

Q2

QUARTERLY ECONOMIC REPORT

May - June 2026



Resilience at Home, Challenges Abroad

The second quarter of 2026 presents a mixed picture for Kent and Medway businesses. Domestic sales have shown encouraging signs of resilience, improving to a net balance of 0%, while recruitment activity has strengthened significantly, with 61% of businesses reporting that they have attempted to recruit during the quarter. However, employment levels and expectations remain relatively low, indicating that much of this recruitment is likely replacing existing staff rather than supporting growth.

However, these positive indicators are being offset by a deterioration in international trade. Export sales and orders have fallen sharply, particularly within the manufacturing sector, highlighting the challenges businesses face from geopolitical uncertainty, changing global trading conditions and increased overseas competition. Cashflow and investment remain under pressure, while concerns around inflation, interest rates and competition have grown compared with the previous quarter.

This quarter's survey also explored youth employment, employer attitudes towards minimum wage alignment for under 21s and changes to apprentice pay rates. These findings come as the Chamber prepares to publish its updated Local Skills Improvement Plan (LSIP) report, which will provide further insight into the workforce, skills and recruitment challenges facing employers across Kent and Medway.

The impact of the Iran conflict emerged as a key theme, with nearly six in ten businesses reporting negative effects through higher fuel costs, supply chain disruption and increased operating expenses. While domestic demand has remained resilient, concerns about profitability, investment and future growth continue to grow.

Despite these challenges, businesses continue to demonstrate resilience and adaptability. We thank all businesses that contributed to this survey and encourage organisations to continue sharing their experiences, ensuring the voice of business is heard where it matters most.



Tudor Price

Chief Executive, Kent Invicta Chamber of Commerce



TUDOR PRICE

Chief Executive

Kent Invicta Chamber of Commerce



GET INVOLVED



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.

For further information: To get full data or any further clarification please contact Lucy Druesne - lucy@kentinvictachamber.co.uk

Take a look at the national QES: www.britishchambers.org.uk/insights-unit/quarterly-economic-survey

**WHERE
BUSINESS
BELONGS**
BE IN GOOD COMPANY

DOMESTIC DEMAND



0% net balance for domestic sales among Kent businesses



-9% net balance for domestic orders among Kent businesses



Domestic sales strengthened during the quarter, with the net balance improving from -2% to 0%, indicating that the number of businesses reporting increased sales matched those reporting a decline. Overall, 29% of businesses reported an increase in UK sales, while 29% reported a decrease, resulting in a net balance of 0%, an improvement of 10% on last quarter.

Domestic orders remained under pressure. While 24% of businesses reported an increase in orders, 33% reported a decrease, resulting in a net balance of -9%.

The manufacturing sector continued to recover from a weak previous quarter. Domestic sales improved by 20% but remained negative overall at -9%, while orders improved by 12% to -5%.

The service sector returned a positive net balance of 4% for sales, up 17% on last quarter. However, orders remained negative at -11%, despite a modest improvement from the previous quarter.

Overall, domestic sales showed resilience despite ongoing cost pressures. However, businesses highlighted concerns that the Iran conflict is beginning to affect international demand and supply chains. While the impact on domestic activity has so far been limited, businesses expect geopolitical uncertainty to have a greater influence on sales and orders in the coming quarter.

“Delays in publishing the UK Government defence investment plan have had a significant impact on our business order pipeline”

Public sector, education, health, social work or voluntary sector



-19% net balance for export sales



-23% net balance for export orders

EXPORT DEMAND



Export performance weakened during the quarter, although levels remain above those seen at the same point last year. Business feedback suggests that geopolitical uncertainty, particularly the Iran conflict, is a significant factor affecting international trade.

The net balance for export sales fell to -19%, down 15% from the previous quarter. Overall, 10% of businesses reported an increase in export sales, while 29% reported a decrease.

The manufacturing sector experienced the sharpest decline, recording a net balance of -57%. Within the sector, 71% of businesses reported falling export sales, compared with just 14% reporting growth. The service sector performed more strongly, although still remaining negative, with a net balance of -8%.

Export orders also deteriorated significantly, falling from -4% last quarter to -23% this quarter. While 10% of businesses reported an increase in export orders, 33% reported a decrease and 57% reported no change.

Both manufacturing and service businesses reported negative export order balances, at -50% and -17% respectively. The results suggest that Kent manufacturers are facing increasing pressure from global market uncertainty, including international trade disruptions, geopolitical tensions and growing overseas competition. If these challenges persist, the outlook for export-led growth in the manufacturing sector is likely to remain difficult over the coming months.

"Trading with the USA is more complex with new tariffs and a volatile exchange rate."

Manufacturing sector business

LABOUR MARKET



0%

net balance for
employment
expectations



Kent's unemployment rate currently stands at 3.4%.

Employment levels remained broadly flat during the quarter, with the net balance for employment levels standing at 0%. While hiring activity has slowed compared with previous quarters, businesses are showing slightly greater confidence about future recruitment, with employment expectations increasing to a net balance of 5%.

Over the last three months, 21% of businesses increased staffing levels, while 17% reported a reduction in employment. This represents weaker employment growth compared with the previous quarter.

Looking ahead, 26% of businesses expect to increase their workforce over the next three months, while 11% anticipate reducing staff numbers. Recent Chamber roundtable discussions and additional survey questions suggest that challenges around youth employment may be contributing to recruitment difficulties.

Both the manufacturing and service sectors reported positive employment trends. Manufacturing recorded net balances of 9% for current employment levels and 29% for future employment expectations. The service sector also reported positive figures, with net balances of 11% for employment levels and 9% for employment expectations.

Overall, while employment growth has slowed, businesses remain cautiously optimistic about recruiting over the coming months despite ongoing labour market challenges.

“Overhead costs already too high. Young people take time and resource to train then move on to other companies that can afford higher salaries. My business is not a training organisation.”

Transport, logistics and storage business



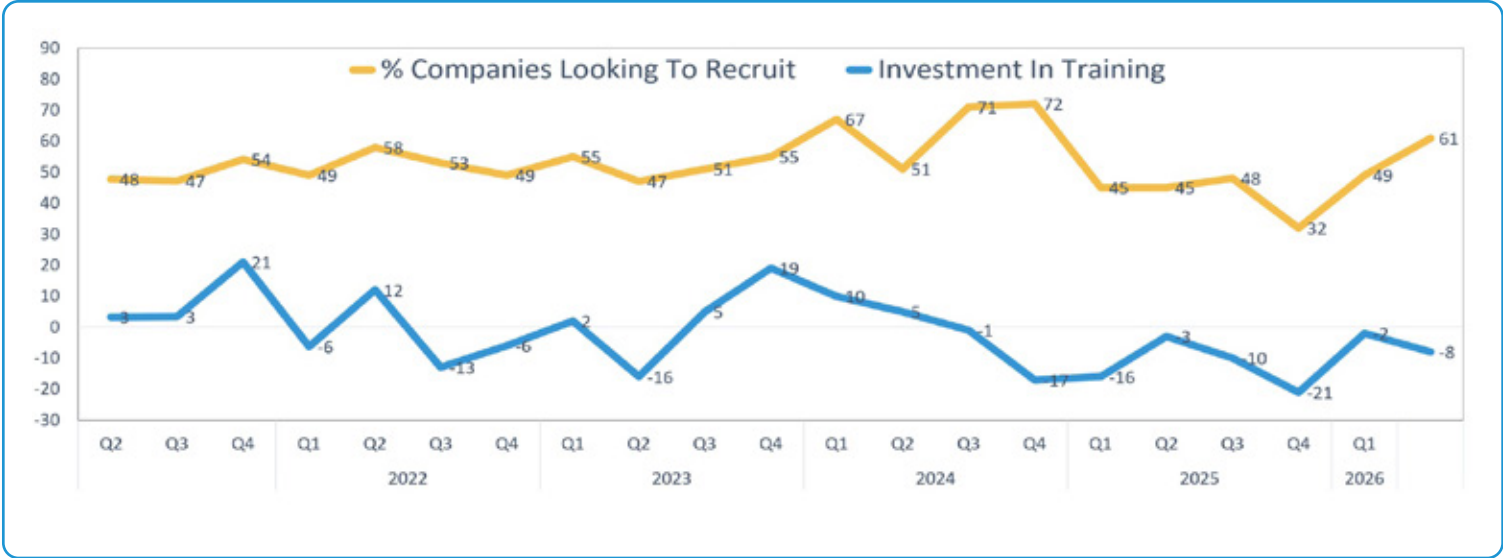
5%

net balance for
employment levels

RECRUITMENT AND TRAINING



61% of businesses attempted to **recruit** during the quarter



Recruitment activity increased significantly this quarter, with 61% of businesses reporting that they had attempted to recruit staff over the past three months, up 12% on the previous quarter.

Both the manufacturing and service sectors reported identical recruitment activity levels, with 61% of businesses in each sector actively recruiting. Recruitment activity remained stable in manufacturing while increasing within the service sector.

Investment in training continued to decline, with the net balance falling slightly from -7% last quarter to -8% this quarter.

The service sector recorded a positive net balance of 7%, while manufacturing businesses reported a net balance of -9%.

Within manufacturing, 21% of businesses increased training investment, 30% reduced it, and 54% maintained current levels.

The continued decline in training investment reflects a long-running trend that has persisted for more than two years. Feedback from businesses and Chamber roundtable discussions suggests that rising operating costs are increasingly limiting organisations’ ability to invest in workforce development and skills training.



-8% net balance for **investment in training**

“They (under-21s) are so much hassle to train and make into functional staff. If they are no longer cheap why would you even bother with the headache.”
 Service sector business



57%

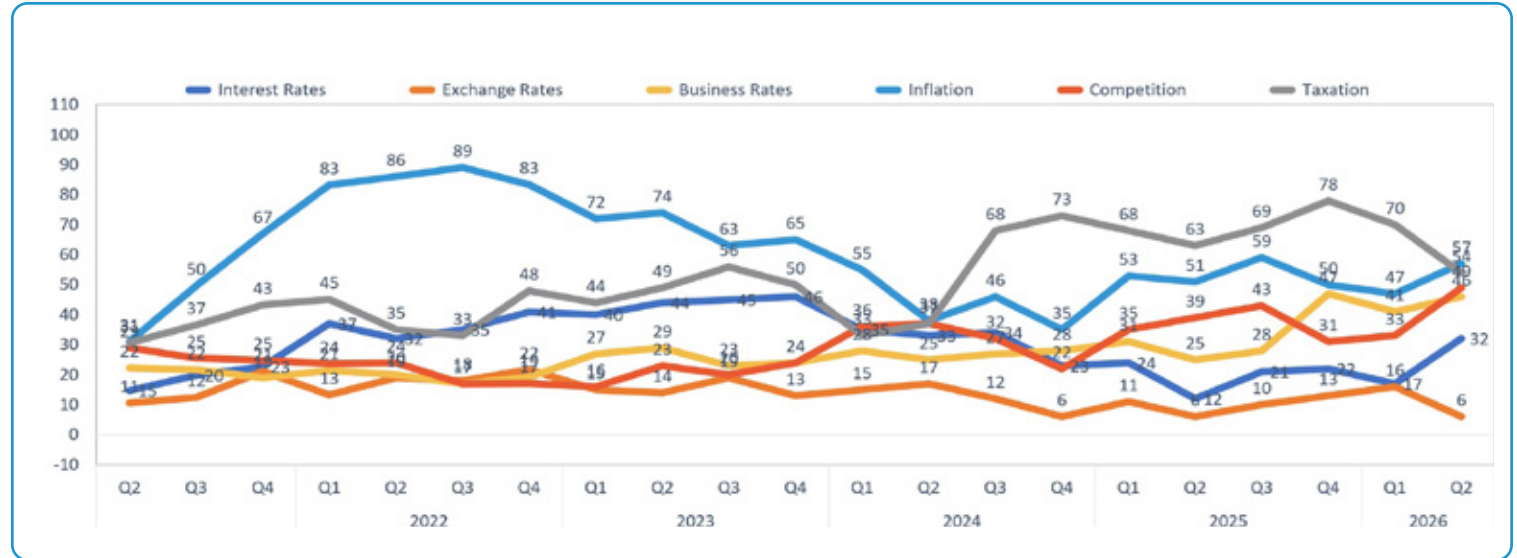
of Kent businesses reported that **inflation** is a greater concern than it was three months ago.



54%

of Kent businesses reported that **taxation** is a greater concern than it was three months ago.

INFLATIONARY PRESSURES



Inflationary pressures remain a significant challenge for Kent businesses. Most cost-related concerns increased during the quarter, with taxation showing a decline and exchange rates remaining a relatively minor issue. Inflation continues to be the leading concern, with 57% of businesses reporting that it has become a greater issue, representing a 10% increase on last quarter.

Although taxation remains a major concern, the proportion of businesses citing it fell from 70% last quarter to 54% this quarter. Concern over interest rates increased sharply, rising from 17% of businesses last quarter to 32% this quarter, reflecting ongoing uncertainty around borrowing costs.

Competitive pressures also intensified, with 49% of businesses reporting concern about competition, up from 33% in the previous quarter.

Business rates remain a persistent issue, increasing from 41% to 46% of respondents and continuing a trend seen over recent quarters. Exchange rates generated the lowest level of concern, with just 6% of businesses identifying them as an issue.

Overall, the findings suggest that businesses are facing mounting pressure from inflation, rising borrowing costs and increasing market competition, all of which continue to weigh on business confidence and future growth plans.

“Over the past three months, business activity has remained steady, but cost pressures continue to impact operations. Rising labour, fuel, and compliance costs have affected margins, while clients remain cautious with spending and procurement decisions. Despite these challenges, specialist cleaning and PPE laundry service opportunities remain strong within construction and infrastructure sector and overall business confidence is stay positive.”

Consumer services business

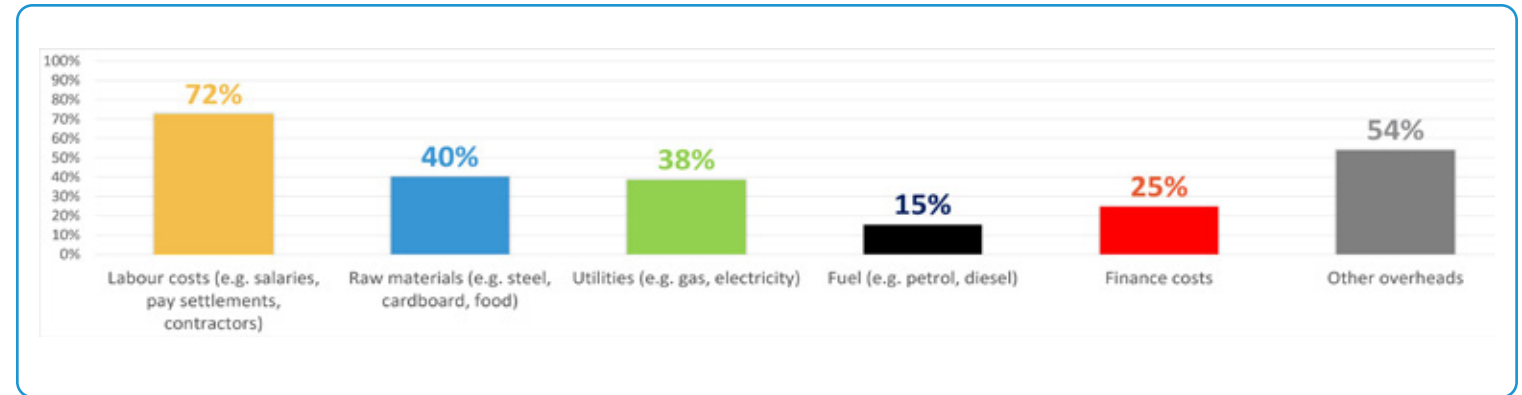
BUSINESS COSTS



54% of Kent businesses reported an **increase** in their overheads



72% of Kent businesses reported an **increase** in their labour costs



Cost pressures remained largely unchanged during the quarter, suggesting that many businesses continue to face sustained rather than short-term increases in operating expenses.

Labour costs remain the most significant pressure, with 72% of businesses reporting increases, slightly up from 71% last quarter.

Other overhead costs continued to affect more than half of respondents, with 54% reporting increases, unchanged from the previous quarter.

Raw material costs also remained a concern, with 40% of businesses reporting higher costs. Feedback suggests that geopolitical uncertainty, including the Iran conflict, may be contributing to continued pricing pressures in some supply chains.

Utility costs were reported as increasing by 38% of businesses, while 25% reported rising finance costs. Both figures are unchanged from last quarter.

Fuel costs were identified as an increasing cost by 15% of respondents. While this appears relatively low, it may reflect the limited number of responses from sectors such as transport and haulage, where fuel price increases are often more acute.

The wider impact of fuel costs linked to the Iran conflict is explored later in the report.

The consistency of these figures from quarter to quarter highlights the persistent cost burden facing many Kent businesses, with little sign of easing pressure on margins.

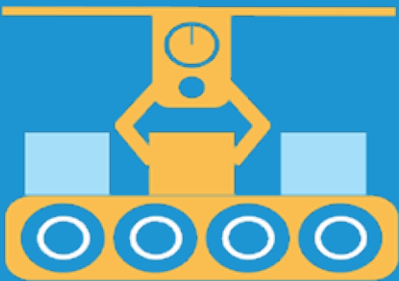
“Raw materials increases over 50% every month (since the Iran conflict started)”

Manufacturing sector business

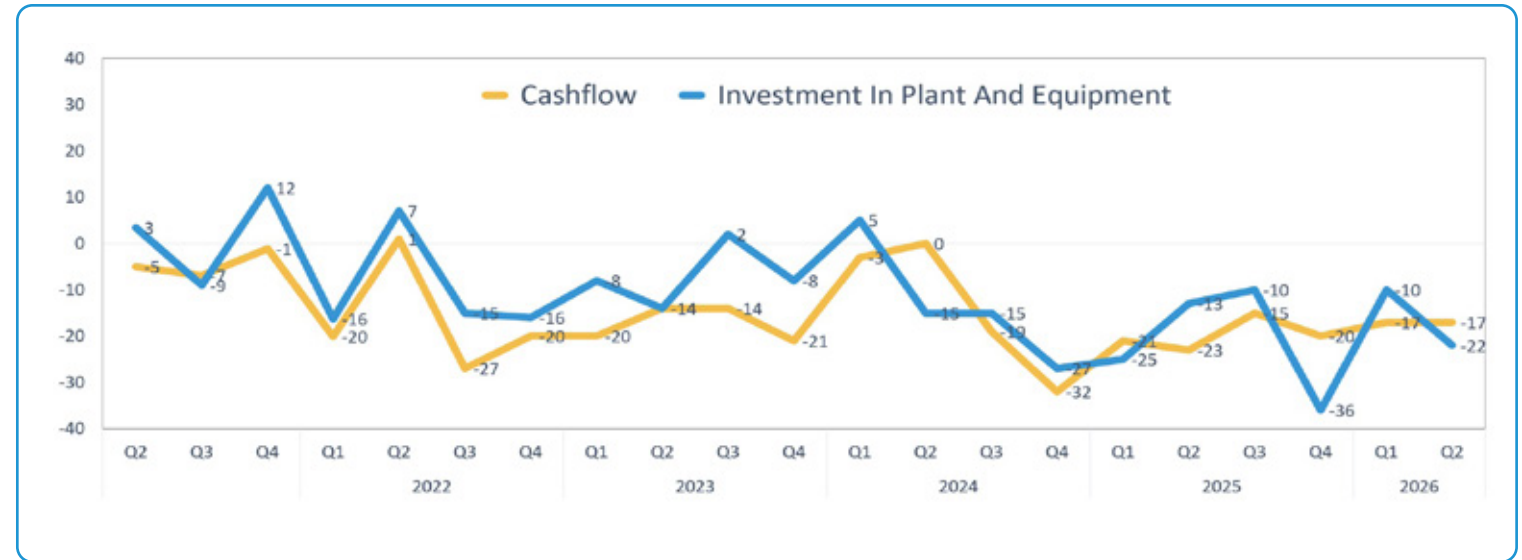
CASHFLOW AND INVESTMENT



-17% net balance of **Cashflow** for Kent Businesses in the last quarter



-22% net balance of **Investment in Plant and Equipment** for Kent Businesses in the last quarter



Cashflow conditions remained challenging during the quarter, with little change from the previous survey. The net balance remained at -17%, indicating that more businesses experienced worsening cashflow than improvement.

Overall, 13% of businesses reported improved cashflow over the last three months, while 40% reported deterioration and 47% reported no change.

The service sector reported slightly weaker cashflow performance, with 11% of businesses seeing an improvement, 53% reporting no change and 36% reporting a decline. In manufacturing, 17% reported improved cashflow, but almost half (48%) reported worsening cashflow conditions.

Investment levels also remained subdued. Just 14% of businesses increased spending on plant and machinery, while 36% reduced investment and 50% maintained existing expenditure levels.

Both manufacturing and service sector businesses reported similar investment patterns, with only 14% increasing investment. Conversely, 32% of manufacturers and 39% of service sector businesses reduced capital spending.

The findings suggest that continued pressure on cashflow and profitability is limiting businesses' willingness to invest, with many organisations choosing to preserve cash and delay major expenditure decisions until economic conditions improve.

"...the worsened financial situation of our clients. They need longer to pay. Increased energy costs have a negative impact on them..."

Professional service sector business

BUSINESS CONFIDENCE



10%

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



Business confidence has weakened following the modest improvement seen in Q1 2026. Profitability expectations declined significantly during the quarter, with the net balance falling from -10% to -20%.

Rising operating costs and ongoing geopolitical uncertainty are continuing to place pressure on business margins, limiting profitability despite resilient sales expectations.

While confidence in profits has fallen, businesses remain more positive about future turnover. Overall, 41% of respondents expect turnover to increase over the next three months, compared with 31% expecting a decline, resulting in a positive net balance of 10%.

The gap between turnover and profitability expectations highlights a key challenge for businesses: although demand remains relatively robust, rising costs are making it increasingly difficult to convert revenue growth into profit.

Manufacturing businesses were more optimistic about future turnover than service sector firms. The sector recorded a net turnover growth expectation of 26%, with 43% expecting turnover to increase.

The service sector recorded a more modest net balance of 2%, with 40% expecting turnover growth and 38% anticipating a decline. Although still weak, this represents a slight improvement on last quarter's figure of -2%.

Overall, the findings suggest that businesses remain cautiously optimistic about future sales, but concerns over profitability continue to weigh on confidence, investment and workforce development plans.

"Businesses we meet are not happy with government policies which appear to favour large global corporates."

Manufacturing sector business



-20%

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

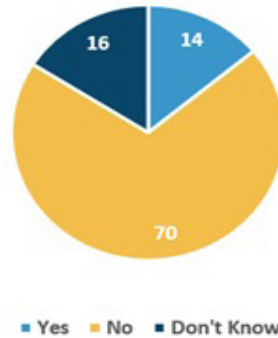
EMPLOYMENT OF UNDER 21s



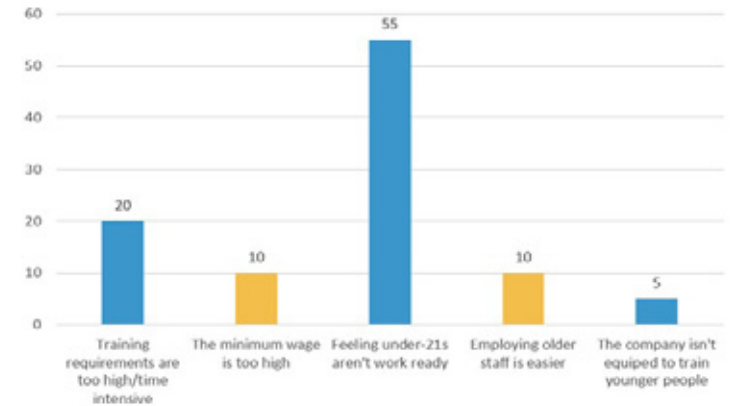
70%

of Kent Businesses said they are **not currently looking** to employ anyone under the age of 21

Do you intend to employ anyone under the ages of 21 in the next 6 months? (%)



If not, why? Is there something in particular that is holding you back from employing an under 21 year old and is the national living wage a factor? %

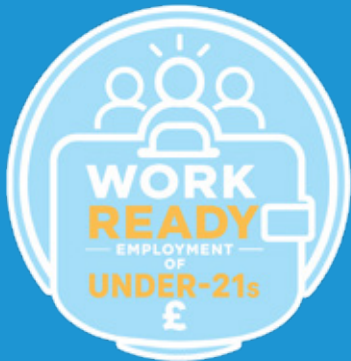


This quarter, the Chamber explored attitudes towards youth employment and the potential impact of aligning the National Minimum Wage for under 21s with the standard adult rate.

The findings highlight a significant reluctance among employers to recruit younger workers. As shown in the chart, 70% of respondents said they are not currently looking to employ anyone under the age of 21.

Businesses cited a range of factors behind this reluctance, including the cost of recruitment and training, concerns over staff retention, and wider financial pressures facing employers. Feedback from both the survey and Chamber discussions suggests that rising employment costs are making it increasingly difficult for some businesses to invest in younger members of the workforce.

The bar graph provides a detailed breakdown of the reasons businesses gave for not recruiting under-21s.



55%

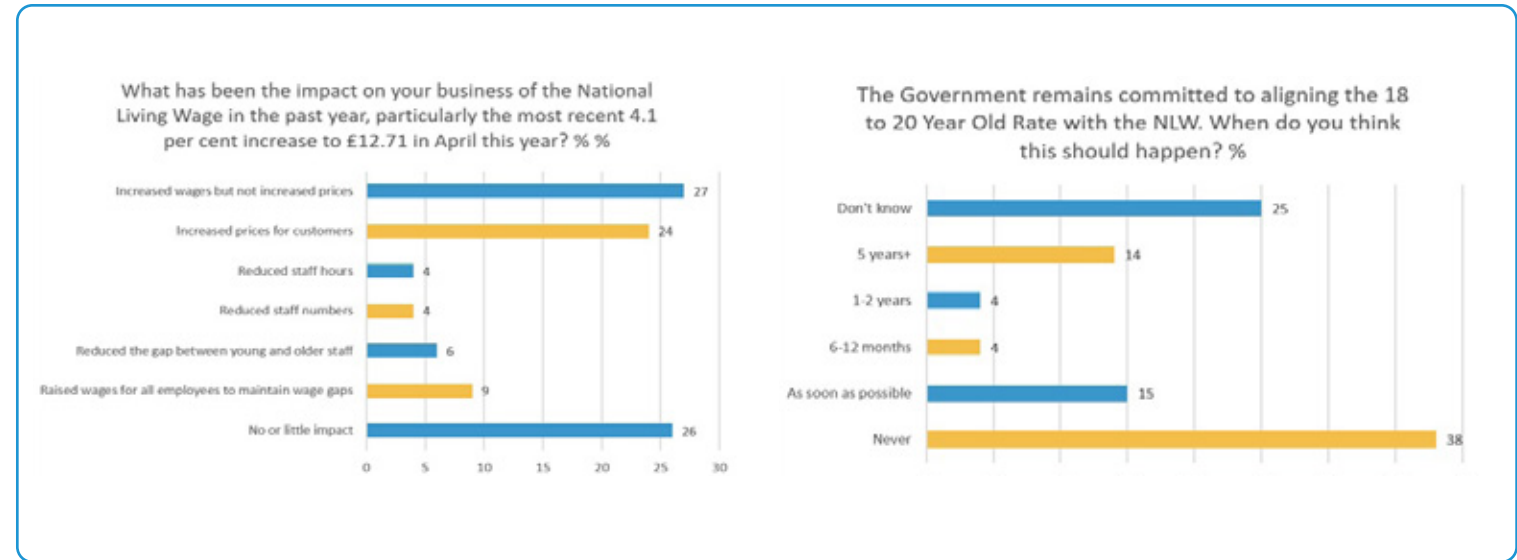
of Kent Businesses feel under 21s aren't work ready

MINIMUM WAGE CHANGES & EMPLOYER VIEWS



27%

of Kent Businesses, was to **increase wages** while **absorbing** the additional costs



Recent increases to the National Minimum Wage have had a mixed impact on Kent businesses.

Over a quarter (27%) chose to absorb the additional costs rather than pass them on to customers, while 26% reported little or no impact due to existing pay structures or stronger trading conditions.

Conversely, 24% increased prices to offset higher wage costs, and 9% raised wages across their wider workforce, increasing overall payroll costs and, in some cases, narrowing pay differences between junior and experienced staff. A small number of businesses reduced staff hours (4%) or headcount (4%) in response to rising employment costs.

Views on aligning the minimum wage for under 21s with the adult rate were divided.

38% of respondents opposed the change entirely, citing affordability concerns, while 15% supported immediate alignment, arguing that adults should receive equal pay regardless of age. A further 25% had no strong view.

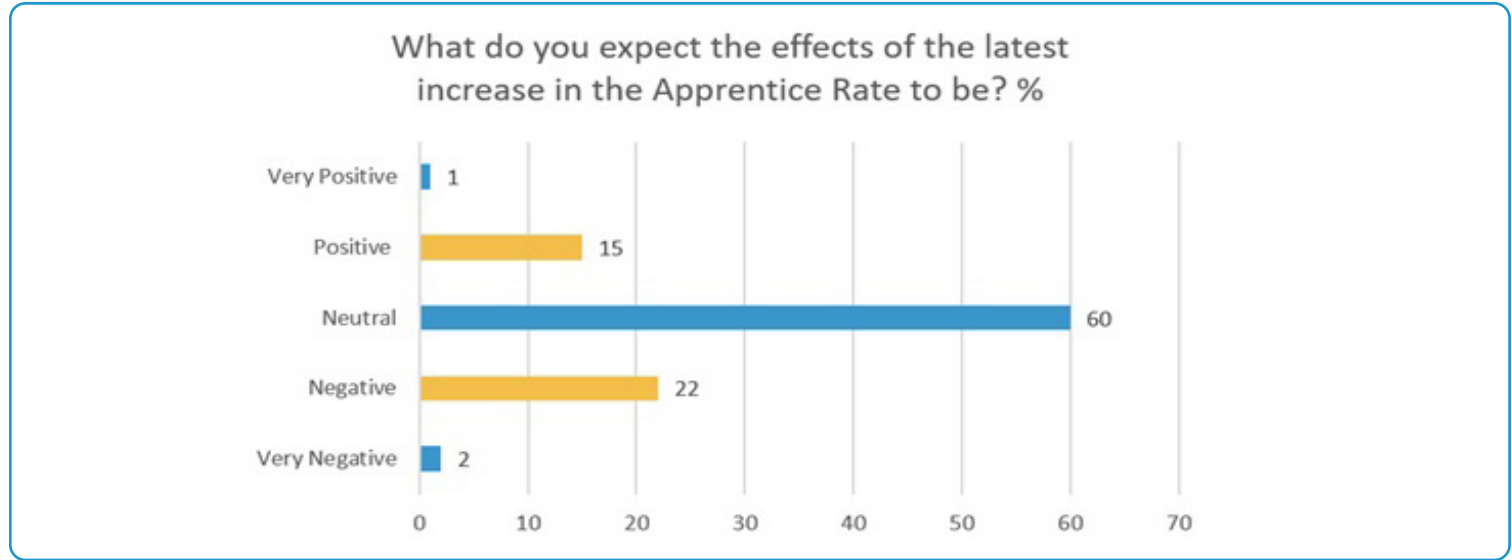
Among those supporting alignment, many favoured a longer implementation period and called for financial support to help businesses adjust to the increased costs.



24%

of Kent Businesses said they had **increased prices** to **offset** higher wage costs.

IMPACT OF THE APPRENTICE RATE INCREASE



Views on the increase to the apprenticeship rate were mixed, although most businesses reported no strong opinion. This was largely due to limited experience with apprenticeships, a lack of knowledge of the policy, or uncertainty about its long-term impact.

Around 24% of respondents expressed a negative view of the increase, including 2% who reported a very negative impact.

These businesses primarily cited rising employment costs and concerns about the affordability of taking on apprentices.

In contrast, 16% of respondents held a positive view, including 1% who were very positive. These businesses continued to see apprentices as a valuable and cost-effective route for developing future talent, despite the increase in wage costs.

Overall, the findings suggest that while concerns about rising employment costs remain, many businesses are still assessing the longer-term implications of the apprenticeship rate increase before forming a firm view.

24%

of Kent Businesses, expressed **negative** views of the apprenticeship rate increase

16%

of Kent Businesses, expressed **positive** views of the apprenticeship rate increase

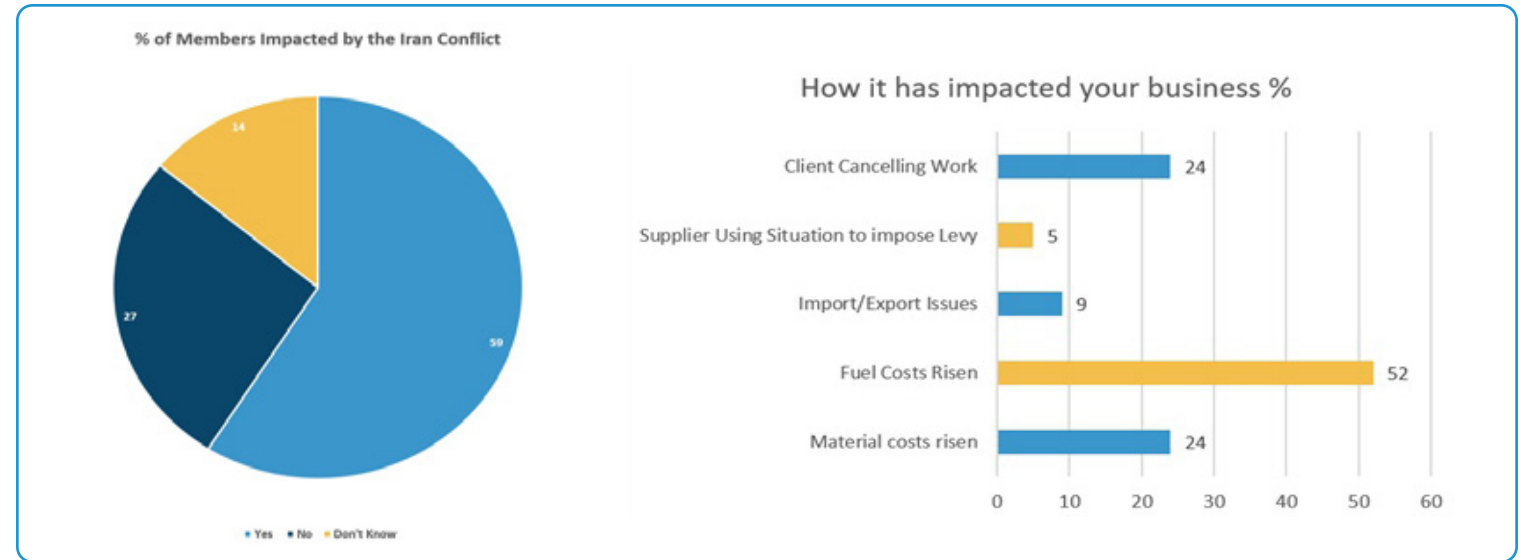


52% of Kent Businesses, cited **rising fuel costs** as the main issue



24% of impacted businesses reported that clients **cancelled work or projects**

IMPACT OF THE IRAN CONFLICT



The Iran conflict has had a noticeable impact on Kent businesses, with 59% of respondents reporting that they have been negatively affected. A further 27% reported no noticeable impact, while 14% were unsure whether their business had been affected at the time of responding.

Among those affected, 52% cited rising fuel costs as the main issue. These increases have contributed to wider supply chain pressures, with 24% reporting higher raw material costs. A further 9% experienced difficulties in moving goods through international supply chains, while 5% reported suppliers passing on additional costs.

The uncertainty created by the conflict has also affected demand, with 24% of impacted businesses reporting that clients had cancelled work or projects.

While a resolution to the conflict would help ease many of these pressures, modelling from the British Chambers of Commerce suggests that the benefits may not be fully felt until later in the year due to the time needed for supply chains and energy markets to stabilise.

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USEFUL LINKS

Register your interest to participate in a future QES survey: www.kentinvictachamber.co.uk/qes
Local Skills Improvement Plan (LSIP): www.kentemployersskillsplan.org
Kent & Medway Growth Hub: www.kentandmedwaygrowthhub.org.uk



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