

# NatWest London PMI<sup>®</sup>

## Growth in output and new business slow sharply in July

### London Business Activity Index



### Key findings

Weakest increases in output and new orders since January

Backlogs drop for first time in seven months

Input cost inflation remains sticky

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 third consecutive month in July, down sharply to 52.3 from 56.0 in June. The reading pointed to only a modest rise in activity, as businesses highlighted a slowdown in demand growth amid market uncertainty and rising interest rates. However, London was once again the quickest-growing region of the UK.

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

*"July data seems to have confirmed the trend that appeared during the second quarter, namely that the London economy has lost steam as rising interest rates take their toll on spending and activity. Against a backdrop of the first decline in new orders across the UK since January, demand growth in the capital weakened substantially in July. London and the West Midlands are now the only regions to record sales growth, although marked slowdowns in both areas suggesting they could easily join the rest of the country in contraction territory soon."*

*"Stubborn input cost inflation adds to the overall gloomy outlook, with the input prices index having shown little movement over 2023 so far as wage pressures continue to hit businesses. A subsequent marked increase in selling charges adds to expectations that price inflation could be sticky."*

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

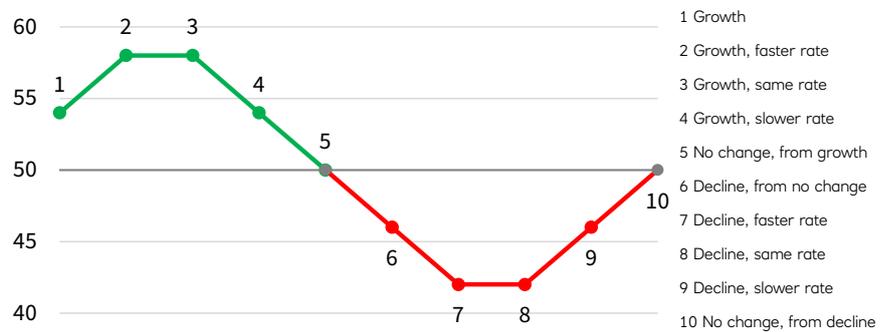
calculated from a single question that asks for changes in the volume of business activity (at service providers) or output (at manufacturers) compared with one month previously. The London Business Activity Index is comparable to the UK Composite Output Index. It is sometimes referred to as the 'London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



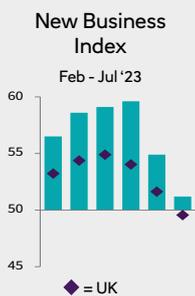
## Demand and outlook

### New business grows only slightly

The seasonally adjusted New Business Index dropped for the second month running in July and sharply, to signal only a mild expansion in sales at London-based companies. While several firms cited strong demand and new lines of business, others reported a slowdown in the market. The increase in sales was the slowest registered for six months.

Nevertheless, London was again the strongest performing region of the UK in July, with the West Midlands being the only other region to post an expansion.

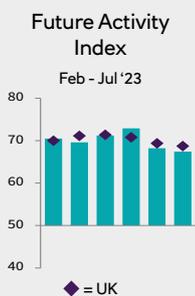
New Business Index  
sa, >50 = growth since previous month  
51.2  
Jul '23



### Output expectations cool further

Businesses across the capital reported a sustained drop in confidence regarding the activity outlook in July, which dipped to the lowest recorded in the year-to-date. While firms continued to project a generally positive view of the future, often spurred by investment spending on new products, sales and marketing, some companies highlighted concerns that the business cycle was turning amid rising interest rates and sticky inflation.

Future Activity Index  
>50 = growth expected over next 12 months  
67.4  
Jul '23



## Exports

### Weakest improvement in the export climate for six months

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 fell for the third month in a row in July, dropping to 51.1 from 51.9 in June. Whilst remaining above the 50.0 neutral mark to signal an improvement in export conditions, the upturn was the weakest registered in the current six-month sequence of growth.

Export opportunities were mainly supported by a sustained rise in output at USA firms. At the same time, the UK's main European trade destinations recorded notable weakness, including drops in activity in Germany, the Netherlands and France.

Export Climate Index  
sa, >50 = growth since previous month  
51.1  
Jul '23



#### Top export markets, London

Rank	Market	Weight	Output Index, Jul '23
1	USA	38.1%	52.0
2	Ireland	8.3%	50.0
3	Germany	7.7%	48.5
4	Netherlands	6.2%	48.3
5	France	6.0%	46.6

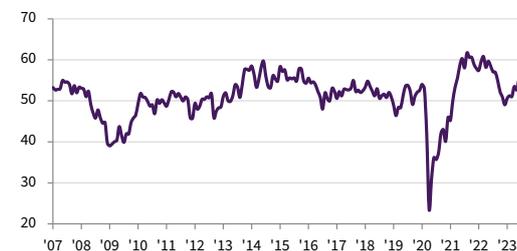
## Business capacity

### Staffing levels continue to rise as firms gear up for growth

London-based companies expanded their workforce numbers to a solid degree at the start of the third quarter, thereby extending the current run of employment growth that began in January. Where a rise was recorded, firms often attributed this to expansion efforts. That said, after reaching a ten-month high in June, the pace of job creation softened.

A similar trend was recorded at the national level, where employment growth eased from the previous month and was only modest.

Employment Index 53.3  
sa, >50 = growth since previous month Jul '23

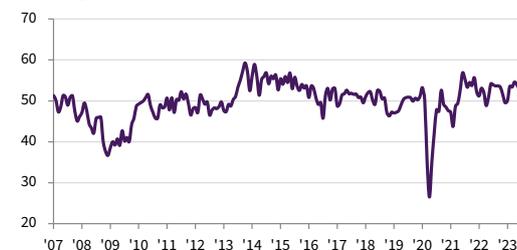


### Backlogs fall for first time in 2023 so far

Adjusted for seasonal variance, the Outstanding Business Index dropped below the neutral 50.0 value in July, to signal the first reduction in backlog volumes at London firms since December 2022. The decrease was the quickest seen for 15 months, albeit marginal overall. Panellists signalled that a slowdown in new business growth allowed them to make inroads into their incomplete orders.

The fall in backlogs in the capital meant that declines were registered in all 12 monitored UK areas for only the second time in over two-and-a-half years.

Outstanding Business Index 48.9  
sa, >50 = growth since previous month Jul '23



## Prices

### London firms continue to see marked cost inflation

The seasonally adjusted Input Prices Index ticked higher during July, to signal a slightly faster pace of input cost inflation faced by firms in London. The uptick continued the recent run of broadly sticky cost inflation, which remained higher than seen across most of the series history. The rise was also reflected across most of the country, with nine of the 12 UK areas registering a faster rise in input costs compared to June.

Anecdotal evidence showed that wage pressures were the main factor driving costs higher in July, with some panellists also mentioning contract renewals on items such as energy.

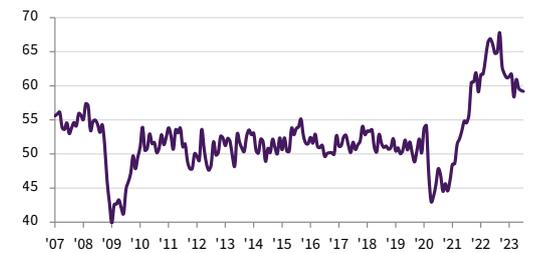
### Output charge inflation broadly unchanged and sharp

Businesses in the capital raised their selling prices at a sharp rate in July, with the pace of increase broadly matching that recorded in the prior survey period. That said, it was the second-weakest since the end of 2021. Firms highlighted the need to pass through higher wage and input costs to their customers. Notably, London recorded the quickest rise in charges of the 12 UK regions covered by the survey.

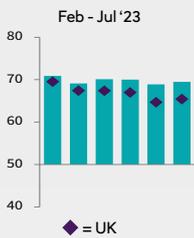
Input Prices Index  
sa, >50 = inflation since previous month  
69.5  
Jul '23



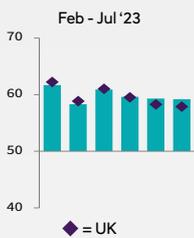
Prices Charged Index  
sa, >50 = inflation since previous month  
59.2  
Jul '23



Input Prices Index



Prices Charged Index



## 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, Jul '23
1	Textiles & Clothing	2.54	55
2	Food & Drink	1.88	55
3	Timber & Paper	1.51	48
4	Other Manufacturing	1.14	55
5	Electrical & Optical	0.78	45
6	Mechanical Engineering	0.75	48
7	Basic Metals	0.65	48
8	Transport	0.56	55
9	Chemicals & Plastics	0.51	48

#### London specialisation: Services

Rank	Sector	LQ	UK Business Activity Index, Jul '23
1	Financial Intermediation	1.49	58
2	Computing & IT Services	1.06	55
3	Personal & Community Services	0.97	55
4	Business-to-business Services	0.97	50
5	Hotels, Restaurants & Catering	0.73	48
6	Transport & Communication	0.71	48

## UK sector focus

### Financial Intermediation

The UK's Financial Intermediation sector displayed strong growth in the three months to July, recording one of the fastest rates of increase in business activity since the global financial crisis. The upturn in performance followed a notable slowdown in the second half of 2022.

Growth was the strongest among the six services sub-sectors monitored by the survey and fuelled by a steep increase in inflows of new business in recent months. With firms' backlogs of work increasing, they continued to take on staff at a historically strong rate and were optimistic about the year-ahead outlook for activity.

Input costs in the sector continued to rise steeply, however, growing at the fastest rate in 2023 so far. This in turn led to a sharp and accelerated increase in prices charged. The rate of output price inflation was surpassed only by that seen in the Hotels, Restaurants and Catering sector.

#### Output Index

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



\* 3-month moving average



## UK Regional PMI overview

### Business Activity

Only half of the 12 monitored regions and nations recorded growth in business activity in July. London posted the strongest rate of expansion but saw a notable loss of momentum as growth slowed to a six-month low. The South East and Northern Ireland\* fell the joint-most places in the rankings as both returned to contraction territory, though the steepest overall decline in activity was recorded in the North East.

### Employment

The strongest rate of job creation in July was seen in the South West, followed by the East of England and then London. Northern Ireland also posted a solid rise in workforce numbers. At the other end of the scale, there were renewed declines in staffing levels in both the East Midlands and North East, while no change in employment in the West Midlands ended a 28-month sequence of growth in the region.

### Future Activity

Trends in business confidence were mixed, with half of the 12 monitored areas registering an improvement in sentiment and the rest seeing a decline. The West Midlands, South East and Yorkshire & Humber topped the rankings and were among those that saw expectations rise since June. Firms in Scotland were the least optimistic about the year-ahead outlook, with sentiment there hitting a six-month low.

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

#### Business Activity Index

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



#### Employment Index

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



#### Future Activity Index

>50 = growth expected over next 12 months, Jul '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
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
Jul '23	52.3	51.2	51.1	67.4	53.3	48.9	69.5	59.2

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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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