

NatWest London PMI®

Growth fades in August, but London remains among top performers regionally

Key Findings

London sees best trend for sales on regional basis...

...and shares second place in ranking for activity...

...despite softer rates of expansion in August

London Business Activity Index



Last six months LN v UK



PMI data for August highlighted ongoing expansions in new business, activity and employment in the capital. Rates of increase moderated in all three cases, but remained among the best seen regionally. An accelerated rise in input costs contrasted with broadly unchanged selling prices, pointing to a general lack of pricing power among London firms. Meanwhile, business confidence was dampened by ongoing concerns surrounding the Brexit deadlock.

Falling from 52.8 in July to 51.7 in August, the seasonally adjusted London Business Activity Index highlighted a softer increase in private sector output. Despite this, the trend for activity in the capital was among the best regionally, behind the East of England and matching Yorkshire & Humber.

Demand

Rising influxes of new work was the main factor underpinning activity growth, according to survey members. Companies indicated that greater client requirements and increased bidding supported sales in August. The pace of expansion moderated from July's 21-month high, but was the strongest among the four UK regions that registered growth.

Capacity

Short deadlines on new projects and limited resources translated into a further increase in backlogs of work at companies in the capital. However, the pace of accumulation was

marginal and broadly in line with those noted in each of the prior three survey periods.

August data showed another increase in private sector employment in London, stretching the current sequence of expansion to four months. The pace of job creation was modest, however, and softened from July. According to companies that took on extra staff, hiring reflected new business gains, predictions of further growth and efforts to meet regulatory requirements.

Prices

Amid reports of sterling weakness and wage pressures, average input costs facing private sector companies in the capital continued to increase halfway through the third quarter. Moreover, the rate of inflation was sharp and the quickest in just under two years.

However, competitive pressures and sales-boosting initiatives prevented some companies from lifting their selling prices in August. Aggregate output charges were broadly unchanged from July.

Outlook

Although companies maintained an optimistic view regarding the 12-month outlook for business activity, overall confidence dipped to a five-month low during August. Widespread concerns about the negative impact of lingering Brexit uncertainty and a lack of resolution in sight were the main factors restricting positive sentiment during August.

London Business Activity Index

sa, >50 = growth since previous month



New Business Index

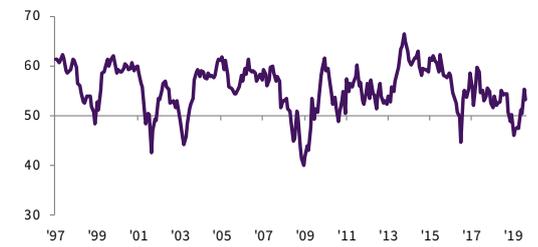


New business increases further in August

Continuing a trend that started in May, new work intakes at companies in London rose during August. Survey participants linked the upturn to greater client requirements and increased bidding. Despite easing from July's 21-month high, the rate of growth was solid, with the trend for sales in the capital the best regionally.

New Business Index

sa, >50 = growth since previous month



Outstanding Business Index

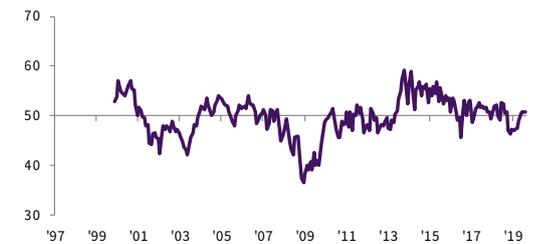


Slight rise in outstanding business

Amid reports of short deadlines on new projects and limited resources, outstanding business volumes at London firms continued to increase in August. That said, the pace of backlog accumulation was only slight and broadly in line with those seen in the current four-month sequence of expansion. The rise contrasted with declines in all of the other 11 monitored UK regions.

Outstanding Business Index

sa, >50 = growth since previous month



Employment Index



Employment growth sustained in August

As has been the case since May, private sector employment in the capital increased halfway through the third quarter of 2019. Job creation was attributed to new business gains, optimistic growth projections and efforts to meet regulatory requirements. However, the pace of expansion was modest overall and eased to a three-month low.

Employment Index

sa, >50 = growth since previous month



Input Prices Index



Input cost inflation nears two-year high

In line with sterling weakness and wage pressures in the capital, average input costs continued to increase in August. The rate of inflation was sharp and accelerated to the fastest since September 2017. Moreover, the rise was the third-strongest seen regionally, behind Northern Ireland and East Midlands.

Input Prices Index



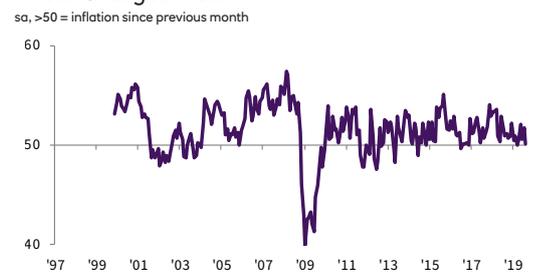
Prices Charged Index



Selling prices broadly unchanged

Despite the uptick in input cost inflation, firms in the capital left their fees broadly unchanged. A number of survey participants indicated that pricing power was hampered by competitive pressures, efforts to secure new work and Brexit-related worries. The seasonally adjusted Prices Charged Index for London was the second-lowest regionally, ahead of the North East where selling prices declined.

Prices Charged Index



Future Business Activity Index



Business confidence slides to five-month low

London companies remained optimistic towards the 12-month outlook for business activity, but the level of sentiment fell to its lowest since March. Where business activity was forecast to expand, firms hoped that Brexit would be resolved in the near-term. Some companies also reported plans to invest in new products, sales and marketing. At the same time, there were numerous concerns about the negative impact of lingering Brexit uncertainty.

Future Business Activity Index



London Export Climate Index

Note: Export markets are defined as non-UK.



Last six months



Growth of export opportunities continues to fade

Although conditions in international markets remained conducive of export growth, there was a further loss of momentum in August.

The London Export Climate Index* fell for the second straight month in August, from 51.6 in July to 51.2, reaching its lowest mark in close to seven years.

Historically subdued increases in output were evident in all of the top five destinations for London services. The rate of expansion softened notably in the US and was unchanged in Ireland.

*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.

Export Climate Index

sa, >50 = improving export climate since previous month



Top export markets, London

Rank	Market	Weight	Output Index, Aug-19
1	USA	23.6%	50.9*
2	Ireland	7.1%	51.8
3	Germany	6.6%	51.7
4	Netherlands	6.0%	51.8
5	France	4.5%	52.9

*based on flash data

London Industry Specialisation

Location quotients (LQs) are useful measures of regional economic specialisation and offer a means to 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 sub-sectors. The UK Output Index for each sub-sector is also displayed.

Manufacturing specialisation: London

Rank	Sector	LQ	UK Output Index, Aug-19 (3mma)
1	Textiles & Clothing	2.92	
2	Food & Drink	1.84	
3	Wood & Paper	1.34	
4	Other Manufacturing	1.06	
5	Electrical & Electronic	0.87	
6	Transport Equipment	0.68	
7	Metals & Metal Products	0.59	
8	Chemicals, Rubber & Plastics	0.51	
9	Machinery & Equipment	0.43	

40 45 50 55

Services specialisation: London

Rank	Sector	LQ	UK Business Activity Index, Aug-19 (3mma)
1	Financial Intermediation	1.47	
2	Computing & IT Services	1.05	
3	Business-to-business Services	0.97	
4	Other personal/consumer Services	0.93	
5	Transport & Communication Services	0.75	
6	Hotels, Restaurants & Catering	0.70	

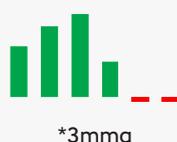
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UK Sector Focus: Textiles & Clothing

Output Index



Last six months*



Falling export demand weighs on UK's textiles & clothing sector

Latest data showed the UK's textile & clothing sector sinking deeper into contraction, led by a sharp reduction in inflows of new export orders.

Production fell at the fastest rate in over seven years in the three months to August. Firms scaled back output amid falling demand from abroad which, since exhibiting near-record growth earlier in the year, has retreated sharply.

Textiles & clothing was UK manufacturing's best performer for job creation during the second quarter, but the loss of momentum in the sector saw employment fall (albeit only marginally) for only the second time in over two years in the three months to August. Buying levels have also been pared back, resulting in easing supply chain pressures.

Meanwhile, amid relatively subdued cost increases and growing competition for new work, output price inflation eased to a near four-year low.

Output Index

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



New Export Orders Index

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



UK Regional Rankings

Business Activity

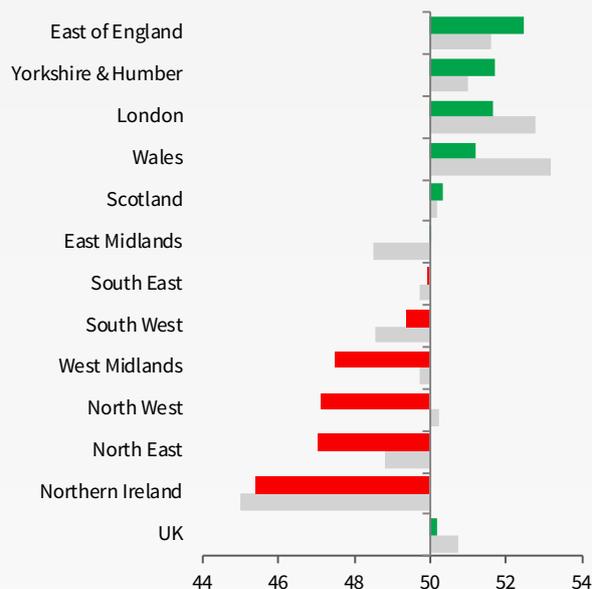
The East of England rose to the top of the regional rankings for business activity growth in August, recording its joint-fastest expansion in the past 11 months. Yorkshire & Humber was joint-second in the rankings (with London) and also saw a faster (albeit only modest) increase in output. Wales and London – July's top performers – both lost momentum but nonetheless continued to expand, while Scotland again saw only fractional growth. Output was unchanged across both the South East and East Midlands, and fell in all remaining areas, decreasing most sharply in Northern Ireland and the North East.

Employment

Employment growth was led by Yorkshire & Humber for the third month in a row. London remained second in the rankings, the East of England third and the North West fourth, though job creation slowed in each case. Eight out of the 12 monitored areas saw workforce numbers fall, the highest number since February. The East Midlands recorded the sharpest decrease for the second month running, followed by Wales.

Output Index by region

sa, >50 = growth since previous month, Aug-19 (Jul-19 ■)



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Methodology

The NatWest London PMI® is compiled by IHS Markit from responses to questionnaires sent to London companies that participate in IHS Markit'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.

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. To learn more go to ihsmarkit.com/products/pmi.html.

About NatWest

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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.

NatWest has been running MoneySense, an impartial financial education programme for 5–18 year-olds, for more than 21 years. By the end of 2018, NatWest will help another 1 million young people to understand and take control of their finances.

About IHS Markit

IHS Markit (NYSE: INFO) is a world leader in critical information, analytics and solutions for the major industries and markets that drive economies worldwide. The company delivers next-generation information, analytics and solutions to customers in business, finance and government, improving their operational efficiency and providing deep insights that lead to well-informed, confident decisions. IHS Markit has more than 50,000 business and government customers, including 80 percent of the Fortune Global 500 and the world's leading financial institutions.

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