

9 October 2024

NatWest London Growth Tracker

**Activity growth across London
private sector remains strong
at end of third quarter**



NatWest

PMI[®]

by S&P Global

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Key findings

September 2024

Output rises sharply as sales growth ticks higher

Strongest confidence in business outlook since early 2022

Selling price inflation continues to ease

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 holds strong at end of third quarter

The London Growth Tracker from NatWest indicated a steady upturn in business activity across the capital in September.

The rate of activity growth was broadly unchanged at the end of the third quarter as firms continued to enjoy a robust increase in new business. Job creation was also resilient, contrasting with weaker hiring in other parts of the country. Meanwhile, optimism towards future activity climbed to its highest level since early 2022.

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 54.6 in September, up slightly from 54.5 in August. The reading signalled a robust expansion in business activity at the end of third quarter, which companies mainly related to improved client demand and higher overseas sales.

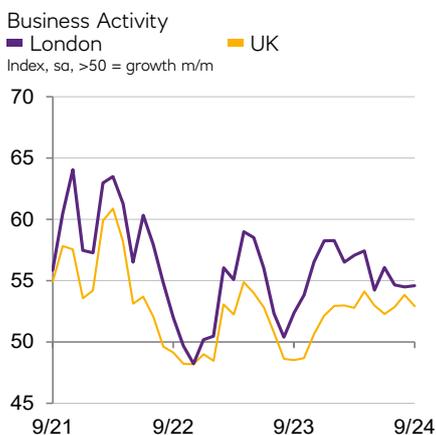
London climbed into second place in the regional rankings (below Northern Ireland) and compared with a solid, but softer upturn across the UK as a whole.

NatWest London Business Activity Index September 2024

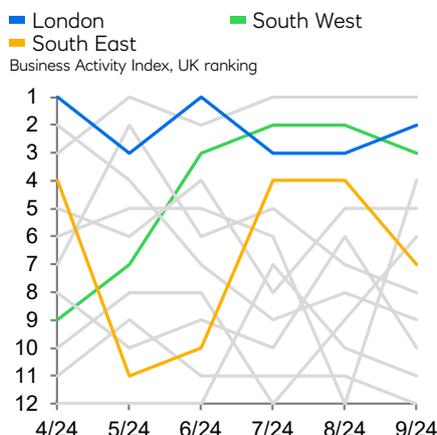
54.6

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 12-26 September



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:

"The capital remained one of the UK's strongest-performing areas in terms of private sector business activity in September, despite registering slower growth than at the start of the year. Sales rose sharply, bolstered by rising demand from European and US clients. This paved the way for a further uptick in overall business confidence which is now at its highest since early 2022 and driven by firms' willingness to invest in new products, staff and sales-building departments.

"Keeness to build workforces led to another solid increase in employment in September, although slower job creation nationwide amid a slight dip in growth could give some firms pause for thought. Wage costs remain a key factor delaying some hiring decisions, and a slight uptick in overall input price inflation shows that inflationary pressures may not quite yet be in the rear window."



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

Best outlook for growth since February 2022

The September survey data pointed to robust demand conditions across London's private sector economy at the end of the third quarter, feeding through to higher optimism levels regarding future activity.

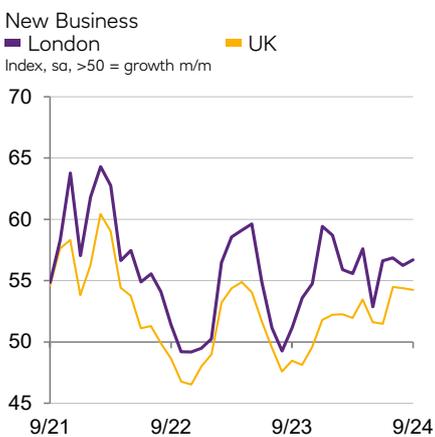
Overall new work intakes rose sharply in September, with the pace of growth ticking up slightly from August. Survey panellists often commented on greater customer demand, including from European and US markets. Some companies added that an increase in staff

numbers allowed them to secure greater volumes of new work.

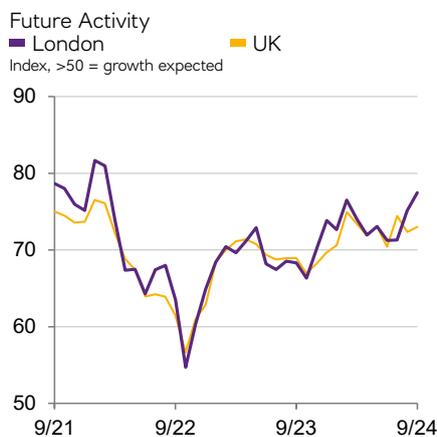
London remained one of the top-performing regions of the UK in terms of new business growth, with only the South West registering a sharper uptick in September.

Stronger inflows of new work encouraged London-based firms in their assessment of future business output, with some claiming this had given them greater confidence to invest in new products, sales and marketing. The Future Activity Index rose to its highest level since February 2022 and was well above the UK-wide trend.

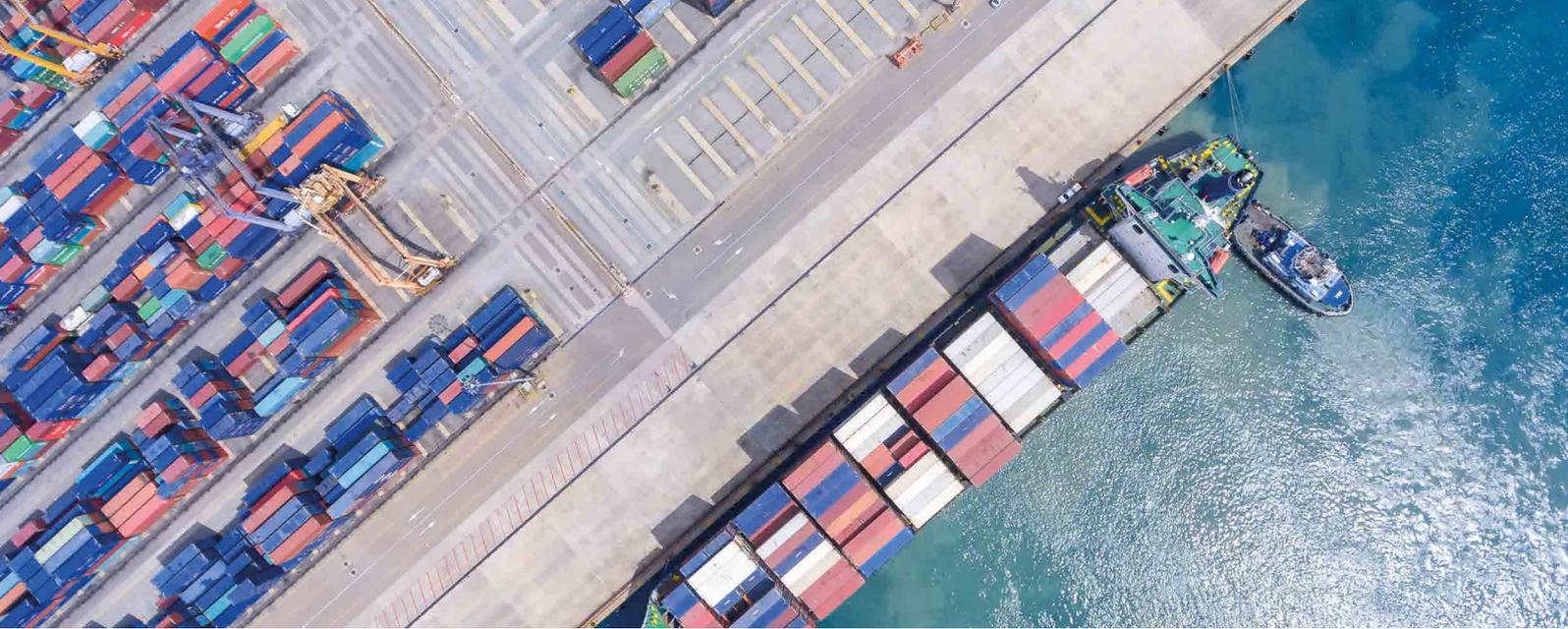
"Sales growth paved the way for a further uptick in overall business confidence, which is now at its highest since early 2022."



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



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



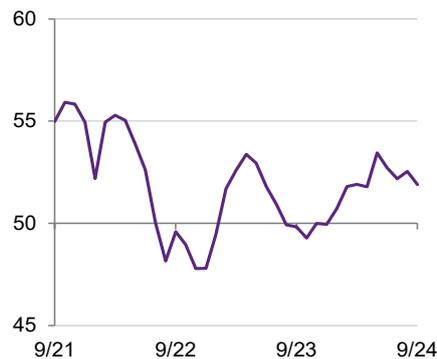
Export markets

Export Climate Index moderates amid mixed conditions in key markets

The Export Climate Index signalled another boost to London-based firms in September due to a modest expansion in output across the capital's export markets. However, the index dropped from 52.5 in August to 51.9, its lowest level since April.

Greater export opportunities were mostly driven by the US and Ireland, with output continuing to rise across these economies. On the other hand, Germany, the Netherlands and France all saw contractions.

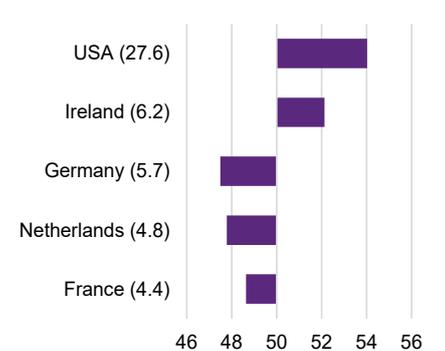
Export Conditions Index, sa, >50 = growth m/m



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

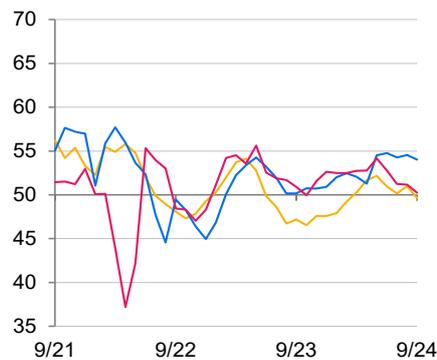
The London Export Climate Index (ECI) is an indicator for the economic health of the region's export markets. It is calculated by combining national PMI output data, weighted according to each nation's share of manufacturing exports of the London. A reading above 50 signals an improvement in export conditions,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

Jobs growth remains solid despite slowdown at UK level

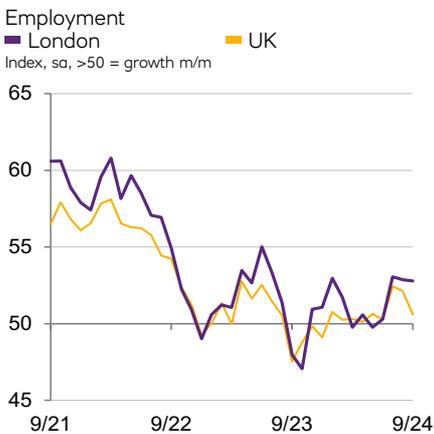
London companies added to their workforce levels for the fourth successive month during September. Furthermore, the pace of job creation continued to hold close to July's 12-month high, thereby rounding out a solid quarter of growth. This came despite a notably weaker rise in jobs across the UK compared to one month previously.

Survey respondents generally related hiring activity to an upturn in new business, as well as improved optimism about future activity

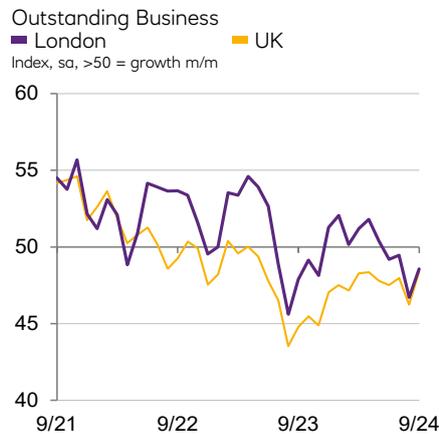
growth which encouraged them to expand their capacity. That said, there were some reports of firms being unable to replace voluntary leavers.

A rise in employment coincided a further reduction in the level of unfinished work at London firms. Indeed, the latest decline was the fourth in as many months, with some panellists noting that having additional staff helped them to clear backlogs. The pace of depletion nonetheless eased since August and was modest overall.

"Keeness to build workforces led to another solid increase in employment in September, although slower job creation nationwide amid a slight dip in growth could give some firms pause for thought."



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



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



Inflation

Selling price inflation eases further despite uptick in cost burdens

Average selling charges at London-based businesses rose at a slower rate for the third month in succession. The seasonally adjusted Output Prices Index fell to its lowest level since July 2021 in September, albeit signalling a robust rise in charges that was stronger than the long-run trend. Higher charges were mostly linked to increases in

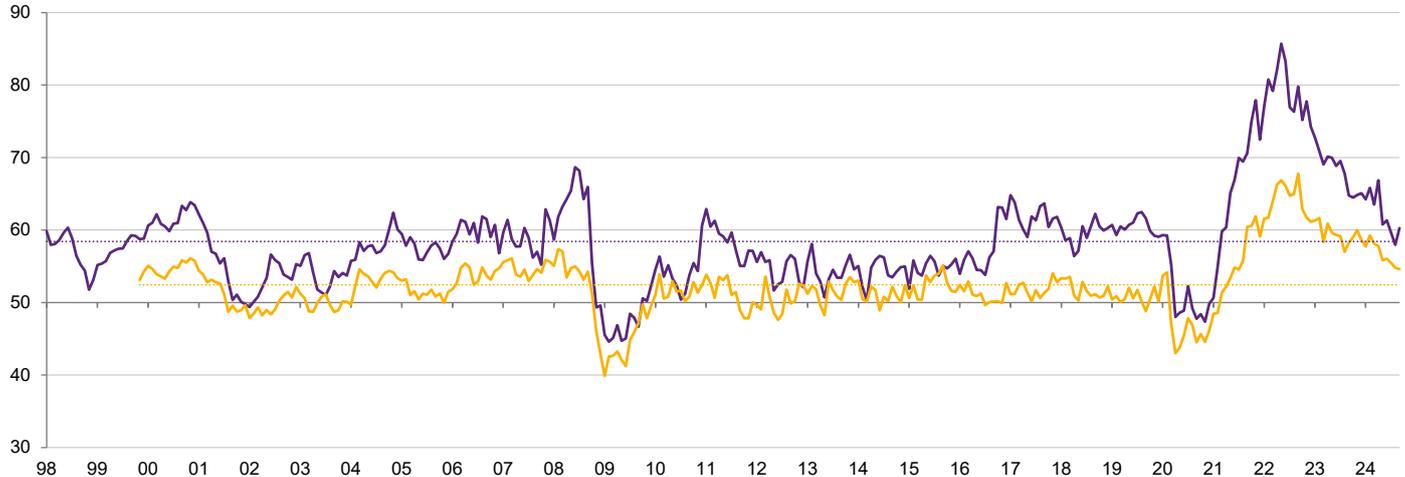
wage and transport costs, as well as greater workloads.

Although still among the softest recorded in the past three years, the rate of input cost inflation quickened in September and was the sharpest since June. As well as wages and transport, panellists cited higher costs related to hospitality, financial services and raw materials.

Price trends closely matched those seen at the UK level in September, with London firms seeing a marginally quicker rise in costs.

"A slight uptick in overall input price inflation shows that inflationary pressures may not quite yet be in the rear window."

■ Input Prices ■ Output Prices
 Index, sa, >50 = inflation m/m. Dots = long-run average since 1998.



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

UK Regional Growth Tracker

Business Activity

A renewed – albeit only slight – decrease in business activity in Wales in September prevented a second successive month of universal growth across the UK. Notably, rates of expansion generally eased compared to those seen in August. Northern Ireland was one of the exceptions, cementing its position at the top of the growth rankings with its fastest rise in output since May.

Employment

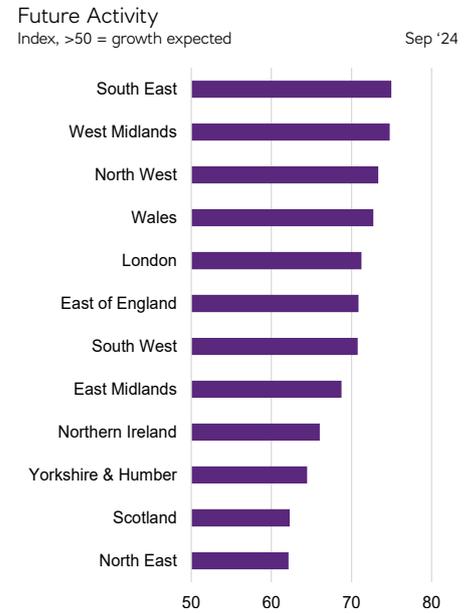
Employment growth in September was also led by Northern Ireland, as was the case throughout the third quarter. Only half of the 12 UK nations and regions monitored reported a rise in workforce numbers, down from ten in August. Wales saw the steepest drop in staffing levels, although the decline was only modest overall.

Future Activity

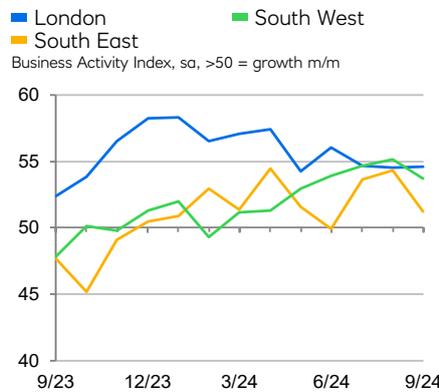
Trends in business expectations varied in September. Just over half of the monitored nations and regions reported a reduction in business confidence, but sentiment nevertheless remained positive across the board. Firms in the South East recorded not only the strongest overall growth expectation, but also the biggest upswing in optimism.



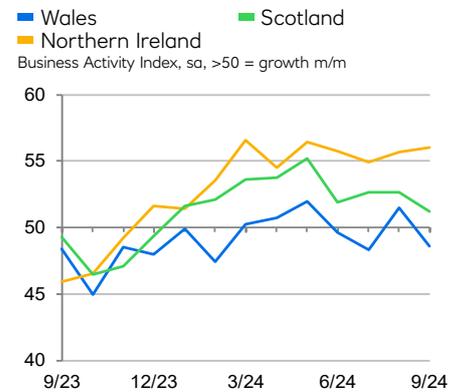
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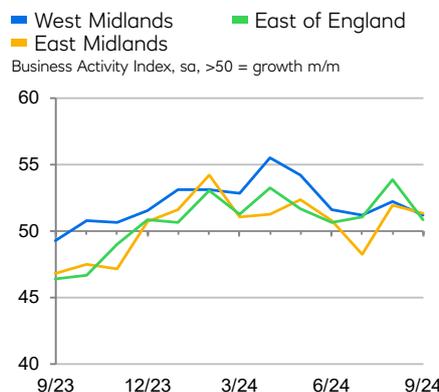
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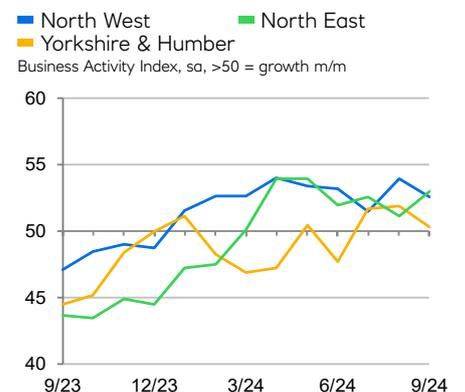
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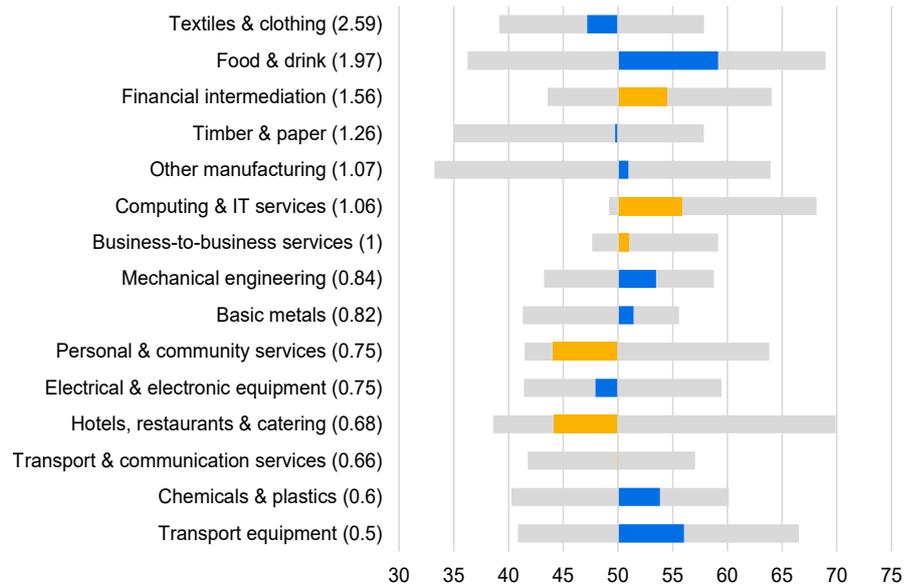
UK sectors

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 Sep '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: Business-to-business services

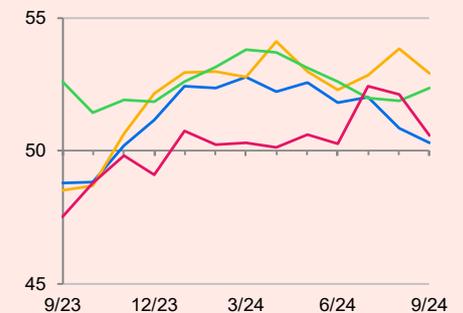
Growth in the UK's Business-to-business services sector came close to stalling in the third quarter. Activity rose only marginally and at the weakest rate for almost a year, with the lack of growth momentum reflecting only modest gains in new business in recent months. Firms in the sector increasingly turned to backlogged work to support growth, with outstanding business falling at a faster rate in the three months to September.

Latest data nevertheless showed sustained job creation across

business-to-business services, continuing a sequence of rising employment that stretches back to early 2021. The rate at which staffing levels rose even ticked up slightly and exceeded the average across the UK private sector as a whole.

As for prices, rates of inflation in both input costs and output charges remained among the lowest seen over the past three-and-a-half years, although they were still above their respective pre-pandemic long-run averages.

Output / Employment
 ■/■ Business-to-business services*
 ■/■ 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

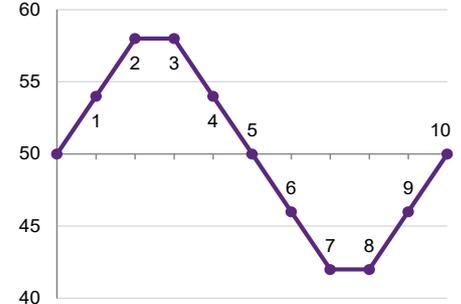
overall decrease. The indices are then seasonally adjusted.

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
4/24	57.4	57.6	51.8	50.6	51.8	71.9	66.9	57.8
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

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