LONDON CHAMBER of COMMERCE AND INDUSTRY

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CAPITAL 500

London Quarterly Economic Survey

January – March **2025**

In partnership with

Savanta:

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LCCI COMMENTARY – THE BUSINESS VIEW

Our Q1 2025 Quarterly Economic Survey reveals a nuanced economic landscape for London businesses. On the one hand, internal company prospects remain positive, with decision-makers expressing cautious confidence despite a moderation from the high levels seen earlier in the year. The net balance for individual business outlook remains steady at a modestly positive level, indicating that while firms still expect growth, their optimism is now more tempered compared to the buoyant highs of Q3 2024. Conversely, sentiment regarding the broader UK economy has taken a marked downturn. National outlooks have shifted sharply into negative territory, reflecting growing concerns that extend beyond local conditions.

This divergence between internal prospects and broader economic expectations underscores the challenges faced by businesses operating in an environment of persistent external uncertainties. Cost pressures continue to play a central role in shaping business strategies. Labour costs and inflation remain significant burdens, with many firms reporting the need to adjust prices to counter rising expenses. Although some relief has been noted in areas such as wage pressures and the cost of international raw materials, these gains are offset by an increased willingness to pass on costs to customers, with more firms now expecting price rises in the near term. Moreover, while turnover expectations have remained relatively stable, profitability forecasts have become more cautious. A larger share of businesses now anticipate a decline in profitability over the coming months, suggesting that operational challenges may dampen financial performance despite steady revenue expectations. This report highlights a business landscape that remains under pressure yet resilient. While confidence in the broader UK economy continues to wane, London businesses show a more stable outlook for their own prospects. Persistent cost pressures and inflation concerns pose challenges, yet there are signs of easing in some areas, offering cautious optimism. However, with profitability expectations weakening and businesses increasingly passing costs onto consumers, the coming months will be critical in determining the trajectory of London's economic recovery.

The London Chamber of Commerce and Industry remains steadfast in its commitment to advocating for businesses across the capital. We call for targeted interventions to address regional disparities, alleviate cost burdens, and stimulate investment, ensuring businesses can thrive despite ongoing uncertainties. We continue to champion policies that will reinforce London's status as a leading global hub for innovation, trade, and long-term economic growth.

Policy and Public Impact team, London Chamber of Commerce and Industry

ABOUT THE 'CAPITAL 500'

For over a decade, the London Chamber of Commerce and Industry (LCCI) has conducted a Quarterly Economic Survey (QES) of its 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 506 London business leaders between 23 January and 20 February this year. All data was 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 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.

VICKY PRYCE

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

GUEST COMMENTARY – THE ECONOMIST'S VIEW

The world, as the Chancellor Rachel Reeves reminded us in her spring statement, is changing. Indeed the international order that we had come to depend on over the last 80 odd years since the end of the second world war is shifting, exacerbated by the actions put in train by President Trump since his inauguration on 20 January. The old systems of alliances in the West are breaking down and with it uncertainty is increasing. More defence spending by non US NATO members, including the UK, tariffs and wider trade wars are casting a shadow over spending priorities and growth prospects. The Organisation for Economic Cooperation and Development (OECD) has already revised both this year's and next year's growth forecasts to just 3.1% and 3% respectively from an earlier expectation of 3.2% for the two years. The outlook for Canada has been slashed to growth of just 0.7% and that of Mexico turned negative for this year.

The prospects for future years will all depend on how widely tariffs are imposed and the extent to which countries and regions like the EU reciprocate. In the US this new environment had already resulted in the Federal Reserve lowering its own forecast of GDP to 1.7%, upping inflation expectations and leaving interest rates unchanged, at levels higher than markets were anticipating at this stage a few months ago. In the UK the Office for Budget Responsibility (OBR) has halved its own GDP growth projections to just 0.5% and upped its inflation forecast, also reflecting concerns over price behaviour by firms facing extra National Insurance Contributions (NIC) costs from this month.

Where does it all leave the UK? For the moment the indicators suggest that some growth may be returning in the service sector after a fall of 0.1% in January's GDP. Retail sales have risen since the turn of the year and the service sector has been expanding strongly in the first quarter. Wages remain elevated at around 5.9% year on year, well above inflation, now back down to 2.8% in February. But both business and consumer confidence remain subdued and the manufacturing PMI, which has been in contraction territory for a year and a half, showed one of the sharpest drops in March since October 2023. Export demand was particularly depressed.

What is more the OBR has been clear on the dangers. While allowing some positive impact on growth in later years from relaxation in planning regulations, it warned of a number of possible downsides both to growth and the fiscal rules.

These included negative impacts from higher bond yields than assumed in their projections or if productivity fails to recover as hoped. More spending cuts may therefore be needed at some point on top of the cuts announced so far including the extra reduction in the welfare spending envelope just announced.

The impact of tariffs, particularly if the UK and others respond by reciprocating on inflation, interest rates and growth remains unknown. What is more, businesses, already affected by the NCI rise, above inflation minimum wage increases as of April, and bigger business rates bills, are facing the prospect of taxes possibly needing to be raised again in the autumn Budget. The Institute for Fiscal Studies has put that probability at 50%.

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

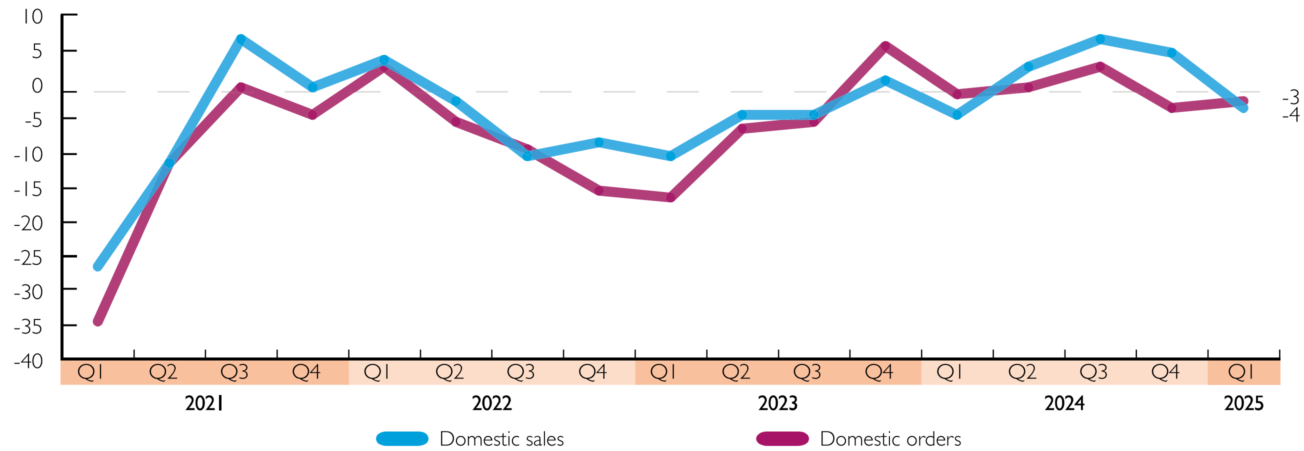
23%

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

24%

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

DOMESTIC DEMAND



Key metrics have continued to decline over the last three months. While there was a slight improvement in domestic orders, with the proportion of firms reporting an increase rising from 21% in Q4 to 24% in Q1, there was also a corresponding increase in the proportion of businesses reporting a fall in domestic orders, which rose from 25% in Q4 to 27% in Q1. This results in an overall balance of orders raising 1 percentage point to -3.

All metrics reflected an increase in the percentage of firms reporting a decline compared to Q4. This trend was most notable in cash flow, where the percentage increased from 28% in Q4 to 36% in Q1. In contrast, domestic sales saw a reported rise from 24% in Q4 to 27% in Q1.

While larger businesses broadly maintained their levels of domestic sales, micro companies reported a decline, leading to a negative balance for the first time since Q1 2024. This downward trend was evident geographically in both inner and outer London. The most significant drop was recorded in the manufacturing sector, with the proportion of businesses reporting an increase in domestic sales dropping from 46% in Q4 to 15% in Q1. The remainder of manufacturing businesses shifted to a neutral position (34% in Q4 to 52% in Q1) and a declining stance (20% in Q4 to 33% in Q1).

In general, London businesses were less pessimistic about their domestic orders, although they showed similar trends to those observed in domestic sales, particularly reflecting a decline in the manufacturing sector.

24% of London businesses reported an **increase** in export sales last quarter

26% of London businesses reported an **increase** in export orders last quarter

EXPORT DEMAND

The proportion of London businesses reporting an increase in export orders rose by +4 percentage points, climbing from 22% in Q4 to 26% in Q1. A notable increase was observed among inner London businesses, with those reporting a decline in export orders rising from 17% to 28%. Among micro businesses, the numbers reporting an increase or decrease in export orders were roughly equal – 25% versus 23% respectively – while the primary driver of export growth was found in larger segments of the London business landscape. In fact, 34% of larger exporting companies (10+ employees) reported growth in orders, compared to 17% that noted a decline. Positive momentum was also evident in manufacturing, where 39% of exporting businesses reported an increase in orders, compared to 19% that indicated a decline. Meanwhile, the services sector exhibited some inertia, with 25% of exporting companies reporting an increase in orders versus 23% reporting a decrease.

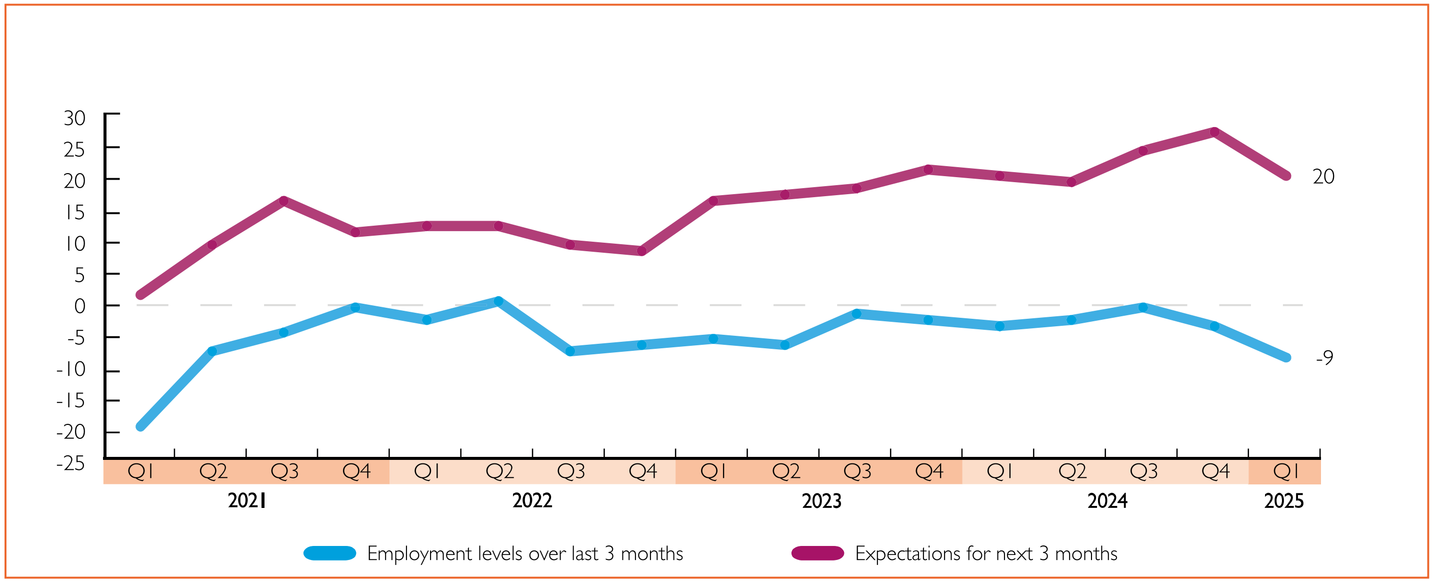
Export sales, however, declined from Q4, with the percentage of businesses reporting a decrease raised from 21% to 24% in Q1. This shift was mainly driven by micro businesses, where one quarter (25%) of exporting firms reported falling sales in Q1 compared to only one-fifth (20%), indicating an increase. In contrast, among larger companies, only 17% reported a decline, while 43% experienced rising export sales.

These findings underline a nuanced export environment where larger firms and the manufacturing sector are showing signs of resilience, even as micro businesses face greater challenges.

11% of London businesses reported an **increase** in their workforce size last quarter

26% of London businesses expected their workforce size to **increase** over the coming three months

LABOUR MARKET



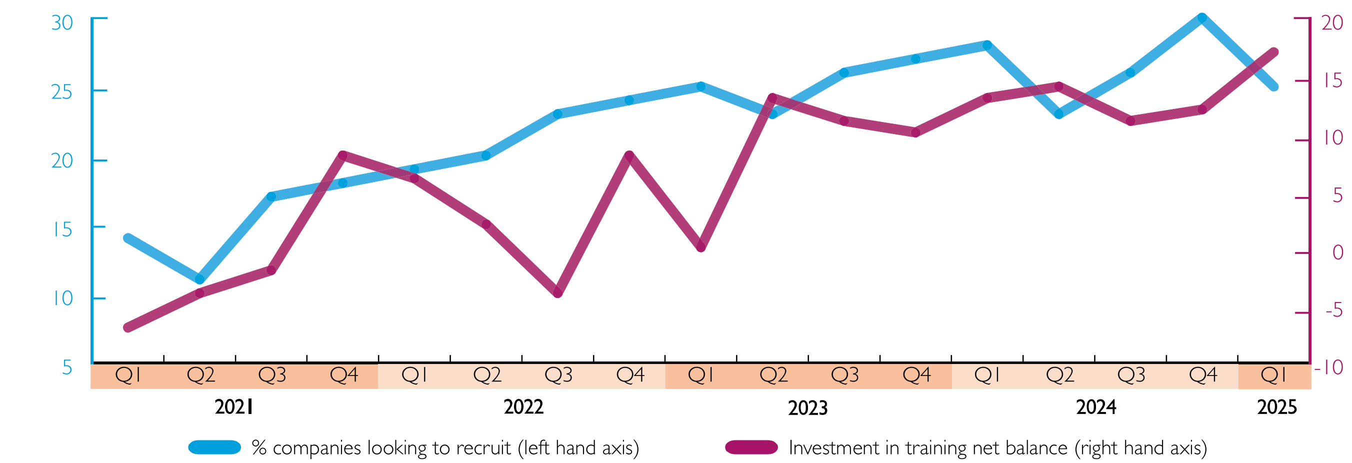
London businesses are now less likely to anticipate workforce growth than they were in the fourth quarter of 2024. In Q1, 11% of London businesses reported an increase in their workforce over the previous three months – 10% among micro firms versus 25% among larger companies – while 20% reported a decrease (21% for micro firms and 12% for larger companies). Approximately two-thirds (69%) of companies experienced no change in workforce size over the period, a trend that mirrors the stability observed in the previous quarter.

Looking ahead, decision-makers have become more cautious regarding future workforce expansion. The proportion of firms expecting an increase in their workforce has dropped by 5 percentage points, from 31% in Q4 to 26% in Q1, returning to levels last seen in Q3 2024. Similarly, only 26% of companies now plan to increase headcount in the next three months – a decline driven mainly by micro businesses, while larger companies have maintained steady expectations. Moreover, an analysis of future workforce changes reveals a mixed outlook: 24% of micro firms and 47% of larger companies expect to expand their personnel levels, resulting in net positive balances of 18 and 38 percentage points, respectively. Overall, the net balance of positive expectations has fallen from 27 percentage points in Q4 to 20 percentage points in Q1, a shift predominantly driven by diminished optimism among micro firms.

RECRUITMENT AND TRAINING

25% of London businesses reported that they had looked to recruit in the last quarter

25% of London businesses reported an **increase** in investment in training last quarter



As with workforce growth, the proportion of London businesses that attempted recruitment in the past three months declined, with only 25% of firms engaging in recruitment activities in Q1 – a 5 percentage point drop from Q4's 30% and a return to levels below Q3 (26%).

In contrast, there was a marked increase in the focus on full-time roles. The proportion of firms recruiting for full-time positions surged by 16 percentage points, from 54% in Q4 to 70% in Q1, approaching Q3's level of 73%. Meanwhile, recruitment for permanent roles remained largely unchanged (12% in Q1 versus 11% in Q4), as did recruitment for temporary roles (17% in Q1 compared to 19% in Q4).

On the other hand, part-time recruitment declined significantly, falling by 17 percentage points to 36%, which is lower than both Q4 (53%) and Q3 (39%). Recruitment challenges persist as well; 62% of business decision-makers reported difficulties in hiring over the past three months, a figure that remains consistent with previous quarters (61% in Q4 and Q3 and 59% in Q2).

Among those facing recruitment challenges, the most common difficulty was hiring skilled or technical roles, as reported by 57% of respondents. Hiring for professional and managerial roles remained steady, with 45% in Q1 compared to 47% in Q4.

Regarding skill acquisition, the proportion of London businesses reporting that they have not acquired new skills through any listed methods remains consistent (43% in Q1 versus 45% in Q4). For those that have enhanced their workforce skills, the most common method has been training existing staff (36% in Q1, versus 28% in Q4), followed by recruiting new staff from the UK workforce (18% in Q1 compared to 20% in Q4).

BUSINESS COSTS

51% of London businesses reported an **increase** in their fuel costs last quarter

63% of London businesses reported an **increase** in their energy costs last quarter

Labour costs continue to be the primary driver behind price increases for London businesses, with 45% of firms in Q1 citing them as a source of pressure, down slightly from 47% in Q4. Utilities also remain a significant burden, although their reported impact has decreased by 6 percentage points, from 46% in Q4 to 40% in Q1. Other cost pressures have remained largely unchanged compared to the previous quarter.

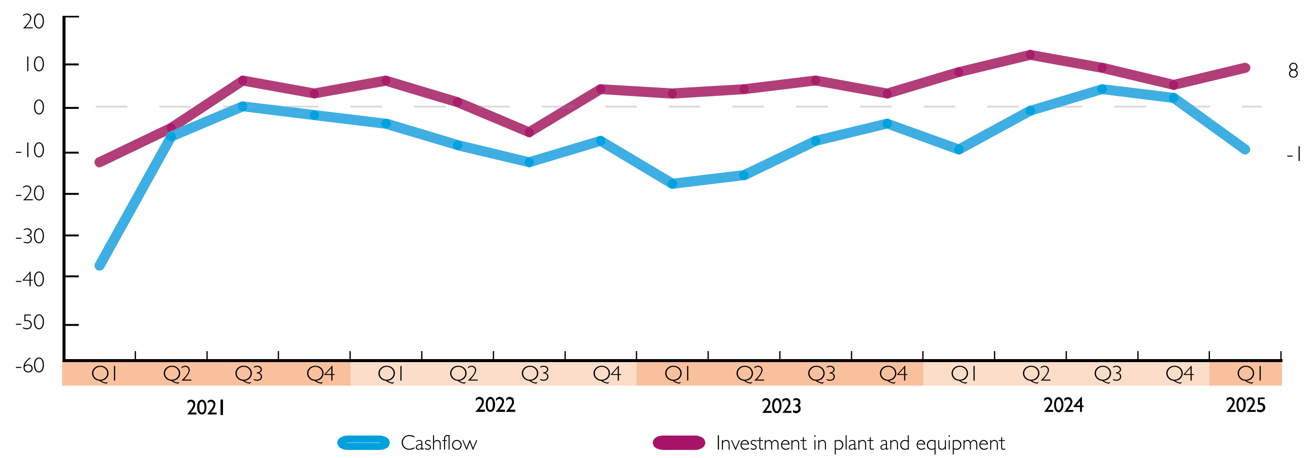
Notably, only 4% of businesses report facing no pressure from any of the listed costs, which marks a 4 percentage point decline from Q4's 8%. Overall, while most metrics indicate a decrease in the proportion of London businesses reporting a rise in business costs, the costs of energy and fuel buck this trend, remaining consistent at 63% (from 61% in Q4) and 51% (from 50% in Q4), respectively. This reversal contrasts with the overall downward trend observed in Q4. The most significant drops in cost pressures were observed in areas such as employee wage demands (down to 44% in Q1 from 53% in Q4) and the cost of international raw materials (down to 42% in Q1 from 49% in Q4), both of which are returning towards levels recorded in Q3 (41% and 38%, respectively). Despite these changes, all the cost categories remain overwhelmingly likely to have either increased or stayed the same over the past three months, with only a small minority of businesses reporting a decrease. Concerns about inflation have remained consistent at 57% in both Q1 and Q4. However, the competitive landscape is increasingly viewed as challenging, with concerns about competition rising by 3 percentage points from 38% in Q4 to 41% in Q1. Conversely, apprehensions regarding corporate taxation have eased by 4 percentage points, falling from 33% in Q4 to 29% in Q1, while other related metrics have remained broadly consistent.

These trends suggest that while there is some easing in specific cost pressures, the overall financial landscape continues to be characterised by persistent challenges. The nuanced shifts in cost drivers highlight areas where businesses may seek targeted support or strategic adjustments as they navigate an environment marked by both price pressures and evolving market conditions.

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

20% of firms reported an **increase** in investment in plant and equipment

CASHFLOW AND INVESTMENT



Investment plans for London businesses have remained steady compared to the previous quarter for both training and plant and equipment. A quarter (25%) of firms reported an increase in training investment – consistent with Q4 (24%), Q3 (20%) and Q2 (22%). Meanwhile, only 8% reported a decrease in training investment, a four percentage point drop from Q4 and a return to levels seen in Q3 (9%) and Q2 (8%). Similarly, 12% of businesses reported a decrease in plant and equipment investment, marking a 4 percentage point decline from the previous quarter.

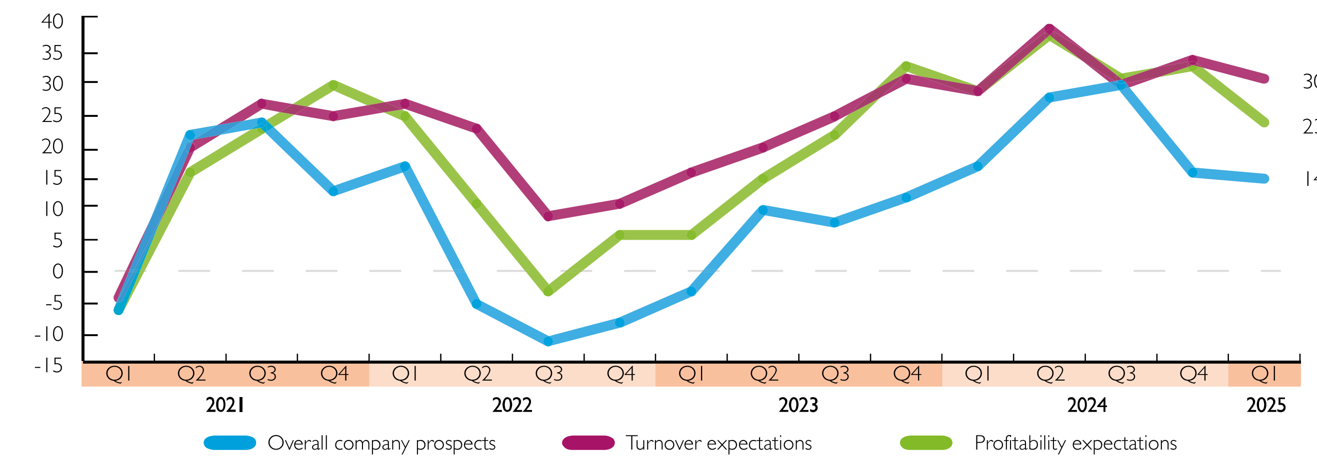
The proportion of London businesses operating at full capacity continues to rise, now exceeding those operating below full capacity. Currently, 52% of businesses report operating at full capacity, up 4 percentage points from the 48% reported in Q4. Additionally, half of London businesses expect to raise the prices of their goods or services over the next three months. This expectation has increased by 5 percentage points this quarter to 51%, compared with 46% in Q4 and 37% in Q3, while the proportion anticipating a price fall remains minimal at just 3%.

These observations suggest that, despite stable investment, businesses are preparing for tighter profit margins and increased operational pressures, which are prompting adjustments in capacity utilisation and pricing strategies as they anticipate the upcoming year.

46% of London businesses expect their profitability to **improve** over the coming 12 months

45% of London businesses expect their turnover to **improve** over the coming 12 months

BUSINESS CONFIDENCE



Decision makers now exhibit mixed expectations across the three economic indicators. While all three indicators collapsed in Q4, Q1 presents a more nuanced picture. The proportion of London businesses anticipating improvements in their economic prospects remains steady at 37% in Q1, compared to 36% in Q4. Notably, micro firms are more sensitive to their economic outlook, reporting a net balance more than three times smaller than that of larger companies (+11 percentage points vs +35 percentage points, respectively). This trend is also reflected geographically: inner London firms report a robust net balance of +22 percentage points, whereas outer London firms show a modest net balance of +4 percentage points.

A little under half (45%) of firms remain optimistic about their turnover expectations. However, the overall net balance has declined from +33 percentage points in Q4 to +30 percentage points in Q1, primarily driven by a reduction in the number of micro-businesses anticipating growth. In addition, service companies are displaying greater confidence in their turnover prospects – with 47% expecting growth compared to 32% in manufacturing–while firms in inner and outer London remain comparably optimistic at 48% and 41%, respectively.

A slightly different picture emerges regarding profitability expectations. The overall net balance has contracted significantly – from +32 percentage points in Q4 to +23 percentage points in Q1 – primarily due to a notable increase in the number of respondents expecting a decline in profitability. This trend is largely driven by a sharp rise in pessimism among micro-businesses about their profitability over the next three months. In contrast, larger businesses, while also experiencing a decline in expectations, remain considerably more confident; 64% expect an increase in profitability, resulting in a net balance of +52 percentage points, compared to just +20 percentage points among micro firms.

These mixed signals underscore the diverse nature of economic sentiment across business sizes and locations, suggesting that while some segments maintain cautious optimism, others – particularly micro-businesses – face increasing uncertainty.

ECONOMIC OUTLOOK

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

25% of London businesses expect the UK's economy to **improve** in the next 12 months

Decision-makers are showing mixed sentiments regarding London's economic outlook. While 28% now expect an improvement over the next twelve months – a slight decline from 31% in Q4 – the proportion anticipating a weakening in London's prospects has increased from 31% in Q4 to 35% in Q1. This shift has pushed the overall balance into a negative realm for the first time since the fourth quarter of 2023. Although larger businesses have maintained relatively steady expectations, micro firms are primarily driving this change, with their net balance shifting from -1 in Q4 to -10 in Q1. Moreover, pessimism is most pronounced among outer London firms, whose net balance has declined from -4 percentage points in Q4 to -16 percentage points in Q1.

On the broader UK economic front, only a quarter (25%) of respondents now anticipate an improvement in economic growth – down 6 percentage points from 31% in Q4 – while the proportion expecting a decline has risen from 35% in Q4 to 42% in Q1. This contrasts sharply with Q3, when the figure was at 23%, marking the lowest level of nationwide economic optimism among London businesses since 2023. As with other indicators, this downturn is mainly driven by micro-businesses, whose net balance has plummeted to -19. In comparison, larger companies, though also experiencing a decline in economic optimism, have seen their net balance fall from +18 in Q4 to a modest positive figure of +4 percentage points in Q1. Additionally, while inner London companies remain relatively more optimistic about UK economic growth over the next three months – still, with a negative balance of -5 – firms in outer London are evidently more pessimistic, at -30 percentage points of the net balance.

In summary, while individual companies maintain a positive outlook for their own prospects, both the economic outlook for London and that for the UK have slipped into negative territory. This divergence highlights that, despite internal confidence, external economic conditions remain challenging at both the local and national levels.

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