LONDON CHAMBER of COMMERCE AND INDUSTRY

CONNECT. INFLUENCE. SUPPORT.

CAPITAL 500

LONDON QUARTERLY ECONOMIC SURVEY

Q4 2015

ComRes

January 2016

"The final *Capital 500* Quarterly Economic Survey of 2015 shows that London businesses are performing well amid a growing business consensus that UK economic growth is stabilising. Notable increases in domestic demand paint this quarter's figures in a particularly positive light and underline strong performance in terms of cashflow, revenue and profitability. London businesses will hope these trends continue well into 2016.

However, while these signals are encouraging, in order to protect the capital's position as a world-leading place to do business Government must now look to cement a strong London economy for the medium and longer-term. This has to include realistic investment in the capital's strategic transport infrastructure, practical steps to tackle the skills gap and, ultimately, enhanced devolution as London surges toward being a city of nine million people by 2020."

Colin Stanbridge, Chief Executive, LCCI

"The survey for London confirms the general picture across the UK which is one of slow growth in exports, particularly affecting manufacturing. This is partly due to a stronger sterling but also to unusually weak world trade growth for this point in the cycle. A slowdown in the emerging markets is to a large measure responsible for that, but also geopolitical tensions – which have if anything intensified recently.

The result is that businesses are increasingly cautious, with investment intentions slowing down with much of the focus on cost-cutting and rationalisation to achieve efficiencies. This is hardly surprising given the concerns over the state of the global economy but also policy uncertainty in the UK – not just in the area of infrastructure spending on airports and elsewhere but also over membership of the European Union. The Chancellor has announced slower spending cuts than had been feared, but expects to get much higher tax revenues than originally thought. We may therefore come to view the 3% growth achieved in 2014 as the high point of the current recovery."

Vicky Pryce, Chief Economic Adviser, CEBR

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.**

Capital 500 QES results are not directly comparable to QES results published between Q1 2008 and Q1 2014, as only LCCI members were polled during this period.

METHODOLOGY

ComRes surveyed a total of 511 London business leaders between 2 and 19 November 2015. 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 comres.co.uk.

Balance figures referred to throughout this report are determined by subtracting the percentage of companies reporting decreases from the percentage of companies reporting increases. Any data reproduced from the report should be fully referenced.

DOMESTIC DEMAND

DOMESTIC SALES

+9%

↑ 6 POINTS

24% reported increased domestic sales

Domestic demand remains on an upwards trajectory and is one of the factors underpinning the strong performance of London businesses during Q4 2015. The balance figure for domestic sales was +9% (up six points), with almost a quarter (24%) of businesses reporting increased sales. **Similarly strong performance was registered in terms of domestic orders, with an indicative balance figure of +6%.** This is an encouraging seven point increase on performance in Q3 2015 and the first time that a positive balance figure has been reported in this measure since Q4 2014.

Strong domestic demand figures were also reported for Q4 2015 in the October and November releases of UK Purchasing Managers' Index survey data. Growth was recorded in the manufacturing sector for the 32nd consecutive month, with the strongest expansion seen in consumer goods (Markit/CIPS: *UK Manufacturing PMI*, December 2015).The services sector recovered well following September's 29-month low and recorded growth in October and November (Markit/CIPS: *UK Services PMI*, December 2015).

These strong results are a particularly encouraging indicator for London's future economic performance and point to healthy underlying domestic markets. Expectations have now been set for similarly strong sales performance in the coming year.

EXPORT DEMAND

EXPORT SALES

+4%

↑ 1 POINT

8% reported increased export sales

Export performance has remained level from Q3 to Q4 2015, with a reported balance figure of +4% for export sales (a one point increase compared to the previous quarter). Almost one in ten (8%) businesses reported an increase in export sales, while only 4% reported a decrease. **There was also a one point increase in the overall balance figure for export orders, which rose to +3%.**

Monthly trade data suggests that the UK's deficit in goods and services widened in October to £4.1bn, up from £1bn in September 2015. This move can, in turn, be attributed primarily to trade in goods, where the deficit increased from £8.8bn in September 2015 to £11.8bn in October 2015 (ONS: *UK Trade October 2015*, December 2015). While monthly trade data should be treated with a note of caution due to its volatility, the appreciation of sterling against the euro during Q4 did not provide a favourable trading environment for UK exporters.

The Government has often restated its aspiration to treble exports, yet a decision on building a new runway to increase London airport capacity has again been delayed. Without a clear decision there is a risk that, over time, London's position as a global business hub will be undermined. Unless additional capacity for daily, direct and frequent air services to and from far-off established and emerging economies is provided, London businesses will continue to face difficulties accessing certain markets.

The interdependency of trade and air-links needs to be a central consideration in the runway decision process. However, as any new runway will not be operational until the mid-2020s, Ministers should enact practical short-term measures to boost London airport capacity and make best use of existing airport, airfield and terminal infrastructure around the capital.

LABOUR MARKET

EMPLOYMENT

+3%

↑ 3 POINTS

10% increased employment in the last three months

London businesses are more likely to have reported an increase than a decrease in their employment levels during the final quarter of the year, with 10% reporting a rise in the number of people they employ. Along with a reduction in the proportion of businesses which decreased the size of their workforce, this translated into an improved overall balance figure of +3%. This represents a three point increase in the balance figure since the previous quarter.

The overall balance of employment expectations for the next 3 months also remained positive at +6%. While this figure is down by four points compared to the Q3 results, it remains in positive territory and reflects how London businesses continue to seek expansion. One in ten (11%) companies expect their workforce to increase in size, compared to just 5% who expect it to decrease.

Regional labour market statistics appear to support the positive trend in employment levels in London, with the total number of workforce jobs estimated to have risen by 35,000 during the previous quarter (ONS: *Regional Labour Market*, November 2015).

RECRUITMENT AND TRAINING

INVESTMENT
TRAINING

+2%

↓ 1 POINT

10% increased investment in training

As suggested by the rise in the employment balance figure, **there was a slight increase in the number of firms which looked to recruit new staff in the past three months. Almost one in six businesses (16%) looked to hire during Q4 2015.** The majority of recruitment was for full-time positions (54%), but there was a large increase in the proportion of part-time roles (44%, up thirteen points).

Around half of London businesses looking to recruit in the last quarter encountered difficulties (51%). Professional/managerial positions and skilled manual/technical roles continue to be the categories in which difficulties are most common for *Capital 500* companies which encountered issues recruiting staff.

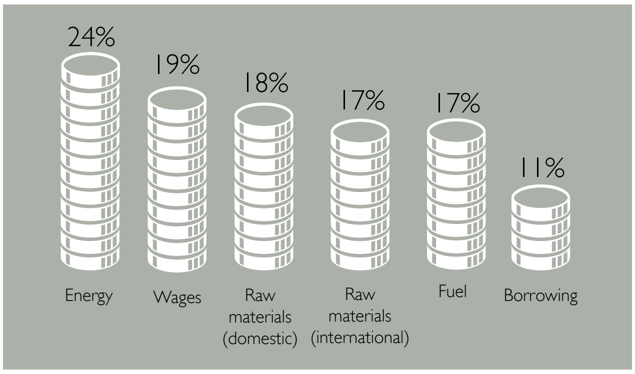
Responses to the *Capital 500* survey indicate a mixed picture as far as investment in training is concerned. While **the proportion of firms which looked to increase their investment in training rose by one point to 10%, the overall balance figure decreased by one point to +2%.** This can, in turn, be attributed to increased volatility in business' training investment plans. While the vast majority (82%) of businesses still maintained their plans, this figure was down from a reported 85% in Q3.

The Government provided further details regarding its proposal to introduce an Apprenticeship Levy in its 2015 spending review. To deliver the Government's target of 3 million apprenticeships by 2020, employers will be required to pay the equivalent of 0.5% of their wage bill. While it is welcome that the need to tackle the UK's skills shortage has been recognised, it is important that the Government remains committed to working with businesses to ensure that apprenticeship schemes are high quality and help boost workforce productivity.

To ensure that the apprenticeships being created are of a sufficiently high quality to meet businesses' skills needs, the Government should review its collaboration and cooperation with business especially around the setting and maintenance of apprenticeship standards.

BUSINESS COSTS

INCREASED COST PRESSURES



Energy prices replaced wages as the cost most likely to have increased for *Capital 500* companies. Almost a quarter (24%) of businesses named the price of energy as having increased. This compares to just under one in five businesses (19%) who say that pressure from employees to increase wages has risen (down by four points compared to Q3).

Increased cost pressures for raw materials, fuel and borrowing were also experienced by businesses during Q4. This effect was particularly marked in terms of international raw materials, which increased to 17% (up six points compared to Q3).

Competition was more of a concern than three months ago for 39% of London businesses, and remained the top business concern among *Capital 500* companies. This figure represents a five point increase on the results from Q3. The proportion of businesses more concerned about inflation than last quarter increased to 16% (up three points), however this remains significantly below the average level seen in 2014, in part due to sustained low level consumer price inflation. Business rates were also more of a concern for just under one in five (19%) businesses, up by three points over the last quarter. Finally, concerns regarding interest rates were significantly down to 17% (a seven point decrease).

CASHFLOW AND INVESTMENT

INVESTMENT
PLANT AND EQUIPMENT

+1%

↓ 4 POINTS

10% increased capital investment

There was substantial improvement in the cashflow positions of *Capital 500* companies during Q4 2015. Cashflow levels increased by six points to give an overall balance figure of +6% (24% of businesses reported an increase, 18% a decrease). The majority of businesses (59%) experienced no change.

Despite improved cashflow, reduced investment in plant and equipment (indicated by an overall balance of +1%, down four points on the Q3 results) suggests that recent investment growth may be slowing. While the balance figure remains in positive territory, the slowdown may indicate that businesses have become more risk averse in light of recent turbulence in global markets. Only one in ten (10%) businesses increased their capital investment plans, despite the gains which were registered in other areas of business performance.

National business investment statistics support the finding of strong growth during Q3, with business investment estimated to have increased by 2.2% to £44.4bn (ONS: *Business Investment, Q3 2015 Provisional Results*, November 2015). Evidence from other business surveys echo that, while investment growth remained positive, it was more subdued during Q4 2015 than the previous quarter (ICAEW/Grant Thornton: *UK Business Confidence Monitor Q4 2015).*

The announcement of a new Transport Development Fund is a welcome step to help unlock the major transport infrastructure projects that will encourage ongoing investment in London's economy. There are, however, concerns that the financial pot may not be large enough to secure the future of London's many strategic transport projects including tube extensions, new river crossings in East London and Crossrail 2.

While the announcement of a new Transport Development Fund is welcome, the Government should be prepared to allocate additional funding if required to get vital strategic infrastructure projects into development.

BUSINESS CONFIDENCE

BUSINESS CONFIDENCE

+24%

NO CHANGE

33% expect their company's prospects to improve over the next 12 months

Business confidence stabilised in Q4, following a sharp decline in the previous quarter. **The balance figure of +24% indicates that there was no change in business performance expectations since Q3.** A third (33%) of *Capital 500* companies reported that they expect their firm's performance to improve over the 12 months, while only 9% predicted a decline. Overall business confidence therefore remained remarkably positive, especially in the context of recent turmoil in external markets.

The underlying indicators of business performance suggest there is a strong basis for economic growth in London during 2016. 41% of businesses expect their turnover to increase over the next 12 months compared to just 12% which expect a decrease. This gives an overall balance figure of +29%, up four points on the Q3 2015 results. Businesses were similarly confident that their profitability would increase over the next calendar year, with an overall balance figure of +23% (up five points).

Small declines in business confidence have been reported in other business surveys; however confidence on the whole remains firmly positive (ICAEW/Grant Thornton: *UK Business Confidence Monitor Q4 2015*).

ECONOMIC OUTLOOK

UK GROWTH

+19%

↓ 7 POINTS

34% expect UK growth to improve over the next 12 months

London businesses' expectations for the UK's economic growth have continued to moderate during the final quarter of 2015. The overall balance narrowed to +19%, significantly down on the Q3 results (by seven points). While this is a concerning fall, it can primarily be attributed to the levelling out of businesses' economic expectations, rather than businesses believing that economic contraction is ahead. The change in the balance figure can therefore be accounted for by an increase in the proportion of businesses who believe that UK economic growth will remain at current levels. There was no change, meanwhile, in the proportion of *Capital 500* companies that believe the UK's growth prospects will worsen (15%).

Expectations for London's economic growth over the next 12 months were similarly subdued, but remain in solidly positive territory. **The overall balance figure for London's growth prospects was +22%, an eight point decline on the Q3 2015 results.** This is accounted for by a seven point decrease in the proportion of businesses who believe that London's economic prospects will improve and only a one point increase in those who believe that it will worsen. The overall balance figure is the lowest recorded since the *Capital 500* survey began, over a year ago.

While a significant decline in the balance figures for growth expectations would ordinarily be alarming, the declines reported by *Capital 500* companies suggest that there is now a perception that economic growth is now stabilising.

In order to ensure that London's economy continues to strengthen, the capital should be afforded greater fiscal powers to address its critical infrastructure needs. The retention of business rates by local authorities is a welcome first step towards making this happen, but a full review of fiscal devolution – its impact and how this can work in practice – is required.

London's elected politicians – not Whitehall - are best placed to understand the capital's future needs. The Government should revisit the debate on fiscal devolution to the capital; its impact on public finances and how an enhanced devolution arrangement might work in practice.

London Chamber of Commerce and Industry
33 Queen Street, London EC4R 1AP

W: londonchamber.co.uk/research
E: research@londonchamber.co.uk
T: +44 (0)20 7248 4444

For further information on this report, please contact

Sean McKee
Director of Policy and Public Affairs

E: smckee@londonchamber.co.uk
T:+44.(0)20 7203 1882

Silviya Barrett
Policy Research Manager

E: sbarrett@londonchamber.co.uk
T:+44.(0)20 7203 1817