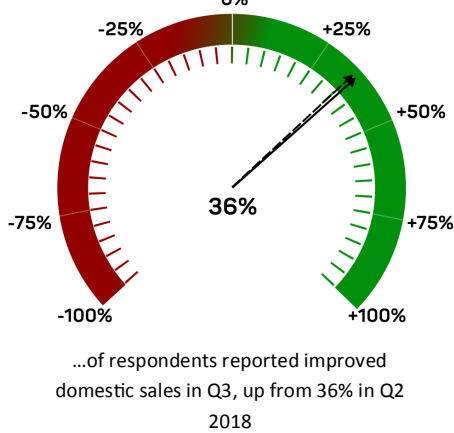


QUARTERLY ECONOMIC SURVEY Q3 2018

Milton Keynes Chamber of Commerce's Quarterly Economic Survey (QES) is a regular independent business survey and forms part of the biggest and most representative survey of its kind in the UK.

DOMESTIC SALES

Positive balance (+) = growth | Negative balance (-) = contraction



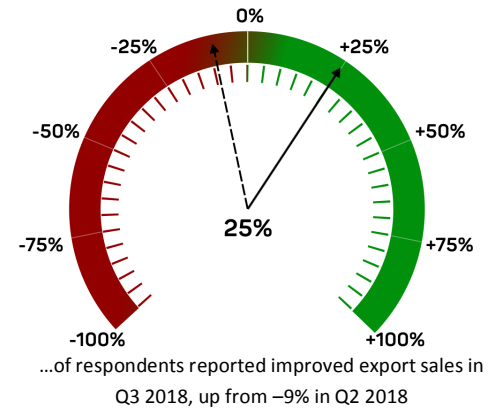
Domestic sales were up just one percentage point this quarter according to our respondents, with a net balance of 36% reporting an improvement over the last three months.

For the second quarter in a row the British Chambers of Commerce (BCC) downgraded its growth forecast for 2018 to 1.1% (from 1.3%) and for 2019 to 1.3% (from 1.4%). The BCC reports the downgrades as having been driven by a weaker outlook for trade and investment, exacerbated by weak consumer spending with workers unlikely to experience meaningful wage in the immediate future. Respondents in Milton Keynes tell us that competition, taxation, exchange rates and the local economy are a concern to their growth and prices this quarter.

EXPORT SALES

Export sales were up significantly this quarter according to our respondents, with a net balance of 25% reporting an improvement over the last three months. This is a leap of 34 percentage points from the second quarter's negative growth.

This is against the trend being seen nationally, which is of a downgraded forecast for export growth. This instability in growth seen in Milton Keynes does fit with the picture of volatility in export sales growth that we have gathered through the QES since the Brexit referendum result.



BCC Economic Forecast: Second weakest decade of GDP growth on record

The downgrading of growth expectations for the UK economy by the BCC for the second quarter in a row has been driven by a weaker outlook for trade and investment, with an absence of meaningful wage growth resulting in weakened consumer spending.

This latest forecast implies that by 2020 the UK economy will have experienced its second weakest decade of average annual GDP growth on record.

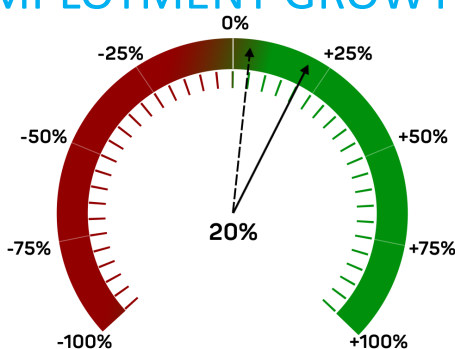
A messy Brexit could further limit the extent to which the UK economy is able to grow, while the prospect of a renewed decline in sterling could increase the squeeze on consumers and businesses. A material broadening of global trade disputes, could also weigh further on economic activity in the UK

| GDP growth (annual % change) | Q4 2017 | Q1 2018 | Q2 2018 | Q3 2018 |
|------------------------------|---------|---------|---------|---------|
| 2018 | 1.1 | 1.4 | 1.3 | 1.1 |
| 2019 | 1.3 | 1.5 | 1.4 | 1.3 |
| 2020 | - | 1.6 | 1.6 | 1.6 |

EMPLOYMENT GROWTH

Employment growth was reported by 20% of respondents in Q3, up from 5% in Q2 of this year. However, stability in workforce growth is supported by the 67% of firms who reported no change in this quarter.

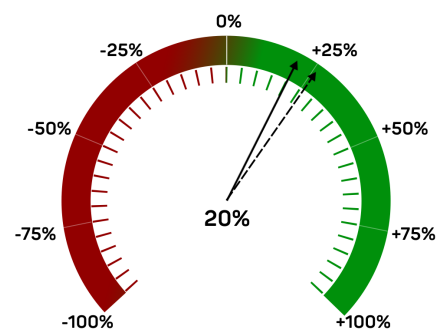
Nationally the unemployment rate is forecasted to remain at the historic low until 2020. In such a tight labour market, businesses will continue to face significant skills gaps, undermining their potential to grow. At the same time, workers are unlikely to experience meaningful real wage growth as the gap between pay and price growth is forecast to remain negligible.



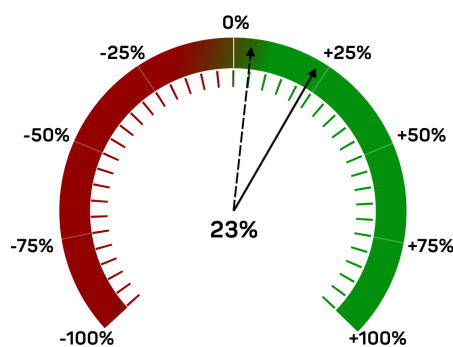
...of respondents reported an increase in their workforce in Q3, up from 5% in Q2 2018

LOOKING AHEAD

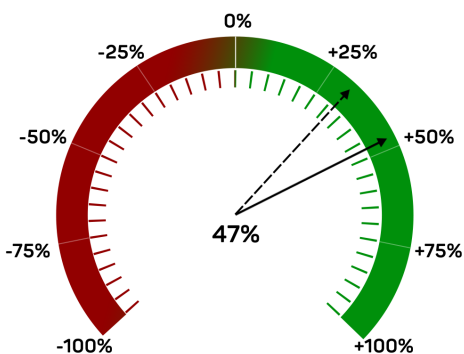
The Quarterly Economic Survey (QES) examines business sentiment on a range of forward looking indicators including investment intentions, turnover confidence, and prices.



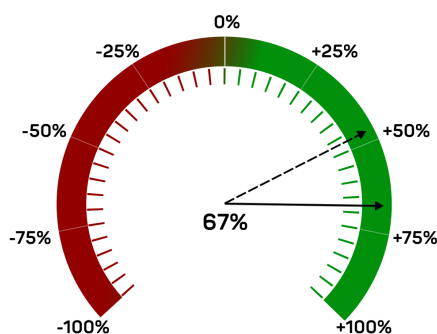
...of Milton Keynes firms expect their prices to increase over the next quarter, down from 26% in Q2 2018



...of respondents increased investment in training, down from 5% in Q2 2018



...of respondents expect to grow their workforce in Q4 2018



...of respondents are confident turnover will increase in the next 12 months, up from 47% in Q2 2018

RESPONDENTS

Milton Keynes Chamber of Commerce's Q3 2018 QES is made up of responses from businesses across the county. Firms were questioned between 27 August and 17 September 2018. Of the respondents 13% were from the manufacturing sector. 87% of respondents identified themselves as being in the services sector.

PRICE PRESSURE

A net balance 20% of businesses responding to the QES in Q3 identified a need to increase prices over the next three months. For the last three quarters the pressure to increase prices has been reported by 20-25% of respondents.

A number of factors were reported as the underlying cause for this anticipated price rise, with respondents identifying raw materials, pay settlements and finance costs. Evidence obtained through the QES highlights the pressure being applied to respondent's activities by clients attempting to secure their supply chain by demanding mitigating measures that guarantee their own uninterrupted operations. This is another example of how the cost of Brexit is increasing price pressure for businesses in Milton Keynes.

INVESTMENT IN TRAINING

The net number of respondents indicating their intention to increase their investment in training over Q3 was 23%.

This limited investment in training, also being observed nationally, is not compatible with attitude of the labour market, which continues to favour the employee. Firms need to consider raising their investment in their staff for retention and recruitment, or potentially risk losing out as vacancies open up in the post-Brexit workplace.

EMPLOYMENT EXPECTATIONS

A net 47% of respondents expect to grow their workforce over the next three months.

The hiring intentions for the next three months of 2018 have increased slightly from projections made in Q2, following a trend of creeping increments that can be observed for the last year. This is not a pattern that translates to the workforce growth benchmark also captured by the QES, indicating that despite its intentions, perhaps Milton Keynes is feeling the constraints of the tightening labour market.

CONFIDENCE

A net 67% of firms expect an improvement in turnover over the next twelve months, which is a improvement in business confidence as compared with the second quarter of 2018 and its 47% of respondents who foresaw an improvement in revenue over the next year.

Across the UK business confidence has fallen back, even into negative territory, highlighting the fragility and lack of certainty for businesses in many sectors and regions across the UK. Factors such as slower domestic growth and Government Brexit divisions and the US-China trade war are likely reasons. Against this backdrop investment continues to slow, probably reflecting weak confidence nationally. Despite this the Milton Keynes economy remains largely optimistic and perhaps this is as a result of an insulating effect of its strong international operations.