Q2

QUARTERLY ECONOMIC REPORT

April - June 2022

British Chambers of Commerce Accredited

KENT INVICTA CHAMBER OF COMMERCE

JO JAMES OBE
Chief Executive
Kent Invicta Chamber of Commerce

The Kent economy continues to remain with caution, which is impacting on investment and growth. Although there are signs in some sectors that previous concerns are now starting to be alleviated, inflationary pressures, material shortages and difficulties in recruiting remain and are holding back both growth and investment.

Last quarter our hospitality and leisure sectors benefited from key national celebrations but this high will be short lived as the impact of inflationary pressures take their toll. As Utility costs continue to rise there is particular concern for this sector, which will be faced with significantly increased costs and a drop in demand as consumers tighten their belts.

Recruitment remains a key issue, since the pandemic many have stepped away from the jobs market, coupled with the change in policy following Brexit, businesses are struggling to find the staff they need to move forward. Salary costs are spiralling as businesses compete to attract new recruits, this then results in overall costs as they seek to address the differentials amongst the existing workforces. There is an opportunity here to look at investing in training the existing workforce to maximise productivity and to invest in Apprenticeships.

Whilst there has been some business investment over the past quarter, this has been weak, resulting in businesses seeking to retain cash as they are uncertain of what lies ahead.

We have all seen first hand the recent political debacle and now we face a period of paralysis awaiting a new Prime Minister to emerge and decide upon their direction of travel, at a time when the Country needs strong leadership and direction to instill confidence.

Last quarter, for a myriad of reasons, I wrote that businesses remain vulnerable, and this sentiment still applies.

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

23% is the net balance of **domestic sales** for Kent Businesses in the last quarter

17% is the net balance of **domestic orders** for Kent Businesses in the last quarter

DOMESTIC DEMAND

The national statistics remain buoyant but show a downward trend. Compared to that at a local level the domestic sales show a contrast. Domestic sales show a recovery from last quarter.

The Q4 2021 was at an all high since Covid-19 hit, with the net balance of domestic sales reported to be 33%.

Since then there was a drop in domestic sales reported but that has now recovered and pushed the net balance of domestic sales to 23%. The net balance – the percentage of firms noting an increase minus the percentage noting a decrease – recovered from 13% to 23%.

The share of firms who said domestic sales increased in Q2 2022 increased slightly from 37% in Q1 2022 to 41% this quarter, while fewer companies reported a decline in sales – dropped from 24% in Q1 2022 to 18% this quarter.

Turning to domestic orders, the net balance also recovered, same as domestic sales, from 10% to 17%. Companies reported an increase in orders (from 33% to 37%), while the proportion that said sales had dropped also shrank (from 23% to 20%).

Some encouraging signs from the last quarter which would reflect much of the anecdotal feedback from Members. Those in hospitality, events and leisure appear to be benefitting from a celebratory mood driven by consumer desire to socialise. Weddings, parties, celebrations, and the Jubilee seem to have made an impact. However, the inevitable hangover is starting to rumble in the background as we collectively reach for a cool flannel, as inflation and energy prices begin to bite.

-6% is the net balance of **export sales** for Kent Businesses in the last quarter

-3% 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 slight recovery in Q2 2022, still not making its way to a positive net balance figure (which was last seen in Q4 2018).

The net balance for export sales recovered from -25% to -6% in Q2: 21% of firms said sales had increased over the previous three months, slight improvement from 14% in Q1 2022. The proportion of companies reporting a decline in export sales has shrank slightly (27% in Q2 2022, reduced from 39% in Q1 2022).

For export orders, demand stayed level in Q2 although at a slight recovery at a slow pace. The net balance for export orders climbed from -19% to -3%, with 23% of firms reporting an increase in orders.

Businesses enthusiasm for export amongst SMEs remains flat with large businesses doing a lot of the work to plug the gap. Despite the increased optimism shown by the figures, we remain a long way off from where we were and the ongoing saga of the NI Protocol, Brexit friction and global economic uncertainty remains an anchor for many.

28% is the net balance of **Employment Expectation** for Kent Businesses in coming quarter

14% is the net balance of **Employment Levels** for Kent Businesses in the last quarter

LABOUR MARKET

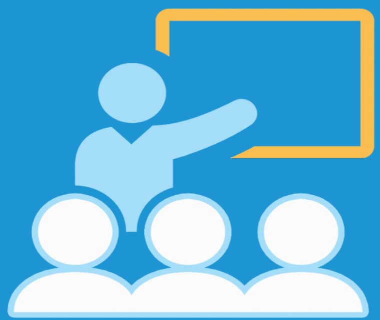
The number of payroll employees in Kent showed an increase in Q1, in line with the drop in national unemployment rate at 3.8% (April 2022) as per the ONS, and continues to show a continuous drop. The net balance of employment level over the last three months was halved last quarter but has since recovered from that drop. The proportion of firms who said their workforce levels had increased over the previous quarter recovered slightly from 24% to 28%, while there was also a small decrease in the share who said their workforce had shrunk (from 15% to 14%).

This was driven mainly by the service sector: the net balance was 16% whereas for the manufacturing sector: the net balance was 8%. Service sector companies reported that staff employed in the past 3 months had increased, twice as many as the manufacturing sector. However, the net balance for employment expectations remained constant in Q2 2022 at 28%. This seems to be the pattern for three consecutive quarters now.

34% of firms said that they expected their workforce to increase in size over the coming three months (an increase of 1% from last quarter), reflecting the stagnancy in proportion, 60% (a dip of 1% from last quarter). There is an even split of expectations of the workforce to grow in the manufacturing and service sectors.

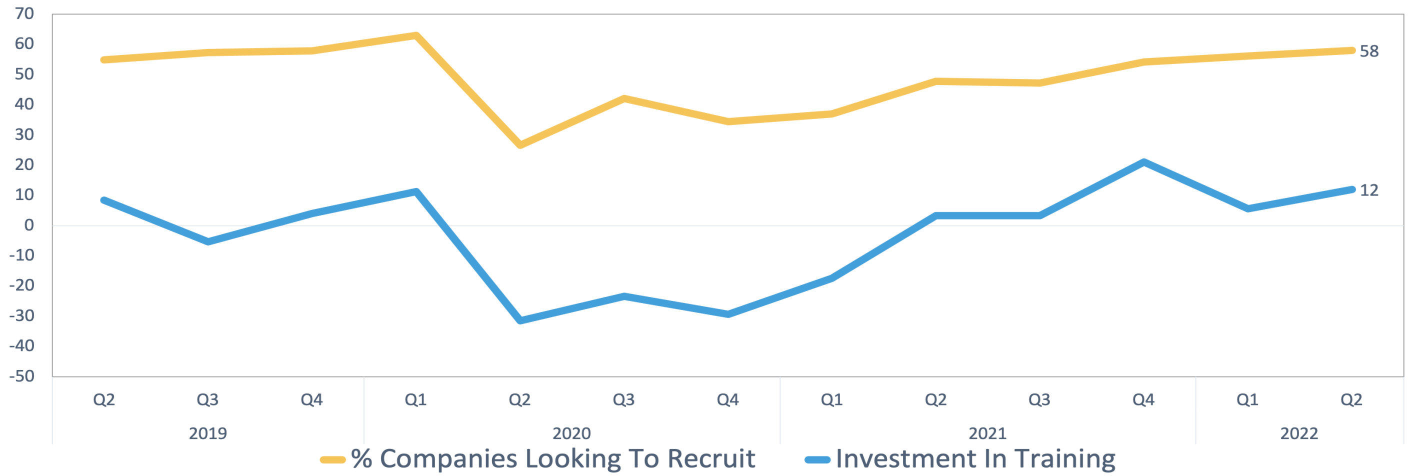
Employers remain upbeat about their ability to attract staff going forward, however, the reality seems to be at odds with their expectations. This could be explained away by the fact that “if they had the staff” they would expand.
Whilst encouraging, it would suggest that some employers are waiting for things to change rather than taking a proactive response.

58% of Kent businesses reported that they had looked to recruit in the last quarter



12% is the net balance of **Investment in Training** for Kent Businesses in the last quarter.

RECRUITMENT AND TRAINING



Reflecting on the national results, the local statistics showed the percentage of firms facing recruitment difficulties remains at record highs. There was a slight increase in the share of firms who had attempted to recruit in the previous three months, from 56% to 58%. This was driven by the manufacturing sector who were slightly more active this quarter in terms of hiring (66% said they had looked to recruit). Plus, 56% of service sector companies were looking to hire.

Of those attempting to recruit, 79% said they found it difficult to recruit - this was down slightly down from 84% in Q1 2022.

Business investment in training shows a slight recovery from the decrease last quarter in Q1 2022, with the net balance increasing twice as much, from 6% to 12%. 25% (drop from Q1 2021) 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 from 20% back to 13%.

There is an even split in manufacturing and service sector companies planning to invest in training.

Despite the challenges of recruiting staff, and a marginal increase in training investment, employers still seem slow to invest in existing staff which would seem to be the logical option.
As has been reported in the Local Skills Improvement Plan here, the labour shortage is not going to be solved quickly and therefore automation and technical productivity would seem the direction of travel.

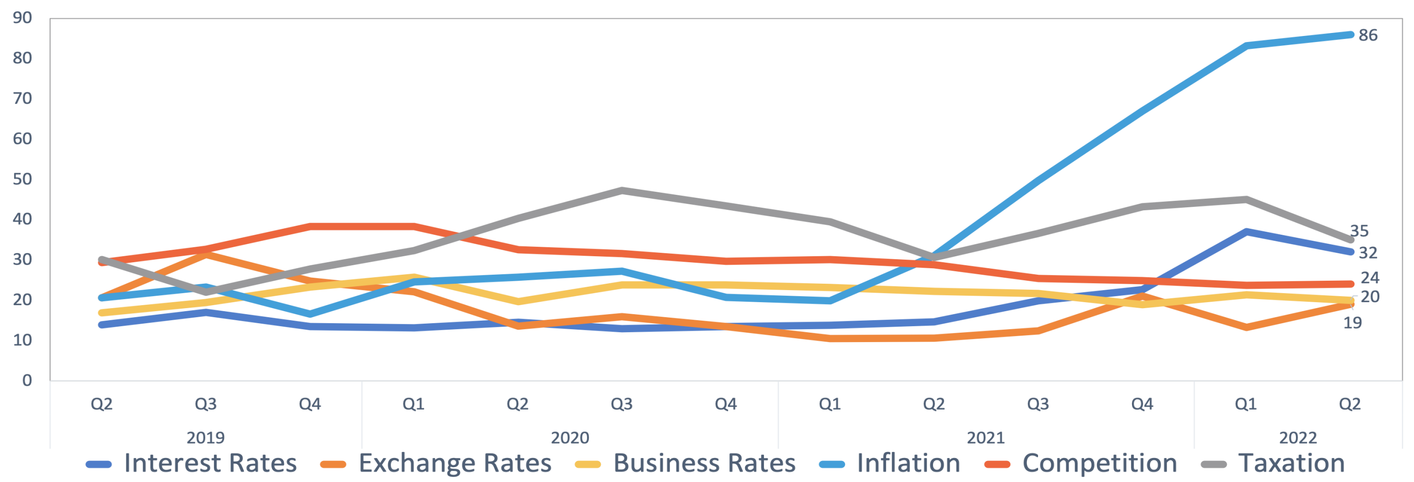
INFLATIONARY PRESSURES

86%

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

35%

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



Inflation indicators are far beyond anything we've seen before. The businesses who expect to increase their goods or services costs increased from the dip last quarter, 67% from 64%. Reflecting the inflationary concerns. 67% of firms expecting their prices to rise in the next three months is a very concerning number. Measures for inflation are at the highest levels on record with 2 in 3 firms expecting to raise prices and no sign of this is levelling off.

The price increase expectation is driven by the manufacturing sector. For manufacturing firms, this rises to 85%, more than 4 in 5, significantly higher than the increase expected reported by the service sector i.e. 62%. Reflecting the national findings, only 1% overall expected a decrease in their prices.

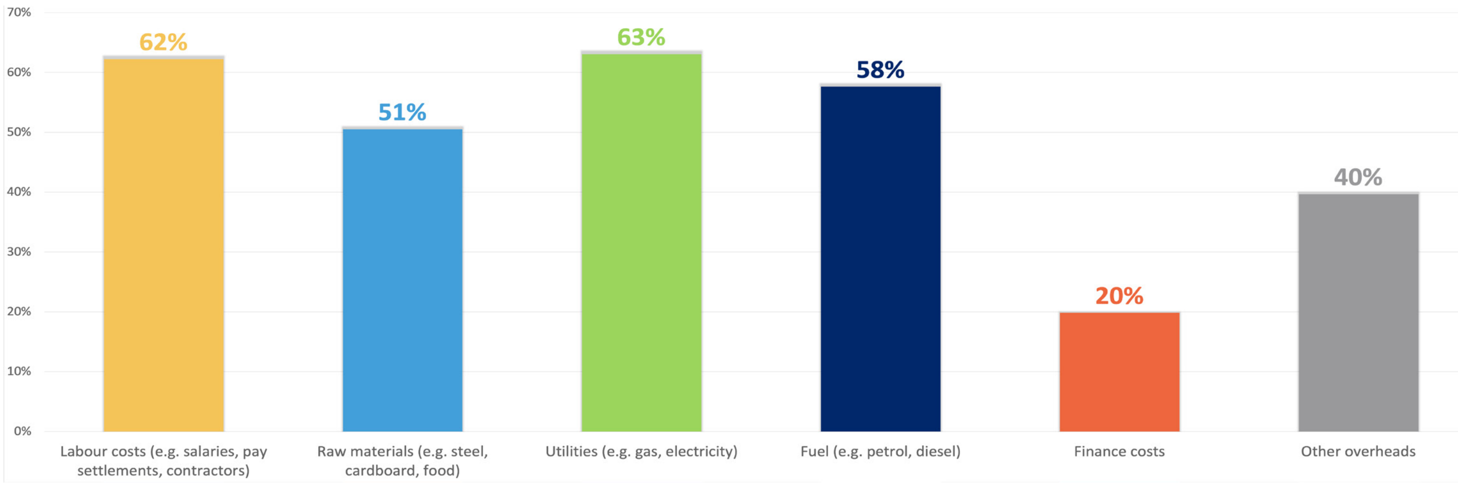
"The government increase of VAT from 5% to 12.5% and now 20% over 3 months is potentially very damaging to business growth and security, we are not alone in still struggling to recover from the impact of Covid-19 and now a likely recession and high inflation, it could stop us in our tracks after making it this far, and with the business still growing it is soul destroying!"
- Business from Hospitality Sector

As expected, inflation is a growing concern for the majority of respondents. The rise in material prices and particularly the rise in utility costs is having an impact, coupled with shortages in materials, this is likely to impact on future investment. Many small businesses are now faced with having to pay loans taken out during the pandemic at a time when costs are rising and demand slowing. More needs to be done to mitigate the impact.

BUSINESS COSTS

51% of Kent businesses reported an **increase** in their raw material costs last quarter

62% of Kent businesses reported an **increase** in their labour costs



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

Labour costs (e.g. salaries, pay settlements, contractors) costs continued to rise sharply, from 32% to 62%. Both manufacturing and the service sector reported intensifying pressure to raise wage offerings. Raw material prices jumped from 58% to 62%. The driver for that is manufacturing firms. 85% of manufacturing firms reporting price pressure from raw material over the previous three months.

Following this, utilities at 63% and fuel prices at 58% are also significant drivers that pressurise the companies to raise its prices. Finance costs at 20%. Other overheads costs 40%. The highest reading for utilities, labour costs and fuel.

"Energy price increases and supply chain issues are biggest brakes on our market sector. Businesses are going bust as a result of material price increases whilst locked into fixed price contracts." **- Business from Construction Sector**

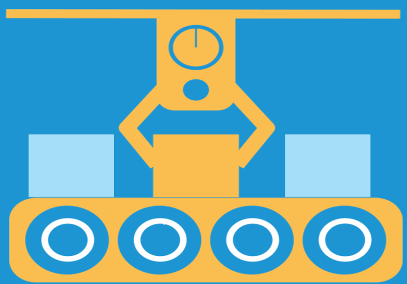
"Cost of parts etc from Europe increasing in price rapidly with longer delays." **- Business from Hospitality**

"A shortage of labour is hurting all sectors and creating wage inflation." **- Business from Professional Sector**

The global nature of our supply chain serves to highlight our reliance and dependence on other countries. This should be a wake-up call for many businesses, some of whom have started to "re-shore" production and focus more on their domestic market. With many forces outside of our domestic control, it is likely that this turbulence will continue to affect trade.

1%

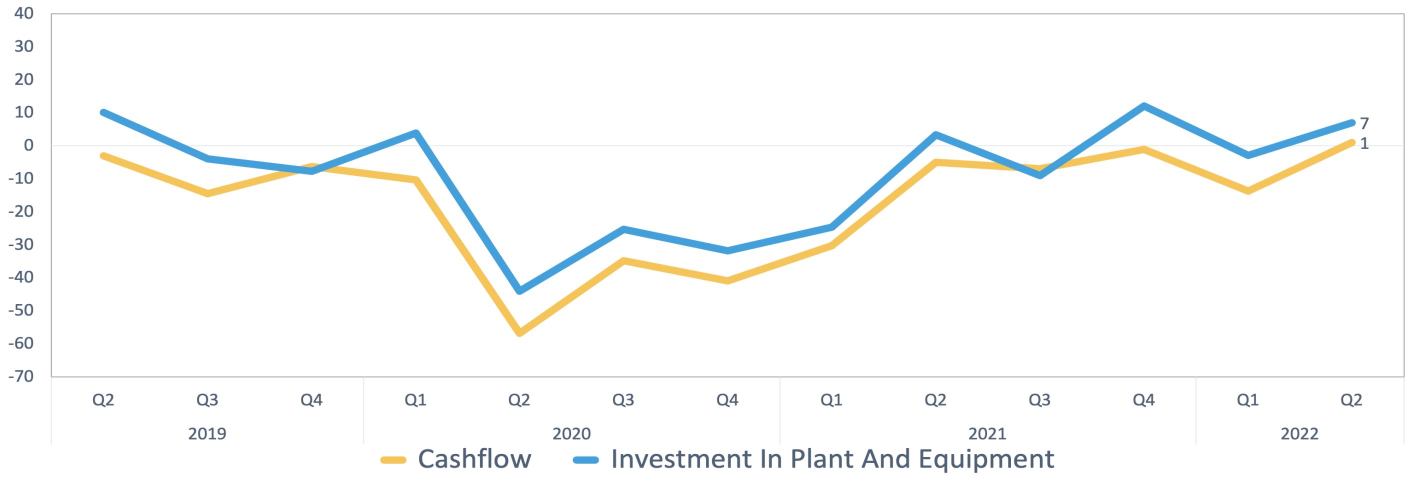
is the net balance of **Cashflow** for Kent Businesses in the last quarter



7%

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

CASHFLOW AND INVESTMENT



Similar to sales, investment in training, and employment; businesses have seen a slight increase in cashflow and the investment in plant and equipment, after the drop in the Q2 2022.

Cashflow net balance is again back to a positive reading since the drop in the last quarter. A recovery from -14% to 1%. This has been pulled down significantly by the response from manufacturing, as 35% said cashflow decreased, 10% higher than total and the service sector's response.

The proportion of companies who said cashflow had increased was slightly bigger than last quarter (29%, versus 23% in Q1 2022), the firms who said cashflow had fallen shrank (28%, compared to 37% in Q1 2022).

Investment in plant and machinery fell back, showing some recovery, with the net balance rising to 7% from -3% in Q1 2021. Still, three-quarters (75%) of firms reported no increase or decrease to investment in plant and equipment. There is an even split planning of investment in plant and machinery in manufacturing and service sector.

Whilst we see some investment, the growth in cash retention is a familiar indicator of an uncertain future and reflects business confidence. With key challenges such as finding new exports markets, climate change and labour shortages, the need to invest is perhaps more important then ever in order for the UK to remain competitive. The British Business Bank has a role to play here to stimulate the market.

BUSINESS CONFIDENCE

33% is the net balance of Kent Businesses who expect their **turnover** to improve

13% 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 going down from 37% to 33%. Consistent with that, there was a drop in the share of firms who thought their turnover would increase (53%, fell by -2%), with the share who felt turnover would worsen had also increased (20% in Q2 2022, compared to 18% in Q1 2021). Furthermore, this drop was due to more pessimism in manufacturing companies.

The decline in the turnover expectations balance was also mirrored by profitability expectations. Profitability took a hit, gradually declining after being stagnant in the last quarter. Profitability expectations for Kent's businesses reported a balance of 13% in Q2 2022: drop from 18% in Q1 2022 to 13% in Q2 2022.

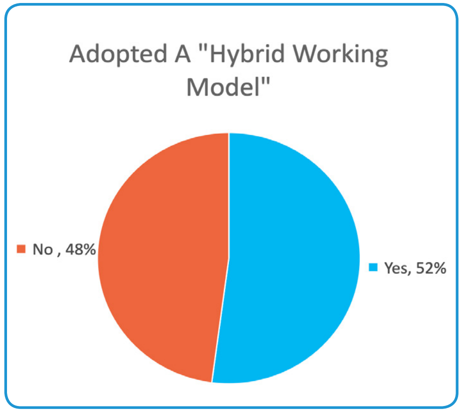
For both turnover and profitability expectations, the manufacturing sector companies seemed more pessimistic than the total balance reflected business confidence. And for both turnover and profitability expectations, the service sector companies seemed more optimistic than the total balance reflected in business confidence.

Not surprisingly, among many SMEs their willingness to pass on price increases to customers is very low, leading to a reduction in profitability. Understandably, the fear of losing customers to cheaper competitors is a difficult conundrum to resolve. This conflict translates into a general drop in confidence about the future which in turn leads to reductions in investment and planning for growth. Regardless of the current Government's internal concerns, the pressure is on to provide incentives to those businesses that can make a difference.

WORK FROM HOME SENTIMENT

52% of Kent Businesses adopted to **“Hybrid Working Model”** since the pandemic

40% of Kent Businesses intend to make the **“Hybrid Working Model”** permanent

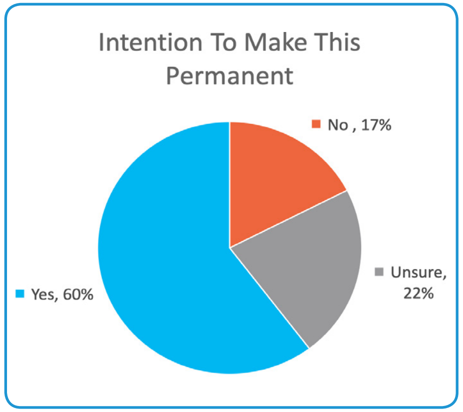


Since the world has started to get back to normality, it is of utmost interest for us to see the work culture that the companies locally are looking to adopt in more stable times in the long run.

When asked if Kent Businesses have adopted to a “Hybrid Working Model” since the pandemic, 1 in 2 (52%) said “Yes”.

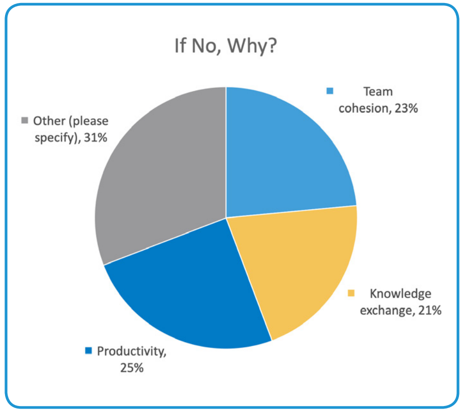
If we look at the sectorial split of this, then we can see that the service sector was more open to this model, 60% of service sector, companies said yes.

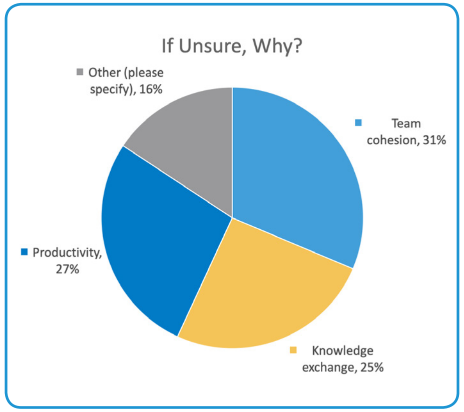
As we know this model does not really work for the manufacturing sector but still, 50% of companies said yes.



We wanted to see if companies plan on going back to normal office working or stick with the hybrid model. When we asked if Kent Businesses intend to make the “Hybrid Working Model” permanent, 60% said “Yes”. Looking at the sectorial split again 75% of service sector has become a driver for this 60% optimistic number.

Whereas in reality other sectors might not prefer it too much. Biggest reason altogether for the 40% being unsure or a complete no is Team Cohesion and secondly, followed by a slight margin is Productivity.





What seems to be coming through clearly is that for those businesses able to accommodate hybrid working, this way of working is here to stay. An innocuous decision however, the impact on lunchtime economy, city centres, commuter reliant businesses as well as property prices is significant. The change to our normal economic behaviours looks set to last and policy makers need to respond to the changing landscape. Employers too need to adjust how they manage their workforce, maintain a sense of culture and cohesion and the wellbeing of their staff.

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