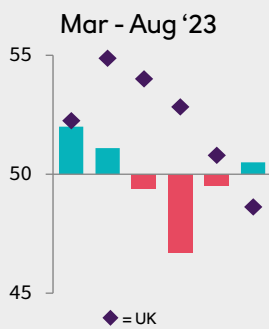




NatWest Wales PMI[®]

Output returns to expansion but demand conditions remain subdued in August

Wales Business Activity Index



Key findings

Fractional uptick in activity, despite further drop in new orders

Inflationary pressures pick up slightly

Renewed fall in employment as business confidence slips

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 50.5 in August, up from 49.5 in July, to signal a renewed rise in output at Welsh private sector firms. The increase in activity was the first since April, albeit only fractional overall. Welsh companies saw the quickest uptick in output of the 12 monitored UK areas. Nonetheless, demand conditions remained muted overall, with growth in activity linked in part to the processing of incomplete work.

Kevin Morgan, NatWest Wales Regional Board, commented:

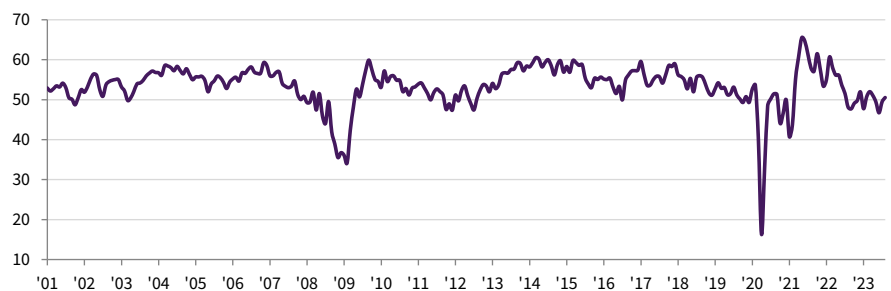
"August PMI data signalled further difficulties for Welsh firms, as demand remained in the doldrums and output was supported primarily by processing backlogs of work, which fell markedly. If new orders do not increase over the coming months, it is likely that output will once again fall into contraction as backlogs dwindle."

"Weaker expectations for the coming year were reflected in a return of retrenchment among Welsh businesses. Job shedding resumed, with employment falling at the quickest pace since April as evidence of spare capacity mounted."

"Meanwhile, inflationary pressures continued to build, albeit to a lesser degree than has been seen throughout the last three years. Hikes in costs and supplier prices were passed through to customers again, with selling prices rising at a historically elevated pace which is likely to exert further strain on purchasing power at clients."

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

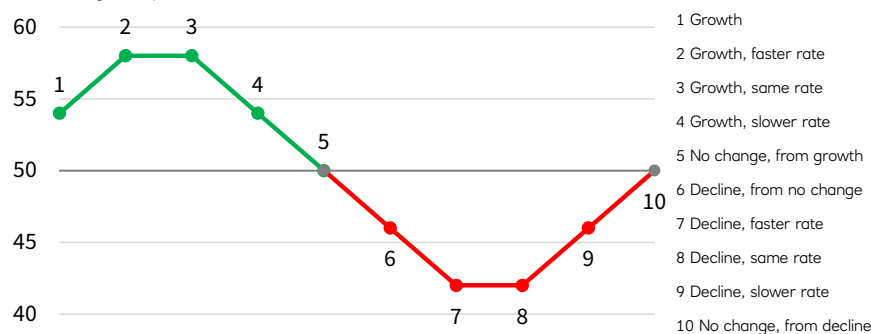
calculated from a single question that asks for changes in the volume of business activity (at service providers) or output (at manufacturers) compared with one month previously. The Wales Business Activity Index is comparable to the UK Composite Output Index. It is sometimes referred to as the 'Wales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

Contraction in new business slows in August

New orders at Welsh private sector firms decreased for the third successive month during August. The fall in new business was often linked to subdued client demand following higher interest rates and the strain of inflationary pressures on customer spending. The decline was driven by service providers, as manufacturing firms saw broadly unchanged new orders on the month.

The rate of contraction eased from July, however, and was slower than the UK average.

Business confidence slides to lowest in 2023 so far

Welsh firms remained generally optimistic in their outlook regarding future output in August. Confidence was pinned on new product launches and a diversification of service lines due to economic uncertainty. The level of positive sentiment slipped to the lowest in 2023 so far, however, and was weaker than the UK average.

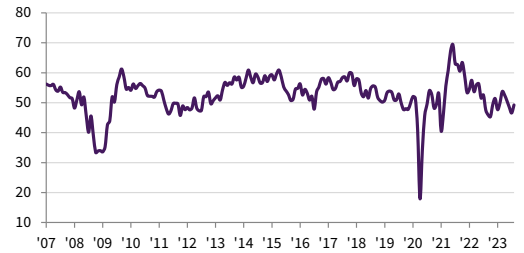
Manufacturers were far more optimistic of a rise in output over the coming year than their service sector counterparts.

New Business Index

sa, >50 = growth since previous month

49.3

Aug '23

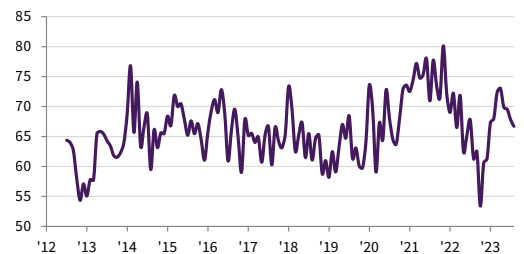


Future Activity Index

>50 = growth expected over next 12 months

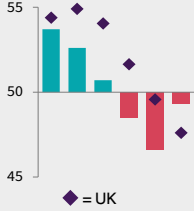
66.7

Aug '23



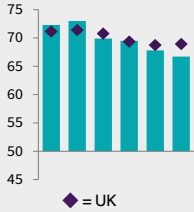
New Business Index

Mar - Aug '23



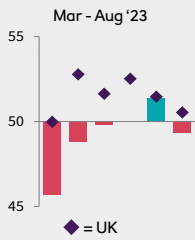
Future Activity Index

Mar - Aug '23



Business capacity

Employment Index



Employment falls in August

August data signalled a renewed drop in employment at Welsh companies, following a marginal expansion in July. The decrease in workforce numbers was only slight, but was the fastest since April and contrasted with the UK trend which indicated a fractional uptick in hiring. Firms noted that lower employment was due to the non-replacement of voluntary leavers.

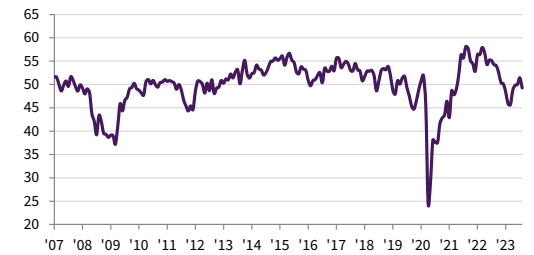
Of the 12 monitored UK areas, only the East Midlands and the North East registered quicker declines in staffing numbers.

Employment Index

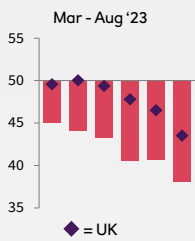
sa, >50 = growth since previous month

49.3

Aug '23



Outstanding Business Index



Sharpest fall in backlogs since May 2020

The level of outstanding business at Welsh private sector firms continued to contract in August. The rate of decrease quickened to the steepest since May 2020, and was sharper than both the long-run and UK averages. In fact, Welsh firms saw the fastest fall in incomplete business of the 12 monitored UK areas.

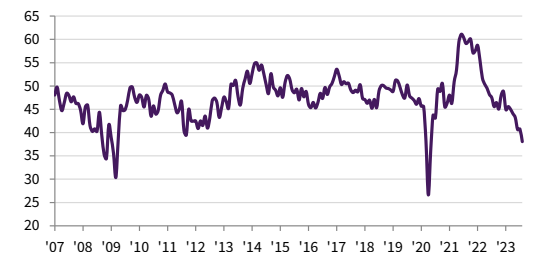
The marked drop in backlogs of work was often linked to lower new order inflows which freed capacity to process unfinished business.

Outstanding Business Index

sa, >50 = growth since previous month

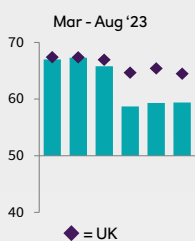
38.1

Aug '23



Prices

Input Prices Index



Fastest rise in costs for three months in August

Welsh companies registered a marked rise in input costs during August, with the rate of inflation quickening slightly from that seen in July to the fastest for three months. Higher material and supplier prices were commonly noted as driving inflation. That said, the pace of increase was well below those seen throughout the majority of the last three years and was slower than the series average.

Welsh firms also saw a softer rise in cost burdens compared to the UK as a whole, with only Northern Ireland, Yorkshire & Humber and the North West recording weaker upticks in operating expenses.

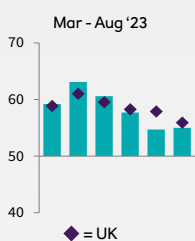
Input Prices Index

sa, >50 = inflation since previous month

59.4
Aug '23



Prices Charged Index



Second-slowest rise in selling prices since April 2021

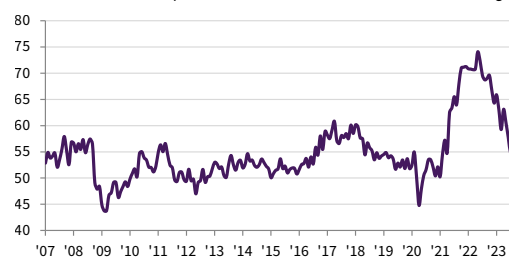
Average output charges at Welsh companies continued to increase in August, with the pace of inflation slightly quicker than that seen in July. Greater selling prices were attributed to the need to pass-through higher costs to customers. Nonetheless, the rate of inflation was the second-slowest since April 2021 and softer than the UK trend.

At the sector level, service providers recorded a further but softer uptick in charges, whereas manufacturers continued to register a decrease in output prices.

Prices Charged Index

sa, >50 = inflation since previous month

55.0
Aug '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, Aug '23 ⁺
1	Electrical & Optical	1.17	48
2	Transport	1.17	49
3	Other Manufacturing	1.06	50
4	Timber & Paper	1.04	50
5	Basic Metals	0.97	50
6	Chemicals & Plastics	0.97	50
7	Food & Drink	0.96	51
8	Mechanical Engineering	0.88	51
9	Textiles & Clothing	0.44	50

Wales specialisation: Services

Rank	Sector	LQ	UK Business Activity Index, Aug '23 ⁺
1	Hotels, Restaurants & Catering	1.62	48
2	Personal & Community Services	1.27	51
3	Transport & Communication	1.07	50
4	Financial Intermediation	0.94	53
5	Business-to-business Services	0.87	50
6	Computing & IT Services	0.43	51

UK sector focus

Electrical & Optical

There was a sharp decrease in output across the UK's Electrical & Optical sector in the three months to August. The rate of contraction was the quickest seen since the initial pandemic-related shutdowns in spring 2020 and by far the fastest among the nine manufacturing sectors monitored.

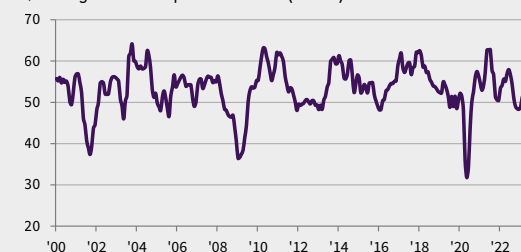
The downturn was driven by a deepening decline in new orders, with export sales falling particularly sharply. With firms reporting a rapid depletion of backlogs of work, job creation in the sector eased to the slowest for over two-and-a-half years.

On the supply side, firms faced a sustained shortening of delivery times on purchases, albeit with the rate of improvement easing. Input cost inflation meanwhile ticked up slightly, but it remained close to its recent three-year low. Output price inflation exhibited an almost identical trend.

Expectations towards future output remained subdued by historical standards despite inching up.

Output Index

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



⁺ 3-month moving average



UK Regional PMI overview

Business Activity

Of the 12 monitored regions and nations, only Wales and London recorded growth in business activity in August. Even here, however, the rates of expansion were marginal. Output was unchanged in Scotland and the West Midlands, while all remaining areas recorded contractions. The steepest decline in activity was seen in Northern Ireland*, followed by the South West.

Employment

The majority of areas recorded a rise in employment in August, although rates of job creation often slowed. Northern Ireland recorded the most marked rise in workforce numbers despite the pace of hiring there slowing to a seven-month low. The North East saw a notable drop in staffing levels, while there were more modest declines in the East Midlands, Wales and West Midlands.

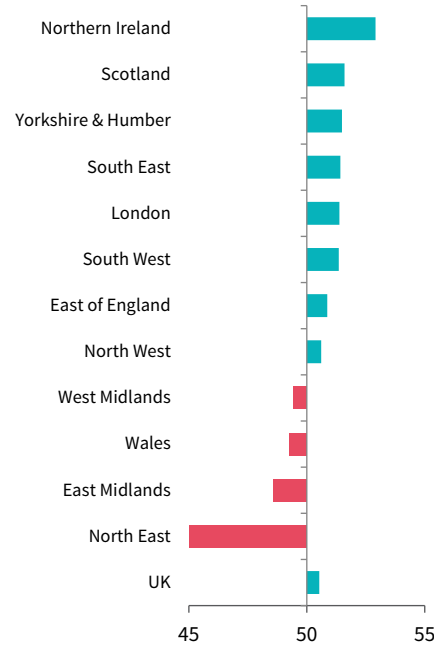
Future Activity

There were varying trends in business expectations, with confidence towards future activity rising in just under half of cases in August. The West Midlands topped the rankings for a second month running and saw sentiment improve to the joint-highest since January 2022. By contrast, the North East recorded the greatest loss of confidence as well as the lowest overall degree of optimism.

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



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



Future Activity Index
>50 = growth expected over next 12 months, Aug '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
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
Aug '23	50.5	49.3	49.6	66.7	49.3	38.1	59.4	55.0

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