



# QUARTERLY ECONOMIC REVIEW

QUARTER 1 2017

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# QUARTERLY ECONOMIC REVIEW

## QUARTER 1 2017

## REPORT SUMMARY

**Business confidence in Milton Keynes remains robust, according to the latest Quarterly Economic Survey report from Milton Keynes Chamber of Commerce.**

The business barometer indicates increases in export activity during the first quarter of 2017.

A total of 38 businesses, employing 2,068 people from across Milton Keynes, took part in the review of the first quarter of the year.

At home, 76% of services sector businesses reported that their UK sales had increased over the past three months or remained in line with the fourth quarter of 2016. In total 41% of manufacturers said their UK sales had either increased or remained consistent with the previous quarter.

The services sector reported a 15% rise in export sales – this is its highest figure since Q1 2015 and also represents its second consecutive quarter of increases in export sales. In addition the sector recorded a 19% increase in export orders to 23% in Q1. As a result of this activity 19% of services sector firms reported that their headcount had increased during the first three months of 2017 compared with the previous quarter.

Looking ahead 26% of service sector businesses and 14% of manufacturers expect to increase the size of their workforces during the next quarter.

The majority of firms in both sectors reported that their investment plans for plant/machinery had remained in line with the previous quarter.

Competition was the biggest cause for concern among Milton Keynes' businesses however 71% of manufacturers and 68% of service sector businesses revealed that their turnover had increased during the period.

Milton Keynes Chamber of Commerce chief executive Paul Griffiths said: "It is very encouraging that business confidence across Milton Keynes has remained robust during the first quarter of the year.

"It is reassuring to see that the services sector is experiencing a rise in its export activities and that both sectors predict their workforces will grow during the next quarter."

**Paul Griffiths, Chief Executive**  
**Milton Keynes Chamber of Commerce**

# RESPONSES

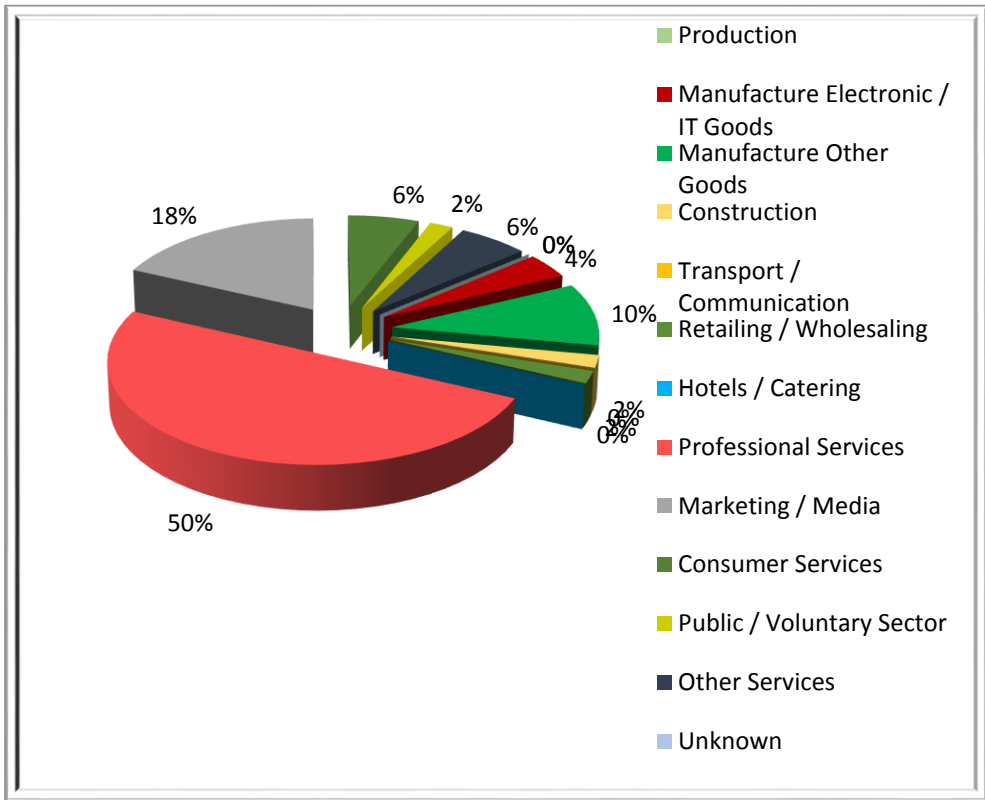
Milton Keynes Chamber of Commerce's Quarterly Economic Survey (QES) is a regular independent business survey and forms part of the biggest and most representative survey of its kind in the UK.

It is widely recognised as a key economic indicator by Government, The Bank of England and independent economists alike. It also provides both central and local policymakers with an important source of feedback of the performance, concerns and views of businesses across Milton Keynes.

The QES questionnaire covered ten broad sections;

- UK Sales and Orders Activity
- Export Sales and Orders Activity
- Employment
- Recruitment and Skills Shortages
- Cashflow
- Investment
- Business Confidence
- Capacity
- Price Pressures
- External Factors

The fieldwork for Milton Keynes Chamber of Commerce's latest QES was conducted via electronic and hard copy questionnaire during the period 20<sup>th</sup> February to 13<sup>th</sup> March 2017. This report therefore sets out analysis and interpretation of the findings for the fourth quarter of 2015. A total of 38 businesses, employing 2,068 people from across Milton Keynes responded. The sector split of respondents is shown in the table below.





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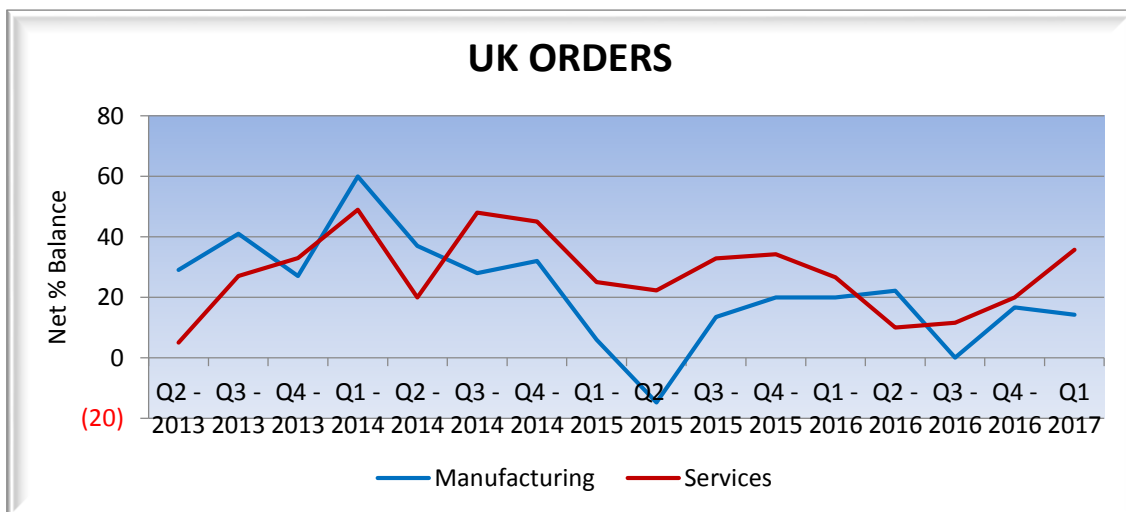
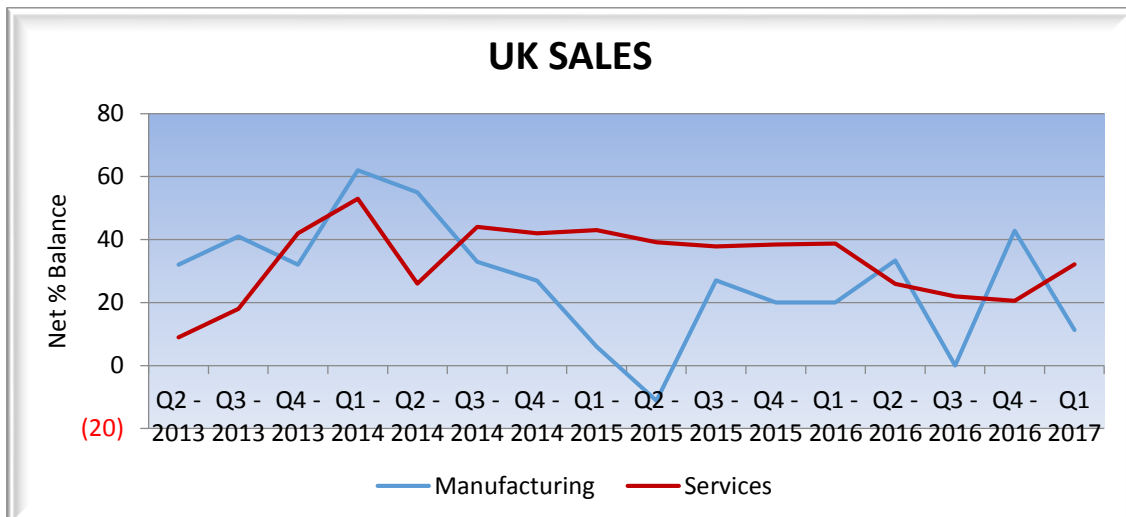
## QUARTER 1 2017

### UK SALES AND ORDERS

UK sales activity for those operating across the services sector for the first three months of 2017 increased by 11%, up from 21% in Q4 2016 to 32% in Q1 2017. The manufacturing sector on the other hand reported a dramatic decline from 43% in Q4 2016 to 11% in Q1 2017.

44% of service sector firms said that their UK sales had remained in line with the fourth quarter. 30% of firms operating across the manufacturing sector reported that their UK sales had remained consistent with the fourth quarter.

The manufacturing sector also reported a decrease in UK orders during the past three months of 2017 when compared to the fourth quarter, 20% in Q4 2016 to 11% in Q1 2017. However the services sector when surveyed this quarter reported an increase in UK orders from 20% in Q4 2016 to 36% in Q1 2017.



\* Net (percentage) balances are the difference between the percentage of businesses that expect improving or increasing positions and those expecting worsening or decreasing ones.

# EXPORT SALES AND ORDERS

Export sales activity for manufacturing reported a sharp decrease during the first quarter of Q1 2017 when compared to the fourth quarter – from 17% in Q4 2016 to -33% in Q4 2016. The minus figure indicating that more firms reported a decrease in export sales than those that reported an increase.

Conversely, the services sector reported a rise in export sales over the same timeframe from 12% in Q4 2016 to 15% in Q1 2017. The balance figure of 15% is the highest figure recorded since Q1 2015 and also represents the second consecutive quarter of increases in exports sales for the services sector.



Export orders for both manufacturing and services sectors painted a similar picture to that of export sales with the services sector reporting an increase and the manufacturing sector reporting a decreased. The services sector recorded a 19% increase from 4% in Q4 2016 to 23% in 2017. The manufacturing sector saw a sharp reversal, from 17% in the final quarter of 2016 to -33% during the latest quarter in 2017.



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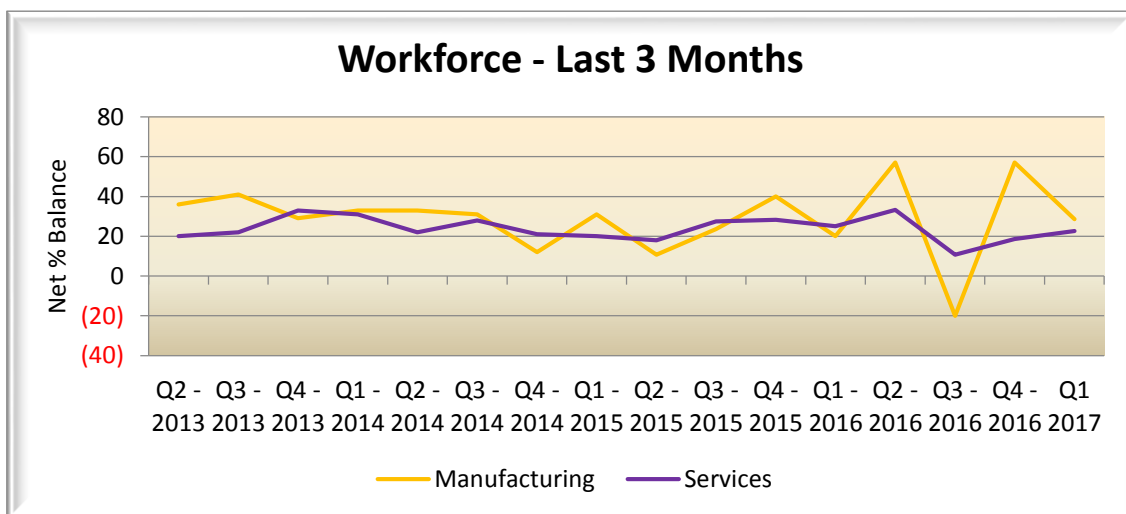
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## QUARTER 1 2017

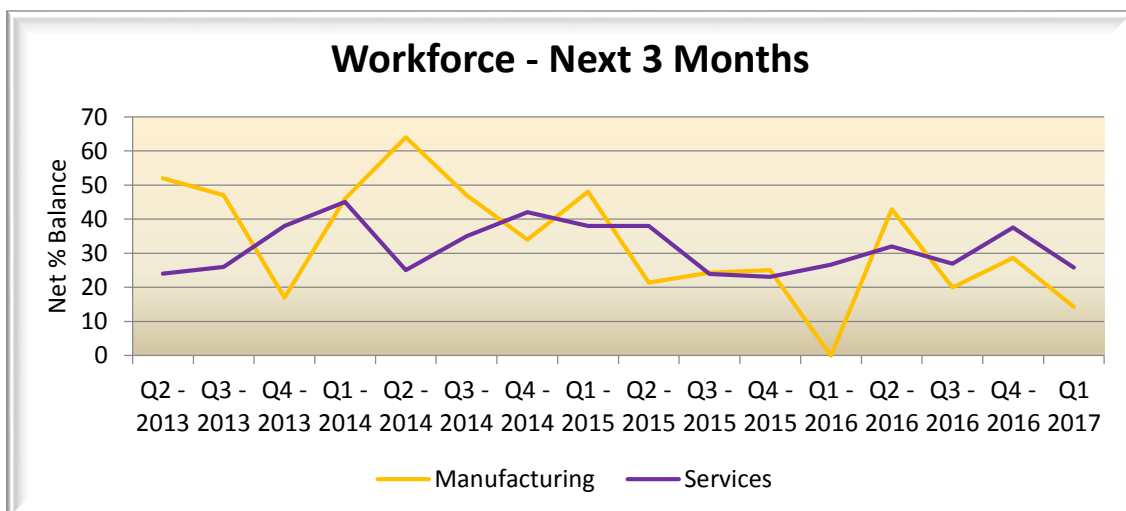
### EMPLOYMENT

Businesses operating in the manufacturing reported that their workforce had declined over the past three months, which correlates to a decline in both UK and Exports sales and order activity over the same timeframe. The services sector reported that their headcount had increased during the first three months of 2017, which again correlates to the increased activity in international and domestic markets – both sales and orders.

The services sector reported an overall 4% increase from 19% in Q4 2016 to 23% in Q1 2017. However the manufacturing sector reported an overall decline from 57% in Q4 2016 to 26% in Q1 2017.



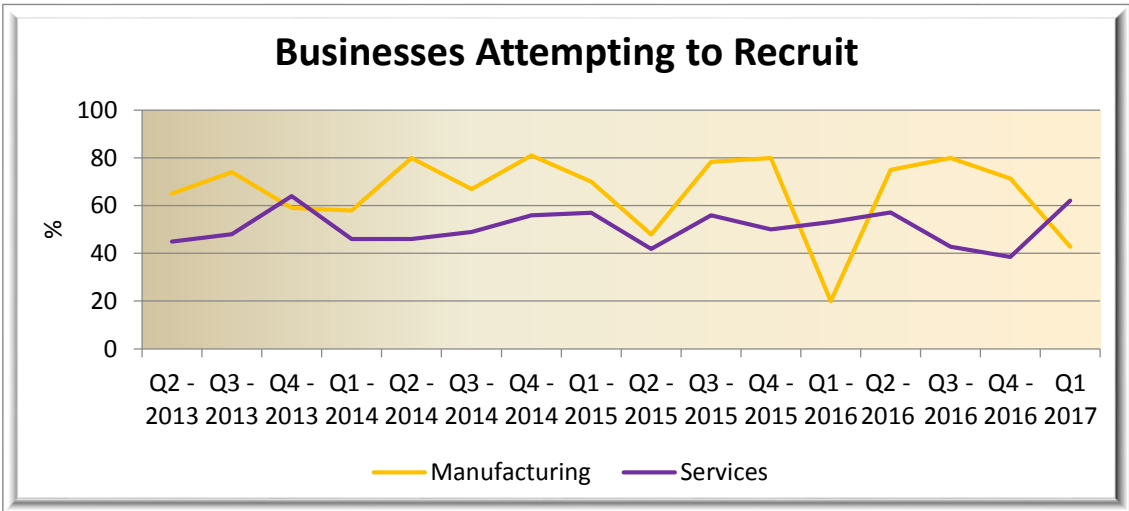
Hiring intentions for the next three months for businesses operating across both the services and manufacturing sectors decreased markedly when compared previous quarter. Overall 29% of manufacturing firms stated that their workforce would increase during Q4 2016 compared to 14% in Q1 2017. Similarly the services sector reported an overall decline of 12%, down from 38% in Q4 2016 to 26% in Q1 2017.



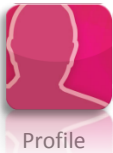
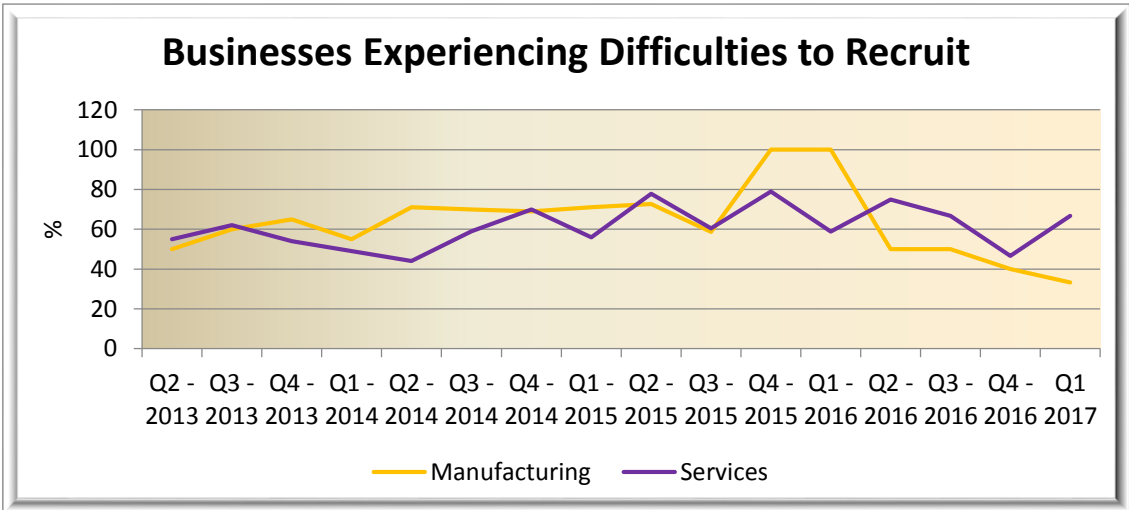
\* Net (percentage) balances are the difference between the percentage of businesses that expect improving or increasing positions and those expecting worsening or decreasing ones.

# RECRUITMENT & SKILLS SHORTAGES

Data compiled during the first quarter of 2017 shows that 43% of manufacturing companies and 62% of service sector companies attempted to recruit staff.



33% of manufacturing companies reported that they had experienced difficulties in recruiting suitable staff during the first quarter. During the same timeframe, 67% of service sector businesses said that they had also experienced difficulties in recruitment.



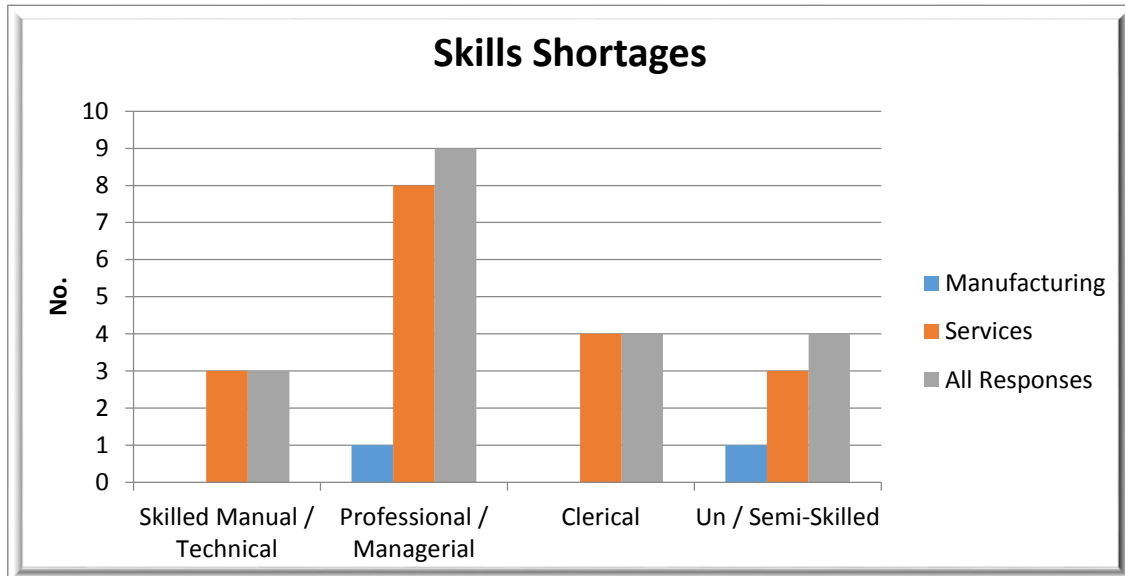




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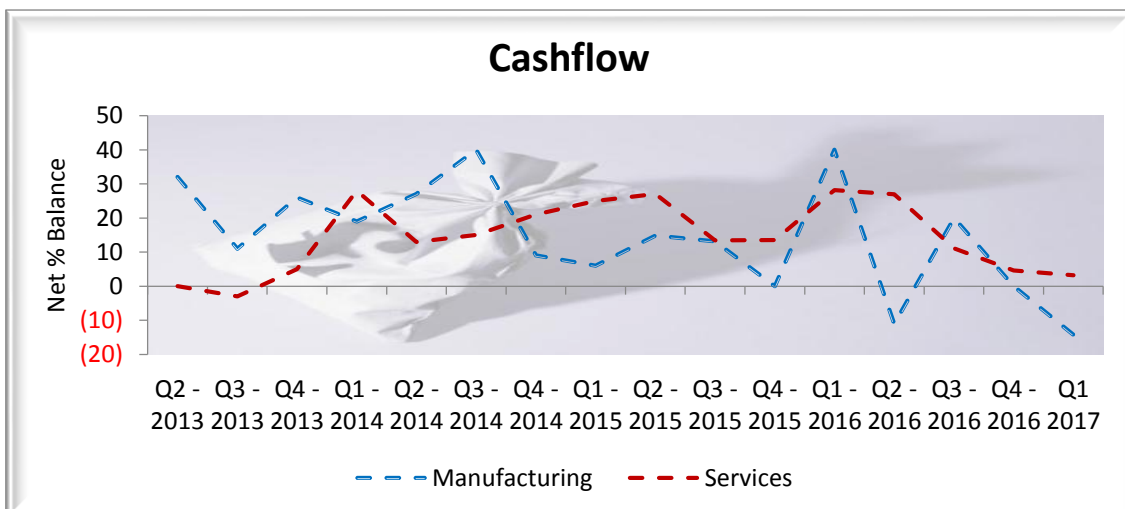
## QUARTER 1 2017

The following table highlights the skills areas where businesses experienced difficulty in sourcing new employees during the fourth quarter.



## CASHFLOW & INVESTMENT

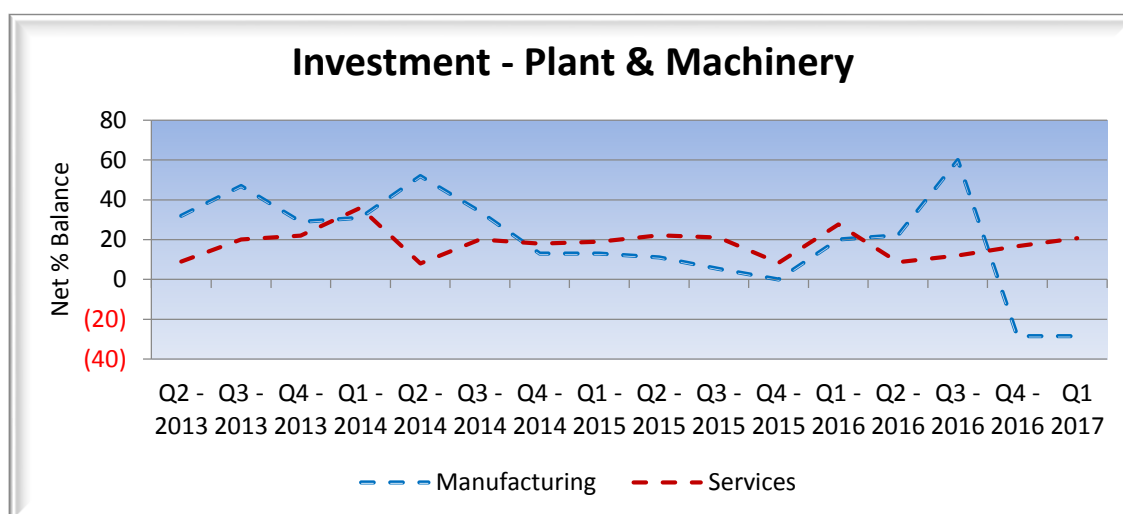
There was a deterioration in cashflow for businesses operating across both sectors during the first quarter of 2017. The balance figure for those operating across the service went from 5% in Q4 2016 to 3% in Q1 2017. The manufacturing sector reported a decline, which was greater than that of the services sector with a 14% drop in the balance figure from a reading of 0% to a negative reading of -14%.



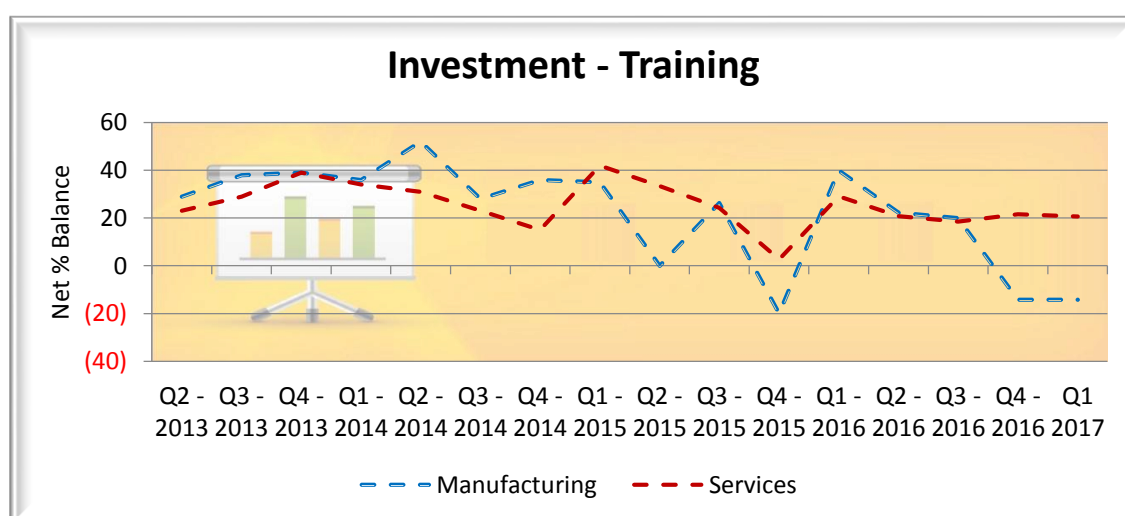


There was divergence of data for the manufacturing and service sectors during the first quarter of 2017 when surveyed about their investment plans for plant/machinery. The manufacturing sector reported the same balance figure as this quarter as Q4 2016 – standing at -29%. The services sector however, reported a 4% increase in investment from 17% in Q4 2016 to 21% in Q1 2017.

The majority of firms – 71% for manufacturing and 59% for services – reported that their investment plans in Plant / machinery had remained in line with Q1 2017.



Similarly, the services sector invested more into training when compared to their counterparts in the manufacturing sector. The manufacturing sectors investment in training remained in contraction territory with the overall balance figure reading -14%. On the other hand, service sector investment in training recorded a very slight decrease from 22% in Q4 2016 to 21% in Q1 2017.



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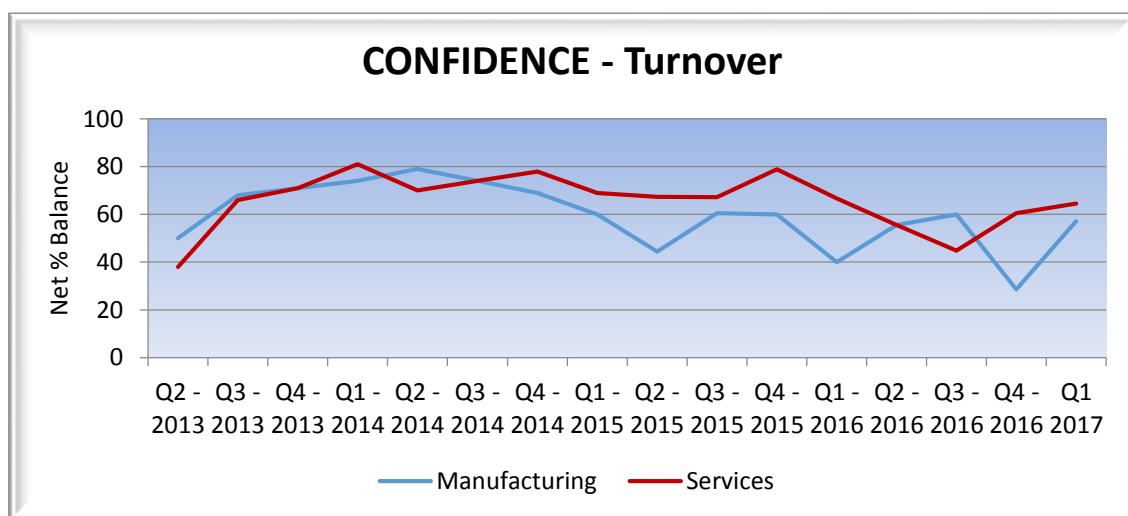
# QUARTERLY ECONOMIC REVIEW

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### CONFIDENCE

Business confidence across Milton Keynes as determined by turnover remained robust during the first quarter across the services sector and manufacturing sectors – with both reporting an increase.

71% of manufacturing businesses stated that their turnover during the first quarter had increased. Also during the first quarter 68% of service sector businesses stated that their turnover had increased.



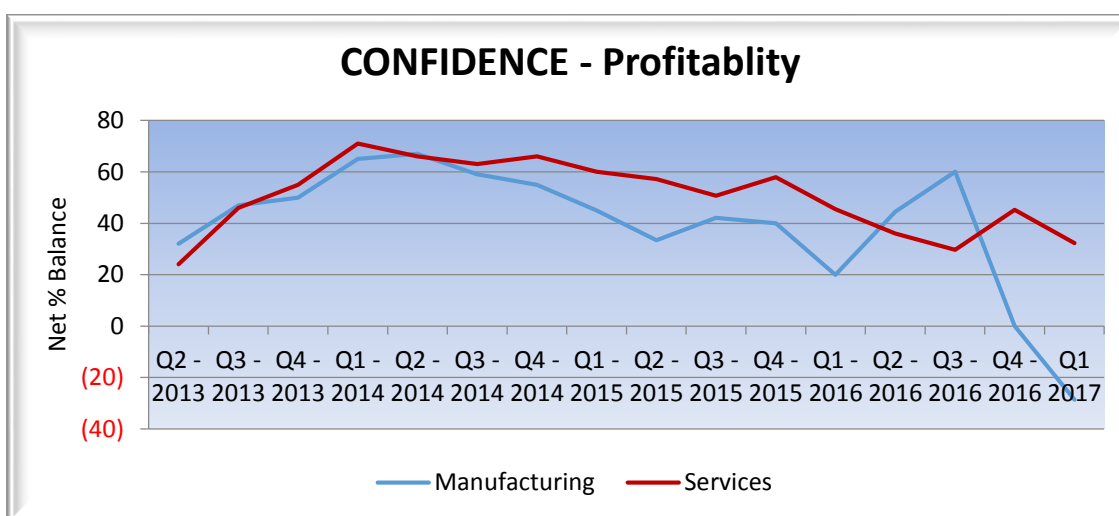
### BUSINESS CONFIDENCE –TURNOVER NEXT 12 MONTHS - NET BALANCES

% Balance	Q2 - 2013	Q3 - 2013	Q4 - 2013	Q1 - 2014	Q2 - 2014	Q3 - 2014	Q4 - 2014	Q1 - 2015	Q2 - 2015	Q3 - 2015	Q4 - 2015	Q1 - 2016	Q2 - 2016	Q3 - 2016	Q4 - 2016	Q1 - 2017
Manufacturing	50	68	71	74	79	74	69	60	44	61	60	40	56	60	29	64
Services	38	61	71	81	70	74	78	69	67	67	79	67	56	45	60	50

\* Net (percentage) balances are the difference between the percentage of businesses that expect improving or increasing positions and those expecting worsening or decreasing ones.

Confidence levels as determined by profitability across both sectors declined during the first three months of 2017. The manufacturing sector balance figure during the fourth quarter was 2016 was 0% actually contracted this quarter, with a reading of -29%. The services sector whilst reporting a decline in profitability during the first quarter of 2017 still reported a balance of 32% versus 45% in Q4 2016.

14% of manufacturing reported that their profitability remained in line with Q4 2016 whereas 55% of service sector firms reported that their profitability had remained consistent with Q4 2016.



## BUSINESS CONFIDENCE – PROFITABILITY NEXT 12 MONTHS – NET BALANCES

% Balance	Q2 - 2013	Q3 - 2013	Q4 - 2013	Q1 - 2014	Q2 - 2014	Q3 - 2014	Q4 - 2014	Q1 - 2015	Q2 - 2015	Q3 - 2015	Q4 - 2015	Q1 - 2016	Q2 - 2016	Q3 - 2016	Q4 - 2016	Q1 - 2017
Manufacturing	32	47	50	65	67	59	55	45	33	42	40	20	44	60	0	(29)
Services	24	46	55	71	66	63	66	60	57	51	58	45	36	30	45	32

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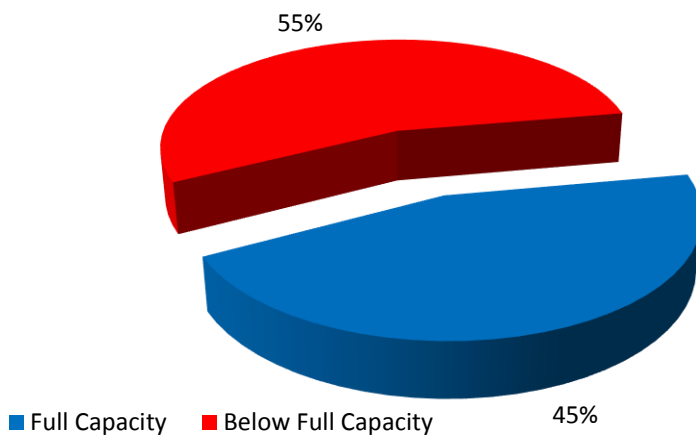
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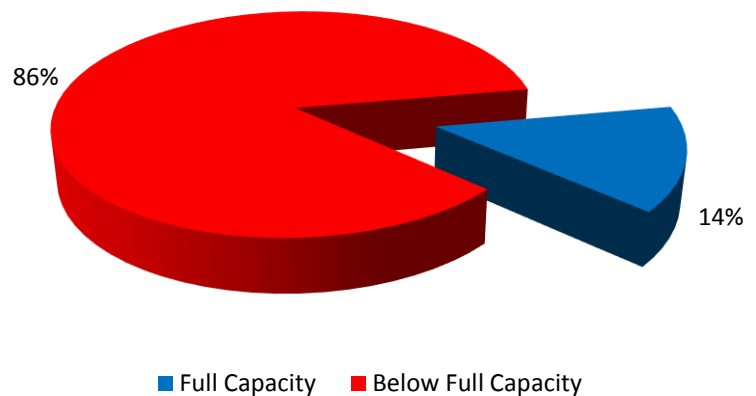
### CAPACITY

First quarter data shows that a majority of businesses operating across both the services and manufacturing sectors are still operating below capacity. 55% of service sector firms surveyed said they were operating below capacity whereas the figure for the manufacturing sector was 86%.

#### CAPACITY - Services

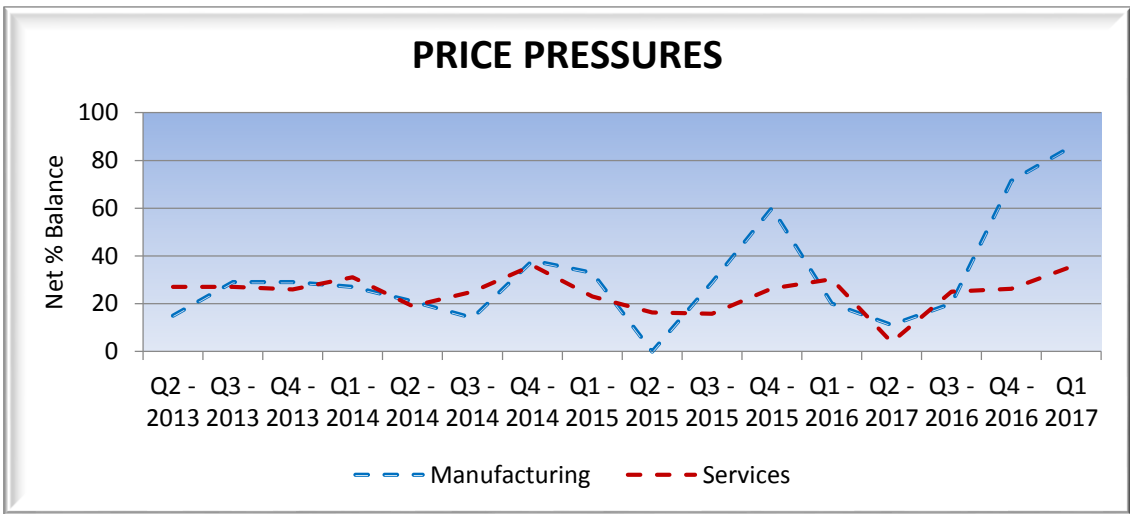


#### CAPACITY - Manufacturing

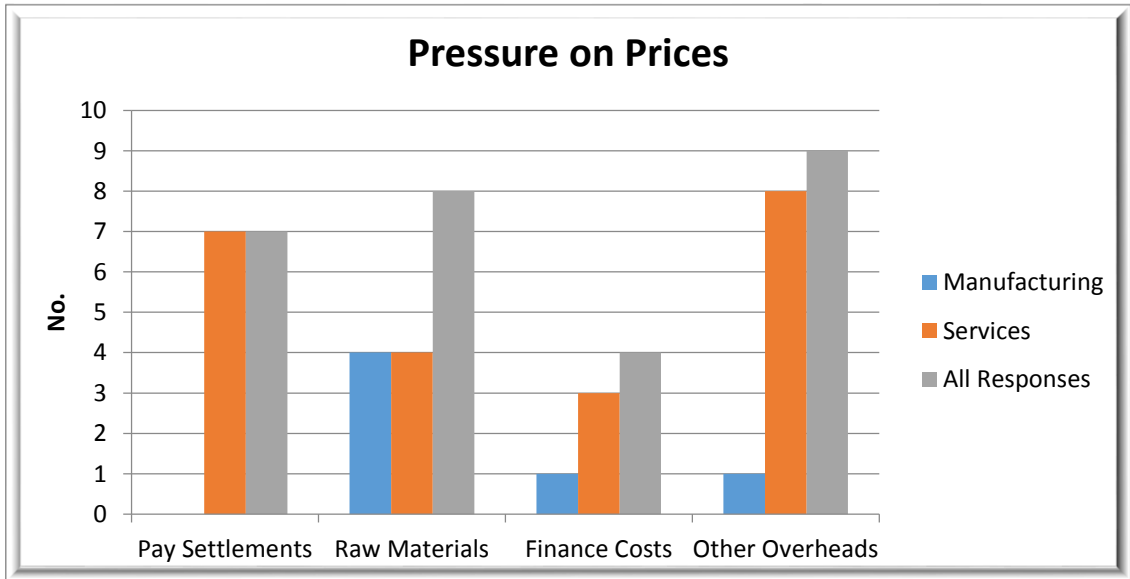


# PRICE PRESSURES

As can be seen by the graph below there has been a continued increase in price pressures for businesses operating across the manufacturing sector during the first three months of this year. At the same time during the first quarter, the services sector also reported an increase in prices pressures, although not as dramatic as the manufacturing sector. The balance figure for manufacturing was 86% in Q1 2017 versus 71% in Q4 2016. The balance figure for the services sector was 35% in Q1 2017 versus 26% in Q4 2016.



As can be seen in the graph below, increases in other overheads were the main contributing factor for businesses overall when asked what was leading them to increase their prices. This was closely followed by raw material costs.



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## EXTERNAL FACTORS

When combining figures for both the manufacturing and services sector, competition was the leading course for concern amongst businesses in Milton Keynes during the first quarter.

