

NatWest Wales PMI[®]

Further sharp rise in new business despite series-record hikes in prices

Wales Business Activity Index



Key findings

Steep increases in output and new business

Record rises in input prices and output charges

Business confidence drops to 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 56.1 in May, broadly in line with April’s reading of 56.2. The upturn in business activity was sharp overall despite being the slowest for four months. Private sector firms in Wales stated that higher output was linked to greater client demand and a faster rise in new orders. The increase in activity was the second-steepest of the 12 monitored UK areas, slower than only London.

Gemma Casey, NatWest Ecosystem Manager for Wales, commented:

“Welsh businesses continued to signal sharp upturns in output and new business in May, in contrast to a loss of growth momentum across the UK as a whole. Client demand strengthened despite marked increases in selling prices and reports of supply-chain disruption.

“On the price front, input costs rose at the steepest pace on record as energy, fuel and material expenses soared. Notably, the rate of cost inflation was the sharpest of the 12 monitored UK areas. In response, firms passed costs on to their clients through the fastest increase in output charges in the series history. Inflationary pressures weighed on business confidence, as optimism at Welsh private sector firms dropped to the lowest since the onset of the COVID-19 pandemic in March 2020.”

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

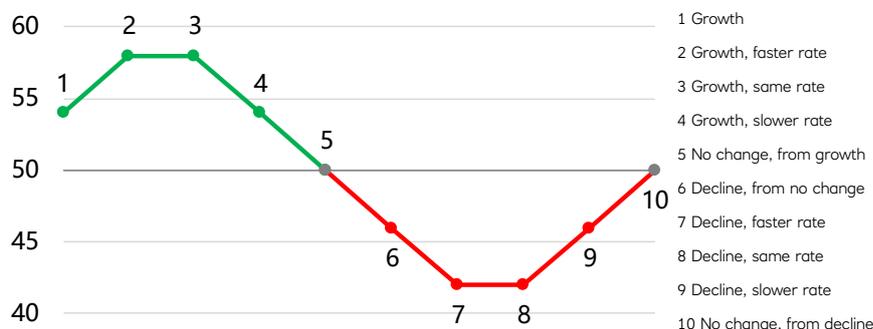
calculated from a single question that asks for changes in the volume of business activity (at service providers) or output (at manufacturers) compared with one month previously. The Wales Business Activity Index is comparable to the UK Composite Output Index. It is sometimes referred to as the 'Wales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

Steep rise in new orders during May

Welsh private sector firms registered a sharp increase in new business midway through the second quarter. The rate of growth quickened to the fastest for three months and was the second-steepest of the 12 monitored UK areas, behind only London. Companies stated that greater new order inflows stemmed from stronger client demand.

At the sub-sector level, the upturn was supported by a stronger increase in new manufacturing sales.

Business confidence drops to lowest in over two years in May

May data signalled further upbeat expectations regarding the outlook for output over the coming year among Welsh private sector firms. That said, the degree of optimism slipped to the lowest since the initial stages of the pandemic in March 2020. Positive sentiment was dampened by concerns regarding the impact of inflation on domestic and foreign client demand.

The level of confidence was lower than the UK average and among the weakest of the 12 monitored UK areas.

Exports

Export conditions improve at softest pace since January

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 54.5 in May, down slightly from 55.2 in April. The latest data signalled a solid upturn in the export climate, albeit the slowest since January.

Contributing to the improvement in export conditions for Welsh private sector firms were further sharp expansions in activity in France and Ireland. Rates of output growth eased, however, as was also the case in Germany, the US and the Netherlands. The pace of increase in activity in the latter was the slowest since November 2020.

New Business Index
sa, >50 = growth since previous month
56.3
May '22



Future Activity Index
>50 = growth expected over next 12 months
62.5
May '22



Export Climate Index
sa, >50 = growth since previous month
54.5
May '22



Top export markets, Wales

Rank	Market	Weight	Output Index, May '22
1	Germany	15.7%	53.7
2	France	14.5%	57.0
3	USA	13.2%	53.6
4	Ireland	8.5%	57.5
5	Netherlands	5.3%	53.1

New Business Index
Dec '21 - May '22



Future Activity Index
Dec '21 - May '22



Export Climate Index
Dec '21 - May '22



Business capacity

Employment Index



Rate of job creation slows to five-month low

Welsh private sector firms recorded a solid expansion in employment during May, albeit the slowest in 2022 to date. Companies stated that higher staffing numbers were linked to a further uptick in client demand and new business.

The pace of job creation was among the slowest of the 12 monitored UK areas, however, faster than only Northern Ireland and the North East.

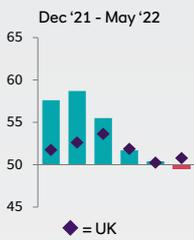
Employment Index

sa, >50 = growth since previous month

54.3
May '22



Outstanding Business Index



First decline in backlogs of work since February 2021

The level of outstanding business at Welsh private sector businesses fell for the first time since early-2021 in May. Backlogs of work decreased only marginally, but continued the trend of easing pressure on capacity seen since January.

Wales, the East of England and the North East were the only monitored UK areas to record a decline in unfinished business in May.

Outstanding Business Index

sa, >50 = growth since previous month

49.5
May '22



Prices

Cost burdens rise at new series record pace in May

May data indicated a further substantial increase in input prices across the Welsh private sector. Cost burdens rose markedly amid higher fuel, energy, material and wage expenses. The rate of cost inflation was the steepest in the series history, and the fastest of the 12 monitored UK areas.

Welsh manufacturing firms recorded a steeper rise in input prices compared to their service sector counterparts.

Input Prices Index 90.7
sa, >50 = inflation since previous month May '22



Sharpest rise in output charges on record

Average output charges rose markedly in May, as the rate of inflation accelerated to reach a new series high. The hike in selling prices was widely attributed to the pass-through of higher costs to clients. In line with the trend for input prices, the rate of charge inflation was among the fastest of the 12 monitored UK areas, slower than only Northern Ireland.

The uptick in output charges was driven by the Welsh manufacturing sector.

Prices Charged Index 74.1
sa, >50 = inflation since previous month May '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, May '22 ⁺
1	Electrical & Optical	1.17	58
2	Transport	1.17	55
3	Other Manufacturing	1.06	55
4	Timber & Paper	1.04	48
5	Basic Metals	0.97	58
6	Chemicals & Plastics	0.97	52
7	Food & Drink	0.96	48
8	Mechanical Engineering	0.88	55
9	Textiles & Clothing	0.44	48

Wales specialisation: Services

Rank	Sector	LQ	UK Business Activity Index, May '22 ⁺
1	Hotels, Restaurants & Catering	1.62	62
2	Personal & Community Services	1.27	62
3	Transport & Communication	1.07	50
4	Financial Intermediation	0.94	55
5	Business-to-business Services	0.87	55
6	Computing & IT Services	0.43	58

UK sector focus

Transport & Communication

The UK's Transport & Communication sector saw only a modest rise in business activity in the three months to May. Although the rate of growth was the fastest seen since the three months to January, it was the slowest among the six services-related sectors monitored by the survey.

Businesses in the Transport & Communication sector faced subdued demand conditions, with latest data showing a slight decline in inflows of new work, in line with the trend seen throughout most of 2022 so far. A marginal drop in employment in the three months to May contrasted with jobs growth elsewhere across the service sector and partly reflected comparatively low business confidence.

Cost pressures meanwhile remained elevated, with the rate of input price inflation staying close to its recent peak. Businesses looked to offset some of the burden via an unprecedented rise in output prices.

Output Index

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



⁺ 3-month moving average



UK Regional PMI overview

Business Activity

Latest data showed a general slowdown in growth across the UK regions in May, with nine out of the 12 monitored areas recording a weaker rise in business activity. London once again topped the rankings in terms of business activity growth, ahead of Wales and Scotland. Elsewhere, output declined in the West Midlands, Northern Ireland* and the North East.

Employment

London led a broad-based rise in employment in May. The rate of job creation in the capital even ticked up slightly, as was the case in four other areas (namely the South East, West Midlands, Scotland and Northern Ireland). The North East remained at the bottom of the rankings, although it did see a fractional increase in workforce numbers, following a decline in April.

Future Activity

Firms in Yorkshire & Humber recorded the strongest optimism towards future activity. Here, business confidence recovered somewhat since April, as was also the case for the North West, which ranked second overall. Seven of the 12 monitored areas saw a decline in expectations, however, including Northern Ireland where sentiment turned negative for the first time since October 2020.

Business Activity Index

sa, >50 = growth since previous month, May '22



Employment Index

sa, >50 = growth since previous month, May '22



Future Activity Index

>50 = growth expected over next 12 months, May '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
Dec '21	53.4	53.4	54.4	72.3	52.8	57.6	83.5	71.3
Jan '22	55.0	54.5	53.1	69.0	56.4	58.7	85.4	70.8
Feb '22	60.7	57.5	55.2	72.2	56.4	55.5	85.0	70.8
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

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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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About PMI

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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