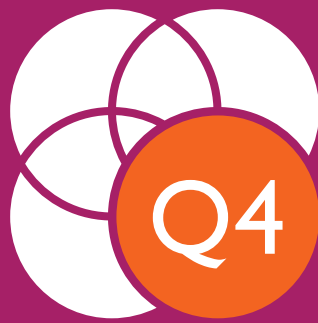


CAPITAL 500

LONDON QUARTERLY ECONOMIC SURVEY



2016



LCCI COMMENTARY – THE BUSINESS VIEW

“As the *Capital 500* Quarterly Economic Survey draws to the close of its third year, we believe it is going from strength to strength to help policy makers examine and understand the latest developments in London’s economy, and implement policies that make a real difference to the business community.

“In 2017 we expect Article 50 to be triggered, the starting gun for negotiations on the UK’s relationship with the EU. Much remains uncertain, but it is clear that businesses, after the initial shock of the referendum, have demonstrated their resilience and underlying strengths, as demonstrated by the uptick in most indicators of London business performance.

“However, with so much happening in the wider world, be it a new administration in the US or elections in Europe, and with lower growth and higher inflation a possibility in 2017, it has never been so important to focus on efforts to strengthen the foundations of London’s economy and its ability to deal with the challenges, including airport capacity constraints, rising business costs, and pressing skills shortages.”

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 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 502 London business leaders between 2 November and 22 November 2016. 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 trends for the quarter reported in the survey pretty much echo the data for the economy as a whole. The economy has been doing better than expected as little has changed so far, but the growth has been unbalanced. The service sector powered ahead in Q3 and continued to do well in Q4. London, predominantly a service economy, has benefited from this but industrial production, manufacturing output and construction all fell with little recovery in Q4 despite an improvement in residential construction and signs of higher manufacturing export demand.

“Business and consumer confidence, after recovering to pre referendum levels by the end of Q3 stabilised and in some areas even fell back in Q4. Input costs are increasing at the fastest rates in years and the consumer is likely to be hit by rising inflation. The OBR in its forecast accompanying the autumn statement upped 2016 growth to 2.1% but downgraded next year’s to 1.4% and calculated that the extra borrowing costs of Brexit are probably around £56bn between now and 2020. Uncertainty about the terms of the UK’s future arrangements with the EU and other trading partners makes forecasting for 2017 more difficult than ever.”

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

DOMESTIC DEMAND



Domestic demand figures bounced back during Q4 2016, but remain negative overall, as more businesses reported a decline than an increase in both domestic sales and orders.

Compared to last quarter, the balance for domestic sales rose by 8 points, as 1% of London businesses, on balance, reported a decrease in domestic sales – the same level as in Q2 2016, the last *Capital 500* poll before the Referendum. The balance figure for domestic orders rose by 9 points, to -2%, 2 points higher than in Q2 of this year.

While larger businesses, on balance, increased their domestic sales during Q4 2016 (+17%), micro businesses continued to experience a decline (-3%). On the same measure, businesses based in Outer London reported an increase during Q4 (+2%), whereas businesses based in Inner London reported a negative figure (-4%).

EXPORT DEMAND

Export demand continued to decline during Q4 2016, with both sales and orders reaching their lowest recorded *Capital 500* level.

The balance figures for both export sales and export orders saw a 1 point drop, and have now been declining for three consecutive quarters. During Q4, the same number of businesses reported a decline in sales as well as orders as reported an increase.

While larger businesses continued to record positive balances for both export sales and orders (+15% and +13% respectively), micro businesses recorded negative figures (-1% for both measures). Similarly, the balances for businesses in Inner London remained positive (+3% for sales and +4% for orders), whereas businesses in Outer London reported negative figures: -2% and -4% respectively.



International trade has long been a critical component of Britain's economic well-being. Following the UK's vote to leave the EU, there is a pressing need to encourage and support British businesses to engage in international commerce and help build a strong and prosperous UK economy. For Britain, as an island economy, the ability to do this relies on frequent and direct air links to high-growth international markets. Addressing airport capacity constraints is essential for the future competitiveness of London and the whole of the country. Yet, the announced new runway at Heathrow will take several years to be operational.

The Government should boost airport capacity by seeking best use of existing infrastructure through airfield, terminals and rail-link enhancements in the London airports system.

LABOUR MARKET



The *Capital 500* employment figures picked up during Q4 2016, following record lows in the previous quarter. The balance for employment levels over the last three months remained negative at -2%, but increased by 4 points compared to Q3 2016.

Expectations for the next quarter also improved, as on balance, 4% of businesses expect their workforce to grow, up 2 points on last quarter.

Whereas micro businesses reported a negative balance for employment growth (-4%), larger businesses recorded a positive figure (+12%). Both micro businesses (+4%), and larger businesses (+18%) expect their workforce to increase over the next three months.

RECRUITMENT AND TRAINING

Following a decline during the previous two quarters, there has been an increase in the number of companies planning to invest in training during Q4 2016. The balance for businesses planning to invest in training went up 4 points compared to last quarter; to +2%.

14% of businesses were looking to recruit during Q4, in line with Q3. 40% of those businesses were recruiting for part-time and 57% for full-time positions. Of the companies looking to recruit, 48% encountered difficulties finding sufficiently skilled candidates. Skilled manual/technical and professional/managerial positions remained the hardest to fill for recruiting *Capital 500* companies.

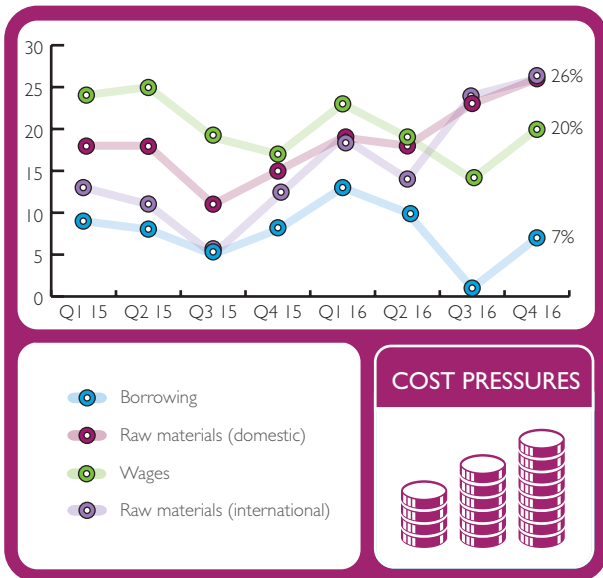
When asked about the methods of acquiring new skills during the last three months, London businesses most frequently reported training existing staff (24%).



London is facing a growing skills crisis and access to skilled migrant workers plays a vital role in filling job vacancies. The Shortage Occupation List permits a business to recruit a worker from outside the European Economic Area without the need to demonstrate the absence of a local worker who can fill the role. To enable businesses to identify, and quickly respond to the most acute skills shortages in the capital, the Migration Advisory Committee should publish a separate Shortage Occupation List for London, as it already does for Scotland.

The Government should task the independent Migration Advisory Committee with maintaining a separate 'Shortage Occupation List for London' (as Scotland has) to access the skills and talent necessary to ensure the long-term sustainability of the capital's economy.

BUSINESS COSTS



For all analysed business costs, more companies reported an increase than a decrease during Q4 2016. In addition, all balance figures went up compared to last quarter.

The balance for the cost of raw materials sourced internationally and the cost of raw materials sourced domestically rose by 2 and 3 points respectively, to +26%. The balance figures for both the cost of borrowing and the pressure of employees to increase wages rose by 6 points, to +7% and +20% respectively.

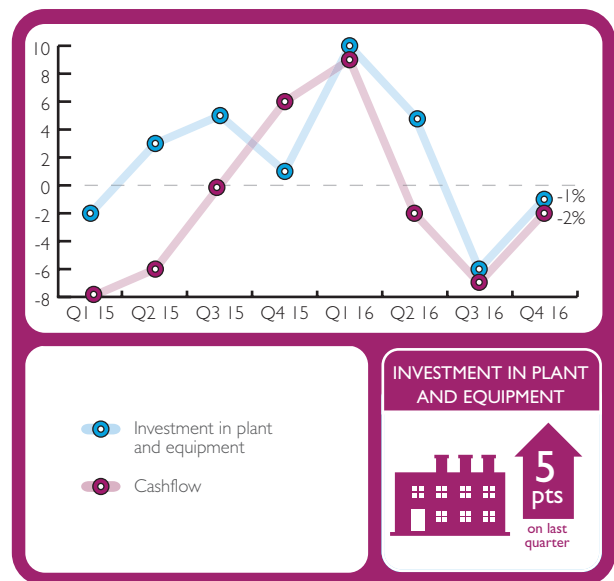
By far the largest cost increases were reported for energy and fuel (not included in the graph): the balance for the cost of energy rose by 13 points, to +26%, while the balance for the cost of fuel rose by 29 points, to +44%.

CASHFLOW AND INVESTMENT

Capital 500 companies' cashflow position remained negative during Q4 2016, but improved compared to last quarter: On balance, 2% of businesses reported a decrease, up 5 points from Q3, and the balance figure is now back on the same level as in the last poll before the Referendum.

The balance figure for investment in plant and equipment also remained negative, at -1%, but increased by 5 points compared to Q3 2016.

Larger businesses continued to report positive balance figures for both cashflow (+7%) and capital investment (+7%), whereas the balances for micro businesses continued to be negative (-3% and -2% respectively). While businesses based in Inner London reported a negative balance for cashflow (-5%), they reported a positive figure for capital investment (+1%). In contrast, businesses based in Outer London reported a positive balance for cashflow (+2%), but a negative one for investment (-3%).



The cost of doing business in London is set to soar as the business rates revaluation comes into effect in April 2017. London business will pay 11% more next year, in stark contrast to often equivalent levels of reductions across the rest of England. This risks driving business, particularly smaller businesses, out of the capital, or even out of business altogether. Government should consider substantive changes to the revaluations model, including breaking the link between revaluations and the fixed total tax yield generated.

London's business rates could be 'de-coupled' from the national valuation system, whereby an increase in London's rateable values would not inevitably lead to significant increases in business rates (while this would not have to depress the tax base in other areas).

BUSINESS CONFIDENCE



Capital 500 companies' expectations for the next 12 months stabilised during Q4 2016. The balance figures for both turnover expectations (+8%) and profitability expectations (+2%) remained overall positive, and in line with the results from Q3.

On balance, 5% of London businesses expect their overall company prospects to decline during the next 12 months, a 4 point improvement on last quarter.

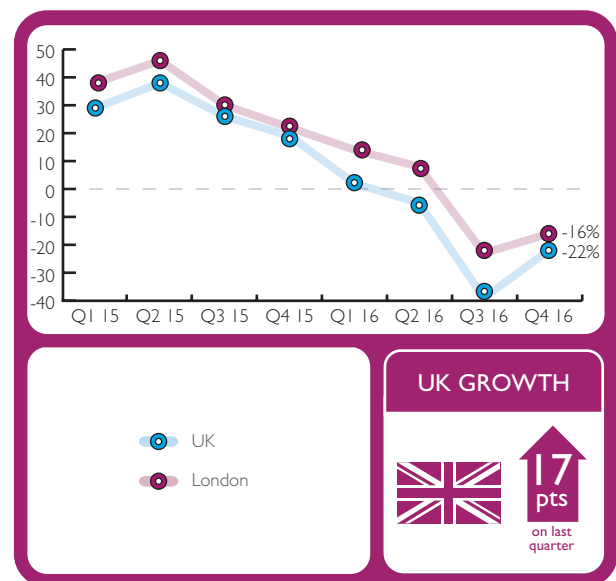
While micro businesses, on balance, remained pessimistic about their company's prospects (-5%), a more positive figure was recorded for larger businesses (+8%). Inner London businesses continued to report a lower balance (-7%), than businesses based in Outer London (-1%).

ECONOMIC OUTLOOK

Following five consecutive quarters of declining balance figures, there has been an uptick in expectations for the UK as well as the London economy, although both remain in negative territory.

The balance figure for expectations of the UK economy went up by 17 points, as on balance 22% of *Capital 500* companies expect the UK's growth to weaken. Expectations for the London economy were up 7 points, with 16% of businesses expecting a decline.

Inner London businesses were on balance more pessimistic about the prospects of both London (-22%) and the UK (-29%), than businesses based in Outer London (-9% and -15% respectively). London's prospects were, on balance more often perceived to be negative by micro businesses (-16%) than larger businesses (-11%). In contrast, larger businesses were more pessimistic about the UK's prospects (-25%), than micro businesses (-21%).



The 2016 Autumn Statement has seen movements in the right direction to boost confidence in the capital, not least around further devolution of the adult education budget and the budget and employment support services. However, further steps are required. To ensure that the capital remains a leading global city, and can respond to the forecasted population growth to 10 million by 2030, London should have greater freedom to invest in its own infrastructure and broader development, and more certainty over its future funding.

London will need greater powers to accommodate forecasted population growth. Retaining more London generated taxes and securing new competencies are key.

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