LONDON CHAMBER of COMMERCE AND INDUSTRY

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Q2

LONDON QUARTERLY ECONOMIC SURVEY

April – June **2025**

In partnership with

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LIZ GILES

Policy and Communications Director, London Chamber of Commerce and Industry

FOREWORD

The business world is no longer a stranger to geopolitical tensions and volatile markets, but this long-term condition has meant a serious amount of caution when it comes to planning and investment. Even the most robust businesses have held back in the face of political tensions, climate-related risks and a shift in consumer spending.

With a year in office now under its belt, the Labour government has had its work cut out in rebuilding economic confidence whilst at the same time increasing spending in critical public services after decades of underinvestment. In the past few weeks, the arrival of three major strategies – Infrastructure, Industrial and Trade – have set a new pathway of ambition that is focused on driving economic growth and prosperity across the UK. And London is intrinsic to achieving this vision.

To remain a global economic powerhouse, London must safeguard its competitiveness and attractiveness to ensure it remains a destination for inward investment. New trade deals have opened a raft of new opportunities, but we must not be complacent, some regulatory barriers need to be unlocked, and supply chains require greater resilience. Only then can real economic growth happen.

The London Chamber of Commerce and Industry has long championed the rich diversity of sectors and industries that thrive across the capital and beyond but to remain a global destination for trade and investment, government and business must work hand in hand to foster growth, innovation and resilience.

There is no blueprint for success, it's an organic process that is informed by established principles and ways of working, with regular reflection and horizon scanning that explores new ideas and perspectives. Businesses also need an environment that is both conducive to growth and economically sustainable – this includes more favourable business rates, efficient transport links and infrastructure, access to a pipeline of talent and skilled workers, digital accessibility and resilience, and long-term public/private investment.

With Labour entering its second year of government, businesses are still on standby for clarity on several key issues but if the last six months have taught us anything it's that London is open for business and ready to seize new opportunities.

Liz Giles, Policy and Communications Director, London Chamber of Commerce and Industry

VICKY PRYCE

Chief Economic Advisor,
Centre for Economics and Business Research (Cebr)

THE ECONOMIST'S VIEW

Three months is a long time in economics. The spending review in early June prioritised defence, the NHS and schools but left many departments short, although it also included considerable capital spending on several vital projects, spread across a number of regions, which must be good news.

A long-awaited industrial strategy in late June, which included plans for reducing manufacturers' electricity costs in the medium term but which, while favouring several key industrial sectors, left the struggling retail and hospitality sector in the lurch. The UK economy is likely to feel the impact of the OECD's latest downgrades to global growth forecasts for this year and next, especially as geopolitical conflicts continue to intensify. The full extent of that impact, however, remains to be seen.

And trade remains a crucial factor here. The World Trade Organisation has revised its forecast for global merchandise trade to negative, expecting a fall of between 0.2% to 1.5% in 2025, depending on the intensity of trade tensions ahead .On the positive front for the UK a trade deal with India, still to be scrutinised about its direct and indirect implications, and a reset with the EU that could prove beneficial but probably needs to go further, are all good news though longer term in their impact. However, the rollercoaster of Trump's tariffs on cars and steel and aluminium, on top of the current 10% tariffs on most other UK exports to the US, is still leaving the UK worse off than pre the tariff increases. It also opens the door for more beef imports from the US and worries about what concessions our steel makers and the service sectors may have to see offered to the US to conclude the negotiations. Whether pharmaceuticals end up also be subjected to higher tariffs is still being investigated by the Trump administration alongside semiconductors, leaving the situation ahead far from clear.

All this is adding to uncertainty which is no good for investment, spending or for forecasting government finances which are under increasing strain, particularly given the latest U-turns on winter fuel allowance and disability payments. There are worries that taxes may have to rise further in forthcoming budgets. The employer NIC increase is now taking hold, and we have seen a substantial reduction in hiring intentions, a drop in payroll numbers and a rise in unemployment to 4.6%.

It is good to see the improvement in activity in London in this latest survey, but across the UK, after a 0.7% pickup in growth in the first quarter, reflecting increased production to boost exports to the US before the tariff increases, GDP fell by 0.3% in April. Manufacturing PMIs remain in the doldrums and car production in May was some 31% below on the year. The consumer is also reluctant to spend. Grocery prices are once again on the rise. Retail sales fell by 2.7% in May, the sharpest fall since December 2023.

Where do we go from here. Much will depend on what new OBR forecasts in the autumn tell us about the path ahead and hence what government fiscal policy may entail.

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

49% and **43%** of London businesses reported an **increase** in their domestically and internationally sourced raw materials last quarter

66% of London businesses reported an **increase in their energy costs** last quarter

BUSINESS COSTS

RISING COSTS

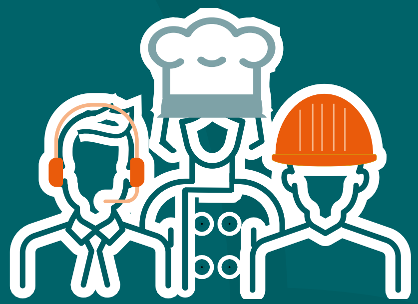
After a brief reprieve in Q1, the proportion of London businesses reporting a rise in business costs increased across all key areas in Q2. This marks a return to the upward trend observed in late 2024, driven most prominently by utilities and fuel. Two-thirds (66%) of respondents cited energy as a growing cost pressure – up from 63% in Q1 and 61% in Q4 of 2024 – while 55% reported rising fuel costs, a steady climb across three consecutive quarters.

Wage pressures also remain elevated, with 47% of businesses reporting growing employee expectations for pay increases. These figures are considerably higher among large firms (66%) and within the manufacturing sector (60%), pointing to sectoral and size-based disparities in how labour-related costs are being felt. Borrowing costs are another mounting concern: 41% of businesses overall report increases, but this rises to 53% among larger firms compared to 40% among smaller companies.

Across the board, the overwhelming majority of businesses continue to experience either stable or rising costs, with very few indicating a decline in any of the tested areas.

On the policy front, inflation remains the dominant concern among London's business community (59% more concerned in Q2 than in the previous quarter, up from 57% in Q1). Larger firms, in particular, express heightened sensitivity, with 69% citing inflation as a top concern, followed by interest rates (43%) and corporate taxation (40%). The most notable shift this quarter is an +8 percentage points rise in concern about business rates, climbing from 24% in Q1 to 32% in Q2.

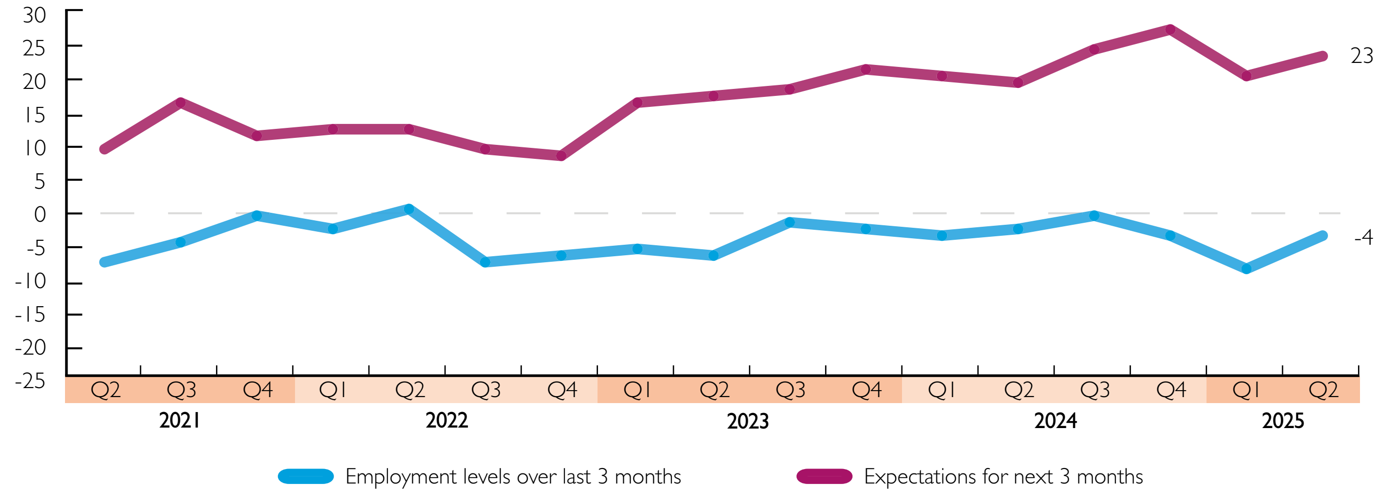
These persistent and rising cost pressures suggest that London businesses will need to adopt more resilient pricing, investment, and operational strategies to navigate ongoing inflationary and policy headwinds.



15% of London businesses reported an **increase in their workforce size** last quarter

28% of London businesses expected their workforce size to **increase** in the next quarter

LABOUR MARKET



STABLE WORKFORCE PLANS

London firms' plans for headcount remain largely unchanged from Q1: 28% anticipate expanding their workforce over the next three months (compared to 26%), while only 5% foresee a reduction (compared to 6%). Two-thirds of businesses (67%) expect no change to staffing levels (compared with 68% in Q1).

RISING RECRUITMENT DEMAND

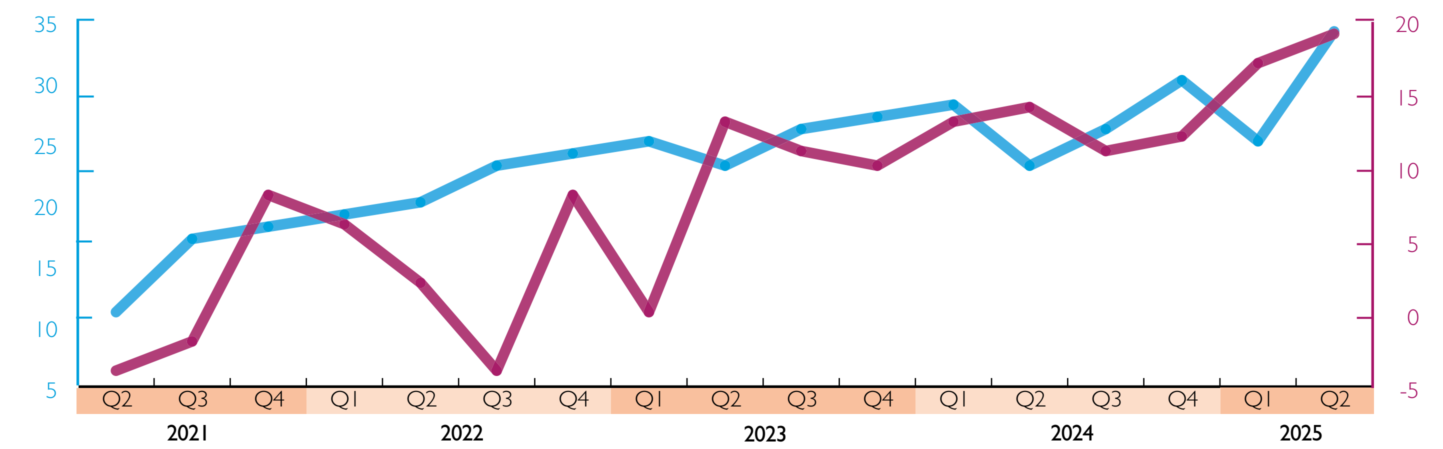
Recruitment activity has picked up distinctly. The share of companies that attempted to fill vacancies over the past quarter increased to 34%, up 9 percentage points from 25% in Q1 and returning above the 30% level seen in Q4 2024. This suggests that firms are more actively seeking new hires after a subdued start to the year.

Notably, hiring for part-time positions led to the surge. Among those recruiting, 56% sought part-time roles in Q2 – up 20 percentage points from 36% in Q1 and slightly above Q4's 53%.

Demand for temporary staff also increased (24% in Q2 vs 17% in Q1), as did recruitment for permanent roles (15% vs 12% previously). In contrast, the proportion of firms filling full-time jobs dipped by 9 percentage points to 61%, although it remains higher than Q4 2024's 54%.

These patterns indicate that, despite cautious overall headcount plans, London firms are increasingly leaning on flexible staffing – particularly part-time and temporary hires – to meet growing operational needs.

RECRUITMENT AND TRAINING



34% of London businesses reported **plans to recruit** in the last quarter

25% of London businesses reported an **increase in L&D training** last quarter

WORKFORCE PRESSURES VS STABLE PLANNING

Recruitment difficulties remained essentially unchanged in Q2, with 59% of hiring decision-makers reporting challenges, virtually the same as in Q1 (62%) and the final two quarters of 2024 (61% in both Q3 and Q4). For those facing difficulties, the struggle to fill skilled and technical roles intensified, with 69% of affected firms citing this category in Q2, up 12 percentage points from 57% in Q1. Clerical vacancies also became harder to fill, rising from 17% in Q1 to 24% in Q2, while unskilled and semi-skilled roles saw difficulties increase from 12% to 19% over the same period.

Investment intentions held steady for both training and plant and equipment. Exactly one-quarter of businesses (25%) reported increasing training expenditure, unchanged from Q1 (25%) and very close to Q4 2024 (24%) and Q3 (20%). Conversely, 6% said they had cut back on training (down slightly from 8% in Q1).

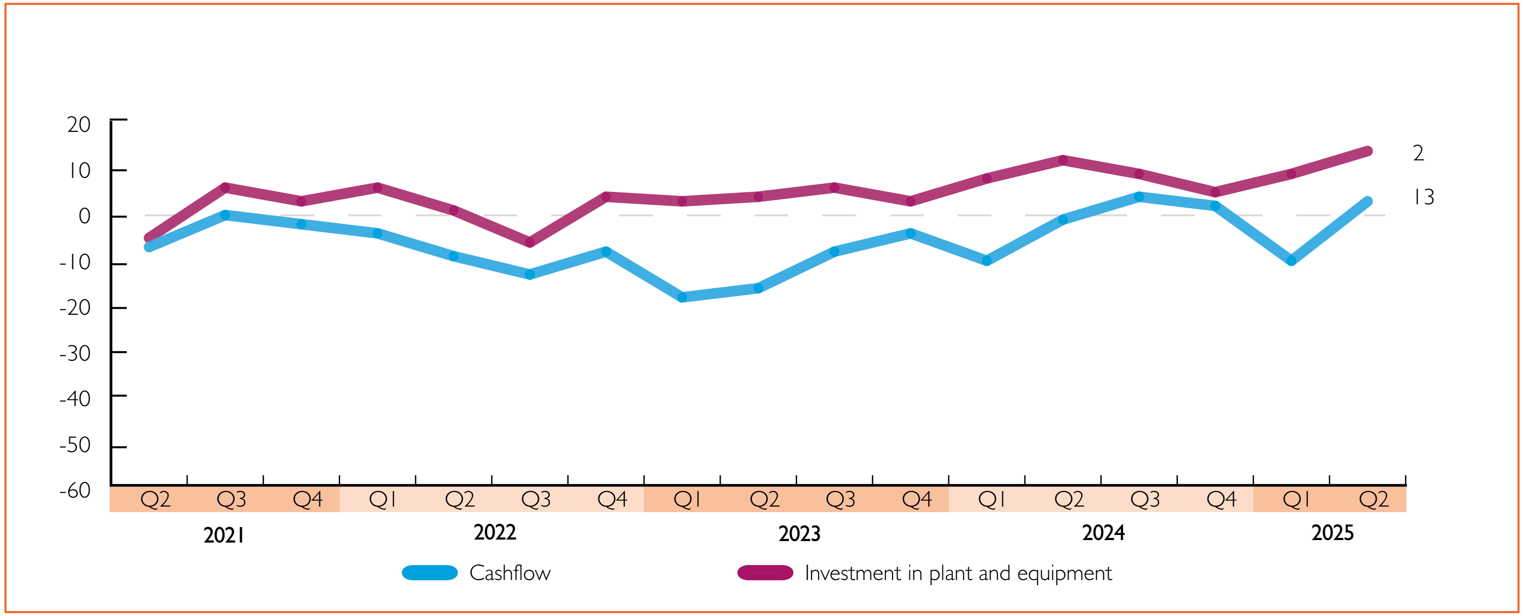
When it comes to skill acquisition, a plurality of London firms – 43% – continued to report that they had not obtained new skills through any of the listed methods, matching Q1's result. Among those that did, the most common approach was training existing staff (39%, up from 36% in Q1). The next most prevalent route was hiring new employees from the UK labour pool, which rose to 25% in Q2, a 7 percentage points increase from 18% in Q1.

Persistent recruitment challenges – particularly in skilled and technical roles – alongside stable training and capital investment suggest that London firms prioritise targeted workforce development and hiring strategies to address ongoing skills gaps.

31% of firms reported an **increase in cashflow** last quarter

22% of firms reported an **increase** in investment in plant and equipment

CASHFLOW AND INVESTMENT



STRONGER LIQUIDITY

Cashflow conditions improved across the board in Q2, with fewer firms reporting deterioration and more seeing gains. The proportion of London businesses experiencing a cashflow decline dropped by -7 percentage points to 29%, returning to levels last seen in Q4 2024. At the same time, 31% reported improved cashflow – a historic ten-year peak – pushing the overall balance into positive territory at +2. This marks just the third time since the onset of the pandemic that the balance has tipped into positive territory. The trend spans the entire business spectrum but is particularly pronounced among larger companies, with 55% reporting cash flow gains compared to 28% of micro firms – both figures standing at their respective record highs.

Investment intentions held broadly steady in Q2. A quarter (25%) of businesses increased spending on training – unchanged from Q1 and slightly above long-term averages. With only 6% reporting a decrease, the balance of training investment rose to +19, the highest figure in over a decade. Again, firm size proved decisive: over half (51%) of larger businesses boosted their training budgets, compared to more modest figures among smaller firms.

Investment in plant and equipment (P&E) also continued on a stable trajectory. The proportion of businesses increasing P&E investment rose marginally to 22%, while only 9% reported a decline, pushing the balance to +13 – another ten-year high. Larger firms led the trend, with half (50%) investing more in Q2 compared to a third (33%) in Q1 and just 6% reporting a decrease. The manufacturing sector experienced significant growth, with 54% of firms reporting increased P&E investment – more than tripling the Q1 figure of 16%.

Together, these findings suggest a cautiously optimistic investment climate, increasingly driven by medium and large-sized players, and a resurgence of manufacturing confidence.

49% of London businesses expect their profitability to **improve** over the coming 12 months

47% of London businesses expect their turnover to **improve** over the coming 12 months

BUSINESS CONFIDENCE

SELECTIVE OPTIMISM AMID CAPACITY CONSTRAINTS

Profitability expectations have inched higher over the past quarter, with 49% of businesses now anticipating increased profits – up 3 percentage points from 46% in Q1 – while only 18% expect profitability to decline, down from 23%. Larger firms remain especially buoyant: two-thirds (66%) foresee profit gains (maintaining a streak of over-60% for six consecutive quarters), and just 7% predict a downturn – both near-record figures. Micro firms track closely to the overall averages.

Turnover outlooks also held steady: 47% of respondents expect revenues to rise (compared to 45% in Q1), and 16% foresee a drop (versus 15% previously).

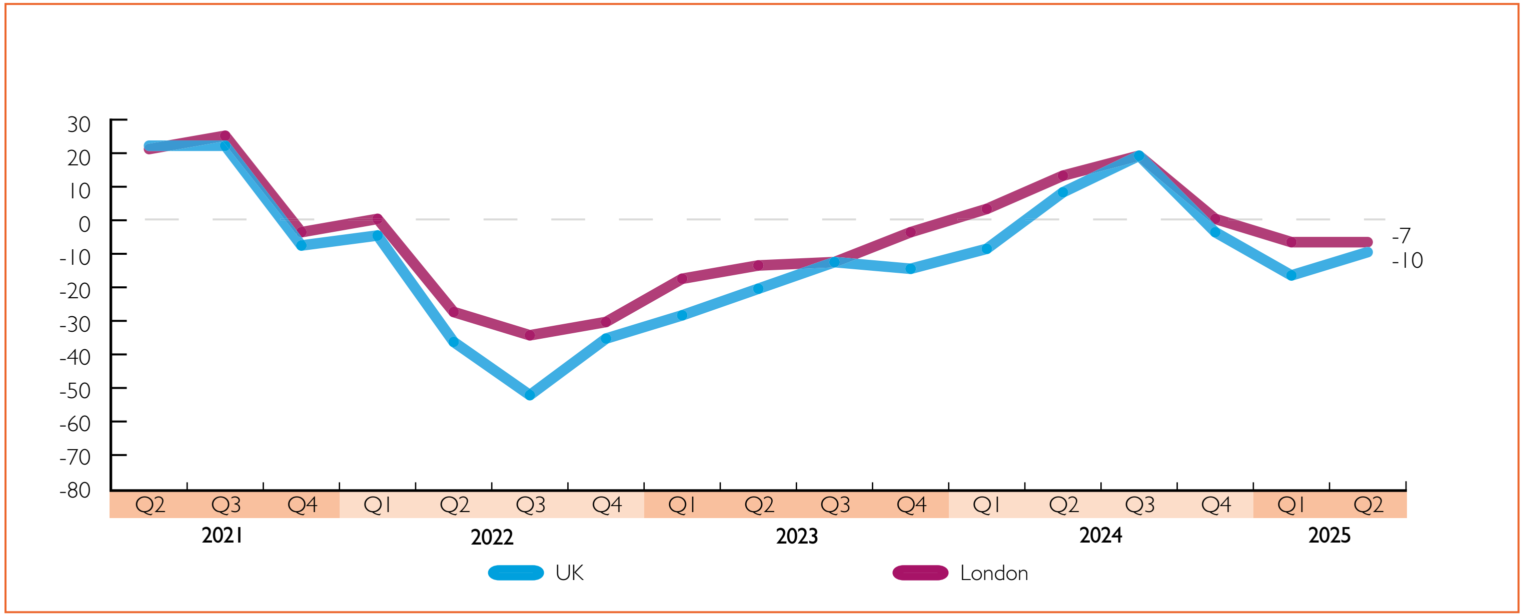
Meanwhile, capacity utilisation dipped from 52% in Q1 to 47% in Q2, meaning fewer firms are operating at full tilt than are not. Micro-businesses primarily drive this pullback, whereas larger companies report far more substantial utilisation – 73% at full capacity versus 56% among smaller peers.

These results suggest a cautiously improving profit and revenue outlook, but emerging capacity slack – especially among smaller firms – may temper the pace of expansion.

28% of London businesses expect London's economy to **improve** in the next 12 months

29% of London businesses expect the UK's economy to **improve** in the next 12 months

ECONOMIC OUTLOOK



UK AND LONDON PROSPECTS

At the firm level, 36% of London businesses expect their own economic prospects to improve over the next 12 months – virtually unchanged from 37% in Q1 and 36% in Q4 – while 40% foresee no change and 24% predict a decline. Larger companies stand out: 62% anticipate stronger performance for their operations, and only 10% expect deterioration. Micro-firms, by contrast, tend to mirror the overall average, with 34% optimistic and 25% pessimistic about their future performance.

Turning to the capital as a whole, 28% of businesses expect London's economy to strengthen over the coming year, in line with Q1's figure. However, inner-London firms are markedly more optimistic (34%) than those in outer boroughs (22%). Larger companies also exhibit greater confidence in the city's outlook: 51% predict improvement, compared to just 26% of micro firms. On the reverse, only 13% of larger businesses expect London's economy to worsen – well below the 35% average and the 37% recorded for micro firms.

At the national level, sentiment toward UK growth has improved modestly. In Q2, 29% of firms expect UK economic expansion, up from 25% in Q1, while 39% foresee a contraction (down from 42%). Again, larger companies diverge from the general trend: 39% of larger firms are optimistic about UK growth, and only 18% expect a downturn. Micro firms and most sectors track the broader pattern, with 28% hopeful and 41% concerned.

Taken together, these findings reveal a hierarchy of confidence: larger firms are the most upbeat – first about their own operations, then London's prospects, and finally the UK economy – while smaller businesses and outer-London firms remain comparatively cautious.

30%

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

24%

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

DOMESTIC DEMAND

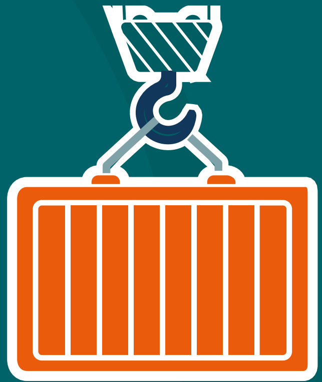
INCREASE IN DOMESTIC SALES AND ORDERS

Key performance indicators in the second quarter of 2025 reversed the modest declines seen in Q1, with notable gains in both cash flow and domestic sales. The share of businesses reporting an improvement in cash flow rose by 7 percentage points, climbing from 24% in Q1 to 31% in Q2. Similarly, domestic sales growth jumped by the same margin – up from 23% to 30% – marking the highest reading in over a decade of QES reporting. As a result, the balance measure for domestic sales moved into positive territory at +7, a level not witnessed since early 2016.

The upturn was particularly pronounced among larger firms. In Q2, 64% of companies in the QES sample recorded higher sales – a leap of 18 percentage points compared to 48% in Q1 – while only 7% reported a decline. This produced an unprecedented positive balance of +57, up 24 percentage points quarter-on-quarter. Smaller businesses also experienced improved sales sentiment: 27% reported growth (the second-highest proportion in 10 years), while the proportion reporting a drop decreased enough to push their balance into mildly positive territory at +3, a 10-point gain from Q1.

Geographic disparities emerged as inner-London firms expressed markedly higher optimism than their counterparts in outer boroughs. Companies based in inner London posted a domestic sales balance of +18, whereas those located outside the central area remained marginally pessimistic at –5. These location-based differences were reflected in cash flow trends, where the percentage of businesses reporting deteriorating cash flow decreased from 36% in Q1 to 29% in Q2, returning to levels last seen in Q4 2024.

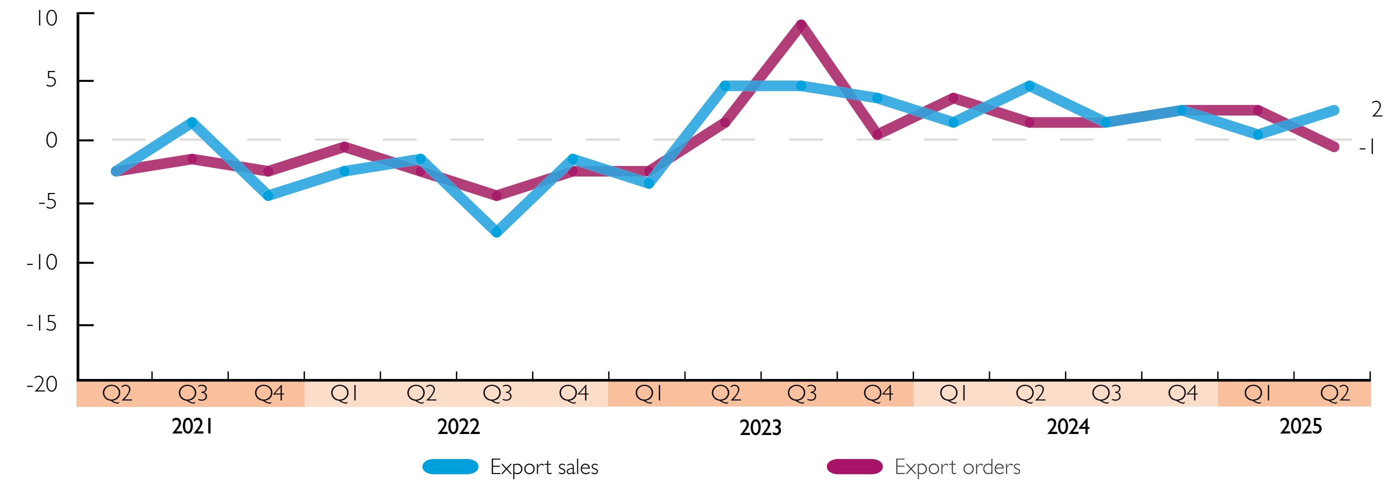
Industry dynamics played a central role in shaping the overall picture. The manufacturing sector led the recovery in Q2, with its domestic sales balance surging by 30 points to reach +12, as fewer companies reported declining sales. Service-sector firms also experienced better conditions, with 31% noting higher sales (up from 25% in Q1), which translated into a positive balance of +7, an 8-point improvement, but still lagged behind the gains in manufacturing. In cash flow terms, manufacturers again outpaced other sectors and, combined with healthier inflows for inner-London businesses, underpinned the broader turnaround in Q2.



12% of London businesses reported an **increase in export sales revenue** last

9% of London businesses reported an **increase in export orders** last quarter

EXPORT DEMAND



NAVIGATING TARIFF CHALLENGES

While domestic demand has shown a strong recovery, export trends remain subdued. In Q2, just 9% of all London businesses reported an increase in export orders – down from 12% in Q1 – while the proportion reporting a decline held steady at 10% across both quarters. This leaves the overall balance modestly negative, reflecting continued weakness in external demand despite strengthening domestic conditions.

Despite limited growth in new export orders, some improvement was seen in overall export sales in Q2. Among firms engaged in international trade – defined as those reporting either export sales or orders – 27% reported an increase in export sales, up from 24% in Q1. Engagement in exporting remains uneven by firm size, with 41% of micro firms and 72% of larger firms participating in overseas trade. Notably, 12% of respondents report using London's airports to export goods or services, underscoring the continued relevance of high-value, air-freighted exports from the capital. US tariffs continue to have a mixed impact on local exporters. A majority (55%) report no impact – suggesting limited exposure to tariffed goods or minimal direct trade with the US – yet 29% indicate a negative hit on operations, reflecting tangible headwinds for companies with stronger transatlantic links. Conversely, 10% of businesses have experienced a positive effect, perhaps capitalising on reshuffled supply chains or shifts in demand.

When it comes to mitigating tariff-related challenges, most firms remain in a holding pattern. Among those taking proactive steps, 22% are redirecting efforts toward UK or EU markets, favouring more stable or accessible destinations. 14% are adapting supply chains to minimise exposure, while 12% are reducing exports to the US, and 11% are developing alternative products. These strategies highlight how London exporters – particularly mid-size and large firms – are flexing their risk-management muscles in response to evolving trade conditions. These mixed tariff impacts suggest that, while most exporters remain tranquil, a significant minority are proactively swinging toward alternative markets and reshaping supply chains to safeguard their operations.

STRATEGIC OUTLOOK

LONG-TERM COMPETITIVENESS HINGES ON RESILIENCE, INVESTMENT, AND INCLUSIVE GROWTH

The Q2 2025 results offer tentative evidence of recovery, but the uneven nature of this rebound raises pressing questions towards London's long-term competitiveness. Larger and manufacturing businesses are driving progress across most metrics – from sales and cashflow to investment and hiring – while smaller firms, exporters, and outer London boroughs continue to face more limited gains.

This fragmentation echoes concerns raised in LCCI's recent policy submissions: productivity, resilience, and innovation are increasingly concentrated in a narrow band of firms. Broader progress depends on extending capability and confidence across the whole business spectrum.

Persistent skills shortages, capacity underutilisation, and rising operating costs suggest that more targeted interventions are needed. These include improving labour force agility through reformed skills pipelines, supporting energy efficiency and retrofit investment, and protecting margin-sensitive firms from volatility in supply chains and trade policy.

At the same time, this quarter's findings reaffirm the value of a stable investment environment. Firms that maintained training and equipment investment—even through Q4's downturn—are now seeing more substantial gains. With borrowing costs rising, policy clarity and access to growth capital will be vital to sustaining this recovery.

In the second half of 2025, London's economy has the opportunity to consolidate its gains—but doing so will require a broader base of participation, particularly among smaller and regional firms. Bridging these divides will be central to the capital's future industrial, trade, and infrastructure strategies.

WHO THIS REPORT IS FOR AND WHY IT MATTERS

The Quarterly Economic Survey provides a vision into the views and performance of businesses across the capital. Conducted by the London Chamber of Commerce and Industry in partnership with Savanta, this report remains the most comprehensive private-sector survey of London's business landscape.

It is designed for a wide range of users who rely on timely and reliable business intelligence to shape decisions:

- **London Businesses:** From micro firms to larger companies, business leaders can use the report to benchmark performance, understand market sentiment, and plan ahead in a fast-moving economic environment.
- **Policy Makers and Government Stakeholders:** The data provides a direct channel to the views of London businesses. It informs evidence-based policy at the local, regional, and national levels – across infrastructure, skills, trade, and broader economic development.
- **Investors, Analysts and Advisors:** The findings offer a bottom-up view of business confidence, demand pressures, and investment trends – helpful in assessing risk, identifying sectoral momentum, and refining market assumptions.
- **Researchers, Journalists and Think Tanks:** The report supports robust commentary and independent analysis, contributing to a clearer understanding of economic conditions in one of the world's most dynamic urban economies.
- **Local Stakeholders:** Those with a broader interest in London's economic future can utilise the report to gain a deeper understanding of how business sentiment is evolving and what it may mean for communities, skills, and opportunities across the city.

WHY IT MATTERS

Beyond a quarterly snapshot, the survey acts as a barometer of business resilience and a signal of structural pressures facing the capital. Results are shared with key decision-makers – ensuring the voice of London's business community plays a role in shaping the policy response.

By tracking shifts in sentiment across sectors, firm sizes, and locations, the survey helps anticipate risks and guide resource allocation. It highlights the underlying conditions – from labour market access to finance and regulatory pressures – that shape London's competitiveness.

The *Quarterly Economic Survey* remains an essential tool in making London's growth story better understood, better supported, and more widely shared.

ABOUT THE SURVEY

The *London Quarterly Economic Survey* is produced by the London Chamber of Commerce and Industry and forms part of the UK's largest and longest-running independent business survey, coordinated nationally by the British Chambers of Commerce.

This quarter's fieldwork was conducted by Savanta between 17 April and 22 May 2025. A total of 506 London business leaders were surveyed, with data weighted to reflect the capital's business population by size and sector. Savanta is a member of the British Polling Council and conducts its work in line with its regulations. Full data tables are available at www.savanta.com.

The net balance figures indicate 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 must be fully referenced.

ABOUT HAYSMAC

HaysMac is a chartered accountancy and tax advisory firm offering a wide range of professional services, including audit and assurance, taxation, outsourcing, business advisory, and corporate finance.

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