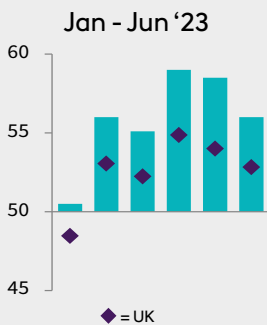




# NatWest London PMI<sup>®</sup>

## London economy continues to perform well despite slower rise in new business

### London Business Activity Index



### Key findings

Demand growth softens to five-month low

Output continues to rise sharply, as staffing growth quickens

Cost inflation remains highest of all UK regions

The headline NatWest London PMI<sup>®</sup> 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 56.0 in June, from 58.5 in May, to signal another sharp expansion in business activity at the end of the first half of the year. Survey panellists related higher output to a further uplift in sales, although greater economic uncertainty and rising interest rates meant that underlying demand growth softened markedly.

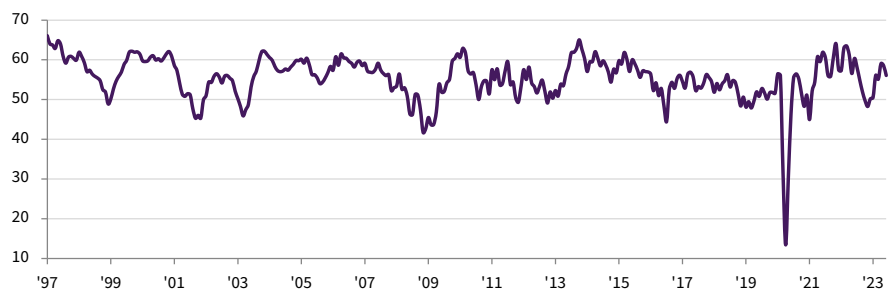
Catherine van Weenen, NatWest London and the South East Regional Board, commented:

*"London remained the standout region of the UK economy in June with the sharpest expansions of both activity and new business of the 12 monitored areas, yet the capital was not immune to a slowdown in growth. While continuing to signal a sharp upturn overall, new business rose at a much slower pace than in May, as some firms cited that economic uncertainty and rising interest rates had dampened client spending.*

*"Wage pressures also continued to take their toll, with cost inflation remaining marked as a result and businesses opting to raise their charges sharply. Nevertheless, higher new orders, workload pressures and improved candidate availability allowed firms to increase their headcounts at the fastest rate since August last year."*

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

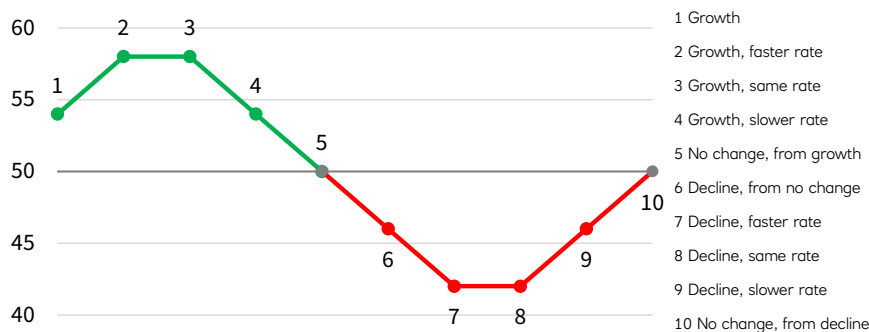
calculated from a single question that asks for changes in the volume of business activity (at service providers) or output (at manufacturers) compared with one month previously. The London Business Activity Index is comparable to the UK Composite Output Index. It is sometimes referred to as the 'London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

### Index interpretation

50.0 = no change since previous month

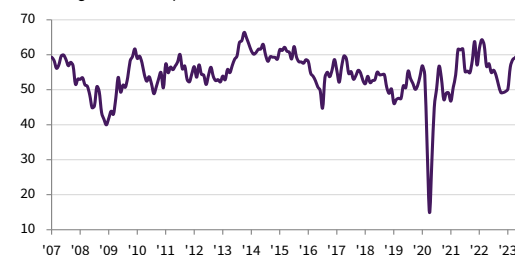


## Demand and outlook

### New business rises, but growth slows sharply

As has been the case throughout 2023 so far, London private sector businesses saw an increase in their new work intakes during June. The pace of growth was sharp and much stronger than the trend seen across the UK as a whole. However, it softened markedly from the previous survey period and was the slowest since January. Some firms indicated that rising interest rates and associated economic uncertainty led to a slowdown in client demand.

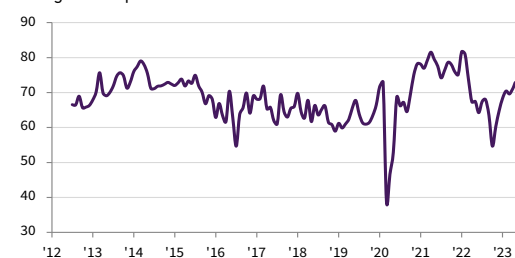
**New Business Index** 54.9  
sa, >50 = growth since previous month Jun '23



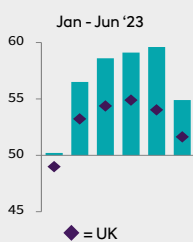
### Business confidence slips to six-month low

London firms were slightly less confident in the outlook for business activity at the end of the second quarter. The Future Activity Index slipped from its recent high in May and was the lowest seen in 2023 to date. That said, with 49% of businesses expecting an increase in output over the next 12 months compared to 13% predicting a decline, the outlook remained broadly positive and stronger than seen throughout most of last year.

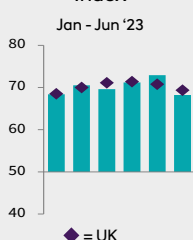
**Future Activity Index** 68.2  
>50 = growth expected over next 12 months Jun '23



**New Business Index**



**Future Activity Index**



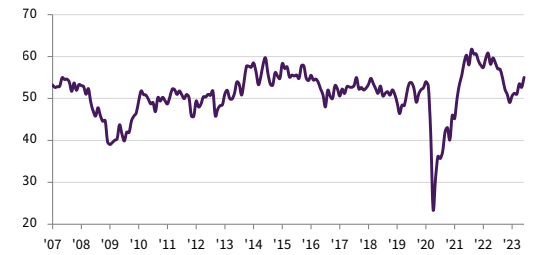
## Business capacity

### Staff numbers increase at fastest rate since last August

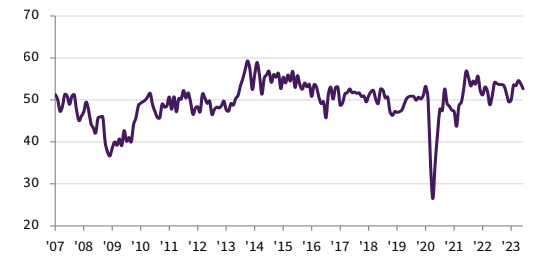
London-based companies indicated a stronger round of hiring at the end of the second quarter of the year, as the latest data pointed to the sharpest uptick in employment for ten months. Panellists often stated that rising new business, higher unfinished work and the improved availability of staff in some sectors had encouraged them to make additions to staffing.

Notably, London moved to the top of the regional rankings for employment in June, and compared with a more modest rise in staffing at the national level.

Employment Index  
sa, >50 = growth since previous month  
55.0  
Jun '23



Outstanding Business Index  
sa, >50 = growth since previous month  
52.7  
Jun '23



Employment Index  
Jan - Jun '23



Outstanding Business Index  
Jan - Jun '23



### Backlogs growth slows, but remains solid

Demand strength in the capital continued to drive an increase in backlogs of work during June, the fifth time in as many months where a rise has been recorded. The latest accumulation of unfinished orders was solid, despite slowing to the least marked pace in the five-month period. By contrast, backlogs across the UK fell for the second straight month and at a quicker pace than in May.

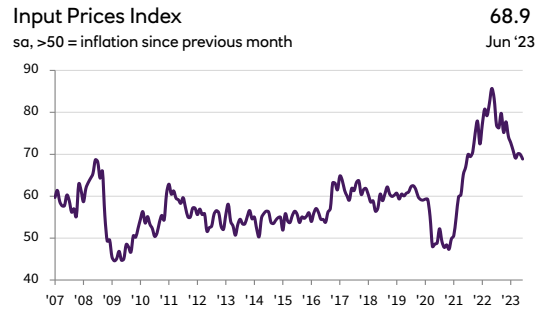


## Prices

### Cost inflation in London remains highest of all monitored regions

Companies in London struggled with a further sharp uplift in costs over June, fuelled by rapid wage inflation and rising interest rates, anecdotal evidence showed. Despite easing from the previous month to the lowest in two years, the seasonally adjusted Input Prices Index remained historically high with nearly 35% of respondents noting an increase in costs.

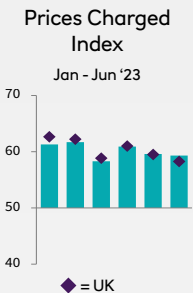
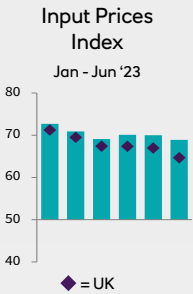
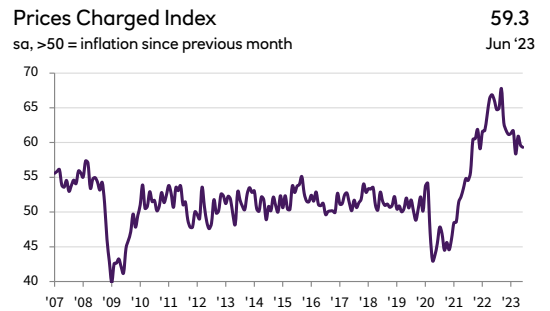
Of the 12 monitored UK areas, London again posted the fastest rise in input prices during June, continuing the trend that began in February.



### Output charges continue to rise sharply

Businesses continued to report a marked increase in selling charges at the end of the first half of the year, in a sustained bid to pass higher costs through to customers. Over 22% of firms registered a rise in June, against 6% that noted a decrease. The overall rate of charge inflation eased to the softest since March, however, and was one of the weakest seen in the past two years.

The South East posted the fastest uptick in output charges of the monitored UK areas in June, followed closely by London. At the national level, charge inflation slowed to the softest recorded since April 2021.



## 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 '23
1	Textiles & Clothing	2.54	48
2	Food & Drink	1.88	52
3	Timber & Paper	1.51	42
4	Other Manufacturing	1.14	50
5	Electrical & Optical	0.78	51
6	Mechanical Engineering	0.75	49
7	Basic Metals	0.65	48
8	Transport	0.56	55
9	Chemicals & Plastics	0.51	49

#### London specialisation: Services

Rank	Sector	LQ	UK Business Activity Index, Jun '23
1	Financial Intermediation	1.49	58
2	Computing & IT Services	1.06	62
3	Personal & Community Services	0.97	52
4	Business-to-business Services	0.97	51
5	Hotels, Restaurants & Catering	0.73	52
6	Transport & Communication	0.71	48

## UK sector focus

### Food & Drink

The UK's Food & Drink sector enjoyed a strong second quarter, posting its fastest rise in output for two years. It saw the quickest rate of expansion of the nine manufacturing sectors monitored.

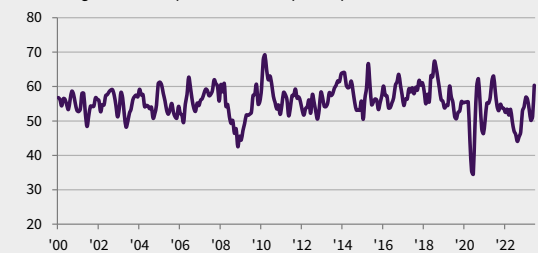
Growth of Food & Drink production in the three months to June was driven by a sharp upturn in demand. This was underscored by a steep and accelerated rise in inflows of new work across the sector.

On the price front, latest data showed a considerable slowdown in the rate of input cost inflation to the lowest for over seven years. This is turn contributed to a slower rise in prices charged, the weakest since Q2 2020.

With firms reporting declining backlogs of work, they showed a reluctance to hire as employment in the sector fell slightly in the three months to June. This was despite strong optimism towards the year-ahead outlook.

#### Output Index

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



\* 3-month moving average



## UK Regional PMI overview

### Business Activity

Just seven out of the 12 monitored regions and nations recorded growth in business activity in June, the fewest since January. London was once again the best performer but posted its slowest rise in output for three months. Only Scotland (ranked third), Northern Ireland\* (fifth) and the East of England (sixth) saw growth accelerate. The steepest drop in activity was in Wales.

### Employment

A rise in employment was recorded in all areas except Wales, where workforce numbers were unchanged following a five-month sequence of job losses. London recorded the steepest rise in staffing levels, its sharpest since August last year, followed by Northern Ireland and the East of England. Last month's leader for job creation, Scotland, moved down to eighth in the rankings.

### Future Activity

Business confidence weakened in the majority of regions and nations in June. The biggest drop in expectations was in the North East, which slipped to the bottom of the rankings. The South East recorded the greatest optimism and was one of the few areas where sentiment improved, along with the South West, East Midlands and North West.

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

#### Business Activity Index

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



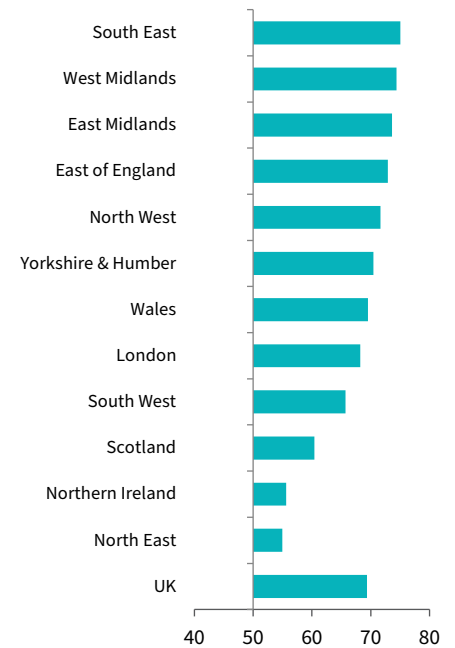
#### Employment Index

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



#### Future Activity Index

>50 = growth expected over next 12 months, Jun '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
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
Mar '23	55.1	58.6	52.0	69.6	51.0	53.4	69.1	58.3
Apr '23	59.0	59.1	53.4	71.2	53.5	54.6	70.1	60.9
May '23	58.5	59.6	53.0	72.9	52.7	53.9	70.0	59.6
Jun '23	56.0	54.9	51.9	68.2	55.0	52.7	68.9	59.3

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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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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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