



QUARTERLY ECONOMIC REVIEW

QUARTER 2 2017

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REPORT SUMMARY

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**

RESPONSES

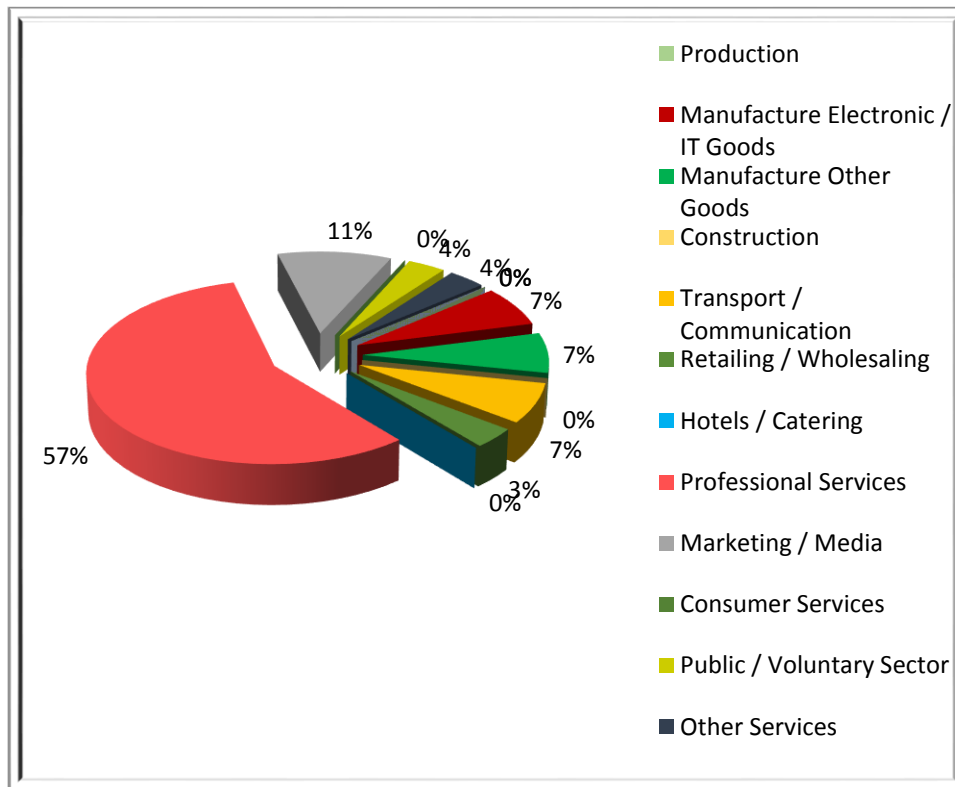
Milton Keynes Chamber of Commerce's Quarterly Economic Survey (QES) is a regular independent business survey and forms part of the biggest and most representative survey of its kind in the UK.

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 QES questionnaire covered ten broad sections;

- UK Sales and Orders Activity
- Export Sales and Orders Activity
- Employment
- Recruitment and Skills Shortages
- Cashflow
- Investment
- Business Confidence
- Capacity
- Price Pressures
- External Factors

The fieldwork for Milton Keynes Chamber of Commerce's latest QES was conducted via electronic 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 Milton Keynes responded. The sector split of respondents is shown in the table below.



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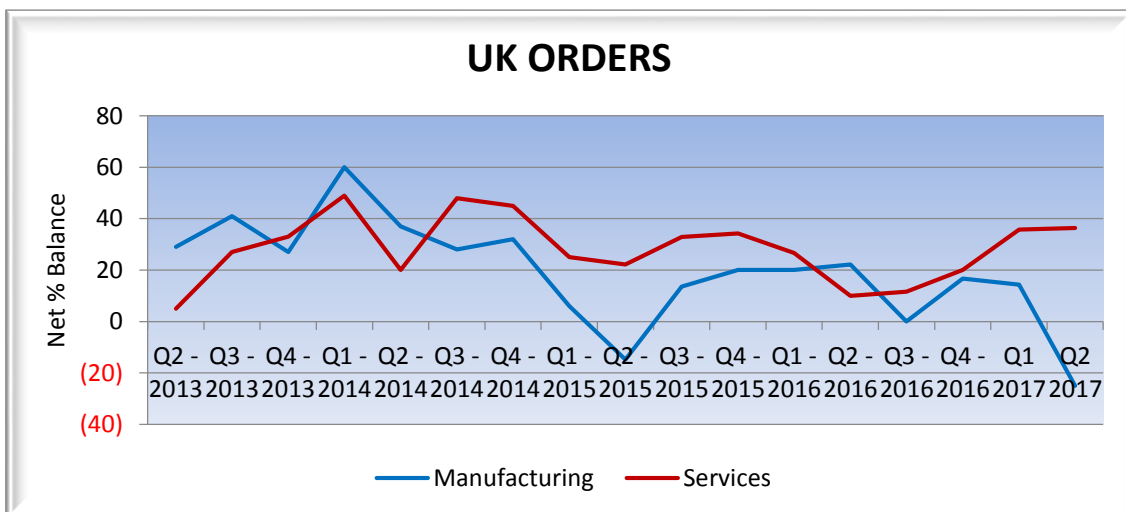
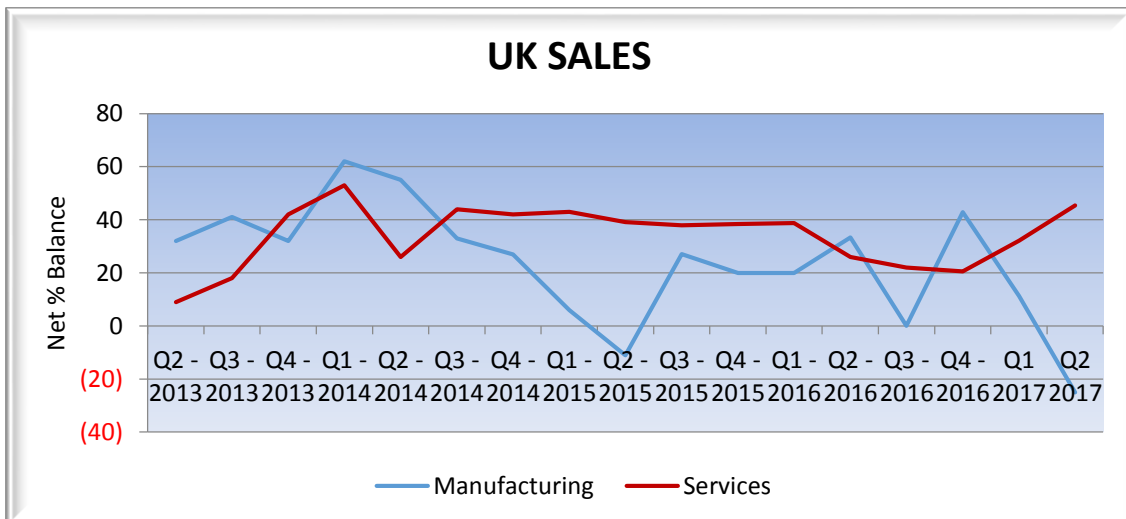
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UK SALES AND ORDERS

UK sales activity for those businesses operating across the services sector reported an overall increase. The balance figure for the second quarter read 45% versus 32% for the first quarter – up 13%. 27% of firms in the meantime reported that their UK sales had remained consistent with the first three months of 2017.

In stark contrast, the manufacturing sector reported a substantial decline in UK sales activity during the past three months to June with the balance figure now in contraction territory, reading -25%, versus 11% in Q1 2017. However, 75% of manufacturing firms cited that their UK sales had remained consistent with the first quarter.

UK orders paint a very similar picture with the services sector reporting a positive figure and the manufacturing sector reporting a decline in activity. The services sector overall balance figure for Q2 stood at 36% with the manufacturing balance figure standing at -25%.



* Net (percentage) balances are the difference between the percentage of businesses that expect improving or increasing positions and those expecting worsening or decreasing ones.

EXPORT SALES AND ORDERS

Export sales activity for the manufacturing sector reported a very slight increase over the past three months however, the overall reading was still in contraction territory, with a reading of -25%. The services sector went in the other direction with a decline in export sales activity from 15% in Q1 2017 to 0% in Q2 2017 – meaning that the same amount of firms reported an increase versus those that reported a decrease.



Export orders for both manufacturing and services sectors painted a similar picture to that of export sales with the services sector reporting a decrease and the manufacturing sector reporting an increase. The services sector recorded a 23% decrease from 23% in Q1 2017 to 0% in Q2 2017. The manufacturing sector saw a slight increase from -33% to -25%.



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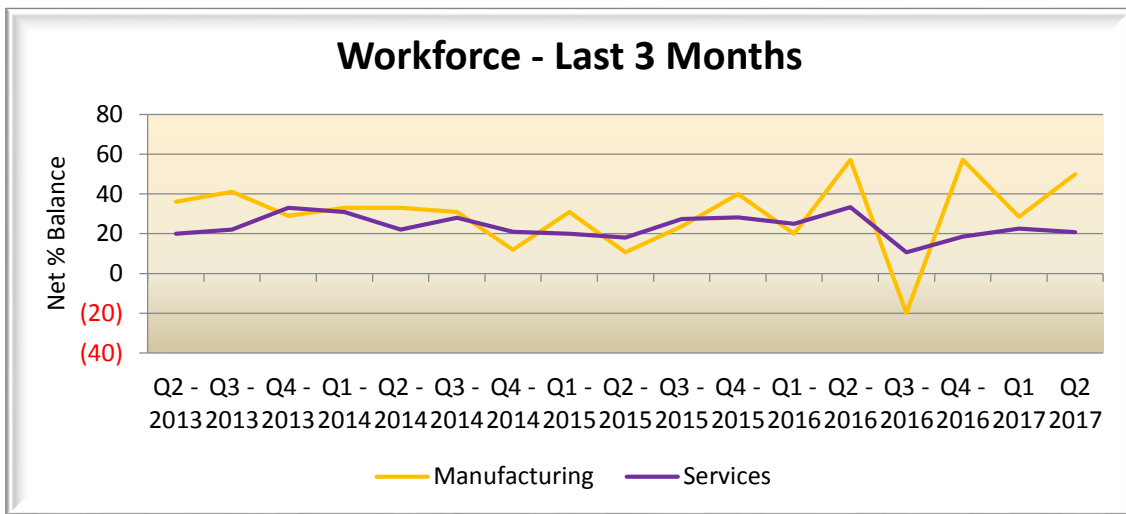


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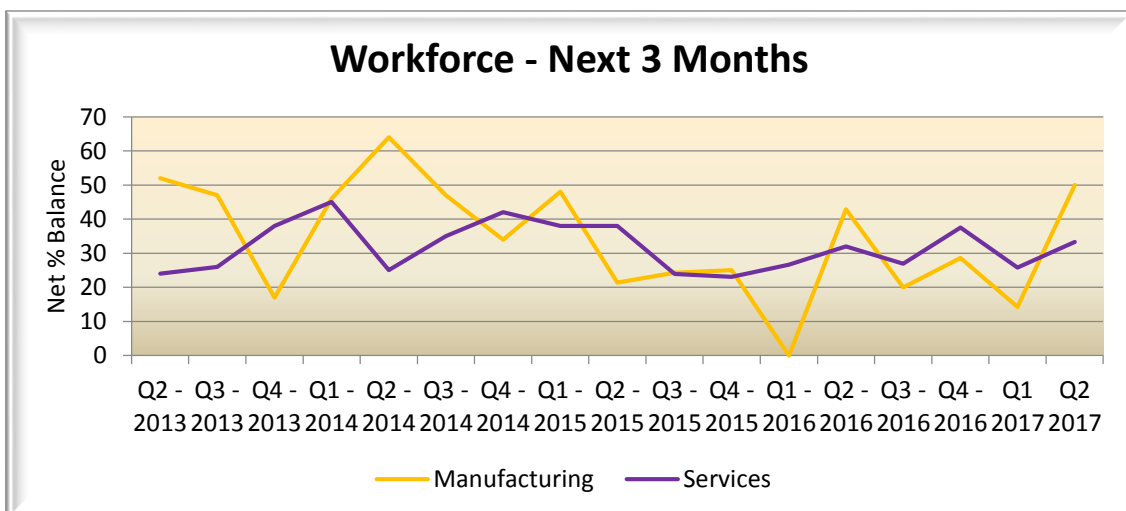
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EMPLOYMENT

Businesses operating in the manufacturing sector reported that their headcount had increased over the past three months. The balance figure of 50% for this quarter represents an 11% increase versus the first quarter. The services sector reported a very slight 2% decrease during the second quarter, indicating that their headcount during that timeframe had decreased.



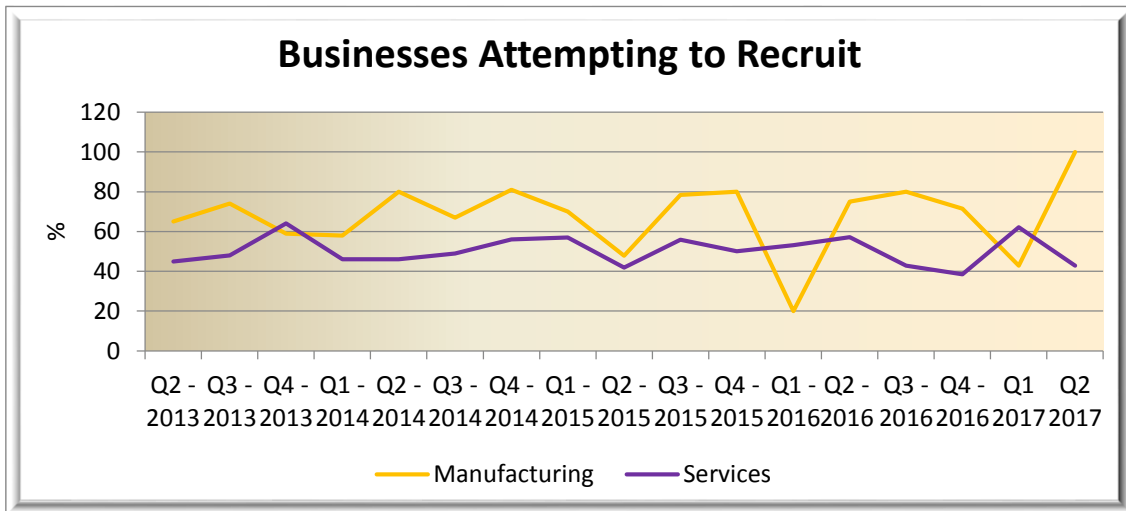
Although there was a divergence between both the services and manufacturing sectors when asked about their hiring intention for the past three months. Both sectors when asked about their hiring intentions during the next three months said that they envisaged their headcount increasing. The manufacturing sector reported the largest percentage increase with the Q2 balance figure standing at 50% versus 14% in the previous quarter. The services sector reported a 7% increase in hiring intentions, the first quarter figure stood at 26% with the Q2 figure standing at 33%.



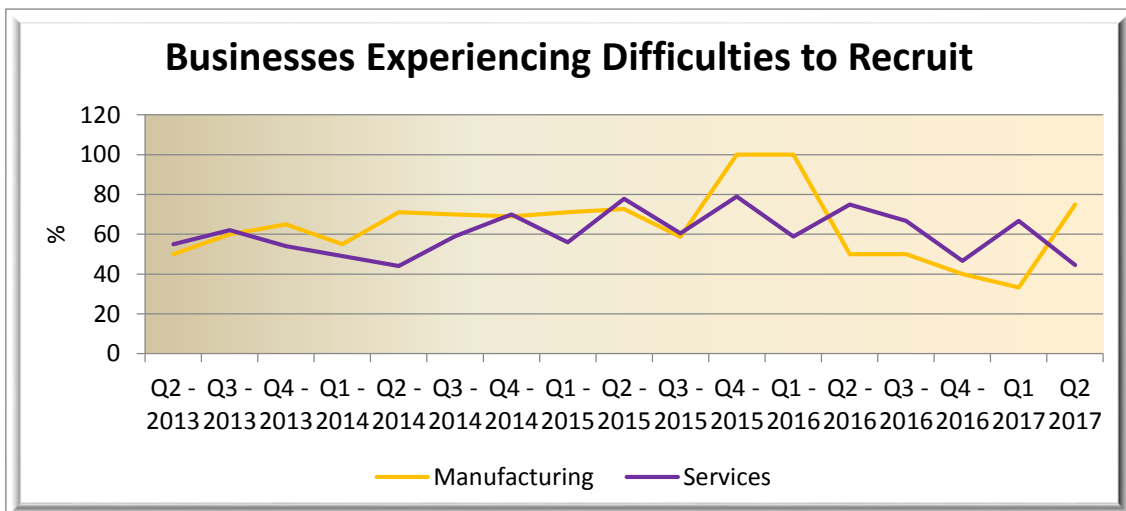
* Net (percentage) balances are the difference between the percentage of businesses that expect improving or increasing positions and those expecting worsening or decreasing ones.

RECRUITMENT & SKILLS SHORTAGES

Data compiled during the second quarter of 2017 shows that overall, 100% of manufacturing companies and 43% of service sector companies attempted to recruit staff.



Of those manufacturing companies that indicated that they were attempting to recruit staff during the second quarter, 75% cited difficulties in sourcing suitable staff. Out of the 43% of services sector firms that said that they were recruiting, 44% said that they struggled to recruit staff required during the second quarter.



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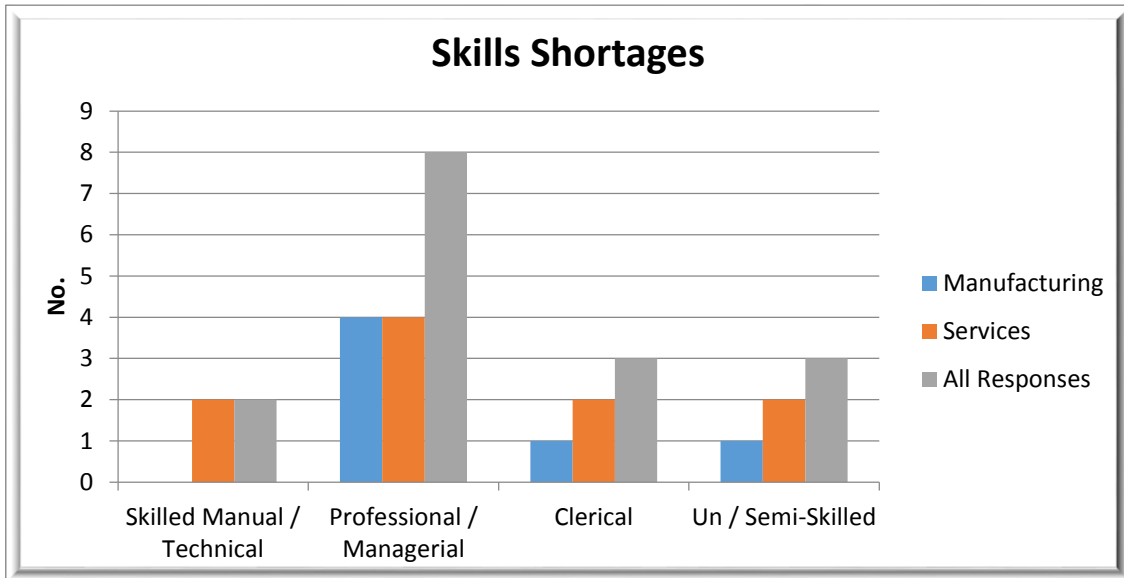
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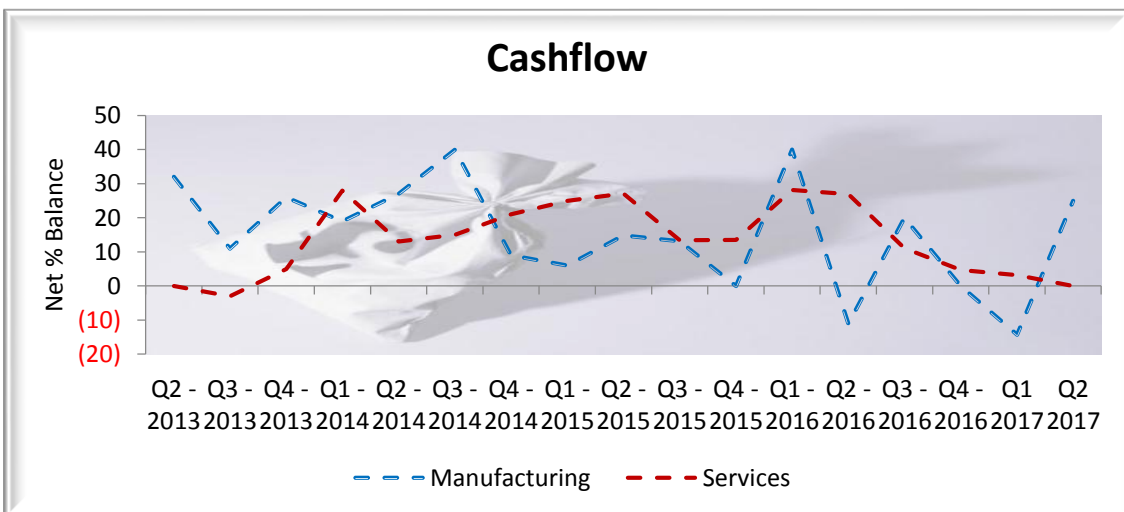
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The following table highlights the skills areas where businesses experienced difficulty in sourcing new employees during the fourth quarter.



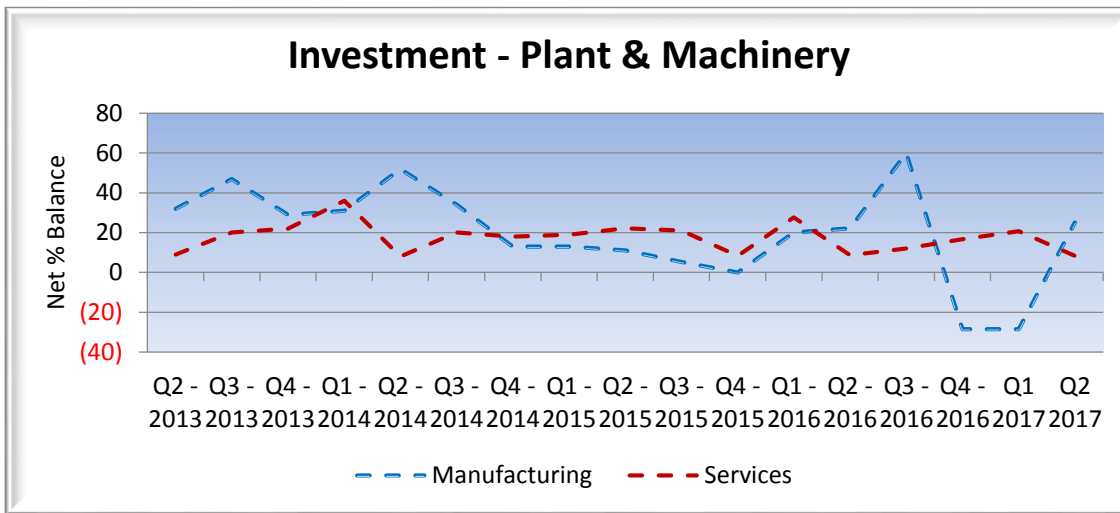
CASHFLOW & INVESTMENT

There was a deterioration in cashflow for businesses operating across the services sector during the second quarter of 2017. The balance figure for those operating across the service went from 3% in Q1 2017 to 0% in Q2 2017. The manufacturing sector reported a notable increase, from -14% in Q1 2017 to a positive reading of 25% in Q2 2017.

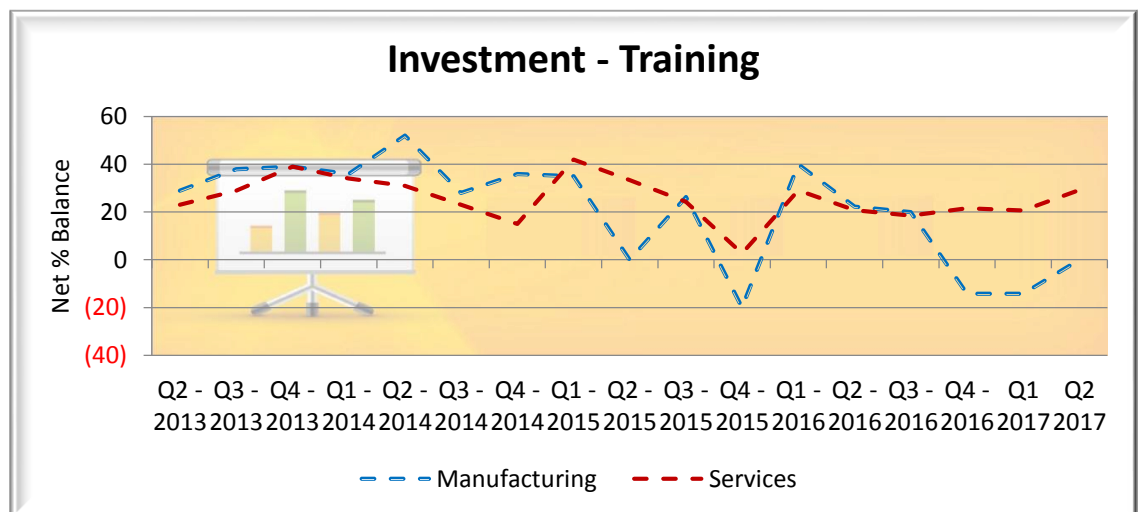


There was a divergence between both the manufacturing and services sectors when asked about their investment in plant/machinery, with the manufacturing sector increasing investment and the services sector decreasing their investment activity.

There was a balance figure of 25% for manufacturing firms reporting that they would increase investment in plant/machinery during the second quarter – up from -29% in Q1. The services sector on the other hand reported a deterioration in their investment activity during the second quarter with the balance figure standing at 8% versus 21% during the first three months of the year.



In contrast to plant/machinery investment, both sectors reported an increase in their investment in training over the past three months to June, with the manufacturing sector seeing the greatest increase over the second quarter. The manufacturing sector reported an increase of 14% over the past three months with the balance figure now standing at 0 from -14% in the first quarter. The services sector reported an 8% increase when asked about their investment plans in training, with the overall balance figure now standing at 29% in Q2 versus 21% in Q1.



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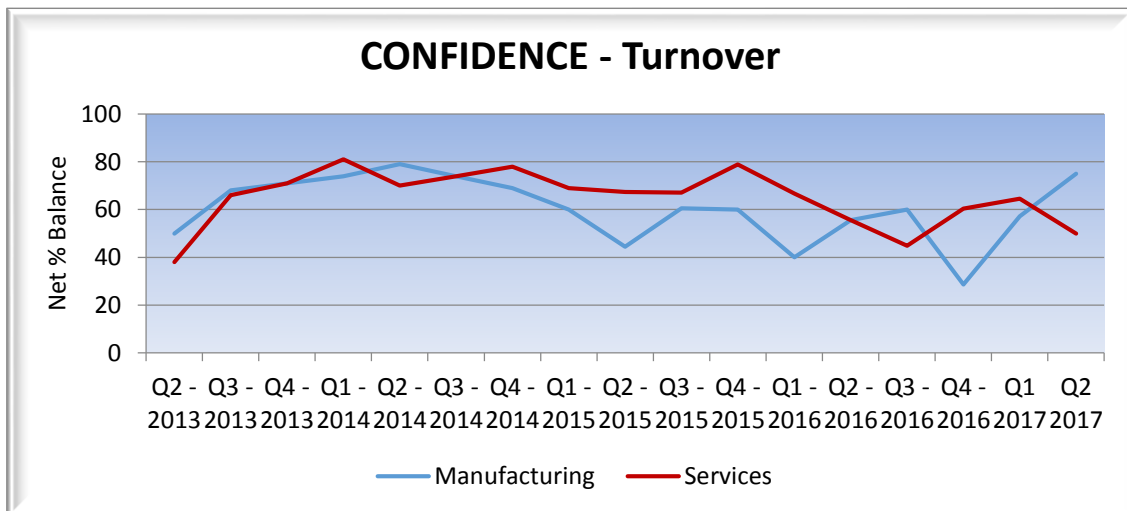
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CONFIDENCE

Business confidence across Milton Keynes as determined by turnover remained robust during the second quarter across both the services sector and manufacturing sectors, despite the services sector reporting a decrease in turnover.

75% of manufacturing businesses stated that their turnover during the first quarter had increased. Also during the first quarter 58% of service sector businesses stated that their turnover had increased.

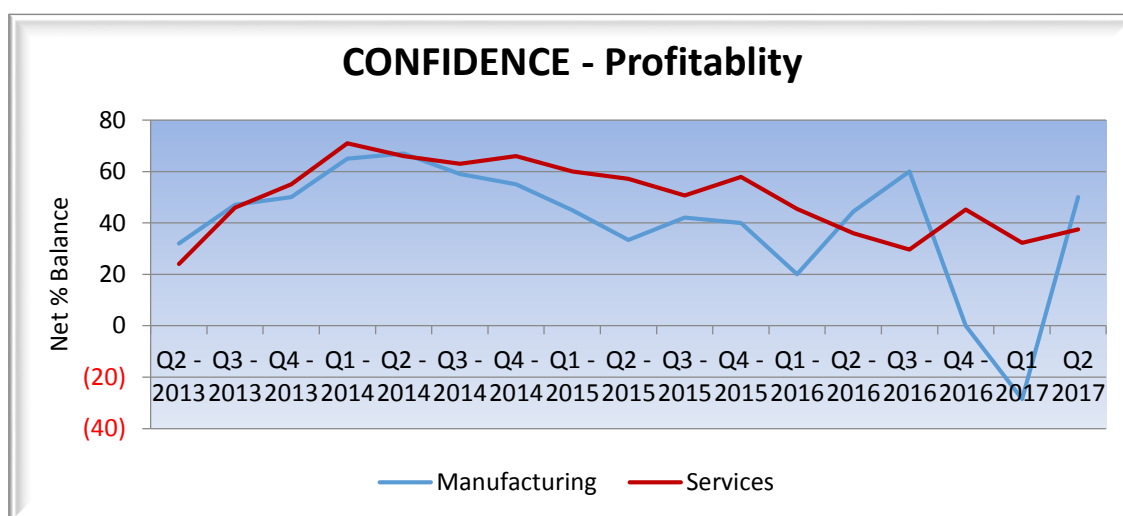


BUSINESS CONFIDENCE -TURNOVER NEXT 12 MONTHS - NET BALANCES

% Balance	Q2 - 2013	Q3 - 2013	Q4 - 2013	Q1 - 2014	Q2 - 2014	Q3 - 2014	Q4 - 2014	Q1 - 2015	Q2 - 2015
Manufacturing	50	68	71	74	79	74	69	60	44
Services	38	66	71	81	70	74	78	69	67
% Balance	Q3 - 2015	Q4 - 2015	Q1 - 2016	Q2 - 2016	Q3 - 2016	Q4 - 2016	Q1 2017	Q2 2017	
Manufacturing	61	60	40	56	60	29	57	75	
Services	67	79	67	56	45	60	65	50	

* Net (percentage) balances are the difference between the percentage of businesses that expect improving or increasing positions and those expecting worsening or decreasing ones.

Confidence levels as determined by profitability across both sectors increased during the second quarter of 2017 with the manufacturing sector reporting the greatest increase. The manufacturing sectors' balance figure during the second quarter of 2017 was 50%, up from -29% in the first quarter. The services sector also reported an increase in profitability during the second quarter of 2017 with the balance figure standing at 38% in Q2 2017 versus 32% in Q1 2017.



BUSINESS CONFIDENCE – PROFITABILITY NEXT 12 MONTHS – NET BALANCES

% Balance	Q2 - 2013	Q3 - 2013	Q4 - 2013	Q1 - 2014	Q2 - 2014	Q3 - 2014	Q4 - 2014	Q1 - 2015	Q2 - 2015
Manufacturing	32	47	50	65	67	59	55	45	33
Services	24	46	55	71	66	63	66	60	57
% Balance	Q3 - 2015	Q4 - 2015	Q1 - 2016	Q2 - 2016	Q3 - 2016	Q4 - 2016	Q1 2017	Q2 2017	
Manufacturing	42	40	20	44	60	0	(29)	50	
Services	51	58	45	36	30	45	32	38	

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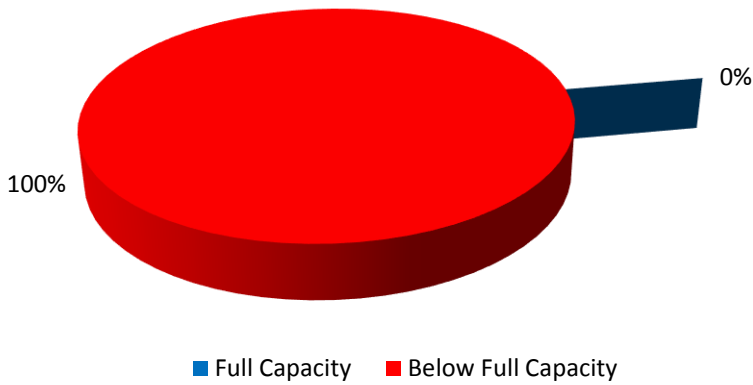
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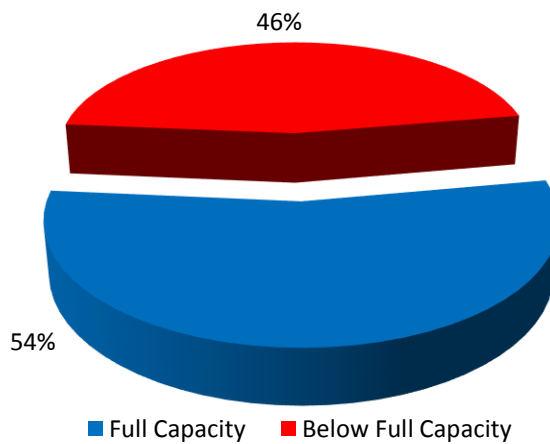
CAPACITY

Data compiled during the second quarter shows that 100% of businesses surveyed across the manufacturing sector said that they were operating below capacity. 46% of service sector firms surveyed said they were operating below capacity.

CAPACITY - Manufacturing

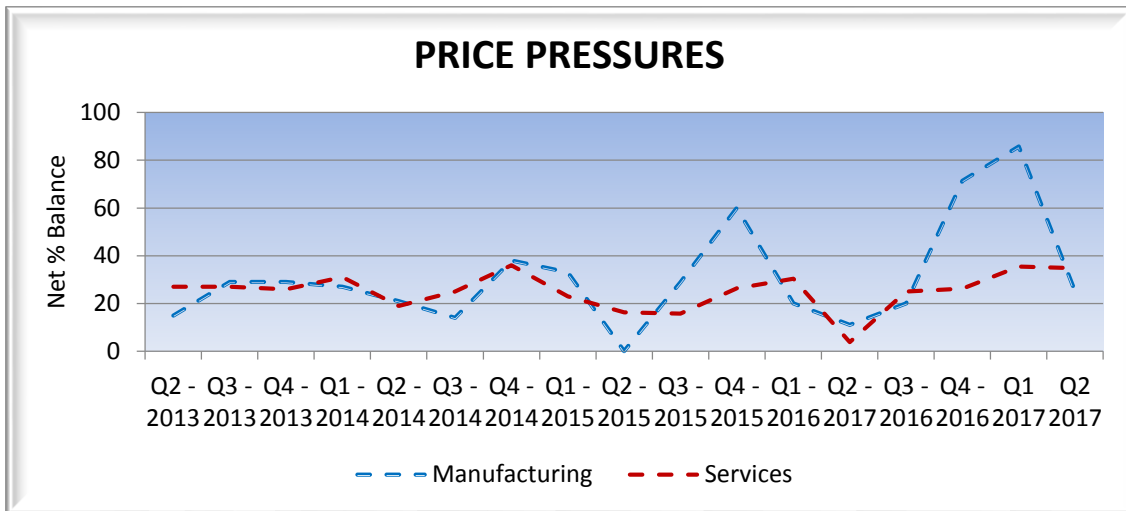


CAPACITY - Services

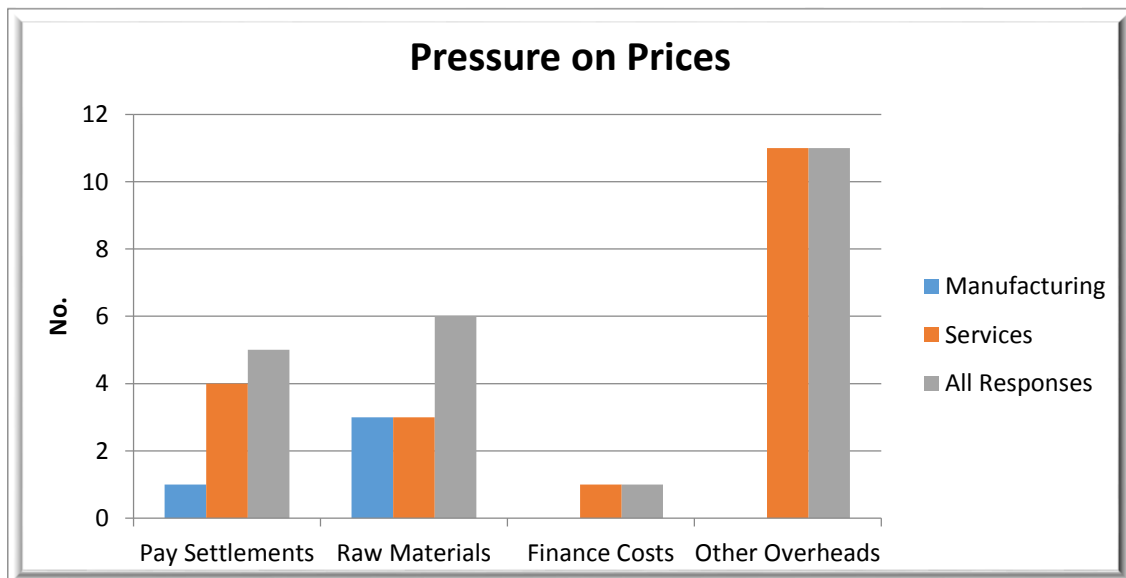


PRICE PRESSURES

As can be seen by the graph below, the manufacturing sector has seen a substantial decline in pricing pressures during the second of 2017, whilst the services sector balance figure was unchanged from the previous the first quarter. The manufacturing sector reported a 61% decline in pricing pressures during Q2 with the balance figure now standing at 25% versus 86% during the first three months of 2017. The services sector balance figure remained at 36% during the second quarter of 2017.



As can be seen in the graph below, increases in other overheads, which includes energy costs were the main contributing factors for businesses overall, when asked what was leading them to increase their prices. This was followed by raw material costs.



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EXTERNAL FACTORS

When combining figures for both the manufacturing and services sector, competition was the leading cause for concern amongst the businesses surveyed in the second quarter in Milton Keynes.

