BCC Quarterly Economic Survey Q2 2019: UK growth stalling amid manufacturing slowdown

The British Chambers of Commerce's Quarterly Economic Survey – *the largest private sector survey of business sentiment and a leading indicator of UK GDP growth, closely watched by policymakers including the Bank of England* – finds that underlying economic conditions remained stagnant in the second quarter of 2019.

- **The balance of manufacturing firms reporting improved domestic orders at 7-year low**
- **Modest pick-up in service sector activity in Q2 insufficient to offset significant drops in Q1**
- **Price pressures for services firms and manufacturers fall to their lowest level since 2016**

The latest results from the **survey of over 6,800 businesses – employing around 1.2 million people** – points to the impact that relentless Brexit uncertainty, rising business costs and tougher global trading conditions are having on the UK economy, with service sector output subdued and indicators of manufacturing activity deteriorating.

In the manufacturing sector, the balance of firms reporting growth in domestic sales fell for the third successive quarter and is now at its weakest since Q2 2016. The balance of firms reporting an increase in export sales also dipped to a three-year low. The balance of firms reporting an increase in **domestic orders was at its weakest since Q4 2012**, while the corresponding balance for export orders was at its lowest in four years.

The **services sector saw a slight increase in the balance of companies reporting higher domestic sales and orders**, as well as export sales and orders. However, the uptick in activity was not enough to outweigh the significant drop in these indicators in the first quarter ahead of the original Brexit deadline in March and so all remain very weak by historical standards.

The balance of firms expecting **prices to rise has fallen to its lowest level in three years** across both sectors, with the majority anticipating no change in their prices. Although the balance of firms reporting improved cash flow picked up in the quarter, it remains low by historic standards, which is concerning as cashflow is a key indicator of financial health.

With growth in the UK economy subdued, and the evidence suggesting that business investment and decision-making are in limbo ahead of the October 31st Brexit deadline, the focus must be on avoiding a messy and disorderly exit from the EU and removing barriers to growth in the domestic environment. The leading business group is calling on the Prime Ministerial candidates to outline their plans for addressing the high cumulative costs of doing business, delivering major infrastructure projects, and making the skills system work for business.

Suren Thiru, Head of Economics at the British Chambers of Commerce (BCC), said:

"These results indicate that underlying economic conditions in the UK remain decidedly downbeat, with intensifying uncertainty over Brexit, the rising costs of doing business in the UK and a sluggish global economy combining to suppress key drivers of growth.

"The manufacturing sector endured a challenging quarter with the downward pressure from the running down of excess stock, tougher global trading conditions and rising upfront costs driving a deterioration in a number of the key indicators. While there was a modest recovery in service sector activity, the improvement was insufficient to negate the significant slowdown recorded in the previous quarter and so, together with a weakening in manufacturing sector output, points to minimal GDP growth in the second quarter of 2019.

“The overall easing in inflation expectations in the quarter suggests that consumer price growth will remain muted over the near term. This is welcome news for household finances and leaves the MPC with more than enough leeway to keep interest rates steady over the medium term.”

Reacting to the Q2 results, Dr Adam Marshall, Director General of the British Chambers of Commerce, said:

“Over the last three months, the Brexit ‘pressure valve’ has loosened a little for some firms, but the overall picture is still one of an economy in stasis. Many businesses and investors will continue to put off major decisions through the summer, hoping for a breakthrough in the Westminster impasse before the Brexit deadline on October 31st.

“The next Prime Minister must take swift and tangible steps to inject momentum and confidence into the UK economy. Businesses want to see concrete and deliverable plans to tackle barriers to growth here at home, avoid a messy and disorderly Brexit, and restore the UK’s global reputation as a place to invest and trade.

“To boost and incentivise investment, our business communities are looking for a bold growth agenda here at home. The next government must hit the ground running and introduce measures to reduce the upfront cost of doing business, deliver major infrastructure projects, and unblock the arteries of Britain’s skills and immigration systems.”

Key findings in the Q2 2019 survey:

Manufacturing sector:

- The balance of firms reporting increased domestic sales fell from +15 to +10, the lowest level since Q2 2016, while those reporting improved domestic orders also fell five points from +9 to +4 – the weakest level since Q4 2012
- The balance of firms reporting improved export sales fell from +14 to +10, the weakest since Q2 2016 and the balance of firms reporting improved export orders dropped from +10 to +4 – the weakest since Q4 2015
- The balance of firms expecting to increase prices in the next three months stands at +28, down from +42 in Q1, the lowest level since Q2 2016
- The percentage of firms (35%) reporting upward price pressures due to pay settlements are their highest since Q4 2015
- The balance of firms reporting improved cashflow rose out of negative territory from -1 to +2 – still the second weakest outturn since Q1 2013
- The balance of firms increasing investment in plant/machinery rose in the quarter from +6 to +11 but remains historically weak, and investment in training stayed level +14, the weakest since Q3 2012
- The balance of firms confident that turnover and profitability will increase in the next 12 months rose from +26 to +38 for turnover and from +13 to +24 for profitability. However, both indicators are still lower than in Q4 2018

Services sector:

- The balance of firms reporting increased domestic sales rose from +10 to +17. Those reporting improved domestic orders rose from +5 to +10
- The balance of firms reporting improved export sales rose from 0 to +6. Those reporting improved export orders rose from -2 to +5
- Domestic and export indicators of sales and orders all remain below the levels recorded in Q4 2018
- The balance of firms expecting to increase prices in the next three months stands at +26, from +32 in Q1, which was the lowest level since Q3 2016
- The percentage of firms (32%) reporting upward price pressures due to payment settlements are their highest since Q4 2015
- The balance of firms reporting improved cashflow rose out of negative territory, going from -1 to +5
- The balance of firms looking to increase investment in plant and machinery rose from +1 to +5, and from +10 to +14 in training. The balance of firms confident that turnover and profitability will improve over the next year increased from +26 to +35 for turnover from +19 to +26 in profitability. Indicators of investment and confidence remain below the levels recorded in Q4 2018

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