

NatWest London PMI[®]

Sustained increase in new orders boosts London output

Key Findings

Marked rise in sales of goods and services

Business activity growth picks up from July

Re-acceleration of input cost inflation

London Business Activity Index



Last six months LN v UK



The health of London's private sector improved further in August, according to NatWest PMI[®] data, with marketing efforts as well as expanded client bases underpinning increases in sales, output and employment. Despite strengthening from July, growth rates stayed below their respective long-run averages, curtailed by Brexit worries. At the same time, sterling weakness coupled with greater staff costs pushed input price inflation to an eight-month high.

The seasonally adjusted London Business Activity Index – an index that measures the combined output of the region's manufacturing and service sectors – improved from July's four-month low of 53.1 to 54.8 in August. This signalled a marked upturn in output across the capital, though one that was weaker than seen on average over the near 22-year survey history.

Demand

Previous investment in publicity, expanded client bases and better bid-win rates supported another increase in new business. The upturn was similar to the one seen in July, remaining below its historical average. There were mentions that some projects had been placed on hold and that a lack of clarity towards the UK's exit from the EU hampered growth.

Capacity

The increase in new work was sufficient to generate jobs in the capital, with the current

sequence of employment growth extended to 22 months. Despite accelerating slightly from July, the rate of expansion was subdued by historical standards.

PMI survey data continued to point to increased workloads at private sector businesses in London. However, backlogs rose only marginally and to the weakest extent in the current three-month period of accumulation.

Prices

Input price inflation accelerated in August on the back of higher rent, fuel and staff costs as well as sterling weakness pushing up prices paid for imported materials. The rise in overall cost burdens was the sharpest in the year-to-date, remaining above trend.

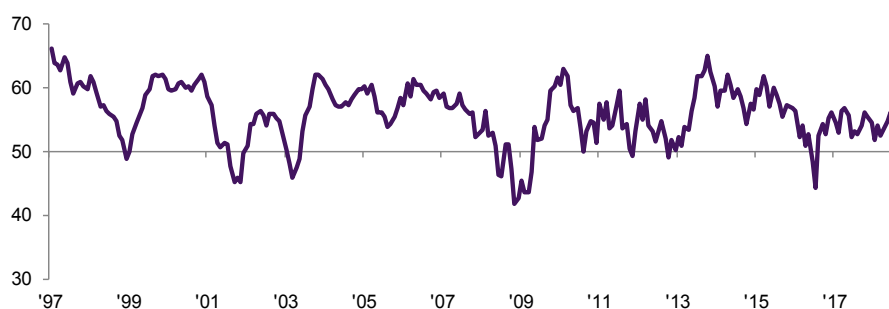
To protect margins, companies passed part of the additional rise in cost burdens on to their clients by lifting selling prices. However, the rate of charge inflation was marginal and softened from July, as some firms abstained from price hikes amid efforts to boost sales.

Outlook

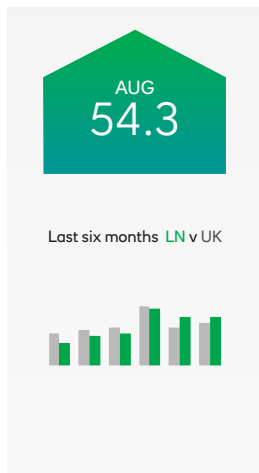
New product launches, promotional activities, predictions of greater market shares, acquisitions and investment plans underpinned positive sentiment towards growth prospects. Although strengthening from July, the degree of optimism was weaker than the series average, reflecting concerns among a few firms regarding Brexit negotiations, sterling depreciation and strong cost increases.

London Business Activity Index

sa, >50 = growth since previous month



New Business Index

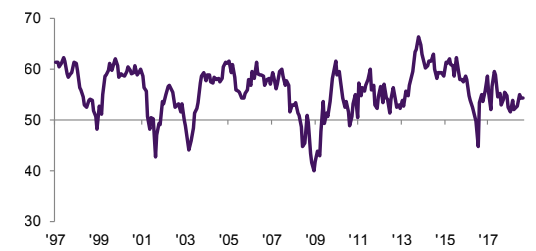


Marked rise in new business

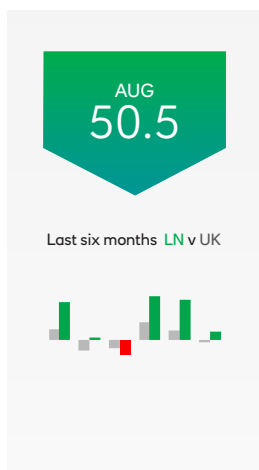
London companies continued to benefit from greater order flows in August. Panellists suggested that the upturn was driven by past investment in advertising, increased client bases and better bid-win rates. New business expanded markedly and at a pace that was broadly similar to the one seen in July, but growth remained below the long-run series average. Some firms indicated that projects had been placed on hold, while others commented on Brexit uncertainty.

New Business Index

sa, >50 = growth since previous month



Outstanding Business Index

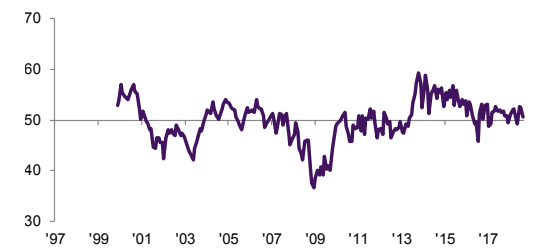


Marginal increase in backlogs

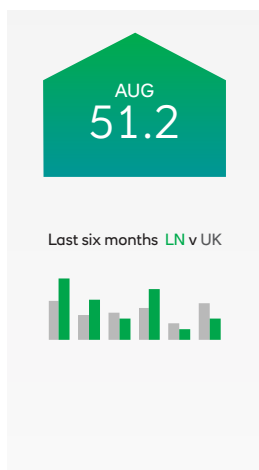
Unfinished work at companies in the capital rose during August, amid reports of sustained growth of new work. However, the pace of backlog accumulation was marginal and eased to the weakest in the current three-month sequence of expansion. Sector data suggested that increased workloads at service providers were partly offset by depletion at goods producers.

Outstanding Business Index

sa, >50 = growth since previous month



Employment Index

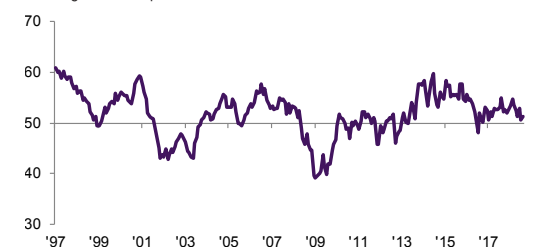


Employment growth picks up

August data pointed to a further widespread upturn in payroll numbers across London, with growth signalled by both manufacturers and service providers. As a result, employment across the private sector increased for the twenty-second successive month. Although slight, the pace of expansion accelerated from July's 18-month low. A positive outlook, improved revenues, greater sales and expansion plans were among the reasons cited for job creation.

Employment Index

sa, >50 = growth since previous month



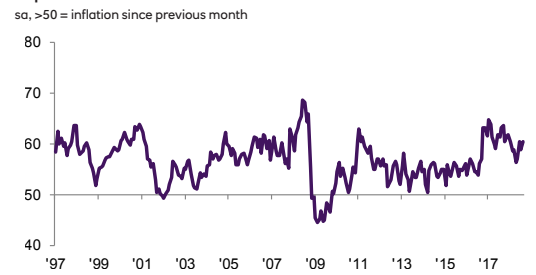
Input Prices Index



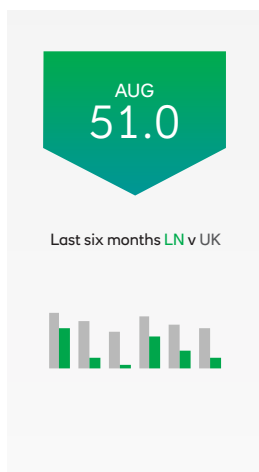
Input cost inflation at eight-month high in August

Cost burdens faced by London-based companies continued to rise midway through the third quarter, taking the current sequence of inflation close to nine years. The latest increase was steep and the strongest in 2018 so far. Survey members linked the rise in overall expenses to higher prices paid for fuel, rent and imported materials. There were also mentions of higher staff costs.

Input Prices Index



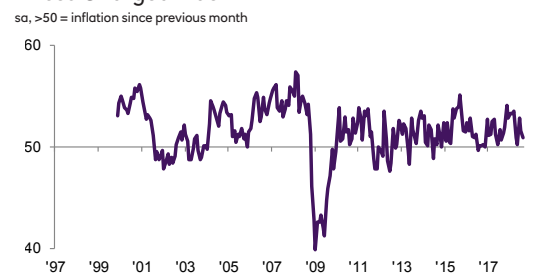
Prices Charged Index



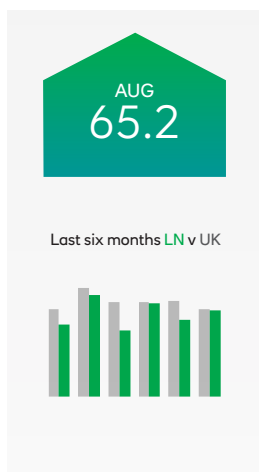
Charge inflation at three-month low

Reflective of greater cost burdens, companies in the capital lifted their selling prices again during August. The increase was the twenty-first in as many months, though the weakest since May. According to anecdotal evidence, some firms refrained from hiking charges amid efforts to boost sales. Sub-sector data showed a stronger rise in selling prices among manufacturers than at service providers.

Prices Charged Index



Future Business Activity Index



Optimism strengthens

Companies in the capital retained positive expectations towards the year-ahead outlook for business activity. Close to 43% of panellists predicted expansion, citing new product launches, marketing initiatives, greater market shares, acquisitions and investment intentions. On the other hand, 13% of firms were pessimistic, which they associated with political uncertainty, sterling depreciation and greater cost burdens. Overall sentiment improved to a two-month high, but remained below trend.

Future Business Activity Index



London Export Climate Index

Note: Export markets are defined as non-UK.



Last six months



Export prospects for London-based companies remain favourable

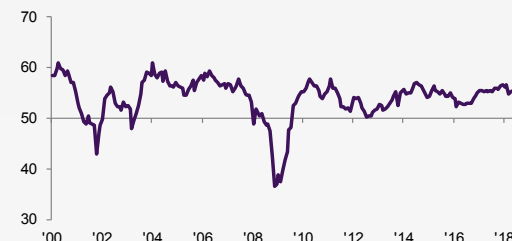
The London Export Climate Index is calculated by weighting together national PMI output data according to their importance to the services exports of the UK. This produces an indicator for the economic health of the region's export markets.

At 54.9 in August, the London Export Climate Index was unchanged from July's reading. This signalled a further strengthening of export opportunities for companies in the capital.

Output growth accelerated in four of the five top destinations for London exports. The sole exception was seen for its largest trading partner, the US. Although flash estimate data showed a softer increase in business activity in the US, the upturn remained marked and favourable to firms in the capital.

Export Climate Index

sa, >50 = improving export climate since previous month



Top export markets, London

Rank	Market	Weight	Output Index, Aug-18
1	USA	22.9%	55.0*
2	Germany	6.8%	55.6
3	Ireland	6.4%	58.4
4	Netherlands	5.4%	58.2
5	France	4.6%	54.9

* 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-18 (3mma)
1	Textiles & Clothing	2.77	
2	Food & Drink	1.64	
3	Wood & Paper	1.32	
4	Other Manufacturing	1.14	
5	Transport Equipment	1.06	
6	Electrical & Electronic	0.89	
7	Metals & Metal Products	0.73	
8	Chemicals, Rubber & Plastics	0.51	
9	Machinery & Equipment	0.32	

40 45 50 55 60 65 70

Services specialisation: London

Rank	Sector	LQ	UK Business Activity Index, Aug-18 (3mma)
1	Financial Intermediation	1.53	
2	Computing & IT Services	1.00	
3	Business-to-business Services	0.97	
4	Other personal/consumer Services	0.94	
5	Transport & Communication Services	0.74	
6	Hotels, Restaurants & Catering	0.69	

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UK Sector Focus: Transport Equipment

Output Index



Last six months*



*3mma

UK's transport equipment sector hits the brakes amid downturn in new export orders

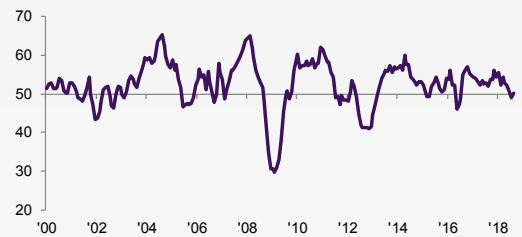
After a solid start to the year, the UK's transport equipment sector has seen a steady loss of momentum and fell back into contraction for the first time in two years in the three months to July. Data up to August showed output levels stabilising, but a sustained decline in new orders indicated the potential for further production cutbacks in coming months.

Notably, latest PMI data showed new export orders falling at the fastest rate for five-and-a-half years, which was in stark contrast to the strong growth seen at the end of 2017.

Waning demand meanwhile led to further job losses across the transport equipment sector in the three months to August, with the rate of decline in employment accelerating to the fastest since the end of 2012.

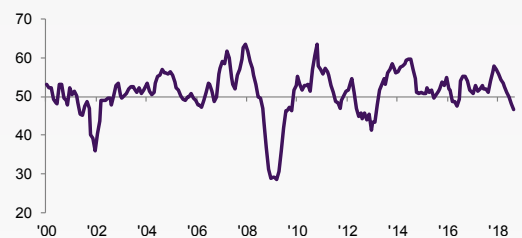
Output Index

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



New Export Orders Index

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



UK Regional Rankings

Business Activity

Business activity growth in August was jointly led by Yorkshire & Humber and the East of England, with both regions seeing faster rates of expansion than in the previous month. The East Midlands and Wales followed closely behind, with the latter recording its steepest increase in business activity for seven months. July's strongest performer, Northern Ireland, saw a loss of growth momentum and was ranked ninth overall. At the foot of the table was the North East, where output was broadly unchanged since July.

Employment

Employment rose in ten of the 12 UK regions during August, led by a robust rate of job creation in Yorkshire & Humber. The North West ranked second overall, ahead of the West Midlands and East Midlands respectively. The only decrease in employment was recorded in the North East, while staffing numbers in the South East remained unchanged from the month before.

Output Index by region

sa, >50 = growth since previous month, Aug-18 (Jul-18 ■)



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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.

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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.

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