LONDON CHAMBER *of* COMMERCE AND INDUSTRY

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Q3

CAPITAL 500

London Quarterly Economic Survey

July – September **2024**

In partnership with

Savanta:

Sponsored by

haysmacintyre

JAMES WATKINS

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

LCCI COMMENTARY – THE BUSINESS VIEW

There are a series of good business indicators in this survey.

Optimism about the state of the economy, optimism about sales and an uptick in recruitment following the sharp fall in recruitment intentions as reported in last quarter's *Capital 500* report, demonstrates – yet again – that London is moving forward.

This does not mean we should not sideline the negative pressures hitting the capital's businesses. The high supply chain costs faced by firms – and as reported in this survey - is a drag on the economy.

With the capital contributing over 20% towards the national economy, we need to address these supply side pressures. Not only is it vital for jobs and growth in our city but as the key driver of the UK economy, it is also vital for national growth.

The ambition of national economic growth has been championed by the new Government. With the Budget coming up soon and the Government's Spending Review likely to continue into the New Year, the coming months will be critical to realise this ambition.

At the same time, the Mayor of London is developing the London Growth Plan so that there is business growth in every London borough.

The London Chamber of Commerce and Industry is working with the Government and the Mayor so that the economic conditions across the capital are fit for purpose for all businesses.

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 530 London business leaders between 30 July and 30 August 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 LCCI quarterly survey took place against the background of an end to domestic political uncertainty given the decisive Labour victory and what looked like an uptick in economic activity with a number of upward revisions in growth expectations. Second quarter data was strong overall, rising by 0.6% in the three months to June after a 0.7% in Q1, one of the strongest growth rates in the G7. This was a massive turnaround from the recession in the second half of 2023 which brought growth for the whole last year to just 0,.1%. Business optimism has been recovering as inflation over the last few months has been back to near, or for some months actually at ,the 2% Bank of England (B0E).

The UK saw the first 0.25% cut in interest rates in August following a similar cut by the European Central Bank(ECB) in June. The ECB then followed by another similar cut in early September, and the US Fed by a even larger 0.50% reduction a week later. With the exception of Japan, developed countries across the globe are now reversing the upward cycle in interest rates started in late 2022/early 2022 as inflation expectations have dropped significantly. Oil prices have softened despite the increasing intensity of the Israel/Gaza/Lebanon conflict. /China itself is now embarking on a monetary stimulus to support the economy which involves cuts in rates and reserve requirements for banks. And the OCED has just upped its forecast for UK growth to 1.1% for 2024 as a whole, up from 0.4% last May.

Geopolitical tensions however remain and in some ways are intensifying. So while it is indeed encouraging that according to the QES domestic demand is picking up, at least in the LCCI region, the international environment remains uncertain. And for the wider UK some of the more recent data are worrying. GDP figures for August showed the economy stagnating, with only one month growing at all in the latest four month period. September flash PMIs suggested a slowdown in the pace of recovery and the most recent CBI industrial trends survey indicated a sharp fall in manufacturing output and a big drop in both domestic and export orders in the last quarter.

Even though wages continue to rise faster than inflation, with an improvement in personal disposable incomes, spending has in general been muted and consumer confidence fell sharply in September. And businesses have been reluctant to spend with the BCC forecast for business investment expecting a rise of just 0.3% for the year as a whole. At the same time firms in many sectors are also assessing the impact of new workers' rights on overall costs.

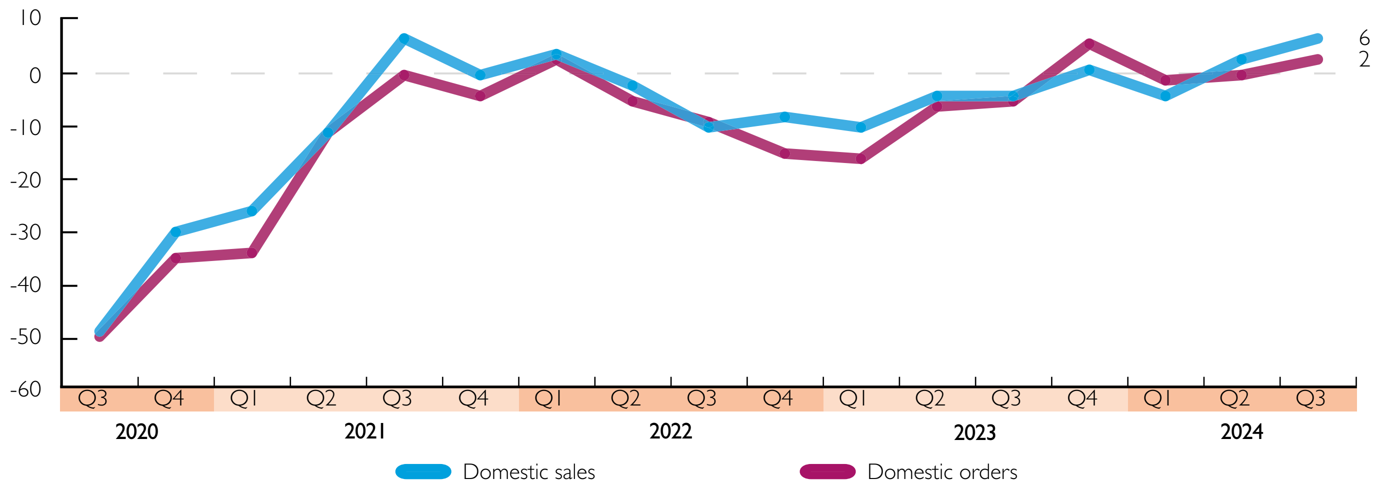
What all this suggests is that uncertainty both in terms of global trade and business conditions policy is still there. Markets are waiting for more clarity on domestic economic policy and in particular more details on what the October 30 budget will hold and whether fiscal rules may be relaxed to allow for more public investment which, if properly directed, would be expected to releasing more private investment in its wake. There is also hope that with a strong sterling muting inflation, more interest rate cuts will come soon to relieve pressures on firms and encourage more recruitment and growth.

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

DOMESTIC DEMAND

26% of London businesses reported an **increase** in domestic sales last quarter

22% of London businesses reported an **increase** in domestic orders last quarter



Domestic demand showed further signs of pick-up in Q3, according to London businesses. The net balance for domestic sales – the percentage of firms that reported an increase minus the percentage that reported a decrease – climbed from +2 to +6 in Q3 2024, the highest level in three years. Around a quarter (26%) of London companies said their sales had risen in Q3 compared to Q2. The percentage reporting a decline in domestic sales also shrunk from 25% in Q2 to 20% in Q3.

Businesses of all sizes saw an improvement in sales last quarter. For micro firms (those with 0-9 employees), the sales balance rose 3 points to +3 in Q3, while for larger companies (10 or more employees) the balance climbed 9 points to +35. Nearly half (47%) of large firms said their domestic sales had grown in Q3.

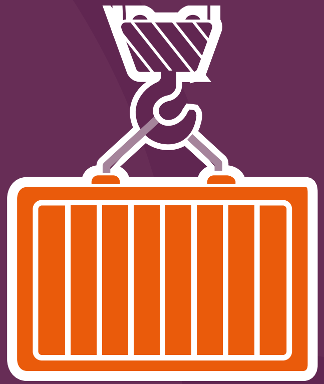
Domestic sales rose for firms across different sectors, with particularly strong growth reported in construction, information and communication, and agriculture.

Firms also saw a small uptick in domestic orders in Q3. The net balance for orders nudged up 3 points to +2, with just over one in five (22%) businesses reporting a rise compared to Q2. The proportion of firms reporting a decline in domestic orders was also down slightly, from 22% in Q2 to 20% in Q3.

For micro businesses, the domestic orders net balance rose slightly from -5 to -2 in Q3. The orders balance for larger companies also climbed 3 points to +36 last quarter.

The growth in domestic orders was driven by the manufacturing sector, although service sector companies noted a minor improvement in Q3 as well.

EXPORT DEMAND



10% of London businesses reported an **increase** in export sales last quarter

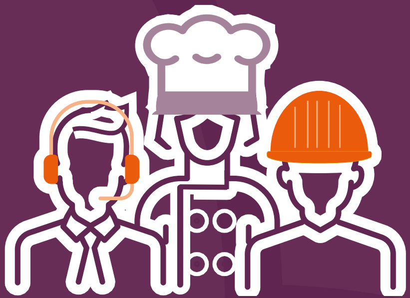
10% of London businesses reported an **increase** in export orders last quarter

The latest QES for Q3 2024 pointed to a sluggish quarter for export demand. After posting an encouraging rise in Q2, the net balance for export sales fell back 3 points to +1 in Q3. One in ten (10%) London firms said their export sales had risen in Q3, down from 13% who said the same in the Q2 QES. The proportion of companies reporting a decline in export sales was unchanged in Q3 (9%).

This dip in export sales was due to micro companies: the net balance for firms with fewer than 9 employees turned negative again, declining 4 points to -1 in Q3. Only 8% of micro businesses said their export sales had grown in Q3 compared to Q2. By contrast, export sales growth strengthened for larger companies (10 or more employees), with the net balance jumping 10 points to +25 in Q3: this was the highest level recorded on the QES. A third (33%) of larger firms said their export sales had increased last quarter.

Growth in export orders was flat in Q3, with the net balance unchanged at +1: 10% of London companies said their export orders had risen in Q3, while 9% reported a decline.

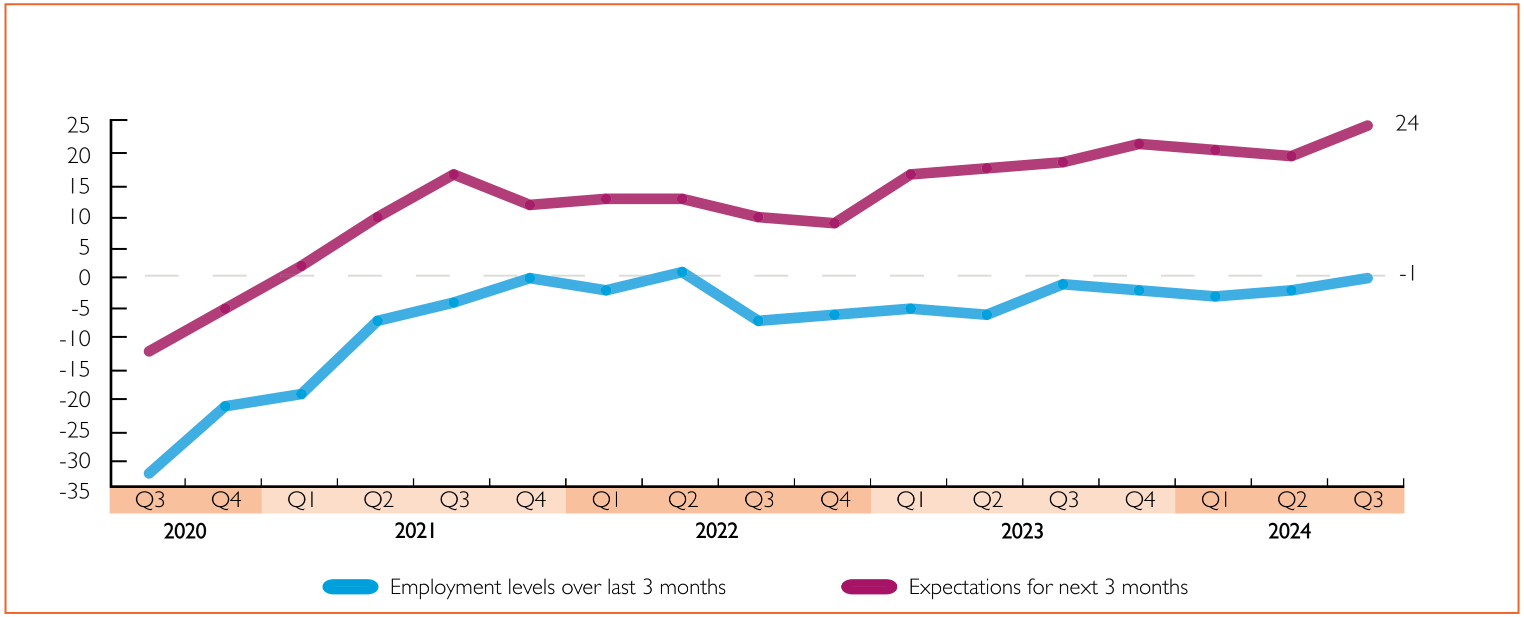
As with the sales data, the export orders balance for micro companies nudged down 1 point to 0 last quarter. However, for larger businesses, the orders balance climbed 6 points to +19.



13% 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 pointed to a pick-up in labour market activity during the third quarter of 2024. The employment balance – which measures reported workforce levels in the past three months – rose 2 points to -1 in Q3, the highest level since Q2 2022. More than a tenth (13%) of firms said their employment levels had grown in the previous three months in Q3 2024, up from 9% in Q2. There was also a slightly bigger share of companies who said their workforce size had decreased (14% in Q3; 12% in Q2).

For micro businesses, the employment net balance nudged up from -5 to -3 in Q3, with one in ten (11%) saying their employment levels had risen in the previous three months. Employment growth rebounded among larger firms, with the net balance jumping 12 points to +16 in Q3: this measure has been volatile in recent quarters.

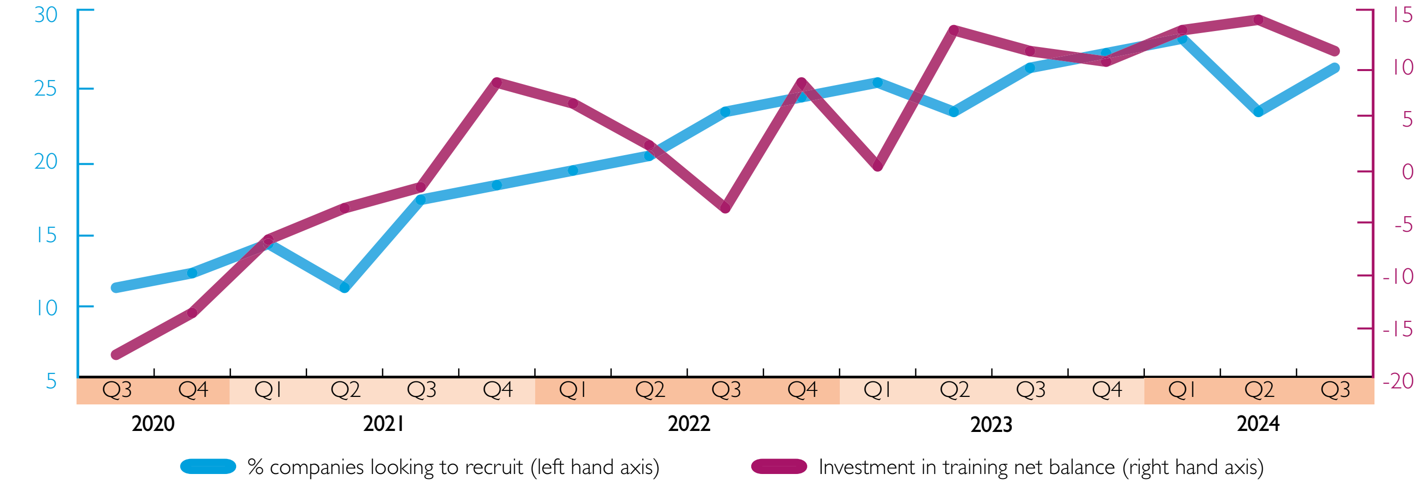
Workforce expectations for the coming three months bounced back in Q3 as well, as the net balance climbed 5 points to +24: this is the highest reading for the QES. In Q3, a quarter (26%) of London companies said they expected their workforce size to increase, up from 23% who reported the same in the Q2 QES. Only 2% of firms anticipated their employment levels to decline in the latest QES for Q3.

This improvement in employment expectations was seen across businesses of all sizes. The workforce expectations balance for micro firms rose from +16 to +22 in Q3, while for larger companies, the increase in the balance was even greater (up 11 points to +50).

RECRUITMENT AND TRAINING

26% of London businesses reported that they had looked to recruit in the last quarter

20% of London businesses reported an **increase** in investment in training last quarter



After dropping sharply in Q2, it was encouraging to see a partial rebound in recruitment activity by London businesses in Q3. A quarter (26%) of firms said they had tried to hire in the previous three months in Q3, up from 23% in Q2. There was a sharp rise in demand for full-time and permanent positions among recruiting companies. The majority (61%) of London firms who tried to recruit faced difficulties doing so in Q3.

A greater proportion of micro businesses said they had sought to hire staff in Q3 (21%, up from 18% in Q2). For larger firms, nearly three quarters (73%) tried to recruit in Q3, again an increase compared to Q2 (68%).

There was a small pullback in company spending on training last quarter. The net balance for investment in training dipped from +14 to +11 in Q3. The proportion of firms who increased their spending on training in the previous three months shrank slightly from 22% in Q2 to 20% in Q3.

Just under one in ten (9%) businesses said they had lowered investment in training. The net balance for investment in training remains at an elevated levels.

For micro businesses, the training investment balance fell from +12 to +8 in Q3, the lowest level in 18 months. However, larger companies reported higher spending on training last quarter, with the net balance climbing 5 points to +37. More than four in ten (44%) larger firms said they had increased spending on training in Q3, compared to only 7% who had lowered investment.

BUSINESS COSTS

44% of London businesses reported an **increase** in their fuel costs last quarter

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

London businesses' cost pressures appeared to have eased further in Q3. Just over half (52%) of companies said their energy costs had risen in Q3, down from 58% who said the same in Q2 and the lowest share reporting an increase from quarter to quarter since Q3 2021. Just under one in ten (8%) of London firms said their energy costs had fallen over the previous three months in Q3, the biggest proportion since Q1 2021 (although still a relatively small number). The energy costs balance fell 8 points to +44 in Q3.

Similarly, the net balance for fuel costs dropped from +50 to +39 last quarter, with 44% of firms saying their fuel costs had risen: 51% reported no change, while 5% noted lower fuel costs compared to Q2.

Supply chain costs are also easing, albeit at a slower pace. For raw materials sourced domestically, the net balance slipped 5 points to +45 in Q3. A smaller proportion of firms said their domestic raw material costs had increased in Q3 (46%) compared to Q2 (51%), though only 1% of companies reported a decline from quarter to quarter. The net balance for raw materials sourced internationally dipped 2 points to +37 in Q3 2024.

Borrowing costs have fallen for London businesses as well, with the net balance down 9 points to +26 in Q3: this was the lowest reading since Q4 2021. The net balance for wage pressures eased dipped from +42 to +39 last quarter.

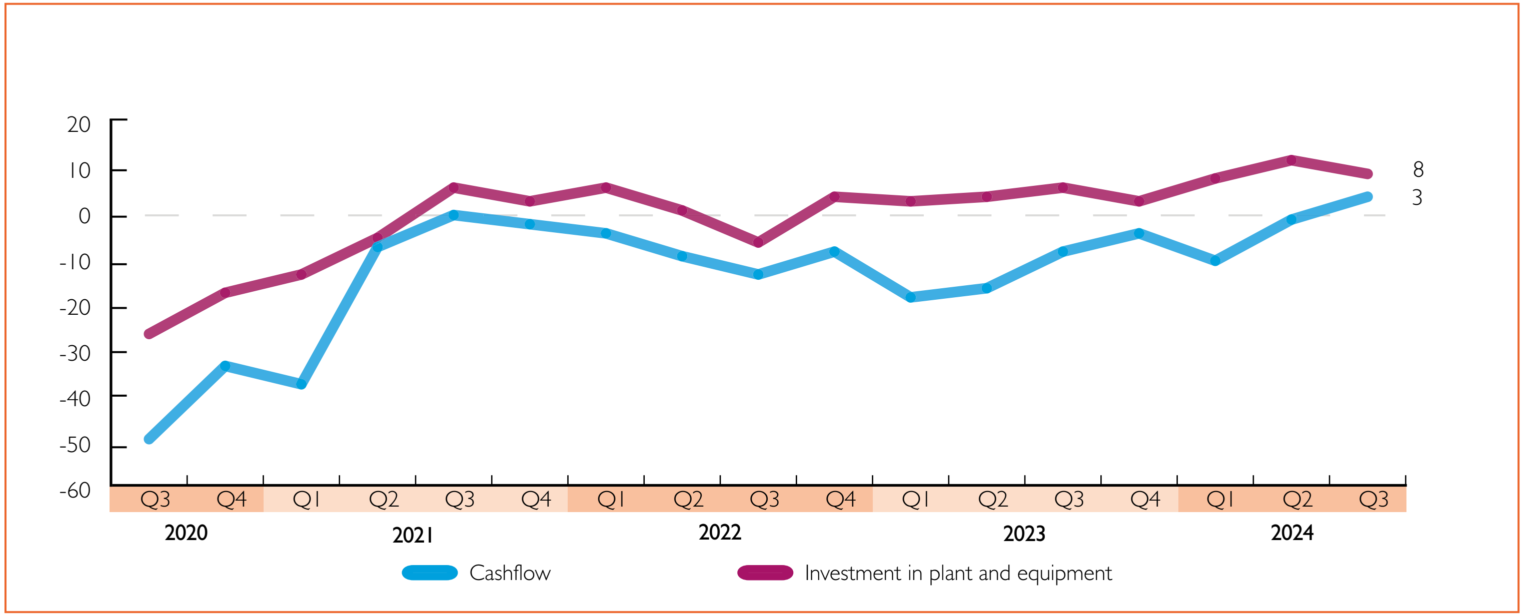
In Q3, around a third (37%) of firms said they expect the prices of their goods and / or services to increase in the coming three months, the lowest proportion in three years. Utilities (45%) and labour (39%) costs remain the main upward pressures on companies' price-setting regimes.

Inflation is still the number one concern for firms, although the proportion who said that these concerns had grown dropped from 59% in Q2 to 47% in Q3.

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

18% of firms reported an **increase** in investment in plant and equipment

CASHFLOW AND INVESTMENT



London businesses indicated a return to cashflow growth in the third quarter of 2024. The cashflow net balance climbed from -2 to +3 in Q3, the first positive reading on this measure in five years and the highest since Q1 2019. Three in ten (29%) London firms said their cashflow had increased in Q3, up from 27% in the Q2 QES. The percentage of businesses who said their cashflow had decreased also shrunk from 29% in Q2 to 26% in Q3, the smallest share since Q4 2019.

Micro businesses drove this improvement in cashflow last quarter. The cashflow balance for micro firms rose 6 points to +1 in Q3, with 28% reporting an increase compared to Q2. For larger companies, the cashflow balance was unchanged in Q3 (+30): 46% of larger businesses said their cashflow had increased in the previous three months.

Most sectors saw an uptick in cashflow in Q3, with the biggest gains in information and communication, the public sector, and arts, entertainment and recreation services.

There was a slight dip in firms' investment in plant and equipment last quarter. The net balance fell 3 points to +8, after rising for two consecutive quarters. The proportion of firms who said their capital investment had increased in Q3 was 18%, a touch lower compared to Q2 (19%). There was also a small rise in the percentage of firms reporting a decline in plant and equipment investment in Q3 (10%, versus 8% in Q2).

For micro companies, the plant and equipment investment balance dropped from +11 to +5 in Q3. By contrast, for larger firms the balance jumped 11 points to +33, a record for the QES.

BUSINESS CONFIDENCE

47% of London businesses expect their profitability to **improve** over the coming 12 months

44% of London businesses expect their turnover to **improve** over the coming 12 months

Business confidence remained at elevated levels in Q3, despite a small decline in some of the QES indicators. The net balance for profitability dipped 7 points to +30 last quarter: 47% of firms expect their profitability to increase in the coming 12 months, down from 52% in the Q2 QES. There was a slight increase in the percentage of businesses that said they expect profitability to worsen (17% in Q3, 15% in Q2).

This decline in profitability expectations was due to micro companies: the net balance slipped from +35 to +28 in Q3, with 45% of micro firms anticipating an improvement in profitability over the next 12 months (down from 50% in Q2). However, for larger businesses, the profitability expectations balance rose 9 points to +56. Nearly two thirds (64%) of larger firms think their profitability will improve in the coming year.

There was a similar picture with turnover expectations, as the net balance declined from +38 to +29 in Q3. More than four in ten (44%) businesses still expect their turnover to improve in the coming 12 months, compared to 15% who think turnover will worsen.

As with profitability, there was a split based on business size. For micro businesses, the turnover expectations balance fell from +37 to +25 in Q3. By contrast, larger companies were more upbeat on turnover for the year ahead: the net balance jumped +14 points to +59 in Q3, with two in three (67%) larger businesses anticipating an improvement in turnover.

Despite the small declines in the turnover and profitability balances, overall company prospects strengthened for a fourth consecutive quarter in Q3. The net balance rose 2 points to +29, with both micro and larger firms more optimistic for their company's prospects in the year ahead.

ECONOMIC OUTLOOK

39% of London businesses expect London's economy to **improve** in the next 12 months

42% of London businesses expect the UK's economy to **improve** in the next 12 months

Business optimism for the London and UK economies grew further during the third quarter of 2024. Four in ten (39%) firms expect London's economy to improve in the next 12 months, up from 35% who said the same in the Q2 QES. The percentage of companies who think the capital's economy will stall over the coming year also shrunk from 22% in Q2 to 20% in Q3. As a result the net balance climbed 6 points to +19 in Q3, a three-year high.

Both micro and larger businesses were more upbeat on London's growth prospects for the coming year in Q3, with nearly half (46%) of larger businesses expecting the capital's economy to improve.

This optimism was seen in the outlook for the wider UK economy, as the net balance jumped 11 points to +19 in Q3: 42% of London businesses think the UK's economy will grow in the next 12 months, compared to 23% who think it will worsen.

For micro businesses, the UK economic outlook balance rose from +7 to +19 in Q3, while for larger companies, the balance climbed from +16 to +27.

It is worth noting that the fieldwork for this quarter's QES was undertaken just after Chancellor Rachel Reeves's speech on 29 July 2024, where she announced some immediate cuts to public spending.

Q3

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