# BCC Quarterly Economic Survey: Manufacturing boost fails to lift UK growth

Based on the responses of over 7,100 businesses, the survey shows that despite improvements in the manufacturing sector, the UK economy grew at a muted rate in the third quarter of 2017.

In the manufacturing sector, the proportion of firms reporting improved domestic sales and orders both rose in the quarter to their highest level since Q1 2015. Export sales and orders also improved, as stronger recent economic growth in a number of key markets has helped support demand for UK products.

However, in the services sector, traditionally the main driver of UK economic growth, domestic sales and orders remained static in Q3, as did the sector's employment expectations, investment in training, and confidence in profitability and turnover. Almost all services indicators remain below their pre-EU referendum levels, with consumer-focused businesses reporting weaker growth rates compared to B2B firms.

The results of the survey also show the prevalence of recruitment difficulties facing UK businesses, which worsened further in Q3. Almost three-quarters of manufacturers reported difficulties hiring staff, and in services, the percentage rose to its highest level since Q1 2016, and stands at three times the long-term average.

The muted results make clear the need for the upcoming Autumn Budget to provide a fillip to the economy – and begin to address some of the issues undermining the UK's growth prospects, including skills gaps, high upfront costs and aging infrastructure. With Brexit-related uncertainty growing, the Q3 QES demonstrates the need for action to support a competitive and enterprising business environment.

**Key findings in the Q3 2017 survey:**

**Manufacturing sector:**

- The balance of firms reporting increased export sales rose from +27 to +29, and export orders from +20 to +24, the highest level since Q1 2015. The balance of firms reporting improved domestic sales also rose from +20 to +24, and orders from +15 to +21, also to the highest level since Q1 2015
- The percentage balance of manufacturing firms expecting the price of their goods to increase over the next three months remains well above the historical average, rising slightly from +34 to +35. This is mainly driven by pressures from the price of raw materials, with 61% reporting it as a cause of price pressure (up slightly from 60% in Q2)

- The percentage of manufacturers attempting to recruit increased, rising from 65% to 71%. The percentage of firms reporting greater recruitment difficulties rose from 71% to 74%
- Confidence in the manufacturing sector rose slightly, with +51 of firms confident that turnover will increase over the next 12 months – but profitability confidence was +34.

**Services sector:**

- Exports remained fairly flat, with the balance reporting improved export sales standing at +14 (up from +13 in the previous quarter) and orders at +8 (down from +9). The balance reporting improved domestic sales (+19) and orders (+15) both remained the same
- The percentage of businesses attempting to recruit increased, rising from 49% to 52%. The percentage of services firms reported greater recruitment difficulties, rose from 65% to 67%, the highest proportion since Q1 2017
- The percentage balance of services firms expecting the price of their goods to increase over the next three months remained unchanged at +28, which is above the historical average
- Confidence remains static, with the balance of service firms confident of improved turnover (+40) and profitability (+30) remaining unchanged from the previous quarter. Both balances remain below their pre-EU referendum levels

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

"The uninspiring results we see in our third quarter findings reflect the fact that political uncertainty, currency fluctuations and the vagaries of the Brexit process are continuing to weigh on business growth prospects.

"The Chancellor's Autumn Budget is a critical opportunity to demonstrate that the government stands ready to incentivise investment and support growth here at home. A failure to act, or a conscious choice to provide a short-term sugar hit to the electorate rather than the protein boost the economy needs, would have significant consequences for the UK's medium-term growth prospects.

"While much of Westminster and Whitehall is distracted by Brexit, business needs action now on the home front. The solutions to some of the biggest issues currently facing our firms – including high up-front costs, a lack of incentive to invest, and a need for better infrastructure – are entirely within the power of the UK government to deliver.

"Now is the time to take bold action, and create the conditions to help the economy rebound from a period of anaemic growth. Government must demonstrate competence, coherence, and above all a clear plan to support the economy through a period of change."

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

“The manufacturing sector saw a welcome improvement across a number of indicators, boosted in part by stronger growth in key export markets. However, the relative size of the sector means that its contribution to UK GDP growth is likely to have remained limited this quarter.

“The services sector remains under pressure, and with most indicators broadly static in the quarter, the sector has yet to recover from the loss of momentum suffered in the wake of the EU referendum.

“The latest results also confirm that rising costs remains a worry for businesses, particularly in manufacturing. However, while still high by historic standards, the easing in a number of indicators of pricing pressures since the start of the year suggests that inflation will peak sooner rather than later, possibly by the end of the year.

“Against this backdrop, it seems extraordinary that the Bank of England are considering raising interest rates. With UK economic conditions softening and continued uncertainty over Brexit, it is vital that the MPC provides monetary stability. We’d caution against an earlier than required tightening in monetary policy, which could hit both business and consumer confidence and weaken overall UK growth. While interest rates need to rise at some point, it should be done slowly and timed to not to harm the UK’s growth prospects.”

**Ends**

**Notes to editors:**

**The BCC Q3 2017 QES is made up of responses from 7,100 businesses across the UK, and is the largest private business survey in the country.** Firms were questioned between 21 August and 11 September 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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**Media contacts:**

Allan Williams – Head of Press and Communications

020 7654 5812 / 07920583381

Orla Hennessy – Press and Communications Officer

020 7654 5813 / 07825746812

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# Adam Marshall: Great global trading nations need great foundations

CHECK AGAINST DELIVERY

“Ladies and gentlemen, honoured guests – welcome to the British Chambers of Commerce International Trade Summit 2017.

It is fitting that we come together today in the Midlands – bringing global traders and the people who support them together in a part of the UK that is renowned for the products it builds and sells all across the world. A part of the UK that has linked its proud manufacturing tradition with the latest in technology and with advanced services, encouraging investment from these shores and far beyond. From Birmingham Airport just across the road, and from East Midlands Airport too, the Midlands reach out to global markets – strongly supported by proud and outward-looking Chambers of Commerce that help hundreds of Midlands firms find new customers and suppliers around the world each and every year.

In my role, I get to celebrate and promote the very best of British business, including Midlands firms of all sizes, and fly the flag for the UK both here at home around the world. In the last month, I have done so accompanying the Prime Minister in Japan, representing the UK at the World Chambers Congress in Australia, and hosting delegations from Finland and other countries. I am heartened, at each and every one of these interactions, by the positive messages I hear about doing business with Britain. We are seen as forthright, we are efficient, we deliver high-quality products and services, and perhaps most critically in an ever-more uncertain world, we have earned our trading partners’ trust. The overseas British Chambers and Business Groups that form part of our network repeatedly tell us that their host countries want to do more business with UK firms and build thriving two-way trade links.

Yet I have come here today to say that – in spite of our many great trading companies, in spite of our great reputation as a business partner – it is time for us to wake up.

Ladies and gentlemen, we need to wake up to the fact that businesses across the United Kingdom must do more if we are to reclaim our mantle as a great global trading nation.

A great global trading nation. Our politicians have used and abused that phrase liberally since the EU Referendum last year.

Yet they too need to wake up – and put in place the conditions, and the environment, that will actually help make it happen. As the saying goes, "wishing doesn't make it so". Great global trading nations need great foundations. Those that succeed have leaders that demonstrate that they are backing their businesses to the hilt.

At this time of uncertainty and change, business as usual – either in our companies, or in the great offices of state – is not an option. Whether in business or in government, we need to think radically, and quickly, about how we proactively secure our place in the world.

Either we take a clear-eyed look at the world around us, or others will set us an abrupt wake-up call – timed for their agenda, rather than ours.

If you'll oblige me, ladies and gentlemen, I'd like to briefly mention three areas where we need to get on the front foot.

A BUSINESS-FRIENDLY BREXIT

It will be no surprise to anyone here that the first of these is Brexit.

Although only a minority of Chamber firms tell us they are planning actively for Brexit – with a clear majority saying they will react when they have more clarity from the negotiations – our biggest firms and investors, plus many smaller trading firms that face swift changes of their business models, need clarity and certainty fast.

We are reaching a tipping point where existing investment decisions will be put on hold, where new investments may be made elsewhere around the globe, and where expensive contingency plans are activated that impact our wider business communities and our export potential.

That is why Chambers have been calling for UK-EU trade talks to get underway as soon as possible, and a clear transition period of three years agreed, that allows business to get on with certainty and without immediate additional costs. We have worked with Chamber colleagues in Germany and elsewhere to make the point to national governments across Europe, given the importance of this issue to businesses on both sides.

When Michel Barnier reports to the European Council in less than a fortnight, I am not optimistic that we will see the 27 decide to move on to trade and transition talks. Even if the two sides were closer on the substance of negotiations, I believe that politics would still lead to a further delay. Both the disorganisation of our own government, and the utter inflexibility of the EU side, are to blame here.

Yet a shift to practical, pragmatic negotiations on a transition period and our future trade arrangements is exactly what would help both UK and EU27 businesses plan and trade with greater confidence.

Today, ladies and gentlemen, I want to urge both the UK Government and the EU27 to strain every sinew to move ahead – and put trade and transition at the heart of negotiations by the end of 2017. European businesses need clarity. British businesses need clarity. Third country businesses need clarity – with American, Japanese, Australian, Indian and Canadian firms with significant UK operations in particular pressing for this.

Further delays to trade and transition talks will create a lose-lose scenario for everyone with a stake in the game. It would be unforgivable for politicians on either side of the Channel to privilege brinksmanship and disruption over thriving trade.

Over the coming months, we also need to see progress on the many practical questions for business that I set out to you at our Summit meeting last year – and for traders in particular, clarity around customs, standards, VAT and the status of EU nationals – whose contribution to our businesses and our communities should be celebrated and protected.

With each passing day, and each delay to negotiations, the siren voices of those who claim that Britain should leave the EU in March 2019 without a deal grow louder. Superficially, their argument is attractive. A short, sharp change would be followed by immediate clarity for businesses on their terms of trade, and freedom for the UK to do deals with third countries.

Yet dig beneath the surface and this argument crumbles away. Confusion would reign at ports and airports, as customs systems simply are not ready to deal with a 'no deal' outcome. The legal status of cross-border contracts could be challenged. Securing existing free trade deals and market access, negotiated while the UK was part of the EU, becomes manifestly more difficult.

Chamber member firms are clear that they want a deal with the EU as a top priority, and only 2% back the 'no deal' option.

It's time for the proponents of the hardest of Brexits to wake up and listen to the practical concerns of trading businesses. A business-friendly approach to Brexit is in the national interest.

BACKING BRITISH BUSINESS

My second priority area is creating a great environment for business growth at home. Even if we got the best possible Brexit deal, it wouldn't be worth the paper it's written on if we don't have the right conditions for businesses to grow and thrive in the UK.

In recent years, an entrepreneur could be forgiven for thinking that the British political establishment had turned lock stock and barrel against business. While politicians exhort businesses to trade more overseas, new input costs are piled on firms year after year without a second thought, our trading infrastructure continues to creak at the seams, and party leaders compete with each other to demonstrate who can wag their finger most furiously at corporate Britain. Some even encourage the demonisation of capitalism and enterprise, which have brought us so much prosperity and success.

Now, I am the very first person to say that every business has a strong responsibility to act in the interests of its employees, its customers, and the communities in which it operates.

Yet we must not tolerate the demonisation of business because it improves political poll ratings. Nor should we tolerate policy decisions that make it harder for our trading businesses to grow at such an important time.

It would be a dereliction of duty if the Chancellor of the Exchequer stands up on November 22nd and delivers a Budget that gives a ‘sugar hit’ to the electorate while forsaking the ‘protein boost’ that can enhance the productivity and competitiveness of the very businesses that generate the tax revenue and the trade that make our country tick.

This Budget cannot simply be an extension of the status quo. It must take decisive and radical steps to boost businesses and encourage investment. Waiting too long, and trying to react to the Brexit transition rather than get ahead of it, would be a costly mistake.

One great place to start would be significant, bold new incentives for investment. A major pre-Brexit investment allowance, plus an expansion to include more training and premises-related expenses, should be announced immediately. That would provide a powerful signal to both British and overseas investors: we believe in you, we want you here, and we want to be the best place to do business in Europe.

Firms everywhere tell us that the government mantra on lower Corporation Tax has worn thin. They think UK rates are competitive, and they don’t mind paying a share of their profits back into the Exchequer. What they cannot abide is the constant increase in costs imposed by governments of every colour, which blunt their appetite for investment and risk.

So, in addition to big incentives for investment, we also need to see a categorical pledge from ministers to create no new additional costs for UK business through the Brexit transition.  This monumental change will already generate adjustment costs. If ministers pile on more, they will sap competitiveness and confidence at precisely the time they are needed most.

SUPPORTING TRADE

My third and final area is the way we support trade in the UK. It’s no secret that our trade performance has been lacklustre for many years, and that we must do better.

We’ve seen in recent months that lower sterling has not sparked the revolution in British trade that many vocal commentators and politicians had predicted.

Although a cheaper pound has helped some firms, it’s been hugely tricky for others managing complex supply chains, rising input costs and competitive price pressures.

Some firms who want to expand are even reporting that their plans have been derailed by the spiralling cost of imported machinery needed to boost their productivity.

It is our considered view that lower sterling, overall, has likely done more harm than good in the short to medium term.

Stronger trade requires more than just a competitive currency. A strong domestic business environment and Brexit clarity are crucial, as I have already argued. But so, too, is comprehensive and consistent support for our trading firms – of all sizes – and those who need help to explore global opportunities.

The short-termism and constant churn that have characterised the Department for International Trade and its predecessors over the past decade must come to an end. A simple, disciplined, long-term approach to supporting exports and investment that is understood and valued by business is sorely needed. Leadership must come from the very top, with trade missions at the heart of every Cabinet minister’s job description, rather than tacked on as a hastily-arranged afterthought. And in every region and nation of the UK, a truly global Britain would be investing in flexible, face to face trade support – rather than continuing to cut back on available resources year after year. This approach has not helped the UK’s trade bottom line – and it’s time for a real change.

A great global trading nation needs to encourage, incentivise, support and promote its trading companies. That means a trade mission programme planned years, not days, in advance. It means on-the-ground support both at home and in markets overseas.

Yes, of course, it also means seeking liberalisation and new trade deals that help firms access markets around the world. But the UK government must not neglect practical support for business in global markets because it is so wrapped up in the high politics of international trade agreements – whose benefits are often years into the future.

CONCLUSION

Brexit, the business environment, and support for trade – in each of these areas, we need to see results over the coming months.

Ladies and gentlemen, I am hugely optimistic for the future of British business, and for the UK as a whole.

Yet optimism is not the same thing as complacency.

Sadly, complacency reigns today in some quarters.

To the small number of business tycoons and politicians who breezily and noisily dismiss the complexities of Brexit, I say get real – and get serious. Getting it right means taking the time needed, and being willing to negotiate pragmatically to keep trade flowing.

To those who believe that the way to transform our trade performance is to pour money into Union Flag-draped websites, or to pursue a politically symbolic but potentially problematic free trade deal with the USA, I say think again.

And to those in business whose hectic schedules mean they haven't yet found time to consider how the next five years might affect their prospects or their markets, I encourage you to do so, with an emphasis on the opportunities inherent in change – not just the risks.

Complacency, ladies and gentlemen, is the single greatest enemy of our future success.

The "I'm all right Jack" approach, both in business and politics, needs to become a thing of the past. The wake-up calls of Brexit, stagnant growth in cross-border trade, greater automation and the rise of the twin forces of populism and protectionism, require us to work twice as hard to secure and grow our place at the heart of global trade.

Yet – we are inventive, we are nimble, and we are commercial.

Our fantastic businesses and business communities have every chance to make a success of the big changes that lie ahead.

So, let's be optimistic, but let's also be clear-headed.

And let's keep up the pressure on our leaders – and demand that they demonstrate a deeper understanding of what businesses of all sizes need. Because at the end of the day, it is British business that will deliver a healthier trade balance, an improved current account position, and the prosperity we all want to enjoy.

Ladies and gentlemen, we have a dynamic and exciting Summit day ahead. I hope you find it stimulating, practical and focused relentlessly on the opportunities for growth. Meantime – thank you for your attention."

**Ends**

**Notes to editors:**

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**Media contacts:**

Allan Williams – Head of Press and Communications

020 7654 5812 / 07920583381

Orla Hennessy – Press and Communications Officer

020 7654 5813 / 07825746812

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# BCC comments on UK trade statistics for September 2017

Commenting on the trade statistics for September 2017, released today by the ONS, Suren Thiru, Head of Economics at the British Chambers of Commerce (BCC), said:

"The widening of the UK's trade deficit in August is disappointing, and signifies a much weaker trading position than the average for the year, with exports falling and imports rising sharply in the month. Taken together with the recent widening of the current account deficit, the figures paint a rather gloomy picture of the UK's external position.

"The latest trade data is further evidence that the decline in sterling's value over the past year is doing little to boost the UK's overall trade position. Businesses continue to report that the post-EU referendum weakness in sterling is hurting as much as its helping, with firms continuing to face higher input costs due to the weakening currency, particularly those locked into global supply chains. For those companies that rely on overseas suppliers for their production equipment, a weak pound also makes investment in growth less viable.

"Businesses want to see comprehensive trade talks begin in the EU negotiations before the end of the year, and need answers to the practical questions about our trading relationship with Europe beyond March 2019. At the same time, it is vital that more is done help firms take advantage of new trading opportunities, including greater practical assistance for exporters and tackling some of the longstanding issues at home including the chronic skill shortages and the cost of doing business in the UK."

**Ends**

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**Media contacts:**


Allan Williams – Head of Press and Communications

020 7654 5812 / 07920583381

Orla Hennessy – Press and Communications Officer

020 7654 5813 / 07825746812


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# BCC comments on trade and customs white papers

Commenting on the publication of the trade and customs white papers, Anastassia Beliakova, Head of Trade Policy at the British Chambers of Commerce (BCC), said:

"While the publication of the Trade White Paper is a first step toward the establishment of a independent UK trade policy, most businesses operating internationally are more impatient for answers on the fundamental question of the UK's future trading relationship with the European Union.

"Logically, ministers must take powers to conduct trade negotiations, set out how they will work with Parliament and with business, and put a trade remedies framework in place to protect UK interests – and the Bill is a critical instrument to establish all of this. Beyond this, the immediate objective of the UK's trade policy must be to replicate the dozens of free trade agreements the UK currently benefits from as part of the EU. Preserving our firms' existing levels of market access is a bigger immediate priority to most than the hypothetical gains to be had from opening negotiations with other countries, including the USA.

"What's more, trade policy cannot exist in isolation. Unless trade policy is fully co-ordinated with the long-touted Industrial Strategy, tax policy and export support, the government's vision of a Global Britain will be little more than empty rhetoric.

"The Customs White Paper provides helpful detail on the contingency planning the government is coordinating in the event of 'no deal', and it is encouraging that our proposals on customs, including pre-notification and inland clearance, have been heard loud and clear.

"However, only 2% of our members support leaving without a deal. Businesses cannot afford to face excessive delays or administration for new customs checks, and we urge the UK and the EU to reach an agreement that minimises burdens as much as possible.

"Businesses still await further detail on the UK's future VAT regime, the streamlining of customs processes, as well as how much regulatory alignment the UK intends to pursue with the EU in the future. The latter will have significant implications for the scope and focus of any future independent trade deals. After all, every trade negotiation is a trade-off between sovereignty and market access."

**Ends**

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Orla Hennessy – Press and Communications Officer

020 7654 5813 / 07825746812


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# BCC comments on Prime Minister's speech

Commenting on the Prime Minister's speech, Dr Adam Marshall, Director General of the British Chambers of Commerce (BCC), said:

"It is concerning that a 21st century Prime Minister needs to stand up and defend the contribution of businesses, markets and trade to our country's prosperity, but unequivocal backing for wealth creators, risk-takers and entrepreneurs is critical to the confidence of firms all across the UK.

“Firms will appreciate Theresa May’s clear support for the role of business in society and for the EU nationals who contribute so much to our businesses and communities. The government must continue to underline, loudly and clearly, that EU nationals living and working in the UK are welcome, wanted and appreciated.

“The Prime Minister said much today about her party’s record in government, but less about what concrete, practical steps the government will take in the months ahead to support growth and investment. Businesses will be looking for clear commitments this Autumn. We need a mission statement for growth, with action to fix the fundamentals, and prepare the country for a period of change.”

**On housing, Marshall added:**

“We have long called for the state to use its balance sheet to make a direct contribution to housebuilding. The Prime Minister’s announcement of £2bn for this purpose is an important first step.”

**On energy, he said:**

“Businesses will be confused by the Prime Minister’s commitment to free markets, on the one hand, and her stated intention to intervene in the energy market, on the other. Attention must be paid to avoid unintended consequences that drive up costs to consumers or businesses.”

**Ends**

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