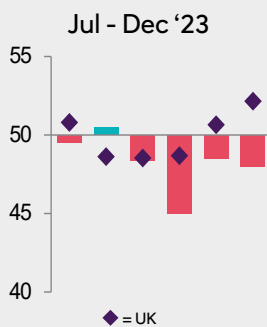


NatWest Wales PMI[®]

Welsh business confidence ticks higher, but output and employment fall at faster rates

Wales Business Activity Index



Key findings

Business confidence highest since July...

...despite further fall in business activity

Employment drops at joint-fastest pace since October 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 48.0 in December, down from 48.5 in November, to signal a modest and quicker drop in output at Welsh businesses. The fall was due to weak client demand, economic uncertainty and a further decrease in new order inflows. The sharper decline in activity in Wales contrasted with the wider UK trend, which indicated a moderate upturn. In fact, Welsh firms recorded the second-fastest drop in output behind the North East of England.

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

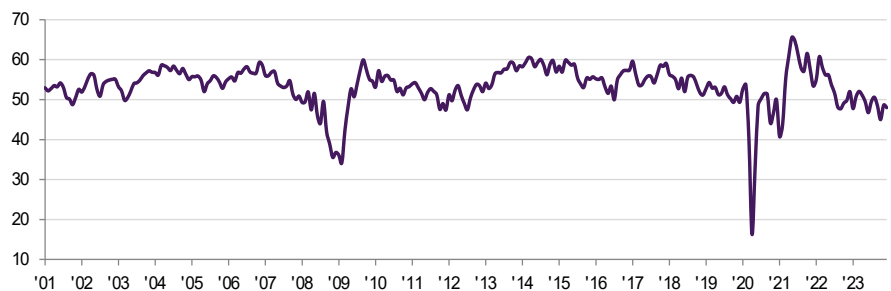
"The final month of the year signalled more upbeat sentiment among Welsh firms regarding activity in 2024 as business expectations were the strongest since July, despite output and new orders continuing to contract. Companies anticipated that more accommodative demand conditions and investment in new products and facilities would drive output in the year ahead.

"Although the pace of decrease in new business slowed, reduced backlogs of work led to dwindling activity and the joint-fastest drop in employment since October 2020 as business requirements waned further.

"Meanwhile, rates of inflation remained sticky as input costs and output charges rose at faster paces. Sharper hikes in component and raw material costs were passed through to customers despite a challenging demand environment. Nonetheless, rates of increase were among the weakest in around three years and much slower than the 2023 average as inflationary pressures eased substantially from the start of the year."

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

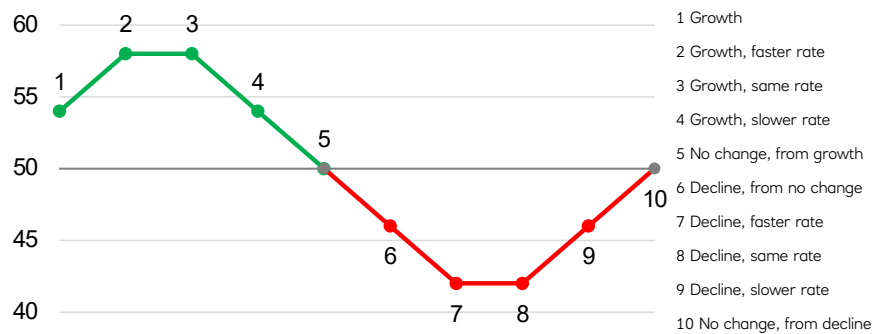
calculated from a single question that asks for changes in the volume of business activity (at service providers) or output (at manufacturers) compared with one month previously. The Wales Business Activity Index is comparable to the UK Composite Output Index. It is sometimes referred to as the 'Wales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

Index interpretation

50.0 = no change since previous month



Demand and outlook

Decline in new orders eases in December

Welsh companies registered a further contraction in new business at the end of 2023, although the rate of decline eased for the second successive month. The continued drop in new orders was linked to subdued demand conditions and customer postponements. The pace of decrease was modest and the slowest since September, though it contrasted with the UK average which indicated a moderate expansion in new business.

Manufacturers and service providers alike in Wales recorded contractions in new orders.

Business confidence at five-month high

December data signalled an improvement in expectations regarding the outlook for output over the coming year at Welsh firms. The level of optimism reached a five-month high and was stronger than the series average. Companies noted that positive sentiment was due to hopes of a pick up in customer demand, investment in product diversification and facilities, and the acquisition of new clients.

The degree of confidence remained slightly weaker than the UK average, however.

Exports

Faster decline in export conditions in December

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 49.4 in December, down slightly from 49.6 in November, and signalling a marginal decline in export conditions for Welsh companies.

Output declined markedly in France and the Netherlands at the end of the year, weighing on the export climate, with the contraction quickening in the latter. At the same time, German firms recorded a sharper drop in activity.

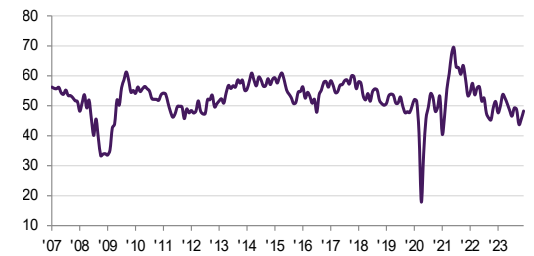
Of the top five export destinations, only the USA and Republic of Ireland registered expansions in output. Paces of increase were only marginal, however, with the rate of growth easing in Ireland.

New Business Index

sa, >50 = growth since previous month

48.3

Dec '23

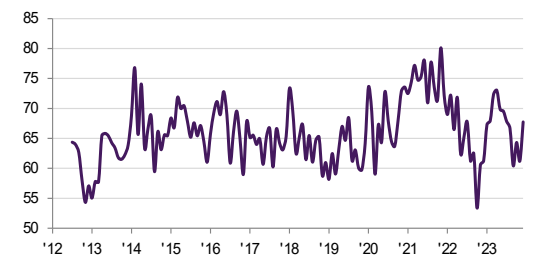


Future Activity Index

>50 = growth expected over next 12 months

67.7

Dec '23



Export Climate Index

sa, >50 = growth since previous month

49.4

Dec '23

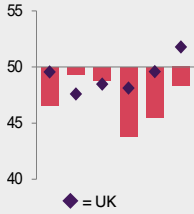


Top export markets, Wales

Rank	Market	Weight	Output Index, Dec '23
1	USA	19.3%	50.9
2	Ireland	17.4%	51.5
3	Germany	14.5%	47.4
4	France	8.9%	44.8
5	Netherlands	7.4%	44.7

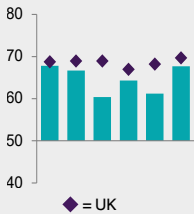
New Business Index

Jul - Dec '23



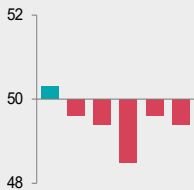
Future Activity Index

Jul - Dec '23



Export Climate Index

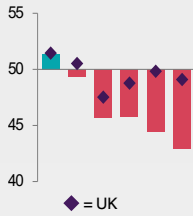
Jul - Dec '23



Business capacity

Employment Index

Jul - Dec '23



Joint-fastest drop in employment since October 2020

Welsh businesses recorded a fifth consecutive monthly decrease in workforce numbers during December. The rate of job shedding accelerated to the joint-fastest in over three years and was by far the strongest of the 12 monitored UK areas. Weak customer demand led firms to reduce staffing numbers, with redundancies mentioned by panellists.

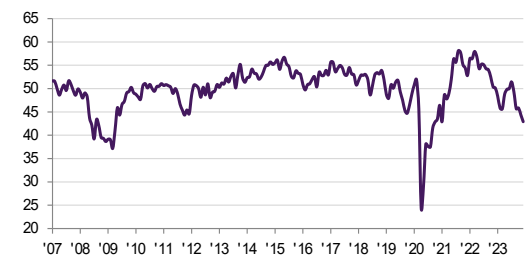
Employment fell at Welsh manufacturers and service sector firms.

Employment Index

sa, >50 = growth since previous month

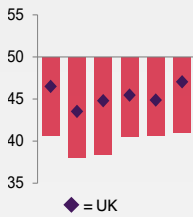
42.9

Dec '23



Outstanding Business Index

Jul - Dec '23



Outstanding business falls at slowest pace in seven months

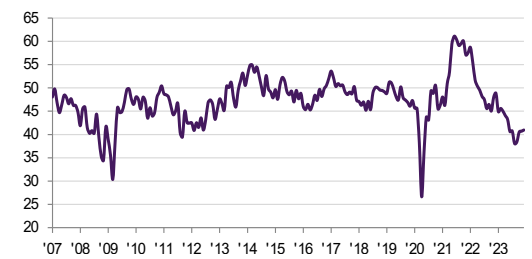
Businesses in Wales indicated another monthly decline in backlogs of work in December. The drop in the level of outstanding business was marked overall and sharper than the UK trend. Firms highlighted that lower new order inflows enabled them to process incomplete work. Nonetheless, the pace of reduction slowed to the weakest in seven months.

Outstanding Business Index

sa, >50 = growth since previous month

41.0

Dec '23



Prices

Cost burdens rise at sharp pace in December

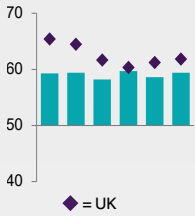
Average input costs faced by Welsh firms increased at a quicker pace at the end of 2023. The rise in input prices was attributed to greater raw material and component costs.

Although sharp, the rate of cost inflation was slower than the series average and the trend seen across the UK as a whole. In fact, of the 12 monitored UK areas, only the West Midlands, North East and Northern Ireland recorded slower upticks in operating expenses.

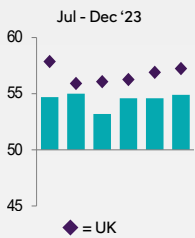
Input Prices Index
sa, >50 = inflation since previous month
59.4
Dec '23



Input Prices Index
Jul - Dec '23



Prices Charged Index
Jul - Dec '23

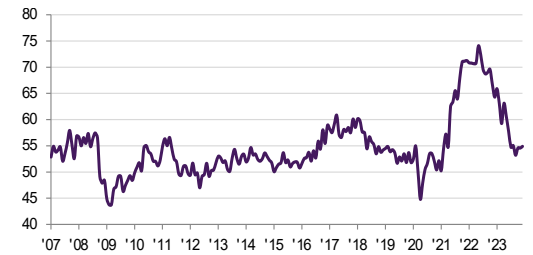


Selling prices rise at steepest pace for four months

Welsh firms registered a sharper rise in output charges during December, with the rate of inflation picking up to the fastest since August. Anecdotal evidence stated that higher selling prices were due to the pass through of greater costs to customers.

In line with the trend for input costs, the pace of increase in output charges was slower than the UK average, with only Northern Ireland, the North East and the North West recording weaker upticks in selling prices.

Prices Charged Index
sa, >50 = inflation since previous month
54.9
Dec '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, Dec '23 ⁺
1	Electrical & Optical	1.17	55
2	Transport	1.17	55
3	Other Manufacturing	1.06	45
4	Timber & Paper	1.04	45
5	Basic Metals	0.97	45
6	Chemicals & Plastics	0.97	45
7	Food & Drink	0.96	55
8	Mechanical Engineering	0.88	50
9	Textiles & Clothing	0.44	50

Wales specialisation: Services

Rank	Sector	LQ	UK Business Activity Index, Dec '23 ⁺
1	Hotels, Restaurants & Catering	1.62	55
2	Personal & Community Services	1.27	45
3	Transport & Communication	1.07	45
4	Financial Intermediation	0.94	55
5	Business-to-business Services	0.87	50
6	Computing & IT Services	0.43	55

UK sector focus

Textiles & Clothing

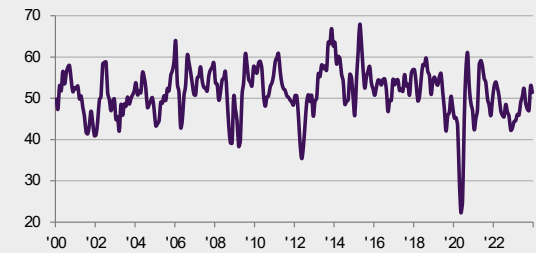
The UK's Textiles & Clothing sector saw a slight increase in production volumes in the three months to December. It was one of only three manufacturing sub-sectors monitored by PMI data to record growth, alongside Food & Drink and Transport. The result represented a marked turnaround from the solid rate of contraction seen in the opening quarter of 2023.

Driving the upturn was a strong increase in new orders, which in part reflected improved demand from abroad in recent months. Firms reacted by upping the pace of job creation to the one of the quickest rates in the past five years. They also continued to build up stocks of both purchases and finished goods.

On the price front, latest data showed a sustained rebound in input costs following a decline during the middle part of 2023. Average factory gate charges meanwhile rose modestly, and at one of the slowest rates in the past three years.

Output Index

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



⁺ 3-month moving average



UK Regional PMI overview

Business Activity

Seven of the 12 monitored regions and nations recorded higher business activity in December, the most since last June. Growth was once again led by London, where output rose sharply during the month. At the other end of the scale, the North East recorded the most marked fall in output, followed by Wales.

Employment

Labour market trends worsened in most cases in December. Just three areas saw employment rise, the fewest since last September, with rates of growth slowing in both Scotland and Northern Ireland*. For the second month running, Wales posted the sharpest drop in workforce numbers – its fastest since January 2021.

Future Activity

Business expectations improved in the majority of cases as 2023 drew to a close. This included the West Midlands, which topped the rankings ahead of the South East. The most marked upswing in confidence was in Wales, followed by the North East. Firms in Northern Ireland were the least optimistic about the year-ahead outlook.

Business Activity Index

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



Employment Index

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



Future Activity Index

>50 = growth expected over next 12 months, Dec '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
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	49.4	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

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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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