

# MAKING THE MOST OF IT

## THE STATE OF THE ECONOMY, SUMMER 2011

*“It’s difficult to compete with London because of its sheer size and the brutality of it.”*

### Introduction

This is the ICAEW’s 12<sup>th</sup> quarterly report on the state of the economy as seen by members across all the regions of England and Wales. It is based on face-to-face conversations between regional directors and chartered accountants in business and practice.

On the basis of the comments in this report and similar views, we can conclude that:

- Many members are upbeat about business performance and prospects although the overall picture is mixed;;
- Manufacturing industries are doing particularly well though the slump in retail is of growing concern;
- Despite general optimism, there are growing worries over the impact of the Eurozone crisis;
- We are continuing to hear about concern over skills shortages which may put a drag on recovery;
- Members are still cynical about the banks’ willingness to lend;
- HMRC is still unable to handle the demands placed on it efficiently.

### State of the economy

1. Business picked up about last September and has been really good ever since; some of our ports are definitely lead indicators. – FD, Shipping & Logistics, Yorkshire
2. I’ve a client who’s in specialist haulage for the construction sector; he’s so busy he’s looking for extra finance just to cover the working capital he needs. – Small firm, Yorkshire
3. Cereal farmers and landowners have done well over the last year or so – they’ve had really good prices. They’re worried about this year’s crop, but I’m not sure it’s as bad as they’re making out. – Small firm, Yorkshire
4. Our big retail client is doing well, but it’s a tightly run business that’s not sold up to a hedge fund or securitised his property portfolio or anything fancy like that. – Small firm, Yorkshire
5. It’s a mixed bag. We’ve a client who’s set up a shopping channel on Sky TV that’s growing exponentially – though not generating cash or making a profit yet. But a lot of others are saying ‘Thank Heavens we’re from Yorkshire and saved our cash.’ We’ve a builder’s merchant who was very cautious, but now is still in business while a lot of his competitors have gone under. – Small firm, Yorkshire
6. We’ve a client who runs an amusement arcade, a real barometer business. Even with the good weather around Easter and all the extra bank holidays this year, 2011 is only level with 2010. – Small firm, Yorkshire

7. We're quietly optimistic; you don't get much boom this far from the major cities, but you don't get the busts either. We had lunch with a couple of insolvency practitioners recently who were surprised when they walked through the town at how few boarded-up shop windows they saw – but there aren't a lot of new businesses springing up either. – Small firm, Yorkshire
8. Business is brisk: we've some clients who are selling, and doing the kind of things we've not seen for a while. – Small firm, Yorkshire
9. We've had a lot of input price rises this year – resin, metals and other raw materials – and have passed on a 5% rise but seen our margins eroded. Sales have increased steadily over the last couple of years, but we're only maintaining our profit levels by being more efficient. – Manufacturer, Yorkshire
10. It's a patchy story to be honest – our retail clients are really struggling, but other sectors are holding up well and manufacturing is pretty strong overall at the moment. – Partner, mid-sized firm, North West
11. A number of local and regional firms have called in the administrators recently, so although we were pretty confident earlier in the year, things are a little gloomier at the moment. – Partner, small firm, North West
12. We have a large number of public sector contracts, but they are long term and we have planned well and diversified. The outlook looks pretty good for us and with the right planning and controls in place we should have a good year ahead. – CFO, Property & Pharmacy Services Group, North West
13. The financial and professional services firms based in the city centre are bullish, but the picture seems nowhere near as positive in the construction sector with low levels of orders. – Partner, large firm, North West
14. The picture is more positive than in the first quarter, we can see that the recovery is on-going and slow, but there are some positive signs. The retail sector, like construction, is weak, as a result of low consumer confidence and a rise in the cost of living, caused by commodity price hikes. – Partner, large firm, North West
15. Our business has continued to trade well during the first quarter of 2011 but we remain cautious due to the impact of higher inflation rates and potential public sector job cuts. – MD, brewery, North West
16. Clients engaged in B2B are doing quite well; conversely those in B2C are doing badly, as discretionary expenditure is being postponed or cancelled. – Small firm, Wales
17. Admiring of his clients: "The best business decisions are made during times of recession; the converse is also true". – Small firm, Wales
18. Agricultural clients are doing quite well, although fodder costs are increasing. Good prices are being achieved for beef and lamb. – Small firm, Wales
19. Overall confidence is low. – Small firm, Wales
20. Construction, retail, manufacturing doing poorly, although construction clients are being propped up by private clients "doing up barns". – Small firm, Wales

21. Tourism is mixed; the area is full during bank holiday weeks, but less full for the rest of the time; better type of holiday cottages report good occupancy rates (65%). – Small firm, Wales
22. If you don't think Greece are going to default, you are deluded. – Venture capitalist, West Midlands
23. We have a stock of companies building up that need their assets redeploying into new activities or run better. – Venture capitalist, West Midlands
24. UK manufacturing is going great guns at the moment. – Large firm, West Midlands
25. We are the past the point where the economy could have gone wrong; we are now seeing opportunities rising. – Large firm, West Midlands
26. It's about educating the public. Because of all the scandals, there is a general mistrust of the whole finance profession, there's a general lack of confidence. – Large firm, West Midlands
27. I don't things have necessarily improved. People have just got used to how things are. A lot of businesses are going to suffer in the next 12 months. Those who want to expand can't get the funding to do so. – Corporate financier, West Midlands
28. It's difficult to compete with London because of its sheer size and the brutality of it – London doesn't take any prisoners. – Large firm, West Midlands
29. We are finding that most people and businesses are stuck and do not want to take risk. There are some niche business doing really well but that is because they bought well. – Large firm, East Midlands
30. The next three years should be good for my business as we will focus in areas where companies need to grow to survive. Companies are currently focused on paying off debt. There will come a point when, in order to grow, especially if there is no major increase in demand, they will have to acquire their competitors. Then they will need our services. – FD, East Midlands
31. Fuel prices are affecting smaller road haulage companies. One client has given up because they can't put their prices up. They can't compete with the likes of Eddie Stobart. – Small firm, East of England
32. Businesses that are better managed are doing OK. – Small firm, East of England
33. I have a precision engineering company that has grown by some 30% and made record profits. – Medium-sized firm, East of England
34. A local manufacturing company has gone from losses of over £100k in 2010 into a profit of over £400k this year. However break-even for April and May. – Medium-sized firm, East of England
35. We deal with a processing company which in the year to June 2011 will break all profit records for the group. – Medium-sized firm, East of England

36. Ubisense has just proved again that a Cambridge tech co can get a listing. On the other hand, several struggling companies have finally gone down recently. Maybe the polarisation is simply evolution. – Business Adviser, East of England
37. Business is excellent. We strategically got it right and there are now great opportunities in buying the right properties in this depressed market. We are confident of making a 13% return and believe the increase in capital values will be substantial in the medium to long term. – FD, East Midlands
38. My Company is involved in the manufacture of capital goods for the timber industry, the two principal components of which are sawn timber for the building industry and for the packaging industry. In two words, I would describe the state of the UK economy as fairly flat. The cost of imported timber has soared due to the exchange rate; there is a marked reluctance to invest capital in further, more efficient, plant if their existing equipment continues to function satisfactorily. This situation is likely to continue until the building industry really takes off and I am not holding my breath while I wait for this. – FD, South West
39. The size of the packaging industry is very reliant on the general level of economic activity in all manufacturing/wholesaling sectors and consequently will be very slow to place higher demands upon timber producers. – FD, South West
40. Our percentage of goods produced for export in the year to 31/3/2011 fell from the previous year's 56% to only 43%. I believe this to be due to certain European economies going into the doldrums later than the UK did, and some UK producers renewing or upgrading equipment in 2010 that they would otherwise have done in 2009 but had resolutely put off until they could see how the aftermath of the 2008 recession was panning out. – FD, South West
41. We cut our overheads to the bone two years ago and are continuing to trade profitably on the current level of orders. We indulged ourselves last month by giving all staff a small pay rise for the first time in three years. We are not anticipating having to increase staff in the next 12 months. – FD, South West
42. Generally there is more M&A activity, more deals – but it is now taking much longer to close deals. – Big Four, London
43. There are more regulatory challenges/barriers making it harder to plan for the longer term. – Risk consultancy, London
44. The UK is very tight on prices and there is reduced activity in UK. – Risk consultancy, London

### **Impact on firms of accountants**

45. Competition from the unqualifieds has backed off but it's still there. In fact, we've picked up clients from unqualifieds because they made mistakes. But there's a lot of competitive price pressure. – Small firm, Yorkshire
46. The firm is losing business and staff are leaving. – Medium-sized firm, West Midlands
47. We have got too much business and not enough people. We are employing qualified people from smaller firms to come in and help us with our clients. – Large firm, West Midlands

48. I have a lot of clients who are moving out of London and they are choosing to set up in the Midlands because London will soon reach full capacity. – Large firm, West Midlands
49. Keeping one's head down and trying to survive. Leisure and property seem the hardest hit. – Medium-sized firm, East Midlands
50. We have lots of spare capacity – could add another 10-15 clients. We are unable to raise prices. Staff costs are our biggest worry but we still have skill gaps – can't find the right people in UK; but visas are a problem for overseas staff (eg from Japan). – Fund manager, London
51. We are not worried about whether or not banks are lending – we have £3m in the bank. – Fund manager, London
52. Cautiously optimistic about 2011 and beyond; reasonable growth trend. There is still a skills challenge – some recent successful recruitment, but shortages in investigation and analysis. – Big Four, London
53. We are recruiting more at graduate level, considering a number of school leaver recruitment opportunities and continuing recruitment at the higher end – with some problems in getting suitably skilled staff. Many are being 'diverted' to the investment banks. – Big Four, London
54. A number of practitioners are worried about succession – eg to maintain their practices as 'Chartered'; when to retire and who to hand the firm to. – London

### **Banking and finance**

55. We had problems with our bank; they seemed to discount our previous track record when the slump came. We operate in risky sectors and risky markets, so to some extent I understand, but even though we're used to working with performance bonds and guaranteed letters of credit they were demanding quarantine cash, and that made things harder for us in the middle of the downturn. We were interested in a couple of small acquisitions, but we got no support and they didn't go ahead. It's a bit better now, but not much. – FD, Yorkshire
56. It seems you can get a one-week extension to your overdraft to pay the wages easily enough, but the bank won't talk about a longer-term or more formal facility. I think they might have some discretion in-branch and are using it to help clients and get round their guidelines and regulations. – Small firm, Yorkshire
57. We have a CiD [trade financing] facility with our bank. When I got here I thought it was just an expensive overdraft, but I now see the value of it – and I've negotiated the margins down. – Company accountant, Yorkshire
58. We've had no problem with our bank, but we generate a lot of cash and can generally pay down debt quickly. – FD, Shipping & Logistics, Yorkshire
59. We've some longer-term worries over financing. The bank doesn't seem to want to be very helpful at the moment. – FD, Sport & leisure sector, Yorkshire
60. The banks aren't really looking for business, and there's no lee-way either; they're really firm when there's a problem. Bank A are easier than they used to be, but Bank B are about the only ones really lending. – Small firm, Yorkshire

61. A number of our clients are still struggling to get bank funding but, having said that, most don't even bother to approach the banks now as they feel it's simply a waste of time asking. – Partner, mid-sized firm, North West
62. The banks' attitude to lending remains unchanged. – Small firm, Wales
63. Bank clients with strong balance sheets are trying to approach lenders but they find it more difficult more of the time to get help to move forward. – Large firm, West Midlands
64. The banks are talking to the clients who reacted quickly to the recession in restructuring, shedding costs, introducing better procurement and so on. The economy is definitely moving but the banks are still not lending properly and if they are not lending properly we are going to go round in circles. – Small firm, West Midlands
65. The banks want 30 per cent deposits from home-buyers but until they accept 10 per cent the market will not take off. – Small firm, West Midlands
66. Banks are doing us no favours. They have made a strategic decision, especially in property, and have failed to consider the history and substance of their existing customers. – FD, East Midlands
67. People have decent businesses but do not have the working capital to support and no means of raising funds. – Medium-sized firm, East Midlands
68. There is a major issue with bank funding and private equity. Everyone who needs money is trying to tick boxes so they are eligible. – MD, East Midlands
69. Private equity has a load of funds looking for a good investment. They are not keen, however, to take a product in an early stage of development but want proven products with experienced management. – FD, East Midlands
70. Banks don't have staff with experience. They don't have the experience to analyse lending propositions. – Small firm, East of England
71. Getting funding is all about ticking boxes. If you don't fall exactly into the box you don't get the loan. – Small firm, East of England
72. Banks are finding it difficult to find the right projects to lend to. – Small firm, East of England
73. Bank finance is still very hard but I have just got an offer for a property client. – Business adviser, East of England
74. I have seen no hard evidence of a lack of finance having prevented any of our customers from investing in necessary equipment. – FD, South West
75. Stop looking for bank finance, raid the family silver, beg from friends or look for 'angel' finance. –FD, South West
76. Far fewer negative comments on bank lending than in previous quarters, although nobody has gone overboard in praising their banks. – London

77. HMRC's postal system seems to be in complete chaos. It can take them weeks to even open the post, let alone deal with it. It's just not good enough. – Small firm, North West
78. I have used the HMRC Agent Account Manager service and found it surprisingly easy. I was kept up to date with progress reports and the problem I had raised was resolved very quickly. I just hope it continues in this way as it gets used more and my experience wasn't a one off. – Partner, Small firm, North West
79. When I returned from holiday abroad I found a letter from HMRC warning they would be sending in the bailiffs to recover goods to the value of the several thousands of pounds they said I owed them. It took some time and several phone calls before I was able to convince them that I did not owe them the money and never had done. – Retired member, West Midlands
80. Trying to communicate with HMRC is still extremely poor. I deal with 15 companies and it all used to be with my local office. It has now been split throughout the country. – FD, East Midlands
81. There is widespread concern that HMRC's insistence on electronic submission cannot be met by practices operating in the 10% area not covered by decent Broadband service. This will not improve with the introduction of super-fast broadband as we won't get it. – Small practitioners, Cornwall

### **Government spending cuts**

82. It's a pity that some of the LEPs (local economic partnerships) in the region have not yet got their act together, whilst others seem to be making some progress. I'm still unsure exactly what they are going to achieve though. – Partner, small firm, North West
83. Most people think we are having cuts but total spending is going up every year. – Venture capitalist, West Midlands
84. Public sector cuts have meant businesses can no longer count on what would once have been regular business. – Medium-sized firm, East of England
85. The demise of the RDA has had a knock on effect on local businesses such as conference centres. – Medium sized firm, East of England
86. What LEP? – Managing Partner, Devon

### **Skills shortages**

87. We are really struggling to find good qualified ACAs. They are just not on the job market at the moment and I guess most are reluctant to move in the present climate. – European FD, cereal manufacturer, North West
88. We simply can't find the staff with the skills that our organisation needs. It's becoming a real problem for us. – MD, North West
89. I look after a large car manufacturer and they say they can't get enough people with engineering skills. – Large firm, West Midlands

90. We can't recruit home-grown engineers and the trouble with educating overseas students is that they are not going to stay in this country to service our economy. –  
FD, West Midlands