

# Summary

## 1st Quarter 2014

The Q1 2014 results are overall upbeat. All the critical Q1 balances for both manufacturing and services are stronger than their long-term averages and some are at all-time highs for our survey. In manufacturing, most key balances rose between Q4 2013 and Q1 2014. There were very small falls in employment and profitability confidence, but these balances are still positive and at historically high levels, indicating continued growth. Six manufacturing balances are at all-time highs: domestic sales; domestic orders; employment expectations; investment in plant & machinery; investment in training; and turnover confidence. In services, there were some small mixed movements between Q4 and Q1, but almost all the key balances remain above their average 2007 levels. There was a surprisingly large fall in the Q1 service employment balance, but this follows a large increase in the previous quarter. The services employment expectations balance rose, and is now higher than its historical average. Both service export balances rose to new all-time highs in Q1. Intentions to raise prices fell in manufacturing and rose slightly in services; but inflation remains a major area of concern for businesses in both sectors.

### Domestic Market

Most Q1 2014 national domestic balances were higher than Q4 2013. One service sector balance recorded a small fall, but all the domestic balances remain at historically high levels in both sectors. The manufacturing sector's net balance for domestic sales increased from +36% to +38%, equalling its all-time high for our survey. The balance for manufacturers' home orders rose from +35% to +42%, a new all-time high. The service sector's balance for domestic sales fell from +38% to +35%, still close to historically high level. The net balance for service domestic orders rose from +32% to +33%, the best level since Q1 1997.

### Export Market

The national export balances rose in Q1 2014. For both manufacturing and services, all the balances are at historically high levels. The manufacturing balance for export sales increased from +35% to 40%, the best level since Q4 1994. The manufacturing balance for export orders rose from +30% to +35%, the highest since Q4 2010. The service balance for export sales increased by two points, to +38%, an all-time high for our survey. The service export orders balance increased by six points, to +39%, also a new all-time high.

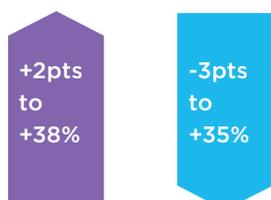
### Employment

The employment balances recorded divergent movements in Q1. For both sectors, the backward-looking employment balances fell (but still indicate growth), while the forward-looking employment expectations balances rose. In manufacturing, the employment balance fell two points, to +31%, while the employment expectations balance rose nine points, to +40%, an all-time high. The service employment balance fell 13 points, to +16%, while the employment expectations balance rose two points, to +29%, the highest level since Q4 2007.

### Investment

Most national investment balances rose in Q1. One service balance fell very slightly, but all balances remain at historically high levels. The balance of manufacturing firms that have revised upwards their plans to invest in plant & machinery increased by five points, to +37%, an all-time high. Manufacturing intentions to invest in training increased four points, to +33%, equalling the all-time high. The balance of service firms that have revised upwards their plans to invest in plant & machinery fell one point to +23%, but remains near historically high level. Service sector intentions to invest in training rose four points to +30%, the best level since Q3 2007. All the investment balances are now above their long-term historical averages.

The domestic sales balance increased for **manufacturing (+2pts)** but decreased for **services (-3pts)**



The export sales balance increased for **manufacturing (+5pts)** and for **services (+2pts)**.



### Business Confidence

All the national confidence balances remained at historically high levels in Q1. Confidence that manufacturing turnover will improve in the next 12 months was +67% in Q1, and continues to be at an all-time high. Confidence that manufacturing profitability will improve in the next 12 months fell from +51% to +50%, but remains at a very high level, only just below the all-time high. Confidence that service sector turnover will improve in the next 12 months was +60%, the same as in Q4, and remains the highest level seen since Q4 1997. Confidence that service sector profitability will improve in the next 12 months rose from +45% to +47%, the best level since Q3 2007.

### Capacity Utilisation and Cashflow

The share of manufacturing firms operating at full capacity fell two percentage points to 44%, but remains very high. The share of service firms operating at full capacity increased by three points to +46%, only just below the all-time high recorded in Q4 1996.

The Q1 cashflow balances recorded small divergent movements. The manufacturing cashflow balance rose one point to +13%, well above the long-term historical average. However, services cashflow fell one point to +15%, but remains well above the long-term historical average.

### Prices

Intentions to raise prices diverged between manufacturing and services. The balance of manufacturing firms reporting pressure to raise prices fell seven points to +24%, mainly due to reduced pressures from raw material costs. The balance of service firms expecting to raise prices increased two points to +29%, the highest level since Q1 2011.

## A view from BCC Chief Economist David Kern

The upbeat results of our new survey, coupled with positive economic indicators, suggest that the economy is continuing to grow at a solid pace. But, in spite of this impressive progress, the recovery is not yet secure. UK growth is still unduly reliant on consumer spending, driven by a buoyant housing market and a falling savings ratio. The very large current account deficit also poses risks. Since UK personal debt levels are still too high and must fall further, it will be difficult to sustain the current pace of growth in the medium term without structural changes in the economy. Though personal consumption must play an important role in the recovery, unless investment and net exports can make a bigger contribution to growth, there is a risk that the recovery will stall. The strong export and investment balances in our survey confirm that business is ready to play a major role in growing and rebalancing the economy. But the government and the MPC must help create the necessary conditions for this to happen.

The balance of **service** firms reporting an increase in domestic orders increased by 1pt in Q1



The balance of firms who employed new staff decreased for both **manufacturing** (-2pts) and **services** (-13pts)

