

BCC Quarterly Economic Survey: Subdued growth in Q2 amid challenging business conditions

Today the BCC publishes the results of its Quarterly Economic Survey for Q2 2017.

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The British Chambers of Commerce (BCC) today publishes its Quarterly Economic Survey – the UK's largest and most authoritative private-sector business survey. Based on the responses of over 7,700 businesses in Q2 2017, the results for both sectors indicate that the UK economy grew at a subdued rate in the second quarter of 2017.

The services sector, a key driver of UK economic growth, saw indicators of domestic activity, employment and investment continue to weaken slightly in the quarter. Consumer-facing industries such as retail outlets and hotels reported weaker growth rates compared to B2B businesses in the quarter.

The survey shows export sales and orders in the manufacturing sector remain solid and well above historical averages. While export activity increased marginally in the services sector, it remains below historic levels.

The balance of firms expecting prices to rise has decreased across both sectors, but remains close to the historically high levels seen in the wake of the EU referendum. The percentage of manufacturers reporting raw materials as the key driver of increased prices remains near record highs.

The findings indicate that while confidence in future turnover and profitability is improving, the balance of service firms revising their investment in training upwards is also at historical lows, particularly for retailers and wholesalers. Both sectors report low levels of improvement in cash flow.

Key findings in the Q2 2017 survey:

- Overall, the figures for both sectors indicate static growth, with the services sector remaining below historic levels
- The percentage balance of manufacturing firms expecting the price of their goods to increase over the next three months has fallen slightly from the near-historic-highs reported in the previous quarter (from +47% to +34%), and fell in services from +32% to +28%
- However, manufacturers report continued pressure from the price of raw materials, with 60% reporting this as the cause of price increases (down from 76%). Pressure from financial costs also rose in both, rising from 12% to 15% in manufacturing and 9% to 13% in services
- In the manufacturing sector, the balance of firms reporting increasing

domestic sales held steady at +20, while domestic orders fell slightly from +16 to +15. The balance reporting export sales rose marginally from +26 to +27 and export orders fell from +22 to +20

- In services, the balance of firms reporting increasing domestic sales fell from +22 to +19 and domestic orders fell from +19 to +15. The balance reporting increasing export sales rose from +10 to +13 and export orders also rose from +5 to +9
- The percentage of businesses in both sectors attempting to recruit fell somewhat, but remain relatively high at 65% in manufacturing (down from 86%) and 49% in services (down from 59%). Of those, the percentage of firms facing recruitment difficulties dropped but remains high in both sectors at 64% (down from 74%) in manufacturing and 42% in services (down from 58%)
- Confidence across the board held fairly steady in the second quarter. The balance of manufacturers confident that turnover would improve over the next 12 months rose from +44 to +46, and the balance for services from +39 to +40. The balance of manufacturing firms confident that profitability would increase rose from +32 to +33 and in services from +28 to +33
- However, the balance of firms in both sectors reporting improved cashflow remains at historical lows, with +3 in manufacturing and +8 in services

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

“Our latest survey results, which reflect the outlook of companies in all sectors and locations of the UK, indicate that for many businesses growth is static at best, and at worst, beginning to slow.

“It’s time for the economy to be put back at the heart of the agenda, with a focus on creating the best possible environment for business growth all across the UK. Government must play its part by tackling the issues that hold businesses back, including labour shortages, weaknesses in our physical and digital infrastructure, and high upfront costs which dampen investment intentions and firms’ growth potential. Any talk of higher business taxes to pay for politically-motivated spending must be quashed swiftly, to avoid undermining business confidence further.

“The subdued growth picture also underlines the importance of getting as much clarity on the Brexit transition as possible, as quickly as possible over the coming months.”

Suren Thiru, Head of Economics at the BCC, said:

“Our latest survey indicates that UK economic activity remained subdued in the second quarter of 2017.

“Services sector activity stuttered a little with a number of the key balances weakening this quarter. Consumer-focused industries were the worst performers – further evidence that rising inflation is dampening consumer activity. That said, the sector is likely to have been the key driver of

second quarter growth. While the manufacturing sector enjoyed a solid quarter, the improvements are from a low base and the longer-term trends suggests that the sector's contribution to overall UK growth will not be enough to offset weaknesses elsewhere.

"The latest results also point to a continued pick-up in export activity for both service sector firms and manufacturers. The improving growth outlook for some of the UK's key international markets and the weaker sterling have helped improve trading conditions for UK exporters.

"Rising inflation remains the key challenge for the UK economy this year. Consumer prices are likely to keep rising in the coming months as the recent sizeable increases in the cost of raw materials and other overheads filter through supply chains. However, while still high, the drop in the balance of firms expecting prices to rise indicates that price pressures at the factory gate have moderated a little."

Ends

Notes to editors:

The BCC Q2 2017 QES is made up of responses from 7,700 businesses across the UK, and is the largest private business survey in the country. Firms were questioned between 22 May and 12 June 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

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