LONDON CHAMBER of COMMERCE AND INDUSTRY

CONNECT. INFLUENCE. SUPPORT.

CAPITAL 500

LONDON QUARTERLY ECONOMIC SURVEY

Q4

2017

ComRes

October – December 2017

LCCI COMMENTARY – THE BUSINESS VIEW

"2018 will be an important year for London business. The London Plan, which sets out the strategic framework for how London will develop over coming decades is under review, and local government elections are scheduled for May. Both these developments will have impacts on future business activity in the capital. Meanwhile, following the conclusion to the first phase of the Brexit negotiations, trade talks vital to the capital's ongoing relationship with the EU will begin in earnest, with important discussions about London's future access to foreign workers anticipated amongst a raft of other critical issues.

"Much needs to be done to support London's business community in these turbulent times. This is evidenced by the *Capital 500* confidence figures which have been in decline for several quarters now, while expectations for the year ahead remain negative for both London and the UK. The figures highlight challenges including in relation to domestic and export demand, and rising business costs. In light of this, it will be vital to now focus on efforts to strengthen the foundations of London's economy and its ability to deal with these challenges, including by supporting small businesses to export more, and by limiting any further cost rises in the capital."

Colin Stanbridge, 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 partnered with leading polling company, 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, *Capital 500* has included trend graphs that track the quarterly results for the past two years.

METHODOLOGY

ComRes surveyed a total of 577 London business leaders between 2 November and 27 November 2017. All data has been weighted to be representative of all London businesses by company size and broad industry sector.

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.

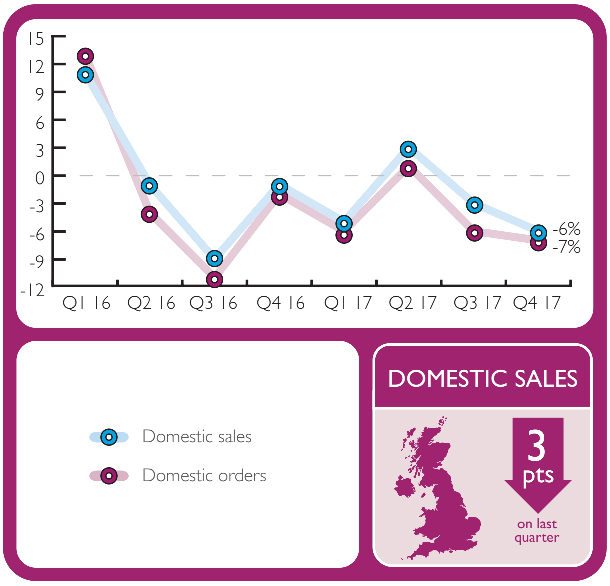
GUEST COMMENTARY – THE ECONOMIST'S VIEW

"The general downturn in mood in London reflects much of what has been going on elsewhere in the UK. Business confidence had been turning down before the first phase of the Brexit agreement was finally struck and consumers had been much more cautious about spending on anything other than essentials. GDP forecasts for 2018 and beyond have been constantly revised downwards as a result, not least by the Office for Budget Responsibility whose forecast of growth that accompanied the November 22nd budget of no more than 1.5% during the life of the current parliament was attributed to much lower than expected productivity improvements.

"Views of course may change as a result of the UK now moving to discuss trade agreements for a post-transition period but the details of the deal struck so far still leave considerable uncertainty for the future. But at least in the meantime, and contrary perhaps to some of the London survey results, the UK is benefiting from the growth in world trade and the strong revival in Europe, and manufacturing and industrial production have been showing some strong gains. The question is how this momentum can be maintained and encourage investment to pick up which is essential for the growth of the UK economy."

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

DOMESTIC DEMAND



During Q4 2017 domestic demand continued to decline and figures remained in negative territory for the second consecutive quarter, as more businesses reported a decline than an increase in their domestic orders and sales.

For both domestic orders and domestic sales, the balance figure fell to its second lowest recorded *Capital 500* level: -7% for orders and -6% for sales.

The domestic sales figure stayed negative for micro businesses (-8%), while the balance for larger businesses continued to be positive (+19%). On the same measure, the balance for businesses in both Inner London and Outer London remained in negative territory (-10% and -2% respectively).

EXPORT DEMAND

Both export sales and export orders declined compared to last quarter.

The export sales balance figure remained positive overall (at +2%). The balance for export orders continued to fall by 2 points and reached its joint lowest recorded *Capital 500* level as on balance more businesses reported a fall than a rise in orders.

Like last quarter, larger businesses reported higher figures for both export orders (+13%) and export sales (+17%), than micro businesses (-3% and -1% respectively). Inner London businesses (0% for orders, +3% for sales) continued to perform better than their Outer London counterparts (-2% for orders, 0% for sales) during Q4 2017.

International trade has long been a vital component of London's economic well-being. LCCI has been supporting London businesses to reach new markets and increase their potential profits and revenue since 1881 through trade missions, training courses, and export documentation. Whilst much focus has been on the potential for increasing UK exports via any new post-Brexit trade agreements, it is important also to help businesses take maximum advantage of existing trading relationships and opportunities, which are often not being fully exploited.

Government should invest in better export support to help London businesses (especially SMEs) to exploit export opportunities in both new and established markets, including increased funding for trade missions that include practical advice and local knowledge.

LABOUR MARKET

Although the *Capital 500* employment balance continued to rise during Q4 2017, the figure stayed in negative territory for the sixth consecutive quarter.

The balance figure for businesses' employment levels over the past three months stayed roughly level compared to last quarter, rising by 1 point to -1%. In contrast, expectations for the next three months fell by 2 points, while on balance, 3% of businesses expected their workforce to grow.

Whereas the employment balance for larger businesses stayed put at +10%, the figure for micro businesses rose from -4% to -1%. In terms of employment expectations, the balance figure for micro businesses remained unchanged at +3%, while for larger businesses it went down by 10 points to +15%.

RECRUITMENT AND TRAINING

The balance figure of companies looking to invest in training remained unchanged from last quarter, while on balance, 1% of *Capital 500* companies had increased their planned investment.

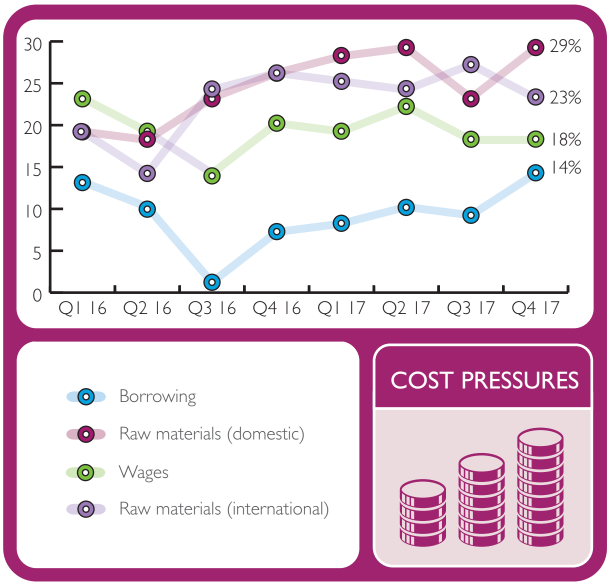
15% of *Capital 500* companies tried to recruit during Q4 2017, up 2 points from Q3 of this year. Of this 15%, 52% recruited for full time roles and 48% for part time positions.

Of companies trying to recruit, 57% encountered difficulties in recruiting (down from a record *Capital 500* high of 60% in Q3). Professional/managerial roles (32%) and skilled manual/technical roles (45%) continued to be the hardest to fill for recruiting *Capital 500* companies.

London has a unique relationship with, and greater reliance upon foreign workers than the rest of the UK. However, in recent years the government has made it increasingly difficult to hire workers from overseas, and further restrictions are anticipated with the end of the free movement of people between the UK and EU post-Brexit. Last year the government commissioned a report from the Migration Advisory Committee (MAC) into the economic and social impact of the UK's exit from the EU, which will report in September 2018. LCCI is concerned that given the Brexit negotiation timetable, this leaves little time for the MAC's findings to have a meaningful impact.

LCCI urges the Migration Advisory Committee (MAC) to make substantive interim recommendations to government in advance of the final report due in September 2018 – only seven months before Britain is set to formally exit the EU in March 2019.

BUSINESS COSTS



During Q4 2017, a rise was reported for most analysed business costs.

While the balance figure for the cost of raw materials sourced domestically went up by 6 points (to +29%), the cost of raw materials sourced internationally saw a 4-point drop (to +23%).

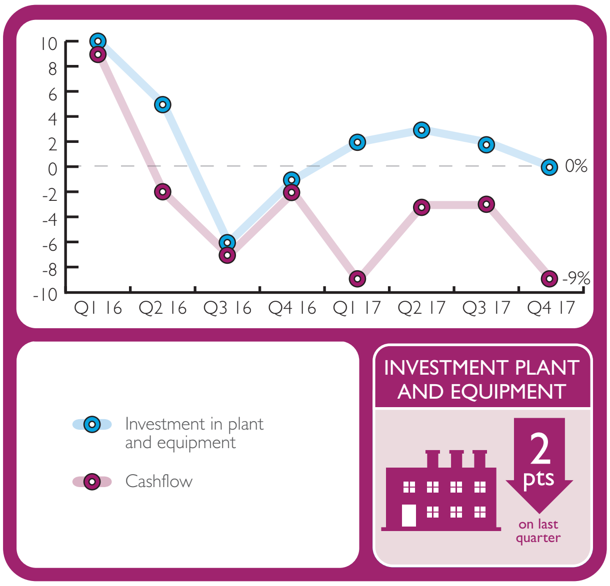
On balances for the cost of energy and cost of fuel (not included in the graph), energy stayed roughly level (rising by 1 point to +31%) while fuel saw a rise of 7 points in Q4 2017 (to +38%). The cost of borrowing also went up (by 5 points to +14%), while on balance the pressure of employees to increase wages stayed the same as in last quarter (at +18%).

CASHFLOW AND INVESTMENT

During Q4 2017, a decline was reported for both the cashflow figure and the capital investment figure.

The *Capital 500* cashflow balance went down by 6 points, as a negative figure (-9%) was recorded for the seventh consecutive quarter, resulting in a *Capital 500* joint record low. The figure for investment in plant and equipment also went down, by 2 points, to 0%.

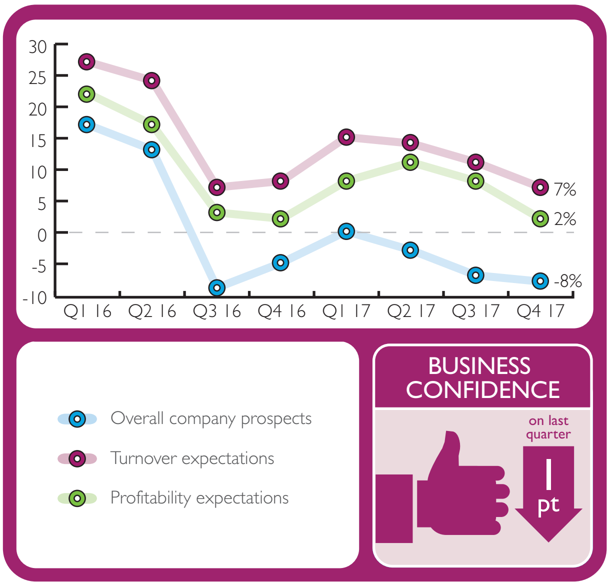
For larger businesses, the cashflow balance saw a rise from 0% to +10%, while for micro businesses the figure went down from -4% to -10%. Looking at investment in plant and equipment, the balance rose to +16% for larger businesses (up 8 points on last quarter) and fell to -3% for micro businesses (down 4 points on last quarter).



With the costs of doing business in the capital already high and rising, London businesses are bracing themselves for the introduction of the Ultra Low Emission Zone (ULEZ) within the Congestion Charge zone in 2019, which is to be expanded up to the North and South Circular roads in 2021. Whilst LCCI does not oppose the introduction of ULEZ, we are concerned about the potential impact of these plans without concurrent steps to mitigate the financial impact, particularly on smaller businesses. The Mayor's proposals must strike the right balance between delivering significant improvements to air quality whilst allowing businesses sufficient time to adapt their operating models and make changes to their fleets.

City Hall should commission an economic assessment of Ultra Low Emission Zone (ULEZ) proposals, which can be used to inform supporting measures for businesses and facilitate the transition.

BUSINESS CONFIDENCE



All business confidence indicators continued to decline during Q4 2017. The balance figure for overall company prospects fell for the third consecutive quarter, as on balance 8% of businesses expected their performance to worsen over the next 12 months. This figure has not been in positive territory since the second quarter of 2016.

The figures for turnover expectations and profitability expectations reached a joint record low: +7% for turnover expectations and +2% for profitability expectations.

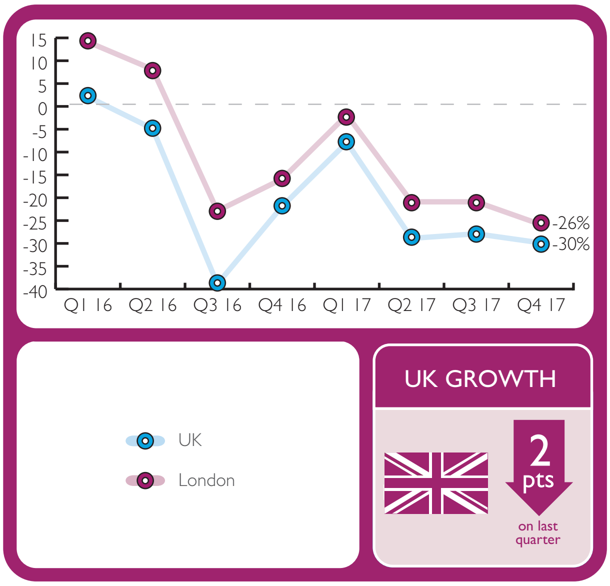
Both larger businesses and micro businesses remained pessimistic about their company's prospects (-3% for larger businesses and -9% for micro businesses). In contrast to last quarter, businesses from Inner London (-13%) were more pessimistic about their prospects than businesses from Outer London (-4%).

ECONOMIC OUTLOOK

Expectations for both the UK and London economy fell compared to last quarter, and remained negative overall.

While the balance figure for expectations of the UK economy were roughly stable (down by 2 points to -30%), expectations for London's economy fell by 5 points (to -26%). Both figures have now been in negative territory since the first poll following the vote to leave the EU.

Both micro businesses and larger businesses were less pessimistic about the prospects of the London Economy (-29% and -3% respectively) than about the prospects of the UK economy (-32% and -16% respectively).



With all business confidence indicators in decline and expectations for both the UK and London economies in negative territory, now is the time to boost confidence amongst the capital's businesses. The current review of the London Plan, which sets out the long-term framework for economic, social and transport development in the capital, can play a role here. For London to maintain its position as a global powerhouse, addressing the capital's chronic undersupply of housing will be vital. LCCI recognises that no one single policy will alleviate the housing crisis, but it is clear small builders will have to play a key role in achieving this.

The new London Plan must prioritise the entry of smaller builders into the market, prioritise affordable business space and secure the capital's future resilience.

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