LONDON CHAMBER of COMMERCE AND INDUSTRY

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CAPITAL 500

LONDON QUARTERLY ECONOMIC SURVEY

QI

2019

ComRes

January – March 2019

LCCI COMMENTARY – THE BUSINESS VIEW

"The first *Capital 500* survey of 2019 reveals that the year has got off to a difficult start for many firms.

For the first time in the history of the *Capital 500*, all export and domestic demand figures are in negative territory, while the cashflow balance has fallen to a record low for the second consecutive quarter. At the same time, businesses continue to be more pessimistic than in previous quarters, with all business confidence and economic outlook indicators dropping. Consequently, all these measures are now negative, which is another 'first' in *Capital 500* terms.

The export-related figures should act as a wake-up call. Despite a weak pound, London exports are far from thriving – hitting record lows this quarter. As we move toward a post-Brexit landscape, it is increasingly important that more firms from the capital (especially SMEs) are encouraged to look to new markets.

Notably, as the new financial year begins, the *Capital 500* illustrates that the year ahead will be challenging on many fronts. That will not be helped by ongoing Brexit uncertainty. At the time of writing, the European Council has agreed to move Brexit day to 22nd May if the UK Parliament votes in favour of the Prime Minister's negotiated Withdrawal Agreement – or to only extend the date to 12th April if it does not.

LCCI has consistently urged politicians to prioritise limiting uncertainty for businesses by using a practical deal as a stepping stone towards the real prize – the UK's future trading relationship with the EU. After all, it is that which will be of lasting value to our firms and our economy."

Sean McKee, Director of Policy and Public Affairs, 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 571 London business leaders between 13 February and 11 March 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 findings for London chime with what is happening in the economy more generally. Employment data continues to improve and real wages are recovering as nominal pay increases are outpacing inflation, which for the moment remains just below the 2% target. Retail sales also seem to have improved, helped by heavy discounting despite a drop in consumer confidence. GDP figures for January suggested a possible upturn, though much of it may have been due to stockpiling ahead of a potential no-deal Brexit. But as the global economy is slowing down the reasons for concern are multiplying. Growth in the three months to January 2019 was just 0.2%. February PMIs showed renewed weakness, declining export orders in manufacturing, modest services growth and a fall in construction. Continued - and prolonged now - Brexit uncertainty is not helping.

Business investment fell in 2018 and is expected to fall further this year and business confidence is at the lowest levels since 2016. Latest forecasts have cut GDP growth for 2019 - the OECD to 0.8% and the Bank of England to 1.2%, the same as that of the Office for Budget Responsibility that accompanied the Chancellor's spring statement."

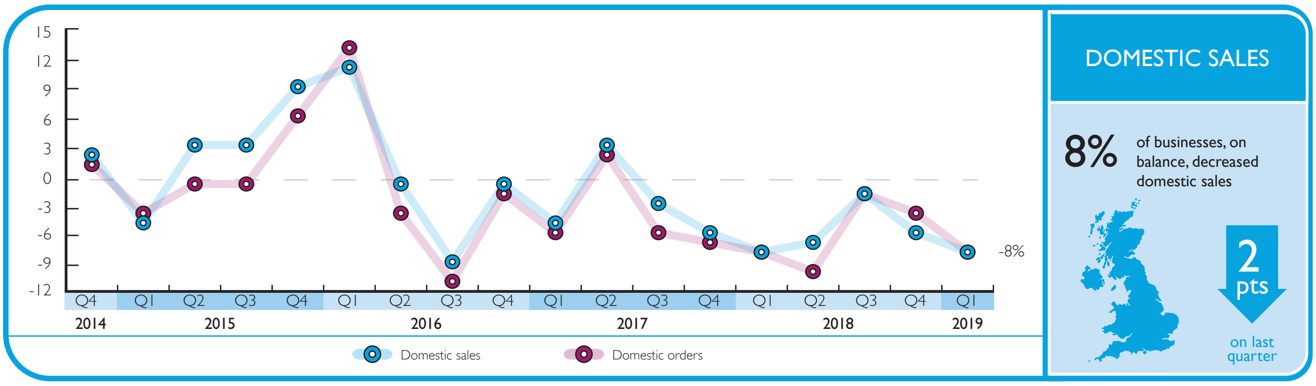
Vicky Pryce, Chief Economic Advisor and Board Member, Centre for Economics and Business Research (Cebr)

DOMESTIC DEMAND

The first quarter of 2019 saw both domestic demand figures fall further into negative territory. This is the seventh consecutive quarter that both of these figures have been negative.

The domestic orders balance dropped by 4 points on last quarter, while the domestic sales balance also fell by 2 points, as more businesses recorded a decrease than an increase in both areas.

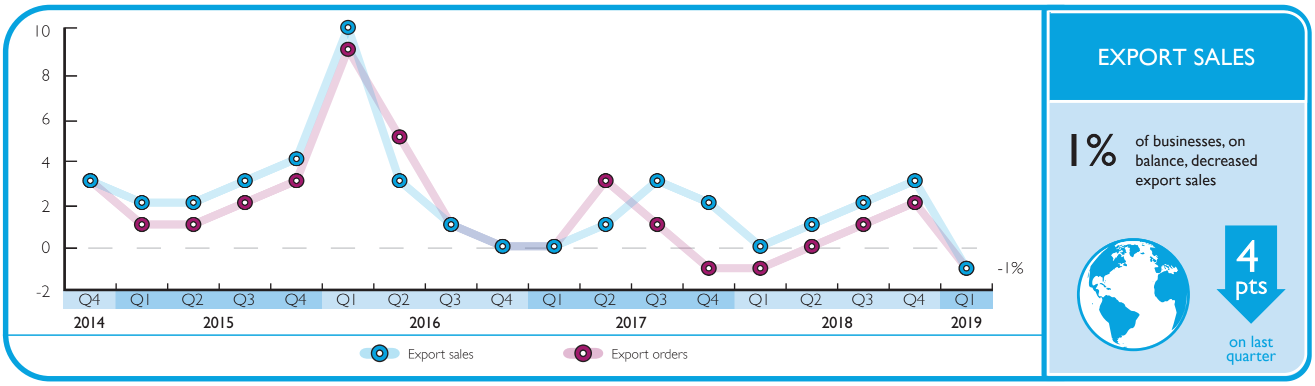
Like the previous quarter, micro businesses reported negative figures for both domestic orders and sales (both -10%), while larger firms reported positive figures (10% and 8% respectively).



EXPORT DEMAND

Both export demand figures fell sharply in Q1 2019, causing each of them to turn negative. This is the first quarter since the start of the *Capital 500* that both figures have been negative. Furthermore, this is the joint lowest *Capital 500* level for export orders and the lowest level for sales.

In each area, the figure for micro businesses declined on last quarter by 5 points to a balance figure of -3%. Concurrently, the export sales balance figure declined by 4 points for larger businesses to 5% on balance, while the export orders figure for larger businesses remained broadly consistent with Q4 2018 (1 point increase to 5% on balance).



International trade has long been a vital component of London's economic well-being. As we approach the post-Brexit economic environment, it will be more crucial than ever that the government helps firms reach new markets to increase their potential profits and revenue through exports.

Government, and the Mayor of London, should initiate an ongoing dialogue with London's main business organisations to explore how to encourage more of the capital's businesses (especially SMEs) to exploit export opportunities in new and established markets.

This could include options such as subsidised trade missions or access to trade facilitation services.

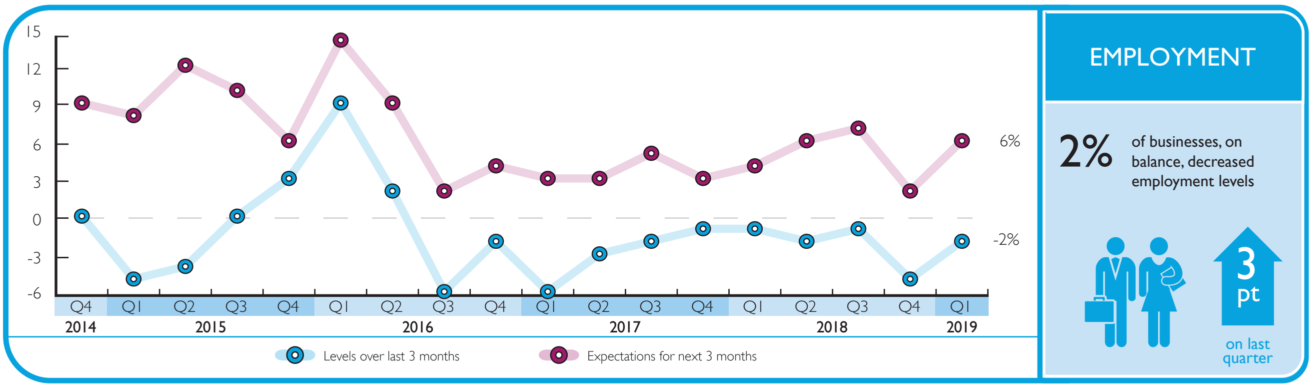
Consideration should be given to enhanced promotion, and better utilisation of, the network of UK embassies and consulates as well as offices run by the Mayor in a dozen cities abroad including those in China, India and the USA. These could be valuable hubs providing visiting London firms with practical advice, local knowledge and other support services.

LABOUR MARKET

In Q1 2019, the *Capital 500* employment balance increased by 3 points, its joint largest uptick since Q1 2017. That said, the figure remained in negative territory at -2% and has been negative for 11 consecutive quarters.

The figure for employment expectations experienced an increase of 4 points, its joint second highest upsurge in a single quarter since the start of the *Capital 500*. However, last quarter did see the employment expectations figure fall to its joint lowest recorded level, so a significant improvement was to be expected.

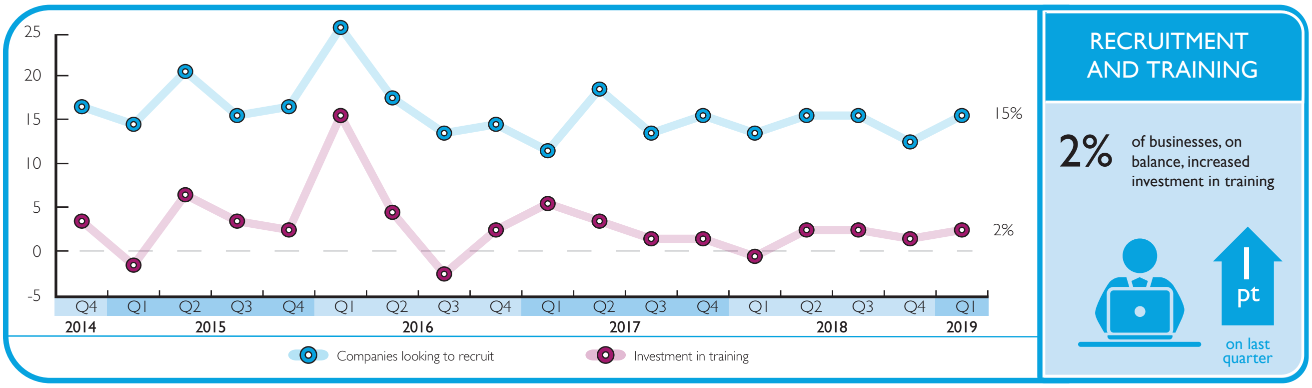
On balance, 18% of larger firms expected their workforce size to increase in the next three months, while the same is true for 4% of micro businesses. The figures are evenly split between businesses in inner and outer London, with 5% of both expecting the size of their workforce to increase on balance.



RECRUITMENT AND TRAINING

During the first quarter of 2019, the figure for companies looking to invest in training increased by 1 point.

The percentage of firms looking to recruit rose to 15%, a 3 point increase on last quarter. Of those that did try to recruit, 63% encountered difficulties, up 5 points on Q4 2018. Skilled manual/technical roles proved the hardest to fill, with 52% of firms facing difficulties recruiting in this area, while 44% had problems recruiting for professional and managerial roles.



The lack of affordable housing in the capital continues to be a key issue for businesses when recruiting staff. LCCI recognises that no one single policy will alleviate the housing crisis, but allowing certain brownspace areas in the Green Belt to be used for housing purposes is a worthwhile consideration.

The undersupply of housing has had multiple impacts on the capital. The current Examination in Public (EiP) of the new London Plan provides an opportunity to examine how to enhance London's resilience, especially as 54% of 'blue-light' emergency services workers now live outside the city they serve. The Mayor should consider a limited intervention, with suitable safeguards, to make better use of poor quality and undesirable 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.

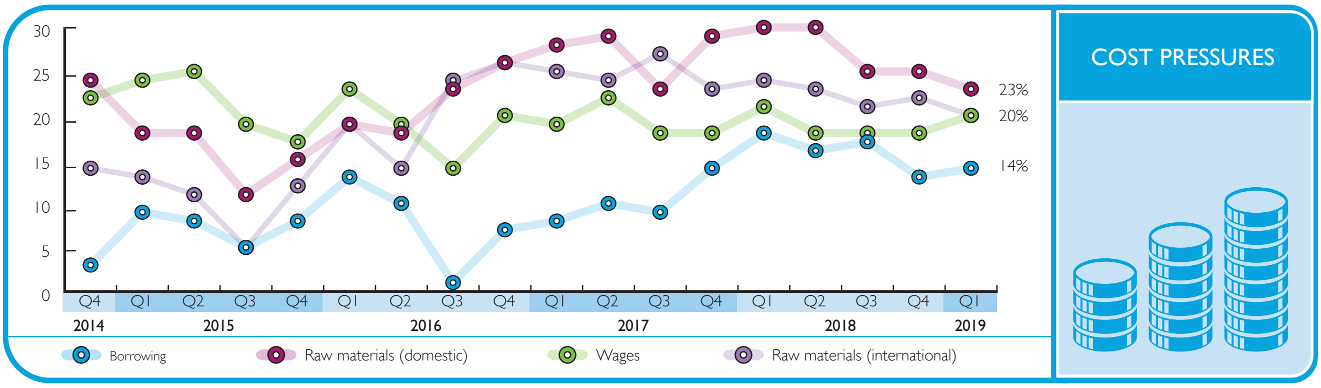
BUSINESS COSTS AND PRICES

In Q1 2019, the figures for the cost of raw materials sourced domestically and raw materials sourced internationally both dropped by 2 points.

Also this quarter, the balance figure for the cost of wages went up by 2 points, having remained consistent for the three consecutive quarters previously.

The balance figure for the cost of fuel – not included in the graph - dropped by 11 points (to +35%), its largest decrease since Q2 2017, while the figure for the cost of energy – also not included – increased by 1 point (to +38%).

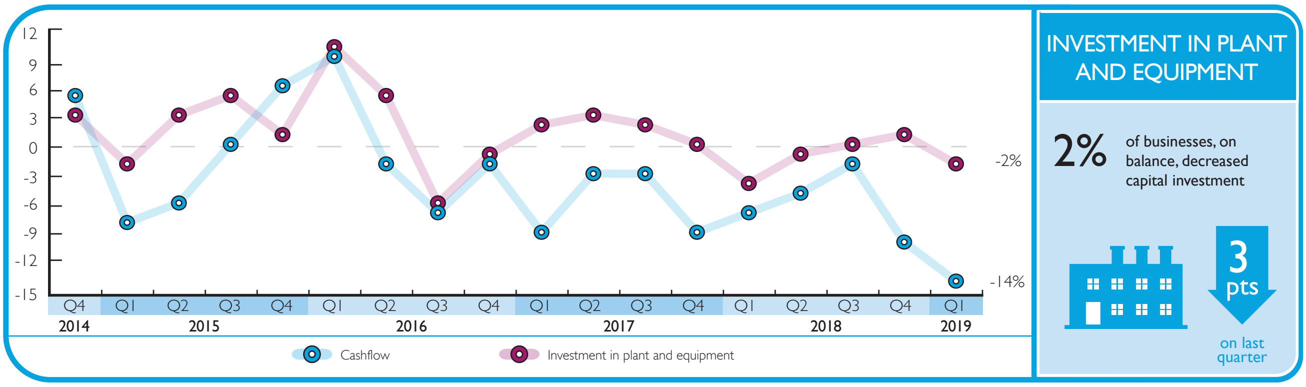
The balance figure for the amount of businesses who expected to raise their prices over the next three months rose by 2 points this quarter. Around a fifth of businesses cited finance costs (21%) and raw material prices (19%) as pressures on them to increase prices, while around a third said other overheads (32%).



CASHFLOW AND INVESTMENT

Q1 2019 saw the cashflow balance figure fall further into negative territory, dropping by 4 points. This is despite an 8 point decrease last quarter. The figure has now dropped to record *Capital 500* lows in two consecutive quarters.

Due to a 3 point decrease, the balance figure for companies investing in plant and equipment also turned negative. While, the figure for larger firms dropped by 1 point but remained positive at +10%, the figure for smaller firms fell 2 points and further into negative territory at -3%.



With the costs of doing business in the capital already high, London businesses are bracing themselves for the introduction of the Ultra Low Emission Zone (ULEZ) on April 8th 2019.

While broadly supportive of the Mayor's drive to improve the capital's air quality, City Hall has to be sensitive to the likely impacts on London businesses. Micro and smaller businesses may find it challenging to upgrade to a newer vehicle. Additional costs may affect smaller businesses' decision-making on matters such as location or passing on costs. The Mayor should consider the call to issue 'advisory' rather than 'enforcement' notices in the early months of the ULEZ scheme for London's micro and small businesses, while at the same time enhancing efforts to communicate the scheme's operation and its aims to a wider business audience.

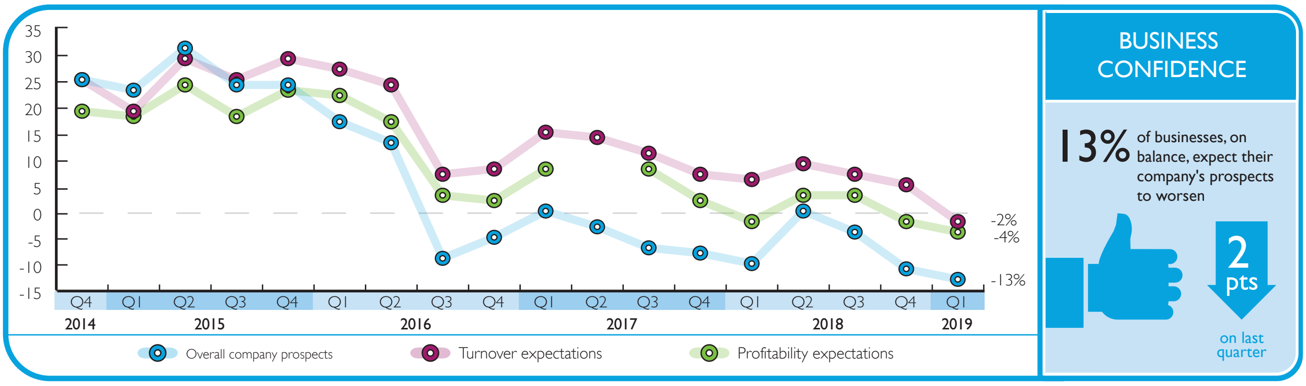
BUSINESS CONFIDENCE

For the second consecutive quarter, all business confidence indicators fell in Q1 2019. As a result, each business confidence indicator is now at its lowest *Capital 500* level to date.

For the first time since the start of the *Capital 500,* more businesses expect their turnover to decrease than increase, with the turnover balance figure falling to -2%. This was also the largest decrease in the figure since Q3 2016 – the quarter immediately after the EU referendum.

The balance figure for overall company prospects also fell by an additional 2 points on last quarter, despite the figure falling by 7 points in Q4 2018.

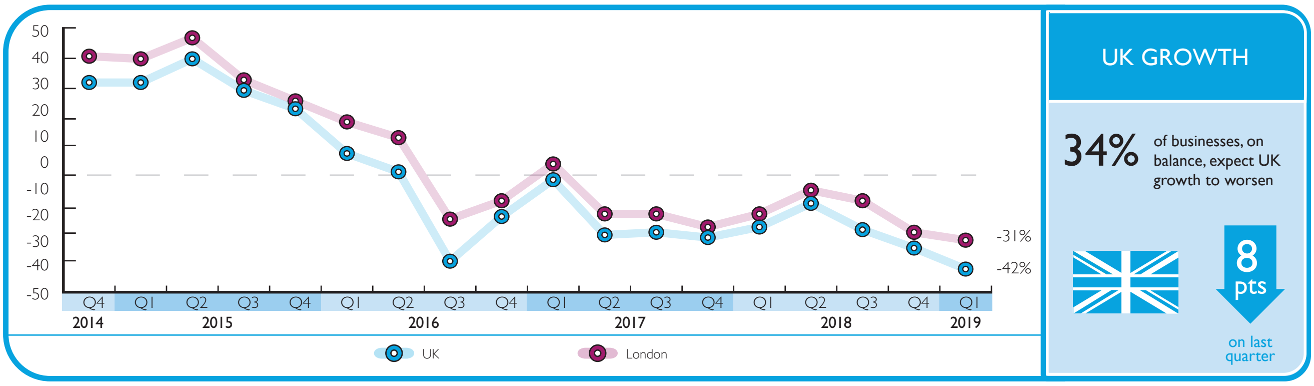
The profitability expectations balance figure reached its lowest ever *Capital 500* level at -4%, despite only decreasing by 2 points.



ECONOMIC OUTLOOK

In Q1 2019, expectations for both the London and UK economy both fell to their lowest recorded levels since the start of the *Capital 500*. The figures have now been negative for eleven and twelve respective quarters.

The balance figure for expectations of the UK economy fell by 8 points to -42%, meaning on balance, more than two in five London firms expect UK economic growth to worsen over the next twelve months.



With all business confidence and economic outlook indicators falling for the second consecutive quarter, it is clear that Brexit continues to cast a grey cloud over London's firms. To give businesses a much-needed confidence boost, the 2020 Mayoral candidates should look to consult with business groups on a 'pro-business 2020 agenda'.

London will need greater powers to accommodate forecasted population growth. Retaining more of London's generated taxes and securing new competencies would ensure the Office of Mayor has the resources to drive and deliver future growth. With the next Mayoral election one year away, indications from the main candidates on their views about more devolution would be welcome.

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