



Q1

Milton Keynes Quarterly Economic Report

Q1 2019

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A message from the Chief Executive

Welcome to the first Quarterly Economic Survey (QES) of 2019 and thank you to all businesses that participated. The QES is a widely recognised key economic indicator used by the Government, The Bank of England and economists alike. It provides both local and central policy makers with an important source of data and feedback of the performance, concerns and views of businesses across the city.

The latest data from the influential Milton Keynes Chamber of Commerce QES shows a weaker trading position in the first quarter of 2019 with a slowdown in the pace of activity. Milton Keynes' results chime with the wider general UK economy which is still operating under a cloud of Brexit uncertainty.

Domestic sales and orders: This quarter saw a drop-in demand for both sales and advanced orders, however the local economy is in a stronger position compared to this time last year (Q1 2018.)

Export sales and orders: Export sales followed the trend and saw a slight drop, with the overseas market remaining turbulent.

Employment: Businesses recorded that they saw further workforce growth of 27%. However recruitment difficulties intensified with professional/managerial roles proving the hardest challenge.

Investment: This doesn't make for good reading, investment saw a steep decline, reaching negative territory.

Business confidence: Very much in line with the national trend, prospects over the near future have been dampened given the current climate.

Prices and costs: 1/4 of businesses expect to increase the prices of their goods/services over the next three months in order to survive, with competition being the main factor for this cost increase.

These figures should act as a wake-up call for the government, who need to recognise that all businesses, but particularly small and medium sized firms, need support and encouragement in these exceedingly turbulent times.

Given the national context, these results don't cause too much alarm. Milton Keynes' business community will remain resilient during the course of 2019. Milton Keynes Chamber will continue to feed these results into the development of local, regional and national economic strategies to ensure that our business community's views and priorities have an influence.



Paul Griffiths
Chief Executive



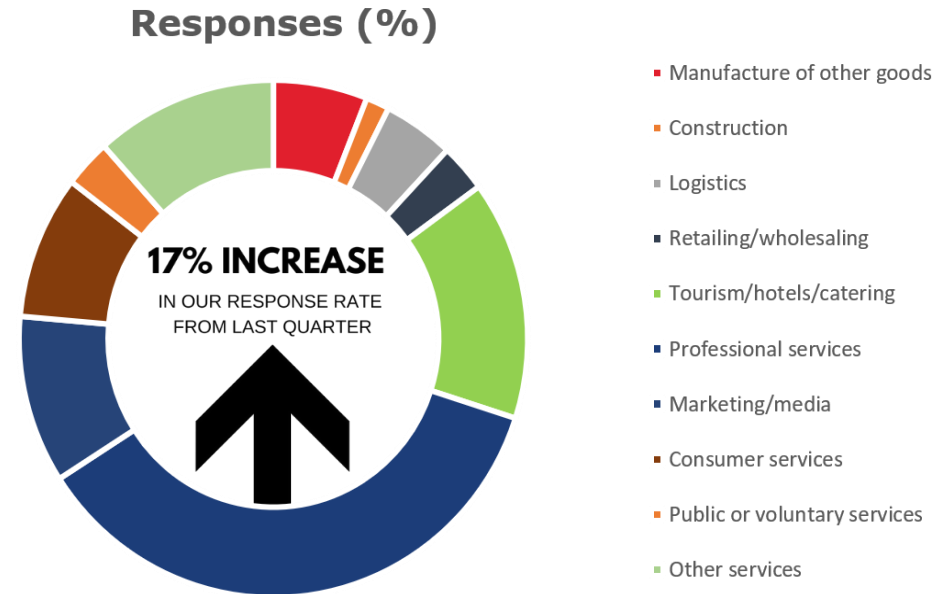
RESPONSES

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 local, regional and national development of economic strategies and policies. The Chamber represents a significant amount of the City's workforce and through the QES and regular business engagement we represent 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 Q1 of 2019 saw a further increase of **17%**. The businesses that responded employ over **65,000 people**.

The QES covers 8 key sections:

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

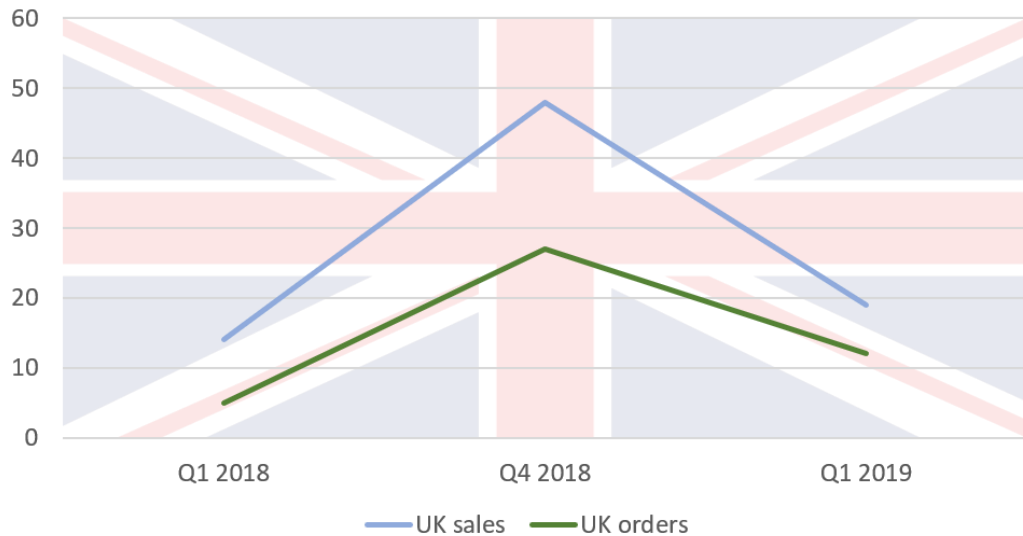
Sector split of respondents is shown below:



UK SALES AND ORDERS

Q1 2019 recorded downturns in both domestic demand figures for Milton Keynes businesses.

DOMESTIC SALES AND ORDERS (% net balance)



The increase in domestic sales and orders that was experienced in Q4 of 2018 was not carried through to this quarter.

Overall, businesses recorded that UK demand had experienced a declining quarter. Growth in the value of sales and orders weakened, as uncertainty about Brexit and the wider economy weighed on spending. Data reveals that that demand for UK sales/customs dropped by 29 points and similarly UK orders/advance bookings fell by 12 points. That said, Milton Keynes businesses are in a stronger position than this time last year where demand fell to it's lowest in 2 years.

The British Chambers of Commerce (BCC) has downgraded its growth expectations for the UK economy, forecasting growth of just 1.2% in 2019 (downgraded from 1.3%), which if realised would be the weakest growth in a decade. In terms of sectors, growth in services has been downgraded to 1.1% (from 1.2%.) Growth in manufacturing has also been reduced to 0.5% (from 1.1%) in 2019. The downgrades to our near-term growth outlook are a further indication that the UK economy is set to remain on a historically weak growth trajectory for some time to come, unless decisive action is taken.



EXPORT SALES AND ORDERS

Q1 2019 confirmed that the export market remains volatile with overseas sales and orders reaching a negative contribution.

EXPORT SALES AND ORDERS (% net balance)



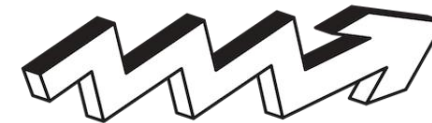
Export sales and orders remain an unpredictable market for Milton Keynes businesses, with figures fluctuating throughout the year.

Overseas sales/custom/bookings experienced a decline of a significant 45 points, and overseas orders/advance bookings by 25 points reaching a negative contribution of -20%.

The weakening sterling we have seen throughout 2018 and the first quarter of 2019 has not been helpful for the export market. While exporters see a short-term opportunity to either lower their prices and gain a competitive advantage against other countries or increase margins, this is quickly eroded by higher inflation from the imported stocking cycle. The UK is an import-export economy with a net trade deficit; all things being equal, weak sterling is likely to hurt more through imported inflation than it benefits in competitive pricing abroad.

BCC forecasts a negative contribution from net trade throughout 2019. With predicted export growth of 1.8% compared to import growth of 2.0%. This reflects the lack of clarity on the UK's future trade arrangements, weaker global growth and continued trade tensions. A messy and disorderly exit from the EU would materially increase the probability of the UK slipping into recession, particularly if global economic conditions continue to soften.

Export market remains
extremely volatile



EMPLOYMENT

Respondents recorded that they experienced further workforce growth of 27% in Q1 2019.

30% of respondents in Q4 of 2018 indicated that they anticipated to expand their workforce over the next quarter, and they stayed true to that statement. In Q1 of 2019, Milton Keynes' workforce has increased by 27%, 20 points up from last quarter.

25% of firms also recorded that they anticipate increasing their workforce further over the next three months. This said, stability in employment growth is supported by 53% of businesses.

Attempted recruitment over the past three months?	%
YES	72
NO	28
Did you experience any recruitment difficulties?	%
YES	47
NO	53
If Yes, what positions were they for?	%
Skilled Manual/Technical	41
Professional/Managerial	59
Semi/Unskilled	44
Clerical	32

Recruitment difficulties intensified in Q1 with 47% of businesses experiencing recruitment difficulties, up by 12 points from the last quarter.

Filling professional/managerial roles continues to be the hardest recruitment challenge for Milton Keynes businesses, supported by 59% of respondents. This is closely followed by 44% of firms who cite finding appropriate semi/unskilled staff as an obstacle.

Employment intentions also slowed down with 25% of businesses anticipating expanding their workforce over the next quarter, a slight drop of 4% from Q4 2018. Perhaps a reaction from employers to job losses in industries such as the automotive sector, uncertainty over the future hiring of EU migrant workers and the annual increase of the National Living Wage.



The unemployment rate in Milton Keynes remains at 4.2%. This is above the national rate of 2.8% and the SEMLEP rate of 3.7%. Milton Keynes' 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 for 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

Q1 2019 saw cash flow and business investment plummet.

Businesses in Milton Keynes recorded that cash flow, investment in machinery and investment in training plans all experienced a decline of an average of 20% during the previous quarter.

Limited investment was seen nationally with businesses adopting an apprehensive view of the future. Businesses need an optimistic view, based on expectations of future sales, interest rates and inflation to have the confidence to invest. Hopefully, over the next three months businesses will have the clarity and confidence needed to invest.

CASH FLOW AND INVESTMENT (% net balance)



Investment in the manufacturing sector fell sharply, with some companies instead choosing to build cash reserves or inventories, preparing for worst case scenarios.

In the services sector, more of a modest decline in investment intentions was seen. Companies, particular those with overseas owners, said that investment was being diverted outside the UK. But also cited that they believed there could be a rebound-on investment if a Brexit deal was agreed.

Business investment is forecast to decline by 1.0% in 2019, which if realised would be the weakest outturn since the financial crisis in 2009. Ongoing uncertainty over the UK's future relationship with the EU is expected to continue to weigh on investment intentions. The diversion of resources to prepare for no deal and the high upfront cost of doing business in the UK is also projected to limit the extent to which investment activity will bounce back over the near term.

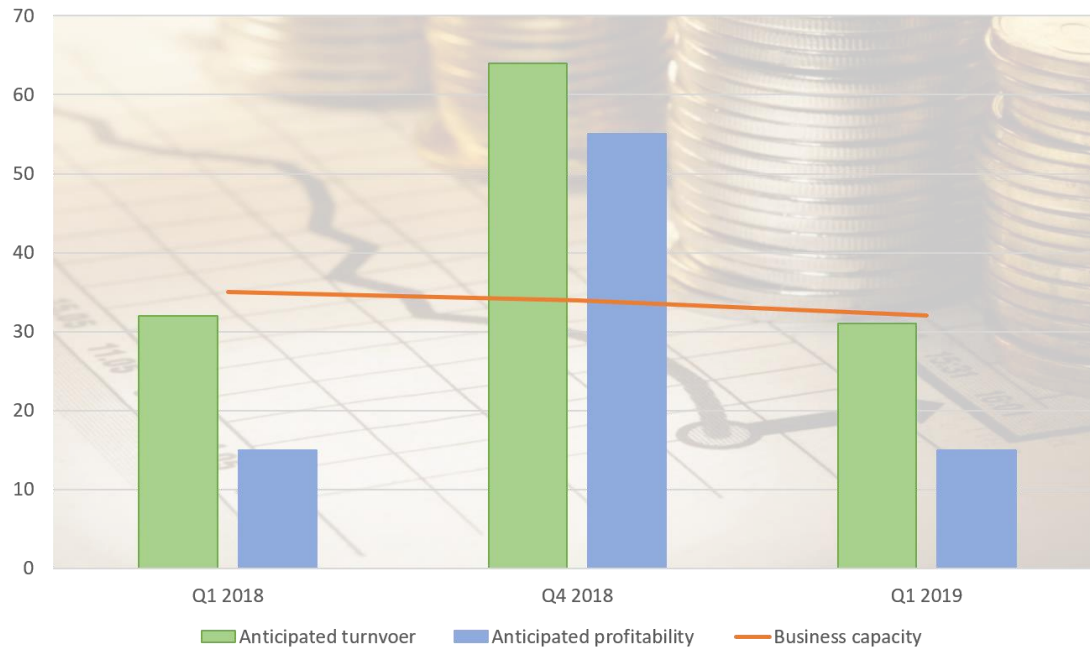


BUSINESS CONFIDENCE

Q1 2019 saw business confidence decline with businesses taking a cautious outlook over the next 12 months.

Uncertainty has been prevalent during Q1 of 2019, businesses are still not much more educated on how Brexit will affect their operations, and many are continuing to take a cautious view of the future, even preparing for the worst. Respondents data reveals that a net balance of 40% of respondents expect a direct decrease in profitability over the next year.

ANTICIPATED TURNOVER & PROFITABILITY OVER THE NEXT 12 MONTHS (% NET BALANCE)



The graph illustrates the anticipated turnover and profitability of Milton Keynes businesses over the next 12 months, comparing data from Q4 of 2018 and Q1 of 2019 (this time last year).

It clearly demonstrates a steep decline in expectations in profitability and turnover, compared to Q4 2018 where businesses were positive about 2019.

BCC forecast predicts business confidence stuck on a low-growth trajectory. The degree of Brexit uncertainty at this last stage in the process has already damaged investment and confidence across UK business communities. To boost growth prospects and confidence, the government must urgently provide firms with clarity on future conditions and bolster business investment incentives.

As well as the declining business confidence, the graph also illustrates the percentage of businesses in Milton Keynes operating at full capacity. As you can see business capacity has remained steady over the previous quarters. Only 32% of businesses recorded they are working at full capacity – not good for the local economy.



PRICES AND COSTS

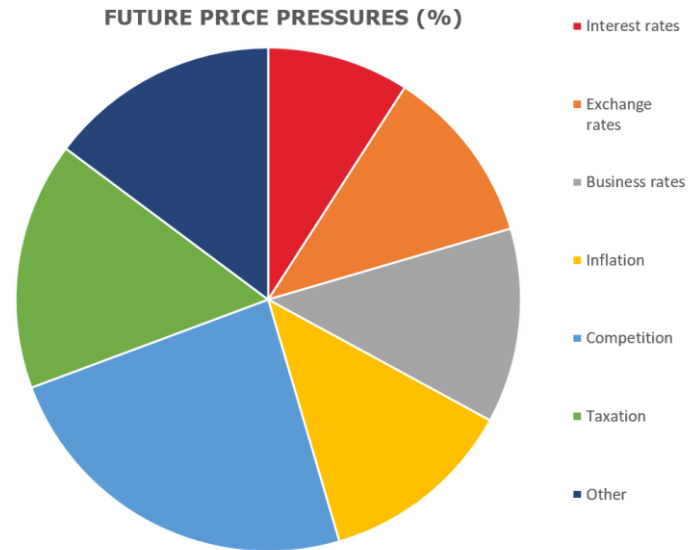
25% of respondents recorded that they expect the prices of their goods and services to rise over the next three months. This is down by 13% compared to Q4 of 2018, mainly driven by the decline in demand in the manufacturing sector where businesses need to remain competitive. The service sector cited that pay settlements was a major influence when it came to raise the prices of their services.

With interest rates rising to 0.75% in August 2018 and the anticipated increase by the end of the fiscal year, businesses are being forced to evaluate whether to put their prices up in order 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 volatile exchange rate market, prices of imported goods accelerating – this is already starting to make an impact on companies in both manufacturing and service sectors. We should see the knee jerk reactions to these factors and Brexit over the next quarters in 2019.

When it came to look at future factors that are of concern to businesses in Milton Keynes, competition remains at the top of the leader board with 46% recording that as their main concern. With Milton Keynes being the most successful new city, it's expected to see competition remain dominant.

The manufacturing sector stated that exchange rates is the main concern to their businesses, with the volatility of the overseas market and exchange rates due to the current climate, we would hope to see this smoothen as the clout of uncertainty is eradicated.

The service sector cited that taxation is the more of a concern than it was last three months. With the Making Tax Digital roll out deadline creeping closer, more and more businesses are starting to make the preparation to become compliant. This is no surprise, as illustrated in BCC's recent taxation survey which discovered that 19% of firms affected by MTD have never heard of it or know it by name only.



OTHER CONCERNS

Below are other comments made by businesses across Milton Keynes.

Brexit

Brexit – the issue dominating the agenda. 58% of businesses that participated in the QES stated that Brexit was a huge concern for them. With current political games and point scoring, businesses are getting fed up with the lack of progress, they want to see decisive decisions being made in the interest of the business community. They need bitesize concise information with how all eventualities will affect their business; on an operational and board level. Milton Keynes Chamber has been working with local MPs and authorities to express the business communities' views and lobby for more clarity. Visit <https://chambermk.co.uk/representation/what-is-representation/brexit-updates> for up to date material which helps businesses no matter what size prepare for the implications of Brexit.

Making Tax Digital

With the introduction of Making Tax Digital (MTD) from the 1st April 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.

High wage demands and the lack of skilled workers

Businesses also recorded that the demand for high wages and the lack of appropriately skilled workers causes concern to their business. With the annual increase of the National Living Wage on top of firms facing mounting pressures from existing employment policies, many are struggling to absorb the rising costs (pension auto-enrolment and the Apprenticeship levy.) This is worsened by the recruitment struggles which currently face businesses, with an ageing workforce and a lack of appropriate high skilled workforce.

