



# QUARTERLY ECONOMIC REVIEW

QUARTER 3 2016

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# QUARTERLY ECONOMIC REVIEW

## QUARTER 3 2016

## REPORT SUMMARY

Business confidence remained healthy across Milton Keynes during the third quarter of 2016, according to the latest Quarterly Economic Survey from Milton Keynes Chamber of Commerce.

All the manufacturing firms surveyed said their turnover had increased during the period in question – from July to September 2016 - and 90% of the service sector companies who responded stated that their turnover had either increased or remained the same during the same timeframe.

The findings from the report, released today, contains responses from 35 businesses, employing 2,538 people from across Milton Keynes. It covers the period from July to September and gives companies a chance to have their say on their performance, concerns and experiences of trading in Q3 of 2016.

All of the manufacturing firms and 92% of the service sector firms reported that their investment plans for plant and machinery had increased or remained consistent with the previous quarter for Q3.

Training investment plans also remained in robust health with all manufacturing companies and 93% of the service sector citing investment in training went up or stayed the same in the same period.

There was a stark turnaround in cashflow for the manufacturing firms, showing a net balance figure improvement from -11% in Q2 to 20% in Q3.

But the service sector experienced the opposite – with the net balance figure dropping from 27% in Q2 to 11% for Q3.

And price pressures increased over the three month span, with rises in energy costs and other overheads forcing companies to increase their prices. Exchange rates were also an area of concern this quarter, following the EU Referendum vote in June.

Milton Keynes Chamber of Commerce chief executive Paul Griffiths said: “It is fantastic to see the borough’s continued optimism in the face of current economic uncertainty in the UK following the Brexit result at the end of the last quarter.

“It is positive to see that so many businesses are investing in machinery and in training their staff at this time to give their companies and their employees that edge for greater opportunities in future.

“We will continue to monitor both sectors through our QES and we encourage as many businesses as possible to take part in the next survey for Q4.”

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

# RESPONSES

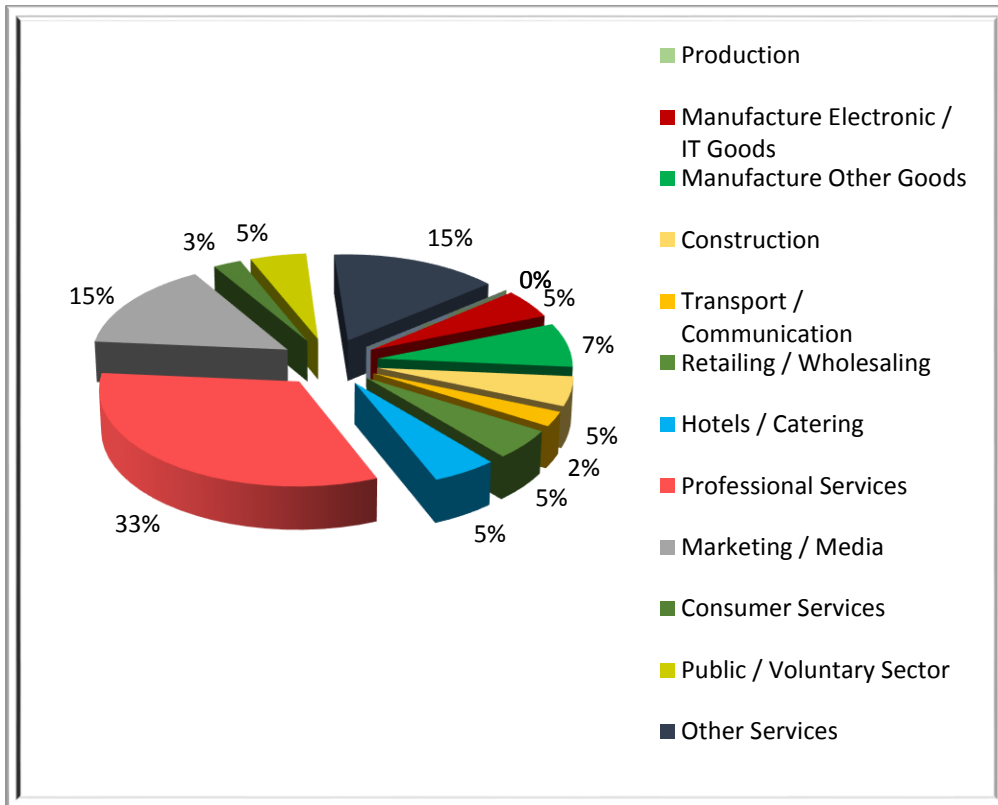
Milton Keynes Chamber of Commerce's Quarterly Economic Survey (QES) is a regular independent business survey and forms part of the biggest and most representative survey of its kind in the UK.

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 22<sup>nd</sup> August to the 12<sup>th</sup> September. This report therefore sets out analysis and interpretation of the findings for the third quarter of 2016. A total of 35 businesses, employing 2,538 people from across Milton Keynes responded. The sector split of respondents is shown in the table below.





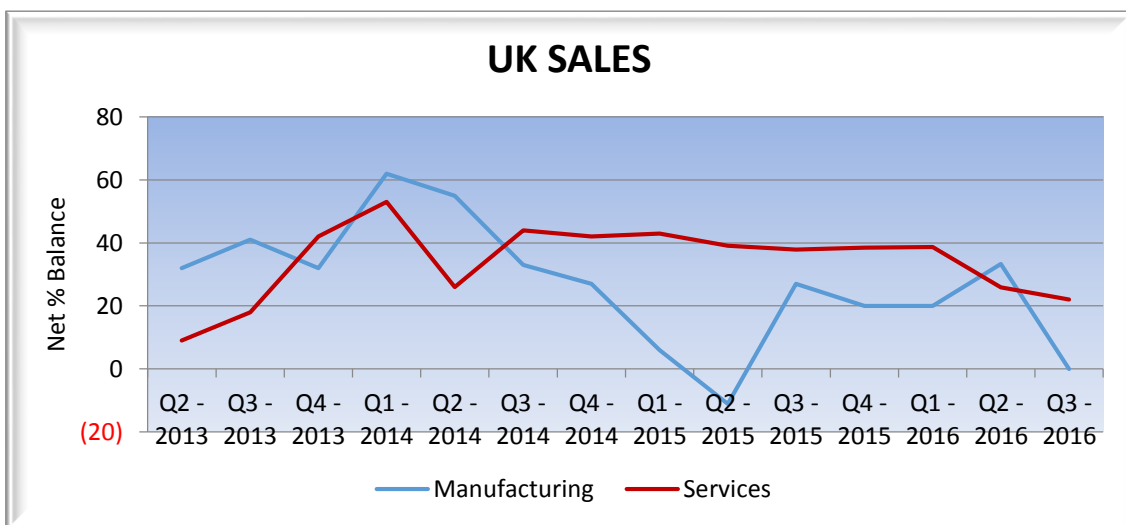
# QUARTERLY ECONOMIC REVIEW

## QUARTER 3 2016

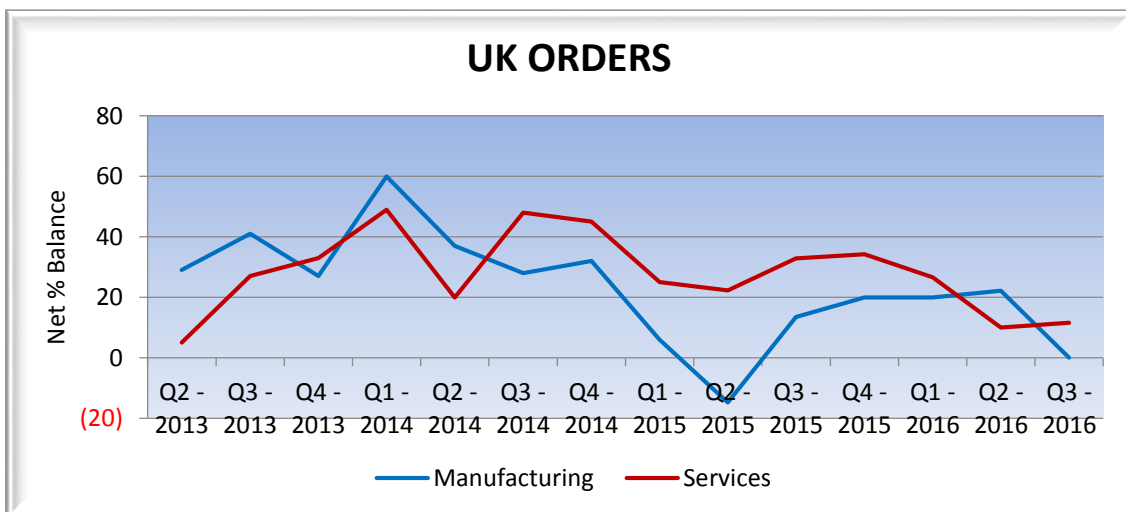
### UK SALES AND ORDERS

25% of manufacturing firms reported an increase in UK sales activity during the third quarter with a further 25% reporting a decline in sales – when compared to the second quarter. As can be viewed by the chart below, manufacturing sales activity has declined over the past three months with the overall balance figure standing at 0%.

UK sales activity for business operating in the services sector has declined slightly over the previous three months, with this quarter showing that 11% of firms reporting a decrease in sales. This is compared to second quarter when 19% reported a decline. However, 44% of businesses operating in the services sector had said that their sales activity over the third quarter remained in line with the second quarter.



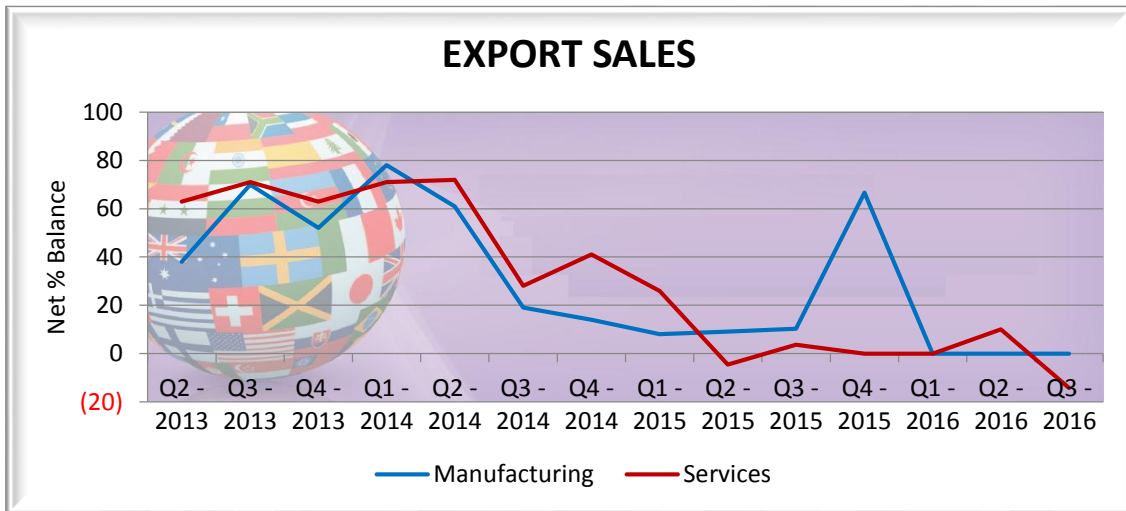
UK orders – an indication of future demand – for the third quarter of 2016 for manufacturing firms saw a decline with a net balance figure of 0%. 50% of manufacturing firms reported that their orders had either increased or remained consistent in the second quarter of 2016. 42% of services sector firms reported orders that either remained consistent with the second quarter or increased.



\* 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

75% of manufacturing firms reported that export sales over the most recent quarter either remained consistent or increased when compared to the second quarter of 2016. 89% of service sector firms reported that their export sales had either remained consistent with the second quarter or had increased. However, when looking at the overall balance figure, there was a contraction in activity for service sector firms.



Similarly to export sales, 75% of firms operating within manufacturing sector indicated that their export orders had remained consistent or increased when compared to the second quarter. 62% of service sector businesses stated that their export orders had either remained constant with the second quarter or had increased.

Overall, as demonstrated by the chart below, export orders for businesses operating in both the services and manufacturing sectors have declined over the past three months, with the balance figure for both now in contraction territory. Meaning that more businesses across both sectors have reported a decline in export activity versus those that have reported an increase.



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

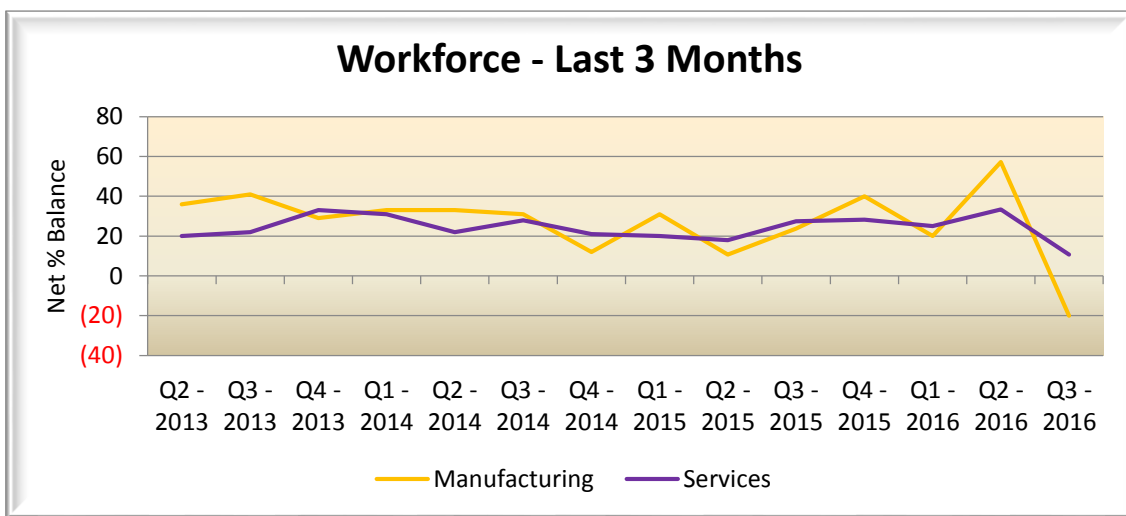


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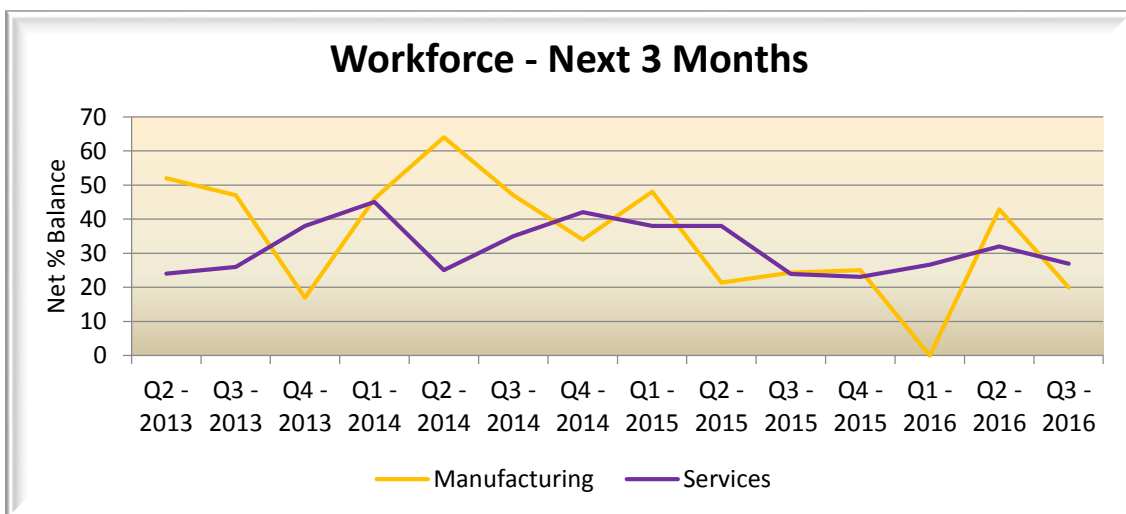
## QUARTER 3 2016

### EMPLOYMENT

40% of those businesses surveyed that operate in manufacturing sector said that their workforce had increased over the past three months versus 21% for those operating in the services sector. Only 11% of firms operating in the services sector reported that their workforce had declined over the past three months. 60% of manufacturing firms cited that their workforce had declined during the third quarter. With 60% of manufacturing firms reporting that their workforce had declined over the past three months, and 40% reporting a decreased, the net balance figure showed a contraction in hiring activity across the sector. The service sector on the other hand reported robust hiring trends with 89% of firms either saying their workforce had increased or remained the same when compared to Q2.



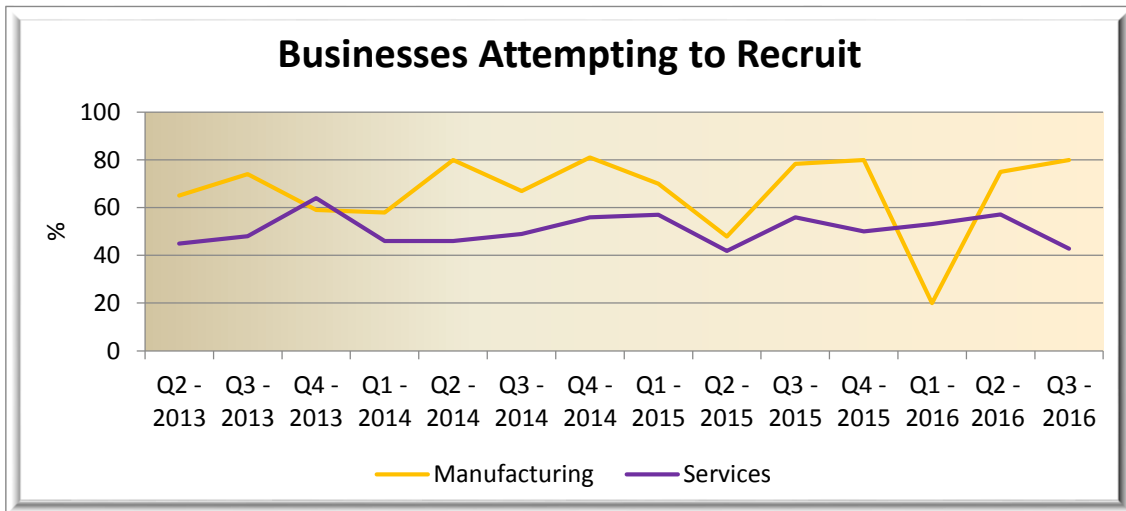
As can be seen by the chart below, service sector hiring intentions for the next three months (Q4) remained broadly in line with the previous quarter – whilst businesses operating in the manufacturing sector stated that their hiring intentions would slow in Q4 when compared to Q3. 100% of businesses operating across the manufacturing sector stated their workforce would remain constant with the previous quarter or increase in Q4. 96% of service sector firms cited that their hiring intentions would remain in line with the previous quarter or increase in Q4.



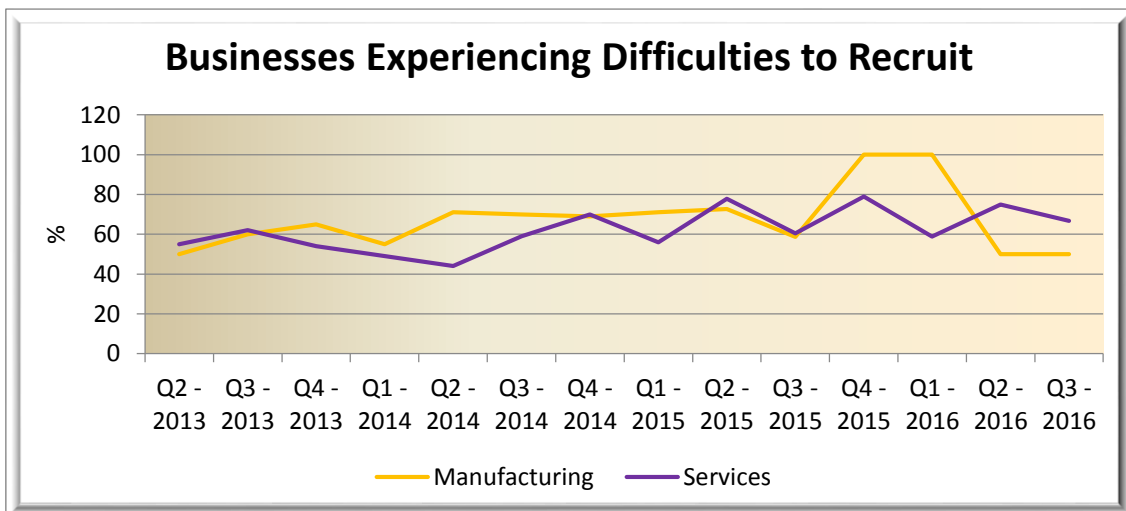
\* Net (percentage) balances are the difference between the percentage of businesses that expect improving or increasing positions and those expecting worsening or decreasing ones.

# RECRUITMENT & SKILLS SHORTAGES

Data compiled during our latest Quarterly Economic Survey showed that 80% of manufacturing firms and 43% of service sector firms attempted to recruit staff during the third quarter.



Of the 80% of manufacturing firms that had attempted to recruit staff over the past three months, 50% said they'd experienced difficulties in recruiting suitable staff. 66% of the 43% of service sector firms reporting that they had experienced difficulties in recruiting suitable staff during the third quarter.

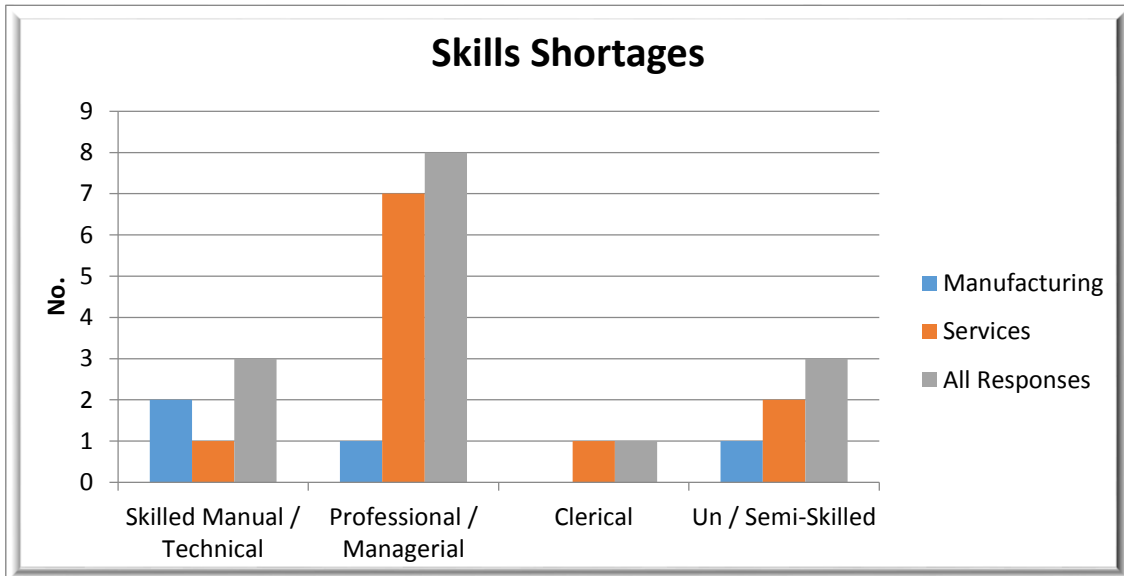




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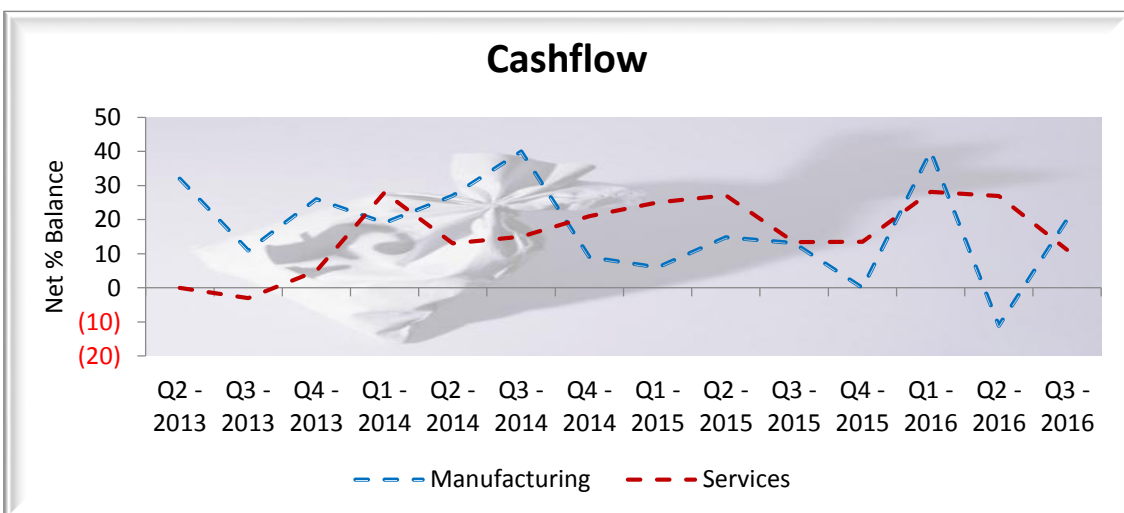
## QUARTER 3 2016

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



## CASHFLOW & INVESTMENT

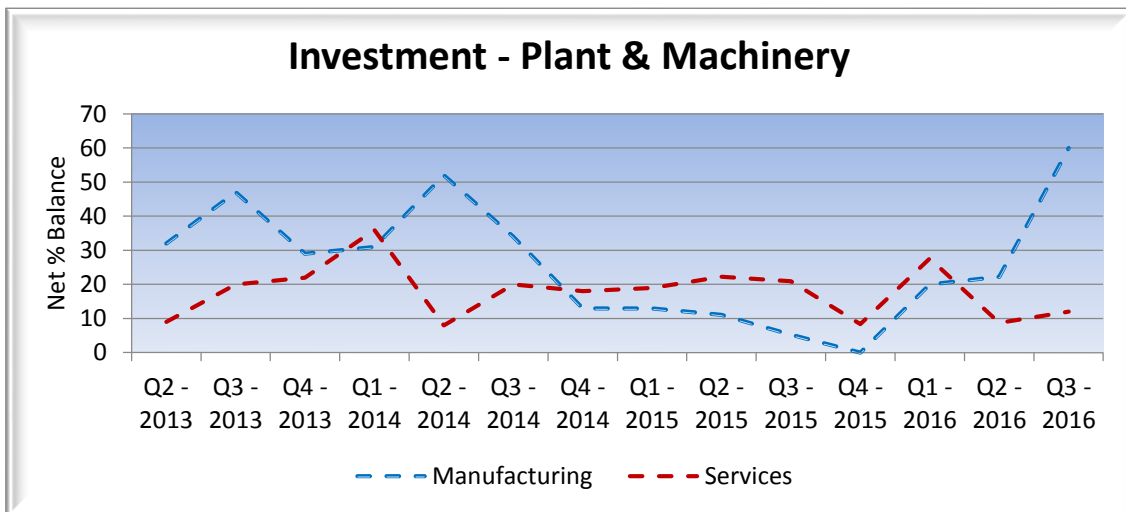
There was a substantial improvement in cashflow for businesses operating in the manufacturing sector during the third quarter, which represented a stark turnaround versus the second quarter. The net balance figure increased from -11% in Q2 to 20% in Q3. The cashflow situation for businesses operating in the services sector went in the opposite direction when compared to their counterparts in the manufacturing sector – with the net balance figure for Q2 standing at 27% versus 11% for Q3.





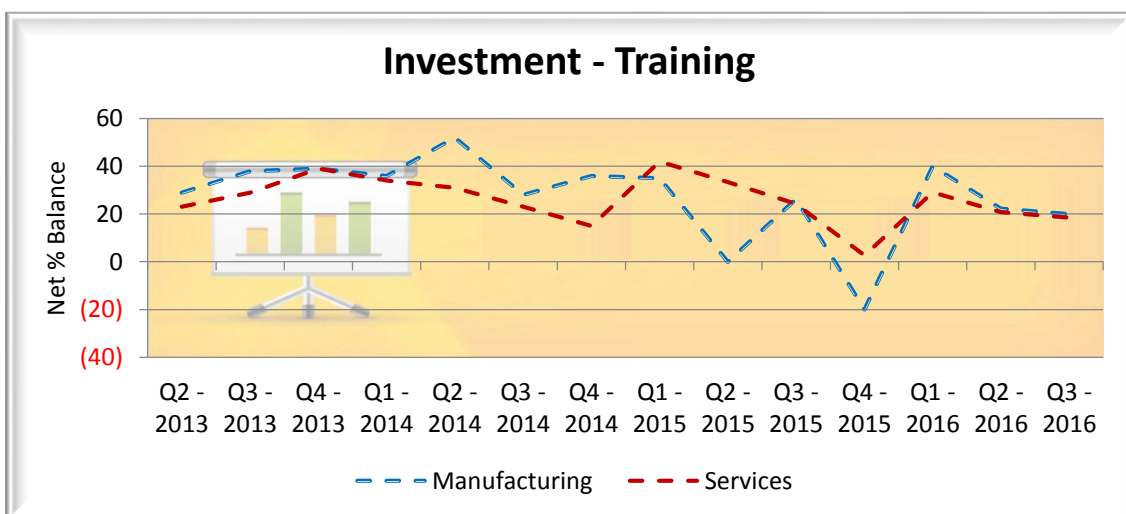
60% of manufacturing firms reported an increase in investment in plant and/or machinery during the past three months, with 40% stating investment activity had remained the same when compared to the second quarter. This means of those manufacturing firms surveyed this quarter 0% reported a decline in investment.

20% of service sector firms stated that their investment plans had increased during the third quarter of 2016 when compared to the second quarter. 72% of firms operating across the services sector stated that their investment plans for plant and/or machinery remained the same this past quarter when compared to the second quarter.



Positively, investment plans in training for businesses operating across the manufacturing sector remained in robust health, with 100% of manufacturing firms surveyed cited training had increased or remained consistent when compared with the second quarter.

Investment in training for businesses operating in the services sector also remained in robust health during the third quarter. 26% of service sector businesses surveyed during the third quarter stated that their investment in training had increased, with a further 67% of firms citing investment in training remained the same, when compared to the second quarter.



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



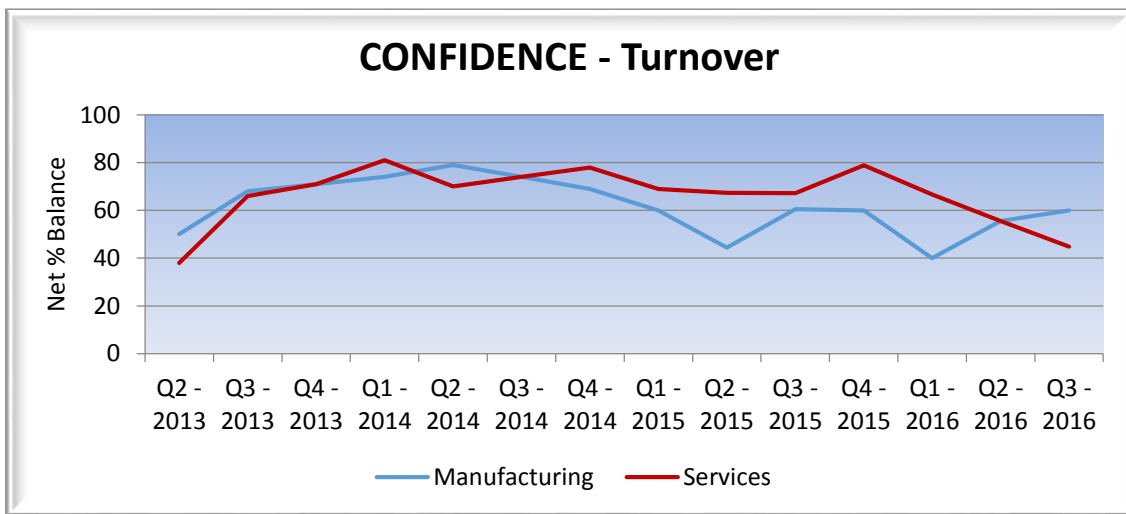
# QUARTERLY ECONOMIC REVIEW

## QUARTER 3 2016

### CONFIDENCE

Business confidence across Milton Keynes as determined by turnover remained healthy during the third quarter of 2016 across both the service and manufacturing sectors.

100% of manufacturing businesses stated that their turnover during the third quarter increased. Also during the third quarter, 90% of service sector businesses stated that their turnover had increased or had remained consistent with the second quarter.



### BUSINESS CONFIDENCE –TURNOVER NEXT 12 MONTHS - NET BALANCES

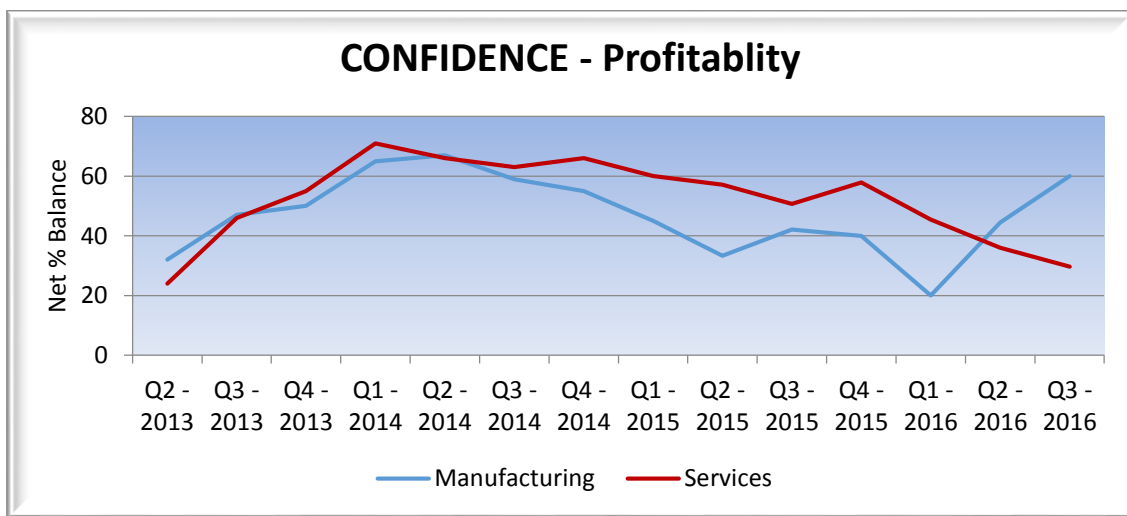
% Balance	Q2 - 2013	Q3 - 2013	Q4 - 2013	Q1 - 2014	Q2 - 2014	Q3 - 2014	Q4 - 2014	Q1 - 2015	Q2 - 2015	Q3 - 2015	Q4 - 2015	Q1 - 2016	Q2 - 2016	Q3 - 2016
Manufacturing	50	68	71	74	79	74	69	60	44	61	60	40	56	60
Services	38	66	71	81	70	74	78	69	67	67	79	67	56	45

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

Overall confidence when looking at profitability based on respondents to this quarter's survey, also remained in robust health.

100% of manufacturing firms reported that profitability either remained the same or increased when compared to the previous quarter.

81% of service sector firms reported that confidence based on profitability had remained the same or had increased during the third quarter of 2016 when compared to the second quarter of 2016.



## 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	Q3 - 2015	Q4 - 2015	Q1 - 2016	Q2 - 2016	Q3 - 2016
<b>Manufacturing</b>	32	47	50	65	67	59	55	45	33	42	40	20	44	60
<b>Services</b>	24	46	55	71	66	63	66	60	57	51	58	45	36	30

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## QUARTER 3 2016

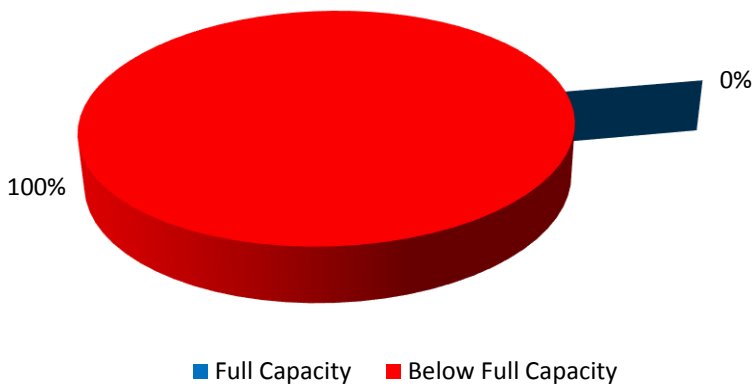
### CAPACITY

Data compiled during the third quarter of 2016 shows that a majority of businesses operating across both the services and manufacturing sectors are still operating below capacity.

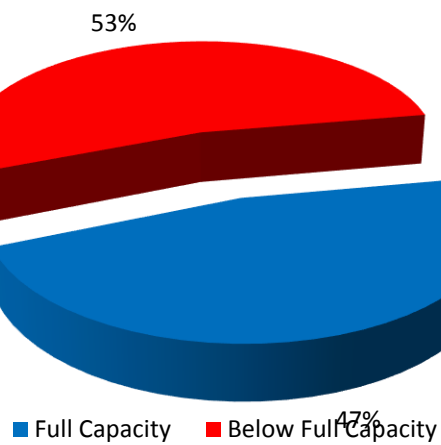
53% of services sector said they were operating below capacity.

During the same timeframe all manufacturing firms (100%) surveyed this quarter said that they were operating below capacity.

#### CAPACITY - Manufacturing

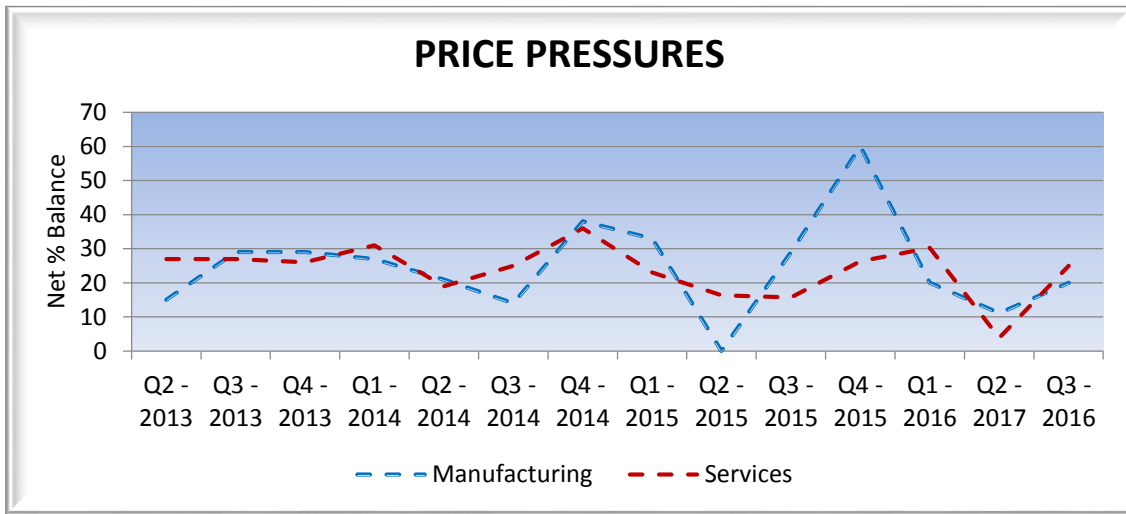


#### CAPACITY - Services

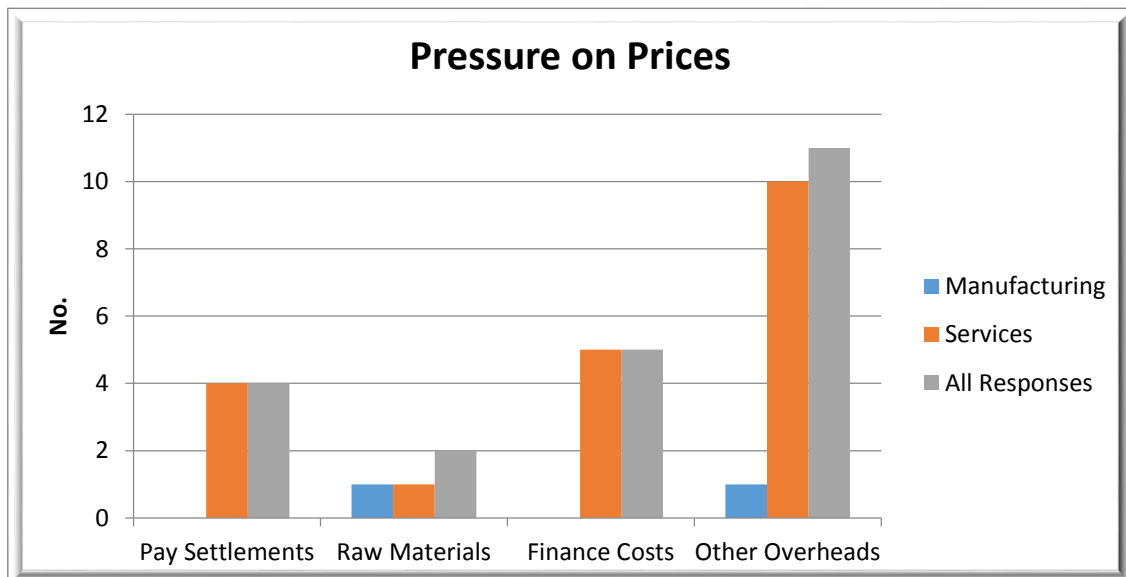


# PRICE PRESSURES

Price pressures for businesses operating in the manufacturing increased during the third quarter of 2016. 20% of businesses surveyed in the manufacturing sector reported an increase in prices pressures. A higher percentage of business operating in the services (25%) said that price pressures were impacting their business. 80% of firms in the manufacturing sector said that price pressures remained the same as the previous quarter. 75% of businesses operating in the services sector reported that price pressures had remained in line with the Q2.



As can be seen in the graph below, increases in other overheads (such as energy costs) were the main contributing factor for businesses overall – across both sectors – when asked what was leading them to increase their prices.



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# QUARTERLY ECONOMIC REVIEW

## QUARTER 3 2016

## EXTERNAL FACTORS

When combining figures for both the manufacturing and services sector, competition was the leading course for concern amongst businesses in Milton Keynes during the third quarter – this was also the case during the second quarter.

Manufacturing firms reported that exchange rates, interest rates and competition were their leading external factors or concern whereas competition was the main external factor of concern for businesses operating across the services sector during the third quarter of 2016.

