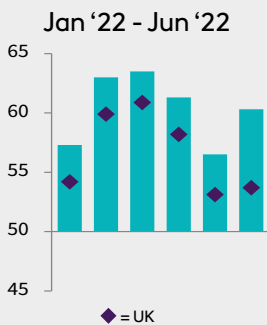




NatWest London PMI[®]

New business growth slides to nine-month low in June

London Business Activity Index



Key findings

Demand momentum softens amid economic uncertainty

Output growth improves, while hiring remains strong

Inflationary pressures show signs of peaking

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 – posted at 60.3 in June, up from 56.5 in May, to signal a robust and faster increase in private sector activity at the midpoint of the year. Surveyed businesses often attributed the expansion to an increase in travel activity and new orders. However, the rising cost of living, uncertainty over interest rates and the war in Ukraine reportedly dampened the upturn.

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

"The London economy performed well in June when viewing through the lens of activity and employment data, which continued to signal the sharpest rates of growth out of the 12 monitored UK regions. There were also signs of a slight easing of inflationary pressures, albeit with input costs still rising at the second-quickest pace in 26 years.

"However, the forward-looking survey indicators appear more challenging. New orders at London firms rose at the joint-softest pace since March 2021, amid reports of customers withholding their spending in the face of rapid inflation and rising living costs. Moreover, companies now have the weakest year-ahead output sentiment since May 2020, a factor that is likely to soften hiring efforts and expansion plans in the near-term."

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

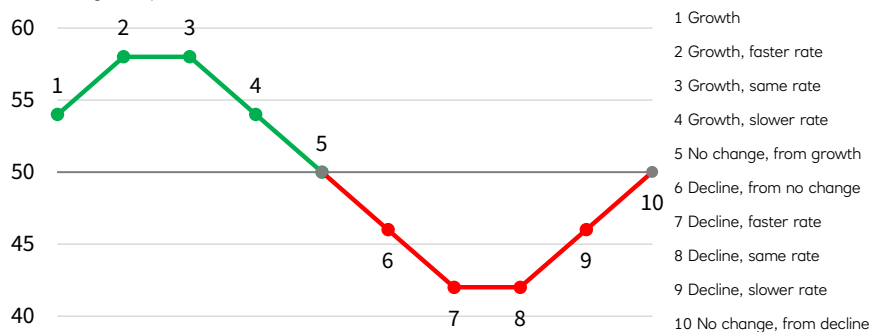
calculated from a single question that asks for changes in the volume of business activity (at service providers) or output (at manufacturers) compared with one month previously. The London Business Activity Index is comparable to the UK Composite Output Index. It is sometimes referred to as the 'London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

Cost of living crisis hits new business inflows

Adjusted for seasonal factors, the New Business Index fell to its lowest level since September 2021 in June, and the joint-lowest for 15 months. According to panellists, the cost-of-living crisis and concerns about a possible recession led to a slowdown in client spending, partly offsetting more positive reports of new customers and improving demand.

That said, the index was still indicative of a sharp increase in sales over the course of the month. Furthermore, it kept London at the top of the regional rankings.

Weakest business confidence since first COVID-19 lockdown

The outlook for future output growth was further constrained by inflation and recession fears in June. The proportion of respondents expecting activity to rise over the next 12 months dropped to 44%, against 15% that forecast a decline. Overall, the degree of sentiment slipped to the lowest since May 2020 during the initial COVID-19 wave.

Exports

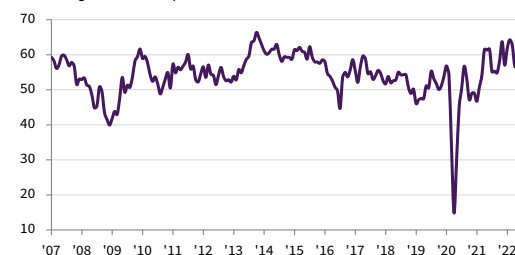
Softest improvement in export climate since November 2020

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.

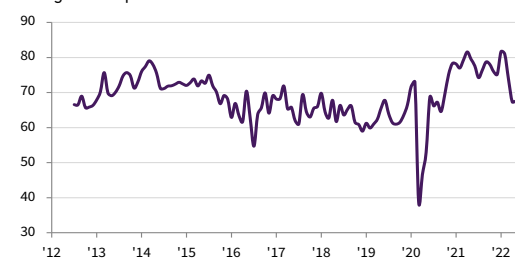
Falling for the third successive month, the London Export Climate Index posted at 52.5 in June, down from 54.0 in May, to signal a moderate improvement in export conditions. The index was at its lowest level in just over a year-and-a-half.

Weaker output growth was seen across all of London's top export markets at the end of the quarter. Ireland and France both saw a marked slowdown since May, with the former registering the softest rise in activity for 16 months.

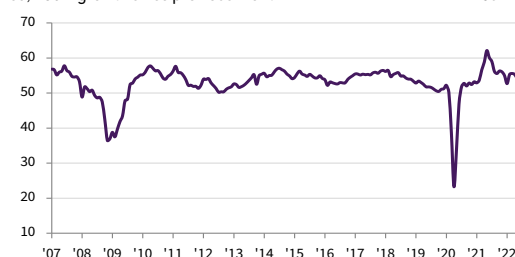
New Business Index
sa, >50 = growth since previous month
54.9
Jun '22



Future Activity Index
>50 = growth expected over next 12 months
64.3
Jun '22



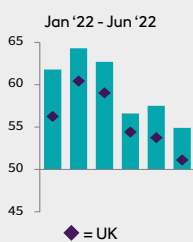
Export Climate Index
sa, >50 = growth since previous month
52.5
Jun '22



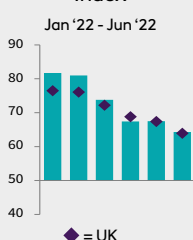
Top export markets, London

Rank	Market	Weight	Output Index, Jun'22
1	USA	26.8%	52.3
2	Ireland	9.0%	52.8
3	Germany	6.9%	51.3
4	Netherlands	6.8%	52.1
5	France	5.0%	52.5

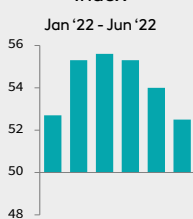
New Business Index



Future Activity Index



Export Climate Index



Business capacity

Employment growth sustained at marked level

London-based firms continued to add to their staffing numbers at the midpoint of the year, despite signs of an economic slowdown. The rate of employment growth was down fractionally since May, but remained among the quickest recorded in the survey's history.

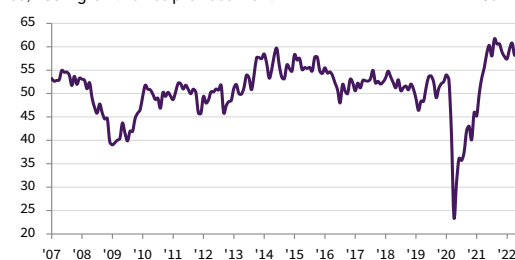
Firms that registered an increase in staffing cited efforts to grow their business and replace workers lost during the pandemic. That said, some respondents noted that rising costs had led them to reduce their workforces.

Employment growth in the capital was again the strongest recorded across the UK.

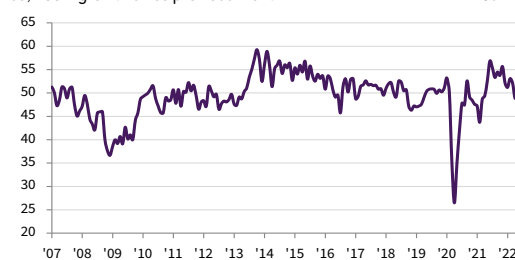
Outstanding business rises sharply

June survey data pointed to a second consecutive monthly rise in work outstanding at London-based companies, and one that was both sharp overall and considerably faster than in May. According to anecdotal evidence, the uplift was mostly linked to delays completing projects, in turn attributed to slower customer payments and supply shortages. The marked rise in backlogs compared with only a marginal increase at the national level.

Employment Index 58.5
sa, >50 = growth since previous month Jun '22



Outstanding Business Index 54.2
sa, >50 = growth since previous month Jun '22

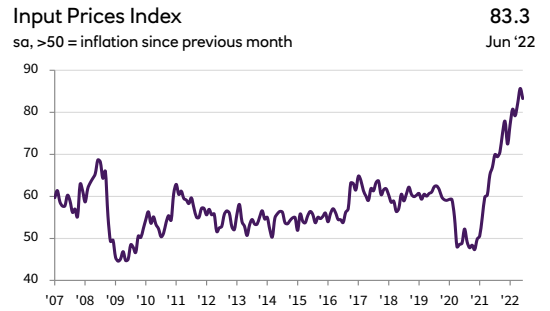


Prices

Cost inflation eases, but remains second-highest on record

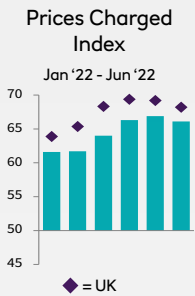
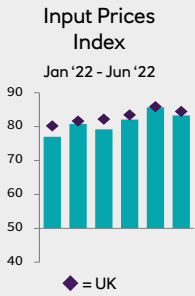
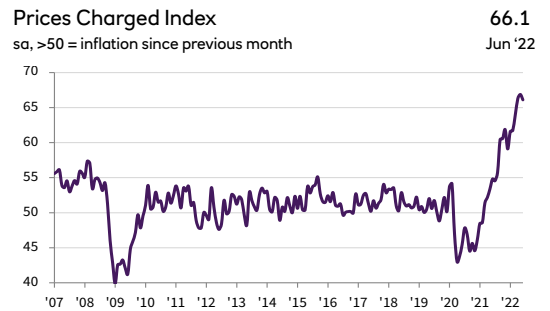
Inflationary pressures continued to drive business costs sharply higher in the capital in June. The seasonally adjusted Input Prices Index dipped from May's survey-record high (since 1996) but remained at its second-highest level ever. Anecdotal evidence suggested that cost rises came from a wide variety of sources, most notably energy prices and wages.

Mirroring the trend seen in London, input prices across the UK rose at their second-highest rate on record in June, albeit to a slightly softer degree than in May.



Output charge inflation down fractionally to three-month low

Similar to input prices, the pace at which output charges increased in London was slightly softer than May's series-record at the end of the second quarter, and the least marked for three months. That said, the rate of inflation was still quicker than in any month prior to this. Almost a third of surveyed companies (32%) raised their charges over the course of June, compared to 4% that registered a fall.



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, Jun '22 ⁺
1	Textiles & Clothing	2.54	50
2	Food & Drink	1.88	50
3	Timber & Paper	1.51	50
4	Other Manufacturing	1.14	55
5	Electrical & Optical	0.78	58
6	Mechanical Engineering	0.75	58
7	Basic Metals	0.65	55
8	Transport	0.56	52
9	Chemicals & Plastics	0.51	50

London specialisation: Services

Rank	Sector	LQ	UK Business Activity Index, Jun '22 ⁺
1	Financial Intermediation	1.49	55
2	Computing & IT Services	1.06	58
3	Personal & Community Services	0.97	58
4	Business-to-business Services	0.97	52
5	Hotels, Restaurants & Catering	0.73	50
6	Transport & Communication	0.71	50

UK sector focus

Textiles & Clothing

Latest data showed a decline in production levels across the UK's Textiles & Clothing sector during the second quarter. It was one of three manufacturing categories (out of nine monitored) to record lower output, alongside Timber & Paper and Food & Drink.

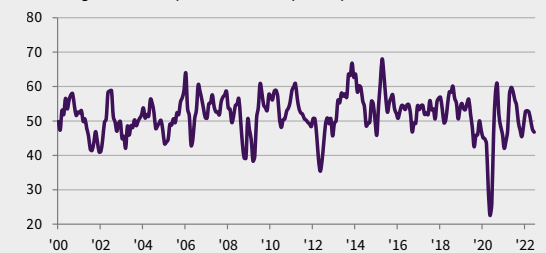
Weaker underlying demand was a driving factor, with inflows of new work falling in the three months to June. This was despite a slight upturn in export sales over the same period.

Cost pressures continued to build across the Textiles & Clothing sector during the second quarter, reaching a near-record high. With many firms looking to pass on at least part of the burden to customers, output price inflation quickened to a rate unseen for over two decades.

Positively, and despite waning business confidence, employment in the sector continued to rise, with the rate of job creation quickening to a 12-month high.

Output Index

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



* 3-month moving average



UK Regional PMI overview

Business Activity

Regional performances varied markedly in terms of business activity in June. London led the growth rankings by some margin with a steep and accelerated rise in output. However, three areas recorded lower business activity, one being Northern Ireland*, where output fell for the second month running and at the quickest rate since February 2021.

Employment

Employment rose in almost every region in June, the only exception being the North East. Here, staffing numbers fell - albeit fractionally - for the second time in the past three months. London recorded the strongest rate of job creation, as has been the case in each month since February. Five areas recorded a slower rate of employment growth than the month before, however.

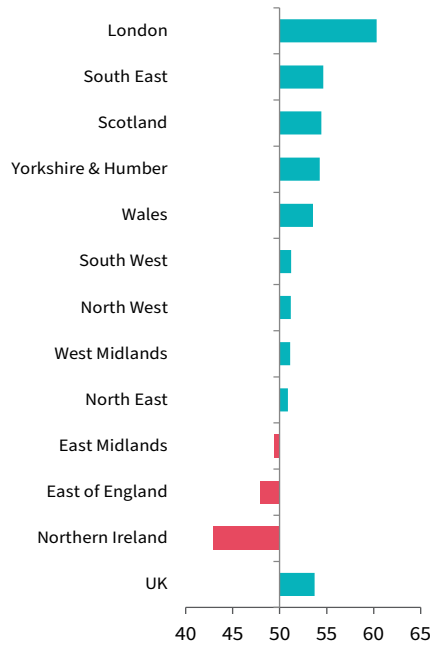
Future Activity

Firms' expectations for activity in the year ahead generally worsened in June. Of the 12 monitored areas, only the West Midlands and Wales recorded stronger business confidence. Despite seeing sentiment weaken, Yorkshire & Humber remained the most optimistic region. Expectations were lowest in Northern Ireland, where they turned more pessimistic.

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

Business Activity Index

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



Employment Index

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



Future Activity Index

>50 = growth expected over next 12 months, Jun '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
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
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

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