

12 November 2024

NatWest London Growth Tracker

Output growth remains
strong in October



NatWest

PMI[®]

by S&P Global

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Key findings

October 2024

Rising activity supported by marked upturn in sales

Employment falls at quickest rate in a year

Input cost inflation ticks higher for second month in a row

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





Activity growth remains solid despite slipping to 12-month low in October

The London Growth Tracker from NatWest pointed to robust expansions in activity and new business across the capital.

The rate of activity growth nevertheless eased slightly and was the softest recorded since October 2023. The slowdown came as firms reduced staff numbers and noted some hesitancy from clients to place new orders amid fiscal policy uncertainty.

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 – dropped from 54.6 in September to 54.0 in October. The reading was the lowest in 12 months but remained firmly above the 50.0 neutral mark.

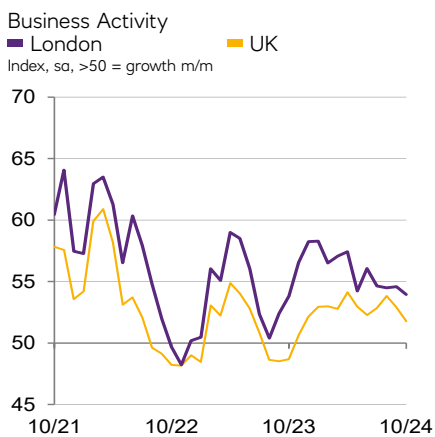
London business activity continued to increase at a stronger pace than the UK-wide average. Despite remaining one of the top performers, the region slipped to fourth in the activity growth rankings, its lowest position in almost two years.

NatWest London Business Activity Index October 2024

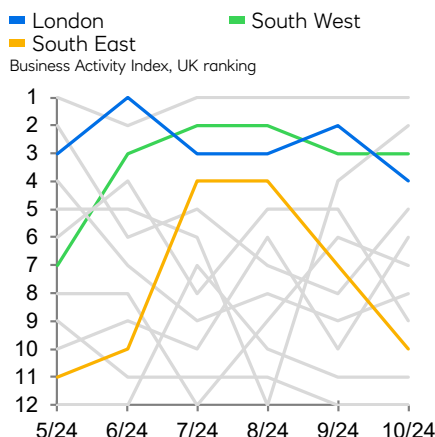
54.0

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 10-29 October



Sources: NatWest, S&P Global PMI. ©2024 S&P Global.



Sources: NatWest, S&P Global PMI. ©2024 S&P Global.

Comment

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

"Strong sales performances appeared to help London businesses weather the storm of a broader UK slowdown in October. Although activity growth eased to the weakest in a year, it was robust overall and well above the national average.

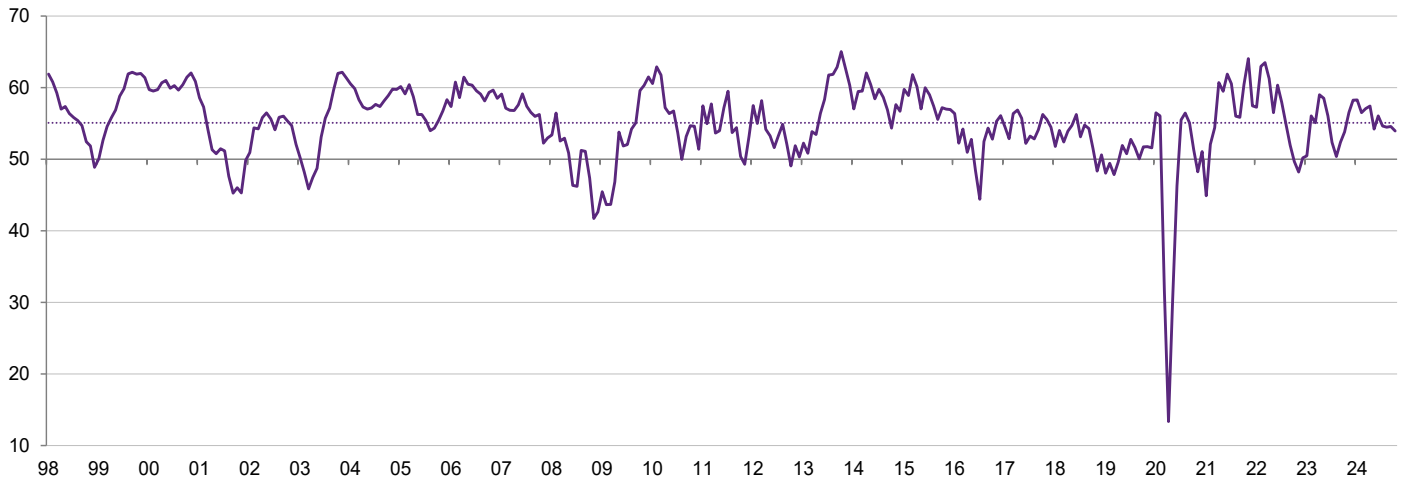
"That said, in line with most regions, London registered a fall in employment, driven by ongoing efforts to save costs. Announcements in the Autumn Budget suggest staff levels will remain a prominent question for London-based firms, especially as wages are a key driver of underlying inflationary pressures.

"Whilst selling price inflation has softened notably in recent times, October marked the first month since June where it has picked up (if only fractionally), due to another quickening of input cost inflation. Some panellists mentioned that suppliers were passing on higher costs amid increasing freight prices and tight margins, which suggests that firms should maintain a degree of caution on the cost front."



Business Activity

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



Sources: NatWest, S&P Global PMI. ©2024 S&P Global.



Demand and outlook

New business rises sharply despite client hesitancy

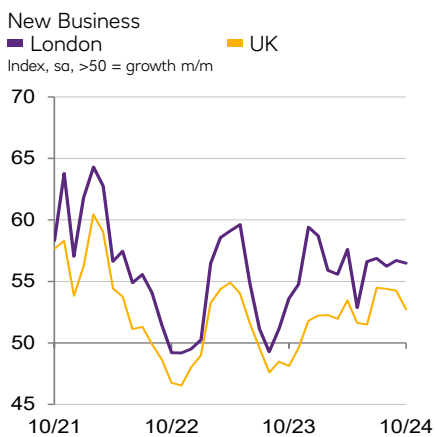
London firms registered another robust increase in new work volumes in October. The upturn broadly matched the trend recorded since the middle of the year, and was stronger than the national average. In fact, the rate of new business growth across London was the fastest seen out of 12 regions monitored by the Growth Tracker.

Where an improvement in sales was noted, panellists often signalled this was driven by overseas clients, with Asia and parts of Europe mentioned as sources of growth. At the same

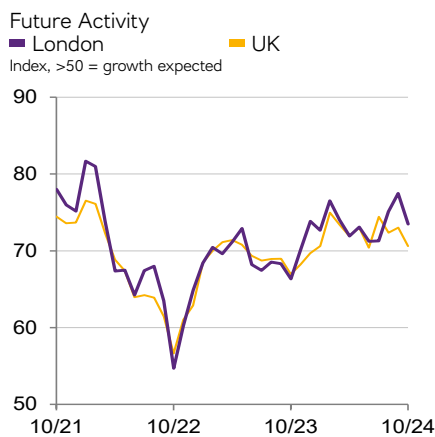
time, there were some reports that domestic clients had withheld spending due to uncertainty surrounding government policy and the impact of the Autumn Budget.

This uncertainty also led to a weakening of business confidence as some firms raised concerns about future activity and sales. The Future Output Index dropped four points after reaching its highest in 31 months in September. Firms nevertheless retained a generally positive outlook, driven by expectations of rising demand, greater investment, new technology and healthy cash flow.

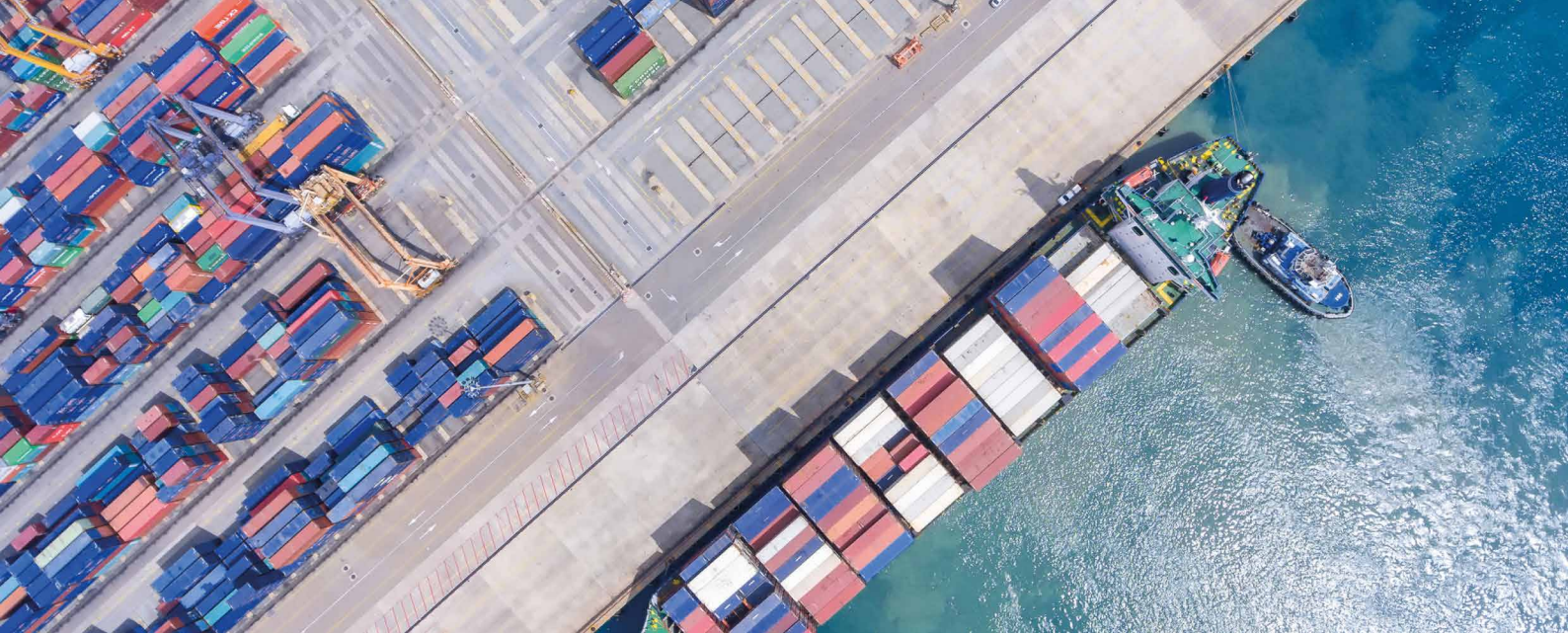
"Strong sales performances appeared to help London businesses weather the storm of a broader UK slowdown in October."



Sources: NatWest, S&P Global PMI. ©2024 S&P Global.



Sources: NatWest, S&P Global PMI. ©2024 S&P Global.



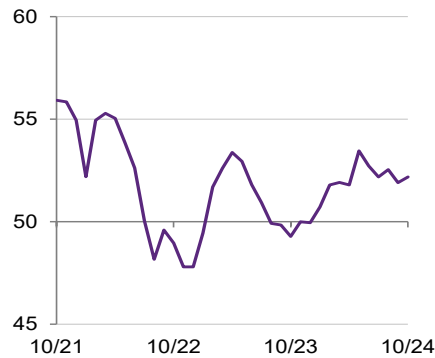
Export markets

Export conditions see modest improvement in October

The Export Climate Index registered 52.2 in October, up from 51.9 in September, to signal a further strengthening of the export climate for London private sector firms. Export conditions have improved in every month of 2024 so far.

The index continued to mask notable differences in economic conditions across London's key export markets. USA and Ireland saw output rise further, and growth accelerated in both cases. However, Germany, the Netherlands and France remained in contraction.

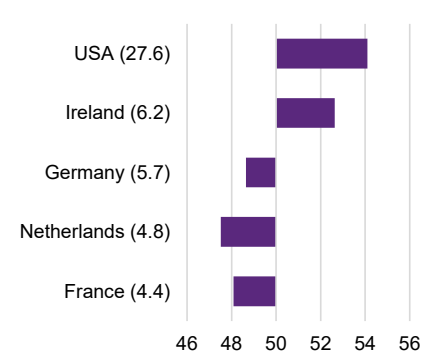
Export Conditions
Index, sa, >50 = growth m/m



Sources: NatWest, S&P Global PMI. ©2024 S&P Global.

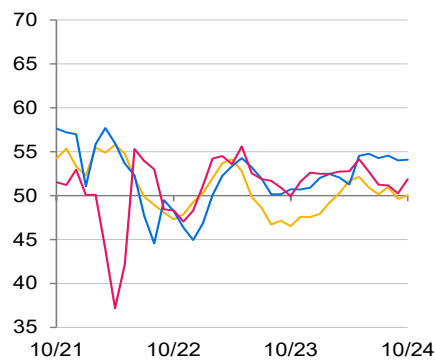
The London Export Climate Index (ECI) is an indicator for the economic health of the region's export markets. It is calculated by combining national PMI output data, weighted according to each nation's share of manufacturing exports of the London. A reading above 50 signals an improvement in export conditions, 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. ©2024 S&P Global.

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



Sources: NatWest, S&P Global PMI. ©2024 S&P Global.



Jobs and capacity

Employment slips for first time since May

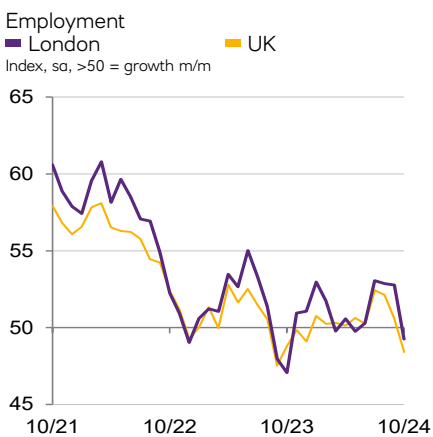
London businesses made cuts to their headcounts at the start of the fourth quarter, ending a four-month sequence of expansion. Although marginal, the pace of job losses was the fastest observed in exactly one year. Some firms reduced staff due to greater automation and cost concerns ahead of the UK Budget, while others signalled difficulties replacing staff who had left.

The fall in employment coincided with a decline at the UK level, the first seen in 2024 to date. Job cuts

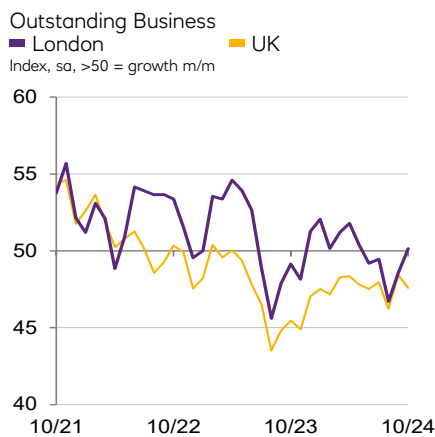
were slightly greater nationally compared to that seen in London.

Efforts to streamline staff numbers appeared to limit the level of spare capacity during October. After four months of successive reductions, firms were unable to deplete backlogs of work, which on average rose fractionally since the previous survey period. New business wins added to outstanding work volumes at some companies, anecdotal evidence showed.

"Announcements in the Autumn Budget suggest staff levels will remain a prominent question for London-based firms, especially as wages are a key driver of underlying inflationary pressures."



Sources: NatWest, S&P Global PMI. ©2024 S&P Global.



Sources: NatWest, S&P Global PMI. ©2024 S&P Global.



Inflation

Cost pressures rise again and top UK rankings

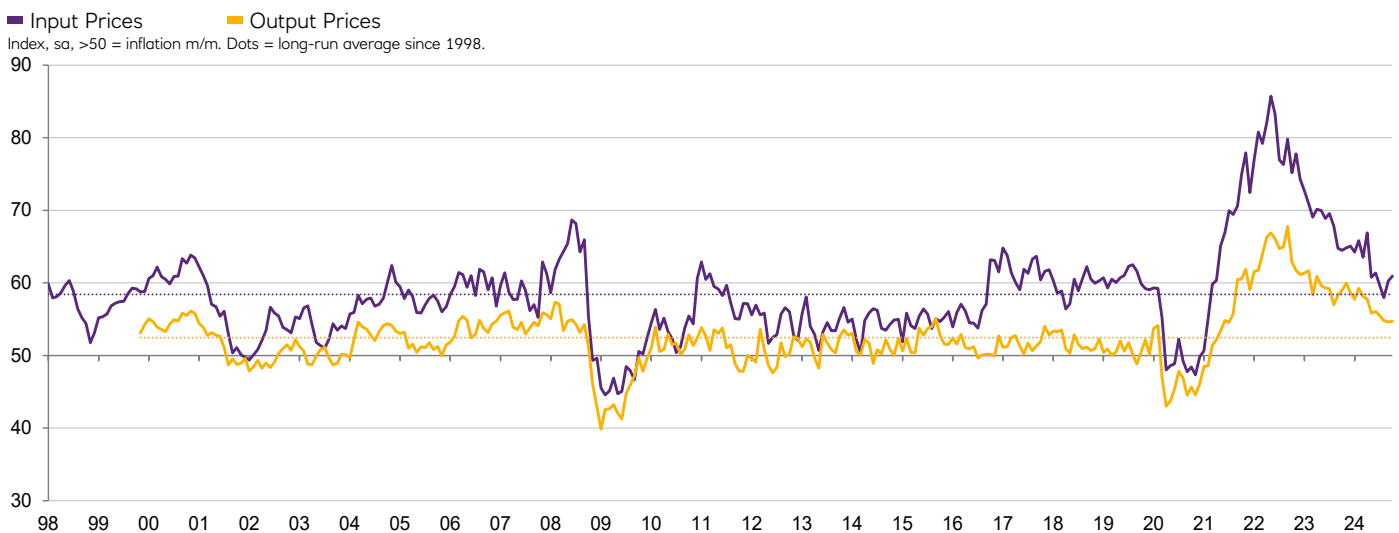
The seasonally adjusted Input Prices Index rose for the second month running in October, signalling a further acceleration of cost inflation from a three-and-a-half-year low in August. Higher salaries and increasing supplier costs were commonly noted as the main drivers of inflation by surveyed firms.

Not only did price pressures quicken, but they were also the strongest

recorded out of the 12 monitored UK areas. However, they remained soft compared to the trend seen over the last few years.

Higher input costs were once again partially passed on to customers during October, as firms raised selling prices sharply. Although well above the long-run average and up slightly from September, the rate of charge inflation was the second-lowest since mid-2021.

"Whilst selling price inflation has softened notably in recent times, October marked the first month since June where it has picked up."



Sources: NatWest, S&P Global PMI. ©2024 S&P Global.

UK Regional Growth Tracker

Business Activity

Just over half of the 12 UK nations and regions saw a rise in business activity in October, down from 11 in September. Northern Ireland continued to see the strongest growth, while there were also solid increases in output across the North East, South West and London. Wales recorded the steepest drop in activity and was joined in contraction by Yorkshire & Humber, the South East and North West.

Employment

Most areas of the UK recorded a reduction in employment as the final quarter of the year got underway. As was the case with business activity, Wales recorded the most marked decline – its sharpest for nine months. Other notable decreases were seen in the West Midlands, East of England and South East. For the fourth month running, the strongest rate of job creation was registered in Northern Ireland.

Future Activity

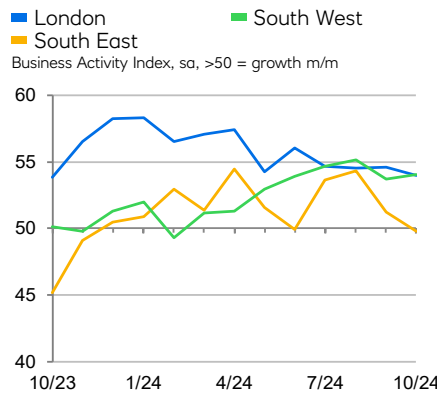
Business expectations remained positive across the board, but in just over half of cases there was a decrease in optimism from the month before. This included Northern Ireland, which saw sentiment weaken to a ten-month low and recorded the lowest degree of business confidence UK-wide. At the other end of the scale, the North West saw expectations improve notably to the highest since July.



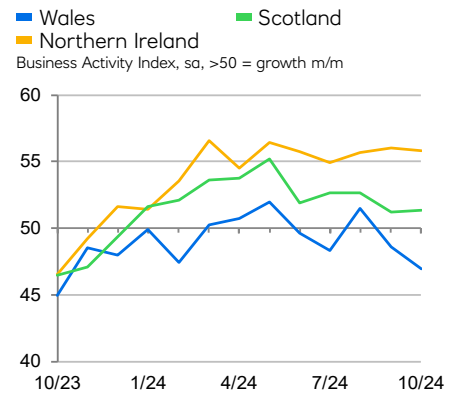
Sources: NatWest, S&P Global PMI. ©2024 S&P Global.



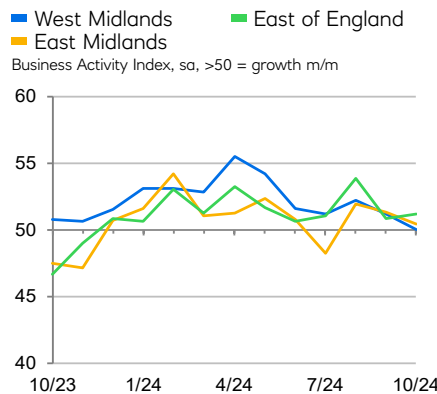
Sources: NatWest, S&P Global PMI. ©2024 S&P Global.



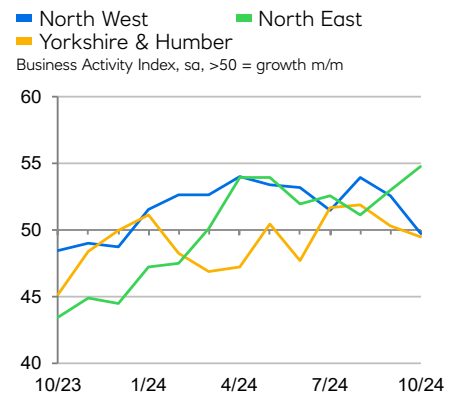
Sources: NatWest, S&P Global PMI. ©2024 S&P Global.



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Growth Tracker heat map

October 2024

Darker colour = higher business growth

London

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

54.0



Sources: NatWest, S&P Global PMI. ©2024 S&P Global.

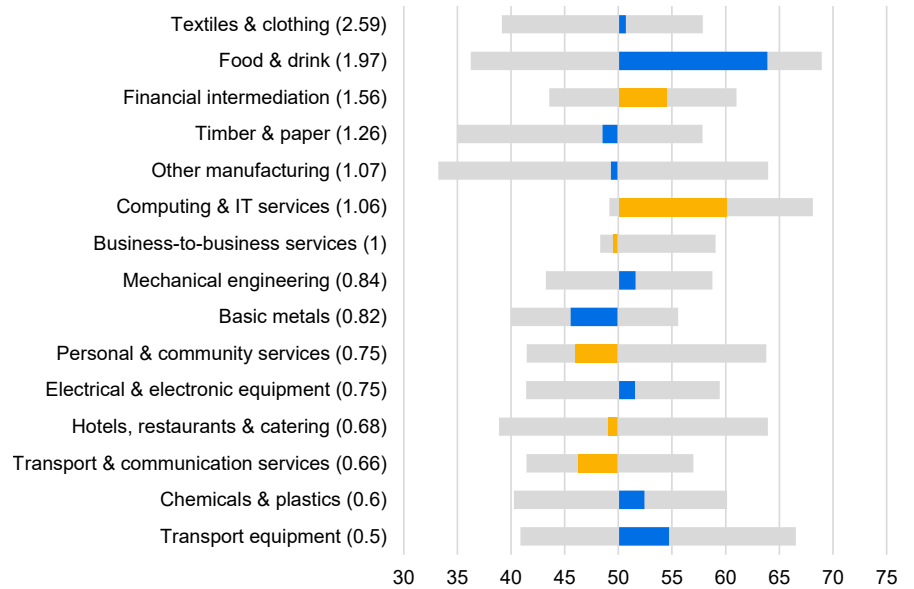
UK sectors

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 Oct '24



Sources: NatWest, S&P Global PMI. ©2024 S&P Global.
 Location quotients for London are shown in brackets. Latest data are smoothed as three-month moving averages (3mma).

Sector in focus: Basic metals

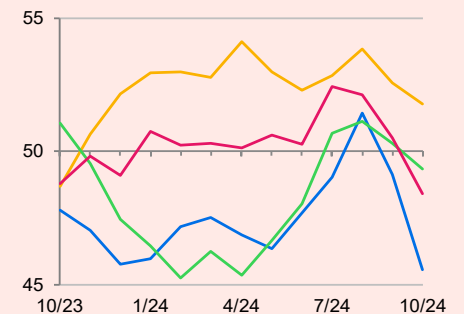
The basic metals sector acted as a notable drag on overall UK economic growth in the three months to October. It recorded the steepest drop in output since Q2 2023 and was the worst-performing sector of those monitored across manufacturing and services.

Basic metals producers reported persistent weakness in demand, with new orders having been in decline for almost two-and-a-half years. A lack of export sales was a contributing factor, underlying data showed.

Employment was also down in the three months to October, following a brief spell of job creation over the summer months. This reversal in recruitment activity coincided with a dip in optimism towards the outlook.

Turning to prices, the basic metals sector saw muted inflationary pressures, with both input costs and output prices rising at rates well below their respective historical averages. Supply-side conditions were relatively stable, as highlighted by only a fractional increase in average lead times on inputs.

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



Sources: NatWest, S&P Global PMI. ©2024 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

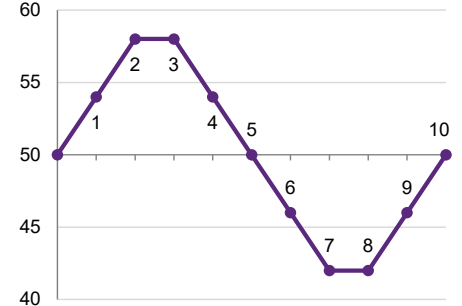
overall decrease. The indices are then seasonally adjusted.

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. ©2024 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
5/24	54.2	52.9	53.4	49.8	50.4	73.1	60.8	55.8
6/24	56.1	56.6	52.7	50.3	49.2	71.2	61.4	56.1
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

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PMI by S&P Global

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