

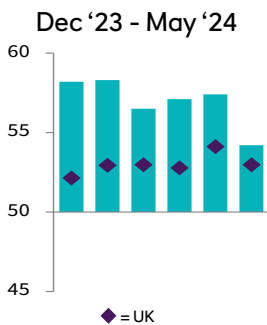


NatWest

# NatWest London PMI<sup>®</sup>

## Activity growth moderates amid softer rise in new business

### London Business Activity Index



### Key findings

Output expands at slowest rate since last October

Sales growth weakens sharply

Input cost inflation drops to 37-month 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 from 57.4 in April to 54.2 in May, indicating a solid, but softer expansion in activity levels across the capital. Indeed, the rate of growth was the slowest recorded in seven months, as new order intakes at London firms also increased to a much lesser degree. Activity growth was nonetheless still ahead of the UK-wide average.

Catherine van Weenen, Territory Head of Commercial Mid Market at NatWest, commented:

*"London-based businesses registered a notable slowdown in activity growth during May, causing the capital to drop out of its top-placed position in the regional rankings for the first time since August 2023. Demand conditions remained strong but showed signs of losing momentum, as new work intakes grew at the weakest rate in eight months. There were some reports from surveyed firms that new customer growth had waned, despite positive effects from marketing drives and new products.*

*"On the upside, the latest data provided evidence that April's uptick in inflationary pressures was short-lived. Input cost inflation fell to its lowest level in just over three years, leading to a similar slowdown in the rate of output price inflation. This will hopefully encourage firms and policymakers alike that inflation is still on a decelerating path, however slow the transition back to normal levels will take."*

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

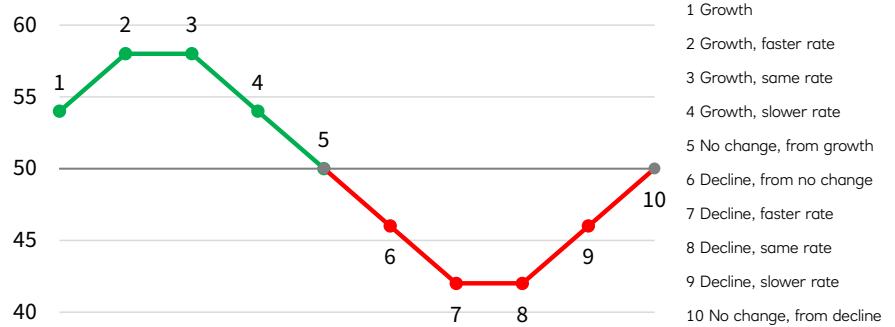
calculated from a single question that asks for changes in the volume of business activity (at service providers) or output (at manufacturers) compared with one month previously. The London Business Activity Index is comparable to the UK Composite Output Index. It is sometimes referred to as the 'London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

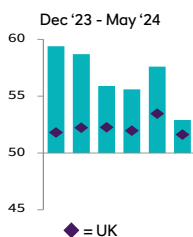
Index interpretation

50.0 = no change since previous month



## Demand and outlook

### New Business Index



### Sales growth weakens to eight-month low

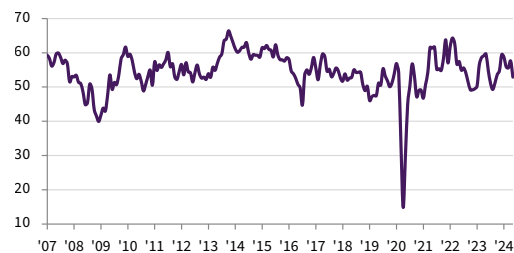
The level of new business placed at private sector firms in the capital rose in May, as has been the case in 16 of the past 17 months. Increased new order intakes reflected demand strength, new product releases, marketing and greater real estate activity, according to panel member reports. Although solid and above the UK average, the rate of growth nonetheless softened markedly to the weakest since last September.

### New Business Index

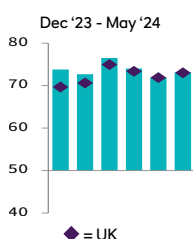
sa, >50 = growth since previous month

52.9

May '24



### Future Activity Index



### Majority of London firms remain confident in May

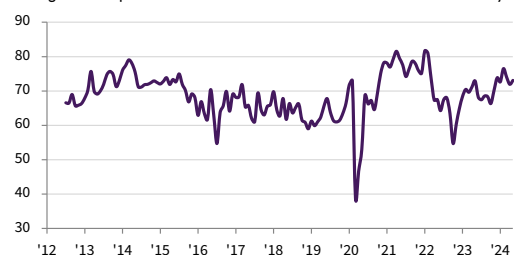
The year-ahead outlook for business activity remained stronger than the long-run trend during May, and even ticked higher from the previous survey period. Over 53% of businesses expect output to grow, whereas just 7% foresee a downturn. New products, contract wins, investment, export sales and technological improvements were some of the reasons given by companies for their growth forecasts.

### Future Activity Index

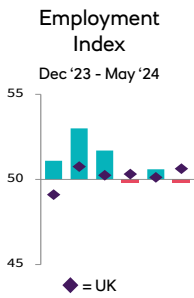
>50 = growth expected over next 12 months

73.1

May '24



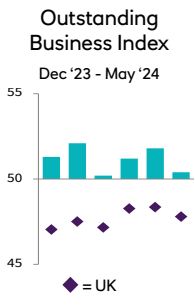
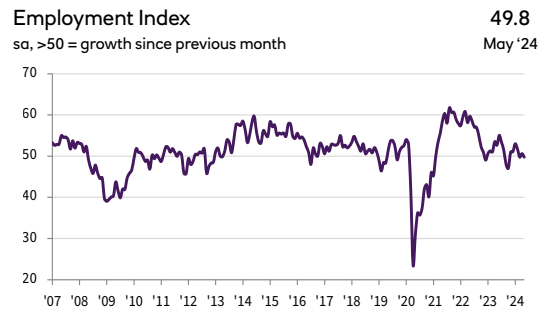
## Business capacity



### Employment levels broadly settled in May

For the second time in three months, the seasonally adjusted Employment Index printed just below the 50.0 neutral mark in May. Although indicating an overall drop in staffing numbers, the reduction was only fractional. Some firms commented on leaving vacated positions open as part of cost saving efforts, which weighed on recruitment elsewhere.

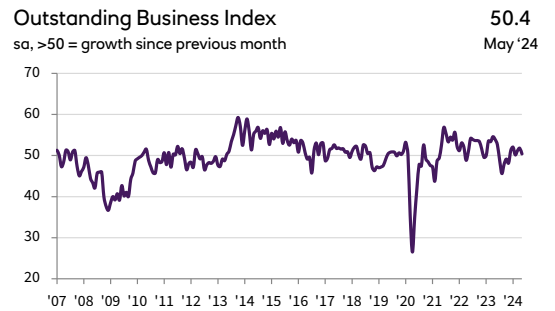
The broadly settled picture in London compared with a slight, but accelerated increase in staffing nationally.



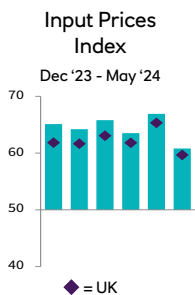
### Backlogs of work rise slightly

London companies saw an increase in outstanding business for the sixth consecutive month in May, albeit to a lesser extent than in April. Indeed, the latest survey data signalled only a marginal rise in backlogs. According to panellists, the uptick was linked to new business wins and staff shortages.

London was one of only two areas to see an increase, alongside Scotland.



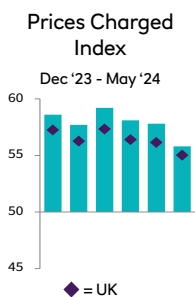
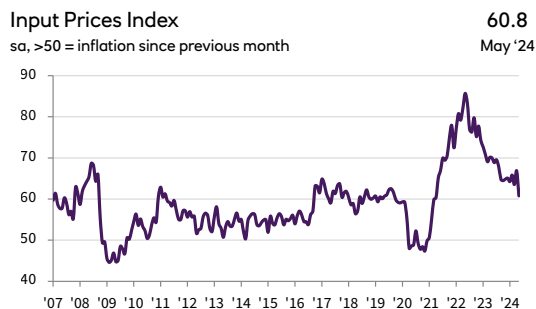
## Prices



### Input cost inflation slows considerably in May

May data signalled a marked softening in cost pressures faced by London private sector companies. Although input prices continued to rise sharply overall, the rate of inflation slowed substantially to its weakest in just over three years. Salary and IT costs were most often reported as up in price over the latest survey period.

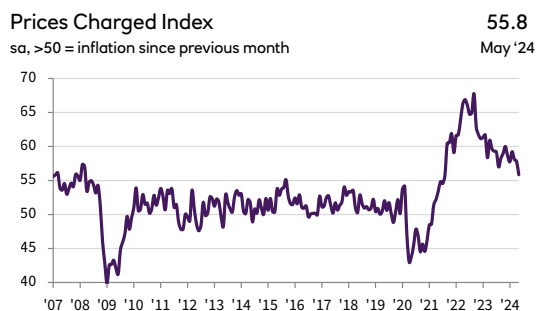
Although the rate of inflation across London fell markedly, it was still slightly faster than the average recorded across the UK.



### Selling charges rise at softer pace

In line with the general cost trend, London companies raised their average selling charges at a slower speed midway through the second quarter. The rate of increase was the least marked since August 2021, but it remained quicker than the long-run trend going back to 1999. Survey comments showed that upward price adjustments to reflect cost increases were partly offset by promotional activity.

Again, prices charged in London rose to a greater degree than seen nationally.



## 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 '24
1	Textiles & Clothing	2.59	50
2	Food & Drink	1.97	55
3	Timber & Paper	1.26	52
4	Other Manufacturing	1.07	52
5	Mechanical Engineering	0.84	52
6	Basic Metals	0.82	45
7	Electrical & Optical	0.75	45
8	Chemicals & Plastics	0.60	55
9	Transport	0.50	50

#### London specialisation: Services

Rank	Sector	LQ	UK Business Activity Index, May '24
1	Financial Intermediation	1.56	55
2	Computing & IT Services	1.06	55
3	Business-to-business Services	1.00	52
4	Personal & Community Services	0.75	50
5	Hotels, Restaurants & Catering	0.68	45
6	Transport & Communication	0.66	45

## UK sector focus

### Transport & Communication

The UK's Transport & Communication services sector saw a fall in business activity in the three months to May. Over that period, it was the worst performing of the six broad services sub-sectors monitored by PMI data.

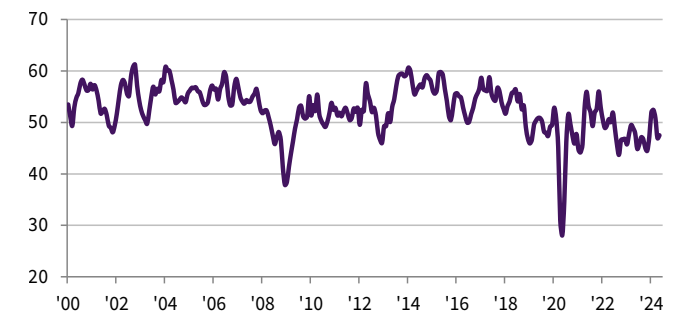
Amid a lack of incoming new work and shrinking backlogs, workforce numbers were scaled back. Employment has in fact fallen continuously in the sector since the end of 2022.

On the cost front, businesses reported pressures from shipping rates, fuel prices and wages. Input cost inflation in the three months to May was the fastest seen since last autumn. Prices charged also increased in the latest three-month period, though the rate of inflation ticked down due in part to competition for new work.

Looking ahead, Transport & Communication firms expected activity to pick up over the next 12 months. Expectations were close to the long-run average stretching back to 1996.

#### Output Index

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



\* 3-month moving average



## UK Regional PMI overview

### Business Activity

For the first time in more than a year, all 12 nations and regions monitored by the survey recorded a rise in business activity. Growth was led by Northern Ireland\*, where output expanded at a sharp and accelerated rate, followed by Scotland. At the other end of the scale, Yorkshire & Humber saw activity increase for the first time since January, albeit marginally.

### Employment

Labour market performances continued to vary across the UK, with just over half of the monitored nations and regions recording a rise in employment. Job creation was led by Northern Ireland for the third month in a row, with the North West and Scotland close behind. The South West meanwhile posted the steepest fall in workforce numbers – its largest for over three years.

### Future Activity

The West Midlands recorded the highest overall degree of optimism towards future activity for the ninth time in the past 11 months. It was one of seven areas where sentiment strengthened since April. Despite also seeing confidence improve from the month before, Scotland registered at the bottom of the rankings for the second month running.

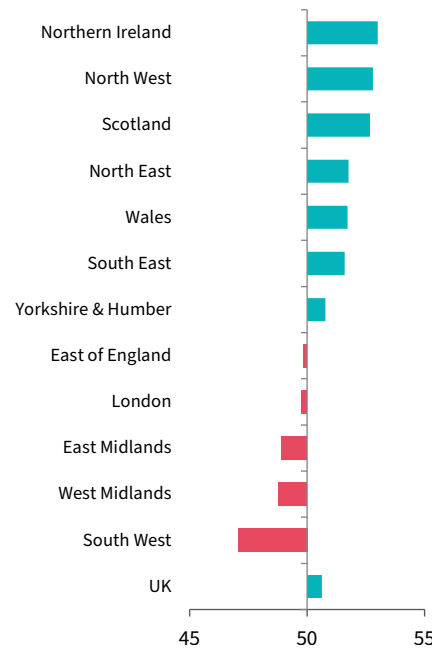
Business Activity Index

sa, >50 = growth since previous month, May '24



Employment Index

sa, >50 = growth since previous month, May '24

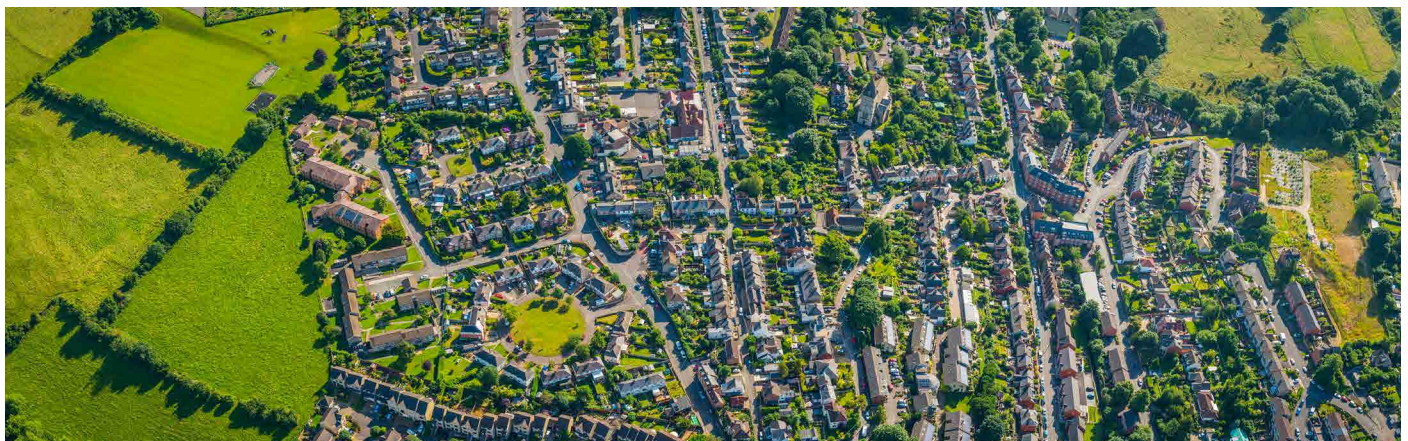


Future Activity Index

>50 = growth expected over next 12 months, May '24



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



## 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 '23	58.2	59.4	49.9	73.8	51.1	51.3	65.1	58.6
Jan '24	58.3	58.7	50.7	72.7	53.0	52.1	64.2	57.7
Feb '24	56.5	55.9	51.8	76.5	51.7	50.2	65.8	59.2
Mar '24	57.1	55.6	51.9	74.0	49.8	51.2	63.5	58.1
Apr '24	57.4	57.6	51.8	71.9	50.6	51.8	66.9	57.8
May '24	54.2	52.9	53.4	73.1	49.8	50.4	60.8	55.8

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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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Purchasing Managers' Index™ (PMI<sup>®</sup>) 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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