

12 November 2024

NatWest Wales Growth Tracker

Steepest contraction in activity for one year



NatWest

PMI[®]

by S&P Global

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Key findings

October 2024

Business activity falls amid slower expansion in orders

Sharpest fall in employment in nine months

Inflationary pressures ease

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





Steepest contraction in activity for one year

Welsh companies signalled expansion in new business inflows during October, according to the latest NatWest Cymru Regional Growth Tracker

The expansion, which is the fourth month of growth in succession for the region, also coincided with reports that there is further optimism among Welsh companies regarding output for the coming year, with confidence driven by hopes of new client wins. But the sequence of growth was the softest since July, and October saw a stronger fall in output across the Welsh private sector.

At 47.0 in October, the headline 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 – fell from 48.6 in September. The decline was the second in as many months and the strongest recorded in exactly one year.

Firms also mentioned a slowdown in new order growth at the start of the fourth quarter, while the muted picture contributed to steeper reductions in employment and outstanding business.

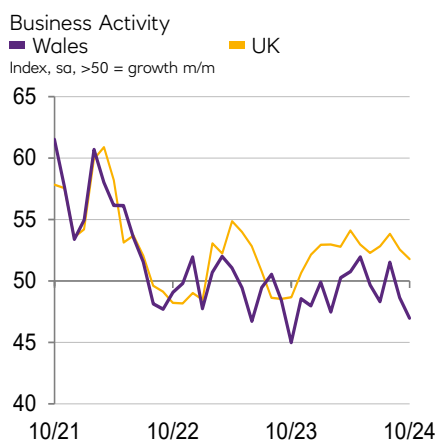
On the price front, firms saw operating expenses rise at the softest rate in four years, which helped to ease the rate of output charge inflation in October.

NatWest Wales Business Activity Index
October 2024

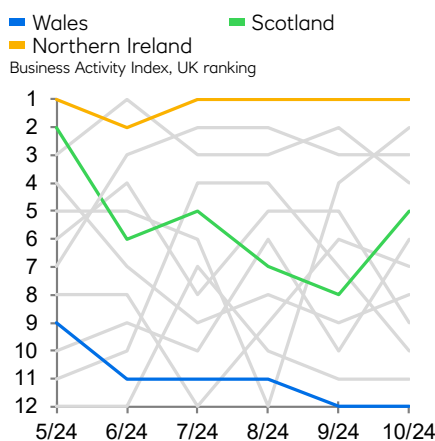
47.0

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 10-29 October



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:

"There are reasons for optimism for business in Wales from our October data.

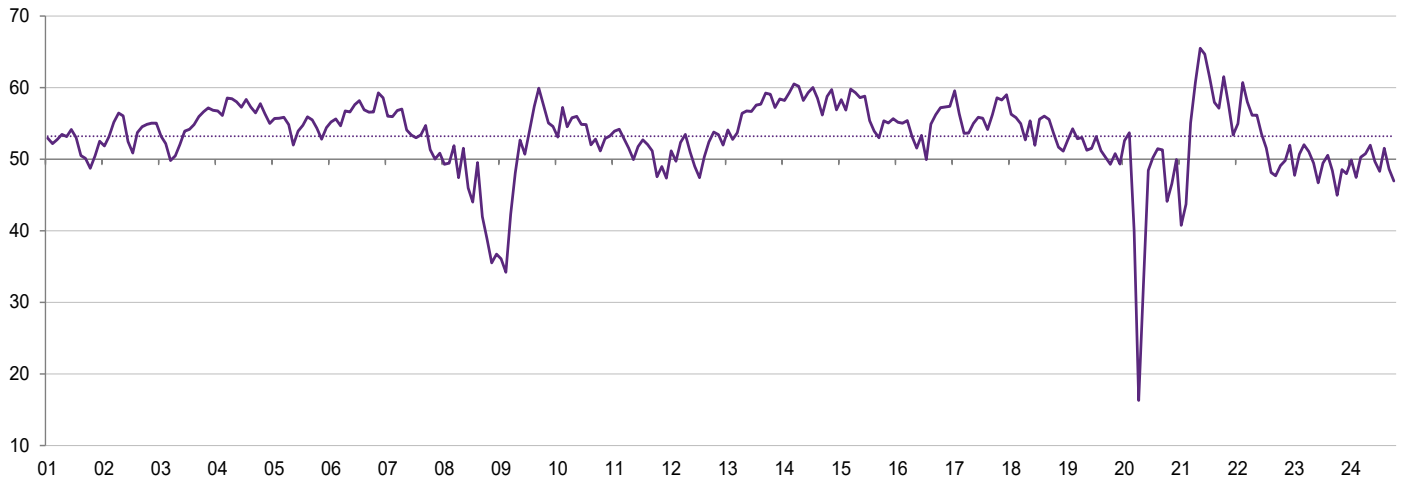
"Positively, inflationary pressures eased and below average uptick in cost burdens led to only moderate hikes in selling prices as private sector firms attempted to remain competitive and drive sales.

"Feedback also suggests that confidence for the year ahead is still positive, with that confidence underpinned by hopes of new client wins, stronger demand conditions and business expansion plans.

"But softening demand conditions in the Welsh private sector at the start of the final quarter of 2024 gave way to a stronger reduction in business activity. The fall in output was solid and the most pronounced in a year, as clients mentioned that new order growth was weak. In turn, firms turned to completing backlogs of work in an attempt to boost output."

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

Softer rise in new business at the start of the fourth quarter, as optimism wanes to 11-month low

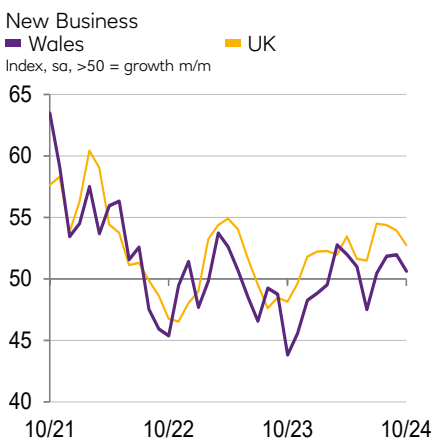
Welsh companies signalled a marginal expansion in new business inflows during October. While the sequence of growth has now extended into a fourth month, the increase was the softest since July. Panellists stated that higher sales were often attributed to improved local demand, however, there was concern regarding overseas sales.

The pace of increase was also softer than the average seen in the UK.

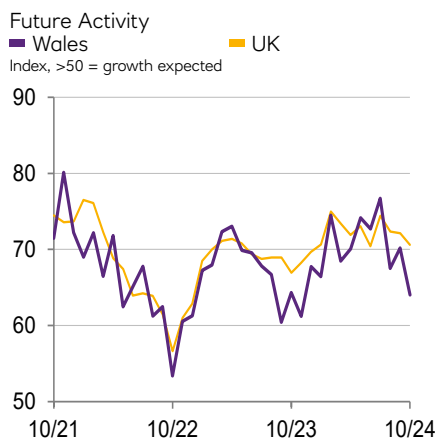
Latest data indicated further optimism among Welsh companies regarding the outlook for output over the coming year. Confidence was reportedly underpinned by hopes of new client wins, stronger demand conditions and business expansion plans.

The level of positive sentiment was the softest since last November and was among the weakest of the monitored UK areas.

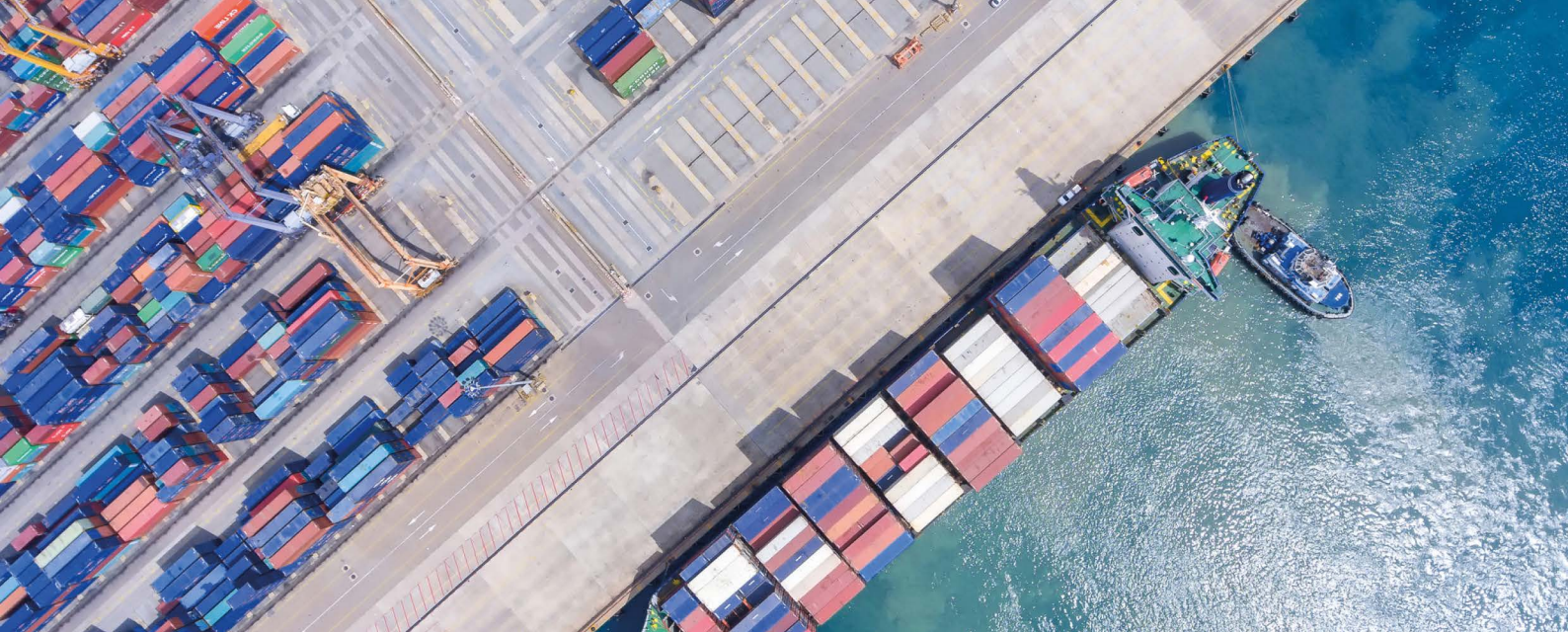
“The fall in output was solid and the most pronounced in a year, as clients mentioned that new order growth was weak”



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



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Export markets

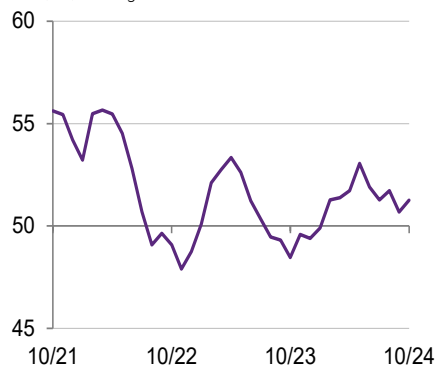
Stronger improvement in export conditions in October

The Export Climate Index posted 51.3 at the start of the final quarter, up from 50.7 in September, to signal a modest improvement in export conditions.

The upturn in the export climate was the result of solid growth in the US and a sustained expansion in Ireland.

That said, the uptick was dampened by contractions in Germany, France and the Netherlands.

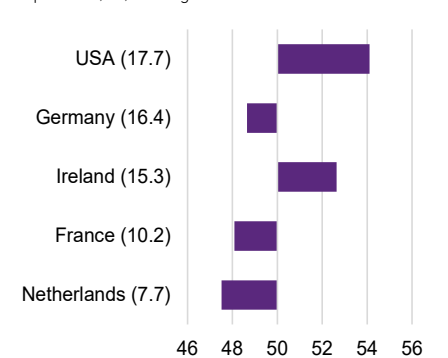
Export Conditions
Index, sa, >50 = growth m/m



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

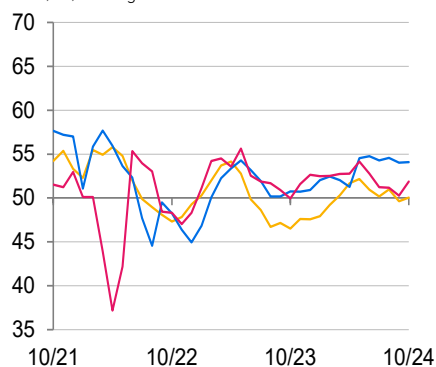
The Wales Export Climate Index (ECI) is an indicator for the economic health of the region's export markets. It is calculated by combining national PMI output data, weighted according to each nation's share of manufacturing exports of Wales. A reading above 50 signals an improvement in export conditions,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

Sharp fall in employment amid steeper decrease in backlogs of work

Welsh private sector firms registered a second successive monthly contraction in employment levels at the start of the fourth quarter. The decrease in workforce numbers was sharp and the fastest since January. Moreover, of the 12 monitored UK areas, Wales recorded the strongest rate of job shedding.

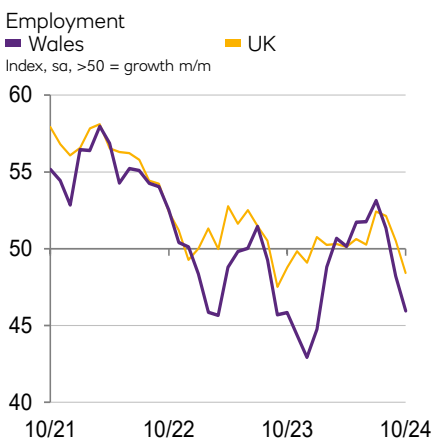
Anecdotal evidence suggested that lower staffing numbers were linked to the non-replacement of voluntary

leavers and weak sales.

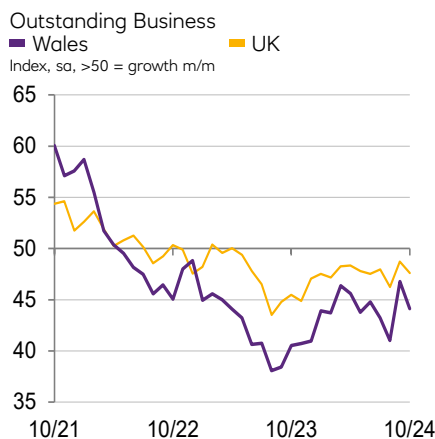
As has been the case since May 2022, backlogs of work at Welsh firms contracted in October. The fall in incomplete business was strong overall, and quickened from that seen in September. The pace of decline was also the sharpest of the monitored UK areas.

Companies attributed the latest depletion to weak client demand and lower new order inflows, which allowed them to catch up on existing orders.

“Firms also responded to subdued operating conditions by further reducing their workforces”



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



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



Inflation

Slower rise in input costs contribute to a softening of output charge inflation among Welsh businesses

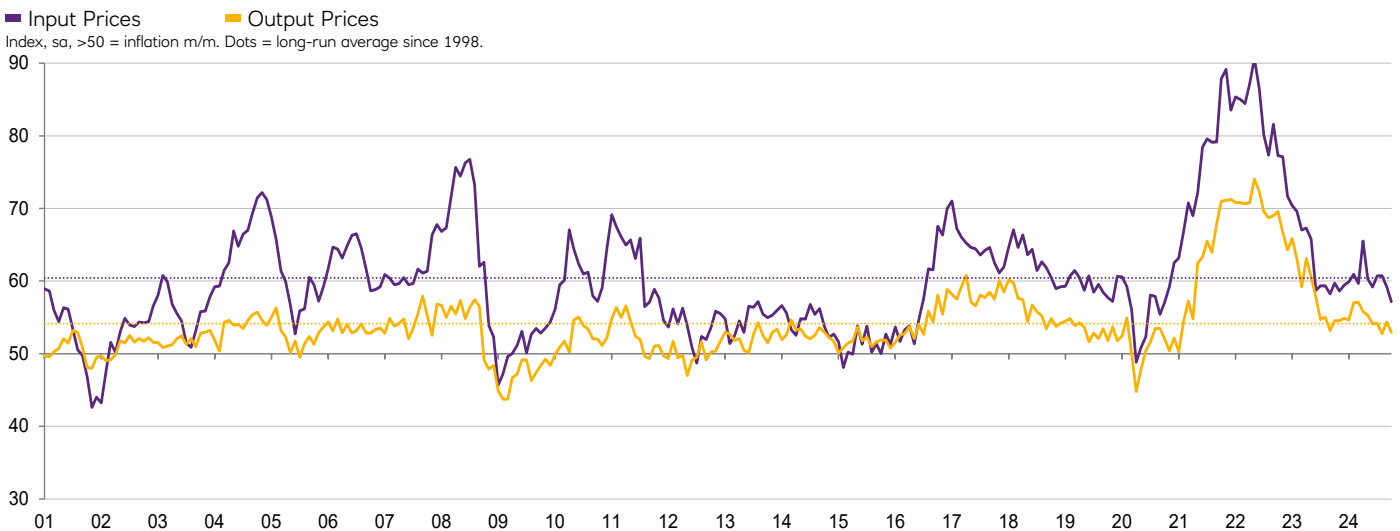
October data signalled another steep increase in cost burdens faced by Welsh private sector firms. That said, the rate of input cost inflation eased to the lowest in exactly four years. Alongside higher raw material prices, firms noted that greater transportation costs drove inflation.

The pace of inflation was weaker

than both the long-run series and UK averages.

Welsh businesses registered another monthly increase in output charges at the start of the fourth quarter. The rate of inflation eased from that seen a month prior, and was moderate overall. Moreover, the pace of increase in Wales was the second-slowest of the 12 monitored UK areas, ahead only of Northern Ireland.

“A below average uptick in cost burdens led to only moderate hikes in selling prices”



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

UK Regional Growth Tracker

Business Activity

Just over half of the 12 UK nations and regions saw a rise in business activity in October, down from 11 in September. Northern Ireland continued to see the strongest growth, while there were also solid increases in output across the North East, South West and London. Wales recorded the steepest drop in activity and was joined in contraction by Yorkshire & Humber, the South East and North West.

Employment

Most areas of the UK recorded a reduction in employment as the final quarter of the year got underway. As was the case with business activity, Wales recorded the most marked decline – its sharpest for nine months. Other notable decreases were seen in the West Midlands, East of England and South East. For the fourth month running, the strongest rate of job creation was registered in Northern Ireland.

Future Activity

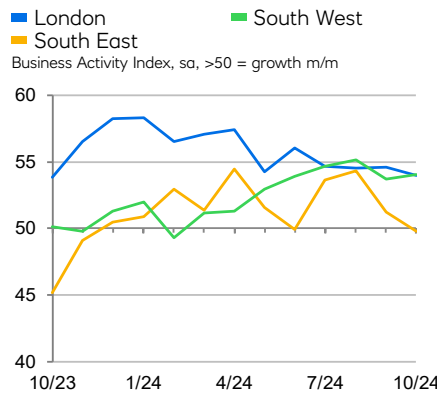
Business expectations remained positive across the board, but in just over half of cases there was a decrease in optimism from the month before. This included Northern Ireland, which saw sentiment weaken to a ten-month low and recorded the lowest degree of business confidence UK-wide. At the other end of the scale, the North West saw expectations improve notably to the highest since July.



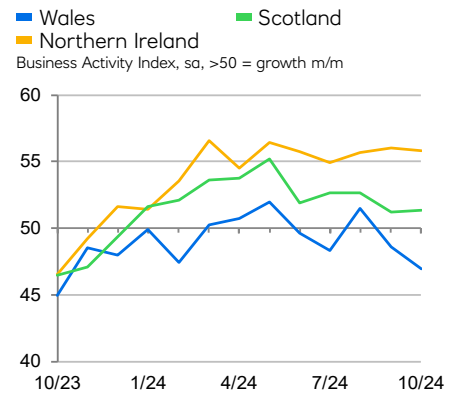
Sources: NatWest, S&P Global PMI. ©2024 S&P Global.



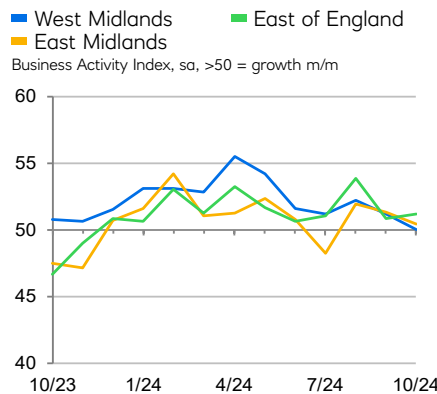
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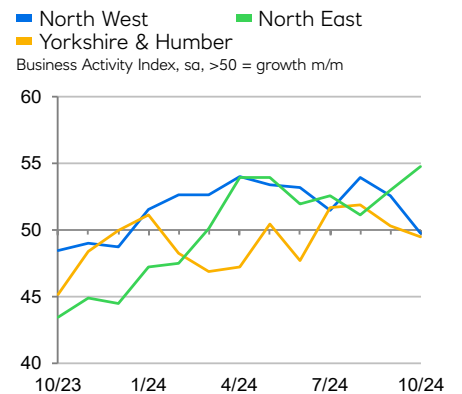
Sources: NatWest, S&P Global PMI. ©2024 S&P Global.



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



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

Growth Tracker heat map

October 2024

Darker colour = higher business growth

Wales

Business Activity Index
sa, >50 = growth m/m

47.0



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

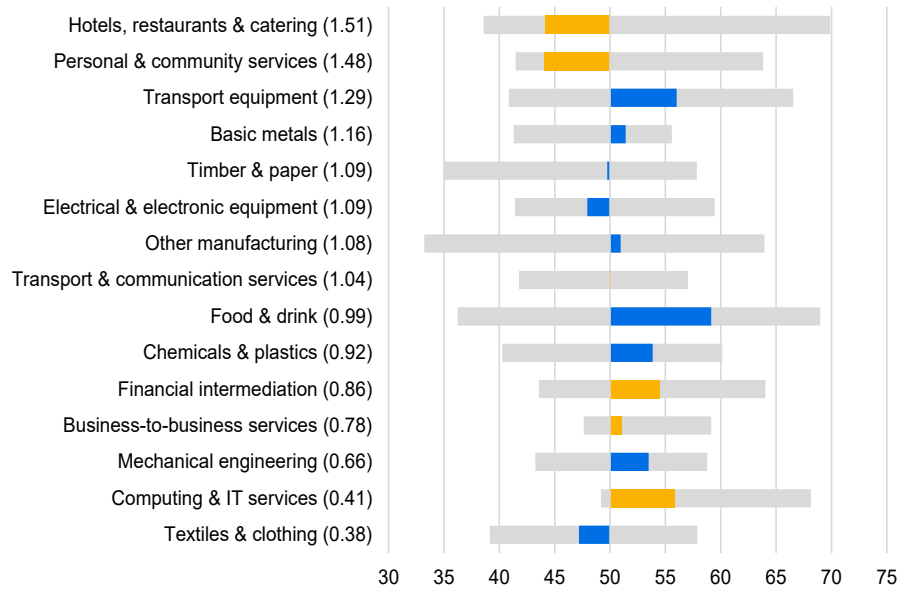
UK sectors

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 Oct '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: Basic metals

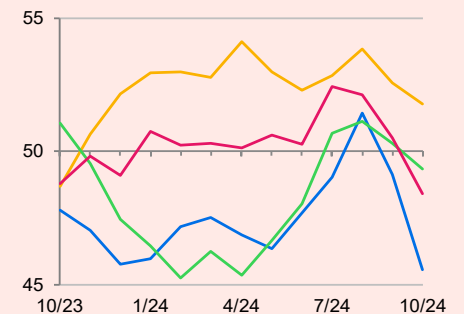
The basic metals sector acted as a notable drag on overall UK economic growth in the three months to October. It recorded the steepest drop in output since Q2 2023 and was the worst-performing sector of those monitored across manufacturing and services.

Basic metals producers reported persistent weakness in demand, with new orders having been in decline for almost two-and-a-half years. A lack of export sales was a contributing factor, underlying data showed.

Employment was also down in the three months to October, following a brief spell of job creation over the summer months. This reversal in recruitment activity coincided with a dip in optimism towards the outlook.

Turning to prices, the basic metals sector saw muted inflationary pressures, with both input costs and output prices rising at rates well below their respective historical averages. Supply-side conditions were relatively stable, as highlighted by only a fractional increase in average lead times on inputs.

Output / Employment
 ■/■ Basic metals*
 ■/■ 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

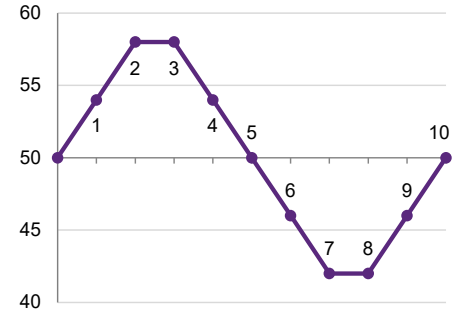
overall decrease. The indices are then seasonally adjusted.

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
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
8/24	51.5	51.9	51.7	51.3	41.0	67.5	60.7	52.8
9/24	48.6	52.0	50.7	48.2	46.8	70.2	59.2	54.4
10/24	47.0	50.6	51.3	45.9	44.1	64.0	57.2	53.0

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