

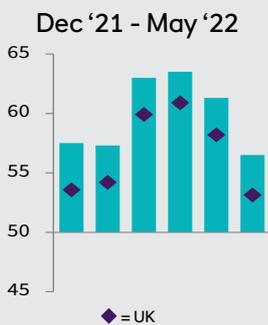


NatWest

NatWest London PMI[®]

Activity growth slides to eight-month low as price gauges hit new record highs

London Business Activity Index



Key findings

Output growth drops to eight-month low, but remains strong

Robust demand and staff shortages continue to drive hiring efforts

Input price and output charge inflation hit fresh record highs

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 – declined for the second consecutive month in May, dropping to 56.5 from 61.3 in April. Despite signalling a robust expansion, the rate of activity growth was the softest recorded since September 2021. According to survey respondents, higher demand, increased staffing and new products drove output higher, but this was partly tempered by concerns about inflation and rising interest rates.

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

"London remained the strongest-performing region of the UK in May, according to the PMI survey data, yet followed the national trend by moving closer to a "stagflationary" period - characterised by high inflation and low (or negative) growth. Whilst solid overall, the rise in business activity was the softest seen for eight months, as a number of firms commented that sharply rising prices and concerns over interest rates had offset demand. At the same time, input price inflation accelerated to a record level, leading businesses to also raise their output charges at a record pace. On the positive side, improving tourism, greater office use and new product releases supported a robust pace of sales growth, as well as a further strong rise in staffing."

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

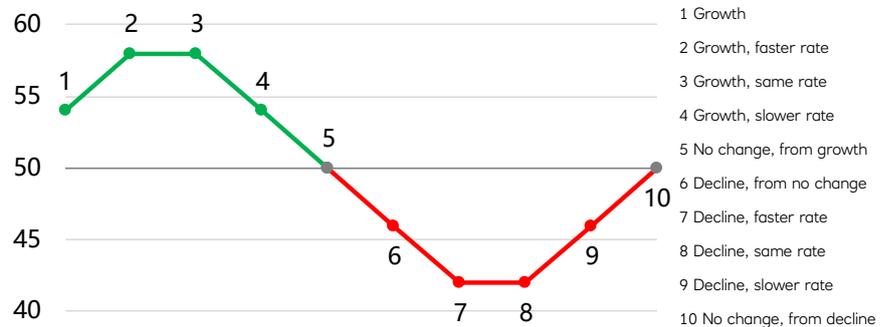
calculated from a single question that asks for changes in the volume of business activity (at service providers) or output (at manufacturers) compared with one month previously. The London Business Activity Index is comparable to the UK Composite Output Index. It is sometimes referred to as the 'London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

Private sector companies in the capital registered a further sharp expansion in new order inflows during May. The pace of increase quickened slightly from the previous survey period, contrasting with a slowdown across the UK as a whole. That said, the upturn remained much softer than those seen in the first quarter of the year. Reports of increased travel, higher client demand and a return to offices supported total sales, according to panellists, but worries over inflation and a possible recession later in the year partly dampened growth.

Confidence broadly unchanged from April's 19-month low

London-based firms continued to signal a relatively weak level of optimism for future activity compared to recent trends in May, with confidence rising only fractionally from April's 19-month nadir. While a number of firms continued to see potential for sales growth and benefits from investment, some feared an economic slowdown primarily as a result of high inflation. The level of confidence was broadly aligned with the UK average.

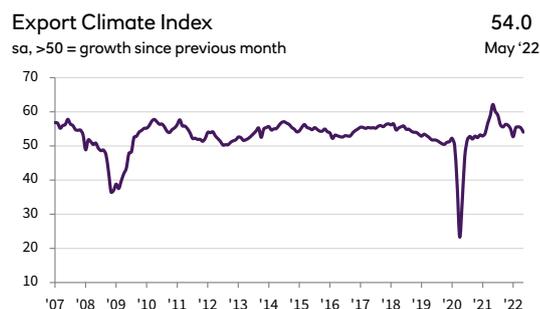
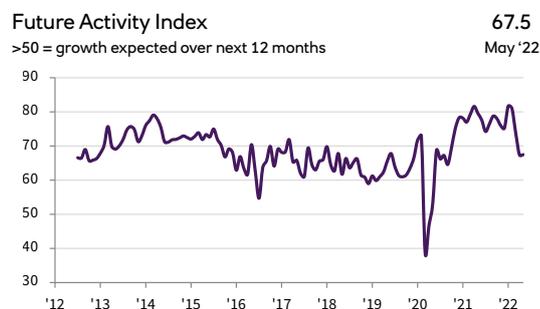
Exports

Export conditions improve strongly, but growth softens

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.

At 54.0, the London Export Climate Index dropped from 55.3 in April to a four-month low in May, but continued to signal a solid improvement in export conditions.

All five of London's top export markets recorded a softer rate of output growth in May, with the US seeing the greatest slowdown. That said, there were still sharp expansions in Ireland and France, while the remaining countries saw a solid uplift in activity.



Top export markets, London

Rank	Market	Weight	Output Index, May'22
1	USA	26.8%	53.6
2	Ireland	9.0%	57.5
3	Germany	6.9%	53.7
4	Netherlands	6.8%	53.1
5	France	5.0%	57.0



Business capacity

Staff numbers continue to rise steeply

London companies added to their employment levels again in May, amid reported efforts to fill vacancies, meet new orders and recover lost capacity from the pandemic. Notably, there was a renewed uptick in the rate of job creation, which remained one of the fastest seen in the survey history and stronger than the UK trend.

Employment Index
sa, >50 = growth since previous month
59.7
May '22



Renewed increase in backlogs of work

After decreasing for the first time in 12 months in April, outstanding business rose during May. That said, the rate of accumulation was only slight and broadly in line with the average recorded across the UK. While some respondents indicated that higher new order inflows led to a rise in backlogs, others noted that demand levels were manageable.

Outstanding Business Index
sa, >50 = growth since previous month
50.9
May '22



Prices

Cost pressures climb further in May

There was little sign of inflationary pressures abating in the capital during May, with firms once again reporting a record uplift in overall input costs. The rate of inflation accelerated for the fourth time in five months and was only fractionally below that seen in the UK as a whole. According to panellists, rising salary pressures was the chief factor influencing business costs, though higher fuel and material prices were also mentioned.

Input Prices Index **85.7**
 sa, >50 = inflation since previous month
 May '22

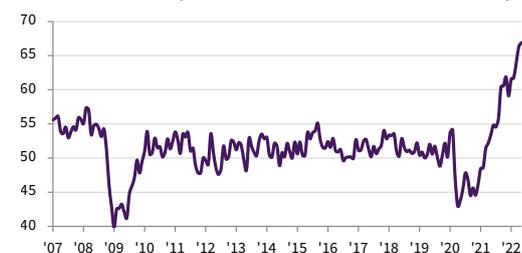


Selling charge inflation hits record high again

Similar to input prices, the pace at which output charges rose quickened to a record high for the third month running in May. Firms that raised their selling prices often cited the need to pass through rising cost burdens to clients, although some companies chose to absorb these costs for the time being.

At the national level, output charge inflation was slightly softer compared to April, but remained firmly above that registered in London.

Prices Charged Index **66.9**
 sa, >50 = inflation since previous month
 May '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, May '22*
1	Textiles & Clothing	2.54	48
2	Food & Drink	1.88	50
3	Timber & Paper	1.51	48
4	Other Manufacturing	1.14	55
5	Electrical & Optical	0.78	58
6	Mechanical Engineering	0.75	55
7	Basic Metals	0.65	58
8	Transport	0.56	55
9	Chemicals & Plastics	0.51	52

London specialisation: Services

Rank	Sector	LQ	UK Business Activity Index, May '22*
1	Financial Intermediation	1.49	55
2	Computing & IT Services	1.06	60
3	Personal & Community Services	0.97	65
4	Business-to-business Services	0.97	55
5	Hotels, Restaurants & Catering	0.73	60
6	Transport & Communication	0.71	50

UK sector focus

Transport & Communication

The UK's Transport & Communication sector saw only a modest rise in business activity in the three months to May. Although the rate of growth was the fastest seen since the three months to January, it was the slowest among the six services-related sectors monitored by the survey.

Businesses in the Transport & Communication sector faced subdued demand conditions, with latest data showing a slight decline in inflows of new work, in line with the trend seen throughout most of 2022 so far. A marginal drop in employment in the three months to May contrasted with jobs growth elsewhere across the service sector and partly reflected comparatively low business confidence.

Cost pressures meanwhile remained elevated, with the rate of input price inflation staying close to its recent peak. Businesses looked to offset some of the burden via an unprecedented rise in output prices.

Output Index

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



* 3-month moving average



UK Regional PMI overview

Business Activity

Latest data showed a general slowdown in growth across the UK regions in May, with nine out of the 12 monitored areas recording a weaker rise in business activity. London once again topped the rankings in terms of business activity growth, ahead of Wales and Scotland. Elsewhere, output declined in the West Midlands, Northern Ireland* and the North East.

Employment

London led a broad-based rise in employment in May. The rate of job creation in the capital even ticked up slightly, as was the case in four other areas (namely the South East, West Midlands, Scotland and Northern Ireland). The North East remained at the bottom of the rankings, although it did see a fractional increase in workforce numbers, following a decline in April.

Future Activity

Firms in Yorkshire & Humber recorded the strongest optimism towards future activity. Here, business confidence recovered somewhat since April, as was also the case for the North West, which ranked second overall. Seven of the 12 monitored areas saw a decline in expectations, however, including Northern Ireland where sentiment turned negative for the first time since October 2020.

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

Business Activity Index

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



Employment Index

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



Future Activity Index

>50 = growth expected over next 12 months, May '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
Dec '21	57.5	57.0	55.0	75.2	57.9	52.2	72.5	59.1
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

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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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We are widely sought after by many of the world's leading organizations to provide credit ratings, benchmarks, analytics and workflow solutions in the global capital, commodity and automotive markets. With every one of our offerings, we help the world's leading organizations plan for tomorrow, today.

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.

ihsmarkit.com/products/pmi.html

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