East Midlands Chamber
Derbyshire Nottinghamshire Leicestershire
BRITISH CHAMBERS OF COMMERCE BUSINESS AWARDS
Chamber of the Year
QES Quarterly Economic Survey

East Midlands business conditions in Q1 2019

The following report uses data taken from the Quarterly Economic Survey carried out by East Midlands Chamber (Derbyshire, Nottinghamshire, Leicestershire) in the first quarter (Q1) of 2019. This regular survey asks businesses a series of questions on key economic indicators. The Q1 survey fieldwork ran from 18 February to 11 March 2019.

1. Profile of respondents

There were 278 responses to the survey, 31% operating in a broadly manufacturing background and 59% from a broadly service background. Of the respondents, 41% had fewer than ten employees, 29% had 11-49 employees, 19% had 50-249 employees and 11% had more than 250 employees.

2. Performance indicators

2.1 UK markets

After a significant slowdown in Q4, the slowdown in UK market performance continued into the first quarter of 2019, with both sales and orders showing a net positive score of only 13%, compared with 34% for each 12 months earlier. As with Q4, the slowdown was evenly spread among manufacturing and service-sector businesses, suggesting a more general slowdown rather than a sector-specific impact in the quarter.

Performance in UK markets	Past 3 months (sales)		Coming 3 months (orders)	
	Q1 2019	Q4 2018	Q1 2019	Q4 2018
Increased	35%	39%	35%	38%
Remained constant	43%	40%	43%	45%
Decreased	22%	21%	22%	17%

2.2 Overseas markets

Unlike the domestic picture, overseas activity remained relatively stable between Q4 2018 and Q1 2019, albeit after a significant Q4 slowdown. However, the headline results hide very differing performances between manufacturers and service-sector businesses, with the former performing much more strongly than the latter – a complete turnaround from the end of 2018.

Performance in overseas markets	Past 3 months (sales)		Coming 3 months (orders)	
	Q1 2019	Q4 2018	Q1 2019	Q4 2018
Increased	33%	33%	26%	27%
Remained constant	50%	50%	58%	59%
Decreased	17%	17%	16%	14%

2.3 Cash flow

Over the past 3 months cash flow has	**Q1 2019**	**Q4 2018**
Increase	25%	28%
Remain constant	45%	47%
Decrease	30%	25%

For the first time since September 2012, cash flow has entered negative territory, with more firms reporting deterioration in cash flow than those saying it improved. There is undoubtedly an element of stockpiling reflected in these figures as companies prepared for potential changes associated with Brexit. These numbers may also reflect increasing reports from members of customers stretching out payment terms, potentially safeguarding themselves against Brexit uncertainty.

Unlike 2012, these numbers don't really represent difficulties in accessing finance, which was particularly restricted after the financial crash.

Cash flow is incredibly important for SMEs, with these numbers underlining the importance of a swift resolution, or a clear plan to a resolution that businesses can have confidence in, in terms of Brexit.

2.4 Turnover and profitability

Q1 2019 results mark a full year of downward trending confidence in turnover and profitability for the coming year, with respective net scores of 46% and 26% compared to 64% and 48% when looking at the end of 2017.

While both still strongly positive figures in their own right, this continued trend reflects the immediate-term uncertainty about factors outside of a business's ability to control as the UK nears the planned date of its exit from the EU. The greater fall in profitability expectations also highlights growing pressures on business margins – some of which may not be Brexit-related, for example increased regulatory costs and staffing costs, with the National Living Wage increasing by 4.9% on 1 April 2019.

Confidence	Anticipated turnover		Anticipated profitability	
	Q1 2019	Q4 2018	Q1 2019	Q4 2018
Increased	61%	64%	48%	54%
Remained constant	24%	25%	30%	31%
Decreased	15%	11%	22%	15%

2.5 Investment intentions

A downward trend also exists when looking at businesses' investment intentions, although these have been much more volatile in the two and a half years since the referendum result.

While there have been increasing reports of businesses putting off investments due to Brexit uncertainty, there is by no means one consistent story here. These figures also mask the rationale behind investments – for example, whether the moves are defensive to shore up positions ahead of potential change or offensive as a company seeks to win more business.

This said, of concern is a net score of only 18% relating to intentions to invest in training. This score is the lowest it has been since immediately after the referendum in the summer of 2016 and comes at a time when recruitment difficulties continue to exist.

Intentions to invest		
Investment types	Q1 2019	Q4 2018
Plant/machinery/equipment	Increased 22%	Increased 25%
	Remained constant 67%	Remained constant 65%
	Decreased 11%	Decreased 11%
Training	Increased 26%	Increased 33%
	Remained constant 66%	Remained constant 59%
	Decreased 8%	Decreased 8%

2.6 Labour force changes

Mirroring a slowdown in other areas, there was a drop in businesses attempting to recruit at the start of 2019 – an area that has until now remained steady over the past several years, albeit still over half of all respondents tried to recruit in Q1 2019.

There was no change in those reporting difficulties, or indeed in the types of role businesses were struggling to fill. These results came during a quarter when unemployment in the East Midlands continued to rise (as opposed to the rest of the country where it is falling) suggesting local issues not being experienced elsewhere in the UK.

The significant percentage of manufacturers in our region compared to other parts of the UK might provide some explanation here, with 72% of those that attempted to recruit reporting difficulties.

Labour force changes	**Past 3 months**		**Plans for next 3 months**	
	Q1 2019	Q4 2018	Q1 2019	Q4 2018
Increased	22%	31%	27%	34%
Remained constant	65%	56%	67%	58%
Decreased	13%	13%	6%	8%

Labour force changes	**Attempted to recruit**		**Experienced problems when recruiting**	
	Q1 2019	Q4 2018	Q1 2019	Q4 2018
Yes	52%	60%	59%	59%

Job types difficult to recruit	Q1 2019	Q4 2018
Skilled manual/technical	43%	46%
Professional/managerial	53%	53%
Clerical	22%	17%
Unskilled/semi-skilled	23%	25%

2.7 Growing areas of concern

Which factors were more of a concern than three months ago:	**Q1 2019**	**Q4 2018**
Interest rates	13%	25%
Business rates	32%	26%
Competition	43%	46%
Exchange rates	40%	35%
Inflation	29%	28%
Corporate taxation	21%	20%
Access to skilled labour	37%	44%

Competition remains the biggest area of growing concern for businesses as a whole, although there was a strong rise in those citing Exchange Rates as being a growing concern, again linked to sterling fluctuations off the back of an uncertain economy. Those reporting access to skilled labour as a concern dropped to 37%, perhaps linked to a drop in those attempting to recruit in the quarter.

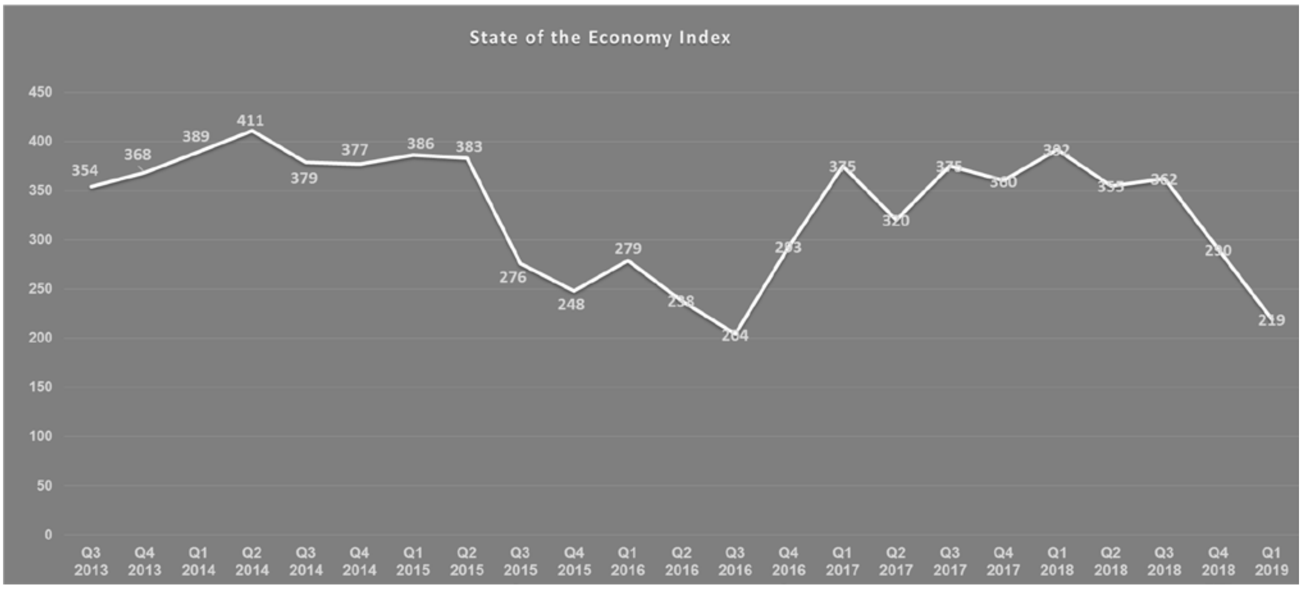
3. State of the economy

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.

The Q1 2019 SEI saw a sharp drop from 290 to 219, almost – but not quite – as low as the immediate aftermath of the 2016 referendum.

A key difference between those two periods are the drivers of that score. After the referendum, the key factors pulling down the overall score were concerned with confidence and investment, both of which took a short-term hit after the referendum result. In Q1 2019, the main drivers behind the lower score are actual sales, orders and cash flow for both domestic and overseas activity – making this less about sentiment and more about actual activity levels.



4. Chamber commentary – Uncertainty Bites

Following a slowdown experienced at the end of 2018, the economy in the East Midlands continued to falter in the first quarter of 2019. This saw the State of the Economy Index – the measure used to give an overall picture of business activity and sentiment across the East Midlands – fall to a low not seen since the immediate aftermath of the EU Referendum in 2016.

The slowdown appears across all economic markers. However, of greatest concern must be the fall into negative net figures when it comes to businesses reporting their cash flow performance, which is now as low as it's been since September 2012 in the aftermath of the financial crash.

However, unlike 2012, the figures here are not related to access to finance, but instead to Brexit preparedness and the knock-on impact this is having on business. There is undoubtedly a level of stockpiling impacting cash flow numbers, along with the perennial problem of payment terms – something about which the Chamber and others have long campaigned but which, anecdotally, may be getting worse as people try to manage uncertainty in their own organisations.

These cash flow issues may also be part of the story behind decreased levels of investment intentions. While an understandable and rational reaction from businesses, this runs counter to UK Government's plans to boost business investment and grow UK productivity.

The fact that these problems are of a political rather than structural nature does potentially give some relief. In a scenario where we have a swift resolution to Brexit – or at least a clear and predictable path to a resolution – we could see cash flow and investment return to normal levels, with growing confidence following. However, if we experience continued uncertainty, this may exacerbate what is already a significant problem for SMEs. In worst case scenarios, long-term struggles with cash flow could start to see some organisations struggle with viability.

What these Quarterly Economic Survey Q1 2019 findings do is underline the now critical importance of finding a resolution to the Brexit saga. The problems being experienced are of political origin, but are now having a tangible economic impact on businesses and communities on the ground. The frustration of the wider business world at this has already been well reported. The danger now is that without the introduction of some much-needed certainty for business, these frustrations could turn to anguish as the real-world impacts of political bickering start to bite.