

NatWest London PMI®

Business activity rebounds sharply as demand strengthens

London Business Activity Index

Feb '23
56.0
Jan: 50.5

Sep '22 - Feb '23



Key findings

Output and new business rise sharply in February

Capacity pressures return as backlogs increase

Cost burdens ease, but charge inflation ticks higher

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 – rose sharply to 56.0 in February, from 50.5 in January, to indicate a marked and stronger improvement in business activity across the London private sector. The upturn reflected a similarly robust rise in new business intakes as respondents signalled that demand conditions were starting to improve.

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

"The surprisingly marked uplift in business activity during February added to evidence that the capital has begun the year in a much better place than at the end of 2022. Higher activity was predominantly linked to a sharp rise in client demand, leading firms to up their forecasts for future activity to an 11-month high. The improvement encouraged another rise in employment which, whilst modest, was the fastest recorded since last October."

"While cost burdens continued to ease, firms again signalled a reluctance to pass this moderation onto customers. In fact, the rate of output price inflation ticked up slightly for the second month running, providing further signals that pressure on consumer prices could remain severe for some time."

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.

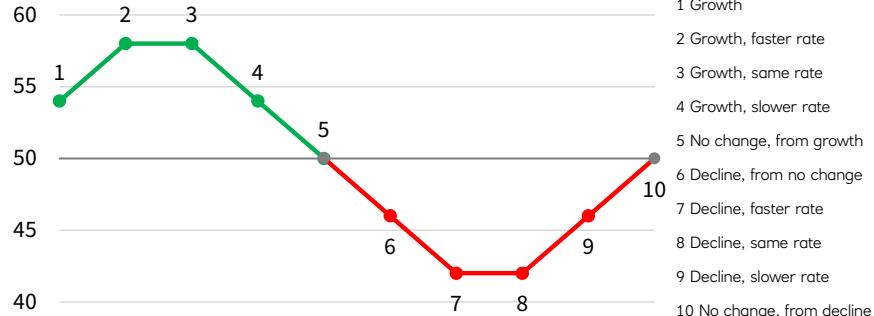
The headline figure is the Business Activity Index. This is a diffusion index

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

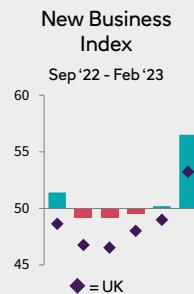


PMI®

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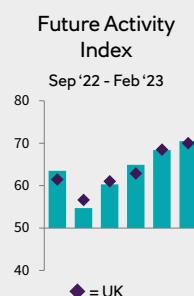
Demand and outlook



New business grows sharply in February

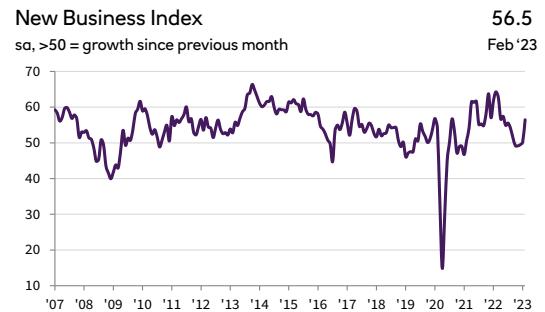
London private sector businesses registered a marked upturn in new order volumes midway through the first quarter of the year. The rate of growth accelerated notably from January and was the strongest seen for nine months. Moreover, the capital outperformed the UK average and recorded the strongest expansion in new orders out of the 12 monitored regions.

At the same time, new orders across the UK as a whole increased for the first time in seven months.



Business optimism picks up to 11-month high

February data indicated a further improvement in confidence levels at London private sector companies, shown by the Future Activity Index rising for the fourth month running. Overall, business expectations were at the highest level for 11 months, but remained broadly in line with the UK trend. Firms often mentioned that new product introductions and expansion into new markets supported optimism that activity will increase over the coming year.



Exports

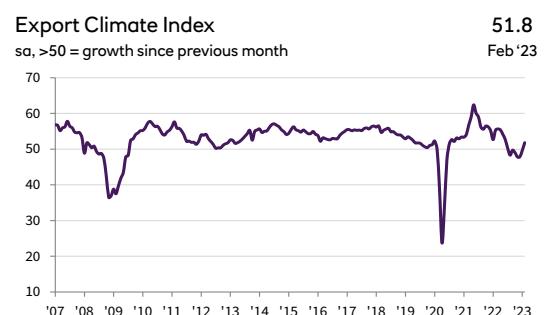


Export conditions improve for first time since July 2022

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 rose above the 50.0 neutral threshold for the first time in seven months in February, increasing to 51.8 from 49.6 in January, to indicate a modest improvement in the export climate for companies based in the capital.

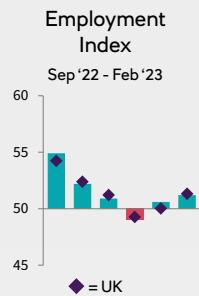
The upturn reflected activity expansions in all five of the city's top trading partners, led by a sharp increase in output across Ireland. France saw a modest uptick in activity, while improvements elsewhere were only marginal.



Top export markets, London

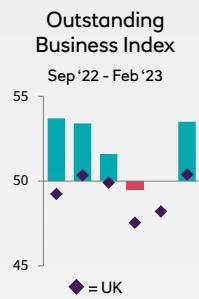
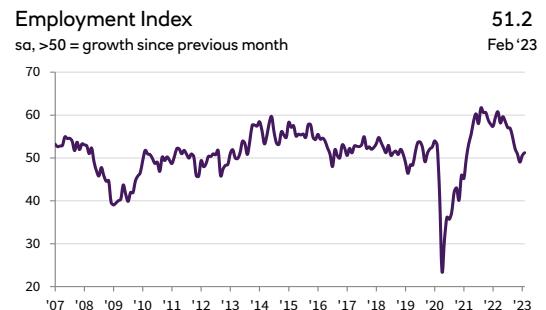
Rank	Market	Weight	Output Index, Feb '23
1	USA	31.4%	50.1
2	Ireland	8.9%	54.5
3	Netherlands	7.3%	50.4
4	Germany	7.0%	50.7
5	France	4.4%	51.7

Business capacity



Jobs growth picks up slightly, but remains modest

The rise in new orders sparked a further recovery in job levels at London-based firms in February. Employment increased for the second month running, after declining for the first time in 22 months at the end of last year. Though the latest rise in staffing levels was only modest, it was the fastest recorded since October 2022.

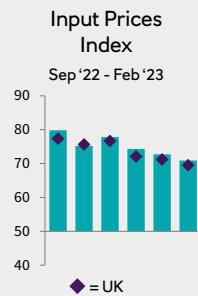


Capacity pressures reappear in February

Volumes of outstanding business across the London private sector grew for the first time in three months during February, and at a solid pace that was the fastest since last September. While panellists mainly linked the rise in backlogs to higher demand, others commented on staff and input shortages. Notably, the upturn was much sharper than that seen at the UK level.



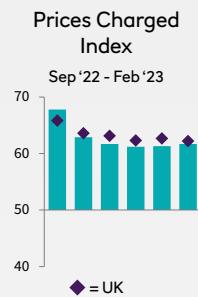
Prices



Cost pressures ease for third month running

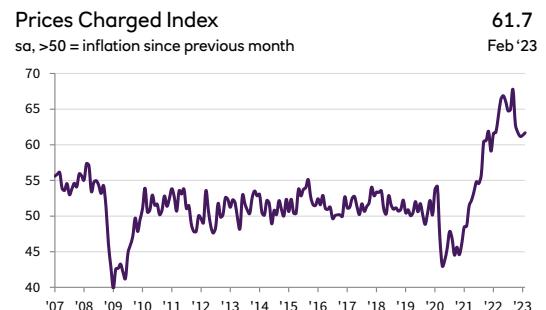
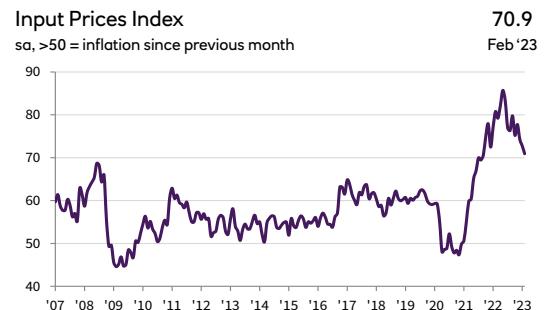
The rate of increase in input costs across the London private sector economy softened for the third month in succession in February, and was the weakest seen since September 2021. That said, the pace of inflation remained marked by historical standards, with 42% of respondents seeing their costs rise over the month, against 3% that registered a fall. Higher expenses were mainly attributed to a rise in salary costs.

Most notably, the rate of input cost inflation in London was the quickest seen of the 12 monitored regions for the first time since July 2019.



Output charge inflation ticks up again

In contrast to the slowing trend for input cost inflation, London businesses raised their output charges at a fractionally quicker pace for the second straight month in February. Companies often cited the need to pass rising wage costs onto their clients and to combat the effects of rapid inflation. However, the increase in charges was slightly softer than the national average.



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, Feb '23
1	Textiles & Clothing	2.54	52
2	Food & Drink	1.88	54
3	Timber & Paper	1.51	51
4	Other Manufacturing	1.14	50
5	Electrical & Optical	0.78	48
6	Mechanical Engineering	0.75	49
7	Basic Metals	0.65	47
8	Transport	0.56	46
9	Chemicals & Plastics	0.51	48

35 40 45 50 55 60

London specialisation: Services

Rank	Sector	LQ	UK Business Activity Index, Feb '23
1	Financial Intermediation	1.49	52
2	Computing & IT Services	1.06	51
3	Personal & Community Services	0.97	49
4	Business-to-business Services	0.97	51
5	Hotels, Restaurants & Catering	0.73	56
6	Transport & Communication	0.71	49

45 50 55 60

UK sector focus

Other Manufacturing

The UK's 'Other Manufacturing' sector - which comprises mainly consumer goods such as furniture, jewellery, sports items and household ceramics - saw a rise in production levels in the three months to February, following several months of declining output. Production was supported by easing supply constraints - the incidence of delivery delays having fallen sharply compared to the situation a year ago - which enabled businesses to catch up on backlogs of work.

Underlying demand continued to exhibit a weak trend, however, as underscored by a sustained decrease in new orders. That said, the rate of decline slowed in the three months to February and firms became more optimistic about the outlook.

Cost pressures in the sector meanwhile eased from the record high levels observed over the previous two years. Selling price inflation nevertheless remained historically elevated.

Output Index

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



*3-month moving average



UK Regional PMI overview

Business Activity

February saw a rise in business activity across all but one of the regions and nations monitored by the survey. The North East was the only exception, although output there did at least stabilise after a seven-month sequence of contraction. London recorded by far the strongest activity growth, registering its best performance since last July, with the South East a distant second place.

Employment

The number of areas recording an increase in employment rose from seven in January to ten in February, with the South West, East of England and Scotland each seeing renewed job creation. Northern Ireland was at the top of the rankings for workforce growth for a second straight month. Further decreases in employment were meanwhile recorded in both Wales and the North East.

Future Activity

There was an improvement in business confidence in two-thirds of areas in February. The most marked upswings in sentiment were in Northern Ireland and Scotland, although these two remained towards the bottom end of the scale for overall levels of optimism. Expectations were highest in the West Midlands, as was the case in January, and lowest in the North East, which saw confidence wane slightly.

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

Business Activity Index

sa, >50 = growth since previous month, Feb '23



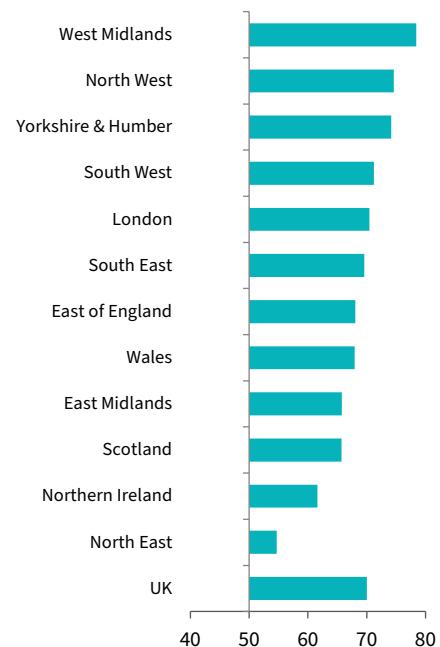
Employment Index

sa, >50 = growth since previous month, Feb '23



Future Activity Index

>50 = growth expected over next 12 months, Feb '23



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
Sep '22	52.0	51.4	49.7	63.5	54.9	53.7	79.8	67.8
Oct '22	49.7	49.2	49.0	54.7	52.2	53.4	75.2	62.9
Nov '22	48.2	49.2	47.8	60.3	50.9	51.6	77.8	61.7
Dec '22	50.2	49.5	47.8	64.9	49.0	49.5	74.3	61.2
Jan '23	50.5	50.2	49.6	68.4	50.6	50.0	72.7	61.3
Feb '23	56.0	56.5	51.8	70.5	51.2	53.5	70.9	61.7

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