



CAPITAL 500

London Quarterly Economic Survey

January – March 2022



In partnership with

Savanta:
ComRes

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RICHARD BURGE

Chief Executive, London
Chamber of Commerce
and Industry

LCCI COMMENTARY – THE BUSINESS VIEW

London's economy continued its cautious recovery in Q1 2022, with our latest Quarterly Economic Survey showing a small pick-up in domestic demand over the first three months of the year. Recruitment efforts increased, while overall business confidence rebounded slightly.

It is difficult to discern whether Russia's invasion of Ukraine has impacted business sentiment in the Q1 2022 QES. However, other headwinds remain for London's companies, and chief among them is the continued cost pressures. More than two-thirds of firms have seen increases in their energy and fuel costs, while inflation is a growing concern for firms large and small. Borrowing cost pressures are intensifying quickly too.

Firms are not seeing positive changes to their cashflow as a result. Investment, particularly in capital goods, remains stable but at a weak level.

The removal of remaining Covid-19 restrictions should hopefully support London's economic recovery, and the return of international visitors. Nevertheless, the Chancellor's Spring Statement has done little to provide support for firms, outside of minor tweaks to the Employment Allowance. While there were promised reforms to investment reliefs in the coming Autumn Budget, London businesses are facing sizeable cost pressures now. It was therefore disappointing to not see the Chancellor take further steps to support London businesses, and we will continue to call for such measures in the coming months.

Richard Burge, Chief Executive, 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 ComRes surveyed a total of 502 London business leaders between 1 February and 8 March 2022. All data were weighted to be representative of all London businesses by company size and broad industry sector. Savanta ComRes is a member of the British Polling Council and abides by its rules. Full data tables are available at www.comresglobal.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
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GUEST COMMENTARY – THE ECONOMIST’S VIEW

Since the survey was conducted the Russian war in the Ukraine has led to a sharp reassessment of prospects, with global GDP and trade growth expectations being downgraded. For the UK, the Office for Budget Responsibility (OBR) forecast that accompanied the Chancellor’s Spring Statement on 23 March drastically reduced growth in 2022 from 6% to 3.8%. Even that was subject to great uncertainty as it is difficult to assess the length and outcome of the military conflict. Growth thereafter hardly makes up for the loss in output in 2022, with GDP expected at best to grow by less than 2% in the following four years. Inflation has on the other hand been revised sharply upwards, with the average for the year up to 7.8%, though a peak of more than 8.5% is likely.

This was no surprise for anyone given that the CPI climbed by 6.2% y/y in February, the biggest rise in 30 years, and before the latest increases in oil and food prices from the impact of the war. Despite unemployment falling to the low pre-pandemic levels, consumer confidence and retail sales retreated in February. The fear is that the help given to households so far – and added to in the Spring Statement – will do little to prevent the worst yearly fall in living standards since the 1970s.

Of course, the UK is not alone. However, many other countries are increasing their subsidies to tackle the increases in fuel bills and support businesses. In Italy, there is now a windfall tax on energy companies to pay for this. So far in the UK, the support for business has been minimal and this is a concern about the type of growth we may see. The UK seems to be one of the few countries which is raising taxes instead of lowering them. UK households do get some relief, through the raised threshold for employee national insurance contributions. Nevertheless, that threshold is not being raised for employers. Corporation tax will be rising in April 2023, although the reintroduction of a small profits rate – which stays at 19% – is welcome.

The latest estimates still show a further rise in house prices with a buoyant market, and continued recruitment intentions in businesses across most sectors. How long that can continue as interest rates rise for both households and businesses and input costs continue to increase is unclear. Some economists are already pencilling in stagflation as the most probable outcome.

Public finances were at least improving, with borrowing in the 2021/22 financial year some £50 billion lower than had been expected in the October 2021 Autumn Budget. Projections by the OBR show a steady fall in the debt-to-GDP ratio and in the deficit-to-GDP ratio in the years covered by the forecast. There is headroom left in later years too. I suspect the Chancellor will come back and do more, probably quite soon, and he may still have room for at least a 1p cut in the basic rate of income tax in 2024.

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

DOMESTIC DEMAND



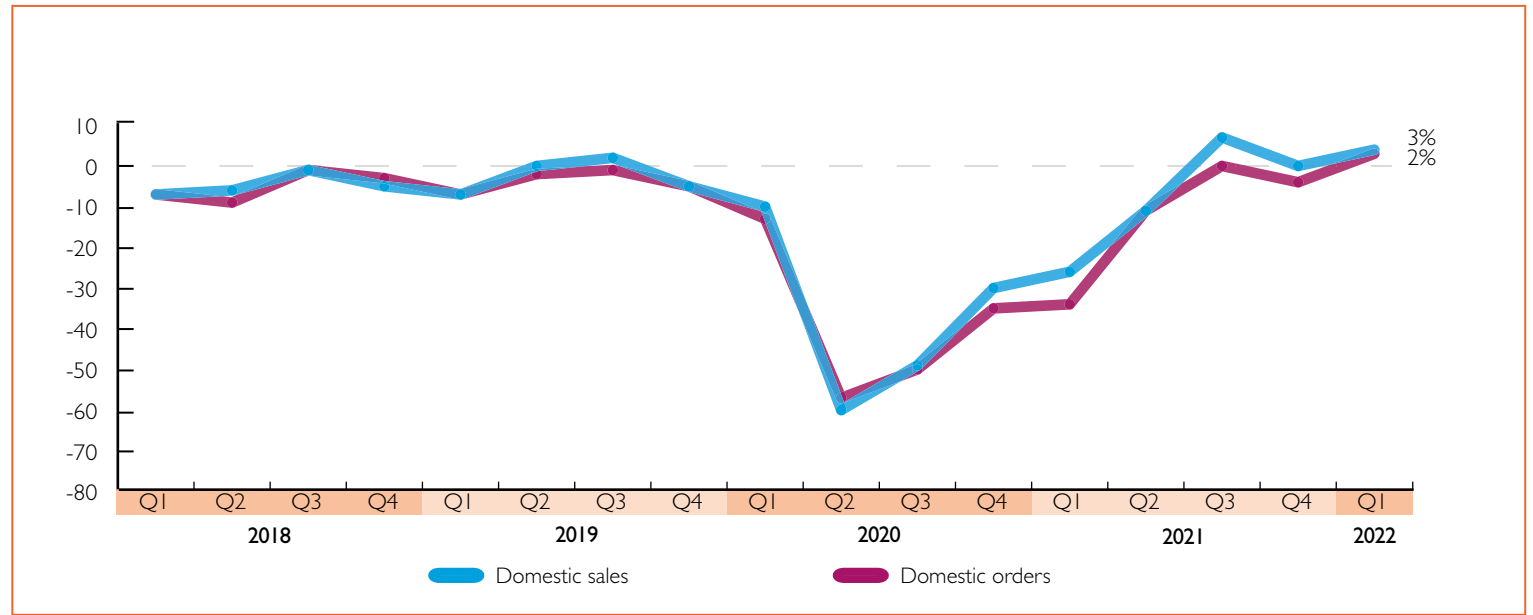
23%

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



20%

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



With the worst fears of the Omicron wave fortunately not realised, London businesses saw a small uptick in domestic demand in the first quarter of 2022. The net balance for domestic sales (the percentage of firms noting an increase in sales minus the percentage noting a decrease) rebounded into positive territory, up 4 percentage points to 3%. Nearly a quarter (23%) of London firms said sales had increased in Q1 2022, similar to Q4 2021 (24%).

For micro firms, the domestic sales net balance rose from -4% to 3% in Q1 2022: the proportion of micro companies who said sales had increased grew slightly (from 22% to 23%), while the share of businesses who said sales had declined shrunk from 26% to 20%. However, domestic sales for larger companies worsened over the first three months of 2022, with the net balance down 17 points to 9%. Both the manufacturing and service sectors saw stronger domestic sales in Q1 2022.

Firms in the West London Alliance and Local London geographies also reported a sharp upturn in sales for the first three months of the year, but businesses in the Central London Forward and South London Partnership areas saw a drop in sales demand.

For domestic orders, the net balance turned positive in Q1 2022 for the first time in nearly five years (rising from -5% to 2%). This was driven by a small uptick in the share of firms who said orders had risen over the past three months, while the proportion reporting a drop in orders shrunk from one in four (24%) to one in five (18%).

As with domestic sales, the rise in orders was due to micro companies: the net balance climbed 7 points to 1%. For larger firms, the balance declined from 21% to 16%. Orders for both manufacturing and service sector firms improved in Q1 2022.

EXPORT DEMAND



6%

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



7%

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



The first three months of 2022 saw a small improvement in demand for London's exporters. The net balance for export sales nudged up from -5% to -3%, with fewer firms noting a decline in sales in Q1 compared to Q4 2021. The proportion who said export sales had increased was unchanged at 6%.

The net balance for export sales by micro companies rose 3 points to -4%, although the balance for larger businesses dropped into negative territory (from 11% to -1%). Manufacturers also saw a sharp decline in demand for export sales, with the net balance falling 13 points to -12%. For service sector businesses, the export sales balance rose slightly from -5% to -2%.

Businesses in the West London Alliance and Central London Forward geographies reported upticks in export sales demand last quarter, while demand weakened for firms in the Local London and South London Partnership areas.

Export orders have proven less erratic in recent quarters, and have slowly trended higher since Q4 2020. In Q1 2022, the net balance for orders rose from -3% to -1%. For micro companies, the export orders net balance climbed to -1%, the highest reading since Q4 2019.

The net balance for larger businesses declined 9 points to 1%, with fewer firms reporting an increase in orders and a greater proportion stating that orders had declined.

In contrast to their sales demand, manufacturers saw stronger export orders in Q1 2022. Service sector businesses also reported a rise in export orders.

LABOUR MARKET



8%

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



16%

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



London's unemployment rate has continued to fall, dropping to 5.0% in the three months to January 2022 (the latest figures at the time of writing). The Capital 500 for Q1 2022 showed a small drop in the employment balance from -1% to -3%, with fewer firms stating their workforce levels had increased (8% in Q1 2022, compared to 13% in Q4 2021). However, the proportion of firms who said their employment numbers had decreased also shrunk from 14% to 11%.

For micro companies, the employment net balance dipped 1 point to -4% in Q1 2022. Larger businesses saw a small rise in the employment balance from 11% to 16%, with fewer than one in ten larger firms saying their workforce levels had declined over the past three months.

Businesses based in the West London Alliance and Local London areas saw an improvement in their employment balances over the first three months of 2022, while companies in the Central London Forward and South London Partnership geographies reported a decline in the employment balances.

Company expectations for their workforce levels in the coming quarter remained stable in Q1 2022, with the balance nudging up from 11% to 12%. Only 4% of firms expect their workforce numbers to decline in the coming three months, down from 6% in Q4 2021.

Both micro and larger businesses saw a small increase in the net balance for employment expectations in Q1 2022. Looking at the sectoral breakdown, manufacturers were less upbeat on their employment expectations in Q1 2022: the net balance fell from 27% to 18%, although remains firmly in positive territory. For service sector companies, the employment expectations balance climbed 2 points to 11%.

RECRUITMENT AND TRAINING



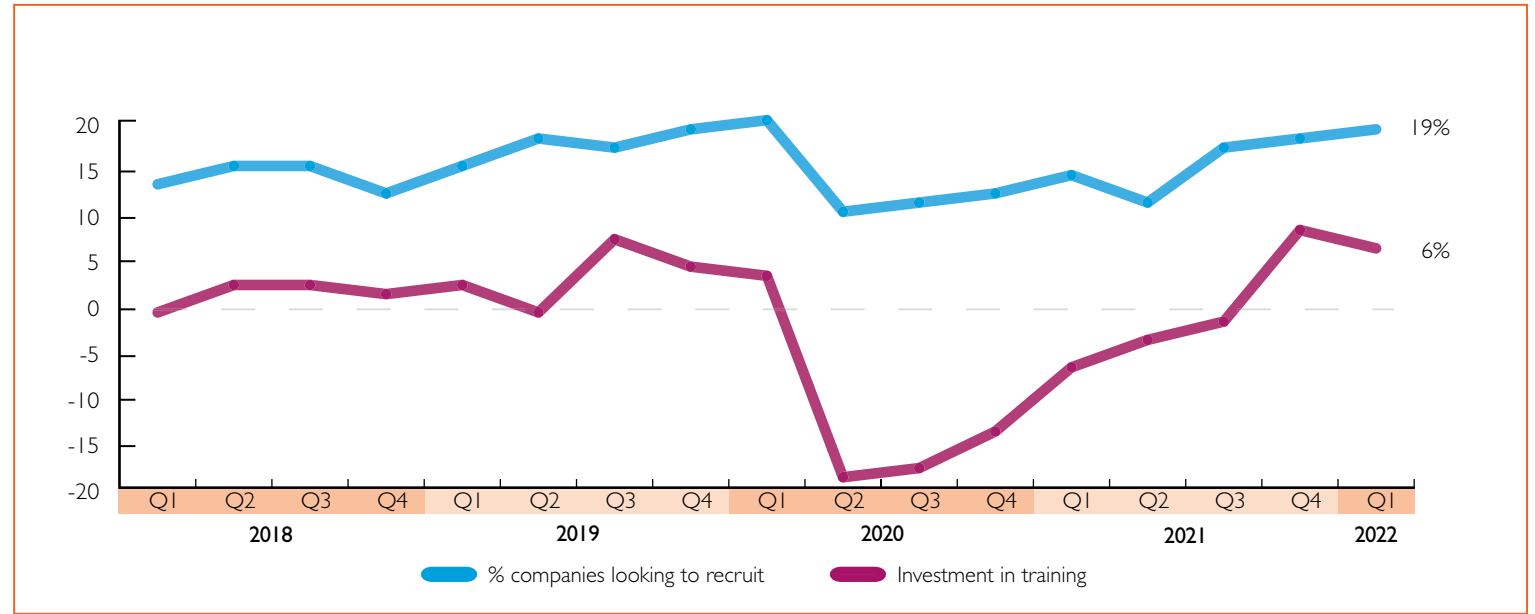
19%

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



15%

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



Recruitment by London business leaders continued to nudge upwards in Q1 2022, with 19% of companies saying they had sought to hire over the prior three months: this was up from 18% in Q4 2021. The latest reading was just below the all-time high reached in Q4 2019 (20%).

There was a split in recruitment activity based on business size. The proportion of micro companies rose from 13% to 15% in Q1 2022, but for larger businesses there was a drop (from 69% to 59%).

Firms in service sector industries reported a rise in hiring in Q1, driven by the public sector, information and communication, and the finance and insurance / business administration and support sectors. By contrast, recruitment activity slowed slightly for manufacturers over the first three months of 2022.

Businesses across most of London were more active in hiring in Q1, with each sub-region barring Central London Forward indicating a higher proportion of firms seeking to recruit.

A larger share of London businesses said they had experienced difficulties in recruiting in Q1 2022 compared to Q4 2021 (64% versus 59%, respectively).

The net balance for investment in training slipped back in Q1, down 2 points to 6%. This was due to a small drop in the share of businesses who said they had raise spending on training (from 17% to 15%). Both micro and larger companies saw a drop in the training investment balances last quarter.

BUSINESS COSTS



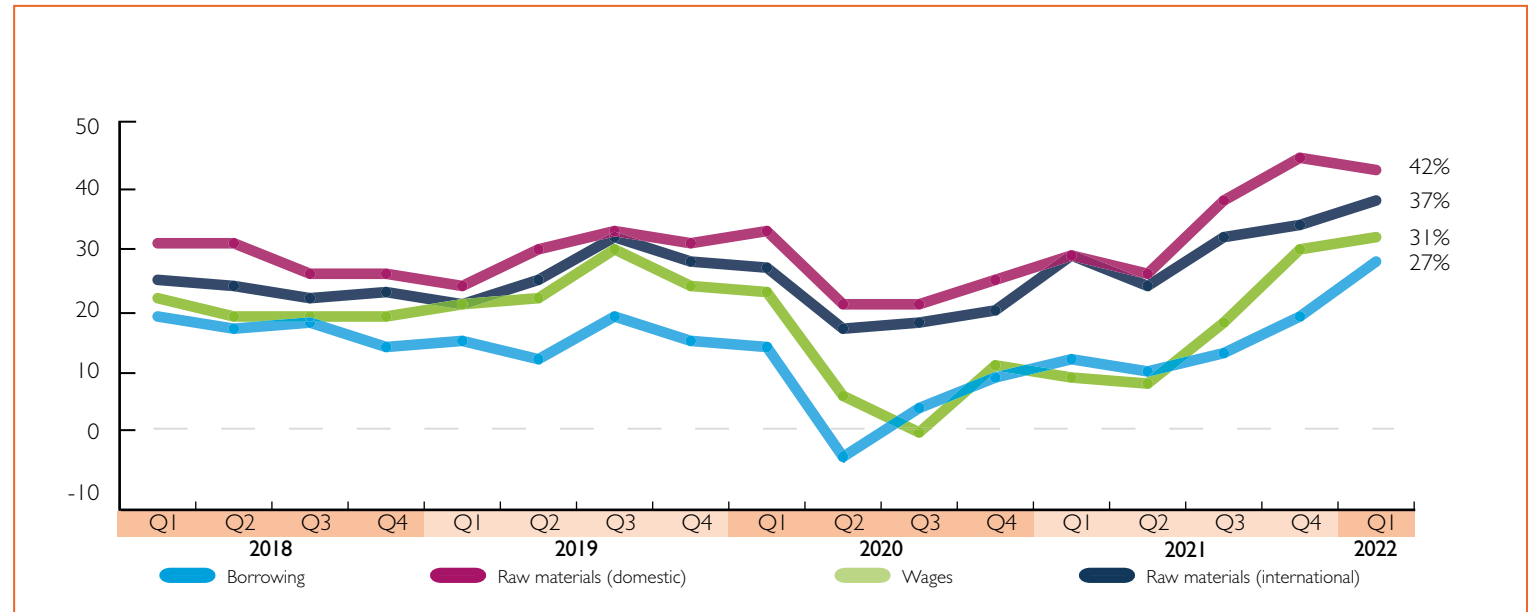
61%

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



69%

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



There has been little respite for London businesses when considering their costs, with pressures coming from all sides. In Q1 2022, more than two-thirds (69%) of firms said their energy costs had risen over the previous three months – a new high for the Capital 500. Only 1% of London businesses said their energy-related costs had declined in Q1 2022. Three-fifths (61%) of companies said their fuel costs had increased in Q1 2022: whilst a small decline compared to Q4 2021 (64%), this is still the second-highest reading since the Capital 500 began in Q2 2014.

Businesses' raw material costs remain high as well, with 38% of firms saying their materials sourced internationally had risen in price in Q1. The net balance for international raw material costs climbed to a new record (37%). For raw materials sourced domestically, the proportion of firms noting an increase in costs was little changed in Q1 (44%, versus 45% in the Q4 2021 Capital 500). The net balance dipped from 44% to 42%.

However, utilities are not the only area where businesses are facing intensifying cost pressures. The balance for borrowing costs has risen quickly since Q2 2021, reaching a record high of 27% in Q1 2022: nearly one-in-three (31%) London companies said their borrowing costs had risen over the last quarter. More than half (53%) of larger firms reported higher borrowing costs in Q1. Pressure to raise wages grew steadily in the first three months of the year, with the net balance climbing 2 points to 31%. More than a third (35%) of firms said they had seen an uptick in wage pressures in Q1.

Amid rising cost pressures, 42% of London firms said they expected the price of their goods and / or services to rise in the coming three months: this was down slightly from 45% in the Q4 2021 Capital 500. Half (50%) of London's manufacturers expected their prices to rise, whilst 41% of businesses in the service sector predict an increase in prices.

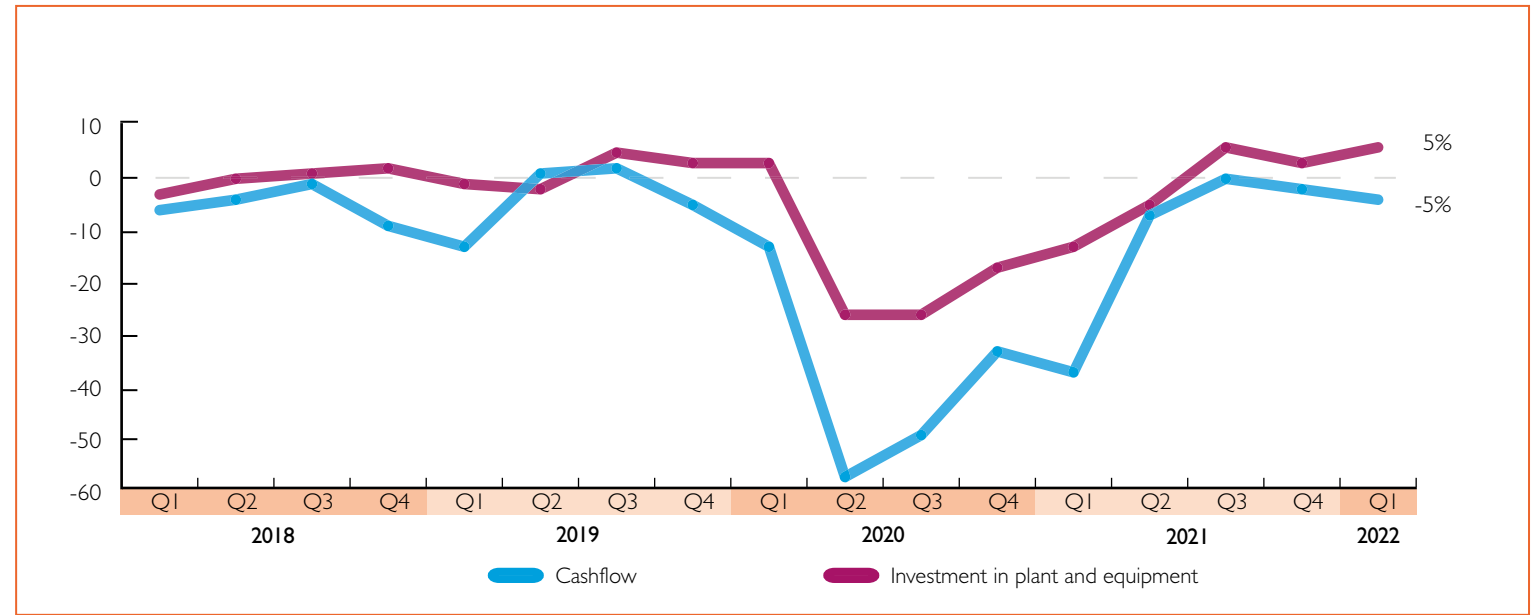
CASHFLOW AND INVESTMENT



22% of firms reported an **increase** in cashflow last quarter



15% of firms reported an **increase** in investment in plant and equipment



In the context of rising cost pressures and only a recent repeal of Covid-19 restrictions, it is unsurprising to see a lack of improvement in cashflow for many London businesses. The net balance for cashflow declined 2 points to -5% in Q1 2022: 22% of firms said cashflow had increased in the past three months, down from 25% in Q4 2021. For half (52%) of London firms, there had been no change in their cashflow in Q1 2022. The proportion of firms who said they were operating at full capacity declined from 43% to 39%, with both micro and larger companies reporting a slowdown in activity in Q1.

For micro businesses, the cashflow balance dipped from -5% to -6% in Q1, while larger firms saw a much bigger drop (from 17% to 0%). Most sectors saw a decline in the cashflow balance. Within services, information and communication, finance and insurance / business administration and support, and arts, entertainment, recreation and other services all reported a decline in the cashflow balance in Q1 2022. For manufacturing, the net cashflow balance slipped further into negative territory (from -11% to -18%).

The net balance for investment in plant and equipment edged up from 2% to 5% in Q1 2022, with 15% of companies reporting an increase in capital spending. This proportion has been consistent for several quarters, suggesting that there has not been a significant improvement in businesses' ability to invest in plant and equipment over the past two years.

Micro firms reported slightly stronger investment in plant and equipment in Q1, with the net balance rising 3 points to 4%. However, for larger companies the net balance slipped 4 points to 12%.

BUSINESS CONFIDENCE



42% of London businesses expect their profitability to **improve** over the coming 12 months



41% of London businesses expect their turnover to **improve** over the coming 12 months



Longer-term business confidence appears to have partially improved, based on the findings from the latest Capital 500. The net balance for firms' turnover expectations over the next 12 months rebounded from 24% to 26% in Q1 2022, with 41% anticipating an increase in turnover – this was unchanged from Q1. Both micro and larger businesses saw increases in their turnover expectations balances last quarter.

The profitability expectations balance slipped back from the recent high, down 5 points to 24% in Q1. The share of firms who said they expect an increase in profitability shrank from 46% to 42%, while the proportion who anticipate a worsening in profitability was largely unchanged (from 17% to 18%).

As with turnover, the profitability expectations balances for micro and larger companies both dropped in Q1 2022. For larger firms, the net balance declined 13 points to 30%, with the proportion who expect their profitability to worsen nearly doubling (from 10% to 19%).

Overall company prospects improved in Q1, with the net balance rising from 12% to 16%. There was a small increase in the share of firms who said they expect their prospects to improve over the coming year (from 31% to 36%), although 20% of businesses still expect a worsening in the next 12 months (up from 19% in Q4 2021).

For a fifth consecutive quarter, the chief concern for London businesses is inflation – in Q1 2022, 62% of companies said they were more concerned about inflation than they were three months prior, a new record for the Capital 500.

ECONOMIC OUTLOOK



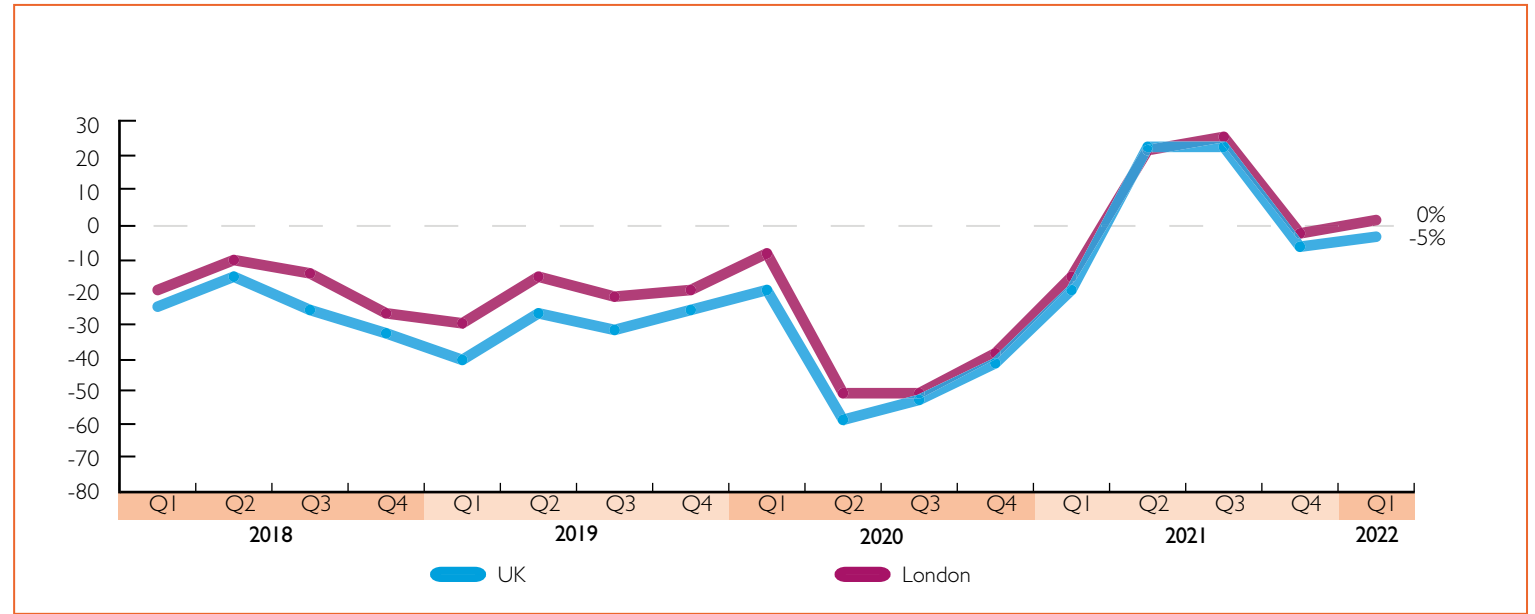
33%

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



33%

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



Business outlooks for the London and wider UK economies showed a small improvement in the Q1 2022. It remains unclear if the Russian invasion of Ukraine has had an impact on confidence – the fieldwork for the latest Capital 500 took place from 1 February to 8 March 2022.

Firms were slightly more optimistic regarding London's economic outlook over the next 12 months, with the net balance rising 4 points to 0% in Q1 2022: a third (33%) of firms anticipate the capital's economy will improve, up from 29% in Q4 2021. That said, the proportion who expect London's economy to worsen was unchanged (33%).

This small improvement in confidence around London's economic prospects was seen in both larger and micro companies. For micro firms, the net balance edged up from -3% to -1%. Larger businesses noted an even bigger pick-up in confidence, with the net balance rebounding into positive territory from -3% to 10%.

There was, however, a divide based on geography. Businesses in the West London Alliance and South London Partnership areas were much more positive on balance in Q1 2022 when considering London's economic outlook, but companies in the Central London Forward and Local London sub-regions were more pessimistic.

Turning to views on the wider UK economy, there was a similar, modest rise in the net balance in Q1 from -8% to -5%. That said, there was a split based on business size. Micro businesses were slightly more upbeat in their assessment for the UK economy over the next 12 months, with the net balance rising from -9% to -6%. For larger companies, the balance dipped 2 points to -5%.

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