

14 January 2025

NatWest London Growth Tracker

**Business activity continues to
grow despite workforce cuts
and higher cost pressures**



NatWest

PMI[®]

by S&P Global

14 January 2025

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Key findings

December 2024

Output growth stays solid despite weaker rise in sales

Job numbers cut as firms prepare for NI increases

Cost inflation rises but remains well below recent highs

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





Output growth sustained in December

Companies in London saw another expansion in business activity in December, fuelled by rising customer sales.

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 – posted 54.2 in December, signalling a solid increase in private sector output in the final month of the year.

The rate of growth edged up to a three-month high and was considerably stronger than the

UK-wide average. London was one of three monitored regions to see activity expand in December, alongside the North East and the East Midlands.

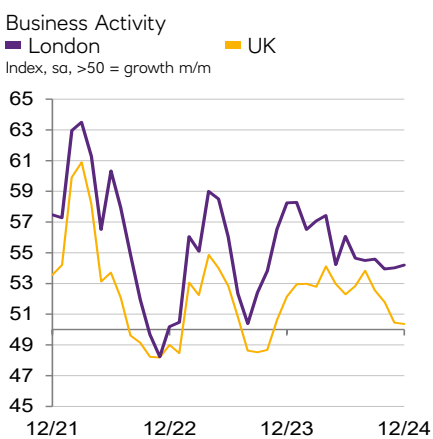
Surveyed companies commonly reported that a rise in new orders supported the expansion in output, with several also citing the introduction of new products and services. However, some firms noted that tighter economic conditions had constrained demand and activity. Heightened costs, particularly with regards to staff, were also seen as a headwind.

NatWest London Business Activity Index December 2024

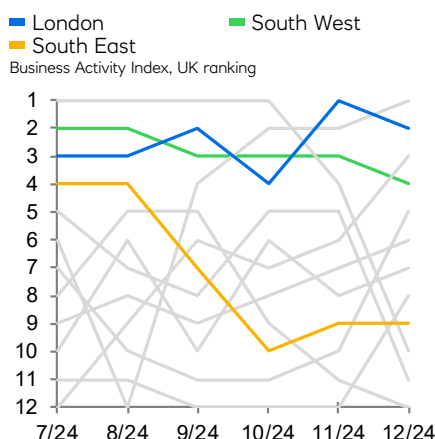
54.2

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 5-19 December



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:

"Despite some challenges for the local market, London continued to achieve a solid rate of output growth as we wrapped up 2024. The upturn in new business showed that firms are still able to make revenue gains at a time when other regions are finding it harder.

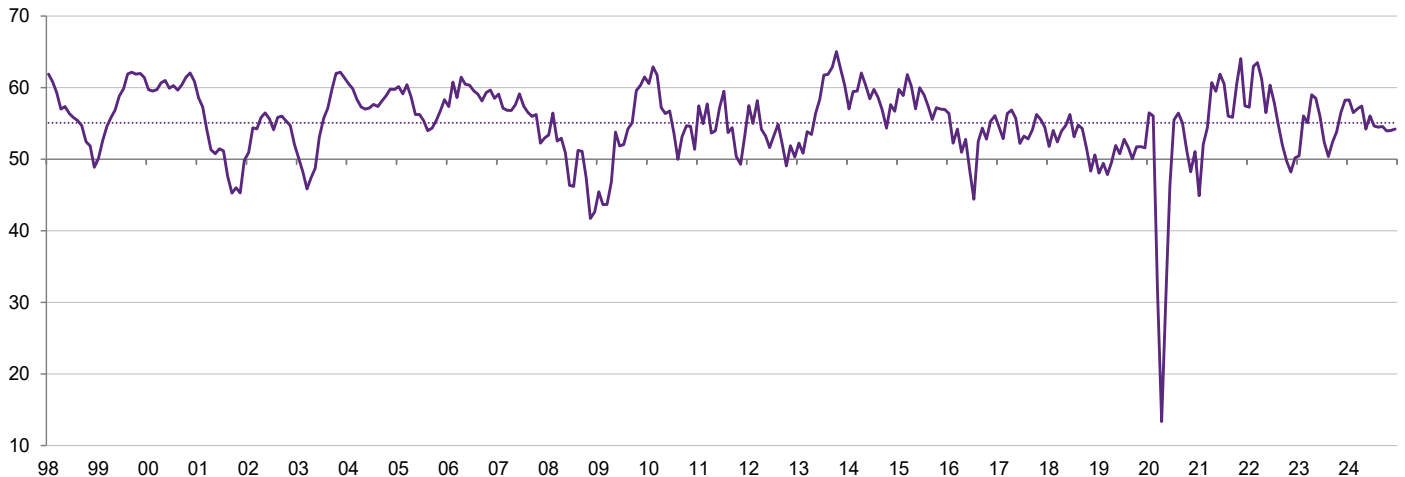
"The prospect of higher employment costs has nevertheless put a break on hiring, with the latest survey showing a solid reduction in job numbers. Wage increases similarly led to a rise in cost inflation, although the overall rate is only modestly higher than the post-pandemic lows observed last summer.

"In general, firms are hopeful they will see activity expand over the next 12 months, with total optimism staying above the series average. Firms also highlighted long-term investment and new product development, which will set them up well this year to withstand economic headwinds."



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

Sales growth and business expectations dip again

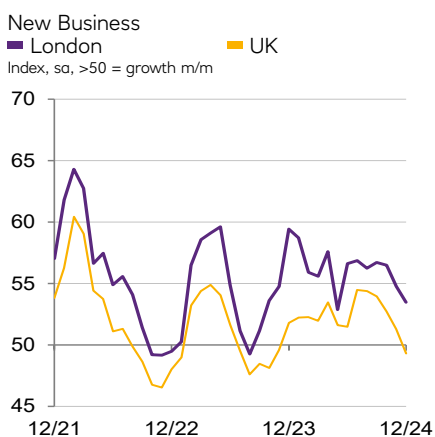
Key survey indicators pointed to a slowing of demand momentum in the London private sector at the end of the year. The seasonally adjusted New Business Index fell for the third month running to its lowest since May, indicating a softer increase in sales volumes compared to the prior month. According to anecdotal evidence, tighter economic conditions and cost cutting at clients weighed on new business expansion.

A drop in business confidence was recorded by the Future Activity Index, which is a reliable indicator of

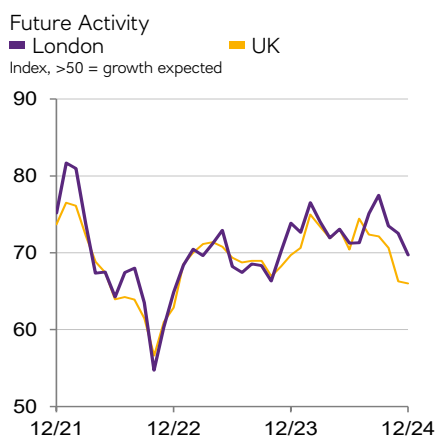
near-term economic conditions. Like new business, the index dropped for the third month in succession to show that London firms are less confident about activity trends over the next 12 months.

The level of confidence was the weakest recorded since October 2023, following a robust spell throughout much of the year. That said, it was still slightly better than its long-run average, as many firms commented on expectations of rising sales in 2025. Long term investment and opportunities in export markets were also cited.

"The upturn in new business showed that firms are still able to make revenue gains at a time when other regions are finding it harder."



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



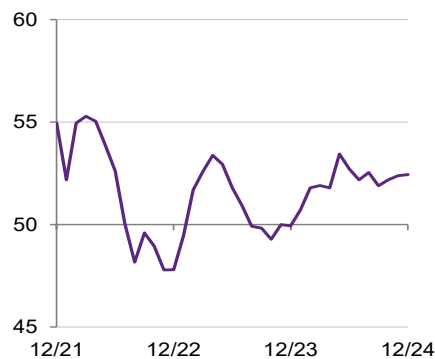
Export markets

Export climate improves solidly at year-end

The Export Climate Index pointed to positive trading conditions for London-based firms in December. At 52.4, unchanged from November, the index notably concluded a full calendar year of improving export opportunities.

The US remained a key driver of this improvement as output growth accelerated to a 32-month high. Output across Ireland rose, but to a lesser extent, whereas Germany, the Netherlands and France all saw further contractions.

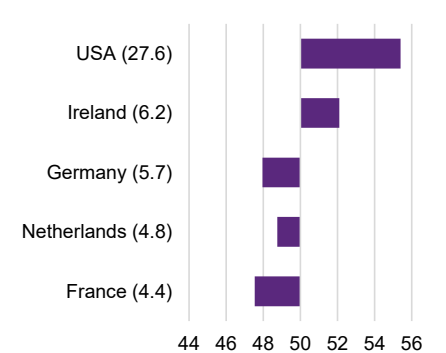
Export Conditions
Index, sa, >50 = growth m/m



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

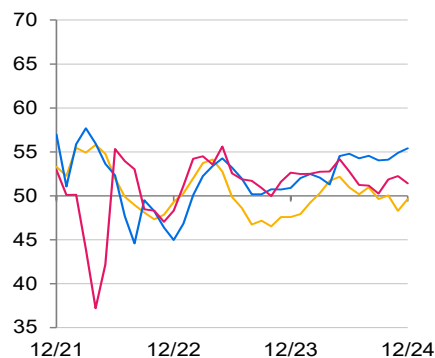
The London Export Climate Index (ECI) is an indicator for the economic health of the region's export markets. It is calculated by combining national PMI output data, weighted according to each nation's share of manufacturing exports of the London. A reading above 50 signals an improvement in export conditions,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

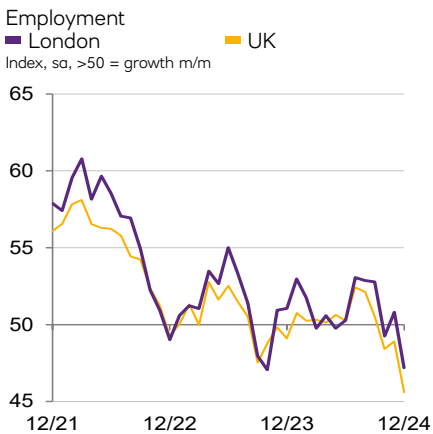
London businesses shed staff amid sharp fall in UK employment

December survey data indicated a solid decline in job numbers across the capital at the end of 2024, with the rate of reduction the fastest seen since October 2023. Employment levels often shrank as part of new restructuring efforts as firms prepare for upcoming National Insurance contribution rises in April, according to survey comments. In some cases, staff were made redundant, whilst other companies chose not to backfill positions.

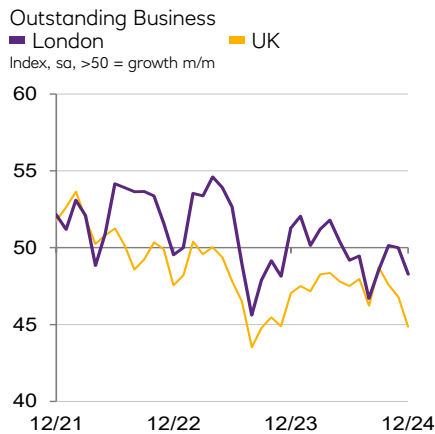
The fall in employment was broadly aligned with the trend observed on a national level, although the pace of job loss in London was less steep. Out of the 12 monitored UK areas, only Northern Ireland registered higher employment in December.

Staffing was reduced in London amid signs of spare capacity, as outstanding business volumes decreased for the first time in three months. The rate of decline was only modest though, with firms generally linking lower work-in-hand to a softening of new business growth.

"The prospect of higher employment costs has put a break on hiring"



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



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



Inflation

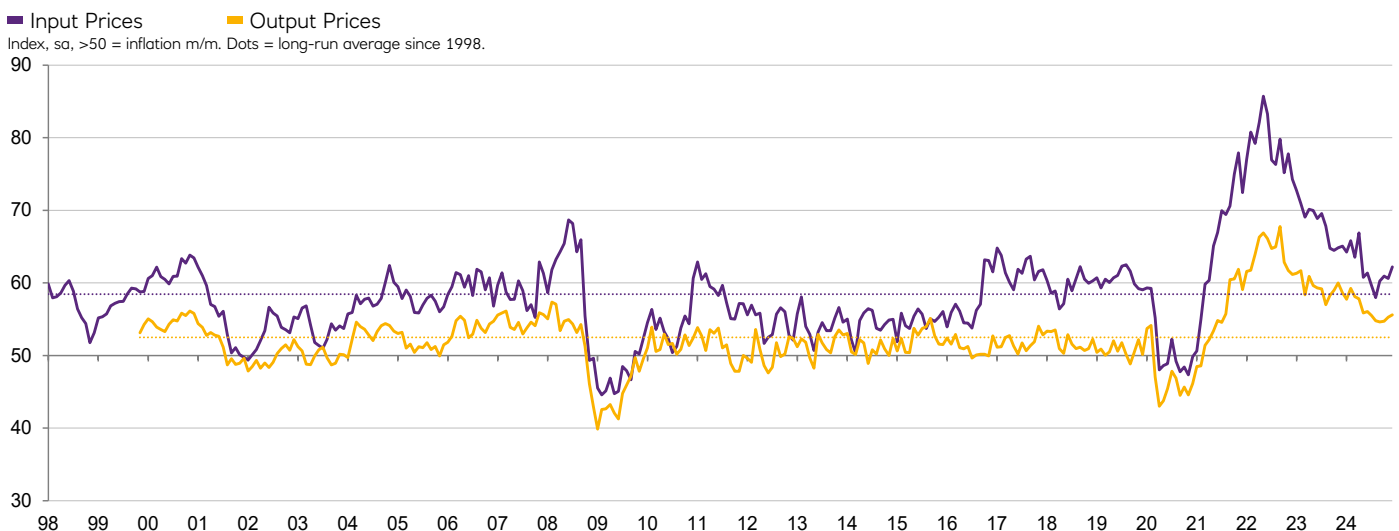
Input price inflation climbs to eight-month high

Average input prices at London companies rose in December, and the pace of increase quickened to the fastest since last April. Often, firms seeing a rise in costs quoted supplier price increases in response to heightening wage forecasts from NIC and NMW/NLW upticks. In other instances, panellists cited an increase in material and IT costs.

The rate of input price inflation across London was slightly quicker than the UK average. However, it was still much softer than the record levels observed in the past couple of years.

Rising input costs prompted a number of businesses to lift their own fees. The rate of output charge inflation accelerated slightly from November and was the highest in six months.

"Wage increases led to a rise in cost inflation, although the overall rate is only modestly higher than the post-pandemic lows observed last summer."



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

UK Regional Growth Tracker

Business Activity

The North East and London were the two standout performers in terms of regional business activity growth in December. The only other area to see an increase in output was the East Midlands, although the rise there was modest. At the other end of the scale, the North West and Scotland recorded the joint-steepest falls in business activity, followed by Northern Ireland.

Employment

Employment growth in December was confined to just Northern Ireland. Workforce numbers fell in the remaining 11 nations and regions covered by the survey, marking the broadest decline in almost four years. For the fourth month running, companies in Wales recorded the sharpest drop in staffing levels.

Future Activity

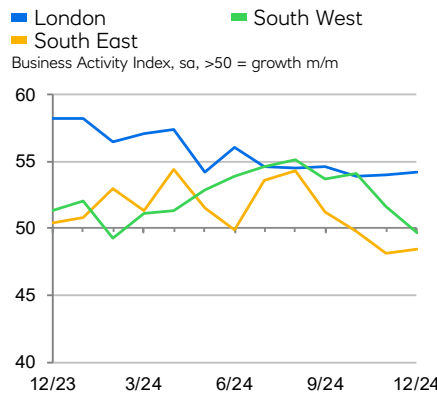
There were varying degrees of optimism towards future activity across the UK's nations and regions in December. Firms in the East Midlands were the most upbeat about the year-ahead outlook, having seen a notable rebound in confidence from the month before. Expectations deteriorated in the majority of areas, however, including Scotland which saw the weakest overall sentiment.



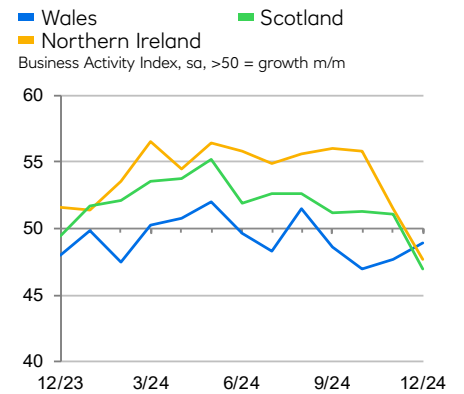
Sources: NatWest, S&P Global PMI. ©2025 S&P Global.



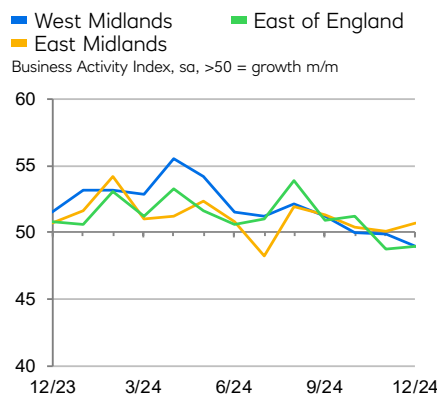
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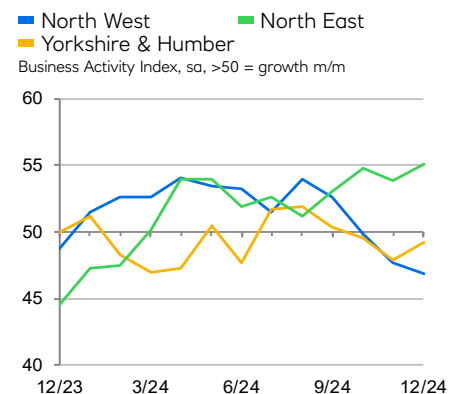
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Sources: NatWest, S&P Global PMI. ©2025 S&P Global.

Growth Tracker heat map

December 2024

Darker colour = higher business growth



London

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

54.2



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

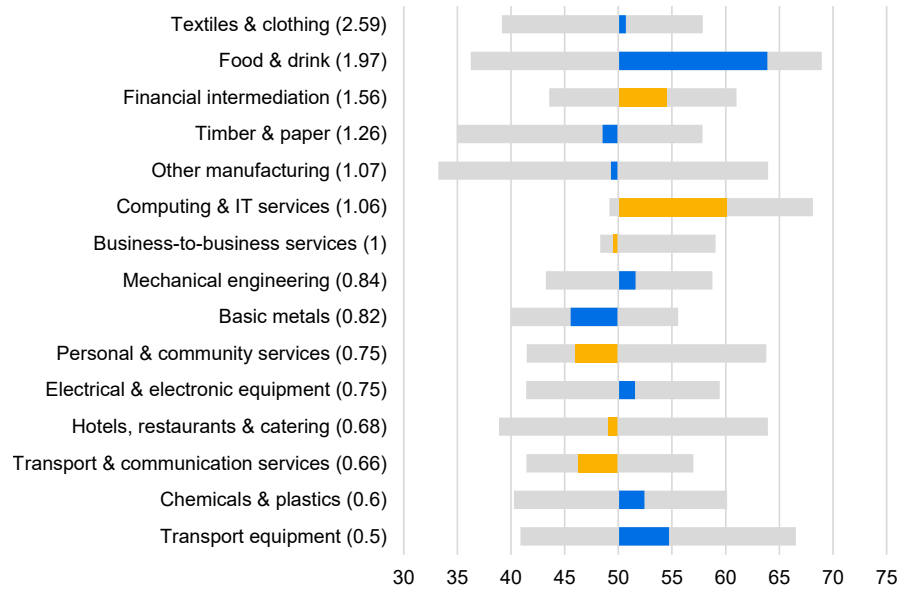
UK sectors

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 Dec '24



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: Electrical & electronic equipment

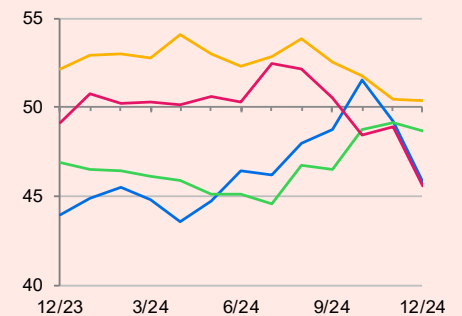
Business conditions deteriorated across the UK's electrical & electronic equipment sector in the final quarter of 2024. After a brief upturn in the autumn, production fell markedly amid a sustained downturn in new orders. Underlying data showed particular weakness in export sales.

With backlogs of work decreasing sharply, firms in the sector once again trimmed workforce numbers, to extend a sequence of staff retrenchment stretching back to September 2023. Job cuts also

coincided with a deterioration in businesses' growth forecasts to the weakest in almost four-and-a-half years.

Turning to prices, latest data showed average output charges across the UK's electrical & electronic equipment sector increasing at an above-trend rate, and one that was the quickest since Q2 2024. Firms raised selling prices in response to sustained strong growth in average input costs.

Output / Employment
 ■/■ Electrical & electronic equipment*
 ■/■ 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

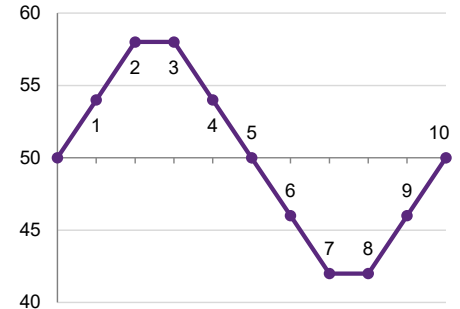
overall decrease. The indices are then seasonally adjusted.

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
7/24	54.6	56.9	52.2	53.1	49.5	71.3	59.6	55.5
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

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