East Midlands business conditions in Q3 2019

The following report uses data taken from the Quarterly Economic Survey carried out by East Midlands Chamber (Derbyshire, Nottinghamshire, Leicestershire) in the third quarter (Q3) of 2019. This regular survey asks businesses a series of questions on key economic indicators. The Q3 survey fieldwork ran from 26 August to 16 September 2019. There were 234 responses to the survey, 34% operating in a broadly manufacturing background and 66% from a broadly service background. Of the respondents, 34% had fewer than ten employees, 34% had 11-49 employees, 20% had 50-249 employees and 12% had more than 250 employees.

1. Performance indicators

1.1 UK markets

Following a strong second quarter, UK activity suffered a steep decline, with sales activity only just remaining in net-positive territory. Looking specifically at manufacturing businesses, advanced orders and bookings were particularly poor, with 30% of respondents seeing these weaken and only 27% improve.

Performance in UK markets	Past 3 months (sales)		Coming 3 months (orders)	
	Q3 2019	Q2 2019	Q3 2019	Q2 2019
Increased	28%	43%	29%	34%
Remained constant	47%	36%	50%	47%
Decreased	25%	21%	21%	19%

1.2 Overseas markets

Mirroring the domestic market, the overseas market also struggled, the main shift being a move from those saying these markets remained constant to those reporting a decrease, suggesting a great deal of volatility in activity levels. Again, manufacturers were significantly more likely to report a decrease in activity.

Looking at specific markets, North American territories were the best performers for exporters, while the EU market – the biggest export destination for respondents – was decidedly flat.

Performance in overseas markets	Past 3 months (sales)		Coming 3 months (orders)	
	Q3 2019	Q2 2019	Q3 2019	Q2 2019
Increased	31%	29%	31%	22%
Remained constant	38%	54%	43%	62%
Decreased	31%	17%	26%	16%

1.3 Cash flow

Over the past 3 months cash flow has	Q3 2019	Q2 2019
Increase	19%	31%
Remain constant	53%	47%
Decrease	28%	20%

Following a net negative cashflow figure in Q1 2019, the indicator returned to positive territory in the second quarter of 2019. For Q3 this reverted back to negative territory, with a new score of -9%. In part this reflects further stockpiling, however, businesses also report increased incidences of late payment or requests to pay in instalments. There has also been a reported growth in credit control roles being recruited, suggesting increased concerns around bad debt.

1.4 Turnover and profitability

Despite a slowdown in activity indicators, turnover and profitability expectations have remained relatively resilient – both dipping, but not to the same kind of levels as seen at the start of the year. Where the decrease has occurred in anticipated profitability it's been a shift from those expecting this to remain constant to those expecting it to decrease – those expecting increases has remained stable.

Confidence	Anticipated turnover		Anticipated profitability	
	Q3 2019	Q2 2019	Q3 2019	Q2 2019
Increased	63%	65%	53%	53%
Remained constant	26%	26%	26%	32%
Decreased	11%	9%	21%	15%

1.5 Investment intentions

Similar to confidence levels in turnover and profitability, intentions to invest has remained relatively robust, with zero change in intentions to invest in plant/machinery/equipment and a slight growth in those increasing their training investment intentions, although these still remain relatively low compared to 12 months ago.

Intentions to invest		
Investment types	Q3 2019	Q2 2019
Plant/machinery/equipment	Increased 20%	Increased 20%
	Remained constant 69%	Remained constant 69%
	Decreased 11%	Decreased 11%
Training	Increased 26%	Increased 25%
	Remained constant 67%	Remained constant 67%
	Decreased 7%	Decreased 8%

1.6 Labour force changes

There was a definite growth in respondents who said their labour force had decreased over the past few months, to almost one in five. There was also a decrease in those attempting to recruit, with an increase in those experiencing issues when recruiting. In terms of job types people are struggling to recruit, difficulties are more acute at the higher-skilled end, but also remain significant at the lower-skilled end of the spectrum.

Labour force changes	**Past 3 months**		**Plans for next 3 months**	
	Q3 2019	Q2 2019	Q3 2019	Q2 2019
Increased	26%	28%	29%	30%
Remained constant	56%	61%	65%	62%
Decreased	18%	11%	6%	8%

Labour force changes	**Attempted to recruit**		**Experienced problems when recruiting**	
	Q3 2019	Q2 2019	Q3 2019	Q2 2019
Yes	56%	61%	64%	57%

Job types difficult to recruit	Q3 2019	Q2 2019
Skilled manual/technical	55%	52%
Professional/managerial	51%	52%
Clerical	20%	26%
Unskilled/semi-skilled	20%	23%

1.7 Growing areas of concern

Which factors were more of a concern than three months ago:	Q2 2019	Q2 2019
Interest rates	10%	15%
Business rates	19%	23%
Competition	34%	47%
Exchange rates	39%	32%
Inflation	19%	20%
Corporate taxation	16%	15%
Access to skilled labour	37%	44%

In a significant change for the region, competition is now only the third greatest area of growing concern, with the performance of Sterling and global uncertainties making exchange rates now the most significant are of growing concern, followed by access to skilled labour.

2. State of the economy

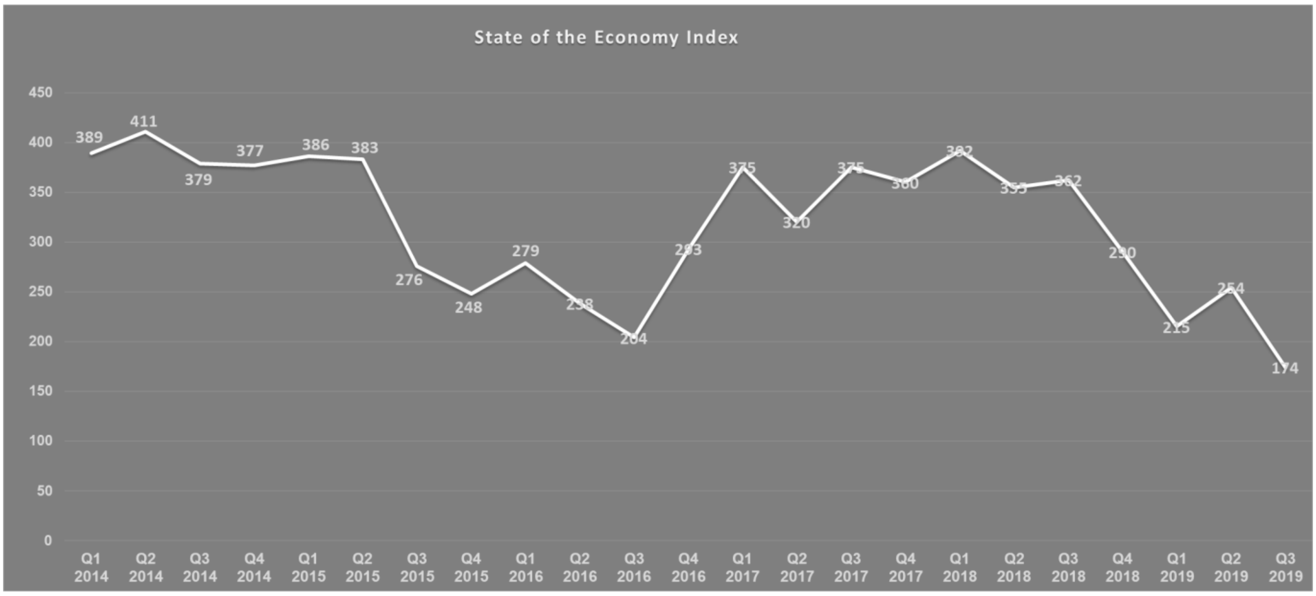
The State of the Economy Index (SEI) is a figure produced by combining the net figures across the various indicators that demonstrate activity or sentiment.

While the figure will hide variations in individual responses, it gives an indication of the general direction of travel for the economy and the change quarter on quarter. It allows consideration of a broader picture of trends over a longer period.

Following a significant drop in Q1 – attributed to the looming 31 March deadline for leaving the EU at the time the survey was being completed – Q2 saw a slight pick-up, although this is still lagging behind where the indicator was for the entirety of last year.

For Q3 the SEI has dropped to 174, a low not seen since Q2 2013 as the economy was continuing its recovery from recession. The main factor behind the drop has been the significant decrease in UK activity along with the growing concerns around cashflow.

The SEI continues to hide a mixed picture, with manufacturers performing worse than their service sector counterparts, and some resilience on those indicators that suggest sentiment (e.g. turnover and profitability expectations) versus those that indicate actual activity (e.g. sales and orders activity).



3. Chamber commentary – UK market slowdown overshadows regional performance

The most notable result from the third quarter's QES findings is the poor performance within the domestic market, with a quarter of businesses seeing a decrease in UK sales activity, traditionally a strong area for East Midlands businesses. Overseas activity was also sluggish and the issues around cashflow experienced at the start of the year returned. Given these results, it's perhaps surprising that sentiment remained relatively bullish – whether it was the 53% that expected to see growth in profitability over the coming year, the 29% who expect their workforce to increase over the coming year or the one in five upping their investment intentions in new equipment or plant.

It's impossible to say with certainty what's behind this seeming contradiction, however, in conversation there is a definite feel that with a 31 October deadline for the UK to leave the EU, many businesses believe an end to the drama of the past few years is near. Given this, any further extension would undoubtedly have an impact on business confidence, although the scale of that impact would likely depend on the nature of any extension.

Given the all-encompassing nature of Brexit in the national media it is easy to forget that there are other significant factors impacting the economy in the East Midlands: automation and its impact on our manufacturers; changing consumer trends and the impact on our town and city centres and large out of town logistics parks; the continued growth of the low carbon agenda and what that means for all businesses in terms of their products and processes; a global slowdown in activity and what that means for all of us.

One of the great shames of the past few years is that the above factors – and more – have not received due attention from policy and decision makers. The Government's Industrial Strategy has stalled and the lion's share of funding is being directed towards short-term goals as opposed to supporting businesses and the economy to respond to the challenges and opportunities that these changes will bring.

That said, it is right that Brexit preparedness within the East Midlands is given proper attention, however tiresome the political discussion may be. Indeed, giving businesses the right tools and information to ensure they can survive, and thrive, in the face of Brexit will equip those same businesses to do well with the wider structural challenges the economy faces. To this end, the Chamber is continuing to develop its Business Readiness for Change Programme, the end goal being enhancing the competitiveness of our business community – particularly our SMEs and, ultimately, the region as a whole.