LONDON CHAMBER of COMMERCE AND INDUSTRY

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# CAPITAL 500

## LONDON QUARTERLY ECONOMIC SURVEY

Q4

2019

Savanta: ComRes

October – December 2019

## LCCI COMMENTARY – THE BUSINESS VIEW

The final *Capital 500* survey of 2019 shows elements of the capital's economy aligning with that of the wider UK, with both domestic and export demand slowing. The previous two quarters had recorded several performance upticks, owing much to the resilience of London firms – however that buoyancy may have dipped slightly this time round. Of note in Q4 is the area of investment, with smaller firms certainly not keen to invest. SMEs form the bulk of firms in the London and UK economy. With the General Election now past and a majority government in place, Ministers must move to listen to and understand the concerns and expectations of smaller firms across the capital.

As the UK emerges from one election, so London prepares for another; the Mayoral and Assembly elections to be held on 7 May. The 2020 elections take place in a very different landscape from 2016 – since then the Mayor of London has seen newly elected Mayors for metropolitan areas including Liverpool, Manchester and Sheffield take office. These metro Mayors are now seeking further transfers to the specific powers and budgets that Whitehall initially endowed them with. The capital and the metro city-regions enjoy a strong economic relationship and their future economic growth is intertwined. London is supportive of further devolution to English metro areas. However, that process cannot pass London by. The UK capital can do more, can support more, can deliver more – with more devolution. That will mean retaining more taxes generated in London to focus on local priorities and transferring more powers held by Whitehall to our City Hall and Borough Town Halls. Our capital is forecast to have 10 million citizens by 2031. That requires London's politicians to have the ability to meet the challenges that this will bring.

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 two years.

# METHODOLOGY

Savanta ComRes surveyed a total of 508 London business leaders between 30 October and 26 November 2019.

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 quarterly survey for London still shows a more upbeat mood than the rest of the country but only slightly. Optimism for the economy remained positive, if anything rising slightly but most of the other indicators suffered. The gap between small and larger firms, in investment intentions for example, widened further with smaller firms considerably less willing to invest. But overall the fact that firms reported slower domestic and export demand chimes with the rest of the economy, still gripped in Brexit uncertainty. Worries about the trade disputes and the slowdown in the world economy, particularly the EU, the UK's main export partner, played a role too. In fact, the CBI business confidence index fell sharply to a greater negative in the fourth quarter of 2019 with their latest growth indicator also suggesting a fall in the period September to November.

Companies' output expectations for the following three months were also reported to have worsened, particularly in services. Nationally, although the third quarter showed growth in GDP of some 0.3%, thanks mainly to a resilient consumer, the composite PMIs suggest falls in all sectors since September. One will be depending on strong pre-Christmas sales online and on the high street and on continued rises in government spending to avoid a renewed contraction in UK GDP in the fourth quarter. How Brexit moves forward after the election will of course be significant in shaping future investment and consumer expenditure, but internationally the risks seem to be on the downside. The latest OECD forecast for the world economy has growth of no more than 2.9% in 2019, the lowest since the financial crisis, and a small recovery to around 3% in 2020 and 2021. For the UK they remained downbeat expecting growth of 1.2% in 2019 to be followed by a slowdown to just 1% in 2020 – even if there is a smooth Brexit transition.

Vicky Pryce, Centre for Economics and Business Research (Cebr)

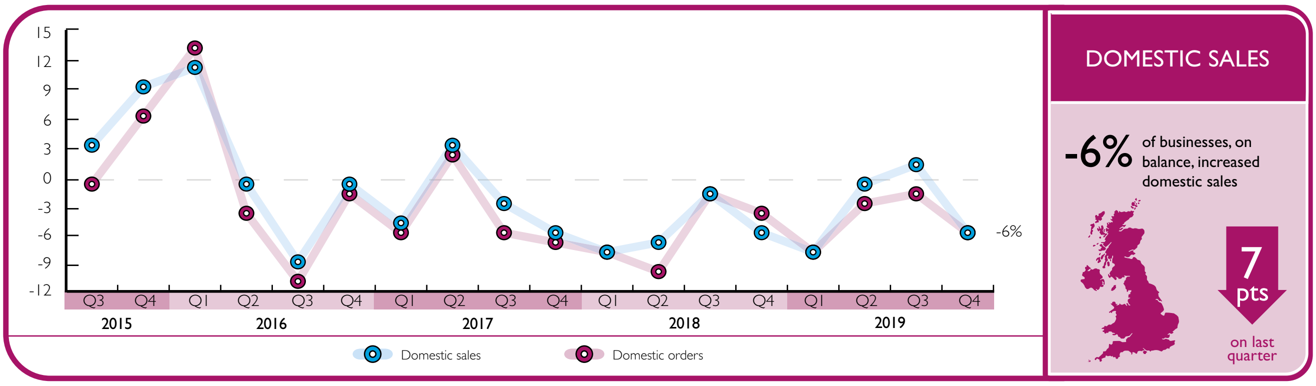
# DOMESTIC DEMAND

**The final quarter of 2019 saw a drop in both domestic demand indicators.**

Domestic orders fell by 4 percentage points in Q4 to -6%.

After inching into positive territory for the first time since Q2 2017 in the previous quarter (+1%), the balance for domestic sales turned negative once again (-6% in Q4). This 7-point drop was the biggest since Q2 2016.

There was a big decline in domestic sales for micro companies, with the balance down 8 points to -8% in Q4. Sales for larger firms were slightly lower too but remain in positive territory (+11%). Turning to domestic orders, the balances fell for both micro and larger businesses. Again, there remains a sizeable gap between the two (-8% and +14%, respectively).

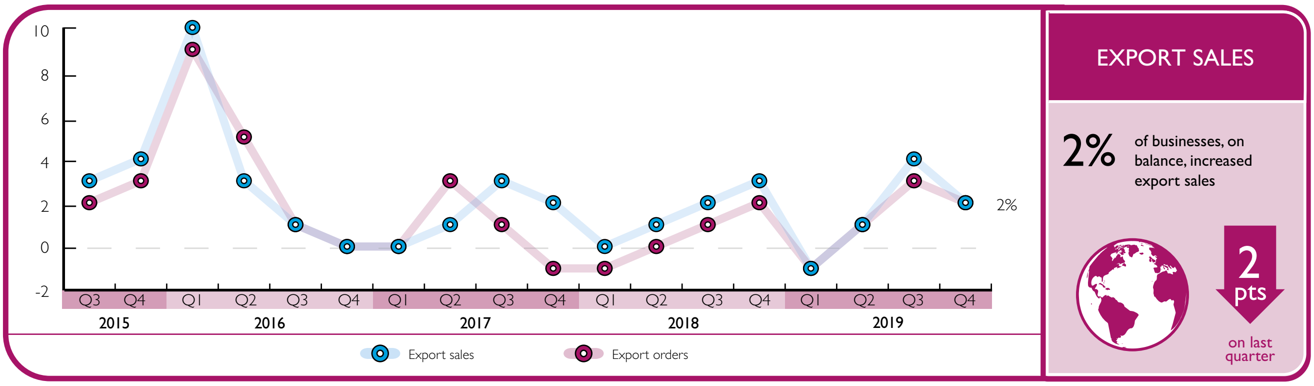



# EXPORT DEMAND

**Businesses reported softer export demand too.**

The export orders balance dropped from 3% to 2% in Q4. There was, however, a divergence between micro and larger firms.

Micro businesses saw a 2-point reduction in export orders (to 1% in Q4), whereas the balance for larger companies rose from 4% to 8%.




Export sales for all companies fell by 2 percentage points, down from 4% in Q3 to 2% in Q4. Both micro and larger businesses saw slower growth in export sales.

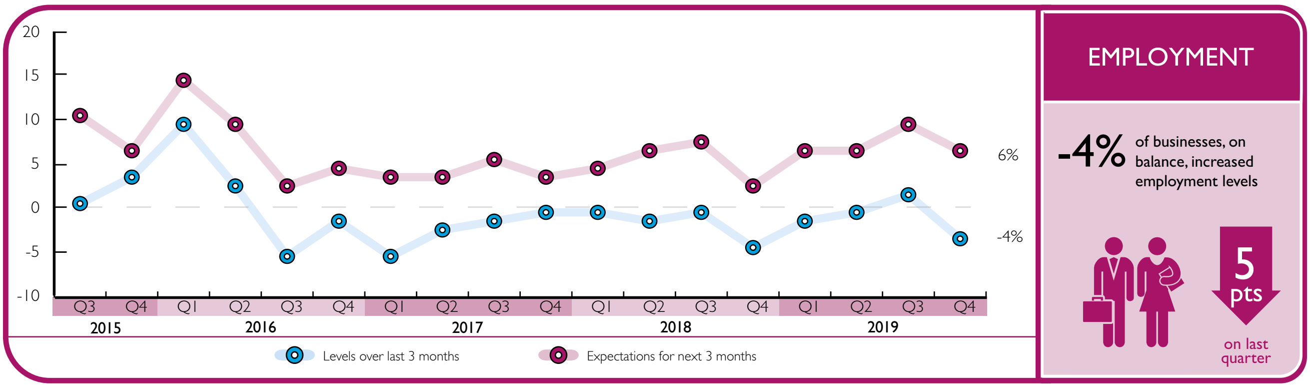
London will need greater powers to accommodate forecasted population growth. Retaining more of London's generated taxes and securing new competencies would ensure the Office of Mayor has the resources to drive and deliver future growth. With the next Mayoral election now four months away, the main candidates should make clear their views on more devolution for London.

# LABOUR MARKET

**The employment balance fell back into negative territory in Q4 2019, down 5 points to -4%. This was the biggest drop since Q3 2016.**

There was a divergence between micro and larger firms, with the balance for the former dropping 6 points to -6%. 12% of micro firms reported a fall in employment levels, the largest share since Q3 2016.

Overall employment expectations were softer too. However, the balance for larger firms climbed 6 points to 30% in Q4.

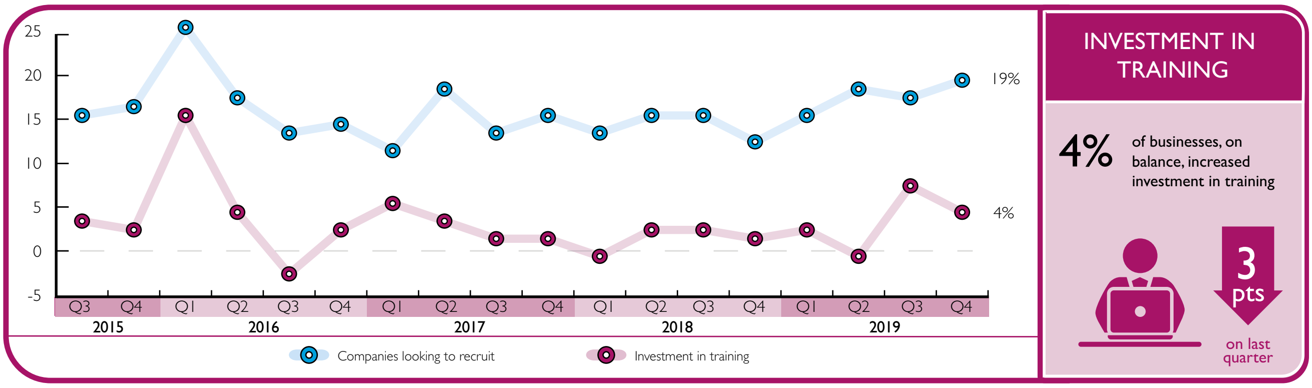



# RECRUITMENT AND TRAINING

**Investment in training slowed last quarter, with the balance down 3 points to 4%. The number of firms that raised spending (14%) was down slightly from Q3 but this was still the second-strongest reading since Q1 2016.**

Again, larger firms are leading the way: 39% boosted investment in training in Q4, the highest share since the Capital 500 began in 2014.

In Q4, 19% of firms were looking to recruit – the biggest share since Q1 2016. Of those trying to recruit, 59% experienced difficulties, up slightly from Q3 (56%).




Firms' difficulties in recruiting workers have been accompanied by largely upward pressure on skills investment since Q3 2016. Access to skilled workers remains a key issue for London businesses. The recent migration numbers, showing the lowest level of net EU migration since 2003, will give cause for concern.

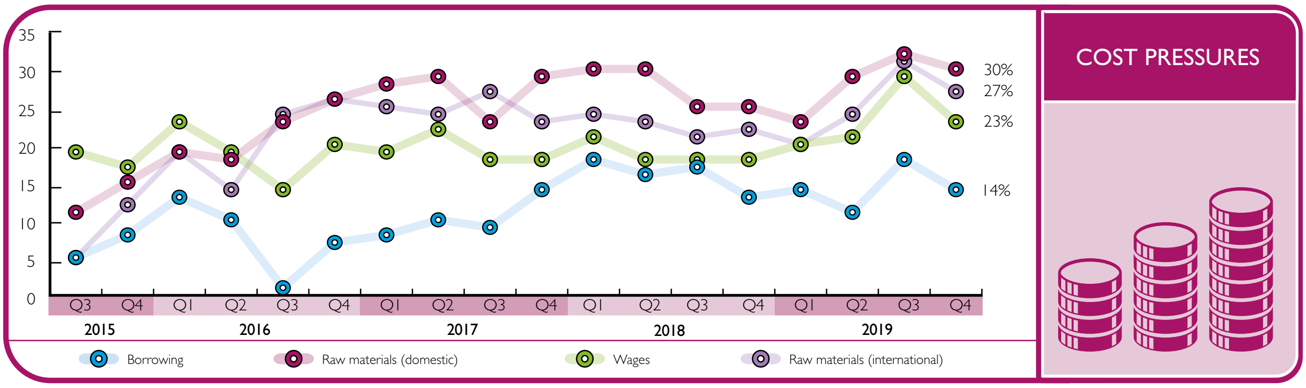
Ahead of the General Election, each of the main parties promised to review and/or replace the business rates system. The new government should now work with business groups to explore practical alternatives. The decoupling of London from the national valuation system remains an option advocated by civic leaders in the capital.

# BUSINESS COSTS AND PRICES

**Cost pressures eased across the board last quarter. Official inflation data[1] have shown an easing in fuel prices since August 2019: the balances for energy and fuel both dropped in Q4 2019.**

Wage pressures cooled too, with the balance falling 6 points to 23% last quarter. Again, ONS figures have pointed to a moderation in wage growth since June 2019.

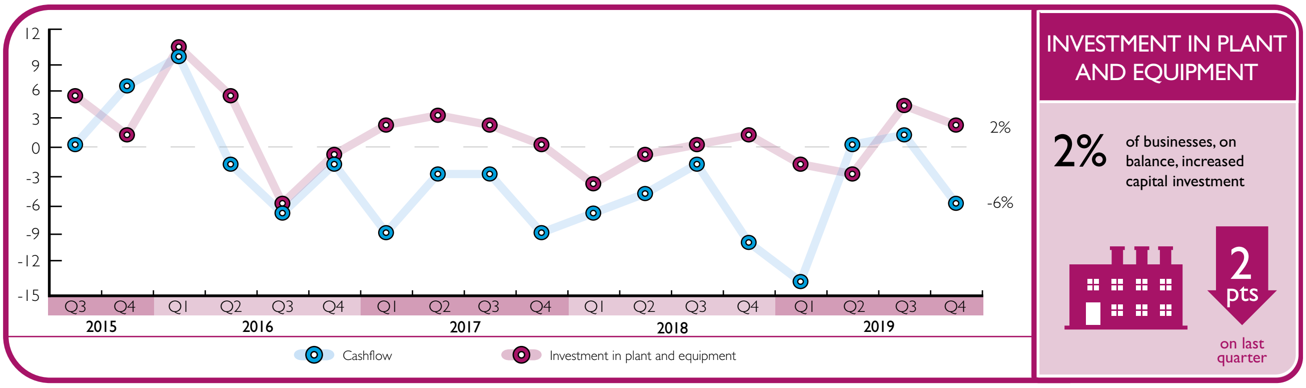
Just over a quarter (27%) of firms expect the price of their goods and services to rise over the coming three months, down slightly from 29% in Q3.




# CASHFLOW AND INVESTMENT

**The pronounced dip in domestic demand took its toll on cashflow in Q4.** The balance for all companies fell 7 points to -6%, the sharpest drop since Q2 2016. Both micro and larger companies saw a decline in their cashflow balances: for micro firms, the balance dropped back into negative territory (-7%).

The business investment indicator slipped 2 points to 2% in Q4, although there remains a divergence between micro and larger firms. The balance for larger companies rose to 21%, the highest since Q3 2015. By contrast, micro firms recorded no net change in investment (0%) over the past 3 months. Political uncertainty will have been feeding into the figures, as firms stockpile.




The Mayor should progress the recommendation from the EIP Planning Inspectorate that a full review of land within the Metropolitan Green Belt should be undertaken, as part of considerations around the Mayor's draft new London Plan. City Hall should adopt an innovative approach to making best use of previously developed, underused or derelict land to partly ease specific housing pressure in the capital.

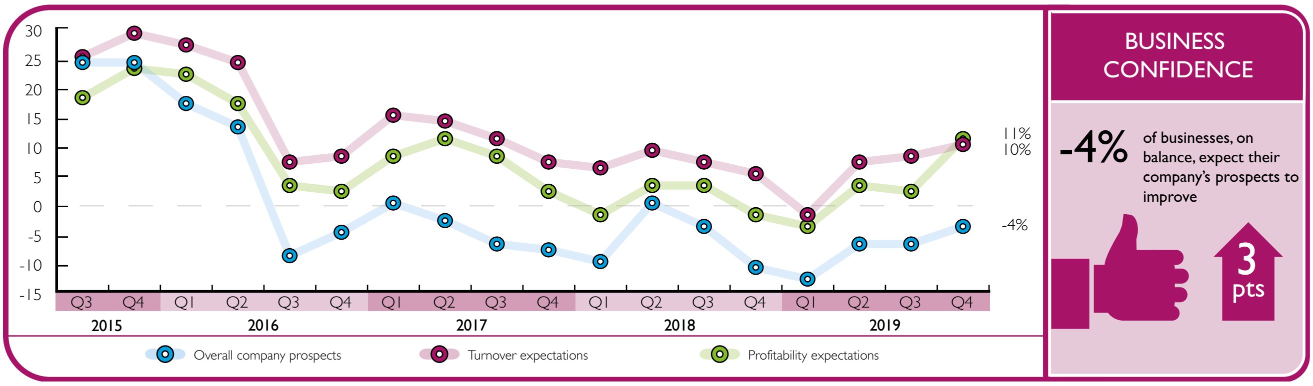
[1] Consumer price inflation, UK: November 2019, https://www.ons.gov.uk/economy/inflationandpriceindices/bulletins/consumerpriceinflation/november2019

# BUSINESS CONFIDENCE

**All *Capital 500* business confidence indicators improved in Q4 2019.**

Despite weaker export and domestic demand, the mood among London businesses is broadly positive in terms of their outlook on profitability and turnover. This could be attributed to easing cost pressures in Q4, after the cost of raw materials, fuel, borrowing and wages hit all-time highs in Q3. 11% of businesses expect to see an increase in their profitability over the next twelve months, a 9-point gain on Q3. This rise was the biggest since the Capital 500 began in 2014.

Turnover expectations are also up, with the balance climbing from 8% to 10% in Q4. Both micro and larger businesses boosted their turnover outlooks. As a result, the balance for overall company prospects edged up 3 points to -4% in Q4. Nearly a quarter (24%) of firms expected their firm's prospects to improve, the joint-highest reading since Q1 2017.




# ECONOMIC OUTLOOK

**Nevertheless, the outlook for both the London and wider UK economy remains muted.**

There was a small uptick in the London economic outlook balance in Q4, from -23% to -21%. For the wider UK economy, the balance improved 6 points to -27%. The figures have nonetheless been negative for nearly four years.


The UK avoided a recession in Q3, which may have somewhat brightened London businesses' economic outlook. However, the 1.1% year-on-year increase in real GDP was the joint-smallest since Q1 2010. Furthermore, the latest PMI readings from Markit suggest a slowdown across the economy in Q4.

London is poised to move to and through Brexit. However, a potential new cliff edge may arise when the transition period is due to end in December 2020. Learning from the past three years, the new government should seek to foster closer engagement with business groups to assuage concerns about uncertainty and to probe readiness on adapting to new trading conditions.

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