

Q3

2019

QUARTERLY ECONOMIC SURVEY

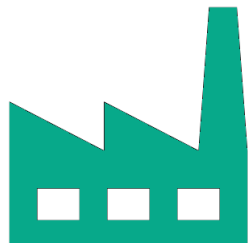
METHODOLOGY



QES Q3 fieldwork was carried out between the dates of 26th August 2019 to 16th September 2019. Data taken from Q2 2019 is also cited in the report and this was carried out between 10th May 2019 to 10th June 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.



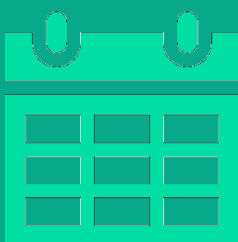
Manufacturing sector

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 4 2019:

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

QES Quarter 1 2020:

17 February – 9 March, report issued 2nd April 2020.

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

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

Domestic demand: This quarter saw an increase in UK sales demand and a marginal rise in UK orders. However, the large majority of firms report no change over the past three months.

Overseas sales and orders: Good news for overseas demand with both sales and orders moving further into a positive contribution. Results prove that overseas market remains volatile.

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

Business Confidence and Investment: Capital investment, cash flow, and training plans all saw an increase in investment.

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

These results should act as a wake-up call for Government, who need to recognise that all businesses, especially small and medium sized firms, 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. Milton Keynes 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 Milton Keynes Chamber of Commerce and to represent the fantastic collection of businesses we have in the city.

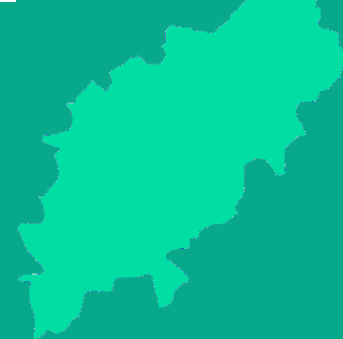
A message from the Chief Executive



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

Paul Griffiths
Chief Executive

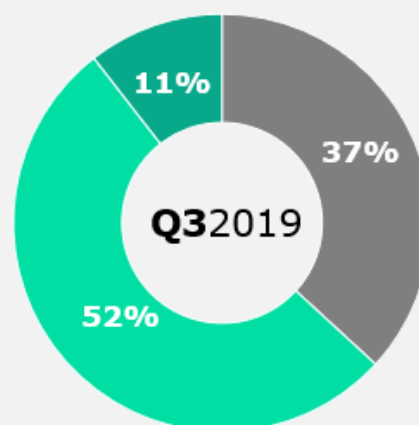
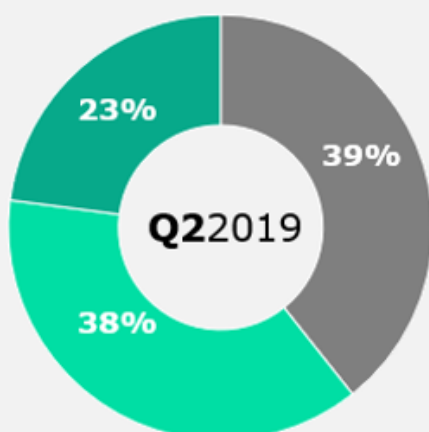
DOMESTIC SALES AND ORDERS



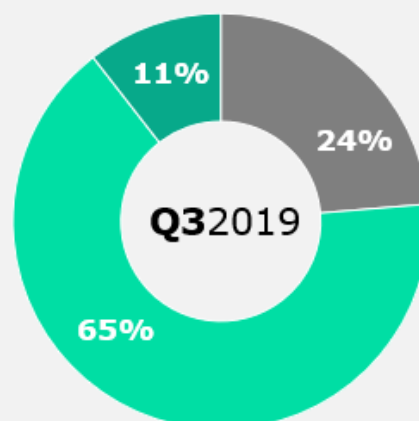
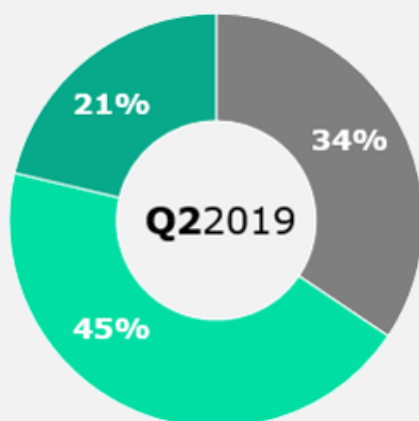
Overall, domestic demand of sales and orders is quite good news. The net balance (%) of businesses recording an increase in domestic sales improved slightly, increasing by 10% compared to Q2. Over the last three months, the net balance (%) of businesses reporting an increase in advance orders remained constant.

As per Q2 a large majority of firms in both quarters state that demand has remained constant over the past three months. The results in Q3 follow on from the trend we started to see in Q1, the underlying pace of UK activity has slowed.

DOMESTIC SALES



DOMESTIC ORDERS



■ Increased ■ Remained Constant ■ Decreased



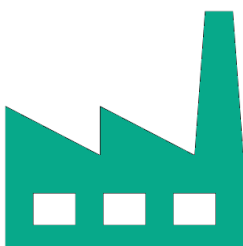
The British Chambers of Commerce (BCC) has upgraded its forecast for UK GDP growth, from 1.2% to 1.3% in 2019, and has been downgraded from 1.3% to 1.0% in 2020 and 1.4% to 1.2% in 2021.



SERVICE SECTOR

38% of service sector respondents reported an increase in UK sales, with only 11% reporting falling sales.

Similarly, 24% reported an increase in UK orders, with 11% reporting a fall in advance orders.



MANUFACTURING SECTOR

100% of manufacturing respondents reported a status-quo position on both domestic sales and domestic advance orders.

OVERSEAS SALES AND ORDERS

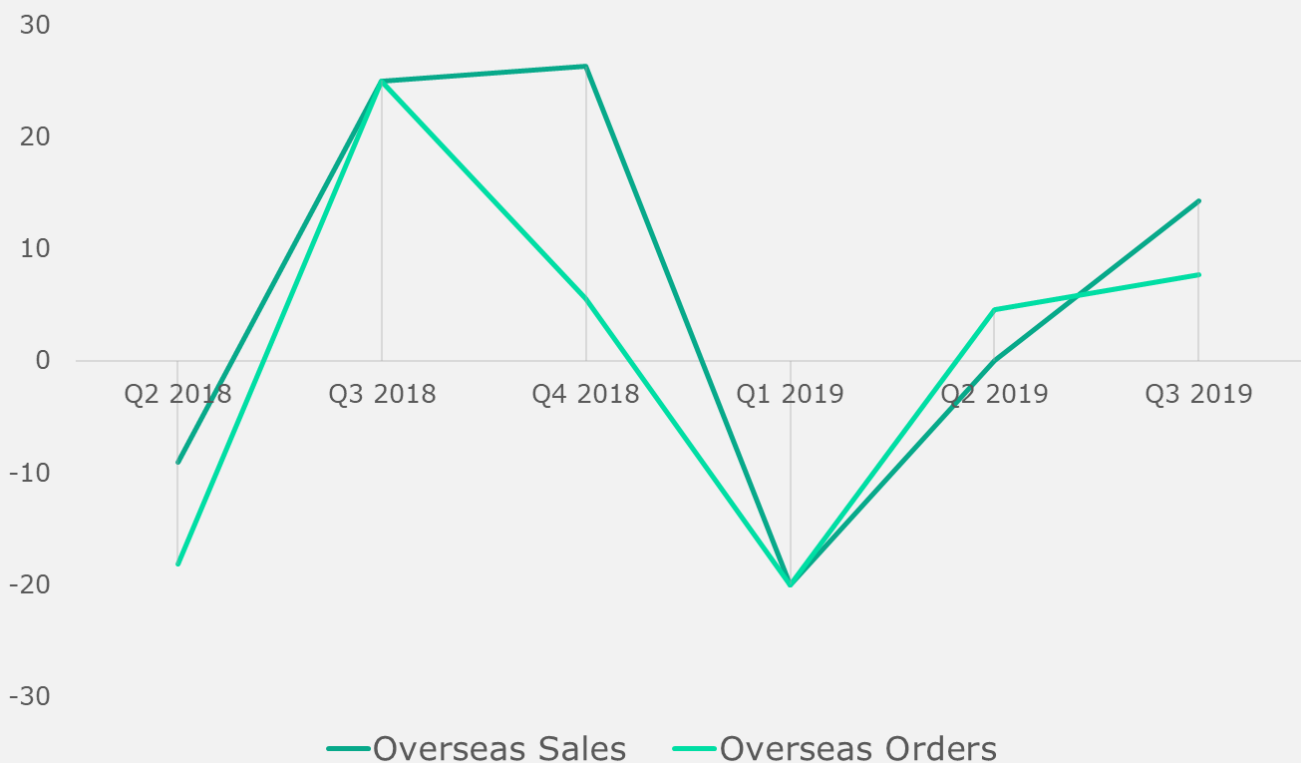


As with Q2 Milton Keynes based businesses saw an uptick in overseas activity this quarter with both demand in overseas sales and orders increasing.

The net balance of firms recording an increase in sales/customs/bookings was 14%, continuing the upward move out of negative territory into a positive contribution. As with Q2 an improvement was seen in overseas orders which rose from 4.55% to 7.69%.

As illustrated by the graph, the overseas market remains extremely volatile for businesses in Milton Keynes with fluctuating responses in the previous six quarters. The results reflecting on the last three months chime with what the British Chambers of Commerce anticipate. The BCC expects export growth of 1.6% in 2019, 1.6% in 2020 and 1.7% in 2021 – compared to import growth of 4.3%, 1.8% and 2.2%. The prospect of a messy and disorderly exit from the EU remain 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 the volatility to continue and a weak trajectory of growth to continue for the next few quarters.

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



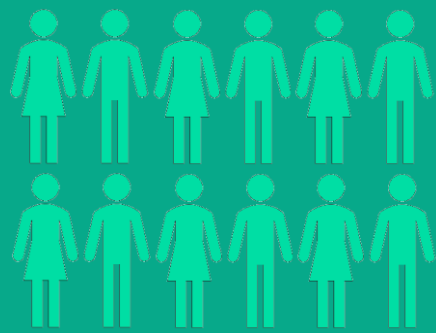


Other concerns

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.

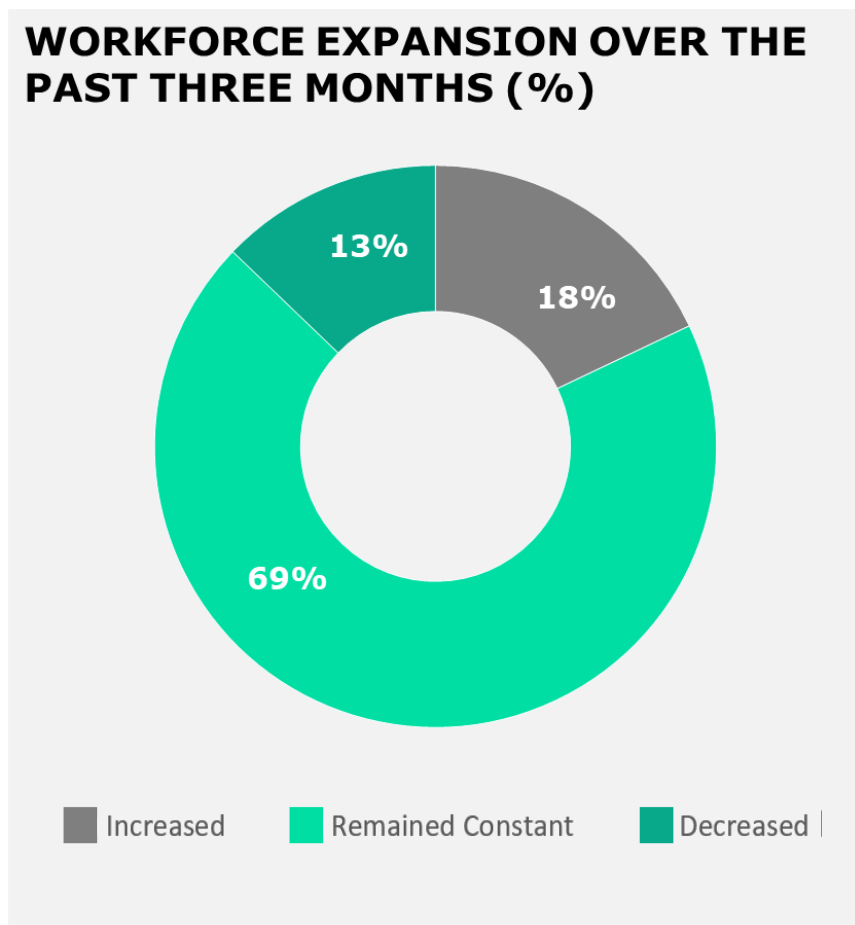
Milton Keynes Chamber of Commerce will continue to lobby central government on behalf of the local business community and will strive to provide the most up to date, concise and clear information on our website in order to support businesses for all eventualities.

EMPLOYMENT



Overall during the last quarter, respondents recorded that they saw workforce growth of 18%, and a net balance of 5%. In April 2019, the unemployment rate in Milton Keynes was 1.9%. This is lower than the national rate of 2.7% and equal to the South East Midlands rate of 1.9%.

WORKFORCE EXPANSION OVER THE PAST THREE MONTHS (%)



28% of businesses also anticipate increasing their workforce further over the next three months.

53% of businesses who had attempted recruitment over the past quarter, stated that they had experienced recruitment difficulties in finding suitable staff. This figure has remained roughly constant over the past few quarters.



64%

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



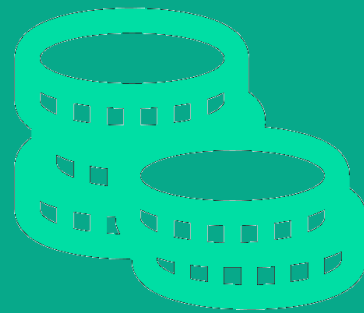
Job type	% of businesses
Full time	70%
Part time	50%
Temporary	10%
Permanent	25%

Role type	% of businesses
Skilled manual/Technical	28%
Professional/Managerial	56%
Clerical	22%
Semi/Unskilled	11%

The main struggle being recruiting Professional / Managerial staff with 56% of firms stating that as their biggest difficulty, followed by Skilled Manual / Technical staff recorded by 28% of respondents.

Recruitment intentions also fell slightly, businesses perhaps responding and getting use to the uncertainty over the future.

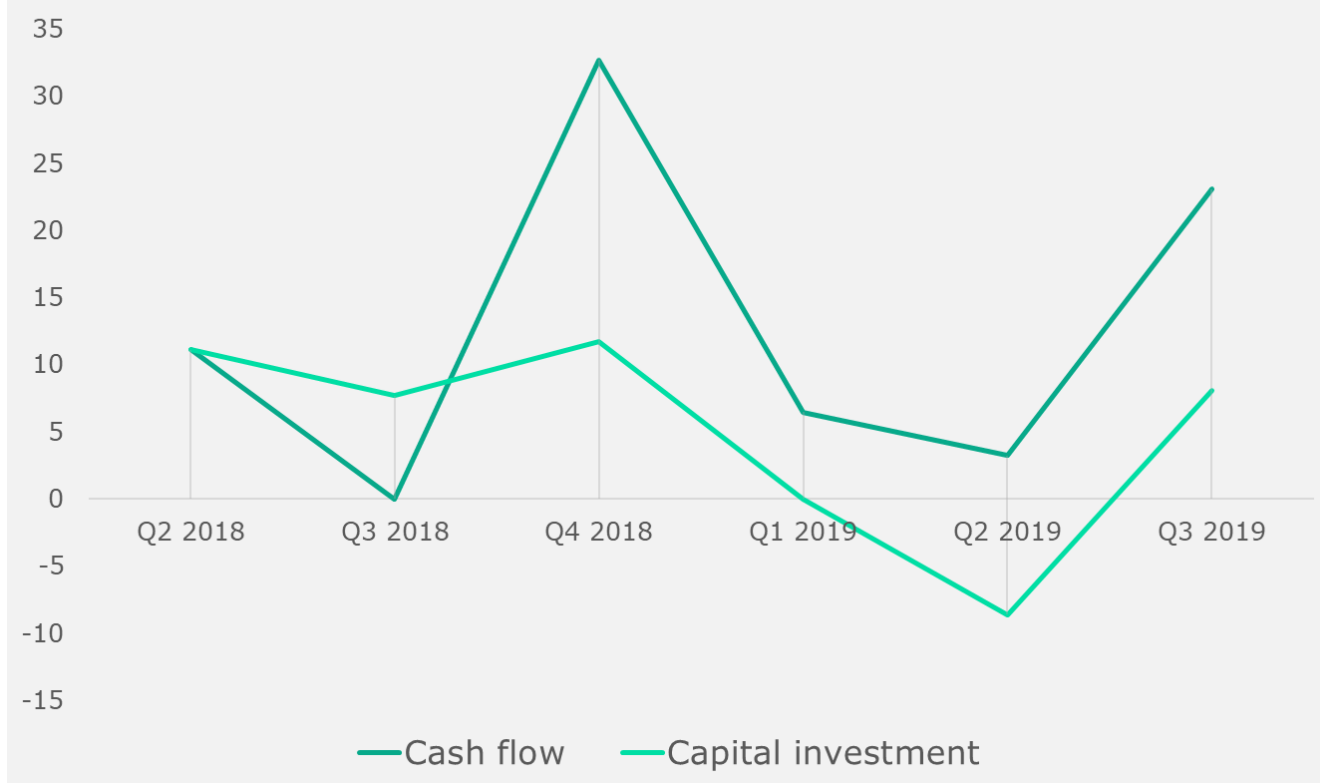
INVESTMENT



This quarter saw better news for cash flow and capital investment. The net balance of businesses recording an increase in cash flow over the past three months, increased by 20%, up from 3% in Q2.

Capital investment also saw a healthy increase, moving from negative territory with the net balance of firms recording an increase in Q3 being 17 percentage points up from (9)% in Q2.

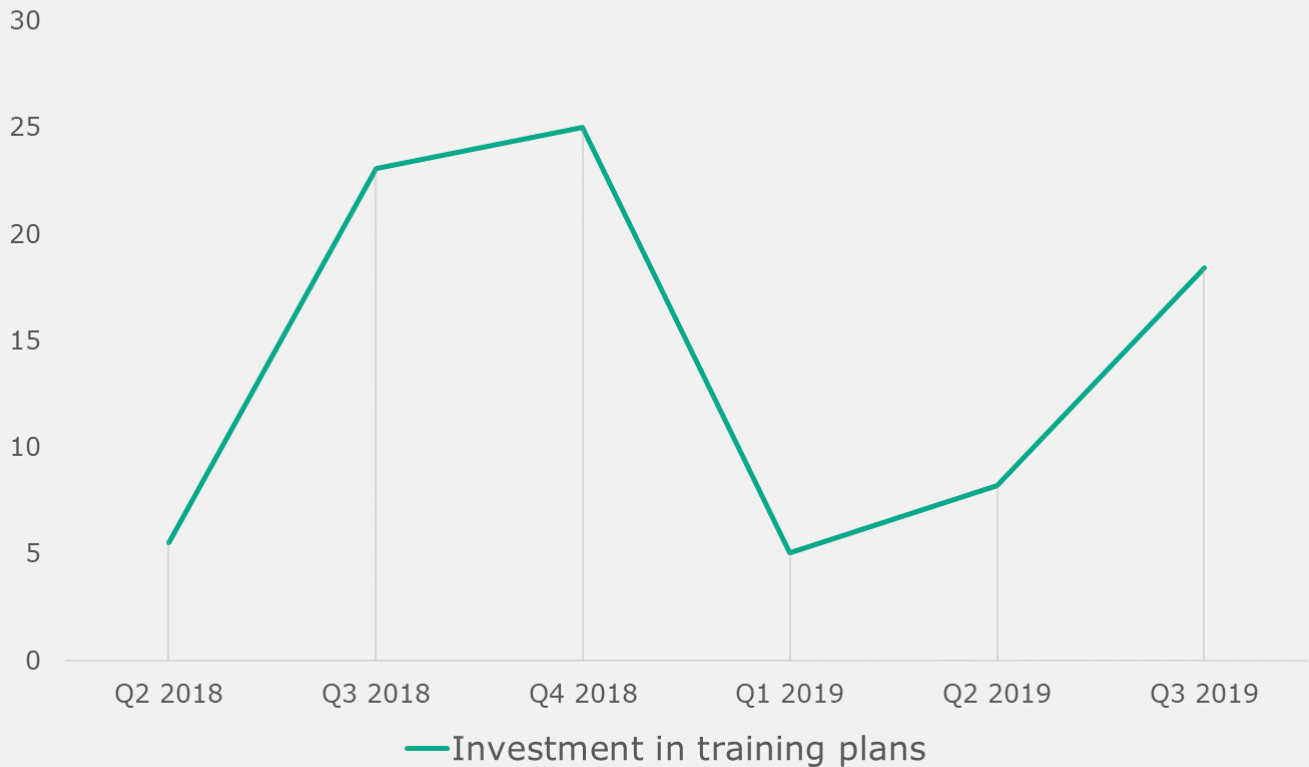
NET BALANCE (%) OF FIRMS INCREASING CAPITAL INVESTMENT AND CASH FLOW



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



NET BALANCE OF FIRMS REPORTING AN INCREASE IN TRAINING PLANS



There was continued good news in terms of recent investment in training plans, with this quarter seeing a net balance of 18%. Results this quarter, confirm that investment in training is not consistent, with results fluctuating considerably over the past six quarters.

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

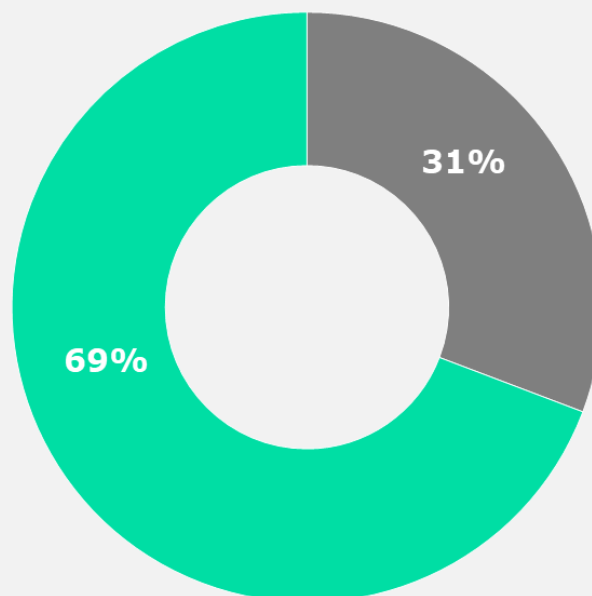
Results for Q3 are consistent with Q2.

69% of local respondents stated that they continue to operate at below capacity, a decrease of 1% in the last quarter.

36% of businesses also continue to report that they expect the costs of doing business to rise in the next three months (up from 24% in Q2), therefore they anticipate increasing the price of their services and goods. The main price pressure was reported to be other overheads, which has been a main concern for previous quarters. The volatility of cash flow leaves businesses more vulnerable to disruptions with overseas customers and in their supply chain, the increased finance costs would have a pivotal role in this.

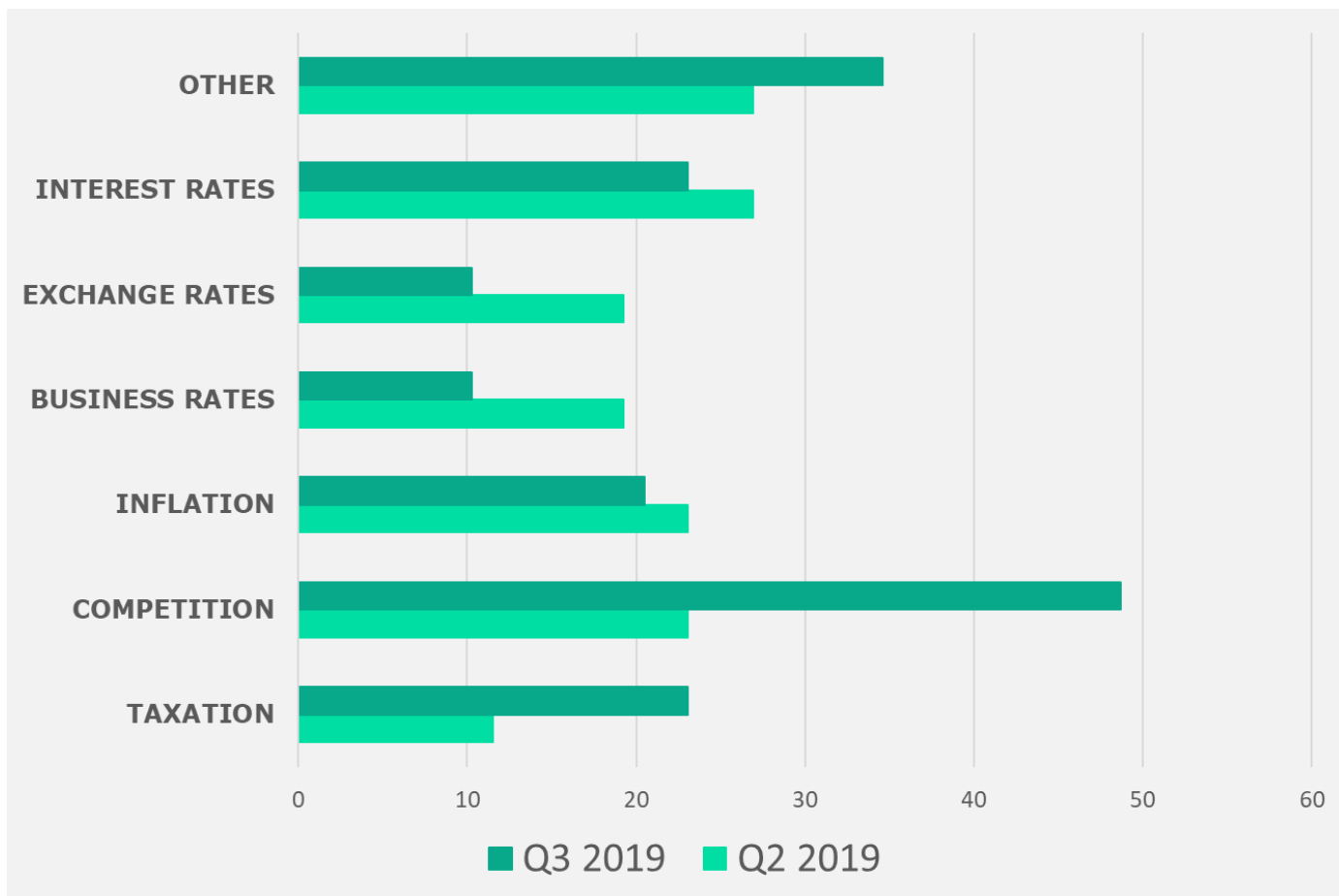
Firms were also questioned on the factors which are more of a concern to their business compared to three months ago. Surprisingly, competition dropped to joint second place behind interest rates. Inflation and exchange rates closely followed as the main areas of concern.

% OF BUSINESSES OPERATING AT FULL/BELOW CAPACITY



■ Full Capacity

■ Below Capacity



This said, business confidence experienced an uptick this quarter. 56% of firms stated that they anticipate turnover to increase over the next 12 months, with 42% expecting an increase in profitability over the next year, an increase in both figures compared to Q2. This is good news as more businesses are adopting a positive outlook for 2019.


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, then they are more likely to invest, causing cash flow and economic growth to subsequently improve.



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