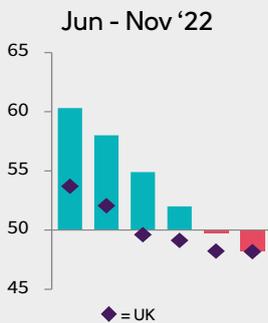




NatWest London PMI[®]

Steeper downturn in business activity in November

London Business Activity Index



Key findings

New orders contract for second month running

Employment growth eases to 21-month low

Cost inflation remains severe amid strong wage pressures

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 – fell to a 22-month low of 48.2 in November, from 49.7 in October, to signal a further contraction in business output midway through the final quarter. Survey panellists mainly attributed the downturn to lower sales, rampant inflation and reduced confidence amid recession concerns. Notably, after performing above the UK trend since mid-2021, the rate of decline was in line with the national average.

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

"London once again suffered a contraction in economic activity in November, offering worsening signals for the final quarter of the year. Not only are sales dropping as companies reassess spending in the face of rampant inflation and a looming recession, but output is still being held back by staffing shortages, leading to a further (albeit softer) increase in outstanding work."

"There was also no let up when it comes to inflation, with the latest data signalling a quicker rise in input costs than in October. Firms increasingly commented that rising salary demands were behind the uptick. With severe wage pressures and falling sales, firms recorded the weakest rise in employment for 21 months, suggesting the job market is also cooling as the economic outlook deteriorates."

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

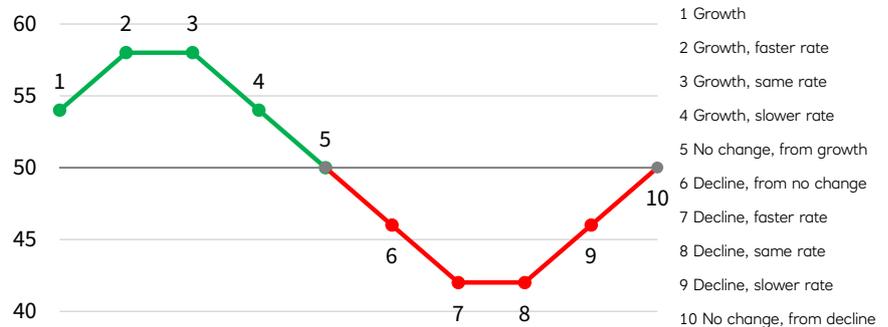
calculated from a single question that asks for changes in the volume of business activity (at service providers) or output (at manufacturers) compared with one month previously. The London Business Activity Index is comparable to the UK Composite Output Index. It is sometimes referred to as the 'London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

London private sector businesses noted a further decline in new work midway through the fourth quarter. The decrease was often linked to softening demand, as customers scaled back spending amid looming recession fears. That said, a number of panellists reported higher new business, meaning the overall contraction was unchanged from October and only marginal.

Furthermore, the drop in new business was much softer than the UK trend, with Wales and the North East the only regions to post a slower decline.

Business sentiment recovers from 29-month low

After falling to their lowest since the initial COVID-19 lockdown in October, business expectations towards future activity in London picked up in November. That said, despite a 5.6-point rise, the index was at its second-worst level in two-and-a-half years. Some businesses predicted that robust sales will sustain output growth over the next 12 months, but sentiment was dampened considerably by recession fears.

Exports

Export climate deteriorates at fastest rate since June 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.

At 47.7 in November, the index pointed to a weakening of the export climate for the fourth successive month, and one that was the quickest since June 2020. The downturn came amid widespread output contractions among London's top trading partners, led by a sharp decrease in activity across the Netherlands. French and Irish business activity both fell for the first time since February 2021, while the US recorded a fifth consecutive monthly decline.

New Business Index
sa, >50 = growth since previous month
49.2
Nov '22



Future Activity Index
>50 = growth expected over next 12 months
60.3
Nov '22



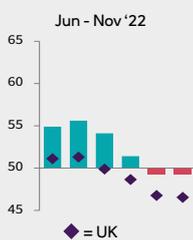
Export Climate Index
sa, >50 = growth since previous month
47.7
Nov '22



Top export markets, London

Rank	Market	Weight	Output Index, Nov '22
1	USA	26.8%	46.4
2	Ireland	9.0%	48.8
3	Germany	6.9%	46.3
4	Netherlands	6.8%	43.2
5	France	5.0%	48.7

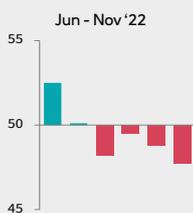
New Business Index
Jun - Nov '22



Future Activity Index
Jun - Nov '22



Export Climate Index
Jun - Nov '22



Business capacity

Employment close to stagnating in November

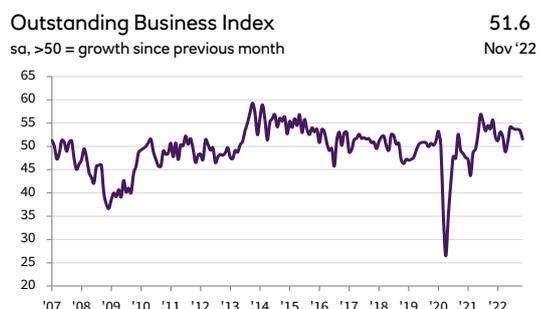
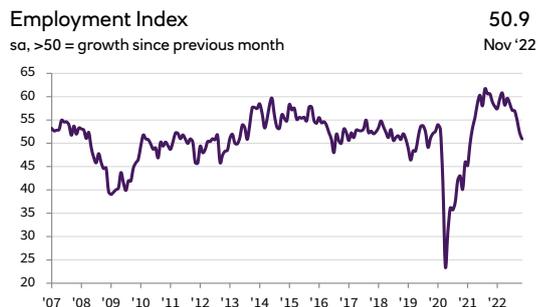
The latest survey data signalled a further moderation of employment growth across London's private sector, as the seasonally adjusted index dropped for the sixth straight month. Overall staffing levels rose only marginally, and at the slowest pace since the current sequence of job creation began in March 2021. Panellists noted that problems replacing leavers and cost considerations had weighed on hiring.

As was the case in the previous survey period, employment in London increased at a slightly weaker rate than that seen at the national level.

Rate of backlog accumulation eases to six-month low

A further reduction in new business helped to alleviate capacity pressures at London-based companies in November. Backlogs of work increased for the seventh month running, but the rate of expansion softened to the weakest since May. Where backlogs rose, firms mainly linked this to understaffing and funding delays.

Notably, the rise in outstanding business contrasted with broadly no change at the UK level. London, Yorkshire & Humber and the West Midlands were the only monitored areas to see an increase in backlogs over the month.



Prices

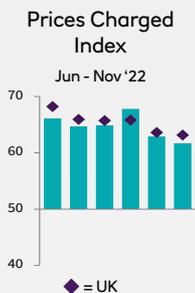
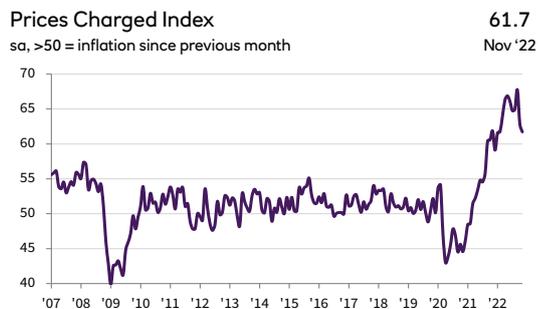
Steep input cost inflation persists in November

London businesses reported stubbornly-high inflation of their input costs during November. The rise in costs was quicker than October's ten-month low, and slightly above the UK-wide trend. Survey panellists often attributed higher expenses to an increase in wages, which was in part linked to strong competition for staff. Some firms also cited higher material and utility costs.



Charge inflation softens for second month running

Adjusted for seasonal factors, the Prices Charged Index dropped for the second consecutive month from September's record high, to indicate the weakest rise in selling prices at London-based firms since February. The uplift in charges was also less marked than the nationwide trend, and far softer than the rise in input costs. While a number of firms passed higher expenses onto their customers, others noted that pressure from clients and the need to remain competitive led them to offer price reductions.



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, Nov '22
1	Textiles & Clothing	2.54	45
2	Food & Drink	1.88	50
3	Timber & Paper	1.51	40
4	Other Manufacturing	1.14	48
5	Electrical & Optical	0.78	48
6	Mechanical Engineering	0.75	48
7	Basic Metals	0.65	40
8	Transport	0.56	45
9	Chemicals & Plastics	0.51	45

London specialisation: Services

Rank	Sector	LQ	UK Business Activity Index, Nov '22
1	Financial Intermediation	1.49	48
2	Computing & IT Services	1.06	50
3	Personal & Community Services	0.97	45
4	Business-to-business Services	0.97	48
5	Hotels, Restaurants & Catering	0.73	40
6	Transport & Communication	0.71	45

UK sector focus

Computing & IT Services

Computing & IT Services was the UK's top-performing sector by far in the three months to November. In fact, it was the only part of the services economy to see a rise in business activity.

The sector did, however, exhibit a loss of momentum, with the rate of business activity growth slowing to its weakest since the opening quarter of 2021. This reflected a softening trend in new business.

Computing & IT Services firms remained optimistic about the year-ahead outlook, and more so than any other services sector, which in turn helped drive a sustained rise in employment. That said, both expectations and the pace of job creation eased to the lowest since late-2020.

Cost pressures remained much higher than normal, according to latest data. However, they were relatively subdued compared to other parts of the services economy, with the rate of input cost inflation the lowest among the six monitored sectors.

Output Index

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



* 3-month moving average



UK Regional PMI overview

Business Activity

All 12 monitored regions recorded a further fall in business activity in November. However, rates of contraction slowed in just over half of cases, including Wales and the North East, the two top-ranked areas, where activity came close to stabilising. Scotland recorded the most marked fall in output, followed by the South West.

Employment

Workforce numbers rose across the majority of regions and nations in November, albeit more slowly in most instances. The West Midlands saw the fastest pace of job creation, moving ahead of the South East in the rankings. The East Midlands and North East went against the trend and recorded lower employment.

Future Activity

Business expectations improved almost universally in November. Yorkshire & Humber was the most optimistic region and saw the joint-sharpest increase in sentiment from the previous month, with Wales. Firms in Northern Ireland and the North East remained pessimistic, albeit less so than in October.

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

Business Activity Index

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



Employment Index

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



Future Activity Index

>50 = growth expected over next 12 months, Nov '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
Jun '22	60.3	54.9	52.5	64.3	58.5	54.2	83.3	66.1
Jul '22	58.0	55.6	50.1	67.4	57.1	53.9	76.9	64.7
Aug '22	54.9	54.1	48.2	68.0	56.9	53.6	76.3	64.9
Sep '22	52.0	51.4	49.5	63.5	54.9	53.7	79.8	67.8
Oct '22	49.7	49.2	48.8	54.7	52.2	53.4	75.2	62.9
Nov '22	48.2	49.2	47.7	60.3	50.9	51.6	77.8	61.7

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About NatWest

NatWest serves customers in England and Wales, supporting them with their personal, private, and business banking needs. NatWest helps customers at all stages in their lives, from opening student accounts, to buying their first home, setting up a business, and saving for retirement.

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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