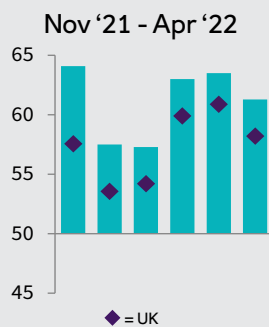


NatWest London PMI[®]

Activity growth slows as demand and inflation risks worsen

London Business Activity Index



Key findings

Weakest rise in new orders for seven months

Inflation gauges climb to new record highs

Outlook worsens sharply to 19-month low

The headline NatWest London 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 – dropped to a three-month low of 61.3 in April, from 63.5 in March, to signal a slower but still historically marked rise in activity at London-based companies. According to panellists, strengthening client demand and travel-related sales continued to support growth, although this was increasingly offset by accelerating inflationary and economic risks.

Catherine Van Weenen, NatWest London and the South East Regional Board, commented:

"Output across the capital continued to expand sharply and at a faster rate than in any other region in April, though there were initial signs of an inflation-driven slowdown in growth. Rises in a myriad of prices, including fuel, food, energy, material and labour, resulted in a record uplift in both input prices and output charges, which underlined a softening in new business growth to a seven-month low. At the same time, the risk of further inflationary and economic uncertainty from the war in Ukraine drove a marked decline in business confidence, which fell to the lowest since September 2020. Furthermore, backlogs of work decreased for the first time a year, while employment growth began to soften. Combined, these indicators point to the risk of a rapid deceleration in activity growth over the next few months."

London Business Activity Index

sa, >50 = growth since previous month



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About the London PMI® report

The NatWest London PMI® is compiled by S&P Global from responses to questionnaires sent to London 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

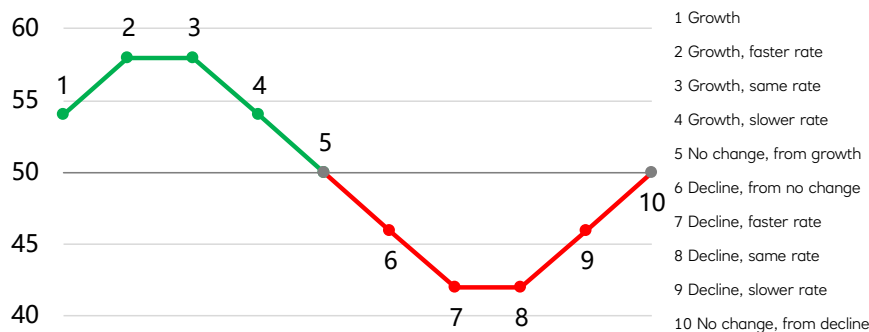
calculated from a single question that asks for changes in the volume of business activity (at service providers) or output (at manufacturers) compared with one month previously. The London Business Activity Index is comparable to the UK Composite Output Index. It is sometimes referred to as the 'London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

Index interpretation

50.0 = no change since previous month



Demand and outlook

New business rises at sharp, but slower pace in April

London companies saw a further increase in their new work intakes at the start of the second quarter of the year. The rate of growth remained sharp and above the UK average, but softened to the least marked since September 2021. A number of businesses commented on new projects and improving travel-related sales, whereas others noted that uncertainty from inflation and the Russia-Ukraine war had dampened client orders.

Confidence weakens sharply to 19-month low

The outlook for future activity in the London economy worsened again in April, as firms indicated greater uncertainty surrounding the outlook due to the Russia-Ukraine war, rising living costs and pressure on interest rates. The degree of sentiment dropped to the lowest in over a year-and-a-half and was weaker than the series trend. That said, many businesses remained confident that market conditions would continue to strengthen despite these challenges.

Exports

Export climate index falls for first time in three months

The London Export Climate Index is calculated by weighting together national PMI output data according to their importance to the services exports of the UK. This produces an indicator for the economic health of the region's export markets.

The index pointed to a slight drop-off in growth momentum across the capital's export markets in April, down to 55.3 from 55.6 in March. Nevertheless, the upturn in trading conditions remained strong by historical standards, with rises in output seen in each of the top-five export destinations.

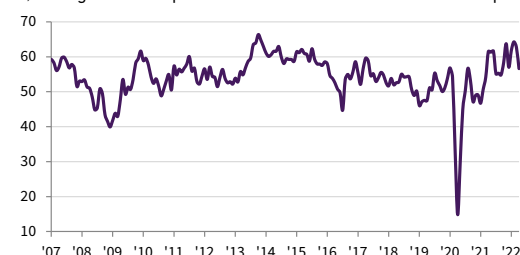
Whilst activity growth slowed slightly in the USA, Ireland and Germany in April, there were modest accelerations in the Netherlands and France.

New Business Index

sa, >50 = growth since previous month

56.6

Apr '22

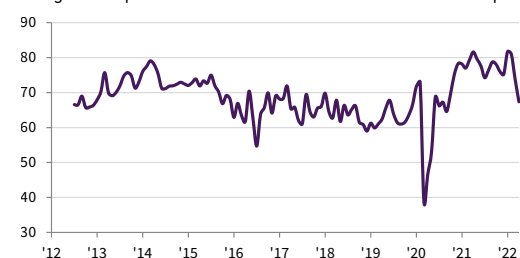


Future Activity Index

>50 = growth expected over next 12 months

67.4

Apr '22

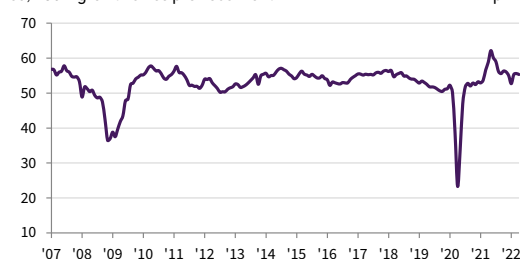


Export Climate Index

sa, >50 = growth since previous month

55.3

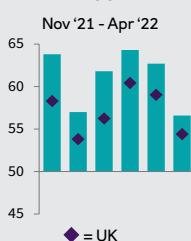
Apr '22



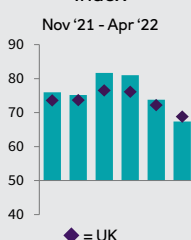
Top export markets, London

Rank	Market	Weight	Output Index, Apr'22
1	USA	26.8%	56.0
2	Ireland	9.0%	59.6
3	Germany	6.9%	54.3
4	Netherlands	6.8%	55.7
5	France	5.0%	57.6

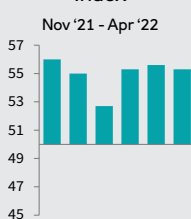
New Business Index



Future Activity Index



Export Climate Index

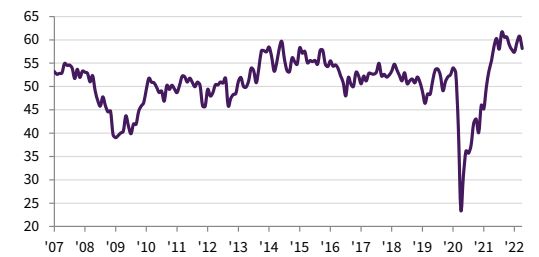


Business capacity

Job creation eases amid worsening outlook

For the first time in three months, London companies reported a softening in the rate of employment growth in April, as some firms began to reduce their hiring activity due to rising costs and increased uncertainty over future business conditions. That said, efforts to complete new business and fill staff vacancies meant that the rise in job numbers remained sharp overall. In fact, London continued to post the quickest upturn of the 12 monitored UK areas.

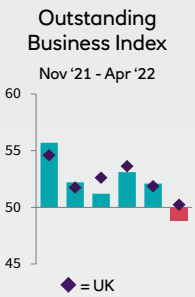
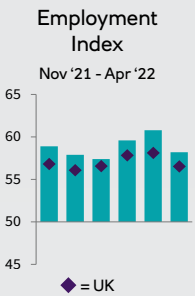
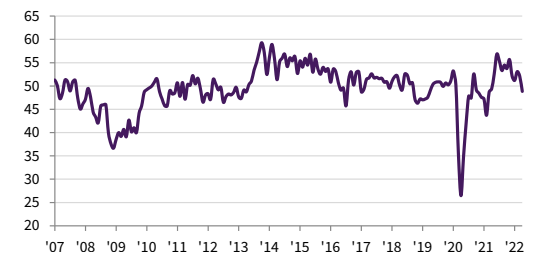
Employment Index **58.2**
sa, >50 = growth since previous month
 Apr '22



Backlogs fall for first time in a year

London businesses were able to reduce their outstanding work levels during April, thereby ending an 11-month sequence of accumulation. Where a fall was indicated, panellists often noted that they had been able to catch up with existing work as new order growth slowed. Whilst only marginal, the decline in backlogs contrasted with a slight increase at the UK level, with only the North East and North West also seeing a reduction.

Outstanding Business Index **48.8**
sa, >50 = growth since previous month
 Apr '22

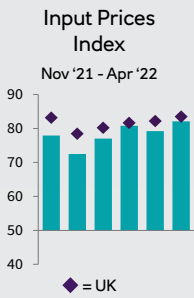
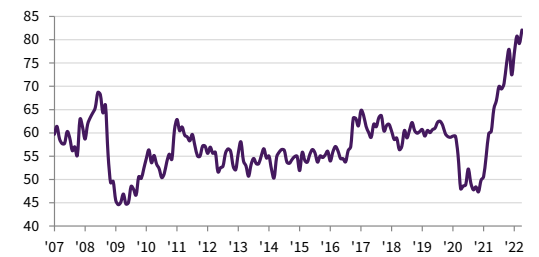


Prices

Input prices rise at record pace in April

Companies in London saw a further unprecedented increase in their input costs at the start of the second quarter of the year. The rate of inflation ticked up from March to the highest recorded since the survey began in 1996. Rising salary, fuel, energy and material costs were all mentioned by panel members, which were in turn often linked to the war in Ukraine. Nevertheless, the rise in cost pressures was again softer than the national benchmark.

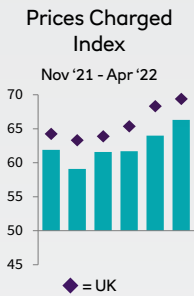
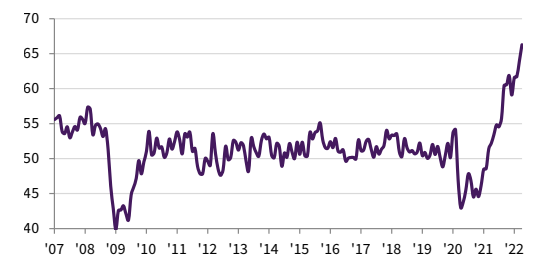
Input Prices Index
sa, >50 = inflation since previous month
82.1
Apr '22



Output charge inflation also hits fresh record high

The seasonally adjusted Prices Charged Index posted a record high for the second month running in April, indicating a sharp and unprecedented increase in selling charges at private sector firms in London. Notably, around 39% of respondents raised their charges during the month, compared with a survey-average of 10%. The increase in selling prices was overwhelmingly attributed to the need to pass-through higher business costs to clients.

Prices Charged Index
sa, >50 = inflation since previous month
66.3
Apr '22



UK Sector PMI

Sector specialisation: London

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 London, broken down by manufacturing and services. The UK Output Index for each sub-sector is also displayed.

London specialisation: Manufacturing

Rank	Sector	LQ	UK Output Index, Apr '22*
1	Textiles & Clothing	2.54	50
2	Food & Drink	1.88	55
3	Timber & Paper	1.51	50
4	Other Manufacturing	1.14	55
5	Electrical & Optical	0.78	55
6	Mechanical Engineering	0.75	55
7	Basic Metals	0.65	55
8	Transport	0.56	55
9	Chemicals & Plastics	0.51	55

London specialisation: Services

Rank	Sector	LQ	UK Business Activity Index, Apr '22*
1	Financial Intermediation	1.49	55
2	Computing & IT Services	1.06	60
3	Personal & Community Services	0.97	60
4	Business-to-business Services	0.97	60
5	Hotels, Restaurants & Catering	0.73	65
6	Transport & Communication	0.71	50

UK sector focus

Mechanical Engineering

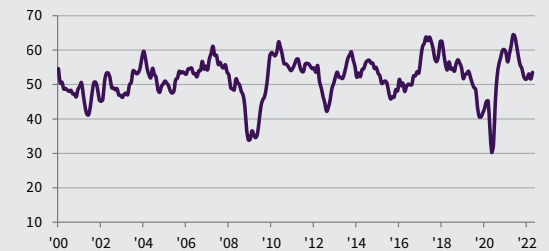
The UK's Mechanical Engineering sector saw sustained growth in output levels in the three months to April, albeit at a relatively subdued pace that was below the average for manufacturing as whole. The upturn was supported by rising inflows of new work.

Although easing from the record levels seen last year, supply chain bottlenecks remained a key issue facing businesses in the sector, leading to longer lead times on inputs, whilst also helping to fuel a continued surge in purchase prices. Higher costs were increasingly passed on to customers, with factory gate charge inflation reaching a survey-record high.

Still, Mechanical Engineering companies maintained a strongly positive outlook for output in the coming year and, as such, continued to add to workforce numbers at a rapid pace.

Output Index

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



* 3-month moving average



UK Regional PMI overview

Business Activity

In terms of business activity, April saw a general loss of momentum across the UK, with nine regions recording slower growth and the North East seeing a renewed contraction. London recorded the fastest overall rate of expansion, followed by the South West, while only the North West and Scotland registered quicker increases in business activity than the month before.

Employment

A rise in employment was recorded in 11 of the 12 regions monitored by the survey in April. The only exception was the North East, where workforce numbers fell for the first time in 14 months, albeit only slightly. Elsewhere, rates of job creation generally remained solid, although they eased in all cases bar the West Midlands. London recorded the strongest growth ahead of Yorkshire & Humber.

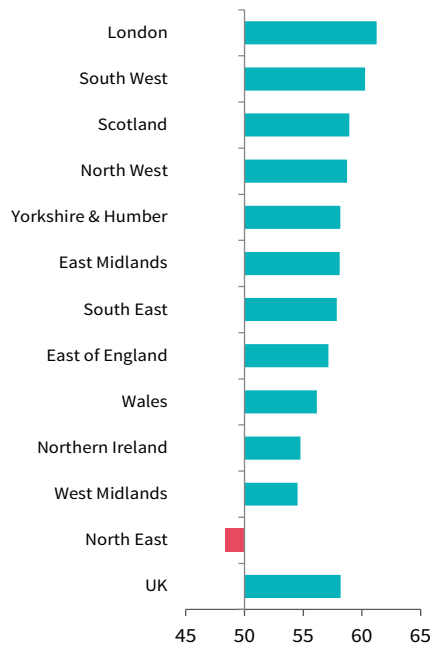
Future Activity

Although firms in all areas remained optimistic about the year-ahead outlook for activity in April, expectations eased in the majority of cases. Only Wales (ranked third out of 12), the South West (sixth), East of England (seventh) and Northern Ireland (twelfth and last) recorded improved confidence. Overall, businesses in the South East were the most upbeat, followed by those in Yorkshire & Humber.

* Coverage in Northern Ireland also includes retail and construction, alongside manufacturing and services.

Business Activity Index

sa, >50 = growth since previous month, Apr '22



Employment Index

sa, >50 = growth since previous month, Apr '22



Future Activity Index

>50 = growth expected over next 12 months, Apr '22



Index summary

London

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
Nov '21	64.1	63.8	56.0	76.0	58.9	55.7	77.9	61.9
Dec '21	57.5	57.0	55.0	75.2	57.9	52.2	72.5	59.1
Jan '22	57.3	61.8	52.7	81.7	57.4	51.2	77.0	61.6
Feb '22	63.0	64.3	55.3	81.0	59.6	53.1	80.8	61.7
Mar '22	63.5	62.7	55.6	73.8	60.8	52.1	79.2	64.0
Apr '22	61.3	56.6	55.3	67.4	58.2	48.8	82.1	66.3

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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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