

BRITISH CHAMBERS OF COMMERCE

QUARTERLY ECONOMIC SURVEY Q3 2021

The British Chambers of Commerce's Quarterly Economic Survey is the UK's largest independent survey of business sentiment and a leading indicator of UK GDP growth. The most recent results show that while businesses continue to recover from the deepest recession on record, persistent weakness in several indicators highlight concerns over the strength of the recovery, with one in five firms reporting a decrease in cash flow, with a further two fifths seeing no improvement.

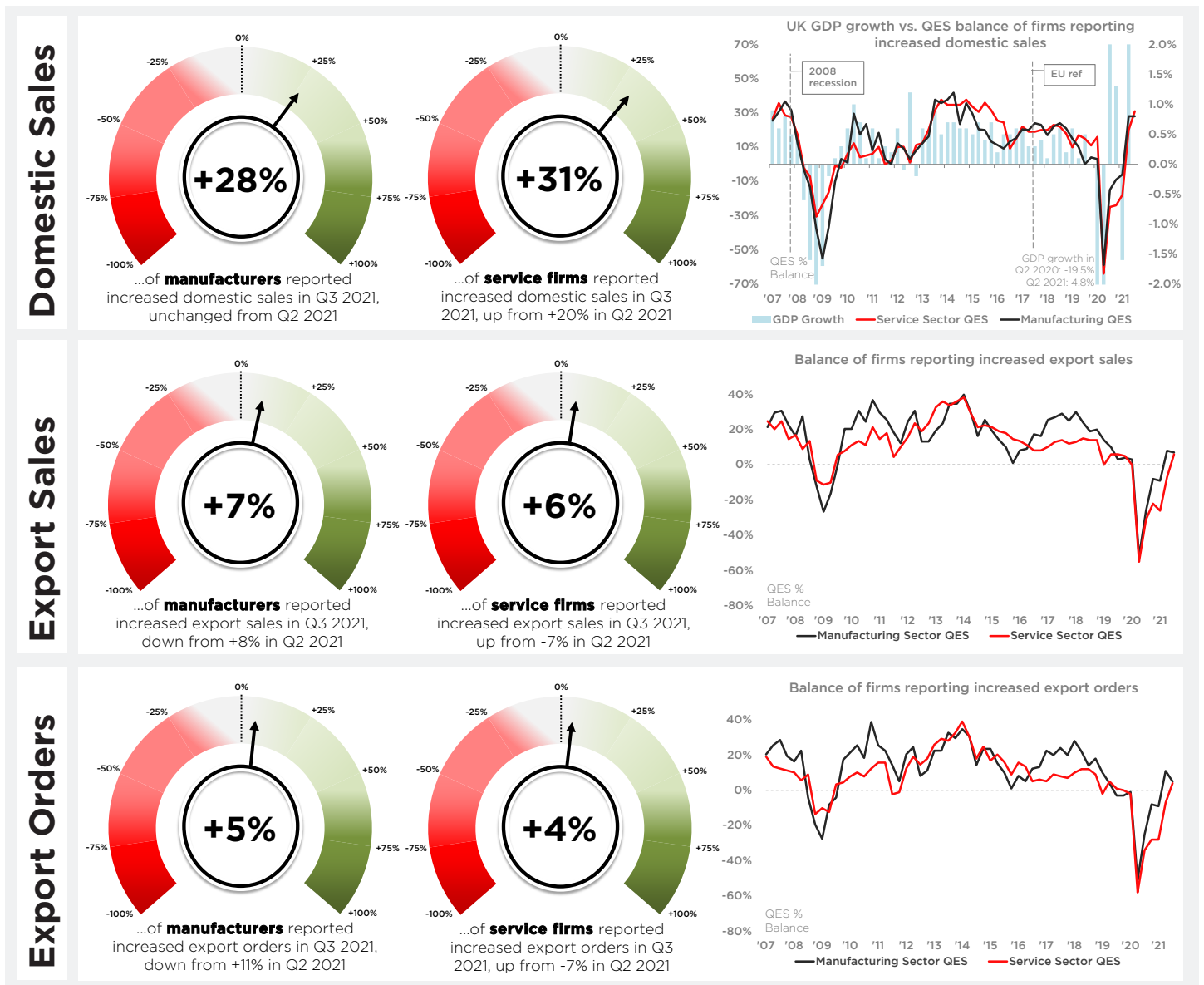
“Our latest data indicate only a modest uptick in underlying economic conditions in the third quarter as the boost from the end of restrictions was increasingly stymied by mounting headwinds.

The key services sector recorded the strongest improvements in the quarter as consumer-focused firms, including hotels and hospitality, received the biggest boost from the easing of social distancing. Manufacturing firms saw more limited gains as increasingly acute supply chain disruption limited their ability to fulfil orders and meet customer demand. The underwhelming uptick in investment intentions means that it may be weak point of the recovery because it would weaken our ability to boost productivity and lift the UK's long-term growth trajectory.”

Suren Thiru Head of Economics, British Chambers of Commerce

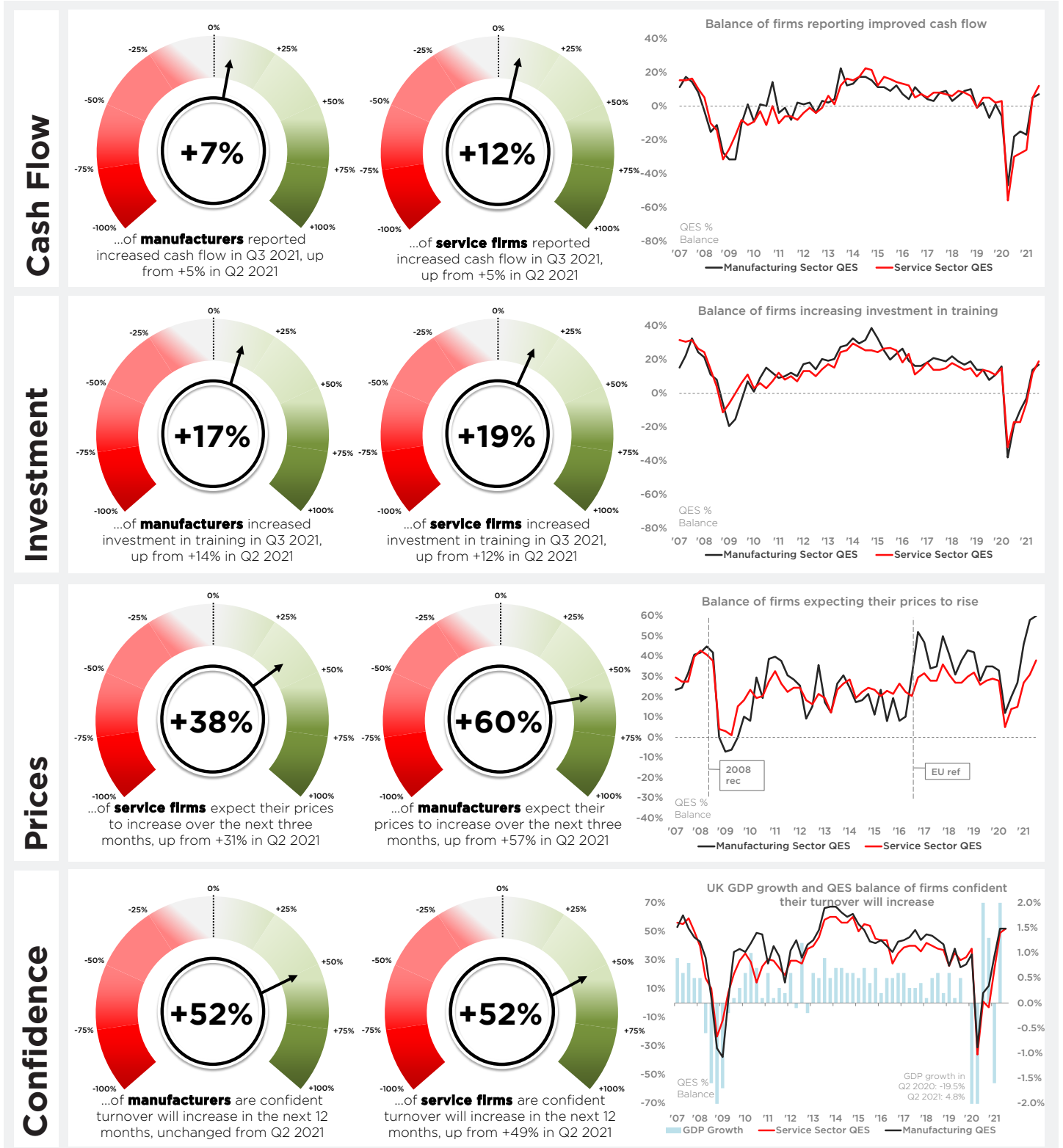
AT A GLANCE

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



BRITISH CHAMBERS OF COMMERCE LOOKING AHEAD

The survey of 5,737 finds that despite business activity improving as more firms report increased domestic sales, indicators for structural business health such as investment and cash flow are lagging. Inflation expectations also hit record highs as 62% of manufacturers expect their prices to rise in the next three months while only 2% expect a decrease, giving a percentage balance of +60%. Around 9 in 10 (88%) manufacturers cite raw materials costs as the driver of price increases. In contrast, just 1 in 5 (22%) manufacturers cite pay settlements as a driver of price increases, still below its pre-pandemic level.

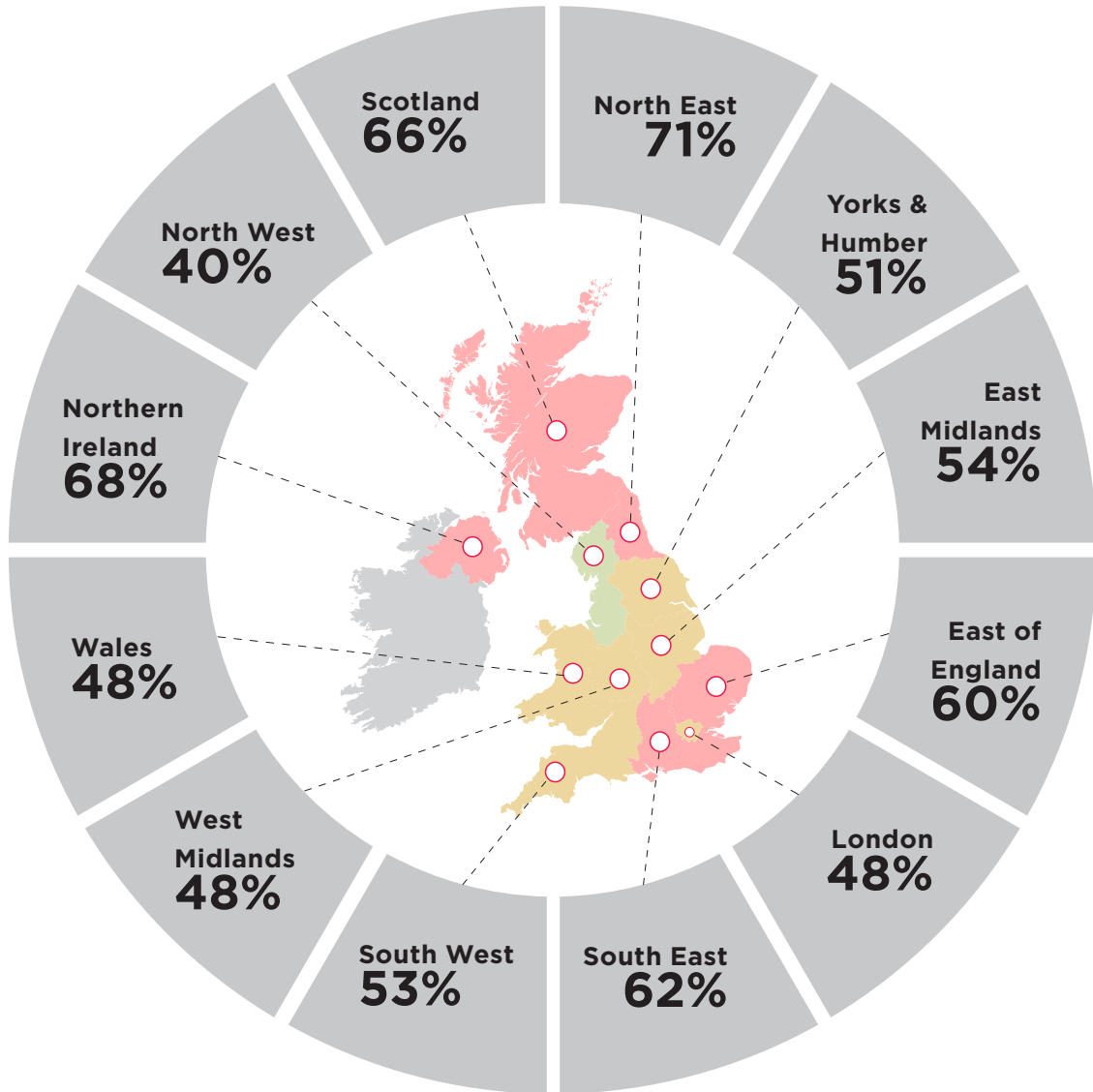


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INFLATION AS A CONCERN

In Q3 2021, the balance of manufacturing firms expecting prices to increase over the next three months rose to its highest level on record. Furthermore, when asked which factor was more of a concern to their business than three months ago, 'inflation' is now cited as the top answer. 52% of firms overall and 62% of manufacturers cited this as a concern above other factors listed including 'interest rates', 'exchange rates', 'business rates', 'competition', and 'taxation'. This is the highest since records began for this indicator in 2009.

The below chart shows the geographical breakdown of the percentage of firms citing inflation as an external factor of concern.



"We have pushed an immediate 8% price increase through but feedback from retail is that this is the median of increases expected from all suppliers who import into the UK due to high (very high) shipping costs."

Small retailer in Kent

"The biggest problem is the increase in sea containers from China which have increased for a 40 foot container from ~£2,100 last year to ~£15,000 this year."

Micro retailer in Lincolnshire

"We have experienced dramatic increases in many raw materials the most concerning of which are steel products which in some instances have risen by more than 150%"

Mid-sized construction firm in Aberdeen

"we're missing out on growth due to customs, increased costs and border delays. We're also seeing massive increases in costs for raw materials, shipping container costs and huge delays in transit times from China."

Micro retailer in East Lancashire

"Out of control and still rising container shipping prices are having major impact on our business. We have no choice but to pass these costs on to industrial buyers resulting in higher final product prices across wide spectrum of industries. Major inflation seems inevitable from our perspective."

Small services firm in Kent

BRITISH CHAMBERS OF COMMERCE ABOUT THE QES

The Quarterly Economic Survey is the flagship economic survey from the British Chambers of Commerce. It is a prominent tool used to measure the state of business sentiment and is monitored by a range of national and international organisations, including the Bank of England, HM Treasury, and the European Commission.

The BCC Q3 2021 QES is made up of responses from 5,737 businesses across the UK. Firms were questioned between 23 August and 13 September 2021. In the manufacturing sector, 1,448 firms responded, employing approximately 372,000 people. 69% (1,000) of manufacturing respondents said they exported. In the services sector, 4,289 businesses responded, employing approximately 1.6m people. Of the services sector participants, 37% (1,600) said they exported.

This report has been prepared by the British Chambers of Commerce. Further information about any of the region and nation surveys may be obtained from the following:

National

Coordinator: David Bharier
d.bharier@britishchambers.org.uk
British Chambers of Commerce,
65 Petty France, London SW1H 9EU
(020 7654 5800)

Scotland

Coordinator: Colin Campbell
ccampbell@scottishchambers.org.uk
Scottish Chambers of Commerce
(0141 444 7508)

North East

Coordinator: Jonathan Walker
Jonathan.Walker@neechamber.co.uk
North East England Chamber of
Commerce (0191 3861133)

North West

Coordinator: Subrah Krishnan-Harihara
Subrahmaniam.KrishnanHarihara@gmchamber.co.uk
Greater Manchester Chamber
of Commerce (0161 393 4321)
Contributing Chambers: St Helens,
Liverpool, North & West Lancashire,
East Lancashire, Greater Manchester,
Cumbria, South Cheshire, Wirral

Yorkshire & the Humber

Coordinator: David Bharier (BCC)
Contributing Chambers: Barnsley &
Rotherham, Doncaster, Sheffield, Hull &
Humber, West & North Yorkshire, and
Mid Yorkshire

East Midlands

Coordinator: Chris Hobson
Chris.Hobson@emc-dnl.co.uk
East Midlands Chamber (Derbyshire,
Nottinghamshire & Leicestershire)
(0116 204 6606):
Contributing Chambers: Derbyshire,
Nottinghamshire & Leicestershire,
Northamptonshire, Lincolnshire

West Midlands

Coordinator: William Hargreaves
w.hargreaves@birmingham-chamber.com
Greater Birmingham Chambers of
Commerce (0121 455 8670)
Contributing Chambers: Coventry &
Warwickshire, Birmingham, Black
Country, Staffordshire, Shropshire,
Herefordshire & Worcestershire

Wales

Coordinator: Molly Baker
molly.baker@chamberswales.com
South Wales Chamber of Commerce
(01633 254041)
Contributing Chambers: South Wales,
West Cheshire and North Wales

East of England

Coordinator: David Bharier (BCC)
Contributing Chambers: Bedfordshire,
Cambridgeshire, Essex, Hertfordshire,
Norfolk and Suffolk

Methodology

QES results are generally presented as balance figures - the percentage of firms that reported an increase minus the percentage that reported a decrease. If the figure is above 0, it indicates overall expansion of activity and if the figure is below 0, it indicates overall contraction of activity.

For example, if 50% of firms told us their sales increased and 18% said their sales decreased, the balance for the quarter would be +32% (an overall expansion).

If 32% told us their sales increased and 33% said their sales decreased, the balance would be -1% (an overall contraction).