



UK BUSINESS CONFIDENCE MONITOR REPORT

Q3 2011 LONDON



OUTLOOK WEAKENS IN LONDON



In the Q3 2011 *ICAEW/Grant Thornton UK Business Confidence Monitor* (BCM), 160 senior business professionals in London were interviewed and record a **Confidence Index score of 8.9**. Confidence in the region has seen a general decline from the post-recession high of 28.2 in Q1 2010, although it does remain stronger than in many other English regions.

EXPORT GROWTH STRENGTHENS

Businesses in London report that exports have increased by 4.9% over the 12 months to Q3 2011. This is up from 3.6% for the year to Q2 2011 and the highest reported rate of growth since Q4 2008. Exporters throughout the UK continue to benefit from relatively favourable sterling exchange rates compared with pre-recession levels, which have made exports more price-competitive. However, the ongoing turmoil in the eurozone and continued economic weakness in the US are likely to be dampening confidence in the capital.

Other key financial performance indicators fell marginally or remain broadly unchanged this quarter. Turnover growth across the previous 12 months is broadly unchanged from last quarter, at 4%, while gross profit growth stands at 3.2%. Firms have also revised down their projections for the next 12 months since last quarter. Forecasts for turnover growth have weakened from 5.5% to 4.3%, while expected gross profit growth has fallen from 5.1% to 3.8%.

WAGE GROWTH WELL DOWN ON PRE-RECESSION LEVELS

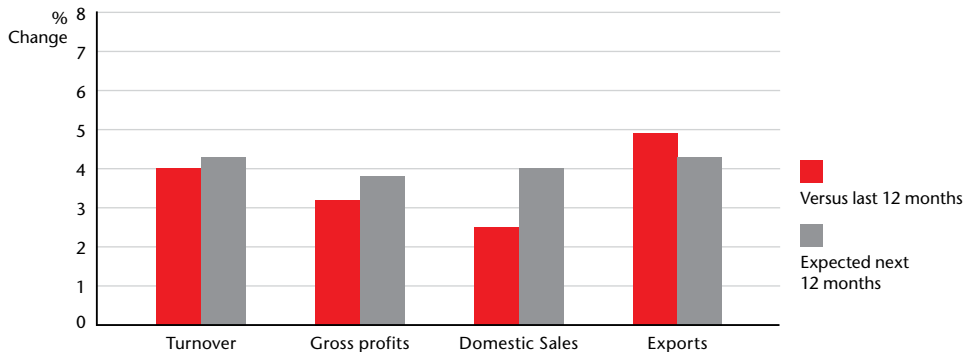
London businesses report that salaries expanded more over the last 12 months than during the year to Q3 2010. Basic salary growth stands at 2.1% this quarter, up from 1.1% in Q3 2010, while total salary growth has risen from 0.2% to 1.3%. However, these rises are well down on typical pre-recession levels, when basic and total pay growth typically stood above 3%. Critically, earnings growth remains much lower than the headline rate of inflation, which is currently running at more than double the Bank of England's central target of 2%.

This quarter, firms in London report their number of employees to be 0.7% higher than 12 months ago. Although this is encouraging when compared to the 1.4% annual fall reported in Q3 2010, headcount growth is still much lower than before the recession when it was typically above 2%. There have been a number of high profile job cuts in the City in recent weeks, with HSBC, Lloyds and Credit Suisse all announcing plans to reduce staff numbers.

FIG. 1 BCM CONFIDENCE INDEX TREND IN LONDON



FIG. 2 Q3 2011 – LONDON AVERAGE % CHANGE IN...



TAX AND REGULATION AN ISSUE FOR MANY FIRMS

This quarter, just over two fifths of London businesses (42%) report regulatory requirements to be a greater challenge than 12 months ago – up from 35% in Q3 2010. With financial services so dominant in the capital, this increase is likely to reflect ongoing concerns about reforms to the banking system. All eyes will be on the final recommendations of the Independent Commission on Banking, to be published by the end of September 2011, which could pave the way for increased regulation of the sector.

Further, some 29% of London businesses report the tax burden to be a greater challenge now than 12 months ago – the highest proportion of businesses reporting this to be the case which has been recorded in BCM.

This would suggest the government still has some way to go in convincing all firms in the capital that Britain is open for business and delivering a genuine growth agenda.

ICAEW
London Region
Chartered Accountants' Hall
Moorgate Place London
EC2R 6EA UK

T +44 (0)20 7920 8682
icaew.com/london

 linkedin.com – find ICAEW
 twitter.com/icaew
 facebook.com/icaew