

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 steady 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 to +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).

The British Chambers of Commerce (BCC) sits at the heart of a powerful network of 52 Accredited Chambers of Commerce across the UK, representing

thousands of businesses of all sizes and within all sectors. Our Global Business Network connects exporters with nearly 40 markets around the world. For more information, visit: www.britishchambers.org.uk

Media contacts:

Allan Williams – Head of Press and Communications

020 7654 5812 / 07920583381

Orla Hennessy – Press and Communications Officer

020 7654 5813 / 07825746812