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Q2

CAPITAL 500

London Quarterly Economic Survey

April – June **2024**

In partnership with

Savanta:

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JAMES WATKINS

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

LCCI COMMENTARY – THE BUSINESS VIEW

Our latest London Quarterly Economic Survey (QES) showed many encouraging signs of growth for London businesses in Q2. Domestic sales improved strongly, mirrored by an uptick in demand for exports. This no doubt underpinned an increase in cashflow for London firms, particularly for micro companies.

Businesses have shown a greater willingness to invest. Training investment as measured on our QES has been robust for several quarters, perhaps continuing to reflect the tight labour market. There was a drop in the percentage of firms who said they had tried to recruit in the past three months, which is of concern given the recent rise in London's unemployment rate as recorded by the Office of National Statistics. This was one quarter's reading, and we will hope to see a rebound in next quarter's survey.

This reflects the reality that companies face enormous cost pressures. There were some signs of an easing in the Q2 2024 QES, particularly around energy, but all of our costs metrics remain well above pre-2022 levels. As has been the case for around two years, inflation is the number one concern for London businesses. Labour costs and utilities continued to put upward pressure on companies to raise their prices.

Nevertheless, business confidence – be that in their own firm's outlook, or the wider economy – has gone from strength to strength. With the official data pointing to a slowdown in the rate of inflation, the prospect of cuts to interest rates, and the start of a new Parliament, it seems London companies are feeling optimistic for the next 12 months. This is a welcome revelation indeed.

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 514 London business leaders between 7 May and 7 June 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 last few months have been dominated by political uncertainty, culminating in the announcement of a snap election on 4 July. The economy has taken centre stage and will continue to do so with a budget expected in the autumn. The state of government finances going forward will be crucial in terms of what can be done to invigorate investment, productivity and growth. The question is of course whether the improved growth trends we saw in the early part of 2024 can be sustained through the year, giving the next government more room for manoeuvre. Rather pessimistically, the OECD in May put the UK as the second-worst performer in the G7 for growth this year (just ahead of Germany) and at the bottom for 2025.

However, first quarter GDP data suggested a healthier economy than we have seen for a while with growth of 0.7% in the three months to March 2024. This was revised up from 0.6% in an earlier estimate, which was in any case faster than the Eurozone and the US. There was a downward revision to business investment growth for Q1, from 0.9% to just 0.5%, leaving investment 1% below the level of a year earlier. This was followed by stagnant GDP growth in April and wobbly retail sales for a couple of months. Nevertheless, trends improved in May with a healthy retail sales recovery and stronger consumer and business confidence. The PMIs in May and June also indicated a pick-up in manufacturing and continued strong growth in the services sector. Household finances are being boosted by rises in real wages and by the two 2% cuts in the NIC rate so far in 2024.

This has all been helped by better news on the inflation front. After a cut in household electricity and gas bills in April, CPI inflation fell in May to the Bank of England's 2% target. Although service sector prices in May still rose by some 5.7% over the previous twelve months, food inflation has been greatly reduced to 1.6% and annual growth in goods prices was negative for a second consecutive month. Producer input costs were down 0.1% year-on-year in May too, and though factory gate prices were 1.7% up over May 2023, they actually fell by 0.1% in the month.

Monthly data are of course subject to great volatility, and a majority of London businesses still reported increases to their petrol and energy costs in LCCI's Q2 2024 Quarterly Economic Survey. For many businesses across the UK problems remain though they vary in their intensity from sector to sector. The postponement of the first cut in interest rates which was widely expected for June, possibly due to the election timing, is a blow to many households and businesses. International trade remains subject to increasing costs in trading with Europe and a rise in protectionism, tariffs and sanctions as geopolitical tensions intensify. Recruitment intentions in many sectors seem to be on hold partly due to wage pressures and unrelieved skills shortages, while unemployment has begun to rise. The Bank of England is warning that about three million households face much higher mortgage rates when they refinance over their next couple of years and are also highlighting the threat to businesses from higher borrowing costs.

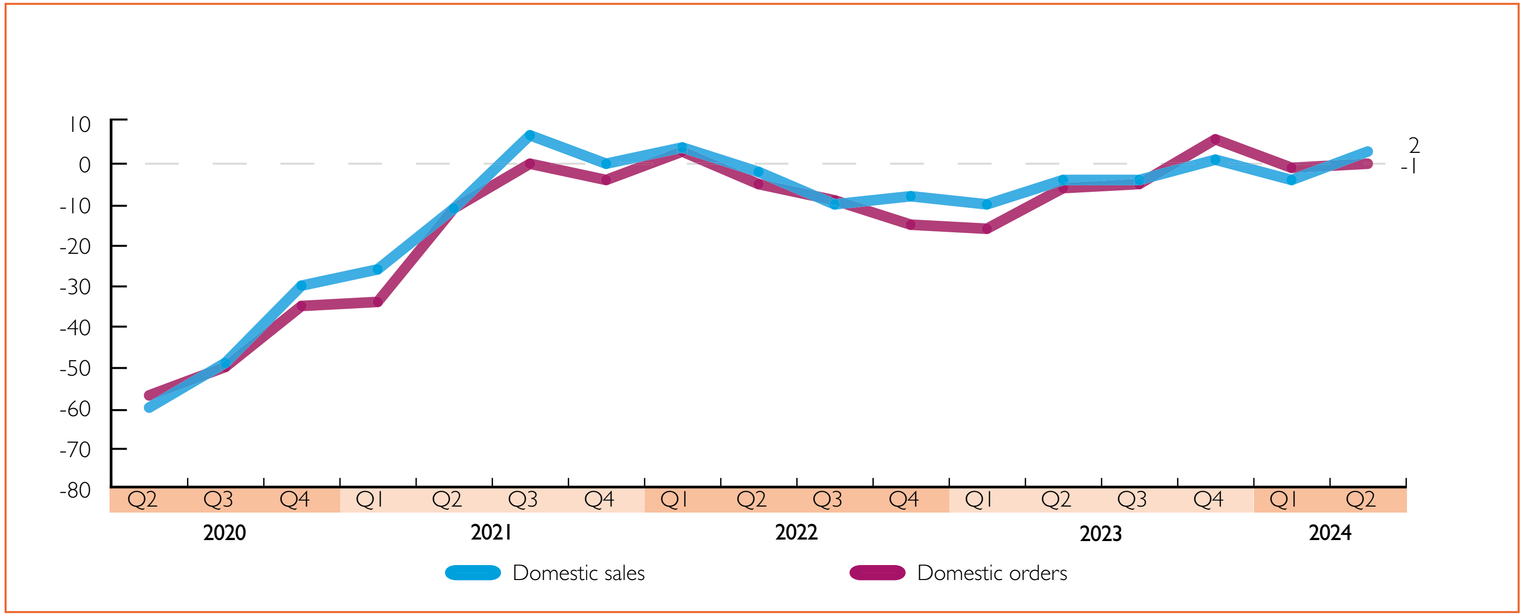
Nonetheless, UK businesses have shown their ability to be resilient despite the economic and political uncertainty, here and abroad, in the last few years. While the new government develops and firms up on its policy options, the expected cuts in interest rates should at least allow growth in the short to medium term to be sustained on a better footing than we have seen for some time.

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

27% of London businesses reported an **increase** in domestic sales last quarter

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

DOMESTIC DEMAND



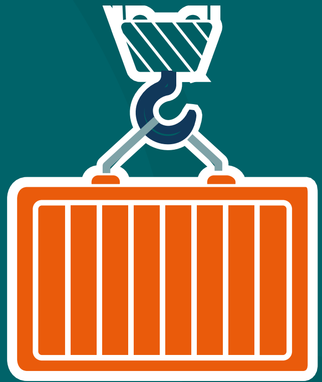
London businesses saw an improvement in domestic demand across the second quarter of 2024. More than a quarter (27%) of firms said their domestic sales had increased in Q2, compared to 25% who reported a decline from Q1. The net balance – the percentage reporting an increase minus the percentage reporting a decrease – for domestic sales climbed 7 points to +2 in Q2, the highest level since Q1 2022.

Around a quarter (26%) of micro firms (0-9 employees) said their domestic sales had increased in Q2, up from 20% in Q1. The net balance jumped 8 points to 0 last quarter as a result. For larger businesses (10 or more employees), the domestic sales balance rose from +20 to +26 in Q2, with more than four in ten (44%) reporting higher sales activity compared to Q1.

Stronger sales were reported across both manufacturing and services, with some of the biggest increases seen in the 'motor trades / wholesale / retail / transport & storage / accommodation & food services' industries, and construction.

However, domestic orders were largely unchanged from Q1 to Q2, with the net balance nudging up 1 point to -1. One in five (21%) London businesses said their orders had risen in Q2, down slightly from 24% in Q1. A smaller proportion of firms reported a decline in domestic orders (22% in Q2; 26% in Q1).

The domestic orders balance for micro firms edged down from -4 to -5 in Q2, with 18% reporting an increase in orders (down from 23% who said the same in Q1). By contrast, growth in domestic orders rebounded for larger firms: the net balance jumped 15 points to +33 in Q2, with 46% of larger companies saying their orders had increased quarter to quarter.



13%

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

10%

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

EXPORT DEMAND

Businesses also saw a pick-up in their export sales in Q2. The net balance rose 3 points to +4, with the proportion of companies who said their sales had risen growing from 10% to 13% last quarter.

Micro businesses led this improvement in export sales, as the net balance returned to positive territory in Q2 (climbing from -1 to +3). Just over one in ten (12%) micro firms said their export sales had grown in Q2. For larger companies, the export sales balance was consistent, nudging down 1 point to +15 last quarter: 25% of larger firms saw an increase in export sales from Q1 to Q2.

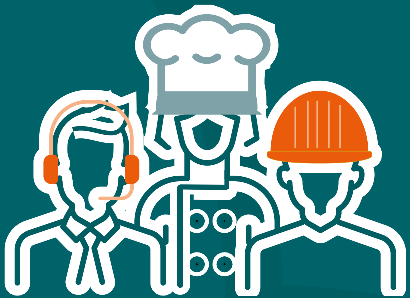
On a sectoral basis, the rise in export sales was driven by service-sector companies, namely those in the retail-related and hospitality industries.

Turning to export orders, the net balance fell from +3 to +1 in Q2, with 10% of firms saying their orders had increased compared to the previous quarter.

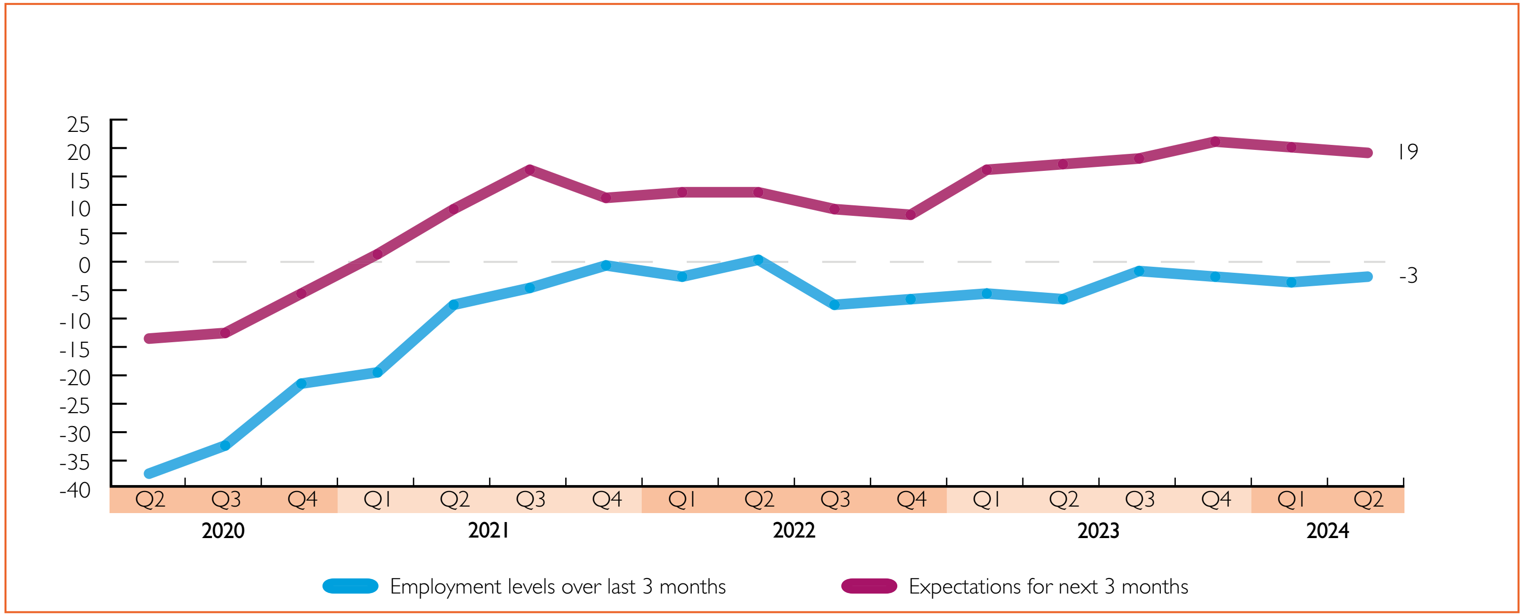
Growth in export orders slowed for both larger and micro firms. The net balance for larger companies slipped 8 points to +13 in Q2, while for micro firms, the balance nudged down 1 point to +1.

Manufacturers bore the brunt of the drop in export orders, although the net balance dipped for services businesses too.

LABOUR MARKET



9% of London businesses reported an **increase** in their workforce size last quarter



23% of London businesses expected their workforce size to **increase** over the coming three months

Our latest Quarterly Economic Survey suggested there was little change in London's labour market across Q2. The employment balance (which measures reported employment levels over the past three months) nudged up from -4 to -3 in Q2, and has trended sideways over the past year. The proportion of firms who said their workforce levels had grown in Q2 was 9%, down from 14% who said the same in Q1. At the same time, only 12% of companies reported a decline in headcount last quarter, compared to 18% in Q1.

The employment balance for larger firms fell sharply in Q2, from +14 to +4, a three-year low. A quarter (24%) of larger companies said their workforce levels had grown in Q2, down from 32% who said the same in Q1. One in five (20%) larger businesses reported a decrease in their headcount last quarter. For micro firms, the employment balance nudged up 1 point to -5 in Q2.

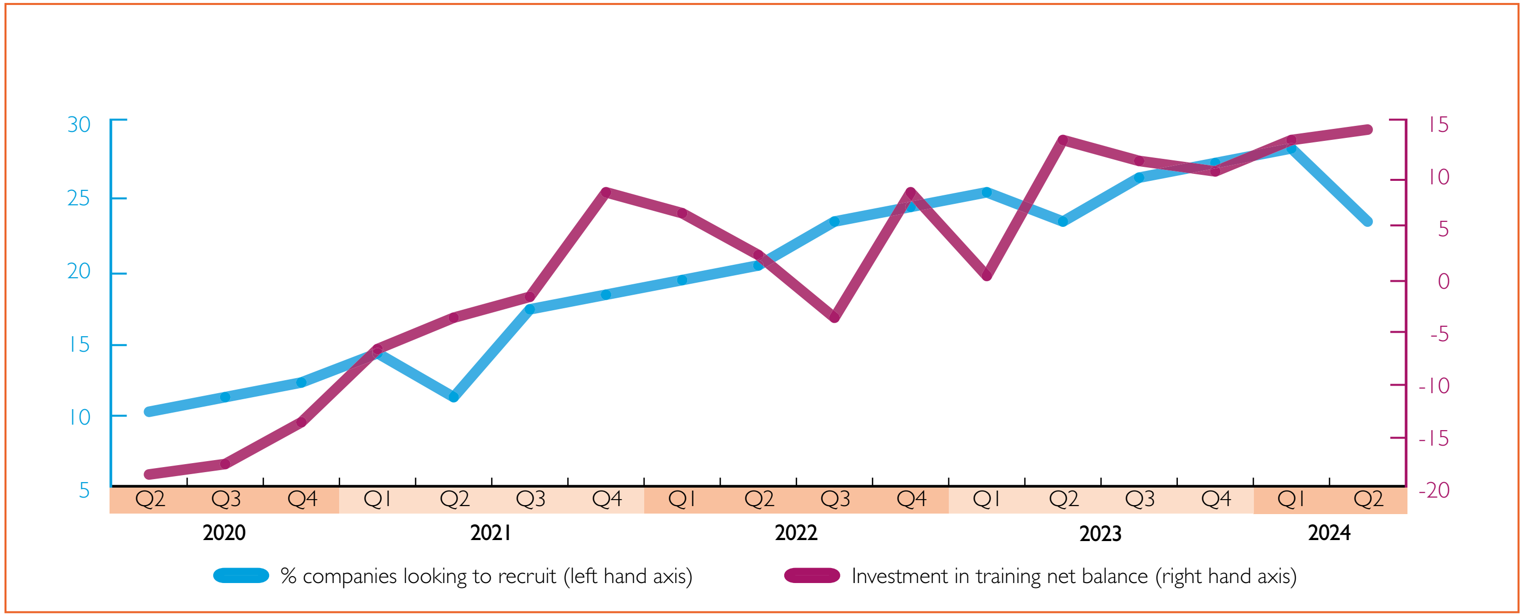
Workforce expectations remain upbeat, although the net balance dipped for a second consecutive quarter in Q2 (from +20 to +19). Just under a quarter (23%) of London firms expect their headcount to increase in the next three months, slightly down from Q1 (27%). Encouragingly, only 4% of companies anticipate a decline in the size of their workforce.

For micro businesses, the workforce expectations balance slipped 2 points to +16 in Q2, while for larger firms the decline was more pronounced (-7 points to +39). Both figures remain firmly in positive territory.

RECRUITMENT AND TRAINING

23% of London businesses reported that they had looked to recruit in the last quarter

22% of London businesses reported an **increase** in investment in training last quarter



Recruitment activity slowed down in Q2 according to the latest QES, with 23% of firms saying they had tried to hire last quarter. This was down from 28% who said the same in Q1, and the lowest share in a year. Recruitment activity remains above the 10-year average (18%). Three in five (59%) firms who tried to recruit in Q2 had difficulties doing so, in line with recent Quarterly Economic Surveys.

The slowdown in hiring efforts was focussed on micro firms, with 18% saying they had tried to recruit in Q2: this was down from 24% in Q1. Just over two-thirds (68%) of larger businesses said they had tried to hire in Q2, a touch lower compared to the previous quarter (70%).

Businesses continue to maintain elevated levels of investment in training. The net balance edged up 1 point to +14 in Q2, a record high, with 22% of firms saying they had raised spending on training in the past three months.

For micro companies, the investment in training balance rose from +11 to +12 in Q2, also a record for the QES. The training investment balance for larger firms increased 3 points to +32, with more than four in ten (44%) larger companies saying they had raised spending on training in the prior three months.

52% of London businesses reported an **increase** in their fuel costs last quarter

58% of London businesses reported an **increase** in their energy costs last quarter

BUSINESS COSTS

There are signs of some cost pressures for London businesses easing slightly, although all of the metrics measured on the QES remain far above the levels seen prior to Russia's invasion of Ukraine. In Q2, the proportion of firms who said their energy costs had increased in the past three months was 58%, the smallest share since Q3 2021, and down from 67% who said the same in the Q1 2024 QES. Only 5% reported a decline in energy costs in Q2: the net balance for energy costs fell 8 points to +53 as a result. After rising for consecutive quarters, the net balance for borrowing slipped 7 points to +35 in Q2, the lowest level since Q1 2022. Costs of internationally sourced raw materials eased slightly too, with the balance dipping from +43 to +39 last quarter.

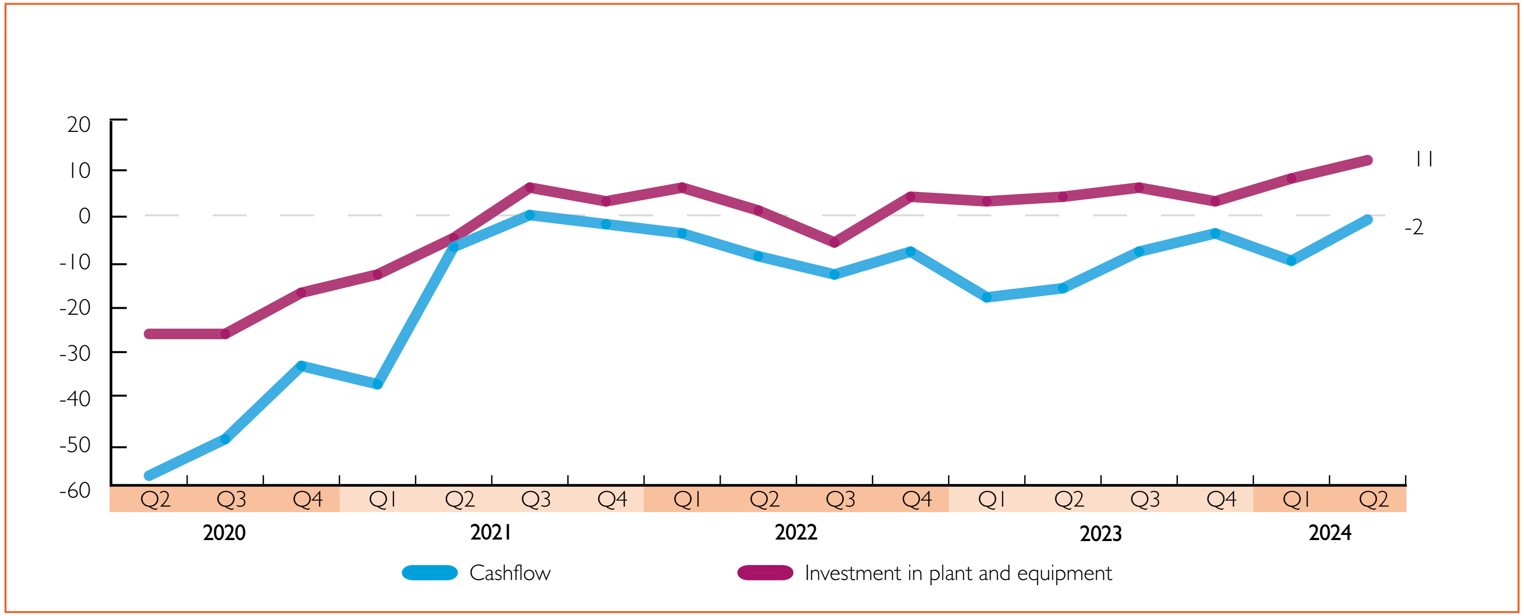
However, it is not a uniform picture. Just over half (52%) of London firms said their fuel costs had increased in Q2, compared to only 2% who noted a decline. The net balance remained at +50 in Q2, unchanged for a second consecutive quarter. The balance for raw materials sourced domestically also stayed at +50 in Q2. Businesses are still under pressure around labour costs, with 44% of London firms saying that pressure from employees to increase wages had grown in Q2. The net balance nudged down 1 point to +42, having remained around this level for two years. These elevated cost pressures are putting more upward pressure on prices, going against the more recent positive headline inflation figures. In Q2, more than four in ten (45%) companies expect the prices of their goods and / or services to increase in the next three months, up slightly from the Q1 2024 QES (42%). Only 2% of firms in Q2 expected the price of their goods and services to fall in the next three months. Half of London firms (51%) say that utilities costs are exerting upward pressure on prices, followed by labour costs (41%), finance costs (33%), raw materials (29%), and fuel (22%).

Inflation is still the number one concern for businesses: in Q2, 59% of London firms said they were more concerned about inflation than they were three months prior.

27% of firms reported an **increase** in cashflow last quarter

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

CASHFLOW AND INVESTMENT



After a disappointing start to 2024, cashflow for London businesses improved in Q2 with the net balance climbing 9 points to -2, the highest level since Q3 2021. Whilst still a negative number (indicating more firms are reporting a decline than an increase), this was a more encouraging reading and suggests a return to improving upward trend in companies' cashflow. More than a quarter (27%) of firms said their cashflow had increased in Q2, up from 24% in Q1. There were also fewer businesses who said cashflow had worsened (29% in Q2, 35% in Q1).

The uptick in cashflow was seen across businesses of all sizes. For micro firms, the cashflow balance jumped from -15 to -5 in Q2, with 25% reporting a rise compared to Q1. Similarly, the net balance for larger companies rose 7 points to +30 in Q2, the highest level recorded on the London QES: 46% of larger firms said their cashflow had risen in Q2. Service sector businesses were the drivers of this improvement, particularly those in the motor and retail industries, professional services companies, and firms in arts, entertainment and culture. By contrast, manufacturers saw a drop in cashflow in Q2.

After plateauing for much of the last three years, businesses have also shown signs of greater levels of capital investment according to the London QES. The net balance for investment in plant and equipment climbed from +7 to +11 in Q2, a record high. Around two in ten (19%) London firms said their plant and equipment investment had increased in Q2, unchanged from Q1. The share of firms who reported a decline in such investment shrunk from 12% in Q1 to 8% in Q2.

The investment in plant and equipment balance for micro firms rose 5 points to +11 in Q2, but declined for larger companies (from +27 to +22). Manufacturing businesses reported much stronger levels of plant and equipment investment in Q2, although there was growth for service sector firms too.

52% of London businesses expect their profitability to **improve** over the coming 12 months

52% of London businesses expect their turnover to **improve** over the coming 12 months

BUSINESS CONFIDENCE

Business confidence soared in Q2 according to the London QES. More than half (52%) of London companies expect their profitability to improve over the coming 12 months, compared to 15% who anticipate a decline. This pushed the net balance up 9 points to +37 in Q2, a record for the QES.

The more buoyant outlook on profitability was driven by micro companies: the profitability expectations balance for micro businesses rose from +26 to +35 in Q2, with half (50%) expecting their profitability to improve in the next year. For larger firms, the profitability balance was unchanged at +47 in Q2.

As is often the case with the QES, turnover expectations mirrored profitability. The net balance for turnover expectations from all London firms jumped 10 points to +38 in Q2, also a record, as 52% of companies anticipate an increase in the next 12 months. Both micro and larger businesses were more upbeat on turnover in Q2.

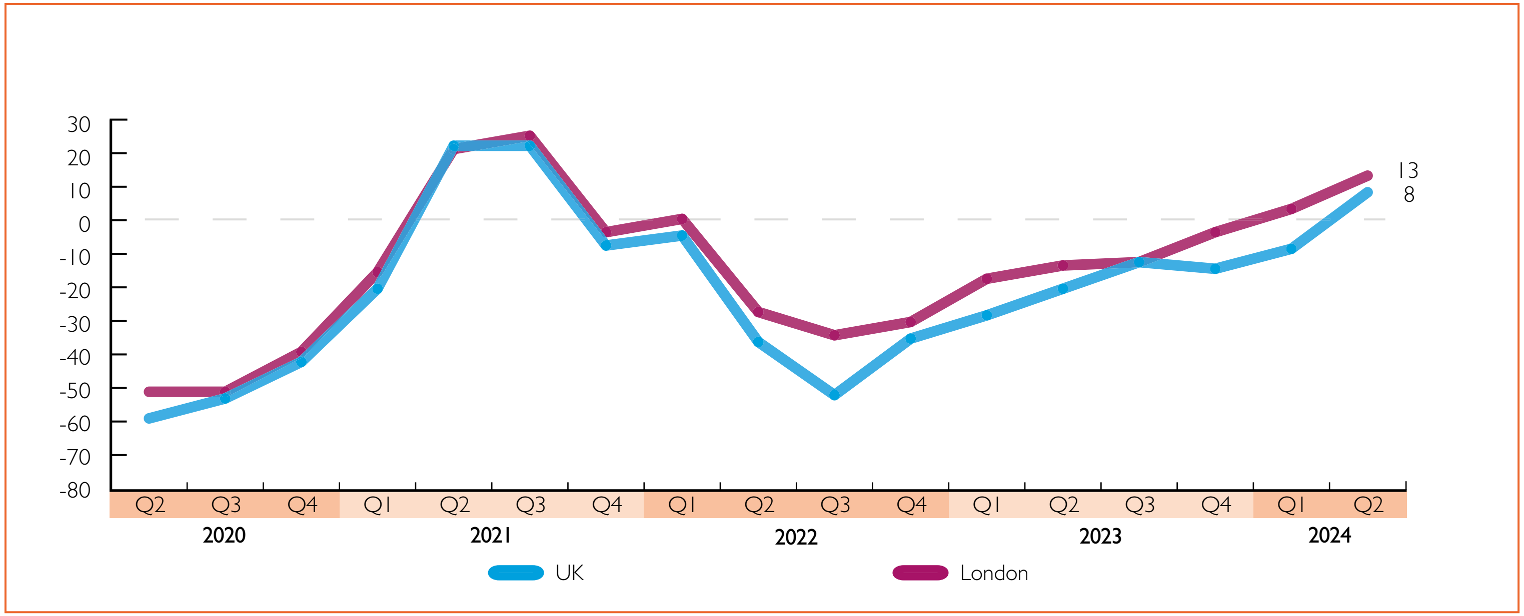
For micro companies, the turnover balance rose 10 points to +37, while for larger firms the balance climbed from +39 to +45 last quarter.

Amid improved turnover and profitability expectations, businesses were feeling more optimistic about their overall company prospects for the coming 12 months. The net balance for company prospects jumped 11 points to +27 in Q2, a nine-year high for the QES.

35% of London businesses expect London's economy to **improve** in the next 12 months

37% of London businesses expect the UK's economy to **improve** in the next 12 months

ECONOMIC OUTLOOK



London businesses' outlooks for the wider economy turned increasingly positive too. In Q2, more than a third (35%) of London firms expected the capital's economy to improve over the next 12 months, compared to 22% who anticipated a decline. This pushed the net balance up 10 points to +13, the seventh consecutive rise and the highest level since Q1 2016.

Both micro and larger businesses were more optimistic about London's economy in Q2, with more than four in ten (42%) larger firms expecting growth in the coming year. Businesses based in inner London were also markedly more positive about London's economy.

After lagging behind in recent surveys, the outlook for the UK economy caught up in the Q2 2024 QES. Nearly two fifths (37%) of London firms expected the UK's economy to grow in the next 12 months, while 29% thought it would shrink: this was the lowest share of firms anticipating a decline in the UK economy since Q3 2021.

The net balance jumped from -9 to +8 in Q2, the first positive reading in nearly three years.

As with the London outlook, micro and larger businesses alike saw significant improvements in their expectations for the UK economy over the next 12 months.

It is worth noting that the fieldwork for this latest QES was in part conducted after the UK general election announcement on 23 May 2024.

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