[BCC: Labour market remains strong but skills shortages start to bite]

Commenting on the labour market figures for January 2018, published today by the ONS, Suren Thiru, Head of Economics at the British Chambers of Commerce (BCC), said:

“The rise in employment and continued decline in unemployment is further evidence that the UK labour market remains a key source of strength for the UK economy.

“It is possible that UK labour market conditions may cool over the next year, as sluggish economic growth and Brexit uncertainty take their toll on firm’s recruitment intentions. However, we expect that while the UK unemployment rate will drift up to a peak of 4.7% this year, it will remain significantly below the long-run average.

“The continued rise in the number of vacancies to a new record high is further evidence that skills shortages are at critical levels. The BCC’s own Quarterly Economic Survey confirms that the growing skills gap is a major drag on business activity, hitting investment and productivity.

“While it is encouraging that regular earnings growth picked up slightly, subdued economic conditions are likely to weigh on wage growth over the next year. As a consequence, pay growth is likely to remain stubbornly below price growth over the near term, dampening consumer spending, a key driver of UK GDP growth.

“More must be done to close the UK’s skills gap, including easing upfront business costs to help firms recruit and train staff, and deliver a future immigration regime that supports the needs of the UK economy.”

Ends

Notes to editors:

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BCC comments on inflation statistics for December 2017

Commenting on the inflation statistics for December, released today by the ONS, Suren Thiru, Head of Economics at the British Chambers of Commerce (BCC), said:

"Inflation has eased for the first time since June 2017, with air fares placing the largest downward pressure on price growth in December.

"It's probable that inflation is on a downward trajectory, as the impact of the post-EU referendum slide in sterling starts to fade. However, our own survey data suggests that the substantial increases in the cost of raw materials over the past year are still passing through supply chains, and therefore progress back to the Bank of England's 2% target is likely to be painfully slow. As a consequence, the cost pressures on both consumers and business is set to remain sizable over the near term, and together with faltering confidence levels, is likely to stifle overall economic activity.

"With inflation likely to remain above target for some time, the prospect of further rises in interest rates remains very much on the table. However, with economic conditions in the UK likely to weaken further, the most preferential option would be for the MPC to opt for a prolonged period of monetary stability and to keep interest rates steady over the near term. More also needs to be done to tackle the high upfront cost of doing business in the UK, including fundamental reform of the UK's business rates system."

Ends

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BCC: Immigration policy must support business

Commenting on the Home Affairs Committee's report on immigration policy, published today, Jane Gratton, Head of Business Environment and Skills at the British Chambers of Commerce (BCC), said:

"The BCC has long campaigned for an immigration policy that supports business and the economy, so we welcome the Home Affairs Committee raising these issues.

"With unemployment at an all-time low, job vacancies remaining unfilled and businesses facing pervasive skills shortages, it makes no sense to cut-off an important supply of skills and labour. Businesses are not deliberately targeting non-UK workers, nor are they failing to train the UK workforce, but over half of firms we surveyed told us they would be affected in some way should there be any future restrictions on the rights of EEA nationals to work in the UK.

"Foreign students are crucial to the success of universities and surrounding business communities, but the majority do not stay in the UK once their studies are finished so including them in the immigration statistics is misguided.

"The UK should be striving to attract the brightest talent from around the world, so it's crucial that our immigration policy reflects this."

Ends

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BCC Quarterly Economic Survey: Skills shortage biggest risk for business

Based on the responses of over 7,000 businesses, the survey shows that growth in the UK economy remains subdued, with almost all services indicators below their pre-EU referendum levels and the strong performance of manufacturers easing slightly in the final quarter of 2017.

The findings of the survey indicate the skills shortages are reaching critical levels. Of the service sector firms hiring, the percentage reporting recruitment difficulties rose to 71%, the highest since records began. In manufacturing, the percentage of recruiting firms reporting difficulties is at its highest since Q4 2016.

In the manufacturing sector, the proportion of firms reporting improved export sales and orders fell slightly compared to the previous quarter. The indicators for domestic sales, employment expectations, recruitment, and confidence in turnover are also lower than in the previous quarter.

In the service sector, a key driver of the UK economy, growth remains muted and relatively unchanged from the previous three months, and is below historic averages. The proportion of firms confident that turnover and profitability will improve in the next year decreased, and firms reporting improved cashflow remains low.

Both sectors have seen considerable rises in the proportion of businesses expecting prices to increase in the next three months. In the services sector, the percentage balance of firms expecting their prices to rise jumped to +36%, the highest since Q3 2008. In the manufacturing sector, the percentage balance of firms expecting their prices to rise increased from +35% to +50%, the highest since Q4 2016.

The results emphasise the need to kickstart the economy by addressing the barriers to growth – in particular the growing skills gap – which is hindering the ability of companies to find the workers they need to develop.

Key findings in the Q4 2017 survey:

Manufacturing sector:

- The balance of firms reporting increased export sales fell from +29 to +25, the lowest since Q4 2016. Export orders fell from +24 to +20. The

balance of firms reporting increased domestic sales fell from +24 to +23 and domestic orders from +21 to +18
- The percentage of manufacturers that attempted to recruit in the last three months decreased from 71% to 66%. Of those, 75% had recruitment difficulties. Of these, skilled manual labour was the leading area of recruitment difficulties (68%) – the highest since records began
- The percentage of manufacturers expecting their prices to increase jumped from 35% to 50%, standing near historic highs. The price of raw materials remaining the key driver, with 63% reporting it as a cause of price pressure (up slightly from the 61% in Q3)
- The balance of firms confident turnover will increase in the next 12 months fell from +51 to +44, while confidence in profitability held fairly steading at +33, down from +34
- The balance of companies reporting cashflow improvements remains low at +9, while the balance of firms investing in plant and machinery fell from +19 to +16, and investment in training held fairly steady, falling from +20 to +19

Services sector:

- The balance of firms reporting improved export sales fell slightly from +14 to +12, and orders from +8 to +7. Domestic sales rose slightly from +19 +20, while orders fell from +15 to +14
- The percentage of businesses attempting to recruit fell slightly from 52% to 50%. Of those, the percentage of services firms reporting greater recruitment difficulties rose from 67% to 71%, the highest since records began
- The balance of services firms expecting prices to increase, rose considerably from 28% to 36%, the highest since Q3 2008
- The balance of firms that report cashflow improvements remains low, falling slightly from +8 to +7. Investment also remains muted, with investment in plant and machinery standing at +8 (down from +10) and training +15 (up from +14)
- The balance of firms confident turnover will increase fell from +40 to +36, the weakest since Q4 2016.Confidence in profitability also fell from +30 to +27

Commenting on the results, Dr Adam Marshall, Director General of the British Chambers of Commerce, said:

“While there are many business bright spots across the UK, the evidence from the biggest private business survey in the country shows that growth and confidence remain subdued overall as we enter a new year.

“Labour and skills shortages are set to be the biggest potential drag anchor on business in 2018, since ultimately it is people that make businesses work. Business itself must do more – by training and investing wherever possible in people – but government must also give firms the confidence to put their livelihoods on the line and go for growth.

“This must be the year employers act rather than just complain on skills, and the year government delivers clarity, leadership and investment in people and infrastructure. Kick-starting growth, and boosting wages and prosperity for all, depends on this.”

Suren Thiru, Head of Economics at the British Chambers of Commerce, said:

“These results suggest that GDP growth remained underwhelming in the fourth quarter of 2017. Services sector activity remains subdued with most indicators still below their pre-EU referendum levels. Consumer-facing firms in particular are facing an uphill struggle due to negative real wage growth, which is continuing to stifle consumer spending. That said, the sector is still likely to have been the main determinant of growth in the fourth quarter.

“Following a strong showing for much of 2017, the manufacturing sector did come off the boil a little in the last quarter, with most of the key indicators weakening in the quarter.

“The latest results also confirm that inflation remains a concern with a significant spike in inflation expectations in the quarter. While inflation is likely to peak in the coming months it is likely to remain stubbornly above the Bank of England’s 2% inflation target for a prolonged period, maintaining the cost pressures on both consumers and businesses.

“Looking forward, the UK economy is set to continue on an underwhelming growth trajectory over the near term with uncertainty over the impact of Brexit coupled with high inflation and weak productivity likely to dampen overall economic activity.”

Ends

Notes to editors:

The BCC Q4 2017 QES is made up of responses from 7,083 businesses across the UK, and is the largest private business survey in the country. Firms were questioned between November 6-27 2017 on a wide range of business issues, including: domestic sales and orders; export sales and orders; employment prospects; investment prospects; recruitment difficulties; cashflow; confidence; and price pressures.

Spokespeople are available for interview and a full QES is available from the press office.

How are balances calculated?

QES results are generally presented as balance figures – the percentage of firms that reported an increase minus the percentage that reported a decrease. If the figure is a plus it indicates expansion of activity and if the figure is a minus it indicates contraction of activity. A figure above 0 indicates growth, while a figure below 0 indicates contraction.

For example, if 50% of firms told us their sales grew and 18% said they

decreased the balance for the quarter is +32% (an expansion).

If 32% told us their sales grew and 33% said they fell the balance is -1% (a contraction).

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BCC: Securing a business-friendly trade deal with EU must be New Year priority

BCC and DHL release latest trade survey, focusing on priority markets for businesses over the next few years.

A future UK-EU trade deal must minimise barriers to trade says the British Chambers of Commerce, as it releases the results of its survey, in partnership with DHL, which finds UK businesses regard Europe as their primary trading partner for the coming years.

The results, based on the responses of over 1,300 businesses, found that over the next three years, the top two markets which most businesses plan to start or continue exporting to are Western Europe (44%), and Central and Eastern Europe (32%). Western Europe (36%) is also the market which most firms plan to import from.

According to the findings, UK businesses foresee the most significant barriers to trading with foreign markets as tariffs (46%), customs procedures (39%) and local regulations (20%). The results also show exporters' strategies over the next three years will primarily be influenced by increased demand from overseas buyers (48%), exchange rates (36%) and the UK's future withdrawal from the EU (35%).

Businesses looking to import say they will primarily be influenced by the lack of suppliers in the UK (43%), followed by exchange rates (41%), and it being cheaper to import than source in the UK or produce within their business (33%).

The results of the survey underline the importance of the UK and EU reaching a business-friendly trade agreement that minimises costs and trade barriers. Europe will not only remain an important market for UK businesses to sell to, but with minimal evidence that UK businesses can substitute domestic inputs for imports in the short term, access to the European market will be crucial for firms to source components.

Dr Adam Marshall, Director General of the British Chambers of Commerce, (BCC) said:

“Europe is the UK’s largest trading partner, so it will come as no surprise that businesses regard access to European markets and products as fundamental to their medium-term trading strategies. Now that negotiations on the future UK-EU relationship are set to begin, businesses need clarity on the practicalities of the future trading relationship between the UK and EU without delay.

“High tariffs, cumbersome customs procedures, as well as conflicting regulatory requirements can deter firms from trading overseas – so a future agreement between the UK and the EU must minimise barriers and costs, to allow firms on both sides of the Channel to continue trading as freely as possible.

“The devaluation in sterling seen over the past 18 months has been a double-edged sword, providing a welcome boost for some exporters, but a drag on many other firms, who report higher costs for their inputs and components. While UK firms would like to be able to source inputs on the domestic market, our evidence suggests that swapping imports for domestic supplies isn’t presently an option for many. If businesses can’t find or afford to source their supplies domestically, easy and quick access to foreign markets is crucial. Both the UK government and EU Commission must work together in the new year to move towards a frictionless trade deal that works for both British and European businesses.”

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In September and October 2017, the BCC surveyed over 1,300 business people from all regions of the UK online to understand the str.

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