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BCC Quarterly Economic Survey: recruitment difficulties and tougher trading conditions face firms amid sluggish UK growth

Based on the responses of over 6,000 businesses, the survey suggests that UK economic conditions remain sluggish, despite a modest improvement in activity in the second quarter of 2018.

In the dominant service sector, consumer-facing industries, such as hospitality and retail, continue to report tougher trading conditions. Cashflow and investment intentions are falling significantly for retailers in particular as [consumer spending, a key driver of UK](#) growth, continues to remain subdued.

In the manufacturing sector, the balance of firms reporting improved domestic sales rose in the quarter, and the balance of firms reporting improved orders increased to the highest level since Q1 2015. However, the size of the sector means that its contribution to UK growth remains limited. The balance of manufacturers reporting improved export sales and orders eased in the second quarter, suggesting that slowing global economic growth is forcing firms to look domestically for sales.

A number of the key forward looking indicators, if sustained, point to a subdued outlook. The number of businesses reporting that they are intending to invest fell in the quarter, and business confidence for both sectors also fell. The biggest concern for businesses, however, continues to be the difficulties they face when trying to access skills, with the percentage of firms reporting problems rising again.

All this shows the economy is in a holding pattern, with annual economic growth this year set to be the lowest since the financial crisis. Much more needs to be done to put the UK economy on a surer footing. The BCC calls for

a push to fix the fundamentals for business – fixing the crisis-hit training system, improving connectivity, delivering infrastructure improvements, and incentivizing investment – to create a “Brexit hedge” for the economy. At the same time, the government urgently needs to [provide clarity on the real-world questions that businesses are asking](#) on the UK’s status after leaving the European Union, to give firms a clear path that would enable them to invest and grow.

Key findings in the Q2 2018 survey:

Manufacturing sector:

- The balance of firms reporting increased domestic sales rose from +17 to +22, while the balance reporting improved domestic orders also rose, from +16 to +22
- The balance of firms reporting increased export sales fell from +30 to +24. The balance reporting improved export orders also fell, from +28 to +22
- The balance of firms increasing investment in training fell, from +22 to +19, while the balance of those increasing investment in plant and machinery held steady at +20
- The percentage of firms looking to recruit jumped from 67% to 77%, while the number of those struggling to recruit also rose, to 71%
- Cashflow continues to be a concern within manufacturing, with just +6% reporting improved cashflow. In construction, the balance falls to +2%
- The balance of firms expecting turnover to increase nudged down slightly to +47 (from +48)
- 65% of firms in the sector expect the cost of their raw materials to rise in the next three months
- Confidence that turnover will improve over the next twelve months eased slightly from +48% to +47% Confidence that profitability will improve over the next twelve months held steady at +35%

Services sector:

- The balance of firms reporting increased domestic sales rose from +20 to +23, while the balance reporting improved domestic orders fell slightly from +16 to +15
- The balance of firms reporting increased export sales also rose, from +13 to +15. The balance reporting improved export orders also rose slightly, to +12 from +10
- The balance of firms increasing investment in training fell slightly to +16 from +18
- The percentage of firms looking to recruit rose from 50% to 60%, but the number of those struggling to recruit also rose to 63% (from 60%)
- Cashflow is a concern, with just +9 reporting improved cashflow. Consumer-facing firms struggled more, with the number falling to just +4
- The balance of firms expecting turnover to increase in the next year nudged down slightly, from +42 to +40
- Among B2C firms, the balance of firms expecting to turn a profit is +21, compared to +43 for B2B firms
- Confidence that turnover will improve over the next twelve months eased

from +42 to +40 Confidence that profitability will improve over the next twelve months decreased from +33 to +29

Commenting on the results, Adam Marshall, Director General of the British Chambers of Commerce (BCC), said:

“Amid growing international uncertainty, from escalating trade disputes to oil price rises, the UK economy continues to grow at a sluggish rate. Brexit is a key factor – but long-standing structural issues are also holding companies’ growth back.

“The availability of skilled staff remains the biggest issue that firms face. Unless the government gets a handle on the disarray in the training and apprenticeship system and sets out a clear immigration policy that enables firms to cover vacancies, the economic potential of many areas across the UK will continue to be held back. Scrapping the harmful Tier 2 visa cap – which handicaps firms in every part of the UK – would be a swift and powerful statement of intent.

“Business needs clarity on Brexit, and a strong domestic agenda that creates a ‘Brexit hedge’ as we navigate turbulence over the next few years. Big, bold action is needed for the UK to buck the current slow-growth trend – with major new incentives for business investment, confidence-boosting infrastructure projects, and a concerted effort to slash the up-front cost of doing business, which is putting consumer-facing businesses especially under intense pressure.”

Suren Thiru, Head of Economics, added:

“Our latest survey indicates that UK economic conditions remain subdued. While the modest pick-up in domestic activity points to a slight rebound in growth from a weak first quarter, there remains little evidence in the current data to suggest a sustained upturn in the UK’s economic growth prospects.

“Activity in the key services sector remains moderate, with most of the main indicators still below their pre-EU referendum levels. While still high by historic standards, the easing in export sales in the manufacturing sector points to a tightening in trading conditions. With growth in key markets moderating and the impact of the post-EU referendum slump in sterling dissipating, the improvement in the UK’s trade position in Q1 may well be short lived.

“The latest results also indicate that cost pressures eased markedly in the quarter, suggesting that inflation will drift downwards over the near term. Significantly, there remains very little evidence that above target inflation is translating to stronger pay settlements, with weak productivity and the high upfront cost of doing business continuing to limit the extent wages are able to rise.

“Against this backdrop, the Bank of England’s recent rhetoric around raising interest rates continues to look ill-judged. With the UK economy seemingly

stuck on a low growth path and inflation easing, it would be prudent for the MPC to provide greater monetary stability rather than undermining the UK's growth prospects further."

Ends

Notes to editors:

The BCC Q2 2018 QES is made up of responses from 6,037 businesses across the UK, and is the largest private business survey in the country. Firms were questioned between May 21 – June 11 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).

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Media contacts:

Allan Williams – Head of Press and Communications

020 7654 5812 / 07920583381

Orla Hennessy – Senior Press and Communications Officer

020 7654 5813 / 07825746812

BCC response to Chequers summit conclusions

Director General Adam Marshall responds to the statement issued at the end of the Brexit discussions at Chequers.

“For Brexit-weary businesses seeking clarity, this agreement brings hope of an end to months of disappointing Westminster in-fighting. For business, there is strength in unity as the UK seeks to develop a new relationship with the EU.

“We welcome the Cabinet’s decision to prioritise trade and the economy under the Prime Minister’s leadership, and will await more detail in the Government’s forthcoming White Paper.

“As Chambers of Commerce have repeatedly argued, the priority must be to deliver clear and unequivocal answers to the practical, real-world questions businesses face. That remains the key test for the intense and complex negotiations that lie ahead.”

Ends

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BCC: Credit 'apathy' restricting potential growth opportunities for SMEs

Over half of UK businesses have not attempted to apply for finance over the past year amid limited investment intentions and weakening cash flow, according to new research released today (Wednesday) by the British Chambers of Commerce (BCC), in partnership with specialist finance provider, Wesleyan Bank.

According to the results of the survey of over 1,100 firms from across the UK, over half (56%) of businesses did not attempt to access finance over the last year. Smaller firms were less likely to access finance than larger businesses. Almost two-thirds (63%) of small firms (1-9 employees) did not seek finance, compared just over a third (39%) of larger firms (50 or more employees).

For those that have, there is a clear preference for the conventional sources of finance such as overdrafts (18%), business loans (16%) and asset finance (9%). Less than 4% sought crowdfunding, peer-to-peer or angel finance.

The findings reflect the need to increase competition in banking, including promoting initiatives like the [Business Banking Insight](#)*, increasing awareness of alternative finance options and ensuring that the British Business Bank has sufficient funding to help support some of our most promising firms on their growth journey. We also welcome the proposals for expanding SME access to the Financial Ombudsman service, such a service would bolster firms to go for finance in the first place, knowing there is somewhere to turn if things go wrong.

Nearly half (49%) of those that sought finance did so because of cash flow, indicating the difficulties of firms trying to balance their incomings with outgoings. Two-fifths of respondents describe their cash flow over the last 12 months as 'weak'. Issues are most prevalent in consumer-facing industries, and unsurprisingly smaller firms are more likely than their large counterparts to report weak cash flow.

The research also found that businesses planning on investing over the next year are focusing on incremental investments rather than big expansions. Those planning on investing are primarily looking at putting money into operational initiatives such as marketing and advertising (49%), staff training (48%) and IT and data security (45%).

The results underline the importance of kickstarting greater levels of business investment by addressing the escalating burden of upfront costs and taxes impeding firms' ability to invest and grow, and reducing the degree of uncertainty around Brexit.

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

“Accessing finance remains crucial to the lifeblood of a business, yet a decade on from the financial crisis these results suggest that we have moved from a credit crunch to credit apathy where a lack of demand, rather than supply of finance is now the overriding issue. The weak demand for finance revealed in this survey is a key concern because it weighs on investment intentions and means that firms are treading water rather than going for growth, which is undermining the UK’s growth prospects.

“While businesses continue to report a reluctance to borrow in the current economic climate, discouraged demand remains a real phenomenon with businesses reluctant to approach banks to try and get finance because of the assumption that they will either be rejected or that they will have other facilities re-evaluated.

“The government also needs to do more to kick-start business investment. Firms need relief from the heavy burden of upfront costs which sap funds that could otherwise be spent on big capital expansions. Give companies the financial room to grow and clarity on Brexit and we’d see more long-term investment coming through.”

Paul Slapa, Head of Direct Sales at Wesleyan Bank, said:

“Understandably, some businesses are cautious about seeking finance given the fluctuating appetite of high-street lenders to support them. However, in reality there are now more alternative funding sources available from specialist providers than ever before to assist firms to grow so it’s worth exploring all potential options to make an informed decision.

“The majority of businesses have cash flow funding requirements for a variety of reasons. Flexible alternative finance solutions enable them to spread the cost of short-term working capital liabilities, such as tax and VAT bills, to gain greater predictability over expenditure rather than accumulating more debt by relying solely on a bank overdraft facility. Tailored finance plans also cover all types of investment to allow businesses to gain access to the specialist equipment and technology they need to flourish, without being constrained by large, upfront costs.”

Ends

Notes to editors:

*[Business Banking Insight](#) is an independent survey of the UK’s business banks, supported by HM Treasury, BCC and FSB. Businesses trust the judgement of their peers and BBI allows them to tap into customer experience of the business banking products on offer.

The British Chambers of Commerce (BCC) surveyed 1,073 businesses from all regions of the UK online from 11 to 25 April 2018.

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Brexit: time running out for answers to firms' real-world questions, says BCC

The British Chambers of Commerce (BCC) has today published the two-dozen top real-world questions being asked on Brexit by businesses across the UK – and says the government has managed to make limited progress on just 2 of the 23 issues where clarity is urgently needed so that firms can plan their trade following the UK's departure from the EU.

In the aftermath of June's European Council summit – with little progress made in narrowing the gap between the two sides – and ahead of Cabinet deliberations later this week on the UK's negotiating stance, the BCC warns that continued uncertainty on firms' day-to-day P&L questions is causing a significant slowdown in business investment.

The leading business organisation is calling on the UK government to draw a line under internal political debate and deliver urgent clarity on the practical, detailed issues that underpin trade – or face a continued deterioration in investment intentions and confidence as the clock ticks down to the October deadline to complete the UK's Withdrawal Agreement.

As negotiations progress, Chambers of Commerce will be assessing progress against these questions. To date, businesses have had some assurances on the status of EU nationals in the UK workforce and on the industrial standards regime – hence the 'amber' ratings for these two issues. All others remain red, including:

- On Tax, whether a business will need to pay VAT on goods at point of import, and will services firms need to be registered in every EU Members State where it has clients
- On Tariffs, what Rules of Origin firms will have to comply with to receive preferential tariff rates
- On Customs, whether goods will be subject to new procedures, and delayed at border checkpoints
- On Regulation, whether checks on goods conducted in the UK will be recognised by the EU
- On Mobility, whether businesses will be able to transfer staff between the EU and the UK using the same processes as currently
- On R&D projects, whether UK businesses will be able to participate in EU projects after 2020

BCC warns that time is of the essence – with many firms making contingency plans or considering investment alternatives. The full list of 23 priorities is available from the BCC's press office.

Adam Marshall, Director General of the British Chambers of Commerce (BCC), said:

"Over the past two years, businesses have been patient. We have supported the government's drive to seek the best possible deal for the UK economy. We have given time, expertise and real-world experience to support hard-pressed civil service negotiators. We have convened all across the UK to ensure that every business community's Brexit concerns can be heard by elected representatives and officials.

"Now, with the time running out ahead of the UK's exit from the EU, business patience is reaching breaking point.

"Businesses have every right to speak out when it is abundantly clear that the practical questions affecting the competitiveness of their firms and the livelihoods of millions of people remain unanswered. With less than nine months go to until Brexit day, we are little closer to the answers businesses need than we were the day after the referendum.

"It's time for politicians to stop the squabbling and the Westminster point-scoring – and start putting the national economic interest first. These are not 'siren voices' or special interests. They are the practical, real-world concerns of businesses of every size and sector, in every part of the UK."

Ends

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The BCC has published a [Business Brexit Checklist](#) to help businesses prepare

and plan for the future. The BCC also recently [published a report](#) with LSE on trade policy and stakeholder engagement mechanisms.

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