LONDON CHAMBER of COMMERCE AND INDUSTRY

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CAPITAL 500

Q4

London Quarterly Economic Survey

October – December **2023**

In partnership with

Savanta:

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haysmacintyre

JAMES WATKINS

Head of Policy and Public Impact, London Chamber of Commerce and Industry

LCCI COMMENTARY – THE BUSINESS VIEW

London businesses yet again demonstrated their entrepreneurialism and creativity with a boost in business confidence. This shows yet again how the capital's business community are at the forefront of driving the national economy forward. With London being the business capital, the determination to provide high quality goods and services remained undaunted.

The good news continued with the demand for skilled workers remaining buoyant, The talent and skills which exists across London is fundamental to the capital's success. However, the headwinds which businesses have to cope with are still there – high supply chain costs amidst the continuing cost of living crisis.

This is why the work of the London Chamber of Commerce and Industry remains so critical for businesses in every London borough. With our practical business support programme combined with our networking events and our comprehensive international trade services, firms can rely on the Chamber to deliver during turbulent times.

It also means that the Chamber has to speak truth to power so that our firms can grow and prosper. So – in 2024 – we are speaking to the politicians of all the major political parties in advance of the London Mayoral election, the London Assembly election and the General Election.

We need action on supply chain costs, action to solve the skills crisis, action to tackle business crime, action to enhance international trade, action to invest in R&D and creativity and action to ensure London remains as the global city for business. Whatever happens in 2024, two things are certain. London businesses will remain creative and forward looking and the London Chamber will champion and support the capital's firms now and in the time ahead.

James Watkins, Head of Policy and Public Impact, London Chamber of Commerce and Industry

ABOUT THE 'CAPITAL 500'

For over a decade London Chamber of Commerce and Industry (LCCI) has conducted a Quarterly Economic Survey (QES) of members to gauge business performance and general confidence levels across the capital. This is part of the biggest and longest running national private business survey, conducted by regional chambers of commerce across the UK every quarter.

Savanta surveyed a total of 505 London business leaders between 19 October to 23 November 2023. All data were weighted to be representative of all London businesses by company size and broad industry sector. Savanta is a member of the British Polling Council and abides by its rules. Full data tables are available at www.savanta.com.

The net balance figures represent the percentage of firms that reported an increase minus the percentage that reported a decrease. Two categories are used for business size segmentation: micro businesses with fewer than 10 employees (including sole traders), and larger (small, medium and large) businesses with 10 or more employees. Any data reproduced from the report should be fully referenced.

ABOUT HAYSMACINTYRE

haysmacintyre is an award-winning firm of chartered accountants and tax advisors, providing specialist advice to entrepreneurs, fast-growing and owner-managed businesses, and not for profit organisations across the UK and internationally.

VICKY PRYCE

Chief Economic Advisor and Board Member, Centre for Economics and Business Research (Cebr)

GUEST COMMENTARY – THE ECONOMIST'S VIEW

The wider UK trends seem to support the somewhat more optimistic results of the LCCI's QES survey. Business confidence indicators are improving. The latest services PMIs showed a reversal of the falls seen in previous months. A change from the mild weather that had delayed spending on winter clothes and then strong 'Black Friday' sales and strong pre-Christmas trading. And even manufacturing, which has been mostly in contraction for more that a year now, looks stronger according to 'Make UK'. But it isn't a uniform picture across all sectors of the economy. The hospitality industry, for example, is starting the new year in difficulty with large numbers of restaurants closing in January. And the retail sector seems to have shed a further 120,000 jobs over the past year.

Nevertheless consumer confidence has been improving in recent months. Unemployment has stabilised at around 4.2%, price pressures are easing and wages are now rising again in real terms, albeit rather slowly. And the 2% January reduction in National Insurance Contributions announced in the November Autumn Statement will at least just about offset the higher stealth taxes paid by many courtesy of the continued freezing of personal allowances. In addition, recent cuts in mortgage rates, though still twice as high for those who fixed their mortgages 2 years ago, are easing the monthly repayments nightmare that had brought the housing market and housebuilding to a grinding halt. The bet by markets is that the Bank of England- and the Federal Reserve in the States and also the European Central Bank - will be cutting rates faster than those central banks are suggesting at present. Inflation has fallen sharply across the world. And it stands to reason that no central bank will want to see rates staying high for much longer if the likely cost is a deep recession and even deflation as some countries in Europe and also China have already been experiencing.

Yes, there are still uncertainties. The withdrawal of some of the energy support is likely to push inflation up again a bit for a while as was seen in the Eurozone in December where prices rose by 2.9% in the year, up from 2.4% year-on-year in November. The conflict in the Eastern Mediterranean and the continuing war in Ukraine, aided by OPEC production cuts, are raising the prospect of a renewed uptick in world energy prices. The disruption of shipping by attacks in the Red Sea is also likely to once again affect supply chains and produce as well as final consumer prices. Prospects for most of the developed world were already being revised downwards. The Office for Budget Responsibility (OBR) in November downgraded UK growth expectations for 2024 to just 0.7% with the public sector current and public spending on a downward trend in real terms for the overall 5-year forecast period. The BoE in December assumed almost no growth over the next 12 months.

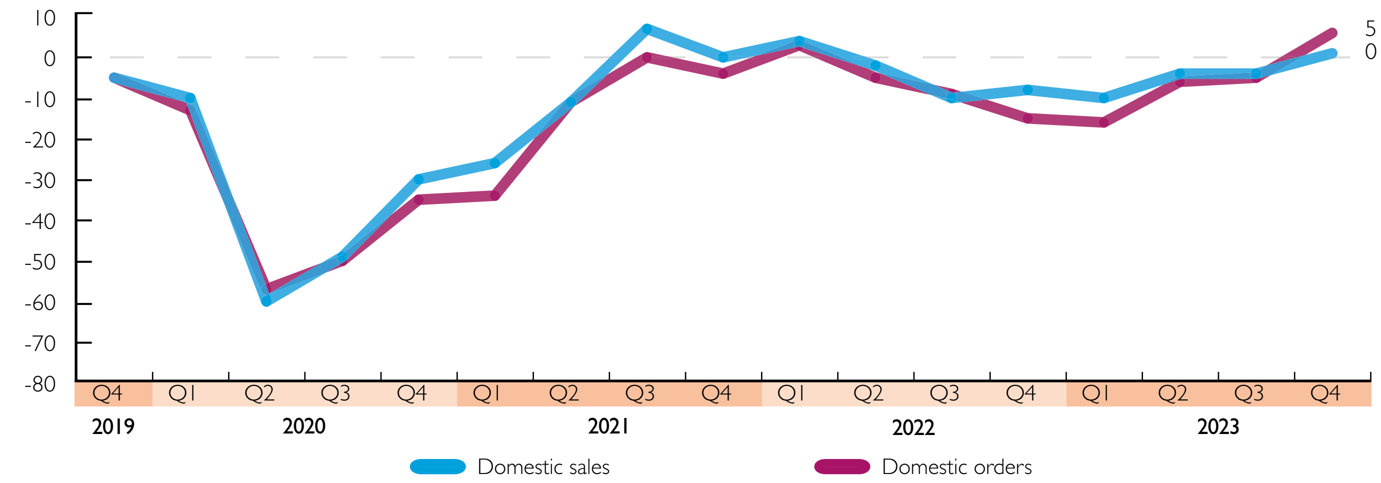
But this is an election year, in the UK and elsewhere, including the US. A UK budget scheduled for March 6 will likely contain some tax cuts for households. Add to this the extra help given to businesses with the permanent full expensing announced by the Chancellor and the government will clearly hope that, barring any major international upsets, recession, which some are still predicting, can be avoided and that growth returns.

Vicky Pryce, Chief Economic Advisor and Board Member, Centre for Economics and Business Research (Cebr)

DOMESTIC DEMAND

25% of London businesses reported an **increase** in domestic sales last quarter

29% of London businesses reported an **increase** in domestic orders last quarter



Businesses saw an uptick in domestic demand in the final three months of 2023, according to the latest Capital 500 survey. A quarter (25%) of London firms said their domestic sales had increased in Q4 2023, while the proportion who said their sales had fallen shrunk from 29% to 25%. The net balance – the percentage of firms noting an increase minus the percentage noting a decrease – for domestic sales rose from -5 to 0 in Q4 as a result. This improvement in sales was due to micro companies (0-9 employees): the net balance climbed from -8 to -2 last quarter, the highest since Q1 2022. Just under a quarter (23%) of micro businesses said their domestic sales had risen in Q4 compared to the previous three months. By contrast, the domestic sales balance for larger firms (10 or more employees) slipped from +34 to +26 in Q4, due to a bigger proportion who said their sales had fallen compared to Q3.

Service sector companies, particularly those in the finance and insurance / business administration and support, and information and communication industries, drove the increase in domestic sales in Q4, although manufacturing companies also registered a small improvement.

Domestic orders grew at an even stronger pace, with the net balance jumping 11 points to +5 in Q4. Three in ten (29%) London businesses said their domestic orders grew in Q4, up from 19% in Q3. A quarter (24%) of companies reported a decline in orders.

As with sales, this rise in domestic orders was driven by micro companies. The net balance climbed 13 points to +3 last quarter, the highest since Q1 2022, with 28% of micro firms saying orders had risen in the previous three months. For larger companies, the domestic orders balance nudged down 5 points to +25 in Q4: 44% of larger companies saw an increase in orders, up from 37% in Q3. However, one fifth (19%) of larger firms said orders fell in Q4, up from 7% in the previous quarter.

11% of London businesses reported an **increase** in export sales last quarter

9% of London of London businesses reported an **increase** in export orders last quarter

EXPORT DEMAND

Demand for export orders fell back sharply in the final three months of 2023, with the net balance dropping 9 points to 0. This was due to a smaller proportion of companies who said their export orders increased in Q4 (9%) compared to Q3 (15%). The share of London firms who saw a decline in orders also grew slightly from 6% to 9%.

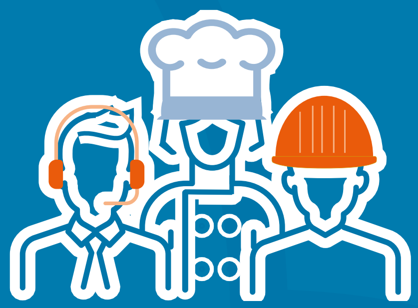
Both micro and larger businesses saw a pull-back in export orders in Q4. For micro firms, the net balance turned negative again, falling from +7 to -2 last quarter, while for larger businesses the balance dropped 10 points to +15.

There was a sharp decline in orders within the manufacturing sector, focussed within agriculture, forestry and fishing. Service sector businesses also reported weaker export orders led by the 'motor trades / wholesale / retail / transport & storage / accommodation & food services' industries.

Export sales weakened in Q4 as well, although to a lesser extent. The net balance nudged down 1 point to +3, with one in ten (11%) firms saying their export sales had increased in the previous three months (unchanged from the previous quarter).

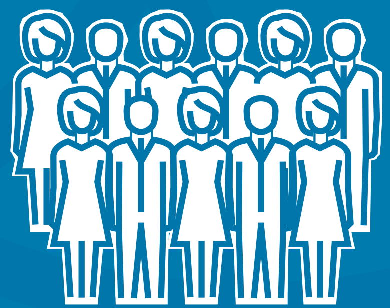
For larger companies, the sales balance dropped 10 points to +8 in Q4, with more firms seeing a decline in sales and fewer seeing an increase. Micro businesses also reported a slight dip in sales (net balance fell one point to +2 in Q4).

LABOUR MARKET



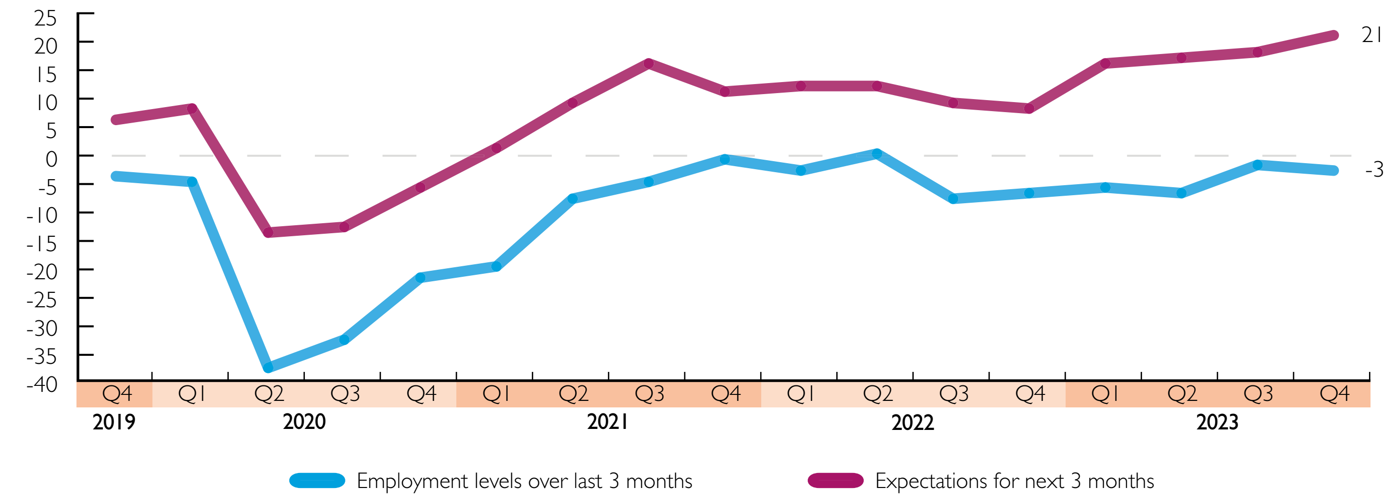
11%

London businesses reported an **increase** in their workforce size last quarter



27%

of London businesses expect their workforce size to **increase** over the coming three months



There was little change in London's labour market over the final three months of 2023 according to the latest Capital 500. The employment balance, measuring changes in workforce size over the prior three months, edged down from -2 to -3 in Q4, with one in ten (11%) businesses saying their headcount had increased: 14% of companies said their workforce had decreased in size in Q4.

The slight drop was due to larger companies: the employment balance declined from +29 to +7 in Q4, with fewer larger firms saying their workforce had grown in size (27%, compared to 37% in Q3). The proportion of larger businesses who said their workforce size had shrunk also doubled from 8% in Q3 to 20% in Q4. For micro companies, the employment balance edged up from -6 to -5 last quarter.

Despite little change in their current workforce, businesses' short-term outlook for London's labour market strengthened further in Q4 2023. The net balance for expected workforce levels in the next three months climbed to +21, a fresh record for the Capital 500. More than a quarter (27%) of London businesses expect their workforce to grow in the next three months, compared to only 6% who anticipate a decline.

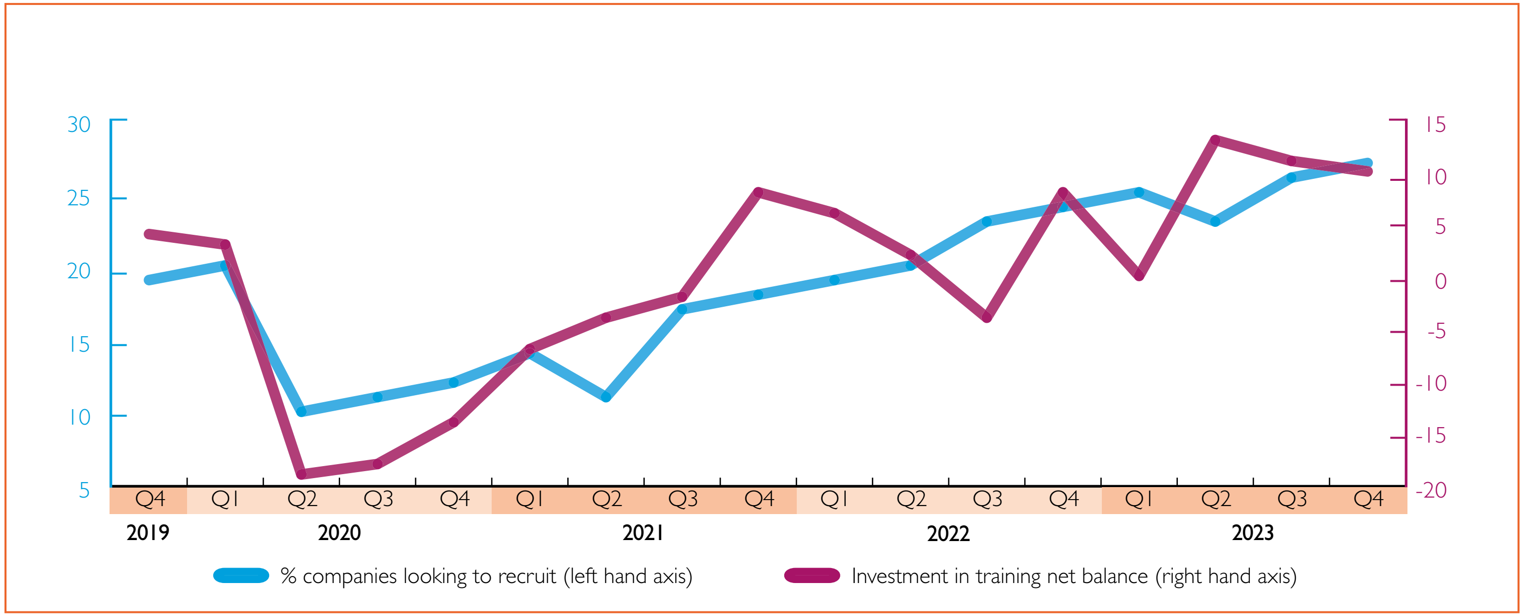
This improvement in expectations was seen across businesses of all sizes. For micro firms, the net balance rose 2 points to +17 in Q4 2023, with 23% suggesting that the size of their workforce will increase in the coming quarter. For larger companies, the balance rebounded 9 points to +49, as close to three fifths (57%) of larger businesses expect an increased headcount.

Businesses in service industries, such as motor trade, retail, accommodation, and information and communication, were all more upbeat on workforce size for Q1 2024, as well as companies in the public sector.

27% of London businesses reported that they had looked to recruit in the last quarter

22% of London businesses reported an **increase** in investment in training last quarter

RECRUITMENT AND TRAINING



Recruitment activity continued to rise according to the Q4 2023 Capital 500. More than a quarter (27%) of London firms said they had looked to hire in the previous three months, up from 26% in Q3. This small rise in recruitment was focussed among larger businesses, of whom three quarters (73%) said they had tried to recruit in Q4 2023 (up from 59% in Q3): this was the highest proportion of larger firms reporting that they had tried to hire since Q1 2016.

For micro companies, there was a small dip in recruitment activity from 23% in Q3 to 22% in Q4. Firms in arts, entertainment, recreation and other services reported stronger hiring efforts in Q4, as well as businesses in construction and the public sector.

Business investment in training was stable for the final three months of 2023, with the net balance nudging down 1 point to +10. Around two in ten (22%) companies said they had raised spending on training in Q4, consistent with Q3 (21%).

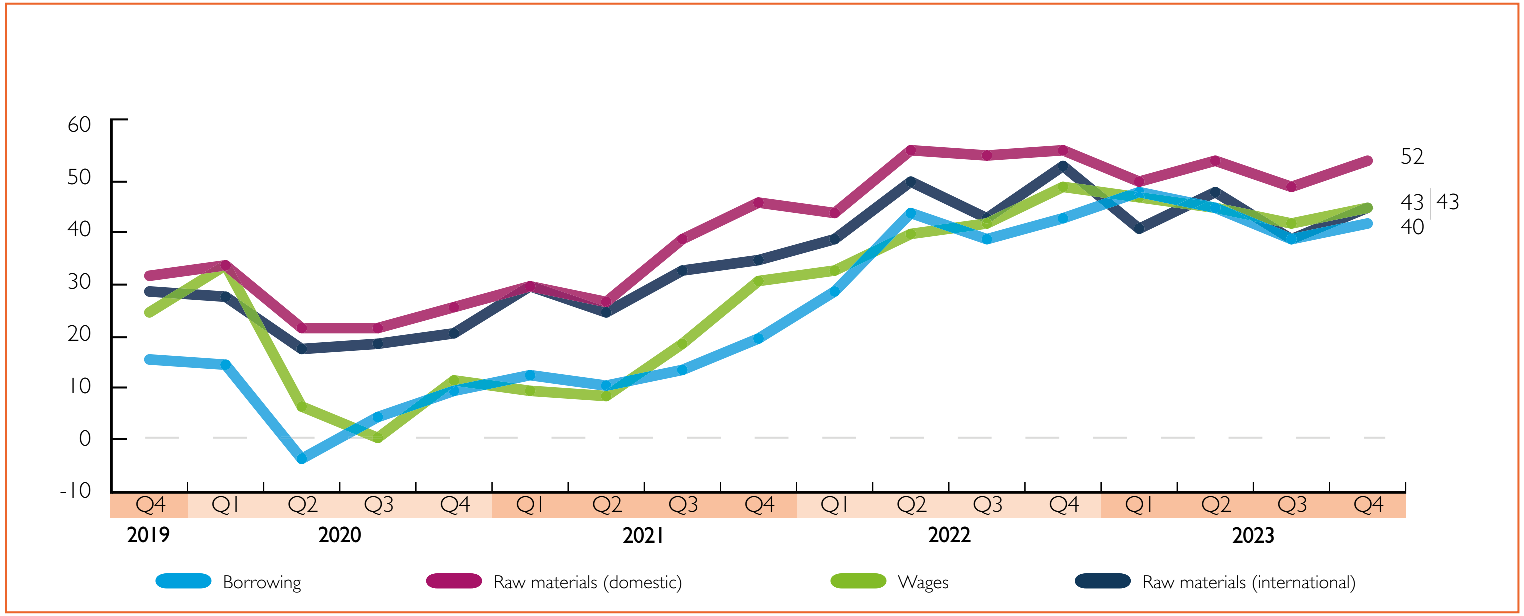
There was a slightly bigger share of firms who said investment in training had decreased in Q4 compared to the previous three months (12%, up from 10% in Q3).

For micro companies, the investment in training balance dipped from +10 to +9 in Q4, with one in five (20%) micro firms saying they had raised spending on training (unchanged from Q3). There was an increase in the proportion of larger businesses who said they had increased training investment, from 35% in Q3 to 45% in Q4. However, this was offset by a bigger share who said their spending on training had fallen (from 6% in Q3 to 16% in Q4).

BUSINESS COSTS

54% of London businesses reported an **increase** in their fuel costs last quarter

66% of London businesses reported an **increase** in their energy costs last quarter



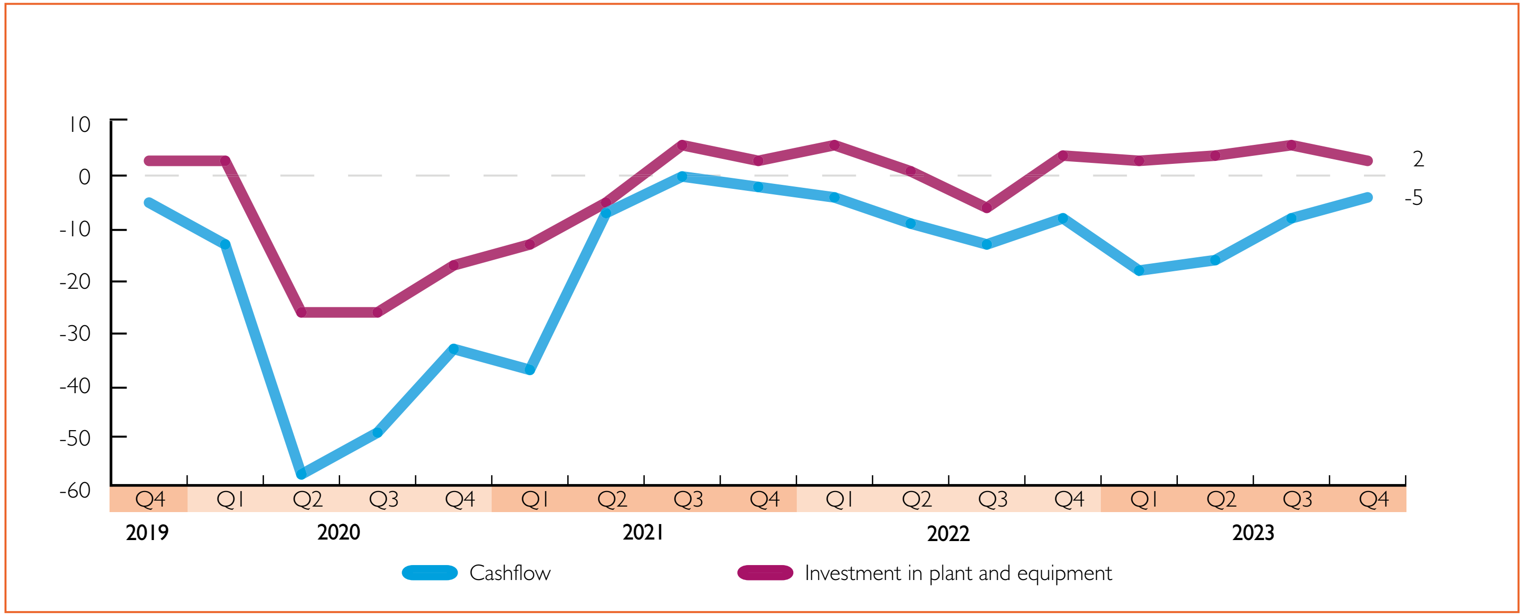
After showing signs of easing, there was an uptick in reported cost pressures from London businesses in Q4 2023, highlighting the continued difficulties companies are facing at this time. Two thirds (66%) of businesses said their energy costs had increased in Q4 compared to the previous quarter, up slightly from 64% in the Q3 2023 Capital 500. Three in ten (31%) firms said their energy costs had remained unchanged, while only 3% reported a decline between Q3 and Q4. Similarly, 54% of firms said their fuel costs had risen in the last quarter, roughly level with Q3 (53%).

All cost metrics measured in the Capital 500 increased in the latest report. More than half (53%) of businesses said the costs of their domestic raw materials had increased in Q4, up from 49% in Q3: the net balance rose 5 points to +52. For raw materials sourced internationally, the balance rose from +37 to +43 in Q4, with 46% of companies suggesting these costs had increased in the final three months of 2023.

After two consecutive declines, the net balance for borrowing costs rose 3 points to +40 in Q4: 43% of London businesses said their borrowing costs had increased relative to Q3. Similarly, companies reported increased pressure from employees to raise wages, with the balance rising from +40 to +43 in Q4. In the Q4 2023 Capital 500, two fifths (40%) of London firms said they expected the prices of their goods and / or services to increase in the coming three months. This was down from 45% who said the same in the Q3 report, and was also the lowest share of firms who said they would raise prices since Q3 2021. As expected, utilities (such as gas and electricity) are the principal items putting upward pressure on companies to raise their prices (52%). This is followed by labour costs (42%).

Despite the recent decline in the official data, inflation is still the number one concern for London firms: 66% of companies said they were more concerned about inflation in Q4 than they were three months prior. Four in ten (41%) firms also said interest rates had become a bigger concern.

CASHFLOW AND INVESTMENT



26% of firms reported an **increase** in cashflow last quarter

17% of firms reported an **increase** in investment in plant and equipment

Companies reported another improvement in their underlying cashflow in Q4 2023, with the net balance climbing for a third consecutive quarter (from -9 to -5): this was the highest since Q1 2022. A quarter (26%) of London businesses said their cashflow had risen in Q4, up from 23% in the previous quarter. There was also a small dip in the share of firms who said their cashflow had declined (from 32% to 31%).

Micro businesses drove this uptick: the cashflow net balance rose 5 points to -7 in Q4, with more micro companies saying their cashflow had risen (25%, up from 22% in Q3). By contrast, for larger firms the cashflow balance dipped 2 points to +16 last quarter, although nearly four in ten (38%) still noted an increase compared to Q3.

Just over a quarter (27%) of service sector businesses said their cashflow increased last quarter, driven by strong growth in information and communication, and finance, insurance and business support industries.

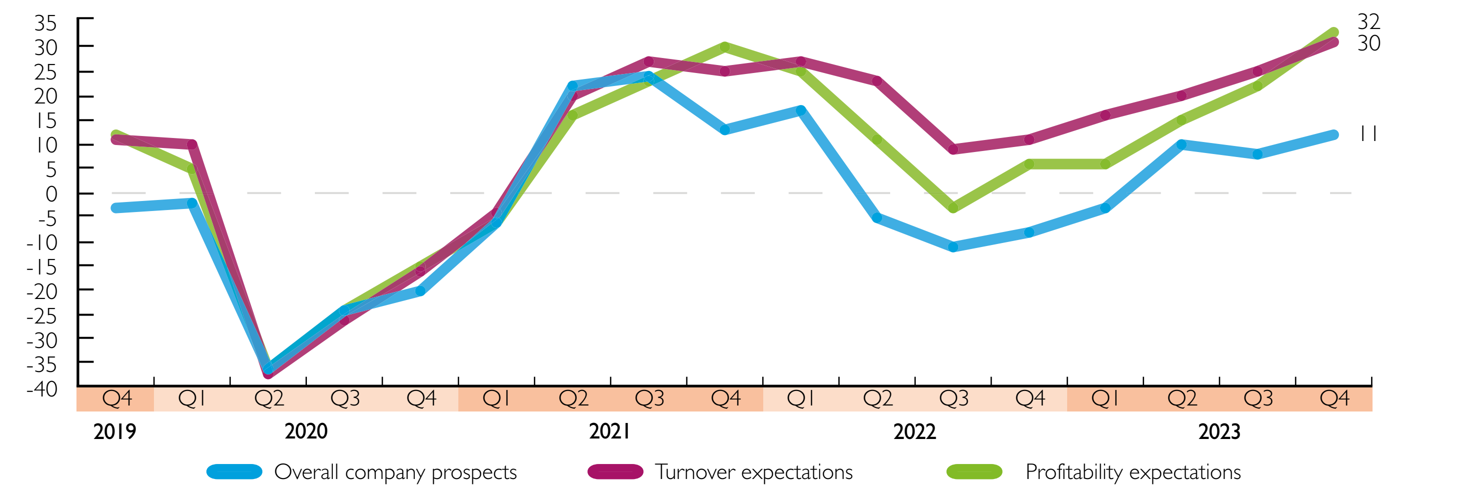
2023 has been a year of slow growth for capital investment. The net balance for investment in plant and equipment has nudged up and down throughout the year, falling 3 points to +2 in Q4 2023. Around one in six (17%) London companies said plant and equipment investment had increased in Q4 compared to Q3, unchanged from the previous Capital 500. The hope will be that the Chancellor's announcement on permanently maintaining full expensing boosts capital investment going forward.

For micro companies, the capital investment balance slipped from +2 to 0 in Q4, while for larger companies it was unchanged at +21.

BUSINESS CONFIDENCE

50% of London businesses expect their profitability to **improve** over the coming 12 months

48% of London businesses expect their turnover to **improve** over the coming 12 months



There was a notable rise in business confidence in the final months of 2023, particularly when considering their own company. Half (50%) of London firms said they expect their profitability to increase over the coming 12 months, the highest share ever recorded on the Capital 500. The proportion of companies who thought their profitability would decline also shrunk slightly from 21% to 18% in Q4, pushing the net balance up 11 points to +32.

For micro businesses the profitability balance jumped 12 points to +30, with 49% expecting their profitability to rise in the next year. Three fifths (59%) of larger firms also think their profitability will increase in 2024.

Similarly, businesses were more upbeat on their turnover expectations. The Q4 2023 Capital 500 showed that just under half (48%) of London companies expect their turnover will increase in the next 12 months, up from 43% who said the same in Q3 2023. By contrast, 18% thought their turnover would worsen, with the net balance climbing 6 points to +30 in Q4 2023.

Both micro and larger companies saw improvements to their turnover expectations in Q4. The balance for micro companies rose from +23 to +28, while for larger businesses the turnover balance increased from +42 to +48.

Overall company prospects rebounded in the Q4 2023 survey too, with the net balance climbing from +7 to +11: this was the highest since Q1 2022. More than a third (35%) of London firms expect their company prospects to improve in the next 12 months, compared to 24% who anticipate a decline.

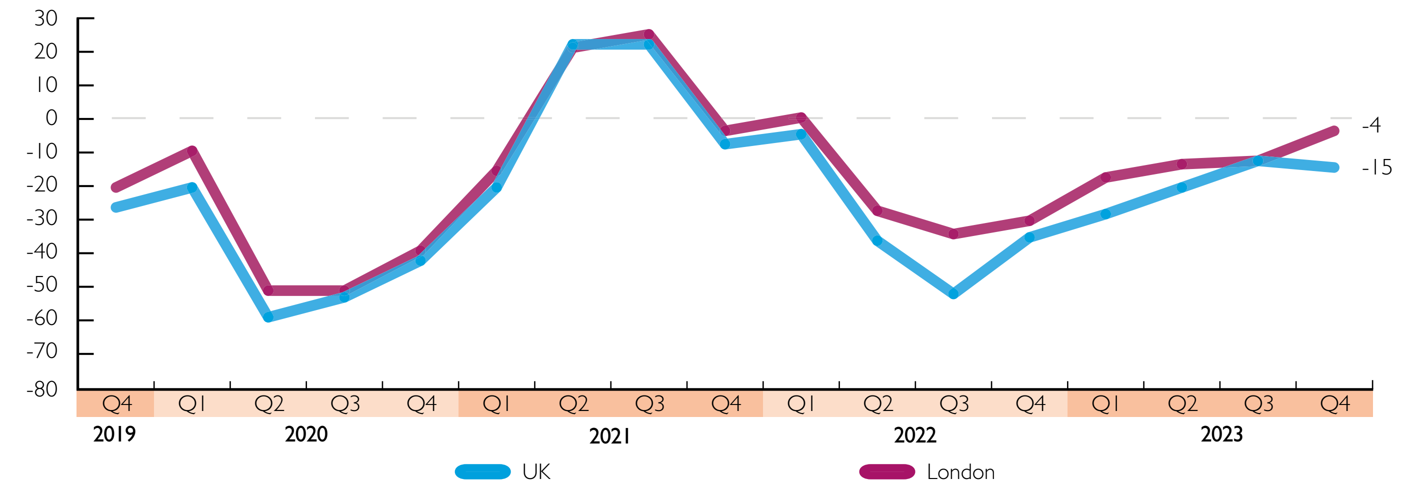
28%

of London businesses expect London's economy to **improve** in the next 12 months

26%

of London businesses expect the UK's economy to **improve** in the next 12 months

ECONOMIC OUTLOOK



After showing signs of plateauing, the business outlook for London's economy improved sharply in Q4 2023. The proportion of companies who thought London's economy would grow in the next 12 months increased from 25% in Q3 to 28% in Q4, while there was also a decline in the share of companies expecting a slowdown in the capital (from 38% in Q3 to 32% in Q4). This pushed the net balance up by 9 points to -4, the highest point since Q1 2022.

Micro and larger businesses alike were more upbeat on London's economic prospects in 2024. For micro firms, the net balance for the London economic outlook rose from -13 to -6 in Q4, as fewer such companies anticipated a worsening in the capital's economy. After dropping sharply in Q3, the London economic outlook balance for larger businesses rebounded 31 points to +17 in Q4: this indicator has been quite erratic throughout 2023, suggesting larger firms are not quite sure what will happen with London's economy this year.

It is also worth noting that whilst companies were more optimistic about London, their outlook for the wider UK economy softened in Q4. The net balance for the UK economic outlook dipped 2 points to -15 last quarter: 41% of firms thought the UK's economy would worsen in the coming 12 months, up slightly from 38% in Q3. The share of all London firms who expect the UK's economy to improve in 2024 did nudge higher, from 25% in Q3 to 26% in Q4.

There was a split based on business size. For micro companies, the UK economic outlook balance fell 3 points to -16 in Q4, with more than two fifths (42%) of London's smallest businesses expecting a worsening in the UK's outlook. By contrast, larger firms were more upbeat: the net balance jumped from -17 to +3 in Q4, although again this measure has been quite volatile in recent surveys.

Q4

James Watkins
Head of Policy and Public Impact
jwatkins@londonchamber.co.uk

Stephen Jones
Policy and Research Manager
sjones@londonchamber.co.uk