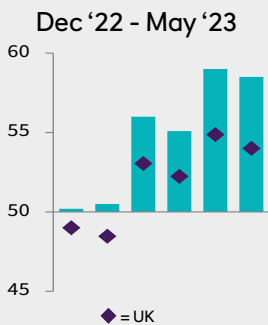




NatWest London PMI[®]

Sales growth and confidence levels tick higher in May

London Business Activity Index



Key findings

New business rises at fastest rate in 14 months

Activity growth remains solid and confidence strengthens

Inflationary pressures show further stickiness

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 58.5 in May, down slightly from 59.0 in April, but firmly above the 50.0 neutral mark. The index signalled a sharp uplift in activity that was the fastest seen of the 12 monitored UK areas. Respondents frequently commented on rising business confidence, new client wins and improving economic conditions.

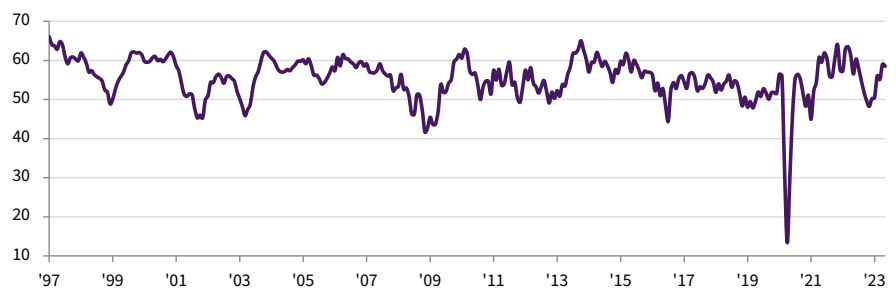
Catherine van Weenen, NatWest London and the South East Regional Board, commented:

"London companies continued to enjoy a rapidly growing economy in May, as increasing services demand helped drive an upturn in new business across the city. The rate of growth quickened again and was the most marked for 14 months, supporting a sharp increase in business activity. Expectations towards future activity were also at a 14-month high, due to a sharp drop in the proportion of firms with a pessimistic view as near-term forecasts of a UK recession fade."

"Prices data nonetheless offer a more cautionary outlook, as wage pressures drive second-round inflation effects which firms are largely opting to pass on to clients. Despite softening, the rate of output charge inflation was still sharp and higher than at any time prior to mid-2021, signalling further pain for consumers ahead."

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

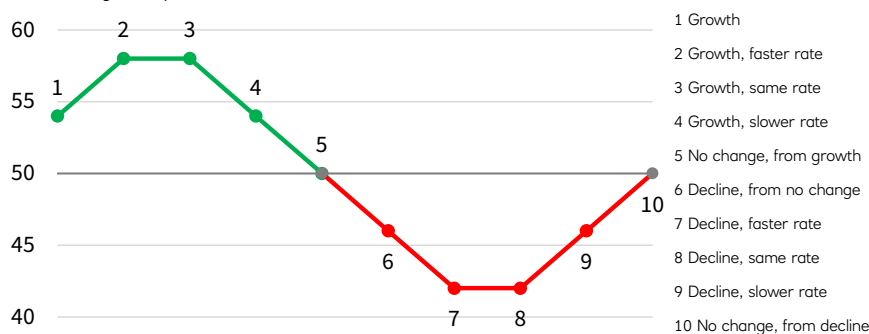
calculated from a single question that asks for changes in the volume of business activity (at service providers) or output (at manufacturers) compared with one month previously. The London Business Activity Index is comparable to the UK Composite Output Index. It is sometimes referred to as the 'London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

Sharp and accelerated rise in new business

Private sector companies in London continued to see a considerable upturn in new business during May. The rate of growth strengthened for the fourth consecutive month and was the fastest since March 2022. Almost a third of surveyed firms saw new orders rise, with comments often relating to client wins, new product launches and increased foreign demand.

London remained the strongest-performing area of the UK in May, with the pick-up in new order growth contrasting with a slight softening at the national level.

Confidence levels tick higher

The strong uplift in new business aligned with a further improvement in confidence during May, as the Future Activity Index rose to its highest since March 2022. Firms often cited that greater optimism in the economic outlook firmed their growth projections for both demand and activity.

London was one of only two monitored areas to record a stronger projection for output than in the previous survey period, the other being the West Midlands. The outlook for the UK notably fell slightly for the first time in seven months.

Exports

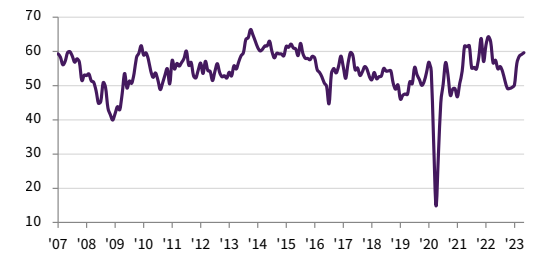
Export conditions improve solidly in May

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.

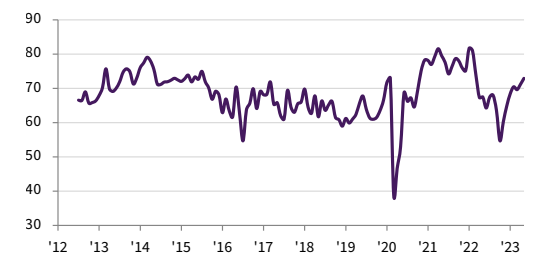
The index posted 53.0 in May, down from 53.4 in April, to signal an improvement in the export climate for the fourth month running. The upturn was solid overall and driven by expansions in output across four of the five main trading destinations.

The US registered its sharpest rise in activity in just over a year. Conditions weakened in Europe, however, with output growth slowing in Ireland, Germany and France, while the Netherlands recorded a marked downturn.

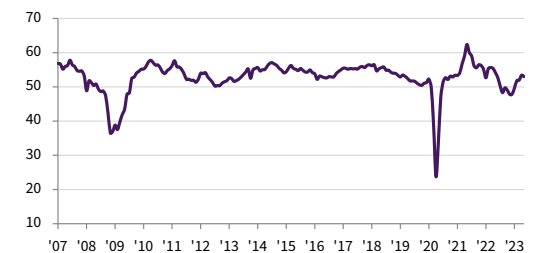
New Business Index
sa, >50 = growth since previous month
59.6
May '23



Future Activity Index
>50 = growth expected over next 12 months
72.9
May '23



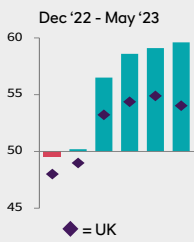
Export Climate Index
sa, >50 = growth since previous month
53.0
May '23



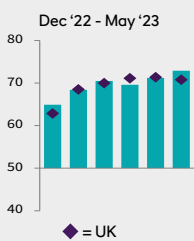
Top export markets, London

Rank	Market	Weight	Output Index, May '23
1	USA	38.1%	54.3
2	Ireland	8.3%	51.9
3	Germany	7.7%	53.9
4	Netherlands	6.2%	44.2
5	France	6.0%	51.2

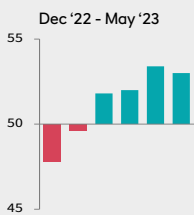
New Business Index
Dec '22 - May '23



Future Activity Index
Dec '22 - May '23



Export Climate Index
Dec '22 - May '23

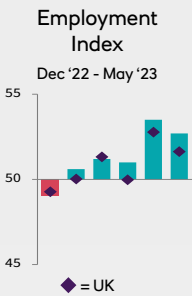
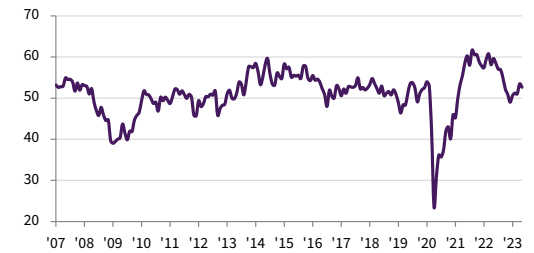


Business capacity

Employment growth remains solid in May

Adjusted for seasonal factors, the Employment Index signalled a solid rise in workforce numbers at London-based companies during May. While slowing from the previous survey period, the pace of job creation was the second-fastest for eight months and remained stronger than the national average. Panellists generally related an increase in employment to rising sales volumes.

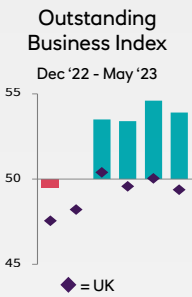
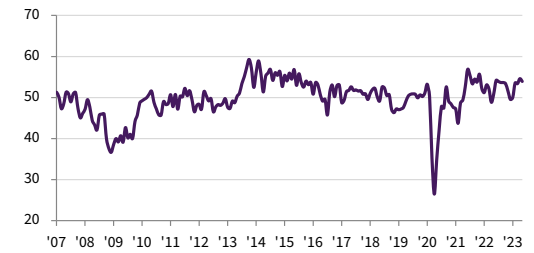
Employment Index 52.7
sa, >50 = growth since previous month May '23



Demand pressures drive additional increase in backlogs

London private sector firms reported another rise in the volume of outstanding business in May as demand pressures intensified. The rate of growth was solid but slipped from April's 17-month high. London registered the steepest increase in work-in-hand of the 12 monitored UK areas, with the South East the only other region to experience an outright rise.

Outstanding Business Index 53.9
sa, >50 = growth since previous month May '23



Prices

Cost pressures broadly unchanged and still steep

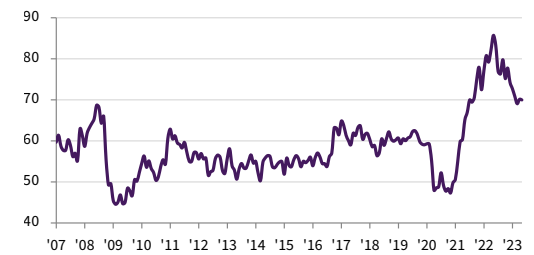
The seasonally adjusted Input Prices Index saw little change in May, signalling another steep uplift in business costs. While remaining lower than the record levels seen last year, the pace of inflation was sharper than at any time prior to August 2021.

Salary pressures were most commonly cited by companies that saw an increase in costs during May, as staff sought higher pay amid the cost-of-living crisis. Some firms also noted an increase in material costs, although others reported that lower manufacturing demand led suppliers to reduce their prices.

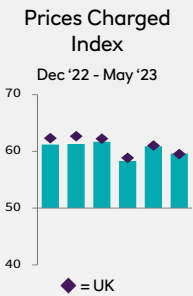
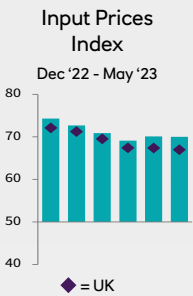
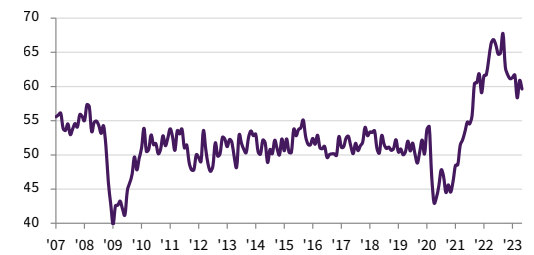
Output price inflation ticks lower

London businesses raised their selling prices at a slightly slower pace halfway through the second quarter, as the seasonally adjusted Prices Charged Index posted one of its lowest readings since mid-2021. That said, like input prices, the rate of inflation was stronger than seen in any month preceding this. The sharp uplift in charges was broadly aligned with the UK trend.

Input Prices Index
sa, >50 = inflation since previous month
70.0
May '23



Prices Charged Index
sa, >50 = inflation since previous month
59.6
May '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, May '23
1	Textiles & Clothing	2.54	48
2	Food & Drink	1.88	50
3	Timber & Paper	1.51	45
4	Other Manufacturing	1.14	50
5	Electrical & Optical	0.78	50
6	Mechanical Engineering	0.75	50
7	Basic Metals	0.65	50
8	Transport	0.56	55
9	Chemicals & Plastics	0.51	50

London specialisation: Services

Rank	Sector	LQ	UK Business Activity Index, May '23
1	Financial Intermediation	1.49	55
2	Computing & IT Services	1.06	60
3	Personal & Community Services	0.97	55
4	Business-to-business Services	0.97	55
5	Hotels, Restaurants & Catering	0.73	55
6	Transport & Communication	0.71	50

UK sector focus

Transport & Communication

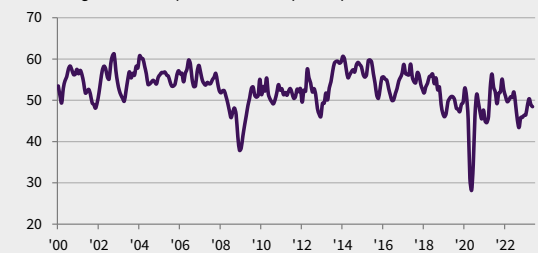
Almost all areas of the UK services economy saw growth in business activity in the three months to May, the only exception being the Transport & Communications sector. Here, activity fell - albeit only slightly - in the latest three-month period, thereby resuming a downward trend after a brief return to growth in Q1.

The survey data pointed to weakness in underlying demand, with inflows of new work in decline. Businesses in the sector reacted to falling workloads by reducing workforce numbers, in line with the trend seen since the end of last year. That said, the latest round of job cuts was only marginal as firms showed greater confidence towards the outlook.

Cost pressures remained historically elevated, although they did at least ease further from the record highs seen in 2022. This was reflected in a slower rise in prices charged, the weakest for almost two-and-a-half years.

Output Index

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



* 3-month moving average



UK Regional PMI overview

Business Activity

Almost all UK nations and regions saw a rise in business activity in May, the only exception being Wales where output fell marginally and for the first time in four months. London once again recorded by far the strongest growth rate, albeit one that was slightly slower than in April. In fact, only the West Midlands saw an acceleration in the rate of expansion in business activity.

Employment

The vast majority of areas monitored by the survey recorded an increase in private sector employment in May. Scotland topped the rankings for job creation for the first time since June 2018, pushing Northern Ireland* into second position. Only the North East and Wales saw decreases in staffing levels, and even there the declines were modest and marginal respectively.

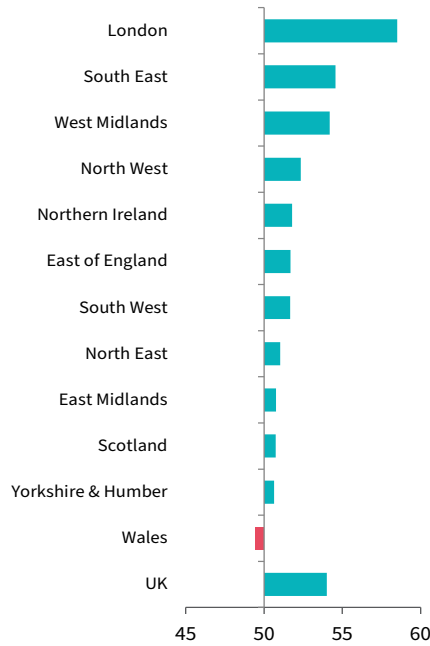
Future Activity

Business expectations remained positive across the board in May, although they weakened in three-quarters of the areas monitored. The West Midlands went against the trend and recorded the strongest overall optimism for the fifth month running. At the other end of the scale, firms in Northern Ireland were the least upbeat towards the outlook.

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

Business Activity Index

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



Employment Index

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



Future Activity Index

>50 = growth expected over next 12 months, May '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
Dec '22	50.2	49.5	47.8	64.9	49.0	49.5	74.3	61.2
Jan '23	50.5	50.2	49.6	68.4	50.6	50.0	72.7	61.3
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

Contact

Marion Rannard
Regional Campaign Manager
NatWest
+44 (0) 7966 300 969
marion.rannard@natwest.com

David Owen
Senior Economist
S&P Global Market Intelligence
+44 (0) 1491 461 002
david.owen@spglobal.com

Sabrina Mayeen
Corporate Communications
S&P Global Market Intelligence
T: +44 7967 447 030
sabrina.mayeen@spglobal.com

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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.

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