

10 September 2024

# NatWest London Growth Tracker

Business confidence improves as demand growth remains strong and price pressures slow



NatWest

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by **S&P Global**

10 September 2024

# NatWest London Growth Tracker

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# Key findings

August 2024

**Business activity and sales continue to grow sharply**

**Output forecasts climb to six-month high, staffing increases**

**Price pressures fall further, with charges rising at softest pace in over three years**

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](http://www.natwest.com/business/insights/economics)





# Business confidence improves as demand growth remains strong and price pressures slow

The London Growth Tracker survey data from NatWest signalled robust sales growth and confidence at firms in the capital in August.

A sharp increase in new work fuelled a further expansion in business activity midway through the third quarter, as well as greater assurance towards the business outlook. In response, firms raised their employment numbers solidly, aiding a faster reduction in backlogs. Input costs rose at the slowest pace for three-and-a-half years, supporting a softening of output

price inflation.

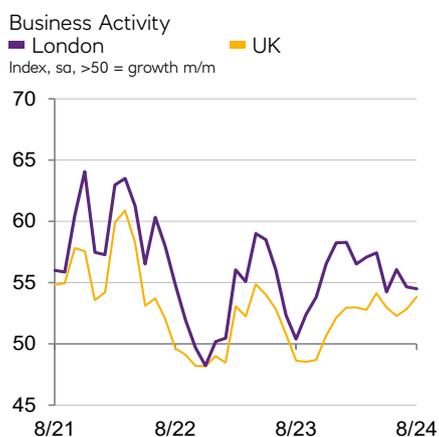
The headline London Business Activity Index – a seasonally adjusted index that measures the month-on-month change in the combined output of the region’s manufacturing and service sectors – recorded 54.5 in August, little changed from 54.6 in July, to indicate a sharp expansion in private sector activity across the capital. Rising customer demand and new product releases supported the upturn, according to the survey panel, although this was slightly offset by reports of client hesitancy.

NatWest London Business Activity Index August 2024

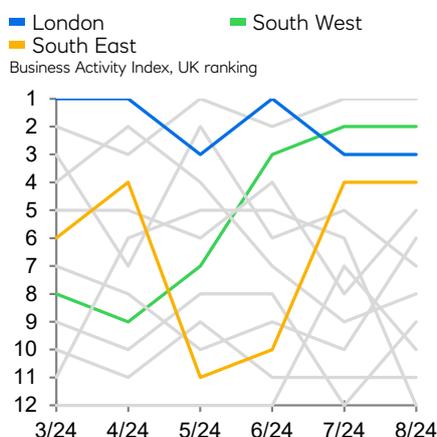
**54.5**

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 12-28 August



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:**

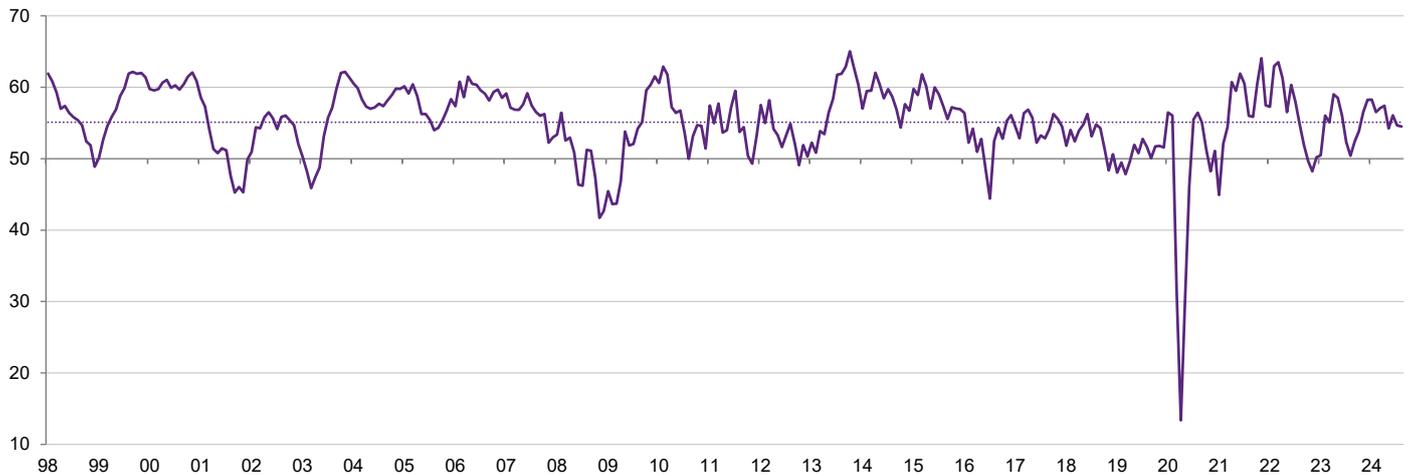
"The strong sales environment has given firms even greater confidence they can capitalise on investment plans and policy shifts in the months ahead, especially as output growth continues to show no signs of letting up. This confidence extends to hiring, with the latest data showing that July's jobs growth spurt was no fluke. Indeed, the optimistic picture suggests that staffing gains could be bedded in for the rest of this year.

"This has been made more possible by the slowing of wage pressures, which resulted in the softest pace of overall input cost inflation for three-and-a-half years in August. The concurrent drop in selling price inflation shows that firms are willing to pass these savings onto customers, which should be an additional driver of growth in the coming months."



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

## Robust sales growth drives business confidence higher

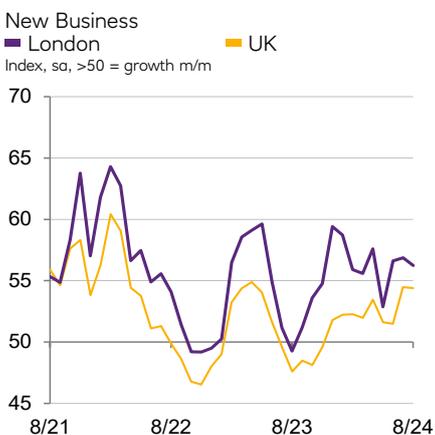
London-based private sector companies continued to enjoy a healthy demand environment midway through the third quarter of the year. The seasonally adjusted New Business Index pointed to another marked rise in sales, with the capital outpacing all other UK regions and nations tracked by the survey.

Anecdotal evidence from panellists signalled that the increase in new work arose from improving customer demand, bringing forward new projects and greater marketing

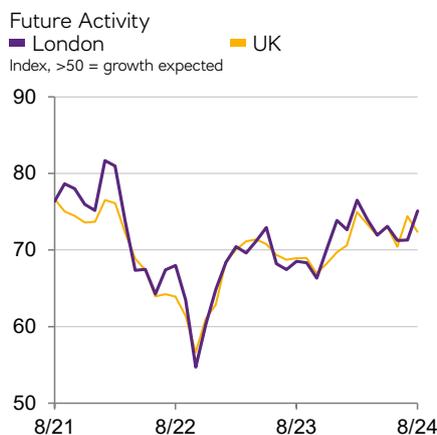
activity. However, there were some reports of clients cutting budgets and a negative impact from rising costs.

Business expectations towards the outlook for activity rose notably in August, with the respective index climbing to its second highest reading in two-and-a-half years following February's recent peak. Expectations were also among the best nationwide, with respondents often linking this to bolstered sales volumes. New technologies, product investment and a positive outlook regarding UK construction activity were also cited as reasons to be hopeful for growth.

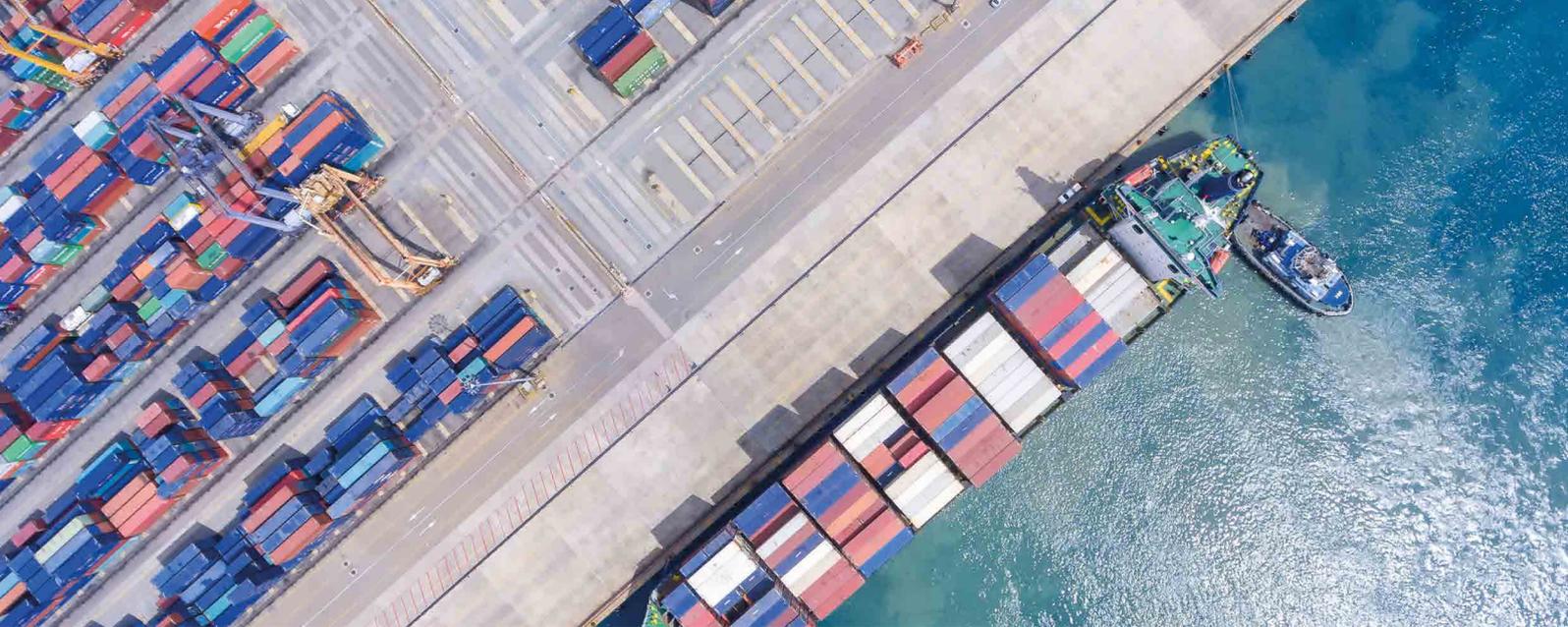
"The strong sales environment has given firms even greater confidence they can capitalise on investment plans and policy shifts in the months ahead"



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



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



# Export markets

## Export climate remains positive amid growth in key markets

August data revealed a sustained improvement in export conditions for London-based companies. The ECI ticked up from 52.2 in July to 52.5, posting above the 50.0 no-change mark for the eighth month in a row.

Export opportunities for London firms were supported by further upturns in activity in the USA and Ireland, with the former recording the sharper pace of growth. France meanwhile posted a renewed expansion, whereas downturns in Germany and the Netherlands continued.

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

Aug '24



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

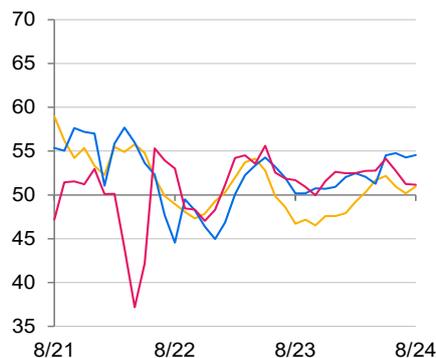
Export Conditions  
Index, sa, >50 = growth m/m



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.

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



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



# Jobs and capacity

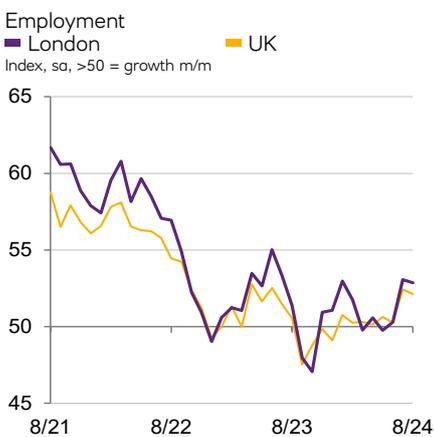
## Backlogs fall solidly amid sustained growth in staffing

Companies in London made additional efforts to increase staffing capacity during August, as reports from survey panellists suggested that improving customer demand had placed pressure on workloads. Overall staff levels increased for the third consecutive month, with the pace of growth only slightly lower than July's 12-month high. The solid upturn came despite some mentions of firms struggling to replace departed workers.

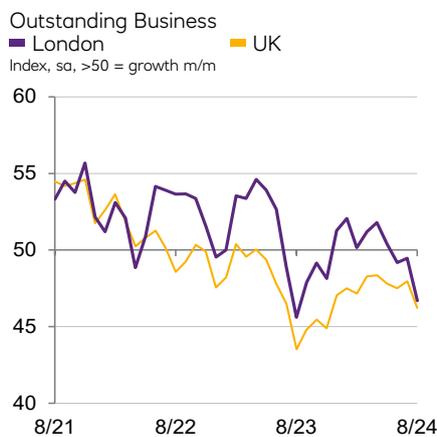
Northern Ireland and the North East were the only monitored areas to register a stronger rate of employment growth than London in the latest survey period.

London companies indicated that the taking on new members of staff had allowed them to reduce their outstanding work in August. Backlog volumes dropped for the third month running, and the rate of depletion was the quickest in exactly one year. The faster drop meant that the capital was better aligned with the national trend.

"The latest data shows that July's jobs growth spurt was no fluke. Indeed, the optimistic picture suggests that staffing gains could be bedded in for the rest of this year"



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



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



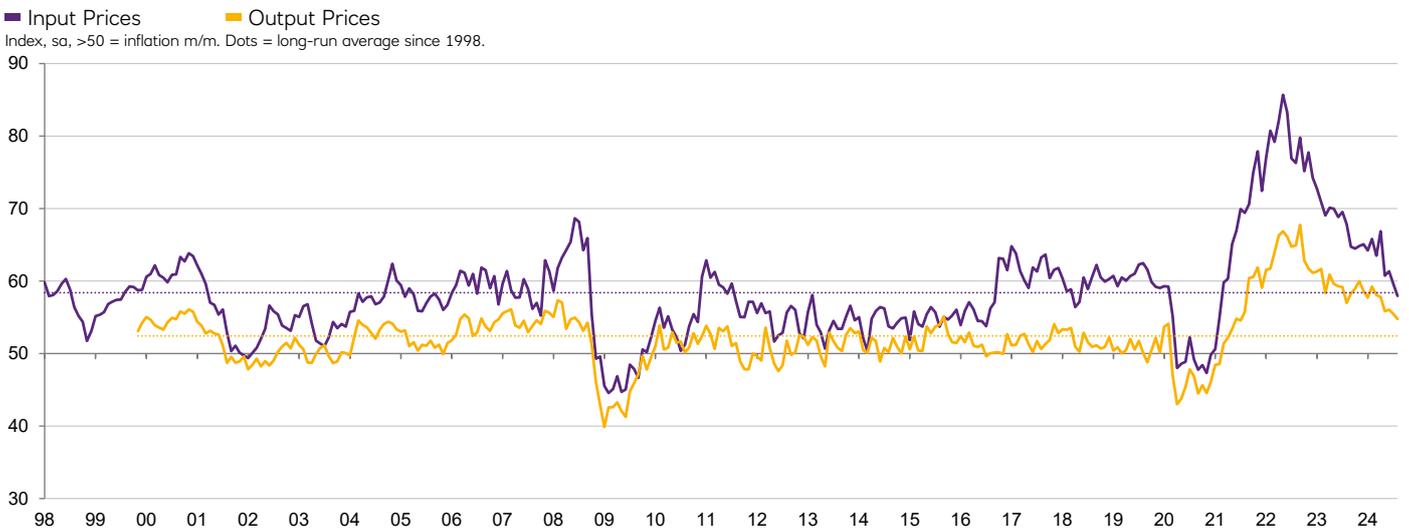
# Inflation

## Inflation metrics reach new multi-year lows

Cost and charges in the UK capital rose at slower rates once again midway through the third quarter. Adjusted for seasonal factors, the Input Prices Index dropped for the second month running to its lowest since February 2021, signalling a weaker uplift in overall business expenses. The index was also below its long-run average for the first time in this period.

As a result, London businesses raised their selling prices at the softest pace for over three years, although the uplift remained quicker than both the historic trend and national average. Higher wages were still the greatest factor behind rising costs and charges according to respondents, with increases in supplier, freight and regulatory costs also highlighted by some companies.

"The concurrent drop in selling price inflation shows that firms are willing to pass these cost savings onto customers, which should be an additional driver of growth in the coming months"



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

# UK Regional Growth Tracker

## Business Activity

Business activity rose across all 12 nations and regions for the first time in three months in August. Northern Ireland topped the growth rankings for the third time in the past four months. It was followed closely by the South West. The North East saw the slowest rise in output and was one of just two areas (alongside London) that saw a softer pace of expansion than in July.

## Employment

The strongest rate of job creation in August was recorded again in Northern Ireland, where it reached the fastest since April 2023. The North East also recorded a solid and accelerated increase in employment. In a repeat of the situation in July, the only decreases in workforce numbers were seen in the East Midlands and West Midlands, although in the case of the latter the rate of decline remained marginal.

## Future Activity

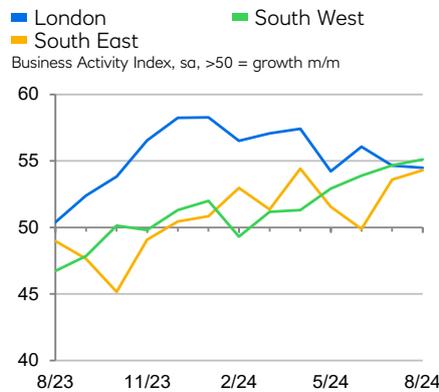
Although expectations towards activity growth remained universally positive in August, the degree of optimism weakened in most nations and regions compared to the month before. The greatest loss of confidence was in the North East, which also recorded the weakest overall sentiment. Firms in the South East remained the most upbeat about future activity.



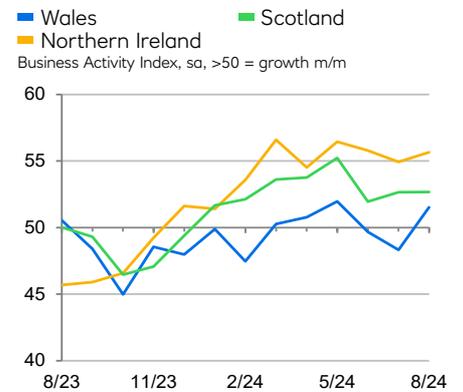
Sources: NatWest, S&P Global PMI. ©2024 S&P Global.



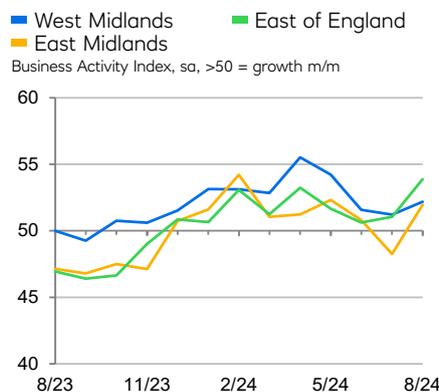
Sources: NatWest, S&P Global PMI. ©2024 S&P Global.



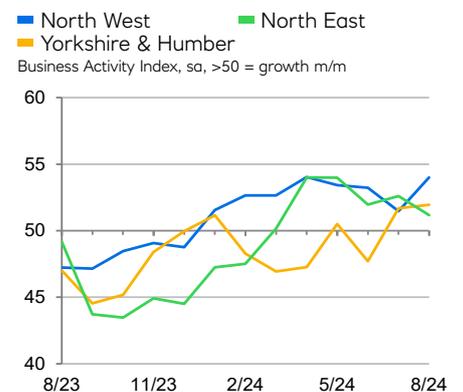
Sources: NatWest, S&P Global PMI. ©2024 S&P Global.



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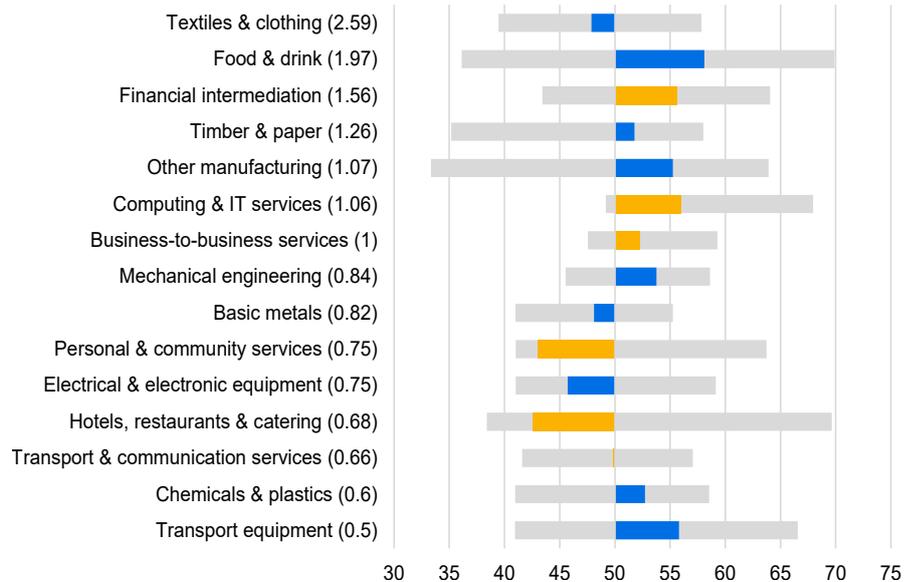
# UK sectors

## 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 Aug '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: Food & drink

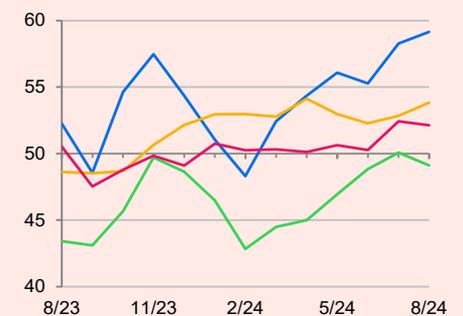
Producers of food & drink recorded stronger output growth than any other manufacturing or service sub-sector in the three months to August. The performance was the best seen since Q2 2023 and driven by a sharp increase in inflows of new work. Data indicated the upturn in demand was domestic-led, with new export orders falling in the latest three-month period.

Output growth was achieved despite employment decreasing slightly. Firms in the sector were also able to navigate supply delays, which were

the worst seen for more than two years, with stocks of inputs being utilised. Growth expectations for the coming year remained strong.

On the price front, latest data showed a solid and accelerated increase in factory gate charges across the food & drink sector. This partly reflected strong cost pressures, with input price inflation at its highest for almost a year-and-a-half.

Output / Employment  
 ■/■ Food & drink\*  
 ■/■ 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

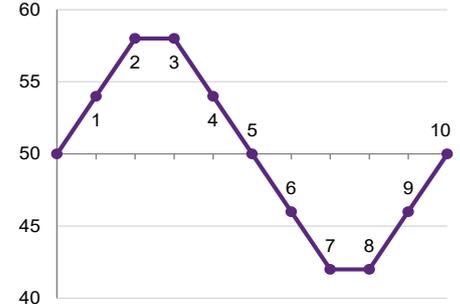
overall decrease. The indices are then seasonally adjusted.

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](mailto: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
3/24	57.1	55.6	51.9	49.8	51.2	74.0	63.5	58.1
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

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