

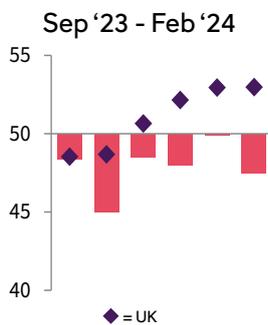


NatWest

# NatWest Wales PMI<sup>®</sup>

## Welsh business confidence rises to highest level in over two years despite a challenging February

### Wales Business Activity Index



### Key findings

Faster decline in output, but new orders fall at slower pace

Inflationary pressures gain momentum

Softest drop in employment for six months

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 – slid from 49.9 in January to 47.5 in February. The latest data signalled a modest contraction in output at Welsh firms, and one that was the strongest since last October. Moreover, Welsh businesses were the joint-worst performers at the UK level, alongside the North East. Anecdotal evidence stated that lower activity was due to subdued customer demand and supply chain issues.

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

*"Welsh businesses signalled a faster fall in output during February, as supply chain issues continued to weigh on activity and production capacity. Nonetheless, the pace of decline in new business eased to only a fractional pace, amid some signs of demand conditions picking up. Moreover, business confidence jumped to the strongest since November 2021 as firms looked to expand product ranges and invest in marketing efforts.*

*"Meanwhile, inflationary pressures ticked up to the highest since the second quarter of 2023. Higher wage bills and imported goods prices drove the increase, with firms still seeking to pass through costs to customers. At the same time, firms sought to cut costs but continuing to reduce workforce numbers as backlogs of work were depleted sharply. That said, the pace of job shedding was the least marked since August 2023 amid stronger business confidence."*

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 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

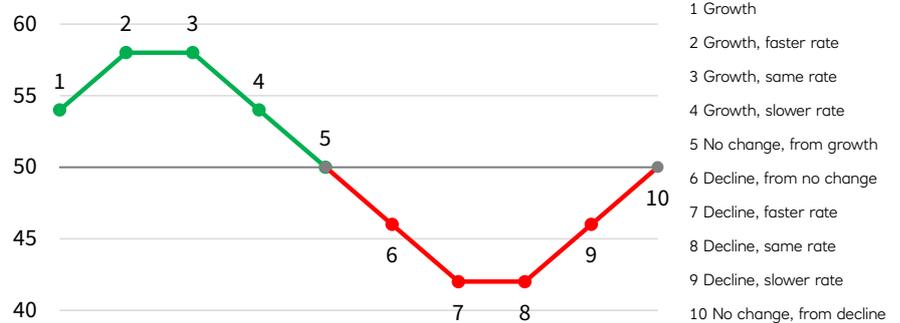
calculated from a single question that asks for changes in the volume of business activity (at service providers) or output (at manufacturers) compared with one month previously. The Wales Business Activity Index is comparable to the UK Composite Output Index. It is sometimes referred to as the 'Wales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

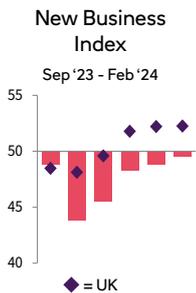
For further information on the PMI survey methodology, please contact [economics@spglobal.com](mailto:economics@spglobal.com).

### Index interpretation

50.0 = no change since previous month



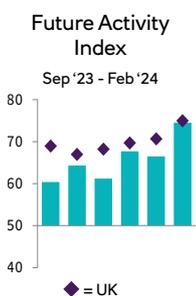
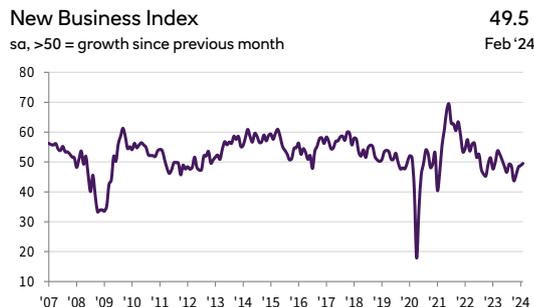
## Demand and outlook



### New business falls at slowest pace in nine months

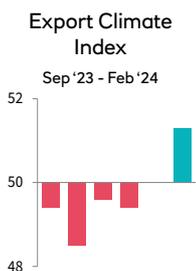
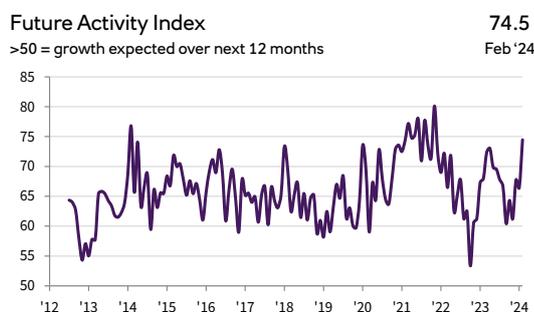
Welsh businesses recorded a ninth successive monthly decrease in new orders during February, with the pace of contraction easing to the slowest in this period of decline. Although some firms noted signs of a pick-up in demand conditions, others stated that the cost-of-living crisis continued to dampen sales.

The downturn in new business was only fractional, but contrasted with a modest expansion seen across the UK as a whole.



### Business optimism strongest since November 2021

February data indicated a pick-up in business confidence across the Welsh private sector. The level of optimism rose to the highest since November 2021 and was broadly in line with the UK trend. Extensions to product ranges, investment in expanding customer bases and hopes of stronger client demand underpinned confidence, according to panellists.



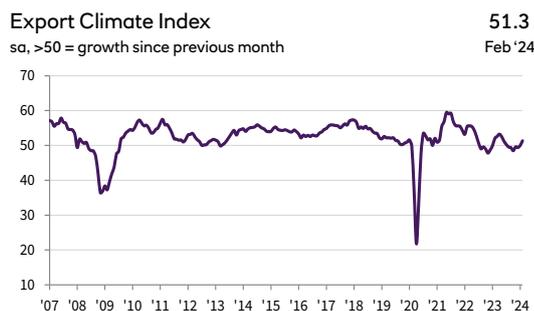
## Exports

### Export climate improves to greatest extent since May 2023

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 51.3 in February, up from 50.0 to signal the first improvement in export conditions for Welsh firms since July 2023, and the strongest upturn in nine months.

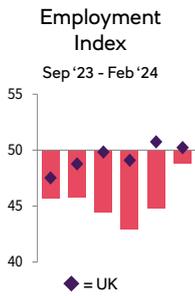
Driving the improvement were sharper expansions in output in the USA and Ireland. At the same time, firms in France and the Netherlands registered slower contractions in activity. Companies in Germany, however, recorded a quicker fall in activity in February.



#### Top export markets, Wales

Rank	Market	Weight	Output Index, Feb '24
1	USA	19.3%	52.5
2	Ireland	17.4%	54.4
3	Germany	14.5%	46.3
4	France	8.9%	48.1
5	Netherlands	7.4%	49.7

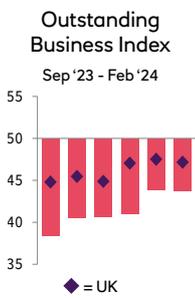
## Business capacity



### Slowest fall in employment for six months in February

Workforce numbers at Welsh companies fell for the seventh month running midway through the first quarter. Lower employment stemmed from the non-replacement of voluntary leavers amid efforts to improve efficiency and cut costs. The pace of job shedding eased notably, however, and was the slowest since August 2023.

Despite softening in pace at Welsh firms, the reduction in staffing was the second-fastest of the 12 monitored UK areas (slower than Yorkshire & Humber only).



### Sharp decline in backlogs of work

Welsh private sector firms registered a further decline in outstanding business during February, thereby extending the current sequence of contraction that began in May 2022. The fall in backlogs of work was sharp overall and quickened slightly from January.

Despite being the second-slowest reduction in work-in-hand for nine months, the rate of decrease was the second-fastest at the UK level (slower than only the South East).

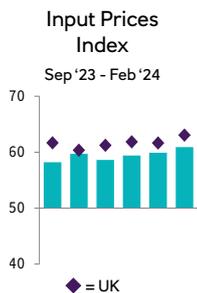
Employment Index 48.8  
sa, >50 = growth since previous month Feb '24



Outstanding Business Index 43.7  
sa, >50 = growth since previous month Feb '24



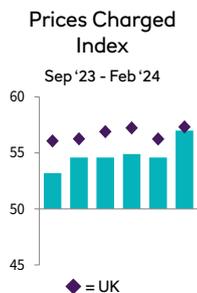
## Prices



### Input cost inflation accelerates again in February

Average cost burdens faced by Welsh companies increased at a marked pace during February. Although slower than the UK average, the rate of inflation quickened to the fastest since May 2023 and was sharper than the series average.

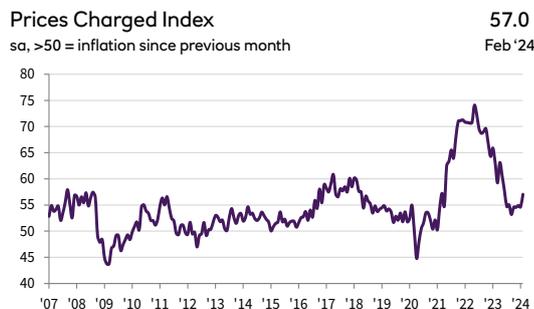
Higher input prices were linked by panellists to greater raw material costs and increased wage bills.



### Rate of charge inflation fastest since June 2023

Welsh firms recorded a sharper rise in selling prices midway through the first quarter of the year. The rate of charge inflation was the steepest since mid-2023 and broadly in line with the UK average. Companies often sought to pass-through higher costs to customers via hikes in output prices.

Service providers led the increase in selling prices, with the pace of the uptick quickening on the 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, Feb '24
1	Transport	1.29	
2	Basic Metals	1.16	
3	Timber & Paper	1.09	
4	Electrical & Optical	1.09	
5	Other Manufacturing	1.08	
6	Food & Drink	0.99	
7	Chemicals & Plastics	0.92	
8	Mechanical Engineering	0.66	
9	Textiles & Clothing	0.38	

40 45 50 55 60

#### Wales specialisation: Services

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

40 45 50 55 60

## UK sector focus

### Transport Manufacturing

Transport manufacturers recorded solid output growth in the three months to February. This was in contrast to the sustained downturn in overall UK goods production over the same period.

That said, the upturn in Transport output merely represented a rebound from the decline seen last autumn, and underlying demand in the sector remained weak. New orders continued falling in line with the trend throughout the second half of last year, albeit with the rate of decline easing. Lower sales from abroad were a factor. The disparity between rising output and shrinking order books contributed to a marked rise in stocks of finished goods in the three months to February.

Production expectations in the Transport manufacturing sector were close to the lowest seen over the past three years. Latest data meanwhile showed employment falling – albeit marginally – for the first time since the first quarter of 2023, with firms also cutting back on purchasing activity.

#### Output Index

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



\* 3-month moving average



## UK Regional PMI overview

### Business Activity

Two-thirds of the monitored UK nations and regions recorded business activity growth in February. London remained out in front despite seeing its pace expansion ease to a three-month low. At the other end of the scale, Wales posted a solid and accelerated fall in output, while declines were also seen in the North East, Yorkshire & Humber and South West.

### Employment

Scotland topped the rankings for employment growth for the fourth time in the past five months in February, pushing London back down into second place. The East of England, Northern Ireland\*, South West and South East all saw slight increases in workforce numbers, while the North West recorded no change. Job cuts were seen everywhere else.

### Future Activity

Business expectations improved in the majority of areas midway through the opening quarter. The South East recorded the highest degree of optimism, the first time this has been the case for eight months. Confidence was lowest in the North East, which was one of just two areas where sentiment weakened from the month before (along with the West Midlands).

Business Activity Index

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



Employment Index

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



Future Activity Index

>50 = growth expected over next 12 months, Feb '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
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
Feb '24	47.5	49.5	51.3	74.5	48.8	43.7	60.9	57.0

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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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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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