

On the day of the chancellor George Osborne's autumn statement, there was widespread gloom among the businesses gathered for the round table.

More investment in infrastructure, better funding arrangements for small businesses and more nursery care allowances for children under two to help mums back to work were not enough from the chancellor to lift the mood of the meeting.

Andrew Metcalf from Maxim PR and Marketing chaired the meeting, and began by warning that the Organisation for Economic Cooperation and Development (OECD) expects UK GDP to grow by just 0.5% next year, and the UK and eurozone could be falling back into recession. OECD is predicting a 0.03% contraction this quarter and a negative event in the eurozone such as a default by Italy or Spain could cause a global contraction. Unemployment in the UK rose by 129,000 in the three months to September to 2.62 million and is predicted to go from 8.3% to nine per cent. In the 16 to 24 year old bracket, there are 1.02 million not in employment or training, and female unemployment is at its highest for 23 years.

Against that background, the outlook for this year was not very optimistic. "We and our clients are preparing for the next six months with absolute caution," said Wayne Hall from Impact creative agency. "We have spent the year preparing for it. If there is a downturn in the next six months, we can weather it because we are not expecting things to get better." Mr Hall said he did not expect the Olympics to have a huge effect on Impact or its clients.

Edward Weir from Carousel Logistics agreed, and said his company had just finished its budgets for next year and found it hard to factor in any substantial growth. "You have



From left to right: Michael Marrington, De-Ice; Keith Law, Kalligraphic Design; Edward Weir, Carousel Logistics; Mark Burgess, Natwest Bank plc; Clifford Corne, Secure Engineering; Adam Merrett, Wilkins Kennedy

# Dreadful mood music

South East Business and accountants Wilkins Kennedy organised a round table for businesses at the Marriott Tudor Park hotel and country club in Kent. Looking forward to 2012 was the theme, and among the issues up for discussion were the impact of the chancellor's autumn statement, the eurozone crisis and the potential for growth.

to account for some attrition and contraction within your client base which means you are working very hard to stand still." Carousel turns over £16 million, and Mr Weir said that to try to keep that pot of business going, a lot of new business had to be found. "A lot of clients are downsizing and we are particularly exposed to Europe.

"I think the one thing they teach you in economics at school is that you need certainty for growth. If we look at Europe at the moment, all you see is uncertainty, especially if you are exposed to those European clients." Patrick McGrath from Girlings Solicitors said the mood music was "dreadful," and businesses had to start "building blocks from the ground up." Businesses had relied on money coming from "slightly dubious financial structures" such as the sub prime mortgage fiasco which helped to cause the recession. "We have to start

making things again and telling each other that there is good news out there. I am sick and tired of all the miserable headlines, because it is spiralling us into this downward looking, downward forecasting. If we are losing confidence in this part of the world, then those we rely on even more than Europe – especially China and the Far East – will go into a wicked spiral. Someone has to cheer us up with some good music."

Mr Metcalf said he had tried in his research for the meeting, but unemployment, inflation, manufacturing performance and exports are all not working. "The instant reaction is that it's all the banks' fault," Mr Metcalf said. "Well, the reality is I don't think it is."

But Mr Weir said the biggest bad news in the economy was debt, whether that is household, sovereign or corporate debt. "That is ultimately the responsibility of the banks. There is so much debt now that it is clogging the system." The banks have lent so much, whether it is to companies, countries or individuals, that when that lending breaks down, the whole financial system is under threat. "An individual borrowing too much can go bust. The banks have caused systemic failure by their inability to identify correctly the risks involved with their lending."

Desmond High, from EMC management consultants said Mr Weir's analysis was history. The OECD growth statistics were flat lining, but Mr High said this may not be a bad thing. "We are not saying we are losing five per cent or 10% growth, which would be serious. Small businesses are right to be cautious, but there are people with a lot of cash, which means there are a lot of opportunities."





Adam Merrett, Wilkins Kennedy listens to Miranda Chapman, Pillory Barn Creative



Desmond High, EMC

Below: Danny Cooper, The Insurance Manager and Patrick McGrath, Girlings Solicitors



Round the table from left: Danny Cooper, The Insurance Manager; Patrick McGrath, Girlings Solicitors; Stephen Edge, Barclays Bank plc; Mark Lopez, DRP Client Services Ltd; Andrew Metcalf (standing) Institute of Directors and Maxim PR & Marketing; Keith Merrin, Kent Trainers; Kim Farrington, Wilkins Kennedy; Wayne Hall, Impact; Graham Jordon, HSBC Bank plc; Desmond High, EMC; Michael Marrington, De-Ice; Keith Law, Kalligraphic Design; Edward Weir, Carousel Logistics; Mark Burgess, Natwest Bank plc; Clifford Corne, Secure Engineering; Adam Merrett, Wilkins Kennedy; Miranda Chapman, Pillory Barn Creative; John Harvey, South East Business, Tim Davies, South East Business

Many clients of businesses have cash which they are holding on to and investing when they want to.

“They are paying cash, they pay it quickly and then they move on to the next thing,” said Wayne Hall from Impact creative agency. “So there are clients who are fairly cash rich at the moment.”

They would acknowledge there is good economic news to set alongside the bad, said Adam Merrett, a partner at Wilkins Kennedy. “The media are very good at telling us what the bad news is and very bad at telling us when there is some good news.” Everyone, he said, was making great play with the statistic that 50% of the UK’s trade is with Europe. “But that means that 50% is not,” said Mr Merrett. “So there are opportunities elsewhere and if we know that the eurozone is in a lot of trouble, then perhaps we should be concentrating our efforts on areas outside the eurozone for our exports.”

The United States had announced that growth was a bit faster than they had been expecting, and the Bank of England said that although inflation is high currently, it is expected to plummet in the next 12 to 18 months. “We operate 400 payrolls in our Orpington office, and I can tell you that the number of payslips we have dealt with in the quarter to the end of September was significantly higher than it was in the previous two quarters. The private sector

# Cash rich SMEs don't want to borrow

is taking on jobs, but we are having to cut jobs in the public sector at a faster rate than we are creating them.” Most of the jobs are full time, Mr Merrett added.

He argued that some of what the chancellor announced in his autumn statement would give firms confidence going forward. “The manufacturing sector has gone through de-leveraging and de-stocking over the last couple of years. That will allow them to build up their stocks again after the next nine to 12 months and get through the hard times.” In the service sector, businesses will start taking on jobs again to cope with the private and publicly funded infrastructure



Wayne Hall, Impact

projects that will happen as a result of government stimuli.

The government had also announced that the pension obligation that was set for 2013/14 will be deferred for firms with less than 50 employees. “There are some good things happening and these will eventually filter through.”

Miranda Chapman from Pillory Barn Creative agreed with Mr Hall and Mr Merrett. Pillory Barn works with clients ranging from manufacturers to professional services, some of whom are in the public sector. “There is activity out there and you have to go and ask for the work,” said Ms Chapman. “The key thing we have noticed is that when people spend money, they want return on investment, and that is probably why the best area of our business is digital services. They are being quite proactive with their websites as well.” Pillory Barn – which is in the same sector as Mr Hall – is signing new business, but Ms Chapman said it is very difficult keeping the old business because people are constantly looking at where they spend their money.

Mr Hall suggested that businesses do not want to go back to 2007 before the credit crunch. “At the moment, lots of SMEs have money, they want to know what they are spending it on, they are being very cautious and they don’t just go and borrow. The banks are getting a lot of stick saying they are not lending. But actually, we do not want to borrow. We have money in the bank. Let’s just manage ourselves.”

The government should emphasise that the country is not returning to 2007 and before the credit crunch when everyone was borrowing unrealistic amounts of money. When he arrived from New Zealand in 1997, Mr Hall said the UK was very stable. “The New Zealand economy was in turmoil. In this country, you could borrow but you had to prove you could do so. You could afford to buy things, but you had to be able to earn. There was very little unemployment.”

All of a sudden, money was readily available in the early 2000s and “it all just went pear-shaped.” Mr Hall said the route to a more stable economy was a “middle way” which avoided businesses returning to the pre 2007 era when money was free and it was easy to get into debt.

