QUARTERLY ECONOMIC SURVEY

Q1 2014

APRIL 2014

LONDON of CHAMBER
COMMERCE AND INDUSTRY

RESULTS HIGHLIGHTS

The balance figures represent the percentage of firms that reported an increase minus the percentage that reported a decrease.
↑↓ represents the change on the previous quarter.

Q1 2014 PERFORMANCE

EXPORT SALES

+22%

↑ 5 POINTS

33% reported increased export sales

EMPLOYMENT

+16%

↓ 4 POINTS

28% increased employment in the last three months

LOOKING AHEAD

BUSINESS CONFIDENCE

+62%

↑ 4 POINTS

66% expect their company's prospects to improve over the next 12 months

UK GROWTH

+73%

↑ 14 POINTS

77% expect UK growth to improve over the next 12 months

"At the start of 2014, London businesses are increasingly confident in their own company prospects, as well as the UK's and London's economic outlook. Notable gains in several economic indicators, including cashflow, domestic orders and export sales, demonstrate a continuation of the positive growth trend seen over the course of 2013.

Business confidence for the next 12 months is at an all-time high, but vulnerabilities remain. London firms continue to suffer from a shortage of sufficiently skilled domestic workers, while many businesses are reluctant to export owing to high travel costs. We were pleased to see the Chancellor's Budget include a commitment to reform APD on long-haul flights, measures to improve UK Export Finance, and an expansion of apprenticeship grants to employers, all of which we had called and campaigned for in our Budget Submission. However, more support needs to be provided by Government to help businesses capitalise on the growth opportunities available overseas."

Colin Stanbridge, LCCI Chief Executive

ABOUT THE QES

The London Chamber of Commerce and Industry (LCCI) Quarterly Economic Survey (QES) is part of the biggest and longest running private business survey conducted by chambers of commerce across all of Britain every quarter. It helps us gauge the health of the London economy and often picks up changes in the economy long before other surveys or official statistics.

A total of 118 companies responded to the Quarter 1 2014 survey. All sectors of the London economy were represented including financial and business services (17%); professions (8%); manufacturing and industry (14%); property and construction (8%); transport, logistics and security (8%); retail/wholesale (7%); hospitality, leisure and tourism (7%); communication, technical and creative (11%); and other services (20%).

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London Chamber of Commerce and Industry
33 Queen Street, London EC4R 1AP
T: +44 (0)20 7248 4444 **F:** +44 (0)20 7203 0391
E: research@londonchamber.co.uk
W: londonchamber.co.uk/research

For further information and a full set of results, please contact:
Silviya Barrett
Policy Research Manager
E: sbarrett@londonchamber.co.uk
T: +44 (0)20 7203 1817

DOMESTIC DEMAND

DOMESTIC SALES

+16%

↑ 2 POINTS

The balance figures for domestic sales increased by two points to +16% (35% reported an increase and 19% a decrease). Domestic orders rose by seven points to +21 per cent (35% reported an increase and 14% a decrease) (see Figure 1).

This was its highest level since before the recession (Q1 2007).

Figure 1: Domestic sales and orders balances over the last three months (excluding seasonality)

EXPORT DEMAND

EXPORT SALES

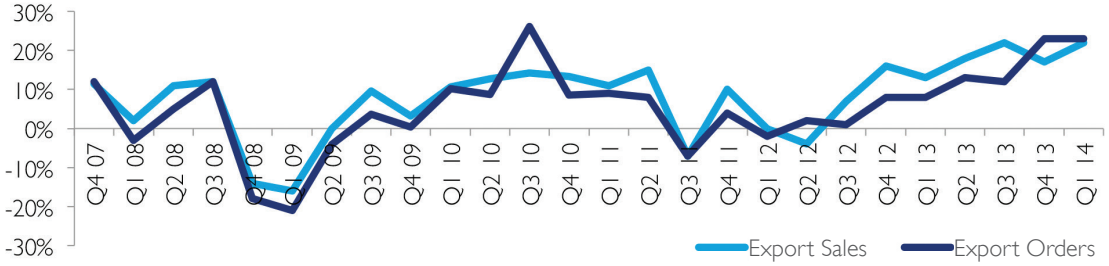
+22%

↑ 5 POINTS

Having declined in the previous quarter, export demand rebounded as **the balance figure for export sales increased by five points to +22%** (33% reported an increase and 11% a decrease) (see Figure 2). Export orders remained at +23% (36% reported an increase and 13% a decrease), its highest point since Q3 2010.

However, 81% of LCCI members not already exporting believe finding potential customers is the greatest barrier to them doing so. Meeting new clients face-to-face is increasingly difficult given the rising cost of air travel, in particular Air Passenger Duty (APD). **LCCI was pleased to see the Chancellor heed our calls for APD to be reduced on long-haul flights to emerging markets in his latest Budget statement, as well as announcing an overall review of its impact.** The Government also announced that it would double the size of the UK Export Finance (UKEF) lending pot, remove the scheme end date, and step up awareness measures of its products and services.

Figure 2: Export sales and orders balances over the last three months (excluding seasonality)



The Government's commitment to reducing APD on long-haul flights and expansion of the UKEF lending scheme are welcome, following our calls for action on both. Cheaper flights to emerging markets will help make London a more competitive place to do business and incentivise better use of existing airport capacity.

LABOUR MARKET

EMPLOYMENT

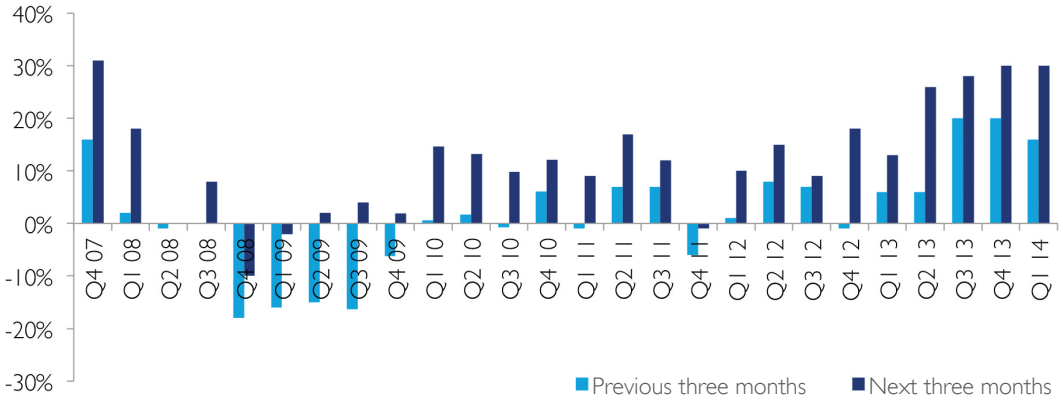
+16%

↓ 4 POINTS

Following a record high balance figure of +20% in the previous two quarters, **the balance of employment figure fell by four points this quarter to +16%** (28% reported an increase in employment over the previous three months and 12% a decrease). This was its first decline since Q4 2012 (see Figure 3).

Firms remain optimistic about employment levels for the next three months. **Only 4% expect their workforce size to decline, compared to 34% anticipating an increase,** leaving a balance of +30% (see Figure 3). Employment expectations continue to be at levels not seen since before the recession.

Figure 3: Employment levels (balance figures)



RECRUITMENT AND TRAINING

INVESTMENT
TRAINING

+24%

↓ 2 POINTS

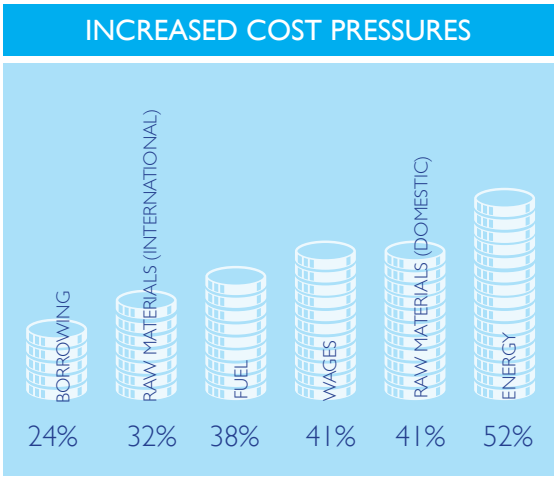
The balance figure for investment in training declined by two points to +24%, with 26% of London firms planning to increase their training budgets and only 2% planning a reduction (see Cashflow and Investment Figure 5).

45% of London businesses tried to recruit in the last three months, with the majority of the jobs advertised being permanent (63%) and full-time (92%). However, **over half (57%) of companies experienced difficulties in recruiting sufficiently qualified staff for vacancies.** Professional managerial (64%) and skilled manual or technical staff (32%) were positions where most difficulties were experienced, underlining the need to address the skills gaps in London's workforce.

A recent LCCI policy briefing highlighted significant skills gaps in a number of sectors in the capital, despite high levels of youth unemployment. This makes firms dependent on access to skilled migrants in the short-term. In the long-term, employers recognise that young people can be a vital asset to their business, but developing their skills is costly, in terms of training and supervision. **LCCI was pleased that the Chancellor acknowledged this problem and pledged in his Budget an extra £170m in apprenticeship grants to employers over the next two years.**

The Government's expansion of apprenticeship grants to employers is a welcome way of equipping young people with the skills businesses need, following on from our recommendation. A grant to businesses taking on 16-24-year-olds that have been unemployed for more than six months would be a further incentive to employ young people.

BUSINESS COSTS



The cost of energy remains the biggest cost pressure on London businesses, with 52% reporting an increase in the cost of energy over the last three months. On the other hand, there was a 16 point drop on the proportion of businesses that experienced a rise in the cost of fuel compared to the previous quarter.

Competition remains London businesses' main concern, despite a nine point decline on the previous quarter balance to +49%. Firms were increasingly concerned by exchange rates (40% in Q1 2014 in comparison to 30% in Q4 2013) and inflation (up six points to 30%), while nearly a quarter of businesses (23%) were more concerned by business rates than they were three months ago.

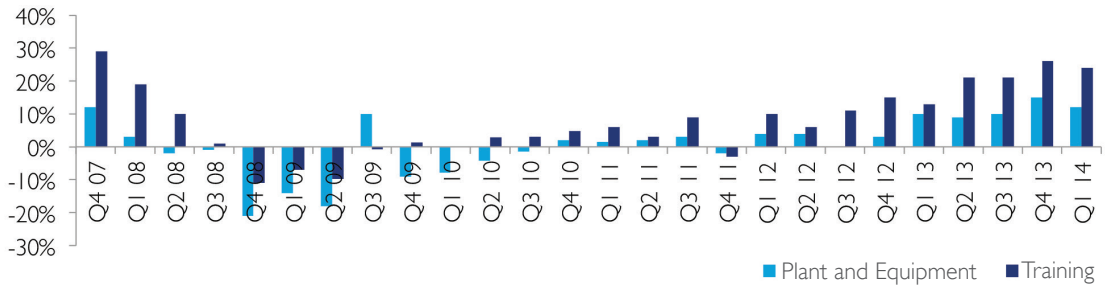
The Chancellor recognised the need to reduce the cost of energy to businesses in his Budget speech. While the announced £7bn package to cut energy prices for British manufacturers is welcome, it will not help the majority of London businesses. Continued investment is therefore required.

CASHFLOW AND INVESTMENT

The cashflow balance was +10% (30% reported an improving position and 20% a declining position). This maintains the consistently improving cashflow trend seen throughout 2013 and is in stark contrast to the regular negative balance figures registered since the beginning of 2008.

Firms' appetite for capital investment remained strong but slightly down on the previous quarter level. **The balance figure for investment plans in plant and equipment over the next three months fell by three points in Q1 2014 to +12%,** with one-fifth (20%) of London firms reporting that they intend to invest in capital (see Figure 4).

Figure 4: Change in businesses' investment plans over the past three months (balance figures)



Given that investment levels remain below pre-recession levels, LCCI welcomed the Budget announcement that the Annual Investment Allowance will double to £500,000. This means that 99.8% of businesses will now receive 100% investment allowance, giving them confidence to invest.

BUSINESS CONFIDENCE

BUSINESS CONFIDENCE

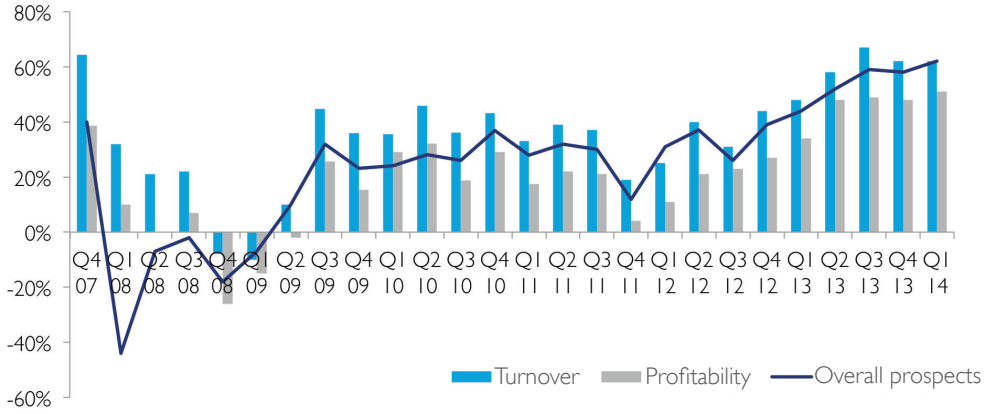
+62%

↑ 4 POINTS

Confidence figures for the next 12 months were up slightly at the beginning of 2014, having flattened at the end of last year. **The balance figure for turnover expectations for the next 12 months stayed the same at +62%** (72% anticipated an increase and 10% a decrease). The balance of profitability expectations rose by three points to +51% (63% anticipated an increase and 12% a decrease) (see Figure 5).

The balance figure for companies' overall performance expectations increased by four points to +62% (66% expected an improvement and only 4% a deterioration). This was its highest ever recorded level, indicative of London businesses' optimism in their own prospects as the general economy continues to strengthen.

Figure 5: Confidence in company prospects over the next 12 months (balance figures)



ECONOMIC OUTLOOK

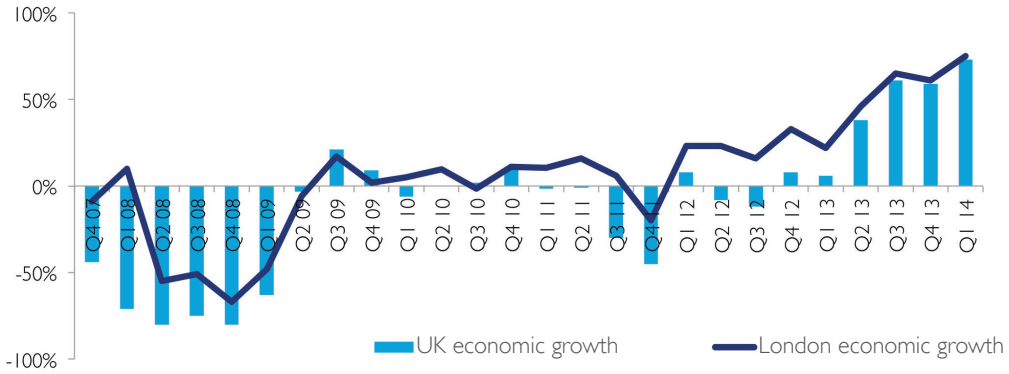
UK GROWTH

+73%

↑ 14 POINTS

Confidence in the UK's and London's economic outlook improved significantly from its already strong position in the first quarter of 2014. **Just over three quarters (77%) of firms expected the UK's economic growth to improve over the next 12 months,** while only 4% believe it will worsen, leading to a balance figure of +73%, a 14 point increase on the last quarter and far above previously recorded levels (see Figure 6). **The balance figure for firms expecting the London economy to grow over the next 12 months also rose by 14 points to +75%** (78% expected growth and 3% decline).

Figure 6: Expectations of UK and London growth (balance figures)



To secure London's economic growth and ensure that increasing pressures on the capital's infrastructure are addressed, the Government should devolve the full suite of property taxes to the Greater Local Authority and London local authorities so that they have the autonomy and incentive to invest.