# 'CAPITAL 500'

# LONDON QUARTERLY ECONOMIC SURVEY

Q2 2014

JULY 2014

ComRes

LONDON CHAMBER of COMMERCE AND INDUSTRY

"London Chamber of Commerce has long been gauging the capital's economic pulse by surveying members' business performance and confidence. With much focus on 'green shoots' taking root, as well as Westminster and Mayoral elections within the next two years, we have enhanced our Quarterly Economic Survey to produce the *Capital 500* – the biggest regular business survey in London.

"The Q2 2014 results paint an overall positive, albeit slightly subdued, picture. While businesses are overwhelmingly confident of their own performance and London's economic prospects, vulnerabilities remain. Particularly disappointing is weak export demand affected by the strong performance of sterling.

"The capital's small and medium-sized companies will be central to economic recovery. London Chamber is supportive of provisions in the Small Business, Enterprise and Economy Bill to expand access to finance for existing and aspiring exporters, and urges more Government action to help businesses explore new opportunities and prosper.

"Interest rates are among London business' top concerns. To reassure businesses and incentivise investment, there needs to be more certainty on the likely timing of any potencial future increases."

**Colin Stanbridge, LCCI Chief Executive**

# ABOUT 'CAPITAL 500'

For over ten years 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. The LCCI QES is part of the biggest and longest running national private business survey, conducted by regional chambers of commerce across the UK every quarter.

This quarter we have partnered with leading polling company, ComRes, to reinvigorate the LCCI QES. ComRes has expanded the survey beyond LCCI membership to poll a panel of London businesses that are fully representative of the London economy by business size and include a cross-section of sectors. **From this quarter, the LCCI QES will be based on responses from over 500 London businesses – the *Capital 500* – that makes it London's largest and most authoritative business survey.**

The adjustment in methodology from this quarter means that the *Capital 500* QES results are not directly comparable to previous results. This publication includes graphs to illustrate the trends for a number of indicators between Q1 2008 and Q1 2014, as indicated by polling of LCCI members only over this period.

# METHODOLOGY

ComRes surveyed a total of 506 London business leaders online between 19 May and 11 June 2014. All sectors of the London economy were represented including financial (8%), legal and business services (11%); professions (9%); manufacturing (4%) and industry (5%); property and construction (8%); transport and logistics (2%); retail/wholesale (7%); hospitality, leisure and tourism (6%); communication, technical and creative (15%); and other services (16%). All data has been weighted to be representative of all London businesses by company size.

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.

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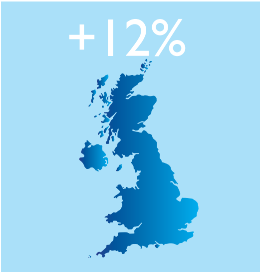
# DOMESTIC DEMAND

## DOMESTIC SALES



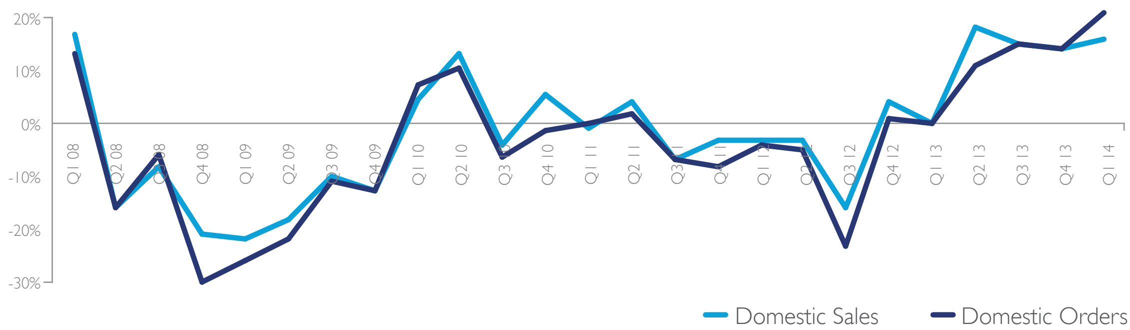

27% reported increased domestic sales

**In Q2 2014, 27% of the *Capital 500* businesses reported an increase in domestic sales and 15% reported a decrease, leaving a balance figures of +12%.** The balance figure for domestic orders was +9% (22% of the *Capital 500* reported an increase and 13% a decrease).

These positive balances follow a positive trend reported by the last LCCI survey since Q1 2013 (see Figure 1 below).

The results are consistent with recent indications that the UK manufacturing sector has maintained strong growth in output and new orders (Markit/CIPS: *Purchasing Manager's Index*, May 2014).

Figure 1: LCCI members - domestic sales and orders trend (balance figures)




# EXPORT DEMAND

## EXPORT SALES


11% reported increased export sales

**The Q2 2014 balance figure for export sales was +1%, with 11% of the *Capital 500* businesses reporting an increase and 10% reporting a decrease.** In terms of export orders, while 81% of London businesses reported no change, 9% reported an increase and 10% a decrease, leaving a balance figure of -1%.

These disappointing export figures correlate with the latest trade data. As the strong rise in sterling over the past year made UK exports more expensive, the deficit on trade in goods and services increased by £1.4 billion between March and April 2014, as exports of goods fell, while imports increased (ONS: *UK Trade April 2014*, June 2014).

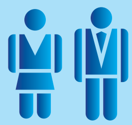
LCCI welcomed the Chancellor's Budget announcements that Air Passenger Duty on long-haul flights to emerging markets would be reduced and that UK Export Finance availability would be increased. Given the UK's current account deficit however, it is clear that more support is still needed to help non-exporters looking to start trading overseas and existing exporters looking to break into new markets.

> There is a great amount of untapped exporting potential among London's smaller businesses. The provision in the Small Business, Enterprise and Employment Bill to expand access to finance for existing and aspiring exporters is a welcome development.

# LABOUR MARKET

**EMPLOYMENT**

**+4%**



12% increased employment in the last three months

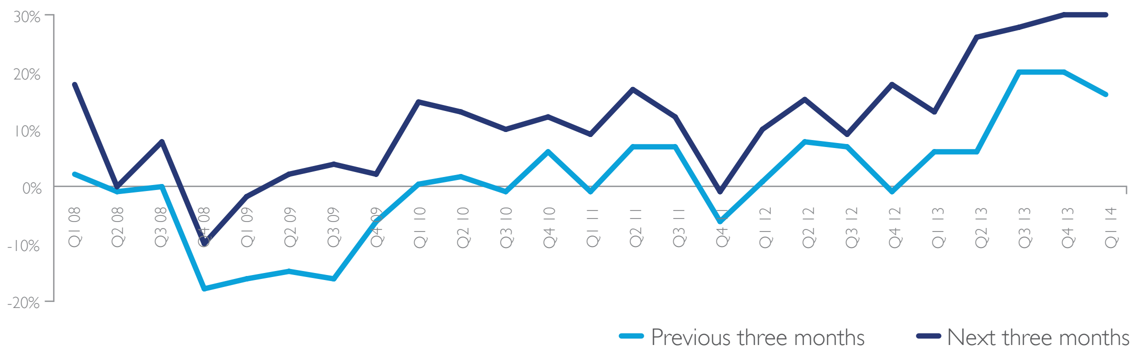
**Q2 2014 employment levels remained unchanged for 80% of the *Capital 500* businesses.** The balance of employment over the previous three months was +4%, as 12% of business leaders reported an increase in employment and 8% reported a decrease.

The capital's businesses were broadly optimistic about employment levels for the next three months. **Only 6% expect their workforce size to decline, compared to 16% anticipating an increase**, leaving a balance of +10%.

These balances follow a slight drop in employment levels in the last LCCI survey in Q1 2014, following consistent employment growth over the course of 2013 (see Figure 2).

The overall positive employment picture aligns with the latest UK jobs figures, which revealed employment levels in London were at a record high of 72.3% in the first quarter of this year, driven by a rise in the number of people in full time employment (ONS: *Regional Labour Market Statistics*, June 2014).

**Figure 2: LCCI members - employment levels trend (balance figures)**




# RECRUITMENT AND TRAINING

**INVESTMENT**
**TRAINING**

**+4%**

13% increased investment in training

**The balance figure for investment in training was +4% in Q2 2014**, with 13% of the *Capital 500* businesses planning to increase their training budgets and 9% planning a reduction.

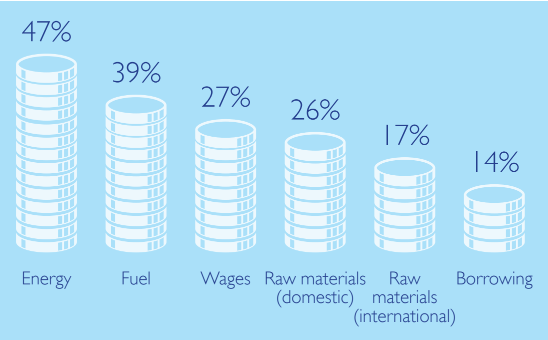
16% of London's businesses tried to recruit in the last three months, with the majority of the jobs advertised being full-time (60% of those who were looking to hire). However, **almost half (48%) of companies who tried to recruit experienced difficulties in finding sufficiently qualified staff for vacancies**. Among those who tried to recruit and encountered difficulties, professional or managerial jobs (48%) and skilled manual or technical staff (41%) were the positions where the most difficulties were experienced, underlining the need to address the skills gaps in London's workforce.

Addressing the skills gap at all occupational levels is of critical importance to driving business growth. LCCI welcomed the Chancellor's Budget announcement of an extra £170 million in the Apprenticeship Grant for Employers over the next two years as a way to boost training for young people. We would, however, like to see such short-term incentives combined with longer-term solutions to Apprenticeship funding.

A long-term funding solution for Apprenticeships will go some way to training young people with the skills that businesses need. This should be supplemented with a sustainable funding model for training at all levels to upskill those already in work and plug the gap at managerial and professional levels.

# BUSINESS COSTS

**INCREASED COST PRESSURES**




**The cost of energy is the biggest cost pressure on the *Capital 500* businesses**, with 47% reporting an increase in the cost of energy over the last three months. The second highest increase has been in the cost of fuel (39%), while 27% of London businesses faced pressure from employees to raise wage levels. On the other hand, the cost of borrowing saw the lowest increase, with only 14% of business leaders reporting an increase. 42% of London businesses also felt pressure to raise prices due to overheads.

**Asked about what had grown as a concern over the last three months, 41% of the *Capital 500* businesses selected competition. Interest rates and inflation were businesses' joint second highest concern**, with 29% more worried about each of those in Q2 2014 than they were three months before. Following six consecutive months when inflation has been below its 2% target and a period of stable growth, the Bank of England has already indicated that interest rates may rise towards the end of the year. London businesses can weather any small and gradual increase but anything more dramatic would severely impact on costs and profits. With the strong rise in sterling over the past year, the weak export demand balances are another reason not to raise interest rates prematurely.

> To sustain business confidence and foster exports growth, the Monetary Policy Committee must send a clear and consistent message to the business community on the timing and pace of any interest rate increases.

# CASHFLOW AND INVESTMENT

**INVESTMENT**
**PLANT AND EQUIPMENT**


12% increased capital investment

With rising business costs, the business financial environment has been challenging. **The cashflow balance was +4%, with 28% of the *Capital 500* businesses reporting an improving position and 24% reporting a declining position**.

Business investment contributed strongly to UK economic growth in the past year. It grew consistently for five consecutive quarters, its longest period of expansion since 1998, to reach £32.8 billion in Q1 2014, adding 0.2 percentage points to UK GDP (ONS: *Business Investment, Q1 2014 Provisional Results*, May 2014).

As a result of unstable fiscal positions and uncertainty over interest rate rises, however, business investment seems to have slowed down. **The Q2 2014 balance figure for investment plans in plant and equipment was +3%, with 12% of the *Capital 500* businesses reporting an increase, compared to 9% reporting a decrease.**

The decline was consistent with a drop in the capital investment plans reported in the last LCCI survey in Q1 2014, following consistently improving and positive balances during the course of 2013 (see Figure 3).

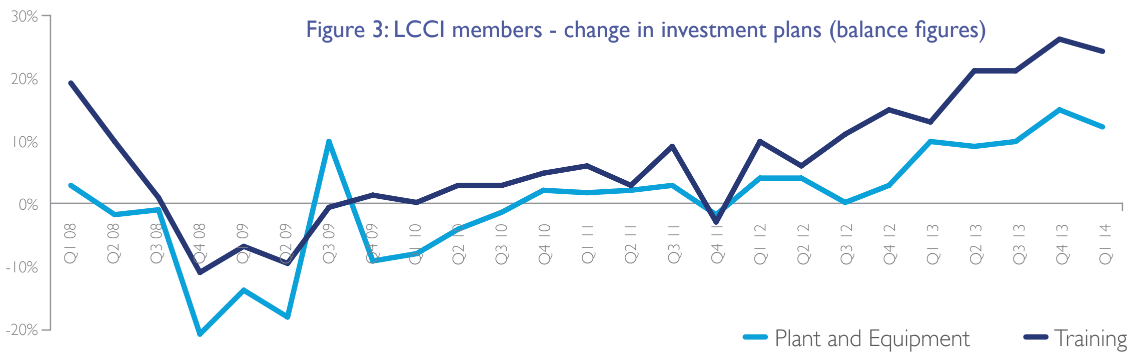



Figure 3: LCCI members - change in investment plans (balance figures)

# BUSINESS CONFIDENCE

**BUSINESS CONFIDENCE**

**+32%**

40% expect their company's prospects to improve over the next 12 months

Confidence figures for the next 12 months were up firmly in positive territory. **The balance figure for turnover expectations was +32%, as 47% of the *Capital 500* businesses anticipated an increased turnover in the year ahead and 15% anticipated a decrease.** The balance of profitability expectations was +26% (42% anticipated an increase and 16% a decrease).

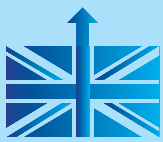
These positive balances correlate with other business surveys reporting increasing turnover and profitability expectations over the next 12 months (e.g. ICAEW & Grant Thornton: *UK Business Confidence Monitor*, April 2014).

**Asked about what they expected to happen to their company's economic prospects over the next 12 months, 40% of the *Capital 500* businesses expected an improvement and only 8% a deterioration, leaving a balance figure of +32%.** This indicates London businesses' high levels of optimism in their own prospects as the general economy continues to strengthen.

# ECONOMIC OUTLOOK

**UK GROWTH**

**+50%**



57% expect UK growth to improve over the next 12 months

Confidence in the UK's and London's economic outlook is strong in Q2 2014. **57% of the Capital 500 businesses expect the UK's economic growth to improve over the next 12 months, while only 7% believe it will worsen, leading to a balance figure of +50%.** The balance figure for London businesses expecting the capital's economy to grow over the next 12 months was even stronger at +53% (59% expected growth and 6% decline).

This follows the highly positive trend we saw in the last LCCI survey since Q1 2013 (see Figure 4).

Strong business confidence in UK growth is consistent with GDP figures, which have been in positive territory since Q3 2012 (ONS: *Second Estimate of GDP, Q1 2014*, May 2014). GDP forecasts have also been improving: it is now expected to increase by 2.7% in 2014, up from an earlier forecast of 2.4% (Office for Budget Responsibility: *Economic and fiscal outlook*, March 2014).

**Figure 4: LCCI members - expectations of UK and London growth (balance figures)**


Giving London more freedom over its financial arrangements will enable the capital to fulfil its growth potential and support other UK regions. LCCI supports the proposals for a devolution of the full suite of property taxes to the Greater Local Authority and London local authorities, as recommended by the London Finance Commission.