

CAPITAL 500

LONDON QUARTERLY ECONOMIC SURVEY





LCCI COMMENTARY – THE BUSINESS VIEW

“The results from the Q2 2019 *Capital 500* survey provide a welcome break from the doom and gloom of the previous two quarters. They suggest there has been a significant shift in the mood in the capital and that the resilient London economy is bouncing back. Domestic and export demand has jumped back up. Firms' cashflow has also improved. All business confidence and economic outlook indicators increased on Q1, suggesting that optimism among London businesses is growing.

One downside is that investment is still falling, in line with the wider economy. The uncertainty around Brexit is probably the biggest reason. That will not end soon. A Brexit deal of some kind remains everyone's preference, but since it is not in the Government's power to take no

deal off the table, it is important that planning and preparation for that scenario continue, so that business can have confidence that, whatever happens on 31 October, they and the country are ready for it.

The other area of concern is that most businesses looking to hire still face difficulties when doing so, with firms often concerned at certain skills deficits within London's workforce. After Brexit, it will be important that the UK's immigration policy is well-designed so that firms are able to continue to find well-trained and capable staff. We at LCCI have concerns about the proposed £30,000 salary threshold and welcome signals that this may be reconsidered once the Conservative leadership contest is over.”

David Frost, 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, the *Capital 500* has included trend graphs that track the quarterly results for the past two years.

METHODOLOGY

ComRes surveyed a total of 503 London business leaders between 10 May and 11 June 2019.

All data were 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 QES trends agree with the wider UK economy picture in a number of areas. Business investment remains subdued after a brief recovery in the first quarter, while rising input costs, including labour costs are proving challenging in a number of sectors. But in other areas the London picture is much more cheerful.

Across the UK the data is more subdued. GDP had been boosted by the stockpiling we saw in the early part of the year as the March 29 deadline was approaching but that seems to be unwinding since. GDP fell by 0.1% in March and by 0.4% in May. Within that, industrial production declined by 2.7% and manufacturing by 2.9%, with car production particularly badly hit. And if anything since the first quarter QES the world economic outlook has worsened. The IMF has reduced

its world forecasts to 3.3% for this year and warned of the dampening effects on exports and imports caused by the trade disputes, sanctions and fear of war. In the Eurozone industrial production has been on a declining path in recent months. And in the UK Brexit-based political and economic uncertainty will continue to obscure the horizon.”

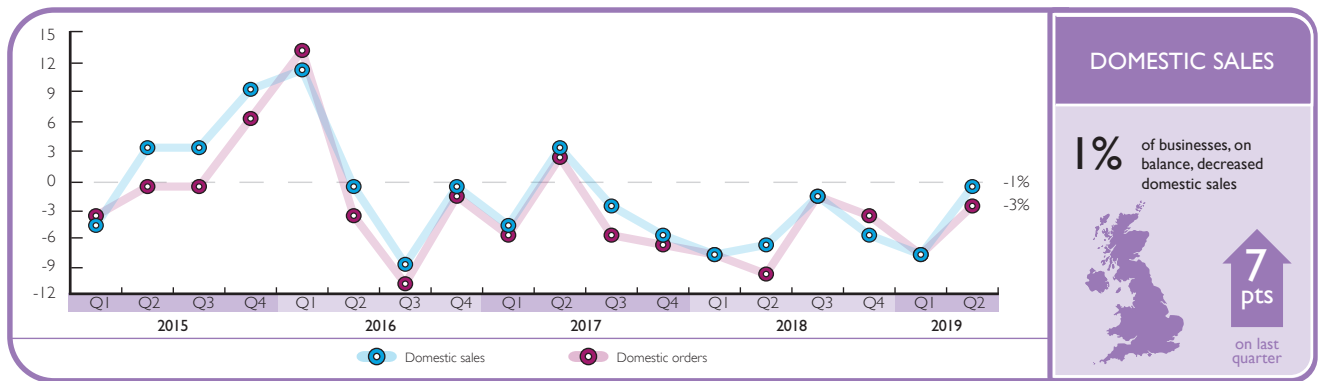
Vicky Pryce, Centre for Economics and Business Research (Cebr)

DOMESTIC DEMAND

Q2 2019 saw both domestic demand figures experience noticeable upticks, albeit with both remaining in negative territory.

The domestic orders balance figure increased by 5 points to -3%, while the domestic sales balance jumped by 7 points to -1% - this is the highest the figure has been since Q2 2017.

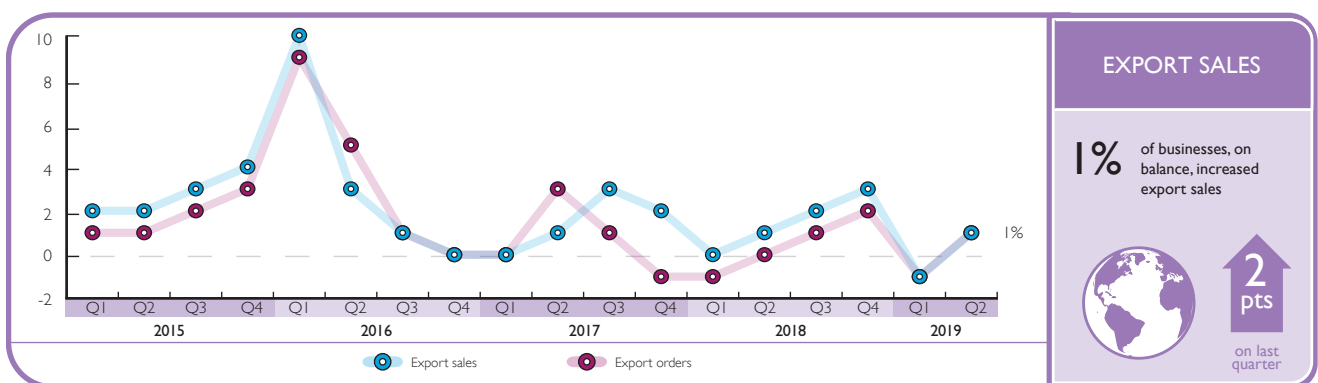
While micro businesses continued to record negative figures in both areas, results were significantly more positive than last quarter, with a 5 point increase in domestic orders and a 7 point increase in domestic sales (to -5% and -3% respectively). Larger firms also reported higher figures in both areas than in Q1, increasing by 2 points for domestic orders and 10 points for domestic sales (to 12% and 18% respectively).



EXPORT DEMAND

In Q2, both *Capital 500* export demand figures increased by 2 points, causing each figure to bounce back into positive territory at 1% on balance.

In terms of the upticks from the previous quarter; businesses in Inner London and Outer London both experienced an increase in export sales balance figures by 3 points. However, for export orders, the balance figure for Inner London firms increased by 1 point to 1%, compared to a 6 point increase to 2% for Outer London firms.



Domestic demand is ultimately underpinned by a robust and productive domestic economy. An efficient, dynamic and resilient transport system is essential in spurring economic growth for both London and the wider UK. While LCCI is disappointed at the pushback of the Elizabeth Line opening our key concern is that the political appetite for other vital transport projects such as Crossrail 2 will waver in the months and years ahead as a result.

The Government should commit to progressing London Strategic Infrastructure Projects (LSIPs) including Crossrail 2, fixed river crossings in East London and a new runway at Gatwick after Heathrow.

LABOUR MARKET

During the second quarter of 2019, the employment balance remained consistent, increasing by 1 point. The figure remains in negative territory and has now been negative for 12 consecutive quarters.

Meanwhile, the figure for employment expectations over the next three months remained consistent with the previous quarter at 6% on balance.

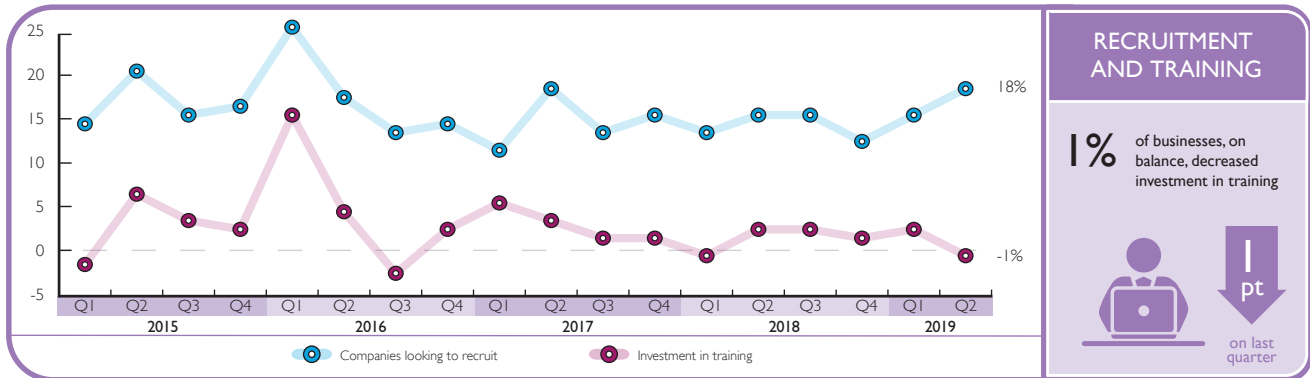
The balance figure for employment expectations for micro firms remained unchanged on last quarter at 4%. However, the balance figure for larger firms is much higher at 28%, a 10 point increase on Q1 2019.



RECRUITMENT AND TRAINING

In Q2 2019, the balance figure for companies looking to invest in training fell by 3 points, causing the figure to turn negative for the first time since Q1 2018. This was also its largest decrease since Q3 2016 – the first quarter after the June 2016 EU referendum.

The percentage of firms looking to recruit climbed to 18%, a 3 point increase on last quarter. Of those that attempted to recruit, 61% encountered difficulties, down 2 points on Q1 2019.



With three in five (61%) of firms that are looking to recruit facing difficulties, it is clear that London has a significant skills challenge that needs to be addressed. The future of UK immigration policy will be of crucial importance in tackling this issue. With the December 2018 Immigration White Paper adopting the Migration Advisory Committee's (MAC) proposed £30,000 salary threshold for all immigrants coming to the UK for work, and no preferential access for EU Migrants, LCCI is concerned that further restrictions on London businesses' supply of labour will exacerbate skills shortages in the capital and nullify its economic potential.

Migrants from all over the world have a vital role in London's economy. Recent LCCI polling with ComRes has found that London firms are concerned about the £30,000 salary threshold on migrants, with 68% agreeing it would reduce the supply of low-skilled labour for London businesses and 57% agreeing it would worsen skills shortages in the capital.

The Government should reconsider the proposed £30,000 salary threshold on migrants and ensure that the UK's post-Brexit immigration policy does not restrict firms' access to well-trained and capable staff from overseas.

BUSINESS COSTS AND PRICES

Most business cost indicators increased in the second quarter of 2019. The figure for the cost of raw materials sourced domestically increased by 6 points, while the figure for those sourced internationally increased by 4 points.

The balance figure for the pressure to increase wages went up by 1 point, while the figure for the cost of borrowing was the only cost indicator which fell on last quarter, dropping by 3 points.

Also this quarter, the balance figure for the cost of fuel – not included in the graph – increased by 9 points to 44% while the figure for the cost of energy – also not included – remained consistent with last quarter at 38%.

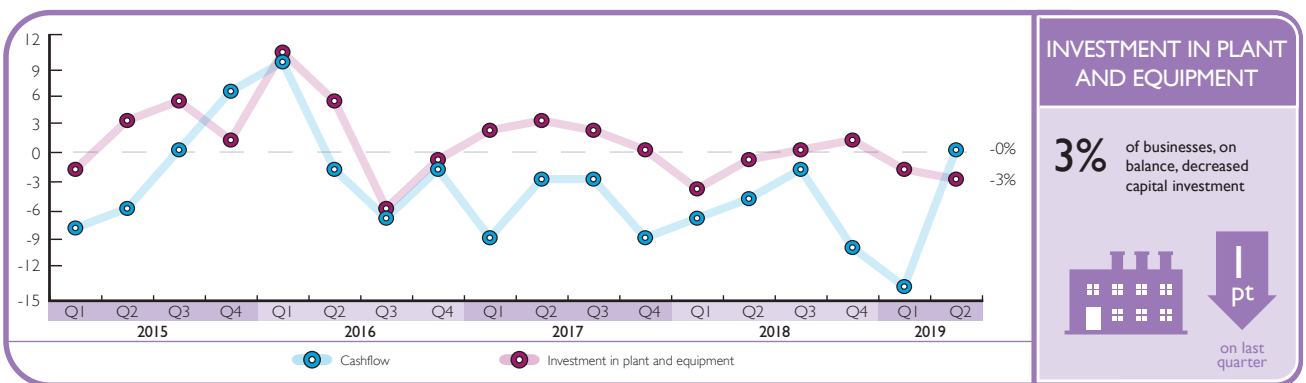


CASHFLOW AND INVESTMENT

Q2 2019 saw the cashflow balance figure increase by 14 points, its largest uptick since the start of the *Capital 500*. As a result, the figure is now out of negative territory for the first time since Q1 2016.

That said, micro firms continued to report a negative balance figure at -2%, while the figure for larger firms jumped further into positive territory at 13%.

Despite only decreasing incrementally on last quarter, the figure for companies investing in plant and equipment fell to its lowest point since Q1 2018 at -3%.



Uncertainty is a significant deterrent to business investment. While London's fundamentals will always help to attract capital, the lack of clarity around Brexit will inevitably foster more caution from businesses and investors alike. With a new Prime Minister imminent, candidates should look to step up preparations for Brexit in whatever form – including on WTO terms.

An exit on WTO terms on the 31 October is a real possibility. While a Brexit deal of some kind remains everyone's preference, it is not in the Government's power to take no deal off the table, it is therefore important that planning and preparation for that scenario continue.

BUSINESS CONFIDENCE

For the first time since Q2 2018, all business confidence indicators increased this quarter. This bucks the trend of the three previous quarters, all of which have seen each indicator either fall or remain stable.

Despite a 6 point increase, the overall company prospects balance figure remained negative at -7%, having reached record *Capital 500* lows in Q4 2018 and Q1 2019 respectively.

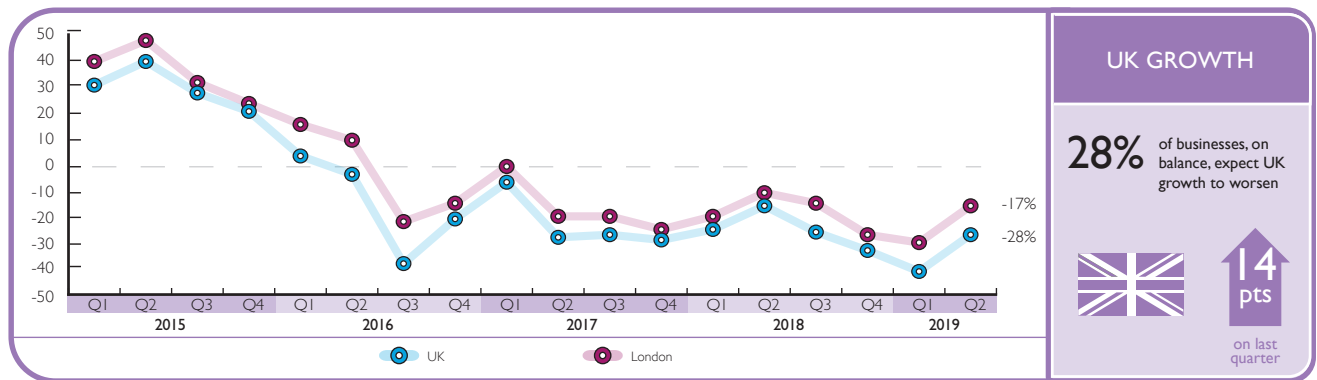
Meanwhile, the turnover figure climbed by 9 points on last quarter – its largest increase since Q2 2015 and its second biggest increase since the start of the *Capital 500*. Concurrently, the profitability balance figure increased by 7 points, its largest increase in a single quarter in *Capital 500* history.



ECONOMIC OUTLOOK

Expectations for both the London economy and UK economy experienced 14 point upticks in Q2 2019. However, both figures remained negative, and have now been so for 12 and 13 quarters respectively.

The figures for micro businesses continued to be significantly lower than for larger businesses in both areas, at -30% and -12% respectively for UK economic growth and -20% and 1% respectively for London's economic growth.



The undersupply of housing has had multiple impacts on the capital. Businesses in particular have been impacted by this, struggling to recruit staff and having increased business costs as a result. Furthermore, LCCI research in 2016 found that as much as 54% of London's 'blue-light' emergency services workers now live outside the city they serve, thereby undercutting London's resilience.

The Mayor should consider a limited intervention, with suitable safeguards, to make better use of poor quality and 'brown space' land within the metropolitan Green Belt to help house police, fire and paramedic staff. City Hall assuming an 'owner-landlord' position for rental housing stock for 'blue-light' emergency services staff would help improve resilience and potentially offer a steady revenue stream for the GLA.

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