16 January 2023

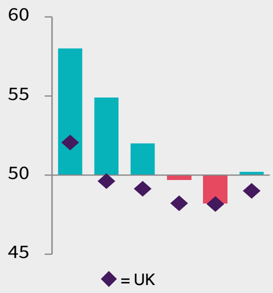
NatWest London PMI®

Employment levels decline for first time in almost two years

London Business Activity Index

Dec '22
50.2
Nov: 48.2

Jul - Dec '22



Key findings

New business continues to fall, but activity ticks higher

Backlogs of work decrease for first time since April

Rates of input cost and output price inflation slip to 12-month lows

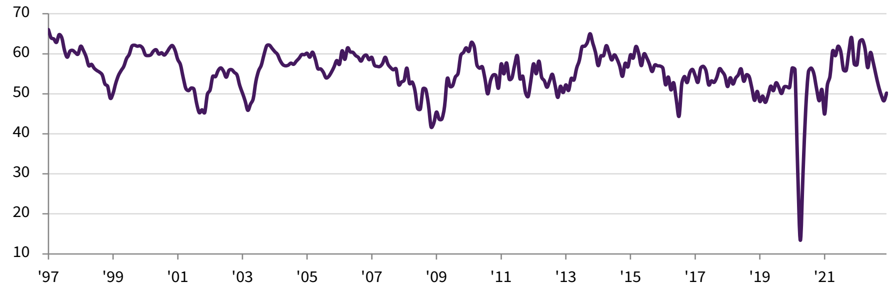
The headline NatWest London PMI® Business Activity Index – a seasonally adjusted index that measures the month-on-month change in the combined output of the region's manufacturing and service sectors – rose from 48.2 in November to 50.2 in December, posting fractionally above the 50.0 no-change mark amid some reports of improved market performance. However, the upturn was partly offset by a further fall in client sales.

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

"The economic downturn in London and across the UK in recent months began to impact the labour market in December, according to latest PMI findings. Companies are increasingly enacting hiring freezes and leaving vacant positions unfilled, leading to the first drop in overall employment since February 2021. The decline came amid a third successive fall in new business volumes, although activity ticked up slightly for the first time since September.

"More positively, a cooldown in labour markets should help to alleviate salary pressures which were again cited as the main driver of cost inflation. Notably, the final month of 2022 saw the softest rise in input costs of the year, although inflation is still substantial and persistent in nature."

London Business Activity Index
sa, >50 = growth since previous month



PMI® by S&P Global

Contents

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.

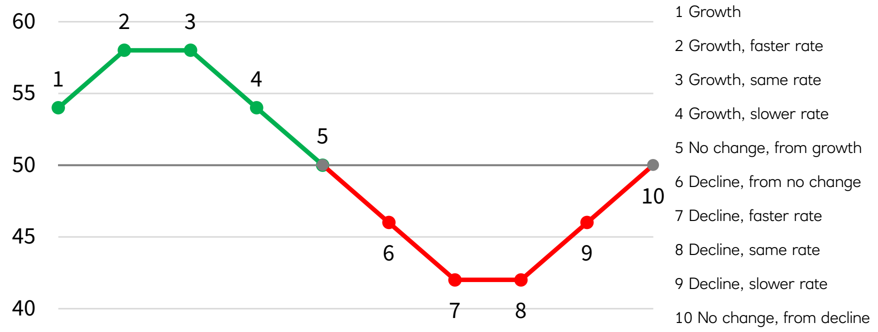
The headline figure is the Business Activity Index. This is a diffusion index calculated from a single question that asks for changes in the volume of business activity (at service providers) or output (at manufacturers) compared with one month previously. The London Business Activity Index is comparable 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.

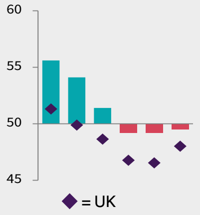
Index interpretation

50.0 = no change since previous month



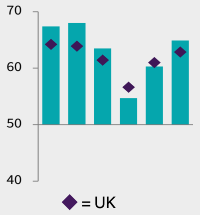
New Business Index

Jul - Dec '22



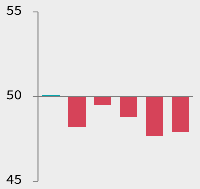
Future Activity Index

Jul - Dec '22



Export Climate Index

Jul - Dec '22



Demand and outlook

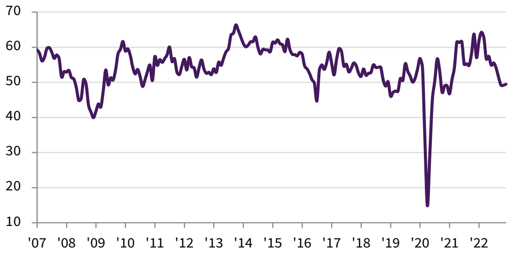
New orders fall for third consecutive month

The latest survey data signalled a fall in new order inflows across the London private sector in December, marking the third successive month in which a decline has been seen. However, the rate of reduction softened slightly and was only marginal overall. While businesses mainly reported challenging demand conditions, some cited higher domestic sales and the positive impact of new products.

Meanwhile, the UK as a whole indicated a fifth consecutive monthly decline in new work. The rate of reduction eased from November but was still sharper than that seen in the capital.

New Business Index 49.5

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

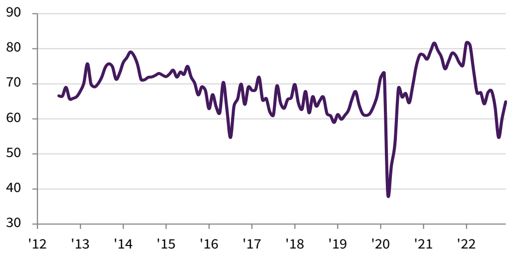


Business sentiment picks up to four-month high

After registering a near survey-record low in October, London-based companies recorded a further gain in overall confidence towards future activity in December. The degree of sentiment rose for the second month running to the highest since August, largely reflecting reduced concerns about the impact of recession conditions and higher financing costs. Around 42% of firms expect activity to increase (against 12% expecting a fall), with panellists often citing investment plans in order to boost growth.

Future Activity Index 64.9

>50 = growth expected over next 12 months Dec '22



Exports

Export conditions continue to worsen in December

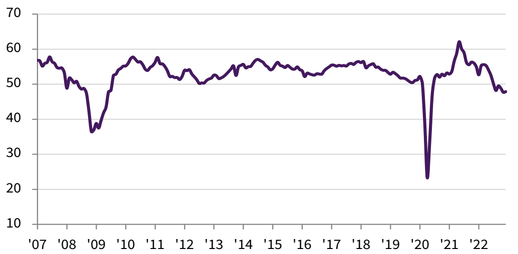
The London Export Climate Index is calculated by weighting together national PMI output data according to their importance to the services exports of the UK. This produces an indicator for the economic health of the region's export markets.

The index posted at 47.9 in December to signal a fifth consecutive monthly deterioration in export conditions. Although up slightly from 47.7 in November, the index was still at its second-lowest since June 2009, barring the initial COVID-19 lockdown period.

Four of London's top-five trading partners weighed negatively on the export climate at the end of the year, led by a sharp fall in activity across the USA. Ireland was the only trade destination to see an increase in output.

Export Climate Index 47.9

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



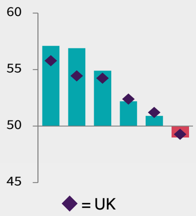
Top export markets, London

Rank	Market	Weight	Output Index, Dec '22
1	USA	26.8%	45.0
2	Ireland	9.0%	50.5
3	Germany	6.9%	49.0
4	Netherlands	6.8%	46.2
5	France	5.0%	49.1

Business capacity

Employment Index

Jul - Dec '22



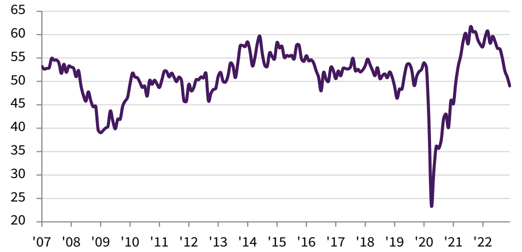
Employment levels drop for first time since February 2021

London businesses registered a reduction in staffing levels for the first time in nearly two years in December, illustrated by the seasonally adjusted Employment Index falling below the 50.0 neutral value. According to anecdotal evidence, firms were increasingly enacting hiring freezes and leaving vacant positions unfilled.

The decline in employment matched the trend seen across the UK as whole, which also recorded the first reduction since February 2021. That said, staffing cuts were marginal in both cases.

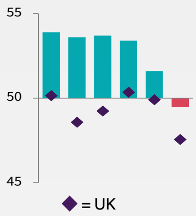
Employment Index 49.0

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



Outstanding Business Index

Jul - Dec '22

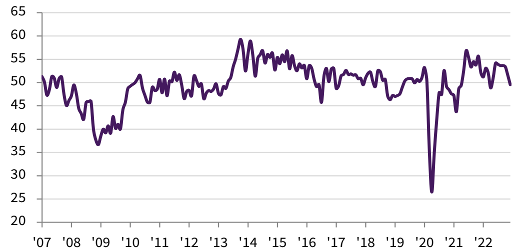


Renewed decrease in outstanding work

December data indicated a contraction in the level of unfinished work at London-based companies, thereby ending a seven-month sequence of growth. Where backlogs fell, panellists mainly attributed this to a sustained fall in new business. However, the reduction was only slight and softer than the UK average, as some firms indicated that supply shortages and strikes had weighed on capacity.

Outstanding Business Index 49.5

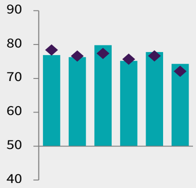
sa, >50 = growth since previous month Dec '22



Prices

Input Prices Index

Jul - Dec '22



Rate of input cost inflation ticks down to lowest in 2022

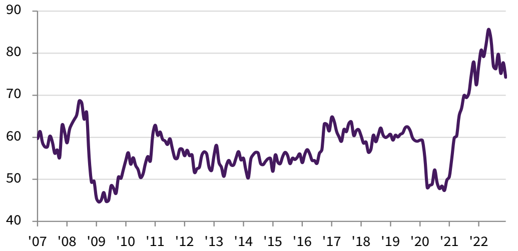
London companies continued to record a substantial increase in input costs at the end of 2022, with nearly half (49%) of all respondents seeing a monthly uplift, against 2% that noted a fall. As in recent months, panellists mostly related the increase in costs to higher staff pay, with some also mentioning rising energy prices and material shortages.

That said, the rate of input cost inflation softened from November and was the least marked in 2022 as a whole. It remained faster than the national trend, however.

At the UK level, cost pressures eased to their lowest since May 2021.

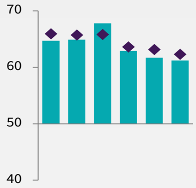
Input Prices Index 74.3

sa, >50 = inflation since previous month Dec '22



Prices Charged Index

Jul - Dec '22

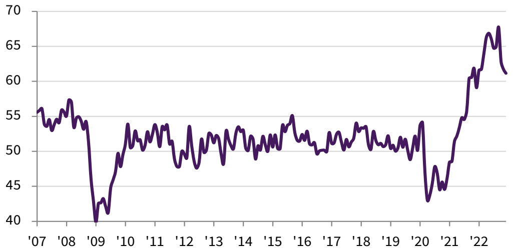


Output price inflation slips to 12-month low

In line with the trend for input costs, London-based firms registered a slower uptick in average prices charged during December, with the pace of increase slipping to the weakest seen in 2022 overall. That said, it remained sharp compared to the historic trend rate. Businesses continued to raise their charges to compensate for rising salary costs and higher interest rates, according to anecdotal reports.

Prices Charged Index 61.2

sa, >50 = inflation since previous month Dec '22



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, Dec '22
1	Textiles & Clothing	2.54	
2	Food & Drink	1.88	
3	Timber & Paper	1.51	
4	Other Manufacturing	1.14	
5	Electrical & Optical	0.78	
6	Mechanical Engineering	0.75	
7	Basic Metals	0.65	
8	Transport	0.56	
9	Chemicals & Plastics	0.51	
			35 40 45 50 55

London specialisation: Services

Rank	Sector	LQ	UK Business Activity Index, Dec '22
1	Financial Intermediation	1.49	
2	Computing & IT Services	1.06	
3	Personal & Community Services	0.97	
4	Business-to-business Services	0.97	
5	Hotels, Restaurants & Catering	0.73	
6	Transport & Communication	0.71	
			40 45 50 55

UK sector focus

Chemicals & Plastics

Chemicals & Plastics manufacturing saw a sharp drop in output in the three months to December, making it one of the UK's worst-performing sectors in the final quarter of 2022.

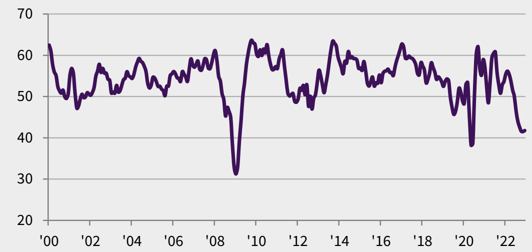
The result reflected a deepening decline in new orders, led by rapidly falling international demand. The trend in new export orders was in fact the weakest in the entire series history stretching back to 1996.

Accordingly, businesses across the sector were firmly in retrenchment mode, scaling down not only workforce numbers but also purchasing activity and inventories. Amid easing supply bottlenecks, input price inflation was at its lowest in over two years.

Looking ahead, expectations among Chemicals & Plastics firms towards future activity were historically subdued.

Output Index

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



*3-month moving average

UK Regional PMI overview

Business Activity

Of the 12 UK regions and nations monitored, only Wales and London recorded a rise in business activity in December, while the North West saw no change. This nevertheless represented an improvement from the broad-based decline seen in November. Northern Ireland* meanwhile moved to the bottom of the rankings, having seen a sharp and accelerated fall in output.

Employment

The number of areas of the UK reporting falling employment levels increased from just two in November to seven in December. The steepest reduction in headcounts was in the North East. By contrast, the North West saw the fastest rate of job creation, with the South East, West Midlands and Wales also posting further, albeit marginal, rises in workforce numbers.

Future Activity

Business sentiment towards future activity generally remained subdued in December, with expectations in all regions and nations remaining below their respective historical series averages. That said, confidence improved in most areas. This included the South East, which topped the rankings ahead of Yorkshire & Humber. Only in Northern Ireland did pessimists outnumber optimists.

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

Business Activity Index

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

Employment Index

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

Future Activity Index

>50 = growth expected over next 12 months, Dec '22

PMI® by S&P Global

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
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
Nov '22	48.2	49.2	47.7	60.3	50.9	51.6	77.8	61.7
Dec '22	50.2	49.5	47.9	64.9	49.0	49.5	74.3	61.2

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About NatWest

NatWest serves customers in England and Wales, supporting them with their personal, private, and business banking needs. NatWest helps customers at all stages in their lives, from opening student accounts, to buying their first home, setting up a business, and saving for retirement.

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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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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