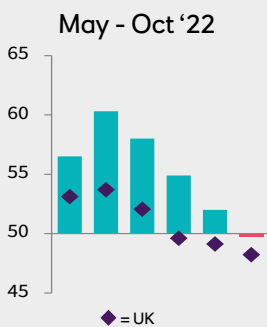




NatWest London PMI[®]

London business activity declines in October

London Business Activity Index



Key findings

Output and new business fall for first time since January 2021

Employment growth softens to 20-month low

Weakest optimism towards future activity since initial COVID-19 lockdown

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 – registered 49.7 in October, down from 52.0 in September and below the 50.0 neutral mark for the first time since January 2021. The index signalled a slight contraction in activity from the previous month, linked to a fresh decline in new orders and a weakening economic climate. Nevertheless, the downturn in activity was the softest of the 12 monitored UK areas.

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

"Whilst London still performed better than the rest of the country, it too registered a downturn in business activity and sales at the start of the final quarter of the year. Stubbornly-high inflation, rising interest rates and a gloomy outlook for the global economy led to reduced business investment and falling customer demand, although output fell only slightly overall. Worse still was the 12-month outlook for business activity, which fell to its lowest level since the initial stage of the pandemic in the first half of 2020. In fact, sentiment has only ever been lower during the first lockdown since the series began in early 2012, signalling that firms are broadly anticipating weak conditions to remain into 2023."

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

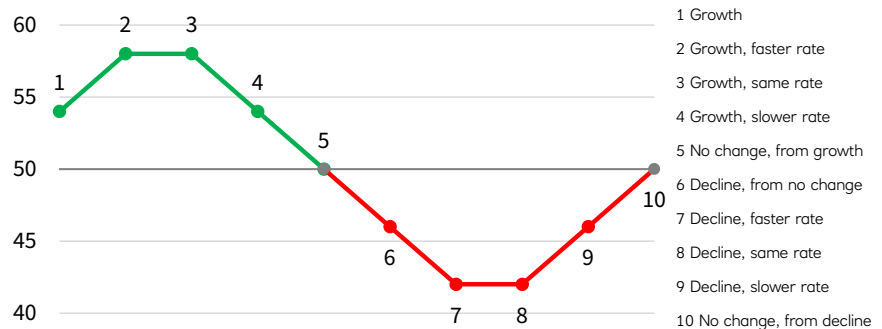
calculated from a single question that asks for changes in the volume of business activity (at service providers) or output (at manufacturers) compared with one month previously. The London Business Activity Index is comparable to the UK Composite Output Index. It is sometimes referred to as the 'London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

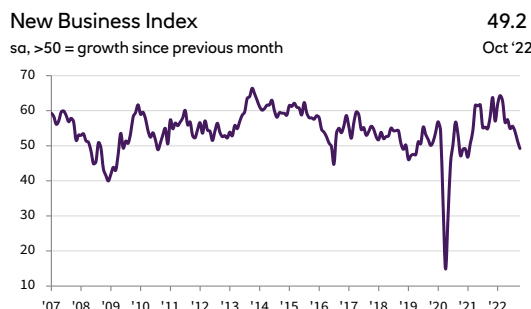


Demand and outlook

New business volumes contract in October

Private sector companies across the capital recorded a slight downturn in new order inflows at the start of the fourth quarter, the first contraction since the beginning of 2021. According to survey panellists, total sales dropped due to global economic uncertainty, the cost-of-living crisis and political instability.

That said, the pace of decline was only marginal and much softer than the UK average, as new orders decreased for the third month running on a nationwide basis.



Marked fall in business confidence

London-based firms were far less upbeat about the year-ahead outlook for activity in October. The Future Activity Index lost nearly nine points to post one of its lowest readings in the series history (since April 2012). In fact, sentiment has only been weaker during the first COVID-19 lockdown. Several firms projected that high inflation and rising interest rates will drive a contraction in output.



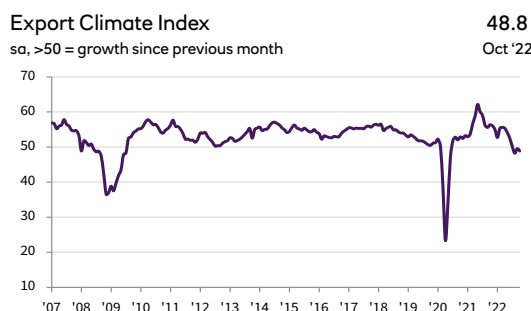
Exports

Export climate remains negative for third straight month

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 index registered 48.8 in October, falling from 49.5 in September and posting below the 50.0 neutral mark for a third successive month.

The reading signalled a modest deterioration in export conditions, driven by falling output across three of the capital's top five trading destinations. Germany and Netherlands led with sharp declines, while the USA saw a modest drop in activity. Ireland and France posted expansions in output during October, although growth in the latter nation was only fractional.



Top export markets, London

Rank	Market	Weight	Output Index, Oct'22
1	USA	26.8%	48.2
2	Ireland	9.0%	52.1
3	Germany	6.9%	45.1
4	Netherlands	6.8%	45.6
5	France	5.0%	50.2



Business capacity

Employment numbers rise modestly

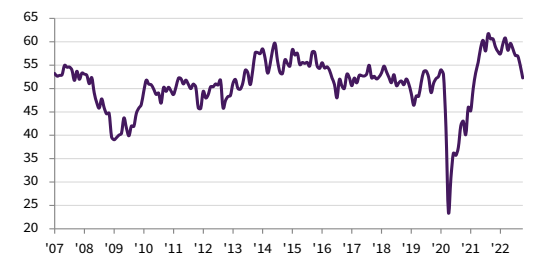
London-based private sector companies saw a further increase in employment at the start of the final quarter, amid reports of higher business requirements and efforts to fill labour shortages. However, there was increased evidence of firms reducing their staffing due to lower new business volumes. As such, the overall pace of jobs growth softened to a modest rate and the slowest seen in the current 20-month sequence of expansion.

Employment across the UK increased moderately in October, with the rate of growth broadly similar to that seen in London.

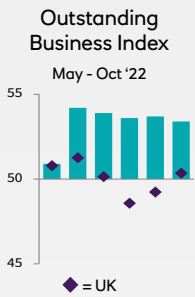
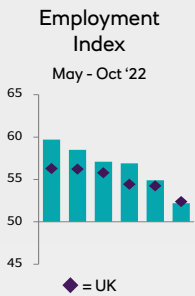
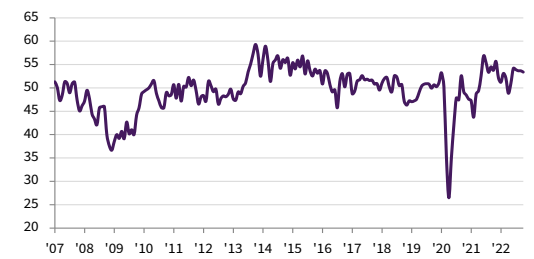
Further solid increase in backlogs

October data pointed to additional capacity pressures at London companies, as backlogs of work rose for the sixth month in a row. Despite lower sales volumes, firms indicated that backlogs had grown due to slower client payments and delayed project starts. The uptick in work-in-hand was broadly similar to that recorded in September and solid. In fact, the rate of backlog accumulation was the strongest of the 12 monitored UK regions and compared to only a marginal rise at the national level.

Employment Index
sa, >50 = growth since previous month
52.2
Oct '22



Outstanding Business Index
sa, >50 = growth since previous month
53.4
Oct '22

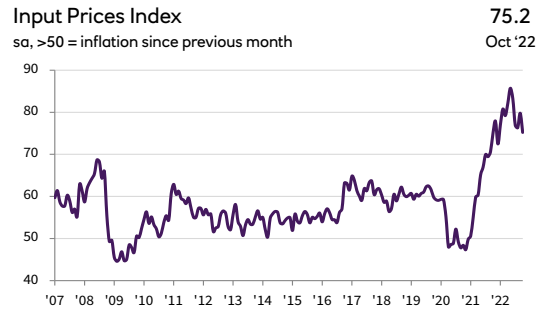


Prices

Input price inflation falls to ten-month low but remains sharp

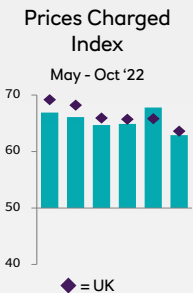
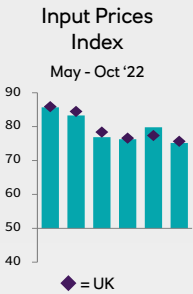
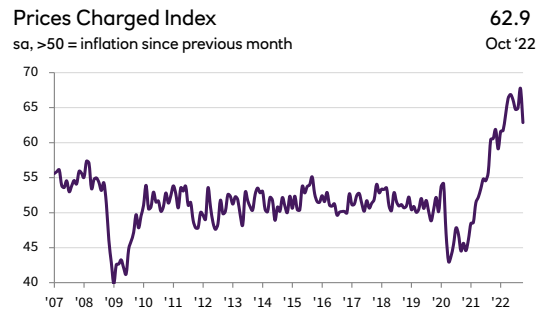
Cost pressures in the capital were slightly less marked during October, as shown by a drop in the seasonally adjusted Input Prices Index. That said, despite registering a ten-month low, the index still indicated a steep rate of inflation, as nearly 47% of businesses saw their costs increase from September. Panellists commonly noted higher wage and energy costs.

Cost inflation in London was slightly softer than the UK-wide trend.



Softest rise in price charged since February

The slowdown in input cost inflation provided businesses with some, albeit still very limited, additional slack when setting output charges in October. Whilst continuing to rise at a severe rate overall, the uptick in selling charges was the least marked for eight months and below the UK average. A quarter of respondents reported upping their prices in the latest survey period, versus 5% where a decrease was noted.



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, Oct '22
1	Textiles & Clothing	2.54	48
2	Food & Drink	1.88	48
3	Timber & Paper	1.51	44
4	Other Manufacturing	1.14	49
5	Electrical & Optical	0.78	49
6	Mechanical Engineering	0.75	49
7	Basic Metals	0.65	46
8	Transport	0.56	46
9	Chemicals & Plastics	0.51	44

London specialisation: Services

Rank	Sector	LQ	UK Business Activity Index, Oct '22
1	Financial Intermediation	1.49	50
2	Computing & IT Services	1.06	54
3	Personal & Community Services	0.97	48
4	Business-to-business Services	0.97	49
5	Hotels, Restaurants & Catering	0.73	46
6	Transport & Communication	0.71	48

UK sector focus

Transport

UK Transport manufacturers reported a steep and accelerated reduction in output levels in the three months to October, latest PMI data showed. The sector's performance was its worst since the initial COVID-related shutdowns in early-2020.

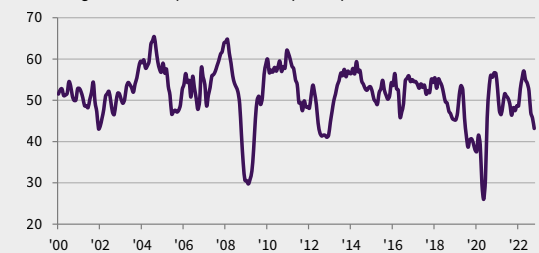
Alongside a softening of demand, which was evidenced by a fall in inflows of new orders, the reduction in production reflected shortages of materials and parts. Surveyed firms continued to report longer lead times on inputs, albeit with the incidence of delays having shown some improvement from the record levels a year earlier.

Cost pressures remained historically high, and even intensified slightly in the three months to October.

Despite these challenges, producers of Transport goods were more upbeat about the outlook for output than those in any other manufacturing sector. As such, they continued to add to workforce numbers.

Output Index

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



* 3-month moving average



UK Regional PMI overview

Business Activity

October saw a fall in business activity across all 12 monitored regions, the first time this has been the case since the third national lockdown in January 2021. The South West posted the steepest decline, followed by Northern Ireland* and the North East respectively. London's fall in activity was only marginal, but nonetheless its first for over a year-and-a-half.

Employment

Employment continued to rise across almost every region during October, the only exception being the North East where workforce numbers fell for a fifth straight month. However, in most cases, rates of job creation slowed. This included the South East - the region at the top of the rankings for employment growth.

Future Activity

Business expectations, although often still positive, weakened in most cases in October. Firms in Northern Ireland and the North East even noted increased pessimism towards the outlook. Business confidence in the South West was unchanged from September's record low, while Scotland went against the broader trend and registered the strongest optimism for three months.

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

Business Activity Index

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



Employment Index

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



Future Activity Index

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

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