



# Q4

## Milton Keynes Quarterly Economic Report

Q4 2018



## A message from the Chief Executive

Welcome to the fourth Quarterly Economic Survey of 2018. The QES is a widely recognised key economic indicator by the 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 business across the borough.

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 have remained strong. Fortunes are looking slightly more positive than the last quarter with a big increase in UK sales but balanced out by a slight drop in demand for UK orders.

**Export sales and orders** – overseas sales and orders remained a volatile market, with orders dropping dramatically and a slight increase of 1.3% in export sales. Despite the results this isn't worrying given the downgraded forecast.

**Labour market** – employment growth continues with a 12% increase in MK over the past quarter. Recruitment is getting easier, with only 35% of employers facing difficulties. Professional/managerial posts remain the hardest to fill.

**Investment** – there was growth in all three investment sectors, with cash flow seeing a 32% rise. We should expect this trend to continue with the continued SEMLEP initiatives.

**Business confidence** – uncertainty remains but businesses remain optimistic with the net balance of firms anticipating a rise in profitability over the next 3 months. 13% more firms have recorded that they are working below their capacity.

**Prices and costs** – we saw 17% more firms record they expect their prices of goods and services to rise over the next quarter – price pressures such as competition and the weaken economic climate has driven these prices up.

Despite the uncertainty, the Milton Keynes business community remains stable. While businesses aren't overly positive about Brexit, firms will continue to work to innovate and grow whatever the political situation.

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**



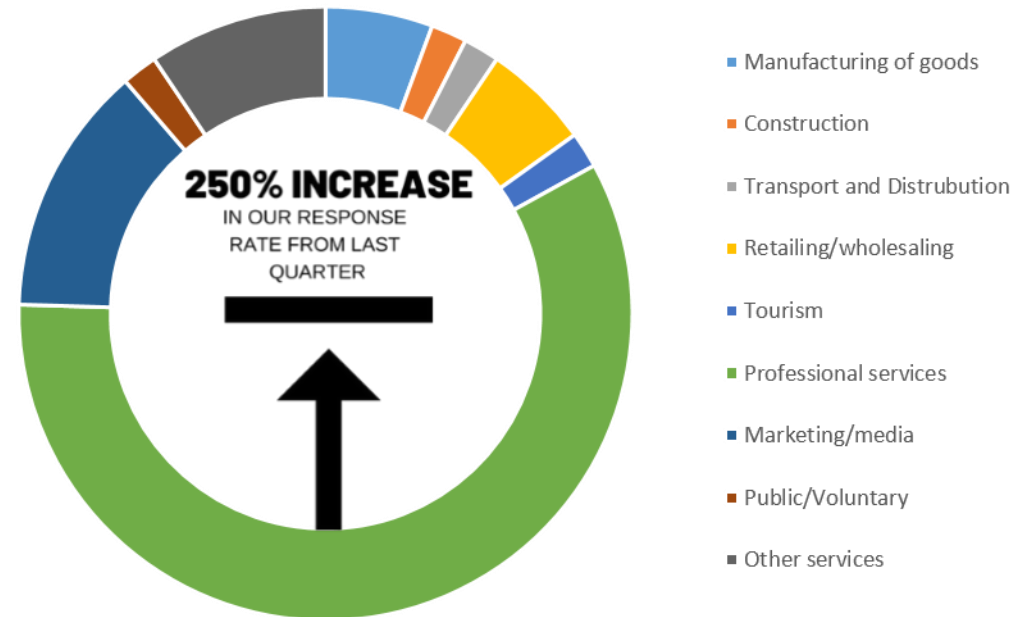
## RESPONSES

Milton Keynes 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 450 Milton Keynes businesses and it's 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 **250%**. The businesses that responded employ over 1300 people.

The QES covers 8 key sections:

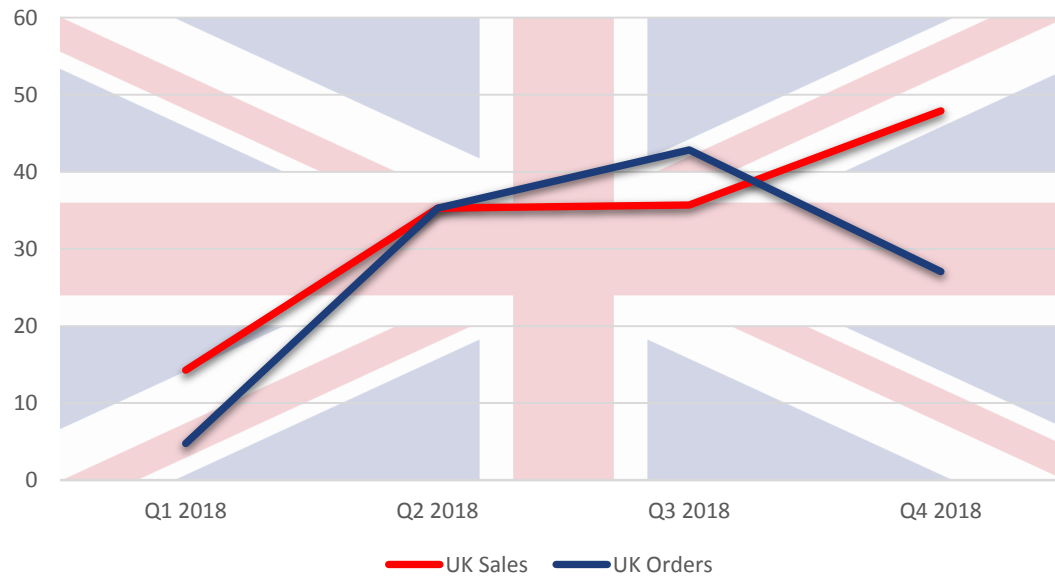
1. UK sales and orders
2. Overseas sales and orders
3. The workforce
4. Cash flow and investment
5. Business confidence
6. Business capacity
7. Price pressures
8. External factors

Sector split of respondents is shown below:



## UK SALES AND ORDERS

Domestic sales and orders (net balance)



Q4 has seen an increase in domestic demand with UK sales rising by 12 percentage points, a net balance of 47% recorded a growth in sales and bookings.

Whereas in Q3 we saw the majority of firms stating their sales had remained constant and none had seen a decrease, this time round more companies shifted out of the 'remained constant' stage with sales rising.

The demand for UK orders in Milton Keynes has dropped slightly with a similar amount of businesses noticing an increase in orders but 12% more also experiencing a decrease in demand, compared to 0% of respondents recording a decrease in Q3.

Overall the trend in domestic sales and orders in Milton Keynes, doesn't cause too much concern, a decline in demand was anticipated and the borough continues to produce results above the national average.



**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, Milton Keynes economy is still performing strongly, 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

Export orders and sales in Milton Keynes remains a volatile and unpredictable market, with figures changing throughout the year even reaching a negative contribution. In Q4 we saw the net balance of overseas sales rise by over 1 percentage point. On the other hand, overseas orders dipped by a steep 20 points reaching 5% but nowhere near the negative territory we saw in Q2.

Export sales and orders (net balance)



EXPORT SALES  
INCREASE 1.3%



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. Milton Keynes results are overall quite positive with some growth seen despite the predictions.

**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 three months, Milton Keynes has seen a further 12% increase in workforce growth, with 37% of respondents recording that in the last quarter their workforce has expanded. 30% of businesses also stated that over the next quarter they anticipate to grow their personnel even more.

ATTEMPTED TO RECRUIT	%
YES	51
NO	49
RECRUITMENT DIFFCULTIES?	%
YES	35
NO	65
RECRUITING DIFFICULTIES	%
Skilled manual/technical	47.37
Professional/managerial	57.89
Clerical	15.79
Semi/unskilled	10.53

Recruiting difficulties in Milton Keynes has also taken a dramatic decline, down to 34% of businesses encountering struggles when finding suitable staff compared to 75% in Q3. The figure for recruiting appropriate staff is the lowest since Q1 of 2018. Out of the 35% of companies that did find difficulty, the hardest positions to fill were professional/managerial, with over half of all respondents facing some sort of struggle. This has fluctuated throughout 2018 with it swapping between manual/technical posts to professional/managerial.



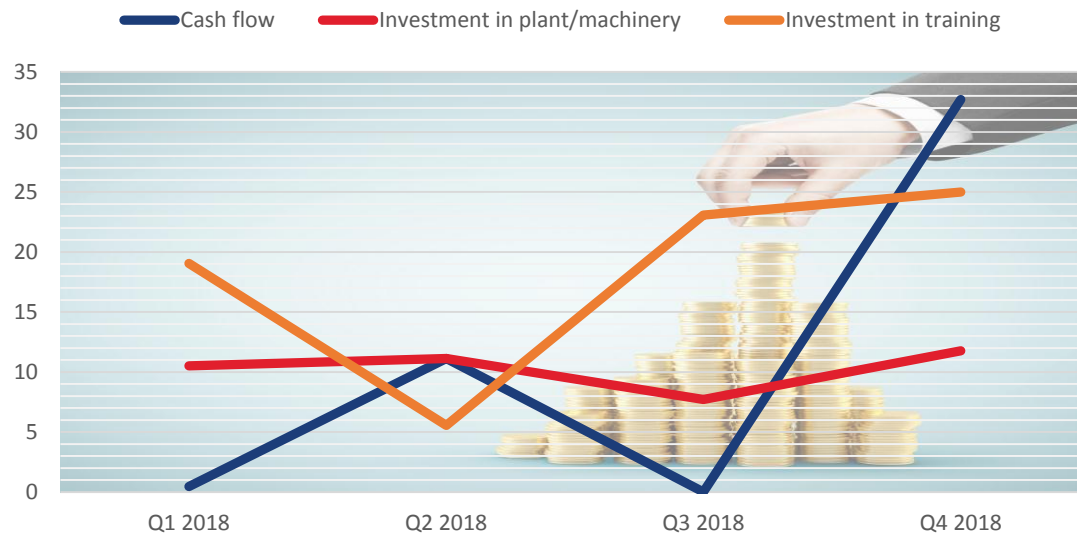
**The unemployed claimant rate in Milton Keynes remains at 1.2% which is slightly above the national rate of 1.1%, the SEMLEP rate of 0.9% and the regional rate of 0.7%. One reason is the commuting and infrastructure problem which Milton Keynes currently faces. While the city is well connected by road and rail, its large population growth has led to increased congestion which is expected to increase by a further 60% over the next 20 years. The current infrastructure developments can only accommodate about 25% of this increase. This is a concern for the city, which has historically regarded its low congestion and fast commuting as one of its key attractions for both residents and businesses, and relies on commuters to fully meet its demand 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. Milton Keynes' results have defied the national forecast. All three trends saw some sort of growth, most noticeably cash flow rising by a net balance of 32.69%.

### Cash flow & Investment (net balance)



Limited investment in training was observed nationally as it is not compatible with the attitude of the labour market, which continues to favour the employee. Firms have changed their attitude in Q4 and raised their investment which in turn will increase staff retention and recruitment.

With Milton Keynes in the SEMLEP catchment area and with other business initiatives based in Milton Keynes such as MK invest, we should see further growth in all three areas throughout the course of 2019.

**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.**

# 1/3 INCREASE IN CASH FLOW



## 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 below table illustrates that business confidence remains positive, with some figures fluctuating. The net balance of businesses anticipating a higher turnover in the New Year dropped by two percentage points but a larger proportion of firms then expect turnover to remain stable and constant. This said, the net balance of firms anticipating a rise in profitability rose by a steep 12 points showing that businesses are heading into 2019 more confident.

Confidence	Anticipated turnover		Anticipated profitability	
	Q4 2018	Q3 2018	Q4 2018	Q3 2018
Increased	69.81%	73.33%	64.71%	64.29%
Remained Constant	24.53%	20%	25.49%	14.29%
Decreased	5.66%	6.67%	9.80%	21.43%

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 Milton Keynes economy remains resilient and hopeful for 2019, perhaps this is as a result of an insulating effect of its strong international operations.



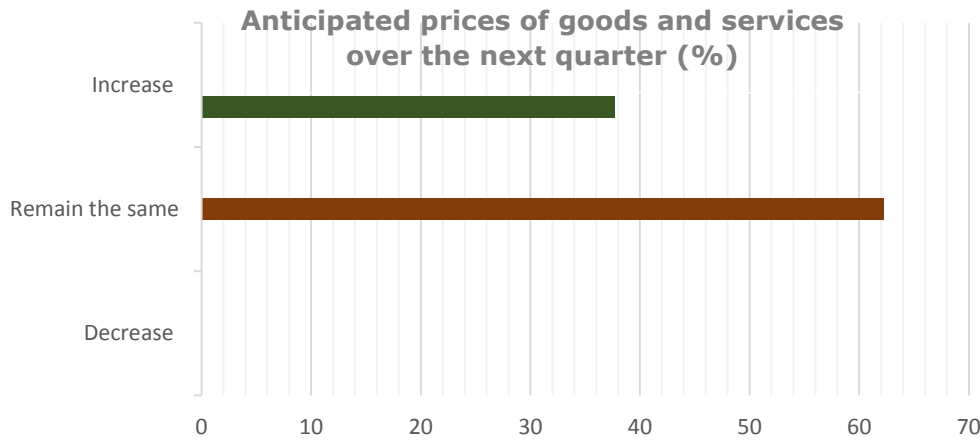
**66%** of businesses recorded they are working **below capacity**

The QES also asked businesses whether they were operating at full or below capacity. 66% recorded that they are working below their full capacity. This has increased 13% from Q3 and is the highest figure from the whole of 2018. With recruitment struggles and the economic climate, businesses are finding it harder to operate at 100%. However, as more companies overcome the barriers and become more confident then we will see the local economy strengthen even further with increased investment and subsequently cash flow & sales.





# PRICES AND COSTS

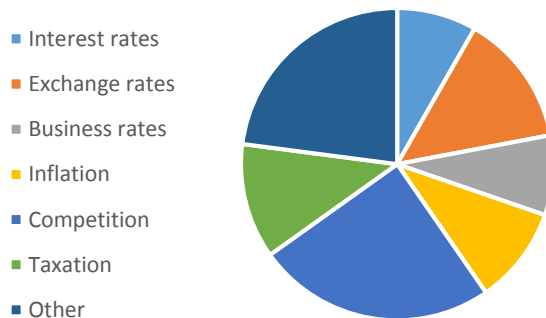


**With anticipated interest rates rising to 1.25% by the end of the fiscal year, and with rate rises expected in Q1 2019 and Q2 2020 – more businesses are being forced to put up their prices of goods and services to survive.**

**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.**

A number of factors were reported as the underlying cause for the anticipated price rise, with 75% of businesses recording other overheads (e.g. energy costs) as the main reason for the drive in price pressure. Followed by 37.5% recording raw material prices was causing concern.

## Future Price pressures (%)



When it comes to future pressures in the next quarter and into 2019, competition remains a big problem facing firms, with over 1/3 of all respondents claiming that to be their biggest challenge. With Milton Keynes becoming more of an attractive place for businesses of all size to set up and locate due to its close proximity into London and available space, we would expect to see competition to remain top of the leader board.

25% of businesses are also worried about exchange rates and interest rate, proving the effect Brexit is having on the local community. The manufacturing sector is more concerned over exchange rates, taxation and competition and the service sector business rates, interest rates and competition.



## OTHER CONCERNS

Below are other comments made by businesses across Milton Keynes.

### **Brexit**

Brexit – the issue on everyone’s mind. 73% 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 Milton Keynes 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.chambermk.co.uk](http://www.chambermk.co.uk) to find out more.

### **Rent increases**

Companies also recorded that the rise of rent fees also affected their business operations. With interest and business rates anticipated to increase, this is a problem felt nationally. Milton Keynes Chamber has a good partnership with local and national councils and government and is always involved in discussions on how to improve the local business area and make it more of an attractive and sustainable place for business growth.

