Business confidence remains negative as companies stockpile

Friday 3 May 2019

UNDER EMBARGO UNTIL TUESDAY 7 MAY 00:01 HRS

Business confidence, although still negative, has not fallen further this quarter despite ongoing Brexit uncertainty according to the latest *ICAEW Business Confidence Monitor™ (BCM).* The confidence index remained at -16.6, similar to -16.4 last quarter, however the latest findings highlight the impact that stockpiling had on GDP, and how this could impact overall growth for the rest of the year.

Key findings for Q2 2019:

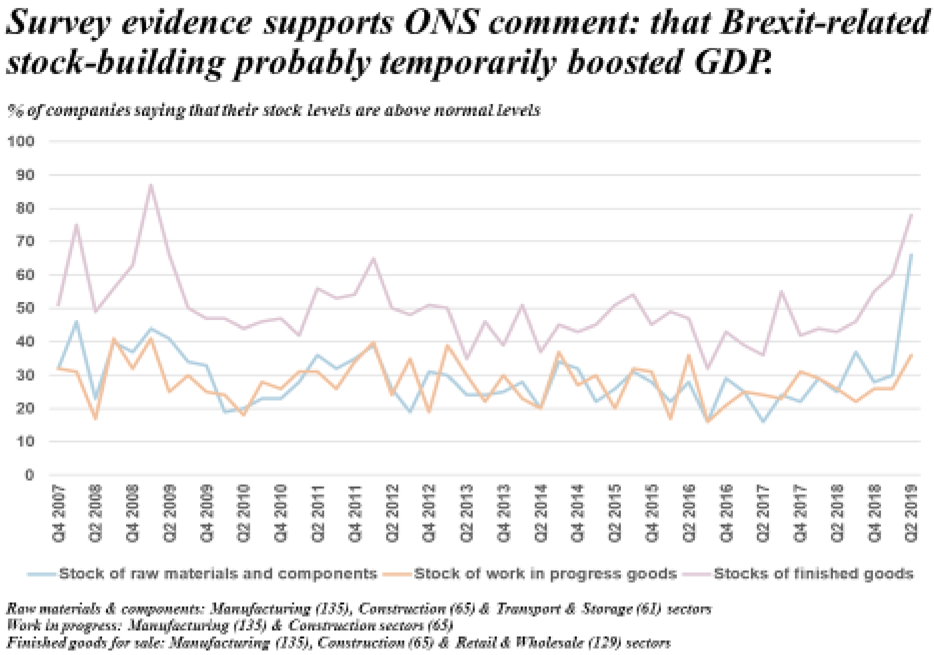
- Business confidence remains clearly negative but has not fallen significantly for the first time in 12 months
- Slow and steady sales growth, with no major improvement expected in the year ahead
- Weak confidence and sales expectations, plus spare capacity, all contribute to fragile investment plans for businesses
- Employment is growing, but cautiously, with Construction facing the most skill shortages
- Transport and Storage (-26.7) and Property (-26.1) are the least confident sectors

Michael Izza, ICAEW Chief Executive, said:

> "Businesses I speak to say that there is no sense that things will change much in the next few months and this is reflected in their confidence. Many have stockpiled ahead of the expected March exit from the European Union, but this did not happen. Stockpiling is expensive for businesses, but it did boost GDP growth. However, my fear is that this will have an impact on growth and GDP figures in the rest of the year, so we should not be surprised to see even lower growth than normal while companies use up the excess stock they now have."

Impact of stockpiling on GDP exposed

ONS data to February suggests that the Q1 GDP growth figure could be in the order of 0.5%. The *ICAEW Business Confidence Monitor™ (BCM)* suggests however that underlying growth may actually be just 0.2% in Q2. This is due to the impact of stock building, which probably temporarily boosted GDP. Stock building of raw materials and components is most widespread among businesses in the Manufacturing sector, while there has been a sharp increase in the stockpiling of finished goods by the Manufacturing and Retail and Wholesale sectors.



Slow sales growth with no major improvement to come

Companies have seen slow and steady sales growth in the year to date (3.9%), with no significant improvement expected in the next 12 months (4.1%). As a result, most of the challenges facing business, while still growing, are not accelerating, with the exception of late payments which are becoming a bigger issue. Selling prices continue to rise more slowly than input prices and unusually, companies do not anticipate profits growth to pick-up.

Employment growing, but cautiously

Employment is growing by 1.9% but the rate of expansion is expected to fall slightly to 1.5% in the next 12 months, with skills shortages impacting on some sectors. Average total salaries are only predicted to increase by 2.1% compared to 2.3% in the year to Q2 2019. Capital Investment, Research & Development and Staff Development budgets remain lacklustre and it may take a lot to change this, not just a resolution of current Brexit uncertainties.

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Notes to Editors:

1. There are over 1.7m chartered accountants and students around the world - talented, ethical and committed professionals who use their expertise to ensure we have a successful and sustainable future.

2. Over 180,000 of these are ICAEW Chartered Accountants and students (152,000 members and 28,000 students). We train, develop and support each one of them so that they have the knowledge and values to help build local and global economies that are sustainable, accountable and fair.

We've been at the heart of the accountancy profession since we were founded in 1880 to ensure trust in business. We share our knowledge and insight with governments, regulators and business leaders worldwide as we believe accountancy is a force for positive economic change across the world.

3. ICAEW is a founder member of Chartered Accountants Worldwide and the Global Accounting Alliance.

About ICAEW Business Confidence Monitor™

4. The Business Confidence Monitor (BCM) survey began 2003.
5. 1,000 Chartered Accountants responded to a telephone survey between 21 January 2019 – 18 April 2019. Businesses were categorised in terms of size (no. of employees), region and industry sector. Regional classification used was ONS Government Office Regions.
6. The BCM survey covers over 1% of economic activity both for the UK as a whole and for different UK regions. This assures our data captures accurately the mood of UK senior business professionals.
7. Business Confidence Index methodology – The Business Confidence Index is calculated from the responses to the following:

   "Overall, how would you describe your confidence in the economic prospects facing your business over the next 12 months, compared to the previous 12 months?"

   A score was applied to each response as shown below, and an average score calculated:

Variable	**Score**
Much more confident	+100
Slightly more confident	+50
As confident	0
Slightly less confident	-50
Much less confident	-100

   Using this method, a Confidence Index of +100 would indicate that all survey respondents were much more confident about future prospects, while -100 would indicate that all survey respondents were much less confident about future prospects.

8. Oxford Economics one of the world's foremost advisory firms, providing analysis on 200 countries, 100 industries and 7,000 cities and local economies. Their analytical tools provide an unparalleled ability to forecast economic trends and their economic, social and business impact. Headquartered in Oxford, England, with regional centres in London, New York, and Singapore and offices around the world, they employ one of the world's largest teams of macroeconomists and thought leadership specialists.