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QUARTERLY ECONOMIC REPORT

January - March 2022





JO JAMES OBE

Chief Executive

Kent Invicta Chamber of Commerce

We're delighted to be bringing you this newly designed and formatted Kent & Medway Quarterly Economic Survey (QES) report in what are clearly challenging times.

This quarter we have seen a gradual waning of the post covid Christmas euphoria as businesses begin to wither under a barrage of operational cost increases. Sanctions, consumer confidence, inflation and supply chain issues are all having an effect.

Alongside this turbulence we see that recruitment remains a problem and yet, despite the logical conclusion being to train and retain existing staff, fewer firms appear to be looking to invest in training. An opportunity perhaps for public sector intervention.

Although there is clearly a significant amount of uncertainty still at large in our business community, there remains an underlying current of positivity and optimism. This could be down to context in that, compared to the trading conditions of pandemic lockdown, things might not seem so bad.

Whatever the reasons, it's clear that whilst businesses remain vulnerable, progress towards economic recovery continues and it will be down to those in power to provide continued support.

Jo James OBE, Chief Executive, Kent Invicta Chamber of Commerce

ABOUT THE QUARTERLY ECONOMIC SURVEY (QES)

Kent Invicta is one of six Chambers in the South East that are accredited by the British Chambers of Commerce (BCC). It regularly contributes to 30%-50% 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 questionnaire, honed over many years to gather a wealth of information, takes only about 3 minutes for a business Proprietor / Managing Director / Chief Executive, to complete.

METHODOLOGY

The QES asks businesses if they have seen an increase, decrease, or no change in a range of metrics such as domestic sales, cash flow, labour market, recruitment, business confidence, and investment. The QES results are often presented as balance figures - the percentage of firms that reported an increase minus the percentage that reported a decrease. The arrow figures represent the percentage point change in the balance on the previous quarter. Implying that if the figure is above 0, there has been an overall expansion of that activity and if the figure is below 0, there has been an overall contraction of that activity.

For example, if 50% of firms told us their sales increased and 18% said their sales decrease, then the balance for the quarter would be +32% (an overall expansion). If 32% told us their sales increased and 33% said their sales decreased, the balanced would be -1% (an overall contraction).

For further information: To get full data or any further clarification please contact akansha.kumar@kentinvictachamber.co.uk





13%

is the net balance of **domestic sales** for Kent Businesses in the last quarter



10%

is the net balance of **domestic orders** for Kent Businesses in the last quarter

DOMESTIC DEMAND



After turning positive for the first time since 2020 in Q2 2021, the balance of the domestic sales has fallen back again. The net balance – the percentage of firms noting an increase minus the percentage noting a decrease – fell again from 33% to 13%, after recovering from the Q3 2021’s drop.

The share of firms who said domestic sales increased in Q1 2022 shrank from 48% to 37%, while 24% of companies reported a decline in sales – up from 15% in Q4 2021.

Turning to domestic orders, the net balance also fell, same as domestic sales, from 23% to 10%. There was a dip in the share of firms reporting an increase in orders (from 41% to 33%), while the proportion that said sales had dropped grew slightly (from 19% to 23%).

Feedback from businesses throughout the Q1 2022 suggested a more optimistic and positive outlook as many saw the recovery taking hold. However, the impact of Covid restrictions post-Christmas combined with growing consumer concern around inflationary increases has clearly had an impact on commerce within the county.



-19%

is the net balance of export sales for Kent Businesses in the last quarter



-25%

is the net balance of export orders for Kent Businesses in the last quarter

EXPORT DEMAND



As with domestic demand, growth in export sales saw a drastic drop in the first quarter of 2022, still not as low as Q3 of 2021. The net balance for sales fell from -2% to -25% in Q1: 14% of firms said sales had increased over the previous three months, down from 29% in Q4 2021. The proportion of companies reporting a drop in export sales was broadly unchanged (39% in Q1 2022, up from 30% in Q4 2021).

For export orders, demand also softened in Q1 although at a slower pace than in sales. The net balance for export orders swooped down from -7% to -19%, with 14% of firms reporting an increase in orders.

Whilst exports remain static, the perception is that there may be trouble ahead as the cost of moving goods continues to grow alongside the ever-present supply chain issues. Moreover, the unrest in Ukraine combined with sanctions and the accompanying instability within markets across the world, is creating a difficult headwind.

LABOUR MARKET



28%

is the net balance of **Employment Expectation** for Kent Businesses in coming quarter



9%

is the net balance of **Employment Levels** for Kent Businesses in the last quarter



The number of payroll employees in Kent dropped slightly in Q1, while the national unemployment rate has fallen to 3.9% (three months November 2021 to January 2022) as per the ONS. The net balance was halved to 9%: firms who increased their workforce in the past. The proportion of firms who said their workforce levels had increased over the previous quarter dropped slightly from 30% to 24%, while there was also a small increase in the share who said their workforce had shrunk (from 13% to 15%). This was driven mainly by micro-companies: the net balance was -1%, while for larger businesses the balance was 18%.

However, the net balance for employment expectations remained constant in Q1 2022 at 28%. Unlike the severe drop in Q3, the drop came after a constant increase of 4 consecutive quarters showing signs of stability in workforce expectations. 33% of firms said that they expected their workforce to increase in size over the coming three months (a dip of 1% from last quarter), reflecting the stagnancy in proportion, 61% (an increase of 1% from last quarter). Larger firms seem optimistic about their workforce size expanding in the coming three months. There is an even split of expectations of the workforce to grow in manufacturing and service sector.

Despite inflationary pressures and uncertainty about the future recovery, businesses remain mildly optimistic about increasing staff numbers moving forward which should be taken as a positive.

Encouragingly this ambition is spread evenly across sectors and whilst much of this movement is within larger firms the indicators are still good.

RECRUITMENT AND TRAINING



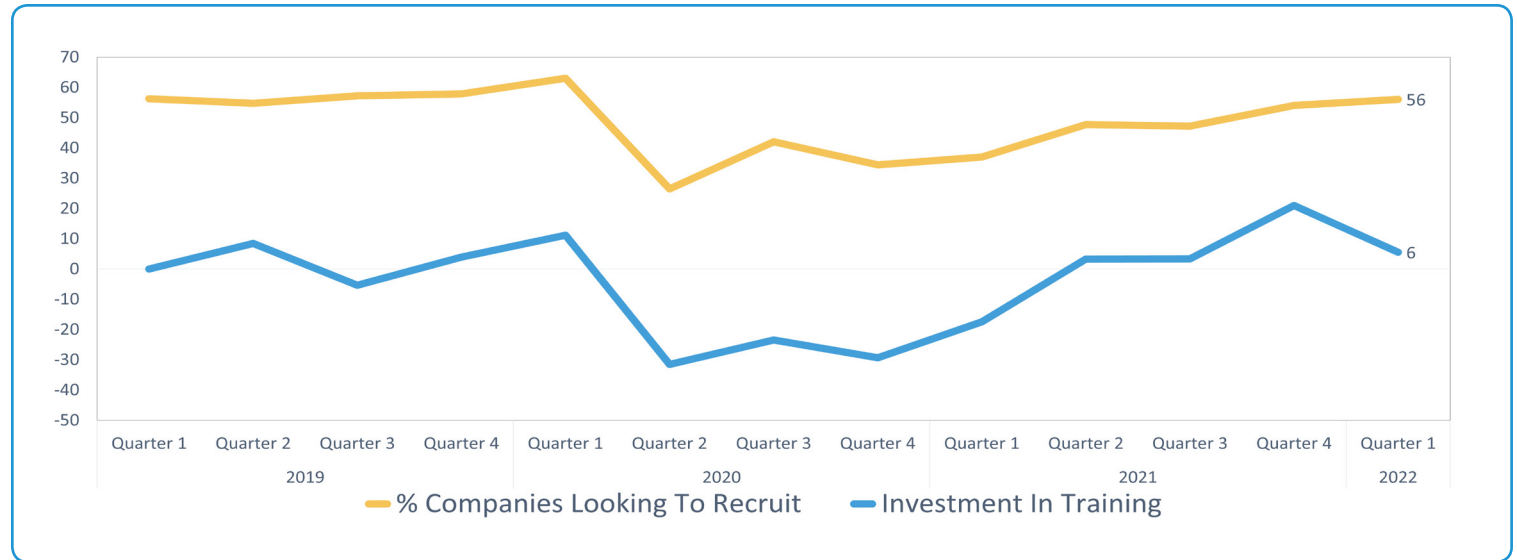
56%

of Kent businesses reported that they had looked to recruit in the last quarter



6%

is the net balance of **Investment in Training** for Kent Businesses in the last quarter.



There was a slight increase in the share of firms who had attempted to recruit in the previous three months, from 54% to 56%. This was driven by larger businesses, who were much more active this quarter in terms of hiring (82% said they had looked to recruit). In contrast, with only 37% of micro-firms looking to hire.

Of those attempting to recruit, 85% said they found it difficult to recruit - this was down slightly down from 90% in Q4 2021.

Business investment in training shrank, the first drop since the recovery started in Q4 2020, with the net balance dropping by fifteen percentage points, from 21% to 6%. 26% (drop from Q4 2021) 35% of firms said they had raised spending on training over the previous three months, at the same time the proportion who said that investment had declined went up from 14% to 20%.

The net balance for training investment by micro-companies was -10%. Larger companies reported a net balance of 20%. The spending by larger firms typically outpaces their micro counterparts.

The challenge for businesses in attracting skilled staff remains ever present and will clearly be a barrier to growth for the local economy. It's important to note that in some sectors the labour shortage will not be addressed through skills training alone and that investment in new technology and new practices will be required.

More worrying is the decline in training investment which would seem counter intuitive to the obvious need to improve the skills and productivity of the current workforce. This will be an area that public sector intervention may be required.



83%

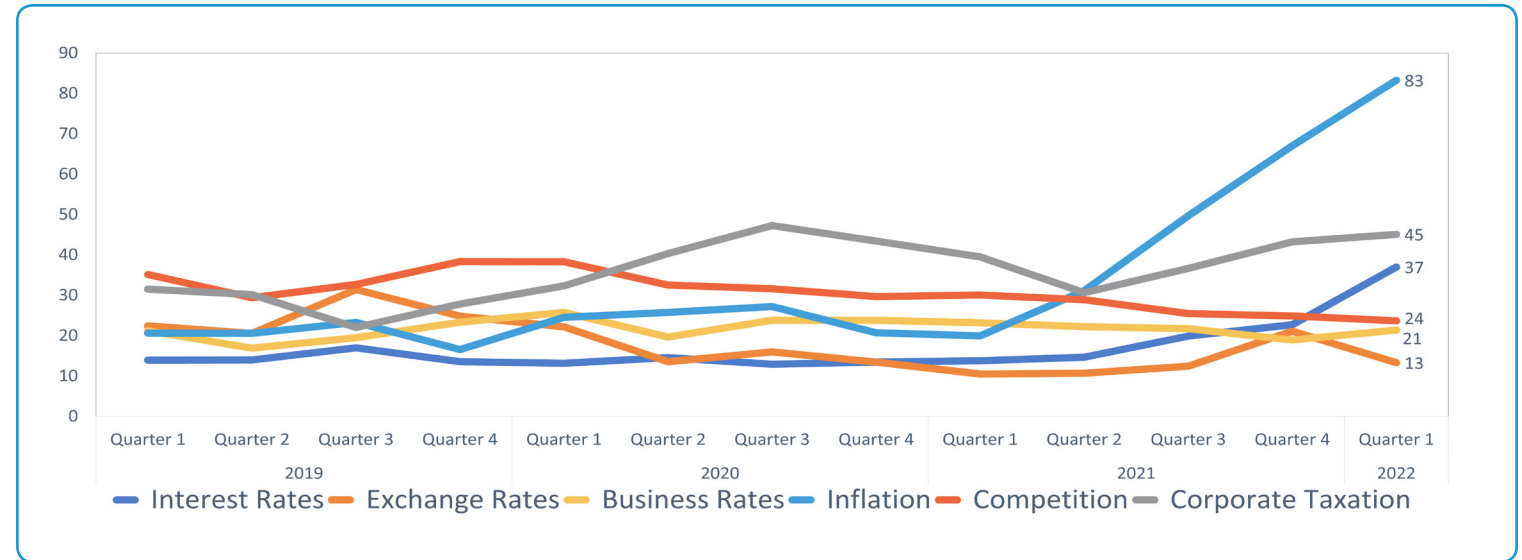
of Kent Businesses reported that **inflation** is more of a concern to business than 3 months ago



45%

of Kent Businesses reported that **corporate tax** is more of a concern to business than 3 months ago

INFLATIONARY PRESSURES



There is a silver lining between all this, the businesses who expect to increase their goods or services has dropped from 71% to 64%. 64% of firms expecting their prices to rise in the next three months is still a concerning number. For manufacturing firms, this rises to 77%. These are also the highest on record. Reflecting the national findings, only 1% overall expected a decrease in their prices.

When asked what was more of a concern to their business than three months ago, 83% of firms cited inflation which was the highest on record and a rise from 67% in Q4. The percentage citing interest rates as a concern also rose in the quarter. Nearly 1 in 3 (37%) reported interest rates as a concern, up from 23% in Q4.

Feedback from businesses:

“We have several fixed term contracts, rapid increases in inflation is effecting our operating cost and hence margin.”

“Recruitment challenges and inflation still remain key areas of challenge.”

The direct increase on the cost base for many businesses readily translates into either a hit on margins or an increase in the sales price.

Those businesses that have adopted a regular price increment will be better placed than those that have absorbed costs until now, leaving them with no choice but to deliver a sizeable lump sum increase.



58%

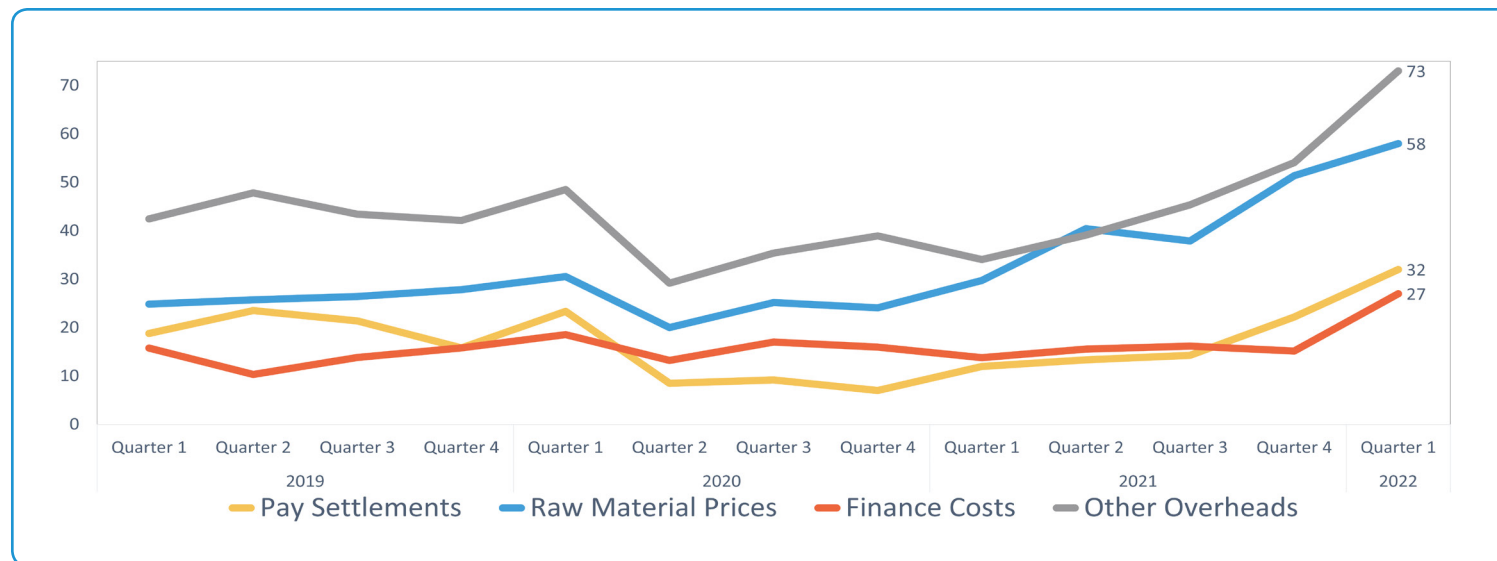
of Kent businesses reported an **increase** in their raw material costs last quarter



32%

of Kent businesses reported an **increase** in their pay settlements

BUSINESS COSTS



In the first quarter of 2022, all Kent's businesses were reporting a further boost in cost pressures.

Pay Settlements (wages) costs continued to rise sharply, from 22% to 32%. Both micro and larger companies reported intensifying pressure to raise wage offerings.

Raw material prices jumped from 51% to 58%. The driver for that is manufacturing firms. The manufacturing firms saying costs had increased over the previous three months for raw materials rose to 90%. Finance costs jumped from 15% to 27%. Other overheads costs jumped from 54% to 73%. The highest reading for all price pressures ever recorded.

Feedback from businesses:

"High wage demands and lack of suitable candidates pushing costs up significantly. Red tape also taking a considerable portion of available time."

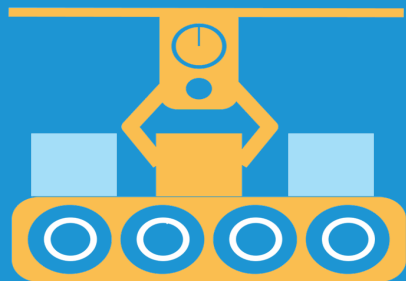
Business costs are under attack from many different sides and the ubiquitous nature of inflation combined with wage increases, will inevitably mean a hike in sales prices and a drop in profitability.

CASHFLOW AND INVESTMENT



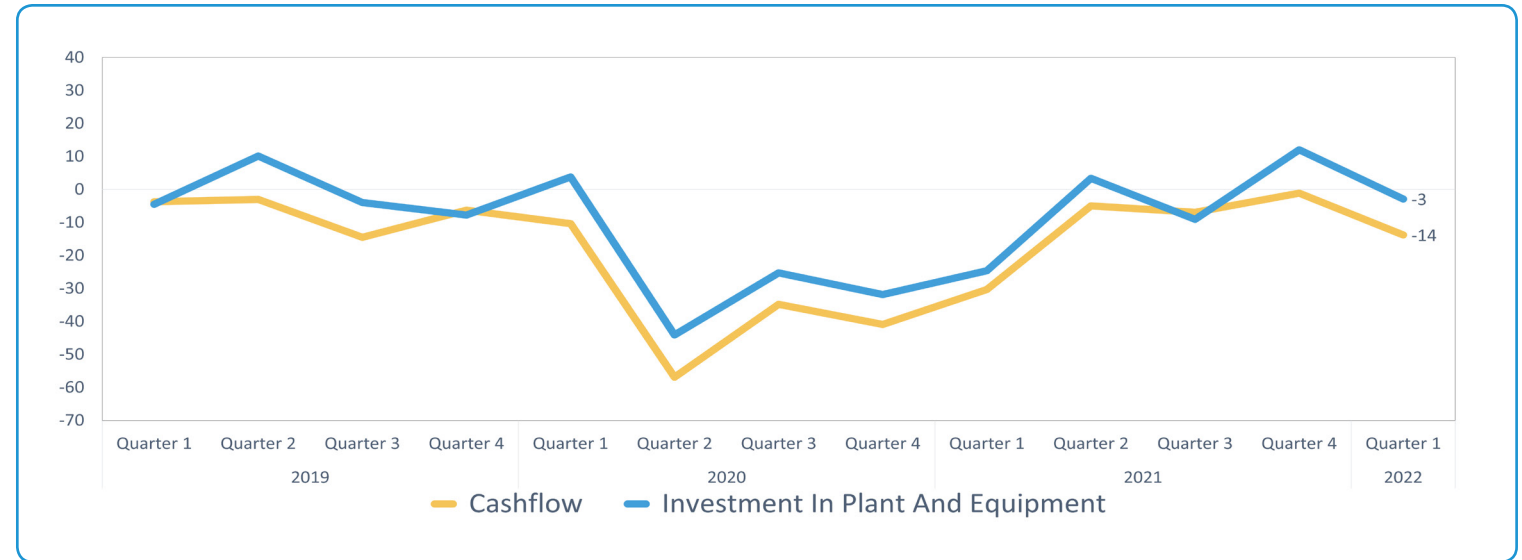
-14%

is the net balance of **Cashflow** for Kent Businesses in the last quarter



-3%

is the net balance of **Investment in Plant and Equipment** for Kent Businesses in the last quarter



Similar to sales, investment in training, and employment; businesses has seen a drop in cashflow and the investment in plant and equipment, after seeing an upturn in the last quarter of 2021. Cashflow has dropped after rising from negative balance to close to positive - drop from -1% to -14%. The proportion of companies who said cashflow had increased was slightly smaller (23%, versus 27% in Q4 2021), whereas there was a major rise in the share who said cashflow had fallen (37%, compared to 28% in Q4 2021). There was a slight drop in the percentage of firms who said they were operating at full capacity (41%, a drop of 7% from last quarter).

Investment in plant and machinery fell back into a negative after showing signs of recovery in the last quarter, with the net balance falling back from 12% to -3% in Q1 2022.

This was driven mainly by a smaller share of firms. The net balances for capital investment for both micro and larger businesses fell last quarter. Manufacturers' investment in plant and machinery took a hit, reporting a balance of -14%. For services, the net balance was 1%.

The correlation between rising costs, wage inflation and the impact on cashflow is clear. Alongside this, many businesses are now repaying government debt which when seen in the context of access to finance, makes investment more complex and riskier for all involved.

BUSINESS CONFIDENCE



37%

is the net balance of Kent Businesses who expect their **turnover** to improve



18%

is the net balance of Kent Businesses who expect their **profitability** to improve



Turnover expectations followed the drop from last quarter, with the net balance dropped down from 44% to 37%. Consistent with that, there was a drop in the share of firms who thought their turnover would increase (55%, fell by -4%), with the share who felt turnover would worsen, had also slightly increased (18% in Q1 2022, compared to 15% in Q4 2021). Furthermore, this drop was due to more pessimism in larger companies.

However, the decline in the turnover expectations balance was not mirrored by profitability expectations. Not saying that profitability didn't take a hit, it certainly did, but it became stagnant and didn't see a decline.

Profitability expectations for Kent's businesses was at a constant at 18% in Q1 2022: the drop from Q3 to Q4 of 2021 did not continue.

For both turnover and profitability expectations the larger companies seemed more optimistic that the total balance reflected business confidence. By a margin balance of approximately 10% more increase was expected by larger companies than by micro companies.

Confidence is waning slightly as uncertainty creeps in. The threat to existing profitability from an increasing cost base together with the availability of staff, is contributing to the growing sense of unease many businesses have. The future is not lost but there's going to be a squeeze.

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