Q4
2019

BUSINESS PLANNING & RESILIENCE

QES

QUARTERLY ECONOMIC SURVEY

Bishop Fleming
Accountancy · Advisory · Tax · Private Wealth

Herefordshire & Worcestershire Chamber of Commerce

CONTENTS

Sharon Smith
Chief Executive
Herefordshire & Worcestershire Chamber of Commerce

As 2019 comes to a close, businesses face a challenging environment. During the last few months of the year, the buoyant labour market has shown signs of softening and GDP growth has flatlined. Growth in 2020 will require confidence to return to the UK economy. Government will need to provide political stability to boost consumer spending and business investment.

The longer-term impacts of prolonged EU Exit negotiations are clearly demonstrated by the downward trajectory of sales and orders in the overseas market. Overseas sales have made a marginal recovery this quarter, but remain critically low by historic standards. Excluding last quarter, overseas sales are at their lowest level since Quarter 2 (Q2) 2012.

It is immensely frustrating for businesses to constantly prepare for a myriad of potential outcomes. Although preparing for a range of scenarios is time consuming and frustrating, it has never been more important for businesses to formulate or review their current business plan. It is certainly of concern that this report reveals that only 50% of businesses from across the two counties have a formal written business plan. The remaining 50% either reported that they do not have a strategic business plan or the plan they do have is not documented. Whilst businesses face a sea of challenges, it is vital that they use this uncertainty as a trigger to review their business strategy and operations to maximise any opportunities.

Although the impact of Brexit continues to raise business concerns for exchange rates and the value of sterling, operating in a slowing global economy is moving to the forefront of business minds as they negotiate difficult market conditions. Remaining competitive has overtaken exchange rates as the primary cause of concern for businesses this quarter. Government would do well to acknowledge the bigger picture; whilst our relationship with our EU neighbours closer to home must be addressed, policy-makers should be looking further afield to anticipate the impact of a slowing global economy.

Despite difficult circumstances, the indicators for cash flow and capital investment have started to pick up. The data suggests that businesses have reached a tipping point and can no longer hold off on critical investments. In previous quarters, much lower levels of cash flow have been reported, suggesting businesses are no longer tying up their capital in stockpiling to the same extent as they have previously. Those businesses that have decided to invest will need assurances that any exit from the EU is managed responsibly and gradually, to avoid any sudden drop off that will require vast amounts of capital.

This report is produced from the largest private sector survey of business sentiment and is a leading indicator of UK GDP growth, closely watched by policymakers including the Bank of England. It demonstrates that businesses continue to bear the brunt of political turmoil. Never before has the political arena been so closely wedded to economic activity. As a representative of the business community, I cannot emphasize enough the need for an end to the uncertainty and the release of detailed information from government outlining the necessary preparations businesses must make to ensure a smooth exit from the EU.

Chris Walklett
Tax Partner
Bishop Fleming

The Quarter 4 (Q4) Economic Survey showed indicators breaching key support levels across a number of metrics; levels not seen since 2013. This is worrying – as any market analyst will tell you, when sentiment falls below support levels it takes very strong data to reverse indicators and return them to previous highs. Respondents to the Q4 survey were penning their responses on the eve of a general election, when uncertainty was in abundance and the political vitriol toxic. There are reasons to be positive however, with the hints of recovery in the data and emerging opportunities in regard to business planning.

Firstly, whilst turnover and profitability sentiments are mixed, cashflow is seeing a reversal and an uptick in confidence. Is this a 'dead cat bounce' – a statistical anomaly? Or is it the 'green shoots of recovery' (to coin another cliché)? Cash is king and seeing this indicator move positively is heartening. One might be cynical if it wasn't for the positivity presenting in markets following the outcome of the election (which was not known at the time of the survey).

Failing to plan, is planning to fail, as the saying goes. After years of uncertainty surrounding both Brexit and the political direction of the country, you would hope that businesses would be formulating and revisiting business plans with verve; controlling the "controllables" is the key to any business success story. I was particularly interested to see to what extent business planning was taking place to face the impending storm. The results are mixed.

Unsurprisingly, larger businesses are more likely to have a business plan, and to have communicated this to staff. Only 40% of small businesses have a formal written business plan. Across the entire population of respondents only 10% have engaged with their staff on their planning – meaning that those necessary to deliver the plan, are at risk of working blind. Assuming that the 40% are all credible plans, then we have a significant number of businesses who are not planning for the most uncertain period in this country's history since the war.

SMEs represent the back bone of our economy – employing 60% of the workforce, and representing 99.9% of the business population across the UK. That backbone enters 2020 and Brexit largely unplanned and unprepared. Despite this, however, I do see areas to be positive. The research shows us that companies that export are more likely to be successful than those that do not, enjoying higher turnover and growth, being more likely to innovate and employing more people. Notably the survey shows exporters are more likely to have a business plan than those businesses that do not export.

So why the positivity against a backdrop of mixed business preparedness? Because despite the lack of planning in some quarters, we are still seeing business confidence grow. The confidence is much more likely to translate into tangible results if more businesses get a plan together and engage with their staff on it.

There is thus 'gold in the ground' for a wide range of businesses who should be considering, evolving and revisiting their business plans, and crucially, engaging with staff on them. This, allied to the increased business confidence seen post the election, could see us having a very positive 2020. It will be interesting to see what the next QES results shows us.

METHODOLOGY

During Quarter 4 (Q4) 2019, 615 businesses in Herefordshire and Worcestershire responded to the Quarterly Economic Survey (QES). Data collection took place between Monday 4 November 2019 and Monday 25 November 2019.

Q4 2018 refers to the data collection period from Tuesday 6 November 2018 to Tuesday 27 November 2018. Q3 2019 refers to the data collection period from Tuesday 27 August 2019 to Monday 16 September 2019.

In this document some of the QES results are presented as balance figures. Balance figures show the difference between the increase and decrease in activity. If the figure is a plus, it indicates an expansion of activity. If the figure is a minus it indicates a contraction of activity against the previous quarter.

BUSINESS SECTOR CLASSIFICATION

Throughout the document business sectors are used to make comparisons of activity. The sectors are defined below.

MANUFACTURING SECTOR:

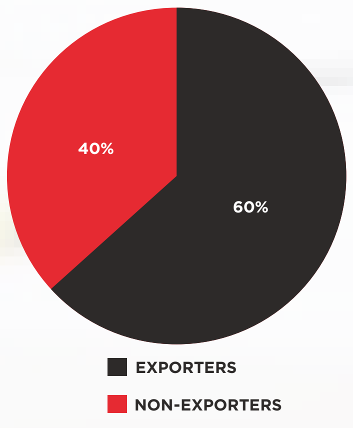
Main business activity includes manufacturing of goods (including electronic or information technology goods) and production of raw materials, construction, agriculture, fishing, mining or utilities.

SERVICE SECTOR:

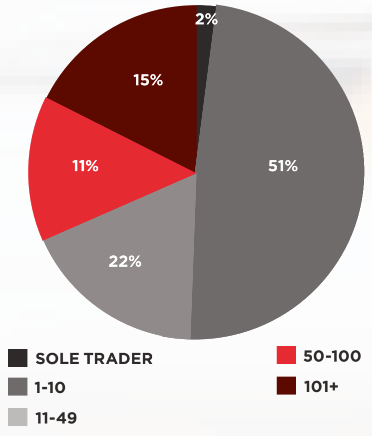
Main business activity provides a service to businesses as well as final consumers (including retail/wholesaling, professional services and marketing).

SAMPLE SUMMARY:

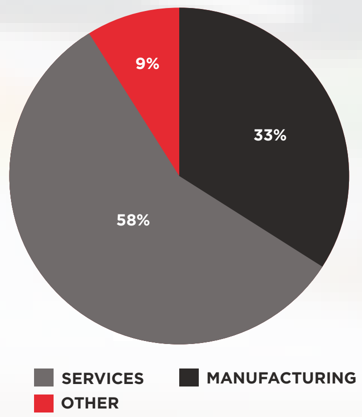
Responses by Exporting Companies



Responses by Business Size



Responses by Sector



EXECUTIVE SUMMARY: KEY FINDINGS

DOMESTIC & OVERSEAS MARKET

Domestic sales have decreased for the fifth quarter in a row.

Overseas orders are negative for the second successive quarter.

2019

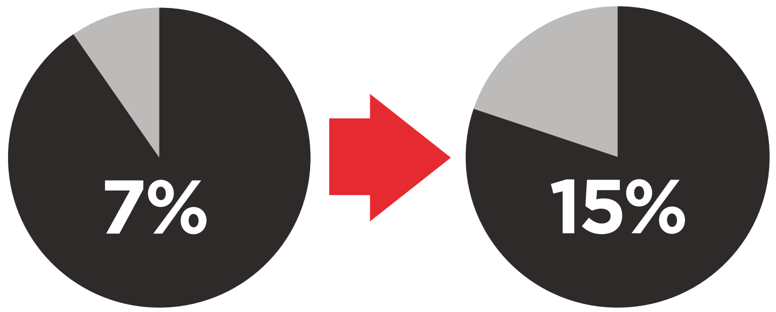
50% of businesses reported that they have a formal written business plan.

CASH FLOW

For the third quarter in a row, the percentage of businesses reporting improved cash flow has increased.

INVESTMENT

Plans to increase investment in machinery and training have made a tentative recovery this quarter, increasing from 7% (Q3 2019) to 15% (Q4 2019).



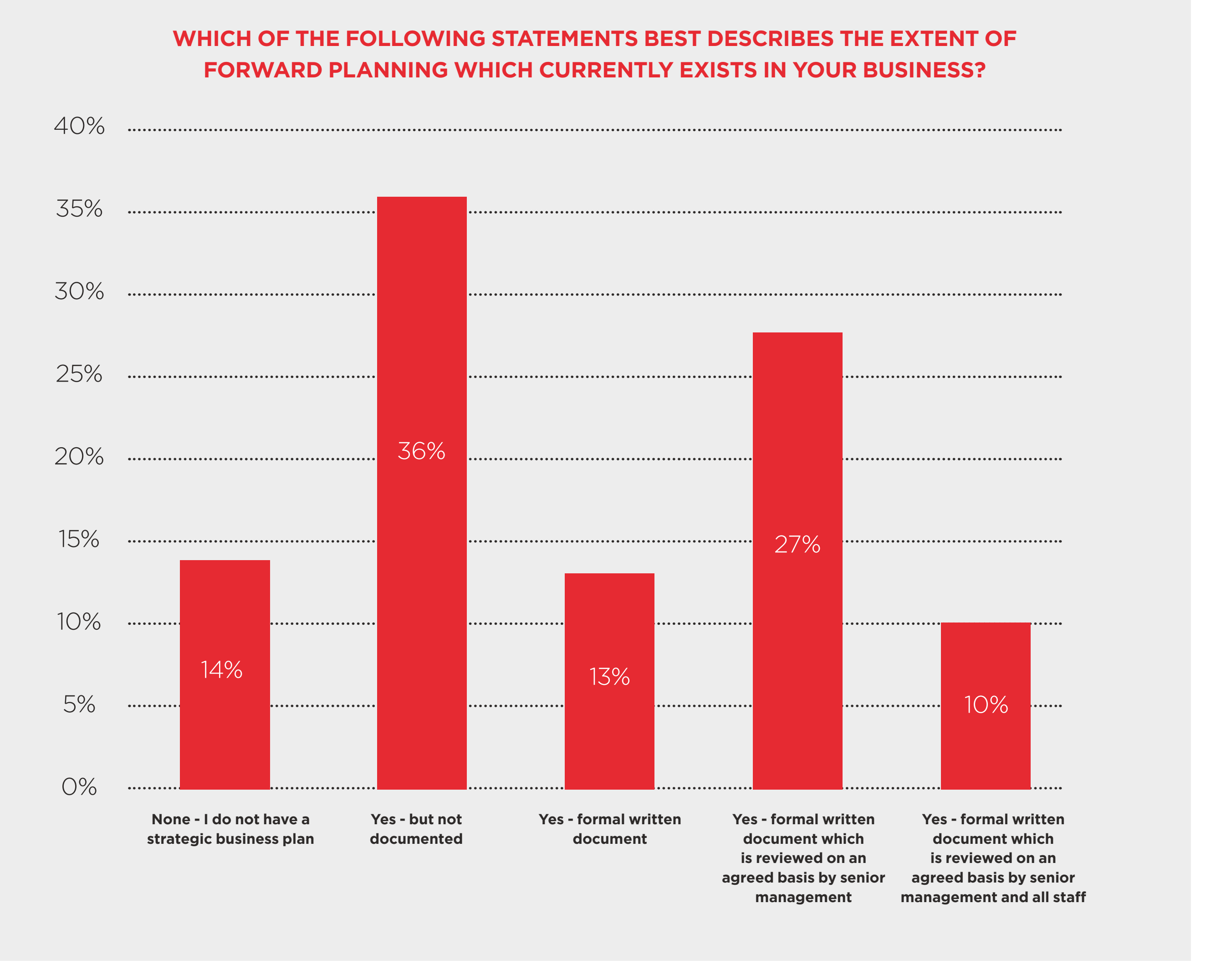
FACTORS OF CONCERN TO BUSINESSES

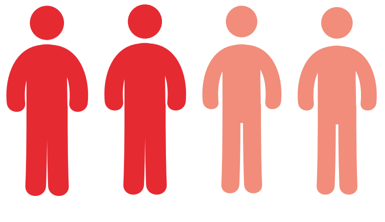
Remaining competitive has overtaken exchange rates as the primary cause of concern for businesses this quarter.

BUSINESS PLANNING

INTRODUCTION

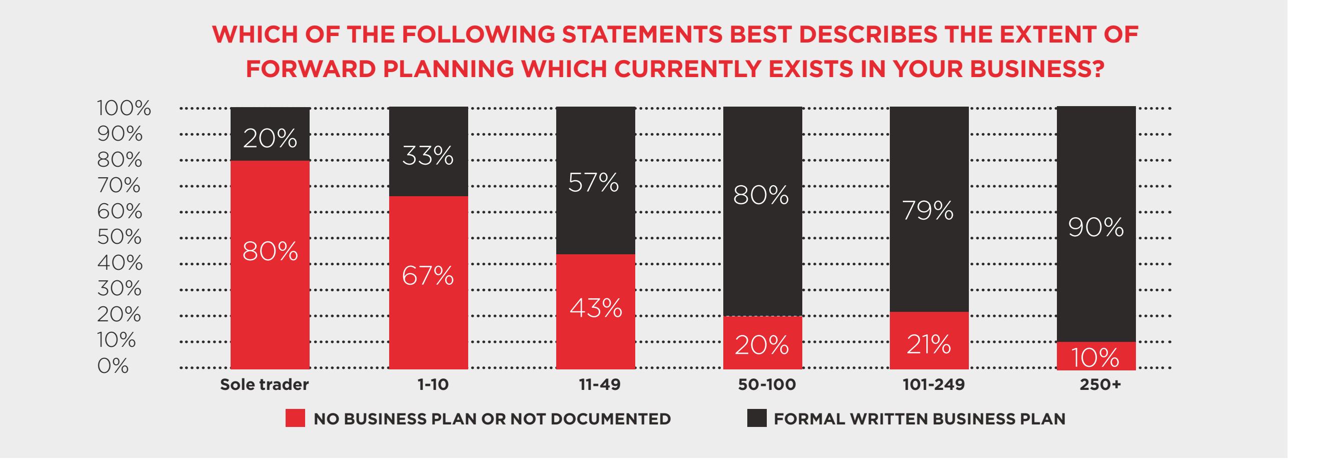
Businesses are currently operating in unprecedented levels of political uncertainty. Although preparing for multiple scenarios is time consuming and frustrating, it has never been so crucial for businesses to ensure that they formulate or review their current business plan. To explore the extent of planning in the business community across the two counties, the Chamber has analysed the degree of business planning which exists, how regularly businesses review their plans and has identified the most common methods of internal communication that are used to circulate a business plan within an organisation.





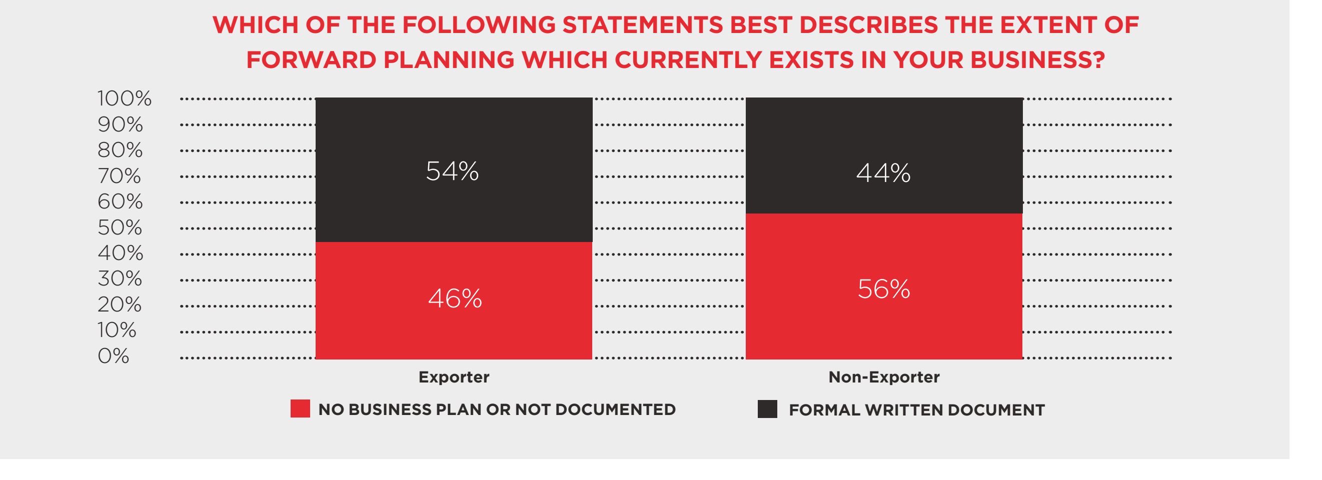
50% of businesses reported that they have a formal written business plan.

COMPANY SIZE ANALYSIS



Sole traders and companies employing between 1 and 10 people were the least likely to have a business plan. 96% of businesses in the UK are micro businesses with less than 10 employees. As these businesses represent a huge proportion of the economy, it is of concern that 67% of micro businesses in this report do not have a business plan. The larger a company, the more likely they were to have a documented business plan. On average, just 15% of businesses with 50 or more employees had an undocumented business plan. By comparison, 37% of businesses who had less than 50 employees had an undocumented business plan.

EXPORT ANALYSIS

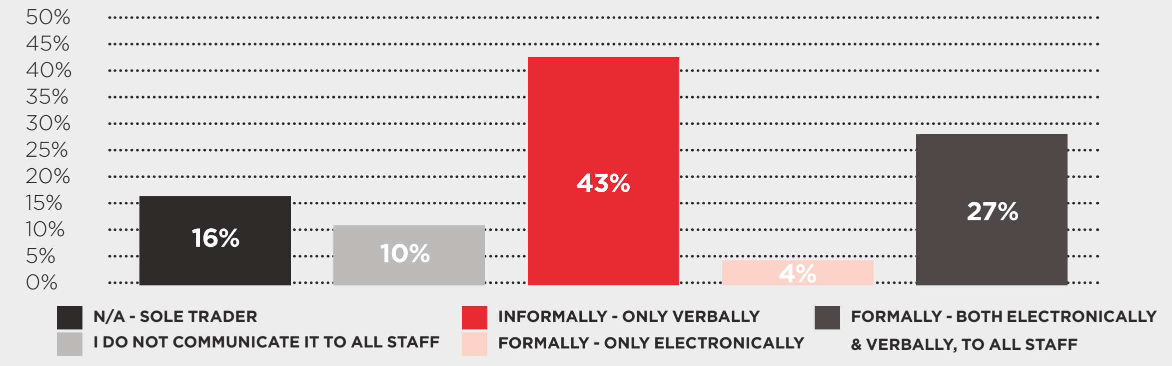


Exporters were more likely than non-exporters to have a business plan. Exporters were also more likely to have a formally written business plan, particularly one that was reviewed by senior management. This may be partially explained by the fact that a higher proportion of the exporting companies were larger businesses. As the data demonstrates, larger businesses were more likely to have a business plan. Only 70% of exporters surveyed had less than 50 employees, whereas 83% of non-exporters had 50 employees or less.

BUSINESS PLANNING

COMMUNICATING THE BUSINESS PLAN INTERNALLY

HOW DO YOU COMMUNICATE YOUR BUSINESS PLAN TO YOUR STAFF?



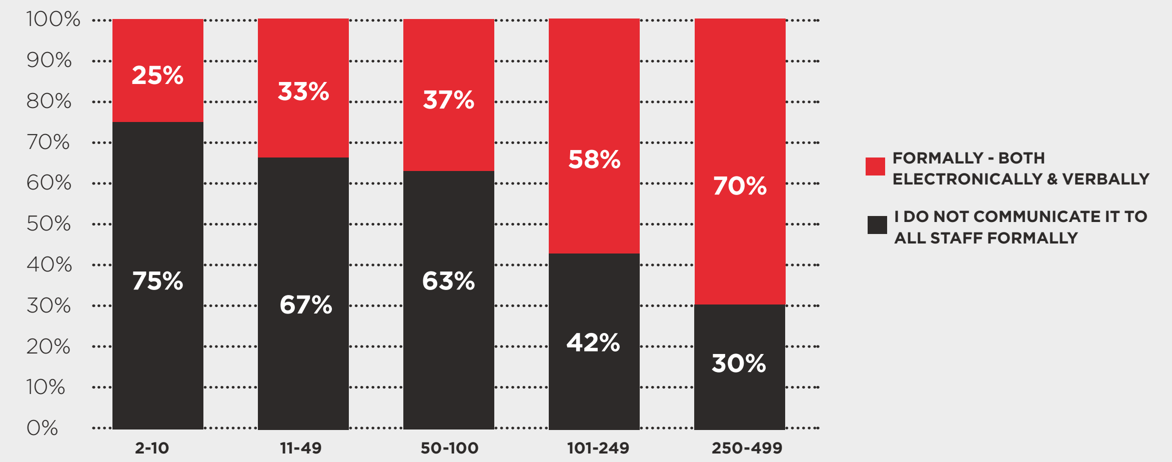
There are two primary methods through which businesses communicate their business plan to their staff.

- 43% of businesses only communicate their business plan verbally.
- 27% communicate their business plan to staff both verbally and electronically.

Communicating the business plan to staff electronically was the least utilised method. Where businesses only communicated their business plan verbally (43% of respondents), 52% of those did not have a formal written business plan and thus were not able to pursue a formal electronic approach.

COMPANY SIZE ANALYSIS

HOW DO YOU COMMUNICATE YOUR BUSINESS PLAN TO YOUR STAFF?



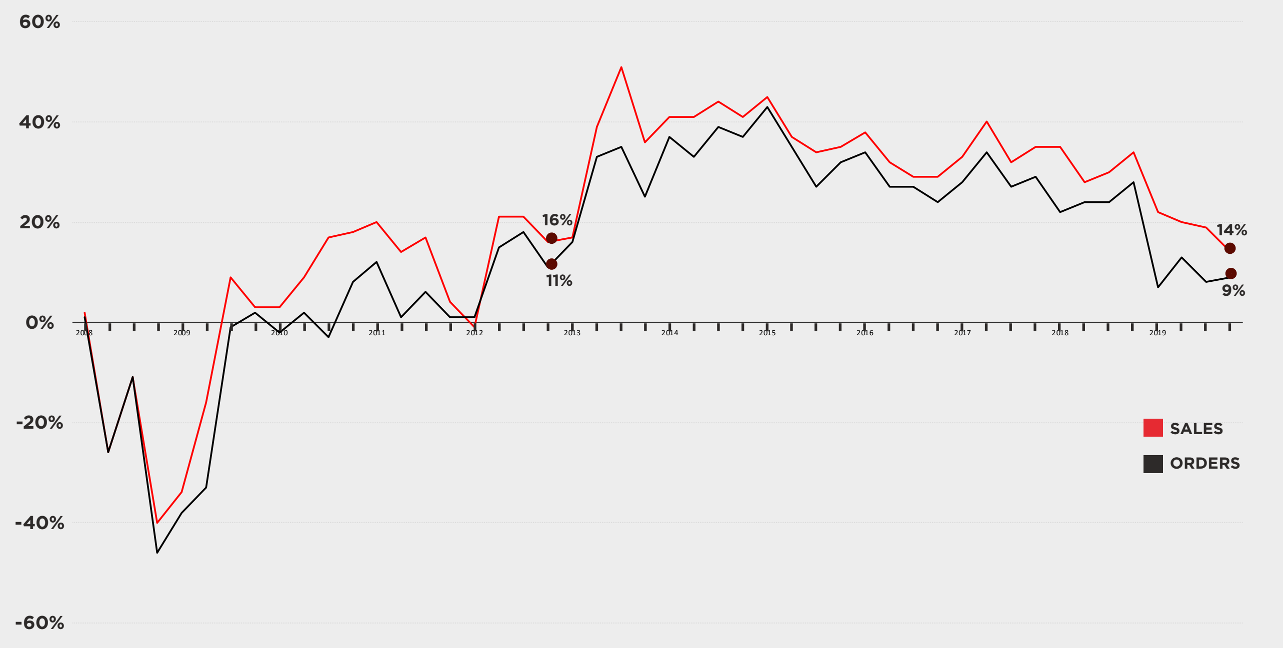
As companies got larger, they were more likely to communicate their business plan formally, both verbally and electronically, and less likely to choose the informal approach.

UK MARKET

SALES AND ORDERS IN THE DOMESTIC MARKET

Sales have dropped for the fifth consecutive quarter and are now at 14%, the lowest level since Q1 2012 and half the figure reported this time last year. Orders continue to stagnate, failing to demonstrate the bounce back we have seen in previous quarters following an EU Exit delay. Domestic orders now stand at 9%, a third of what they were this time last year (28%).

OVER THE PAST 3 MONTHS, HAVE UK SALES AND ORDERS INCREASED, REMAINED CONSTANT OR DECREASED?



MANUFACTURING SECTOR INSIGHT:

The balance of manufacturing companies reporting an increase in domestic sales is now negative. This means that more manufacturers are reporting a decrease in sales than an increase.

SERVICE SECTOR INSIGHT:

Service sector companies have fared slightly better. The balance of domestic sales and orders has increased over the last quarter. Domestic sales have increased from 22% to 25% and domestic orders have increased from 10% to 17%. These figures align with the trends reported by the Office for National Statistics (ONS) during Q3 where the service sector grew by 0.4% (ONS GDP Monthly Estimate September 2019). It is noteworthy that both indicators remain 10% lower than the levels reported this time last year.

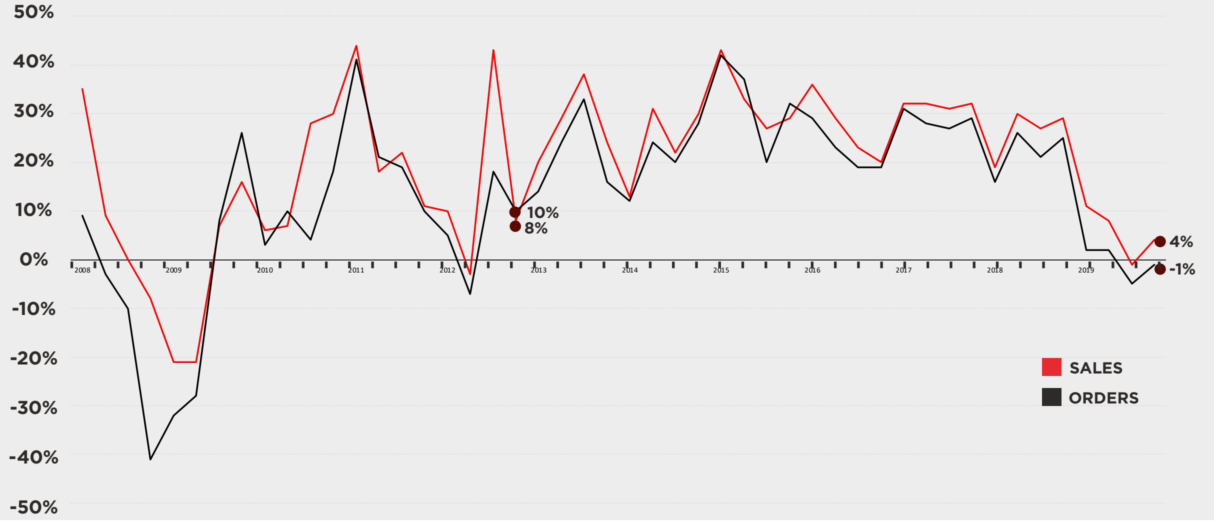
OVERSEAS MARKET

SALES AND ORDERS IN THE OVERSEAS MARKET

The longer-term impacts of prolonged EU Exit negotiations are clearly demonstrated by the downward trajectory of sales and orders in the overseas market. Overseas sales have made a marginal recovery this quarter but remain critically low by historic standards. Excluding last quarter, overseas sales are at their lowest level since Q2 2012. Overseas orders have demonstrated a marginal improvement, although they are still in negative territory at -1% (which means more businesses are reporting a decrease in overseas orders than an increase). When comparing this quarter with this time last year, the proportion of business reporting an improvement in overseas orders has decreased from 25% to -1%.

Both overseas indicators are significantly below the average for the past 20 years of QES data. The figure for overseas sales is three times lower than the average from the last two decades of data. The balance of businesses reporting increased overseas orders is nine times lower than the average from the last two decades of data.

OVER THE PAST 3 MONTHS, HAVE OVERSEAS SALES AND ORDERS INCREASED, REMAINED CONSTANT OR DECREASED?



MANUFACTURING SECTOR INSIGHT:

The balance of manufacturers reporting increased overseas sales has increased marginally from 6% in Q3 2019 to 9% in Q4 2019. This is less than half the reported figure for this time last year during Q4 2018 (25%). The balance of manufacturers reporting increased overseas sales has decreased for the fifth quarter in a row and is now negative at -2%.

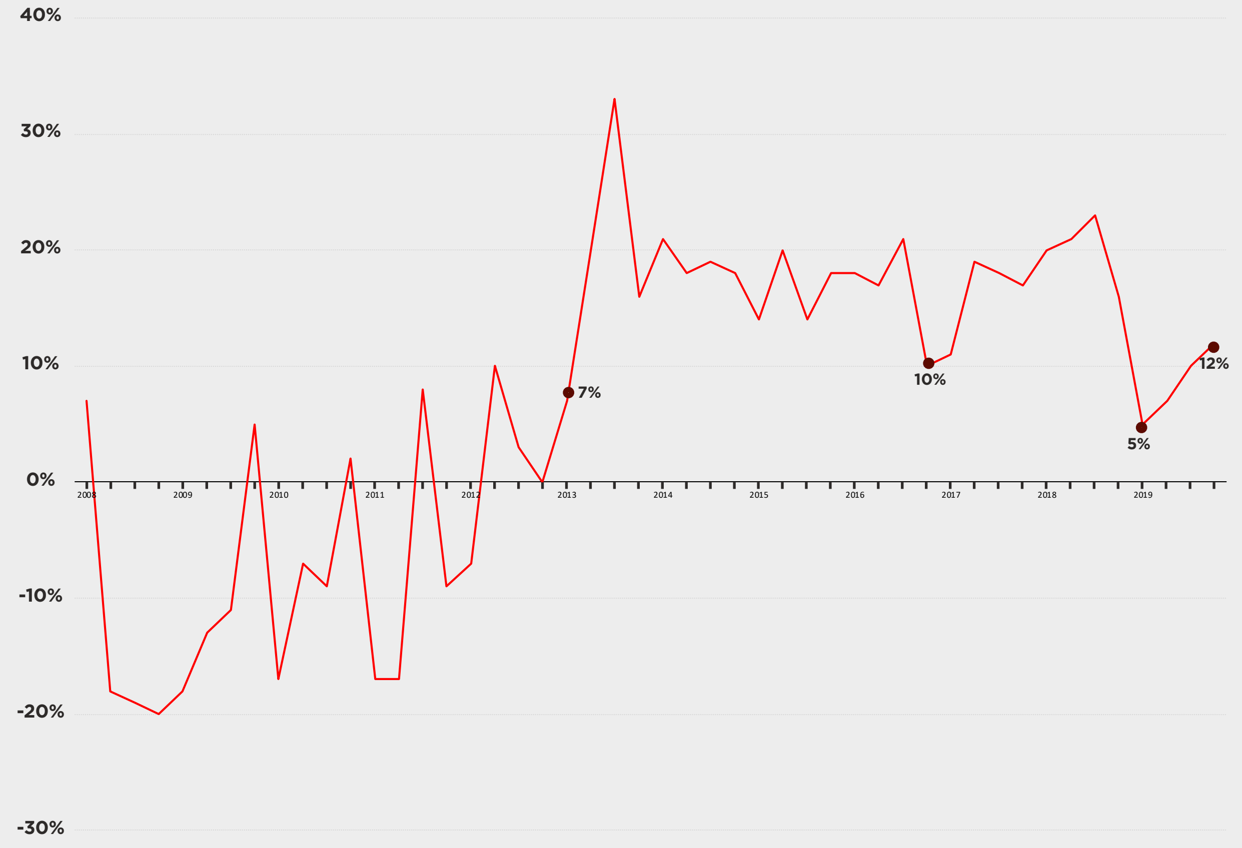
SERVICE SECTOR INSIGHT:

The balance of service sector companies reporting increased overseas sales has remained negative for the second quarter in a row, although it has improved from -6% in Q3 2019 to -4% in Q4 2019. The balance of service sector companies reporting increased overseas orders have risen from -10% in Q3 2019 to -3% in Q4 2019.

CASH FLOW

In comparison to the build up to the first EU Exit deadline (Friday 29 March 2019) and the second EU Exit deadline (Thursday 31 October 2019), the figures suggest that businesses are not tying up their cash flow in stockpiling and warehousing to the same extent as in previous quarters. Anecdotal evidence from businesses also suggests that they are not allocating the same amount of capital and resources to facilitate stockpiling compared to previous quarters.

OVER THE PAST THREE MONTHS HAS YOUR CASH FLOW INCREASED, REMAINED CONSTANT OR DECREASED?



MANUFACTURING SECTOR INSIGHT:

The balance of manufacturing companies reporting improved cashflow has increased this quarter from 0% to 11%.

SERVICE SECTOR INSIGHT:

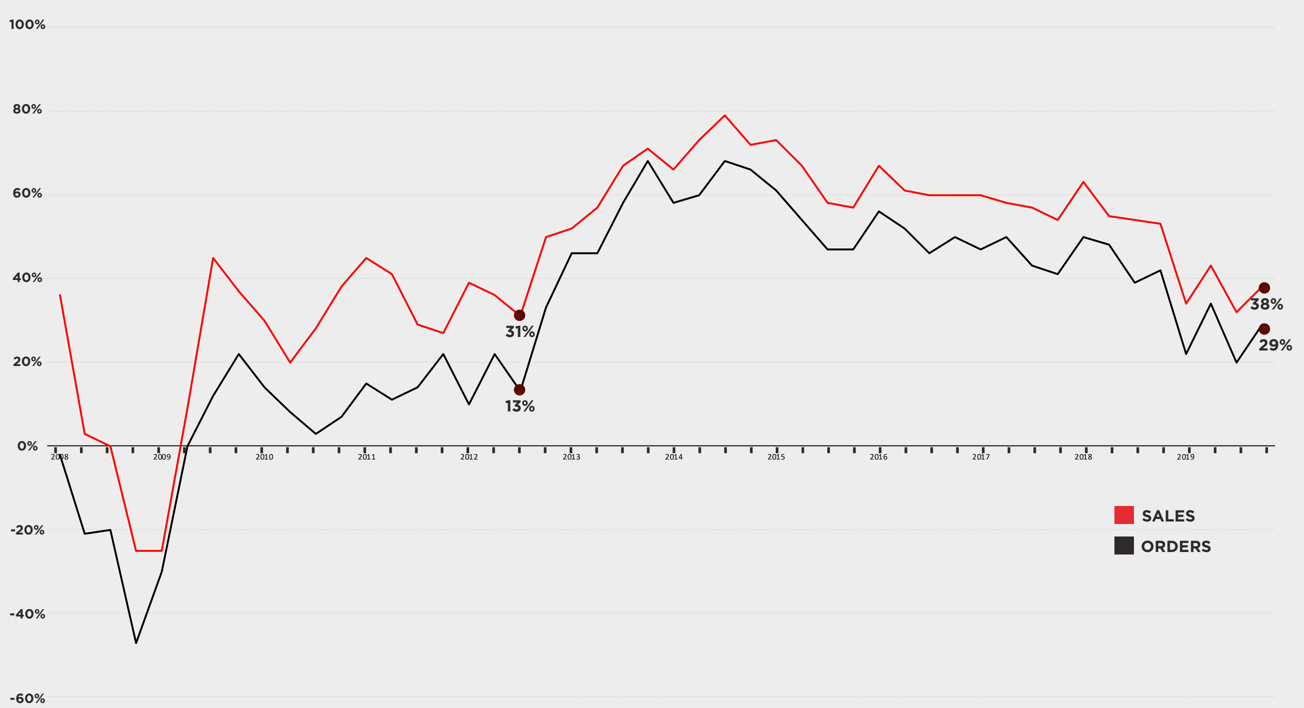
The balance of service sector companies reporting improved cashflow has remained stable this quarter moving from 12% in Q3 2019 to 13% in Q4 2019.

TURNOVER & PROFITABILITY

Business confidence in turnover remains below average. This time last year (Q4 2018) 63% of businesses anticipated that turnover would increase. This figure has now fallen to 54%. The percentage of businesses who expect their turnover to worsen has increased from 10% to 16%.

Business confidence in profitability demonstrated a similar trend. This quarter 21% of businesses expect turnover to worsen, compared to 13% this time last year (Q4 2018). This is the greatest proportion of businesses expecting profitability to decline since Q3 2012.

OVER THE NEXT 12 MONTHS, DO YOU BELIEVE YOUR TURNOVER AND PROFITABILITY WILL INCREASE, REMAIN THE SAME OR WORSEN?



MANUFACTURING SECTOR INSIGHT:

The balance of manufacturing businesses who expect their turnover to increase over the next twelve months has more than doubled from 12% last quarter to 30% this quarter. Confidence in profitability has made a marked improvement for the manufacturing sector, increasing from just 2% of businesses (Q3 2019) to 15% (Q4 2019).

SERVICE SECTOR INSIGHT:

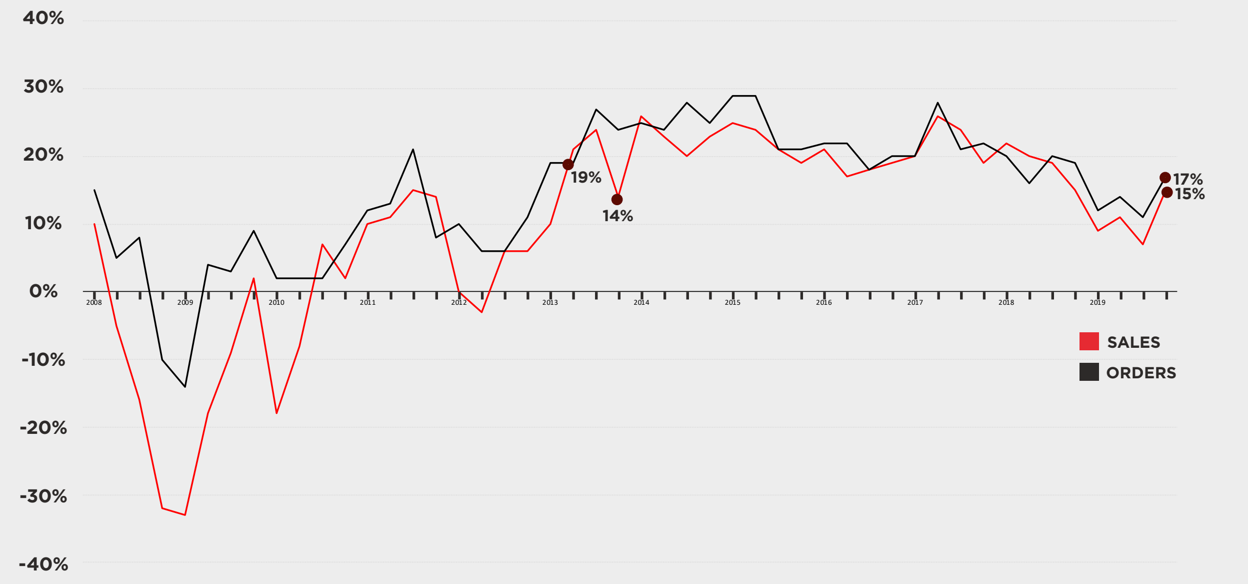
Business confidence in the service sector has improved marginally and remains far higher than in the manufacturing sector. The balance of service sector businesses expecting their profitability to increase has risen from 30% last quarter to 37% this quarter.

INVESTMENT

The data from this quarter suggests that the investment freeze which took hold of the first three quarters of 2019 has begun to thaw. The percentage of businesses planning to increase capital expenditure is now at 15% (Q4 2019), increasing from 7% (Q3 2019). Although 15% is low in comparison to recent years' figures, there are signs that the data trajectory is moving upwards. Time will tell as to whether this is a sustained increased or a brief uplift. The data suggests that a tipping point has been reached, where continuing to hold off on capital expenditure is not an option.

The investment in training figures demonstrate a similar trajectory to capital expenditure. The balance of companies expecting to increase training investment has increased from 11% in Q3 2019 to 17% in Q4 2019. Both the capital expenditure and training investment figures have recovered to the levels reported this time last year.

OVER THE PAST 3 MONTHS, HAVE INVESTMENT PLANS FOR MACHINERY/ EQUIPMENT/TRAINING INCREASED, REMAINED CONSTANT OR DECREASED?



MANUFACTURING SECTOR INSIGHT:

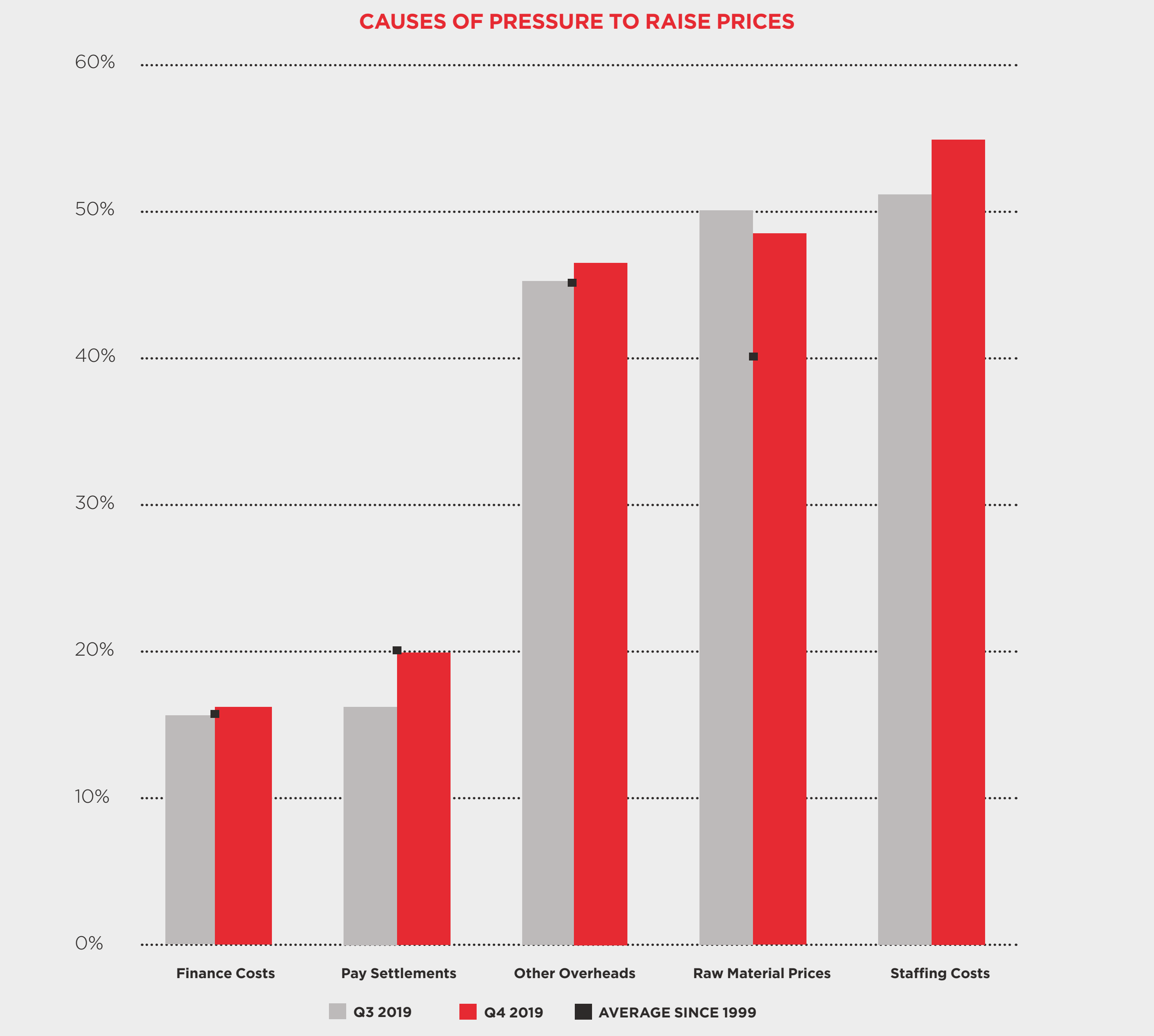
The balance of manufacturers planning to increase investment in machinery and equipment has almost trebled since last quarter, from 6% (Q3 2019) to 17% (Q4 2019). There has also been an increase in the balance of manufacturers planning to increase training investment, moving from 10% (Q3 2019) to 16% (Q4 2019).

SERVICE SECTOR INSIGHT:

The balance of service sector companies planning to increase investment in machinery and equipment has more than doubled since last quarter from 5% (Q3 2019) to 12% (Q4 2019). A similar increase has been reported for increased training investment; the balance has risen from 13% to 17%.

PRICE PRESSURES & FACTORS OF CONCERN

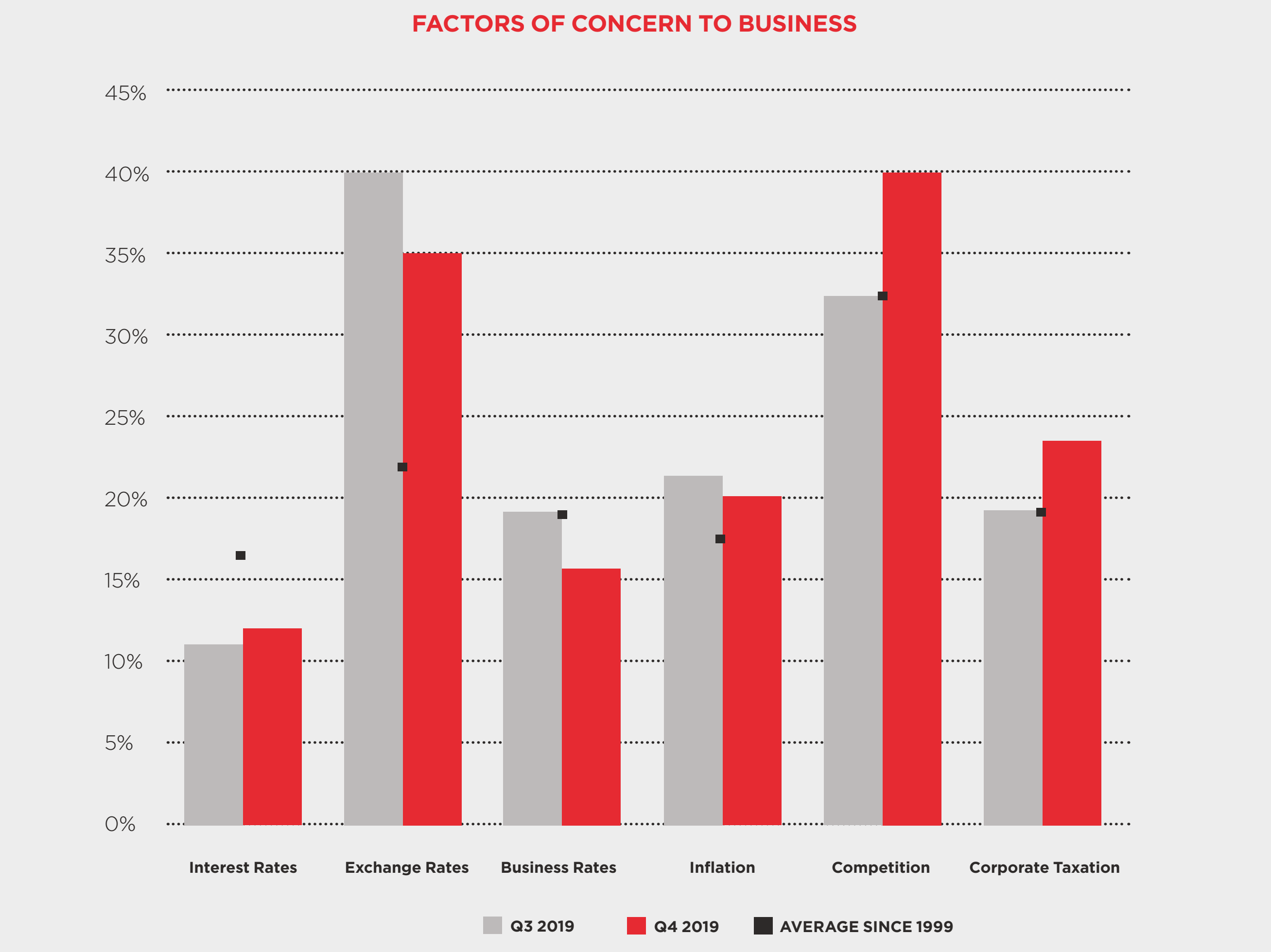
The percentage of businesses who anticipate price rises over the next three months is at the same level as this time last year (35%). Staffing costs remain the primary cause of pressure to raise prices, followed by raw materials prices and other overheads.



MANUFACTURING SECTOR INSIGHT:

The percentage of manufacturers who cite raw materials prices as a cause of pressure to raise prices has decreased by 13%.

Although the impact of Brexit continues to raise business concerns for exchange rates and the value of sterling, operating in a slowing global economy is moving to the forefront of business minds as they negotiate difficult market conditions. Remaining competitive has overtaken exchange rates as the primary cause of concern for businesses this quarter.



MANUFACTURING SECTOR INSIGHT:

Exchange rates remain the top business concern for manufacturing businesses.

SERVICE SECTOR INSIGHT:

Competition has overtaken exchange rates as the primary concern of service companies.

EMPLOYMENT & RECRUITMENT

Businesses did not report any dramatic changes to their workforce over the past 3 months, which suggests that the local labour market remains buoyant. The balance of businesses reporting an increase in their workforce over the last 3 months (12%) aligns with the average from the past two decades (11%).

In addition, the percentage of businesses expecting their workforce to reduce over the next three months (9%) remains in line with the average over the past two decades (9%). Although businesses are struggling to operate in the context of unprecedented political uncertainty, the data does not indicate any signs that businesses will be decreasing their headcount. It is clear that businesses are recruiting new roles at a lower rate, however. The percentage of businesses who attempted to recruit staff over the last three months (47%) is at its lowest level during 2019.

Roles businesses had difficulty recruiting for:

SKILLED MANUAL/TECHNICAL	52%
PROFESSIONAL/MANAGERIAL	40%
UNSKILLED/SEMI-SKILLED	27%
APPRENTICESHIPS	12%
CLERICAL	9%
OTHER	8%

For access to further information and data on recruitment and retention, visit our website to download your free copy of the Salary & Benefits Report 2019/20, in partnership with Hewett Recruitment. This report allows businesses to benchmark the salaries and benefits packages they offer to ensure they are seen as a competitive employer by candidates. Use the QR code below to download your copy now.

SCAN THIS QR CODE:

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2020 QUARTERLY ECONOMIC SURVEY DATES

Q1 2020

Fieldwork: 17 February to 9 March

Publication: 17 April 2020

Q2 2020

Fieldwork: 18 May to 8 June

Publication: TBC - July 2020

Q3 2020

Fieldwork: 26 August to 16 September

Publication: TBC - October 2020

Q4 2020

Fieldwork: 2 November to 23 November

Publication: TBC – January 2021

For further information or to find out about our next Quarterly Economic Survey, sponsorship opportunities and data collection, contact:
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