LONDON CHAMBER of COMMERCE AND INDUSTRY

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CAPITAL 500

LONDON QUARTERLY ECONOMIC SURVEY

Q3

2020

Savanta: ComRes

July - September 2020

LCCI COMMENTARY – THE BUSINESS VIEW

London's economy showed tentative signs of recovery over the summer, as the lockdown measures were eased and government support schemes encouraged increased consumer spending. Domestic demand was moderately stronger and expectations for the coming year ahead had become somewhat less sanguine. There is a small divergence between inner and outer London businesses in terms of performance. Indeed, Central London's businesses, who rely in large part on tourism – and to a lesser degree, commuters – continue to report severely depressed footfall and revenues.

The Government has recently taken steps to mitigate against an uptick in the number of positive Covid-19 cases, which will hamper what is already a tentative and cautious economic recovery. It is encouraging to see the Chancellor announce a new Job Support Scheme (JSS) and an extension of the VAT cut through to March 2021. However, for many firms who are not anywhere near operating at full capacity, the JSS may not offer enough support to retain employees. Furthermore, the absence of any further mention on continued business rates relief for the retail, hospitality and leisure sectors was disappointing.

Attention is also turning to the end of the transition period and the UK's 'full' exit from the European Union. Firms across the capital have rightly focussed on ensuring their business can survive. Nevertheless, 1 January 2021 is fast approaching, and I urge all companies to make the necessary preparations. At the Chamber, we have set up an EU Exit Hub, where you can access advice on business travel, staff employment and exporting, amongst a raft of other areas.

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 503 London business leaders between 6 August and 11 September 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.

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 third quarter certainly saw a bounce-back across the UK from the sharp fall in GDP in the first half of 2020 and that is very much reflected in the QES survey. The gradual easing of relaxations since May led to a sharp uptick in retail sales, though mainly online, while the manufacturing, services and construction sectors all moved to positive territory again by July. The success of the Eat Out to Help Out scheme helped build confidence overall. In addition, the furlough scheme – costing some £40 billion so far – kept the unemployment rate down, and companies took advantage of the heavily-subsidised, government-guaranteed loan schemes to the tune of some £57 billion by end-September.

But this has all been at huge cost to the Exchequer with debt now exceeding 100% of GDP. Problems remain in many sectors, particularly in aviation, tourism and hospitality, despite extra measures including a VAT cut. In the inner cities retail outlets and other customer services have been badly hit. The latest restrictions will mean that the hospitality sector in particular continues to suffer.

With the pace of recovery now slowing down, the extra measures will accelerate the demise of many small firms and the scale of redundancies already seen over the last month or so will widen. The forecasts for Q4 are now becoming more pessimistic with some economists already expecting a move to negative growth again. Much will depend on what extra support might be available in the coming months and whether world trade recovers.

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

DOMESTIC DEMAND

London businesses reported a muted improvement in domestic demand over Q3.

The balance for domestic sales climbed 11 points to -50% last quarter. Both micro and larger businesses noted an improvement in sales, with the balance for larger companies climbing from -49% to -25%. For smaller firms, the rise in the balance was less pronounced (from -62% to -52%).

Looking at geographical location, the balances for inner and outer London improved at a similar pace. However, the share of outer London businesses recording an *increase* in domestic sales rose from 4% in Q2 to 11% in Q3. For inner London firms, 7% of firms saw a rise in sales in Q3, versus 6% in Q2.

The balance for domestic orders climbed from -58% to -51%: the share of firms who saw an increase in orders was 9%, up from 5% in Q2.

Both micro and larger businesses recorded slightly stronger domestic orders, with the balances for both rising (from -59% to -52%, and from -46% to -31%, respectively).

EXPORT DEMAND

International-facing businesses did not report much in the way of recovery in demand in Q3

The balance for export sales remained at 15%, with only 3% of firms saying demand increased in Q3. While the balance for larger companies jumped from -30% to -17%, the balance for micro businesses declined slightly (-13% to -15%).

The balance for export orders nudged up 1 point to -15% (all company sizes). As with sales, micro firms reported a slight dip in demand (-14% to -15%), while the balance for larger companies rose sharply (-30% to -14%).

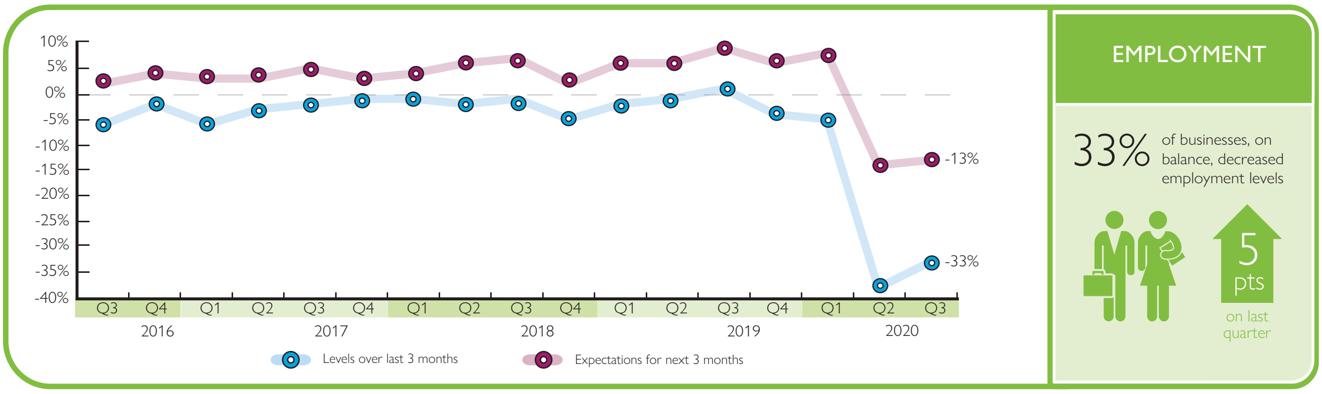
LABOUR MARKET

The Office for National Statistics have reported nearly 700,000 fewer employees on payroll between March and August, although the unemployment rate remains relatively stable for now.

According to the *Capital 500*, the share of firms reporting a *decline* in the number of employees shrunk from 42% to 37% in Q3. The overall balance for employment rose from -38% to -33%: both micro and larger companies saw their balances increase in Q3, although the rise in the latter was stronger.

Perhaps reflecting stronger domestic demand away from city centre, the employment balance climbed from -35% to -29% in outer London. This was a bigger increase compared to inner London (balance edged up from -41% to -38%). Both however remain weak.

Employment expectations for the next three months remained soft too. The balance nudged up 1 point to -13% in Q3, and was unchanged for micro firms. Larger companies were more optimistic, with the balance jumping 12 points to -12%. One caveat is that this was due to a reduced share of larger companies expecting a decline in their workforce (29% in Q3 versus 41% in Q2). The share of large firms who will grow the size of their workforce was the same (17%).



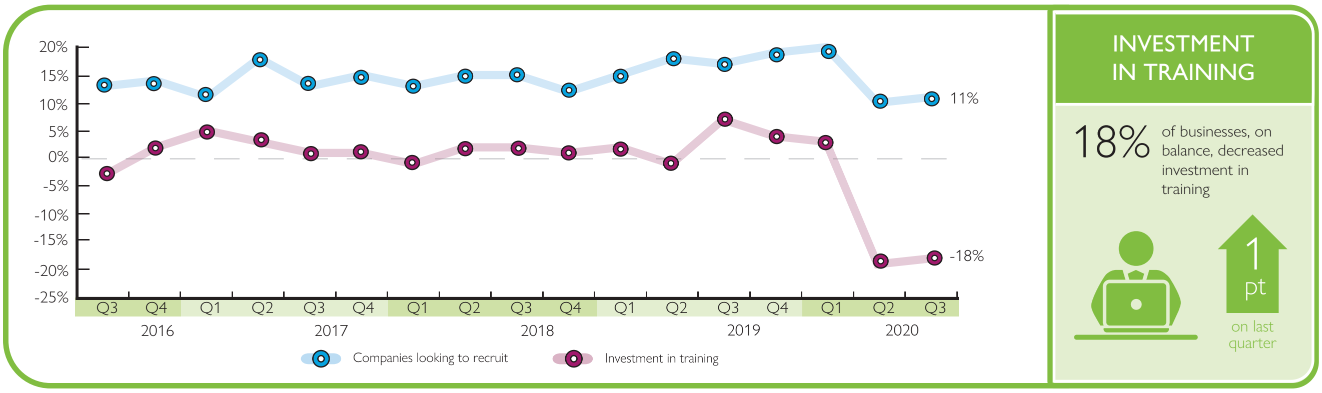
RECRUITMENT AND TRAINING

London businesses were slightly more active in recruiting in Q3, with the share of companies looking to hire nudging up just 1 point to 11%.

Firms in outer London were a touch more likely to recruit in Q3, with the share rising from 9% to 12%. By contrast, the proportion of inner London companies looking to recruit was lower in Q3 (10%, versus 11% in Q2).

The balance for investment in training rose 1 point to -18% in Q3. For larger firms, the balance jumped 16 points to -9%, while the increase for micro firms was only modest (+1 point to -18%).

Only 25% of companies reported that they were operating at full capacity in Q3, up marginally from 24% in Q2. Demand for new employees could struggle to recover whilst business activity remains depressed.



With passenger volumes still significantly reduced, Transport for London's reliance on farebox revenue needs to be addressed. The Government – alongside the Mayor of London – should adopt a new funding model that ensures TfL can continue to run as many services as possible, whilst also committing to longer-term investments in the network.

BUSINESS COSTS AND PRICES

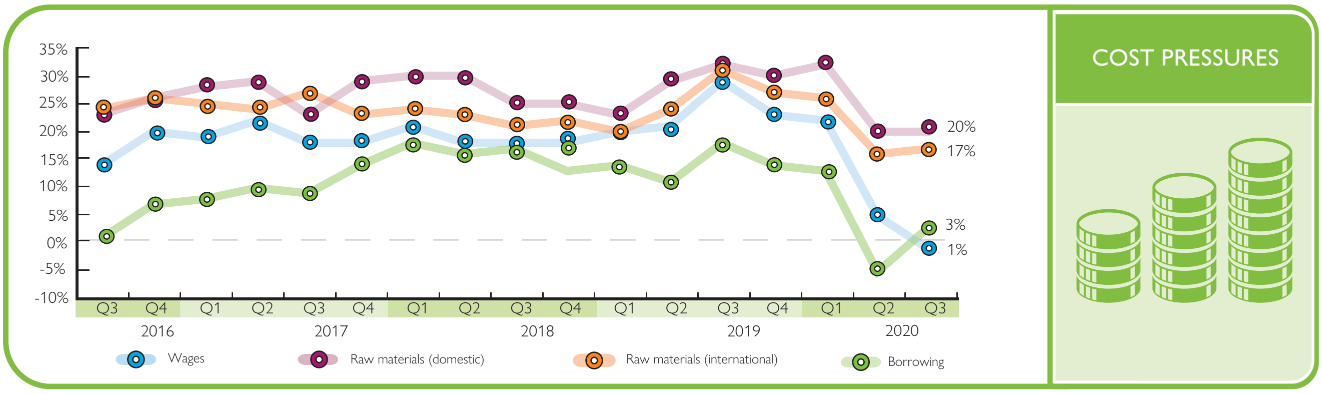
Amid an uncertain outlook for the labour market, wage pressures from employees weakened further in Q3 according to the *Capital 500*.

The balance for wage pressures fell 6 points to -1%, the first negative reading since the survey began in Q2 2014.

Borrowing costs grew in Q3, with the balance rising 8 points to 3%.

Similarly, after a sharp drop in Q2 the balance for fuel cost pressures jumped from -23% to 6% in Q3. The balances for raw material costs stabilised, with domestic price pressures unchanged. That said, the balance for energy cost pressures dipped again, by 1 point to 6%.

A bigger share of firms expected the price of their goods and / or services to rise in Q4 (25%, up from 21%). However, 16% of businesses still expected prices to fall in the next three months, which remains well above the average since Q2 2014 (8%).



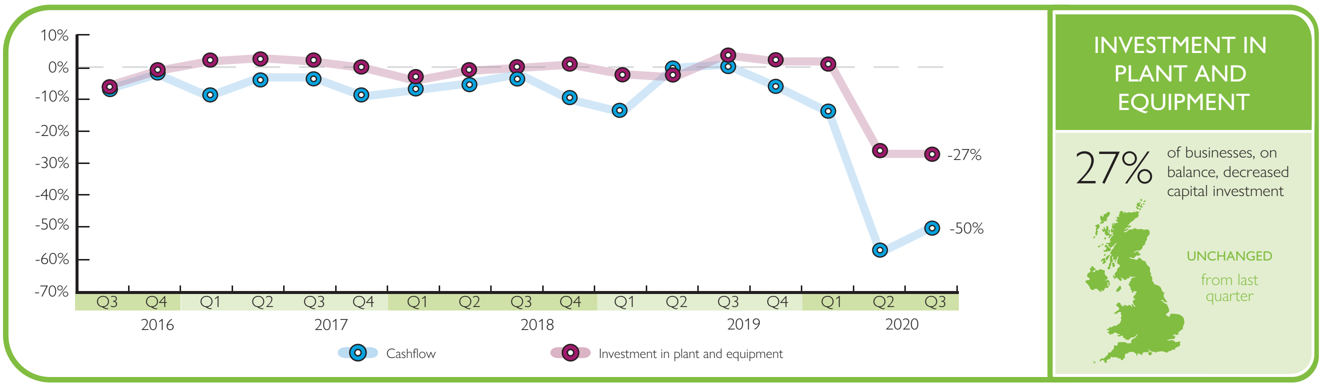
CASHFLOW AND INVESTMENT

Cashflow remains severely depressed for the majority of London businesses.

The balance for cashflow did rise from -58% to -50% in Q3. However, 60% of companies reported a decline in cashflow over the previous three months. In Q2, this share was 65%, suggesting that there has not been a substantial improvement in business as lockdown measures were pared back over the summer.

In addition, the balance for micro firms only improved from -59% to -52%. By contrast, the balance jumped 23 points to -30% for larger companies.

Amid continued strains on cashflow, companies are not making investments into plant and equipment: the balance was unchanged at -27% in Q3. For smaller firms, the balance for capital expenditure worsened in Q3 from -27% to -29%.



The Government should extend the business rates holiday for retail, hospitality and leisure businesses beyond the current end-date of 31 March 2021. Faced with mounting costs and a potential further six months or more of additional coronavirus restrictions, many London firms in these sectors will struggle and job losses could mount quickly.

BUSINESS CONFIDENCE

Despite the lack of a sizeable change in cashflow, company confidence did partially rebound in Q3.

Turnover expectations improved, as the balance climbed from -38% to -27%. Both micro and larger firms were less pessimistic about their turnover over the coming 12 months.

The profitability expectations balance bounced too, up 12 points to -25%. Of course, it is worth noting that 47% of businesses still expect profitability to worsen over the coming 12 months.

The balance for overall company prospects rose from -37% to -25% as well, with larger companies significantly more optimistic: the balance jumped from -36% to -7%. That said, the balance for micro firms still rose 10 points to -27%.

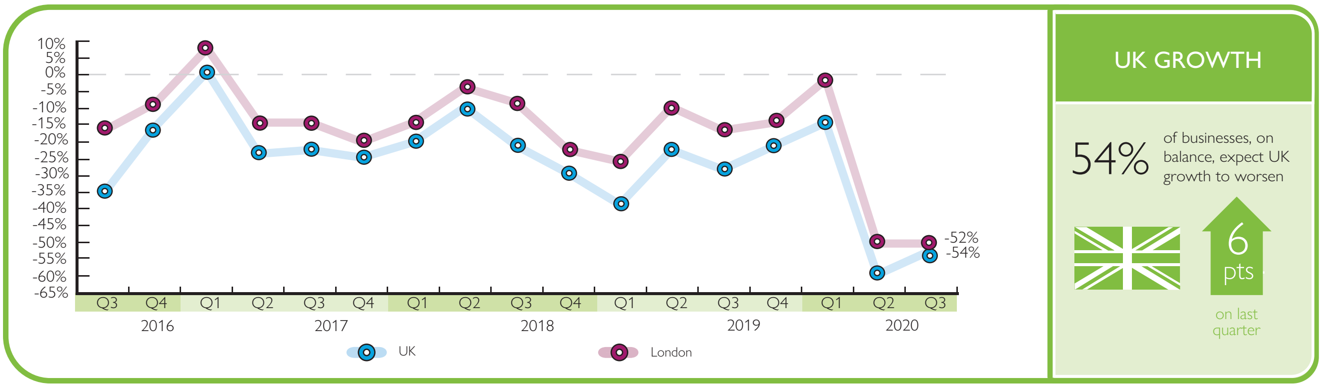
ECONOMIC OUTLOOK

However, the outlook for the London and wider UK economies remains downbeat.

The balance for the UK economic outlook rose 6 points to -54% in Q3. For London however, the balance was unchanged at the record low (-52%).

Firms in outer London were more pessimistic for the capital's economic prospects over the coming 12 months: the balance fell from -44% to -56%. By contrast, the balance for inner London companies climbed 8 points to -49%.

However, given the continued slump in tourism and new Covid-19 measures announced by the Government, confidence among inner London businesses could deteriorate again.



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