

BCC Quarterly Economic Survey: UK economy treading water despite export boost

Based on the responses of over 7,100 businesses, the survey shows that UK economic growth remained subdued in the first quarter of 2018, despite a strong export performance.

In the service sector, a key driver of the UK economy, the proportion of firms reporting improved export sales and orders rose slightly, although overall growth remains muted and relatively unchanged from the previous three months. Consumer-facing industries continue to report tougher trading conditions than B2B firms. In the manufacturing sector, the proportion of firms reporting improved export sales stands at its highest since Q2 2014.

However, domestic factors continue to weigh on the UK economy. Fewer firms in the manufacturing sector saw an increase in domestic orders, and the balance of firms reporting an increase in domestic sales is now at its lowest level since Q4 2016. Tighter cash flow is an increasing concern for many, and the skills shortages that have plagued businesses for the last few quarters have failed to ease significantly, with those in both sectors still struggling to recruit.

There has been a small, but welcome, uptick in business confidence – but amid a troubling domestic backdrop much more needs to be done to safeguard the future of the economy. A strong focus on fixing the fundamentals of business – reducing the upfront costs, reforming the Apprenticeship Levy, and boosting our domestic physical and digital infrastructure – will go some way to removing many of the barriers which are holding back business communities across the country.

Key findings in the Q1 2018 survey:

Manufacturing sector:

- The balance of firms reporting increased domestic sales fell from +23 to +17, the lowest since Q4 2016, while domestic orders fell from +18 to +16
- The balance of firms reporting increased export sales rose from +25 to +30. Export orders also rose from +20 to +28. Both balances are at their highest since Q2 2014
- The percentage of manufacturers that attempted to recruit in the last three months held fairly steady at 67% (up from 66% in the previous quarter). Of those, 69% had recruitment difficulties, down slightly from 75% in the previous quarter but still high by historical standards. Of these, skilled manual labour was the leading areas of recruitment difficulties (68%) – remaining at the highest level since records began
- Confidence in turnover rose from +44 to +48, as did confidence in

profitability from +33 to +35. The balance of firms investing in plant and machinery rose slightly from +16 to +20, and from +19 to +22 in investment in training

- The percentage balance of manufacturers expecting their prices to increase fell from +50% to +41%, although this remains high by historical standards. The price of raw materials continues to be the primary source of price pressures, with 64% reporting it as a cause (in line with the 63% last quarter). The balance of firms citing pay settlements as a source of price pressures rose from 20% to 23%
- The balance of firms reporting cashflow improvements is nearing negative territory at +3 (down from +9 in Q4 2017) – the lowest since Q1 2013

Services sector:

- The balance of firms reporting improved export sales rose slightly from +12 to +13 and orders from +7 to +10. Domestic sales held steady at +20, while domestic orders rose from +14 to +16
- The percentage of businesses attempting to recruit remained unchanged at 50%. Of those, the percentage of services firms reporting greater recruitment difficulties fell from 71% to 60%. Professional and managerial roles are the leading areas of hiring difficulties (56%)
- Confidence in turnover rose from +36 to +42, as did confidence in profitability from +27 to +33 – both at the highest since Q2 2016. The balance of companies investing in training rose slightly from +15 to +18, while investment in plant and machinery rose from +8 to +12
- The balance of services firms expecting prices to increase, fell from +36% to +31%. The balance of firms citing pay settlements as a source of price pressures rose from 18% to 19%
- The balance of firms reporting cashflow improvements remains low at +6 (down slightly from +7 in the previous quarter).

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

“What growth we see in the UK economy is due principally to strong global trading conditions, rather than domestic demand, which remains muted. Uncertainty, recruitment difficulties and price pressures remain persistent concerns for businesses of every shape and size, even if short-term confidence levels remain resilient.

“Even with a standout performance from manufacturing exporters able to reap the benefits of lower Sterling, the UK economy as a whole is treading water, rather than powering ahead.

“It’s time for the UK government to multitask and demonstrate that it can do more than negotiate Brexit. A far stronger domestic economic agenda is needed to fix the fundamentals needed for business to thrive here at home.

“At a time when firms face stratospheric up-front costs, the apprenticeship system is in crisis, roads are being allowed to crumble, mobile phone and broadband ‘not-spots’ are multiplying, and businesses are being blocked from hiring talent via arbitrary visa caps, it’s obvious that the key to improved

productivity and competitiveness lies in getting the basics right.

“Sorting these business fundamentals must move to the top of the agenda – and fast.”

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

“The results indicate that UK GDP growth continued to underwhelm in the first quarter of 2018. Activity in the dominant services sector was muted in the quarter, with most of the key indicators remaining below their pre-EU referendum levels.

“Our findings suggest that cash flow is increasingly an issue for businesses who remain under pressure from a combination of high upfront business costs, subdued financing levels and unfair payment practices. Tightening cashflow is a key business concern as it can leave firms exposed to sudden changes in economic conditions.

“UK exporters enjoyed another strong quarter, boosted by the improving outlook for the global economy. There was an encouraging uptick in investment intentions and business confidence. If this trend continues, we could see overall business activity pick up in the coming quarters.

“The latest results also indicate that inflation is now on a downward trajectory, with inflation expectations easing in the quarter. Significantly, firms continue to report little upward pressure from pay settlements. While we expect interest rates to rise next month, with UK economic conditions subdued and inflation weakening, the case for a further tightening in monetary policy continues to look limited at best.”

Ends

Notes to editors:

The BCC Q1 2018 QES is made up of responses from 7,159 businesses across the UK, and is the largest private business survey in the country. Firms were questioned between 19 Feb to 12 March 2018 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 53 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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