LONDON CHAMBER of COMMERCE AND INDUSTRY

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# CAPITAL 500

## LONDON QUARTERLY ECONOMIC SURVEY

Q3

2017

ComRes

July - September 2017

## LCCI COMMENTARY – THE BUSINESS VIEW

"The third *Capital 500* of this year shows that businesses are still grappling with the uncertainties caused by the turbulences in today's political and economic environment, including Brexit and rising inflation. Although on balance, plans for the future remain positive in terms of overall employment levels, investment in training and plant and equipment, all indicators of business confidence have been in decline, while expectations for the year ahead have remained negative for both the London and UK economies.

"Action must be taken to boost confidence amongst the capital's business community by strengthening the foundations of London's economy. Our politicians have an opportunity to now grasp the nettle and take a positive funding decision on Crossrail 2, secure affordable business work space in the forthcoming London Plan Review and agree additional devolutionary competencies for the capital.

"Moreover, with a record high number of recruiting companies having difficulties hiring new staff and uncertainty about what the UK's future immigration system will look like, it would be prudent to provide London with a new, separate Shortage Occupation List (SOL) responsive to its particular needs."

**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 569 London business leaders between 8 August and 5 September 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

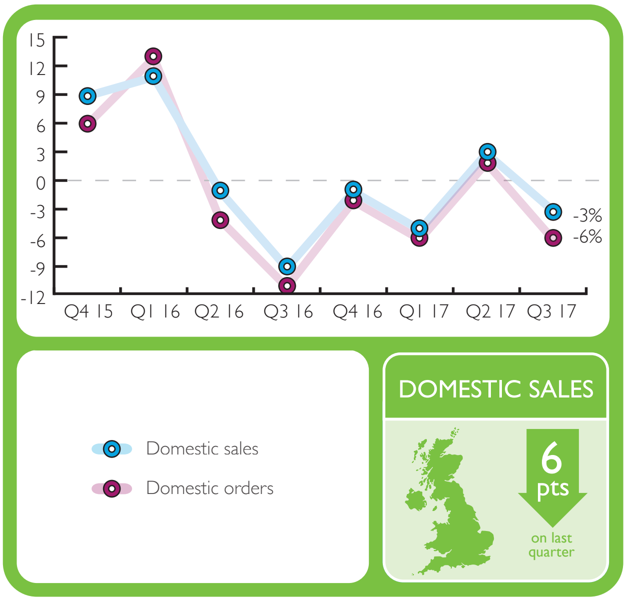
"The latest LCCI data chimes with what we are seeing across the UK as a whole. GDP growth in the third quarter may prove to be a bit stronger than in the first half of the year and there are signs that manufacturing output may be finally beginning to increase again. But in line with the *Capital 500* findings, UK business confidence as a whole has in fact fallen back as Brexit discussions appear to be stalling and the final outcome remains unclear.

"Consumer spending which had sustained the economy is slowing down as real incomes are being squeezed by rising inflation, with retailers reporting concerns about future profitability. And the Bank of England is now hinting that interest rates may be on the rise, which will be a blow to many firms which have seen margins squeezed by the impact of sterling's depreciation on their costs.

Business investment was flat in Q2 across the UK. And there are growing warnings from multinationals, not only in the financial sector, that their next investments, when they come, will be elsewhere in the EU. What is needed is some certainty, including on the likely fiscal stance ahead, for some of the confidence to return."

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

# DOMESTIC DEMAND




**During Q3 2017, the *Capital 500* domestic demand figures turned negative again,** following a rise in the previous quarter.

The balance figure for domestic orders fell by 8 points to -6%, as more businesses reported their orders had declined than increased. Domestic sales also fell, as on balance, 3% of businesses reported a decrease, reversing the uplift seen in Q2 2017 when 3% reported an increase.

While for micro businesses the domestic sales balance became negative (-5%), the balance for larger businesses remained positive (+16%). On the same measure, the balance for businesses in Outer London bounced back into negative territory (-8%), while Inner London businesses continued to report a positive figure (+2%).

# EXPORT DEMAND

**Export demand figures remained positive during Q3 2017,** but with differences between export sales and export orders.

The export sales balance remains positive at +3%, continuing its rise since the first quarter of 2017. The balance for export orders fell by 2 points to +1% following an increase seen in the previous quarter.

Larger businesses continued to report higher balance figures for both orders (+12%) and sales (+13), than micro businesses (0% and +1% respectively). In contrast to last quarter, Inner London businesses (+2% for orders, +3% for sales) were not outperformed by their Outer London counterparts (0% for orders, +3% for sales) during Q3 2017.


Domestic demand must ultimately be underpinned by a healthy and productive domestic economy. The Industrial Strategy currently under development by the Government provides an opportunity to make some real progress in this respect. One vital aspect of that is acknowledging the role London has and will continue to play as the engine of the UK economy – and in relation to that the need for greater devolution to the capital in concrete areas like transport and skills, to increases the effectiveness of the way in which London's needs can be addressed.

Government should use the Industrial Strategy to support growth by recognising the benefits of greater devolution of policy competencies – including finance, transport and skills – to City Hall.

# LABOUR MARKET


**Although the *Capital 500* employment balance continued to rise during Q3 2017, it stayed in negative territory for the fifth consecutive quarter.**

The balance figure for businesses' employment levels over the past three months went up by 1 point on last quarter, to -2%. Expectations for the next three months increased by 2 points on Q2 of this year, with on balance 5% of businesses expecting to expand their workforce.

While the employment balance for micro businesses declined from -3% to -4%, the figure for larger businesses went up by 10 points, to +10%. With regards to employment expectations, the balance figure for micro businesses rose by 2 points to +3%, and for larger businesses by 4 points to +25%.

# RECRUITMENT AND TRAINING

**During Q3 2017, the balance figure of companies looking to invest in training continued to decline,** while it remained positive overall. On balance, 1% of *Capital 500* companies were looking to invest in training, down 2 points on last quarter.

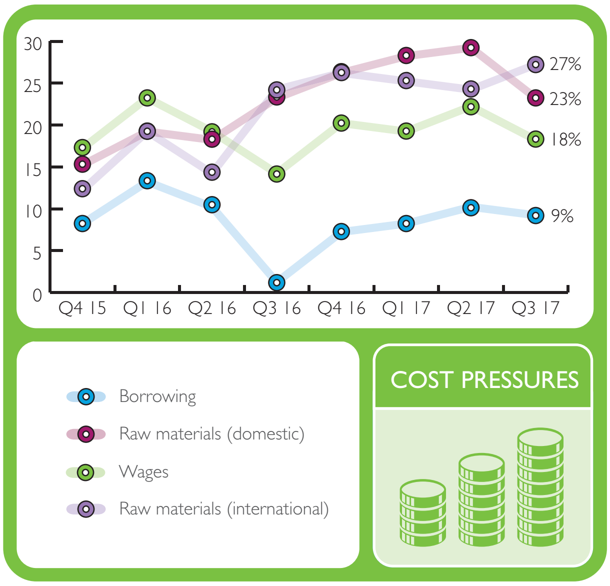
13% of *Capital 500* companies tried to recruit during Q3 2017, down 5 points on last quarter. Of these, three quarters (75%) recruited for full time roles and almost a third (30%) for part time roles.

**Of companies who tried to recruit, 60% encountered difficulties, the highest *Capital 500* level to date** (and up from 52% in Q2 of this year). Professional/managerial roles (51%) and skilled manual/technical roles (47%) continued to be the hardest to fill.


Skill and labour gaps continue to persist, and are putting a strain on London business, with a record high number of recruiting *Capital 500* companies struggling to find suitable candidates. While recognising that long-term, the solution to closing the skills gap is up-skilling the resident labour workforce, for the foreseeable future, access to non-UK talent will remain critical to ensuring the capital's continued success. And as London's immigration needs are unique within the UK, a regionalised approach to immigration policy can go a long way to making sure the capital's needs can be addressed in an adequate manner.

London's economic importance should be recognised in any new UK immigration policy through provision of a separate Shortage Occupation List (SOL) similar to what Scotland has. This would enable employers to better respond to acute shortages in specific professions and key sectors throughout the capital.

# BUSINESS COSTS




**In terms of business costs, the picture for Q3 2017 was a mixed one.**

While the balance figure for the cost of raw materials sourced domestically fell by 6 points on last quarter (to +23%), the cost of raw materials sourced internationally saw a 3 point rise (to +27%).

The highest balance figures (not included in the graph) were recorded for the cost of energy (up 2 points to +30%) and cost of fuel (up 1 point to +31%) – and continued to be higher than in any of the quarters in the period from Q3 2014 until Q3 2016. In contrast, the other two costs analysed in the *Capital 500* both went down: the cost pressure of employees to increase wages fell by 4 points to +18%, and the cost of borrowing fell by 1 point to +9%.

# CASHFLOW AND INVESTMENT

**While *Capital 500* businesses' capital investment continued to be positive, the cashflow balance remained negative overall.**

The cashflow balance stayed unchanged from Q2 2017, as a negative figure (-3%) was recorded for the sixth consecutive quarter. In contrast, 2% of businesses, on balance, planned to increase their investment in plant and equipment (down 1 point on Q2).

For larger businesses, the cashflow balance declined from +12% to 0%, while for micro businesses, it remained unchanged at -4%. For investment in capital goods, the balance figure fell to +8% for larger businesses (down 9 points on last quarter) but did not change for micro businesses (+1%).


Recent ComRes polling for LCCI has found that a majority of London businesses are concerned about the cost/affordability of business space in London.[1] This adds to the suite of uncertainties businesses already have to cope with in relation to Brexit, as well as rising inflation. One way the Government can assist, is by helping City Hall and London Boroughs ensure there is a good supply of affordable and accessible space for commerce and industry. In addition, the forthcoming review of the London Plan offers new opportunities for the mayor to better protect business space across the capital.

The Mayor of London must use the forthcoming review of the London Plan to secure long-term protection of business work space across the capital, including addressing the impact of Permitted Development Rights use – especially in the Central Activities Zone.

[1] ComRes survey for LCCI of 530 London businesses, May-June 2017.

# BUSINESS CONFIDENCE


**All business confidence indicators declined during Q3 2017.** Overall company prospects fell for the second consecutive quarter, with, on balance, 7% of businesses expecting their overall performance to worsen – down from -3% in Q2 of this year.

The balance figures for turnover and profitability expectations each went down by 3 points but stayed in positive territory: +8% for profitability and +11% for turnover.

While a drop in confidence was recorded for both larger businesses (down 5 points) and micro businesses (down 3 points), larger businesses continued to be positive about their company's prospects (+1%), and micro businesses continued to be negative (-8%). On balance, businesses from both Inner London (-5%) and Outer London (-10%) continued to expect their company's overall performance in the year ahead to worsen.

# ECONOMIC OUTLOOK

**Expectations of both the London and the UK economy remained more or less unchanged from last quarter,** and continued to be in negative territory overall.

The balance figure for expectations of London's economy remained the same as in Q2 2017 at -21%, while the balance figure for the UK economy increased by just one point to -28%. Both figures have now been in negative territory for five consecutive quarters (since the first *Capital 500* poll after the vote to leave the EU).

On balance, both micro businesses and larger business continued to be pessimistic about the prospects of London (-21% and -18% respectively) as well as the UK economy (-29% and -18% respectively).


Going forward, it will be vital to boost the confidence and outlook of the capital's businesses. To achieve that, positive steps will be required from the Brexit negotiations. However, that alone will not be enough. The Government must push ahead with vital decisions at home, whether that be around reviewing the way the business rates system works, or investing in key infrastructure – not least the decision to proceed with Crossrail 2 as a major infrastructure project of national importance.

Sustained investment in transport infrastructure is needed across the UK. In London, a funding solution must be swiftly secured for Crossrail 2 to advance project design and underpin efforts to secure the necessary powers to begin construction.

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