



NatWest Wales PMI[®]

New business increases marginally in June

Key Findings

Further slight increases in output and new orders

Employment continues to expand

Output charges rise at slowest rate since January 2016

Wales Business Activity Index



Last six months WL v UK



According to the latest NatWest Wales PMI[®] data, private sector firms continued to signal an increase in business activity in June. The marginal expansion was supported by a further upturn in new orders, albeit one of the slowest since July 2016. Nonetheless, employment rose further, with the rate of job creation accelerating slightly despite a third successive contraction in backlogs. On the price front, despite a faster rise in costs, output charges rose at the slowest rate since the start of 2016. Meanwhile, business confidence eased following May's 12-month high.

The headline Wales Business Activity Index – a seasonally adjusted index that measures the combined output of the manufacturing and service sectors – registered 51.5 in June, up slightly from 51.2 in May. The latest headline figure indicated a marginal increase in business activity that was one of the weakest in the current sequence of expansion that began in August 2016. Nonetheless, the region posted the quickest upturn across the 12 monitored UK areas.

Demand

Welsh private sector firms continued to register a marginal rise in new business in June, with the rate of expansion little-changed from that seen in May. Although firms recorded an increase in client demand, some panellists stated that growth was weighed on by a lull in sales following Brexit stockpiling earlier in the year. The average for the second quarter eased from that seen in the opening three

months of the year, but remained above that seen for the UK as a whole.

Capacity

Employment across the Welsh private sector increased for the fourth month running in June, with the rate of job creation quickening to the strongest in this sequence. The rise in workforce numbers was attributed to a sustained upturn in new business.

Meanwhile, backlogs of work contracted for the third successive month, with the rate of decline accelerating to the fastest for a year.

Prices

Input prices faced by Welsh private sector firms rose further in June. The rate of inflation picked up to a three-month high and was marked overall. A weaker pound that pushed up imported component prices, as well as higher supplier costs were reportedly behind the latest rise.

Firms, however, struggled to pass higher costs on to clients amid softer demand conditions, as output charges rose at the slowest pace since January 2016.

Outlook

Business confidence also softened in June. That said, the level of optimism among private sector firms was in line with the series trend and strong overall. Although firms were buoyed by new product launches, Brexit uncertainty and less robust demand dragged on expectations.

Wales Business Activity Index

sa, >50 = growth since previous month



New Business Index



New business expands further

Private sector firms across Wales registered a marginal increase in client demand, with the rate of expansion broadly in line with that seen in May. The upturn in new business seen throughout the second quarter was in contrast to a contraction seen across the UK as a whole.

Although manufacturers across the area indicated a further upturn, service providers recorded a fractional decline in client demand.

New Business Index

sa, >50 = growth since previous month



Outstanding Business Index



Faster fall in outstanding business

Backlogs of work across the Welsh private sector fell for the third month running in June, amid marginal new order growth. The decrease was the strongest for a year and moderate overall. Moreover, firms in both the manufacturing and service sector registered a decline in work-in-hand.

As has been seen throughout the second quarter of 2019, the rate of contraction in outstanding business was slower than the UK average.

Outstanding Business Index

sa, >50 = growth since previous month



Employment Index



Pick-up in employment growth

Welsh private sector firms signalled a further increase in workforce numbers in June, with the rate of job creation accelerating to the fastest in the current four-month sequence of expansion. Panellists stated that greater staffing levels were linked to the sustained rise in new business.

Employment Index

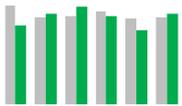
sa, >50 = growth since previous month



Input Prices Index



Last six months WL v UK



Input price inflation quickens in June

Manufacturers and service providers signalled a further increase in input costs in June, with the rate of inflation accelerating to a three-month high. Greater cost burdens were attributed to higher supplier prices and a weaker pound which pushed imported component prices up. The rate of increase was slightly faster than that seen across the UK as a whole.

Input Prices Index

sa, >50 = inflation since previous month



Prices Charged Index



Last six months WL v UK



Slowest rise in output charges since January 2016

Welsh private sector firms registered a further rise in output charges in June. Anecdotal evidence suggested the increase was due to the pass-through of higher costs to clients. That said, the rate of inflation eased to the slowest since the start of 2016 and was only marginal overall.

Prices Charged Index

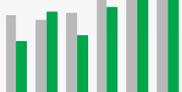
sa, >50 = inflation since previous month



Future Business Activity Index



Last six months WL v UK



Output expectations soften in June

Business confidence across the Welsh private sector softened from May's 12-month high in June. Expectations remained strong and were linked to greater marketing and the launch of new products. The degree of optimism was broadly in line with the series trend, but was weighed on by concerns surrounding a no deal Brexit, reduced employment and a slowdown in client demand.

Future Business Activity Index

>50 = growth expected over next 12 months



Wales Export Climate Index

Note: Export markets are defined as non-UK.



Last six months



Moderate improvement in export conditions

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 posted 52.2 in June, broadly in line with 52.1 in May. The latest index figure signalled a modest improvement in export conditions that was in line with the average for 2019 so far.

The upturn was driven by a moderate expansion in Germany and faster rates of output growth in France and Ireland. At the same time, the Netherlands signalled the slowest rise in activity since July 2013.

Also dragging on the overall improvement was a further marginal expansion in U.S output.

Export Climate Index

sa, >50 = improving export climate since previous month



Top export markets, Wales

Rank	Market	Weight	Output Index, Jun-19
1	Germany	21.3%	52.6
2	France	18.3%	52.7
3	USA	16.7%	*50.6
4	Ireland	10.3%	54.4
5	Netherlands	5.1%	51.7

* based on flash data

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, Jun-19 (3mma)
1	Electrical & Electronic	1.16	52
2	Transport Equipment	1.16	52
3	Wood & Paper	1.12	52
4	Other Manufacturing	1.06	53
5	Metals & Metal Products	1.05	52
6	Food & Drink	1.02	54
7	Chemicals, Rubber & Plastics	0.99	52
8	Machinery & Equipment	0.50	50
9	Textiles & Clothing	0.38	50

Services specialisation: Wales

Rank	Sector	LQ	UK Business Activity Index, Jun-19 (3mma)
1	Hotels, Restaurants & Catering	1.50	48
2	Other personal/consumer Services	1.28	48
3	Transport & Communication Services	1.07	49
4	Business-to-business Services	0.88	53
5	Financial Intermediation	0.87	47
6	Computing & IT Services	0.44	56



UK Sector Focus: Wood & Paper Products

Output Index



Last six months*



*3mma

Wood & paper products sector sinks deeper into contraction

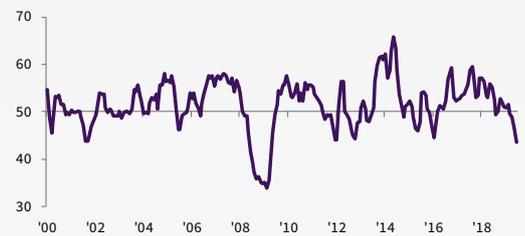
Wood & paper products was the UK's weakest-performing manufacturing sector in the second quarter, according to PMI data, seeing output fall to the greatest extent since the global financial crisis.

The downturn was led by falling inflows of new work, which posted the steepest decline in seven-and-a-half years in the three months to June amid reports of customers destocking, weakness in the retail sector and market uncertainty.

The reversal of Brexit-related stockpiling has been a theme observed across the goods-producing economy during Q2, and the wood & paper products sector has been no exception. Input stocks have falling sharply following near-record growth in the first quarter of 2019. Weaker than expected sales has meanwhile led to the build up of unsold finished goods, boding ill for the near-term outlook for output.

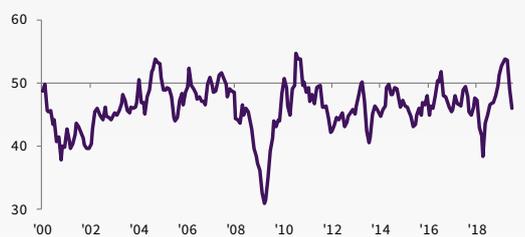
Output Index

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



Stocks of Purchases Index

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



UK Regional Rankings

Business Activity

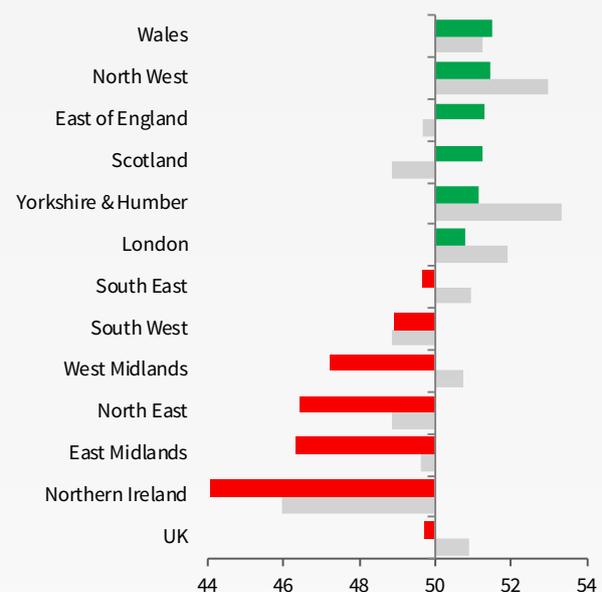
Business activity growth in June was led by Wales, where the pace of expansion ticked up slightly since May, followed closely by the North West. The East of England and Scotland were joint-third in the rankings, having both seen renewed increases in output at the end of the second quarter. The only remaining areas to see growth were Yorkshire & Humber and London, though in both cases the pace of expansion was modest and slowed since May. Northern Ireland again recorded the steepest overall decrease in business activity, with the rate of decline gathering pace to the quickest since November 2012.

Employment

Employment rose in nine of the 12 UK areas monitored by the survey in June. The fastest rate of job creation was recorded in Yorkshire & Humber, where workforce numbers posted the largest increase for ten months. There were also solid and accelerated increases in payroll numbers in the East of England, London and the North West. Employment meanwhile fell in Northern Ireland, the North East and East Midlands, albeit only modestly in all three cases.

Output Index by region

sa, >50 = growth since previous month, Jun-19 (May-19 ■)



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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.

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.

About NatWest

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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.

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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