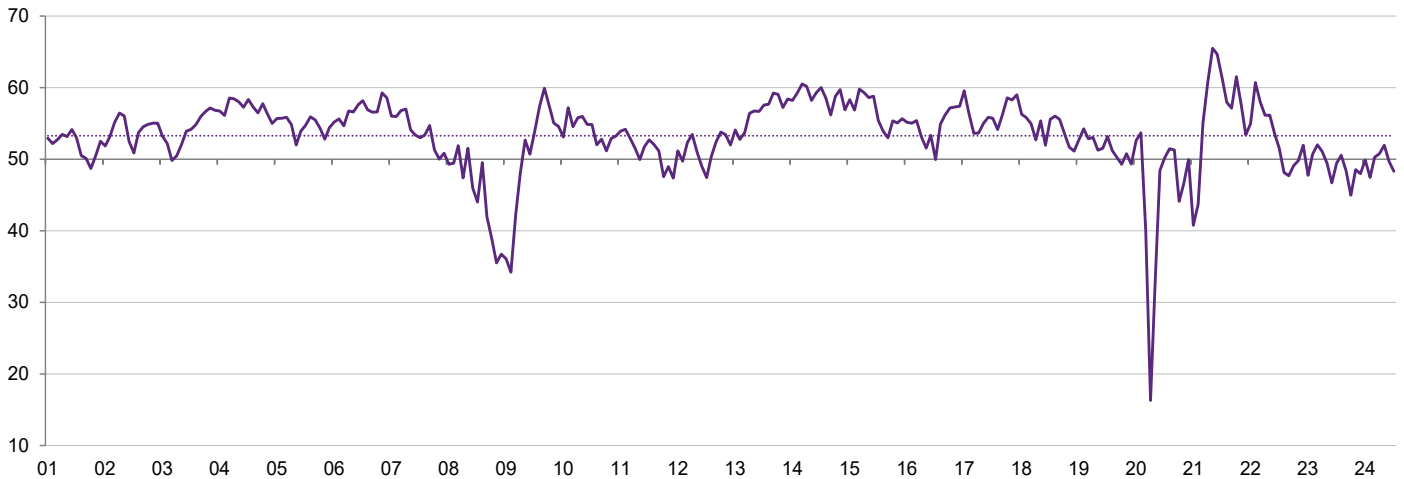
"Operational costs built, however. Input price inflation accelerated, with companies also raising their output charges at a slightly quicker pace in a bid to ease strain on margins."

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Business Activity

Index, sa, >50 = growth m/m. Dots = long-run average since 1998.



Sources: NatWest, S&P Global PMI. ©2024 S&P Global.



Demand and outlook

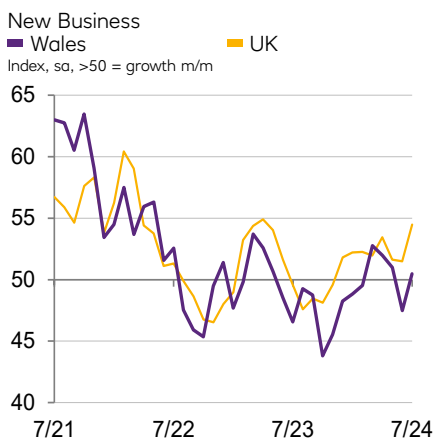
Renewed rise in new business, albeit fractional, amid more upbeat output expectations for the year ahead

July data signalled a return to growth of new business at Welsh private sector firms, following a modest decline in June. A pick-up in demand conditions reportedly drove the latest upturn in new orders, albeit only fractional overall. The rate of expansion was much slower than the UK average, however,

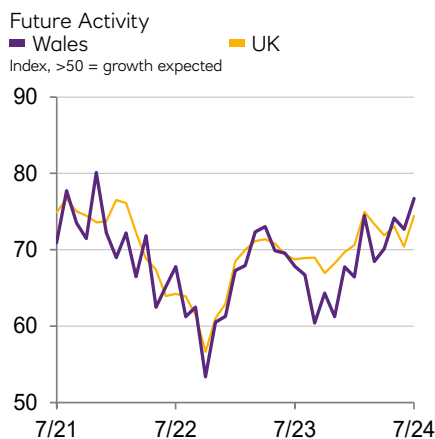
as Welsh businesses recorded the slowest rise in new sales of the 11 monitored areas that registered an increase.

At the same time, the degree of business confidence at Welsh firms rose to the highest since November 2021 and was notably stronger than the series average. Hopes of greater client demand, further hiring and the launch of new products reportedly underpinned optimism.

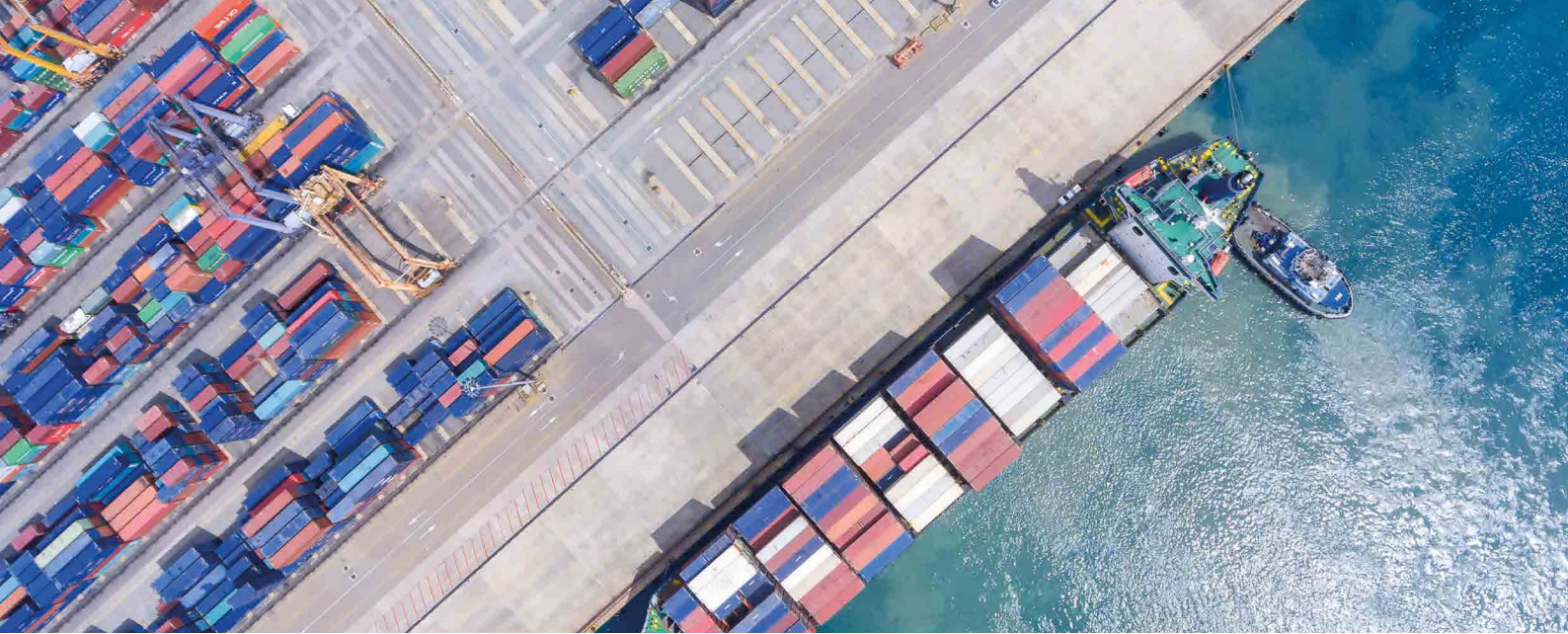
"Confidence across the private sector improved to the strongest since November 2021."



Sources: NatWest, S&P Global PMI. ©2024 S&P Global.



Sources: NatWest, S&P Global PMI. ©2024 S&P Global.



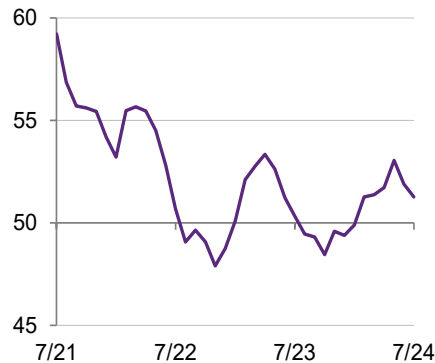
Export markets

Export climate improves at slowest pace since February

At 51.3 in July, the ECI registered below the reading of 51.9 seen in June, to signal a slightly slower and only marginal improvement in export conditions for Welsh firms.

Although the USA and Ireland continued to record expansions in output, with the latter seeing an acceleration in the rate of growth, firms in France registered a further decline in activity. Also weighing on the overall export climate were renewed contractions in output in Germany and the Netherlands.

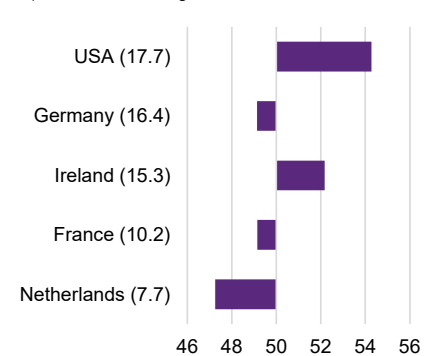
Export Conditions
Index, sa, >50 = growth m/m



Sources: NatWest, S&P Global PMI. ©2024 S&P Global.

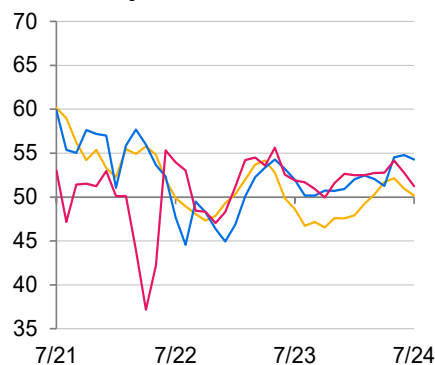
The Wales Export Climate Index (ECI) is an indicator for the economic health of the region's export markets. It is calculated by combining national PMI output data, weighted according to each nation's share of manufacturing exports of Wales. A reading above 50 signals an improvement in export conditions, and below 50 a deterioration.

Top export markets, Wales
% share of exports shown in brackets
Output Index, sa, >50 = growth m/m



Sources: NatWest, S&P Global PMI. ©2024 S&P Global.

Output
Index, sa, >50 = growth m/m



Sources: NatWest, S&P Global PMI. ©2024 S&P Global.



Jobs and capacity

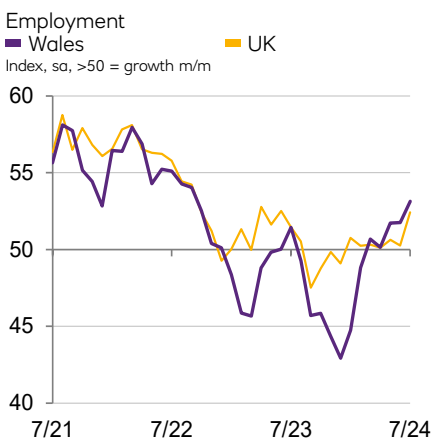
Employment growth quickens to fastest since September 2022

Welsh businesses indicated a solid rise in workforce numbers during July, as the pace of job creation quickened to the sharpest since September 2022. Panellists stated that greater staffing numbers were due to optimism in the outlook and increased new order inflows. In fact, the pace of employment growth was among the steepest of the 12

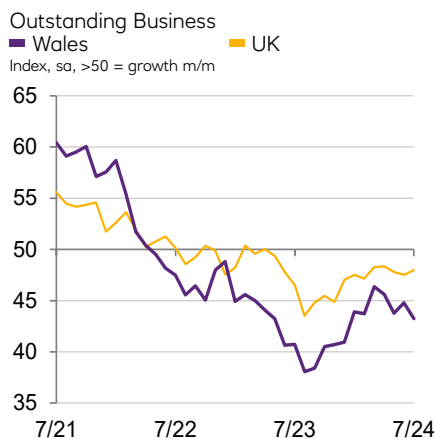
monitored UK areas.

The rise in staffing levels helped firms to clear backlogs of work in July, as incomplete business fell to the greatest extent in 2024 so far. The rate of contraction was the quickest across the UK areas monitored by the survey and was sharper than its long-run series average.

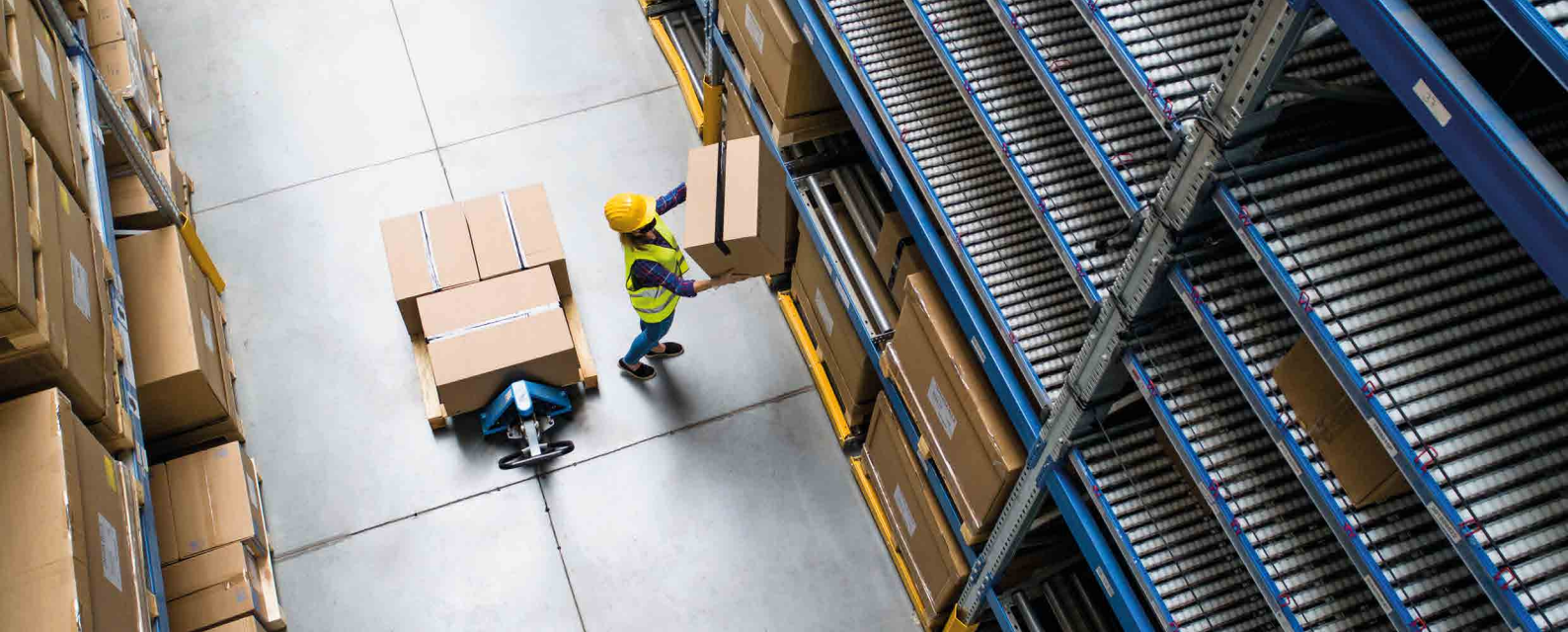
"Firms were buoyed by optimism and raised their staffing numbers at the fastest pace for almost two years."



Sources: NatWest, S&P Global PMI. ©2024 S&P Global.



Sources: NatWest, S&P Global PMI. ©2024 S&P Global.



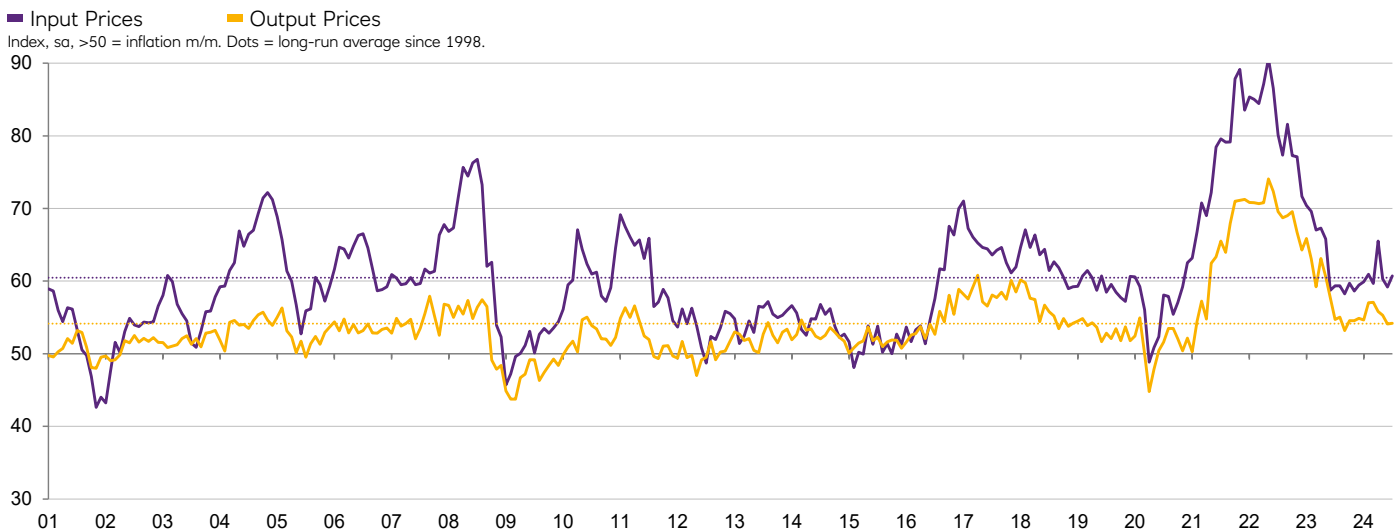
Inflation

Cost inflation accelerates to three-month high

July data signalled a quicker rise in operating expenses at Welsh private sector firms. The rate of cost inflation was broadly in line with the long-run trend, but quickened to the sharpest in three months. The pace of increase was also slightly faster than the UK average, as firms linked higher input prices to increased costs for shipping, foodstuffs and raw materials.

The rate of selling price inflation was little-changed from that seen in June, but solid overall. Higher output charges were attributed to the pass-through of greater costs to customers. In contrast to the trend seen for input prices, the pace of charge inflation was among the slowest of the 12 monitored UK areas - faster than only the East Midlands, Scotland and Northern Ireland.

"Output charges rose at a slightly quicker pace in a bid to ease strain on margins."



Sources: NatWest, S&P Global PMI. ©2024 S&P Global.

UK Regional Growth Tracker

Business Activity

Business activity growth was led by Northern Ireland for the second time in the past three months in July. Just behind was the South West, which continued to gain momentum and recorded its steepest rise in output for more than two years. At the other end of the scale, Wales and the East Midlands both recorded modest reductions in business activity.

Employment

Northern Ireland also topped the rankings for employment growth at the start of the third quarter, recording its fastest rate of job creation since April 2023. The North East posted the next-steepest rise in employment, followed by Wales. As was the case for business activity, the East Midlands was one of just two areas to see a decrease in employment, this time alongside the West Midlands.

Future Activity

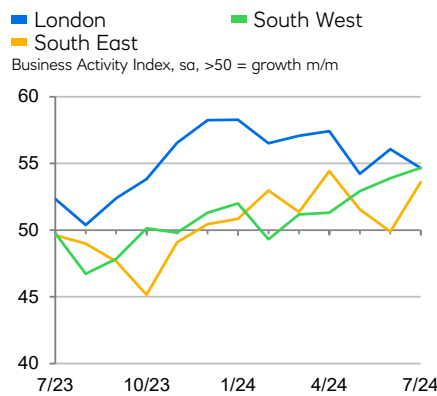
Growth expectations generally improved across the UK in July. The only exception was Northern Ireland, which saw business confidence slip to a six-month low. Firms in the South East were the most upbeat about the outlook, as has been the case in three of the past four months, followed by those in South West. The biggest upswing in optimism was recorded in Yorkshire & Humber.



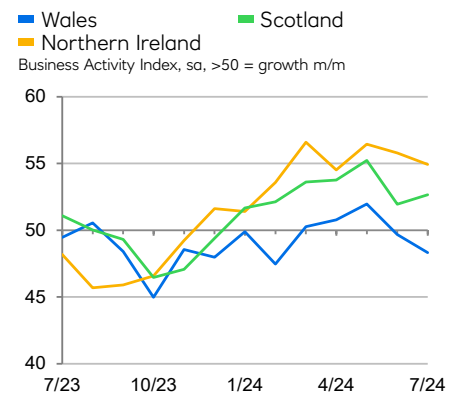
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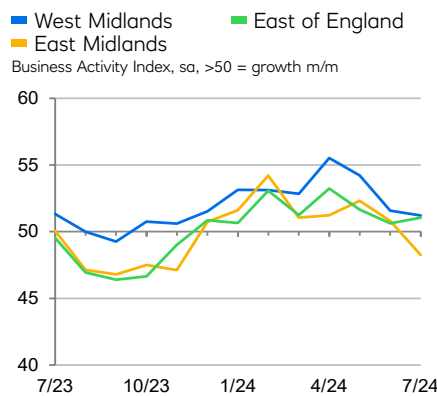
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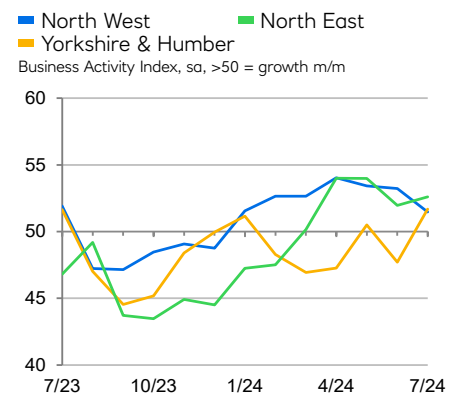
Sources: NatWest, S&P Global PMI. ©2024 S&P Global.



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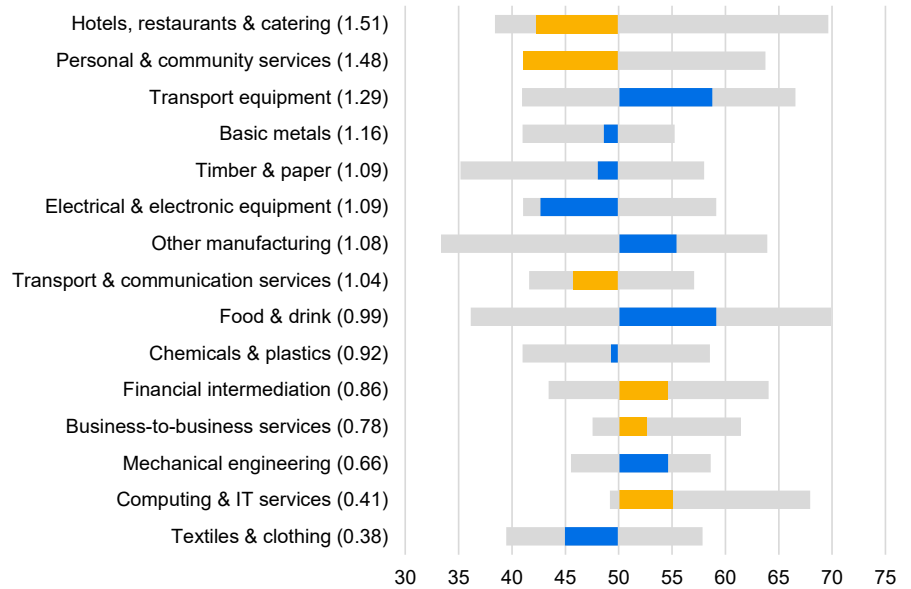
UK sectors

Sector specialisation: Wales

The chart shows UK output indices by sector, ranked by location quotients for Wales. Location quotients (LQs) 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.

UK sectors ranked by importance to the Welsh economy
 ■ Manufacturing ■ Services ■ 3-year range
 UK Output Index, sa, >50 = growth m/m Jul '24



Sources: NatWest, S&P Global PMI. ©2024 S&P Global.
 Location quotients for Wales are shown in brackets. Latest data are smoothed as three-month moving averages (3mma).

Sector in focus: Financial intermediation

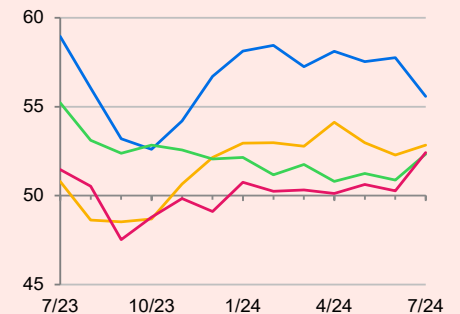
The Financial Intermediation sector was a key growth engine for the UK economy in the three months to July. Business activity rose markedly and at one of the quickest rates recorded among the detailed sectors covered by PMI data. This was despite a loss of momentum that saw growth ease to the weakest since late last year.

Buoyed by strong inflows of new work and high expectations for growth in the coming year, financial intermediation firms upped the rate of job creation in the three months

to July. Employment has risen continuously in the sector since early 2021.

Input prices faced by financial intermediation firms meanwhile rose at the slowest rate for just over three years. Cost pressures were still elevated by historical standards, however, which contributed to another steep rise in average prices charged by businesses in the sector. The rate of output price inflation remained well above the average over the series history stretching back to 1996.

Output / Employment
 ■ / ■ Financial intermediation*
 ■ / ■ Manufacturing & services
 Index, sa, >50 = growth m/m



Sources: NatWest, S&P Global PMI. ©2024 S&P Global.
 *Data are smoothed as three-month moving average (3mma).

Methodology

The NatWest Wales Growth Tracker 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

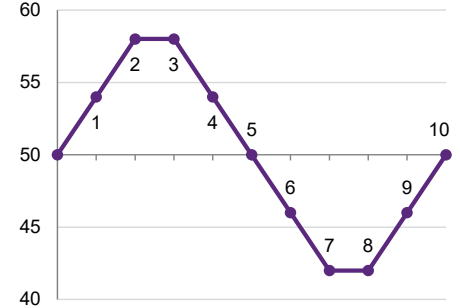
overall decrease. The indices are then seasonally adjusted.

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.

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 survey methodology, please contact economics@spglobal.com.

Index interpretation
Index, sa, >50 = growth m/m



Sources: NatWest, S&P Global PMI. ©2024 S&P Global.

Key

- 1 Growth, from no change
- 2 Growth, faster rate
- 3 Growth, same rate
- 4 Growth, slower rate
- 5 No change, from growth
- 6 Decline, from no change
- 7 Decline, faster rate
- 8 Decline, same rate
- 9 Decline, slower rate
- 10 No change, from decline

Data

Wales manufacturing and services
Index, sa, 50 = no change over previous month. *50 = no change over next 12 months.

	Business Activity	New Business	Export Climate Index	Employment	Outstanding Business	Future Activity	Input Prices	Output Prices
2/24	47.5	49.5	51.3	48.8	43.7	74.5	60.9	57.0
3/24	50.3	52.8	51.4	50.7	46.4	68.5	59.7	57.1
4/24	50.8	52.0	51.7	50.1	45.6	70.1	65.5	55.8
5/24	52.0	51.0	53.1	51.7	43.8	74.1	60.3	55.3
6/24	49.7	47.5	51.9	51.8	44.8	72.7	59.2	54.1
7/24	48.3	50.5	51.3	53.1	43.2	76.7	60.7	54.2

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