LONDON CHAMBER of COMMERCE AND INDUSTRY

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# CAPITAL 500

## LONDON QUARTERLY ECONOMIC SURVEY

Q3

2016

ComRes

October 2016

## LCCI COMMENTARY – THE BUSINESS VIEW

"Several economic indicators, published in recent weeks, have suggested that the UK economy is faring better than many expected in the aftermath of the Referendum decision. This is in line with what LCCI has found when talking to members: London businesses are taking a pragmatic and level-headed approach to the Referendum outcome.

"The first post-Referendum *Capital 500* survey suggests that businesses are grappling with the inevitable uncertainties caused by the vote to leave the EU, as all indicators of business confidence for the next 12 months have seen a decline, to record low figures. Furthermore, after an initial decline in *Capital 500* business performance indicators in the run-up to the Referendum on 23 June, as measured in the Q2 results, all indicators have continued to drop during Q3 2016.

"In light of these findings, there is clearly no scope for complacency as we take the first steps towards a post-Brexit future. It is of vital importance that Government takes steps to reduce uncertainty, and boost business confidence in the short term. For London, that means investing in strategic infrastructure and addressing ongoing domestic issues including the impact of the forthcoming business rates revaluation and introduction of the Apprenticeship Levy."

**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 504 London business leaders between 3 August and 31 August 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.comres.co.uk.

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 impact of stronger than expected UK GDP growth in the second quarter and swift action by the Bank of England after the referendum have stabilised the markets. It now looks like a recession will be avoided as a result. More support to the economy is expected in the Autumn Statement in November. Sterling's fall has helped certain export sectors and consumers still enjoy increases in real disposable incomes. But increased consumer prices will impact soon on consumer spending, input costs are increasing, profit margins are being squeezed in many sectors and activity remains subdued in manufacturing and construction.

"The latest OECD forecast upped the UK growth rate to 1.8% from 1.7% for 2016 - but downgraded all major economies and halved next year's growth in the UK to just 1% from 2% expected in June. Uncertainty is generally not good for business as the LCCI survey results suggest. Indeed, the latest Bank of England survey found slower growth in all UK regions and a drop in investment and employment intentions."

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

# DOMESTIC DEMAND


**Domestic demand continued to decline during Q3 2016,** with both sales and orders reaching their lowest recorded *Capital 500* level.

Already in negative territory, the balance for domestic sales fell by 8 points since last quarter, as on balance 9% of London businesses reported a decrease in domestic sales. The balance figure for domestic orders decreased by 7 points to -11%.

Micro businesses reported a lower balance figure for domestic sales (-10%) than larger companies (-1%). On the same measure, businesses based in Outer London fared worse (-13%), than businesses based in Inner London (-5%).

# EXPORT DEMAND

**Export demand also continued to decline,** but despite falls in both export sales and orders, both balance figures remained in positive territory.

Q3 2016 saw a 2 point fall in the balance for export sales, which is now at its lowest recorded *Capital 500* level, as on balance 1% of London businesses reported an increase in export sales. The balance figure for export orders fell by 4 points, to +1%.

While businesses based in Inner London, on balance, continued to increase their export sales (+3%), those based in Outer London saw a net decrease (-1%). Larger businesses reported a more positive change in export sales (+4%) than micro businesses (0%).


That export demand has fared better than domestic demand during Q3 2016 is likely a consequence, at least in part, of the Referendum result and the consequent depreciation of sterling. In the new post-Referendum period, the Government should move with pace to support London firms that currently export and look at practical measures to encourage new exporting activity, to enable firms to fully capitalise on the weaker pound.

A cross-Whitehall national strategy for exports growth could coordinate relevant departmental policies and outline the role that businesses and private providers could play in an integrated effort to target support to greater numbers of UK firms, particularly SMEs, looking at overseas markets.

# LABOUR MARKET


**Q3 2016 saw the lowest recorded *Capital 500* employment levels,** with 6% of London businesses, on balance reporting decreased employment over the last three months, down 8 points on last quarter. Expectations for the next quarter also continued to decline, as 2% of businesses, on balance, expected their workforce to increase, a 7 point decline on Q2 2016.

While the employment balance figure for larger businesses continued to be positive during Q3 2016 (+6%), the balance figure for micro businesses turned negative (-8%).

Businesses in Outer London were, on balance, more likely to have experienced a decline in employment levels, resulting in a balance figure of -9%, compared to -3% in Inner London.

# RECRUITMENT AND TRAINING

**A record low number of *Capital 500* companies were planning to invest in training and looking to recruit during the past three months.** Plans for investment in training continued to decline, with 3% of companies, on balance, decreasing investment plans, down 7 points on last quarter.

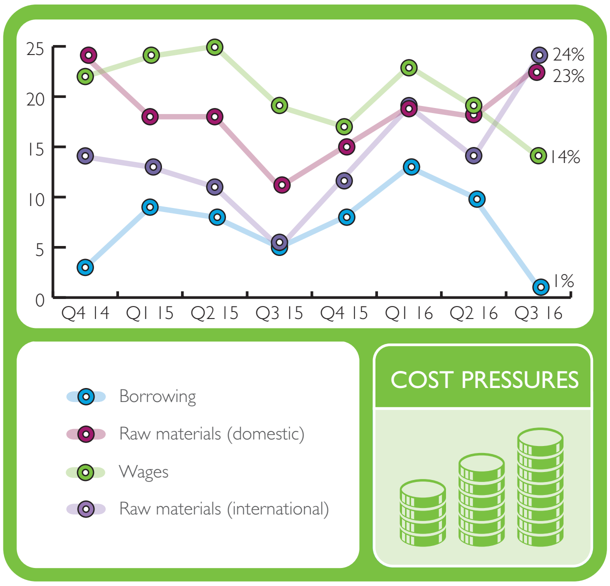
13% of companies were looking to recruit during Q3 2016, down 4 points on Q2 2016. 71% of them were recruiting for full-time positions and 38% for part-time positions. Of the companies looking to recruit, half (51%) encountered difficulties finding sufficiently skilled candidates. Professional/managerial positions were 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 continued to be most likely to mention training existing staff (23%).


As staff training remains the main way London businesses acquire new skills, declining investment in training this quarter is a cause for concern. The forthcoming Apprenticeship Levy - due to be implemented in April 2017 - has the potential to shake-up London businesses' approach to training and recruitment. However, LCCI supports efforts to promote and create apprenticeships, it should be made certain that the Levy is sufficiently flexible to work best for businesses, including by ensuring it can be used to support other high quality training, beyond just apprenticeships.

The Government should ensure Apprenticeship Levy funding can be used to support other high quality workplace and vocational training and large employers should be able to transfer their electronic vouchers to smaller firms in their supply chain.

# BUSINESS COSTS




**The cost factor that, on balance, increased the most during Q3 2016 was the cost of raw materials.**

The balance figure for the cost of raw materials sourced internationally went up 10 points to +24%, while the balance for raw materials sourced domestically went up 5 points to +23%.

In contrast, the balance figures for the cost of borrowing (down 9 points to +1%) and the pressure from employees to increase wages (down 5 points to +14%) declined considerably during Q3 2016.

Cost factors that, on balance, changed the least were fuel (up 1 point to +15%) and energy (up 2 points to +13%).

# CASHFLOW AND INVESTMENT

***Capital 500* companies' cashflow position continued to decline during Q3 2016,** with 7% on balance reporting a decrease, down 5 points on last quarter.

**The balance figure for investment in plant and equipment decreased even further,** by 11 points, as 6% of *Capital 500* companies reported a planned decrease in capital investment.

Larger businesses reported higher balance figures for both cashflow (0%) and capital investment (+10%), than micro businesses, which reported figures of -9% and -7% respectively.


London businesses facing new challenges including Brexit and the Apprenticeship levy, will soon receive estimates of their new business rates revaluations to come into effect in April 2017. Against a backdrop of rising business costs (which is likely linked to the low rate of sterling) and stalling cashflow and investment indicators, it is vital that the potentially negative impacts of policy changes, including the business rates revaluations on businesses' performance, are addressed early.

The Mayor of London should work with business groups to assess the potential impacts of significant new ratings on London businesses across differing boroughs and across various sectors.

# BUSINESS CONFIDENCE


**In line with decreases seen in all indicators of London companies' performance over the last two quarters, expectations for the next 12 months continued to deteriorate to *Capital 500* record lows.** On balance, 9% of London businesses expected their overall company prospects to decline, moving into negative territory for the first time and down a record 22 points on last quarter. Expectations for company turnover and profitability also dropped, by a record 17 points and 14 points respectively, but remained in positive territory.

While micro businesses were, on balance, pessimistic about their company prospects (-11%), larger businesses were slightly more upbeat (+1%). On the same measure, businesses based in Outer London continued to report a lower figure (-12%) than businesses based in Inner London (-7%).

# ECONOMIC OUTLOOK

**Expectations for both the UK and London economy remained on a downward trajectory,** now for the fifth consecutive quarter, and firmly into negative territory. On balance, 39% of *Capital 500* companies expected UK economic growth to weaken, down a record 34 points on Q2 2016. Expectations for London's economy were down 31 points, as 23% of *Capital 500* companies on balance expected a decline.

The UK's economic prospects were, on balance, more often perceived to be negative by micro businesses (-41%), than larger businesses (-24%). Businesses based in Inner London were more pessimistic about the UK's growth prospects (-45%), than businesses based in Outer London (-33%).


The downward economic outlook has undoubtedly been impacted by uncertainties caused by Britain's vote to leave the EU. The Government must respond quickly and boost business confidence in London's economy in the short term, including by investing in the capital's strategic infrastructure.

The forthcoming Autumn Statement provides an opportunity for Government to boost business confidence by moving strategic London transport infrastructure like Crossrail Two or a new runway to 'next stage' while targeting public sector investment to attract private finance to support future infrastructure projects.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