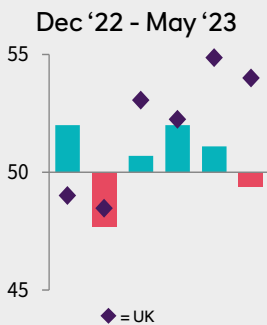


NatWest Wales PMI®

Renewed contraction in output, as new order growth slows

Wales Business Activity Index



Key findings

Activity falls marginally as new orders rise at softer pace

Inflationary pressures ease

Business confidence drops to three-month 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 49.4 in May, down from 51.1 in April. The latest data signalled a renewed contraction in output, bringing to an end a three-month sequence of expansion. Of the 12 monitored UK areas, Welsh firms were alone in registering lower business activity. The decrease was only marginal overall, however. Companies noted that the fall was due to a slower rise in new orders.

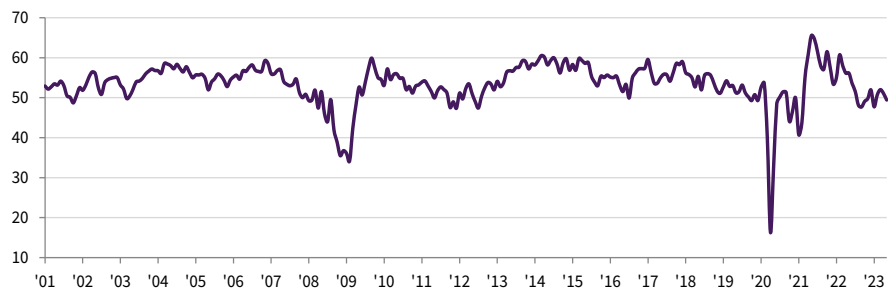
Gemma Casey, NatWest Ecosystem Manager for Wales, commented:

"Welsh firms signalled a return to contraction territory in May, as output fell back into decline. New orders continued to grow, albeit at only a marginal pace. Softer demand conditions stemmed from sufficient stocks at customers and subdued client confidence. Although strongly optimistic of an increase in output over the coming year, the degree of confidence slipped to a three-month low. Meanwhile, employment was broadly stagnant as capacity pressures dissipated further.

"Cost pressures remained marked, as companies noted that increased wage bills drove inflation. Rates of input price and output charge inflation eased, however, to some of the weakest for over two years amid efforts by vendors and firms to drive new sales in an increasingly challenging demand environment."

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

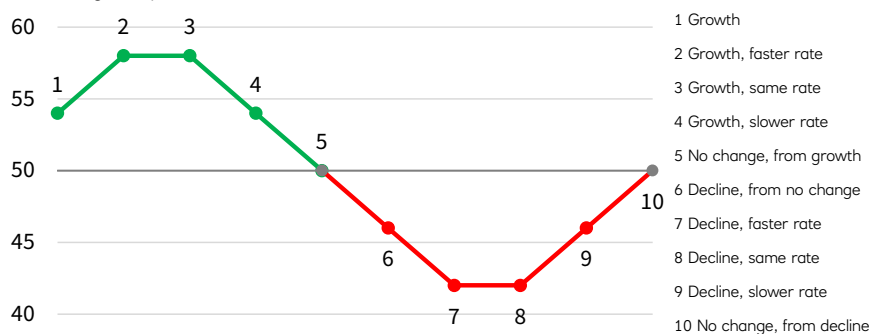
calculated from a single question that asks for changes in the volume of business activity (at service providers) or output (at manufacturers) compared with one month previously. The Wales Business Activity Index is comparable to the UK Composite Output Index. It is sometimes referred to as the 'Wales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

Welsh private sector firms recorded a third successive monthly expansion in new business during May. The upturn in new orders was linked to sustained increases in client demand and new customer acquisitions. That said, the pace of growth was only marginal overall and the slowest in the aforementioned sequence of expansion.

The rate of growth was also much weaker than the UK trend which indicated a solid rise in new business.

Output expectations slip to three-month low

May data signalled further strong positive sentiment regarding the outlook for output over the coming 12 months at Welsh firms. Optimism reportedly stemmed from planned investment in expanding capacity and developing new products, alongside hopes of greater client demand.

The overall level of confidence dipped to a three-month low. At the sub-sector level, manufacturing firms remained much more upbeat compared to their service sector counterparts.

Exports

Modest upturn in export conditions in May

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 52.5 in May, down from 53.2 in April, to signal a moderate improvement in the export climate for Welsh companies. The extent to which export conditions strengthened was the weakest in three months, however.

The continued upturn in export conditions was linked to a sharper increase in output in the US, and further growth in business activity in the Republic of Ireland, Germany and France. Expansions in the latter three slowed on the month, however.

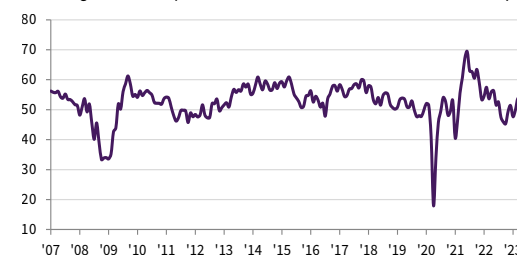
Weak manufacturing demand conditions led to the fastest contraction in output in the Netherlands since November 2022.

New Business Index

sa, >50 = growth since previous month

50.7

May '23

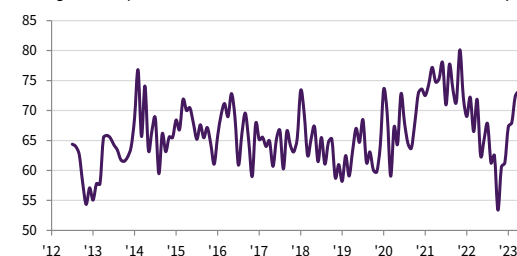


Future Activity Index

>50 = growth expected over next 12 months

69.9

May '23

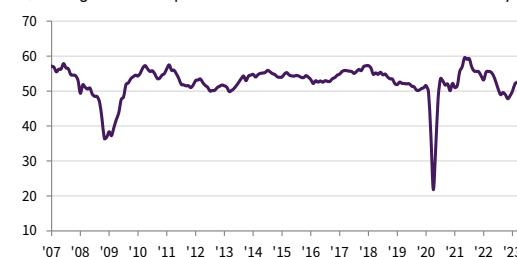


Export Climate Index

sa, >50 = growth since previous month

52.5

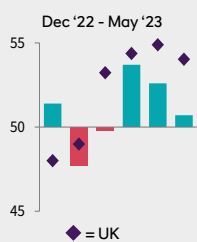
May '23



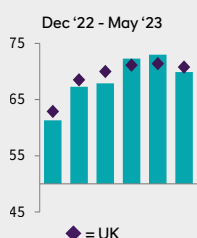
Top export markets, Wales

Rank	Market	Weight	Output Index, May '23
1	USA	19.3%	54.3
2	Ireland	17.4%	51.9
3	Germany	14.5%	53.9
4	France	8.9%	51.2
5	Netherlands	7.4%	44.2

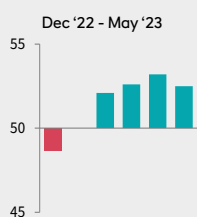
New Business Index



Future Activity Index



Export Climate Index



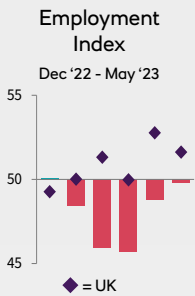
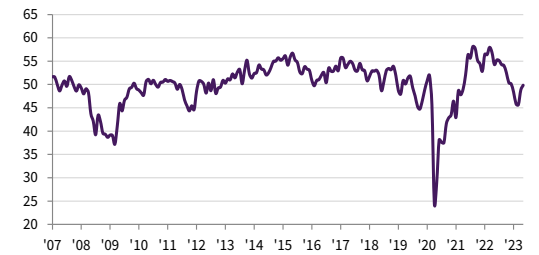
Business capacity

Employment broadly unchanged in May

Welsh companies registered broadly unchanged employment levels midway through the second quarter, following four successive monthly contractions. Although some firms noted the non-replacement of voluntary leavers, others stated that greater demand drove hiring.

The trend among Welsh firms contrasted with that seen across the UK as a whole, where staffing numbers rose at a modest pace. Only companies in the North East recorded a decline in workforce numbers.

Employment Index
sa, >50 = growth since previous month
49.8
May '23

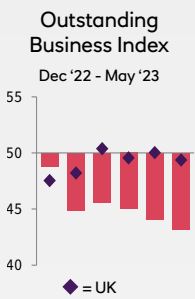


Sharpest drop in backlogs of work since July 2020

Welsh private sector companies recorded a further decline in the level of outstanding business in May, thereby extending the current sequence of contraction that began a year ago. The rate of depletion accelerated and was the fastest since July 2020. Anecdotal evidence suggested that softer new order growth allowed firms to work through their incomplete business.

Of the ten UK areas that registered a decrease in work-in-hand, Welsh firms saw the steepest drop.

Outstanding Business Index
sa, >50 = growth since previous month
43.2
May '23



Prices

Slowest rise in input costs since January 2021

Input prices faced by Welsh firms rose at a further marked pace in May, as the rate of inflation posted above the long-run series average. Panellists largely attributed higher cost burdens to greater wage bills. Although substantial, the pace of increase slowed to the weakest since January 2021.

A softer uptick in operating expenses reflected the wider UK trend, where the rate of cost inflation was the slowest for over two years.

Input Prices Index 65.8
sa, >50 = inflation since previous month May '23

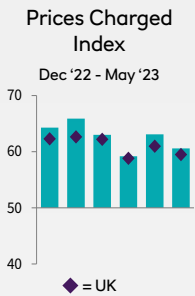
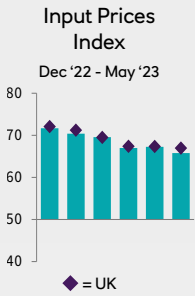
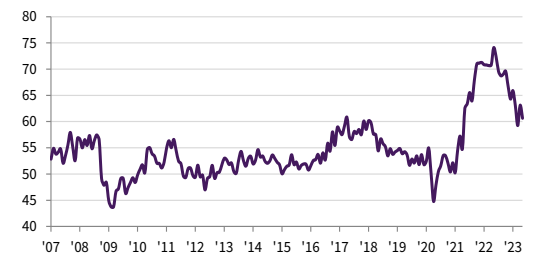


Softer uptick in selling prices

Welsh businesses recorded another sharp rise in output charges midway through the second quarter. Companies often stated that higher selling prices were due to the pass-through of greater costs to clients in an effort to protect margins. Despite being faster than the series average, the rate of charge inflation softened and was the second-slowest since April 2021.

Manufacturers and service providers both registered weaker upticks in selling prices.

Prices Charged Index 60.6
sa, >50 = inflation since previous month May '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, May '23 ⁺
1	Electrical & Optical	1.17	50
2	Transport	1.17	55
3	Other Manufacturing	1.06	50
4	Timber & Paper	1.04	40
5	Basic Metals	0.97	45
6	Chemicals & Plastics	0.97	45
7	Food & Drink	0.96	50
8	Mechanical Engineering	0.88	45
9	Textiles & Clothing	0.44	45

Wales specialisation: Services

Rank	Sector	LQ	UK Business Activity Index, May '23 ⁺
1	Hotels, Restaurants & Catering	1.62	55
2	Personal & Community Services	1.27	55
3	Transport & Communication	1.07	45
4	Financial Intermediation	0.94	60
5	Business-to-business Services	0.87	55
6	Computing & IT Services	0.43	60

UK sector focus

Transport & Communication

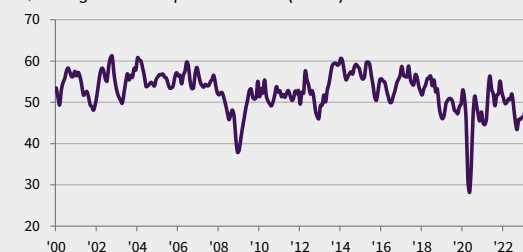
Almost all areas of the UK services economy saw growth in business activity in the three months to May, the only exception being the Transport & Communications sector. Here, activity fell - albeit only slightly - in the latest three-month period, thereby resuming a downward trend after a brief return to growth in Q1.

The survey data pointed to weakness in underlying demand, with inflows of new work in decline. Businesses in the sector reacted to falling workloads by reducing workforce numbers, in line with the trend seen since the end of last year. That said, the latest round of job cuts was only marginal as firms showed greater confidence towards the outlook.

Cost pressures remained historically elevated, although they did at least ease further from the record highs seen in 2022. This was reflected in a slower rise in prices charged, the weakest for almost two-and-a-half years.

Output Index

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



⁺ 3-month moving average



UK Regional PMI overview

Business Activity

Almost all UK nations and regions saw a rise in business activity in May, the only exception being Wales where output fell marginally and for the first time in four months. London once again recorded by far the strongest growth rate, albeit one that was slightly slower than in April. In fact, only the West Midlands saw an acceleration in the rate of expansion in business activity.

Employment

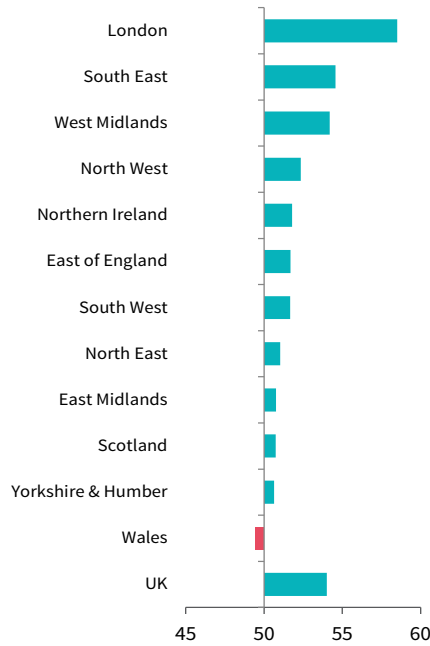
The vast majority of areas monitored by the survey recorded an increase in private sector employment in May. Scotland topped the rankings for job creation for the first time since June 2018, pushing Northern Ireland* into second position. Only the North East and Wales saw decreases in staffing levels, and even there the declines were modest and marginal respectively.

Future Activity

Business expectations remained positive across the board in May, although they weakened in three-quarters of the areas monitored. The West Midlands went against the trend and recorded the strongest overall optimism for the fifth month running. At the other end of the scale, firms in Northern Ireland were the least upbeat towards the outlook.

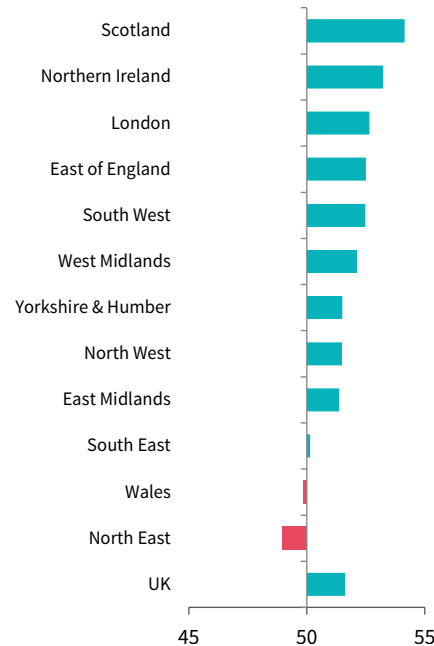
Business Activity Index

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



Employment Index

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



Future Activity Index

>50 = growth expected over next 12 months, May '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
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
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

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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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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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