Quarterly Economic Survey: Kent Invicta Chamber

Introduction

Kent Invicta is one of six Chambers in the South East that are accredited by British Chambers of Commerce. It regularly contributes more than 40% of the South East's responses to the Quarterly Economic Survey, the largest UK survey of its kind, which is administered on behalf of the BCC by every accredited Chamber. The actual questionnaire, honed over many years to gather a wealth of information, takes only about 3 minutes for a business Proprietor/ MD/ CEO to complete.

The latest findings are shown below, mostly using bar charts (which allow detailed comparison to reveal trends over time) in five groups:

1. Recent Sales and Current Orders
2. Cashflow and Prospects
3. Investment in Staff & Kit
4. Hiring Needs
5. Current Pressures.

Most questions in the Survey ask if things are better, constant, or worse. Accordingly, the top section of each bar shows the % of respondents whose results improved (or increased); the middle section shows the % with constant results; and the bottom shows the % for whom results worsened.

To give a visual 'steer' on the buoyancy (or otherwise) of the economy, the % for whom results have worsened is shown as a negative figure. This makes it easy to spot (a) the volatility trend for struggling businesses, (b) the steadiness (or otherwise) of the percentage reporting constant results and (c) the trend for more (or fewer) reporting improvement.

These charts show findings for the past two years (8 Quarters); also a benchmark – findings for Q1 2008, after the UK bail-out of Northern Rock but before the failure of US banks Bear Stearns and Lehmann Brothers.

In addition, a sixth set of charts shows the number and make-up of respondents in terms of Industry Sector, and size (number of Employees). Tables of figures for the 12 industry classifications (4 Manufacturing and 8 Services) are also available on request.

The QES findings offer not just a benchmark for your own business but, much more useful, some information/ insights to help you focus time, cash and energy fruitfully on growing your own business profits. Any queries, feel free to get in touch.

Nick Rowell, nick@tpbs.co.uk, tel 01622 753 568.

Findings for Q2 2019 (fieldwork late May to mid-June)

Key Findings for Kent

When business is slow response rates usually fall – as they have across the South East since last year. Nevertheless in Q2 we contributed 49% of SE responses. 1 in 4 added free-style comments, half of them anti-Brexit.

Q2 saw a substantial minority of respondents (38%) increase their **UK Sales**. At the same time, the proportion reporting a decrease continued to bump along @ 1 in 4. **UK** forward **Orders** followed a similar pattern.

In contrast, **Export Sales** and **Export Orders** continued their substantial decline since the end of last year: one-third reported a decrease whilst only one-sixth reported any increase – and the proportion of respondents that export at all fell from 43% in Q1 to 38% in Q2. Some exporters evidently find themselves becalmed in not-yet-implemented Brexit, a kind of "phoney war" as their EU markets transfer demand to non-UK suppliers.

Cashflow remains at its tightest for six years.

Pricing continues its upward trend, but more modestly than Q1.

Expectations of Sales T/o for the next 12 months remain weak. Gloom about **Profits** lifted a bit, however. Price rises holding? Productivity gains?

NB Historically these 12-month expectations exceed the Sales and Profits eventually achieved. They show a trend in confidence levels not outcomes.

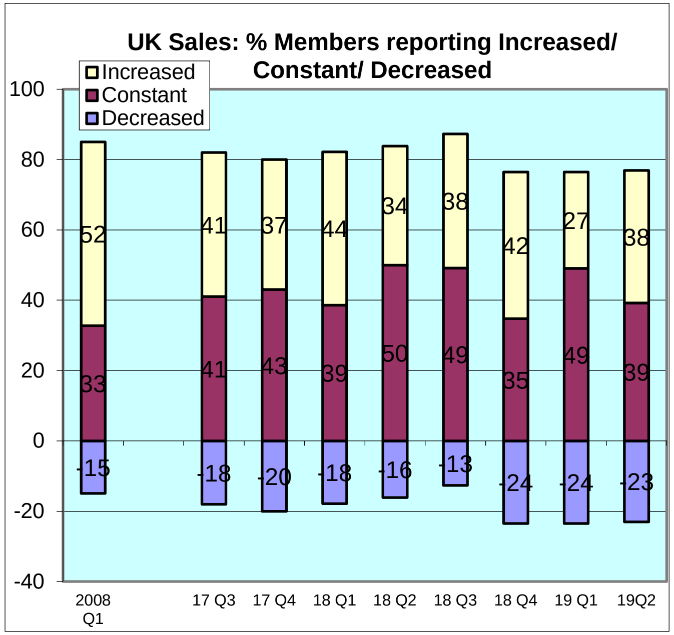
Employment: Steady, with **Employment expectations** slightly weaker. Most seem dug in, whilst ready also for eventual growth, should it occur. Fully two-thirds reported working Below Capacity, see below. More serious, those in Q2 expecting to grow their workforce (23%) – and those expecting to shrink (13%) – are the weakest figures since 2013.

The brightest light on the horizon in Q2 is that the reported Q1 cuts to **planned productivity investment** (in **Training** and **Kit**) eased and reverted towards their respective norms. Better still, the percent upping their **planned investment** in **Kit** rose to its highest since 2015 (28%).

As usual half **tried to hire staff**, of whom 8 in 10 still report **hard-to-find skillsets**: **Professional/managerial** (54%) and **Skilled manual/ technical** (41%). **F-t, P-t, Perm, Temp** jobs are all in slight decline.

Among **pressures on Pricing**, Overheads were mentioned by almost half. With demand slow, fully two-thirds reported working **Below Capacity**.

1. Recent Sales and Current Orders

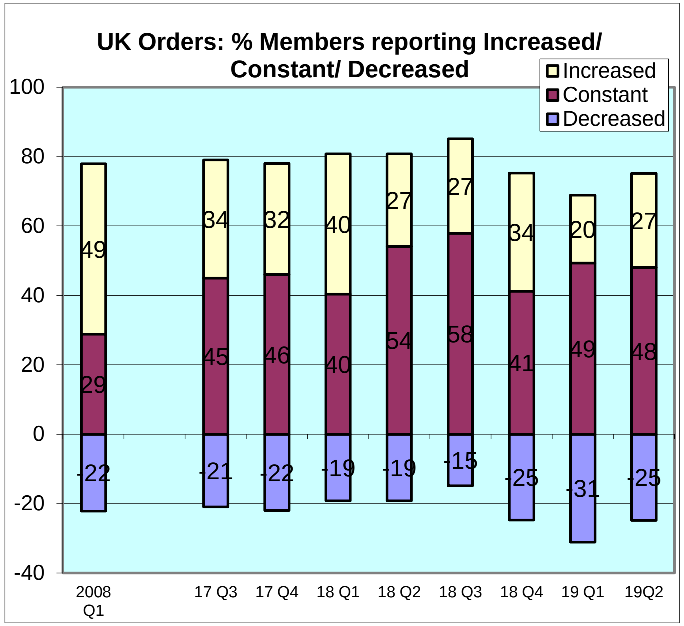


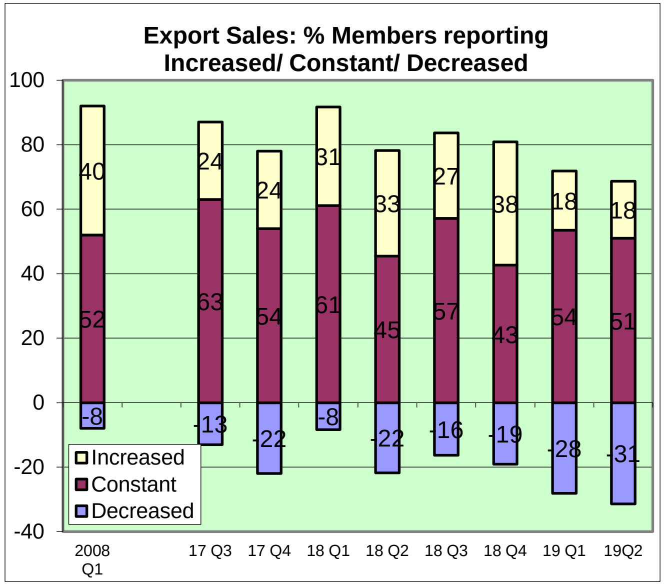
UK Sales & Orders

Whilst the proportion of those facing decreased UK Sales bumps along at almost 1 in 4, as many as 38% reported growth in Q2.

UK Forward Orders, meanwhile, also show some improvement: those reporting decrease bottomed out, and as many as 27% reported growth in UK Orders.

Respondents' free-style comments at the end of the QES questionnaire identify Brexit uncertainty as the main drag on performance.



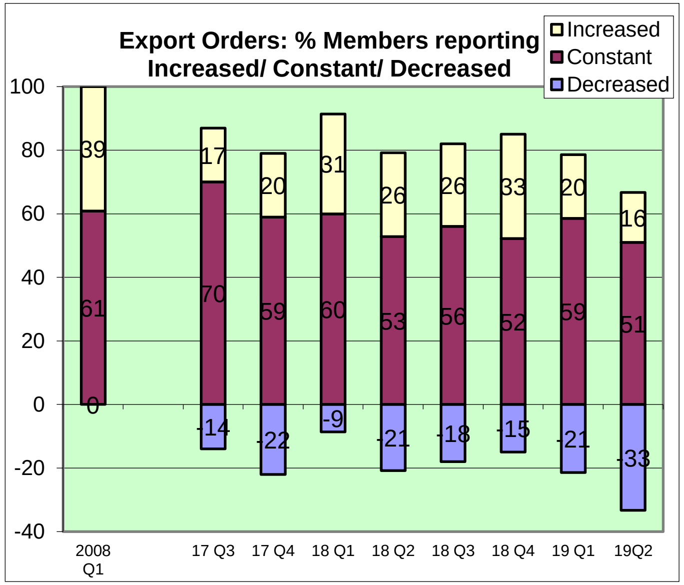


Export Sales & Orders

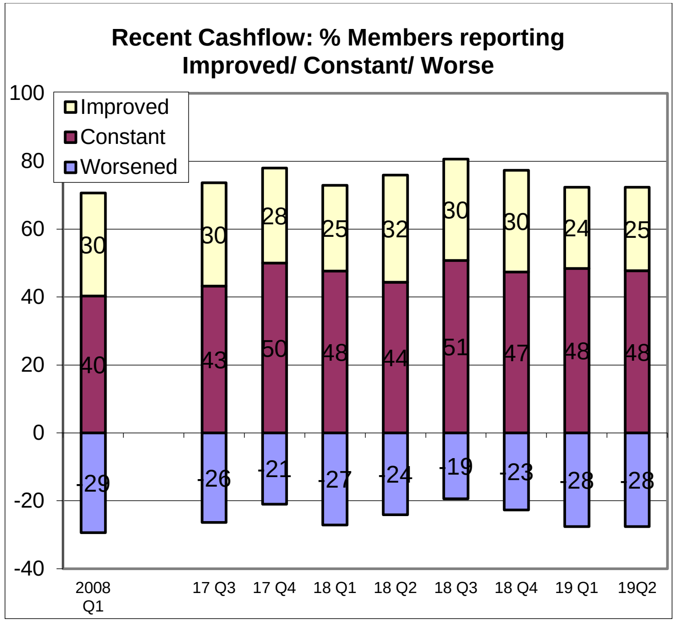
In contrast, the decline in Export Sales since late 2018 continued in Q2. Whilst a minority (18%) still report growth, the proportion reporting Export Sales decline has doubled in 9 months from 16% to 31%. These are the worst figures since 2009 Q1 as the financial crash spread globally.

Forward Orders for Exports show the same challenging trend.

Evidently the threat of a no-deal Brexit is forcing some of our EU markets to transfer business to alternative (non-UK) suppliers.



2. Cashflow and Prospects

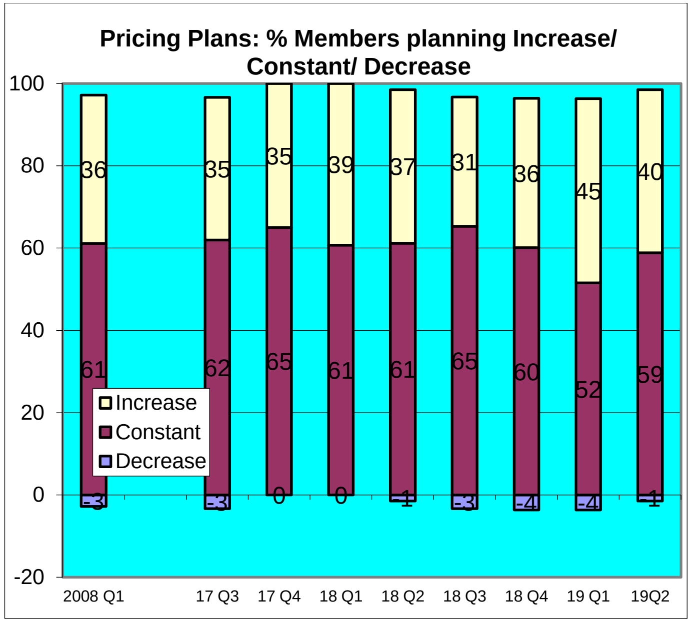


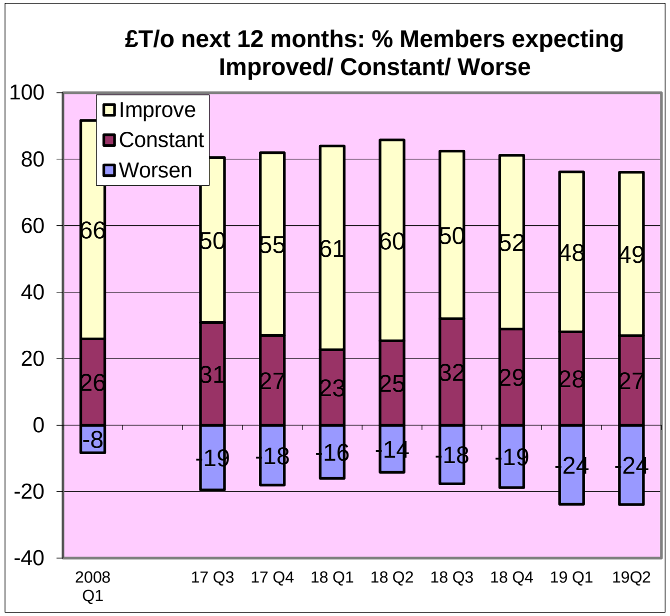
Recent Cashflow

Cashflow continues tight for 28% of respondents – albeit that 1 in 4 report improvement.

Planned Price Increases

The upward trend in those planning to increase prices, which peaked in Q1, continued modestly in Q2.



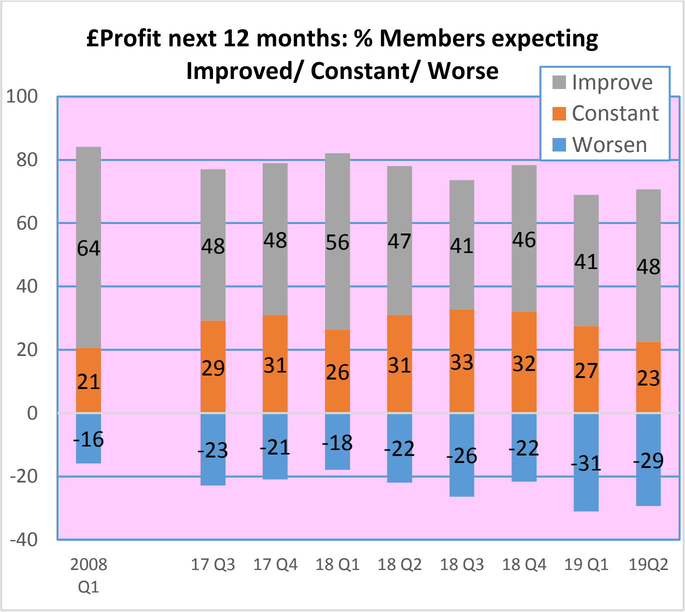


Expectations of Sales Turnover & Profits

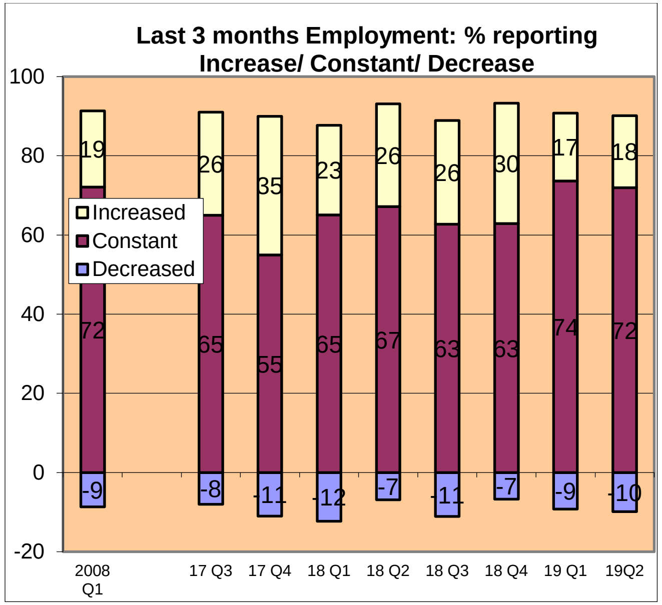
Much like Cashflow, Confidence in Sales T/o growth continues bumping along at its weakest for a couple of years.

Gloom about Profits, however, lifted a bit: whilst it's still awful that 29% expected worse Profits over the coming 12 months, almost half of respondents expected some improvement. Evidently Price increases are working.

NB Historically these 12-month expectations have always been higher than the Sales and Profits actually achieved. They show a trend in confidence levels, not outcomes.



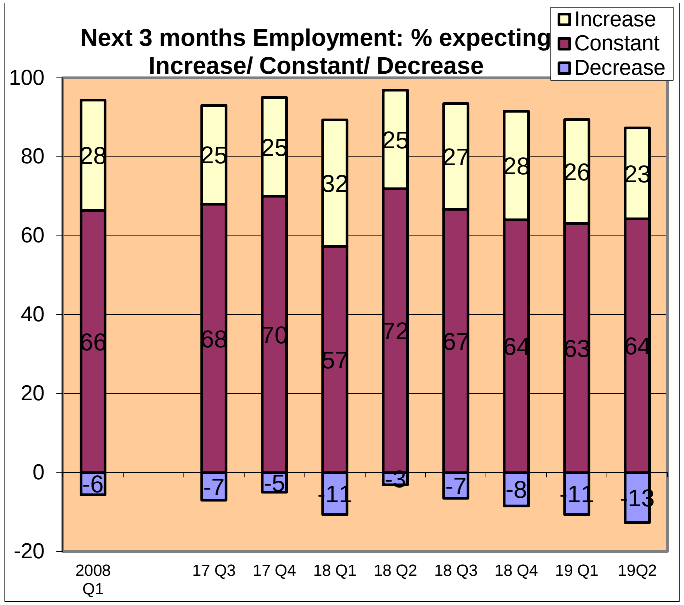
3. Investment in Staff & Kit

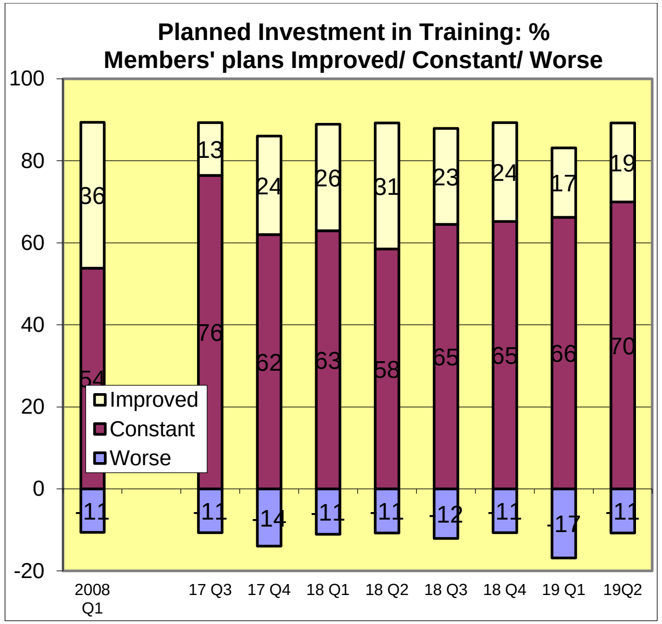


<u>Employment: last 3 months, next 3 months</u>

The modest growth in UK Sales and Orders (see chart above) was barely reflected in respondents' overall level of employment. Most employers would appear to be well dug in, prepared for the worst while ready also for eventual growth, should it occur. (Fully two-thirds reported working Below Capacity, see chart below.)

More serious, those expecting to grow their workforce (23%) – and those expecting to shrink (13%) – were the weakest figures since 2013.

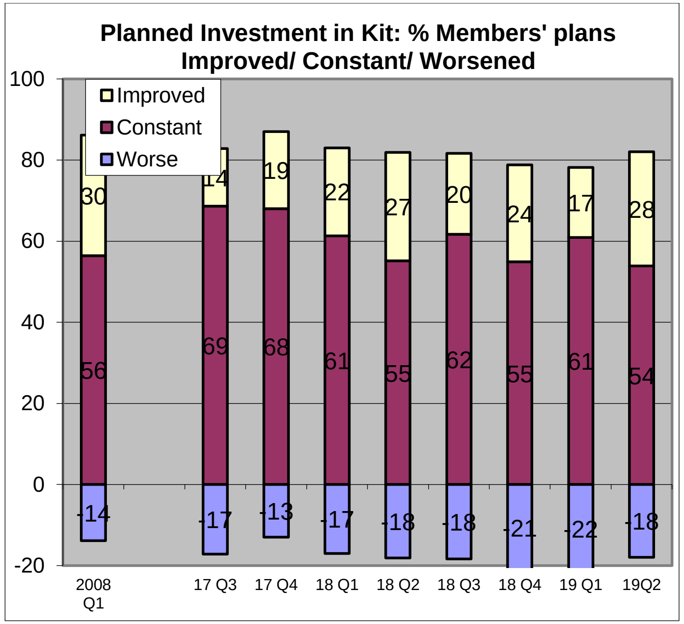




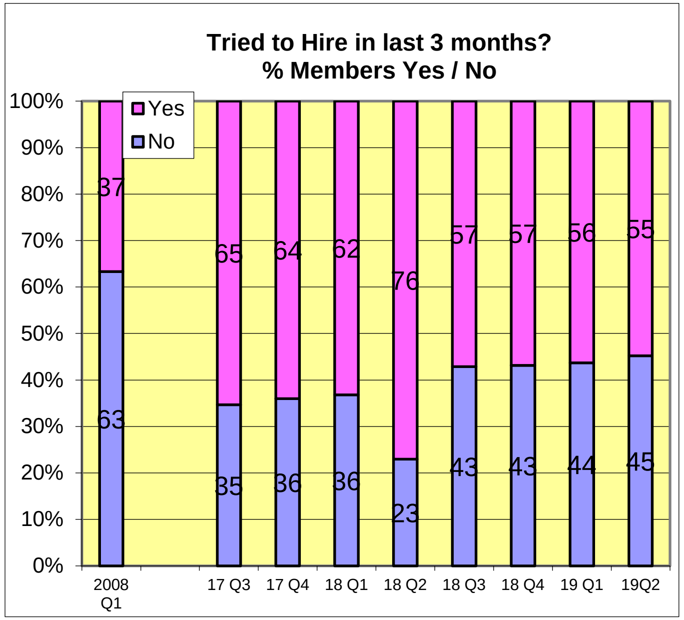
<u>Planned Investment in Training and Kit</u>

This is the brightest light on the horizon, as it implies improved productivity in prospect (see better Profit expectations above). The slight blip upwards in some respondents' Training budget is welcome, but hardly a game-changer: 19% is still a modest figure. However, the dire Q1 figure of 17% paring back their Training budget even further gave way in Q2 to a more usual 11%.

Likewise for plans to invest in Kit: the proportion paring back their CapEx budget returned in Q2 towards its norm whilst those upping their investment plans (28%) was the highest since 2015, a year before the Brexit referendum.



4. Hiring needs

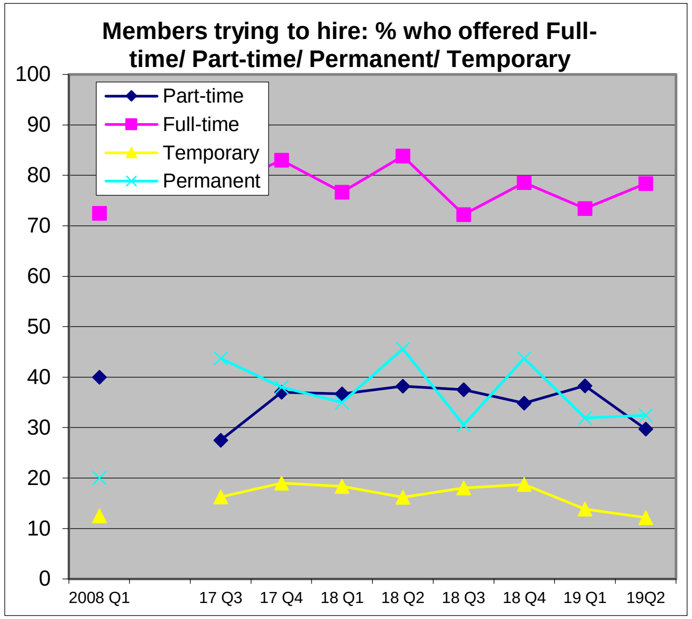


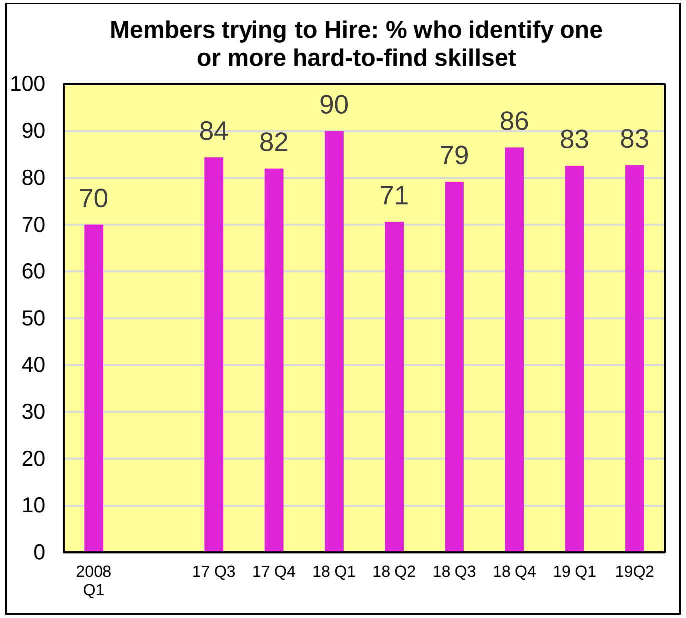
Attempts to Hire in last 3 months

Surprisingly, given the modest proportion actually increasing their workforce (see chart above), as many us usual (55%) reported trying to fill vacancies. Likeliest explanation is the continuing shortage of the desired skillsets, see below.

Job type offered in last 3 months

The sluggish hiring in Brexit Britain is evident in the slightly downward long-term trend in all four categories of job offered.





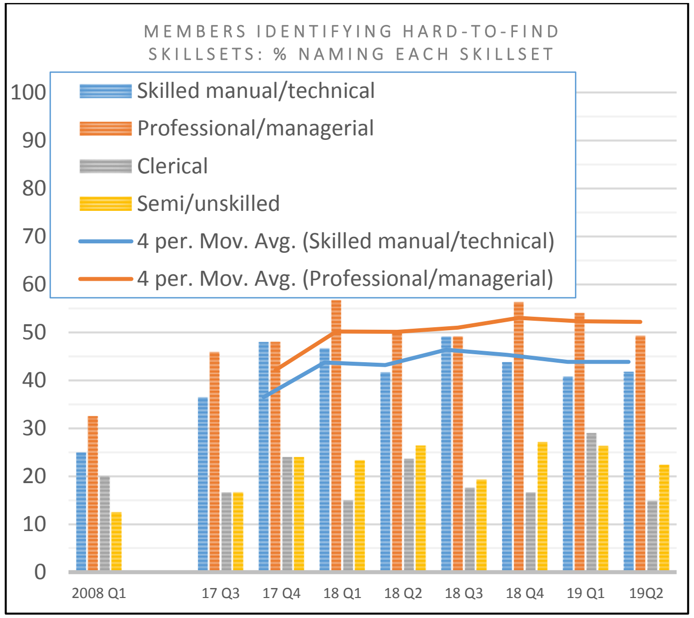
Hard to find suitable staff?

The right skillsets are as hard to find as ever.

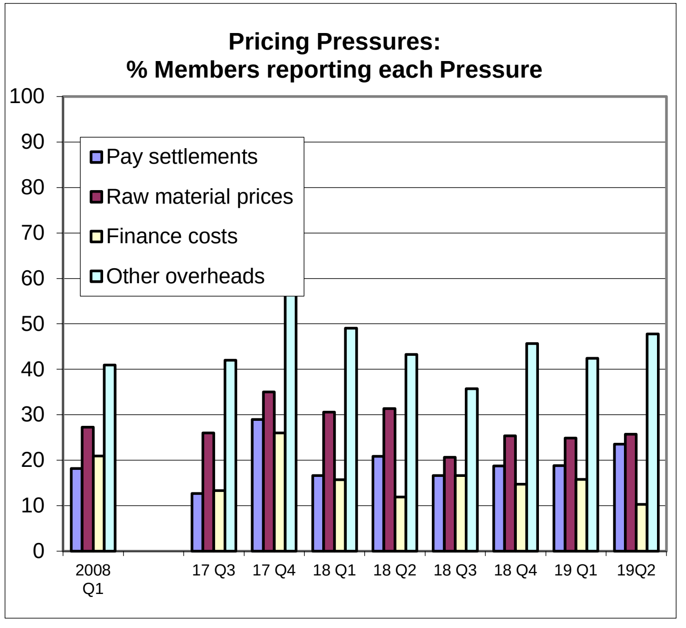
Hard-to-find: categories sought (see right)

As usual, more than half of those trying to hire reported shortages of Professional/ Managerial staff, with almost as many struggling to fill Skilled manual/technical vacancies.

It's possible the slight dip in demand for Professional/ Managerial skills reflects employers' caution in the "phoney war" of not-yet-implemented Brexit.



5. Current Pressures

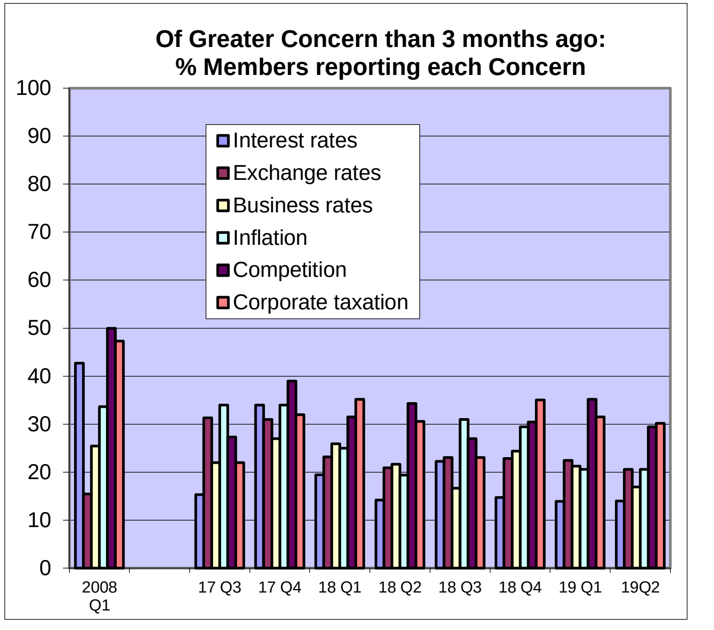


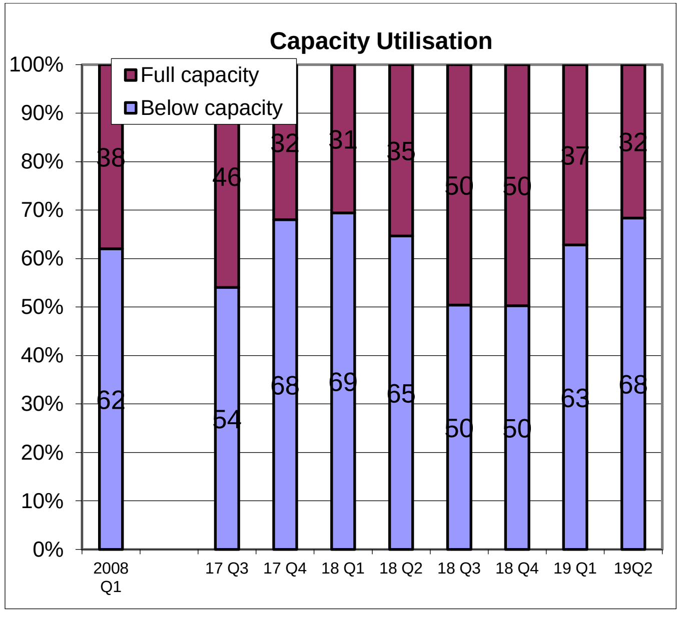
<u>Pricing Pressures</u>

General overheads continue to be the most-often reported pressure overall, due perhaps as much to stagnant productivity/ skill shortages as to imported inflation.

<u>Issues 'Of Greater Concern'</u>

With demand so weak, Competition remains as great a concern as Corporate Taxation. The low expectation of a significant rise in interest rates implies a low-growth future.



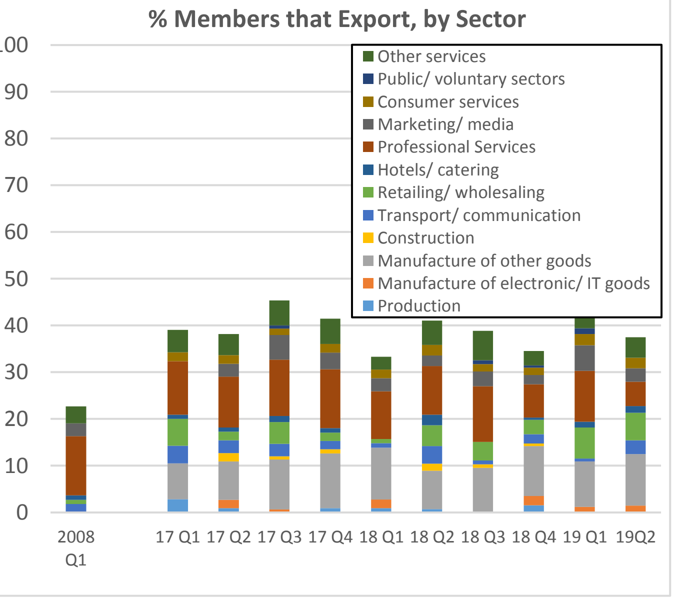


<u>Capacity Utilisation</u>

Brexit doldrums again: fully two-thirds of respondents are working below capacity.

<u>Percent of Members Exporting</u>

The dire Export Sales and especially Export Orders (see chart above) are reflected also in Q2's lower proportion of respondents that are exporters (38% *vs* 43% in Q1).



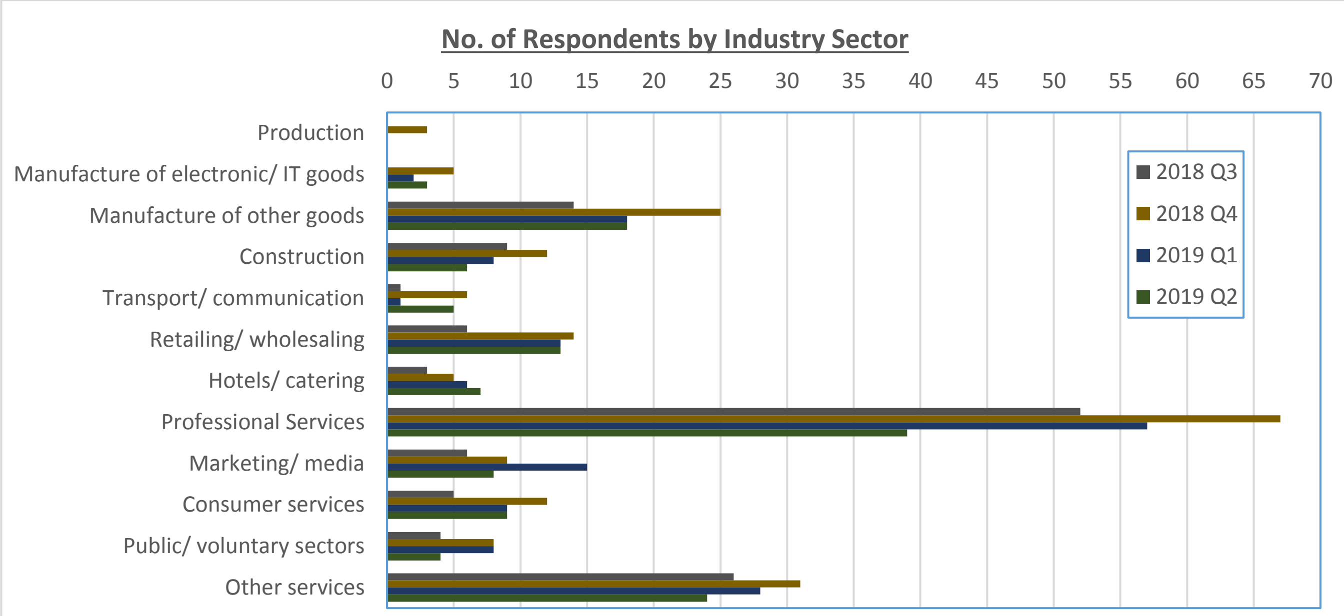
6. Respondents' composition by Industry Sector and Number of Employees

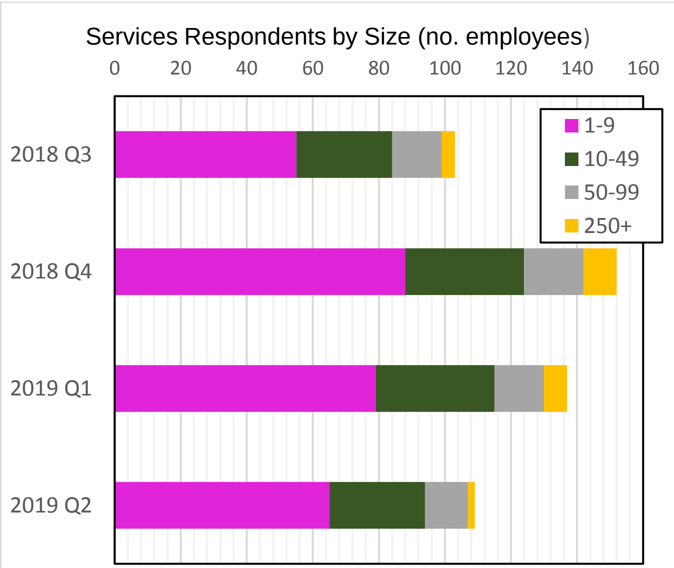
Industry Sector

The first four categories (Production, Manufacture of electronic/IT goods, Manufacture of other goods, Construction) constitute the "Manufacturing" sector.

The others form the broad "Services" sector. Within this, Professional Services is the largest single category. The Other services category has grown in recent years and is thought to include many IT service firms and Internet businesses, including online exporters.

In Q2 2019 Kent Invicta Chamber provided 51% of the Manufacturing and 48% of the Services responses within the total South East sample, amounting to 49% of the SE in all.





Size of responding businesses, by number of Employees

As usual the bulk of Q2 respondents employ fewer than 50 staff.

This is largely in line with Chamber membership.