



NatWest London PMI[®]

Output growth slides to 17-month low in August

London Business Activity Index



Key findings

New business growth weakens but remains robust

Job numbers continue to rise rapidly

Cost inflation softens to lowest in 2022 to date

The headline NatWest London PMI[®] 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 54.9 in August, from 58.0 in July, to signal a weaker but still robust improvement in business activity at London-based firms. The index in fact signalled the slowest growth since March 2021, but nevertheless the strongest of the 12 UK regions covered by the survey. Higher activity was linked by panellists to rising demand, increased travel and new product releases.

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

"The capital remained firmly in growth mode in August, despite more UK regions falling into contraction territory. In fact, London was one of only three regions to register an expansion (the others being the North West and Yorkshire & Humber), amid reports of increasing sales, job creation and the need for greater capacity to deal with backlogs. Nevertheless, the rate of growth softened to a 17-month low as some companies noted that high inflation and rising borrowing costs had dampened sales.

"Positive news was also found among pricing data, which signalled the slowest rise in input costs since December last year. While energy costs and wage growth remained key challenges to firms, the data offers hope that underlying price pressures have cooled off from the highs recorded in the second quarter."

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

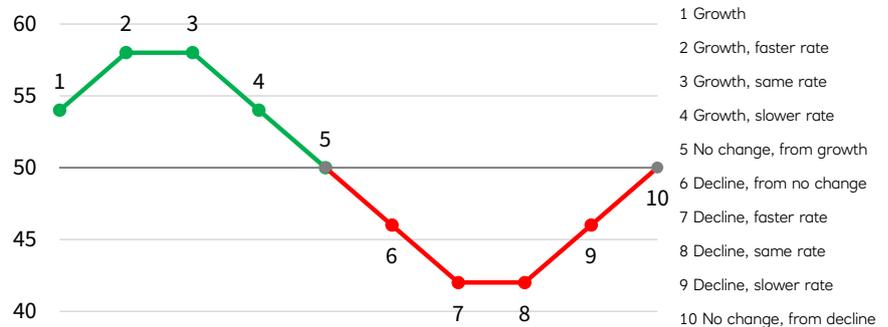
calculated from a single question that asks for changes in the volume of business activity (at service providers) or output (at manufacturers) compared with one month previously. The London Business Activity Index is comparable to the UK Composite Output Index. It is sometimes referred to as the 'London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

London-based businesses saw a further increase in new orders midway through the third quarter of the year, often reflecting project wins, new clients and work from abroad. The rate of growth was solid, but the weakest recorded since February 2021, as some panellists mentioned a slowdown in sales due to rising inflation and higher borrowing costs.

Nevertheless, London continued to perform well against the UK average, which registered a contraction in new business for the first time in 18 months.

Business confidence ticks higher for second month running

The outlook for output in the year-ahead improved for the second consecutive month in August, but remained only slightly higher than June's 25-month low. Respondents that gave a positive forecast in the latest survey period linked this to new product releases and sales in international markets. While some firms were pessimistic due to concerns around rising interest rates, inflation and a possible recession, others noted that they still expect growth in spite of these risks.

Exports

Export conditions deteriorate for first time in over two years

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.

After registering just inside growth territory at 50.1 in July, the Export Climate Index fell to a 26-month low of 48.2 in August, to signal the first decline in export conditions since the initial COVID-19 outbreak in the second quarter of 2020.

Three of the capital's five top trading destinations recorded a contraction in output during August, most notably in the USA which saw the quickest decrease since May 2020. Ireland and France recorded slower and only marginal growth.

New Business Index

sa, >50 = growth since previous month

54.1

Aug '22



Future Activity Index

>50 = growth expected over next 12 months

68.0

Aug '22



Export Climate Index

sa, >50 = growth since previous month

48.2

Aug '22



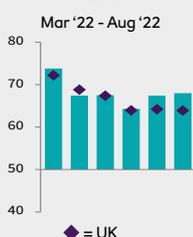
Top export markets, London

Rank	Market	Weight	Output Index, Aug'22
1	USA	26.8%	44.6
2	Ireland	9.0%	51.0
3	Germany	6.9%	46.9
4	Netherlands	6.8%	49.4
5	France	5.0%	50.4

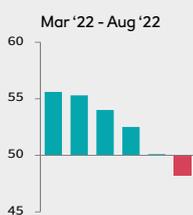
New Business Index



Future Activity Index

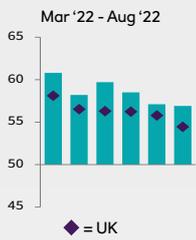


Export Climate Index



Business capacity

Employment Index



Employment growth holds strong, despite easing slightly

August survey data signalled a further round of recruiting at London-based firms, leading to a rise in employment for the eighteenth month running. Despite slipping to the softest since April 2021, the rate of job creation was sharp and the quickest recorded of the 12 monitored UK regions.

Firms that raised their workforce numbers cited an upturn in sales, increased investment efforts and the replacement of previous staff leavers. That said, some panellists reported that they were unable to find replacements due to candidate shortages.

Outstanding Business Index



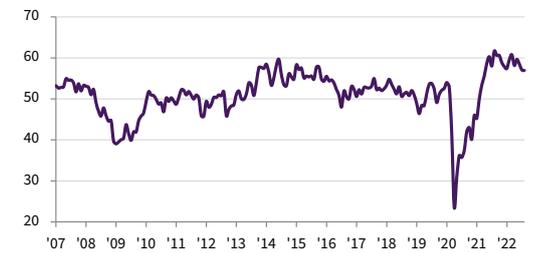
Backlogs continue to rise solidly

Outstanding work at London-based companies rose for the fourth straight month in August, and at a solid pace that was little-changed from July. Where higher backlogs were recorded, this was mainly attributed to new orders and staff shortages. Notably, London was the only monitored UK region to register an increase in backlogs during the latest month, as work-in-hand nationwide fell for the first time in one-and-a-half years.

Employment Index

sa, >50 = growth since previous month

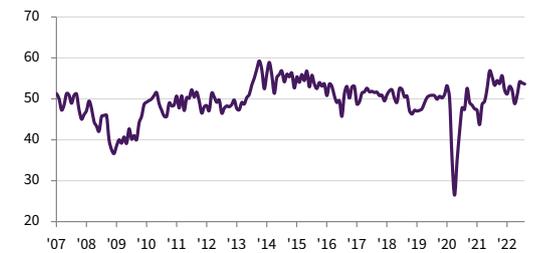
56.9
Aug '22



Outstanding Business Index

sa, >50 = growth since previous month

53.6
Aug '22



Prices

Input prices rise at softest rate since last December

August data gave further signs of a softening of input price pressures in the capital. The seasonally adjusted Input Prices Index dropped for the third successive month, to signal the weakest rise in cost burdens in 2022 so far. That said, the uptick in operating expenses was rapid overall and much faster than the series trend, with many companies reporting an increase over the month due to higher energy, supplier and salary costs.

The rate of input cost inflation in London was broadly aligned with the UK trend in August, with the sharpest increases seen in the South East and Northern Ireland.

Output charge inflation up fractionally in August

For the first time in three months, London-based companies registered a faster increase in average output charges in August, as the rate of inflation ticked up fractionally from July's four-month low. As well as the pass-through of greater input costs to clients, some businesses noted that higher demand levels had encouraged price rises. Nevertheless, the rate at which charges increased was softer than that seen across the UK as a whole.

Input Prices Index

sa, >50 = inflation since previous month

76.3

Aug '22

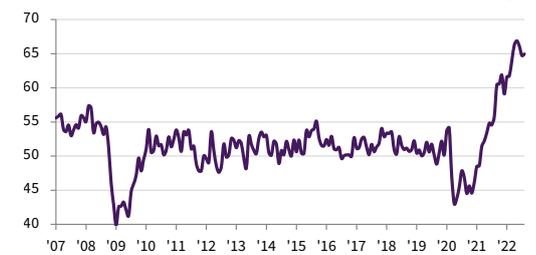


Prices Charged Index

sa, >50 = inflation since previous month

64.9

Aug '22



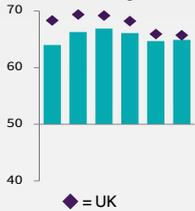
Input Prices Index

Mar '22 - Aug '22



Prices Charged Index

Mar '22 - Aug '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, Aug '22
1	Textiles & Clothing	2.54	48
2	Food & Drink	1.88	46
3	Timber & Paper	1.51	47
4	Other Manufacturing	1.14	49
5	Electrical & Optical	0.78	53
6	Mechanical Engineering	0.75	50
7	Basic Metals	0.65	49
8	Transport	0.56	48
9	Chemicals & Plastics	0.51	46

London specialisation: Services

Rank	Sector	LQ	UK Business Activity Index, Aug '22
1	Financial Intermediation	1.49	51
2	Computing & IT Services	1.06	56
3	Personal & Community Services	0.97	53
4	Business-to-business Services	0.97	50
5	Hotels, Restaurants & Catering	0.73	46
6	Transport & Communication	0.71	47

UK sector focus

Timber & Paper

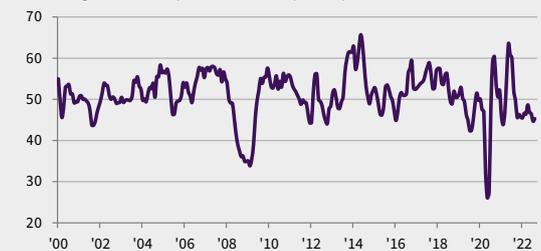
Latest UK PMI data showed a sustained downturn in activity across the Timber & Paper sector. Output levels fell sharply in the three months to August, maintaining a period of contraction stretching back a year.

Inflows of new orders decreased at an even faster rate, thereby leading to markedly reduced levels of outstanding business and a near-record build-up of finished goods. By contrast, pre-production inventories returned to contraction.

Positively, delays in the receipt of inputs were the lowest in almost two-and-a-half years. The easing of supply-chain pressures was further reflected in a moderation in the rate of input price inflation, down the lowest since the start of 2021, although it still remained elevated by historical standards. Similarly, there was a further sharp, albeit notably slower, rise in output prices across the sector.

Output Index

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



* 3-month moving average



UK Regional PMI overview

Business Activity

Just three out of the 12 monitored UK regions recorded a rise in business activity in August. Growth in London was solid but eased notably since July, whilst both the North West and Yorkshire & Humber recorded only modest rates of expansion. Activity fell elsewhere, with the steepest declines registered in the North East and East of England.

Employment

Despite signs of weakness in activity and demand, almost all regions recorded a rise in employment in August. The only exception was the North East, where workforce numbers fell for the third month running. Rates of job creation not only slowed, however, but they varied widely, with a further steep rise in workforce numbers in London contrasting with only marginal growth in the South West.

Future Activity

The majority of regions recorded a drop in business confidence towards the outlook in August. The three highest-ranked areas, Yorkshire & Humber, the South East and London, went against the broader trend and recorded improved sentiment, as did the East Midlands (ranked eighth). Expectations turned negative in the North East, while firms in Northern Ireland* grew more pessimistic.

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

Business Activity Index

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



Employment Index

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



Future Activity Index

>50 = growth expected over next 12 months, Aug '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
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
May '22	56.5	57.5	54.0	67.5	59.7	50.9	85.7	66.9
Jun '22	60.3	54.9	52.5	64.3	58.5	54.2	83.3	66.1
Jul '22	58.0	55.6	50.1	67.4	57.1	53.9	76.9	64.7
Aug '22	54.9	54.1	48.2	68.0	56.9	53.6	76.3	64.9

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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.

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