

13 August 2024

NatWest London Growth Tracker

Sharp uplift in new orders leads to solid rise
in employment



NatWest

PMI[®]

by **S&P Global**

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Contents

Key findings

Business activity

Comment

Demand and outlook

Export markets

Jobs and capacity

Inflation

UK Regional Growth Tracker

UK sectors

Methodology and data

Further information



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Key findings

July 2024

**Business activity grows solidly,
but at softer pace**

**Job creation highest in exactly
one year**

**Input cost and output price
inflation slow to multi-year lows**

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





Sharp uplift in new orders leads to solid rise in employment

Latest Regional PMI[®] survey data from NatWest showed solid growth in business activity across the London private sector in July.

Firms in the capital reported a further strengthening of demand, with new business rising at the fastest rate since April. Staffing growth also quickened to a one-year high, as businesses remained confident about the future and cost pressures eased.

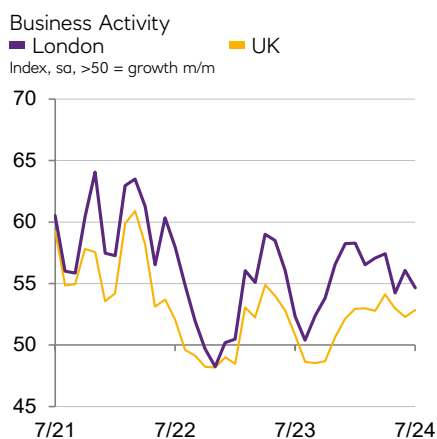
The headline London PMI Business Activity Index – a seasonally adjusted index that measures the month-on-month change in the combined output of the region’s manufacturing and service sectors – posted 54.6 in July, from 56.1 in June, to signal a solid expansion in business activity. The rate of growth continued to outpace the UK-wide trend, despite easing to the second-slowest for nine months.

NatWest London Business Activity Index July 2024

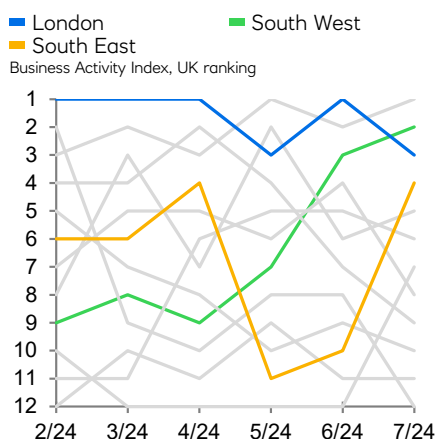
54.6

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 11-29 July



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



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



NatWest

Comment

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

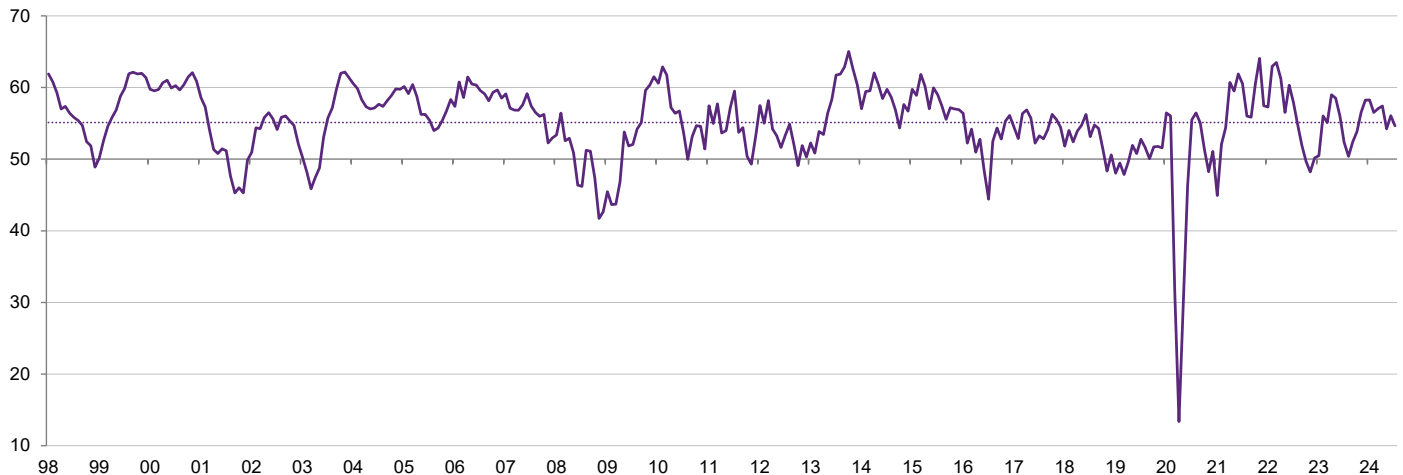
"The London private sector remained one of the best performing regions of the UK in July, as firms boasted a further sharp rise in new business and a subsequent expansion in activity that was the third-largest nationwide. With strong sales growth sustained, London firms appeared more willing to hire greater numbers of staff, driving the fastest increase in employment in a year. This was partly due to a softening of input price pressures, amid wider evidence that wage pressures are slowing. Nevertheless, London firms were less confident than the average UK company for the first time in nine months, as some firms were concerned that the strong pace of sales growth may not be sustained."

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Business Activity

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



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



[Return to contents](#)

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Demand and outlook

Sales volumes increase sharply in July

The latest survey data signalled another robust upturn in new business inflows across the London private sector economy, with the rate of growth ticking up to its strongest since April. Businesses generally pointed to a rise in customer demand, as new work from domestic and overseas markets were mentioned.

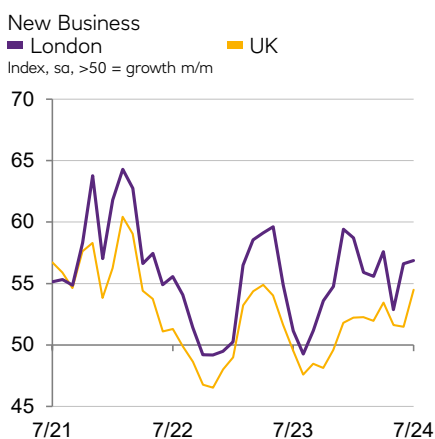
Demand conditions in the capital remained one of the strongest seen out of the 12 monitored UK regions in July, with only the South West registering a sharper increase in

new business.

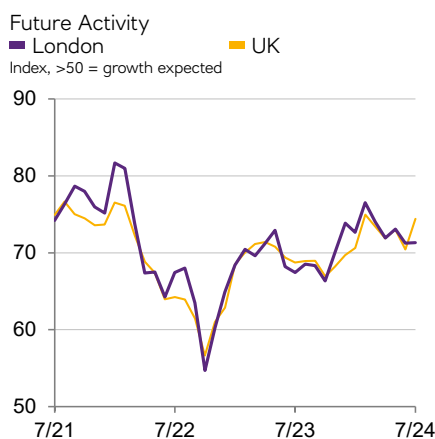
Confidence towards the year-ahead outlook for business activity stayed robust at the start of the third quarter, with the respective index posting above its long-run average for the ninth month running.

Compared to the standard seen in 2024 so far however, optimism was subdued, ticking up only slightly from June's seven-month low. Investment opportunities, reduced staff turnover, policy changes and good cash reserves were among the reasons given by firms for a positive outlook, although some were concerned that they may lose some existing customers.

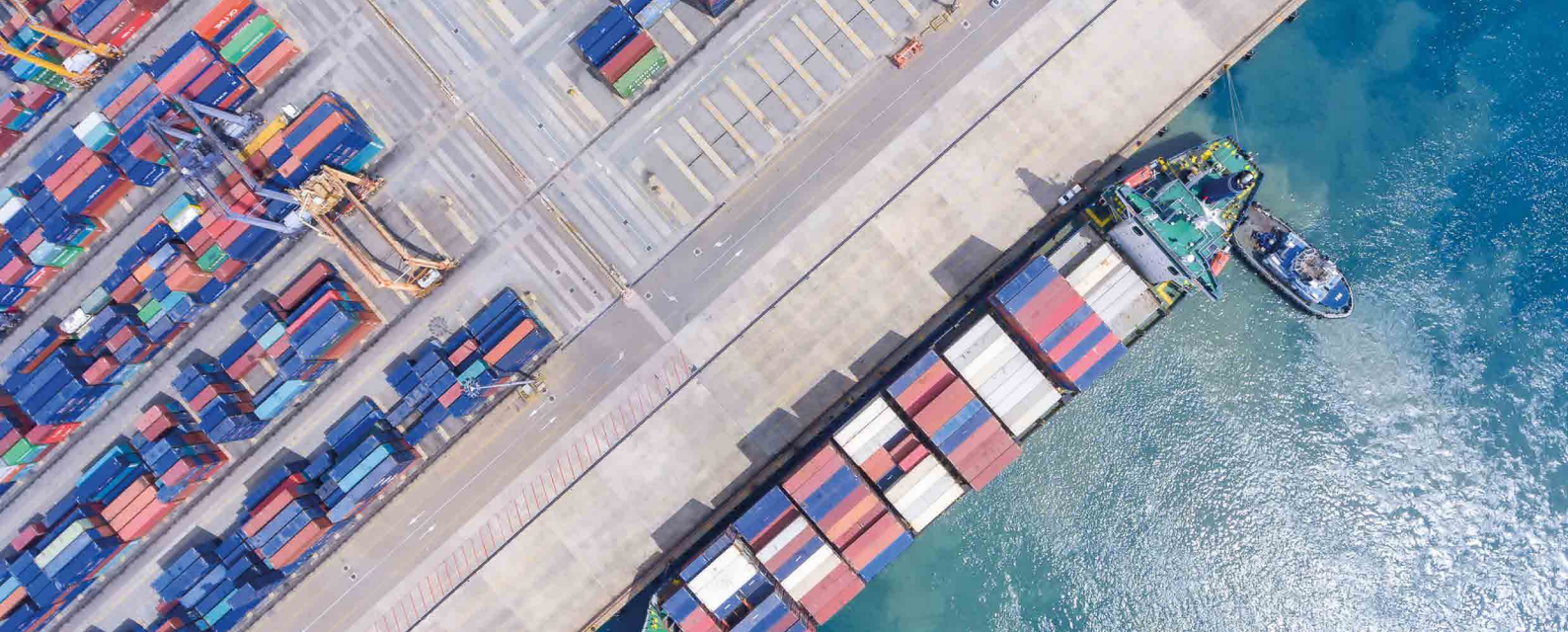
"London firms were less confident than the average UK company in July, for the first time in nine months."



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



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

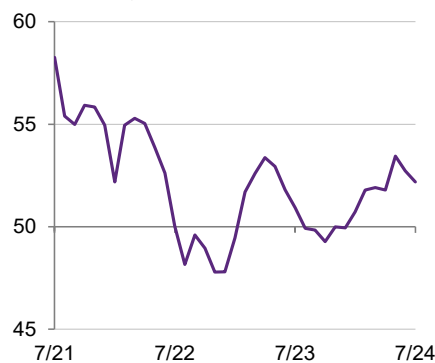


Export markets

Improvement in export climate moderates

At 52.2 in July, the ECI registered above the critical 50.0 threshold for the seventh month in a row, to signal a further upturn in export conditions for London-based companies. That said, the index was down from 52.7 in June and the lowest for three months. Greater export opportunities mainly arose from the US and Ireland, but renewed declines in activity in the Netherlands and Germany contributed to a softer improvement.

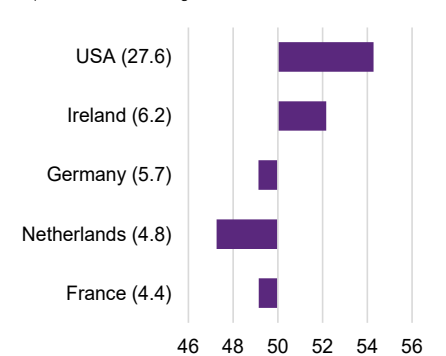
Export Conditions
Index, sa, >50 = growth m/m



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

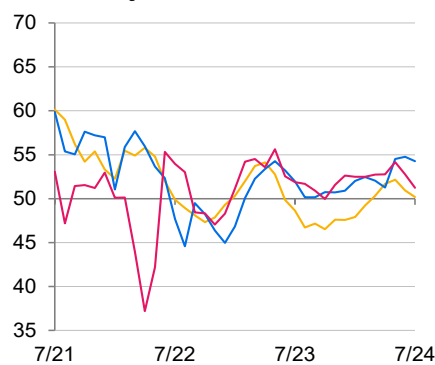
The London Export Climate Index (ECI) is an indicator for the economic health of the region's export markets. It is calculated by combining national PMI output data, weighted according to each nation's share of manufacturing exports of the London. A reading above 50 signals an improvement in export conditions, 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 growth climbs to 12-month high

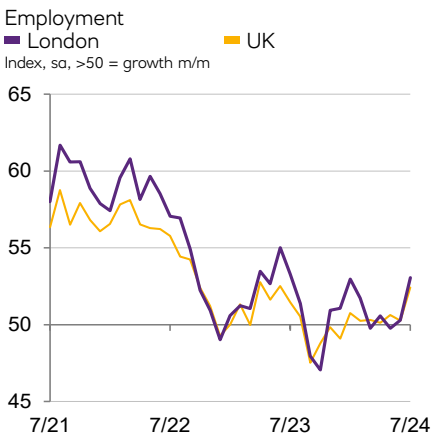
A solid increase in workforce numbers was recorded across the London private sector at the start of the third quarter, picking up from a marginal rise in the previous survey period. Moreover, the rate of employment growth was the fastest since July 2023 and stronger than the UK trend which likewise accelerated.

The uplift reflected greater efforts by London companies to expand their capacity amidst expectations

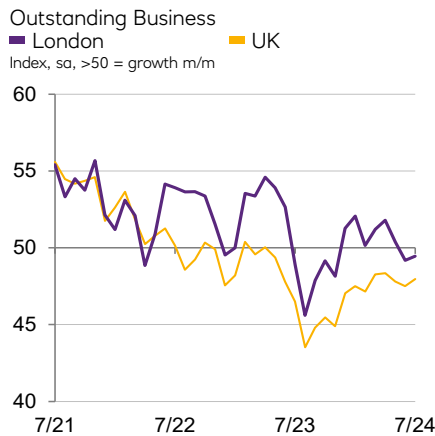
of rising new work inflows and the need to adopt new technologies. Nevertheless, there were some reports of firms being unable to replace voluntary leavers.

Higher staffing levels helped firms to reduce their backlogs of work in July, following the first decrease for seven months in June. However, the overall reduction in work-in-hand was marginal and slower than the UK benchmark.

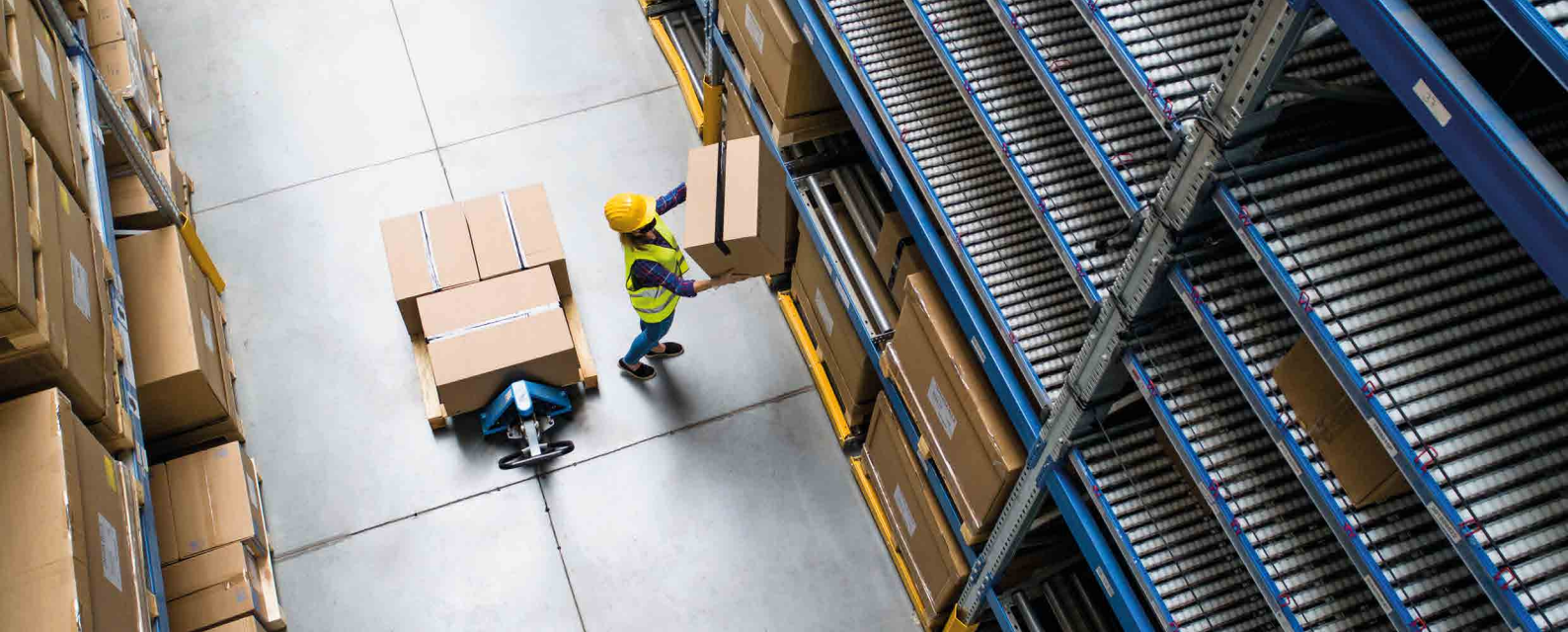
"With strong sales growth sustained, London firms appeared more willing to hire greater numbers of staff in July."



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



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



Inflation

Selling price inflation falls to three-year low

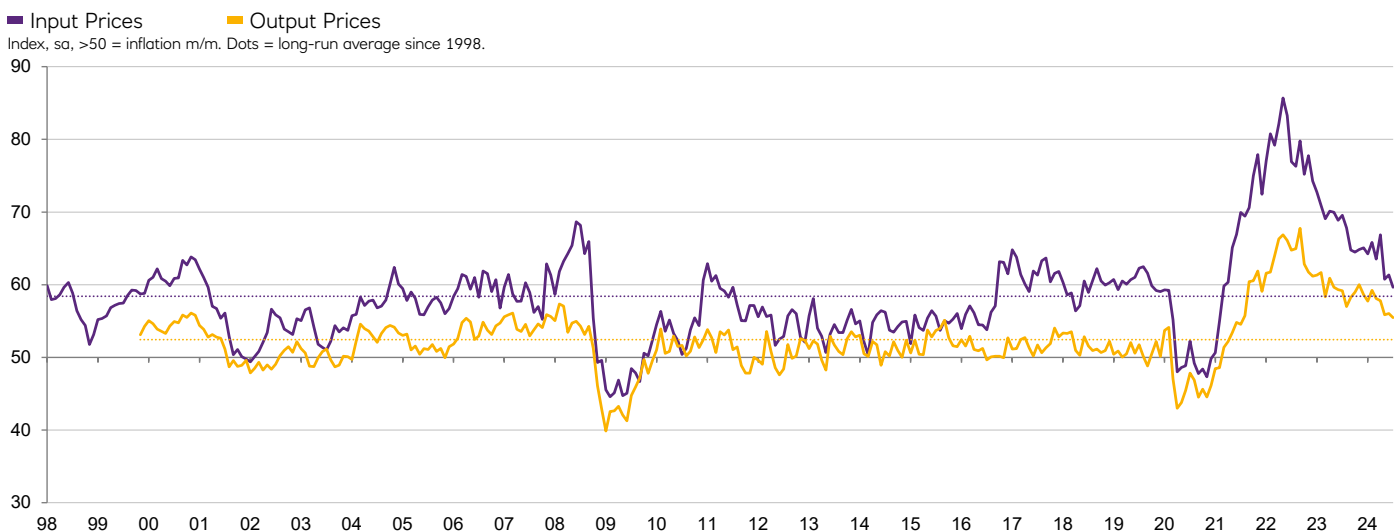
Price pressures in the capital eased as the second half of 2024 began, with both input costs and output charges rising at their softest rates in several years.

Input costs mainly increased due to higher staff wages and IT expenses, according to panellists. The overall uplift in input prices was sharp, but nonetheless softened to its

weakest since February 2021. It was also slightly less marked than the average recorded across the UK.

In a similar fashion, the rate of increase in firms' selling prices lowered from June and was the weakest in exactly three years. Companies that raised their charges largely based this on higher staff costs, whereas some discounted their prices due to reduced fuel costs and increased competition.

"The fall in input cost burdens came amid wider evidence that UK wage growth is slowing."



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

UK Regional Growth Tracker

Business Activity

Business activity growth was led by Northern Ireland for the second time in the past three months in July. Just behind was the South West, which continued to gain momentum and recorded its steepest rise in output for more than two years. At the other end of the scale, Wales and the East Midlands both recorded modest reductions in business activity.

Employment

Northern Ireland also topped the rankings for employment growth at the start of the third quarter, recording its fastest rate of job creation since April 2023. The North East posted the next-steepest rise in employment, followed by Wales. As was the case for business activity, the East Midlands was one of just two areas to see a decrease in employment, this time alongside the West Midlands.

Future Activity

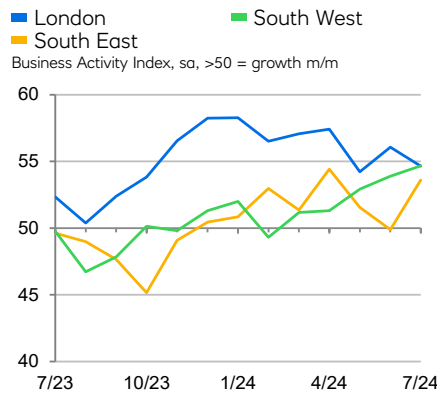
Growth expectations generally improved across the UK in July. The only exception was Northern Ireland, which saw business confidence slip to a six-month low. Firms in the South East were the most upbeat about the outlook, as has been the case in three of the past four months, followed by those in South West. The biggest upswing in optimism was recorded in Yorkshire & Humber.



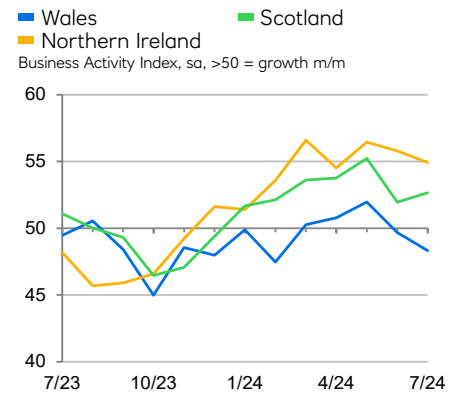
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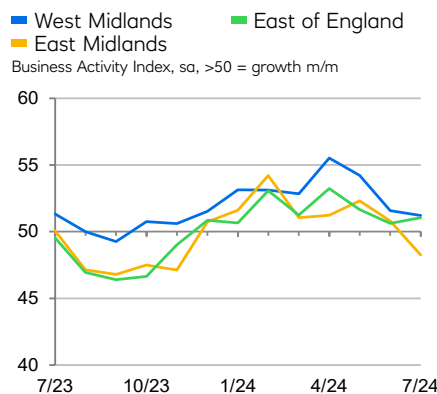
Sources: NatWest, S&P Global PMI. ©2024 S&P Global.



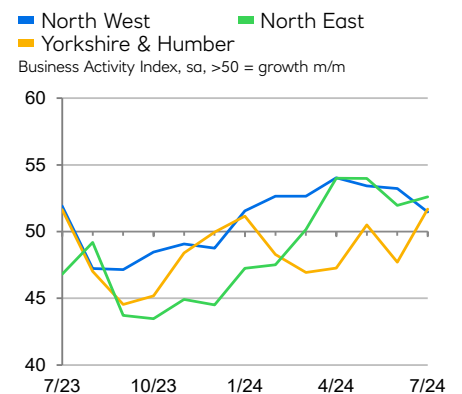
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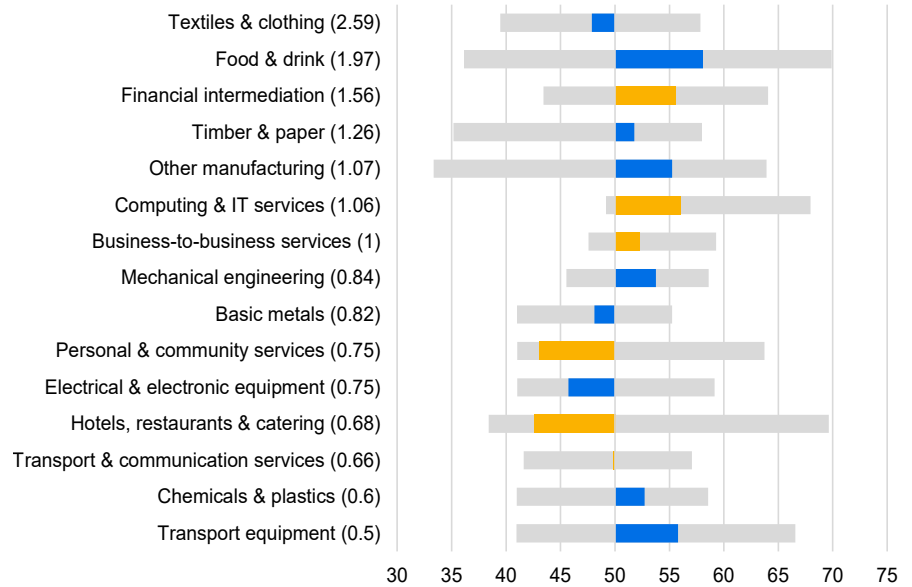
UK sectors

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 Jul '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: Financial intermediation

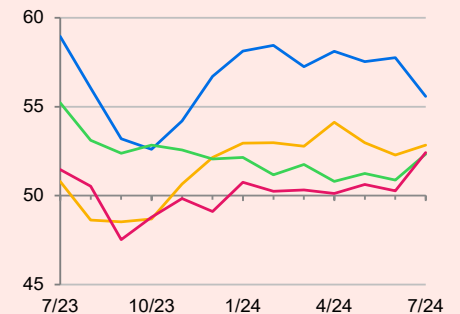
The Financial Intermediation sector was a key growth engine for the UK economy in the three months to July. Business activity rose markedly and at one of the quickest rates recorded among the detailed sectors covered by PMI data. This was despite a loss of momentum that saw growth ease to the weakest since late last year.

Buoyed by strong inflows of new work and high expectations for growth in the coming year, financial intermediation firms upped the rate of job creation in the three months

to July. Employment has risen continuously in the sector since early 2021.

Input prices faced by financial intermediation firms meanwhile rose at the slowest rate for just over three years. Cost pressures were still elevated by historical standards, however, which contributed to another steep rise in average prices charged by businesses in the sector. The rate of output price inflation remained well above the average over the series history stretching back to 1996.

Output / Employment
 ■/■ Financial intermediation*
 ■/■ 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

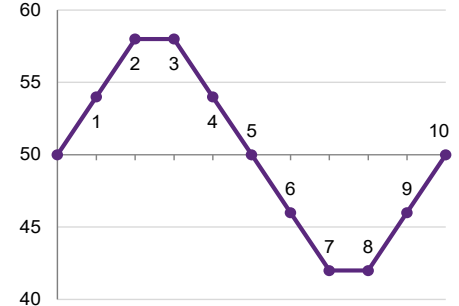
overall decrease. The indices are then seasonally adjusted.

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
2/24	56.5	55.9	51.8	51.7	50.2	76.5	65.8	59.2
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

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