LONDON CHAMBER of COMMERCE AND INDUSTRY

CONNECT. CHAMPION. SUPPORT.

CAPITAL 500

Q4

London Quarterly Economic Survey

October – December **2024**

In partnership with

Savanta:

Sponsored by

HaysMac

JAMES WATKINS

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

LCCI COMMENTARY – THE BUSINESS VIEW

Our Q4 2024 Quarterly Economic Survey findings reflect a London business community, balancing cautious optimism with growing economic pressures. The resilience of London firms continues to shine through, with many still optimistic about their profitability and turnover in the coming year.

Cost pressures, once again, dominate the narrative. Labour costs have surged as the leading challenge, accompanied by significant increases in energy, borrowing, and raw material expenses. Over half of businesses cited inflation as their number one concern, and recruitment difficulties remain pervasive, particularly for skilled technical and managerial roles. These challenges, while considerable, are not insuperable. They underscore the need for proactive policies that address these pressures. Encouragingly, the labour market shows signs of resilience. Workforce growth expectations remain positive, and recruitment activity has risen slightly, reflecting the underlying strength of London's entrepreneurial ecosystem. At the same time, we see increased investments in training, which is crucial for addressing skills shortages and preparing businesses for the future.

As we move into 2025, the London Chamber of Commerce and Industry remains steadfast in its commitment to advocating for the needs of the capital's businesses. We call for targeted interventions to alleviate regional disparities, reduce cost pressures, and support investment. From addressing outer London's unique challenges to ensuring companies can thrive amid inflationary pressures, we focus on ensuring London remains a global hub for innovation, trade, and growth. It is essential to remember that London's business community has consistently demonstrated its resilience, adaptability, and forward-thinking approach. These qualities will undoubtedly carry us through this period of uncertainty, paving the way for a stronger economy for the capital and the wider UK.

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 520 London business leaders between 18 October and 17 November 2024. 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 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 Adviser, CEBR

GUEST COMMENTARY – THE ECONOMIST'S VIEW

As the new year starts, it is heartening that a number of indicators for business activity in London are turning a bit more positive. But the picture for the country as a whole is more bleak. The UK economy, overall, seems to be stagnating in the second half of the year. Not only was the rate of expansion in the second quarter revised from a very original 0.6% to 0.5% and then again in late December to just 0.4% by the Office for National Statistics (ONS), but the figure for Q3 was also changed to zero from an original very modest 0.1%. September saw a 0.1% fall in GDP, and this was repeated in October. Survey indicators suggest little activity, with the drop in manufacturing continuing in both November and December. Though services are beginning to pick up again, the Bank of England, in its latest forecast, expected zero growth for the final quarter of 2024.

What does all this mean for 2025? A new feeling of uncertainty has crept in. Business confidence surveys all point to optimism among firms having taken a hit. Much of this reflects concern about the cost implications of the 30 October Autumn Budget measures, particularly the rise in the employer National Insurance Contributions and the drop in the income threshold from which the tax needs to be paid by the organisation, including charities. This is likely, despite an increase in the employment allowance, to create particular problems for many SMEs, particularly in the hospitality and care sectors. The above inflation rise in the minimum wage from next April will also affect costs, and if all those are passed on to consumers, there is a risk that inflation will be higher than would otherwise have been the case.

The Office for Budget Responsibility (OBR), which published its own forecast alongside the Budget, adjusted inflation slightly upwards. The Bank of England itself cited inflation concerns when it decided to leave rates unchanged at 4.75% at its meeting in mid-December. As it is, the Consumer Price Index was up by 2.6% in November, from a low of 1.7%, but it had fallen to in. It is still very close to target, but as far as service inflation and wage rises remain an area of concern for rate-setters.

What about growth ahead? Unless there are any U-turns in policy to reflect the concerns expressed by businesses, lower private sector investment intentions will constrain growth in the short term, though households should benefit from the likelihood that pay increases will continue to outpace price increases for a while yet. In truth, much of the growth forecast for the next 12 months will come from higher public sector spending, particularly in the NHS and up to a point from higher government investment for which it can now borrow from the markets in line with the new fiscal rules announced by Chancellor Rachel Reeves.

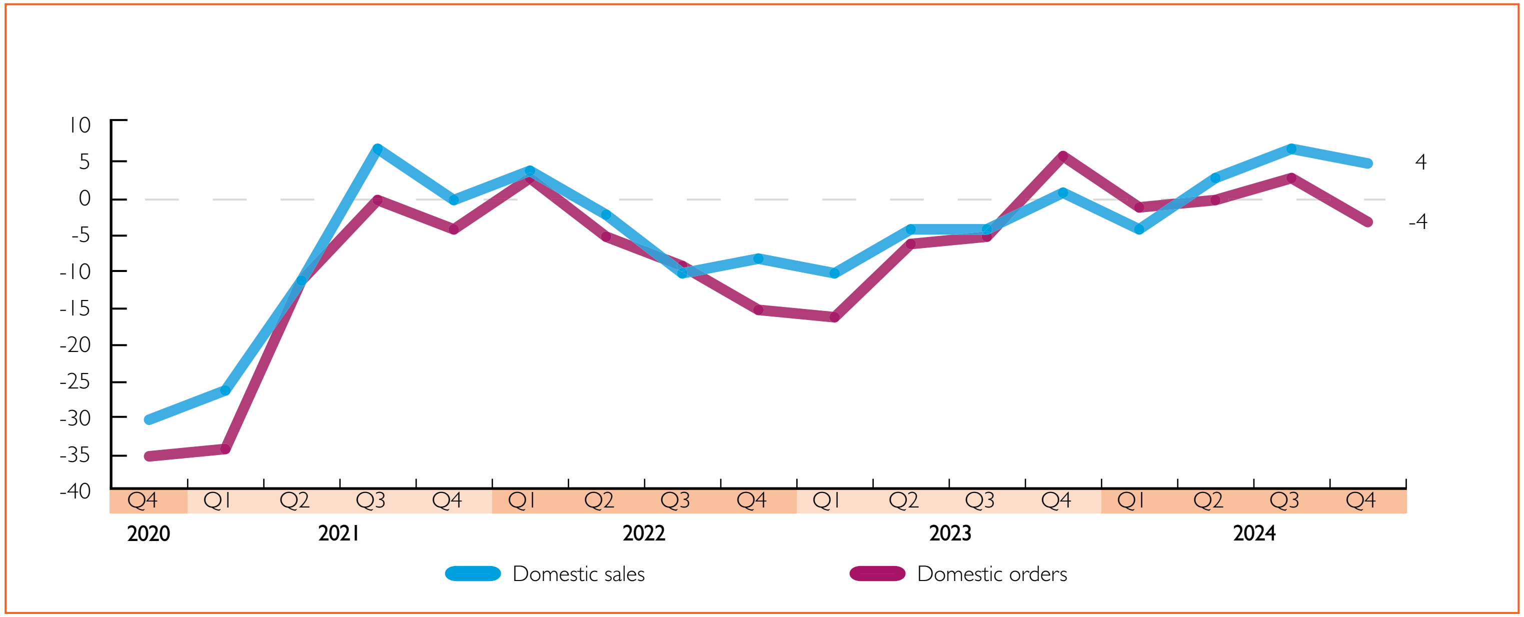
Worth remembering that the Budget measures included extra spending of some £70bn a year on average over the next 5 years, a third of it on capital projects, and financed by extra tax rises of some £36bn a year and extra borrowing of some £30bn a year, compared to what was planned in the last Conservative Budget of March 2024. It does, in fact, represent, as the Office for Budget Responsibility(OBR) described it, a substantial loosening in fiscal policy, which, in theory, should boost growth. But the worry is that if private sector activity stalls and even the modest 1-2% on average growth forecast by the OBR does not materialise, more tax rises in the latter part of the Parliament may be necessary, however politically damaging. Lower interest rates, of course, would help. But the BoE Monetary Policy Committee remains more hawkish than the US Federal Reserve or the ECB, which, despite a similar increase in their latest inflation data, felt confident enough to cut rates again in December when the Bank of England hesitated and, in fact, then paused. The result is that both businesses and consumers remain cautious as the burden of servicing corporate and personal debt – let alone government debt – all remain high.

Vicky Pryce, Chief Economic Adviser, CEBR

28% of London businesses reported an **increase** in domestic sales last quarter

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

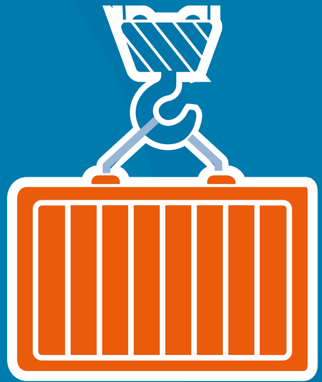
DOMESTIC DEMAND



Domestic demand dropped off slightly in Q4, according to London businesses. The net balance for domestic sales – the percentage of firms reporting an increase minus those reporting a decrease – contracted from +6 to +4 in Q4 2024. More than a quarter (28%) of London companies reported that their sales had risen in Q4 compared to Q3, but the percentage reporting a decline in domestic sales grew from 20% in Q3 to 24% in Q4. According to inner London businesses, domestic demand showed further signs of picking up in Q4, but it slowed for many outer London firms, with 28% reporting falling sales compared to 19% in Q3 businesses of all sizes saw mixed sales results last quarter. For micro firms (those with 0-9 employees), the sales balance decreased by 2 points to +1 in Q4. For larger companies (10 or more employees), the balance was slightly reduced by 1 point to +34. Nearly half (49%) of large firms said their domestic sales had grown in Q4.

In Q4, business performance varied by sector and size. Although more respondents reported rising sales than in Q3, the proportion of firms reporting falling sales also increased. This trend reduced the middle group of companies with steady sales, indicating a more divided business landscape. Domestic sales rose for firms across different sectors, with robust growth reported in manufacturing, where 46% of firms saw an increase. The services sector showed stability, with 49% of firms reporting that sales remained the same as in the previous three months. Firms saw mixed results in domestic orders in Q4. The net balance for orders decreased by 6 points to -4, with 21% of businesses reporting a rise. The proportion of firms reporting a decline in orders increased to 25% in Q4, up from 20% in Q3. For micro businesses, the net balance of domestic orders decreased from -2 to -7 in Q4. Larger companies' order balance declined by 5 points to +31 last quarter.

The growth in domestic orders was driven by manufacturing, which saw a net balance of +26. Notable trends include strong growth in this sector (43% reporting increased orders) compared to the services sector, which showed stability, with 56% of firms reporting steady orders and a net balance of -8.



12%
of London businesses reported an **increase** in export sales last quarter

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

EXPORT DEMAND

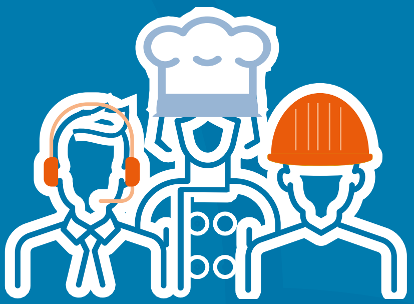
The latest QES for Q4 2024 revealed that export demand has remained consistent. After a sluggish Q3, the net balance for export sales remained level, rising just 1 point to +2 in Q4. One in eight (12%) London firms said their export sales had risen in Q4, up slightly from 10% in Q3. The proportion of companies reporting a decline in export sales increased slightly to 10% in Q4, up from 9% in Q3.

Within this overall picture of consistency, the net balance for micro-businesses turned positive again, rising 2 points to +1 in Q4. 11% of micro businesses said their export sales had grown in Q4 compared to 8% in Q3. By contrast, export sales growth for larger companies (10 or more employees) saw a decrease, with the net balance falling 16 points to +9 in Q4, the second lowest level in two years. Over a fifth (22%) of larger firms said their export sales had increased last quarter.

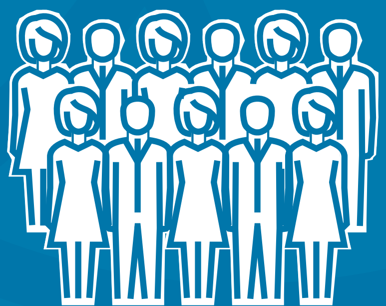
Export orders stayed level in Q4, with the net balance rising 1 point to +2: 11% of London companies said their export orders had risen in Q4, while 9% reported a decline.

The export orders balance for micro companies remained at 0, the same as in Q3. However, for larger businesses, the orders balance followed the export sales negative trend, nudging down 4 points to +15

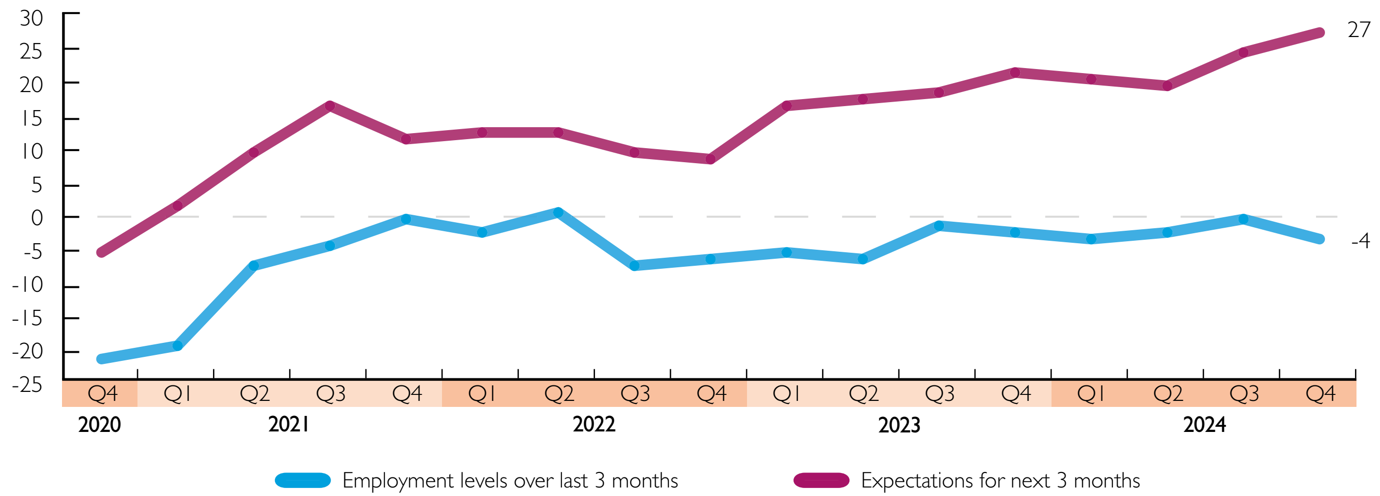
LABOUR MARKET



14% of London businesses reported an **increase** in their workforce size last quarter



31% of London businesses expected their workforce size to **increase** over the coming three months



London businesses reported mixed labour market activity during the fourth quarter of 2024. The employment balance – which measures reported workforce levels in the past three months – fell 3 points to -4 in Q4, down from -1 in Q3. More than a tenth (14%) of firms said their employment levels had grown in the previous three months, up from 13% in Q3. However, there was also a larger share of companies who said their workforce size had decreased (18% in Q4; 14% in Q3).

For micro businesses, the employment net balance decreased from -3 to -7 in Q4, with 12% saying their employment levels had risen in the previous three months. Employment growth among larger firms also saw a slight decline, with the net balance dropping 1 point to +15 in Q4.

Workforce expectations for the coming three months showed a rising pace in Q4, as the net balance climbed 3 points to +27. In Q4, 31% of London companies said they expected their workforce size to increase, up from 26% who reported the same in Q3. The proportion of firms anticipating declining employment levels rose very slightly to 4% in Q4, up from 2% in Q3.

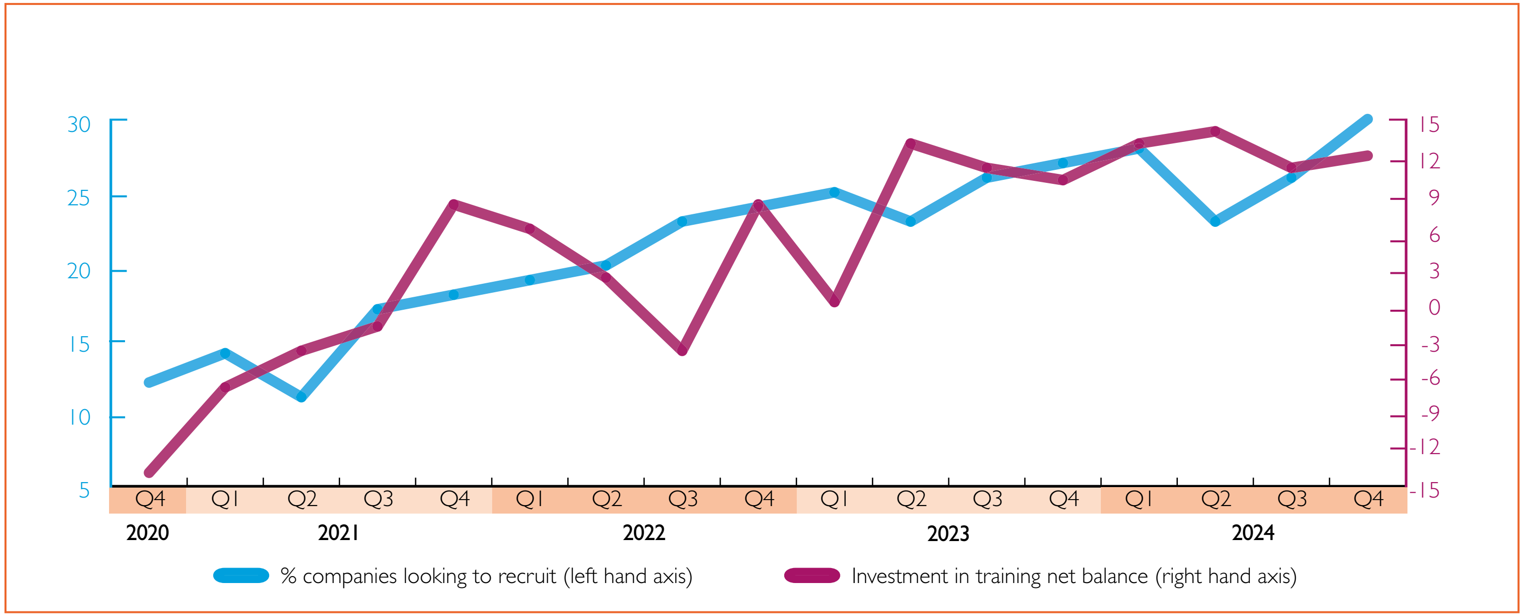
This improvement in employment expectations was seen across businesses of all sizes. The workforce expectations balance for micro firms rose to +26, with 29% expecting their employment levels to increase, 68% expecting them to stay the same, and only 3% expecting a decrease. For larger companies, the balance decreased 12 points to +38, with 47% expecting an increase, 44% expecting the same, and 9% expecting a decrease.

In terms of location, Inner London showed a strong positive balance of +32, with 34% of firms expecting an increase in employment, 63% expecting the same, and only 2% expecting a decrease. Outer London had a positive balance of +22, with 27% expecting an increase, 68% expecting the same, and 5% expecting a decrease.

RECRUITMENT AND TRAINING

30% of London businesses reported that they had looked to recruit in the last quarter

24% of London businesses reported an **increase** in investment in training last quarter



After dropping sharply in Q2 and partially rebounding in Q3, recruitment activity increased in Q4 to the highest levels since 2020. Nearly a third (30%) of firms said they had tried to hire in the previous three months in Q4, up from 26% in Q3. After a rise in demand for full-time and permanent positions among recruiting companies in Q3, both indicators dropped in Q4, by 19 points to 54% and 10 points to 11%, respectively. In contrast, the demand for part-time positions climbed to 53% in Q4 from 39% in Q3, while the demand for temporary positions slightly decreased to 19% in Q4 from 22% in Q3. The majority (61%) of London firms who tried to recruit faced difficulties doing so in Q4.

A quarter (27%) of microbusinesses said they had sought to hire staff in Q4 (up from 21% in Q3). For larger firms, the proportion of those trying to recruit decreased to 61% in Q4, down from 73% in Q3.

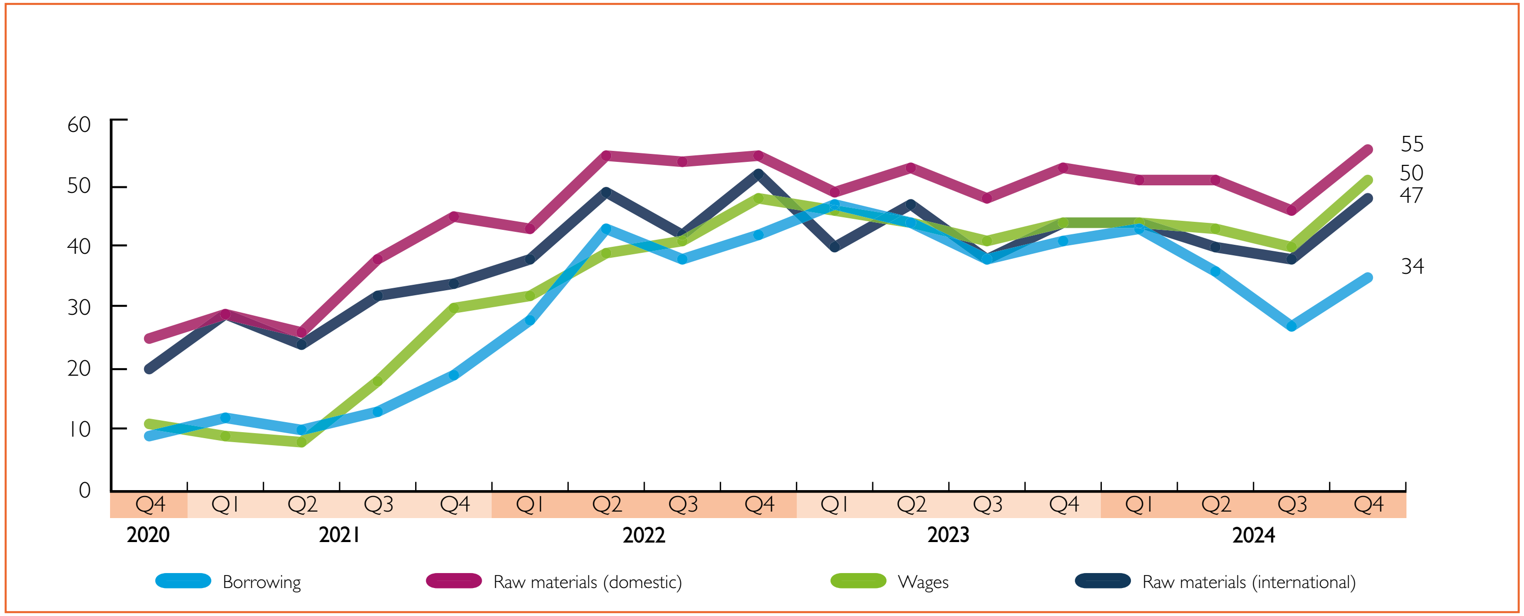
Company spending on training remained consistent with Q3. The net balance for investment in training rose from +11 to +12 in Q4. The proportion of firms that increased their spending on training in the previous three months grew from 20% in Q3 to 24% in Q4. However, the proportion of businesses that lowered investment in training also increased slightly from 9% in Q3 to 12% in Q4.

Micro businesses' training investment balance rose from +8 to +9 in Q4. More than four in ten (41%) larger firms said they had increased spending on training in Q4, compared to only 9% who had lowered investment. The net balance for investment in training among larger companies fell 5 points from +37 in Q3 to +32 in Q4.

BUSINESS COSTS

50% of London businesses reported an **increase** in their fuel costs last quarter

61% of London businesses reported an **increase** in their energy costs last quarter



London businesses' cost pressures appeared to have increased in Q4. Almost two-thirds (61%) of companies said their energy costs had risen in Q4, up from 52% in Q3. Just 3% of London firms said their energy costs had fallen over the previous three months in Q4, down from 8% in Q3. The energy costs balance rose 14 points to +58 in Q4.

Similarly, the net balance for fuel costs increased from +39 to +42 in Q4, with 50% of firms saying their fuel costs had risen; 42% reported no change, while 8% noted lower fuel costs compared to Q3.

Supply chain costs are also rising, albeit at a slightly slower rate. The net balance for raw materials sourced domestically increased 10 points to +55 in Q4. A greater proportion of firms said their domestic raw material costs had increased in Q4 (57%) compared to Q3 (46%), though only 2% of companies reported a decline from quarter to quarter. The net balance for raw materials sourced internationally increased 10 points to +47 in Q4 2024.

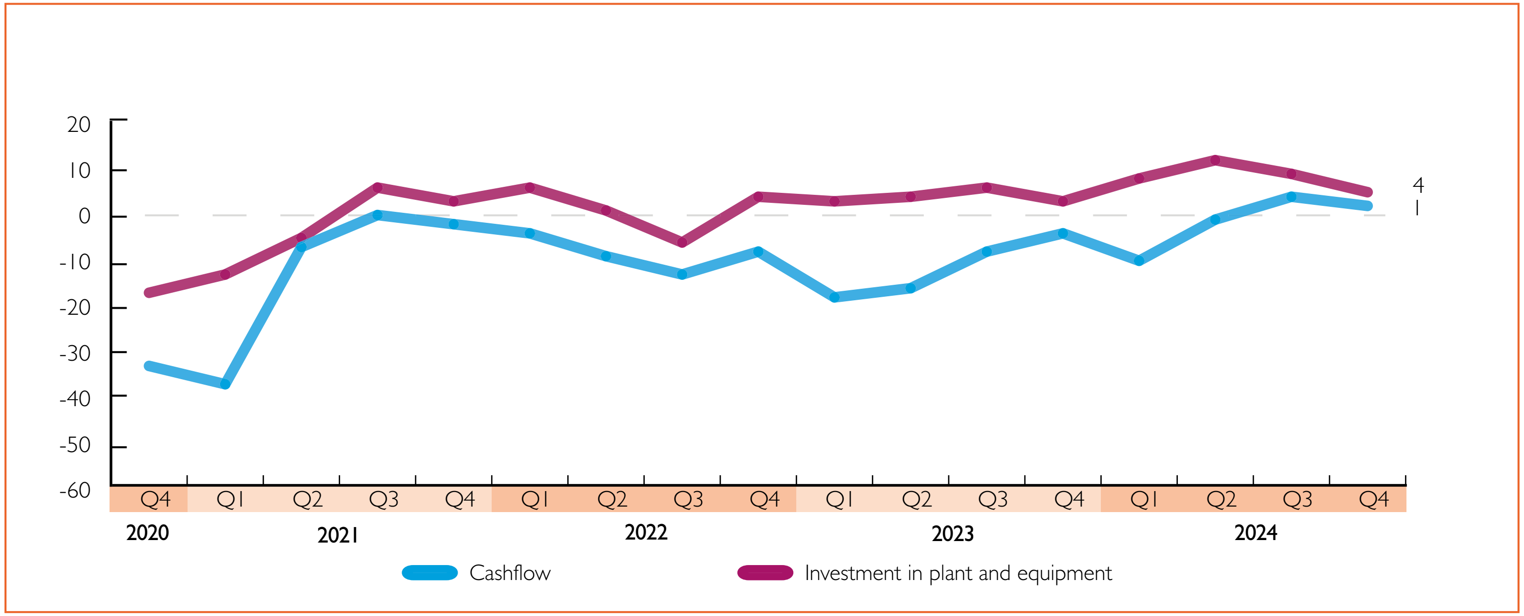
Borrowing costs have also risen for London businesses, with the net balance up 8 points to +34 in Q4. The net balance for wage pressures increased from +39 to +50 this quarter, the highest reading in ten years.

In Q4, around half (46%) of firms said they expect the prices of their goods and/or services to increase in the coming three months, up from 37% in Q3. Labour costs (47%) and utilities (46%) costs remain the central upward pressures on companies' price-setting regimes, with Labour costs rising +8 points from 39% in Q3.

Inflation is still the number one concern for firms, with the proportion who said that these concerns had grown, increasing from 47% in Q3 to 57% in Q4.

CASHFLOW AND INVESTMENT

29% of firms reported an **increase** in cashflow last quarter



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

London businesses experienced a slower pace of cashflow growth in the fourth quarter of 2024. The cashflow net balance fell slightly from +3 to +1 in Q4. Three in ten (29%) London firms said their cashflow had increased in Q4, the same as in Q3. The percentage of businesses that reported a decline in cashflow increased slightly from 26% in Q3 to 28% in Q4.

The cashflow balance for micro firms was largely unchanged, showing just a small decrease from +1 to -1 in Q4, with 28% reporting an increase, the exact figure as in Q3. For larger companies, the cashflow balance also reduced slightly from +30 to +27 in Q4, with 48% of larger businesses saying their cashflow had increased in the previous three months.

Most sectors saw mixed results for cashflow in Q4, with the greatest proportion reporting an increase in finance (45%) and manufacturing (39%), while other sectors like information and communication, and construction/property faced more challenges.

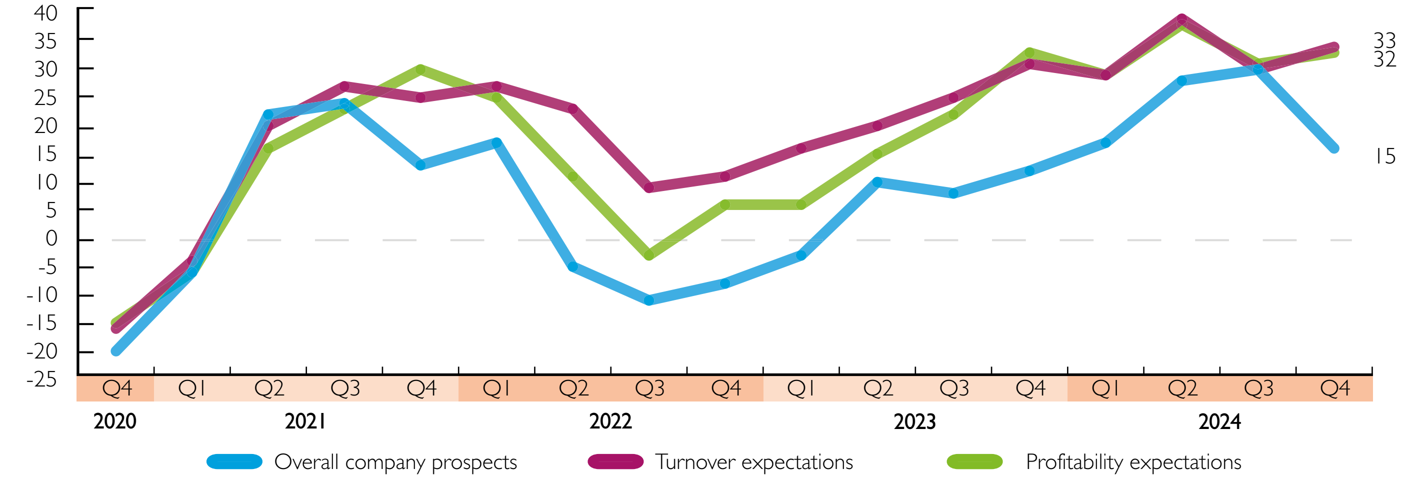
There was a slight dip in firms' investment in plant and equipment last quarter. The net balance fell from +8 to +4 in Q4. The proportion of firms who said their capital investment had increased in Q4 was 20%, up from 18% in Q3. However, the percentage of firms reporting a decline in plant and equipment investment increased from 10% in Q3 to 16% in Q4. The slowing pace in investments was mostly due to the services sector, which reported a balance of +3, down from +8. Outer London businesses reported their first negative balance in plant and equipment investment since Q3 2022, dropping 7 points to -3 in Q4 2024.

Micro companies' plant and equipment investment balance dropped from +5 to +2 in Q4. For larger firms, the balance decreased from +33 to +27 in Q4.

48% of London businesses expect their profitability to **improve** over the coming 12 months

48% of London businesses expect their turnover to **improve** over the coming 12 months

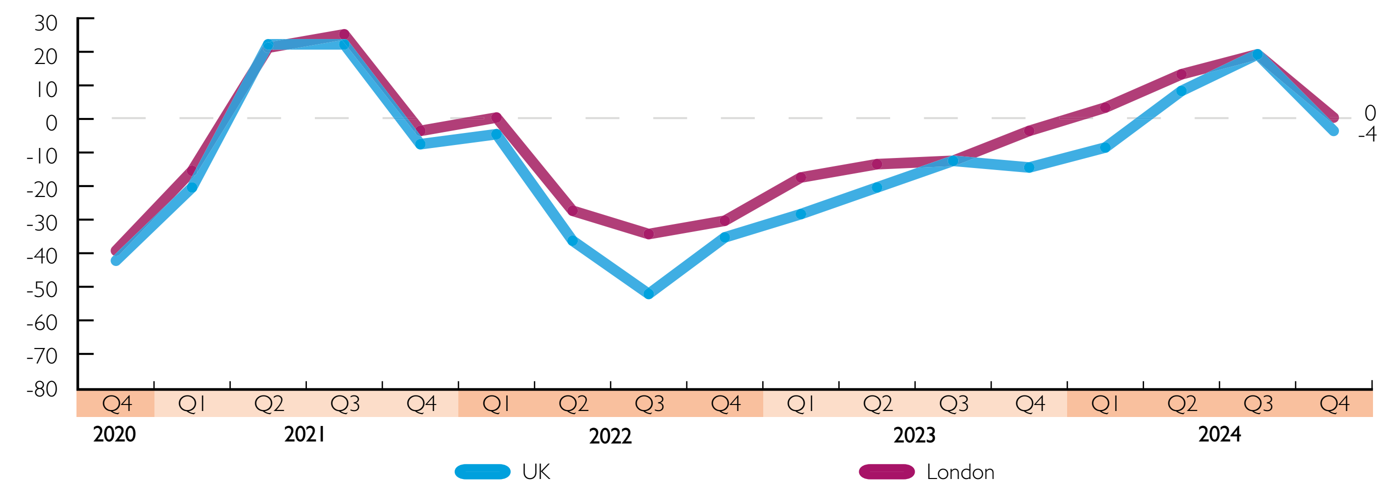
BUSINESS CONFIDENCE



Despite increased turnover and profitability expectations, the overall company prospects balance fell to +15 in Q4, the lowest figure in the last four quarters. This trend divergence highlights a mixed outlook among businesses. The most significant declines were seen among micro firms, with the balance dropping 15 points to +12, and outer London companies, where the balance fell 20 points to +10. However, half (50%) of larger businesses remained confident in their overall economic prospects for the next 12 months.

By contrast, the net balance for profitability was largely unchanged (up 2 points to +32 in Q4). Now, 48% of firms expect their profitability to rise in the next 12 months (47% in Q3), while 16% expect profitability to decrease (17% in Q3). This is also evident among micro-companies, with the net balance for these firms rising by 2 points to +30 in Q4 and 47% of micro-firms anticipating better profitability over the next year (up from 45% in Q3). The profitability expectations balance for larger businesses was also largely unchanged (+57 vs. +56 in Q3), with nearly two thirds (67%) of larger firms believing their profitability will improve in the coming year. The net balance for turnover rose slightly (up 4 points to +33 in Q4). Now, 48% of firms expect their turnover to rise in the next 12 months (44% in Q3), while 15% think turnover will worsen (the same as in Q3). As with profitability, there was a difference in the pace of optimism for turnover based on business size. The turnover expectations balance for micro businesses rose from +25 to +31 in Q4. In contrast, larger companies were more cautious, with the net balance decreasing from +59 to +52 in Q4, although 58% of larger businesses still anticipate an improvement in turnover. This divergence could be due to the 20 percentage points difference in profitability expectations between larger and micro businesses (67% vs. 47%) and the slightly higher number of micro firms pessimistic about their profitability compared to their larger counterparts (17% vs. 10%). Additionally, there is an 11 percentage points difference in rising turnover expectations (47% for micro and 58% for larger companies), with a gap among firms that expect turnover to decrease – 16% of micro firms reported negative expectations regarding turnover versus 6% of larger firms in Q4.

ECONOMIC OUTLOOK



31% of London businesses expect London's economy to **improve** in the next 12 months

31% of London businesses expect the UK's economy to **improve** in the next 12 months

Business optimism for the London and UK economies declined in the fourth quarter of 2024. Three in ten (31%) firms expect London's economy to improve in the next 12 months, down from 39% who said the same in the Q3 QES. The percentage of companies who think the capital's economy will worsen over the coming year increased from 20% in Q3 to 31% in Q4. As a result, the net balance fell 19 points to 0 in Q4, the lowest figure in a year.

In Q4, both micro and larger businesses were less upbeat on London's growth prospects for the coming year, with 31% of micro businesses and 37% of larger businesses expecting the capital's economy to improve.

This cautious outlook was also reflected in the expectations for the wider UK economy. The net balance for UK economic growth expectations fell 23 points to -4 in Q4: 31% of London businesses think the UK's economy will grow in the next 12 months, compared to 35% who think it will worsen.

For micro businesses, the UK economic outlook balance dropped from +19 in Q3 to -6 in Q4, while for larger companies, the balance fell from +27 to +18.

It is worth noting that the Autumn Budget 2024, presented on 30 October 2024, took place during this quarter's QES fieldwork.

Q4

James Watkins
Head of Policy and Public Impact
jwatkins@londonchamber.co.uk

Igor Bartkiv
Ukraine Project Manager
ibartkiv@londonchamber.co.uk