LONDON CHAMBER of COMMERCE AND INDUSTRY

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CAPITAL 500

LONDON QUARTERLY ECONOMIC SURVEY

QI

2020

January – March 2020

Savanta: ComRes

LCCI COMMENTARY – THE BUSINESS VIEW

An economic survey for the quarter immediately following a General Election should normally be an occasion for a degree of enthusiasm and expectation. However, these are far from normal times as the COVID-19 pandemic takes hold, disrupting London's economy, and every aspect of life in the UK.

For the record, the outlook in the first quarter of 2020 had seen an initial bounce following the December General Election, with certain indicators such as employment intentions and recruitment showing slight upticks compared to the previous quarter. However, other indicators revealed that the economic ground was rather soft with domestic orders down and export sales slipping.

Of significant note, especially as the impacts of the pandemic begin to hit, was that firms were already reporting a sharp drop in cashflow when surveyed throughout February. At the time of writing, the Chancellor has made two major announcements of unprecedented government help and support for employers and employees in parts of the economy. More sector fixes are expected to follow.

LCCI will continue to represent the experiences and expectations of London businesses throughout the challenging weeks and months ahead. The views of firms are crucial for us to do that – I urge you to keep in contact with the capital's chamber of commerce as we endeavor to represent and serve you.

Sean McKee, Director of Policy and Public Affairs, 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 509 London business leaders between 4 February and 10 March 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

These are extraordinary times with extraordinary measures being used to deal with the COVID-19 pandemic. The QES shows London's economy was slowing down before the seriousness of the outbreak was realised. The issue now is not how slowly the economy will grow in 2020 but how sharply GDP will decline and for how long. The Brexit transition period looks like it will be extended as economic survival takes priority.

The BoE cut interest rates to a record low of 0.1% over two emergency meetings, introduced new low-cost lending schemes, lowered banks' capital requirements and reintroduced Quantitative Easing worth some extra £200bn. This should help with liquidity as it did in the aftermath of the surprise Brexit vote in 2016.

The Chancellor has eased fiscal rules for all intents and purposes, providing business rates relief and offering £330bn in government-backed loans for firms. These measures, added to wide-scale employment support and what is essentially a 'nationalisation' of large sectors of the economy, will put pressure on government finances. Though with many countries closing and modes of travel cut, it is difficult to see what the alternative is. Will all this work? Up to a point but it may not be enough. One hopes the combined demand and supply shock we face does not pose a renewed existential risk to the global financial sector.

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

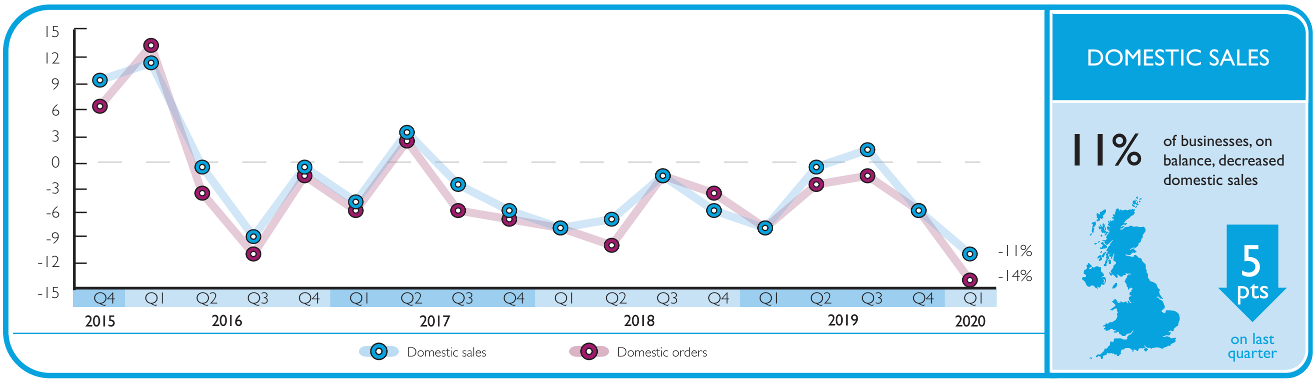
DOMESTIC DEMAND

London businesses started 2020 on a worryingly soft footing, ahead of what is expected to be a widespread hit to the economy from COVID-19.

The decline in domestic orders for all companies accelerated in Q1, with a net 14% of firms reporting a drop. Nearly three in ten (28%) service sector businesses saw a fall in domestic orders in Q1.

The balance for micro companies (all sectors) dropped 9 points to -17%, although larger firms saw a minor increase (+1 point to 15%).

Domestic sales were also weaker in Q1, with the balance down 5 points to -11%. Again, there was a split between micro and larger businesses. The balance for the former declined 6 points to -14% in Q1: 28% of micro firms reported a fall in domestic sales, the largest since the Capital 500 survey began in Q2 2014. By contrast, the balance for larger companies rose from 11% to 17% in Q1.



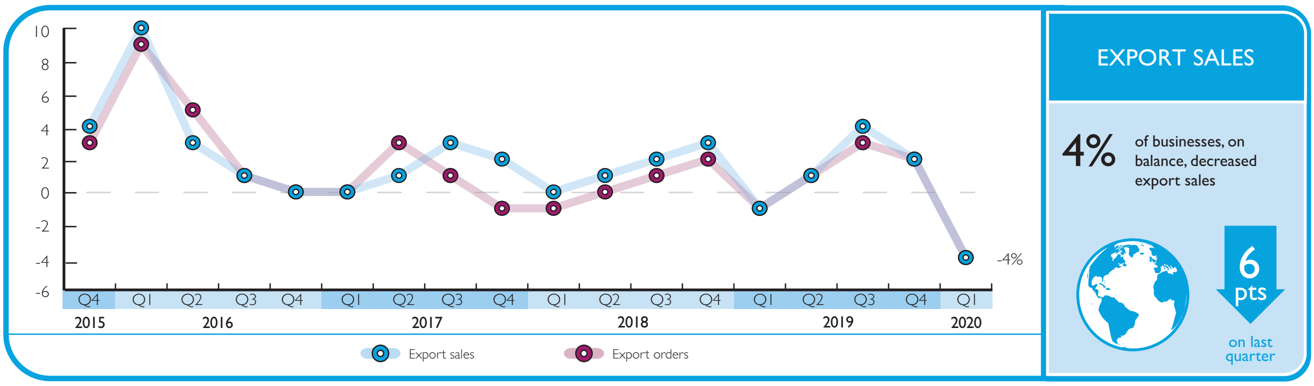
EXPORT DEMAND

The picture was bleak for exports too, with a sharp fall in the balances for both export orders and sales.

A net 4% of companies saw a drop in export orders in Q1. As with domestic trade, micro firms fared worse: the balance fell 5 points to -4%. For larger businesses, the balance was unchanged at 8%.

A report from Make UK showed manufacturing export orders declined in Q1 for the first time since 2016.[1] The latest Capital 500 showed a similar trend, with only a net 1% of manufacturing firms seeing a rise in export orders. This is down from 7% in Q4 2019.

Turning to export sales, the balance for all businesses also slipped 6 points to -4% in the first quarter of 2020. Sales were much weaker for micro firms, with the balance falling 7 points to -5%, a record low for the Capital 500. Nevertheless, larger businesses reported an uptick.



[1] Make UK/BDO Manufacturing Outlook, 2020 Quarter 1.

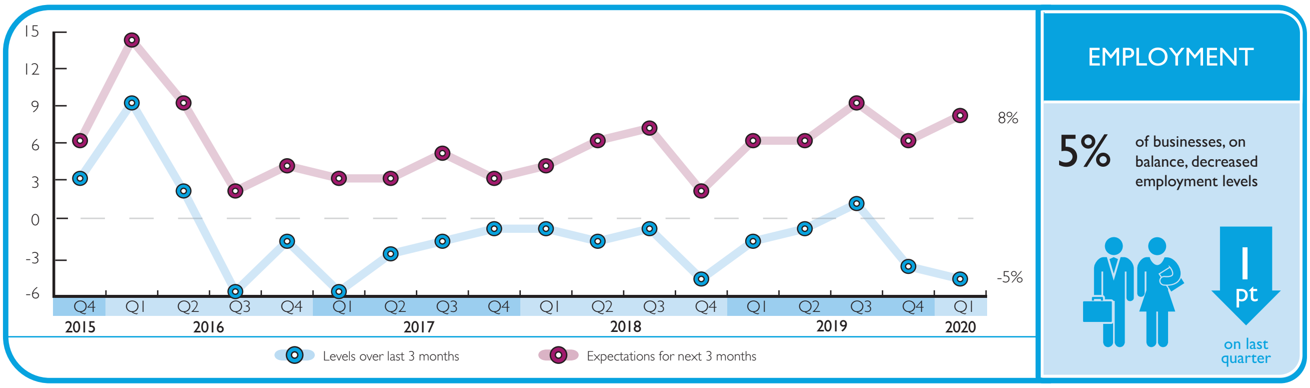
LABOUR MARKET

Employment expectations held up in Q1, with a net 8% of businesses expecting to grow their workforce over the next three months.

However, the survey fieldwork was conducted largely in February, before measures to stem the spread of COVID-19 came into place. Airlines and businesses in the hospitality industry have already warned of cutbacks on staffing levels.

The current employment balance for all businesses nudged down 1 point to -5% in Q1. This was below the long-term average for the balance since the Capital 500 began in Q2 2014 (0%).

A record share of micro firms saw a drop in their workforce (15%), pushing the net balance down to -9%. By contrast, a third (33%) of larger businesses reported an increase in employment, and the balance rose 8 points to 20%.



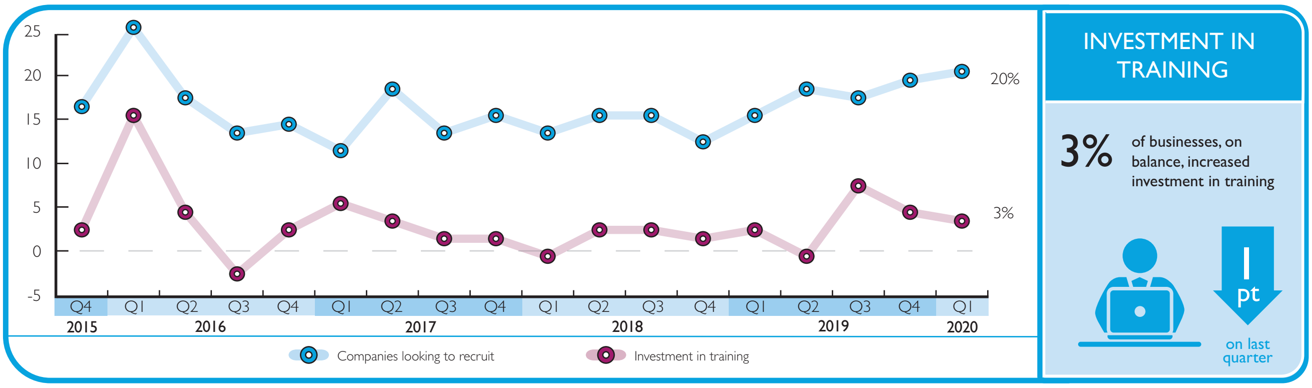
RECRUITMENT AND TRAINING

Companies were still keen to hire in Q1, with one-fifth of firms looking to recruit. This was the highest share in four years.

Nearly half (48%) of manufacturing firms had tried to recruit, compared to 16% of service sector companies.

Investment in training slowed marginally, with the balance for all businesses dipping 1 point to 3%.

Nevertheless, recruitment and training intentions are likely to suffer over the coming months as COVID-19 continues to hurt economic growth.



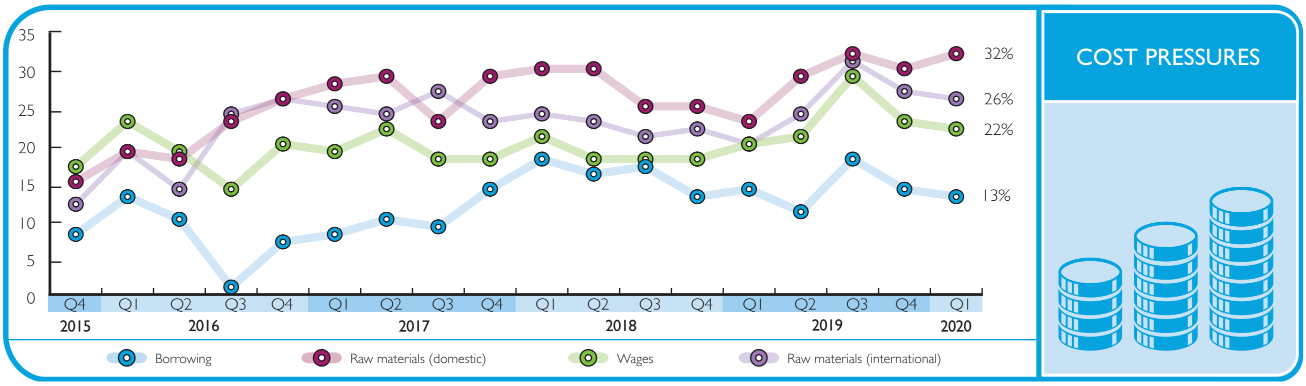
BUSINESS COSTS AND PRICES

The costs to business from COVID-19 will be sizeable, and pressure will continue to mount on the Government to step in and support firms throughout this period.

According to the Capital 500, cost pressures for firms largely eased in Q1. Company fuel, energy and international raw material costs all fell for a second consecutive quarter. Domestic raw material costs increased.

Businesses may see pressure on energy costs ease in the coming months, given the steep drop in oil prices since March.

Wage pressures softened again in Q1, while borrowing costs were a touch lower too. The Bank of England has cut interest rates to a record low, and banks have already announced measures to support businesses suffering from COVID-19 related issues. This could help to keep borrowing costs under control.

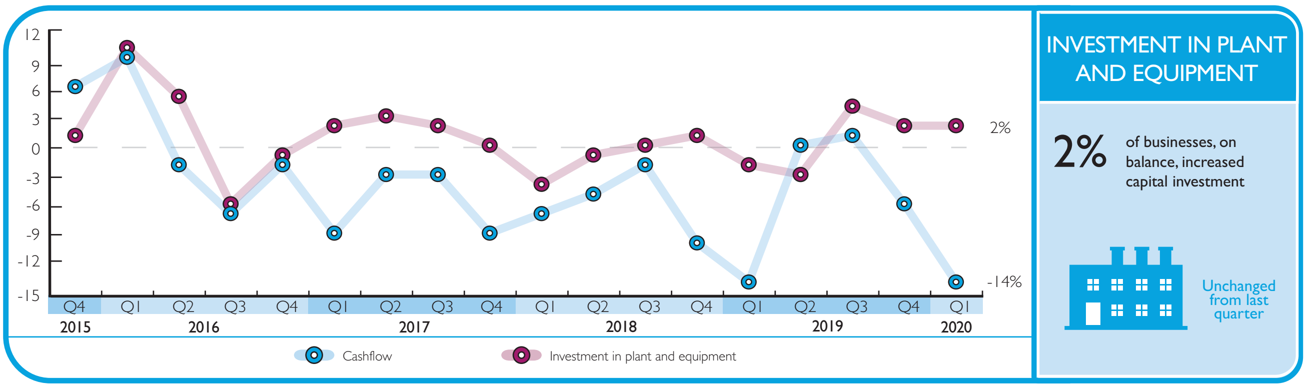


CASHFLOW AND INVESTMENT

London businesses were already reporting a sharp drop in cashflow, before the full effects of COVID-19 and Government measures take hold.

Q1 saw another significant decline in cashflow, as the balance fell 8 percentage points to -14%. Micro companies recorded a 10-point drop in their cashflow balance (to -17%). That said, as seen with domestic and export demand, the balance for larger firms rose last quarter.

Despite the drop-off in cashflow, capital investment remained stable in Q1. However, capex could suffer in the coming quarters, as companies shift focus away from investment to keeping their businesses running.

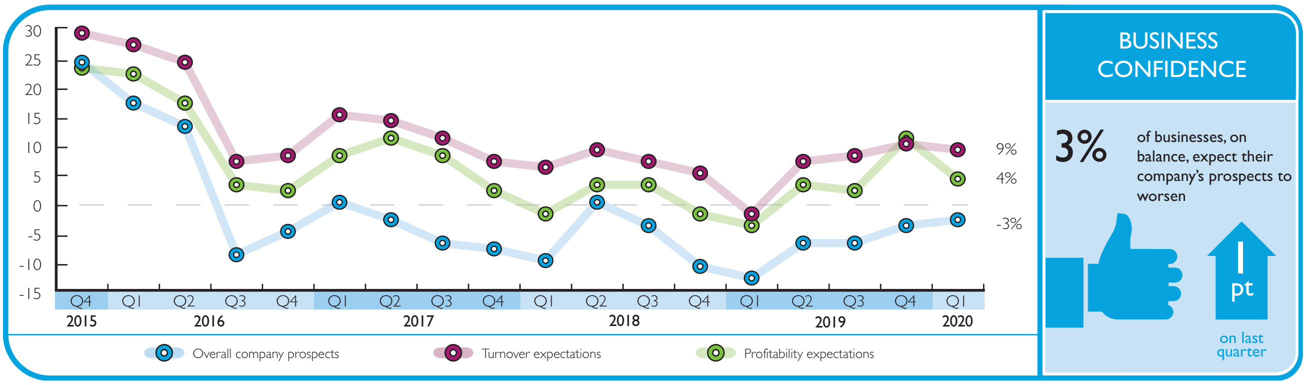


BUSINESS CONFIDENCE

It is unlikely that the recent uptick in business confidence will be sustained, at least in the short-term.

The overall indicator for company prospects rose marginally by 1 point to -3% in Q1, up 10 points from the same period last year. Turnover expectations dipped slightly by one percentage point to 9%.

Profitability expectations, however, declined by 7 percentage points to 4%, with both micro and larger firms weakening their profit outlooks.



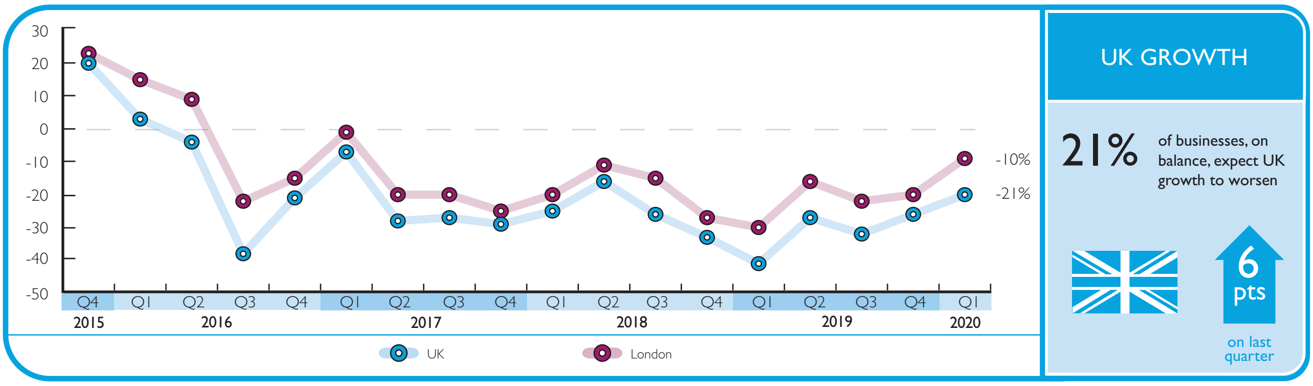
ECONOMIC OUTLOOK

The outlooks for both the London and the UK economy saw an initial bounce following the General Election.

The economic outlook balance for the UK improved to -21% in Q1, up from -27% in the previous quarter.

Businesses were also more optimistic about London's economy, with the balance up 11 points to -10%.

Nevertheless, the boost to economic confidence is likely to prove short-lived. GDP growth was already slowing in January. Furthermore, the measures being rolled out to combat COVID-19 are set to be in place for several months, which will have a severe impact on many of London's businesses.



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