

11 March 2025

NatWest London Growth Tracker

London continues to lead
regional growth in February



NatWest

PMI[®]

by S&P Global

11 March 2025

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Key findings

February 2025

Output and new business continue to expand

Business confidence remains strong, despite fading

Cost and charge inflation tick down from January's recent high

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 in London remains much stronger than UK average

London companies reported a sharp increase in output in February, marking another positive month for the capital's economy.

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 – fell from 54.8 in January to 54.0 in February. Although easing back from a seven-month high, the index signalled a robust expansion in private sector activity midway

through the first quarter of 2025.

Growth in London remained well above the nationwide trend, placing the region at the top of the rankings for the third time in four months. The sharp upturn at the local level contrasted with only a marginal increase in UK activity overall.

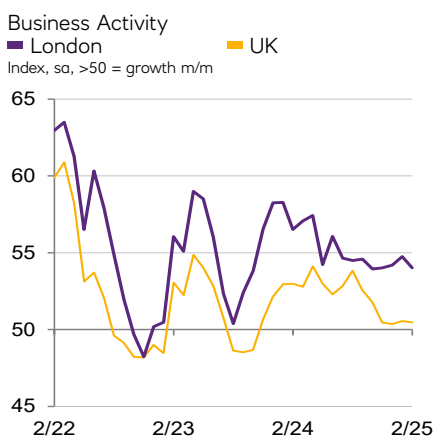
Surveyed firms commonly noted that rising domestic and foreign sales had driven activity higher in February. Increased output was achieved despite lower staffing numbers, as capacity levels enabled firms to reduced backlogs of work.

NatWest London Business Activity Index February 2025

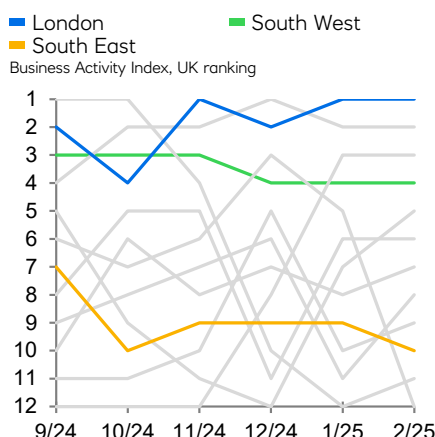
54.0

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 10-26 February



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Comment

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

"London maintained its position as the fastest-growing region in the UK in February, with activity levels increasing further in line with a rise in sales. Although some momentum was lost in both metrics, the increase in new business occurred at a time when most regions are experiencing contractions, suggesting that local firms are demonstrating greater resilience to current economic headwinds.

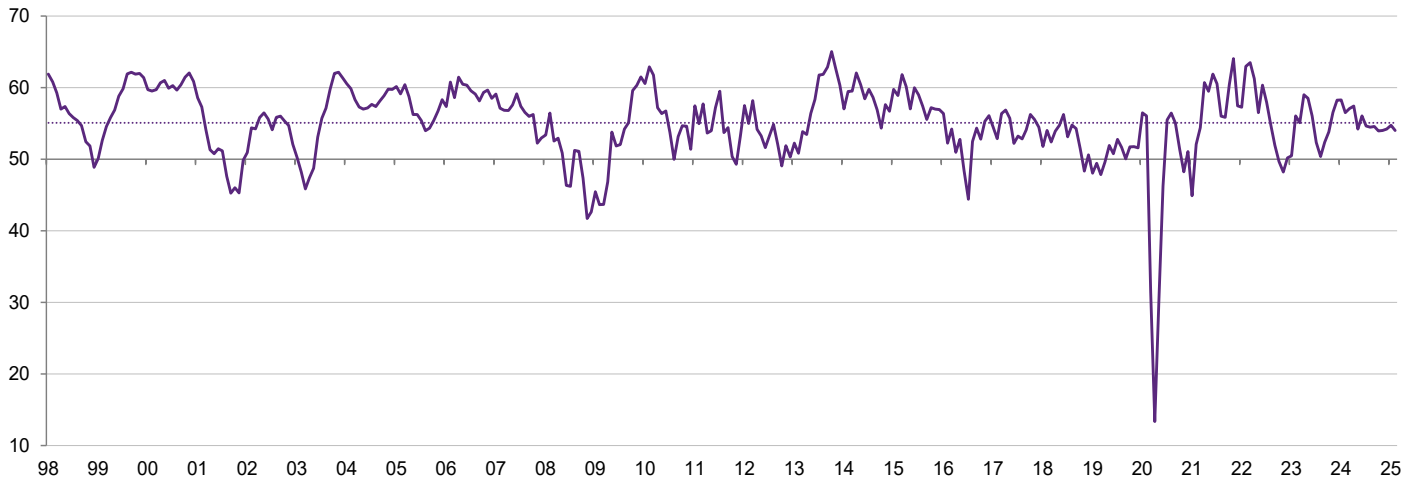
"Cost pressures eased slightly but remained close to the level seen in January, which was a nine-month high. Wage pressures continue to dominate balance sheets, according to surveyed firms, as the impact of upcoming changes to the minimum wage and employer national insurance contributions trickles through the economy, resulting in rising staff costs and vendor prices.

"As a result, many firms are downsizing their workforces to maintain healthy cost balances and tighten capacity. Although demand growth is strong in London, firms have reduced staff at a rate comparable to the nationwide trend, indicating that businesses perceive more risk than reward for the time being."



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

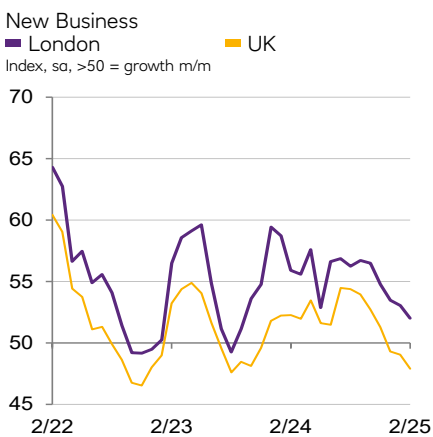
Business confidence remains positive as sales gains continue

London-based firms reported another improvement in new business midway through the first quarter. Sales rose at a moderate pace, extending the growth streak to a year-and-a-half, although this upturn was the slowest since September 2023. While some firms noted success in acquiring new clients, others commented on the cost pressures faced by customers. For the third month in a row, London and the North East were the only UK regions to experience an

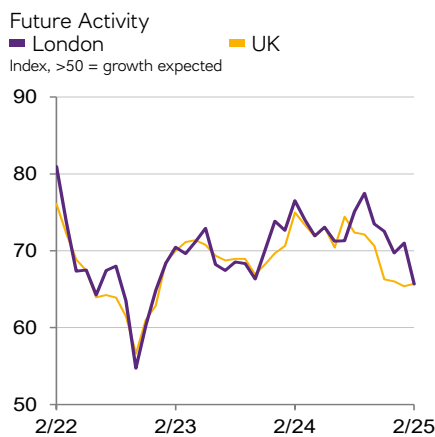
expansion in new orders, contrasting with a further contraction at the national level.

In addition to stronger current sales, London businesses expressed confidence in their ability to achieve revenue and customer gains in the coming months, supporting an overall positive outlook for future business activity. However, there were concerns about increasing slack in the economy due to weak growth and foreign policy uncertainty. Sentiment levels in February aligned with the UK trend but were the lowest recorded in just over two years.

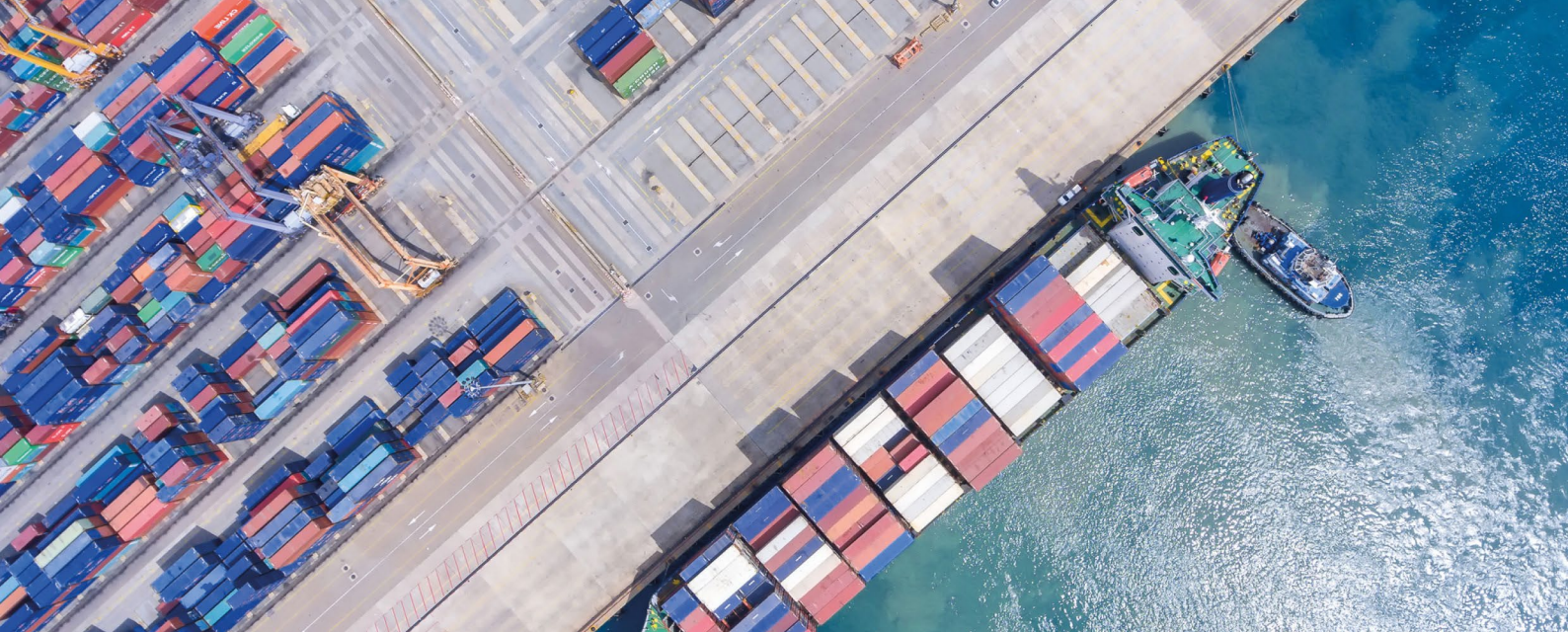
"...the increase in new business occurred at a time when most regions are experiencing contractions, suggesting that local firms are demonstrating greater resilience to current economic headwinds."



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



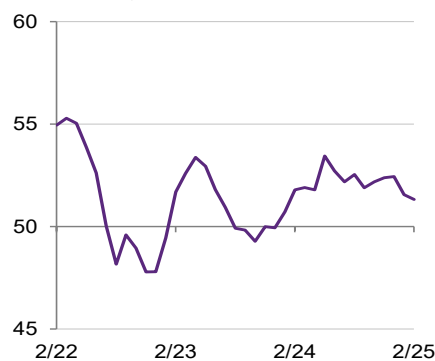
Export markets

Export conditions improve for fourteenth month in a row

At 51.3, the Export Climate Index signalled an improvement in trading conditions for London-based firms during February. However, the reading was down slightly from 51.6 in January and the weakest in just over a year.

Business activity in Ireland provided the greatest support to local exports in February, recording a solid expansion. Output in the US and Germany also increased, whereas the Netherlands and France remained in a downturn.

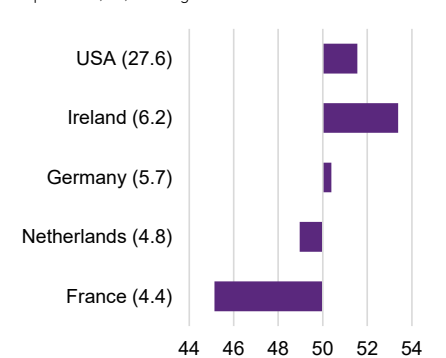
Export Conditions
Index, sa, >50 = growth m/m



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

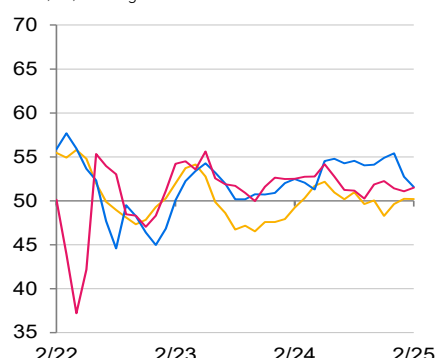
The London Export Climate Index (ECI) is an indicator for the economic health of the region's export markets. It is calculated by combining national PMI output data, weighted according to each nation's share of manufacturing exports of the London. A reading above 50 signals an improvement in export conditions,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

Falling backlogs add heft to job cutting measures

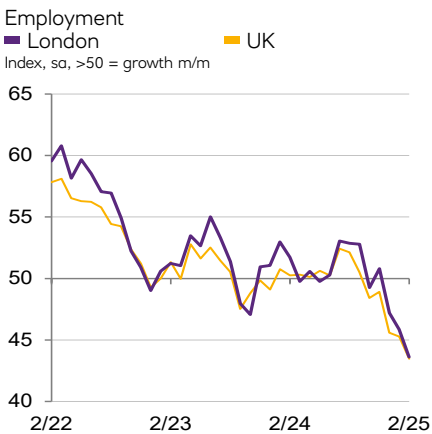
Employment levels in the capital dropped for the third consecutive month in February, driven by cost-cutting measures and reduced volumes of outstanding business. The reduction in staffing was the sharpest observed since November 2020 and aligned with the average pace seen for the UK.

However, some firms reported an increase in staffing due to rising sales and positive expectations, which provided a slight

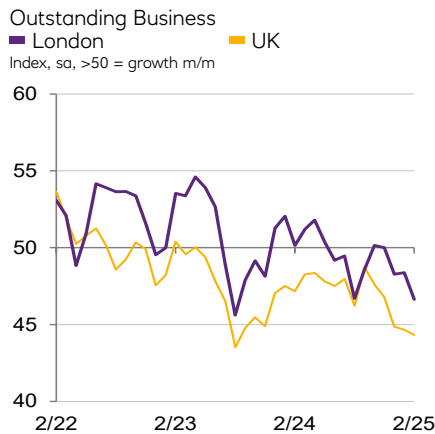
counterbalance to reports of other firms lowering expenses.

The decline in employment coincided with a period of backlog depletion. As firms were able to increase their activity to complete projects and take on new work, the volume of unfinished business fell for the third month in a row. The rate of reduction was solid overall and represented the strongest decline recorded in a year-and-a-half, although it remained much softer than the national average.

"...many firms are downsizing their workforces to maintain healthy cost balances and tighten capacity."



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



Inflation

Price pressures alleviate slightly in February

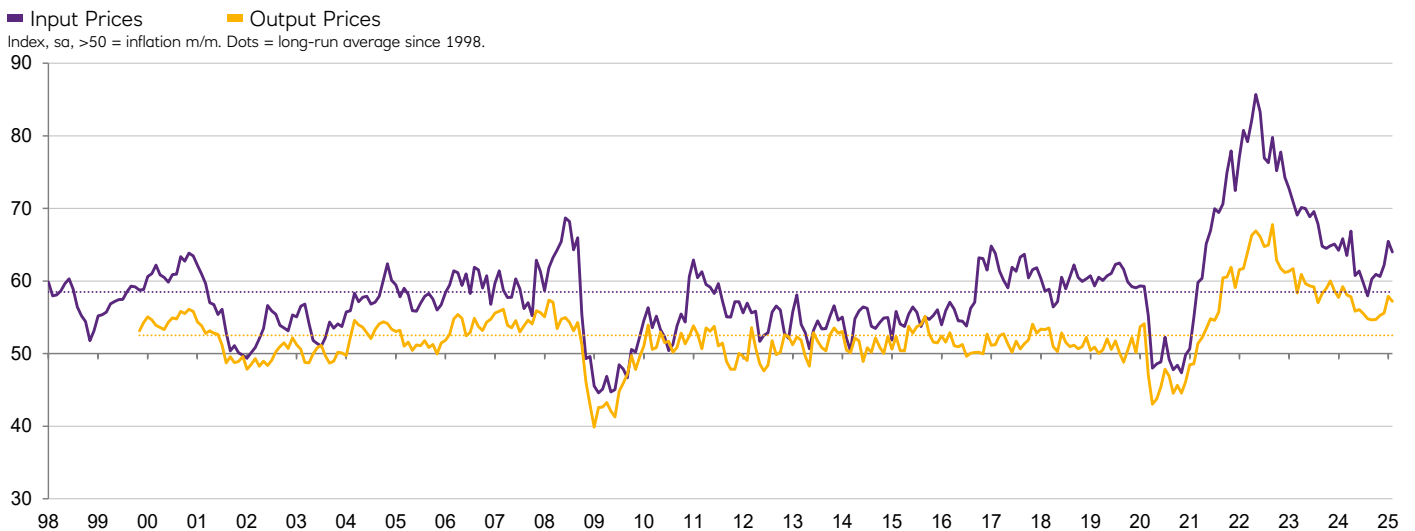
London businesses saw a further increase in input costs during February. The uptick was sharp, albeit slightly less pronounced than January's nine-month high.

Survey respondents frequently mentioned that rising staff costs contributed to the overall increase in expenses. Other factors noted included higher costs for IT, energy, and food and beverages.

Increased expenses often led to a rise in output prices over February. Some firms were also eager to raise their charges ahead of uplifts in the minimum wage and employer national insurance contributions, according to reports.

While selling prices rose markedly in February, the pace of inflation eased marginally from the previous survey period. It was also among the slowest rates recorded across the 12 UK regions, with only the North East and Wales showing softer rises.

"Cost pressures eased slightly but remained close to the level seen in January, which was a nine-month high."



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

UK Regional Growth Tracker

Business Activity

London topped the rankings for business activity growth in February, having enjoyed another robust expansion, ahead of the North East, Wales and South West, respectively. Lower output was seen in several nations and regions, however. The steepest falls were registered in the East Midlands and Northern Ireland*.

Employment

Workforces numbers were streamlined across each of the 12 UK nations and regions monitored by the survey in February, the first time this has happened for a little over four years. Employment fell only slightly in the likes of the North East and Scotland, however. The most marked decreases were seen in the East of England and West Midlands.

Future Activity

Year-ahead growth expectations improved in the majority of areas in February. Firms in the West Midlands were the most optimistic about future activity, while those in the North East reported the greatest upswing in confidence since January. At the other end of the scale, Northern Ireland recorded the weakest business sentiment, although it did pick up somewhat from the low seen at the start of the year.

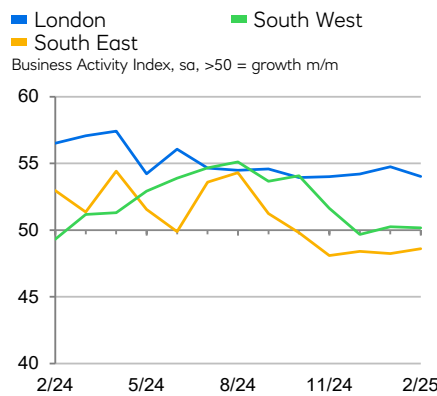
*As well as manufacturing and services, coverage in Northern Ireland also includes construction and retail.



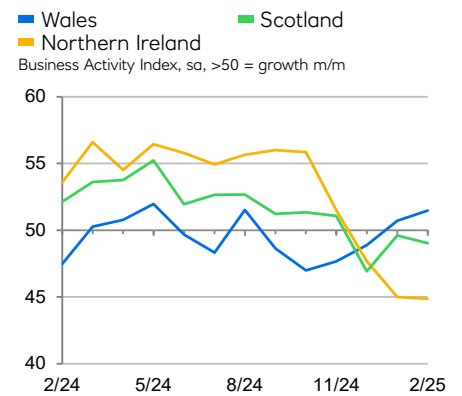
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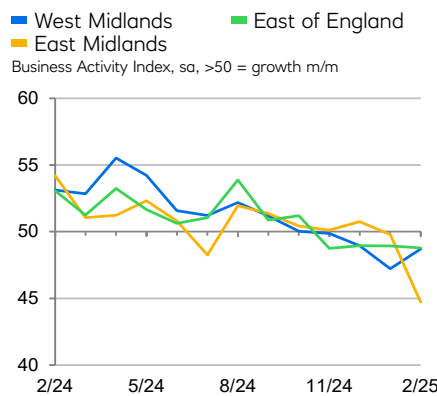
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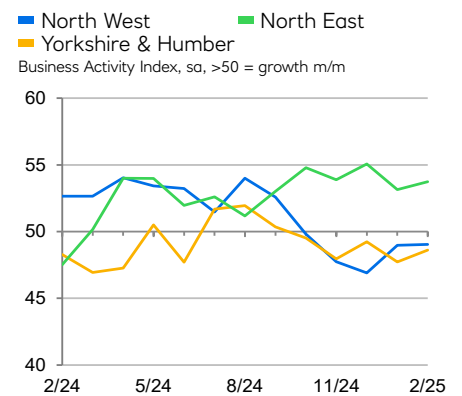
Sources: NatWest, S&P Global PMI. ©2025 S&P Global.



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



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Growth Tracker heat map

February 2025

Darker colour = higher business growth

London

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

54.0



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

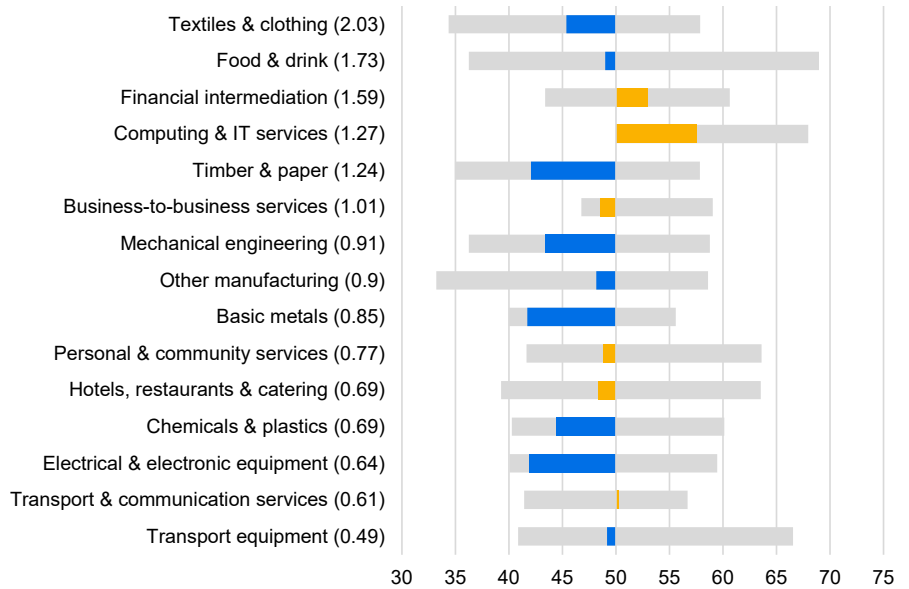
UK sectors

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 Feb '25



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: Mechanical engineering

Output in the UK's mechanical engineering sector contracted in the three months to February, according to underlying PMI data. The decline was steep and followed growth throughout most of 2024. A lack of new orders, particularly from abroad, was the defining factor behind the sector's recent downturn.

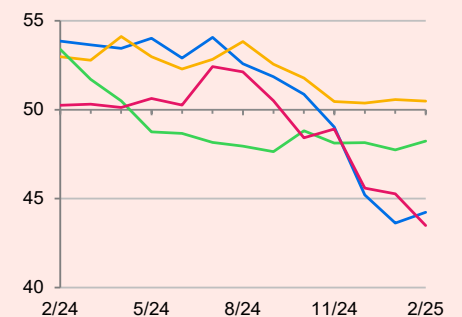
Shrinking backlogs of work at mechanical engineering companies led to further job losses. This extended the current sequence of job shedding seen since spring last year. Inventories were also scaled

back, especially stocks of inputs.

Prices paid for purchases rose at a steady rate that was below the long-run series average. Firms managed to pass on a sizeable proportion of the cost increases they faced, with the pace of output price inflation ticking up to its highest for almost a year and running above its historic trend level.

Looking ahead, firms in the sector were optimistic about growth prospects in the coming year, though less so than at almost any time since the pandemic.

Output / Employment
 ■/■ Mechanical engineering*
 ■/■ 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

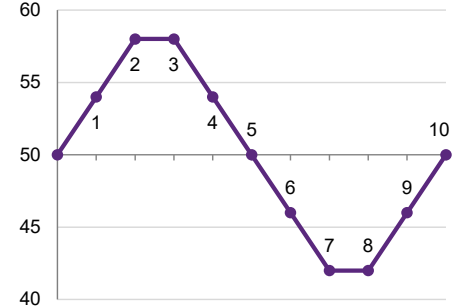
overall decrease. The indices are then seasonally adjusted.

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
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
1/25	54.8	53.0	51.6	45.9	48.4	71.0	65.5	57.9
2/25	54.0	52.0	51.3	43.6	46.6	65.7	64.0	57.2

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