LONDON CHAMBER of COMMERCE AND INDUSTRY

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QI CAPITAL 500

London Quarterly Economic Survey

January – March **2024**

In partnership with

Savanta:

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LCCI COMMENTARY – THE BUSINESS VIEW

The latest findings from our Quarterly Economic Survey point to a steady – if slightly underwhelming – first quarter for London firms, as domestic demand eased. Cashflow appears to have declined for the first time in a year, while cost pressures for companies – though not growing at the same rate as seen in 2022 and 2023 – remain elevated for many London businesses.

Nevertheless, it is worth noting that recruitment activity increased again, and labour market expectations are holding up. Furthermore, businesses are still markedly more upbeat about their own prospects than they were a year ago, with some of this optimism translating to the economic outlooks for London and the wider UK.

This determination and optimism remain the hallmark of the capital's business community. It is because of this entrepreneurialism and drive that has meant that London remains the global centre for business. More and more firms are choosing to locate in London, including Microsoft's recent decision to open its AI Hub in Paddington. However, the impact of high supply side costs is impacting on businesses' bottom lines.

2024 is a year of significant political importance for London businesses, with Mayoral and London Assembly elections in May, and an expected General Election. LCCI has put forward its key asks of the next Mayor, with clear recommendations on how they can support businesses in the capital to grow.

The London Chamber will soon be releasing its asks of the next national government, which will focus on steps to unlock businesses' potential. Supporting our SMEs will help to grow the economy, and should be the focus of every policymaker, be that on a local or national level.

James Watkins, Head of Policy and Public Impact, 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 surveyed a total of 504 London business leaders between 6 February to 11 March 2024. All data were weighted to be representative of all London businesses by company size and broad industry sector. Savanta is a member of the British Polling Council and abides by its rules. Full data tables are available at www.savanta.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 and Board Member, Centre for Economics and Business Research (Cebr)

GUEST COMMENTARY – THE ECONOMIST'S VIEW

The welcome improvement in business sentiment reported in the LCCI QES is being reflected nationally. The latest Lloyd's Bank barometer showed that business confidence stayed high, retail confidence improved slightly, and expectations for the months ahead had risen somewhat. In March, the manufacturing Purchasing Managers Index (PMI) moved into growth territory for the time since July 2022. The services PMI rose strongly in the first quarter of 2024, although there is great variability between sectors, with hospitality remaining in considerable difficulty and the number of retail insolvencies up 19% in the year to January 2024. Recruitment problems also persist in several industries, and regional variations remain and, if anything, are widening.

Still, it cannot be denied that the better inflationary outlook is helping overall sentiment as are expectations of a declining path in interest rates, though the timing and size of any rate cuts remain in doubt given slightly different paths in economic activities and inflationary pressures in different countries. The US Federal Reserve, the European Central Bank (ECB) and the Bank of England (BoE) are all eyeing each other to see who moves first, and the expectation is that as soon as one does, the others follow despite varying growth rates. Indeed, the US continues to expand strongly while the UK and the Eurozone remain laggards.

What about the consumer? Lower inflation and increases now in real wages, helped by continuous stimulus in the US thanks to 'Bidenomics', tax cuts in the UK offsetting the increased tax take from stealth taxes, and extra support from the New Generation EU Fund should all help to improve sentiment. Households and voters will be able to show their feelings in the June European Parliament elections, the November US presidential election, and in the UK general election (whenever this takes place).

Rishi Sunak hinted that an election would be held when the economy starts to grow. However, betting on the economy has so far proved tricky. The Office for National Statistics (ONS) left quarterly growth data unchanged in its latest update for both the third and last quarter of 2023, thus confirming the technical recession in the second half of last year, and growth of just 0.1% for 2023 as a whole. Yes, GDP rose by 0.3% in January and 0.1% in February, suggesting only a brief recession. Nevertheless, the Office for Budget Responsibility (OBR) forecast of just 0.8% growth in the UK this year points to a slow recovery while most other independent forecasters remain even more pessimistic.

Beyond the UK, world growth remains subject to geopolitical tensions which if anything are increasing. The global environment, affected by war in Europe and the Middle East, remains uncertain and at risk of fragmentation, as the International Monetary Fund (IMF) has just warned.

So, what next for the UK? There is no doubt that if inflation continues to improve this will be better news for the economy overall. Real wages are finally rising again. The near-10% increase in the minimum wage for the 2024-25 financial year, benefit increases and the 8.5% uplift in the full state pension add to the further 2% NIC rate cut in the Spring Budget. Real disposable incomes are now rising, despite the continued freezing of personal tax allowances.

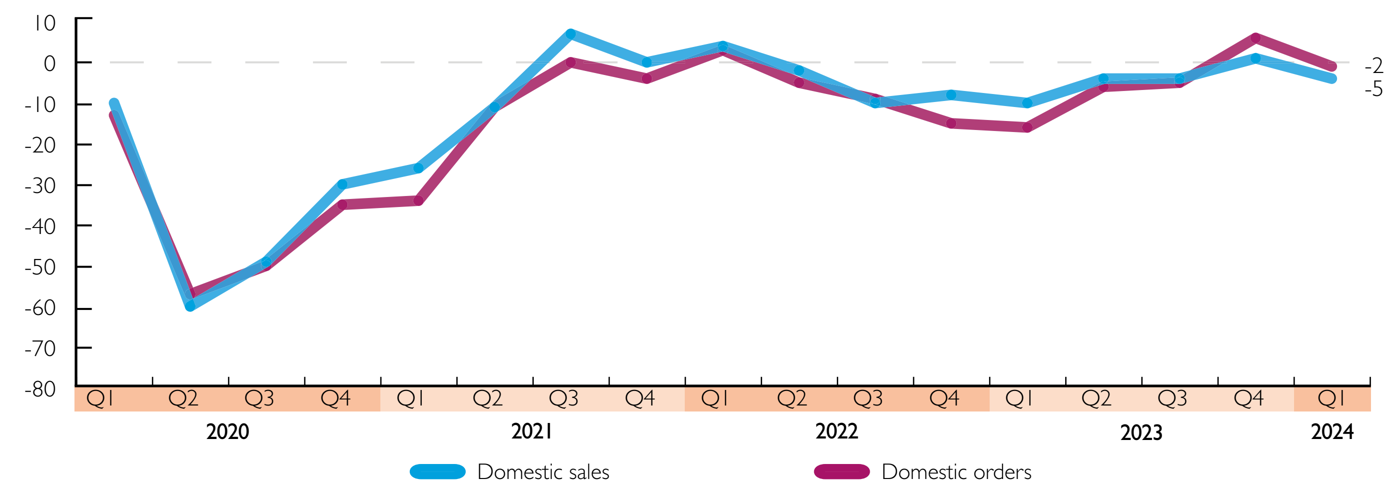
However, services inflation has remained stubbornly high, currently at around 6%, and the substantial increases in a range of staples – broadband and mobile charges, motor and home insurance, council tax, road vehicle licence fees, water bills and more – are causing concerns. Following OPEC oil production cuts, the cost of energy is again creeping up, and nearly half of London firms surveyed still intend to raise prices in the next three months, albeit at a lower rate. Yes, the drop in the electricity price cap in April will help offset most of that. Nonetheless, the costs to consumers and businesses remain high and their impact, in terms of shaping demand and growth, should not be underestimated in the months ahead.

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

DOMESTIC DEMAND

21% of London businesses reported an **increase** in domestic sales last quarter

24% of London businesses reported an **increase** in domestic orders last quarter



The latest Capital 500 pointed to a muted start to 2024 for London businesses. The net balance for domestic sales fell 5 points to -5 in Q1 2024, with a fifth (21%) of businesses saying that their domestic sales had risen in Q1 2024: this was down from 25% who said the same in Q4 2023. A quarter (26%) of firms said their sales had fallen in Q1 compared to the previous months.

The domestic sales balance for micro companies (0-9 employees) fell from -2 to -8 in Q1 2024, with 28% of micro firms saying sales had declined compared to Q4 2023. Two in ten (20%) micro businesses saw their sales rise in Q1, down from 23% who said the same in the Q4 2023 Capital 500. For larger businesses (10 or more employees), the domestic sales balance fell from +26 to +20 last quarter. Fewer larger businesses said their sales had increased in Q1 (34%) than in Q4 2023 (46%).

The drop in sales was focussed in services, particularly in the broad 'motor trades / wholesale / retail / transport & storage / accommodation & food services' sectors. Manufacturers reported an improvement in domestic sales in Q1.

It was a weaker start to 2024 for domestic orders too, with the net balance falling back into negative territory (down 7 points to -2 in Q1). A smaller proportion of London firms who said their orders had increased in Q1 (24%) than in Q4 2023 (29%). Around a quarter (26%) of businesses saw their orders decline between Q4 2023 and Q1.

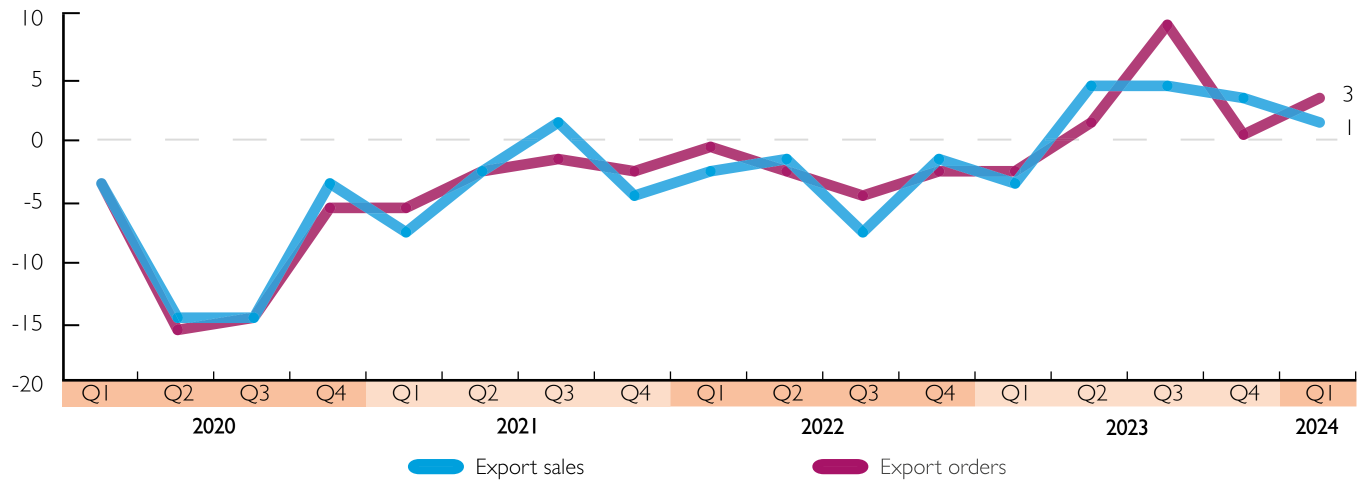
Businesses of all sizes reported a slowdown in domestic orders during the first three months of the year. For micro companies, the orders balance fell from +3 to -4 in Q1, while for larger firms the balance dropped to a one-year low (down 7 points to +18).

As with sales, the drop in orders was concentrated in service sector industries, namely in information and communication.

EXPORT DEMAND

10% of London businesses reported an **increase** in export sales last quarter

11% of London businesses reported an **increase** in export orders last quarter



Demand for export sales softened for a second consecutive quarter in Q1 2024, with the net balance dipping 2 points to +1. One in ten (10%) London businesses said their sales had risen in the first three months of 2024, roughly consistent with the previous Capital 500 (11%). The proportion of companies who said their export sales had decreased was slightly higher in Q1 (9%) than in Q4 2023 (8%).

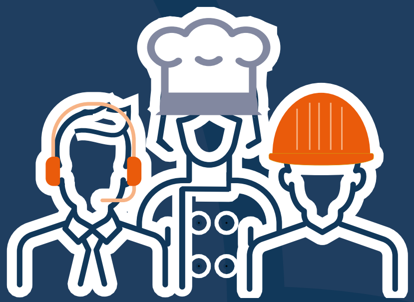
This drop in export sales was due to micro companies: the net balance slipped into negative territory in Q1 (down from +2 to -1), with only 8% of micro businesses saying their export sales had increased between Q4 2023 and Q1. By contrast, larger companies saw their export sales rebound in Q1. The net balance climbed 8 points to +16, with a quarter (25%) of larger firms saying their sales had risen.

Export orders have proven to be more volatile in recent Capital 500 surveys.

In Q1 2024, the export orders balance climbed from 0 to +3, with more companies reporting an increase in orders (11%, up from 9% in Q4 2023).

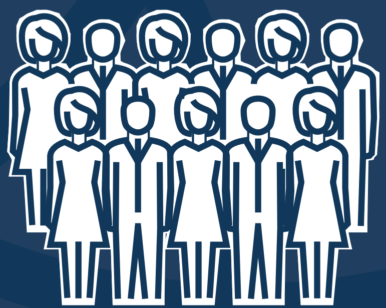
Micro and larger businesses alike said that their orders had grown in Q1 2024. For micro businesses, the export orders balance rose 4 points to +2, while for larger firms the increase was more pronounced (net balance climbed from +15 to +21).

LABOUR MARKET



14%

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



27%

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

The latest Capital 500 survey pointed to a stable labour market in London for the first three months of the year. The employment levels balance nudged down 1 point to -4 in Q1 2024: the proportion of firms who said their workforce size had increased was 14%, up from 11% who said the same in Q4 2023. However, there was also a bigger share of businesses who said their workforce had shrunk (18% in Q1, 14% in Q4 2023).

For micro businesses, the employment balance dipped from -5 to -6 last quarter, although 12% of micro firms said their workforce had grown in size during Q1: this was the highest share in eight years. Nevertheless, just under two in ten (18%) micro companies said their workforce levels had fallen in Q1, up from 14% in Q4 2023. Larger businesses reported an uptick in employment levels in Q1, with the net balance climbing 7 points to +14: a third (32%) of larger firms said their workforce had increased in size.

Expectations for the coming quarter held up in Q1 too, with just over a quarter (27%) of London businesses expecting to grow their workforce levels in the next three months. The overall net balance for workforce size expectations dipped 1 point to +20.

The small dip in the net balance for workforce expectations was due to larger businesses. The proportion of larger firms expecting their workforce to grow in size was smaller in Q1 (51%) than in Q4 2023 (57%), although only 5% expect their employment levels to decline in the coming three months.

By contrast, in Q1 a quarter (25%) of micro firms said they expect their workforce levels to increase in the next quarter, the highest share on the Capital 500. The net balance edged up 1 point to +18.

RECRUITMENT AND TRAINING

28% of London businesses reported that they had looked to recruit in the last quarter

21% of London businesses reported an **increase** in investment in training last quarter

With skills gaps remaining a pressing issue for London businesses, recent Capital 500 surveys point to higher levels of investment in training. The net balance for training investment rose 3 points to +13 in Q1 2024, and has remained at an elevated level for four consecutive quarters. One in five (21%) of firms said they had raised investment in training over the past three months, with only 8% reporting cutbanks on spending.

For micro companies, the investment in training balance climbed 2 points to +11 in Q1, as 19% of micro firms said they had increased spending in training compared to Q4 2023. Training investment by larger firms was unchanged for a second consecutive quarter in Q1 (net balance remained at +29).

Businesses are also still active in recruitment, with 28% of London firms saying that they had tried to hire in Q1 – a new record for the Capital 500.

The increase in recruitment efforts was due to micro businesses: the share of micro firms looking to recruit increased from 22% to 24% in Q1. By contrast, 70% of larger businesses tried to recruit last quarter, down slightly from 73% in Q4 2023.

Three-fifths (60%) of all London firms who tried to recruit in Q1 experienced difficulties doing so, consistent with the Q4 2023 Capital 500.

BUSINESS COSTS

57% of London businesses reported an **increase** in their fuel costs last quarter

67% of London businesses reported an **increase** in their energy costs last quarter

London businesses remain saddled with high costs across the board, with little sign of a sustained reduction in pressures. In Q1, two-thirds (67%) of firms said they had seen an increase in their energy costs compared to Q4 2023, consistent with previous Capital 500 surveys.

This rises to 81% of larger companies. Only 6% of all London firms said their energy costs had fallen in Q1, although this was the highest proportion reporting this for three years. There was a small uptick in the proportion of firms who saw an increase in fuel costs (57% in Q1, 54% in Q4 2023).

Just over half (53%) of businesses said their domestic raw material costs had risen in Q1, unchanged from Q4 2023. There was a small increase in the share of firms who saw a decline in their domestic raw material costs, from 1% to 3%. Considering raw materials sourced internationally, 46% of firms said their costs had risen and 3% reported a decrease in Q1, unchanged from Q4 2023.

Pressure to increase wages has stabilised, albeit at a high level: 46% of London firms said wage pressures had increased in Q1, consistent with Q4 2023 (45%).

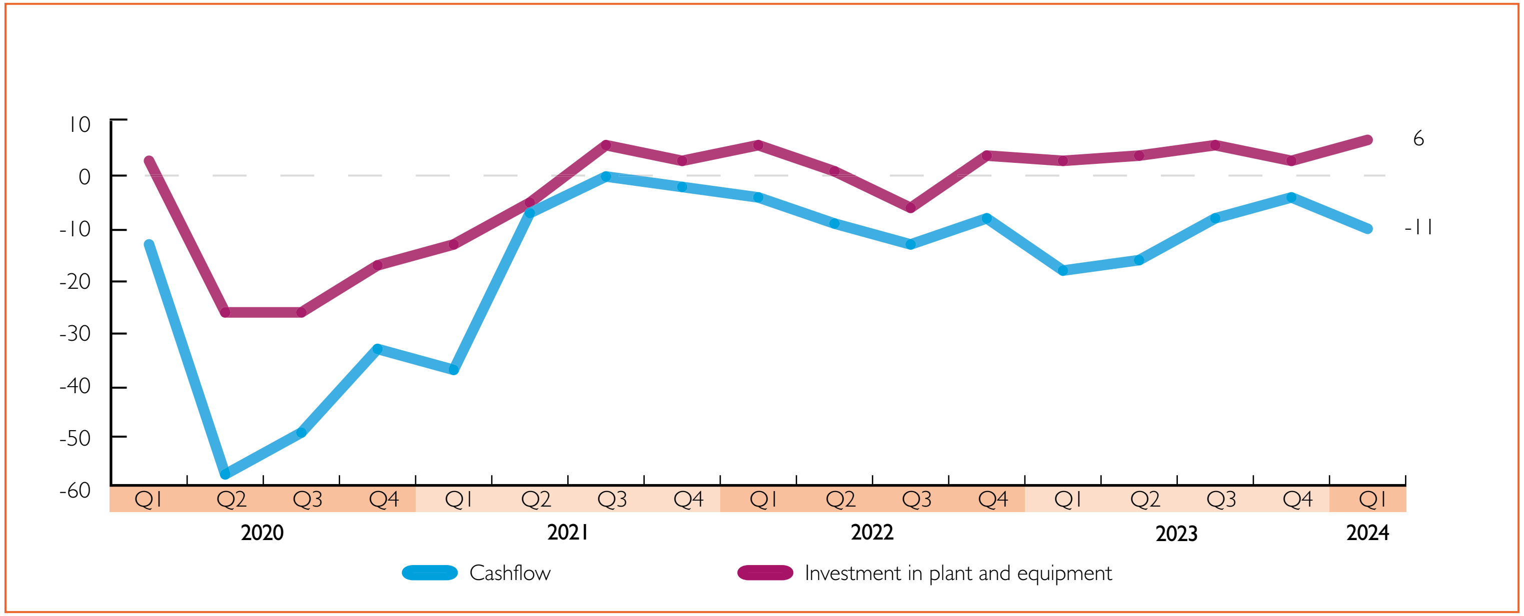
With the official Office for National Statistics data suggesting inflation is declining, attention will turn to the Bank of England and their expected cuts to interest rates. Businesses will no doubt be keeping a keen eye, as the latest Capital 500 shows borrowing cost pressures grew at the start of the year. In Q1, 46% of London firms said their borrowing costs had risen compared to Q4 2023, while only 4% noted a decline.

Despite the fall in the official figures, 60% of London firms were more concerned about inflation in Q1 than they were in Q4 2023, and this remains the number one issue for businesses. Just over two-fifths (42%) of firms expect to raise the prices of their goods / services in the next three months, up slightly from Q4 2023 (40%).

CASHFLOW AND INVESTMENT

24% of firms reported an **increase** in cashflow last quarter

19% of firms reported an **increase** in investment in plant and equipment



The improvement in cashflow stalled in Q1, according to the Capital 500 survey. A quarter (24%) of London firms said their cashflow had risen in Q1, down from 26% who said the same in Q4 2023. There was also a bigger proportion who reported a decline last quarter (35% in Q1, 31% in Q4 2023). The net balance slipped from -5 to -11 as a result.

For micro firms, the cashflow balance dropped from -7 to -15 in Q1, as close to four in ten (37%) said their cashflow had worsened over the first three months of 2024. By contrast, for larger businesses the cashflow balance climbed to +23 in Q1, the highest since Q3 2015: 43% of larger firms said their cashflow had increased in Q1.

There was a stark geographical split on cashflow in the latest findings, with firms located in inner London seeing a sharp decline in the net balance (from -1 to -14 in Q1). For outer London firms, the cashflow balance was unchanged at -9 last quarter.

Investment in plant and equipment rebounded in Q1, with the net balance climbing 5 points to +7: this was the highest since Q1 2016. One in five (19%) London firms raised their investment in plant and equipment in Q1, while 12% said their capital investment had lowered.

The proportion of micro firms who said investment in plant and equipment rose in Q1 was 18%, the highest share in eight years: the net balance rose from 0 to +6 last quarter. For larger companies, the net balance for plant and equipment investment rose 6 points to +27 in Q1.

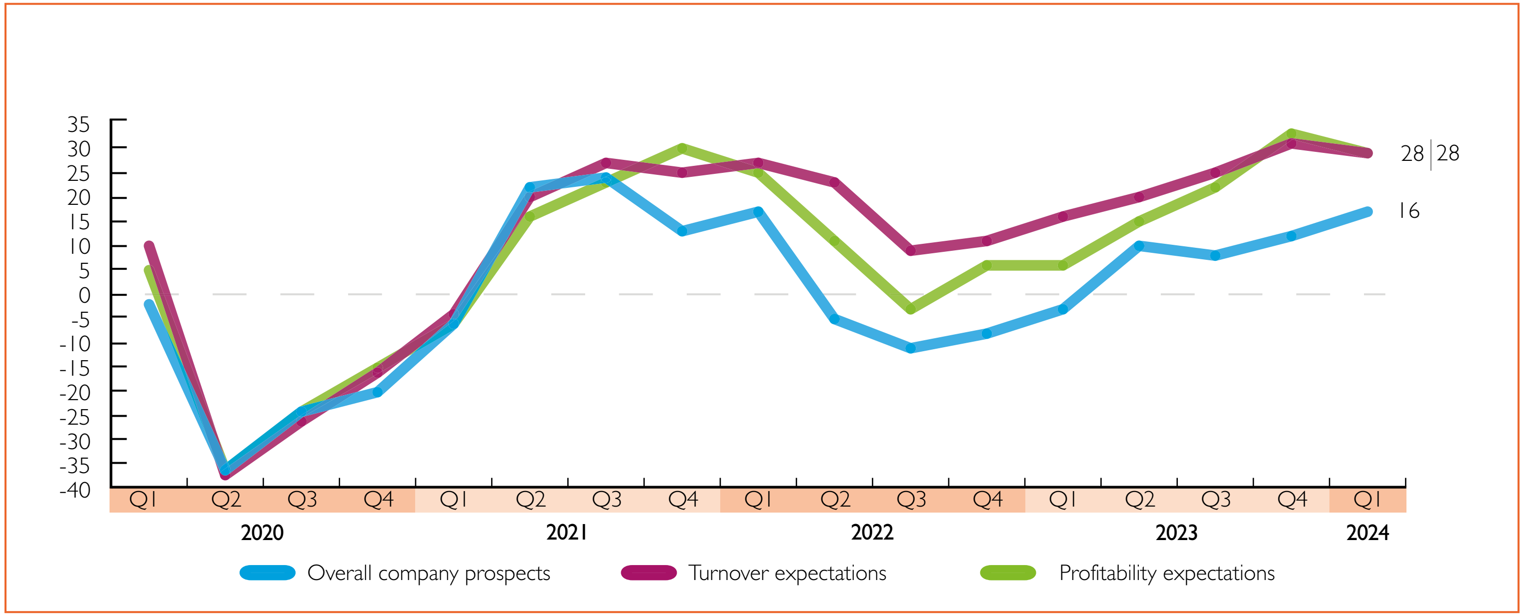
46%

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

44%

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

BUSINESS CONFIDENCE



Businesses remain upbeat on their prospects for the rest of 2024. There was a slight dip in the profitability expectations balance in Q1, with 46% of firms anticipating an increase in profitability over the next 12 months. This was down from 50% in Q4 2023. The share of firms who expect profitability to worsen was unchanged at 18%, with the net balance dipping from +32 to +28 in Q1.

Micro firms saw a drop in the profitability expectations balance from +30 to +26 in Q1, while for larger businesses the balance climbed 4 points to +47. Three fifths (62%) of larger firms anticipate profitability to improve in the coming year.

It was a similar picture with turnover expectations, as the net balance nudged down 2 points to +28 in Q1: 44% of all London companies expect turnover to improve in the next 12 months (48% said the same in Q4 2023). This was offset by a smaller share of firms who expect turnover to worsen (16% in Q1, 18% in Q4 2023).

The turnover expectations balances for both micro and larger businesses dropped in Q1.

Overall company prospects continued to strengthen in Q1, with the net balance climbing for the second consecutive quarter (from +11 to +16). This was the joint-highest reading since Q3 2021. More than a third (35%) of companies expect their prospects to improve over the next 12 months, compared to 19% who anticipate a worsening.

ECONOMIC OUTLOOK

30% of London businesses expect London's economy to **improve** in the next 12 months

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

Expectations for London's economy picked up again in Q1 2024. Three in ten (30%) businesses think that London's economy will grow over the coming 12 months (up from 28% in Q4 2023), pushing the net balance into positive territory for the first time in two years. The share of companies who think London's economy will worsen shrunk too, from 32% in Q4 2023 to 27% in Q1.

The improvement in businesses' outlook for London was driven by micro companies: the net balance climbed 8 points to +2 in Q1, with 29% of micro firms expecting London's economy to grow over the coming year. For larger businesses, there was a small decline in the London economy outlook, as the net balance slipped 4 points to +13.

After stalling in Q4 2023, businesses were also more optimistic about the wider UK economy. The share of firms expecting the UK economy to improve in the next 12 months rose slightly from 26% in Q4 2023 to 28% in Q1, while there was a smaller proportion who think the economy will worsen (37%, down from 41% in Q4). This pushed the net balance for the UK economic outlook up 6 points to -9, the highest since Q4 2021.

As with the London outlook, it was micro businesses who drove this improvement. For micro firms, the net balance for the UK economic outlook rose from -16 to -9 in Q1. By contrast, for larger companies the net balance fell back into negative territory (down 7 points to -4 in Q1): it is worth noting that this measure has been quite volatile in surveys.

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