

Quarterly Economic Survey Quarter 1 2004 Humber

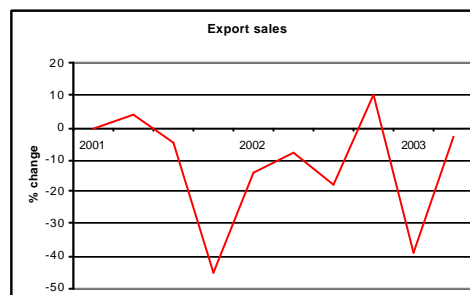
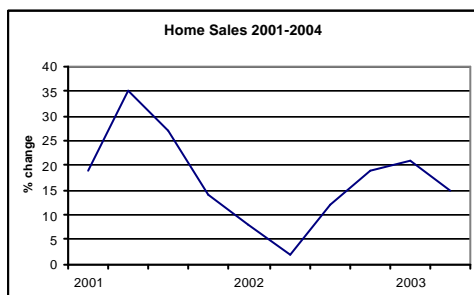
The Chamber's latest Quarterly Economic Survey results are displayed on the following pages and are based on responses from members across the sub-region for the period January - March 2004.

The survey is particularly sensitive to shifts in the small business sector and forms part of the national British Chambers of Commerce (BCC) Quarterly Economic Survey which is closely monitored by the Bank of England's Monetary Policy Committee (MPC) as they make their deliberations over interest rates.

The balance figures are determined by subtracting the percentage of companies reporting decreases from those reporting increases. Separate figures for the service sector and the manufacturing sector are available with their sum being used as an overall figure for the Humber sub region.

General

With a +15% increase, **domestic sales** showed relative buoyancy. More encouraging were the **order** books for Humber businesses with +20% of business reporting increasing order books for the coming 3 months, the highest level for 2 years. With 7 out of 10 companies reporting no change in either **Export sales** or **orders** the export market was relatively constant, though the balance figures of -3% for export sales and 0% for orders compared favourably with the reported figures for the previous two years which were largely in the red.



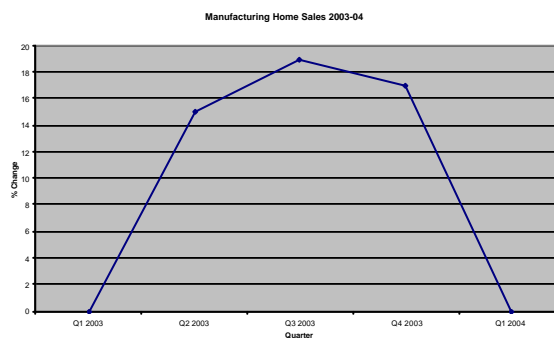
Both **current and expected employment** showed stability with 7 out of 10 companies surveyed reporting no changes in staff or plans to take on or lose staff. Of those companies who had recruited staff, 76% of those had been for full time jobs, nearly 10% higher than the 68% average for the last 2 years. **Investment** plans for plant and machinery and training showed no large deviations from the previous quarters' averages. Nearly 60% of companies anticipated an increased **turnover** for the coming year compared to 13% who feared a fall. Translating this into **profits**, just under half of those surveyed (46%) said that they expected profits to increase for the next 12 months while a quarter (24%) said they expected to see a fall in profits, both indicators largely consistent with previous quarters figures. 31% of companies said they expected to see **prices** rise in the coming quarter, a 5% rise over the previous 2 year average. When questioned about **price pressures** on their business, 35% of companies said that pay settlements would be a pressure with only 11% saying that access to finance was a problem, an indication perhaps of the current plethora of cheap finance packages around. As with the previous month, 31% of firms viewed interest rates as an **area of concern**, 3 times as much as the previous 2 year average and no doubt a reflection of the recent rises in the base rate. At 45%, competition remains the main **external concern** for Humber companies.

Comment

The balance figures for domestic sales and orders were encouraging, in particular the orders. This buoyancy however seemed largely to be on account of the service sector as opposed to the manufacturing which seemed largely static in general after several quarters of positive growth. More encouraging were the figures for exports which after almost two years in deep negative figures came back to around a zero balance. An interesting statistic from the employment figures were the number of high number of full time jobs reported which may mean that employers feel confident enough to offer this amount of work. Finding the right staff is still a problem for a majority of employers seeking to recruit and a useful future study may well be to find out the specifics about these problems to see if there are common themes running through the cases. Issues surrounding investment remained stable suggesting no major threats to affect such spending decisions. This stability was also reflected in business confidence with levels very much at the previous year's averages, though the service sector was surprisingly confident with over half of those surveyed thinking their businesses would be more profitable in the coming year. If the Humber economy is to depend increasingly on the service industry, this sort of confidence will be important. One interesting statistic was the slight rise in companies saying that they expected to raise prices in the coming quarter, an indication maybe that inflationary pressures may be starting to creep in. If that is the case, most businesses, according to our survey would seem to be unaware of this trend with only a small minority of companies citing inflation as more of a concern than in the previous quarter. Overall a relatively stable quarter in most areas with a notably strong performance from the service sector.

Humber Manufacturing

- Of the main 4 indicators of economic vitality (Home Sales/Home Orders/Export Sales/Export Orders) 3 reported an exact balance of zero, indicating relative consistency. Domestic orders for the coming 3 months however showed a balance of -10%.

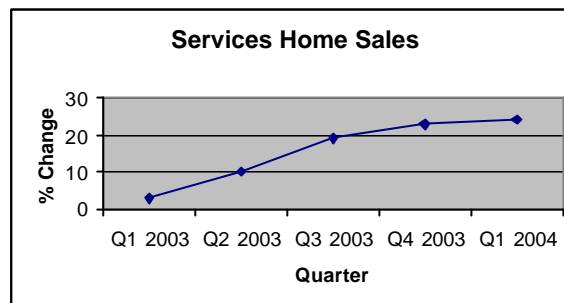


- Half of the companies responding reported a change in their workforce in the preceding 3 months with 28% reporting a rise and 22% a fall. Over 6 out of 10 companies said they expected no change in employment over the next 3 months.
- Of the 55% of companies who had tried recruiting over the previous quarter, none of these jobs was part time.
- 67% of companies trying to recruit had problems with this finding suitable staff, most notably in skilled manual employment.
- Investment was down, -5% for training and -10% for plant and machinery.

- ❑ 36% of companies expect the coming year to be profitable compared with 27% who fear the opposite. The remainder expects things to stay the same.
- ❑ Just 9% of those manufacturers interviewed reported working at full capacity.
- ❑ Nearly 60% of companies saw raw material prices as reasons for them to increase their own prices.

Humber Services

- ❑ Of the 4 main indicators vitality (Home Sales/Home Orders/Export Sales/Export Orders), home sales and home order performed very well, reporting balances of +24% and +37% respectively. Just over 50% of service companies in the Humber reported increased orders for the coming quarter.



- ❑ This buoyancy was reflected by employment expectations with a quarter of firms expecting to increase their staff over the next 3 months with just 5% of firms reporting a projected decrease.
- ❑ As with manufacturing, 70% of companies trying to recruit over the previous quarter had experienced difficulties.
- ❑ Balances for cashflow and investment were all into the positive balance figures with 22% of companies planning to increase spending on staff training in the coming 3 months.
- ❑ Services were also confident for the future with well over half of the surveyed companies (54%) reporting expectations of a rise in profits over the coming 12 months.
- ❑ This may be down to projected rises in prices, with 31% of companies reporting a projected rise in their prices over the next 3 months with 67% saying that their prices will remain the same.
- ❑ 38% of companies blamed rising pay settlements as a pressure to raise prices, though only 10% of companies listed inflation as being of more of a concern now than 3 months ago.

Local Breakdown

The following figures give a flavour of local conditions.

Hull (Manufacturing and Services)

- All manufacturers reported no expected change in staffing levels in the coming quarter.
- Half of the manufacturers responding said that they expected turnover and profitability to fall over the coming year with the other half predicting a rise. No-one reported a constant level of these two variables.
- 45% of services in Hull reported an increase in custom both in the past 3 months and orders for the coming 3 months.

- Of those attempting to recruit staff, 75% said they had experienced difficulties in finding suitable staff
- 54% of service companies expected turnover to increase in the coming 12 months with 45% reporting a corresponding rise in profitability.
- A further 45% reported expectations in a rise in their prices over the coming quarter.
- Interest rates were the area of most concern to service companies compared to the previous quarter.

East Riding (Services)

- 78% of service businesses surveyed reported a rise in domestic sales over the previous quarter with similar figures for orders.
- 70% of respondents expected their workforce to stay the same over the coming quarter with a further 30% reporting an expected rise.
- Unlike in Hull, only 43% of companies reported problems in finding suitable staff.
- 78% of companies reported an increased cashflow for the preceding months with no companies reporting a decrease.
- Similar confidence was shown with turnover and profitability expectations with 88% of companies reporting anticipated rises in both these measures in the coming 12 months.
- Rising prices would not seem to be a cause of this confidence with a majority of companies surveyed saying that they would not be rising prices.

Northern Lincolnshire (Manufacturing and Services)

- The overall manufacturing picture was one of constancy with 70% of companies reporting steady domestic sales and bookings. In other areas as well such as cashflow, employment expectations and investment plans, the general picture was one of no change.
- Three quarters of the manufacturers surveyed said that they had had no problems finding suitable staff.
- All manufacturers said they were currently operating below capacity.
- Just 6% of manufacturers said they were likely to raise prices in the coming 3 months with the rest stating that their prices would remain the same.
- A similar picture of constancy was seen in the service sector in northern Lincolnshire with 90% of companies reporting neither rises or falls in domestic sales in the previous 3 months.
- 40% of companies had increased their workforce over the previous quarter but of these 70% hadn't experienced problems with recruitment.
- Only 10% of those interviewed said that they expected turnover or profitability to fall over the coming year.
- Significantly for services, 80% of companies reported to be operating below capacity.
- Pay settlements were causing companies the most pressure to raise prices with 30% of companies reporting a likely increase in their prices in the next 3 months.