

# CAPITAL 500

## LONDON QUARTERLY ECONOMIC SURVEY





## LCCI COMMENTARY – THE BUSINESS VIEW

While both parties left an agreement extremely late, the historic trade deal signed between the UK and the European Union will have given many businesses across the capital – and the country – a chance to breathe. Of course, significant gaps remain in the agreement, not least for services. With a large number of provisions open to review, redressing and arbitration, the deal bears a sense of fragility.

There is, however, no sign of improvement in the ongoing pandemic. With a full national lockdown in place, it is clear the capital will be facing tight restrictions for some time. Additional business support announced by the Government is welcome, but it must go further and provide longer-term certainty to firms. This remains a marathon, not the final sprint. Businesses need support to carry them past the finish line. This must be in the form of further business rate holidays for the next financial year, as well as a commitment to extending furlough beyond the current April end date. The Government must also give due attention to the needs of metropolitan areas across the country, recognising the challenges facing urban centres like the Central Activities Zone.

At a time of significant uncertainty for businesses of all sizes across the capital, robust data is key to making sense of the challenging environment they face. This makes our quarterly economic survey as important as ever to informing our – and our stakeholders' – understanding. We will continue to use the evidence gathered to highlight the needs of businesses of all sectors through the pandemic and beyond.

Richard Burge, Chief Executive, London Chamber of Commerce and Industry

## ABOUT '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.

Since Q2 2014 we have worked with leading polling company, Savanta ComRes, to expand the survey beyond LCCI membership to poll a panel of London businesses that are fully representative of the London economy by business size and broad industry sector. **The LCCI QES is based on responses from over 500 London businesses – the Capital 500 – that makes it London's largest and most authoritative regular business survey.**

Since Q1 2016, the Capital 500 has included trend graphs that track the quarterly results for the past four years.

## METHODOLOGY

Savanta ComRes surveyed a total of 507 London business leaders between 6 November and 6 December 2020.

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 balance figures represent the percentage of firms that reported an increase minus the percentage that reported a decrease. The arrow figures represent the percentage point change in the balance on the previous quarter.

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.



## GUEST COMMENTARY – THE ECONOMIST'S VIEW

The QES findings come against the backdrop of continued uncertainty for business despite an EU-UK Brexit deal and the promise of deploying vaccines as quickly as possible. The last quarter of 2020 had been expected to show some growth but may end up flat, or even register a small decline as new Covid restrictions were imposed in November, and then again, after a short relaxation in December.

The impact on sectors has been varied. Manufacturing continued to rise through the quarter benefiting from an improvement in world trade, but also stockpiling in advance of the end of the Brexit transition on 31 December 2020. Construction also recovered strongly. Indeed, just as the latest tier restrictions were announced, a CEBR/YouGov survey was suggesting an improvement in consumer confidence in December to the highest level since last February. Other surveys were showing increased belief in people's chances of finding or changing jobs in the next few months.

But the service sector has been badly hit by new shutdowns, and prospects for early 2021 have worsened as restrictions have tightened around the country. As the QES suggests businesses are understandably cautious in terms of investment, recruitment and training, and the government's extension of the furlough scheme, loan support and other measures is welcome. But more may be needed, however costly, which will postpone tackling the problem of spiralling public debt to a later date.

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

# DOMESTIC DEMAND

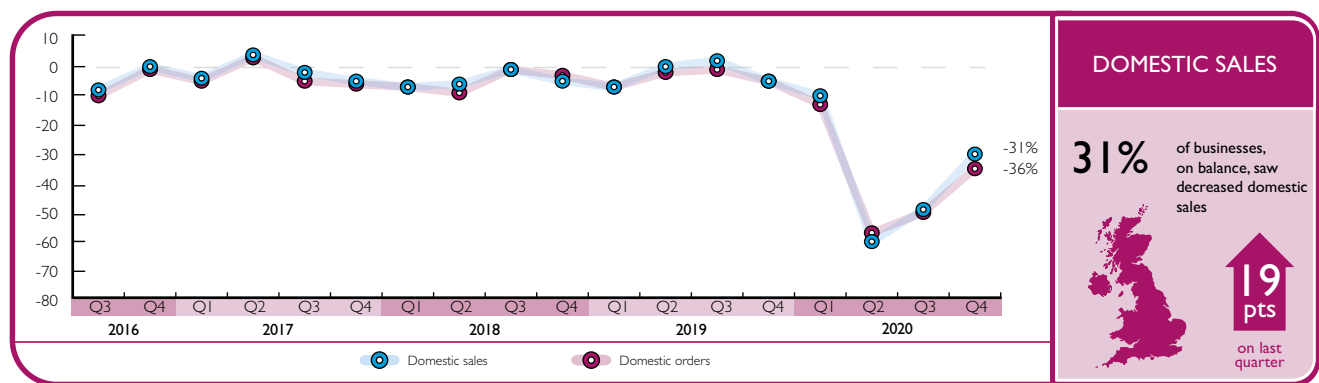
Domestic sales showed further tentative signs of improvement in the final Capital 500 for 2020. Despite a national lockdown and the introduction of Covid-19 tiers, 14% of firms said domestic sales **increased** in the past three months. This was up from 5% in Q2.

The share of firms who reported a **decrease** in domestic sales also shrunk, from 59% to 45%. The net balance for sales – (i.e. percentage of firms reporting an increase minus those reporting a decrease) – rose 19 points to -31% as a result. Additionally, the percentage of overall businesses who said sales had remained the same rose to 41%, suggesting that for nearly half of surveyed firms there was no improvement in domestic demand.

This improvement in the overall net balance was due to micro firms (0-9 employees) – the balance for domestic sales rose from -52% to -32%. However, for larger companies the balance declined 3 points to -28%: this was due to a smaller share of large businesses reporting increased sales.

A significantly greater share of firms in manufacturing (25%) rather than services (13%) saw an increase in sales, which may be an indication of stockpiling ahead of the UK's exit from the European Union. There were also more businesses in the information and communication industries who saw increased domestic demand in Q4.

Domestic orders were muted, with 10% of businesses saying orders increased in Q4. This is up only marginally from Q3 (9%). The net balance for orders jumped from -51% to -36%, due almost entirely to a smaller percentage of firms reporting a decrease (from 60% in Q3 to 46% in Q4).



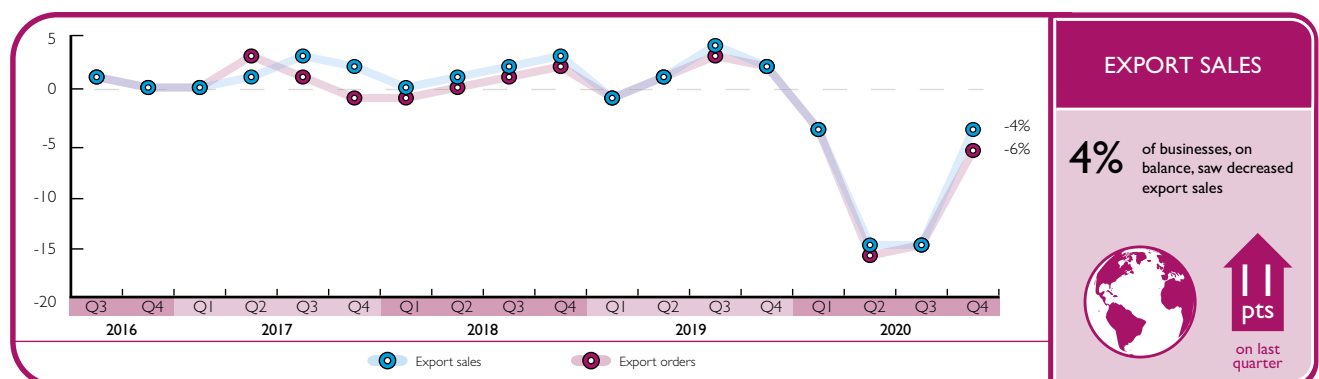
# EXPORT DEMAND

Exporters saw a small pick-up in demand too in Q4, driven by the retail sector. The net balance – as reported in the chart – for export sales jumped from -15% to -4% in Q4. However, this is due largely to a smaller share of businesses reporting a **decrease** in export sales (from 18% in Q3 to 11%).

Only 7% of firms reported stronger export sales in Q4, up from 3% in Q3. Nevertheless, both micro and larger companies saw increased sales.

Twelve percent of manufacturing businesses said that export sales had increased in the past three months, up from just 1% in Q3. More service sector firms also noted a rise in sales.

Export orders improved by a smaller margin, with 6% of firms reporting an increase in Q4 – up slightly from 4% in Q3. The net balance for export orders rose 9 points to -6%, driven by a smaller share of firms saying orders had declined.



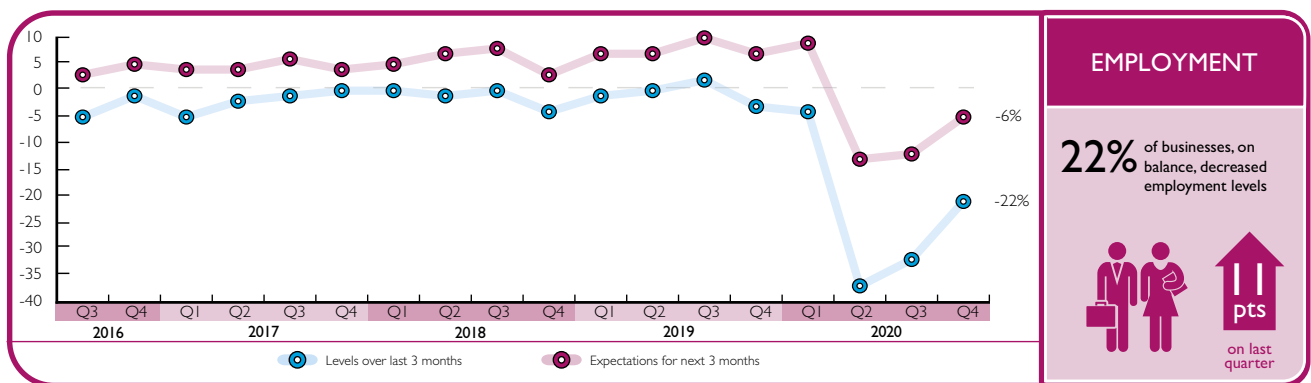
# LABOUR MARKET

**Fewer firms had turned to layoffs in the most recent Capital 500.** The share of firms saying employment levels had decreased in the previous three months shrunk from 37% to 29% in Q4. Expectations for the upcoming three months were less negative too, with 14% of firms saying they anticipated a smaller workforce. This compares to 19% in Q3.

Despite some improvements, the picture for London's market is not one of vibrancy. ONS figures suggest that 197,000 jobs had been lost in the capital between September 2019 and September 2020, and the unemployment rate has risen to 6.3% at the time of writing.

Furthermore, only 7% of firms said employment levels had risen in the latest Capital 500 – up just 3 points from Q3. Fewer than one in ten (8%) thought their workforce would increase over the coming three months.

The proportion of companies reporting a smaller workforce in Q4 shrunk for both micro and larger firms. A greater number of people returning to the city centre also saw inner London businesses more likely to grow their workforces in Q4: the share was 8%, compared to 2% in Q3.

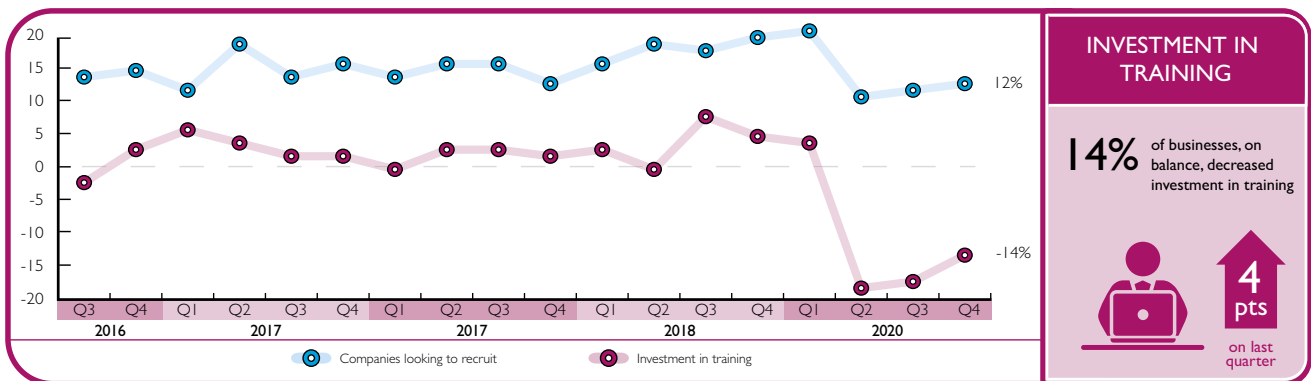


# RECRUITMENT AND TRAINING

**Recruiting still remains muted in the capital, with 12% of firms actively looking to hire in Q4.** This was up just 1 point from Q3 and is little changed from Q2 (10%). There was no change in the share of micro firms who were looking to recruit (9%), but a small rise for larger firms (from 34% to 37%).

Of those who did look to recruit, nearly half (43%) experienced difficulty doing so.

A lukewarm labour market is not translating into higher spending on training either. Just over one in ten (11%) of firms increased investment in training in Q4, which was lower than in Q3 (12%). The improvement in the net balance below was due to a smaller share of firms **decreasing** investment in training in Q4 (25% say they decreased investment in training in Q4, down from 30%). This pattern is true for both micro and larger firms.



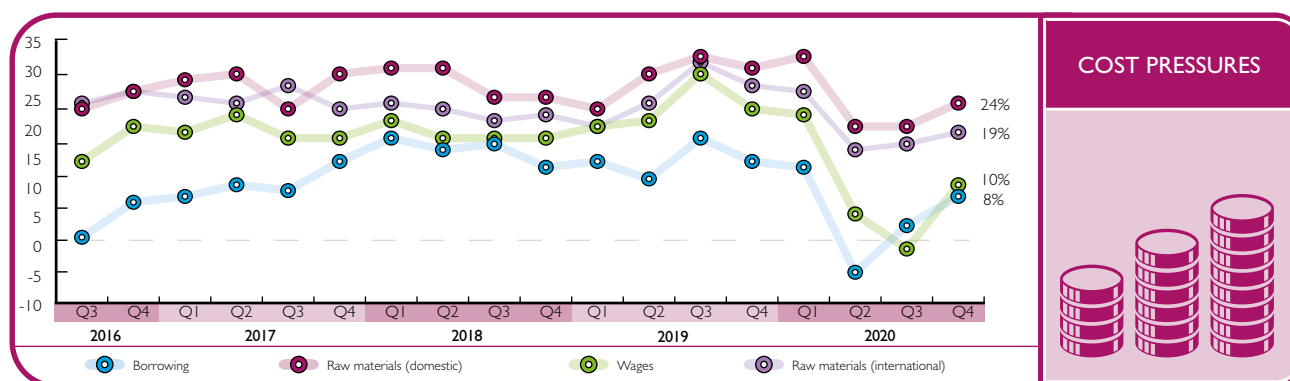
# BUSINESS COSTS AND PRICES

Business cost pressures intensified in Q4, with utilities costs rising amidst colder temperatures. The net balance for energy costs climbed 17 points to 23% in Q4, after dropping sharply in the previous two quarters. The net balance for fuel rose by a more modest 7 points to 13%, but this marks a sharp turnaround from the low in Q2 (-23%). Note: these two measures are not included in the graph.

Costs of raw materials were relatively stable in the last three months. That said, one in four (25%) businesses said that they had been under pressure to raise prices for their goods and / or services as a result of raw material costs.

Nearly one-fifth of firms (16%) said that pay settlements were putting upward pressure on goods and / or services prices. Similarly, the net balance for wage cost pressures (as seen on the graph) climbed from -1% to 10% in Q4: 19% of firms said pressure to increase wages had risen, the highest since Q1.

Close to a third of firms (27%) expect prices of their goods and / or services to increase in the coming three months.



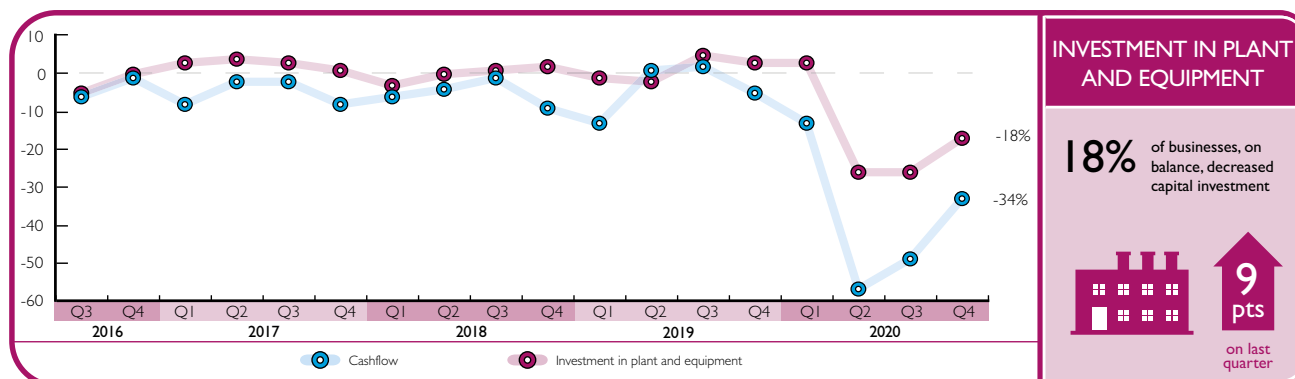
# CASHFLOW AND INVESTMENT

At first glance, it would appear that company cashflow is showing encouraging signs of improving from the initial hit in Q2 this year. The net balance for cashflow climbed 16 points to -34% in Q4. The share of firms reporting an increase in cashflow was 15%, up from 10% in Q3.

However, it is worth noting that 49% of businesses still reported a decline in cashflow over the previous three months. In addition, only 29% of firms said they were operating at full capacity in Q4. This marked just a 4 point increase on Q3 (25%).

As seen with domestic sales, there was a higher share of businesses in the retail trade and accommodation & food services sectors reporting increased cashflow in Q4. Similarly, 16% of firms in the arts, entertainment & recreation industry reported higher cashflow, up from just 5% in Q3. Nevertheless, 50% of retail & accommodation firms and 57% of arts & entertainment companies still recorded decreased cashflow – highlighting the continued pressure that the majority of these hardest-hit businesses are under.

There are no substantial signs of a recovery in investment in plant and machinery according to the latest Capital 500. Only 8% of firms said capital investment had increased in the past three months, up just 1 point from Q3. The improvement in the net balance was due to a smaller share of firms declaring a decrease in capital investment (26%, down from 34%).



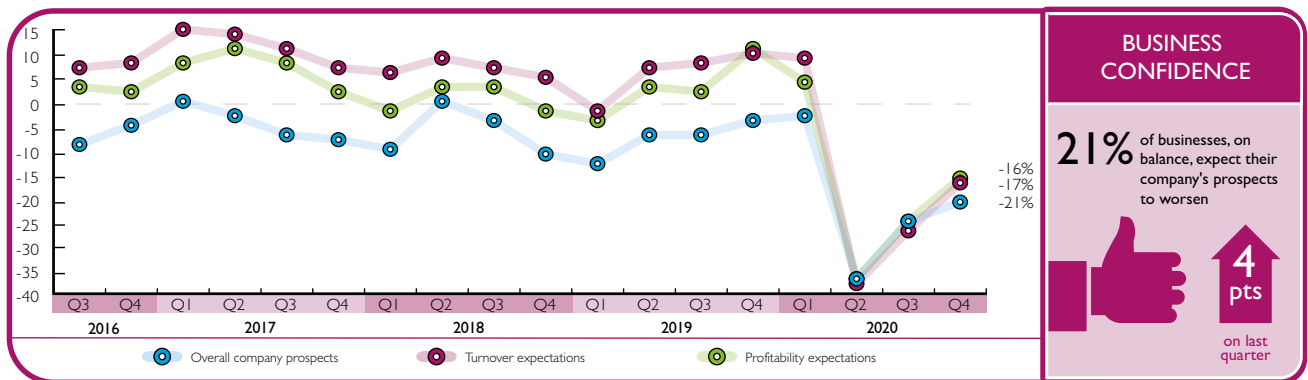
# BUSINESS CONFIDENCE

Expectations for turnover and profitability over the coming year were less pessimistic in Q4. The net balance for profitability expectations rose from -25% to -16%, a second consecutive rise. Nevertheless, there was only a small improvement in the share of firms expecting an **increase** in profitability, from 22% to 24%.

Indeed, 40% of firms still anticipate a decline in profitability over the coming year. Whilst this is an improvement on Q3 (47%), it shows a large share of firms still struggling.

The net balance for turnover expectations shows a similar trend, rising 10 points to -17% in Q4. However, 24% of firms expect turnover to improve in the coming 12 months – just a one point gain on Q3. There was a drop in the share of firms anticipating a decline in turnover (from 50% to 41%), but this is still high.

Firms in the arts, entertainment and recreation sector were significantly more positive in Q4, with 36% expecting an increase in turnover in the coming 12 months – this is up from 24% in Q3. The UK has begun to vaccinate members of the population, which may lift hopes that some form of normality can return come Christmas 2021.

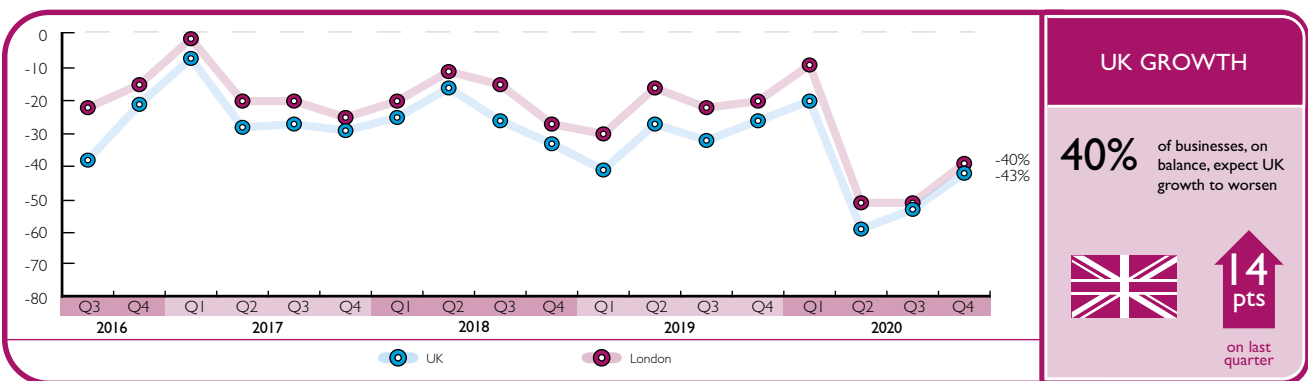


# ECONOMIC OUTLOOK

Businesses' outlook for the capital's economy remains bleak, with three in five (60%) of firms expecting London's economic prospects to worsen over the coming 12 months. The net balance for London's economic outlook climbed 12 points to -40% in Q4, with one in five (20%) of businesses anticipating the capital's economy to improve.

Looking at the wider UK economy, 21% of firms expect an improvement in the next 12 months. This was up from 15% in Q3, and the net balance rose again to -43%. Nevertheless nearly two-thirds (64%) still expect growth to worsen.

Businesses will be facing headwinds from continued Covid-19 restrictions this year and the impacts of the UK's exit from the European Union. It is vital that Government continues to make the support available to London's – and the UK's – businesses to help them make a swift recovery.



For further information on this report, please contact

London Chamber of Commerce and Industry  
 E: [research@londonchamber.co.uk](mailto:research@londonchamber.co.uk)  
 T: +44 (0)20 7248 4444  
 W: [londonchamber.co.uk/research](http://londonchamber.co.uk/research)

Nadine Tewfik-Saad  
 Head of Policy and Research  
 E: [ntewfik-saad@londonchamber.co.uk](mailto:ntewfik-saad@londonchamber.co.uk)  
 T: +44 (0)20 7203 1895

Stephen Jones  
 Policy and Research Manager  
 E: [sjones@londonchamber.co.uk](mailto:sjones@londonchamber.co.uk)  
 T: +44 (0)20 7203 1925