



LONDON QUARTERLY ECONOMIC SURVEY

October – December 2025



In partnership with

Savanta



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Q4



FOREWORD

The final quarter of 2025 proved to be a testing period for London businesses. The Budget was widely seen as an opportunity for the government to provide much-needed certainty, and yet the only certainty delivered was higher costs. The Employment Rights Bill compounded existing concerns, leaving the business community without the stability it has long called for in order to take risks, invest, hire and expand.

This most recent London Quarterly Economic Survey presents a mixed picture. Conditions for London businesses vary depending on sector, size and location. Larger firms, for example, reported the greatest vulnerability to elevated operational costs, while smaller firms felt the strongest pressure on their ability to invest. What did remain consistent, however, was the need for businesses to prioritise stability, flexibility and risk management. Ambitions to take risks, innovate and capitalise on growth opportunities were seemingly stifled by low confidence and lack of long-term security. As a thriving London drives prosperity nationwide, this sentiment provides a good indicator of the pressures felt across the UK.

Rising cost pressures continued to shape decisions for businesses, with increased operating costs such as energy and fuel, directly impacting decisions to raise prices, invest and hire new staff. Many decisions were delayed rather than cancelled, as firms maintained cashflow discipline and adopted a “wait-and-see” approach. Cost rises added further pressure to London’s businesses, which are already threatened by planned increases to the National Living Wage and National Minimum Wage, and proposals for a new tourist tax on the capital’s competitiveness, as revealed by the Chancellor in November.

The survey clearly evidences the strain on firms as a result, which are reporting tighter margins and less capacity to absorb shocks, reinforcing the case for the government to stop weighing businesses down with increased costs and regulation, and give them the confidence they need to grow. Turning caution into confidence will require decisive action on the fundamentals: reducing uncertainty, tackling the cost of doing business, and improving conditions for growth and job creation.

London’s international reach remains a core strength. Export activity continued to support some firms, which remained steady and helped to offset softer domestic conditions. As a global hub for finance and trade, London continues to benefit from its international networks, strong global reputation and sustained overseas demand, which have helped to strengthen resilience amongst the capital’s firms. These strengths matter, but they should be viewed as partial offsets rather than a shift in momentum.

There remains a clear and consistent message from London’s business community: certainty and stability are essential for effective planning, innovation and growth. A policy environment that supports confidence and competitiveness, rather than adding further cost or uncertainty, remains critical yet is not currently felt by many London businesses. Long-standing challenges, including an unfair business rates system, a lack of access to the right skills, insufficient infrastructure to support growth, waning productivity, and declining access to finance, continue to impact investment decisions and London’s competitiveness on the global stage.



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Q4

ECONOMIC COMMENTARY

The budget of November 28, the Labour government's second since the elections of July 2024, proved to be a catalyst for the year as a whole. Growth in the second half of 2025 seemed to have ground to a halt in anticipation. After 0.6% growth in the first quarter, Q2 saw a slowdown to 0.2% and Q3 to just 0.1%. If the Bank of England's latest forecasts prove correct, then Q4 will have seen zero increase in activity, amongst anxiety about the contents of the budget, which were leaked by accident some 40 minutes before the Chancellor stood up to deliver it. Real personal disposable incomes have suffered. The extension of the freeze on income tax and NIC thresholds for another 3 years will mean they continue despite higher minimum wages.

This could still mean growth of some 1.5% for the year due to the busy first half when firms geared up investment and production to export to the US and beat prospective tariff increases. And the frontloading of government spending, which started shortly after the election and continues, has also helped. But there is no doubt that it has been a disappointing 6 months. The Office for Budget Responsibility (OBR) has reduced its forward growth estimates due to lower productivity expectations. London continues to outperform the rest of the UK. But even here, the QES suggests that expectations for the economy have deteriorated. Hirings are slowing, though shortages remain evident in several sectors nationwide.

So what next? There have been a couple of welcome U-turns for businesses, including on agricultural assets inheritance rules. On the other hand, the revaluation of business premises seems to have left many facing higher business rate bills. But looking ahead, freezing prescription charges and regulated rail fares in England, as well as removing green levies from utility bills, should help improve the inflation outlook and accelerate the move to lower interest rates.

Indeed, according to the Bank of England Governor, inflation may hit the 2% target earlier, possibly by spring next year. The December 0.25% rate cut by the Monetary Policy Committee (MPC) to 3.75% is assumed to have reflected this, though the narrow 5-4 vote suggests that not all on the MPC were convinced.

But fingers crossed on growth. Lower savings rates and higher taxes on them should also encourage the savings ratio to fall further from near-historic highs. A sharp rise in footfall on the days after Christmas may be the beginning of a trend. But let's not get carried away. Unemployment has risen steadily, private-sector wages are softening, and the public sector is embarking on staffing cuts. Tax rises, including on expensive homes, were introduced in the November budget for the later years of this Parliament and are likely to affect behaviour and activity. And internationally export growth continues to be hampered by geopolitical tensions, tariffs and ongoing difficulties in trading with the EU, with many sectors such as car production, just recovering from earlier cyberattacks, pharmaceuticals, defence, chemicals, oil and gas, retail and hospitality and construction will continue to face their own competitive challenges.

BUSINESS COSTS

52%

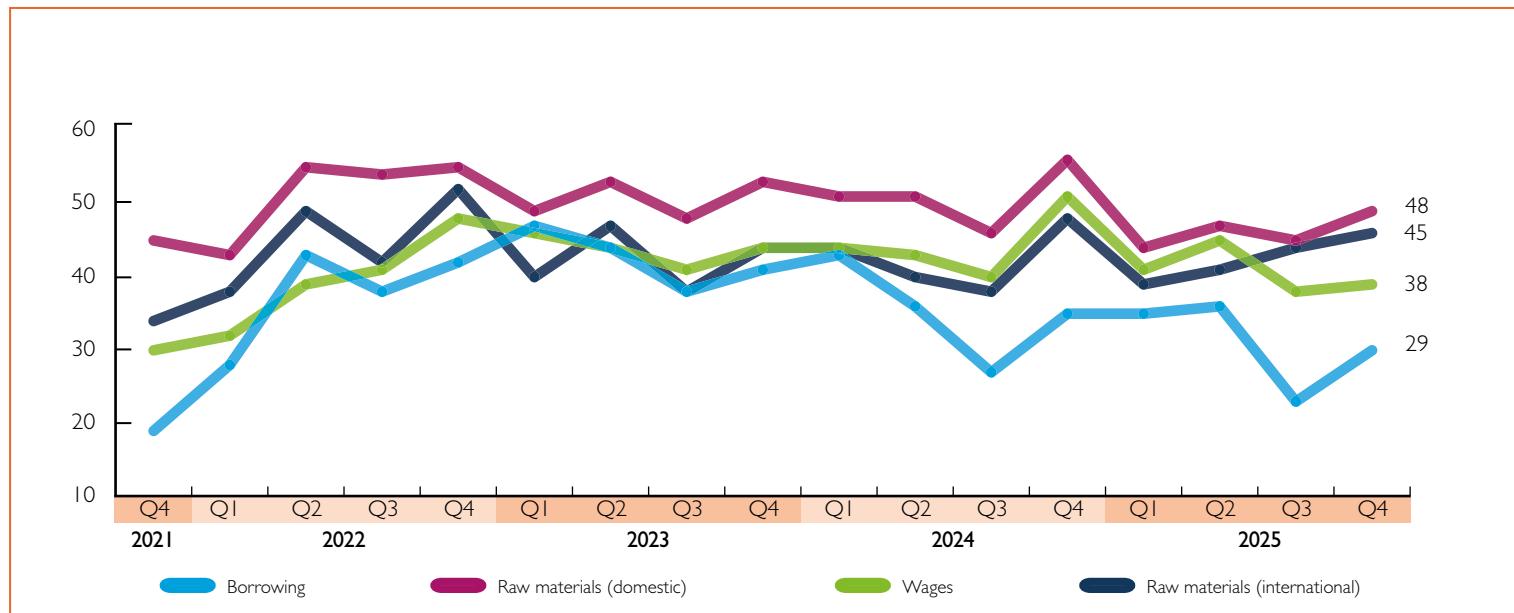


and 47% of London businesses reported an **increase** in the costs of their domestically and internationally sourced raw materials last quarter

61%



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



Operating conditions for London businesses in Q4 2025 continued to be shaped by elevated costs, with a growing divergence in how those pressures were experienced. Pressure from employees to raise wages showed further signs of easing over the year but remained elevated in the quarter. The share of firms reporting a significant increase in the same rose by 3 percentage points to 15%, while those reporting a slight increase fell by 5 percentage points to 26%. As a result, the overall proportion reporting higher pressure slipped marginally, while the net balance edged up to +38, indicating more concentrated increases among affected firms. Compared with Q4 2024, the balance remained 12 points lower.

Increasing pressure to raise wages was reported more often by larger businesses (64%) than by micro firms (39%), and by manufacturing companies (54%) than by service companies (39%). Firms based in Inner London (46%) were also more likely to report such an increase than those in Outer London (35%).

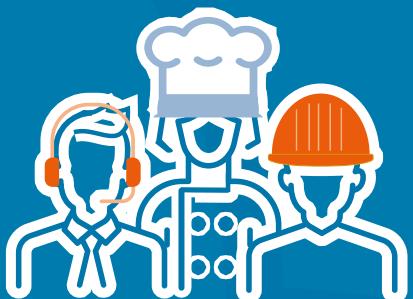
Raw material costs remained significant across domestic and international supply chains. The share reporting higher domestically sourced raw material costs rose to 52%, lifting the balance by 4 percentage points to +48, despite easing on an annual basis.

Larger firms were considerably more likely than micro businesses to report increases. For internationally sourced raw materials, the overall share reporting an increase was unchanged, but the share reporting a significant increase rose to 23%, while the share reporting a slight increase declined.

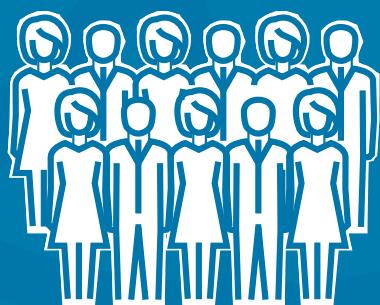
Monetary costs tightened in Q4. The share of businesses reporting higher borrowing costs rose to 35%, while fewer firms reported decreases (6%), lifting the net balance to +29. Larger firms were more exposed than micro businesses (48% vs 34%), while manufacturing firms were less affected (21%) than service-sector businesses (37%).

Energy-related costs remained elevated, with 61% of firms reporting higher energy prices. Fuel costs rose further, with the share reporting increases rising to 51%, pushing the net balance up to 47, driven primarily by larger businesses, where 70% reported higher fuel costs.

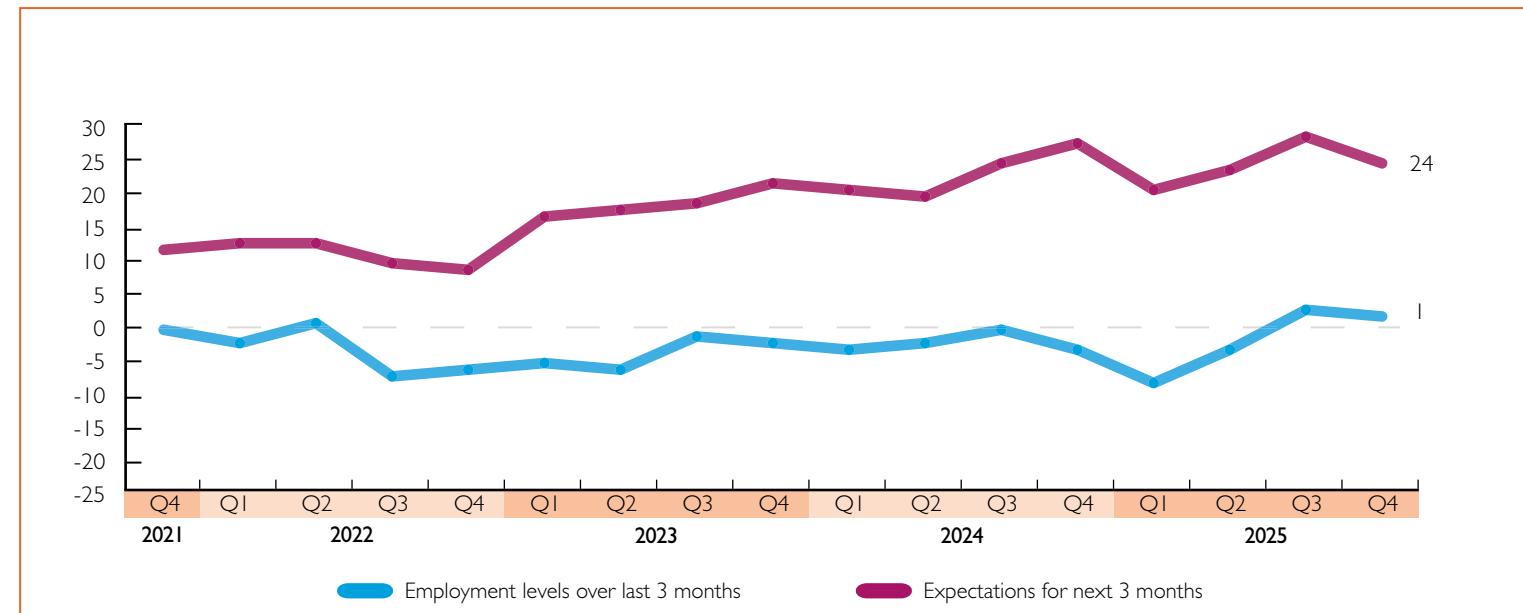
LABOUR MARKET



13% of London businesses reported an **increase** in their workforce size last quarter



29% of London businesses expected their workforce size to **increase** in the next quarter



Labour market conditions in London remained broadly stable in Q4 2025, with headline indicators pointing to continued restraint rather than contraction. The overall employment balance remained positive at +1, only slightly lower than +2 in Q3, despite a decline in the share of businesses reporting an increase in their workforce. 13% of firms reported workforce growth in Q4, down from 17% in the previous quarter, indicating a slowdown in hiring momentum.

Larger firms continued to show a more resilient picture. Among this group, the employment balance rose to +16, up 9 points from Q3, with 23% reporting an increase in workforce size and 7% a decrease. This contrasted with smaller firms, where hiring activity remained more subdued, contributing to the broadly flat headline position. Compared with Q4 2024, the overall balance was 5 points higher, suggesting employment levels remained broadly stable over the year.

Sectoral differences remained noticeable. Manufacturing firms were more likely to report workforce growth, with 29% reporting employment increases, compared with 11% in the

service sector, reflecting stronger labour demand in production-oriented activities.

Forward-looking indicators softened during the quarter. The balance of firms expecting their workforce to increase fell by 4 percentage points to +24, with proportional declines across the underlying response categories, pointing to a more cautious approach to hiring.

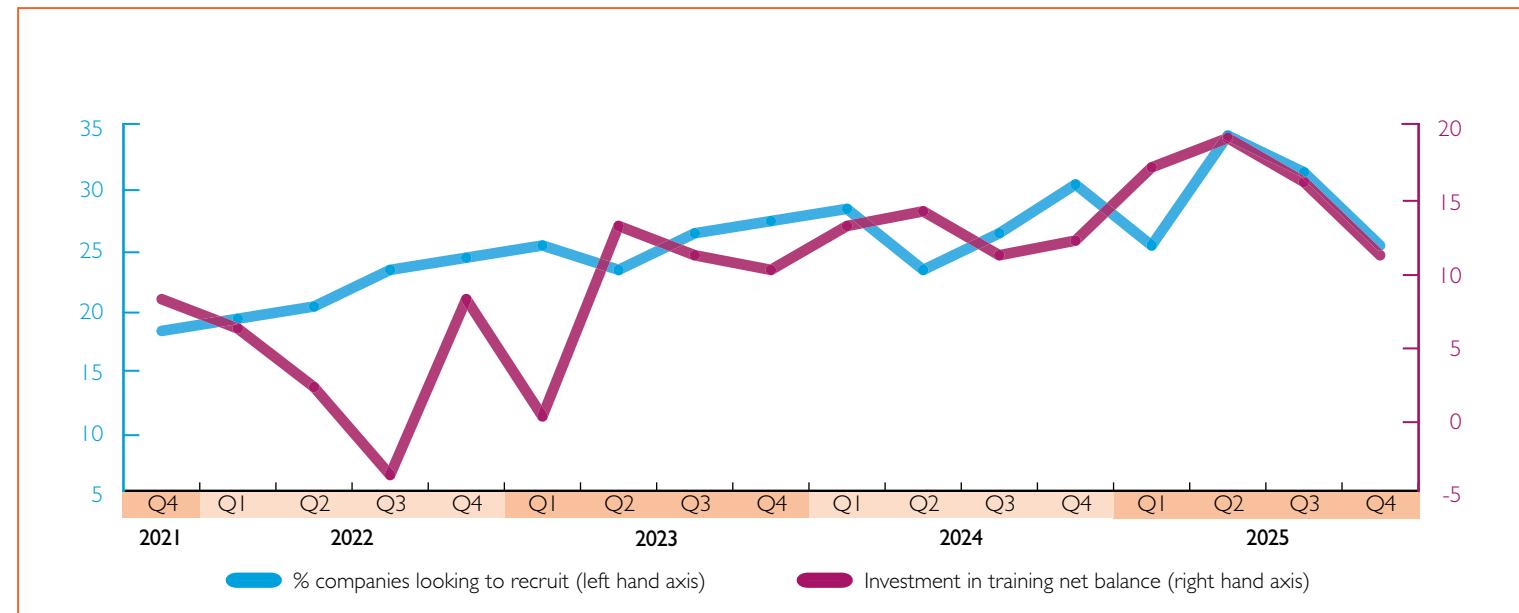
RECRUITMENT AND TRAINING



25% of London businesses reported trying to recruit in the last quarter



24% of London businesses reported an increase in L&D training last quarter



Recruitment and training activity softened in Q4 2025, reflecting continued caution in hiring decisions and a gradual cooling in skills investment.

Plans to invest in training eased during the quarter. The overall balance of firms increasing training investment slipped by 5 percentage points to +11, down from +16 in Q3, but remained stable on an annual basis. Larger firms continued to show a more robust position, with 43% reporting plans to increase training investment, compared with 22% of micro businesses. They were also less likely to report a decline in investment (7% versus 14% of micro firms), suggesting that training budgets were being maintained more consistently among larger employers despite broader cost pressures.

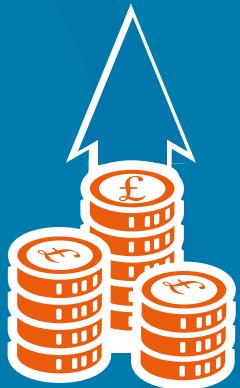
Recruitment activity declined further. 62% of larger firms reported recruiting in Q4, compared with 21% of micro businesses, underscoring wide gap by firm size. Enrolment was notably higher in Inner London, with 35% of firms reporting hires, compared to only 13% in Outer London. Overall, the proportion

of firms attempting to recruit (25%) fell by 5 percentage points year-on-year, indicating a more selective approach to hiring.

Recruitment difficulties remained widespread, adding a further layer of complexity to labour market dynamics. 63% of businesses reported problems filling roles, down 5 percentage points on the quarter but 2 percentage points higher than a year earlier, indicating persistent structural constraints in the labour market. Talent shortages were most pronounced in skilled manual or technical roles, cited by 69% of affected firms, followed by professional or managerial positions (52%).

At the same time, firms continued to adapt their skills strategies. Apprenticeship use rose to 13%, the highest level on record in the series.

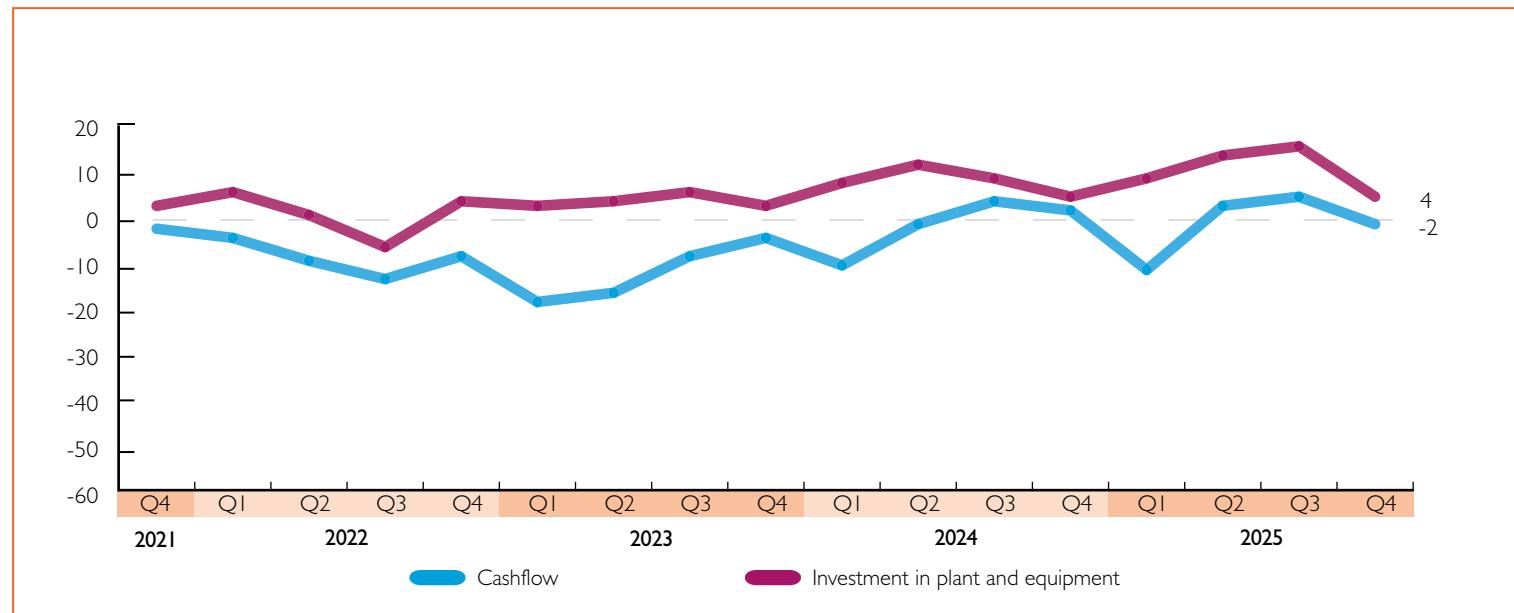
CASHFLOW AND INVESTMENT



26% of firms reported an **increase** in cashflow last quarter



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



Cashflow conditions weakened in Q4 2025, with the overall balance slipping back into negative territory for the second time during the year, at -2. This marked a notably shallower decline than earlier in 2025 (-12 in Q1), with relatively proportionate movements across the underlying response categories.

Firm size remained a key differentiator. 43% of larger firms reported an increase in cashflow during the quarter, compared with 24% of micro businesses, underscoring stronger resilience among larger employers. Geographic differences followed a similar pattern, with firms in Inner London more likely to report rising cashflow (31%) than those in Outer London (21%), indicating uneven exposure to demand conditions across the capital.

Investment intentions weakened further. The share of firms reporting an increase in plant and equipment investment fell sharply to 18%, down from 25% in Q3, pushing the investment balance down 11 points to +4, though it remained flat year-on-year. This decline was driven primarily by micro businesses, with fewer firms reporting increased investment and a larger share

reporting reductions. Among larger firms, investment activity remained comparatively stable, with 40% reporting increased investment in Q4, only marginally below the previous quarter.

Firm size remained a key differentiator in Q4. Larger firms reported resilient cashflow and investment outcomes, while micro businesses were more likely to report weaker cashflow and reduced capital expenditure across both indicators. Taken together, the results point to a cautious financial environment, with underlying differences in financial resilience shaping investment behaviour in ways not directly captured by this survey.

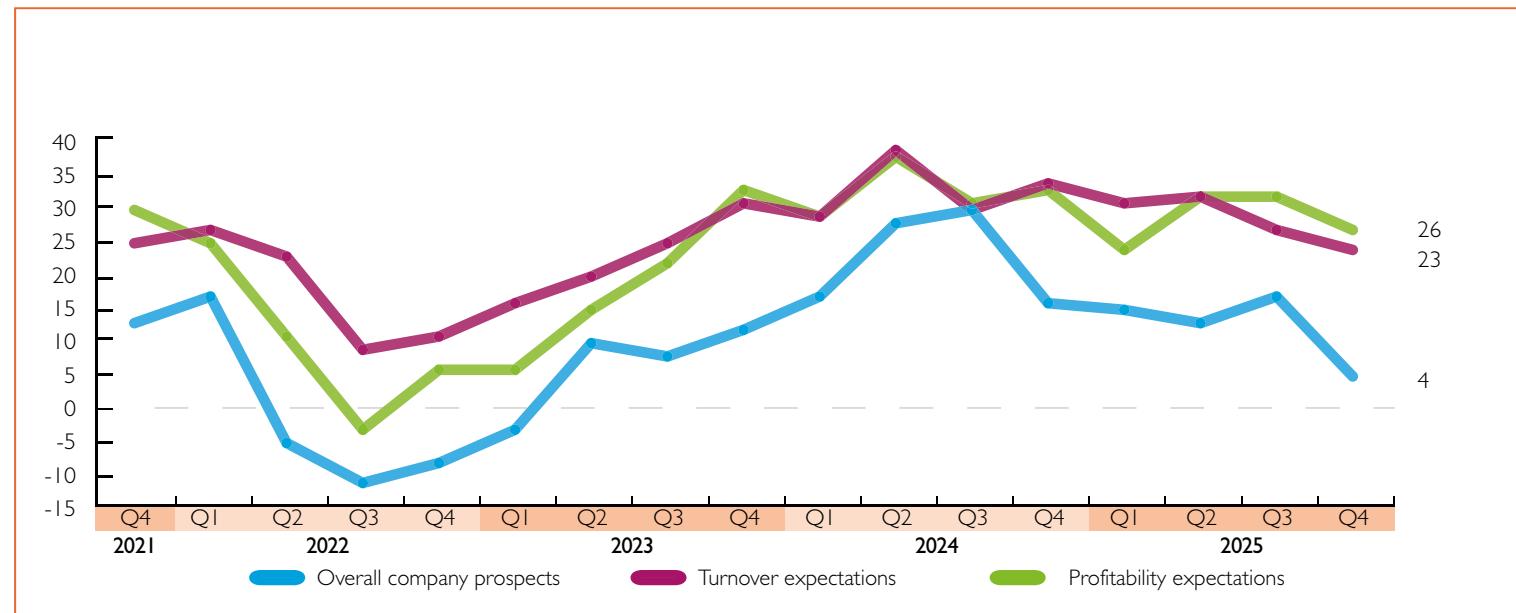
BUSINESS CONFIDENCE



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



42% of London businesses expect their turnover to **improve** over the coming 12 months



Business confidence weakened noticeably in Q4 2025, with indicators pointing to one of the sharpest quarterly declines in the dataset. Expectations for company prospects over the next twelve months fell sharply, with the balance down 12 points on the quarter and 11 points year-on-year, reflecting a pronounced shift in sentiment (+4, the lowest since Q1 2023).

This weakening was not uniform across firms. Larger businesses showed more resilient dynamics, with the balance improving by 2 percentage points (+38) and 51% expecting their prospects to improve, compared with 48% in Q3. Geographic differences were also evident, with firms in Inner London more optimistic than those in Outer London, where 40% and 25%, respectively, expected improvements, highlighting a growing divergence in confidence across the capital.

Turnover expectations (+23) were less pessimistic than broader confidence metrics but still weakened. Although the quarterly movement was more moderate (down 3 percentage points), expectations fell 10 points year-on-year, suggesting sustained caution about revenue growth.

Profitability expectations also weakened during the quarter. The balance (+26) fell by 5 percentage points from Q3 and by 6 percentage points compared with a year earlier. Larger firms remained more optimistic than micro businesses (+44 vs +24); however, even among this group, confidence declined sharply on an annual basis, by 13 points, despite an 8-point improvement on the quarter.

Overall, the Q4 confidence results point to a wider-based reassessment of business prospects. The scale and breadth of the decline suggest that sentiment was shaped by cumulative cost pressures and policy uncertainty, rather than by a single negative development in the quarter.

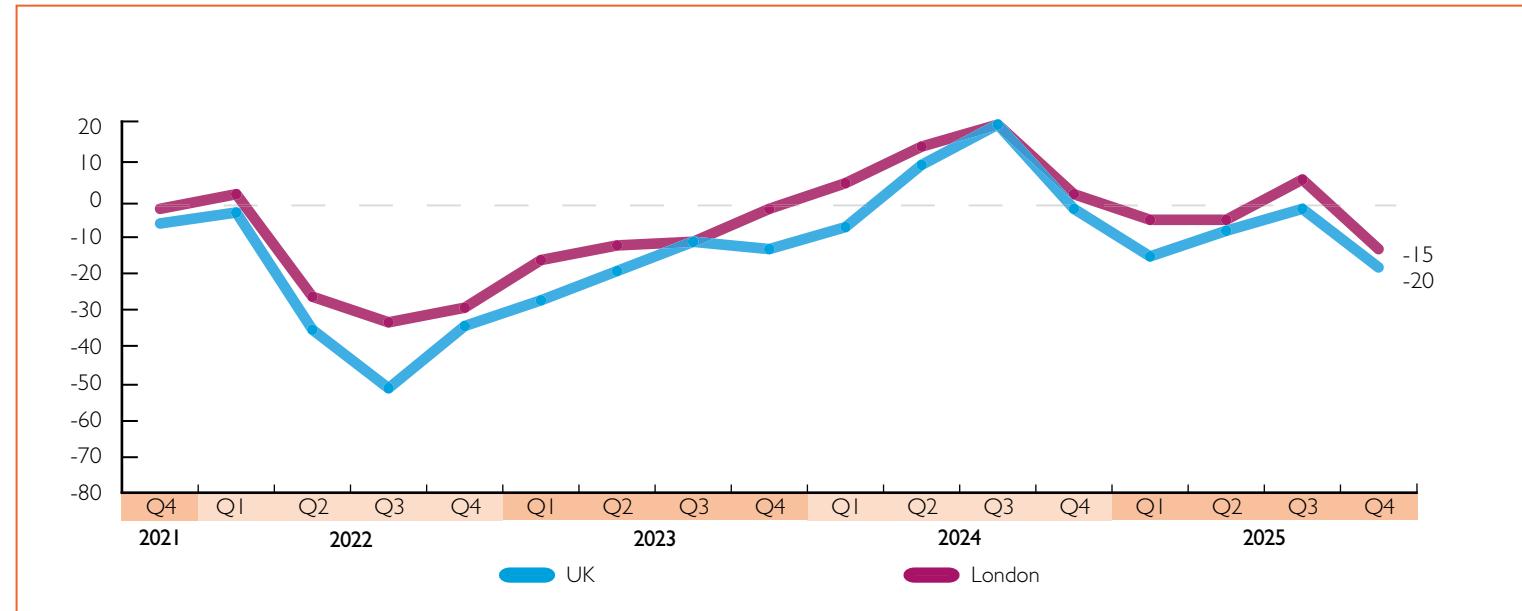
ECONOMIC OUTLOOK



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



23% of London businesses expect the UK's economy to **improve** in the next 12 months



Expectations for economic conditions weakened sharply in Q4 2025, with sentiment fading across both the UK and London economies. The scale and synchronicity of the decline indicated a clear shift from earlier periods, emphasising the scale of the downturn in business sentiment.

Prospects for the UK economy fell sharply during the quarter. The balance declined by 16 points quarter-on-quarter and by the same margin year-on-year, reaching -20, its weakest level since Q2 2023. Although larger companies remained more optimistic than micro firms, with 41% expecting an improvement compared with 21% of smaller businesses, confidence among larger firms also weakened markedly. The balance for this group fell by 20 points to +13, indicating that the deterioration was not confined to smaller or more exposed firms.

Sentiment towards London's economy followed a similar but slightly more pronounced trajectory. The balance fell by 19 points quarter-on-quarter and 15 points year-on-year, reaching -15, the weakest reading since Q1 2023. As with the UK outlook, larger businesses were more likely than micro firms to expect

improvement (42% compared with 23%), yet the overall balance remained negative, underscoring the depth of the reassessment.

The parallel declines in expectations for the UK and London economies point to a broad-based shift in outlook rather than a localised or sector-specific effect. The fact that sentiment weakened across firm sizes, including among those traditionally more resilient, suggests that concerns about the wider economic environment became more firmly embedded during the quarter.

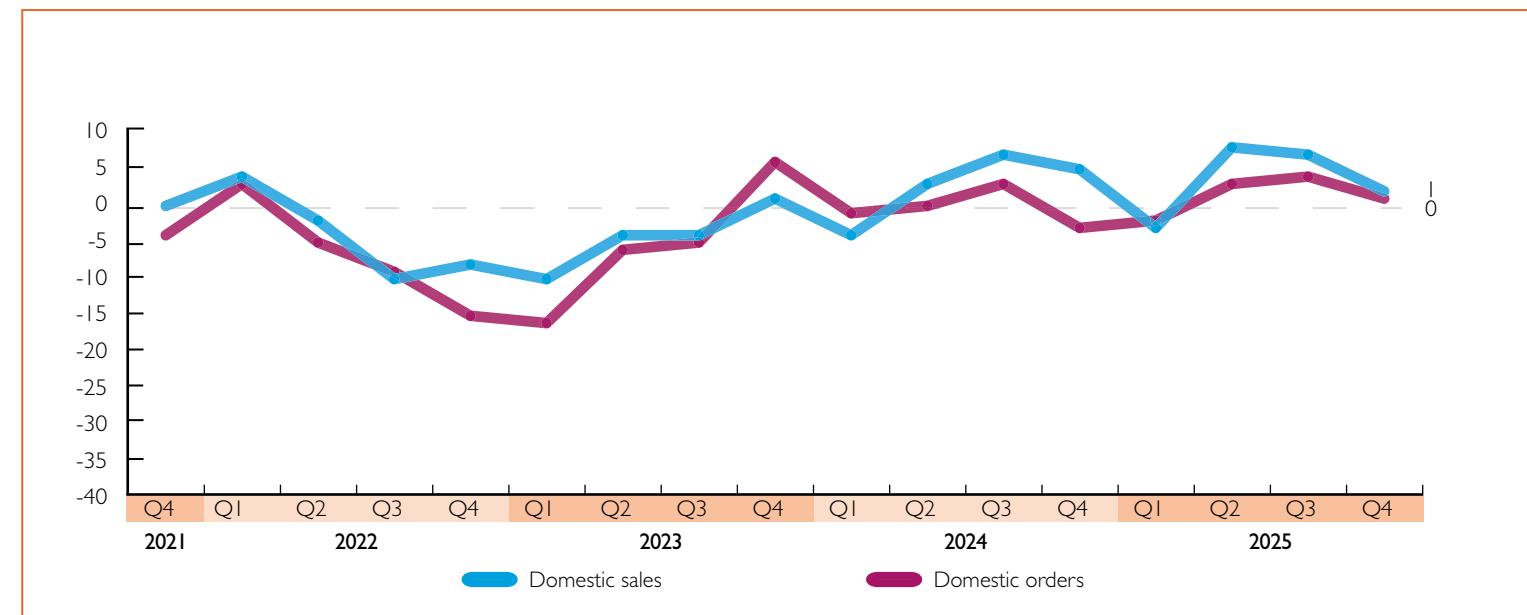
DOMESTIC DEMAND



25% of London businesses reported an increase in sales last quarter



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



Domestic demand conditions in London remained weak in Q4 2025, with survey indicators pointing to stabilisation rather than recovery. The balance of firms reporting higher domestic sales stood at +1, down 5 points quarter-on-quarter and 3 points year-on-year, indicating broadly flat trading conditions across the capital.

Firm size continued to play a decisive role. Micro businesses slipped into negative territory, with a sales balance of -3, as a lower share reported increased sales (22%, down from 27% in Q3). Larger firms continued to report much stronger domestic sales overall, with a balance of +39, though this was a 2 percentage points softening from the previous quarter.

A similar pattern was evident in domestic orders. The overall balance eased to 0, down 3 points on the quarter but 4 points higher than a year earlier, signalling stagnation rather than an outright decline. As with sales, micro firms reported weaker conditions, with an orders balance of -5, compared with +41 among larger businesses, suggesting that demand pipelines remained unevenly distributed.

Capacity indicators reinforced the picture of subdued activity. 45% of firms reported operating at full capacity, up one percentage point on the quarter but 3 points lower than a year earlier, indicating that spare capacity remained available across much of the economy.

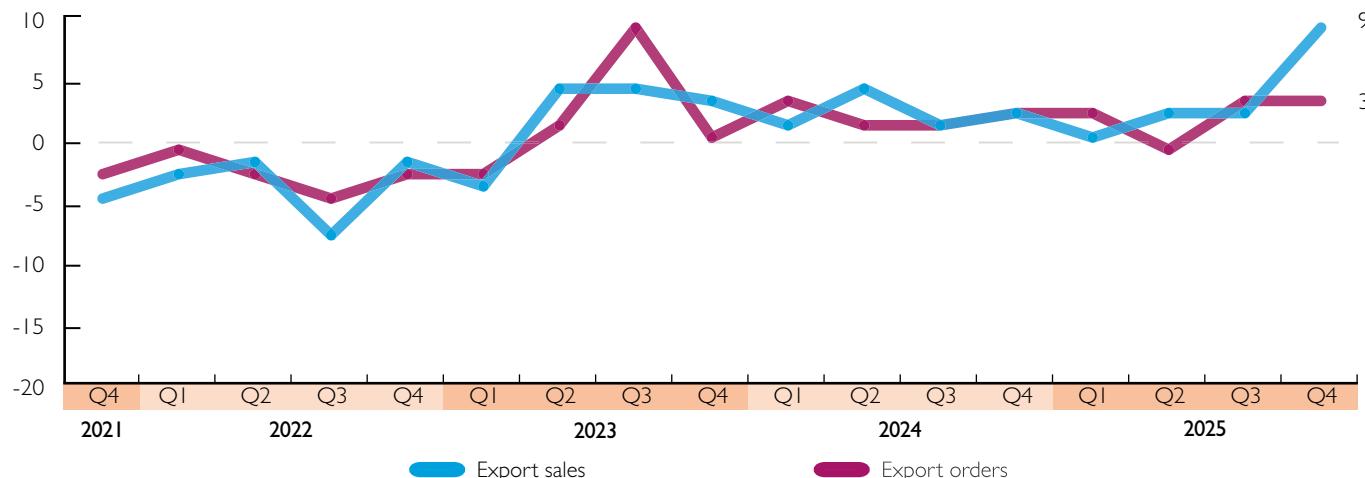
EXPORT DEMAND



17% of London businesses reported an increase in export sales revenue last quarter



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



Export activity stood out as the strongest area of performance in Q4 2025, providing a partial offset to weak domestic demand. The balance of firms reporting higher export sales rose to +9, up 7 points quarter-on-quarter and 7 points year-on-year, bringing the indicator close to its historical peak of +10, last recorded in 2016.

Performance varied notably by firm size. Larger businesses were more than twice as likely as micro firms to report increased export sales, with 33% reporting growth compared with 15% of smaller companies. Among micro firms, the share reporting increased export sales rose by 5 percentage points from 10% in Q3, though overall activity remained limited.

By contrast with sales, export orders showed little overall momentum. The balance remained flat at +3, indicating that a strengthening pipeline of new orders did not yet support recent gains in export revenue. Among larger firms, the export orders balance fell sharply (down 8 percentage points to +18), with 28% reporting an increase, down from 39% in the previous quarter, indicating a loss of momentum after a stronger earlier performance.

Taken together, the Q4 results suggest that exports remained the clearest source of strength in the survey, supporting overall business activity at a time when domestic demand was largely stagnant. However, the divergence between export sales and orders indicates that recent improvements may reflect the fulfilment of existing contracts rather than a sustained expansion in new demand.

SHAPING THE NEXT QUARTER

Looking ahead to the start of 2026, businesses are entering the next quarter with pricing intentions elevated and decision-making shaped by a wide range of concerns. Pricing behaviour is expected to remain defensive, reflecting ongoing cost pressures and known policy changes over the year ahead. As a result, many firms are likely to prioritise protecting margins over expanding volumes in the near term.

Concerns remain broad-based rather than concentrated in a single area. Inflation remains a key factor, alongside competitive pressures, financing conditions, and the tax environment. This combination of overlapping risks points to a cautious operating backdrop with limited scope for decisive shifts in strategy.

Recent survey trends suggest that cost pressures may become more unevenly distributed. Rather than being widely shared across the business base, pressures increasingly appear concentrated among specific firm groups. If this pattern persists, stress may intensify for those already operating with limited margins, reinforcing divergence across sectors and firm sizes.

Geographic differences within London are also likely to remain pronounced. Indicators continue to show stronger momentum in Inner London, suggesting that stabilisation and recovery may remain uneven across the capital. Without a clear improvement in local demand or access to finance, Outer London businesses may remain more exposed to weaker trading conditions and delayed investment decisions.

Labour market conditions are expected to remain constrained. Recruitment activity has eased, but structural recruitment difficulties persist, prompting firms to manage staffing levels carefully. Over the next quarter, businesses are likely to continue balancing cost control with the need to retain skills, limiting workforce expansion even where shortages persist.

At the same time, employment expectations point to conditional optimism rather than retrenchment. Growth plans appear delayed rather than abandoned, and hiring decisions are increasingly dependent on clearer signals on demand, costs, and policy direction.

Investment conditions remain challenging, particularly for smaller firms. Recent pullbacks in capital expenditure reflect tighter cashflow positions and greater sensitivity to uncertainty. Unless conditions improve materially, investment weakness may remain concentrated among micro businesses, widening the gap with larger firms that are better placed to sustain activity.

Larger firms remain more resilient overall but may also adjust more quickly to changes in economic conditions. Sharper shifts in expectations among this group suggest a higher sensitivity to turning points in demand, interest rates, or policy clarity, potentially amplifying momentum changes in the next quarter.

With spare capacity still evident across the economy and pricing intentions remaining elevated, near-term behaviour is likely to stay cost-led rather than demand-driven. Business planning is therefore expected to remain defensive, focused on stabilisation, efficiency, and selective investment rather than broad-based expansion.

Overall, the outlook points to resilience through adaptation rather than acceleration. Momentum into the next quarter will depend less on stimulus and more on clarity. Clearer signals on policy direction, costs, and financial conditions could unlock delayed hiring and investment; in their absence, cautious behaviour is likely to persist.

WHO THIS REPORT IS FOR AND WHY IT MATTERS

The Quarterly Economic Survey provides a vision into the views and performance of businesses across the capital. Conducted by the London Chamber of Commerce and Industry in partnership with Savanta, this report remains the most comprehensive private-sector survey of London's business landscape.

It is designed for a wide range of users who rely on timely and reliable business intelligence to shape decisions:

- **London Businesses:** From micro firms to larger companies, business leaders can use the report to benchmark performance, understand market sentiment, and plan ahead in a fast-moving economic environment.
- **Policy Makers and Government Stakeholders:** The data provides a direct channel to the views of London businesses. It informs evidence-based policy at the local, regional, and national levels - across infrastructure, skills, trade, and broader economic development.
- **Investors, Analysts and Advisors:** The findings offer a bottom-up view of business confidence, demand pressures, and investment trends - helpful in assessing risk, identifying sectoral momentum, and refining market assumptions.
- **Researchers, Journalists, and Think Tanks:** The report supports robust commentary and independent analysis, contributing to a clearer understanding of economic conditions in one of the world's most dynamic urban economies.
- **Local Stakeholders:** Those with a broader interest in London's economic future can utilise the report to gain a deeper understanding of how business sentiment is evolving and what it may mean for communities, skills, and opportunities across the city.

WHY IT MATTERS

Beyond a quarterly snapshot, the survey acts as a barometer of business resilience and a signal of structural pressures facing the capital. Results are shared with key decision-makers, ensuring the voice of London's business community plays a role in shaping the policy response.

By tracking shifts in sentiment across sectors, firm sizes, and locations, the survey helps anticipate risks and guide resource allocation. It highlights the underlying conditions - from labour market access to finance and regulatory pressures - that shape London's competitiveness.

The Quarterly Economic Survey remains an essential tool in making London's growth story better understood, better supported and more widely shared.

ABOUT THE 'QUARTERLY ECONOMIC SURVEY'

The London Quarterly Economic Survey is produced by the London Chamber of Commerce and Industry. It forms part of the UK's largest and longest-running independent business survey, coordinated nationally by the British Chambers of Commerce.

This quarter's fieldwork was conducted by Savanta between 17 October and 15 December 2025. A total of 504 London business leaders were surveyed, with data weighted to reflect the capital's business population by size and sector. Savanta is a member of the British Polling Council and conducts its work in line with its regulations. Full data tables are available at www.savanta.com.

The net balance figures indicate 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 must be fully referenced.





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