



# CAPITAL 500

London Quarterly Economic Survey

July – September 2021



In partnership with

**Savanta:**  
ComRes

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## RICHARD BURGE

Chief Executive, London Chamber of Commerce and Industry

# LCCI COMMENTARY – THE BUSINESS VIEW

Our latest Capital 500 survey showed an encouraging growth in domestic sales for the capital's businesses during the summer, particularly for those firms who are based in central London. Companies were more active in their recruitment and more were anticipating a larger workforce over the coming quarter.

Business confidence for their own company and for the London economy was stable too, and there was an increase in the proportion of firms who looked to invest, both in plant and equipment and training.

Nevertheless, more than businesses are still reporting a decline in cashflow than not, pointing to a slow recovery. In addition, businesses are facing a rapid rise in costs for their energy, fuel and raw materials. More than a third of firms are expecting prices of their goods and services to rise in the coming three months, the highest share ever recorded on the Capital 500, and inflation was the chief concern for London businesses heading into Q4. This pressure on margins is a very real threat to the economic recovery from Covid-19.

With an upcoming Spending Review and Budget, London businesses will want to see how the Government intends to support them in the months and years ahead.

**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 507 London business leaders between 23 July and 16 September 2021. 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](http://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

Fieldwork for this Capital 500 survey was done before the latest round of gas price increases and the shortage of tanker drivers, which reduced some petrol and diesel deliveries to forecourts in the UK. From a shortage of HGV drivers to record job vacancies, and needing to extend more temporary visas to seasonal agricultural workers to rescue British farm produce that would otherwise rot, the feeling that we are moving from one crisis to the next has intensified – with it of course the pressure on companies' costs and processes.

This has been pretty widespread – energy intensive sectors are being particularly affected by the gas price increases with wholesale prices rising fourfold in the past year; oil prices in recent days breached at times the \$80 per barrel mark, a level not seen for three years; energy supply companies are exiting the energy market constrained by the Ofgem administered price cap; retailers are finding it hard to replenish stock; and manufacturing and construction are all reporting input shortages and price pressures, both for labour and components.

A positive balance of firms across the UK, not just in London as the survey suggests, are intending to raise prices – in fact many have done so already although the consumers' ability to pay is in no way guaranteed. The end of the furlough scheme from October is bringing its own problems, though at least some of the work pressures may ease. However, there are fears that for those who are still on furlough at the end of September, they may find it difficult to get a job in the short-term following the end of the scheme. The unemployment rate is therefore expected to rise, at least for a while from the current low of 4.6% despite a record number of advertised vacancies across the economy.

In the meantime, prices and wages are rising and the Bank of England now thinks that the inflation rate might go up from current levels and stay at 4% or more for most of 2022. Cost pressures are of course being felt across the world as economies have rebounded from the slump caused by the pandemic. Nevertheless, the OECD, which has upped its inflation forecast for the developed world for next year, now thinks that the UK's supply chain disruptions are likely to keep cost pressures in this country high for longer and with more intensity than in other advanced nations – although this is partly because of Brexit.

Serious questions are now being raised as to whether the Bank of England should be stepping in to limit price increases, either by raising rates earlier than had been anticipated, or through reducing the total volume of planned Quantitative Easing. After all, the US has already hinted at a similar course of action, and now the European Central Bank. However, given that the PMIs over the last few months, including in September, indicate a consistent weakening in the pace of the recovery in the UK, any such action could well endanger what is now a pretty sluggish recovery with the economy still some 3.5% below the last quarter of 2019.

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

# DOMESTIC DEMAND



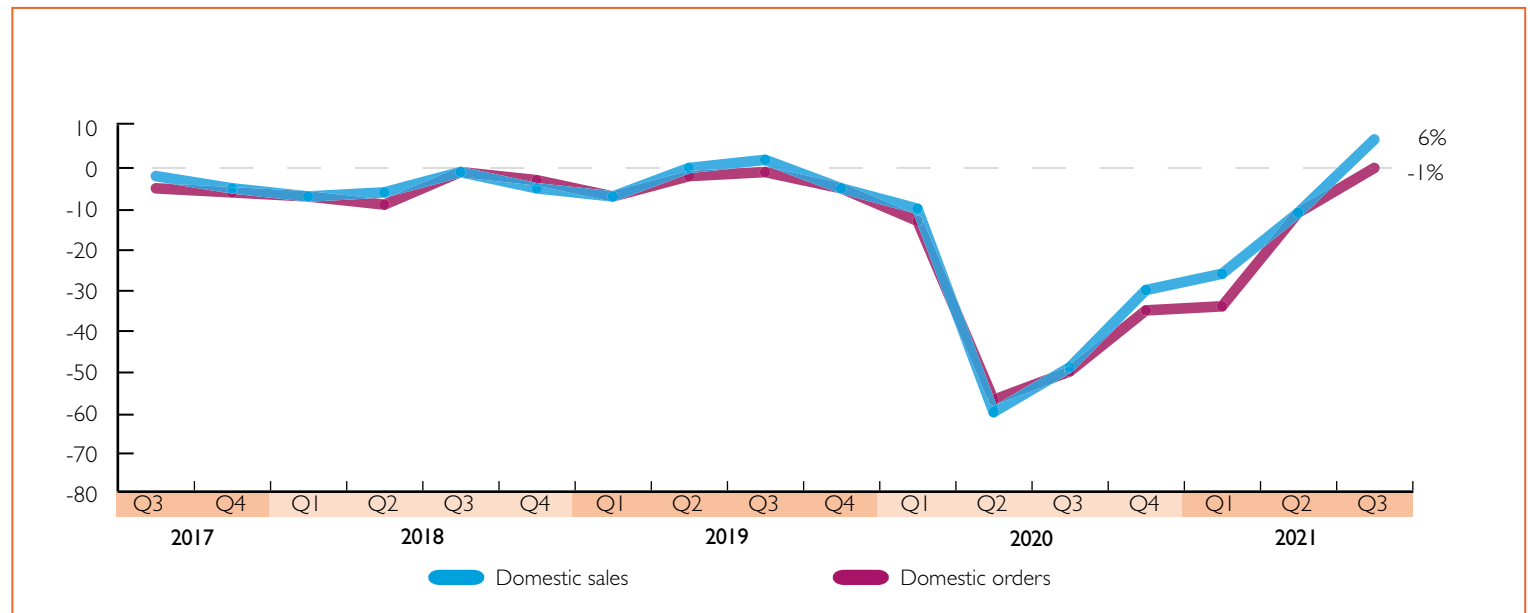
26%

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



21%

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

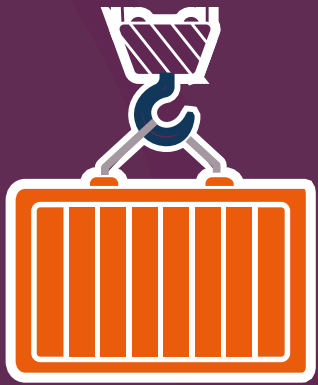


With the Government withdrawing nearly all of the Covid-19 restrictions in mid-July, London businesses saw further improvements in domestic sales through the summer months. Over a quarter (26%) of firms said sales had increased in Q3 compared to the three months, up from 19% in Q2. The share of firms reporting a decline in sales also shrunk from 31% to 20% last quarter. As a result, the net balance for domestic sales (i.e. the percentage of firms reporting an increase minus the percentage reporting a decrease) rose sharply from -12% to 6%: this was the first positive reading in two years. This is not to say that sales have returned to pre-pandemic levels, but the direction of growth is encouraging.

Both micro (0-9 employees) and larger (10+ employees) companies saw a significant improvement in the domestic sales balances in Q3. The slow return of office workers and tourism to London's city centre is also having a positive impact: 33% of firms in inner London said domestic sales had risen in Q3, up from 23% in Q2. By contrast, businesses in outer London are seeing slower growth in sales: 17% reported a rise in sales last quarter, up only slightly from Q2 (14%).

Turning to domestic orders, the improvement was slightly more muted: 21% of companies said orders had increased in Q3, compared to 18% in Q2. However, the proportion of firms reporting a decline in orders shrunk from 30% to 22% in Q3, pushing the net balance up 11 points to -1%.

Larger companies saw the bigger gain in orders, with the net balance rising from 15% in Q2 to 33% in Q3. For micro firms, the balance rose 9 points to -5%.



10%

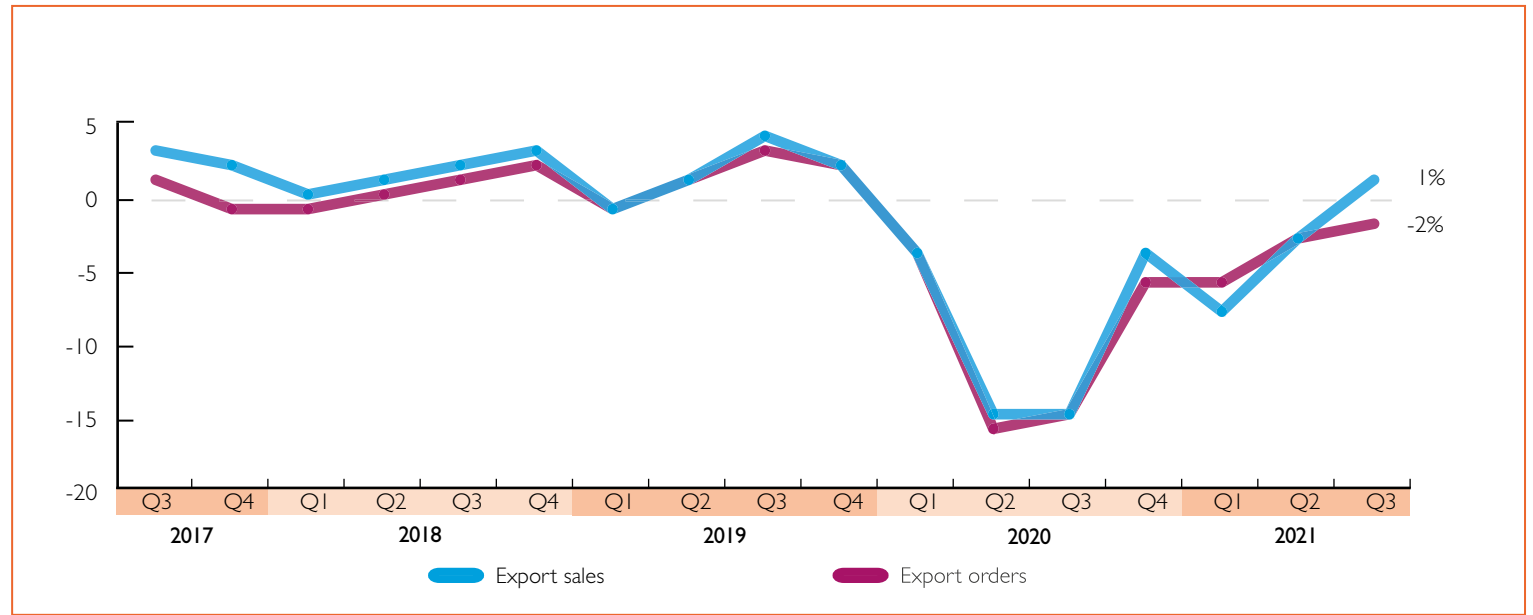
of London businesses reported an **increase** in export sales last quarter



8%

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

# EXPORT DEMAND



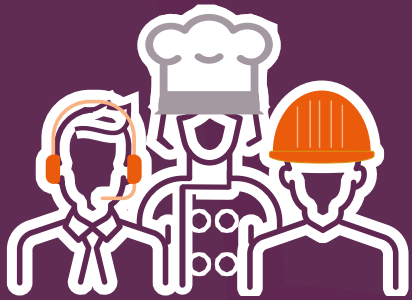
The latest Capital 500 showed a small pick-up in export demand over the summer. The net balance for export sales rose from -3% to 1% in Q3, with 10% of firms saying that sales had increased compared to the previous three months: in Q2, this share was 6%. Sales improved for companies of all sizes: the balance for micro companies climbed 4 points to 0%, while for larger firms the net balance was up 9 points to 13%.

Companies in inner London saw a bigger improvement in export sales in Q3, with 16% noting an increase compared to the three months prior – in Q2, this share was 7%. The net balance for export sales of inner London firms rose from -2% to 7%. By contrast, the net balance for export sales of outer London businesses dipped slightly from -4% to -5%, with just 4% of companies saying sales had risen in Q3.

Looking at different sectors, manufacturers noted weaker export sales demand in Q3: the net balance fell from 13% to -3% in Q3, owing to a much higher share of manufacturing firms reporting a decline in sales. For service sector firms, the export sales net balance rose from -5% to 2% in Q3.

The net balance for export orders was little changed in Q3, nudging up from -3% to -2%. For both micro and larger businesses, the net balance recorded a small improvement. Similar to export sales, inner London businesses saw a pick-up in export order demand, while firms in outer London recorded a minor decline.

# LABOUR MARKET



11%

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



20%

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



The UK labour market passed a milestone in August according to the Office for National Statistics, with the number of payroll employees surpassing the pre-pandemic level (February 2020). The unemployment rate has continued to fall, down to 4.6% in the three months to July 2021. London's unemployment has come down too, to 6.0% in July 2021, although the capital is one of three regions in the UK in which the number of payroll employees has yet to recover to the levels seen in February 2020.

According to the Capital 500, 11% of the capital's businesses reported an increase in the size of their workforce in Q3 (compared to the three months prior): in Q2, this proportion was 7%. There was a slightly greater share of firms who reported a decrease in their workforce size (16% in Q3, versus 15% in Q2). The employment net balance edged up from -8% to -5%.

Expectations continue to improve, with 20% of businesses saying they anticipate their workforce size to increase in the coming three months – up from 14% in Q2. Only 4% expect their workforce size to shrink, which is a welcome improvement from the figure in Q2 2020 (22% thought their workforce size would fall). The net balance for workforce expectations rose 7 points to 16%.

Both micro and larger firms were more optimistic about the size of their workforce, with the net balances rising from 6% to 13%, and 37% to 47% respectively.

It is worth noting that the furlough scheme has now been ended, which may put upward pressure on the capital's unemployment rate again.



# RECRUITMENT AND TRAINING



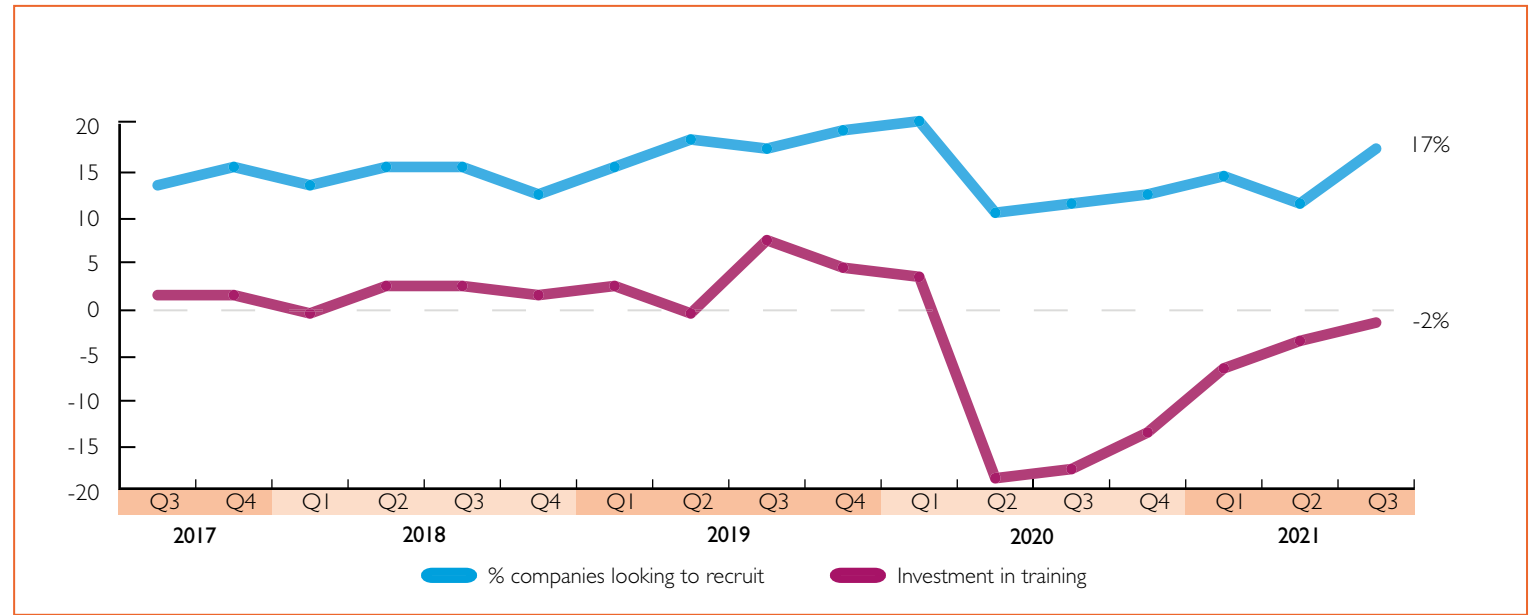
17%

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



12%

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



It is possible that the removal of restrictions has allowed companies to feel slightly more bullish in their investments, particularly when considering recruitment and training. According to the Capital 500, 17% of firms looked to recruit in Q3, up from 11% in Q2. More than one in ten (13%) micro companies said they were looking to recruit, while a majority (55%) of larger businesses reported the same.

A third (36%) of manufacturing firms sought to hire in Q3, up sharply from Q2 (14%). There was also a smaller increase in the proportion of service sector firms looking to recruit (15%, versus 11% in Q2).

Nearly one in five (18%) of inner London businesses sought to hire, up from 10% in Q2 and the highest share since Q4 2019. More outer London firms were looking to recruit in Q3 too (17%, up from 13% in Q2).

Labour market shortages are well-documented in the public arena at this time, with firms struggling to fill roles across a range of sectors. Of those who did try to recruit in Q3, 66% said they experienced difficulties doing so: for micro businesses, this share rose to 69%.

The investment in training balance edged up again in Q3 from -4% to -2%, with 12% of companies reporting an increase in spending on training – this was up slightly from 9% in Q2. The net balances for micro and larger businesses' training investment both rose last quarter.

# BUSINESS COSTS



**47%** of London businesses reported an **increase** in their fuel costs last quarter



**46%** of London businesses reported an **increase** in their energy costs last quarter



With the reopening of the global economy, cost pressures are rising quickly for businesses and consumers alike. CPI inflation jumped over the summer, while producer prices have risen sharply since the start of the year. Energy cost pressures for businesses became more acute in the latest Capital 500: nearly half (46%) of London firms said their energy costs had risen in Q3 compared to the previous three months, while 47% said their fuel costs had increased. Manufacturers in particular noted sharp increases in their fuel and energy costs last quarter.

The share of companies reporting an increase in domestic raw material costs jumped from 29% to 42% in Q3, with only 5% noting a decrease in costs: the net balance climbed 12 points to 37%, the highest since the Capital 500 began in Q2 2014. There was a smaller movement in the net balance for international raw material costs (from 23% to 31%), but this was again the highest reading recorded on the Capital 500. More than a quarter (28%) of companies said they felt pressure to raise their prices as a result of raw material costs in Q3.

There was a sharp rise in the net balance for wage cost pressures in Q3, up 10 points to 17%. Nearly half (45%) of manufacturing companies said pressure to increase wages had risen in Q3, compared to 16% in Q2. Borrowing costs for businesses were slightly higher in Q3, with the net balance climbing 3 points to 12%.

More than a third (36%) of businesses said they expect the price of their goods and / or services to rise in the coming three months, the highest share recorded on the Capital 500.



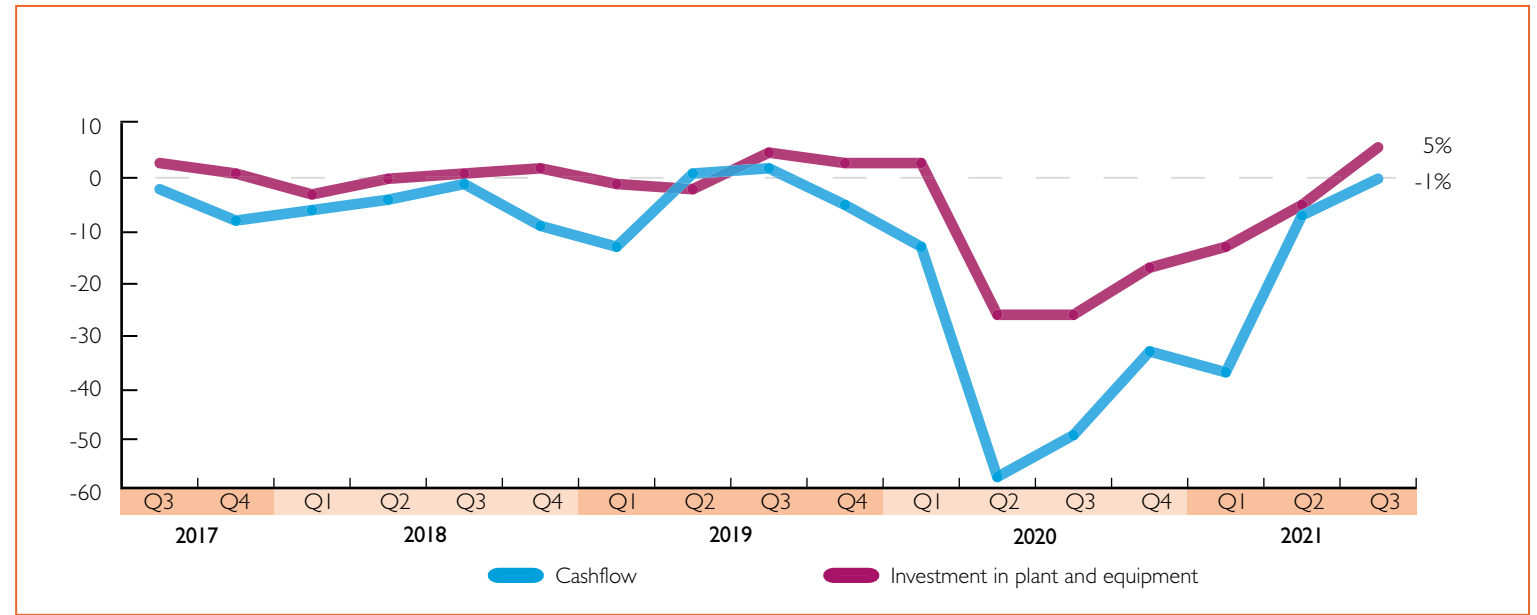
# CASHFLOW AND INVESTMENT



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



**18%** of firms reported an **increase** in investment in plant and equipment



With the Government moving through its roadmap during the last Capital 500, the cashflow balance jumped sharply as businesses were able to open their doors again. In Q3 2021, the net balance for cashflow rose from -8% to -1%, with 26% of businesses reporting an increase in cashflow compared to the three months prior. This is consistent with the Q2 findings (25% of firms noting an increase). The proportion of firms who said cashflow had decreased also eased from 33% in Q2 to 27% in Q3. More than two-fifths (43%) of firms said that they were operating at full capacity in Q3, a two-year high and back in line with the pre-pandemic average.

The cashflow net balances for both micro and larger businesses rose in Q3. Broken down by sector, the balance for the service sector was little changed (+1 point to -5%); more businesses cited 'no change' in cashflow across services. The cashflow balance for manufacturing jumped from -17% to 25% - although this indicator is prone to volatile movements. The net balances for both inner and outer London companies improved in Q3, with 32% of inner London firms reporting an increase in cashflow last quarter: in Q3 2020, this share was just 10%.

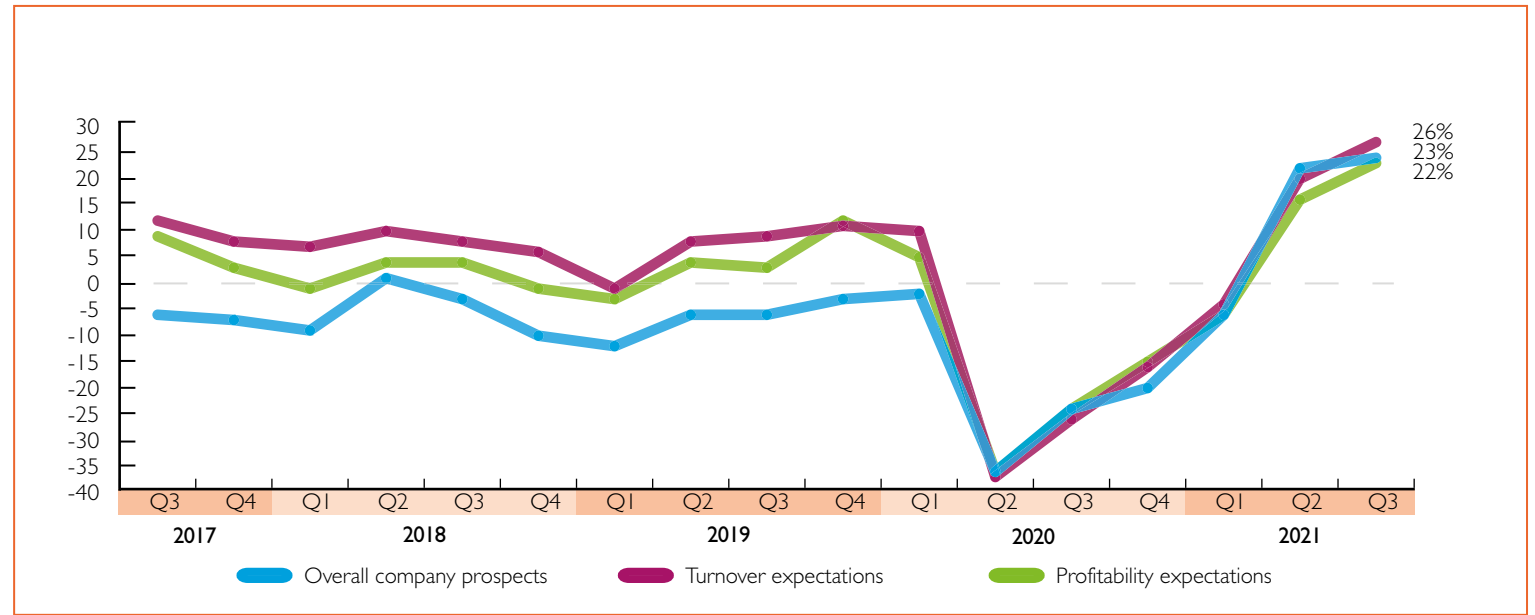
Investment in plant and equipment showed tentative signs of growth in Q3, with 18% of firms saying they had increased spending in the previous three months: in Q2, this share was 10%. The net balance climbed from -6% to 5%, the first positive reading since Q1 2020. Both micro and larger businesses reported higher investment in plant & equipment last quarter.

Higher spending on plant and equipment was seen across manufacturing and services.

# BUSINESS CONFIDENCE



**39%** of London businesses expect their profitability to **improve** over the coming 12 months



Businesses remained optimistic about their company prospects in Q3, even if the sharp rise in Q2 was not sustained in the latest round of results. There are still two-fifths of firms (39%) expecting profitability to increase over the coming 12 months, while the share anticipating a decline shrunk from 25% to 17%. The net balance rose from 15% to 22%.

Profitability expectations for businesses of all sizes were stable in Q3, marking an encouraging shift from the same period last year. Looking at inner London companies, the net balance for profitability was up 10 points to 23% in Q3: for outer London firms, the balance rose slightly (+1 point to 19%).

There was a similar picture with turnover expectations: 41% of London businesses think turnover will increase over the coming 12 months, down only slightly from the same cohort in the Q2 2021 Capital 500 (42%). Less than one-fifth (15%) of companies thought their turnover would decline in the latest survey, down from 23% in Q2. As a result, the net balance rose from 19% to 26%.

The turnover expectations balance for micro businesses rose from 16% to 23%, while for larger firms the balance climbed 6 points to 49%: in both examples, this is a significant improvement on turnover sentiment one year ago. The survey fieldwork for this Capital 500 was conducted prior to the release of the Government's Autumn and Winter Plan for Covid-19, which contained guidance on what steps the Government would take should the burden on the NHS begin to grow unsustainably again. Some of the measures included a return to mandated working from home guidance, which may cause concern for businesses based in the Central Activities Zone, and other areas which rely on commuters.



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

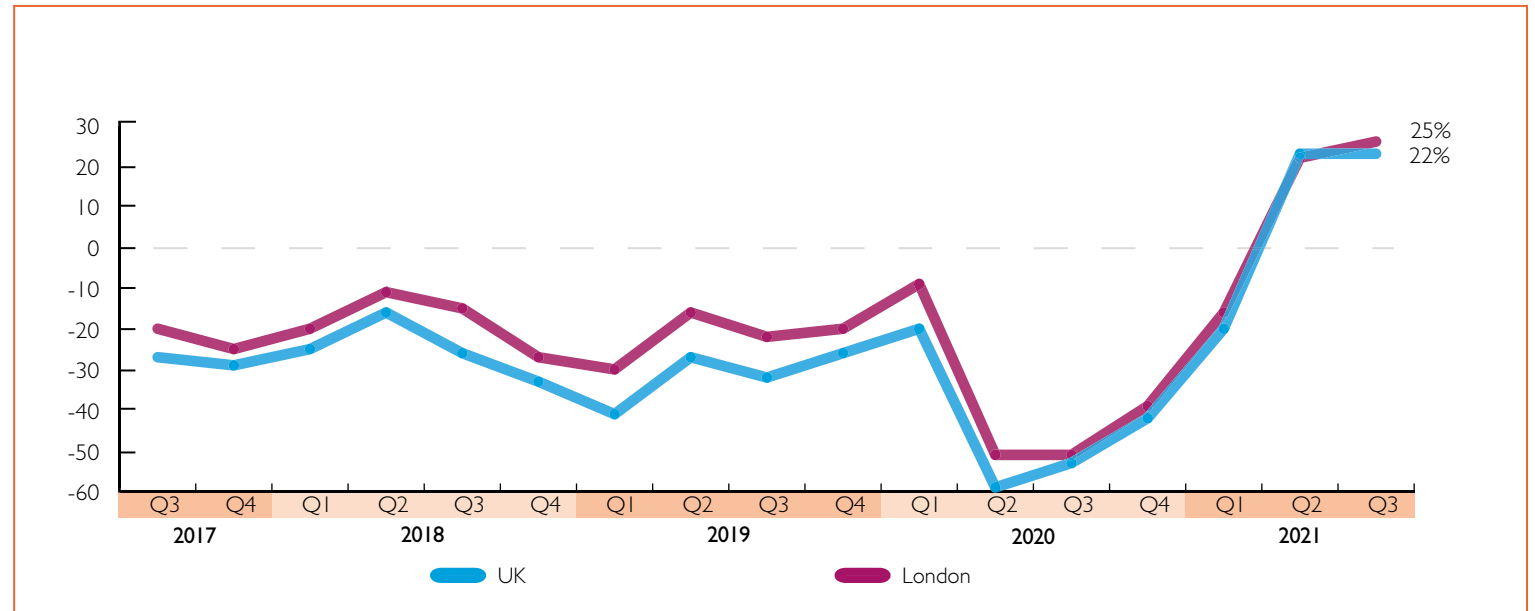
# ECONOMIC OUTLOOK



**46%** of London businesses expect London's economy to **improve** in the next 12 months



**44%** of London businesses expect the UK's economy to **improve** in the next 12 months



As seen in the business confidence indicators, company outlooks for the London and wider UK economies were relatively unchanged in Q3. Just shy of half (46%) of companies expect London's economy to improve in the next 12 months, which was consistent with the share in the previous Capital 500 survey (48%): 21% expected the capital's economy to worsen in the coming year, down from 27% in Q2. The net balance rose 4 points to 25% as a result.

There was a split between micro and larger companies in terms of London's economic outlook, with the balance for micro firms rising 5 points to 24% and a smaller share expecting the capital's economy to worsen. For larger businesses, the net balance fell 10 points to 36%, amid a marginally bigger share anticipating London's economy to worsen. However, both remain firmly in positive territory and are much improved from the lows of Q2 and Q3 2020.

The net balance for manufacturers jumped in Q3, on the back of fewer firms anticipating a decline in London's economy. For service sector companies, the net balance nudged up slightly.

Turning to the outlook for the wider UK economy, 44% of businesses surveyed in Q3 expect an improvement over the coming 12 months. This was down from 50% in Q2, but was matched by a decline in the share of firms who thought the UK economy would worsen (from 28% to 22%). The net balance was unchanged at 22% in Q3.

The net balance for the UK's economic outlook for micro companies was also unchanged last quarter (21%). However, for larger businesses the net balance fell from 39% to 25%. This was due entirely to a decline in the share of larger firms expecting an improvement in the UK economy (from 58% to 44%); the proportion anticipating a worsening UK economy was unchanged (19%).

# Q3

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