

NatWest London PMI[®]

New orders return to growth at start of 2023

London Business Activity Index



Aug '22 - Jan '23



Key findings

Marginal increase in new business

Output and employment also rise

Business confidence at ten-month high

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 – ticked up to 50.5 in January from 50.2 in December, thereby signalling a second successive monthly increase in output across London’s private sector. The rise was slightly faster than at the end of 2022, but still marginal nonetheless. Output growth often reflected a renewed expansion in new orders.

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

"The start of 2023 has seen a more optimistic picture of the London economy emerge, following the doom and gloom of recent months. New orders returned to growth, helping lead to a further rise in activity and an increase in employment. Companies themselves are also more confident in the outlook for the year ahead, with sentiment at a ten-month high.

"Growth rates were only soft, however, and with inflation remaining elevated there are still challenging market conditions for firms to navigate. Despite this, the picture for 2023 is certainly looking a bit brighter."

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

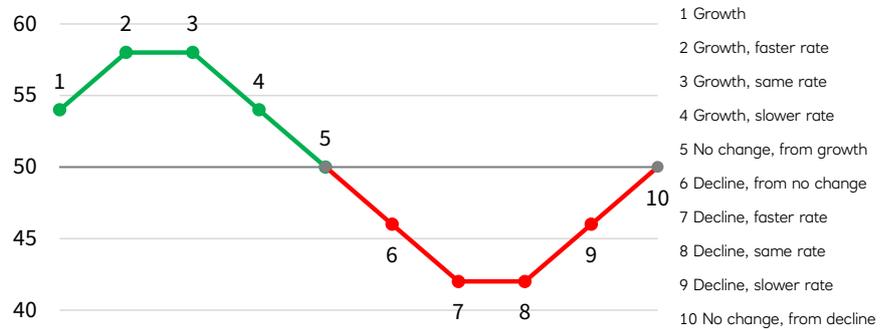
calculated from a single question that asks for changes in the volume of business activity (at service providers) or output (at manufacturers) compared with one month previously. The London Business Activity Index is comparable to the UK Composite Output Index. It is sometimes referred to as the 'London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

January data signalled a renewed expansion in new orders in the London private sector, thereby ending a three-month sequence of contraction. That said, the pace of increase was only marginal as economic conditions remained challenging.

Growth in the capital compared favourably with the UK as a whole, where new orders continued to fall.

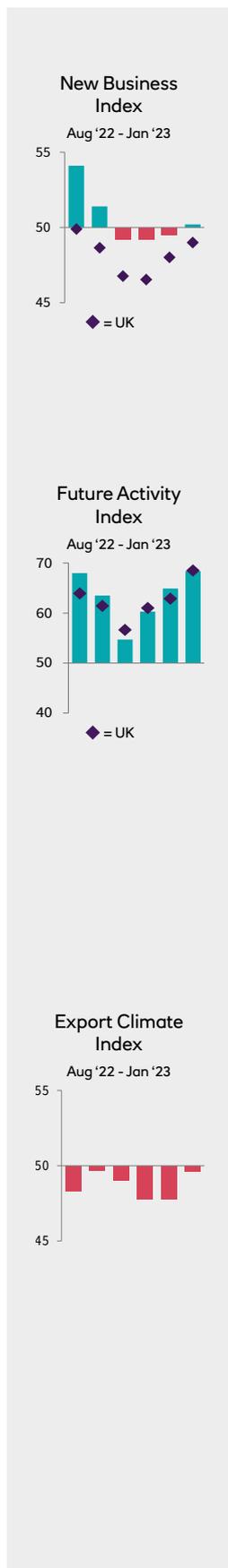
New Business Index 50.2
sa, >50 = growth since previous month Jan '23



Optimism strengthens further in January

Business confidence improved for the third successive month in January and was the highest since March 2022. Some tentative signs of improvement in market conditions and expected growth of new business were behind the positive outlook, which was broadly in line with the UK average. Just over half of respondents predicted activity to rise over the coming year, against 14% that were pessimistic.

Future Activity Index 68.4
>50 = growth expected over next 12 months Jan '23



Exports

Near stabilisation in export demand conditions

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 ECI rose to 49.6 in January, up from 47.8 in December and pointing to a near stabilisation of the export climate at the start of the year. The marginal deterioration in demand conditions was the softest in four months.

There were signs of improvement across four of the five largest export markets for London companies. Rising output was seen in Ireland and the Netherlands, while softer declines were registered in the US and Germany.

Export Climate Index 49.6
sa, >50 = growth since previous month Jan '23



Top export markets, London

Rank	Market	Weight	Output Index, Jan '23
1	USA	31.4%	46.8
2	Ireland	8.9%	52.0
3	Netherlands	7.3%	50.7
4	Germany	7.0%	49.9
5	France	4.4%	49.1

Business capacity

Employment Index



Slight increase in employment

After having fallen for the first time in 22 months during December, employment ticked up in January. The rise in staffing levels was marginal, with growth often reflecting business investment according to surveyed companies.

The increase in employment in the capital compared with no change in staffing levels across the UK as a whole.

Employment Index

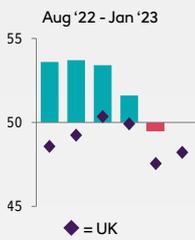
sa, >50 = growth since previous month

50.6

Jan '23



Outstanding Business Index



Backlogs of work stable in January

London companies signalled no change in their backlogs of work at the start of 2023, following a marginal reduction in the previous month. Staff and material supply shortages led some firms to see a build-up in outstanding business, but soft new order inflows in recent months meant a general lack of pressure on capacity.

While backlogs of work were stable in London, they fell across all other parts of the UK.

Outstanding Business Index

sa, >50 = growth since previous month

50.0

Jan '23



Prices

Further slowdown in input price inflation

Although input prices continued to increase rapidly in the opening month of 2023, the rate of inflation softened for the second month running and was the weakest since December 2021.

Higher wage costs were often reported by those panellists that saw input prices increase over the month. The rise in London was the third-fastest of the 12 monitored regions, behind only the East Midlands and Northern Ireland.

Input Prices Index

sa, >50 = inflation since previous month

72.7

Jan '23



Output price inflation remains elevated

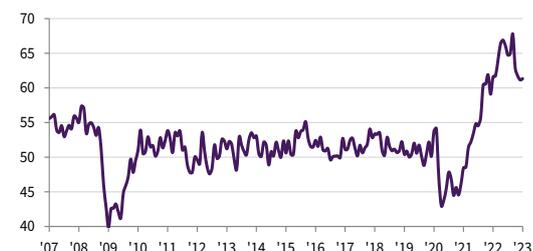
The rate of output price inflation in January was broadly in line with that seen in December, thereby remaining among the sharpest on record. The passing on of higher input costs to customers was the main factor leading charges to rise, according to respondents. Although elevated, the pace of inflation in London was softer than the UK average.

Prices Charged Index

sa, >50 = inflation since previous month

61.3

Jan '23



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, Jan '23
1	Textiles & Clothing	2.54	45
2	Food & Drink	1.88	55
3	Timber & Paper	1.51	40
4	Other Manufacturing	1.14	50
5	Electrical & Optical	0.78	50
6	Mechanical Engineering	0.75	50
7	Basic Metals	0.65	50
8	Transport	0.56	50
9	Chemicals & Plastics	0.51	50

London specialisation: Services

Rank	Sector	LQ	UK Business Activity Index, Jan '23
1	Financial Intermediation	1.49	45
2	Computing & IT Services	1.06	55
3	Personal & Community Services	0.97	50
4	Business-to-business Services	0.97	50
5	Hotels, Restaurants & Catering	0.73	50
6	Transport & Communication	0.71	50

UK sector focus

Personal & Community Services

After seeing activity levels decline in the latter stages of last year, the UK's Personal & Community Services sector started 2023 on a more stable footing. Key to this was a renewed, albeit marginal, upturn in inflows of new businesses in the three months to January.

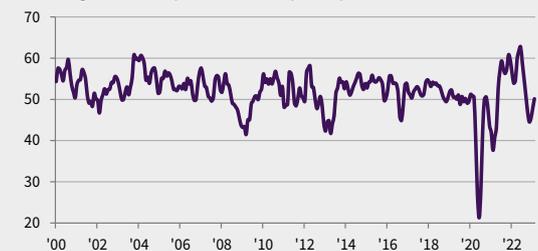
However, with survey data showing a lack of pressure on operating capacity, as evidenced by a marked and accelerated reduction in backlogs of work, firms reduced workforce numbers.

On the cost front, the rate of input price inflation eased only slightly and remained close to the record highs seen in 2022. Of the services sub-sectors mentioned, it was second only to that recorded by Hotels, Restaurants & Catering. Prices charged by Personal & Community Services firms meanwhile rose to the greatest extent since mid-2022.

Positively, expectations towards the year ahead improved, although they remained subdued by historical standards.

Output Index

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



* 3-month moving average



UK Regional PMI overview

Business Activity

London was alone among the 12 UK regions monitored by the survey in recording higher activity in January. The rate of growth in the capital remained only marginal, however. There were renewed downturns in output in both Wales and the North West, while the steepest decrease in activity was once again recorded in Northern Ireland.

Employment

Seven of the 12 regions and nations monitored posted a rise in employment in January, up from just four in December. Northern Ireland topped the rankings, registering its steepest rise in workforce numbers for six months, ahead of the West Midlands. The most marked fall in employment was in the North East, as had been the case in the previous survey period.

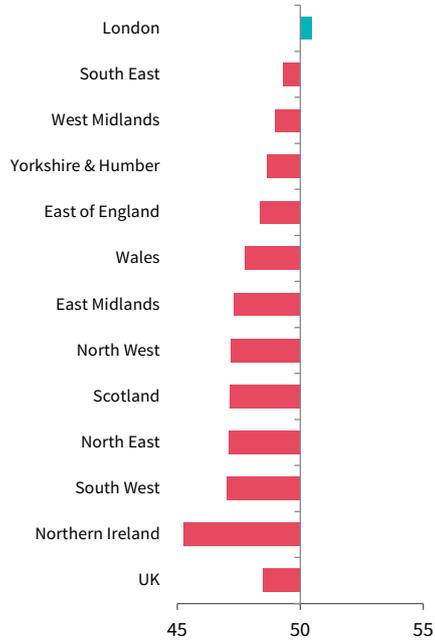
Future Activity

January data showed a broad-based improvement in business expectations. The greatest increase in confidence was recorded in the West Midlands, which also saw the strongest overall optimism. Sentiment in Northern Ireland turned positive for the first time in nine months, although it remained lower than in any other region or nation.

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

Business Activity Index

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



Employment Index

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



Future Activity Index

>50 = growth expected over next 12 months, Jan '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
Aug '22	54.9	54.1	48.3	68.0	56.9	53.6	76.3	64.9
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

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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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