

BCC Quarterly Economic Survey: Solid economic growth likely in Q1 but inflation remains a key risk

13th April 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 7,300 businesses in Q1 2017, the results show the manufacturing and services sector are reporting solid growth, with both experiencing increases in domestic and export sales since the previous quarter.

The survey shows the manufacturing sector performing strongly in the first quarter of the year, particularly in the exports market, with the number of firms reporting improved sales and orders higher than in previous quarters. However, the rising cost of overheads and raw materials are presenting as a risk to growth in the medium term.

Although the performance of the services sector has not returned to historic trend levels, it is improving from its decline in the two quarters immediately following the EU referendum.

The results of the survey found that businesses are continuing to feel inflationary pressures. The percentage of manufacturers reporting raw materials as the key driver of increased prices is at the highest since Q4 2011, and in both sectors a significant proportion of firms anticipate having to raise their own prices over the next three months.

The findings indicate that while confidence in turnover and profitability is improving, investment intentions remain low. More businesses have increased their employment expectations, although both sectors are being hampered by recruitment difficulties.

Key findings in the Q1 2017 survey:

- Overall, the figures for both sectors indicate continued expansion. While the services sector has not yet returned to historic trend levels, it is moving towards it
- The percentage balance of manufacturing firms expecting the price of their goods to increase over the next three months remains at historic highs, despite falling slightly from last quarter from +52% to +47%. In the services sector, the balance of firms expecting prices to rise increased from +30% to +32%
- 76% of manufacturers report an increase in the price of raw materials (up from 65%), while this held steady for services at 17%. 38% of manufacturers report an increase in the cost of other overheads (up from 23%), while 28% of services did (up from 24%)

- In the manufacturing sector, the balance for firms reporting increased domestic sales rose from +15% to +20%, and orders rose from +7% to +16%. The balance of firms reporting improved export sales rose from +16% to +26%, and the balance of export orders also increased from +13% to +22%
- In the services sector, the balance of firms reporting improved domestic sales rose from +15% to +22%, and orders from +13% to +19%. Exports remained broadly steady, with the balance for sales rising from +8% to +10%, and export orders falling slightly from +6% to +5%
- The percentage of businesses in both sectors trying to recruit grew in the last quarter, standing at 86% in manufacturing (up from 77% in the last quarter) and 59% in services (up from 53%). However, both sectors continue to experience high levels of recruitment difficulties, with the percentage standing at 74% in manufacturing (previously 76%) and growing to 58% in services (previously 51%)
- Confidence remained fairly steady among both sectors in Q1. The balance of manufacturers confident that turnover would improve over the next 12 months rose from +43% to +44%, and the balance for services firms rose from +35% to +39%. The balance of manufacturing firms confident that profitability would increase rose from +22% to +32%, and from +21% to +28% in services

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

“In the here and now, many businesses are resilient and experiencing solid growth. Many firms tell us their short-term expectations are strong, but that the medium-term picture is far from clear.

“The rise in inflation seen since last year’s EU referendum is the biggest immediate pressure facing most firms. While manufacturers have enjoyed a good quarter, they are facing higher costs at the factory gates, which increasingly translates into companies having to raise their own prices. With inflation already above the Bank of England’s target, this squeeze on firms looks set to continue in the medium term.

“The myriad of upfront costs imposed by government – including business rates, Apprenticeship Levy, National Living Wage and insurance premium tax – are all adding to the overhead costs of firms and the pressure on prices.

“Businesses also continue to report recruitment difficulties, and while we’d like to see greater investment in training across the board, without access to a sufficient talent pool, companies are restricted in their development ambitions.

“Our survey, with deep participation all across the UK, demonstrates the fact that there are longstanding structural issues here at home that we need to tackle to sustain success in the future. The competitiveness of firms depends on a bold domestic economic policy – not just a good Brexit deal.”

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

“Our latest survey suggests that the UK economy put in a solid performance in

the first quarter of the year, with businesses remaining resilient.

“The services sector continues to rebound from its initial shock in the months immediately after the EU referendum, and while growth has not yet returned to historic levels, it remains a key driver of the UK economy.

“Manufacturers’ export sales are at their highest levels in recent years, with the decline in Sterling and an improving outlook for the global economy helping a number of firms who export. However, if the sector is to sustain this growth in the long-term, there must be action on the difficulties facing it, including chronic underinvestment in the UK’s infrastructure and shortages in the labour market.

“Inflation is a key risk to the UK’s growth prospects, with businesses having to manage rising costs and the pressure to raise their prices. If higher inflation squeezes consumer spending as we expect, the current strength in business activity may not be enough to prevent a period of more muted economic growth.”

Ends

Notes to editors:

The BCC Q1 2017 QES is made up of responses from 7,300 businesses across the UK, and is the largest private business survey in the country. Firms were questioned between 20 February and 13 March 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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