

Q2

2019

QUARTERLY ECONOMIC SURVEY



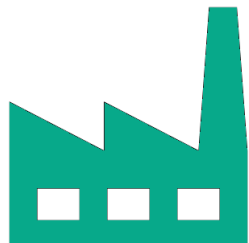
METHODOLOGY



QES Q2 fieldwork was carried out between the dates of 20 May 2019 to 10 June 2019. Data taken from Q1 2019 is also cited in the report and this was carried out between 18th February 2019 to 11 March 2019.



Net balance figures show the difference between the respondents who recorded an increase and decrease. If the figure is a plus, then it indicates growth and a positive contribution. If the figure is a minus it indicates a contraction of growth and a negative contribution.



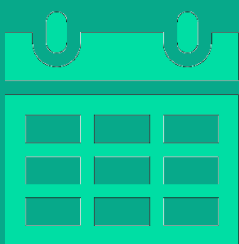
Manufacturing sector

Businesses with the main activity of manufacturing goods (i.e. electronic or IT), and the production of raw materials.



Service sector

Businesses with the main activity of providing a service, i.e. media/accounting/recruitment/hospitality or wholesaling.



Upcoming QES data collection:

QES Quarter 3:

26 August – 16 September, report issued 7th October 2019.

QES Quarter 4:

4 November – 25 November, report issued 6th January 2020.

The latest Quarterly Economic Survey (QES) goes to show the resilience and positive attitudes of Northamptonshire's business community. Weak growth, a decrease in consumer demand, export sales and investment intentions are being felt nationally. Despite demonstrating stable and strong results this quarter, the findings still show that the persistent political and economic uncertainty has forced businesses to remain hesitant.

Northamptonshire Chamber will continue to feed these results into local, regional and national economic strategies. Data from Northamptonshire Chamber's QES is utilised by HM Government, The Bank of England and economists alike. It provides both local and central policy makers with an accurate and unique insight into the performance, concerns and views of businesses across the county.

Domestic demand: This quarter saw a slight hit in both domestic sales and orders.

Overseas sales and orders: Overseas sales saw a dramatic hit with demand falling by 13%, overseas orders similarly followed suit.

Employment: Businesses recorded they had actively recruited over the past three months and anticipate recruiting even further. Recruiting challenges still remain both within the manufacturing and service sector.

Business confidence and investment: Business confidence remained steady with firms continuing to adopt a positive outlook for the future. Recent investment also rose.

Enterprise is the lifeblood of the UK economy, if dramatic change is not enacted businesses will continue to halt investment recruitment to the detriment of growth.

These results should act as a wake-up call for Government, who need to recognise that all businesses, SME's, need support and encouragement in these exceedingly turbulent times.

In the midst of all the political chaos surrounding Brexit, it is easy to put the fundamental issues which affect the day-to-day operations of businesses on the back burner. Northamptonshire Chamber has not lost sight of these fundamental domestic priorities, and this is why we are excited to be releasing our Business Manifesto later in the year which sets out the additional priorities we will be focusing on in the near future. Topics such as skills and education, infrastructure, the cost of doing business and digital connectivity will also be at the forefront of our efforts as we continue to champion and represent the voice of local business.

I am proud to be Chief Executive of Northamptonshire Chamber of Commerce and to represent the fantastic collection of businesses we have in the county.

A message from the Chief Executive



“ all businesses, especially small and medium sized firms, need support and encouragement in these exceedingly turbulent times ”

A handwritten signature in black ink, which appears to read 'Paul Griffiths'. The signature is stylized and written in a cursive-like font.

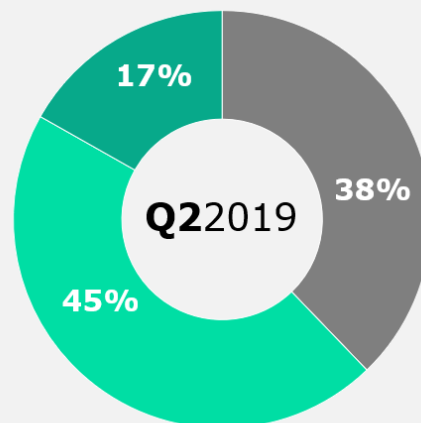
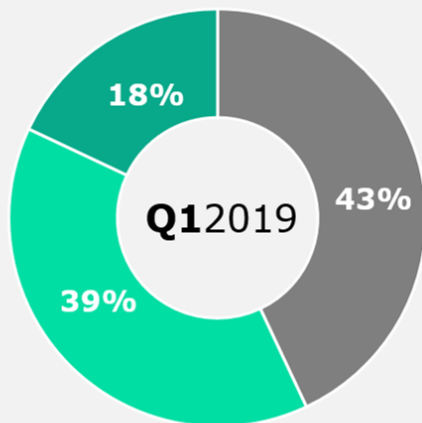
Paul Griffiths
Chief Executive

DOMESTIC SALES AND ORDERS

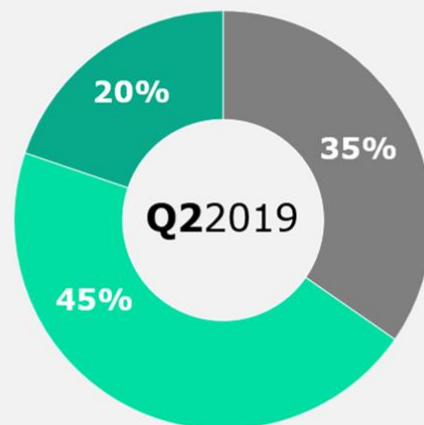
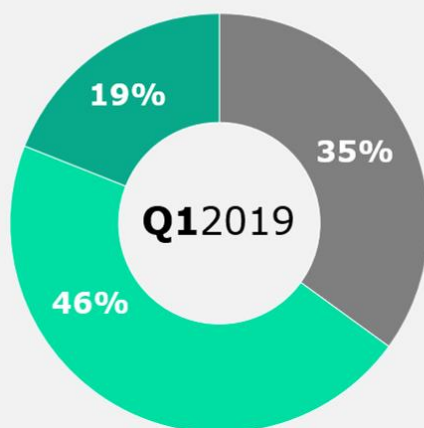
Overall, businesses in Northamptonshire saw a decrease in domestic activity compared to the first quarter of the year. The net balance (%) of businesses recording an increase in domestic sales took a slight hit - down from 25% in Q1 to 21% in Q2. Businesses experiencing an uptick in domestic orders also took a slight hit, falling from a net balance of 16% in Q1 to 15% in Q2 2019.

A large majority of firms in both quarters reported that sales and orders had remained constant over the three months. The results in Q2 follow on from Q1, the underlying pace of UK activity has slowed. However, this quarter saw more of a gentle decline compared to what we saw in Q1.

DOMESTIC SALES



DOMESTIC ORDERS



Increased

Remained Constant

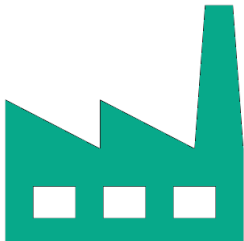
Decreased



SERVICE SECTOR

In Q1 2019, a net balance of 24% recorded an increase in domestic sales and 20% increase in advanced orders. In contrast, this quarter a net balance of 25% experienced an increase in sales and 24% in advanced orders/bookings. A positive result for the service sector.

Growth in the service sector has been upgraded to 1.4% (from 1.1%) in 2019 but downgraded to 1.2% (from 1.3%) in 2020 and to 1.4% (from 1.7%) in 2021.



MANUFACTURING SECTOR

The number of businesses in the manufacturing sector reporting increased domestic sales fell dramatically by 18 percentage points this quarter, dropping from 25% in Q1 to 7%. Similarly, the net balance of manufacturing firms seeing an increase in advanced orders fell into negative territory declining by 19%, with -11% recording an increase this quarter.

Growth in the manufacturing sector has also been upgraded for 2019 to 1.0% (from 0.5%) but downgraded to 0.5% (from 0.7%) in 2020 and 0.7% (from 0.8%) in 2021.

OVERSEAS SALES AND ORDERS



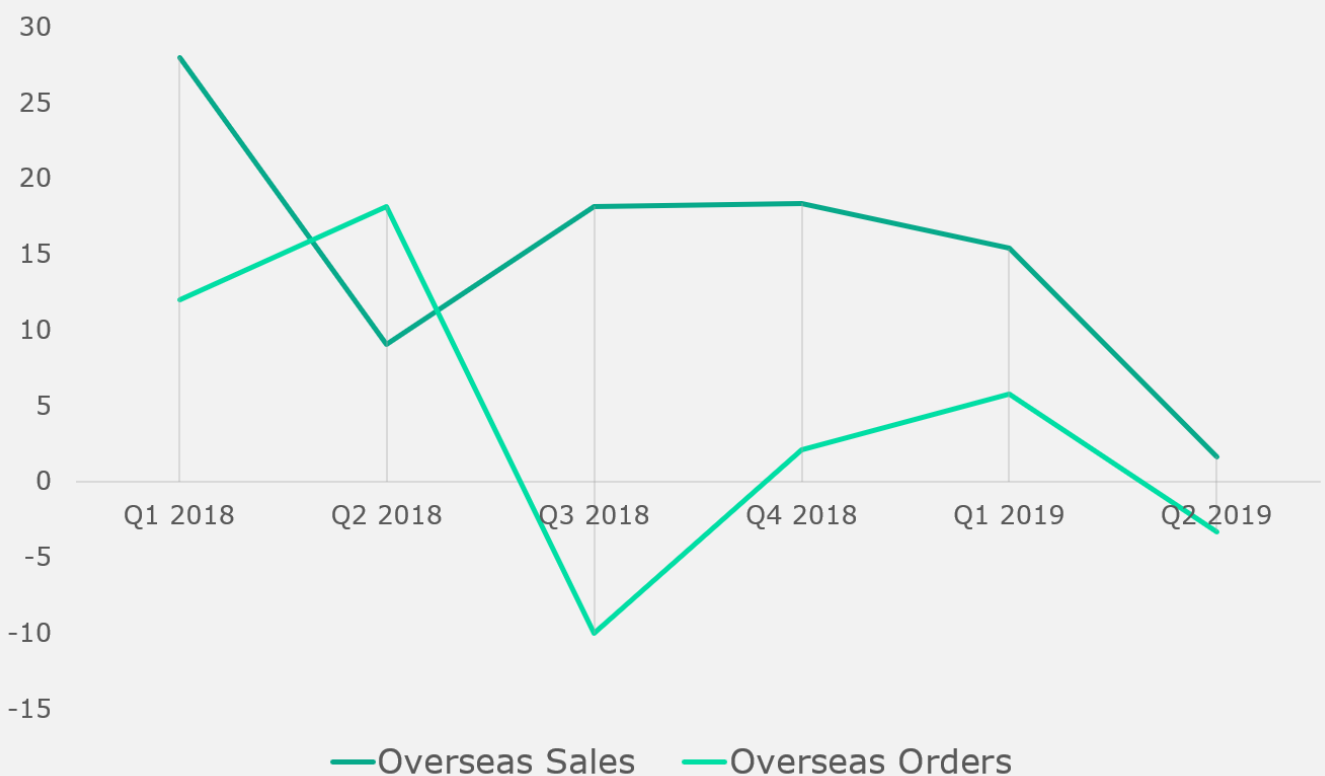
Northamptonshire-based businesses saw overseas activity slow in this quarter with both demand in overseas sales and overseas orders taking a hit.

The net balance of firms recording an increase in sales/customs/bookings declined by 13%, falling from 15% in Q1 to 2% in Q2. Overseas orders followed the trend, experiencing a decline from 6% in Q1 to a negative contribution in Q1, -3%.

As illustrated by the graph below, the overseas market remains volatile with fluctuating responses in the previous five quarters. These results have not followed the trend we saw in Q1 where export orders demand rose by 4%. They go against what the British Chambers of Commerce (BCC) expect which is export growth of 1.6% and import growth of 4.3% in 2019. The prospect of a messy and disorderly exit from the EU remains a significant risk to the economy. The fluctuating strength of the sterling and the path of UK inflation against the backdrop of a volatile political atmosphere has not been complementary to the overseas market. We expect this weak growth trajectory to continue for the next few quarters.

This said, the manufacturing sector saw a slight increase in export sales and orders with a net balance increase of 6% for both, up from 4.16% for sales and -4.16% in orders in Q1 2019.

NET BALANCE (%) OF FIRMS REPORTING AN INCREASE IN OVERSEAS SALES AND ORDERS





Other concerns

Unsurprisingly, when given the chance to comment on other factors of concern, the majority identified Brexit and the uncertainty associated with the current negotiations as a significant factor. The failed attempts of passing a bipartisan Brexit deal through Parliament and the continued extension of the deadline has already damaged business confidence and investment across UK business communities.

To boost growth prospects, the Government must urgently provide firms with clarity on future conditions and bolster business investment incentives. Northamptonshire Chamber of Commerce will continue to lobby Central Government on behalf of the local business community and will strive to provide the most up to date, concise and clear information on our website in order to support businesses in all eventualities.

EMPLOYMENT



Overall during the last quarter, respondents recorded that they saw workforce growth of 24%, a net balance increase of 6% from Q1. In April 2019, the UK unemployment rate fell to 3.8% which is the lowest since December 1973. The latest unemployment figures in the East of England are down to 91,000 which, at just 2.8% of the workforce, is the lowest rate in the UK.

Sector split wise, the manufacturing sector has continued to expand its workforce in the last three quarters, after seeing a dramatic decline between Q3 and Q4. The service sector has contracted slightly, and recruitment has slowed but still remains way above the pace of the manufacturing sector.

1/3 of all respondents anticipate increasing their workforce further over the next three months.

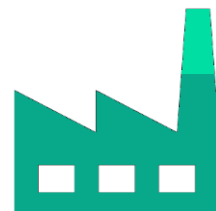
Percentage of businesses attempting to recruit

SERVICE SECTOR

MANUFACTURING SECTOR



51%

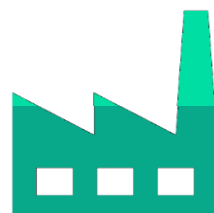


67%

Percentage of businesses experiencing difficulties recruiting



45%



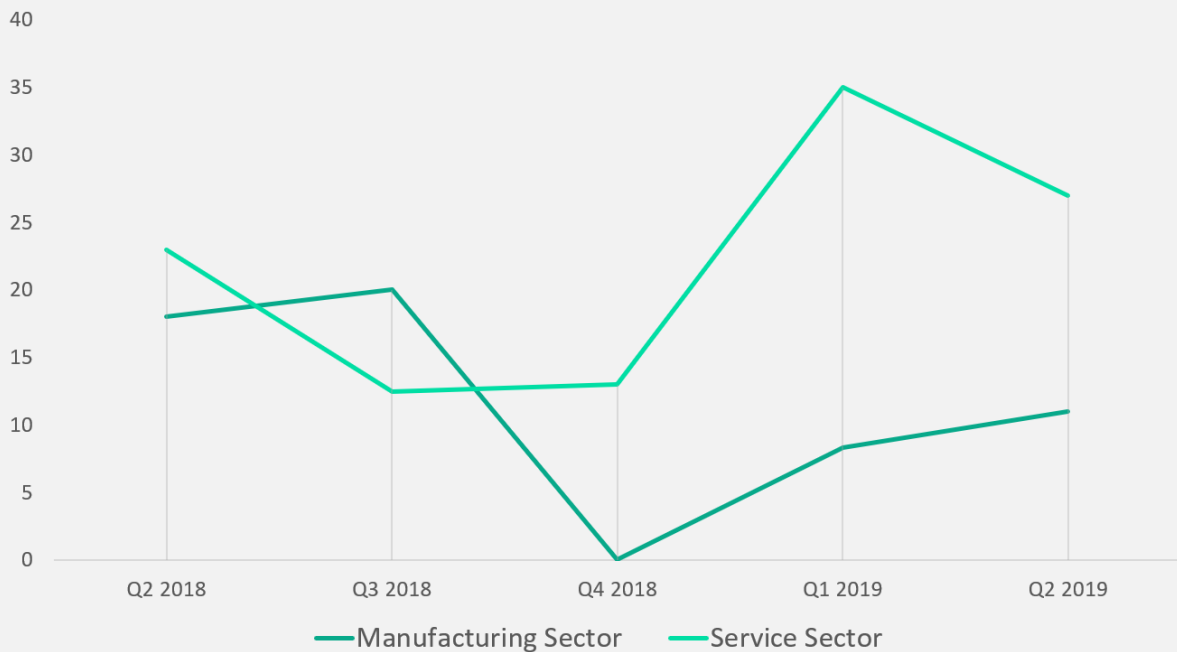
59%



60%

Percentage of businesses expecting no change to their workforce over the next 3 months

NET BALANCE (%) OF FIRMS REPORTING AN EXPANSION OF WORKFORCE OVER THE PAST QUARTER



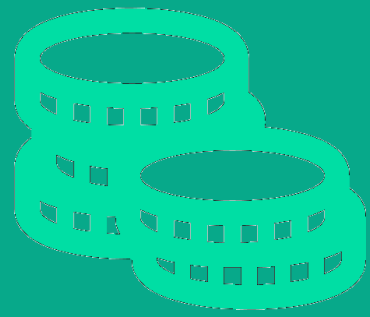
Overall, 53% of businesses that responded attempted to recruit during Q2 2019 and 48% of those experienced difficulties in recruiting appropriate staff for those vacancies. The split is shown below.

Recruitment intentions by both sectors remained the same this quarter, perhaps with both sectors responding and getting used to the uncertainty over the future hiring of EU migrant workers and the increase of the National Living Wage.

Job type	Service	Manufacturing
Full time	40%	58%
Part time	21%	8%
Temporary	13%	8%
Permanent	26%	25%

Role type	Service	Manufacturing
Skilled manual/Technical	32%	46%
Professional/Managerial	23%	21%
Clerical	17%	8%
Semi/Unskilled	28%	25%

INVESTMENT

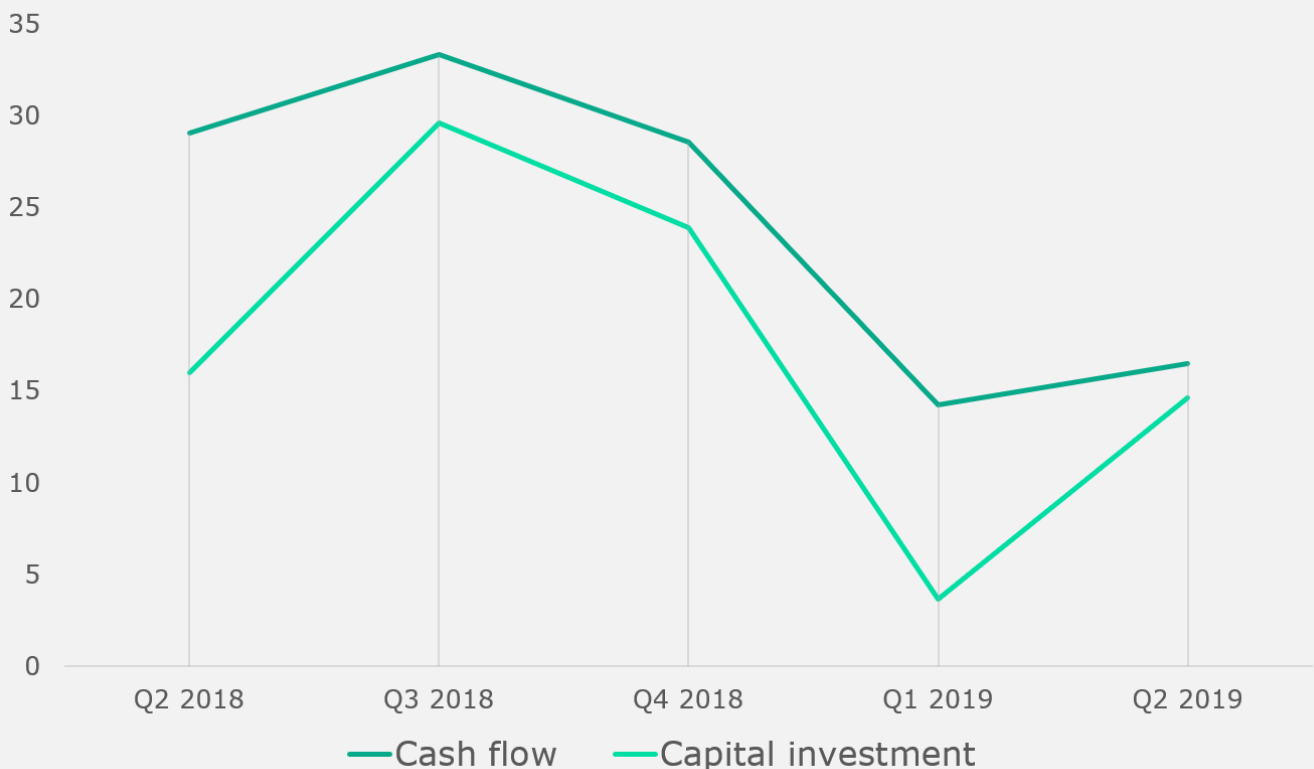


Overall, good news on the cash flow and investment front with all capital investment, cash flow and investment in training plans experiencing an increase.

A net balance of 17% of respondents recorded that cash flow had increased during Q2 of the year which in turn saw investment in machinery/equipment and investment in training plans rise.

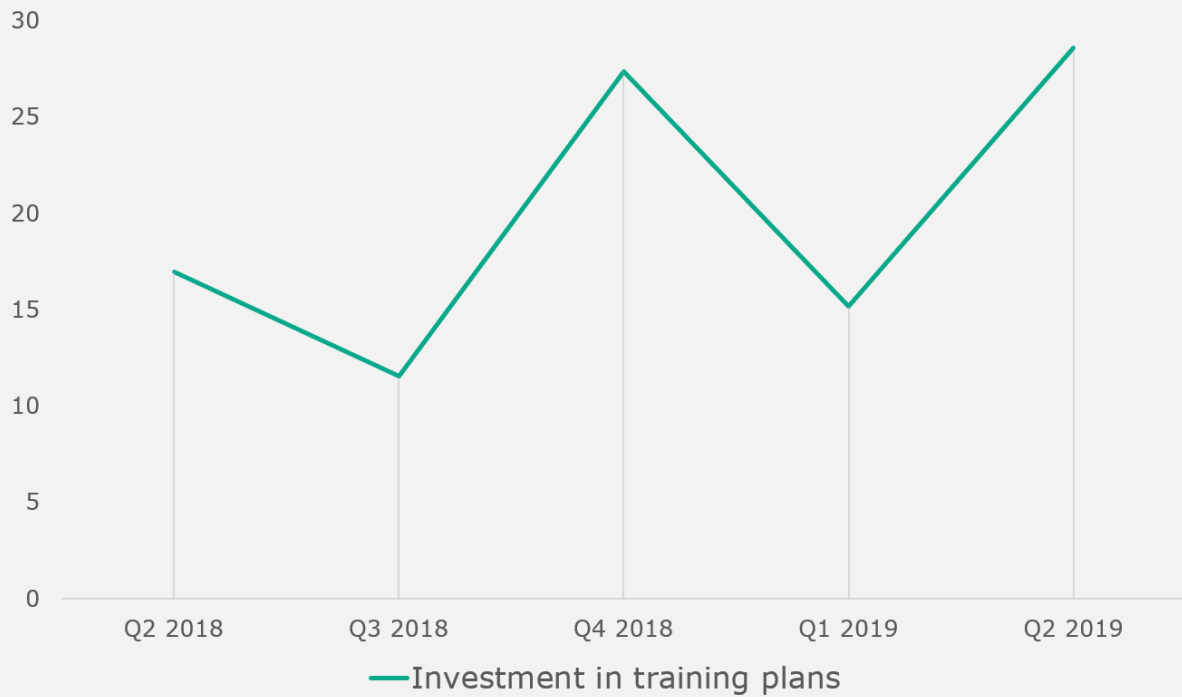
There was good news for recent investment in training plans, with this quarter seeing a net balance increase of 13%. Results this quarter, confirm that investment in training is not consistent with results fluctuating considerably over the past five quarters.

NET BALANCE (%) OF FIRMS INCREASING CAPITAL INVESTMENT AND CASH FLOW





NET BALANCE OF FIRMS REPORTING AN INCREASE IN TRAINING PLANS



It's forecasted by the British Chambers of Commerce (BCC) that business investment is likely to remain historically low with a negative contribution of -1.3% for 2019 (downgraded from -1.05), to 0.4% for 2020 (from 0.6%) before growth of 1.1% in 2021.

Both the manufacturing and service sector experienced considerable upticks in recent investment. The most significant being capital investment in the manufacturing sector moving from a negative contribution of -8.70% in Q3 to positive territory of 7% in Q2 2019.

In the next few quarters, business confidence and investment expectations are expected to recover, as Brexit uncertainty declines and the economy adjusts smoothly to new trading relations with the EU.

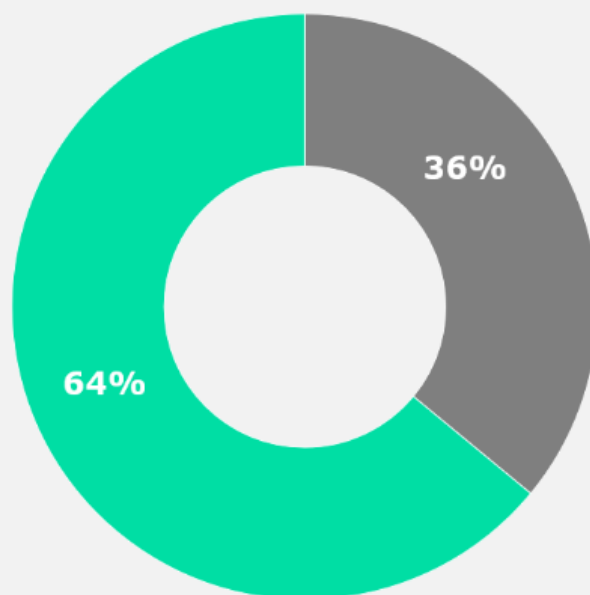
BUSINESS CONFIDENCE AND CONCERNS

Local businesses have stated that they continue to work at below capacity, an increase of 2% compared to Q1 2019.

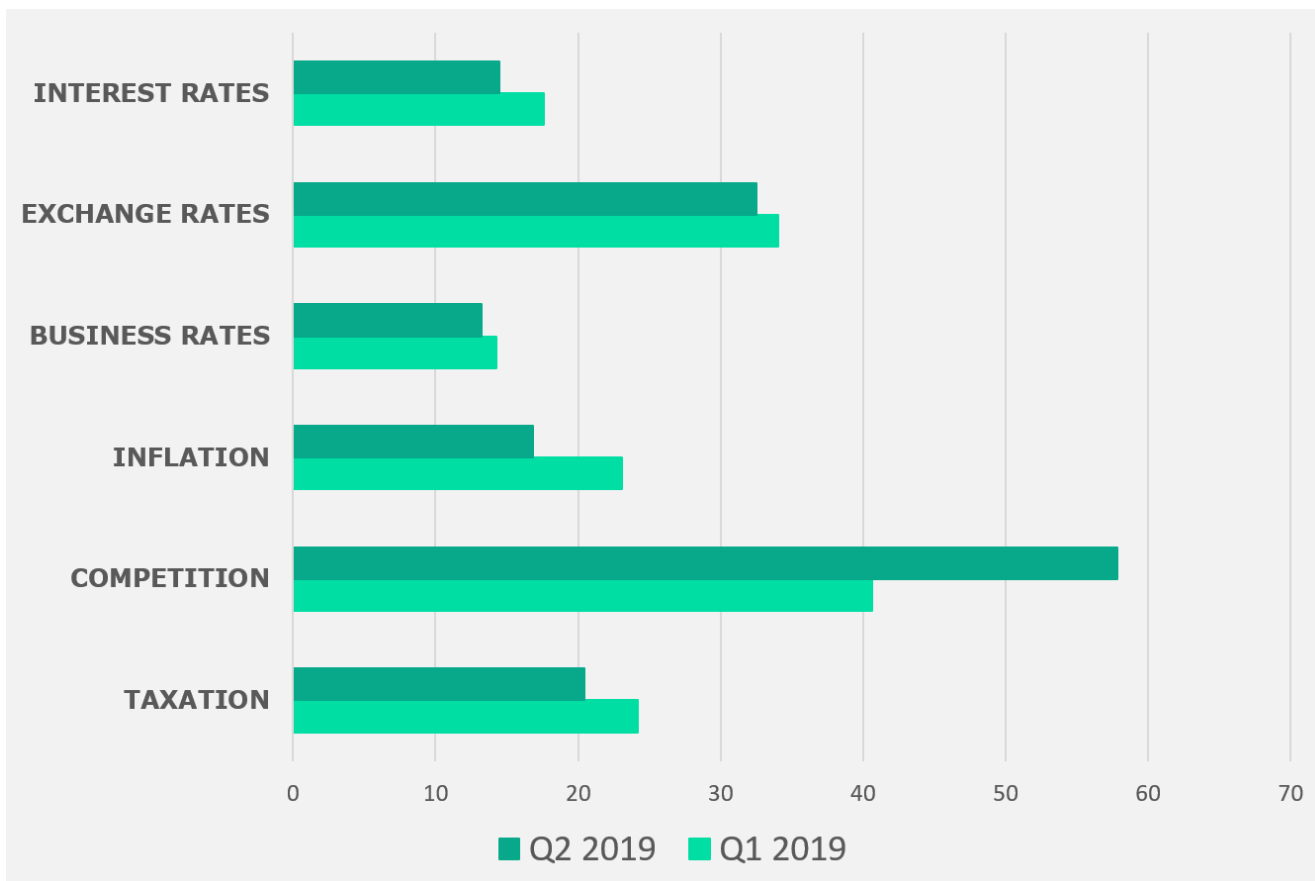
27% of businesses also continue to report that they expect the costs of doing business to rise in the next three months, therefore they anticipate increasing the price of their services and goods. The main price pressure was reported to be raw material prices, which has been the main concern to businesses in previous quarters. The volatility of cash flow leaves businesses more vulnerable to disruptions in their supply chain, the increase of raw material prices would have a pivotal role in this external shock.

Firms were also questioned on the factors which are more of a concern to their business compared to three months ago. Unsurprisingly, competition was the dominant answer as we have seen consistently. Exchange rates, inflation and taxation closely followed which is also expected considering the fluctuating strength of the sterling and the recent enforcement of Making Tax Digital.

% OF BUSINESSES OPERATING AT FULL/BELOW CAPACITY



■ Full Capacity ■ Below Capacity



Business confidence has remained pretty steady over the past 6 months with a similar number of businesses having a positive outlook over the next 12 months. 48% of businesses stated they believe turnover will improve over the next year (up 3% from Q1) and 38% believe in turn profitability will improve (up 5% from Q1.)

However, this is very much subject to change given how the next few months play out with Brexit and future trading deals. If this period of prolonged uncertainty continues then it is increasingly likely that the stockpiling, we saw in Q1 will intensify and confidence and investment will become stagnant. The slowing overall economic growth will have a detrimental effect on business confidence and a weak trajectory of local economic growth would be likely.

Businesses need an optimistic view of the future, based on future sales, interest rates and inflation, to become more likely to invest, causing cash flow and economic growth to subsequently improve.



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