

Economic Outlook

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Gemma Pearson, Petra Wilton and Patrick Woodman



Introduction

The Chartered Management Institute's (CMI) Economic Outlook research series examines managers' views on the economy. The fifth edition presents the latest findings from the Economic Outlook survey which has been conducted on a six-monthly basis since September 2008. The report provides insights into the impact of the economy on UK organisations and managers' expectations of future economic performance. It also reviews managers' support for different public policy measures and the actions being taken by managers to steer their organisations through the challenges they face.

Methodology

CMI invited 15,000 of its members to complete an online survey between 1-19 September 2011. A total of 616 responses were received from across the UK, drawn from industry sectors across the economy and from managers at a range of levels of seniority up to directors and chief executives.

Where reference is made to net percentage points, for example net level of business optimism, this figure is calculated by subtracting the percentage of those who are not optimistic from the percentage of those who are optimistic.

Due to rounding, charts and tables displaying percentage figures may not add up to 100.

This report has been prepared by Gemma Pearson, Petra Wilton and Patrick Woodman at CMI.

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Chartered Management Institute
2 Savoy Court, Strand,
London WC2R 0EZ

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Foreword



Managers and leaders clearly perceive the British economy to be on the verge of a double-dip recession. The immediate outlook appears very bleak with unemployment rising, spending decreasing, continued lack of access to finance, and growth forecasts diminishing into the spectre of another recession.

This is perhaps not surprising given a rout in global stock markets, cooling global growth and the crisis in the eurozone. Indeed, one of the greatest risks facing Britain's economy stems from the euro area, as the current turmoil is clearly beginning to have an effect on asset prices, bank funding costs and household and business confidence.

The rising unemployment rate is particularly disappointing. The number of women made redundant has risen significantly and this is reflected in high levels of job insecurity being reported by female managers. These jobless figures increase the pressure on the Coalition Government which is hoping a private-sector led recovery will offset government spending cuts.

As the Government seeks to rebalance the economy towards private sector growth, managers are providing some reassurance in terms of their longer-term outlook. Investment in marketing and business development are markedly down against 2008 levels but, over the longer term, both the private sector and not-for-profit sector are reporting positive levels of business optimism. The continuing economic turbulence also appears to be fostering innovation, particularly in the not-for-profit sector where 44 per cent of organisations are creating new products and services in response to the economic climate.

However, there appears to be a growing sense of impatience, as three years on from the start of the recession, the business environment has not improved for managers and leaders. They are still reporting cutting costs through redundancies and recruitment freezes, worsening morale and job insecurity. It is not surprising, therefore, that an increasing number of organisations would like to see more being achieved sooner by the Government's deficit reduction measures.

Our members are calling on the Government to support employers in training their employees and bringing skilled people into their workforces. The extensive restructuring across all sectors over the past three years – which looks set to continue – has left skills gaps and it is vitally important that professionally qualified managers are in place if organisations are to recover from the ongoing change and succeed in the future. That is why there is some support for National Insurance holidays to encourage recruitment – managers recognise that high quality, accountable employees have a hugely positive impact on the performance of organisations and can help insure against some of the worst business impacts of a recession. The faster the private sector recovers, the more able it will be to absorb job losses from the public sector and lead the UK economy towards recovery.

Christopher Kinsella

Acting CEO, Chartered Management Institute

Summary of findings

The UK economy

- **Impact of the current state of the economy** – the majority of managers feel the economy is negatively affecting their organisation. Eighty-four per cent of respondents think the UK economy is having a negative impact on their organisation, up from 82 per cent a year ago. Only six per cent of managers think the UK economy is having a positive impact on their organisation with the rest remaining undecided.
- **Impact of the economy by sector** – public sector managers are most affected by the economy with 92 per cent reporting a negative impact on their organisation. This compares with 87 per cent in the not-for-profit sector and 79 per cent in the private sector.
- **Recovery or recession** – the majority of managers think a double-dip recession is on the cards, with 68 per cent believing it is likely to happen.
- **Economic growth over the next 12 months** – business confidence is low. In the last six months, fears that stock market performance will decline have doubled to 41 per cent. Only eight per cent of managers expect GDP to grow in the next 12 months, compared to 15 per cent six months ago.

Policy measures

- **Government deficit reduction** – there is a growing sense of impatience among managers about the pace of deficit reduction. While 39 per cent of managers think that the Government is taking measures to reduce the deficit “at about the right pace”, a quarter of respondents now report that the Government is not acting quickly enough, up from 11 per cent six months ago. Those who think the Government is acting too quickly have fallen from almost half to 36 per cent.
- **Taxes** – managers are sending a clear message to Government that taxes should be simplified to encourage growth with 91 per cent in agreement. Eighty-seven per cent of managers support tax breaks for employer investment in skills. Fifty-three per cent of managers agree that business taxes should be cut.
- **Skills development** – in addition to tax incentives for skills investment, 82 per cent of managers agree that the Government should increase its funding for Apprenticeships. Seventy-seven per cent think that the new Enterprise Zones should do more to encourage investment in skills. There remains strong support for greater autonomy for businesses over public investment in skills (71 per cent).
- **Financial regulation** – there are strong signs that employers are still struggling to access credit with 83 per cent agreement that the Government should strengthen measures to improve bank lending and 79 per cent agreement that the financial sector should be more tightly regulated.

UK organisations

- **Business optimism** – despite a slight incline in the last six months, net business optimism remains a negative value with more managers, across all sectors, feeling pessimistic than optimistic about the prospects for their organisation over the next six months (-20). Over the longer term, however, optimism levels pick up and by the three year outlook the net balance returns back to a positive value of +16.
- **Business optimism by sector** – net business optimism for the next six months has a negative value for all sectors, most markedly so in the public sector (-42). Looking ahead, not-for-profit and private sector managers are more optimistic with the private sector, in particular, seeing brighter prospects for their organisation in three years’ time (+41). Although optimism rates improve in the public sector, the three-year outlook continues to have a negative value (-24).
- **Investment** – more managers expect investment to decrease rather than increase in nine out of eleven categories with only marketing and business development/sales receiving a positive net result. Thirty-eight per cent of managers expect management and leadership development budgets to be cut in the next six months. This comes despite the fact that 43 per cent of managers predict management skills shortages will have a damaging impact on their business.

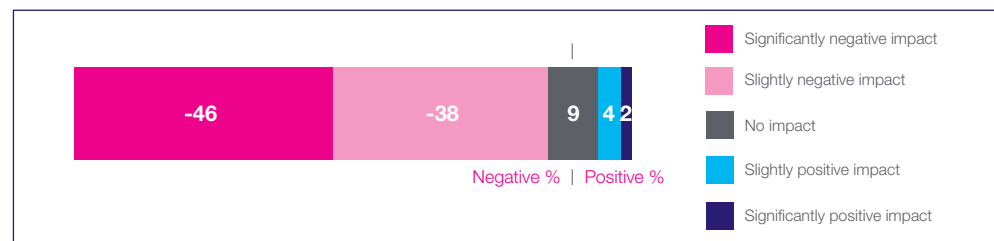
- **Availability of finance** – managers in all sectors report that availability of finance has got worse or remained the same over the last six months and shows no sign of improvement on previous survey findings.
 - **Damaging economic factors** – sixty per cent of respondents expect levels of Government debt to have a damaging impact on their business in the next 12 months. This is second only to the cost of energy which became the number one concern of businesses in March 2010 and continues to be a significant problem.
 - **Responses to the recession** – fifty-nine per cent of all managers report implementation of a pay freeze, rising to over 70 per cent in public and not-for-profit sector organisations. Half of all managers report a reduction in business overheads and a recruitment freeze.
- UK managers**
- **Job security** – job insecurity continues to be an issue with almost half of managers feeling insecure in their current job. This rises to 63 per cent when analysing responses from female managers.
 - **Morale** – employee morale continues to be described as ‘worse’ or ‘much worse’ than the preceding six months by almost 70 per cent of managers. This has been a consistent finding for the last four Economic Outlook surveys.

Commentary on findings

The UK economy

Organisations are continuing to feel the strain of the UK’s sluggish economy as 84 per cent of managers report that it is having a negative impact on their organisation. This compares with 86 per cent in our spring 2011 research and 82 per cent a year ago.

Figure 1
Impact of economy
on organisation

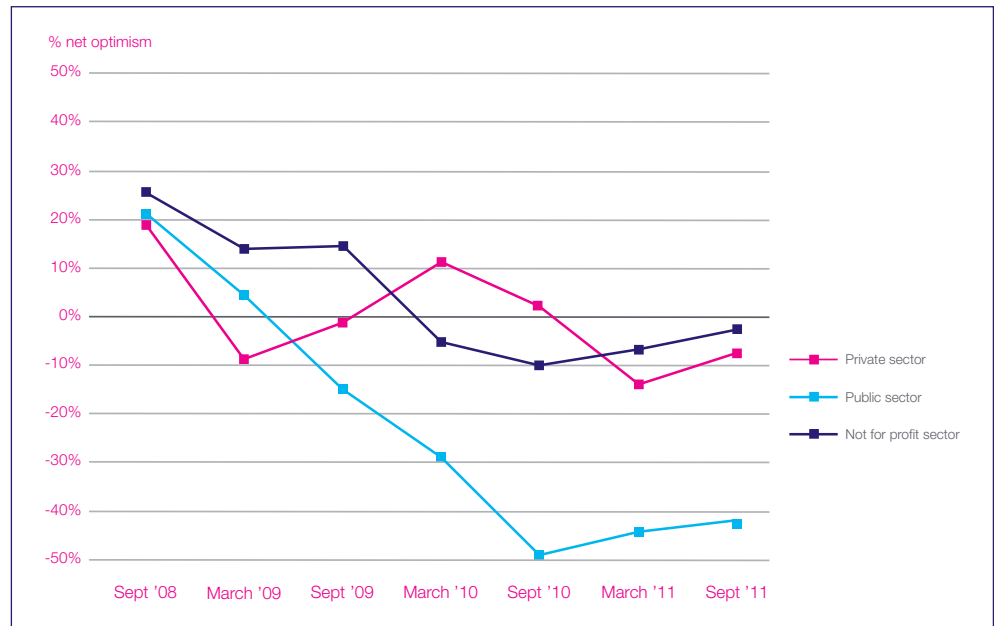


Unsurprisingly given the dramatic cuts in public spending announced in the Comprehensive Spending Review almost a year ago, public sector managers are most affected with 92 per cent reporting a negative impact on their organisation. This compares with 87 per cent in the not-for-profit sector and 79 per cent in the private sector. Only six per cent of managers think the UK economy is having a positive impact on their organisation.

The economic outlook

Levels of business optimism about the immediate future continue to remain low. Net optimism figures show that, across all sectors, more managers are negative about their organisations prospects for the next six months than positive. While public sector managers are unsurprisingly the most negative, private sector managers are less optimistic than their counterparts in the not-for-profit sector.

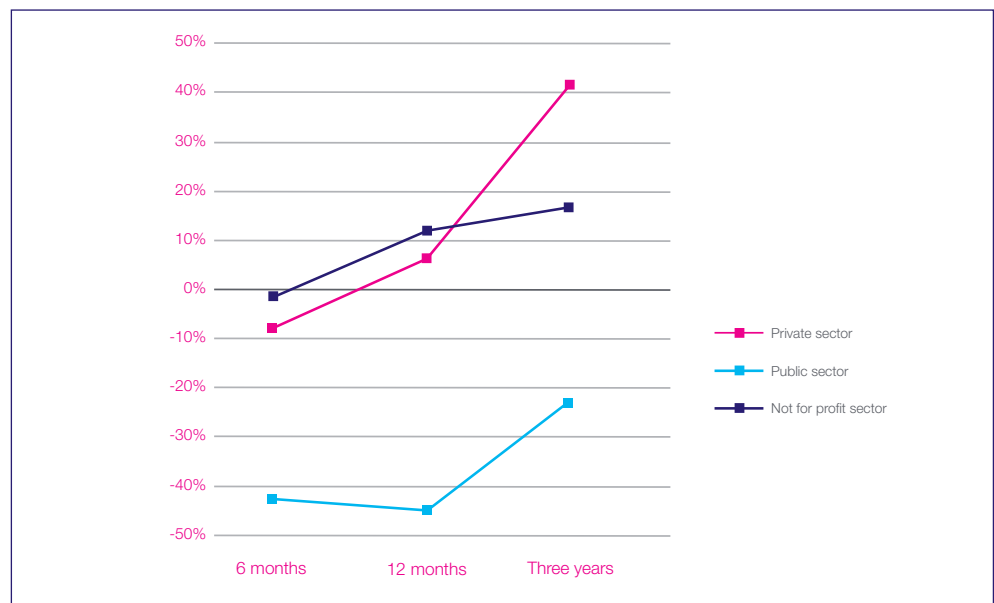
Figure 2
Net six month business optimism by sector



Despite overall pessimism, Figure 2 shows a slight increase on the previous six month's figures.

As the Government tries to rebalance the economy towards more private sector growth, they may take some reassurance from the medium-term outlook. Managers in all sectors become more positive when considering their prospects over the next 12 months to three years, although for the public sector, net optimism remains negative.

Figure 3
Net business optimism over time by sector



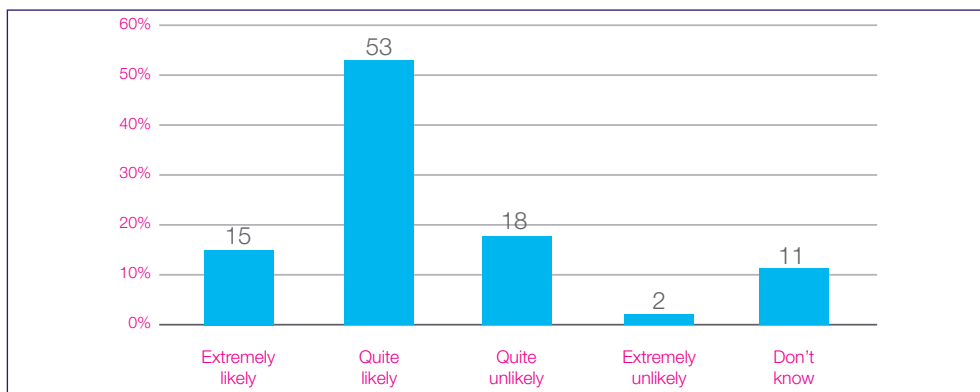
Managers' opinions on the wider business environment also remain gloomy. Seventy-six per cent of respondents believe business insolvencies will increase over the next 12 months, down marginally from 80 per cent six months ago. Over three quarters of respondents expect employment levels to decrease or remain stagnant, with private sector managers most pessimistic (81 per cent).

In the last six months there has been a discernable shift in opinion about stock market performance, with 41 per cent of managers predicting a performance decrease, up from 20 per cent in spring 2011. Eighty-six per cent of managers also expect GDP to remain the same or fall over the next 12 months. These results reflect stalling economic performance in the UK and across the globe. The UK has recently had its growth forecasts for this year

revised from 1.5 per cent to 1.1 per cent by the International Monetary Fund, and from 2.3 per cent to 1.6 per cent for 2012. With the on-going uncertainty surrounding the viability of the euro and the economic health of Greece and Italy hanging in the balance, UK managers are reflecting the view of the IMF as it described the global economy as entering a “dangerous new phase”.

With such a pessimistic outlook, do managers feel the UK is heading towards a double-dip recession? The majority feel this is a distinct possibility, with 68 per cent of respondents believing it is likely to happen.

Figure 4
Likelihood of a double dip recession in the UK



Consequently, only 30 per cent of respondents expect interest rates to go up in the next six months, down from 78 per cent six months ago. Similarly, only 54 per cent of respondents expect the cost of credit to rise, down from 81 per cent.

Managers also expect economic uncertainty to affect household budgets. Ninety-three per cent of managers expect there to be a decrease in consumer spending over the coming twelve months, and 70 per cent predict a rise in household debt. The cost of living for many is becoming more expensive as 69 per cent of businesses have frozen pay levels in the last six months. This could be compounded by higher inflation rates, which 67 per cent of managers expect will increase – although this figure is down from a spike of 78 per cent six months ago.

Worryingly for the Coalition Government striving to reduce the UK deficit, almost half of respondents expect Government debt to rise. This is up seven percentage points on the spring 2011 survey. Over 60 per cent expect levels of Government debt to have a damaging impact on their business in the next 12 months. This is second only to the cost of energy which became the number one concern of businesses in March 2010 and continues to be the top problem. The spike in March 2011 could be a result of the ‘Arab Spring’ which saw the price of oil climb, alongside the rising cost of energy bills at home.

Figure 5
Factors impacting on business over the next six months: per cent damaging impact



While we can discern a slight dip in the number of managers reporting labour shortages having a damaging impact on their business, the shortage in management skills is an increasing concern. Set against a backdrop of likely cuts to management development budgets (anticipated by 38 per cent of respondents), this raises questions about whether UK managers are sufficiently equipped to lead their organisations out of this downturn.

Employer Investment

With increasing numbers of managers anticipating a damaging impact from the majority of factors in Figure 5, how are employers reacting to these economic pressures? Looking at investment figures from 2008 to the present day we can see how markedly investment predictions have dropped. More managers expect investment to decrease than increase in almost all areas. This has resulted in negative net values in recruitment, management consultancy, plant and machinery, training and development, management and leadership development, employee pay, corporate social responsibility, product research and development and IT.

Table 1
Anticipated investment over the next six months: net increase/decrease

	Sept '08	Mar '09	Sept '09	Mar '09	Sept '10	Mar '11	Sept '11
Recruitment	-19	-38	-30	-22	-37	-37	-33
Management consultancy	-20	-30	-29	-23	-34	-33	-29
Plant and machinery	-11	-26	-28	-21	-24	-26	-25
Training and development	13	-21	-16	-13	-23	-24	-23
Management and leadership development	n/a	-22	-14	-10	-19	-22	-19
Employee pay	n/a	-12	-10	-1	-18	-24	-18
Corporate social responsibility	6	-9	-11	-6	-16	-14	-13
Product research and development	11	-14	-14	-8	-17	-14	-12
IT	16	-17	-10	-4	-16	-14	-9
Marketing	31	7	8	16	1	1	6
Business development/sales	38	12	14	21	14	7	7

As with business optimism levels, there is a marginal increase on expected budget cuts from six months ago. Future Economic Outlook editions will reveal whether March 2011 was indeed the lowest point of the economic dip, and whether we are in the midst of a slow, gradual upturn.

Aside from disinvestment, managing staffing costs is the number one area employers have used to weather the storm. Over 70 per cent of public and not-for-profit sector organisations, and 47 per cent of the private sector, have frozen pay. As might be expected, voluntary and compulsory redundancies have been prevalent in the public sector (75 per cent and 52 per cent respectively), but they have also been a reality for a third of all not-for-profit organisations and a quarter of all private sector organisations surveyed. Given the savings the public sector is required to make, it comes as no surprise that 74 per cent have implemented a recruitment freeze. More concerning, however, is the fact that almost 40 per cent of private and not-for-profit sector organisations are also not hiring.

On a more positive note, some private and not-for-profit sector organisations are creating new products and services in response to the economic climate, with the not-for-profit sector leading the field in this area (44 per cent).

Policy Measures

It is value-creating activities, such as the development of new products and services, that the government needs to incentivise. UK managers do think there are steps which can be taken to encourage growth, with 66 per cent disagreeing with the statement, 'Government can do little to affect the circumstances of my organisation'.

There is clear support for tax simplification in general, and tax relief for employers investing in skills development. This message will be particularly important for the Coalition Government as it carries out its Corporate Tax Reform.

Skills development is high on the agenda for employers with strong support for increased funding or greater incentives to invest. With 77 per cent net agreement that funding for Apprenticeships should be increased, there appears to be a healthy appetite for this particular policy.

There was some support for a National Insurance holiday, with 45 per cent agreement that this measure would encourage companies to recruit young people (net 26 per cent).

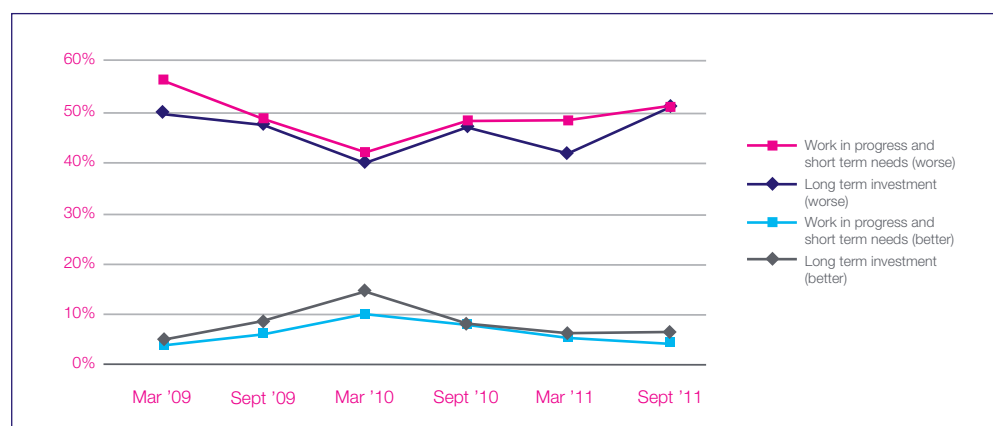
Table 2
Net level of support
for possible
economic measures

	Net level of support Sept 2011
Taxes should be simplified to encourage growth	89%
Government should provide tax breaks for employer investment in skills development	85%
Government should strengthen measures to improve bank lending to businesses as a matter of urgency	78%
Government funding for Apprenticeships should be increased	77%
Regulation of the financial sector should be tightened	73%
The new Enterprise Zones should do more to encourage investment in skills	72%
Employers and learners should be given greater control over funding for skills development	65%
Measures to reduce business regulation should be accelerated	51%
Interest rates should be held at current levels	48%
Visa rules for foreign students should be tightened	26%
Business taxes should be cut	35%
Government should restrict international labour movements	22%
Government should direct investment towards green infrastructure	30%
National Insurance holidays would encourage companies to recruit young people	26%
Import controls should be used to protect the UK from foreign competition	4%
Public spending should be cut further	-30%
Interest rates should be raised	-43%
Government can do little to affect the circumstances of my organisation	-50%

There are strong signs that employers are still struggling to access credit with 78 per cent net agreement that the Government should strengthen measures to improve bank lending and 73 per cent net agreement that the financial sector should be more tightly regulated.

Over 95 per cent of managers report that availability of finance has got worse or remained the same over the last six months which shows the challenges businesses face if they are to invest their way out of recession's reach. Tracking finance availability data over the past few years, it is clear that this has been a persistent problem for organisations and shows no sign of improvement.

Figure 6
Managers reporting
availability of finance



While there is broad agreement that public spending should not be cut further (only 27 per cent support this measure), there is growing sentiment that the Government could be acting faster to reduce the national deficit. A quarter of managers now think the Government is not acting quickly enough, up from one in ten six months ago. Private sector managers are becoming increasingly impatient with 33 per cent wanting faster action. While over half of public sector managers think measures are being implemented too quickly, 17 per cent also want swifter change, up from nine per cent six months ago.

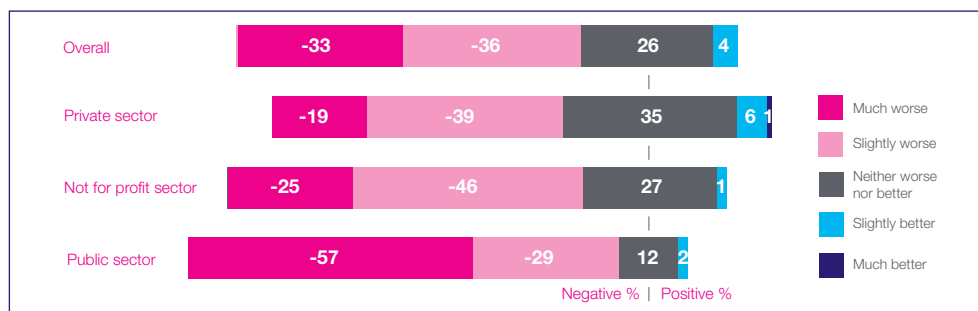
Table 3
Managers' views on the pace of deficit reduction measures

	Spring 2011	Autumn 2011
	%	%
Not quickly enough	11	25
At about the right pace	40	39
Too quickly	48	36

UK organisations

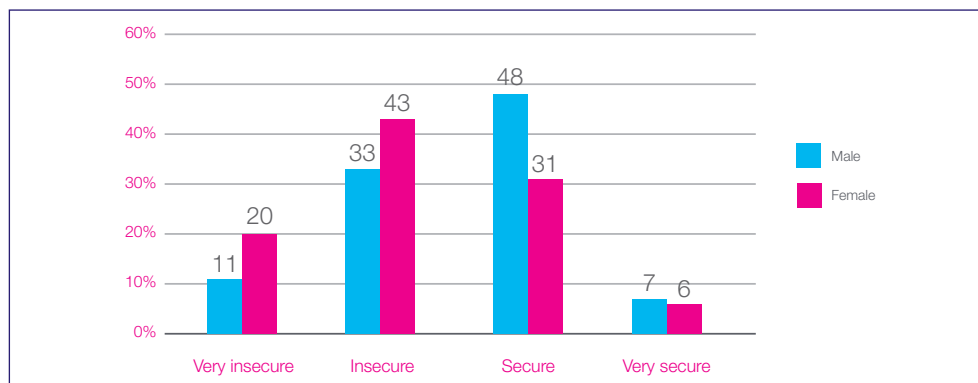
This growing sense of impatience may be a symptom of a prolonged economic downturn taking its toll. Employee morale continues to be reported as worse or much worse by almost 70 per cent of respondents; a figure which has barely changed since autumn 2009.

Figure 7
Change in employee morale over the past six months



Job security continues to be an issue with almost half of managers feeling insecure in their current job. This rises to 63 per cent when analysing responses from female managers which could reflect the fact that women are losing their jobs at a higher rate than men according to ONS data¹.

Figure 8
Job insecurity by gender



Despite high job insecurity, which might see employees trying to hold on to their jobs, the ability to retain talent remains a challenge. The extent, however, varies between sectors. With such a high redundancy rate, and the negative impact this can have on those remaining in employment, over half (55 per cent) of public sector managers say their organisation's ability to retain talent has got worse in the last six months. The majority of private sector managers say the situation is neither worse nor better. However, the not-for-profit sector is proving more adept at retaining its talent with 31 per cent reporting this has got better in the last six months.

¹Labour Market Statistics September 2011, Office for National Statistics (www.ons.gov.uk)

Recommendations – the management challenge

In October 2009 our Economic Outlook report concluded that British managers are optimistic by nature, but realistic too, facing up to the reality of investment cuts and difficult economic circumstances. Throughout the recent recession many managers have remained strongly committed to developing people and deem skills, both among management and the wider workforce, to be the key to economic success. It is important that falling growth forecasts and concern about the potential for a double-dip recession does not affect this commitment to maintaining talent and skills.

Managers appreciate that there are no quick solutions to the current economic situation but they do believe that Government action can help encourage growth. Managers' priorities have remained largely consistent and include:

- Financial support, such as tax breaks to support investment in skills, Apprenticeship funding, and greater control over the funding of skills development
- A reliable flow of bank lending and access to finance
- Tighter regulation of the financial sector to help de-risk Britain
- Simplification of the regulatory environment – tax simplification and reduction of the regulatory burden
- The prospect of growing demand – through direct investment towards green infrastructure
- Support for tackling unemployment including National Insurance holidays to encourage recruitment of young people.

As we have previously argued, the change Britain needs will be achieved by persistent commitment to a wide range of complementary measures: in fiscal and monetary policy, in legal structures that define corporate governance and the scope and structure of markets, in education and training, and in trade and social policies. It is critical too that the UK rebuilds a secure financial system which can provide industrial lending to underpin future business growth – but it is confidence in management and leadership skills that will ultimately secure finance. Investment in management development should become complementary to the successful evaluation of lending proposals.

All the elements of social and economic policy need to be aligned to a clearly defined growth agenda for Britain. That also means a strong focus on the skills of the UK's managers and leaders. CMI is dedicated to raising standards of management and leadership and, with the Government's Growth Review set to be published this autumn, we look forward to proposals that help address the challenges faced by managers and leaders across the UK.

There are clearly major threats to the global economy and there are complex policy issues to be resolved, at home and abroad. But the day to day challenges facing UK organisations demand that managers and leaders rise to the challenge. Their skills are at a premium. Their performance has never been so important.

Chartered Management Institute

The Chartered Management Institute is the only chartered professional body in the UK dedicated to promoting the highest standards of management and leadership excellence. CMI sets the standard that others follow.

As a membership organisation, CMI has been providing forward-thinking advice and support to individuals and businesses for more than 50 years, and continues to give managers and leaders, and the organisations they work in, the tools they need to improve their performance and make an impact. As well as equipping individuals with the skills, knowledge and experience to be excellent managers and leaders, CMI's products and services support the development of management and leadership excellence across both public and private sector organisations.

Through in-depth research and policy surveys of its 90,000 individual and 450 corporate members, CMI maintains its position as the premier authority on key management and leadership issues.

For more information please contact the Policy and Research Department on:

Tel: **020 7421 2721**

Fax: **020 7497 0463**

Email: **research@managers.org.uk**

Website: **www.managers.org.uk**

or write to us at the address below.



Chartered Management Institute

2 Savoy Court, Strand,
London, WC2R 0EZ

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