

11 February 2025

NatWest London Growth Tracker

Activity growth hits seven-month high despite job cuts



NatWest

PMI[®]

by S&P Global

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Key findings

January 2025

Business output rises sharply amid resilient demand

Capital remains leader for growth in the UK

Productivity boost amid cost saving efforts by companies

The NatWest London Growth Tracker provides a timely snapshot of regional economic performance.

The report tracks monthly changes in business activity, demand, employment, backlogs, prices and the year-ahead outlook. The data are compiled from local companies that participate in S&P Global's UK manufacturing and services PMI surveys.

For more reports on 12 UK nations and regions, visit www.natwest.com/business/insights/economics





Business activity growth climbs to seven-month high in January

London businesses saw an improvement in activity growth at the start of 2025, as the capital continued to outperform national trends.

The headline London 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 to 54.8 in January, up from 54.2 in December and the highest in seven months. The reading indicated a sharp expansion in private sector output at the beginning of the year.

Higher output levels were often a result of resilient demand conditions, according to the survey panel. Indeed, London firms saw another solid increase in new work inflows during January. The uplift in activity also came despite job shedding, as firms were able to boost productivity amid cost saving efforts.

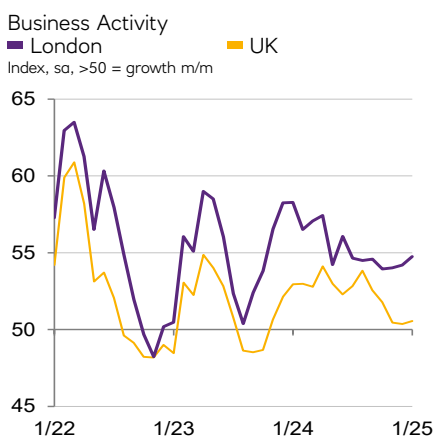
London overtook the North East as the fastest-growing region in January, as most UK areas saw output slump. On a national basis, business activity rose only marginally at the start of 2025.

NatWest London Business Activity Index January 2025

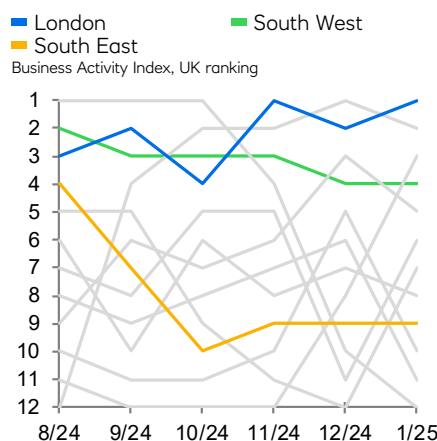
54.8

The Business Activity Index is a diffusion index calculated from companies’ responses to a question on monthly changes in the volume of business activity. The index varies between 0 and 100 and is the sum of the percentage of ‘higher’ responses and half the percentage of ‘unchanged’ responses. A reading above 50 indicates an increase compared to the previous month, and below 50 a decrease. The index is seasonally adjusted.

Data compiled 9-29 January



Sources: NatWest, S&P Global PMI. ©2025 S&P Global.



Sources: NatWest, S&P Global PMI. ©2025 S&P Global.

Comment

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

"The capital's private sector economy grew sharply in January. The pace of business activity growth jumped to a seven-month high and was the strongest seen out of the 12 monitored UK regions and nations (overtaking the North East).

"With employment cuts widely recorded, the uplift in output suggests firms were able to make productivity gains, which bodes well for the region's growth over the next few months if more job cuts are enacted.

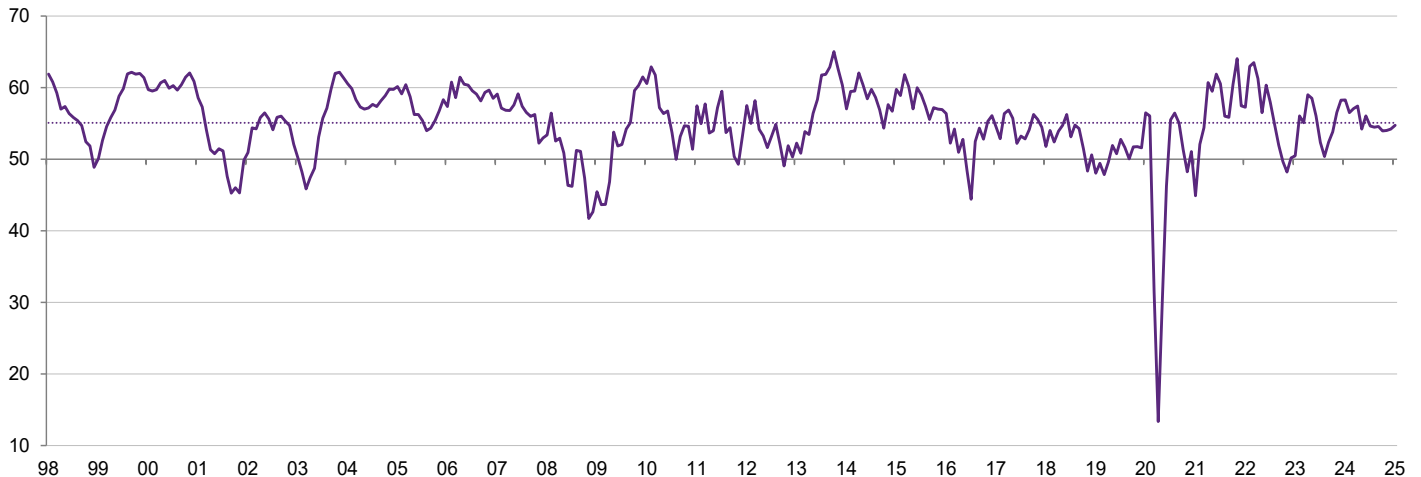
"Although demand momentum was the strongest seen nationally, firms indicated that rising economic risks were starting to dampen sales. Inflation is another concern, particularly as the passing on of higher staff costs led to faster upticks in both input costs and output prices.

"The Bank of England's interest rate cut last week means that policy is now less restrictive, with further loosening expected in the year ahead."



Business Activity

Index, sa, >50 = growth m/m. Dots = long-run average since 1998.



Sources: NatWest, S&P Global PMI. ©2025 S&P Global.



Demand and outlook

New business continues to improve

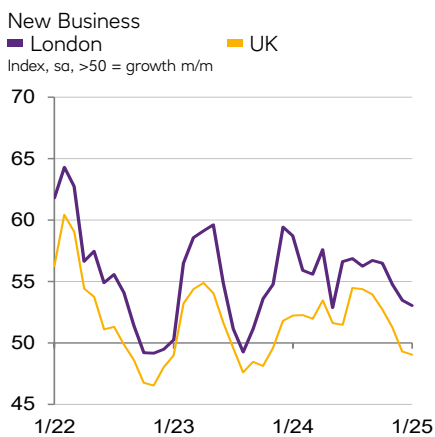
The level of new work received by private sector companies in London increased for the seventeenth month in a row during January. The latest uplift was solid, albeit the weakest recorded since May 2024.

Compared to the UK trend, demand conditions in the capital remained favourable. Out of the 12 monitored UK regions and nations, London registered the fastest rise in new orders at the start of 2025. The North East was the only other region to record an upturn.

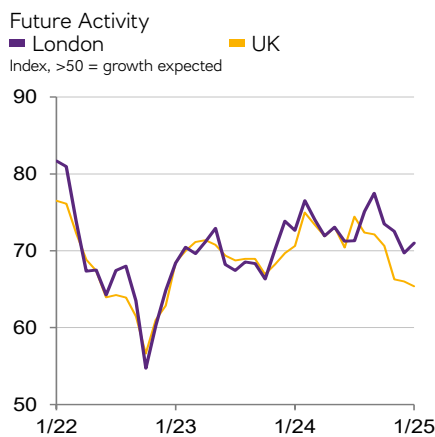
Anecdotal evidence from the survey panel signalled new client wins and increased demand from European customers. That said, there were some reports of uncertainty in global markets delaying new projects.

Resilient demand underlined positive expectations for business activity in the year ahead at London-based firms. January saw the degree of confidence pick up from December's 14-month low. Companies were optimistic about sales pipelines and longer-term investment, although some projected a weaker outlook for the national economy.

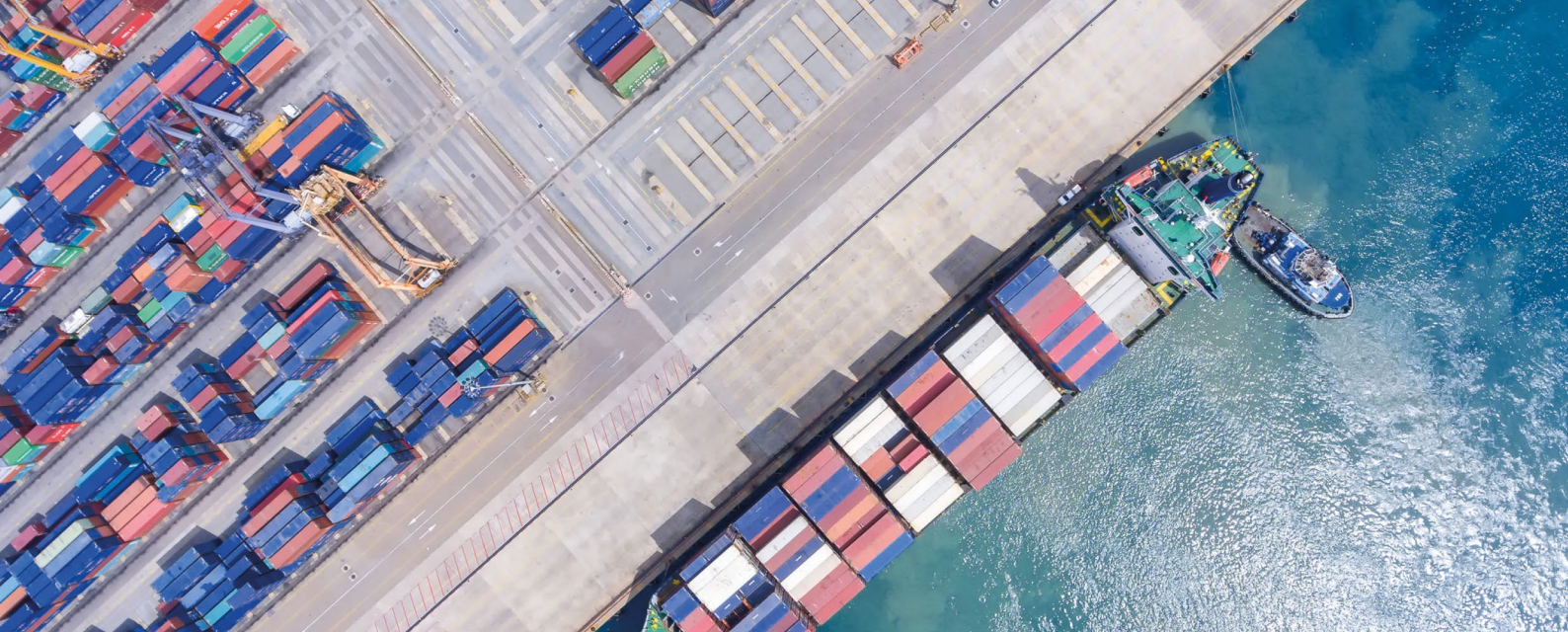
"Although demand momentum was the strongest seen nationally, firms indicated that rising economic risks were starting to dampen sales."



Sources: NatWest, S&P Global PMI. ©2025 S&P Global.



Sources: NatWest, S&P Global PMI. ©2025 S&P Global.



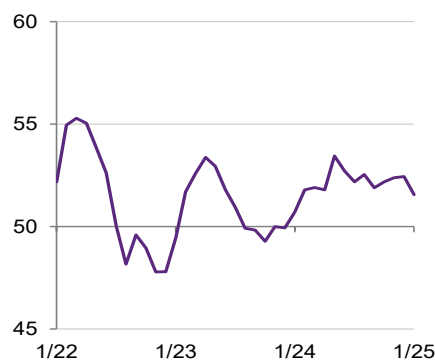
Export markets

Export conditions improve at slowest rate in a year

The Export Climate Index fell to 51.6 in January, down from 52.4 in December. Although the reading signalled an improvement in trade conditions, it was the lowest recorded for one year.

A renewed (albeit slight) uplift in German output boosted the export climate in January. The US and Ireland remained the key drivers of growth, although the former saw its weakest expansion since April 2024.

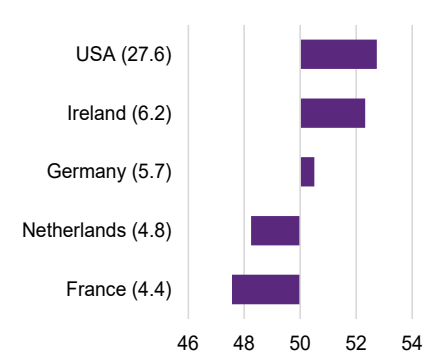
Export Conditions
Index, sa, >50 = growth m/m



Sources: NatWest, S&P Global PMI. ©2025 S&P Global.

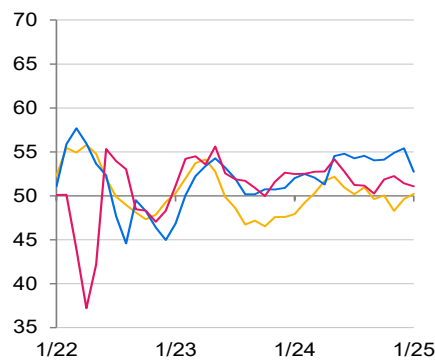
The London Export Climate Index (ECI) is an indicator for the economic health of the region's export markets. It is calculated by combining national PMI output data, weighted according to each nation's share of manufacturing exports of the London. A reading above 50 signals an improvement in export conditions, and below 50 a deterioration.

Top export markets, London
% share of exports shown in brackets
Output Index, sa, >50 = growth m/m



Sources: NatWest, S&P Global PMI. ©2025 S&P Global.

Output
Index, sa, >50 = growth m/m



Sources: NatWest, S&P Global PMI. ©2025 S&P Global.



Jobs and capacity

Job cuts worsen, but remain less severe than UK average

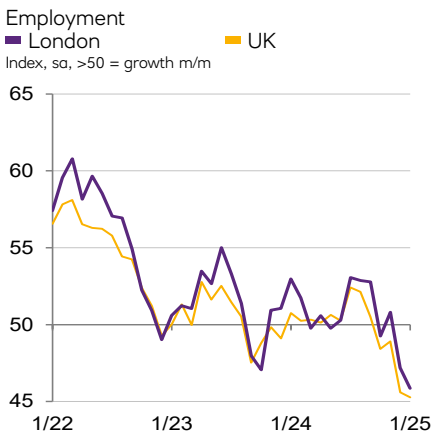
London companies reported a steep and accelerated reduction in employment levels at the start of the year. The pace of decline was the sharpest recorded in four years. Positively, it was slightly less marked than the national trend.

Businesses commented on restructuring efforts and cost tightening exercises in response to weak economic conditions and expected budgetary challenges.

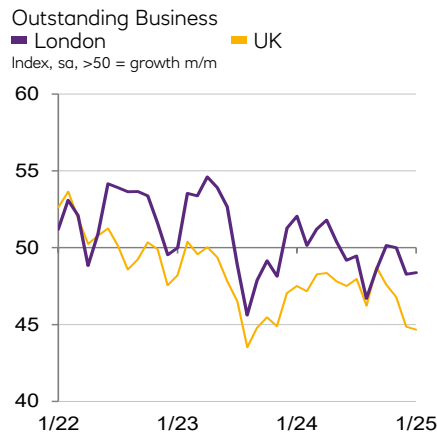
However, some firms reported greater staff investment amid expansionary efforts.

Despite the sharp reduction in workforces, firms depleted backlogs for the second month running. The modest pace of decline was little-changed from the prior month and considerably softer than the national trend. The slowdown in new business growth provided companies with additional time to finish existing work, according to qualitative reports.

"With employment cuts widely recorded, the uplift in output suggests firms were able to make productivity gains, which bodes well for the region's growth over the next few months if more job cuts are enacted."



Sources: NatWest, S&P Global PMI. ©2025 S&P Global.



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Inflation

Price pressures quicken sharply in January

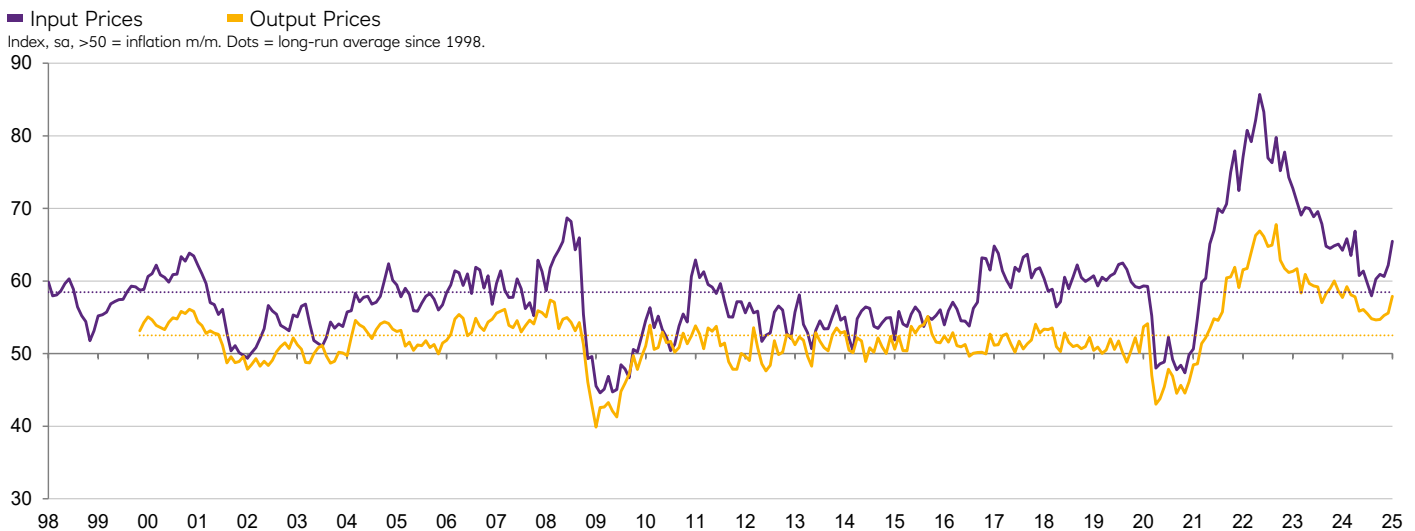
The latest survey data pointed to a sharp uptick in the rate of input price inflation across the London private sector. Average input prices rose to the greatest degree in nine months. Survey respondents often highlighted the impact of higher staff costs on their expenses, as well as food price increases and the pass through of payroll costs at suppliers.

Cost inflation in the capital aligned with the trend observed across the

UK. All 12 areas monitored by the survey saw a sharper increase in costs compared to the end of last year.

Output price inflation quickened in January, with the respective seasonally adjusted index rising for the fourth month running. Companies often attributed price hikes to the pass-through of food and salary inflation. The rise in charges was the fastest seen for ten months and much stronger than the series average.

"Inflation is another concern, particularly as the passing on of higher staff costs led to faster upticks in both input costs and output prices."



Sources: NatWest, S&P Global PMI. ©2025 S&P Global.

UK Regional Growth Tracker

Business Activity

London was the fastest-growing region for business activity in January, followed by the North East. The only other areas to see increases in output were Wales and the South West, although in both cases rates of expansion were only marginal. Northern Ireland meanwhile moved to the bottom of the rankings, recording a steep and accelerated decrease in business activity*.

Employment

For the second month running, all but one of the 12 monitored nations and regions recorded a decrease in employment in January. The exception was once again Northern Ireland, although employment there rose only fractionally and at the slowest rate for over two years. The West Midlands saw the steepest drop in workforce numbers, followed closely by East of England.

Future Activity

Expectations towards growth in the coming year remained positive across the board, but optimism weakened in many cases. This included Northern Ireland, which recorded its lowest business confidence for just over two years. Firms in London were the most positive about the year-ahead outlook ahead of those in the West Midlands, with both regions going against the general trend and seeing sentiment improve.

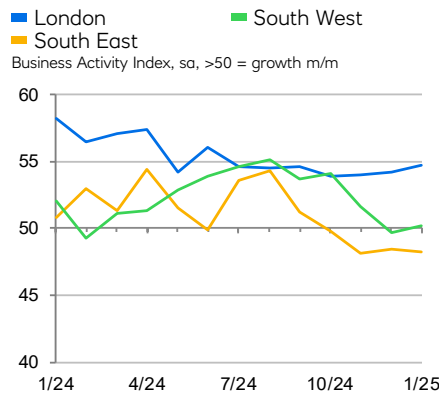
*As well as manufacturing and services, coverage in Northern Ireland also includes construction and retail.



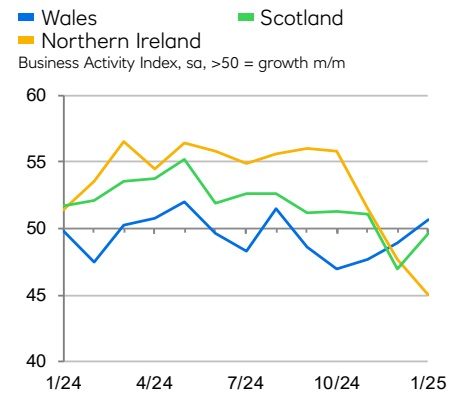
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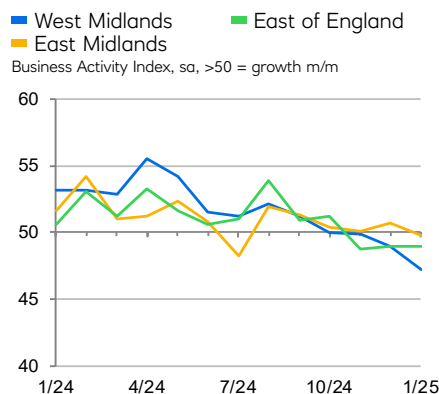
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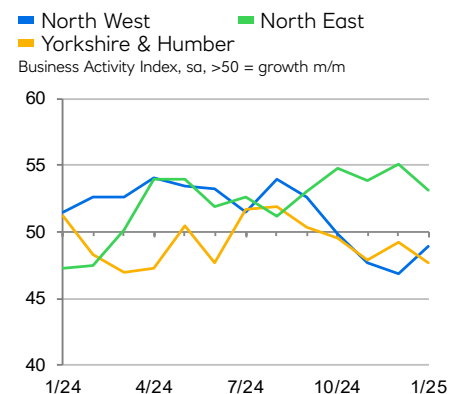
Sources: NatWest, S&P Global PMI. ©2025 S&P Global.



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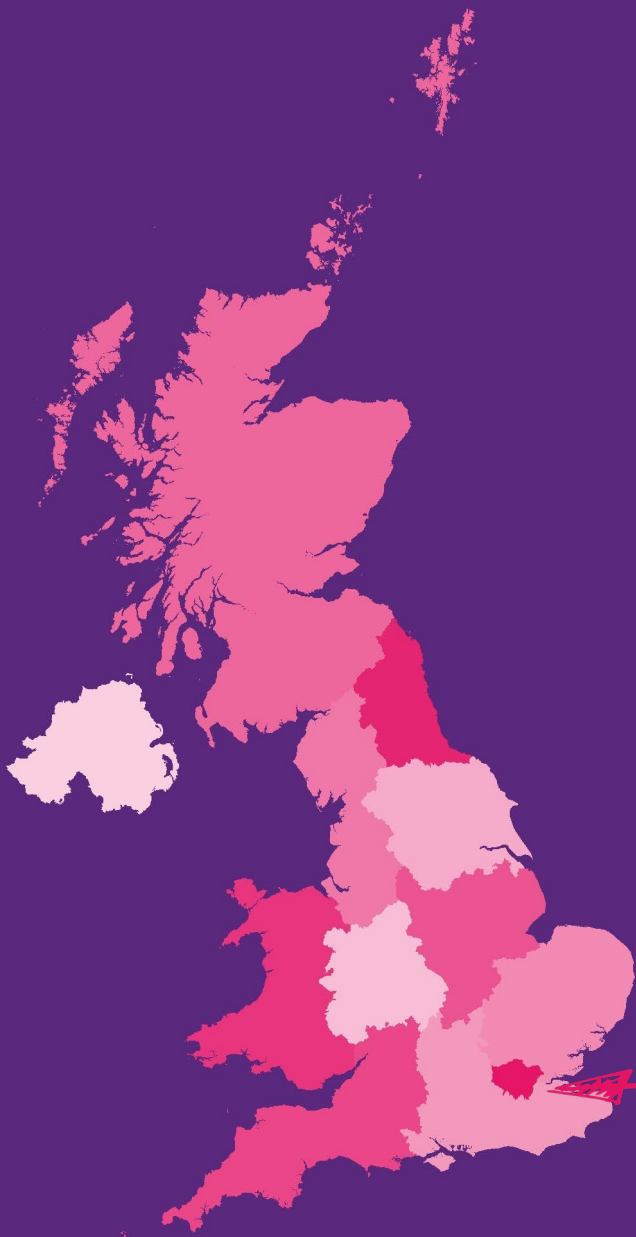


Sources: NatWest, S&P Global PMI. ©2025 S&P Global.

Growth Tracker heat map

January 2025

Darker colour = higher business growth



London

Business Activity Index
sa, >50 = growth m/m

54.8



Sources: NatWest, S&P Global PMI. ©2025 S&P Global.

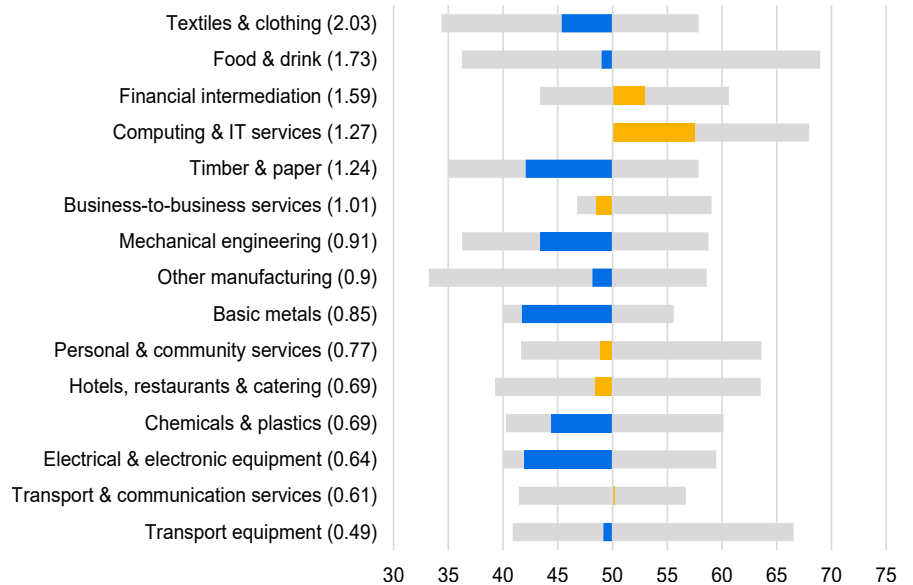
UK sectors

Sector specialisation: London

The chart shows UK output indices by sector, ranked by location quotients for London. Location quotients (LQs) 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.

UK sectors ranked by importance to London's economy
 ■ Manufacturing ■ Services ■ 3-year range
 UK Output Index, sa, >50 = growth m/m Jan '25



Sources: NatWest, S&P Global PMI. ©2025 S&P Global.
 Location quotients for London are shown in brackets. Latest data are smoothed as three-month moving averages (3mma).

Sector in focus: Personal & community services

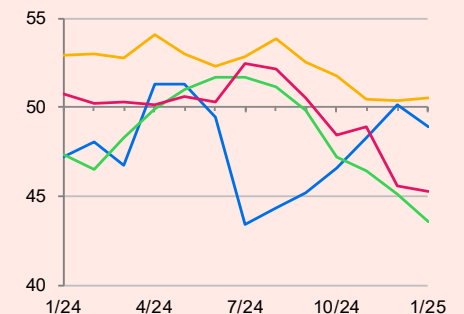
The UK's personal & community services sector underperformed the wider economy in the three months to January. Business activity fell back into contraction following some stability in the latter stages of 2024, weighed down by a marked decline in demand. Qualitative evidence gathered by the PMI surveys highlighted a reduction in confidence and discretionary spending among UK consumers in recent months.

At the same time, businesses in the sector came under pressure from rising costs, including increases in

energy prices and wages. Average prices charged by firms showed a slightly slower rate of inflation, however, pointing to a squeeze on profit margins.

Business confidence towards future growth prospects was meanwhile the lowest on record, excluding the initial phase of the pandemic. The combination of increasing labour costs and muted growth expectations led personal & community services firms to cut workforce numbers at the fastest rate for nearly four years.

Output / Employment
 ■/■ Personal & community services*
 ■/■ Manufacturing & services
 Index, sa, >50 = growth m/m



Sources: NatWest, S&P Global PMI. ©2025 S&P Global.
 *Data are smoothed as three-month moving average (3mma).

Methodology

The NatWest London Growth Tracker is compiled by S&P Global from responses to questionnaires sent to companies in London 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

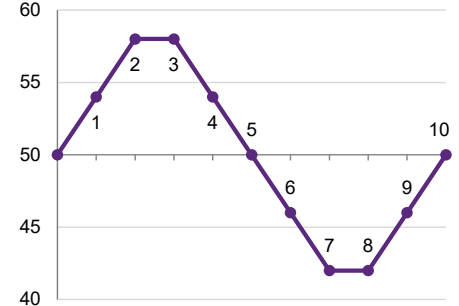
overall decrease. The indices are then seasonally adjusted.

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.

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 survey methodology, please contact economics@spglobal.com.

Index interpretation
Index, sa, >50 = growth m/m



Sources: NatWest, S&P Global PMI. ©2025 S&P Global.

Key

- 1 Growth, from no change
- 2 Growth, faster rate
- 3 Growth, same rate
- 4 Growth, slower rate
- 5 No change, from growth
- 6 Decline, from no change
- 7 Decline, faster rate
- 8 Decline, same rate
- 9 Decline, slower rate
- 10 No change, from decline

Data

London manufacturing and services
Index, sa, 50 = no change over previous month. *50 = no change over next 12 months.

	Business Activity	New Business	Export Climate Index	Employment	Outstanding Business	Future Activity	Input Prices	Output Prices
8/24	54.5	56.2	52.5	52.9	46.7	75.1	58.0	54.8
9/24	54.6	56.7	51.9	52.8	48.6	77.5	60.3	54.6
10/24	54.0	56.5	52.2	49.3	50.1	73.5	60.9	54.7
11/24	54.0	54.8	52.4	50.8	50.0	72.5	60.6	55.3
12/24	54.2	53.5	52.4	47.2	48.3	69.7	62.2	55.6
1/25	54.8	53.0	51.6	45.9	48.4	71.0	65.5	57.9

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