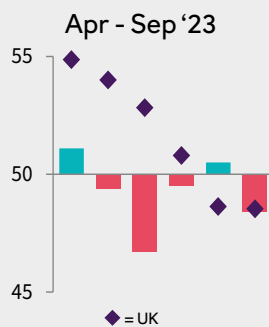


# NatWest Wales PMI<sup>®</sup>

## Renewed drop in output as demand conditions worsen in September

### Wales Business Activity Index



### Key findings

Business activity returns to contraction amid sharper fall in new orders

Inflationary pressures ease to historically soft paces

Joint-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 48.4 in September, down from 50.5 in August, to signal a renewed and marginal decline in business activity at Welsh firms. The pace of contraction was the fastest since June, but broadly in line with the average seen across the UK as a whole. Anecdotal evidence suggested that lower output was due to weak client demand and a faster reduction in new orders.

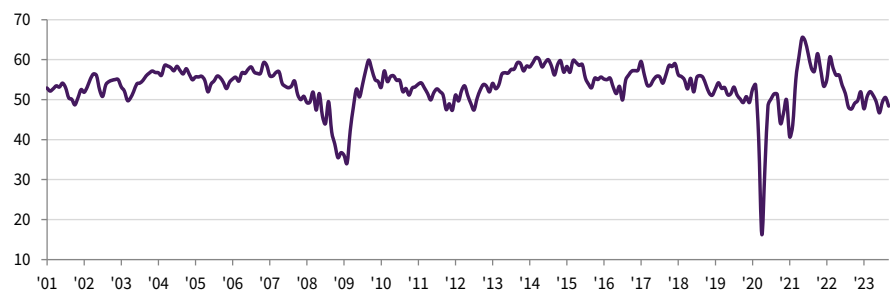
Gemma Casey, NatWest Ecosystem Manager for Wales, commented:

*"Welsh firms signalled a return to contraction in output during September, as new orders fell at a faster pace. Weak demand and the ongoing impact of the cost-of-living crisis on customer spending patterns weighed on new sales. In turn, firms scaled back their hiring at the joint-quickest rate since January 2021, as business confidence slipped to an 11-month low."*

*"Subdued demand for inputs and greater competition for orders led to a welcome softening of inflationary pressures. Input costs and output charges rose at paces below their respective series average, as savings on material prices were passed through to customers in an effort to drive sales."*

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

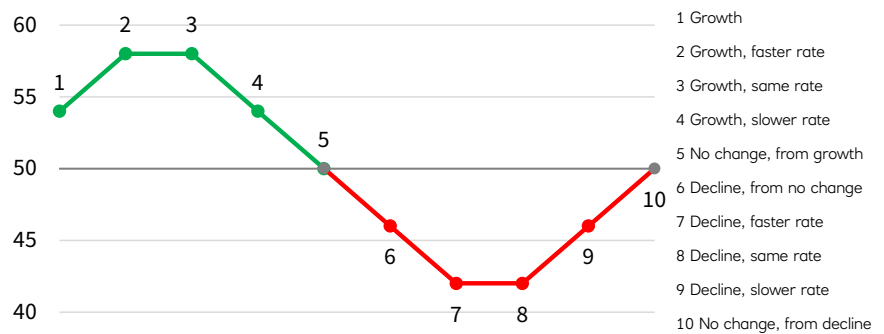
calculated from a single question that asks for changes in the volume of business activity (at service providers) or output (at manufacturers) compared with one month previously. The Wales Business Activity Index is comparable to the UK Composite Output Index. It is sometimes referred to as the 'Wales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

### Index interpretation

50.0 = no change since previous month



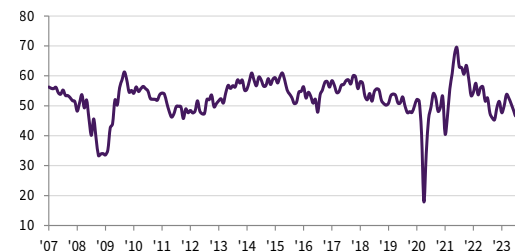
## Demand and outlook

### Marginal contraction in new business in September

Private sector firms in Wales registered a fourth successive monthly decline in new orders during September. The rate of contraction was only marginal overall, but quickened from August. Lower new business was linked to subdued client demand, with some companies reporting order postponements and deferrals.

Manufacturers recorded a renewed fall in new orders, while service providers registered a sharper drop in customer demand.

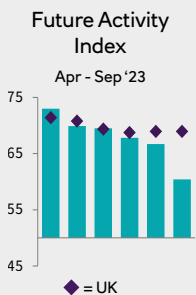
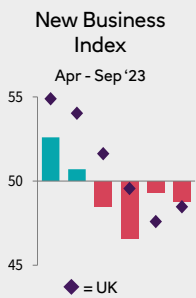
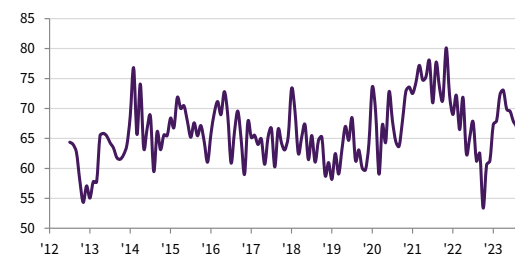
**New Business Index**  
sa, >50 = growth since previous month **48.8**  
Sep '23



### Optimism dips to lowest since October 2022

Welsh private sector firms registered positive expectations regarding the outlook for output over the coming year in September. That said, the degree of confidence dropped to the lowest in almost a year and was well below the UK average. Although firms were hopeful that new product launches and an uptick in client demand would support growth in activity, higher selling prices and business costs continued to weigh on projections for both output and client purchasing power.

**Future Activity Index**  
>50 = growth expected over next 12 months **60.4**  
Sep '23



## Business capacity

### Joint-fastest drop in employment since January 2021

Employment at Welsh private sector firms decreased for the second successive month in September. The rate of contraction accelerated to the joint-sharpest since January 2021 and was quicker than the UK average. Moreover, only the North East and East Midlands recorded faster declines in workforce numbers.

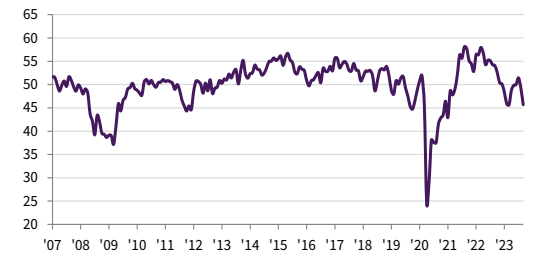
Lower staffing numbers were often linked to reduced new orders and the non-replacement of voluntary leavers.

### Marked drop in backlogs of work in September

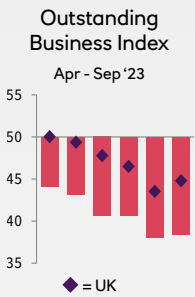
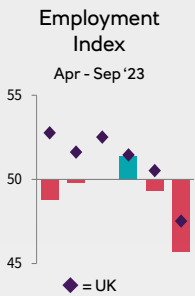
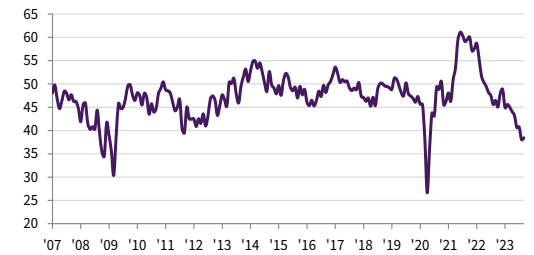
Welsh private sector firms recorded a further marked decrease in the level of outstanding business at the end of the third quarter. The decline in backlogs of work eased slightly from August's recent low, but was the second-fastest since May 2020. Of the 12 monitored UK areas, Welsh firms registered the steepest fall in incomplete business amid lower new order inflows.

At the sub-sector level, goods producers and service providers alike saw substantial declines in unfinished work.

Employment Index  
sa, >50 = growth since previous month  
45.7  
Sep '23



Outstanding Business Index  
sa, >50 = growth since previous month  
38.4  
Sep '23



## Prices

### Slowest rise in input prices since October 2020

Average cost burdens across the Welsh private sector increased at a further sharp pace during September. That said, the pace of inflation slowed to the weakest since October 2020 and was softer than the series average. Moreover, Welsh firms registered one of the slowest upticks in business expenses of the 12 monitored UK areas.

Although higher input costs were reportedly driven by greater wage bills and increased fuel prices, some companies mentioned that reduced material costs had dampened inflation.

### Weakest uptick in selling prices since January 2021

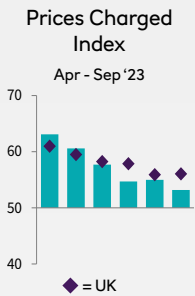
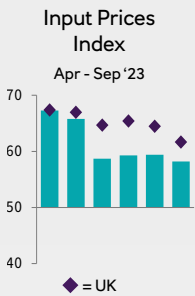
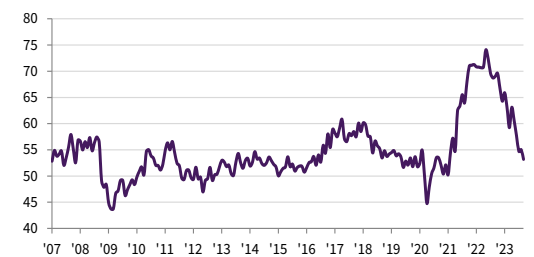
Output charges at Welsh firms increased at a solid pace in September, but the rate of inflation eased to the slowest since January 2021. The pace of increase was also softer than both the long-run series and UK average. Firms noted that they continued to try to pass higher costs through to customers, but that increased competition for orders pushed them to only moderate upticks in selling prices.

At the sub-sector level, manufacturers saw a decrease in output charges, while service providers recorded a solid increase.

Input Prices Index 58.2  
sa, >50 = inflation since previous month Sep '23



Prices Charged Index 53.2  
sa, >50 = inflation since previous month Sep '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, Sep '23* |
|------|------------------------|------|---------------------------|
| 1    | Electrical & Optical   | 1.17 | 48                        |
| 2    | Transport              | 1.17 | 48                        |
| 3    | Other Manufacturing    | 1.06 | 48                        |
| 4    | Timber & Paper         | 1.04 | 45                        |
| 5    | Basic Metals           | 0.97 | 48                        |
| 6    | Chemicals & Plastics   | 0.97 | 48                        |
| 7    | Food & Drink           | 0.96 | 48                        |
| 8    | Mechanical Engineering | 0.88 | 49                        |
| 9    | Textiles & Clothing    | 0.44 | 48                        |

#### Wales specialisation: Services

| Rank | Sector                         | LQ   | UK Business Activity Index, Sep '23* |
|------|--------------------------------|------|--------------------------------------|
| 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 | 50                                   |
| 5    | Business-to-business Services  | 0.87 | 48                                   |
| 6    | Computing & IT Services        | 0.43 | 50                                   |

### UK sector focus

#### Business-to-business services

The UK's large Business-to-business services sector contracted during the third quarter. Activity fell at a solid rate that was the fastest for over three years.

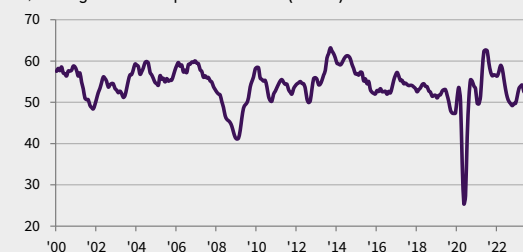
The downturn reflected a softening of demand across the sector, with firms recording a notable decline in inflows of new work in the three months to September. Business confidence towards the outlook was at its lowest since the start of the year and subdued by historical standards.

Although employment in the sector continued to rise, the rate of job creation slowed to the weakest in the year-to-date as firms made increasingly rapid inroads into their backlogs of work.

On the price front, input cost inflation remained historically elevated, driven by rising salaries and fuel prices, but it slowed to a two-and-a-half year low. It was a similar story for prices charged.

#### Output Index

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



\* 3-month moving average



## UK Regional PMI overview

### Business Activity

Business activity fell across all but one of the 12 monitored UK regions and nations, the exception being London. Furthermore, output in the capital increased at an accelerated rate. The North East recorded the sharpest drop in business, its quickest for more than a year, followed by neighbouring Yorkshire & Humber.

### Employment

Employment growth was confined to just Northern Ireland\* and Scotland in September, albeit with the rates of job creation there slowing to a crawl. Ten of the 12 monitored areas recorded a reduction in staffing levels, the highest number since January 2021. For the third month running, the deepest job cuts were seen in the North East.

### Future Activity

As was the case throughout the third quarter, firms in the West Midlands were the most optimistic about future activity in September. Next in the rankings was the South East, which was one of seven regions where confidence improved. The most marked increase in sentiment was in the East of England. Expectations were lowest in the North East.

Business Activity Index

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



Employment Index

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



Future Activity Index

>50 = growth expected over next 12 months, Sep '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 |
|---------|-------------------|--------------|----------------|------------------|------------|----------------------|--------------|----------------|
| 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           |
| Sep '23 | 48.4              | 48.8         | 49.3           | 60.4             | 45.7       | 38.4                 | 58.2         | 53.2           |

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