

# **BCC: Inflation remains a risk to UK's growth prospects this year**

BCC's Head of Economics Suren Thiru comments on the inflation figure of 2.6% in June 2017.

18 July 2017

**Commenting on the inflation statistics for June 2017, published today by the Office for National Statistics, Suren Thiru, Head of Economics at the British Chambers of Commerce (BCC), said:**

"While the fall in inflation in June will surprise many, consumer price growth is likely to resume its upward trend in the coming months, with the elevated cost of imported raw materials still filtering through supply chains. Falling prices for motor fuels were the main driver behind the fall in the inflation rate last month.

"Inflation remains a major risk to the UK's growth prospects this year, with rising cost pressures for both consumers and businesses likely to dampen overall economic activity.

"However, it remains likely that the current spell of high inflation will be relatively short lived with moderating price growth at the factory gate indicating that inflationary pressures in the supply chain are starting to ease. If this trend continues as we expect, inflation is likely to peak sooner rather than later. While still close to historic highs, the BCC's latest Quarterly Economic Survey revealed that the balance of firms expecting prices to rise over the next year did weaken in Q2.

"We currently expect that inflation will peak at 3.4% by end of the 2017, before easing back in subsequent years as the impact of the post-EU referendum slide in sterling drops out of the calculation.

"With UK economic conditions softening, it is crucial that the MPC holds its nerve on interest rates, particularly during this period of heightened political uncertainty. Raising rates too early could undermine consumer and business confidence, stifling UK growth further. More must also be done to ease the burden of high upfront business costs which continue to impede firm's ability to invest, recruit and grow."

**Ends**

**Notes to editors:**

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.

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## **Media contacts**

Allan Willams – Senior Press Manager

020 7654 5812 / 07920583381

Orla Hennessy – Press and Communications Officer

020 7654 5813 / 07825746812

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## **[BCC comments on HS2 announcements](#)**

Commenting on the announcements on HS2, made by the Department for Transport, Jane Gratton, Head of Business Environment at the British Chambers of Commerce (BCC), said:

“The HS2 project is intended to boost the infrastructure capacity of the UK as a whole so business communities will welcome this clarity on the routes, but will want to see action begin on all phases as soon as possible.

“Construction of the routes will spur welcome investment and job creation, many in skilled positions. As well as clear benefits for those businesses who win the contracts, many other firms across their supply chains will also feel the positive knock-on effects.

“HS2 will add much-need capacity to the UK’s rail network, improving connectivity across the country which is crucial for businesses looking to reach new markets, customers and labour supply.”

**Richard Wright, Executive Director of Sheffield Chamber of Commerce said:**

“Today’s decision is the best outcome for the region, and should bolster investment into Sheffield. We’re pleased to see the Department for Transport connect the objectives of HS2 with Transport for the North, and the choice to link the city centres is a sensible one. It’s good that the decision has now been made but there is plenty of work still to be done between now and 2033 to maximise the potential of this project.”

**Ends**

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Orla Hennessy – Press and Communications Officer

020 7654 5813 / 07825746812

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## **BCC calls for NLW wage rise to help low paid manage inflation pressures**

In its recommendation to the Low Pay Commission, the BCC has called for a rise in the National Living Wage to balance inflationary pressures.

**In its response to the Low Pay Commission Consultation, the British Chambers of Commerce calls for a rise in the National Living Wage (NLW) to help low paid workers deal with the consequences of inflation without pricing people out of jobs.**

The leading business organisation has recommended an increase of 2.7% in the National Living Wage to compensate for the rise in inflation.

The BCC has recommended a cautious approach to rises in the NLW to reflect the costs and pressures faced by employers and increasing uncertainty in the economy.

With firms facing mounting pressures from existing policies such as pensions auto-enrolment, the Apprenticeship Levy, and the Immigration Skills Charge, many are struggling to absorb the rising cost of employment. The latest rise in the NLW in April 2017 increased wage bills further for businesses across a range of sectors, with the need to maintain wage differentials multiplying costs for employers.

**Jane Gratton, Head of Business Environment and Skills Policy at the British Chambers of Commerce (BCC), said:**

“The BCC has recommended an increase in the National Living Wage to help low paid workers manage inflationary pressures which are eroding their spending power.

“Setting the National Living Wage must be done cautiously, comprehensively taking into account economic circumstances, so that people are not priced out of jobs. The Government’s current policy was set before the EU referendum and so does not reflect the uncertainty caused by Brexit.

“Businesses are facing high costs when it comes to employing staff – including the Apprenticeship Levy, pensions auto-enrolment and skills charges. The rise in the National Living Wage in April this year, brought a further increase in wage bills for business across a wide range of sectors, with the need to retain wage differentials multiplying their costs further.”

**Ends**

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## **BCC: Repeal Bill must deliver continuity, certainty for business and trade**

Commenting ahead of the First Reading of the Repeal Bill, Dr Adam Marshall, Director General of the British Chambers of Commerce (BCC), said:

“Business communities across the UK tell us very clearly that they want day-one certainty and stability on the rules and regulations they will face when the UK leaves the EU.

“Continuity and equivalence are needed to prevent any disruption to British

business, particularly in terms of our trade with partners and markets in Europe and beyond.

“A legislative transition of this scope has never before been undertaken. We will be keeping a watchful eye for the possibility of unintended consequences that lead to new burdens or compliance costs, whether particular firms, sectors or the economy as a whole. Our clear message to Westminster politicians is that this bill must not be amended in a way that makes the UK a more expensive or complex place to do business, which would risk undermining our future competitiveness.

“In the fullness of time, after 2019 and after a permanent Brexit deal is secured, government and business must work together to determine where it is beneficial to maintain regulatory equivalence with the EU for the long term, and where the UK needs to set its own path in the interests of competitiveness and growth. For now, though, continuity is key to business investment and confidence.”

**Ends**

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**Media contacts:**

Orla Hennessy – Press and Communications Officer

020 7654 5813 / 07825746812

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## **[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.

13 July 2017

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).**

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