

Quarterly Economic Survey Quarter 2 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 April-June 2004.

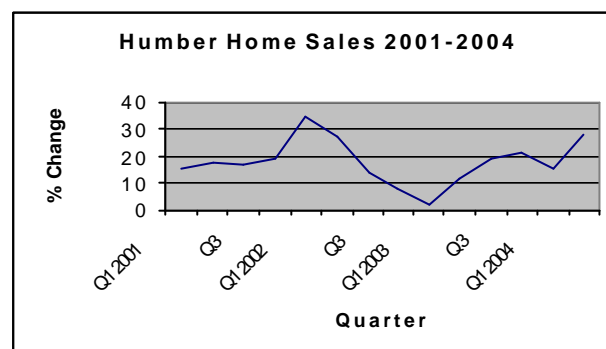
The survey is particularly sensitive to shifts in the small business sector and forms part of the national British Chambers of Commerce (BCC) Quarterly Economic Survey which is closely monitored by the Bank of England's Monetary Policy Committee (MPC) as they make their deliberations over interest rates.

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 sectors are available with their sum being used as an overall figure for the Humber sub region.

83 Companies took part in this Quarter's study

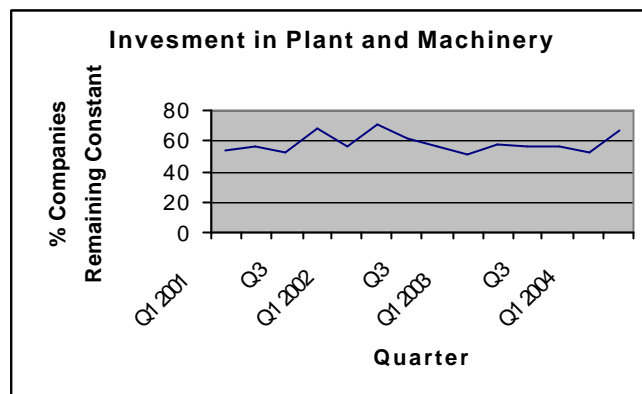
General (Manufacturing and Services)

- Showing a balance of +28%, **domestic sales** were at their highest level for 2 years. **Advance bookings** were also a healthy balance of +12%.

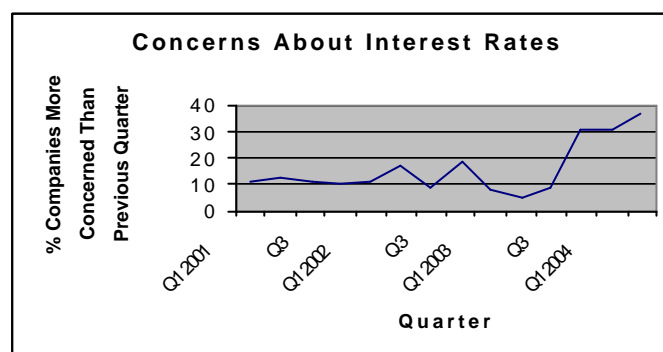


- After a 2 year average of -15%, the balance for **export sales** for quarter 2 was a very encouraging +14%, though **export orders** were only -4%, similar to the trend for the previous quarters.
- Figures for both **current employment** and **anticipated employment** were both showing positive balances. This was also reflected by the figure for companies **attempting to recruit** over the last 3 months which at 66% was the highest for 3 years.
- While the profile of **jobs recruited** for was broadly similar to other quarters, one interesting result was the high level of problems reported recruiting professional and managerial jobs. The previous 2 year average for **problems recruiting** for this type of job was 27.5% whereas this quarter the figure had risen to 39%.
- With two disappointing quarters in succession, there were signs that the **cashflow** indicator may be hardening for some companies.

- There seemed to be similar conservatism in terms of **investment decisions** with a large majority of firms keeping levels of investment in training (74%) and plant and machinery (67%) on hold.



- Predictions for **expected turnover** (+47%) and **profit** (+38%) however remain buoyant.
- A slow but steady trend for **price rises** is apparent from the data.
- 41% of companies reported that the cost of raw materials was putting **pressure** on them to raise prices, compared to a two year average of 31%.
- Interest rates were a clear **worry to businesses** with 37% of companies citing it as of more concern now than 3 months previously. At 19%, inflation was also rising fast.



Local Analysis

East Riding of Yorkshire

- A balance of +22% reflected the healthy state of the Humber figures for domestic sales with a similar result for orders.
- A net loss of workforce of around 10% was reported though in terms of expected workforce figures for the next 3 months an equivalent rise was noted.
- It was noticeable that manufacturers predominated when it comes to problems finding suitable staff and in particular in the skilled and professional categories.
- The healthy trading position was reflected in the bullish approach to both turnover and profit with 68% of East Riding companies surveyed saying that they expected turnover to increase in the coming 12 months and only 5% anticipating falling turnover.
- This increased turnover may come from increasing prices with 65% of companies saying that they anticipated the prices of their products to rise over the next quarter.

Northern Lincolnshire

- At +38%, the balance for domestic sales for both manufacturing and non-manufacturing is the highest in the Humber.
- Indicators for employment were broadly similar to the Humber average, as were the figures for other measures such as investment decisions and future turnover.
- Only 10% of the manufacturers surveyed reported operating at full capacity.
- 64% of all companies expected their prices to stay the same over the coming quarter.
- 80% of manufacturers said that high raw material costs were putting pressure on their companies to raise prices.

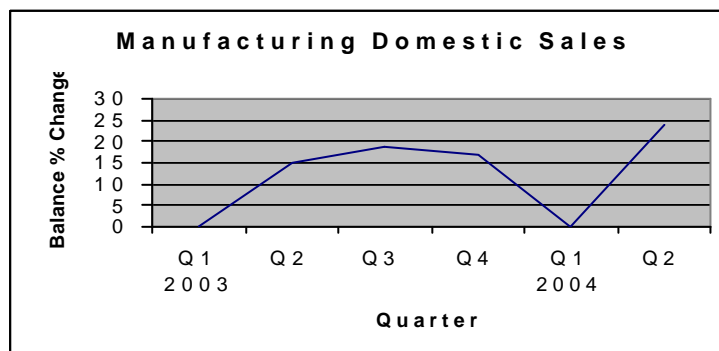
Hull

- At +24% the balance for domestic sales for both manufacturing and non manufacturing is in line with the Humber average, though Hull manufacturing didn't perform as strongly in this indicator as services in the city.
- However, export sales and orders for manufacturing were positive with companies reporting either increases or remaining constant.
- Nearly 60% of service companies reported a rise in their workforce over the second quarter.
- Manufacturing companies in Hull reported fewer problems in recruiting staff than similar companies in other parts of the Humber.
- Other indicators such as investment, turnover expectations and prices reflected the Humber wide trends noted above.
- As in northern Lincolnshire, nearly 80% of manufacturers noted rising raw material costs as a pressure upon them to raise prices.
- Interest rate concerns were at a similar level to the traditionally high competition measure in terms of concerns to business.

Sector Analysis

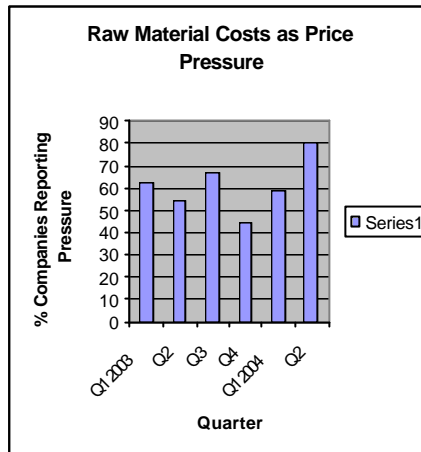
Humber Manufacturing

- At +24% for domestic sales and +19% for domestic orders the UK market for Humber manufacturers was reassuringly buoyant.



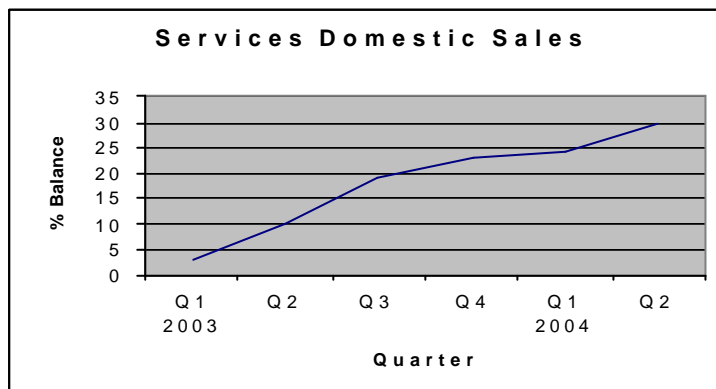
- Employment remained fairly static with about ¾ of companies surveyed saying that their workforces had remained the same in the previous quarter with no expectations for further expansion over the coming quarter.
- Most manufacturing jobs on offer were both full time (85%) and permanent (73%), a constant trend over time.

- Another noticeable trend was that most recruitment difficulties occurred in the skilled labour and managerial categories rather than the clerical and unskilled categories.
- Nearly 4 out of 5 companies (79%) said they had no plans to increase or decrease investment on plant and machinery.
- The balances for both expected turnover (+40%) and in particular profit (+44%) were healthy and point to a certain confidence in the sector.
- 80% of companies identified raw material prices as a source of pressure to raise their own prices.



Humber Services

- Showing a balance of +30%, domestic sales for services were very healthy though at only +8%, orders for the coming quarter weren't quite as rosy.



- Employment reflected to a large extent these positive sales figures with nearly a third (29%) of companies reporting a rise in their workforce over the previous 3 months. This positive news for recruitment looks set to continue with only 5% of companies saying that they intend to reduce their workforce in the coming quarter compared to 19% with plans to increase their workforce.
- 25% said that their cashflow had decreased over the quarter with a 29% saying that it had increased. This balance of +4% is low compared to previous months.
- Investment decision mirrored the manufacturing sector and were noticeable cautious.

- While the balance for turnover expectation was a buoyant +50%, only +36% thought that this would translate into increased profit.
- Price pressures from pay settlements appeared to go down compared with previous averages.



Comment

At their highest level for two years, the balance figures for the domestic market were very encouraging and point to a period of economic vitality for the Humber. Reassuringly, this domestic strength was spread across both manufacturing and service sectors. After a few years of exporting unease the figures for export orders and in particular export sales in the last quarter were also good. However, export figures tend to fluctuate substantially and we will need a few more quarters of clearly positive figures before we can start to talk of a thriving export market.

Strength in both markets was reflected in the employment figures, in particular the service sector, with two thirds of companies having made some attempt to recruit staff over the previous quarter, this a 3 year high. This hive of activity on the recruitment side of things may have led to less emphasis on internal change as investment decisions in infrastructure and training remained relatively static for most companies. Both turnover and profit expectations remained reassuringly buoyant.

Raw material costs came out as an increasing factor in companies' decisions to raise prices, with 4 out of 5 manufacturing companies interviewed saying that the costs of raw materials were putting pressure on them to raise prices. This also chimes with anecdotal evidence from Chamber members, in particular the surging demand of developing countries such as India and China for raw materials. In terms of increasing concerns, it is unsurprising follow recent rises, that interest rates are becoming more and more prominent. Figures such as these mean that future Bank of England decisions to raise rates must be mindful of the impact such rises will have on both large and small businesses.