



# CAPITAL 500

London Quarterly Economic Survey

April – June 2021



In partnership with

**Savanta:**  
ComRes

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## RICHARD BURGE

Chief Executive, London  
Chamber of Commerce  
and Industry

## LCCI COMMENTARY – THE BUSINESS VIEW

It was encouraging to see such a strong rise in the confidence indicators in our latest Capital 500 survey, suggesting London businesses are feeling optimistic about both their own growth prospects and that of the wider London and UK economies. The improvement in cashflow also gives hope that companies can now begin to improve their financial standings, especially for those who have been hardest hit as a result of the pandemic.

The recent announcement by Government of a delay to the end of Covid-19 restrictions will nevertheless have dampened this optimism, not least for the thousands of hospitality and night-time economy businesses who are worst affected. In addition, the tapering of financial support due to commence in July will provide a lot of uncertainty for these firms who had banked on being able to reopen in full capacity, while the continued restrictions on international travel are devastating the industry.

For the thousands of businesses for whom Covid-19 restrictions continue to limit their capacity, what is needed most is certainty. Nearly half of London businesses are optimistic for the capital's economy in the coming year, while expectations for the labour market are improving too. Companies are ready to play their part in supporting the economic recovery in London – and the wider UK – but need reassurances from Government about the steps they are putting in place to mitigate the risks of harsher restrictions being reintroduced. This includes clarifying the future role of Test and Trace, and whether social distancing rules will change.

**Richard Burge**, Chief Executive, London Chamber of Commerce and Industry

## ABOUT THE '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.

Savanta ComRes surveyed a total of 520 London business leaders between 28 April to 6 June 2021. All data were weighted to be representative of all London businesses by company size and broad industry sector. Savanta ComRes is a member of the British Polling Council and abides by its rules. Full data tables are available at [www.comresglobal.com](http://www.comresglobal.com).

The net balance figures represent the percentage of firms that reported an increase minus the percentage that reported a decrease. 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.

## ABOUT HAYSMACINTYRE

haysmacintyre is an award winning firm of chartered accountants and tax advisors, providing specialist advice to entrepreneurs, fast-growing and owner-managed businesses, and not for profit organisations across the UK and internationally.



## VICKY PRYCE

Chief Economic Advisor  
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for Economics and Business  
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# GUEST COMMENTARY – THE ECONOMIST’S VIEW

The Capital 500 findings of increased optimism among London businesses chime with the more upbeat outlooks for the UK and wider global economies. Forecasts for the world economy have been upgraded by the IMF, the World Bank, and the OECD, suggesting growth of some 5-6% for this year and not very dissimilar in 2022. Yes, there are differences between countries and the extent of the Covid-19 response in each has varied. Some will take longer to return to pre-pandemic levels – in others it has already happened, such as in the US and China.

The UK is meant to be reaching those levels by year-end barring any renewed Covid worries and restrictions. Even in the EU forecasts are now pointing to growth of over 4% both this year and next, as countries begin to open up and tourism starts to flow. World trade merchandise volumes reached an all-time high in March. Here in the UK, we have seen survey after survey indicating a rise in expectations for the future: the CBI manufacturing order book indicator rose in May at the fastest rate since records began.

In the UK, the fall in GDP in the first quarter was just 1.5%, despite the new Covid restrictions, much better than the 4% fall expected by the OBR in its forecast accompanying the Budget on 3 March. This has been followed by the Bank of England revising its own growth forecast for the economy to 7.2% for 2021 and a further 5% next year.

However, the path is unlikely to be smooth. The latest unemployment data suggest that London continues to be the worst area affected, even though the rate is falling everywhere. There are also increasing cost pressures across the economy. Input costs are rising, both for commodities such as oil and components such as semiconductors, mainly due to supply disruptions during the pandemic.

The latest rise in inflation to 2.1%, slightly above the Bank of England target of 2%, also reflects consumer spending on areas such as clothing after a long absence: the large involuntary savings accumulated during the pandemic are slowly being spent. There are increasing reports of wage pressures as staff shortages have been emerging in the re-opening hospitality sector and elsewhere, particularly as some workers have moved to other sectors. There has also been a pandemic – and Brexit – related exodus of EU workers. It is not clear yet whether the inflation pick-up is just transitory or will in fact necessitate some monetary tightening and/or higher interest rates at some stage.

Additionally, for sectors such as hospitality – but also for travel and tourism – the postponement of the end of all restrictions by at least a month has affected prospects just as government support to business is being pared back. Though the latest PMIs still suggest continued growth in the economy, the 2.3% rise in GDP for April reported by the ONS was mainly the result of a strong pick up in services: industrial production and construction both fell back. Retail sales in May also declined while restaurant visits levelled up. The worry is that consumers are becoming more cautious as the furlough scheme is reducing in its generosity and employment uncertainties remain.

**Vicky Pryce**, Chief Economic Advisor and Board Member, Centre for Economics and Business Research (Cebr)

# DOMESTIC DEMAND



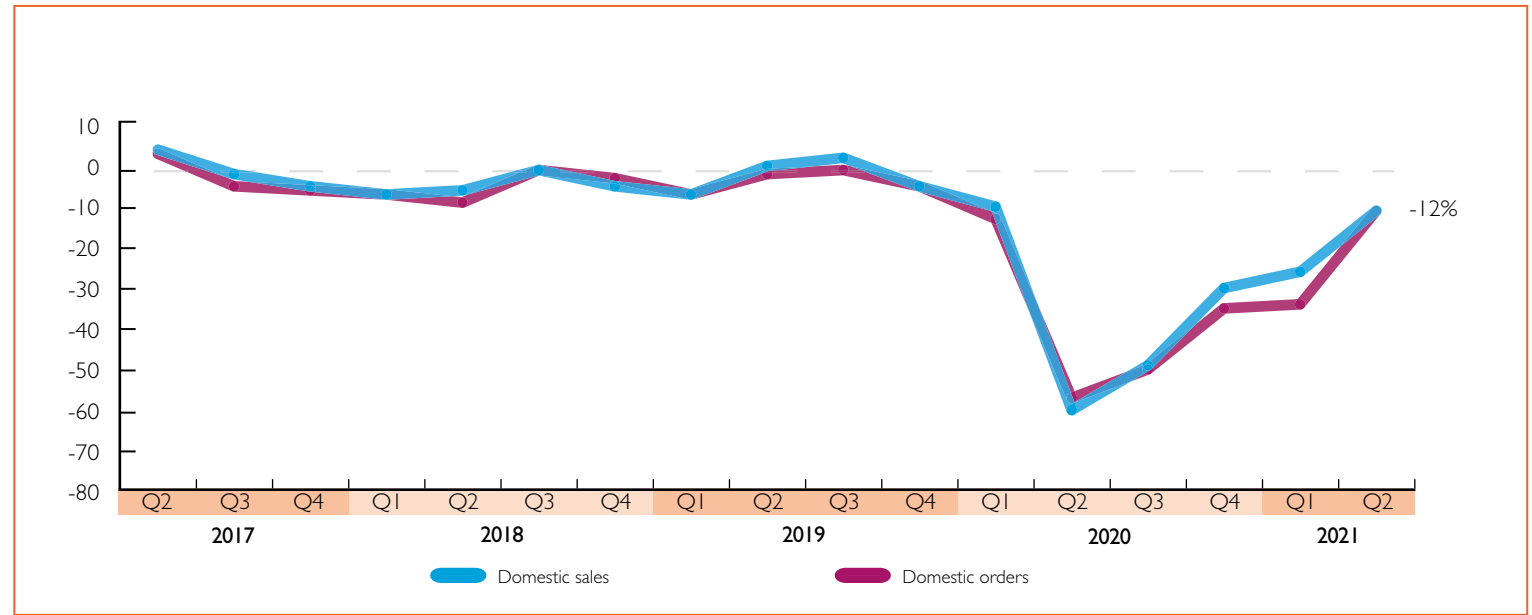
19%

of London businesses reported an **increase** in domestic sales last quarter



18%

of London businesses reported an **increase** in domestic orders last quarter



In the three months since the last Capital 500, the UK has progressed through Steps 2 and 3 of the Government's roadmap for the easing of lockdown restrictions. More and more businesses have been able to open their doors to customers – albeit with continued social distancing restrictions – which has seen domestic demand improve steadily throughout Q2.

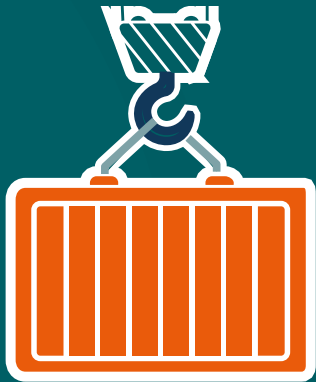
The net balance for domestic sales climbed 15 points to -12% last quarter, and is now only 1 percentage point below the pre-pandemic level (-11%, Q1 2020). Nevertheless, it is worth noting that this indicates only an improvement in conditions, not a return of sales to pre-pandemic levels. The percentage of firms who reported an increase in sales grew to 19%, while the share of those for whom sales declined quarter-on-quarter shrunk from more than two-fifths to less than a third (31%).

The domestic sales balances for both micro and larger businesses rose in Q2, with the latter jumping into positive territory (+31 points to 14%). The net balance for services climbed from -27% to -12%, with nearly one in five service sector firms reporting a rise in sales (19%). With lockdown restrictions being pared back, industries such as retail, tourism and hospitality all reported improved demand compared to Q1. Nearly one in four (23%) firms in inner London saw an increase in sales in Q2, likely boosted by the reopening of visitors to the Central Activities Zone.

Turning to domestic orders, the net balance also rose strongly from -35% to -12% in Q2: 18% of firms said orders had increased on Q1, the highest share since Q3 2019. The share of firms reporting a decline in orders also shrunk from 45% to 30%.

While larger companies saw a bigger increase in domestic orders (+29 points to 15%), the net balance for micro companies also jumped from -38% to -14%.

# EXPORT DEMAND



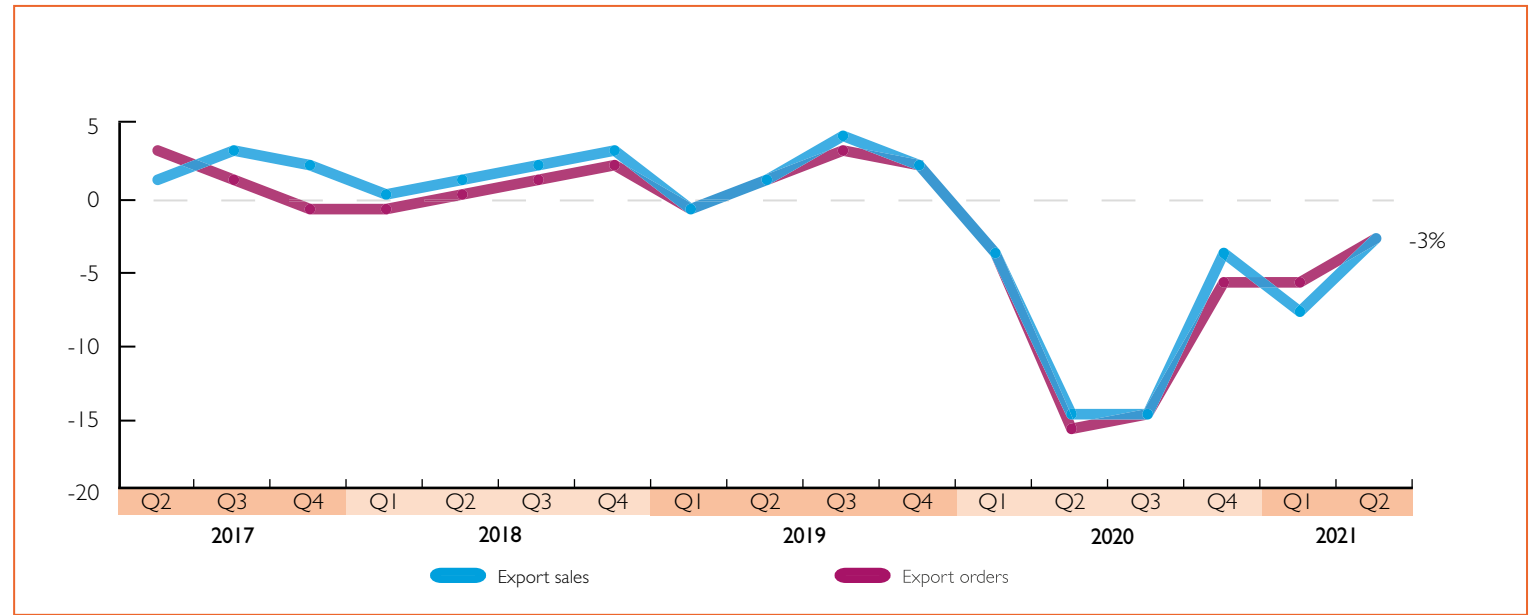
6%

of London businesses reported an **increase** in export sales last quarter



7%

of London businesses reported an **increase** in export orders last quarter



In contrast to the noticeable improvements in the domestic demand indicators, export demand is recovering at a slower pace.

The net balance for export sales did rise from -8% to -3% in Q2, with the proportion of firms recording a decrease in sales shrinking from 15% to 9%. However, the share of firms who reported an increase in sales also shrank slightly from 7% to 6%.

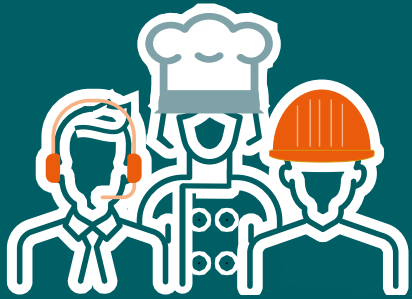
After dropping sharply in January, UK exports (as reported by the Office for National Statistics) have grown for three consecutive months. Exports between January and April 2021 were still 8% lower than in the same period in 2019 (i.e. pre-Covid-19 pandemic). The upturn in the export sales and orders indicators from the Capital 500 since Q2 2020 suggest UK exports should nevertheless continue their recovery throughout 2021.

While only 5% of micro firms noted a rise in export sales (slightly down from 6% in Q1) the net balance climbed from -8% to -4%. For larger companies, the net balance rose further into positive territory, up 2 points to 4%.

For export orders, the net balance climbed from -6% to -3% in Q2, the highest reading in 18 months: 7% of businesses reported orders increasing, down marginally from Q1 (8%).

One in five (21%) larger companies said export orders had increased compared to Q1, while only 8% reported a decline – the net balance rose 11 points to 13%, a two-year high.

# LABOUR MARKET



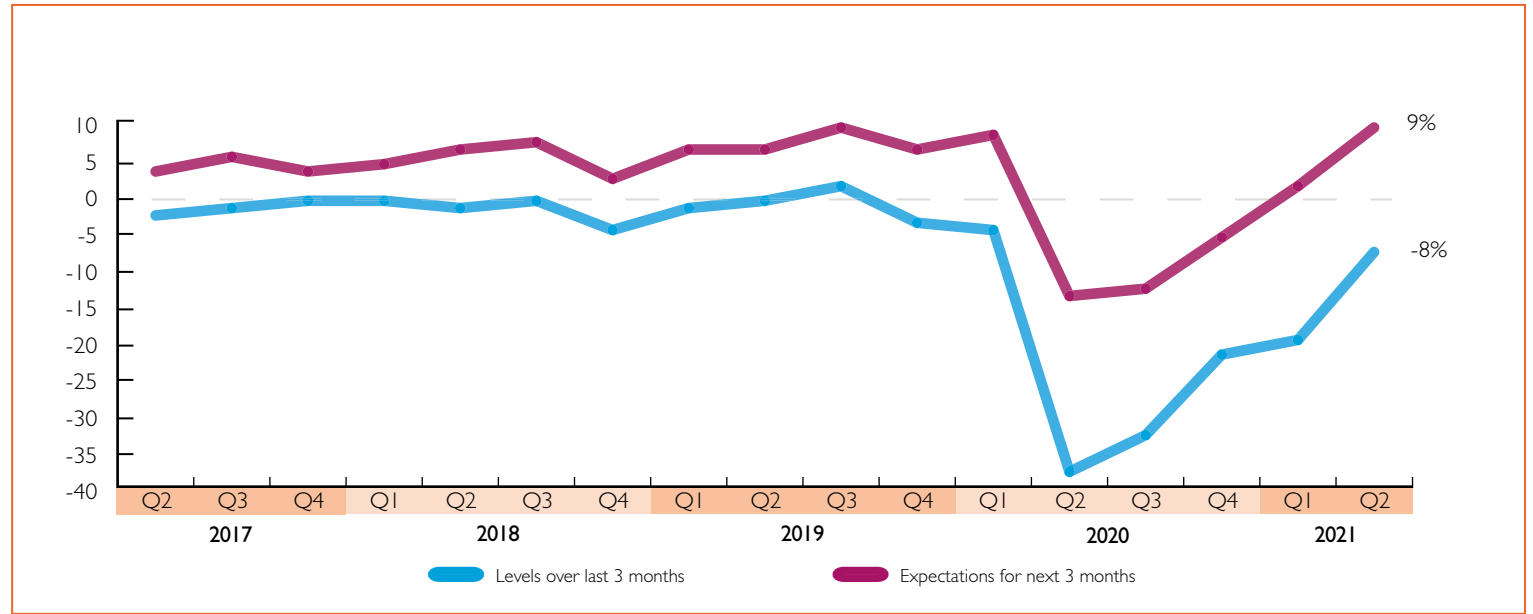
7%

of London businesses reported an **increase** in their workforce size last quarter



14%

of London businesses expected their workforce size to **increase** over the coming three months



With the economy opening up, the unemployment rate in the UK has begun to creep lower. The latest figures from the Office for National Statistics show the jobless rate fell to 4.7% in the three months to April 2021, down from the peak of 5.1% in December 2020.

London's unemployment rate has also fallen back, but remains above the UK average at 6.5% (February to April 2021). Workforce jobs in London increased by 62,000 in Q1: HMRC data show more than 34,000 additional employees were on payroll in May. Nevertheless, London is the only region in UK where the number of employees on payroll is lower than the level in May 2020. In addition, workforce jobs in London in Q1 2021 were still 240,000 lower than the level in Q4 2019.

The employment indicators from the Capital 500 do suggest London's labour market will continue its recovery this year. Expectations for workforce size (in the next three months) improved further in Q2, with the net balance rising to 9% - this was the highest since Q3 2019. More than one in ten (14%) firms expected their workforce to increase in size, up from 11% in Q1. Only 5% of businesses expected their workforce size to decrease in the coming three months.

Larger companies were more likely than micro firms to say their workforce size would increase, although the net balance for micro businesses turned positive for the first time since the pandemic began.

The employment balance also rose again in Q2, up 12 points to -8%: only 15% said their workforce had decreased, while 7% stated their workforce had grown. Nearly four-fifths (78%) of firms reported no change in the size of their workforce.

# RECRUITMENT AND TRAINING



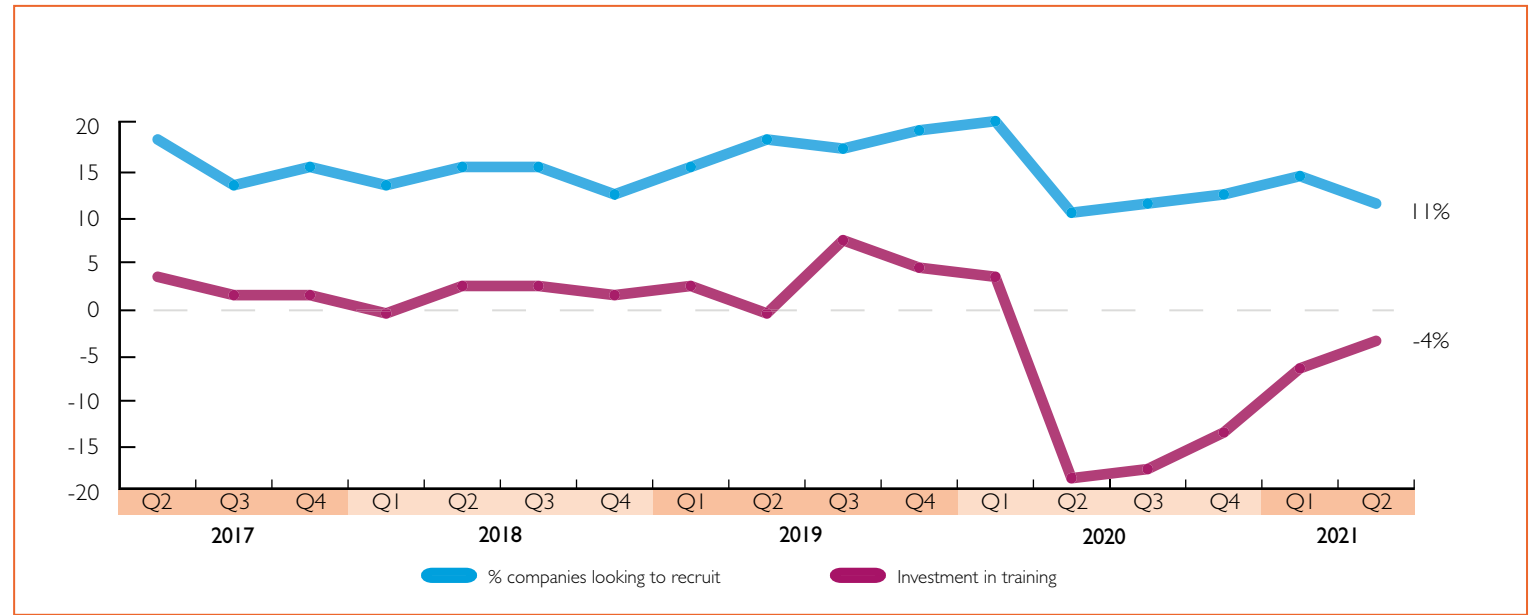
11%

of London businesses reported that they had looked to recruit in the last quarter



9%

of London businesses reported an increase in investment in training last quarter



Indeed, London businesses appear to be – for now – acting cautiously when it comes to recruiting. The percentage of surveyed companies who said they had looked to recruit actually fell in Q2 from 14% to 11%, following three consecutive quarter-on-quarter increases. Across nearly every sector in the Capital 500, recruitment was lower compared to Q1.

There have been reports of significant labour shortages in industries such as hospitality. Indeed, for the few companies that did look to recruit in Q2, nearly two-thirds (64%) reported difficulties doing so: this was up 5 percentage points since Q2 and represents the second-highest reading since the Capital 500 began in Q2 2014.

The dip in the number of firms recruiting was driven by micro companies, with just 7% of companies with 9 or fewer employees looking to hire in Q2, down from 11% in Q1. By contrast, nearly half (48%) of larger businesses sought to increase their workforce size, up from 42% in Q1. Businesses located in inner London were also more hesitant than their outer London counterparts,

Of course, the continued Covid-19 restrictions will have an impact on firms' ability to hire. Indeed, only 35% of firms said they were operating at full capacity in Q2.

Encouragingly, the net balance for investment in training rose again in Q2, from -7% to -4%. The share of companies who increased training spending did shrink from 15% to 9%, while the number of businesses reducing spending was smaller too (13%, 22% in Q1).

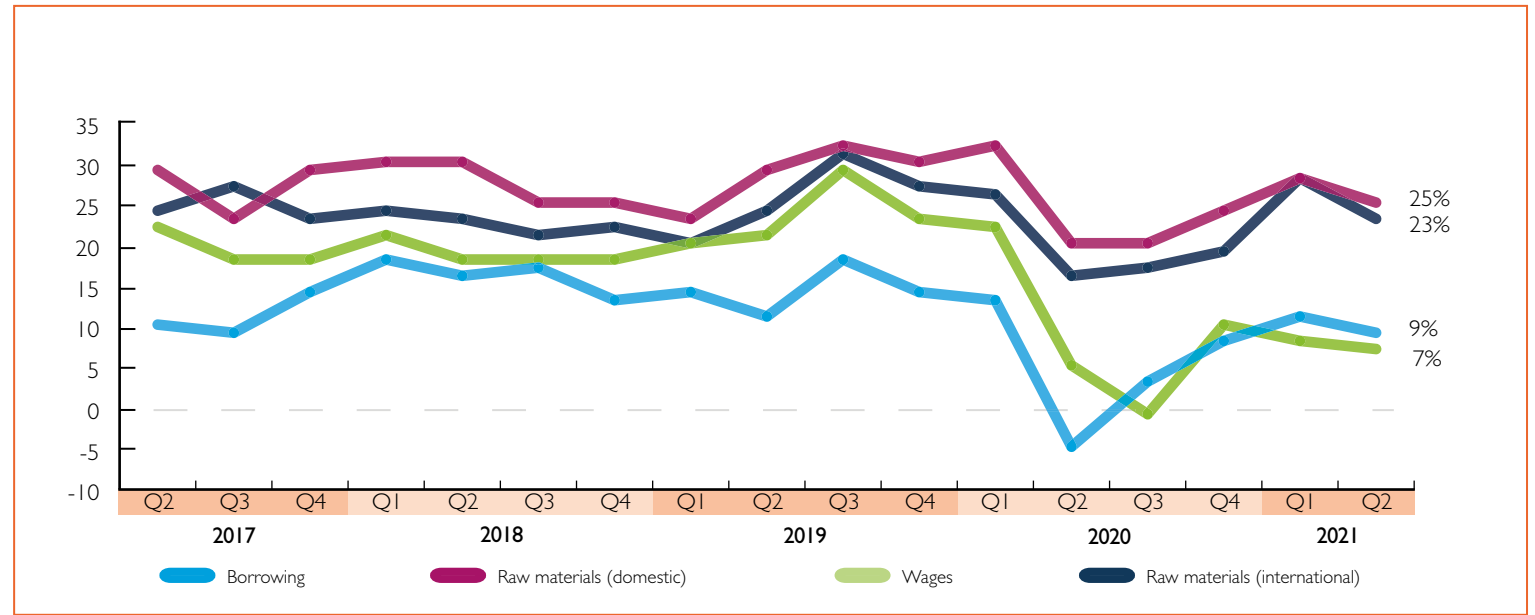
# BUSINESS COSTS



**35%** of London businesses reported an **increase** in their fuel costs last quarter



**35%** of London businesses reported an **increase** in their energy costs last quarter



The spectre of inflation is rearing its head as the country moves out of lockdown. Consumer prices rose by 2.1% y/y in May, surpassing the Bank of England’s target of 2.0%. Even excluding some of the more volatile elements such as fuel and food prices, the CPI rose by 2.0% y/y.

More businesses are expecting the prices of their goods and / or services to increase in the next three months, with 31% saying so in Q2: this is up 7 percentage points since Q1 and represents the highest share since Q4 2016. More than half (54%) of manufacturing companies said they expect their prices to rise, up from 37% in Q1. For service sector companies, 28% said prices would increase in the next three months (up from 23% in Q1).

Any sustained rise in inflation may prompt the Bank of England to raise interest rates. In the Q2 Capital 500, 27% of firms said interest rates were more of a concern than the three months prior, which was the highest share since Q1 2016.

Business cost pressures for fuel and energy both increased in Q2. The net balance for fuel costs rose from 17% to 29%, with 35% saying costs had increased compared to Q1. For energy, the net balance edged up 2 points to 30%, although the share of firms noting an increase in energy costs shrunk slightly from 38% to 35%.

However, away from energy and fuel there was a drop in the other cost pressure balances in the Q2 Capital 500. The balances for raw materials, sourced both domestically and internationally, both dipped last quarter. After three consecutive rises, the balance for borrowing costs also nudged lower from 11% to 9% in Q2. Pressure to raise wages from employees also appears to be stable for now.



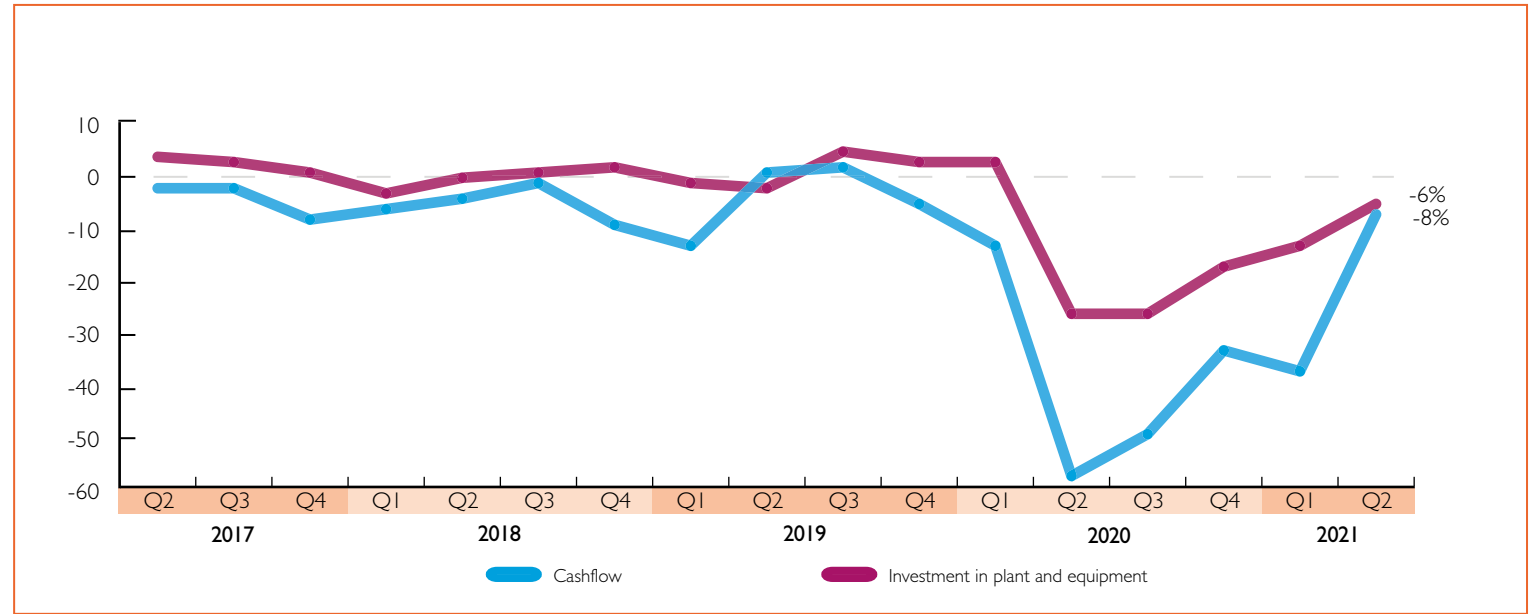
# CASHFLOW AND INVESTMENT



**25%** of firms reported an **increase** in cashflow last quarter



**11%** of firms reported an **increase** in investment in plant and equipment



Companies have faced extreme financial headwinds for well over a year now. It is therefore encouraging to see the large jump in the cashflow balance in Q2, up 30 points to -8%. A quarter (25%) of businesses said cashflow had increased in the past three months, double the proportion who said so in the Q1 2021 Capital 500 (12%). The proportion of firms reporting a drop in cashflow also shrunk from 50% to 33%: this is still a significant share of firms, but marks a stark improvement from the Q2 2020 survey (65%).

Both micro and larger businesses reported improved cashflow in Q2, with sharp rises in the respective net balances. For larger companies, the balance climbed into positive territory for the first time since Q1 2020.

The reopening of non-essential retail and other key sectors saw the cashflow balance for inner London businesses jump from -35% to 0%, with 29% of firms reporting an increase in cashflow. Every industry measured by the Capital 500 said cashflow had risen compared to Q1.

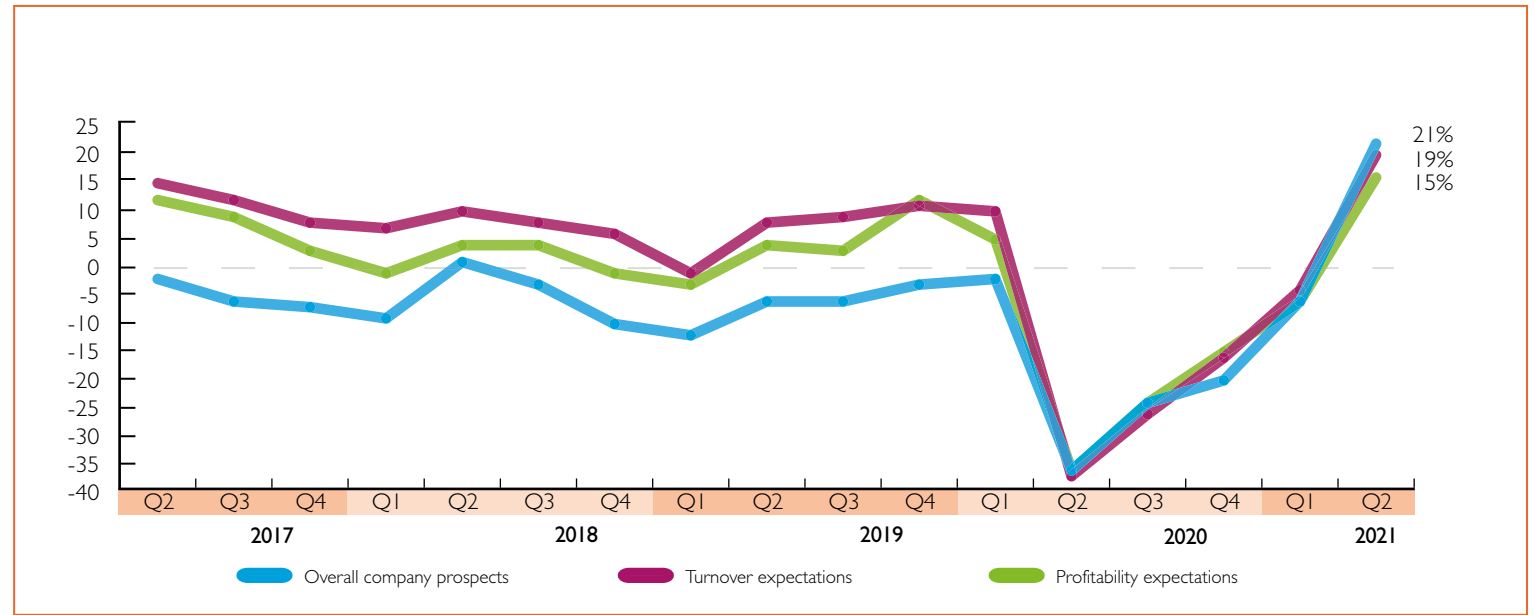
Understandably, businesses remain cautious about their investment plans: nearly three quarters (72%) of firms made no change to their capital expenditure in Q2. The net balance for investment in plant & equipment rose again in Q2, up 8 points to -6%. The share of firms who raised capital spending was 11%, a touch higher compared to Q1 (10%). The proportion who lowered capital investment shrunk from 24% to 17%.

The net balances for plant and equipment investment rose for both micro and larger companies in Q2.

# BUSINESS CONFIDENCE



**40%** of London businesses expect their profitability to **improve** over the coming 12 months



**42%** of London businesses expect their turnover to **improve** over the coming 12 months

Business confidence has improved dramatically in the latest Capital 500. An early caveat to make is that the survey was conducted prior to the recent delay of final step of the Government's roadmap. However, it is clear that a successful vaccination programme – which appears to be preventing a recent uptick in infections from pushing the UK back into lockdown – is helping businesses to feel more optimistic about the year ahead.

Turnover expectations climbed sharply, with the net balance rising 24 points to 19% in Q2. This is the strongest reading in five years. More than two-fifths (42%) of firms said that they expected their turnover to increase in the coming 12 months. Both large and micro companies were significantly more optimistic about their turnover, with 40% of micro businesses and 56% of larger firms expecting an improvement in the coming year.

Across all sectors, turnover expectations picked up in Q2: the net balances for both manufacturing (+33 points to 23%) and services (+22 points to 18%) recorded strong gains. One caveat was the arts, entertainment and recreation sector, which only saw small improvements in turnover, with the net balance increasing 4 percentage points from 16% to 20%.

In line with the improvement in turnover, firms are expecting their profitability to improve over the coming year too. The net balance rose from -7% to 15% in Q2, with 40% of businesses saying they anticipate profitability will increase in the next 12 months. As with turnover, both micro and larger companies were more positive, with big gains in the net balances for both.

On the back of improved cashflow and the big upswings in turnover and profitability expectations, overall company prospects were sharply higher in Q2: the net balance climbed from -7% to 21%.

# ECONOMIC OUTLOOK



**48%** of London businesses expect London's economy to **improve** in the next 12 months



**50%** of London businesses expect the UK's economy to **improve** in the next 12 months



Mirroring the steep boost to individual company confidence, London businesses were much more positive about the London and UK economies than in Q1.

The net balance for London's economic outlook leapt 37 points to 21% in Q2, the highest reading since Q4 2015. Nearly half (48%) of London firms expect the capital's economy to improve in the next 12 months, while the proportion who think it will worsen shrunk from 45% to 27%.

Both micro and larger firms were more positive in their outlooks for London's economy, and the improvement in confidence was seen across all sectors surveyed in the Capital 500. There was no geographical bias either, with firms in both inner and outer London expecting the local economy to grow in the next 12 months (50% and 47%, respectively).

Looking beyond the capital, firms were also more optimistic about the wider UK economic outlook; the net balance climbed from -21% to 22% in Q2. Half (50%) of London businesses think the UK economy will improve in the next 12 months, up from 31% in Q1. Encouragingly, the proportion of businesses who think the UK economy will worsen over the coming year shrunk from 52% to 28%.

Again, this uptick in confidence was seen across micro and large firms: 49% of micro businesses think the UK economy will improve, the highest share in seven years.



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