[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).

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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