



MPs' NEWSLETTER

EDITION 9,
SUMMER 2017



A MESSAGE FROM CHAMBER CHIEF EXECUTIVE - PAUL GRIFFITHS

Welcome and overview

Firstly welcome to this summer edition of the MPs' Newsletter published by Milton Keynes Chamber of Commerce acting as the voice for business across Milton Keynes. Milton Keynes Chamber of Commerce currently represents in excess of 400 businesses employing over 20% of the borough's workforce. Milton Keynes Chamber of Commerce in conjunction with Northamptonshire Chamber of Commerce was awarded the prestigious 'Chamber of the Year' for 2015 at the British Chambers of Commerce annual awards ceremony in London in November.

Introduction

This newsletter reports primarily on the key concerns of members of Milton Keynes Chamber. Published to provide elected representatives with the necessary information and insight to make informed decision locally; regionally; and nationally – that then enable businesses to grow, generate jobs and boost economic output. The views put forward in this newsletter have been garnered through frequent engagement with the local business community and represent the views of business leaders across the borough of Milton Keynes. Additionally, this newsletter will provide an overview of the current economic climate and will assist key decision-makers in formulating their policy priorities.

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As the British Chambers of Commerce's (BCC) only accredited chamber in the borough of Milton Keynes, Milton Keynes Chamber is keen to work with all elected representatives to influence policy formation and implementation to the benefit of the local economy and area. We can provide local evidence and, occasionally, case studies to enable elected members to put forward informed interventions in committees, debates in the House of Commons and other elected assemblies.

The Chamber is pleased to assist all elected members, therefore, should you require clarification or any further information, please contact myself on **01908 547 820** or at policy@chambermk.co.uk.



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ECONOMIC INTELLIGENCE

Milton Keynes Chamber of Commerce's Quarterly Economic Survey (QES) is a regular independent business survey and forms part of the biggest and most representative survey of its kind in the UK.

It is widely recognised as a key economic indicator by Government, The Bank of England and independent economists alike. It also provides both central and local policymakers with an important source of feedback of the performance, concerns and views of businesses across Milton Keynes.

The fieldwork for Milton Keynes Chamber Commerce's latest QES was conducted via electronic, smartphone app and hard copy questionnaire during the period 22nd May to 12th June. This report therefore sets out analysis and interpretation of the findings for the second quarter of 2017. A total of 28 businesses, employing 1,207 people from across the borough responded.



Business confidence remains robust in Milton Keynes, according to the latest Quarterly Economic Survey report from Milton Keynes Chamber of Commerce.

A total of 28 businesses, employing 1,207 people from across Milton Keynes, took part in the review for the second quarter of the year.

At home, 45% of services sector businesses saw an overall increase in their UK sales – up 13% on the previous quarter. A further 27% said their UK sales had remained consistent with the last quarter of 2016. They also reported positive figures for UK orders.

In contrast the manufacturing sector reported an overall drop in UK sales, although 75% said their UK sales had remained consistent with the previous quarter. Manufacturers also reported a drop in UK orders.

There was some good news for manufacturers who reported slight increases in export sales activity and export orders. However, export sales activity for manufacturer's remains in contraction territory. The services sector reported declines in both export sales and export orders.

Manufacturers reported that their headcount had increased for the latest quarter whereas the services sector revealed there had been a slight decrease in their numbers. Both sectors said they expect their headcounts to increase during the next quarter.

All the manufacturers who responded said they had tried to recruit staff during the quarter and more than 40% of service sector companies also attempted to recruit staff.



There was a mixed picture when it came to firms' investment in plant/machinery over the quarter. Whilst manufacturers reported a significant increase in investment the services sector saw its investment activity decrease. Meanwhile, both sectors reported increases in investment in training during the period.

Business confidence as determined by turnover and profitability across Milton Keynes remains robust despite the services sector reporting a decrease in turnover.

Milton Keynes Chamber of Commerce chief executive Paul Griffiths said: "We are very pleased to see that business confidence across the borough continues to remain robust.

"It is also encouraging to see that the majority of service sector businesses have seen their UK sales either increase or remain consistent with the previous quarter."

**Paul Griffiths, Chief Executive
Milton Keynes Chamber of Commerce**



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BCC UK ECONOMIC FORECAST

Forecast Highlights:

- UK GDP growth forecast for 2017 is upgraded to 1.5% and is expected to slow to 1.3% in 2018, before rising to 1.5% in 2019. GDP Growth of 0.4% expected in Q2 2017
- GDP growth forecast for 2018 remains unchanged at 1.3%, and for 2019 at 1.5%
- Inflation of 2.9% is forecast for this year, peaking at 3.4% in Q4 2017. Inflation is expected to slow to 2.8% in 2018 and 2.5% in 2019. The previous forecasts were for 2.4%, 2.7% and 2.5% respectively
- First increase in official interest rates, to 0.5%, is expected in Q1 2018 - earlier than the prediction of Q4 2018 in our previous forecast
- Consumer spending growth has been downgraded for 2017 from 1.6% to 1.3%, and is expected to slow to 0.9% in 2018 and 1.2% in 2019 as real wages are eroded by inflationary pressures
- Business investment growth has been revised upward from -0.5% to 0.3% in 2017, driven by a strong first quarter, but we forecast that it will remain muted at 0.5% in 2018 before growing by 1.2% in 2019
- Export growth for 2017 has been upgraded from 2.7% to 3.1% but is forecast to slow to 2.9% in 2018 and 2.8% in 2019
- Looking at sectors, construction has been upgraded from 0.4% to 1.1% in 2017 and is expected to grow by 0.7% in 2018 and 1.2% in 2019. The services sector is expected to grow by 1.7% in 2017, 1.3% in 2018 and 1.6% in 2019. Manufacturing is to grow by 1.2%, 0.6% and 1.2% respectively



The British Chambers of Commerce (BCC) slightly upgraded its UK growth forecast for 2017 from 1.4% to 1.5%. Its expectations for growth in 2018 and 2019 remain unchanged at 1.3% and 1.5% respectively.

Despite the slight upgrade to our outlook for 2017, growth over the next few years is forecast to remain anaemic – and well below historical averages.

Despite slower than expected growth in Q1 2017, the leading business group has slightly upgraded its growth forecast for 2017 as a whole – mainly as a result of stronger global outlook growth, including in key markets for UK businesses. While lower sterling has had mixed results of late, it remains likely to boost short-term export activity this year.



Rising inflation is anticipated to remain a key concern for businesses and consumers, and is forecast to peak at 3.4% this year - a five year high. Our new forecast is that the first increase in UK official interest rates, to 0.5%, will occur in Q1 2018. This is three quarters earlier than predicted in our Q1 forecast.

With inflation rising and average earnings growth is expected to hold steady, wage growth in real terms is expected to remain negative over the next few years. As a consequence, consumer spending, a key driver of UK growth, is forecast to remain persistently weak over the next few years.

Economic growth is expected to remain well below historical averages through the forecast period, which reinforces the need to focus on creating the conditions for growth in the UK economy. Following an inconclusive General Election, the Chamber Network is calling for a cross-party focus on supporting business in all parts of the United Kingdom over the crucial months and years ahead.

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

“Over recent months, many of the businesses I speak to have expressed cautious optimism for their own prospects, but remain wary about the growth prospects of the UK economy as a whole.

“In the wake of an inconclusive General Election, that wariness is set to increase – as is the sense that the UK economy is merely trading water. With inflationary pressures expected to intensify and consumer spending forecast to slow, this outlook is likely to persist in the near term.

“While the recent election campaign had almost no focus on supporting business, action to boost business confidence and growth remains urgent. A cross-party consensus must be sought in Westminster in order to create a UK business environment that supports sustained growth and job creation, even as the new government works to secure the best possible Brexit deal with the EU.

“The cost of doing business in the UK is too high – and weighs on the investment, recruitment and growth capabilities of our firms. Companies are faced with significant currency fluctuations and rising upfront costs, and their growth efforts are hampered by skills shortages and poor physical and digital connectivity. Westminster must come together to tackle these issues, which together with a pragmatic and economy-focused Brexit deal, will give business communities the best opportunity to foster lasting growth across the UK.”

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

“While we have slightly upgraded our outlook for 2017, our current forecast points to several years of subdued activity in the UK economy, with economic growth under-performing its historic average. Higher inflation is likely weigh significantly on the UK’s near-term growth prospects. We expect inflation to rise further over the course of this year as the rising cost of imported raw materials continues to filter through supply chains.

“Consumer spending, a key driver of UK economic growth, is expected to slow considerably as inflation erodes real wages. Business investment is likely to remain relatively subdued as rising inflation and the escalating burden of upfront business costs weigh on investment intentions. On the upside, 2017 may prove



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the sweet spot for exporters as they are boosted by the persistent weakness in the value of sterling and an improving outlook for the global economy.

“Although the UK’s growth prospects over the long-term remain highly uncertain, the risks are shifting to the downside. Increased uncertainty in the aftermath of the General Election and around the Brexit negotiations could result in more muted growth.

“An earlier than required tightening in monetary policy could destabilise consumer and business confidence and push UK growth materially lower, particularly during this period of political instability. While interest rates need to rise at some point, it should be done slowly and steadily so as not to harm the UK’s growth prospects.”



CHAMBER'S RESPONSE TO THE QUEEN'S SPEECH

Commenting on the Queen's Speech, Paul Griffiths, Chief Executive of Milton Keynes Chamber of Commerce, said:

"While Brexit isn't the top immediate priority for many member businesses, member firms of every size and shape want to avoid turbulence and confusion during the Brexit transition. The Government's proposed bills on trade, customs and immigration must minimise adjustment costs and maximise opportunities. Achieving this will require continuous and constructive engagement with business communities across the UK, including Milton Keynes.



"Importantly, many of the real, practical priorities for businesses throughout the borough of Milton Keynes can be delivered without new primary legislation. Ministers must inject real momentum and pace into the major infrastructure schemes that have already been agreed and announced, including delivering on the National Infrastructure Commission's recommendations for the Oxford-Milton Keynes-Cambridge Growth Corridor. They must cut back on the stifling up-front costs that deter investment and risk-taking, and press ahead with an Industrial Strategy that helps places across the UK achieve their potential. This is an important moment for ministers to show that they are doing their day job, and delivering a stronger environment for growth here at home.

"Businesses throughout the borough of Milton Keynes want to see a workable government going about its day job, and clear signals that the economy is once again front and centre in political life. Consensus and a strong partnership between government and business will be critical at a time of significant change."

On the Customs Bill:

"We stand ready to work with the Government to develop a UK customs system that supports free-flowing trade between local firms and their customers and suppliers around the world. It is crucial that business and government work together, as well, to ensure that a new UK customs code underpins seamless trade between the UK and the continent in the years to come."

On the Immigration Bill:

"The needs of the economy must be at the heart of this once-in-a-generation overhaul of the UK's immigration system. While businesses accept the need for controls over migration flows, they want clear



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assurances that they will be able to recruit from overseas to fill vacancies when they are unable to find or train suitable candidates locally.

“After Brexit, they will also want to see a flexible system for the movement of labour and skills between the UK and the EU that enjoys clear public support. This is also a major opportunity to simplify the Home Office’s bureaucratic processes, which impose heavy costs and great uncertainty on businesses and individuals alike.”

On the Trade Bill:

“Safeguarding and retaining the favourable terms of trade that UK businesses have enjoyed under EU free trade agreements negotiated by the EU over the past four decades must be a top priority for ministers as the UK develops its own trade policy. The firms we represent say that confirming existing levels of market access is a bigger immediate priority than launching new free trade negotiations with new countries and markets around the world. They also need ground-level trade promotion and support to take advantage of the opportunities that new trade agreements may create in future.”

On the Great Repeal Bill:

“At a time of change, businesses want as much short-term certainty and stability as possible on their regulatory obligations. This bill must deliver continuity and the day-one equivalence that is necessary for businesses to continue to trade seamlessly with customers and suppliers, both in Europe and across the world.”



BCC REACTION TO GENERAL ELECTION RESULT

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

“After two long years of elections, referenda and wider uncertainty, many businesses were doing their best to ignore the noise of politics – up until today.

“The electorate’s split decision generates further uncertainty for business communities, who are already grappling with currency fluctuations, rising costs, and the potential impacts of Brexit.

“The formation of a workable administration that can give voters and businesses confidence around economic management must be the immediate priority.

“Whilst companies have for many months done their best to screen out political noise in order to focus on their own operations, this result will prove much harder for UK businesses to ignore. The swift formation of a functioning government is essential to business confidence and our wider economic prospects.

“Businesses are adept at forming alliances and coalitions when important interests are at stake. We should expect the same of our politicians.”

On the timetable for Brexit negotiations, which are scheduled to begin in less than a fortnight, Dr Marshall said:

“No business would walk into a negotiation without clear objectives, an agreed starting position, and a strong negotiating team. It is hard to see how Brexit negotiations could begin without answers on these important questions.”



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BREXIT PROCESS MUST TAKE INTO ACCOUNT THE PRACTICAL IMPLICATIONS FOR BUSINESS (BLOG)

The UK's decision last June to leave the European Union has enormous consequences for all of us – for businesses this means leaving an institution that has been the cornerstone of our trading relationship with the European continent for over 40 years. Whilst business communities across the UK have shown a remarkable resilience to grow, invest, trade and recruit since the European referendum, they are uncertain about the future as the UK embarks on the process of dis-entangling itself from the EU.

Chambers of Commerce have been in deep consultation with local business communities across the UK since the referendum and the key priorities of business are clear. They want the next government to secure an EU trade deal that minimises costs and trade barriers. Currently there are no tariffs on the movement of products among EU member states, but if a deal isn't reached in the negotiations, reverting to WTO rules could result in tariffs of up to 10% being imposed on the export of cars for example, creating huge costs and complexities for integrated cross border supply chains.

However, it is the non-tariff barriers that often carry a greater cost to businesses. Areas that will need to be resolved include the mutual recognition of standards, contracts and qualifications, the sharing of data, and rules of origin. Negotiations on these areas will be complex, but need to be successful to keep costs and regulatory burdens to a minimum.

Businesses have consistently expressed concerns about their ability to source the talent they need to grow. Current levels of low unemployment and an ageing workforce have meant that foreign labour has been a critical part of business recruitment. The uncertainty over the status of EU nationals currently living and working in the UK has already had a negative impact on the retention and morale of employees. The next government must provide immediate certainty for businesses on the residence rights of their existing EU workforce, not contingent on any other aspect of the UK negotiations with the EU-27. A future UK immigration system must allow businesses to access workers from the EU in sectors where there are acute labour shortages with minimum bureaucracy, cost or barriers.

The publication of the Great Repeal Bill white paper in March 2017 was a positive step in providing regulatory certainty for business on the day that the UK leaves the EU. The bill aims to convert existing EU law into UK law; give Ministers the power to amend these laws using statutory instruments to reflect new institutions and legal jurisdictions in the UK; and repeal the 1972 European Communities Act. Further work must now be undertaken to develop future customs procedures at the UK border, clarifying tax systems and arbitrations processes, and the development of a funding system to replace the EU funded projects and schemes that support higher education, research, infrastructure development, regeneration, skills programmes and business support schemes.



It is important that the UK government reflects the priorities of our business communities across all the nations and regions of the UK. This is particularly acute in Northern Ireland, which is the only part of the UK that shares a land border with the EU. Businesses want no return of a hard border on the island of Ireland, so that we can maintain free trade and people flows across the border and limit any new bureaucratic arrangements.

Both the main UK political parties have set out their wishes for a comprehensive agreement with the EU that delivers a smooth, orderly Brexit. The business community is a willing partner in ensuring this outcome, and that the UK emerges from this process ready and able to take advantage of future opportunities for prosperity and growth.

**Ashley Shackleton, Head of Public Affairs
British Chambers of Commerce**



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