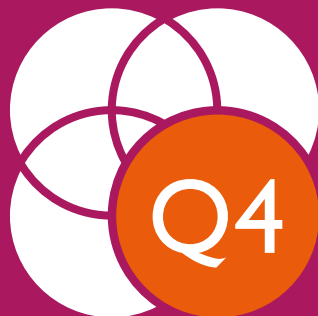


CAPITAL 500

LONDON QUARTERLY ECONOMIC SURVEY



2018



LCCI COMMENTARY – THE BUSINESS VIEW

“The final *Capital 500* survey results of 2018 make for disappointing reading. The cashflow balance fell to a record low, whilst all business confidence and economic indicators fell on last quarter. Most business performance indicators also dropped, with the employment balance and both domestic demand figures decreasing. Indeed, the slight upticks in export demand and capital investment provide the only consolation from an otherwise poor quarter.

These figures from the capital should act as a wake-up call for the government, who need to recognise that all businesses, but particularly small and medium sized firms, need support and encouragement in these exceedingly turbulent times. The publication of the long awaited Immigration White Paper is imminent, while the Migration Advisory Committee (MAC) is currently collecting evidence for a review of the UK Shortage Occupation List (SOL). Since the referendum in 2016, LCCI has continually highlighted access to skills and talent as the key issue. We believe that there is a compelling case for consideration of a dedicated London SOL, as Scotland has, managed by City Hall.

It is obvious that the capital's firms need a confidence booster. With the next Mayoral election just over a year away, commitments from the main candidates to pursue an agenda of greater devolution to London would be welcome. London will need greater powers to accommodate forecasted population growth. Retaining more of the tax generated in the capital and securing new policy competencies would ensure the Office of Mayor has the necessary resources to drive and deliver future growth”.

Colin Stanbridge, 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 507 London business leaders between 26 October and 21 November 2018. 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 this report should be fully referenced.



GUEST COMMENTARY – THE ECONOMIST’S VIEW

“The survey’s results chime with developments in the wider UK economy which is still operating under a cloud of Brexit uncertainty. Activity picked up in the summer after weak growth in the first half of the year, but early data for the fourth quarter indicates a renewed slowdown in the pace of activity. Poor growth in Europe and the growing threat of protectionism has affected output and exports.

On the positive side, consumers should be cheered by the recent pick up in real wage growth reflecting skills shortages and full employment. And yet, that is not reflected in any improvement in consumer sentiment or in the retail sector which has seen a number of monthly falls. Business investment and optimism have suffered and manufacturing has seen a series of declines throughout the year. The latest Office for Budget Responsibility’s small upward revision of growth in

2019 to 1.6% is entirely due to the impact of the increase in personal allowances and rise in higher tax thresholds announced in the Chancellor’s late October ‘giveaway’ budget. On this evidence it is clear that unless and until the current Brexit impasse is resolved, prospects for the economy will remain middling at best.”

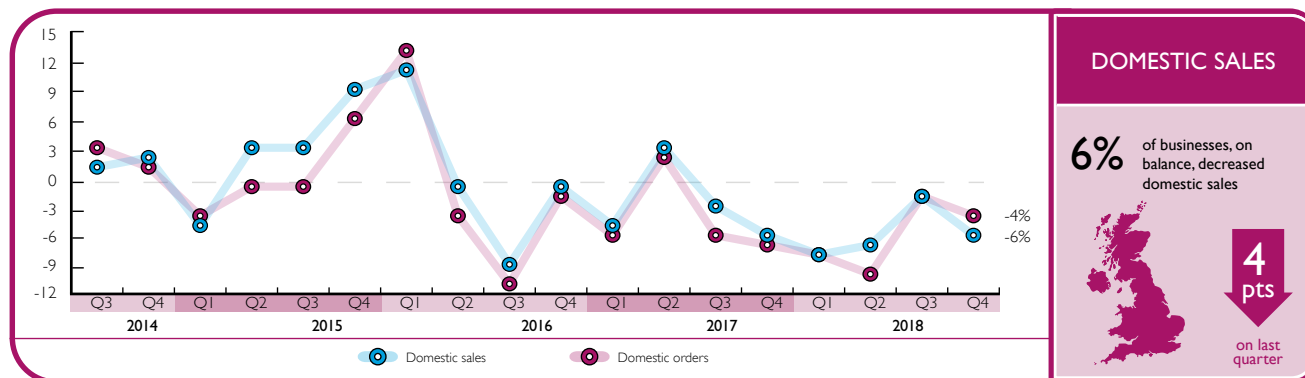
Vicky Pryce, Chief Economic Advisor and Board Member, Centre for Economics and Business Research (Cebr)

DOMESTIC DEMAND

Q4 2018 recorded slight downturns in both domestic demand figures, with each figure falling further into negative territory. These figures have now been negative for six consecutive quarters and have only been positive for one quarter (Q2 2017) since the EU referendum in June 2016.

The domestic orders balance dropped 2 points on last quarter to -4%, while the domestic sales balance decreased by 4 points to -6%.

For both domestic orders and sales, larger businesses continued to report positive figures (+18% and +13% respectively) while figures for micro businesses remained negative (-8% and -9% respectively).

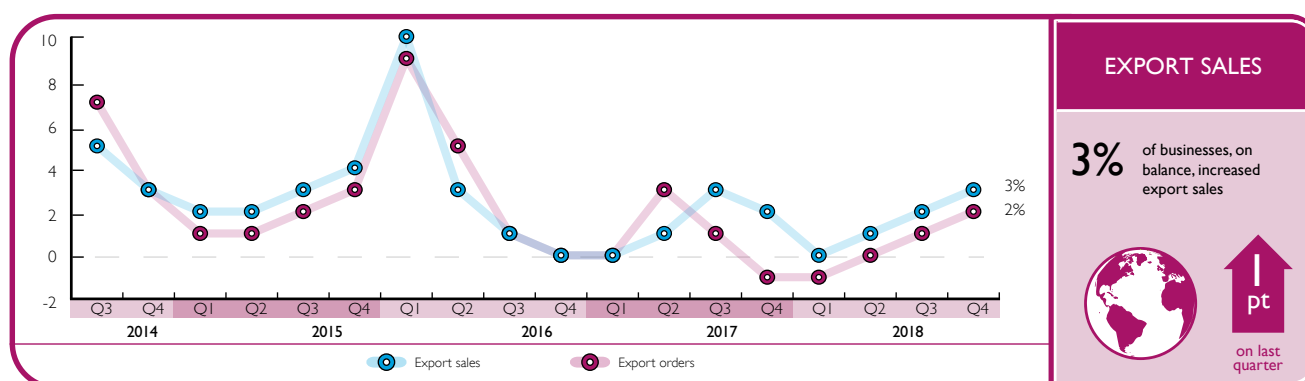


EXPORT DEMAND

More businesses reported an increase than a decrease in export demand figures in Q4, with both figures increasing by one point for the fourth consecutive quarter.

While the export orders balance figures rose by two points for micro businesses and fell by four points for larger businesses (to +2% micro and +4% larger) since the last quarter; the export sales balance figure fell flat for businesses of both categories, remaining at +2% and +9% respectively.

Additionally, Inner London businesses recorded slightly more positive results than their Outer London counterparts, with the balance figures for those of Inner London reaching +3% for both export orders and sales compared to figures of +1% and +2% for businesses based in Outer London.



With Brexit on the near horizon, businesses, particularly London's SMEs, need support to assess, prepare for and then navigate whatever potential new terms of trade may emerge in the next few years. LCCI has established a 'Brexit help desk' to provide our members with on-demand, practical support on international business activity. However, the target for London ultimately has to be driving-up exports in the post-Brexit setting.

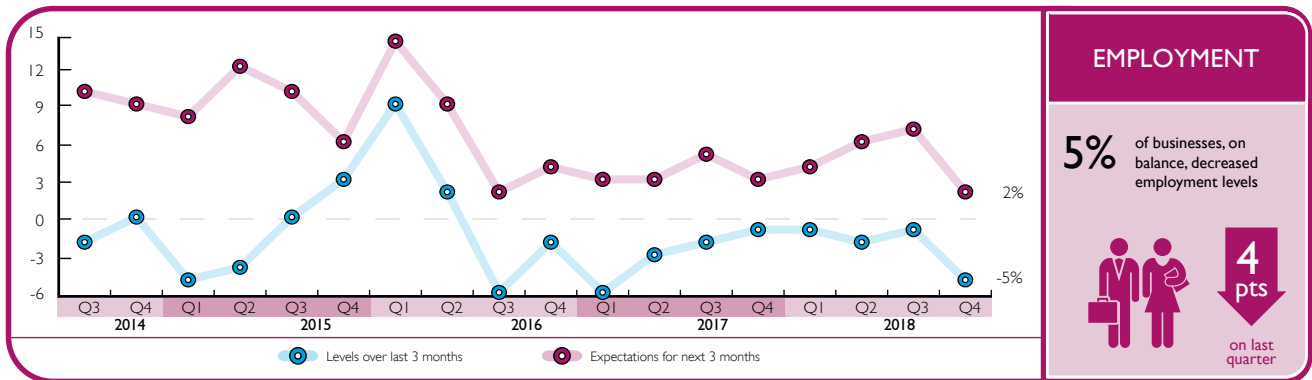
The Mayor of London should liaise with established business groups to create a post-Brexit one-stop shop resource at City Hall that is available 24/7 to help London firms.

LABOUR MARKET

The employment balance dropped by four points to -5% in Q4, meaning the figure is now at its lowest point since Q1 2017 and its joint second lowest level since the start of the *Capital 500*. It has now been negative for ten consecutive quarters.

The *Capital 500* figure for employment expectations also fell sharply on last quarter, dropping by 5 points. The balance figure is now at its joint lowest point to date at +2%.

However, larger businesses were much more optimistic about their respective employment prospects than micro businesses, with, on balance 17% of larger businesses expecting their workforce to grow compared to 0% for micro businesses.

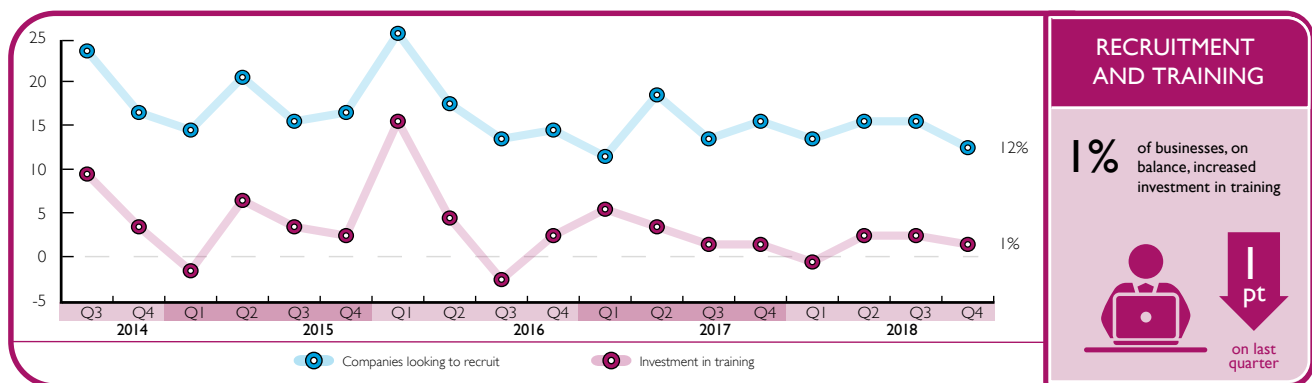


RECRUITMENT AND TRAINING

In Q4 2018, the balance figure for companies looking to invest in training remained broadly consistent with the previous quarter at +1%, with more businesses reporting an increase than a decrease in their planned investment in this area.

The figure for larger businesses increased by two points on last quarter to +14%, while the figure for micro businesses remained unchanged at 0% for the third consecutive quarter.

The percentage of companies looking to recruit dropped to 12% - its second lowest point since the start of the *Capital 500*. Of those that did try to recruit in Q4, 58% encountered difficulties, up 3 points on last quarter.



London employers are currently facing significant skills challenges. However, with the MAC report failing to recognise the full value and benefit of migration to London, businesses in the capital are being told that their supply of labour will be restricted just as they are facing staff shortages. With an Immigration White Paper imminent and the MAC gathering evidence for a review of the UK Shortage Occupation List, LCCI calls on the Mayor to bring London's civic and business leaders together to design an immigration system befitting London's unique immigration footprint.

The Mayor of London should explore the potential for a dedicated Shortage Occupation List for London (LSOL) to make it easier for businesses to secure the skills and talent they need to sustain themselves in the long-term.

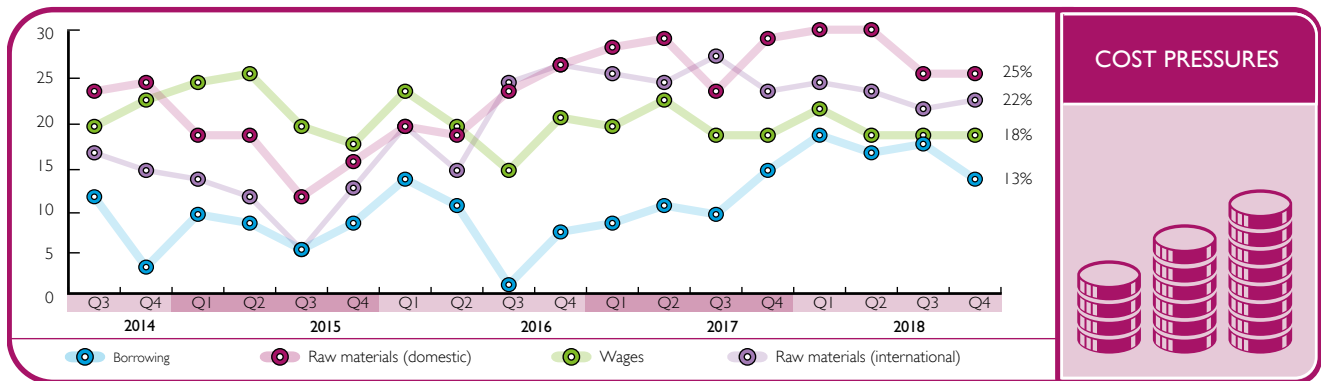
BUSINESS COSTS AND PRICES

In Q4, the balance figure for the cost of borrowing fell to its lowest point since Q3 2017 at +13%, down four points on last quarter. Meanwhile, the figure for cost pressures to increase wages fell flat for the third consecutive quarter.

Additionally, there was little movement on the previous quarter in terms of raw material costs, with the balance figure for raw materials sourced domestically remaining stable and the figure for those sourced internationally increasing by one point.

Also during this quarter; the balance figures for the cost of energy and cost of fuel – not included in the graph – both experienced upticks, raising by 5 points (to +37%) and two points (to +46%) respectively.

The balance figure for the amount of businesses who expected to raise their prices over the next three months also rose by 4 points, with firms citing raw material costs (19%), finance costs (19%) and other overheads (33%) as the main contributing factors.



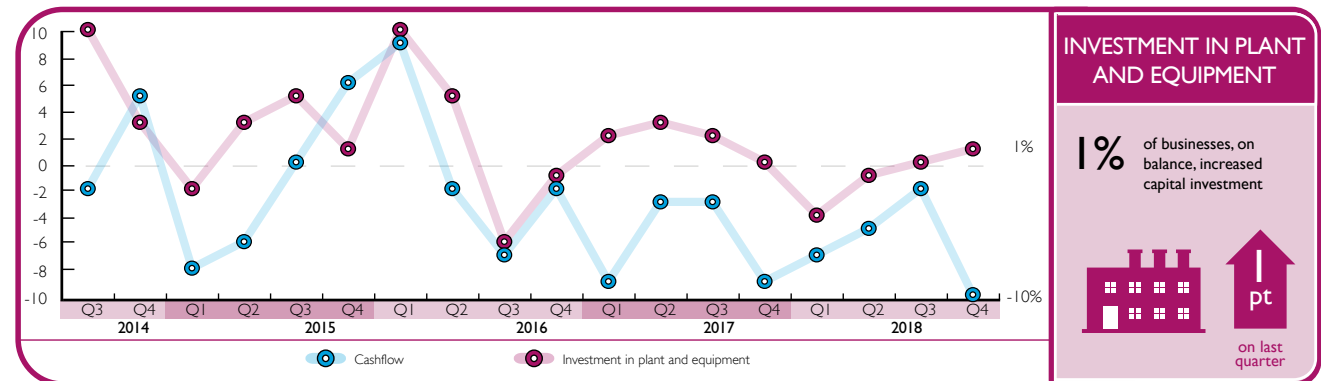
COST PRESSURES

CASHFLOW AND INVESTMENT

During Q4 2018, the cashflow balance figure fell to its lowest point at -10% since the beginning of the *Capital 500*, decreasing by 8 points on the last quarter. The figure has now been negative for 11 consecutive quarters.

While the cashflow figure for larger businesses decreased by 7 points to +14%, it remained significantly higher than the figure for micro businesses which fell 9 points to -14%.

On the other hand, the balance figure for companies investing in plant and equipment remained consistent, although it climbed back into positive territory to +1%.



INVESTMENT IN PLANT AND EQUIPMENT

1% of businesses, on balance, increased capital investment

on last quarter

London firms are becoming overburdened with the rising costs associated with doing business in the capital. Business space – or rather its increasing sparsity - is a key aspect of this. The growth of Permitted Development Rights (PDRs) with evermore office and retail space being lost to residential may well lead to long-term problems.

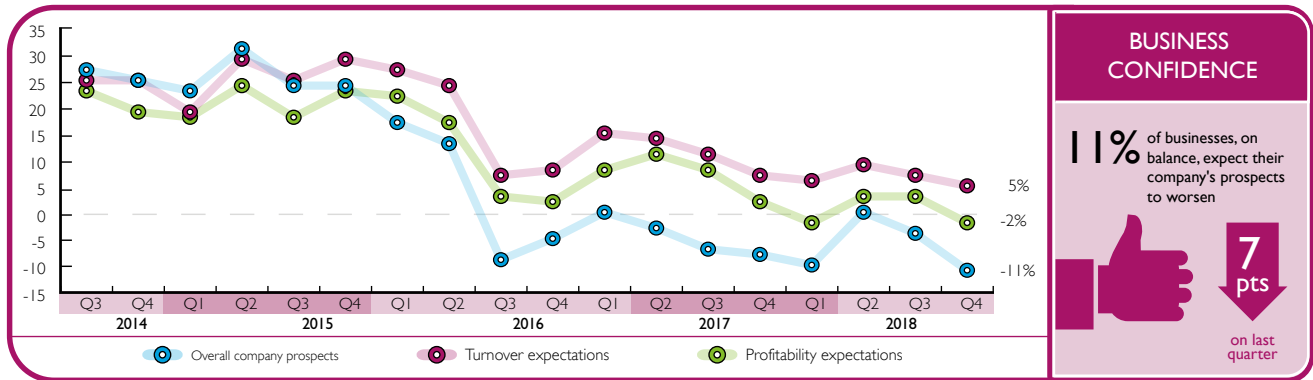
Consideration should be given to exempting areas of strategic importance to the economy from PDRs in order to protect vital business and workspace.

BUSINESS CONFIDENCE

All *Capital 500* business confidence indicators decreased in Q4 2018. This is the second consecutive quarter in which all business confidence indicators have either fell or remained stable.

The balance figure for overall company prospects decreased by 7 points on last quarter, resulting in the figure falling to its lowest recorded level (-11%) since the start of the *Capital 500*.

Despite only decreasing incrementally, the *Capital 500* turnover balance figure fell to its lowest recorded level to date (+5%). Meanwhile, the profitability balance figure also plummeted to its joint lowest recorded point (-2%) after a 5 point decrease.

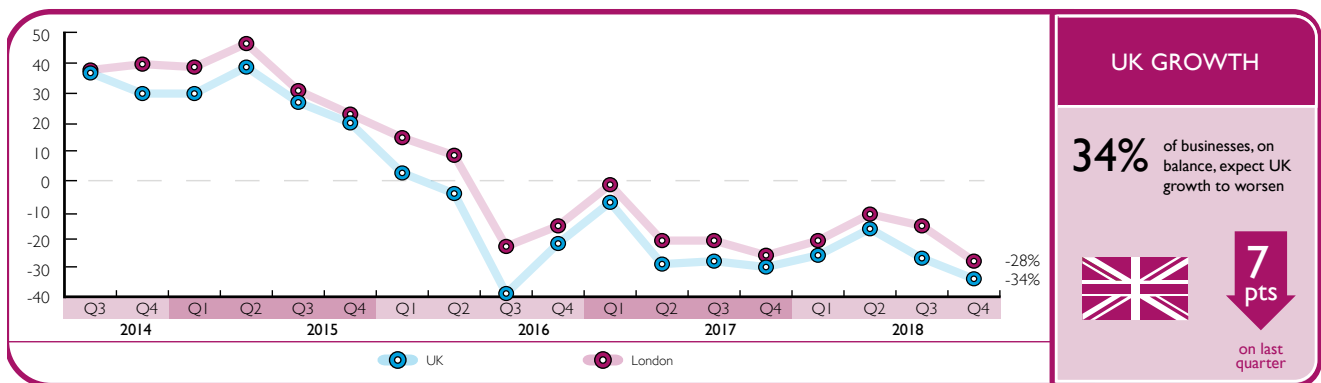


ECONOMIC OUTLOOK

In Q4, expectations for both the London and UK economy fell further into negative territory. The figures have now been negative for ten and eleven respective quarters.

The *Capital 500* balance figure for expectations of the London economy fell by 12 points to -28%, its lowest recorded level to date.

The figure for the UK economy fell by 7 points on last quarter to -34%, with more businesses expecting the UK economy to worsen than improve. Micro businesses were more pessimistic about UK economic growth than larger businesses, with on balance, 36% of them expecting the economy to worsen compared to 18% of larger businesses.



The capital's firms need a confidence booster: With the next Mayoral election just over a year away, commitments from the main candidates to pursue an agenda of greater devolution to London would be welcome.

London will need greater powers to accommodate forecasted population growth. Retaining more of the tax generated in the capital and securing new policy competencies would ensure the Office of Mayor has the necessary resources to drive and deliver future growth.

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