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 about 30% 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 performance 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.

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Findings for Quarter 2 2016 (fieldwork: late May to mid-June)

This survey was conducted ahead of the Brexit referendum. Maybe this is why response rates were subdued across the South East. Our Chamber received barely 70% of the two previous Quarters' average; the rest of the SE, only 56% of their equivalent average. Perhaps pre-referendum uncertainty inhibited forecasting over 3 months, let alone a year ahead. It may be, therefore, that the Q2 responses are skewed toward firms relatively confident of their prospects.

Key Local Findings

Recent strengthening of **UK Sales** and **UK Forward Orders** continued, with 41% reporting Sales growth.

After a couple of years of fluctuating fortunes, our **Exports** steadied in Q1 and improved in Q2, probably helped by sterling's depreciation.

In line with strengthening UK and Export Sales, **Cashflow** recovered from its Q1 weakness.

Whilst **Confidence** in the next 12 months' **Sales Turnover** remained positive, **Profit** expectations have been eroding since last autumn.

NB These 12-month expectations have always been higher than the Sales and Profits actually achieved; an indicator of confidence, not outcomes.

Among our respondents **Employment** increased; in fact 2 in 3 of them tried to hire in Q2. Meanwhile, plans for **Investment** in **Training** and **Kit** remained broadly constant.

Skills shortages continue to intensify. With a "new normal" of 8 in 10 would-be-hirers struggling to find the right people, this reached a record 86% in Q2. This means 55% of all our respondents reported this difficulty, and not just for the usual scarcity of managerial/professional staff. 15% of all respondents struggled even to fill semi/unskilled jobs.

Two-thirds of respondents continue to operate **below capacity**.

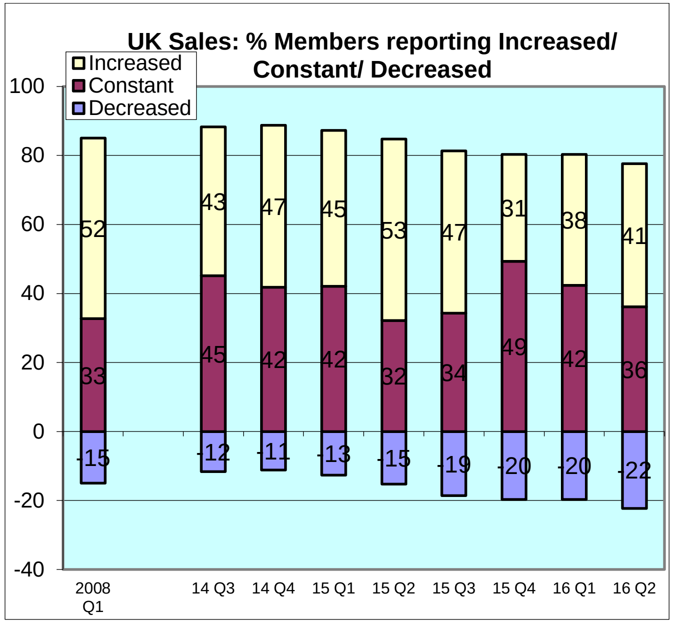
Inflation raised concern, impacting **Overheads** and **Raw Materials**.

The South East: the Bigger Picture

Firms in the rest of the South East reported less concern than Kent about Inflation, Overheads, and Raw Materials costs. Maybe higher value-added? And yet in Q2 their Exports recovered more slowly, especially in Services.

NB These latter differences aren't necessarily trends; they may fluctuate.

1. Recent Sales and Current Orders

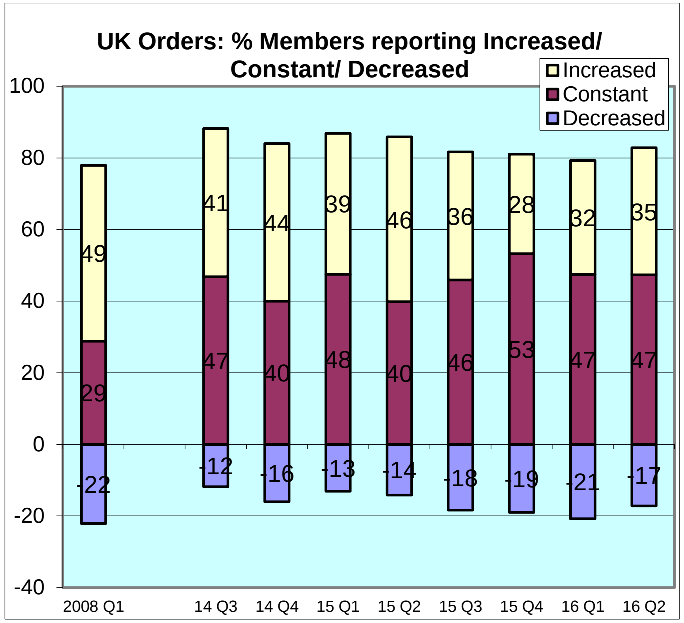


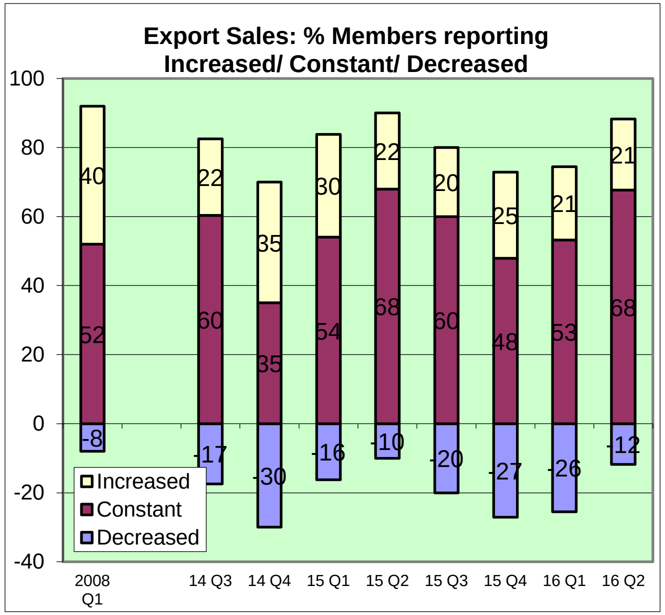
UK Sales & Orders

Over the past three Quarters, the proportion of respondents reporting increased UK Sales has risen from 3 in 10, to 4 in 10. UK forward Orders exhibit a similar pattern.

At the same time the 2 in 10 reporting UK Sales decrease has slightly worsened.

NB These findings may be subject to a bias due to a 30% shortfall in sample size. Some firms' sluggish response may be due to uncertainty ahead of the Brexit referendum.



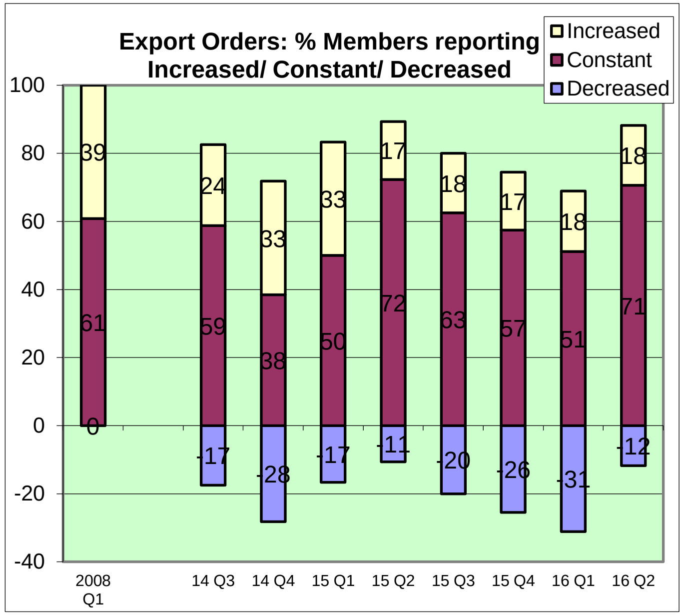


Export Sales & Orders

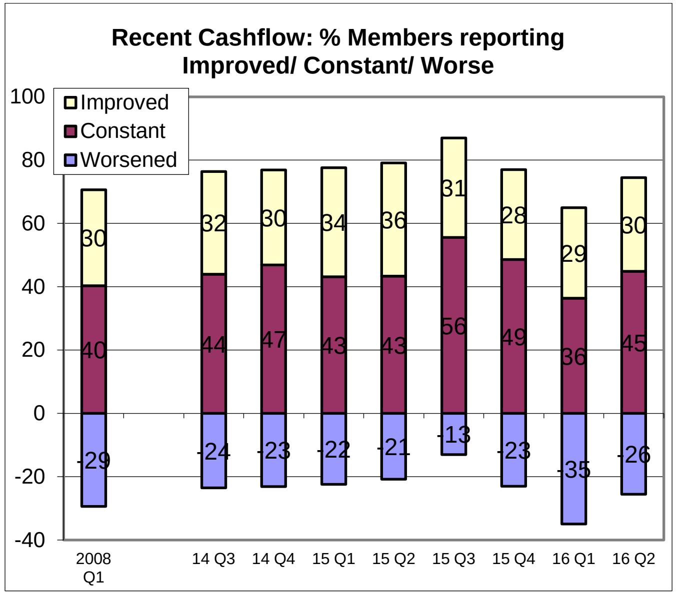
One-third of survey respondents export. The number reporting an Export Sales decrease during 2015 bottomed out in Q1, and now Q2 shows 7 in 10 with Export Sales constant; and only 1 in 10 decreasing.

Export forward Orders, meanwhile, after weakening for the previous 9 months, show the same positive Q2 pattern as recent Export Sales.

This strengthening in Export Sales and Orders probably reflects sterling's 7% depreciation in the first half of 2016, making them more competitively-priced.



2. Cashflow and Prospects

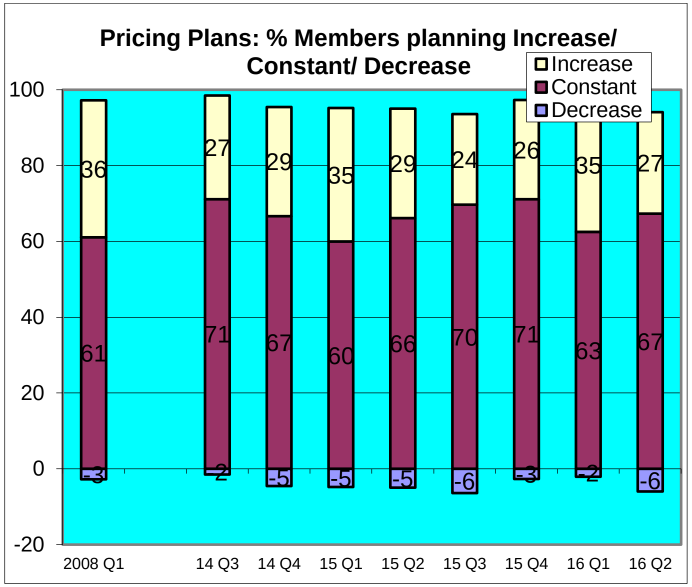


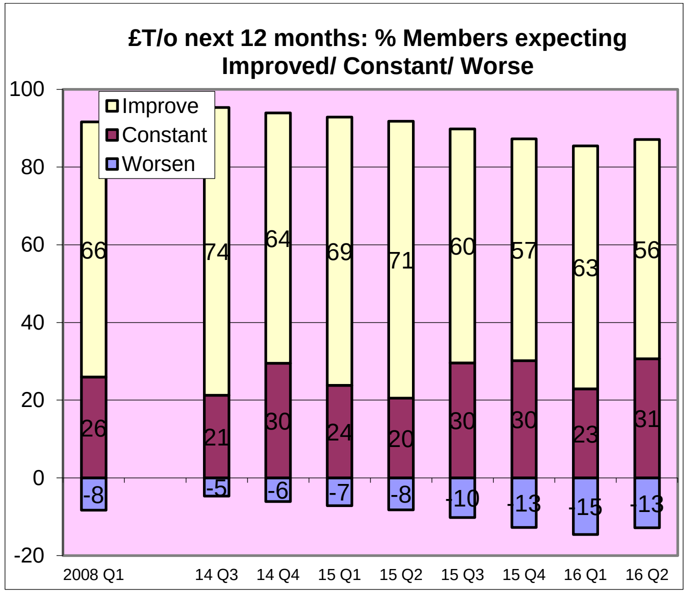
Recent Cashflow

In Q2 the trend of weakening Cashflow since late 2015 recovered – unsurprisingly, given the gradual improvement in UK and Export Sales during the first half of 2016.

Planned Price Increases

After 35% of Q1 respondents reported plans to raise their prices (in line with the weaker Cashflow in Q1), in Q2 the pattern reverted to trend: two in three respondents expected to keep prices constant; 25%-30% planned to raise them; whilst a handful planned price cuts.

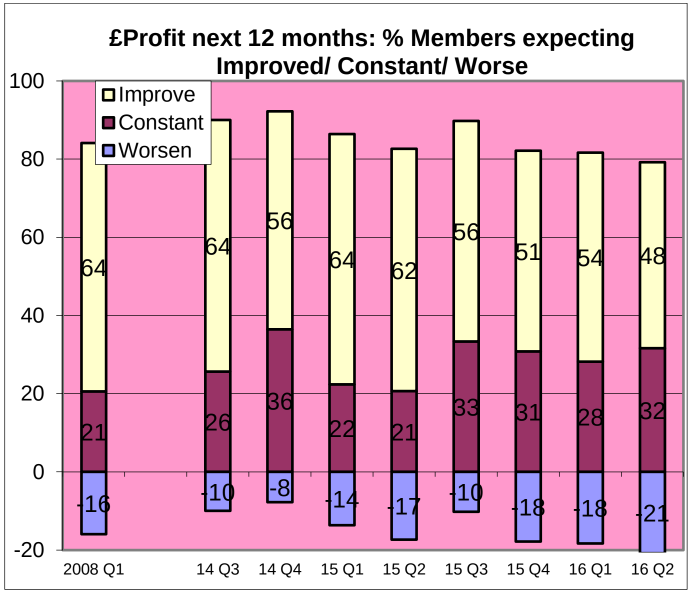




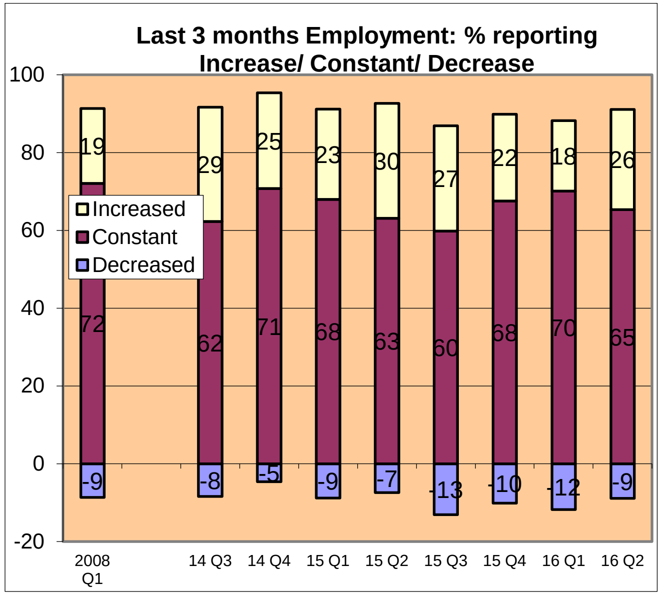
Expectations of Sales Turnover & Profits

Whilst the pattern of Sales Turnover expectations remained steady in Q1, the trend of declining Profit expectations continued downward.

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. However, it is surprising to see fewer than half of respondents expecting Profits to improve; even more surprising that fully 1 in 5 expect them to worsen. Especially with the Q2 sample only 70% of its usual size possibly reflecting a bias towards those with less uncertainty/ greater confidence.

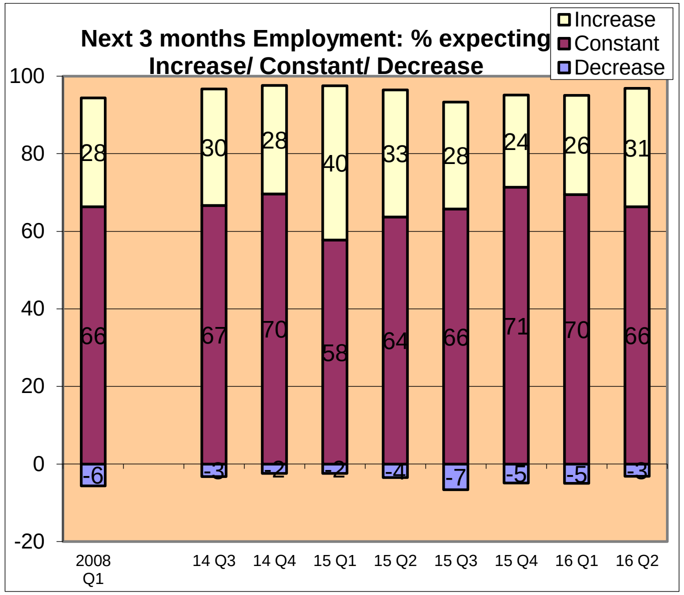


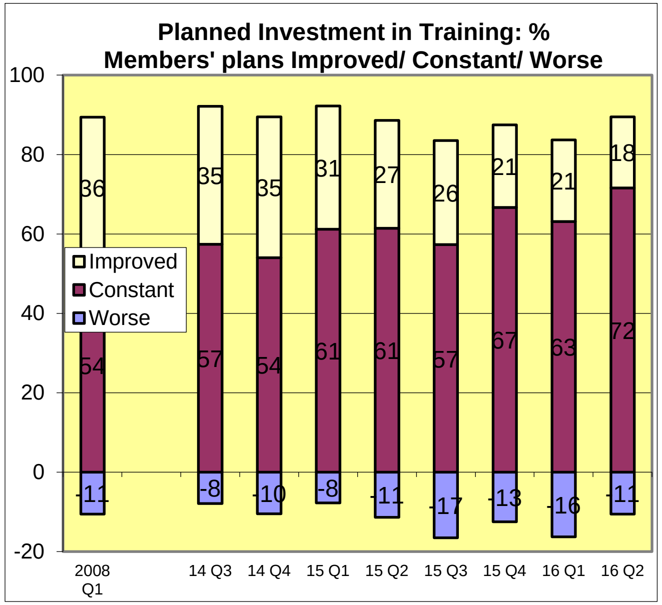
3. Investment in Staff & Kit



Employment: last 3 months, next 3 months

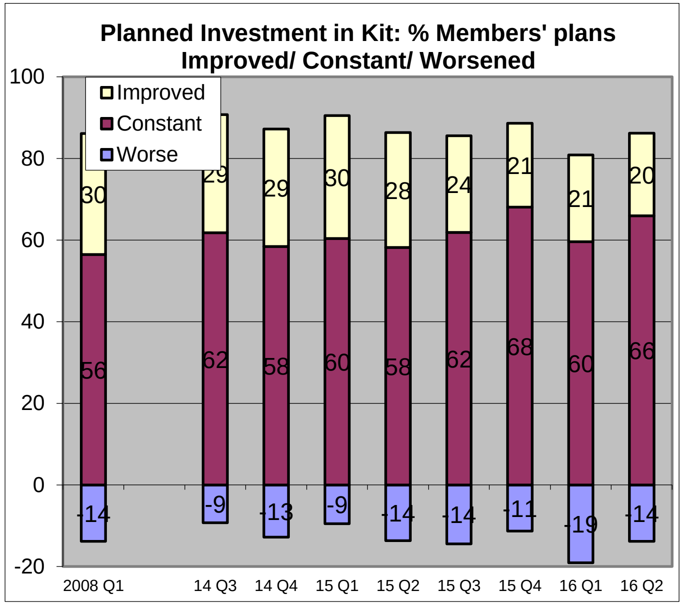
Employment, and Employment expectations, increased slightly in Q2. Perhaps more employers have been getting their heads around the New Minimum "Living Wage", and maybe pensions auto-enrolment, too.



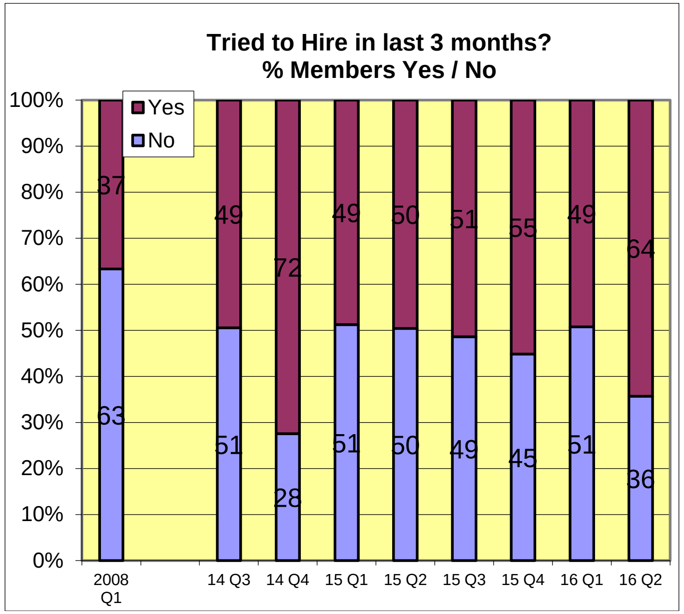


Planned Investment in Training and Kit

As with Employment, so with investment plans for Training and Equipment. The caution evident in Q1, with uncertainty over Brexit, appears to have been offset by Q2 Sales growth (see above).



4. Hiring needs

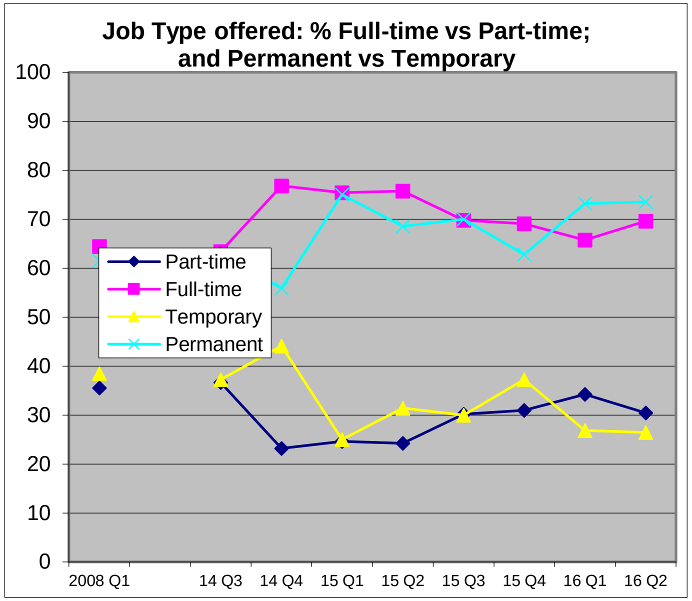


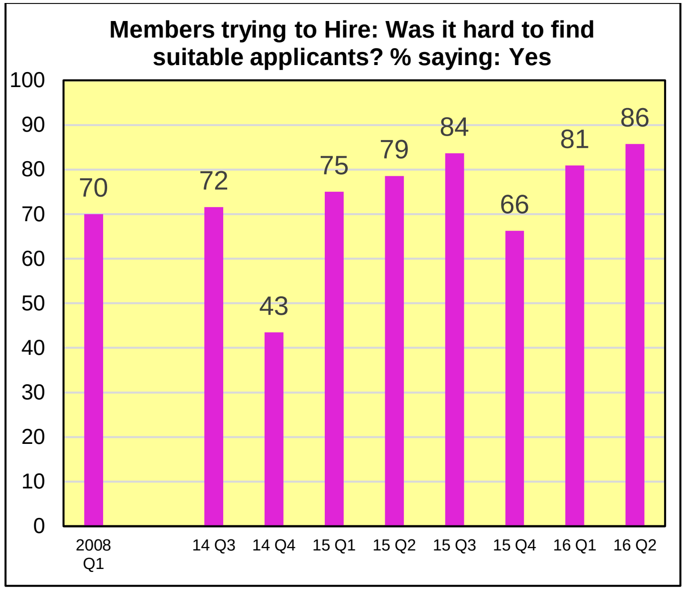
Attempts to Hire in last 3 months

Two in three respondents tried to hire in Q2.

Job type offered in last 3 months

Most were offering jobs that were Permanent (74%), and Full-time (70%).



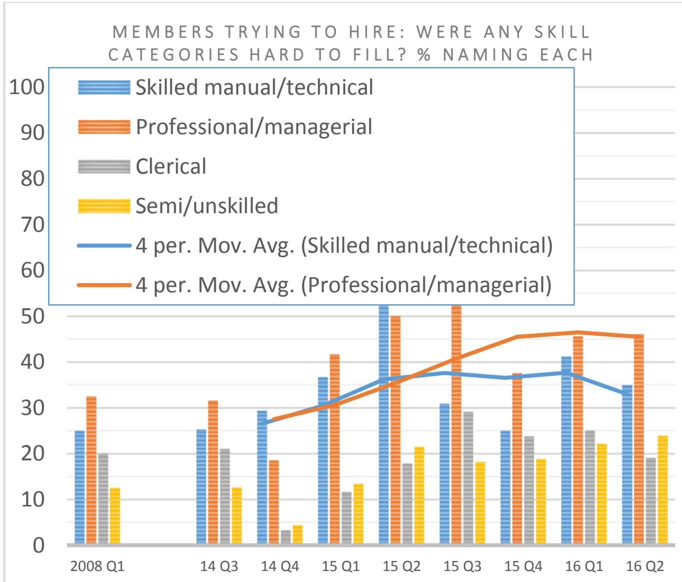


Hard to find suitable staff?

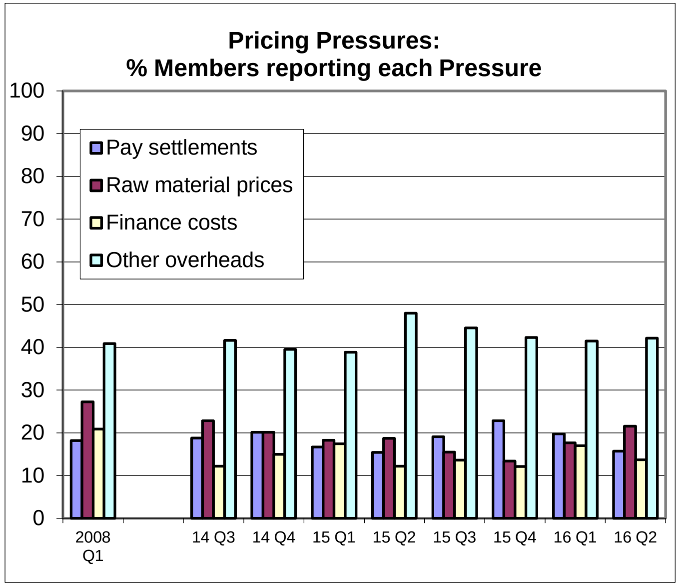
For a year we have been getting used to the "new normal" of 8 in 10 would-be-hirers struggling to find suitable applicants. Even so, the peak of 86% of the 64% of respondents who tried to hire (see above) is very concerning. It means that in Q2 (86 x 64 =) 55% of all respondents reported difficulty in finding the right people to hire.

<u>Hard-to-find: categories sought</u> (see right)

Professional/managerial skills remain hard to hire. Noticeably also semi/unskilled jobs have been getting harder to fill for the past 9 months – reported in Q2 by as many as (24 x 64 =) 15% of all respondents.



5. Current Pressures



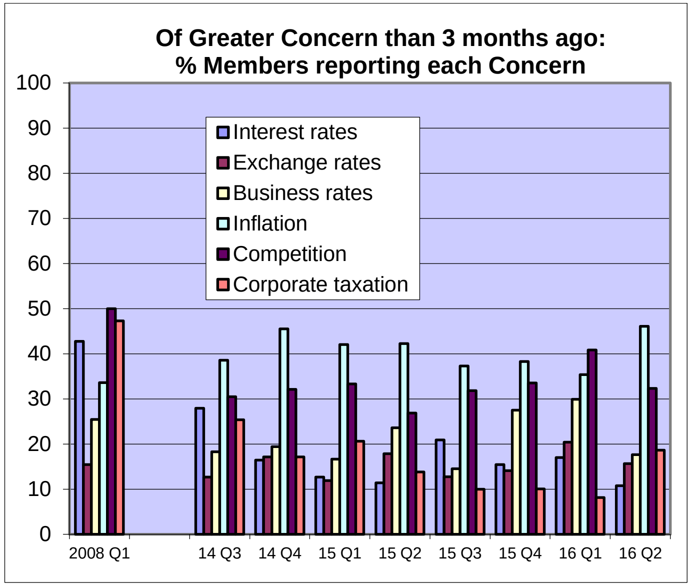
Pricing Pressures

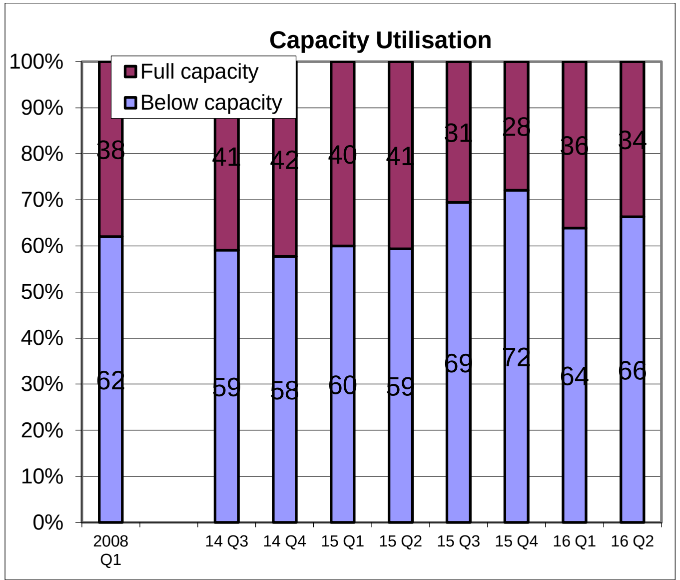
Operating Overheads remain the most widely reported (by 42%) pressure to raise prices.

At the same time, Raw Materials costs have been edging up through 2016 to date, probably due to sterling's 7% depreciation in the first half of the current year.

Issues 'Of Greater Concern'

Unsurprisingly in the light of sterling's depreciation, Inflation is back as respondents' top concern, identified by almost half of our sample.



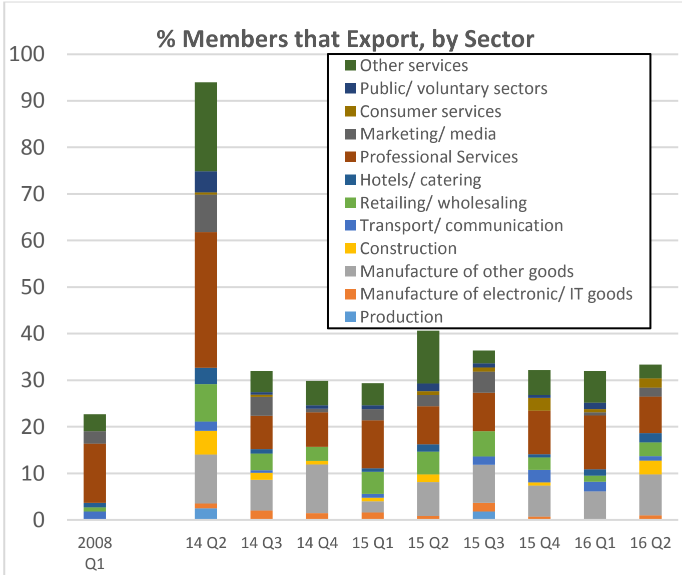


Capacity Utilisation

Two in three respondents continue to report Spare Capacity.

Percent of Members Exporting

One in three respondents continue to export, with Professional Services and Manufacturing the largest groups. The fact that two years ago more than 9 in 10 were exporting (prior to the 2014 disruption from Ukraine, Grexit, China's slowdown and increasingly Isis) indicates untapped Exporting capability, going forward.



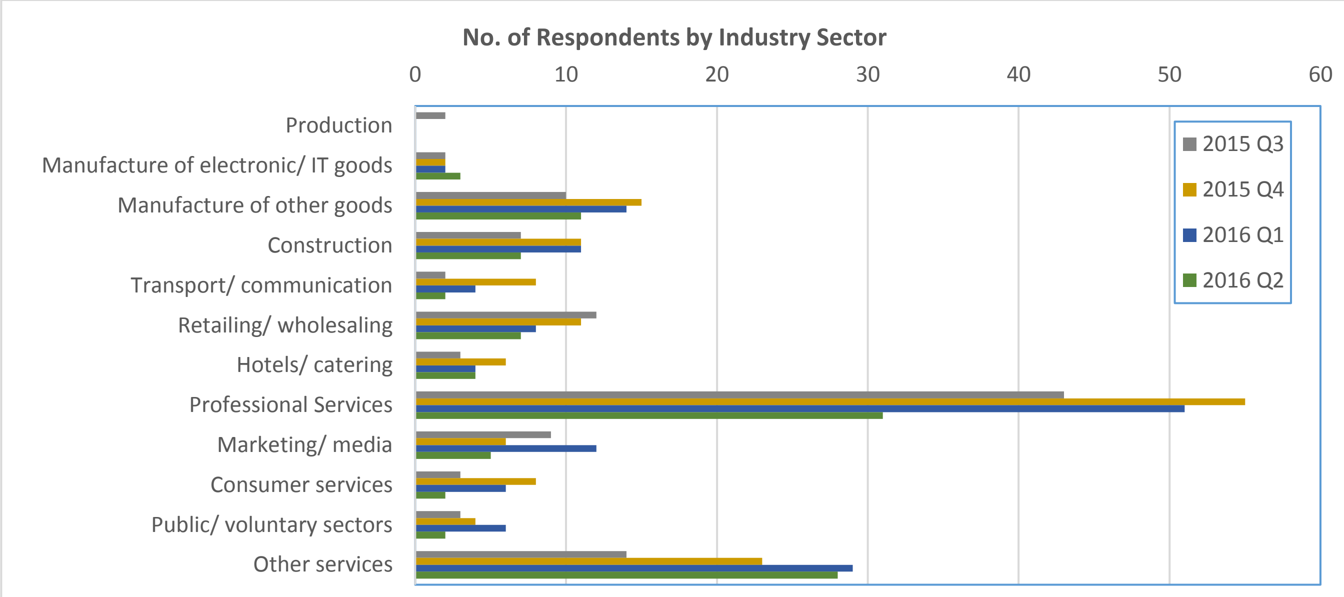
6. Respondents' composition by Industry Sector and Number of Employees

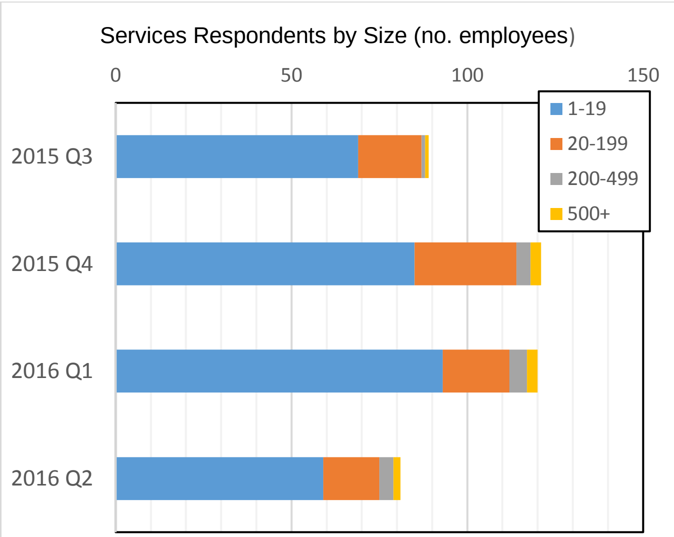
<u>Industry Sector</u>

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 2016 Kent Invicta Chamber provided 42% of Services and 43% of Manufacturing responses within the total South East sample.





<u>Size of responding businesses, by number of Employees</u>

The bulk of respondents (c.70%) continue to be those with 1-19 employees, broadly in line with Chamber membership as a whole – though Manufacturers tend to include a higher proportion than Services in the 20-199 employee size.

In Q2 2016 the respondents' ratio of Services to Manufacturing was around 4:1 (81 Services to 21 Manufacturing).