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CHAMBER
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Q1

Northamptonshire's Quarterly Economic Report

Q1 2019



A message from the Chief Executive

Welcome to the first Quarterly Economic Survey (QES) of 2019 and thank you to all the 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 county.

The latest data from the influential Northamptonshire Chamber of Commerce QES shows a weaker trading position in the first quarter of 2019 with a slowdown in the pace of activity. Northamptonshire's 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, the manufacturing sector felt it the worst with a 18 point decrease in demand for UK sales.

Export sales and orders: Export sales followed the trend and saw a slight drop, however there was positive news with export orders seeing a slight increase in demand, pushed by the service sector.

Employment: Businesses recorded that they saw further workforce growth of 20% and saw recruitment difficulties soften. Recruiting skilled manual/technical staff remains the hardest challenge.

Investment: This doesn't make for good reading, investment saw a steep decline in Q1 with firms remaining hesitant.

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: 1/3 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 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. Northamptonshire's business community will remain resilient during the course of 2019. Northamptonshire 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

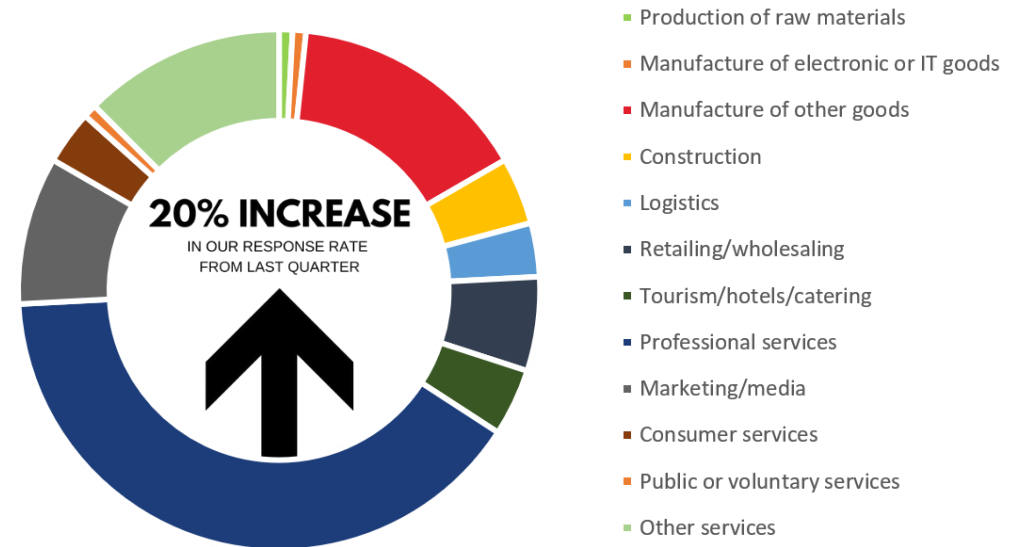
Northamptonshire Chamber of Commerce's QES is a regular independent business survey and forms part of the **largest and most representative** survey of its kind in the UK, feeding into local, regional and national development of economic strategies and policies. The Chamber represents over a 1/3 of the county'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 **20%**. The businesses that responded employ over **101,000 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 |

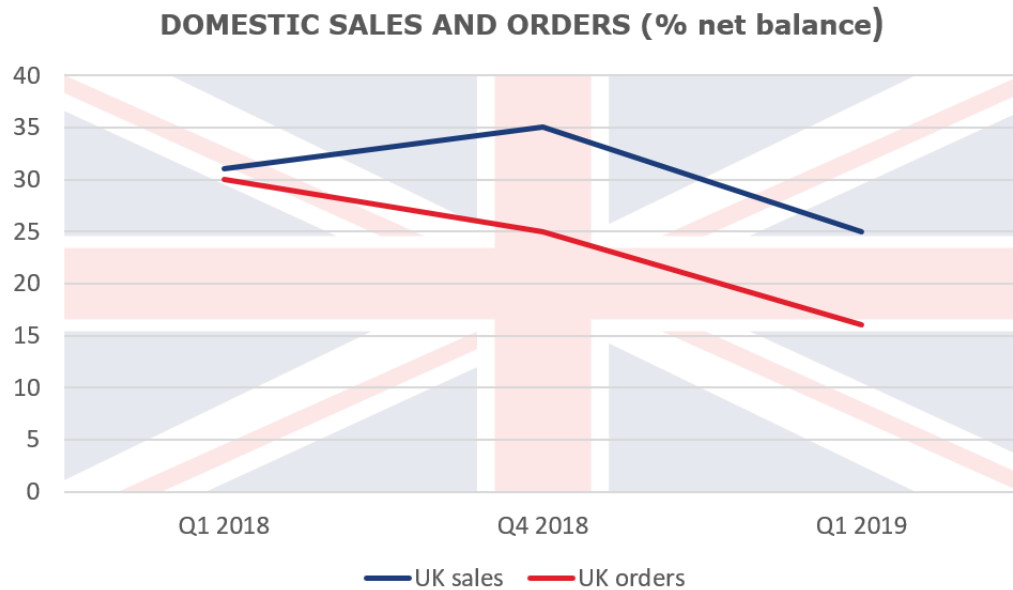
Sector split of respondents is shown below:

Responses (%)



UK SALES AND ORDERS

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



Manufacturing Sector

- Manufacturing firms reported an increase in UK sales dropped significantly by 18 points and demand for UK orders similarly dropped by 21 points.

Service Sector

- The service sector also felt a decline in domestic demand with sales dropping by 10 points and orders taking a slight hit falling by 4 points.

Growth in the dominant services sector is expected to weaken to 1.1% in 2019, which would be the slowest growth since 2009. The manufacturing sector is also expected to grow by less than expected in previous forecasts.

Overall, businesses recorded that domestic 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 demand for UK sales/customs dropped by 10 points and similarly UK orders/advance bookings dipped by 9 points. The above graph illustrates the net balance of businesses experiencing an increase in the last quarter of 2018 and Q1 of 2018 (this time last year.)

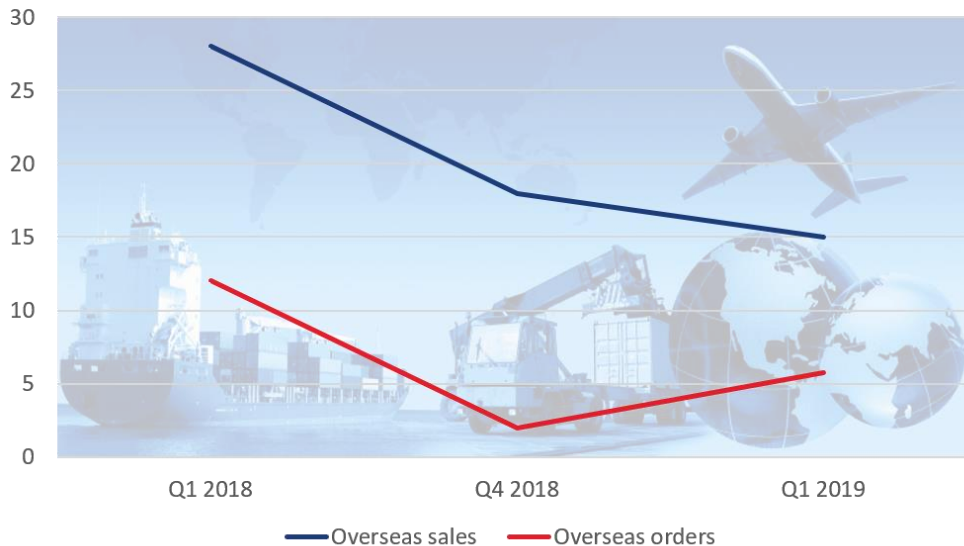
The British Chambers of Commerce (BCC) has downgraded its growth expectations for the UK economy, forecasting growth of just 1.2% in 2019 (downgraded from 1.3%), which if realised would be the weakest growth in a decade. In terms of sectors, growth in services has been downgraded to 1.1% (from 1.2%.) 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 downturns in overseas sales and a slight uptick in overseas orders compared to Q4 2018.

EXPORT SALES AND ORDERS (% net balance)



Q1 2019 saw a slight fall in overseas sales, with the net balance of businesses recording an increase dipping by 3 points.

On the other hand, overseas orders/advance custom and bookings experienced an increase, making a positive contribution of 4%.

The manufacturing sector felt the biggest effect over the last quarter with the net balance of overseas orders falling dramatically from 23% to -4%. This was balanced out by the service sector recording an increase in the net balance of overseas orders rising from 6% in Q4 of 2018 to 12% in Q1 of 2019.

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. However inbound tourism continues to grow, helped by the weakness of the sterling which could end up leading to an improvement in the growth of export activities, as we have seen in the last few years.



**EXPORT ORDERS
INCREASE 4%**



EMPLOYMENT

Respondents reported they saw further workforce growth of 20% compared to Q4 2018.

In the last quarter, businesses recorded that their workforce had increased by a net balance of 20%, compared to the last quarter. The majority of the jobs were permanent full-time vacancies.

28% of firms also recorded that they anticipate increasing their workforce further over the next 3 months. This said, stability in workforce growth is supported by 67% who report no plans to expand, perhaps waiting for more clarity over Brexit and a stable political economic climate.



**Workforce
growth of
20%.**

Attempted recruitment over the past three months?	%
YES	53
NO	47
Did you experience any recruitment difficulties?	%
YES	42
NO	58
If Yes, what positions were they for?	%
Skilled Manual/Technical	43
Professional/Managerial	39
Semi/Unskilled	35
Clerical	22

Recruitment difficulties continued during Q1.

Out of the 53% of businesses that attempted recruitment over the past quarter, 42% of them encountered difficulties getting the right people in. This epitomises the recruitment challenges faced in the county, however the figure has continuously been on the decline over the previous 4 quarters.

43% of businesses continue to struggle with skilled manual or technical vacancies – closely followed with 39% of businesses citing professional/managerial roles as tricky to fill - a pattern we've seen over the past few years.

Employment intentions in the manufacturing sector fell to its lowest level in more than two years. Possibly due to job losses in industries such as the automotive sector but also the uncertainty over the future hiring of EU migrant workers.

In the service sector, employment intentions also fell but more modestly, as businesses responded to weaker trading conditions and reacted to the annual increase of the National Living Wage.

The unemployment rate in Northamptonshire is 4.3% (down from 4.4% in previous quarter), however this remains above the national rate of 3.8% and the SEMLEP rate of 3.7%.



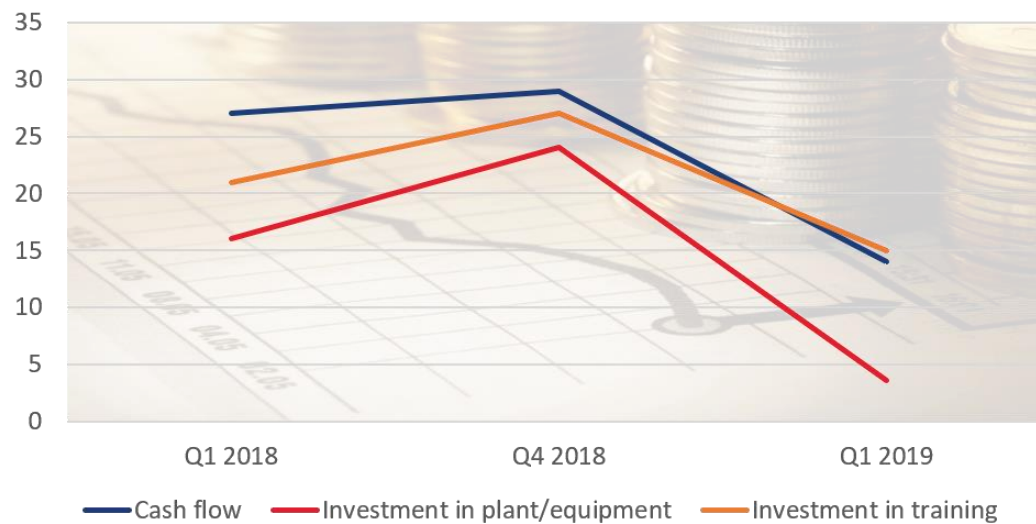
INVESTMENT

Q1 2019 saw cash flow and business investment plummet.

Businesses in Northamptonshire recorded that cash flow, investment in machinery and investment in training plans all experienced a decline of an average of 16% during the last quarter.

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.

CASH FLOW AND INVESTMENT (% NET BALANCE)



Investment intentions fell sharply in manufacturing, mostly due to Brexit uncertainty. There was a modest decline in investment intentions in the services sector.

In the manufacturing sector, investment in plant/machinery reached negative territory with a net balance of -8.70% decreasing their investment over the past quarter. As previously mentioned, Brexit uncertainty is the main reason for holding back investment, with some companies instead choosing to build cash reserves or inventories.

Investment intentions edged down in the services sector but remained positive. Investment in IT and digital capabilities continued to grow. Companies, particularly those with overseas owners, said that investment was being diverted outside the UK. But also cited that they believed there could be a rebound investment if a Brexit deal was agreed.

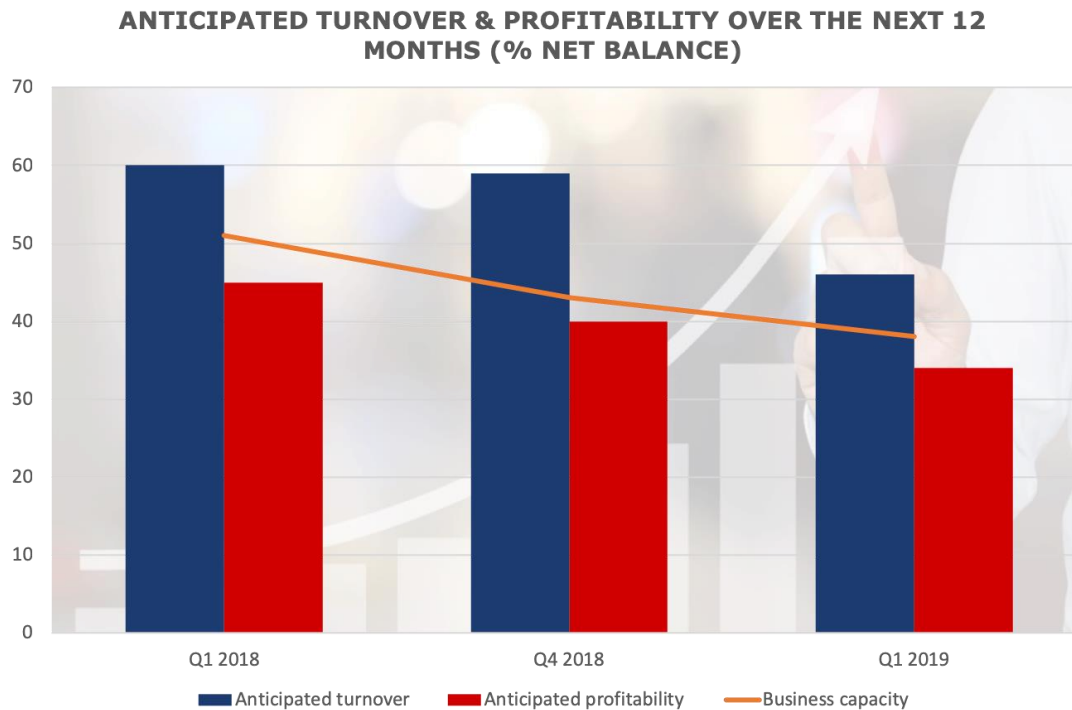
Businesses need an optimistic view of the future, based on expectations of future sales, interest rates and inflation then they are likely to invest, causing cash flow to subsequently increase.



BUSINESS CONFIDENCE

Q1 2019 saw business confidence slightly decline with businesses taking an apprehensive 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. Respondent's data reveals that a net balance of 6% expect a direct decrease in their profitability over the next year.



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

It clearly demonstrates a slow decline in expectations over the year but doesn't cause much alarm as this is very much in line with the national picture.

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 Northamptonshire operating at full capacity. As you can see business capacity corresponds with the other values and has slowly decreased over the past year. Only 38% of businesses recorded they are working at full capacity – not good for the local economy.



PRICES AND COSTS

1/3 of all respondents recorded that they expect the prices of their goods and services to rise over the next three months. This is down by a net balance of 11% compared to Q4 of 2018, mainly driven by the fall in the manufacturing sector where 23% less businesses expected to raise their prices - mainly as a result of lower fuel prices and the new cap on some energy tariffs. The service sector cited that pay settlements was a major influence when it came to the cost increase.

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 pressures that are of concern to businesses in Northamptonshire, competition remains top of the leader board with 41% recording that as their main concern. With Northamptonshire being one of the best towns to start a business this is no surprise.

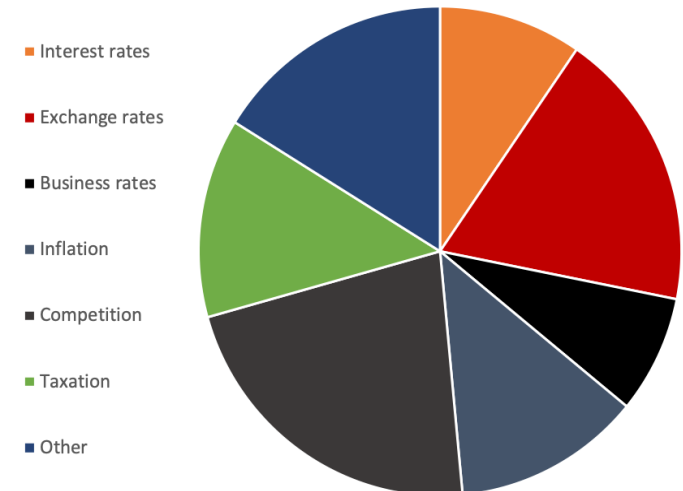
The manufacturing sector stated that exchange rates is the main concern to their businesses, with the volatility of the overseas market and exchange rates due to the current climate, we would hope to see this smoothen as the clout of uncertainty is eradicated.

The service sector cited that taxation is more of a concern than it was in the last three months. With the Making Tax Digital roll out deadline creeping closer, more and more businesses are starting to make the preparations to become compliant. This figure 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.



33% of businesses expect the price of their goods/services to rise over the next quarter

FUTURE PRICE PRESSURES (%)



OTHER CONCERNS

Below are other comments made by businesses across Northamptonshire.

Brexit

Brexit – the issue dominating the agenda. 86% 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. Northamptonshire Chamber has been working with local MPs and authorities to express the business communities' views and lobby for more clarity. Visit <https://www.northants-chamber.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 and express the poor timing of the programme.

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 (such as 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.

Business rates

The business rates system is an outdated system that must be radically reformed. It doesn't deliver a fair system and doesn't adapt to local economic conditions. For Northamptonshire to be a place which promotes business and economic growth, we need to remain incentivising. Northamptonshire Chamber will lobby for reform of the broken business rates system and represent our members views to the decision makers.

