



# NatWest Wales PMI®

## Business activity growth weakens in June

### Key Findings

Output rises at softer pace

Rate of growth in new business weakest in almost two years

Staffing numbers decline

### Wales Business Activity Index



Last six months WL v UK



Business activity at private sector firms in Wales continued to rise in June, according to the NatWest PMI®, thereby extending the current period of expansion to almost two years. That said, after having rebounded from April's 21-month low in May, a renewed slowdown in the rate of growth was evident in June. The moderation was accompanied by a weaker rise in new business and a downturn in employment. Meanwhile, business confidence hit a ten-month low. In contrast, input cost inflation intensified, which fed through to a sharper rise in average charges.

The headline Wales Business Activity Index – a seasonally adjusted index that measures the combined output of the manufacturing and service sectors – posted 52.0 in June, down from 55.3 in May. The expansion was the slowest in the current 23-month period of growth. Diverging trends were evident by sector, with an increase at manufacturers contrasting with a decline at service providers.

### Demand

The amount of new orders placed with private sector firms in Wales rose at the end of the second quarter, thereby continuing a trend that has been observed since August 2016. That said, the rate of growth was the weakest in this sequence and slight overall. Nonetheless, the increase remained broad-based across both the manufacturing and service sectors.

In comparison to other UK regions, the Welsh private sector was the second worst on this metric, ahead of only the North East.

### Wales Business Activity Index

sa, >50 = growth since previous month



### Capacity

Amid a sharp moderation in the rate of new business growth, Welsh private sector companies cut their payroll numbers during June for the first time since February 2016. Furthermore, the rate of decline was the sharpest since September 2012. Wales was the only monitored UK region to register a decline in staffing numbers at the end of the second quarter.

Business outstanding dropped at a quicker pace in June, as the effect of weaker new order growth outstripped the drop in operating capacity. The latest round of backlog depletion was the seventh in as many months. Wales was the second-worst performing region on this variable - better than the North East.

### Prices

Input costs continued to rise at a sharp pace in June. Moreover, the rate of inflation accelerated from May, amid reports of higher raw material costs. The increase was broad-based by sector and led by service providers.

Faced with a sharper rise in input costs, firms operating in the Welsh private sector raised their charges at a faster rate during June.

### Outlook

Finally, firms maintained a positive degree of business confidence at the end of the second quarter amid expectations of increased market share.

## New Business Index



### New business growth weakest in almost two years

The rate of expansion in new business at Welsh private sector firms increased to the weakest extent in the current 23-month period of growth at the end of the second quarter. Nevertheless, the increase remained broad-based across the manufacturing and service sectors, led by the former. Some panel members attributed the rise to business investments and marketing strategies.

### New Business Index

sa, >50 = growth since previous month



## Outstanding Business Index



### Backlogs decrease at stronger pace

Private sector firms in Wales reported another fall in the amount of business outstanding during June, thereby continuing a trend that has been evident since December last year. Moreover, the rate of backlog depletion sharpened from May and was only slightly weaker than April's multi-year record. Decreases were registered by manufacturers and service providers.

### Outstanding Business Index

sa, >50 = growth since previous month



## Employment Index



### Employment declines

Welsh private sector companies reduced their payroll numbers in June, thereby ending a sequence of job creation that had been seen on a monthly basis since March 2016. The rate of decline, however, was slight overall. According to anecdotal evidence, job shedding reflected a weaker improvement in client demand.

### Employment Index

sa, >50 = growth since previous month



## Input Prices Index



### Input price inflation accelerates

Average input prices faced by private sector firms in Wales rose for the thirty-second consecutive month during June. Furthermore, the rate of inflation quickened from May and was sharp overall. Anecdotal evidence suggested that the increase was partially due to higher raw material prices. Service providers recorded a sharper rise in cost burdens than their manufacturing sector counterparts.

### Input Prices Index

sa, >50 = inflation since previous month



## Prices Charged Index



### Prices charged continues to rise

In line with the trend for input costs, average prices charged by private sector firms in Wales rose in June, thereby continuing a trend that has been observed since October 2012. Moreover, the rate of increase quickened from May's recent low and was marked overall. The rise was broad-based across both manufacturers and service providers.

### Prices Charged Index

sa, >50 = inflation since previous month



## Future Business Activity Index

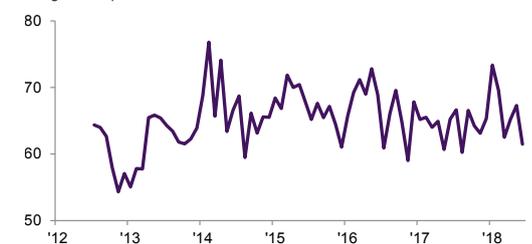


### Confidence wanes in June

Welsh private sector firms maintained an optimistic outlook toward their prospects for growth over the coming 12-month period. The degree of positive sentiment was the least marked since August last year but remained marked nonetheless. According to anecdotal evidence, business confidence was buoyed by expectations of increased business investments and market share.

### Future Business Activity Index

>50 = growth expected over next 12 months



## Wales Export Climate Index

Note: Export markets are defined as non-UK.



### Export conditions improve at sharper pace in June

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 country's export markets.

The Wales Export Climate Index continued to register above 50.0 in June, thereby indicating another improvement in export conditions across the region. Moreover, the rate of the upturn quickened from May, reflecting stronger expansions in output across key export partners such as Germany and France.

Last six months



### Export Climate Index

sa, >50 = improving export climate since previous month



### Top export markets, Wales

Rank	Market	Weight	Output Index, Jun-18
1	Germany	19.6%	54.7
2	France	16.6%	54.7
3	USA	13.9%	56.2
4	Ireland	6.3%	58.1
5	Netherlands	4.2%	59.5

## Wales Industry Specialisation

Location quotients (LQs) are useful measures of regional economic specialisation and offer a means to 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 sub-sectors. The UK Output Index for each sub-sector is also displayed.

### Manufacturing specialisation: Wales

Rank	Sector	LQ	UK Output Index, June-18 (3mma)
1	Transport Equipment	1.32	51
2	Electrical & Electronic	1.10	52
3	Metals & Metal Products	1.09	53
4	Other Manufacturing	1.08	54
5	Wood & Paper	1.04	55
6	Food & Drink	1.00	56
7	Chemicals, Rubber & Plastics	0.94	57
8	Textiles & Clothing	0.45	58
9	Machinery & Equipment	0.38	59

40 45 50 55 60 65

### Services specialisation: Wales

Rank	Sector	LQ	UK Business Activity Index, June-18 (3mma)
1	Hotels, Restaurants & Catering	1.58	44
2	Other personal/consumer Services	1.28	45
3	Transport & Communication Services	0.95	46
4	Financial Intermediation	0.90	47
5	Business-to-business Services	0.88	48
6	Computing & IT Services	0.53	49

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## UK Sector Focus: Food & Drink

### Output Index



### Last six months\*



\*3mma

### Food & drink is UK's fastest-growing sector in second quarter

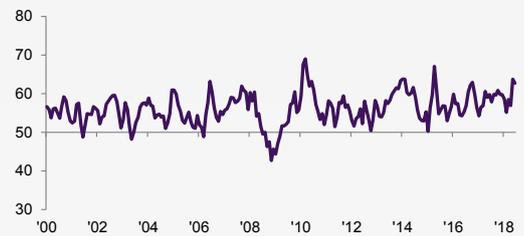
The pace of growth of the UK's food & drink industry shifted up a gear in the second quarter. Output growth in the three months to June was among the fastest seen over the past eight years and quicker than in any other sector.

The survey data showed that the upturn was driven by robust underlying demand, with inflows of new orders up sharply partly thanks to increased export sales. Encouraged by this, makers of good & drink products upped the rate of job creation in June.

Less positively, cost pressures in the sector remained elevated. The rate of input price inflation was close to the fastest for over a year, with businesses commenting on increases in the cost of dairy and meat products, rising oil prices and the weak pound.

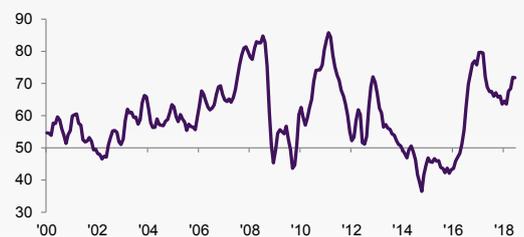
### Output Index

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



### Input Prices Index

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



## UK Regional Rankings

### Business Activity

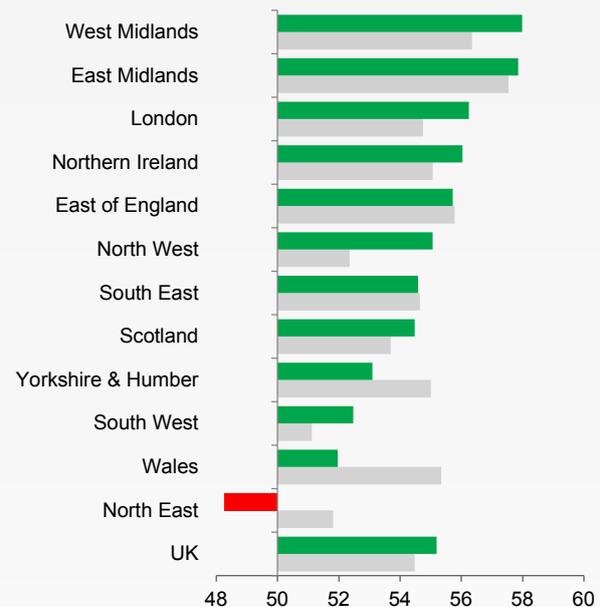
The West Midlands recorded the strongest growth in business activity of all UK regions in June, pushing neighbouring East Midlands into second position in the rankings. London was one of the biggest climbers, with the rate of business activity growth in the capital accelerating to the fastest in 14 months. The only decrease in output was recorded in the North East, where activity fell back into decline after two months of growth. Wales also lost momentum at the end of the second quarter, recording the weakest rise in output for almost two years.

### Employment

Scotland was the best performer in terms of employment growth, with the rate of job creation north of the border reaching its highest for over four years in June. Other areas where rates of hiring picked up included the North West (ranked second overall) and London (ranked third). Wales saw the only decrease in staffing levels, the first in the country since February 2016.

### Output Index by region

sa, >50 = growth since previous month, Jun-18 ■ (May-18 ■)



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### Methodology

The NatWest Wales PMI® is compiled by IHS Markit from responses to questionnaires sent to Wales companies that participate in IHS Markit'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](mailto:economics@ihsmarkit.com).

### 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. To learn more go to [ihsmarkit.com/products/pmi.html](http://ihsmarkit.com/products/pmi.html).

### About NatWest

NatWest serves customers in England, Wales and Western Europe, supporting them with their personal, private, and business banking needs. NatWest helps customers 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.

NatWest has been running MoneySense, an impartial financial education programme for 5–18 year-olds, for more than 21 years. By the end of 2018, NatWest will help another 1 million young people to understand and take control of their finances.

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