



**BRITISH
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BUSINESS AWARDS



Chamber of the Year

East Midlands business conditions in Q2 2019

The following report uses data taken from the Quarterly Economic Survey carried out by East Midlands Chamber (Derbyshire, Nottinghamshire, Leicestershire) in the second quarter (Q2) of 2019. This regular survey asks businesses a series of questions on key economic indicators. The Q2 survey fieldwork ran from 20 May to 10 June 2019.

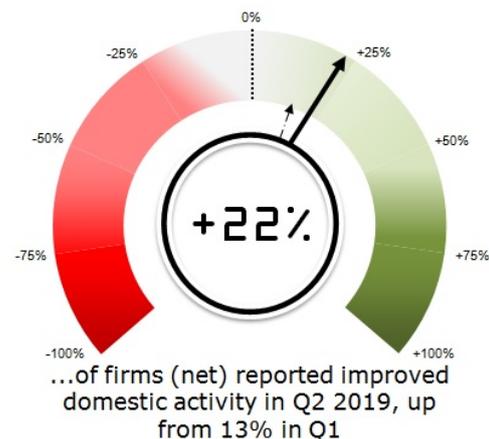
1. Profile of respondents

There were 325 responses to the survey, 35% operating in a broadly manufacturing background and 65% from a broadly service background. Of the respondents, 39% had fewer than ten employees, 32% had 11-49 employees, 18% had 50-249 employees and 11% had more than 250 employees.

2. Performance indicators

2.1 UK markets

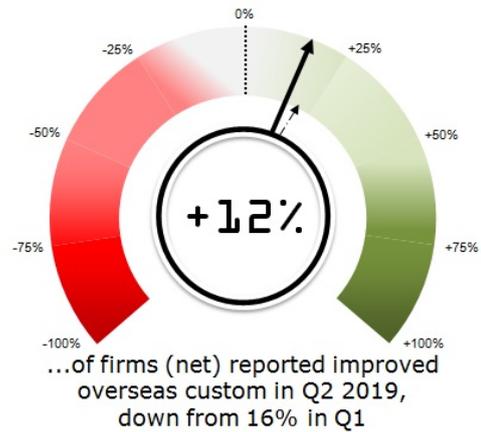
Following two consecutive quarters of slowdown, Q2 2019 saw a pick-up in domestic sales and orders, with the former performing particularly strongly over the past three months. However, splitting the figures out into service sector and manufacturing businesses shows the growth to be predominantly service-sector led, with manufacturers actually seeing further declines in UK activity.



Performance in UK markets	Past 3 months (sales)		Coming 3 months (orders)	
	Q2 2019	Q1 2019	Q2 2019	Q1 2019
Increased	43%	35%	34%	35%
Remained constant	36%	43%	47%	43%
Decreased	21%	22%	19%	22%

2.2 Overseas markets

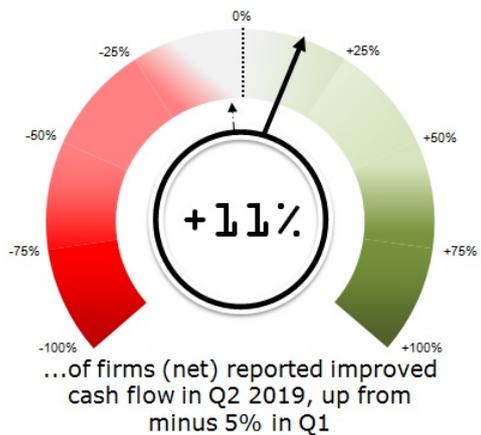
Unlike the domestic picture, overseas activity continued a downward trajectory, with levels now as low as they've been since September 2016, immediately following the referendum result. Looking at specific markets, all were subdued with the exception of North America and Asia.



Performance in overseas markets	Past 3 months (sales)		Coming 3 months (orders)	
	Q2 2019	Q1 2019	Q2 2019	Q1 2019
Increased	29%	33%	22%	26%
Remained constant	54%	50%	62%	58%
Decreased	17%	17%	16%	16%

2.3 Cash flow

Following a net negative cash flow figure in Q1 2019, the indicator returned to positive territory in the second quarter of 2019. The Q1 figure was particularly impacted by manufacturers taking precautionary measures to stockpile, with these being run down where possible in Q2. Nevertheless, the increased percentages of those seeing an improvement gives some relief to an SME business community for which cash flow is a significant issue.



Over the past 3 months cash flow has	Q2 2019	Q1 2019
Increase	31%	25%
Remain constant	47%	45%
Decrease	20%	30%

2.4 Turnover and profitability

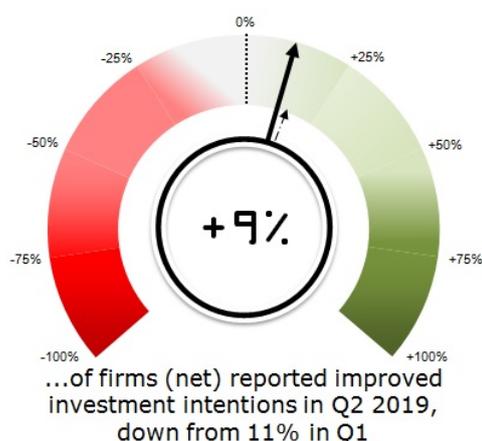
A full year of downward trending confidence in turnover and profitability reached a nadir in Q1 with heightened uncertainty surrounding the original 31 March deadline for the UK to exit the EU. Business sentiment rebounded slightly in Q2 following the extended deadline, with optimism in turnover improvements for the coming year reaching a net positive 56% and confidence in profitability improvements a net positive 38%.

Given this bounce back is not supported by all other indicators, it could demonstrate in part a relief among respondents of not having such a strong Brexit focus in external conversations over the late Spring period.

Confidence	Anticipated turnover		Anticipated profitability	
	Q2 2019	Q1 2019	Q2 2019	Q1 2019
Increased	65%	61%	53%	48%
Remained constant	26%	24%	32%	30%
Decreased	9%	15%	15%	22%

2.5 Investment intentions

Unlike the previous confidence indicators, intentions to invest remained subdued, particularly when looking at investment in plant/machinery/equipment, with the net figure here falling to a net positive 9% from a net positive 11% in Q1. Training investment intentions also saw a slight drop.



It is these investment indicators that give a fuller picture of business sentiment and the continued downward trend – particularly in the types of investments that tend to be for the longer-term – potentially demonstrates a greater uncertainty in the medium- to long-term outlooks for businesses. Manufacturers in particular were more likely to report decreases in investment intentions across both training and plant/machinery/equipment.

Intentions to invest		
Investment types	Q2 2019	Q1 2019
Plant/machinery/equipment	Increased 20%	Increased 22%
	Remained constant 69%	Remained constant 67%
	Decreased 11%	Decreased 11%
Training	Increased 25%	Increased 26%
	Remained constant 67%	Remained constant 66%
	Decreased 8%	Decreased 8%

2.6 Labour force changes

Encouragingly, there was a pick-up in respondents looking to grow their workforces over Q2 and with plans for growth over the coming three months. This was accompanied by a very slight decrease in those reporting problems when recruiting, although this still stands at a significant 57% of all of those recruiting.

In terms of the job roles businesses were struggling to fill, there was a particular rise in those seeking to fill skilled and clerical roles.

Labour force changes	Past 3 months		Plans for next 3 months	
	Q2 2019	Q1 2019	Q2 2019	Q1 2019
Increased	28%	22%	30%	27%
Remained constant	61%	65%	62%	67%
Decreased	11%	13%	8%	6%

Labour force changes	Attempted to recruit		Experienced problems when recruiting	
	Q2 2019	Q1 2019	Q2 2019	Q1 2019
Yes	61%	52%	57%	59%

Job types difficult to recruit	Q2 2019	Q1 2019
Skilled manual/technical	52%	43%
Professional/managerial	52%	53%
Clerical	26%	22%
Unskilled/semi-skilled	23%	23%

2.7 Growing areas of concern

Which factors were more of a concern than three months ago:	Q2 2019	Q1 2019
Interest rates	15%	13%
Business rates	23%	32%
Competition	47%	43%
Exchange rates	32%	40%
Inflation	20%	29%
Corporate taxation	15%	21%
Access to skilled labour	44%	37%

Competition remains the biggest area of growing concern for businesses as a whole, followed by access to skilled labour. There were decreases across all other areas, apart from a slight rise in interest rate concerns, suggesting a relatively benign Q2 for external pressures following the heightened drama of the first quarter and the original 31 March Brexit deadline.

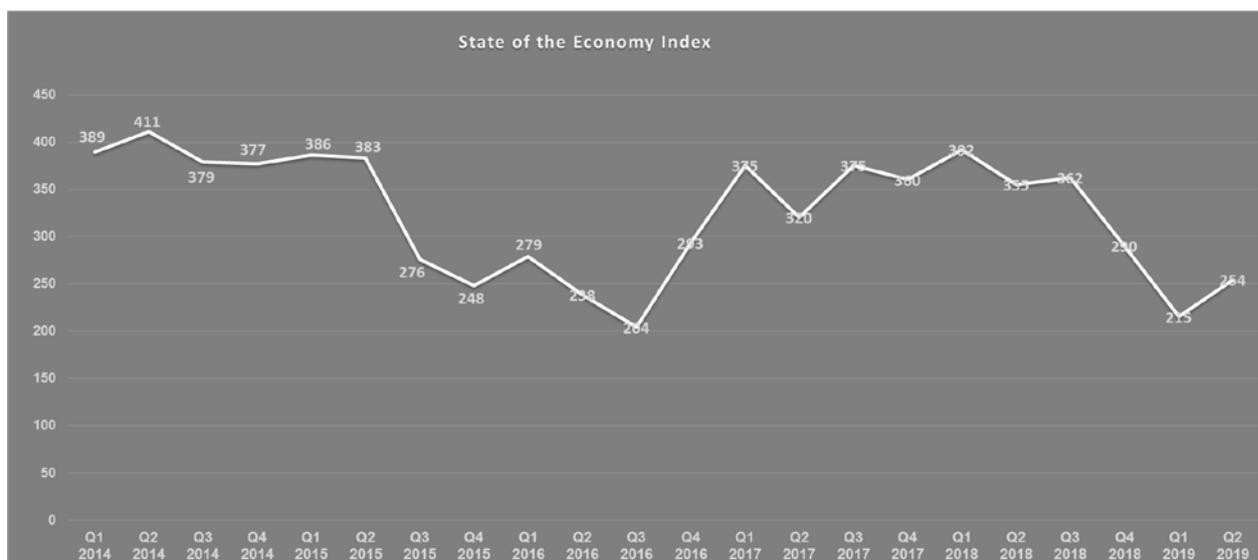
3. State of the economy

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.

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 Q2 the SEI hides a mixed picture, with many of those indicators that suggest improved short-term performances (domestic markets, cash flow, employment) seeing improvements, while those indicators that point to the longer-term outlook more subdued (investment intentions). The exception here being export activity, which depended heavily on the specific markets people were active in.



4. Chamber commentary – economy takes a Brexit breather, but underlying uncertainties persist

Following the dramatic slowdown experienced at the start of 2019, and off the back of the Brexit deadline being extended to 31 October, the general pick-up in Q2 was perhaps to be expected. In conversation with businesses – particularly small businesses – many were relieved not to be focusing entirely on Brexit-related uncertainties during the quarter, with a definite sense of ‘out of sight, out of mind’ among some.

While this relief was accompanied by improvements in the domestic market, some overseas markets and general confidence levels, it did not extend as far as investment plans, many of which remained on hold or were paired back.

It is important to note that in conversation there were many businesses – of all sizes – that bucked the trends shown in these figures, much of the time based on the personal sentiment of leaders in those businesses. Indeed, over the past few quarters it has been very difficult to generalise a narrative without a number of exceptions on either side.

It is also important to note that Brexit is not the only show in town, and in many respects may be masking larger structural shifts in the economy – for example the growth of online retail or the shift away from diesel fuel for cars and vans. Both of these shifts have specific implications – both positive and negative – for businesses in the East Midlands, which are perhaps not receiving due consideration when considering wider business prospects.

Regardless, Brexit uncertainty remains a significant shadow on the economy. As we enter the final stages of a Conservative party leadership race it is essential that this race concludes with us having a clearer picture of how the Brexit debate will be concluded.

If, however, we end summer two months away from a 31 October Brexit deadline and we see a return of the uncertainty that blighted the first part of 2019 then there is every expectation that the economy in the East Midlands will again dip.