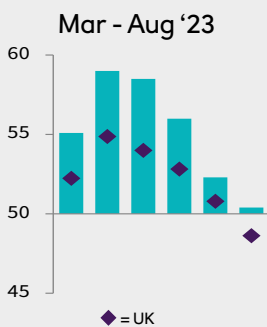


# NatWest London PMI<sup>®</sup>

## Activity growth negligible in August as sales begin to fall

### London Business Activity Index



### Key findings

New orders decrease slightly, first decline in 2023

Activity and employment growth slow

Charge inflation softens to two-year low

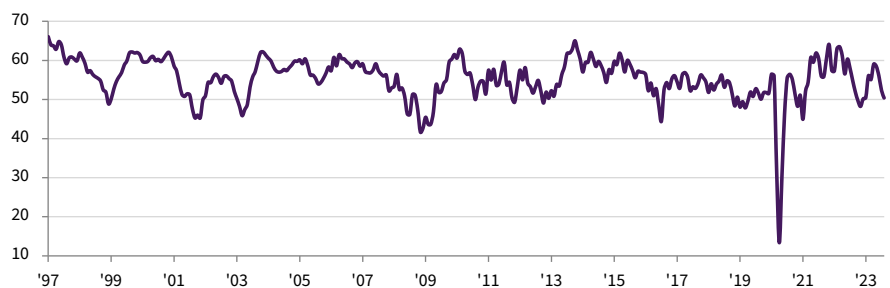
The headline NatWest London PMI<sup>®</sup> Business Activity Index – a seasonally adjusted index that measures the month-on-month change in the combined output of the region’s manufacturing and service sectors – dropped for the fourth month running in August to its lowest point in 2023 so far. At 50.4, the index signalled only a marginal increase in output, as respondents highlighted that growth was weighed down by a fall in new orders. London was joined by Wales as the only two UK regions to post an expansion in activity over the latest survey period.

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

*"The wave of growth recorded across London this year is approaching its end, with business activity showing next to zero movement in August following consistent slowdowns over the past four months. Adding to this, new business intakes dropped for the first time this year, with the downturn mild but comparable to the weak Q4 2022 showing. Even gloomier for the London economy were the backlog statistics, which indicated the fastest reduction in outstanding work since 2009 when excluding COVID-lockdown periods. This suggests that London firms could be left with little work to complete if demand does not make a recovery, which is unlikely considering how widespread the downturn is developing both in the UK and worldwide."*

London Business Activity Index

sa, >50 = growth since previous month



## Contents

- [About the report](#)
- [Demand and outlook](#)
- [Exports](#)
- [Business capacity](#)
- [Prices](#)
- [UK Sector PMI](#)
- [UK Regional PMI](#)
- [Data summary](#)
- [Contact](#)

## 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

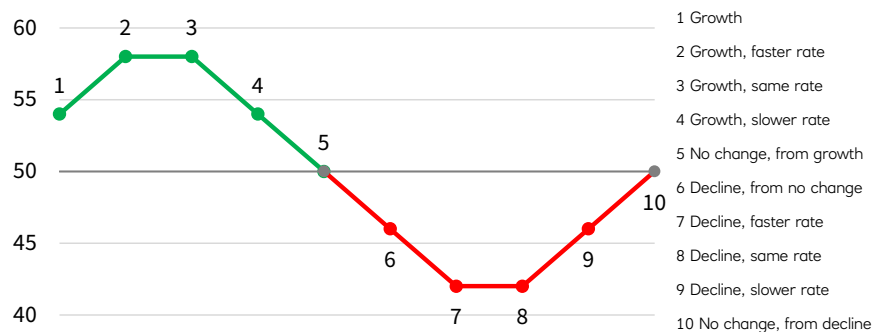
calculated from a single question that asks for changes in the volume of business activity (at service providers) or output (at manufacturers) compared with one month previously. The London Business Activity Index is comparable to the UK Composite Output Index. It is sometimes referred to as the 'London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

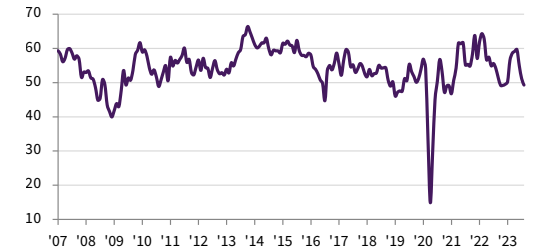


## Demand and outlook

### New orders decrease for first time in 2023

London-based companies reported a drop in new order inflows midway through the third quarter, as the seasonally adjusted New Business Index fell below the 50.0 neutral mark. The decrease was the first recorded in the year-to-date, but was marginal and comparable with those seen at the end of 2022. Where a drop in sales was noted, firms related this to a lack of customer confidence amid uncertainty surrounding inflation and interest rates.

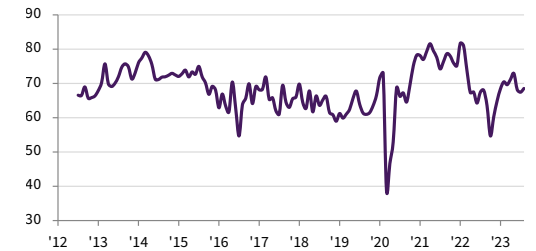
New Business Index  
sa, >50 = growth since previous month  
49.3  
Aug '23



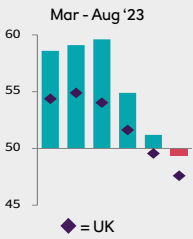
### Business optimism ticks higher

Businesses in the capital continued to predict an uplift in activity over the coming 12 months in August. The Future Output Index even ticked up slightly for the first time since May. Just under half of all survey respondents were positive about the year ahead, with many attributing this to greater investment in new products and marketing. By contrast, approximately 12% of companies forecast a fall in output linked to expectations of stubborn inflation.

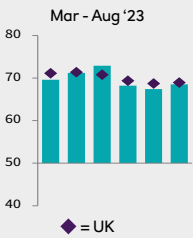
Future Activity Index  
>50 = growth expected over next 12 months  
68.5  
Aug '23



New Business Index

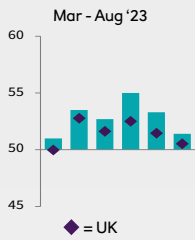


Future Activity Index



## Business capacity

### Employment Index

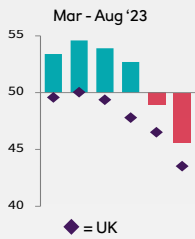


### Staff expansion slows to modest pace

As has been the case throughout 2023 so far, London-based firms registered an increase in staff numbers during August. Survey panellists frequently linked labour growth to expansion plans and a positive outlook towards activity and sales.

However, reports from other companies of restructuring, cost saving and hiring difficulties meant that the pace of job creation slowed to a modest level that was the softest since March. The slowdown came in line with a cooling of employment growth at the UK level.

### Outstanding Business Index



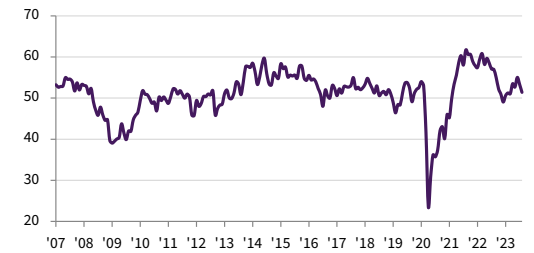
### Backlogs reduced at sharp and quicker rate

The level of outstanding work at London companies fell for the second consecutive month in August, with the rate of decline accelerating to the sharpest in two-and-a-half years. In fact, outside of pandemic-lockdown months, the reduction was the steepest seen since October 2009, though it remained softer than the nationwide trend. Panellists cited the completion of outstanding orders and a lack of new business to sustain workloads.

### Employment Index

sa, >50 = growth since previous month

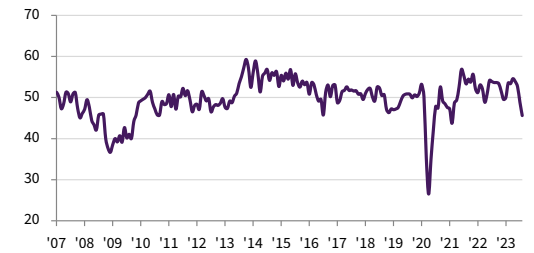
51.4  
Aug '23



### Outstanding Business Index

sa, >50 = growth since previous month

45.6  
Aug '23



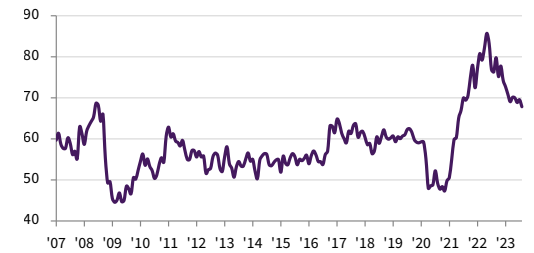
## Prices

### Cost pressures edge down to 26-month low

Private sector firms in London registered another sharp rise in input costs over the latest survey period. While the pace of inflation ticked down to the softest since June 2021, it remained quicker than that seen throughout much of the series history. According to anecdotal evidence, cost burdens were largely driven by wage increases, although some respondents cited higher fuel costs.

Sustaining the recent trend, London posted the quickest increase in input prices out of the 12 monitored UK areas, followed closely by the South West.

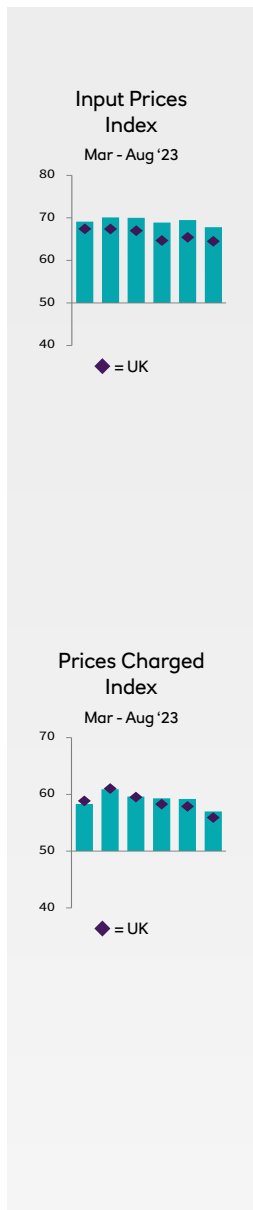
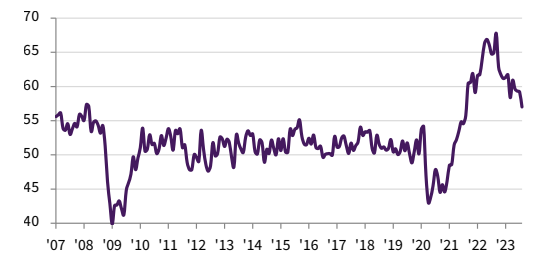
Input Prices Index  
sa, >50 = inflation since previous month  
67.8  
Aug '23



### Softest increase in selling prices for two years

Average prices charged by London companies rose at a sharp, but slower pace midway through the third quarter, as the respective seasonally adjusted index dropped to its lowest for two years. Roughly twice as many companies raised their charges (15%) as those that noted a reduction (8%), with panel members suggesting that sales weakness had begun to offset efforts to pass on higher costs.

Prices Charged Index  
sa, >50 = inflation since previous month  
57.0  
Aug '23



## 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, Aug '23
1	Textiles & Clothing	2.54	49.5
2	Food & Drink	1.88	51.5
3	Timber & Paper	1.51	49.5
4	Other Manufacturing	1.14	49.5
5	Electrical & Optical	0.78	44.5
6	Mechanical Engineering	0.75	49.5
7	Basic Metals	0.65	49.5
8	Transport	0.56	49.5
9	Chemicals & Plastics	0.51	49.5

#### London specialisation: Services

Rank	Sector	LQ	UK Business Activity Index, Aug '23
1	Financial Intermediation	1.49	54.5
2	Computing & IT Services	1.06	51.5
3	Personal & Community Services	0.97	51.5
4	Business-to-business Services	0.97	49.5
5	Hotels, Restaurants & Catering	0.73	44.5
6	Transport & Communication	0.71	49.5

## UK sector focus

### Electrical & Optical

There was a sharp decrease in output across the UK's Electrical & Optical sector in the three months to August. The rate of contraction was the quickest seen since the initial pandemic-related shutdowns in spring 2020 and by far the fastest among the nine manufacturing sectors monitored.

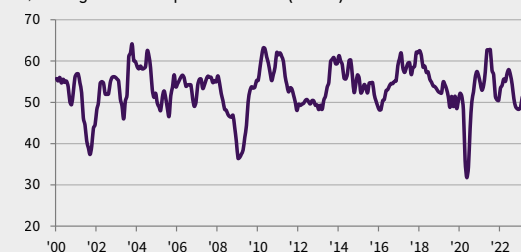
The downturn was driven by a deepening decline in new orders, with export sales falling particularly sharply. With firms reporting a rapid depletion of backlogs of work, job creation in the sector eased to the slowest for over two-and-a-half years.

On the supply side, firms faced a sustained shortening of delivery times on purchases, albeit with the rate of improvement easing. Input cost inflation meanwhile ticked up slightly, but it remained close to its recent three-year low. Output price inflation exhibited an almost identical trend.

Expectations towards future output remained subdued by historical standards despite inching up.

#### Output Index

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



\* 3-month moving average



## UK Regional PMI overview

### Business Activity

Of the 12 monitored regions and nations, only Wales and London recorded growth in business activity in August. Even here, however, the rates of expansion were marginal. Output was unchanged in Scotland and the West Midlands, while all remaining areas recorded contractions. The steepest decline in activity was seen in Northern Ireland\*, followed by the South West.

### Employment

The majority of areas recorded a rise in employment in August, although rates of job creation often slowed. Northern Ireland recorded the most marked rise in workforce numbers despite the pace of hiring there slowing to a seven-month low. The North East saw a notable drop in staffing levels, while there were more modest declines in the East Midlands, Wales and West Midlands.

### Future Activity

There were varying trends in business expectations, with confidence towards future activity rising in just under half of cases in August. The West Midlands topped the rankings for a second month running and saw sentiment improve to the joint-highest since January 2022. By contrast, the North East recorded the greatest loss of confidence as well as the lowest overall degree of optimism.

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

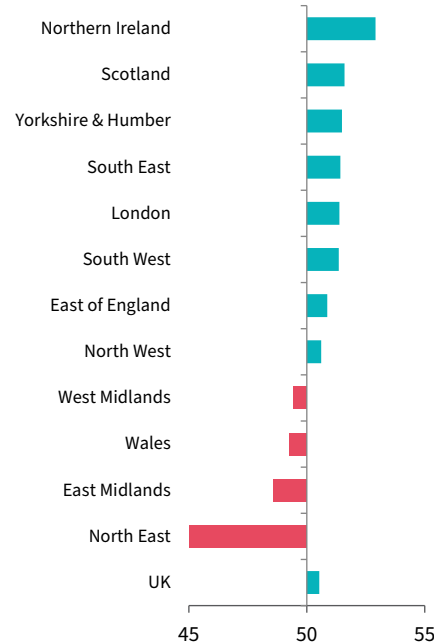
#### Business Activity Index

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



#### Employment Index

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



#### Future Activity Index

>50 = growth expected over next 12 months, Aug '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
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
Jul '23	52.3	51.2	51.1	67.4	53.3	48.9	69.5	59.2
Aug '23	50.4	49.3	50.0	68.5	51.4	45.6	67.8	57.0

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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](https://ihsmarkit.com/products/pmi.html)

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