

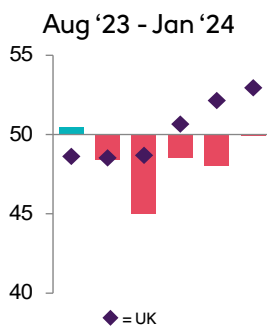
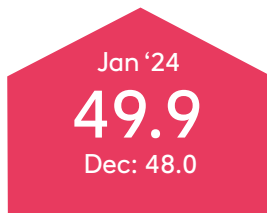


NatWest

# NatWest Wales PMI<sup>®</sup>

## Output nears stabilisation as contraction in new business slows

### Wales Business Activity Index



### Key findings

Business activity broadly unchanged

Input price inflation quickens, but slower rise in output charges

Decline in employment softens

The headline NatWest Wales PMI<sup>®</sup> 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 – rose from 48.0 in December to 49.9 in January, to signal broadly unchanged output levels at Welsh businesses at the start of 2024. The broad stabilisation in activity followed four successive monthly declines. Nonetheless, of the 12 monitored UK areas, only Wales and the North East posted a sub-50.0 reading. Where a decrease in activity was noted, Welsh companies linked this to further subdued demand conditions and a downturn in new orders.

Jessica Shipman, Chair, NatWest Cymru Regional Board, commented:

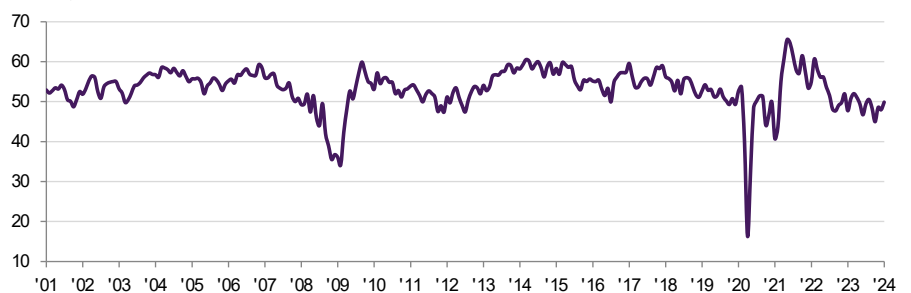
*"The start of 2024 signalled more positive trends emerging from the Welsh private sector, as activity was broadly stable on the month and the contraction in new business slowed to only a marginal rate. Firms also remained strongly upbeat in their expectations for the year ahead, and future expansion in output.*

*"Nonetheless, businesses cut workforce numbers steeply as pressure on capacity dwindled further. Job shedding in Wales was the fastest of the 12 monitored UK areas, with firms looking to rein in costs and have a tighter control on spending.*

*"Although cost burdens rose at a marked and accelerated pace, the rate of inflation was below both the historic series and UK averages. Moreover, in a bid to secure new sales, companies raised selling prices at only a solid rate that was among the weakest across the UK and much slower than that seen over 2023 as a whole."*

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

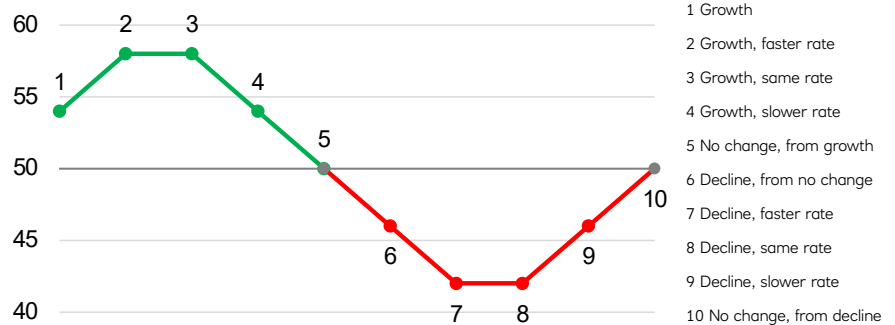
calculated from a single question that asks for changes in the volume of business activity (at service providers) or output (at manufacturers) compared with one month previously. The Wales Business Activity Index is comparable to the UK Composite Output Index. It is sometimes referred to as the 'Wales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

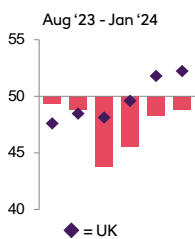
### Index interpretation

50.0 = no change since previous month



## Demand and outlook

### New Business Index



### Slowest fall in new business since September 2023

Welsh private sector firms recorded an eighth successive monthly decline in new orders during January. Anecdotal evidence suggested the fall was due to subdued client demand and greater competition. That said, the rate of decline eased for the third month running to the slowest since last September.

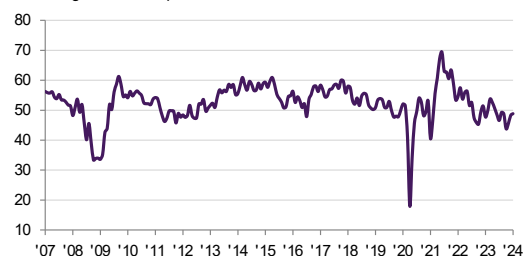
The marginal drop in new orders contrasted with the UK trend which signalled a modest expansion.

### New Business Index

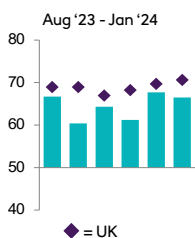
sa, >50 = growth since previous month

48.8

Jan '24



### Future Activity Index



### Business confidence remains historically elevated in January

Firms in Wales indicated strongly upbeat expectations regarding the outlook for output over the coming year in January. Greater optimism was attributed to planned investment in capacity expansion, new product launches and hopes of a pick-up in customer demand.

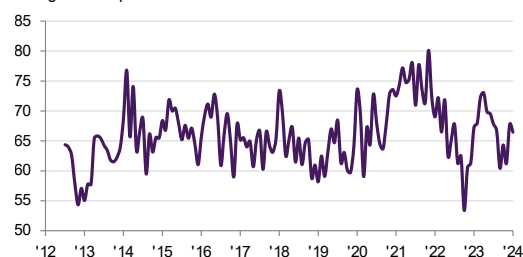
Although higher than the series average, the level of positive sentiment dipped from that seen in December and was lower than the UK trend.

### Future Activity Index

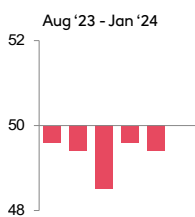
>50 = growth expected over next 12 months

66.5

Jan '24



### Export Climate Index



### Export conditions stabilise in 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 at the 50.0 neutral mark at the start of the year, up from 49.4 in December, to signal unchanged export conditions and an end to a five-month sequence of decline.

The stabilisation in export conditions was driven by a faster rise in output at firms in the USA and a further increase in activity in Ireland.

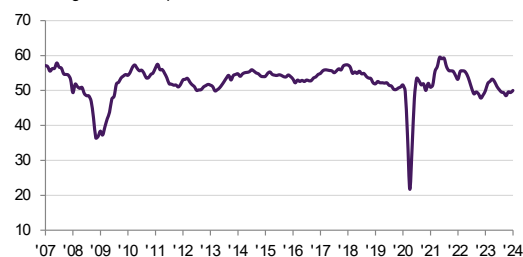
That said, businesses in Germany, France and the Netherlands registered contractions in output.

### Export Climate Index

sa, >50 = growth since previous month

50.0

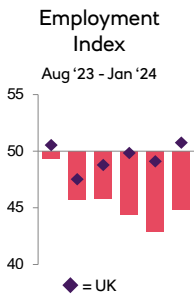
Jan '24



### Top export markets, Wales

Rank	Market	Weight	Output Index, Jan '24
1	USA	19.3%	52.0
2	Ireland	17.4%	50.7
3	Germany	14.5%	47.0
4	France	8.9%	44.6
5	Netherlands	7.4%	48.2

## Business capacity

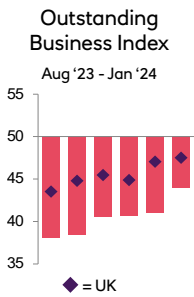
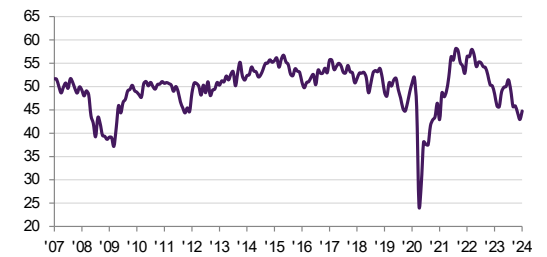


### Employment falls at sharp rate in January

Workforce numbers at Welsh firms dropped for the sixth month running in January, with companies cutting staffing levels at a steep pace. Although the slowest for three months, the rate of job shedding was sharper than the series average and contrasted with the UK trend. Moreover, the pace of decline was the quickest of the 12 monitored UK areas.

Lower employment was linked to the non-replacement of voluntary leavers and efforts to cut costs.

Employment Index 44.8  
sa, >50 = growth since previous month Jan '24

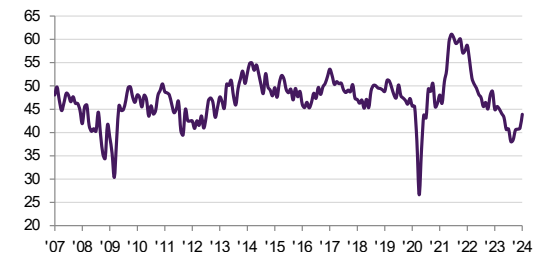


### Backlogs of work fall at slowest pace since April 2023

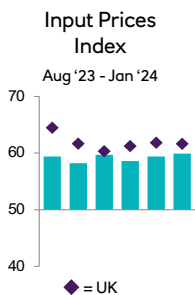
Welsh firms recorded a further drop in backlogs of work during January, thereby extending the current sequence of decline seen since May 2022. Panellists often noted that subdued demand conditions led to the sustained decrease in incomplete business.

Although the pace of contraction slowed to the weakest since April 2023, it was sharper than the UK average.

Outstanding Business Index 43.9  
sa, >50 = growth since previous month Jan '24



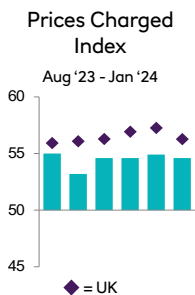
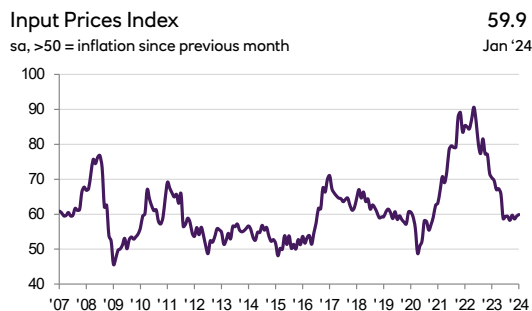
## Prices



### Cost burdens rise at sharpest rate since May 2023

January data signalled a continued increase in input prices faced by Welsh firms. Manufacturers and service providers alike recorded an uptick in cost burdens, as the overall rate of inflation quickened to the fastest since May 2023. Higher input prices were linked to greater wage bills, alongside increased supplier and transportation costs.

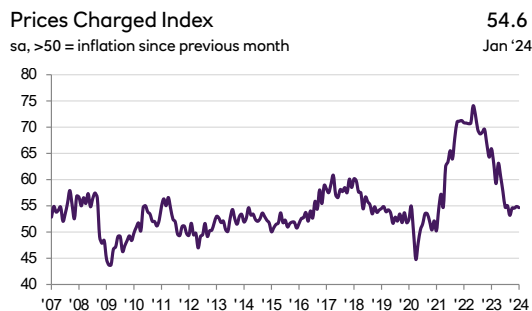
Despite accelerating, the pace of increase was slower than both the UK and historic series averages.



### Solid increase in output charges in January

Welsh businesses registered a further solid rise in selling prices at the start of the year. The pace of inflation was little changed from that seen in December and slightly quicker than the long-run series average. The uptick in output prices reportedly stemmed from the pass-through of greater costs to customers.

The rate of increase was among the slowest of the 12 monitored UK areas, however, and faster than only Northern Ireland, the North West and Yorkshire & Humber.



## 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, Jan '24
1	Transport	1.29	55
2	Basic Metals	1.16	48
3	Timber & Paper	1.09	48
4	Electrical & Optical	1.09	48
5	Other Manufacturing	1.08	45
6	Food & Drink	0.99	50
7	Chemicals & Plastics	0.92	48
8	Mechanical Engineering	0.66	50
9	Textiles & Clothing	0.38	48

#### Wales specialisation: Services

Rank	Sector	LQ	UK Business Activity Index, Jan '24
1	Hotels, Restaurants & Catering	1.51	55
2	Personal & Community Services	1.48	48
3	Transport & Communication	1.04	50
4	Financial Intermediation	0.86	55
5	Business-to-business Services	0.78	50
6	Computing & IT Services	0.41	55

## UK sector focus

### Personal & Community Services

Activity across the UK's Personal & Community Services sector fell in the three months to January. It was in fact the only broad category within the UK service sector to record a reduction in activity over that period.

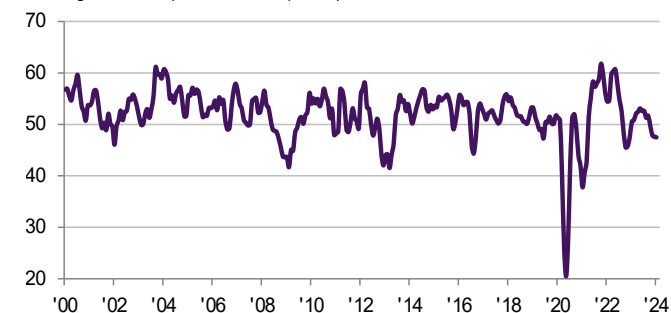
The downturn reflected falling demand, with the decline in new business that began in late-2023 extending into the new year. A lack of pressure on business capacity – as evidenced by falling backlogs of work – led firms in the sector to cut workforce numbers. It continued a run of job losses seen since the middle of last year.

Cost pressures among Personal & Community Services firms meanwhile remained elevated, due in large part to growing wages. Although below the averages in 2022 and 2023, the rate of input price inflation was still above its long-run trend. The increase in prices charged was more subdued by comparison, registering one of the slowest rises in the past two-and-a-half years.

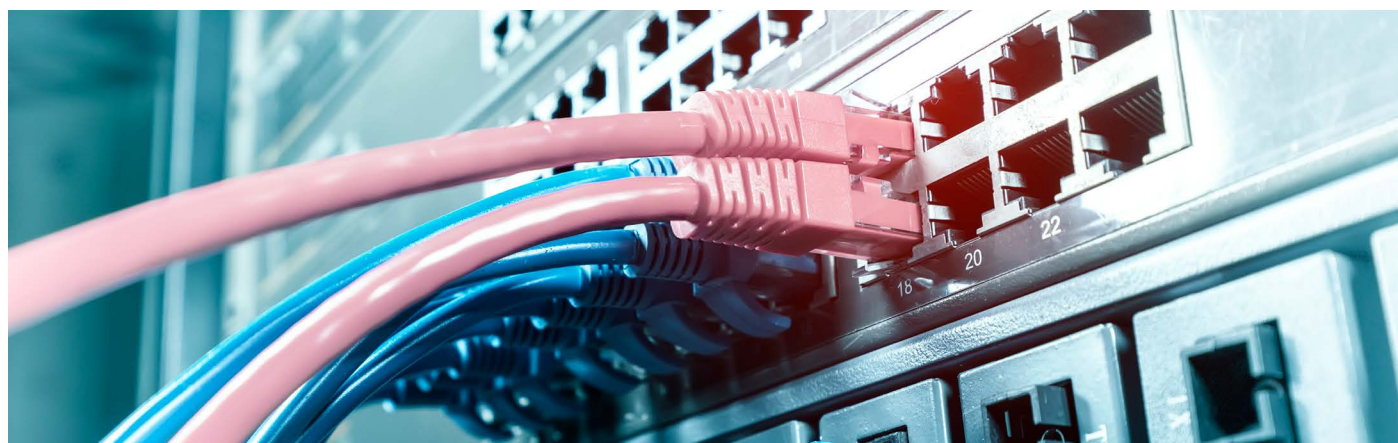
Lastly, latest data showed business expectations in the sector slipping to the lowest for almost a year.

#### Output Index

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



\* 3-month moving average



## UK Regional PMI overview

### Business Activity

The majority of UK regions and nations saw a rise in business activity in January. London once again recorded the strongest growth, followed by the West Midlands. Output fell further in the North East, but the rate of contraction slowed notably to the weakest since last August. Activity in Wales was broadly unchanged, following a four-month sequence of decline.

### Employment

January saw a general improvement in labour market trends, with employment either rising more quickly or falling at a reduced rate in almost all cases. London topped the rankings, recording its fastest rate of job creation for six months. Wales recorded the most marked drop in workforce numbers, but the pace of staff shedding did at least ease to the weakest since last October.

### Future Activity

Eight of the 12 monitored regions and nations registered improved business expectations in January. Confidence was highest in the West Midlands, followed by the South East. The greatest upswing in sentiment was seen in Northern Ireland\*. Scotland was one of the areas that went against the trend and recorded the lowest overall degree of optimism.

Business Activity Index

sa, >50 = growth since previous month, Jan '24



Employment Index

sa, >50 = growth since previous month, Jan '24

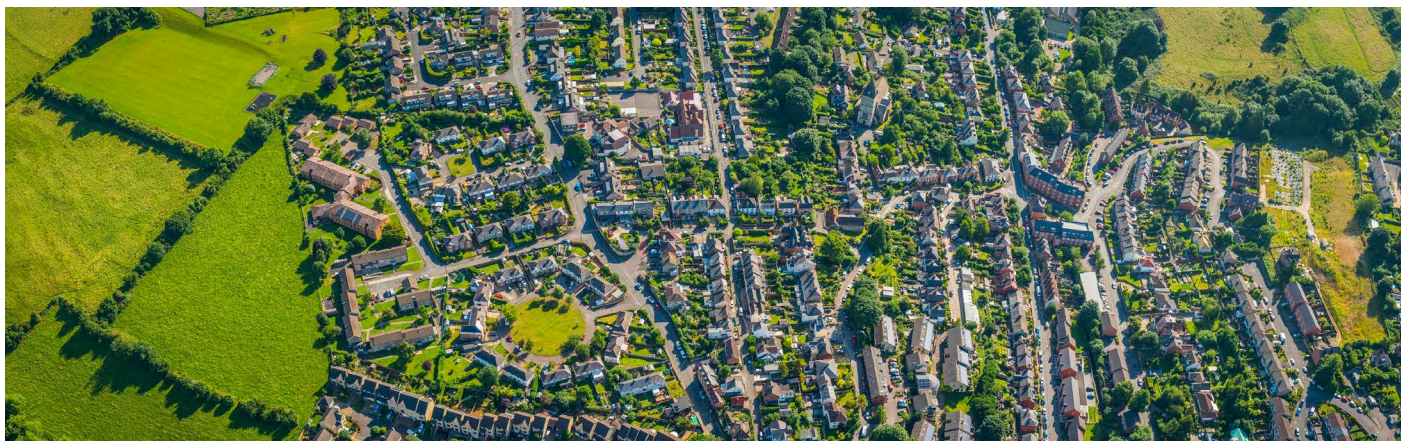


Future Activity Index

>50 = growth expected over next 12 months, Jan '24



\* 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
Aug '23	50.5	49.3	49.6	66.7	49.3	38.1	59.4	55.0
Sep '23	48.4	48.8	49.4	60.4	45.7	38.4	58.2	53.2
Oct '23	45.0	43.8	48.5	64.3	45.8	40.5	59.7	54.6
Nov '23	48.5	45.5	49.6	61.2	44.4	40.7	58.6	54.6
Dec '23	48.0	48.3	49.4	67.7	42.9	41.0	59.4	54.9
Jan '24	49.9	48.8	50.0	66.5	44.8	43.9	59.9	54.6

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NatWest serves customers in England and Wales, supporting them with their personal, private, and business banking needs. NatWest helps customers at all stages in their lives, from opening student accounts, to buying their first home, setting up a business, and saving for retirement.

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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