LONDON CHAMBER of COMMERCE AND INDUSTRY

CONNECT, INFLUENCE, SUPPORT.

CAPITAL 500

LONDON QUARTERLY ECONOMIC SURVEY

Q2

2020

Savanta: ComRes

April - June 2020

LCCI COMMENTARY – THE BUSINESS VIEW

The Covid-19 pandemic has brought life to a standstill for nearly all of London. To limit the spread of the deadly disease, the Government enacted its lockdown measures at the end of March. With businesses forced to close their doors, the London economy has taken a swift and sizeable hit.

Domestic sales plummeted in Q2, while export orders were much weaker as demand from overseas shrank quickly. Business confidence sank last quarter, as firms reported significantly weaker expectations for profitability and turnover in the coming year.

The Government's Coronavirus Job Retention Scheme is supporting over 1 million jobs in London alone, which has staved off the threat of mass layoffs during this first phase of the pandemic. Nevertheless, employment expectations were much weaker in the Q2 Capital 500.

At the time of writing, tentative steps are being undertaken to ease lockdown measures and allow sectors of the economy to restart, such as retail. The next hurdle will be the hospitality and leisure industries, responsible for employing hundreds of thousands of Londoners.

Businesses will soon have a better sense of what they need to remain open in the future. However, it is likely that for many sectors of the economy, business will not return to anything close to normal for some time. London Chamber of Commerce and Industry will continue to press policy-makers on the need for Government support, to bring the economy back up to speed as quickly and as safely as possible.

Richard Burge, Chief Executive LCCI

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 500 London business leaders between 30 April and 2 June 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 picture emerging in the QES analysis is one of a substantial slowdown in activity which very much chimes with what we are seeing for the wider economy. The OECD believes that world GDP will fall by 6% this year with the UK hardest hit in the developed world (-11.4%) and that any recovery thereafter will be further constrained by the uncertainties over the EU/UK trade deal. GDP fell by 20% in the month of April after a 5% decline in March and by 25% year on year.

Manufacturing and construction were hit badly as were services from the closure of the entire hospitality, leisure, aviation and tourism sectors. However, many people have been able to work from home and the public sector, health services, pharma and IT have if anything grown. The government's huge injection of liquidity supported by active and now further enhanced QE by the Bank of England has helped, though debt to GDP ratios are rising at an unprecedented rate. More recently retail sales rose by 12% in May after an 18% fall in April.

Consumer confidence seems to be rising and the number of people returning to work is slowly increasing. But the risks remain that at the end of the furlough scheme redundancies will rise sharply and many SMEs and larger companies will not exist or will emerge in a much-reduced state, unless help continues.

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

DOMESTIC DEMAND

Domestic demand slumped in Q2 following the implementation of lockdown measures by Government.

The balance for domestic sales tumbled from -11% to -61% in Q2. Two-thirds (66%) of businesses saw a drop in domestic sales last quarter, with micro-sized firms faring worse than their larger counterparts (67% and 59%, respectively).

Manufacturing and services saw similar levels of decline in sales in Q2. Within services, the creative and retail, leisure and hospitality sectors were – as expected – the worst hit.

Domestic orders were sharply lower too with the balance falling 44 points to -58%. Only 5% of firms saw an increase in domestic orders last quarter, by far the smallest share since the Capital 500 began in Q2 2014. Micro firms recorded a slightly bigger decline in orders last quarter, when compared to larger companies (64% and 57%, respectively).

The most recent retail sales data for the UK – May 2020 at the time of writing – suggest there was a sharp drop in April followed by a partial rebound the following month. Nevertheless, volumes were still down 13% from February 2020 (the last month of data unaffected by the Covid-19 pandemic).

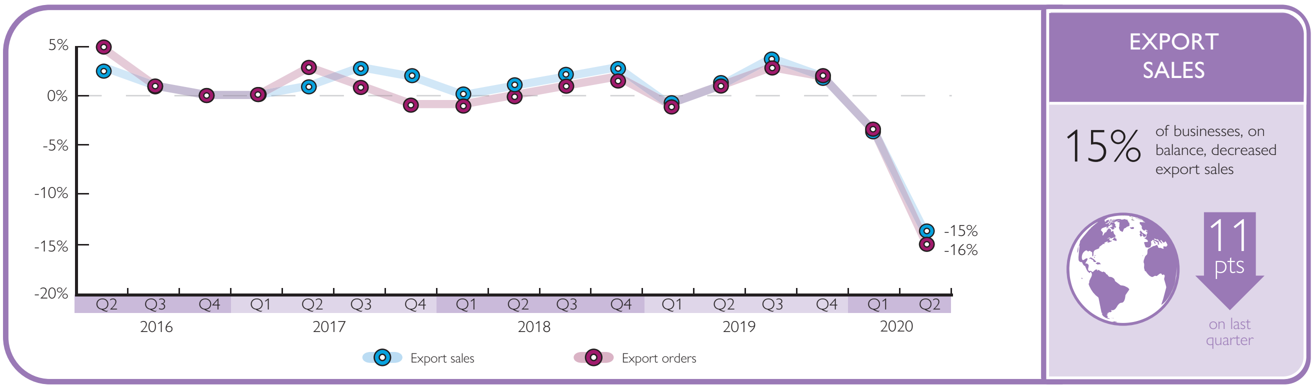
EXPORT DEMAND

Exports have dropped off too amid a near cessation in UK air traffic.

The balance for export orders fell 12 points to -16% in Q2. For micro firms, the balance dropped from -4% to -14%: the decline in the balance was bigger for large companies (-38 points to -30% in Q2).

Export sales were down sharply too in Q2, as the balance fell from -4% to -15%. As with export orders, the drop was greater for larger firms where the balance decreased 37 points to -30%.

It is however worth noting that – despite the clear impact of Covid-19 in Q2 – export demand has weakened for three consecutive quarters.



The transition period for the UK's departure from the European Union is set to end on 31 December 2020. The Government must ensure that the customs service is ready to allow efficient movement of goods in and out of the UK come 1 January 2021. Any delays will hamper the economic recovery.

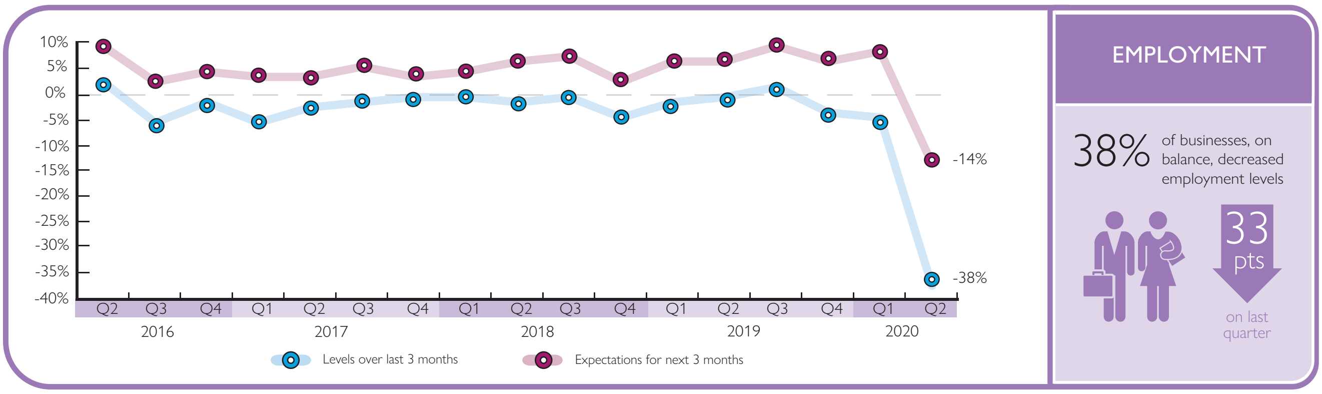
LABOUR MARKET

The Government's Coronavirus Job Retention Scheme (CJRS) was a key tool in preventing widespread redundancies at the onset of the pandemic.

The employment indicator slumped 33 points to -38% in Q2. Over two-fifths (42%) of companies recorded a decline in employment levels. Manufacturing firms fared worse, with 63% reducing their payroll in Q2: that said, 40% of service sector businesses said the same.

Overall employment expectations for Q3 were also significantly weaker: the balance dropped 22 points to -14%. Larger companies were more pessimistic, with 41% expecting their workforce size to decrease: 20% of micro firms were anticipating a smaller workforce in Q3.

There were no sizeable differences between broad sectors, with a similar share of manufacturing (23%) and services (22%) firms expecting a decline in employment in Q3.



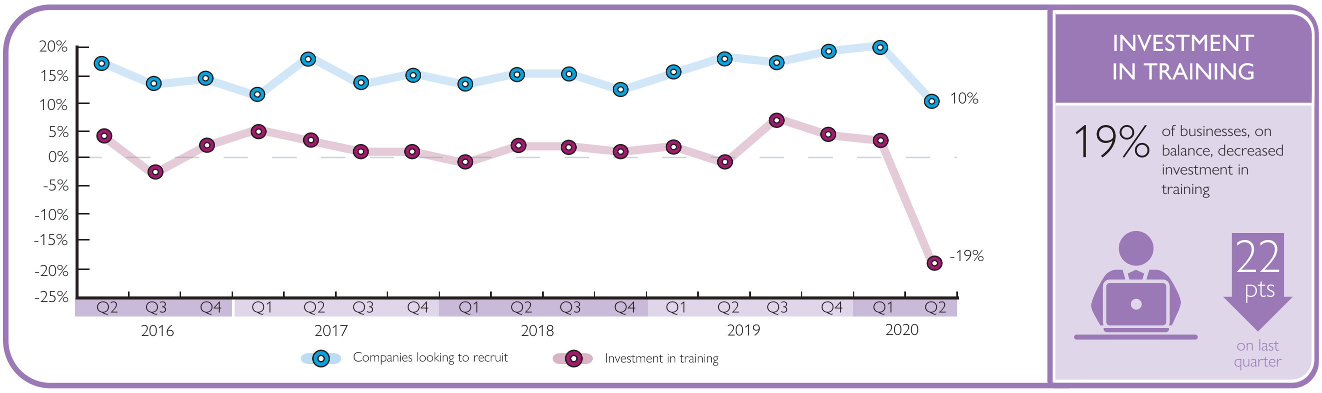
RECRUITMENT AND TRAINING

As expected, companies were much less active in hiring in Q2.

Only 10% of firms reported they were looking to recruit – for micro companies, that share was just 7%. The proportion of larger businesses who were looking to recruit slumped from 65% in Q1 to 34%.

For those who were looking to hire, 61% experienced difficulties doing so.

Investment in training was pared back quickly in Q2, with the balance falling 22 points to -19%. The balances for both micro and larger companies showed double-digit declines.



The threat of mass vacancies looms large as the Coronavirus Job Retention Scheme (CJRS) is rolled back. A number of sectors will not return to business as usual for some time. The Government should look to maintain the CJRS beyond October 2020 for sectors of the economy that remain severely depressed.

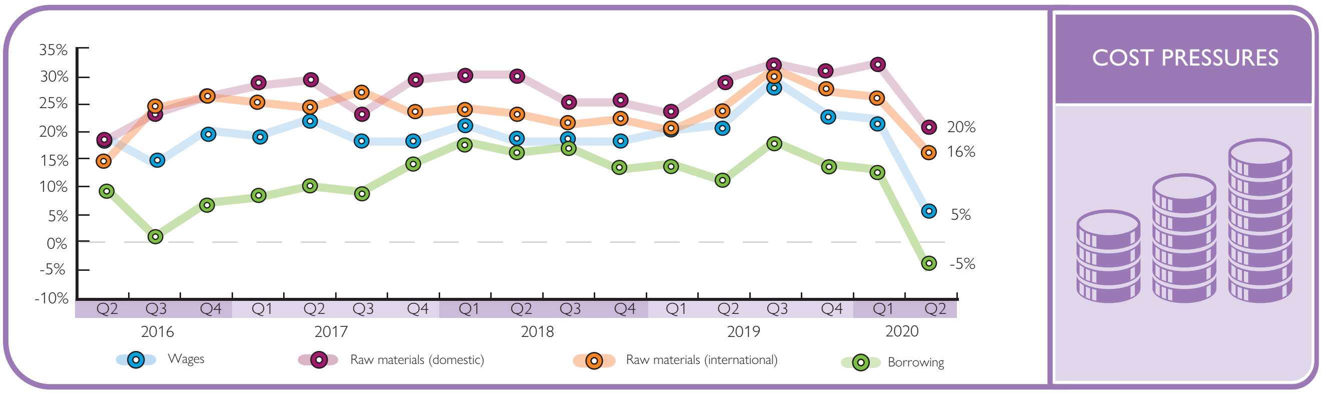
BUSINESS COSTS AND PRICES

Business cost pressures were drastically lower in Q2, amid a large drop in oil prices.

The fuel and energy balances (not shown on the chart) showed big declines, with the fuel balance turning negative for the first time since Q1 2016. Raw material costs fell too, with the balances for international domestic materials both sliding to four-year lows.

The balance for borrowing costs turned negative (-5%) in Q2. The Bank of England cut interest rates to just 0.1% as part of its response to the pandemic. Financial support schemes offered by the Government may have also pushed the balance down, as banks offered significantly cheaper finance options.

Nearly one in five (17%) of businesses expect the price of their goods and / or services to fall in Q3, the biggest share since the Capital 500 began in Q2 2014.



CASHFLOW AND INVESTMENT

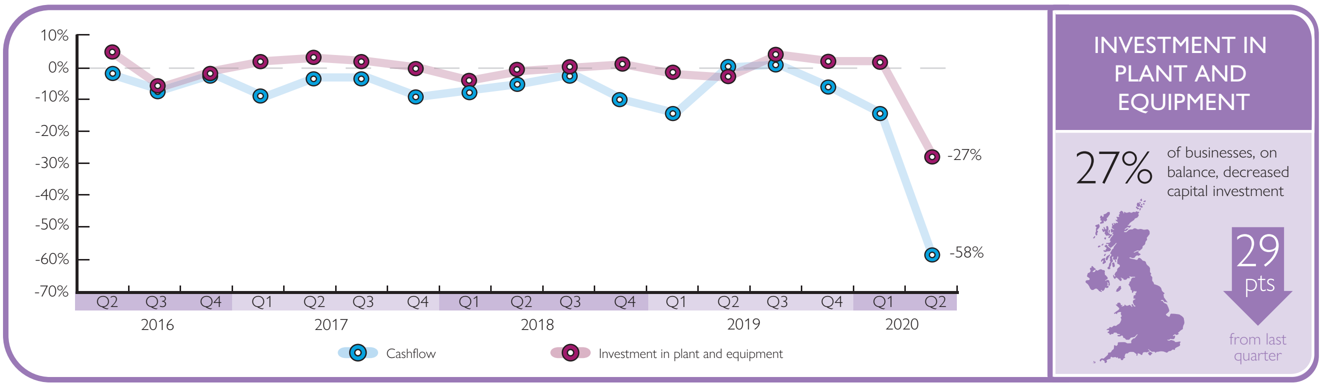
The record declines in domestic and export demand have put enormous downward pressure on cashflow.

Looking at all businesses, the cashflow balance slumped 44 points to -58% in Q2. The share of firms who saw a drop in cashflow was similar for micro and larger firms (65% and 64%, respectively).

Just under three-quarters (74%) of manufacturing companies reported a decline in cashflow in Q2: for services, this share was 64%.

Within services, the vast majority of hospitality firms said their cashflow had decreased last quarter: this was worst affected industry in the Capital 500.

This collapse in cashflow has seen firms cut back on capital expenditure, with the balance dropping 29 points to -27% last quarter. Nearly half of manufacturing firms (47%) reduced spending on plant and equipment, while 32% of service sector businesses recorded a decline.



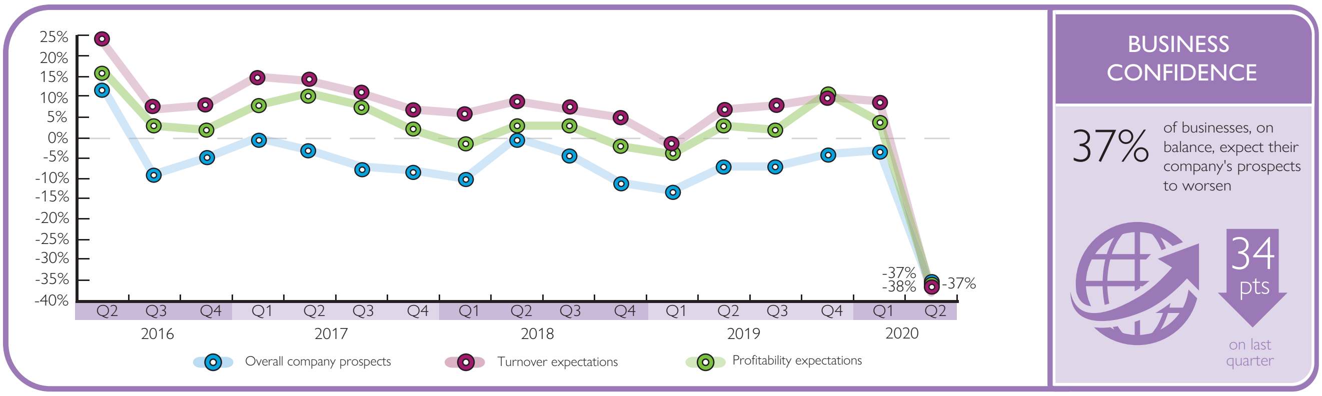
BUSINESS CONFIDENCE

As expected, business confidence deteriorated sharply in Q2, reflecting concerns over how long it will take for 'business as usual' to resume.

The balance for turnover expectations tumbled from 9% to -38% in Q2: the majority (58%) of businesses expect to see their turnover drop in the coming year. Micro firms were more pessimistic than their larger counterparts (59% expecting a decline, versus 49% for large firms).

Profitability expectations were also down sharply in Q2. The balance fell from 4% to -37%, with more than half (56%) of firms anticipating a decline in profitability over the next 12 months. Just 24% of businesses reported that they were operating at full capacity in Q2, the lowest reading since the Capital 500 began in Q2 2014.

As a result, the balance for overall company prospects decreased from -3% to -37% in Q2. There is little variation between sectors or business size – indeed, the collapse in confidence is widespread and seen across the economy.



ECONOMIC OUTLOOK

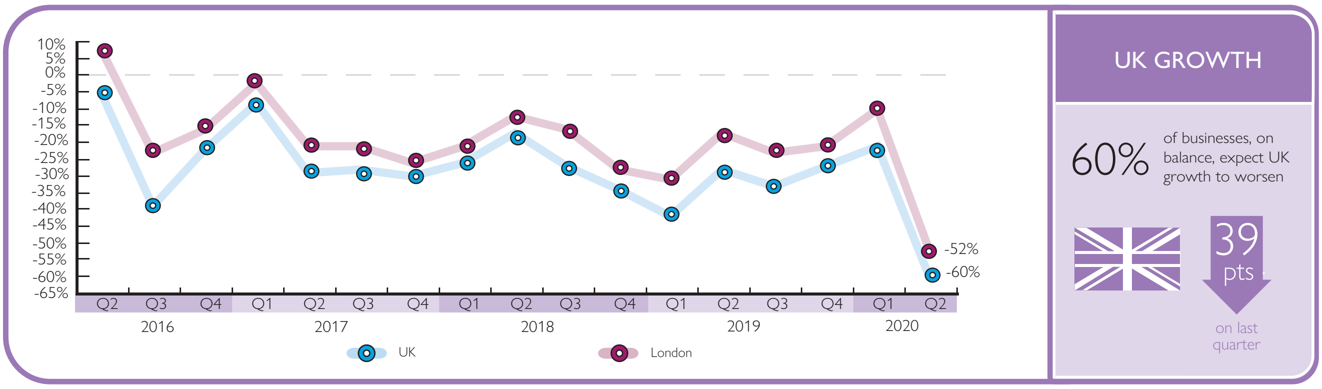
The sharp deterioration in business confidence reflects a much more pessimistic view for the London and wider UK economy.

The economic outlook balance for the UK dropped 39 points to -60% in Q2. Nearly 3 in 4 businesses (73%) expected the UK's economy to worsen over the coming year.

When considering the London economy, the outlook was little better: the balance tumbled from -10% to -52% in Q2.

There was a disparity between location in the outlook for the capital's economy: firms in inner London were more pessimistic than their outer London counterparts (the balances fell to -57% and -44%, respectively).

With businesses being asked to keep working-from-home measures in place for the foreseeable future, many central London businesses that rely on commuters and office workers are likely to struggle for some time.



For further information on this report, please contact

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

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

Mira Lodhia
Policy Research Officer
E: mlodhia@londonchamber.co.uk
T: +44 (0)20 7203 1889