

2014
National Winner
2015
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2016
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CHAMBER
BUSINESS
AWARDS
2017
National Winner



Q4

Northamptonshire's Quarterly Economic Report

Q4 2018

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A message from the Chief Executive

Welcome to the fourth quarterly economic survey of 2018, and thank you to all the businesses that participated. The QES is a widely recognised key economic indicator by the Government, the Bank of England and independent economists alike. It provides both central and local policymakers with an important source of feedback of the performance, concerns and views of business across the county.

Results this quarter remain largely positive with one or two signs that companies are remaining slightly cautious due to the economic climate and the future that Brexit holds. Businesses don't like uncertainty so we would hope to see improvements once negotiations with the EU progress over the next quarter and through the course of 2019 as more clarity is provided which gives businesses the confidence to invest and grow.

Domestic sales and orders – sales and orders remain relatively strong in home markets. Fortunes look slightly more positive than the last quarter with an average of a 5% increase in sales and orders. This time around, a larger majority of firms recorded that demand had 'remained constant.'

Export sales and orders – overseas orders rose by a net balance of 12% and sales also rose ever so marginally.

Labour market – concerns continue with many firms reporting difficulties in finding suitably qualified/experienced candidates to fill roles, 60% of businesses who did attempt recruitment faced some sort of struggle. This said, the figure for the anticipated recruitment over the next quarter has more than doubled with 40% of businesses expecting their workforce to expand.

Investment – investment intentions in plant/machinery and equipment slowed down with more businesses stating a decrease in investment activity over the past three months. However, there was good news for investment in training and people with the highest proportion, out of the whole of 2018, recording they had invested in training schemes.

Business confidence – business confidence remains at a sound level. Competition remains top of the leader board when it comes to the main external factors which are concerning businesses.

Despite the current political and economic climate Northamptonshire's business community remains strong. I hope you enjoy reading the below report and we will continue to use our quarterly reports to ensure that our businesses community's voice is heard and your influence is acted upon.



Paul Griffiths
Chief Executive



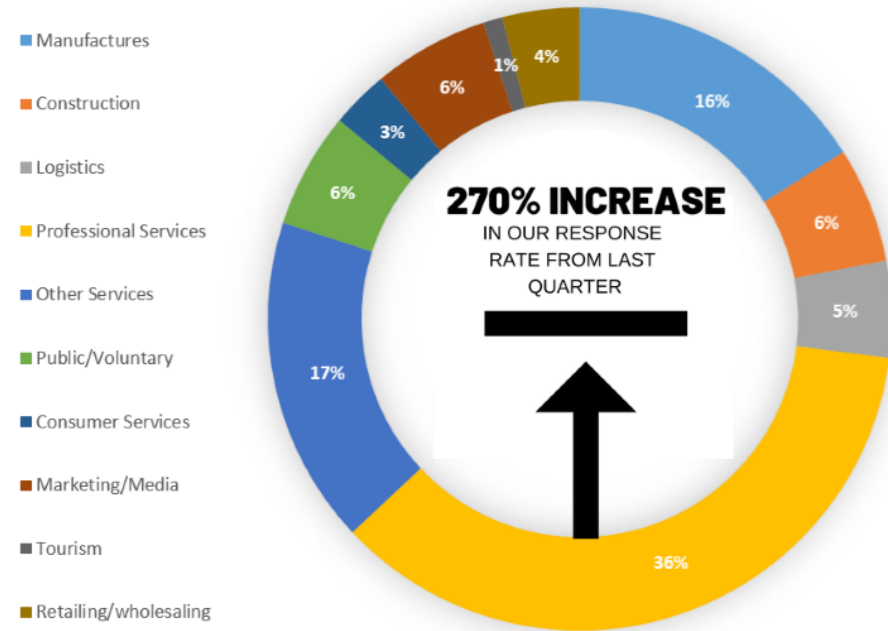
RESPONSES

Northamptonshire Chamber of Commerce’s QES is a regular independent business survey and forms part of the **largest and most representative** survey of its kind in the UK, feeding into national and international development of economic strategies and policies. The Chamber represents over a 1/3 of the county’s workforce and it is imperative we seek their voice and issues so we can lobby and enact change on their behalf. This is why we are so glad that our response rate in Q4 of 2018 saw an increase of **270%**. The businesses that responded employ over 85,000 people.

The QES covers 8 key sections:

- | | |
|------------------------------|------------------------|
| 1. UK sales and orders | 5. Business confidence |
| 2. Overseas sales and orders | 6. Business capacity |
| 3. The workforce | 7. Price pressures |
| 4. Cash flow and investment | 8. External factors |

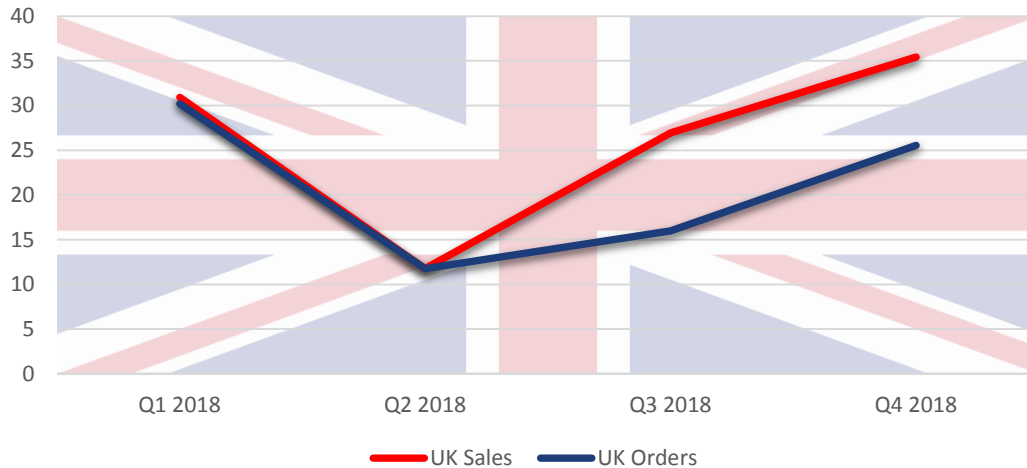
Sector split of respondents is shown below:



UK SALES AND ORDERS

Q4 2018 recorded an uptick in domestic demand figures, with a rise in the net balance of businesses recording an increase in demand for sales and orders.

Domestic sales and orders (net balance%)



UK sales and UK orders have both increased from what we previously saw in Q3. We asked businesses directly whether they had seen an increase, no change or a decrease in demand, 44.79% of respondents stated they had experienced an increase in UK sales and 40.43% for UK orders.

UK sales had a steep incline with demand rising by 8 percentage points. This said, a large proportion of businesses recorded that sales and orders had remained pretty constant throughout 2018.

The British Chambers of Commerce (BCC) has downgraded its growth expectations for the UK economy, forecasting GDP growth for 2018 at just 1.1% (down from 1.3%) and in 2019 it is now expected to be 1.3% (down from 1.4 %.) Given current predictions, Northamptonshire's economy is still over performing, proving to be resilient.

We would hope to see in Q1 of 2019 that domestic demand picks up with an increased frequency of trade happening over the Christmas period and as more clarity will hopefully be provided over Brexit.



EXPORT SALES AND ORDERS

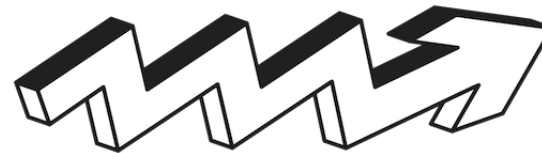
Exporters continue to play an important role in the local and regional economy, and this quarter is no different. Q4 results show a positive contribution in both export sales and orders, with orders having a dramatic increase from -10% to 2% returning from negative territory.

The net balance in export sales demand rose marginally by 0.19%, with 30.61% of respondents stating they had seen an increase in sales since the previous quarter.

Export sales and orders (net balance%)



EXPORT ORDERS
INCREASE 12%



Export market
expected to increase
in volatility as Brexit
continues

British Chambers of Commerce (BCC) has a downgraded forecast for export growth - BCC forecasts growth export of 1.75% in 2018 (down from 2.8 %.) This is down primarily to the lack of clarity provided over Brexit and what future trade deals will be negotiated in the future. Northamptonshire's results go against the trend seen nationally, with an increase in growth.

This continued testing period for the economy, with persistent lack of clarity and the possibility of a disorderly Brexit, are taking their toll on the UK's growth prospects. However, whilst the anticipated renewed decline in sterling could increase the burden on consumers and businesses in the domestic market, the weaker pound could lead to an improvement in the growth of export activities, as we have seen in the last few years.



EMPLOYMENT

Over the last 3 months, Northamptonshire's workforce growth has remained steady at a rate of 10%. Firms recorded that in the last quarter their workforce has grown by 27%, 2% up from the figures recorded at the end of Q3. 40% of businesses also forecasted that over the next quarter they are expecting to expand their workforce. This said, stability in workforce growth is supported by 56% of firms who reported no change in employment size this quarter.

ATTEMPTED TO RECRUIT	%
YES	60
NO	40
RECRUITMENT DIFFICULTIES?	%
YES	60
NO	40
RECRUITING DIFFICULTIES	%
Skilled manual/technical	42.59
Professional/managerial	44.44
Clerical	18.52
Semi/unskilled	29.63

Out of the 60% of employers that were looking to recruit, 60% of them encountered difficulties getting the right people in. This is down 15% from Q3, with the economy growing and more opportunities becoming available the workforce is expanding.

Filling professional/managerial posts are proving the trickiest, with 44.44% of businesses recording that as their biggest recruitment difficulty – closely followed by skilled manual/technical positions supported by 42.59% of firms.



The unemployment rate in Northamptonshire is 4.4% which is above the SEMLEP rate of 3.7% and the national rate of 4.2%. Northamptonshire is in an advantageous position with easy access to London and surrounding areas such as Milton Keynes, Luton and Birmingham. However, infrastructure in Northamptonshire is not up to par with its neighbours meaning Northamptonshire doesn't have the capacity for its expanding population. The county also has a poor skills profile, with the percentage of population with NVQ4 or higher below the regional and national average epitomising the recruitment struggles for high skilled workers.

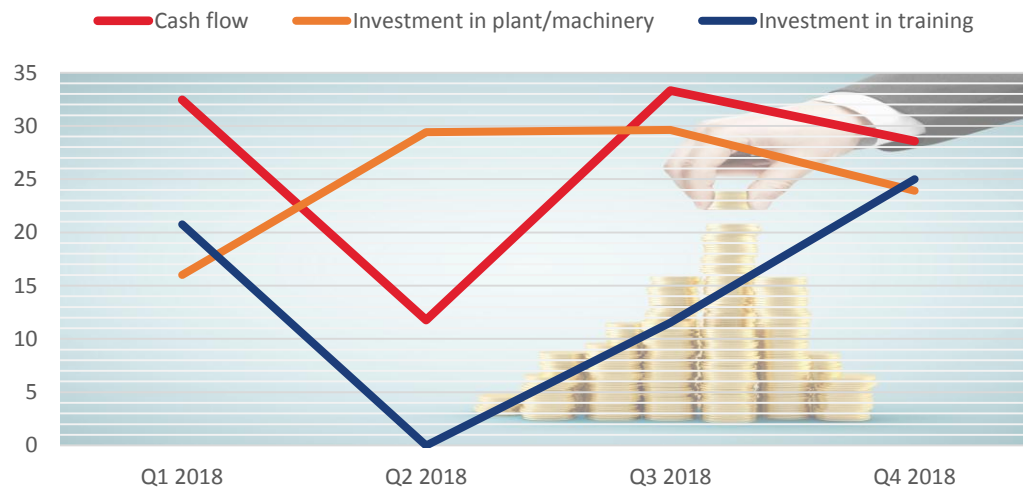


INVESTMENT

BCC forecast that Business investment is expected to remain weak, with growth of 1% in 2018 and 1.2% in 2019. As forecasted, there has been a dip in the amount of immediate cash flow over the past quarter. A net balance of 5% fewer business had an increase in cash flow over the past quarter.

This can be put down to many reasons, such as the end of the summer period where people are getting back to work and start budgeting for Christmas, but also Brexit with contracts harder to win and sustain. We should see an uptick in cash flow figures in Q1 of 2019 with more sales happening throughout December and January.

Cash flow & Investment (net balance%)



Northamptonshire's results don't cause too much worry, given the predictions the results fit the national trend. This said, as illustrated by the graph, investment in training saw a further rise from Q3 with an 11% increase in the net balance of businesses that recorded they had invested in training plans over the past three months. This is the highest figure out of the whole of 2018.

However, last quarter's spike in investment intentions has not been carried over. Both cash flow and investment in plant machinery and equipment dipped an average of 5%.



If Brexit talks progress throughout 2019 and positive steps are taken then investment will increase. If businesses have an optimistic view of the future, based on expectations of future sales, interest rates and inflation then they are likely to invest, causing cash flow to subsequently increase.



**11% INCREASE IN
INVESTMENT IN
TRAINING PLANS**




BUSINESS CONFIDENCE

Uncertainty remains as companies, still not clear on EU negotiations, are taking a slightly cautious view of the future and some are preparing for the worst. The service sector has expressed wide concern that a bad Brexit will particularly harm them as it will affect their contracts, clients and clientele. The manufacturing sector has adopted a more optimistic outlook with expectations of turnover to be higher over the next few months with trade deals being sought. This said, both sectors are very much aware that the outcome could go either way.

Confidence	Anticipated turnover		Anticipated profitability	
	Q4 2018	Q3 2018	Q4 2018	Q3 2018
Increase	64.65%	57.69%	54.55%	57.69%
Remain constant	29.29%	30.77%	31.31%	26.92%
Decrease	6.06%	11.54%	14.14%	15.38%

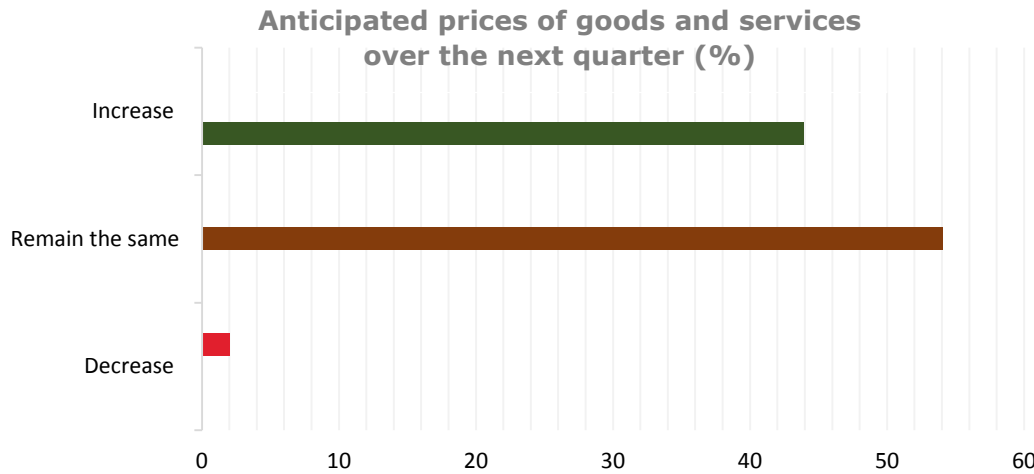
Across the UK, business confidence is falling even into negative territory. Nationally, in the last quarter of 2018 the business optimism indicator decreased to -3 from 16. It is the lowest reading since Q3 of 2016, when the UK voted to leave the EU. Also, optimism regarding export prospects dropped at the fastest pace since the Eurozone crisis. Investment intentions deteriorated significantly, as spending on buildings, training and innovation is expected to be cut back in the next year. Additionally, concerns that political and economic conditions are likely to limit export orders over the next three months were the highest since the EU referendum. Looking ahead, output growth is expected to stall while new orders are expected to fall even further. Despite this the Northamptonshire economy remains resilient and hopeful for 2019, perhaps this is as a result of an insulating effect of its strong international operations.

 **56%**
of business record
they are operating at
below capacity

The QES also asked businesses whether they were operating at full or below capacity. 56% recorded that they are working below their full capacity. This has remained steady over the year with a slight decrease since Q3 of 3 points. With recruitment struggles and the current financial situation, businesses are still finding it hard to operate at 100%. However, as more companies overcome the barriers and become more confident then we will the see the local economy strengthen even further with increased investment and subsequently cash flow & sales.



PRICES AND COSTS



With anticipated interest rates rising to 1.25% by the end of the fiscal year, and with rate rises expected in Q1 2019 and Q2 2020 – more businesses are being forced to put up their prices of goods and services to survive.

The UK has become used to low levels of inflation, but the long lived era of benign pricing is coming to an end. Driven by the falls in the exchange rates, prices of imported goods are accelerating quickly and are already making an impact on companies in both sectors (manufacturing and service); this will feed through to consumer prices across 2019.

Other overheads (e.g. energy costs) and prices of raw materials are also continuing to plague business concerns, consequently leading to a rise in prices. 45% of respondents commented that raw material prices were the main pressure for them and this has remained a constant theme throughout 2018 and we expect it to continue throughout 2019 – a major concern particularly for the manufacturing sector. Other major pressures include pay settlements and finance costs.

Future Price pressures (%)

- Interest rates
- Exchange rates
- Business rates
- Inflation
- Competition
- Taxation
- Other



When it came to looking at future pressures in the next quarter, competition still dominates the leader board with 38% of firms stating that as their biggest factor. With Northampton being rated one of the best towns to start a business and with the high number of small businesses in the county, competition is as rife as ever and will continue to be a problem. The manufacturing sector is more concerned over exchange rates, taxation and competition and the service sector business rates, interest rates and competition.



**9% MORE
BUSINESSES
FORECAST PRICES
OF
GOODS/SERVICES
TO RISE**



OTHER CONCERNS

Below are other comments made by businesses across Northamptonshire.

Brexit

Brexit – the issue on everyone’s mind. 75% of businesses that participated in the QES stated that Brexit was a huge concern for them. With the absence of information regarding what’s going on and how it will affect us, it’s far from surprising. Smaller businesses may not be as affected as the larger firms where a large proportion of their income is exports and international services. The Northamptonshire Chamber of Commerce provides up to date and detailed material on our website which helps businesses no matter what size prepare for the implications of Brexit, on an operational and board level. Visit the ‘Representation’ section at www.northants-chamber.co.uk to find our more.

Local Authority Cuts

Companies also recorded that the state of Northamptonshire’s county councils worry them. The cuts of grants and support provided by the council has hindered growth in Northamptonshire. The Chamber is included in consultations with Government and Local Authorities to help devise and implement a strategy going forward.

Digital accounting

With the introduction of Making Tax Digital (MTD) and ongoing HMRC changes, many businesses are in the dark as to what’s going on and how it will change policies and procedures. The Chamber will lobby politicians and decision makers in order for them to provide more clarity on the timeline of the process and how it’s going to work for businesses of all sizes. The Chamber is also looking to hold forums and workshops to support the business community on these changes.

