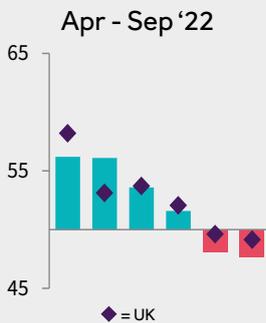




NatWest Wales PMI[®]

Fastest fall in business activity since February 2021 amid weak client demand

Wales Business Activity Index



Key findings

Inflationary pressures weigh on customer spending as output drops

Rate of cost inflation reaches three-month high

Employment growth slowest since December 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 47.7 in September, down from 48.1 in August to signal a modest contraction in output across the Welsh private sector. The pace of decline was quicker than the UK average and the fastest seen in Wales since February 2021. Lower business activity was often linked to supply chain issues and weak client demand. The drop in output was broad based, with manufacturers recording a slightly sharper downturn.

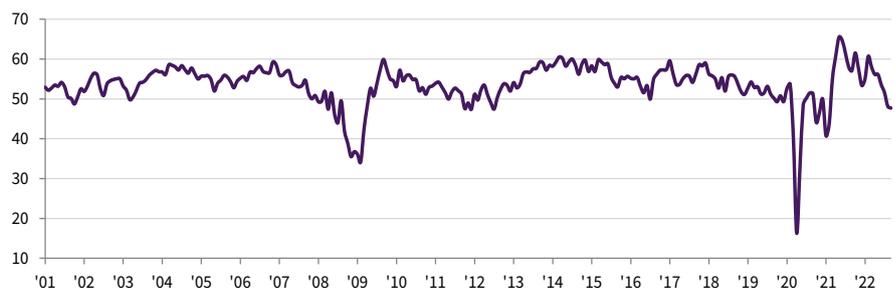
Gemma Casey, NatWest Ecosystem Manager for Wales, commented:

"September data signalled ongoing challenges for Welsh manufacturers and service providers, as client demand weakened further and output fell. Strain on customer purchasing power worsened amid hikes in inflation and energy costs, with new orders falling at the fastest pace since the start of 2021. As a result, backlogs of work decreased solidly and employment growth slowed for the third month running.

"Meanwhile, cost pressures mounted further. Input prices rose at the quickest rate since June as a weak pound heightened imported inflationary pressures. Despite a faster fall in new orders, Welsh firms hiked their selling prices markedly again, and at the sharpest pace of the 12 monitored UK areas."

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

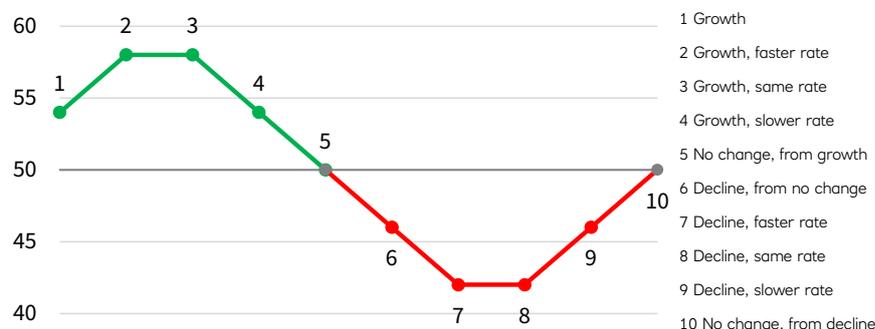
calculated from a single question that asks for changes in the volume of business activity (at service providers) or output (at manufacturers) compared with one month previously. The Wales Business Activity Index is comparable to the UK Composite Output Index. It is sometimes referred to as the 'Wales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

Fastest fall in new business since January 2021

New business across the Welsh private sector continued to decline during September. The rate of contraction quickened to a strong rate that was the sharpest since the start of 2021. The fall was also faster than the UK average. Anecdotal evidence suggested that lower new order inflows stemmed from weak client demand and a reduction in new enquiries.

At the sector level, service providers registered a sharper fall than their manufacturing counterparts.

Output expectations remain subdued

September data signalled further muted expectations regarding the outlook for output over the coming 12 months at Welsh private sector firms. Although the degree of confidence picked up from August's recent low, it was among the weakest since March 2020. Planned investment in new product and services, alongside hopes of stability in supply chains supported optimism. That said, ongoing concerns regarding inflation and economic conditions weighed on sentiment.

Exports

Further decline in export conditions in September

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 49.5 in September, up from 49.2 in August, to signal another monthly deterioration in export conditions for Welsh private sector firms.

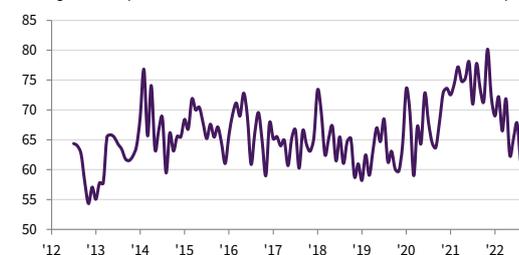
Weighing on the export climate were contractions in Germany, the USA and the Netherlands. Declines in output in Germany and the Netherlands were the fastest since the initial pandemic wave.

The decline moderated, however, amid quicker expansions in activity in France and the Republic of Ireland.

New Business Index
sa, >50 = growth since previous month
45.9
Sep '22



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



Export Climate Index
sa, >50 = growth since previous month
49.5
Sep '22



Top export markets, Wales

Rank	Market	Weight	Output Index, Sep '22
1	Germany	15.7%	45.7
2	France	14.5%	51.2
3	USA	13.2%	49.5
4	Ireland	8.5%	52.2
5	Netherlands	5.3%	46.4

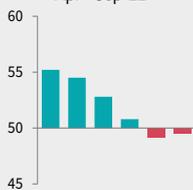
New Business Index
Apr - Sep '22



Future Activity Index
Apr - Sep '22



Export Climate Index
Apr - Sep '22

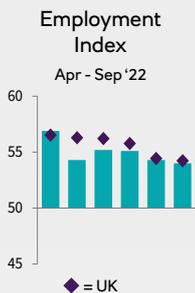


Business capacity

Slowest rise in employment since December 2021

Welsh private sector firms recorded a further upturn in employment at the end of the third quarter. The rise in workforce numbers was linked to the filling of long-held vacancies. The rate of job creation eased to a solid pace that was the slowest in 2022 to-date. The pace of increase was broadly in line with the UK average.

Employment Index 54.0
sa, >50 = growth since previous month Sep '22



Outstanding business falls again in September

The level of work-in-hand decreased further during September, thereby extending the current sequence of decline to five months. The drop in outstanding business was attributed to lower incoming new work. The rate of contraction slowed but was the second-fastest since February 2021.

Outstanding Business Index 46.4
sa, >50 = growth since previous month Sep '22



Manufacturers recorded a faster fall in backlogs of work than service providers.



Prices

Cost burdens rise at fastest pace for three months

Average cost burdens faced by Welsh private sector companies increased further in September. The rate of cost inflation quickened to the fastest for three months and was marked overall. Higher input costs stemmed from greater energy, material and fuel prices, with a weak pound compounding price hikes.

The rate of increase at Welsh firms was the sharpest of the 12 monitored UK areas.

Input Prices Index

sa, >50 = inflation since previous month

81.6

Sep '22



Input Prices Index

Apr - Sep '22



◆ = UK

Marked rise in output charges in September

Output charges at Welsh private sector firms increased at a marked pace again in September. The rate of inflation was broadly in line with that seen in August but was the fastest of the 12 monitored UK areas. Higher output charges were linked to the pass-through of greater cost burdens to customers. The pace of increase was softer than earlier in the year, however, as firms noted increased competition and reduced purchasing power at clients.

Prices Charged Index

sa, >50 = inflation since previous month

69.0

Sep '22



Prices Charged Index

Apr - Sep '22



◆ = UK



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, Sep '22*
1	Electrical & Optical	1.17	52
2	Transport	1.17	48
3	Other Manufacturing	1.06	50
4	Timber & Paper	1.04	46
5	Basic Metals	0.97	47
6	Chemicals & Plastics	0.97	45
7	Food & Drink	0.96	46
8	Mechanical Engineering	0.88	49
9	Textiles & Clothing	0.44	47

Wales specialisation: Services

Rank	Sector	LQ	UK Business Activity Index, Sep '22*
1	Hotels, Restaurants & Catering	1.62	48
2	Personal & Community Services	1.27	50
3	Transport & Communication	1.07	48
4	Financial Intermediation	0.94	52
5	Business-to-business Services	0.87	49
6	Computing & IT Services	0.43	55

UK sector focus

Business-to-Business Services

The UK's large Business-to-Business Services sector suffered a downturn in activity in the three months to September, latest PMI data showed. Output levels fell, albeit only slightly, for the first time since the third national lockdown at the start of 2021.

High inflation and waning confidence among customers acted as headwinds to growth, according to surveyed businesses. With rising interest rates forecast to further dampen demand, firms' expectations towards future activity fell to the lowest for almost two-and-a-half years.

Employment continued to rise across the sector. However, whilst still solid by historical standards, the pace of job creation slowed to the weakest since early-2021.

On the price front, rates of both input cost and output charge inflation remained elevated but maintained a steady decline from their recent record highs in Q2.

Output Index

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



* 3-month moving average



UK Regional PMI overview

Business Activity

Nine of the 12 monitored regions recorded lower levels of business activity in September. The fastest rates of contraction were seen in Northern Ireland* and the South West. London was the best-performing region, despite seeing growth slow to a 20-month low, ahead of Yorkshire & Humber. Business activity in the South East was unchanged on the month, after having fallen slightly in August.

Employment

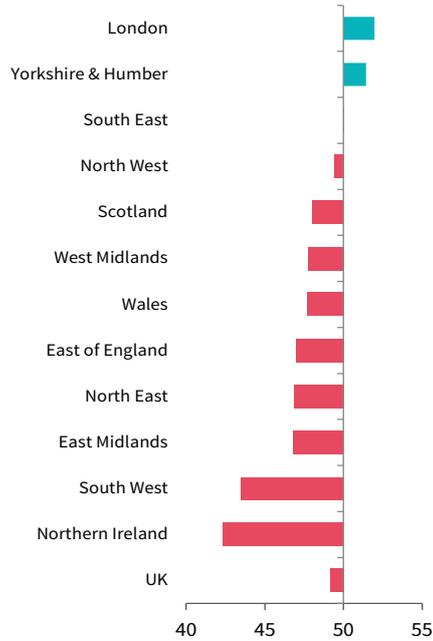
Although employment rose in most regions in September, rates of job creation slowed in the majority of cases. This included the East of England, which nevertheless topped the rankings ahead of the South East. Workforce numbers fell in the North East for the fourth month running, whilst the South West recorded its first decline since February 2021.

Future Activity

Business confidence towards future output fell across three-quarters of the surveyed regions in September. Yorkshire & Humber recorded the strongest optimism, despite seeing the greatest reduction in expectations from the previous month. Business sentiment was generally positive, with the exception of Northern Ireland and the North East.

Business Activity Index

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



Employment Index

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



Future Activity Index

>50 = growth expected over next 12 months, Sep '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
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
Sep '22	47.7	45.9	49.5	62.5	54.0	46.4	81.6	69.0

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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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