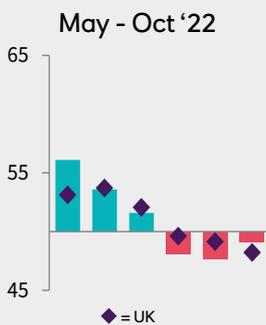




NatWest Wales PMI[®]

Business activity contracts further as demand conditions weaken

Wales Business Activity Index



Key findings

Output and new orders fall again in October

Employment rises at slowest pace since May 2021

Business confidence slumps to series low

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 49.1 at the start of the fourth quarter, up from 47.7 in September. The rate of decline was marginal overall, with firms linking the decrease to weak client demand and economic uncertainty. The pace of contraction eased from September, with firms attributing this to the arrival of delayed inputs and the processing of backlogs of work. Welsh firms recorded a slower fall in output than the UK as a whole.

Kevin Morgan, NatWest Wales Regional Board, commented:

"Welsh firms indicated a further challenging month in October, with demand conditions weakening and confidence slumping going into the final stages of 2022. Hesitancy and postponements among customers weighed heavily across the private sector, with output contracting at a slower pace due to the clearance of backlogs of work rather than any pick up in demand. Firms also scaled back the rate of job creation for the fourth month running, as employment rose at the slowest pace since May 2021.

"Meanwhile, pressure on margins and weak demand led firms to push up their selling prices despite a softer uptick in input costs. Inflationary pressures in Wales remain marked and well above the historic trend."

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 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

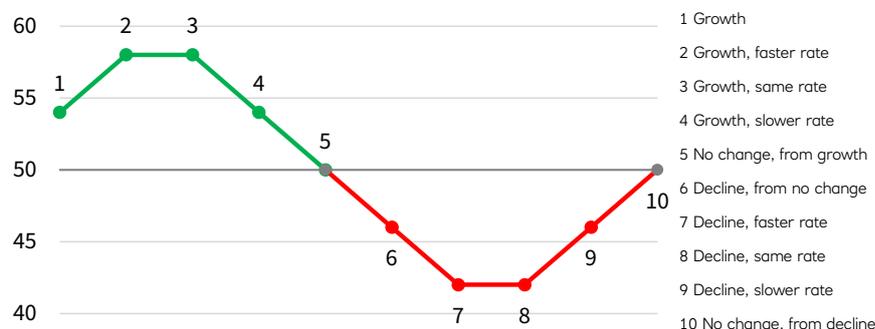
calculated from a single question that asks for changes in the volume of business activity (at service providers) or output (at manufacturers) compared with one month previously. The Wales Business Activity Index is comparable to the UK Composite Output Index. It is sometimes referred to as the 'Wales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

Contraction in new business gathers pace in October

Welsh private sector firms registered a third successive monthly decline in new orders during October. The rate of contraction quickened to a strong pace that was the fastest since January 2021. The decrease in new business was sharper than the UK average. Anecdotal evidence suggested the fall in new orders was due to economic uncertainty and hesitancy or postponements among clients.

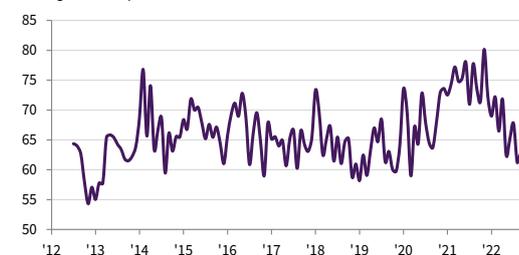
New Business Index
sa, >50 = growth since previous month
45.4
Oct '22



Business confidence falls to series low

October data signalled a decrease in the level of optimism among Welsh private sector firms. Although still confident of a rise in output over the coming year, the degree of positive sentiment dropped notably from September and was the lowest since data collection for the series began in July 2012. Firms stated that optimism stemmed from new product launches and hopes of price stability. That said, concerns regarding wider economic conditions in the UK and globally, alongside moves away from non-essential spending among customers, weighed on confidence.

Future Activity Index
>50 = growth expected over next 12 months
53.4
Oct '22



Exports

Weakest export conditions 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 48.9 in October, down from 49.5 in September, signalling a marginal deterioration in the export climate for Welsh goods producers and service providers. The decline in export conditions was the quickest since June 2020, however.

Driving the downturn were faster contractions in activity in key export markets including Germany, the US and the Netherlands.

Meanwhile, France and Ireland remained in expansionary territory. That said, rates of growth slowed in both, with France recording only a fractional upturn in output.

Export Climate Index
sa, >50 = growth since previous month
48.9
Oct '22



Top export markets, Wales

Rank	Market	Weight	Output Index, Oct '22
1	Germany	15.7%	45.1
2	France	14.5%	50.2
3	USA	13.2%	48.2
4	Ireland	8.5%	52.1
5	Netherlands	5.3%	45.6



Business capacity

Employment growth slows to weakest since May 2021

Workforce numbers across the Welsh private sector continued to increase in October. Although some firms noted that greater employment was linked to expansion in capacity, the rate of job creation slowed to the softest since May 2021. Hiring activity eased due to weak client demand, according to some survey panellists. The trend in Wales reflected that seen across the UK as a whole which also saw a modest, but slower, increase in staffing numbers.

Employment Index 52.5
sa, >50 = growth since previous month Oct '22



Backlogs of work fall at sharpest rate since July 2020

Welsh private sector firms recorded a further decrease in the level of outstanding business at the start of the fourth quarter. The rate of contraction quickened to a strong pace that was the steepest since July 2020. Panellists mentioned that lower new orders allowed them to work through any backlogs of work. With the exception of Northern Ireland, Welsh companies registered the sharpest fall in incomplete business of the 12 monitored UK areas.

Outstanding Business Index 45.1
sa, >50 = growth since previous month Oct '22



Prices

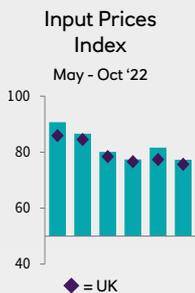
Input costs rise at softer pace in October

Operating expenses faced by Welsh private sector firms increased at a marked pace in October, but the rate of inflation lost momentum. Higher cost burdens were often attributed to greater utility, material, wage and fuel prices. Some companies mentioned that currency weakness had exacerbated price hikes for imported goods.

Welsh firms registered the third-fastest rise in input costs of the 12 monitored UK areas, with only Northern Ireland and the East Midlands registering quicker increases.

Input Prices Index **77.3**
Oct '22

sa, >50 = inflation since previous month



Output prices rise at faster pace in October

Average selling prices at Welsh private sector firms rose at a substantial and faster pace at the start of the fourth quarter. Many firms stated that hikes in output charges were due to greater cost burdens and the need to pass-through higher prices to customers. Although one of the slowest in just over a year, the rate of charge inflation was the fastest across all 12 monitored UK areas.

Prices Charged Index **69.6**
Oct '22

sa, >50 = inflation since previous month



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, Oct '22*
1	Electrical & Optical	1.17	50
2	Transport	1.17	45
3	Other Manufacturing	1.06	50
4	Timber & Paper	1.04	45
5	Basic Metals	0.97	45
6	Chemicals & Plastics	0.97	45
7	Food & Drink	0.96	48
8	Mechanical Engineering	0.88	50
9	Textiles & Clothing	0.44	45

Wales specialisation: Services

Rank	Sector	LQ	UK Business Activity Index, Oct '22*
1	Hotels, Restaurants & Catering	1.62	45
2	Personal & Community Services	1.27	48
3	Transport & Communication	1.07	48
4	Financial Intermediation	0.94	50
5	Business-to-business Services	0.87	50
6	Computing & IT Services	0.43	55

UK sector focus

Transport

UK Transport manufacturers reported a steep and accelerated reduction in output levels in the three months to October, latest PMI data showed. The sector's performance was its worst since the initial COVID-related shutdowns in early-2020.

Alongside a softening of demand, which was evidenced by a fall in inflows of new orders, the reduction in production reflected shortages of materials and parts. Surveyed firms continued to report longer lead times on inputs, albeit with the incidence of delays having shown some improvement from the record levels a year earlier.

Cost pressures remained historically high, and even intensified slightly in the three months to October.

Despite these challenges, producers of Transport goods were more upbeat about the outlook for output than those in any other manufacturing sector. As such, they continued to add to workforce numbers.

Output Index

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



* 3-month moving average



UK Regional PMI overview

Business Activity

October saw a fall in business activity across all 12 monitored regions, the first time this has been the case since the third national lockdown in January 2021. The South West posted the steepest decline, followed by Northern Ireland* and the North East respectively. London's fall in activity was only marginal, but nonetheless its first for over a year-and-a-half.

Employment

Employment continued to rise across almost every region during October, the only exception being the North East where workforce numbers fell for a fifth straight month. However, in most cases, rates of job creation slowed. This included the South East - the region at the top of the rankings for employment growth.

Future Activity

Business expectations, although often still positive, weakened in most cases in October. Firms in Northern Ireland and the North East even noted increased pessimism towards the outlook. Business confidence in the South West was unchanged from September's record low, while Scotland went against the broader trend and registered the strongest optimism for three months.

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



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



Future Activity Index
>50 = growth expected over next 12 months, Oct '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
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
Sep '22	47.7	45.9	49.5	62.5	54.0	46.4	81.6	69.0
Oct '22	49.1	45.4	48.9	53.4	52.5	45.1	77.3	69.6

Contact

Noel Davies
Regional Campaign Manager
Natwest
+44 (0) 7970 332 895
noel.davies@natwest.com

Siân Jones
Senior Economist
S&P Global Market Intelligence
T: +44-1491-461-017
sian.jones@spglobal.com

Sabrina Mayeen
Corporate Communications
S&P Global Market Intelligence
T: +44 (0)-7967-447030
sabrina.mayeen@spglobal.com

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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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