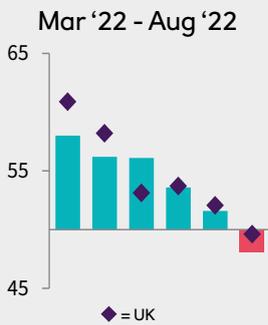




NatWest Wales PMI[®]

Business activity falls for the first time since February 2021

Wales Business Activity Index



Key findings

Output drops amid renewed contraction in new business

Inflationary pressures ease further

Business confidence lowest since March 2020

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 48.1 in August, down from 51.6 in July, to signal a renewed fall in output across the Welsh private sector. The decrease was the first in 18 months, albeit only modest overall. Companies stated that lower business activity stemmed from weak client demand and a decline in new order inflows. The rate of decrease in output was quicker than the UK average.

Kevin Morgan, NatWest Wales Regional Board, commented:

"Welsh private sector firms signalled a further loss of growth momentum in August, as output and new orders returned to contraction territory for the first time in a year-and-a-half. Weak demand conditions stemming from surging inflation and strain on customers' disposable incomes led to a solid fall in new business. In response, output expectations slumped and firms looked to cut costs as employment grew at the joint-slowest pace this year.

"Prices remained historically elevated as energy, fuel and wage costs spurred on inflation. Welsh firms saw some of the sharpest hikes in costs and selling prices across the UK, despite rates of inflation easing again."

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 East of England 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

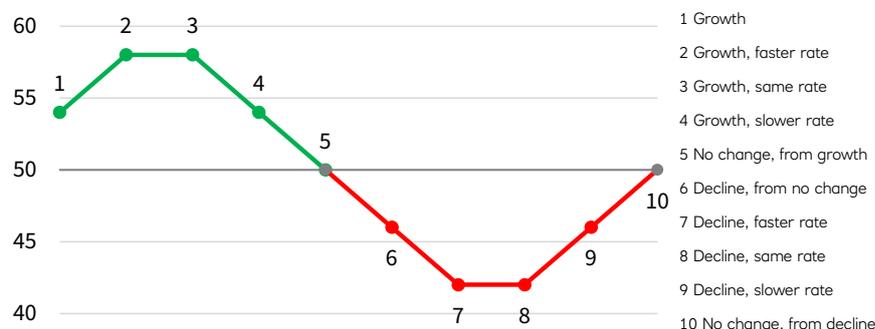
calculated from a single question that asks for changes in the volume of business activity (at service providers) or output (at manufacturers) compared with one month previously. The Wales Business Activity Index is comparable to the UK Composite Output Index. It is sometimes referred to as the 'Wales 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 contracts for first time since February 2021

New orders received by Welsh private sector firms declined for the first time in a year-and-a-half in August. The rate of contraction was solid overall and quicker than the UK average. Lower new order inflows were reportedly due to weak client demand and reduced purchasing power at customers amid hikes in selling prices.

At the sub-sector level, manufacturers and service providers registered decreases in new business.

New Business Index

sa, >50 = growth since previous month

47.5

Aug '22



New Business Index

Mar '22 - Aug '22



Business confidence falls to weakest since March 2020

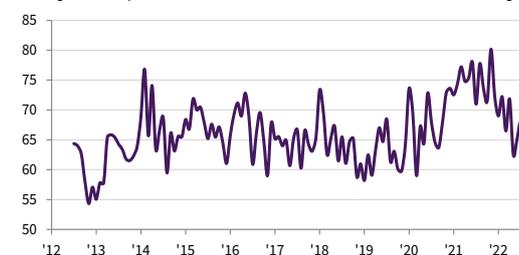
Welsh private sector firms recorded less upbeat output expectations regarding the year-ahead outlook midway through the third quarter. Although sentiment remained optimistic overall, the degree of confidence slipped to the lowest since the introduction of lockdown measures in March 2020. Despite hopes of supply chain stability, positive sentiment was weighed down by concerns of subdued client demand and surging costs.

Future Activity Index

>50 = growth expected over next 12 months

61.2

Aug '22



Future Activity Index

Mar '22 - Aug '22



Exports

Export conditions deteriorate for first time since June 2020

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 49.2 in August, down from 50.8 in July, to signal the first decline in the export climate for Welsh goods and services for over two years.

The deterioration in export conditions stemmed from contractions in activity in three of the top five export destinations. Germany and the USA both registered the quickest decline in output since May 2020.

Meanwhile, the Republic of Ireland and France recorded slower and only marginal upturns in output during August.

Export Climate Index

sa, >50 = growth since previous month

49.2

Aug '22



Export Climate Index

Mar '22 - Aug '22



Top export markets, Wales

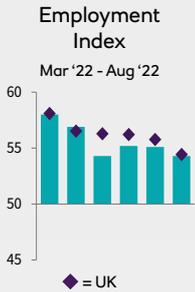
Rank	Market	Weight	Output Index, Aug '22
1	Germany	15.7%	46.9
2	France	14.5%	50.4
3	USA	13.2%	44.6
4	Ireland	8.5%	51.0
5	Netherlands	5.3%	49.4

Business capacity

Employment growth eases in August

August data signalled a further uptick in workforce numbers across the Welsh private sector. The rise in employment was attributed to efforts to expand capacity, with the rate of job creation broadly in line with the UK average. That said, the pace of job creation slowed to the joint-softest in 2022 to date, as some firms reported the non-replacement of voluntary leavers.

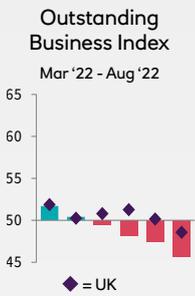
Employment Index 54.3
 sa, >50 = growth since previous month Aug '22



Backlogs of work contract at faster pace in August

Private sector firms in Wales recorded a fourth successive monthly reduction in the level of outstanding business during August. The fall in backlogs of work was strong overall and the sharpest since November 2020. The decrease was steeper than the UK average, with firms attributing the decline to lower new order inflows which allowed them to work through incomplete business.

Outstanding Business Index 45.6
 sa, >50 = growth since previous month Aug '22



Prices

Rate of cost inflation eases further

Private sector firms in Wales registered another marked monthly increase in input prices during August. The rise in cost burdens was among the sharpest on record, despite softening to the slowest since May 2021. Higher operating expenses were often attributed to hikes in energy, fuel, wage and material costs.

The rate of cost inflation seen at Welsh firms was among the steepest of the 12 monitored UK areas, slower than only Northern Ireland and the South East.

Input Prices Index

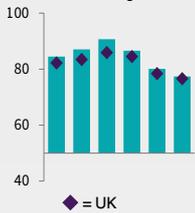
sa, >50 = inflation since previous month

77.4
Aug '22



Input Prices Index

Mar '22 - Aug '22



Output charges increase at softest pace since September 2021

Average output charges for Welsh goods and services rose at an historically elevated pace midway through the third quarter. Greater output charges were commonly linked to the pass-through of higher costs to clients. The pace of output price inflation eased for the third month running, however, and was the slowest since September 2021.

Nonetheless, the rate of increase in selling prices was the joint-fastest of the 12 monitored UK areas, alongside the North East.

Prices Charged Index

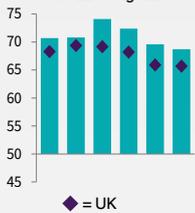
sa, >50 = inflation since previous month

68.7
Aug '22



Prices Charged Index

Mar '22 - Aug '22



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, Aug '22*
1	Electrical & Optical	1.17	55
2	Transport	1.17	48
3	Other Manufacturing	1.06	48
4	Timber & Paper	1.04	47
5	Basic Metals	0.97	48
6	Chemicals & Plastics	0.97	46
7	Food & Drink	0.96	46
8	Mechanical Engineering	0.88	50
9	Textiles & Clothing	0.44	48

Wales specialisation: Services

Rank	Sector	LQ	UK Business Activity Index, Aug '22*
1	Hotels, Restaurants & Catering	1.62	48
2	Personal & Community Services	1.27	55
3	Transport & Communication	1.07	48
4	Financial Intermediation	0.94	50
5	Business-to-business Services	0.87	48
6	Computing & IT Services	0.43	58

UK sector focus

Timber & Paper

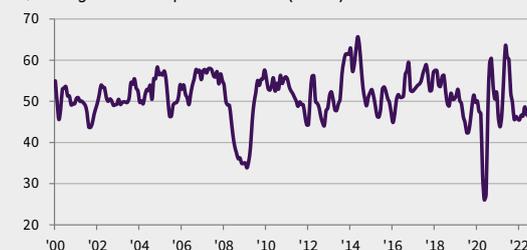
Latest UK PMI data showed a sustained downturn in activity across the Timber & Paper sector. Output levels fell sharply in the three months to August, maintaining a period of contraction stretching back a year.

Inflows of new orders decreased at an even faster rate, thereby leading to markedly reduced levels of outstanding business and a near-record build-up of finished goods. By contrast, pre-production inventories returned to contraction.

Positively, delays in the receipt of inputs were the lowest in almost two-and-a-half years. The easing of supply-chain pressures was further reflected in a moderation in the rate of input price inflation, down the lowest since the start of 2021, although it still remained elevated by historical standards. Similarly, there was a further sharp, albeit notably slower, rise in output prices across the sector.

Output Index

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



* 3-month moving average



UK Regional PMI overview

Business Activity

Just three out of the 12 monitored UK regions recorded a rise in business activity in August. Growth in London was solid but eased notably since July, whilst both the North West and Yorkshire & Humber recorded only modest rates of expansion. Activity fell elsewhere, with the steepest declines registered in the North East and East of England.

Employment

Despite signs of weakness in activity and demand, almost all regions recorded a rise in employment in August. The only exception was the North East, where workforce numbers fell for the third month running. Rates of job creation not only slowed, however, but they varied widely, with a further steep rise in workforce numbers in London contrasting with only marginal growth in the South West.

Future Activity

The majority of regions recorded a drop in business confidence towards the outlook in August. The three highest-ranked areas, Yorkshire & Humber, the South East and London, went against the broader trend and recorded improved sentiment, as did the East Midlands (ranked eighth). Expectations turned negative in the North East, while firms in Northern Ireland* grew more pessimistic.

Business Activity Index
sa, >50 = growth since previous month, Aug '22



Employment Index
sa, >50 = growth since previous month, Aug '22



Future Activity Index
>50 = growth expected over next 12 months, Aug '22



* 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
Mar '22	58.0	53.7	55.0	66.5	58.0	51.7	84.5	70.7
Apr '22	56.2	56.0	55.2	71.8	56.9	50.4	87.1	70.8
May '22	56.1	56.3	54.5	62.5	54.3	49.5	90.7	74.1
Jun '22	53.6	51.6	52.8	65.2	55.2	48.2	86.6	72.4
Jul '22	51.6	52.6	50.8	67.8	55.1	47.5	80.1	69.6
Aug '22	48.1	47.5	49.2	61.2	54.3	45.6	77.4	68.7

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