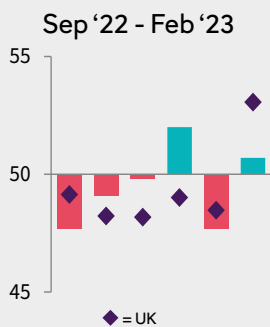


NatWest Wales PMI®

Business activity returns to growth in February

Wales Business Activity Index



Key findings

Marginal rise in output despite further fall in new business

Slower increases in input costs and output charges

Fastest fall in employment since January 2021

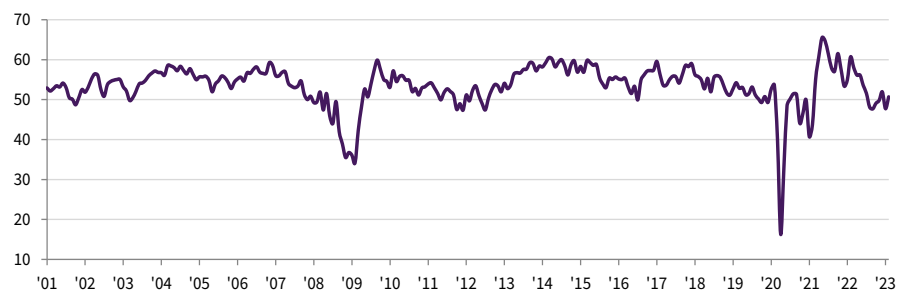
The headline NatWest Wales Business Activity Index – a seasonally adjusted index that measures the month-on-month change in the combined output of the region’s manufacturing and service sectors – registered 50.7 in February, up from 47.7 in January. Welsh firms signalled a renewed rise in output midway through the first quarter following a solid fall at the start of the year. Some companies noted there were signs of stronger demand conditions as new business fell at a softer pace. The rate of expansion was only marginal overall, however, and slower than the UK average.

Kevin Morgan, NatWest Wales Regional Board, commented:

"Welsh firms registered a return to growth in output of February, as new business fell at only a fractional pace. Some reports of improving demand conditions emerged as inflationary pressures softened again. Nonetheless, spare capacity remained across manufacturers and service providers, with companies cutting staffing numbers at the sharpest rate since the start of 2021."

"Firms were more upbeat regarding future output, however. Partially supporting greater expectations for activity was a softer rise in cost burdens. Input prices and output charges rose at historically elevated paces, but at the slowest rates since the second quarter of 2021."

Wales Business Activity Index
sa, >50 = growth since previous month



Contents

- [About the report](#)
- [Demand and outlook](#)
- [Exports](#)
- [Business capacity](#)
- [Prices](#)
- [UK Sector PMI](#)
- [UK Regional PMI](#)
- [Data summary](#)
- [Contact](#)

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

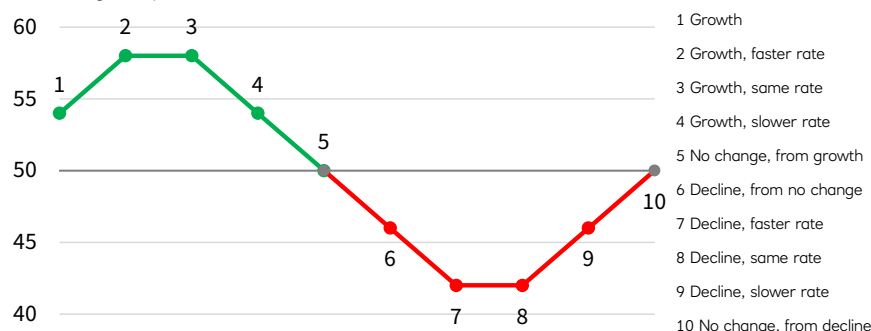
calculated from a single question that asks for changes in the volume of business activity (at service providers) or output (at manufacturers) compared with one month previously. The Wales Business Activity Index is comparable to the UK Composite Output Index. It is sometimes referred to as the 'Wales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

Decline in new business slows in February

Welsh private sector firms signalled a fractional fall in new orders during February. The rate of contraction softened from the modest decline seen in January. Although firms continued to mention subdued demand conditions, some companies noted signs of an improvement in client enquiries.

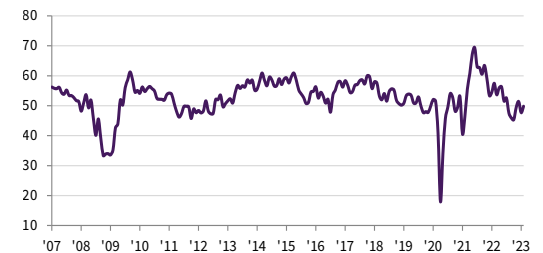
The decline in new business contrasted with a solid expansion seen across the UK as a whole.

New Business Index

sa, >50 = growth since previous month

49.8

Feb '23



New Business Index

Sep '22 - Feb '23



Business confidence strengthens to highest since April 2022

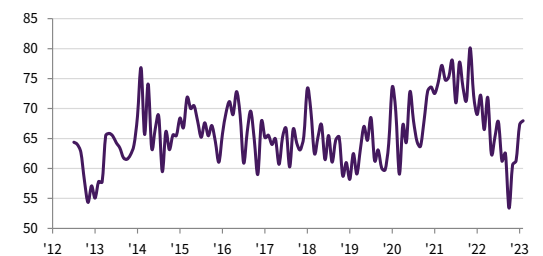
February data indicated an improvement in business confidence regarding the outlook for output over the coming year at Welsh private sector firms. The degree of optimism strengthened to the highest in almost a year, albeit slightly below the UK average. Anecdotal evidence suggested that positive sentiment stemmed from hopes of an uptick in demand conditions, investment in marketing and new product launches.

Future Activity Index

>50 = growth expected over next 12 months

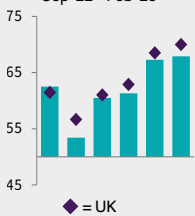
67.9

Feb '23



Future Activity Index

Sep '22 - Feb '23



Exports

Strongest improvement in export conditions since June 2022

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 52.1 in February, up from 50.0 in January, to signal a modest improvement in export conditions for Welsh private sector firms. The upturn in the export climate was the first since last July.

The improvement was supported by the fastest rise in output for nine months in Ireland. At the same time, renewed growth in activity was recorded in Germany and France. Firms across the US, meanwhile, signalled broadly unchanged levels of output.

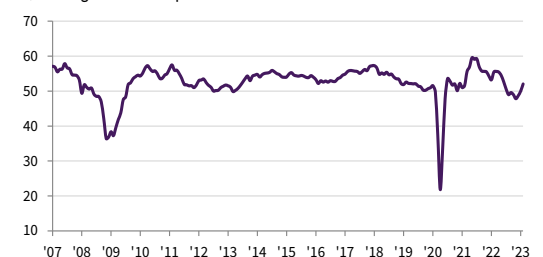
Although companies in the Netherlands continued to record an expansion, it slowed to only a fractional pace.

Export Climate Index

sa, >50 = growth since previous month

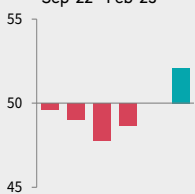
52.1

Feb '23



Export Climate Index

Sep '22 - Feb '23



Top export markets, Wales

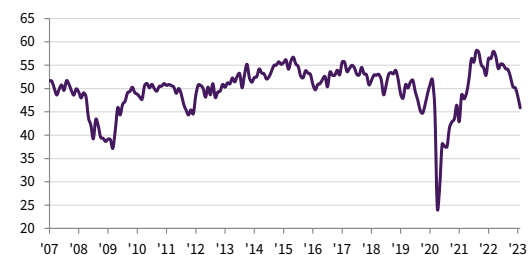
Rank	Market	Weight	Output Index, Feb '23
1	USA	19.3%	50.1
2	Ireland	17.4%	54.5
3	Germany	14.5%	50.7
4	France	8.9%	51.7
5	Netherlands	7.4%	50.4

Business capacity

Contraction in employment accelerates to fastest since January 2021

Welsh firms recorded a second successive monthly fall in employment midway through the first quarter. The rate of job shedding quickened to a solid pace that was the fastest since January 2021. Subdued demand conditions reportedly drove the latest fall in workforce numbers, as firms did not replace voluntary leavers, and some staff were let go amid cost cutting measures. Of the 12 monitored UK areas, Wales registered the sharpest decline.

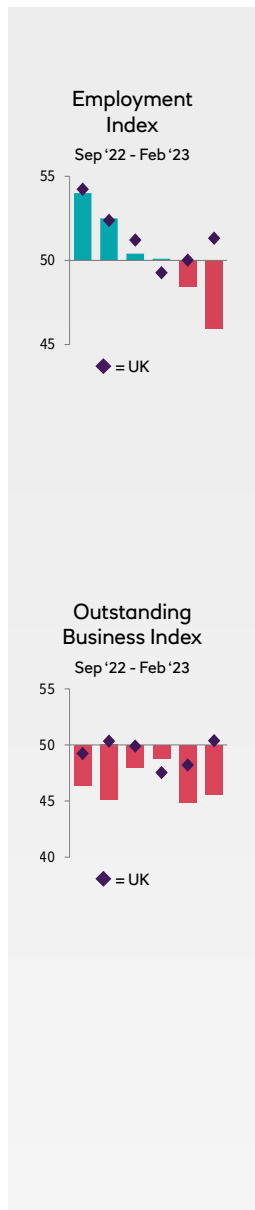
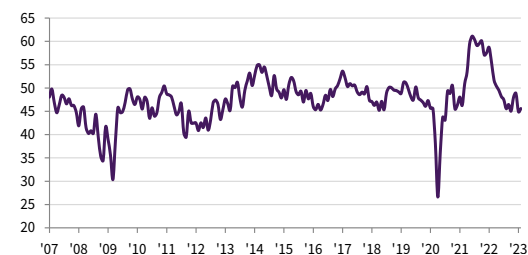
Employment Index 45.9
sa, >50 = growth since previous month Feb '23



Solid fall in backlogs of work in February

Welsh private sector firms registered a tenth consecutive monthly drop in backlogs of work during February. Lower levels of outstanding business were linked to weak client demand. Although the rate of contraction eased, it was solid overall and faster than the long-run series average. Manufacturers and service providers signalled a fall in incomplete business, with goods producers recording the sharper decrease.

Outstanding Business Index 45.6
sa, >50 = growth since previous month Feb '23

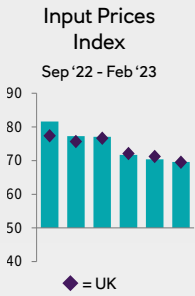


Prices

Slowest rise in cost burdens since April 2021

Welsh private sector firms signalled a further marked rise in cost burdens during February. Higher input prices were attributed to greater material, supplier and utility costs. That said, the rate of increase eased to the slowest since April 2021 and reflected the broader UK trend which also indicated a softer uptick in costs. Welsh service providers recorded a much faster rise in input prices than their manufacturing counterparts.

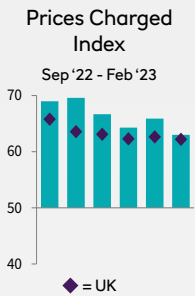
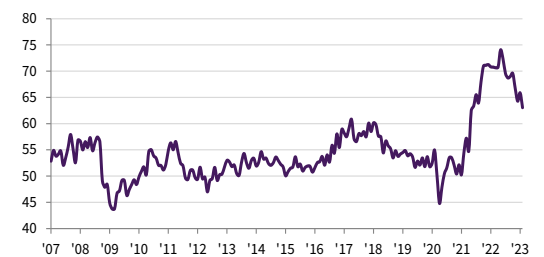
Input Prices Index 69.6
 sa, >50 = inflation since previous month Feb '23



Selling prices rise at softest rate since May 2021

February data indicated a sharp uptick in output charges across the Welsh private sector. Greater selling prices were often linked to the pass through of higher costs to customers. The rate of charge inflation was slightly quicker than the UK average, despite slowing to the weakest since May 2021.

Prices Charged Index 63.0
 sa, >50 = inflation since previous month Feb '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, Feb '23 ⁺
1	Electrical & Optical	1.17	50
2	Transport	1.17	45
3	Other Manufacturing	1.06	50
4	Timber & Paper	1.04	40
5	Basic Metals	0.97	50
6	Chemicals & Plastics	0.97	45
7	Food & Drink	0.96	50
8	Mechanical Engineering	0.88	50
9	Textiles & Clothing	0.44	45

Wales specialisation: Services

Rank	Sector	LQ	UK Business Activity Index, Feb '23 ⁺
1	Hotels, Restaurants & Catering	1.62	55
2	Personal & Community Services	1.27	50
3	Transport & Communication	1.07	45
4	Financial Intermediation	0.94	50
5	Business-to-business Services	0.87	50
6	Computing & IT Services	0.43	50

UK sector focus

Other Manufacturing

The UK's 'Other Manufacturing' sector - which comprises mainly consumer goods such as furniture, jewellery, sports items and household ceramics - saw a rise in production levels in the three months to February, following several months of declining output. Production was supported by easing supply constraints - the incidence of delivery delays having fallen sharply compared to the situation a year ago - which enabled businesses to catch up on backlogs of work.

Underlying demand continued to exhibit a weak trend, however, as underscored by a sustained decrease in new orders. That said, the rate of decline slowed in the three months to February and firms became more optimistic about the outlook.

Cost pressures in the sector meanwhile eased from the record high levels observed over the previous two years. Selling price inflation nevertheless remained historically elevated.

Output Index

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



⁺ 3-month moving average



UK Regional PMI overview

Business Activity

February saw a rise in business activity across all but one of the regions and nations monitored by the survey. The North East was the only exception, although output there did at least stabilise after a seven-month sequence of contraction. London recorded by far the strongest activity growth, registering its best performance since last July, with the South East a distant second place.

Employment

The number of areas recording an increase in employment rose from seven in January to ten in February, with the South West, East of England and Scotland each seeing renewed job creation. Northern Ireland was at the top of the rankings for workforce growth for a second straight month. Further decreases in employment were meanwhile recorded in both Wales and the North East.

Future Activity

There was an improvement in business confidence in two-thirds of areas in February. The most marked upswings in sentiment were in Northern Ireland and Scotland, although these two remained towards the bottom end of the scale for overall levels of optimism. Expectations were highest in the West Midlands, as was the case in January, and lowest in the North East, which saw confidence wane slightly.

Business Activity Index

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



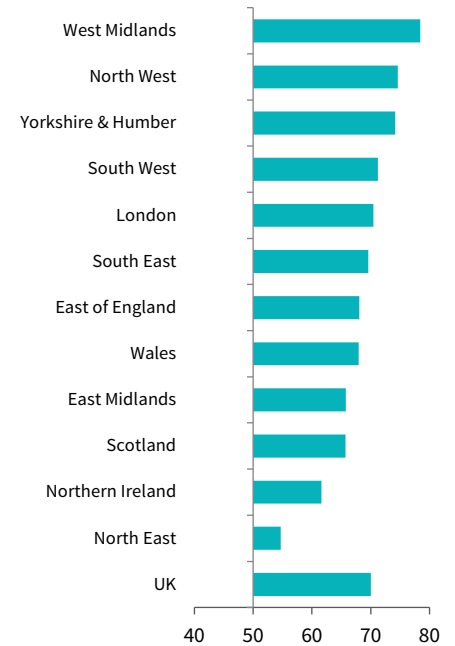
Employment Index

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



Future Activity Index

>50 = growth expected over next 12 months, Feb '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
Sep '22	47.7	45.9	49.6	62.5	54.0	46.4	81.6	69.0
Oct '22	49.1	45.4	49.0	53.4	52.5	45.1	77.3	69.6
Nov '22	49.8	49.5	47.8	60.5	50.4	48.0	77.1	66.7
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

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