

Quarterly Economic Survey Quarter 3 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 July-September 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.

Example

Excluding sales variation during the past 3 months which of the following have:

Increased	24%
Remained constant	57%
Decreased	19%

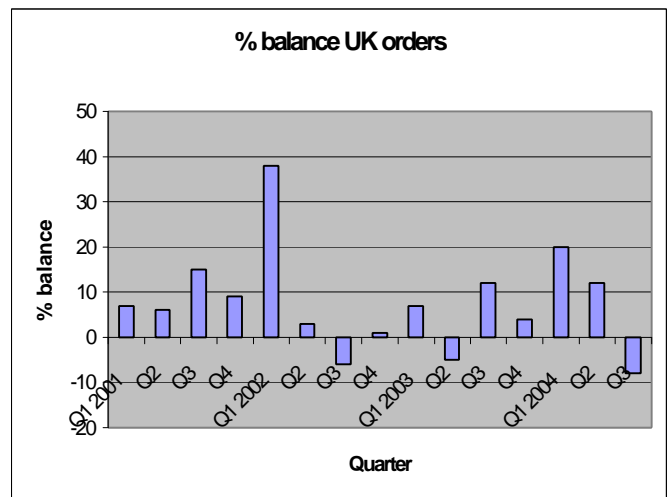
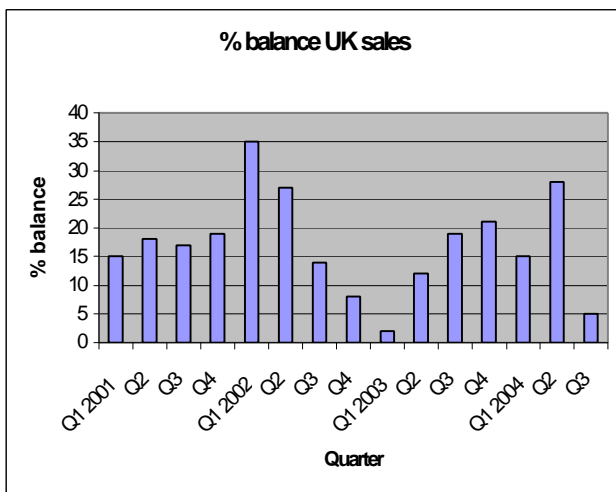
Possible Statements

- The balance for UK sales was +5%.
- 24% of companies surveyed showed a rise in domestic sales in the previous quarter.
- Nearly 1 in 5 companies said that their UK sales had fallen in the last quarter.
- 57% of those surveyed said that their sales in the domestic market had shown no change over previous quarters.

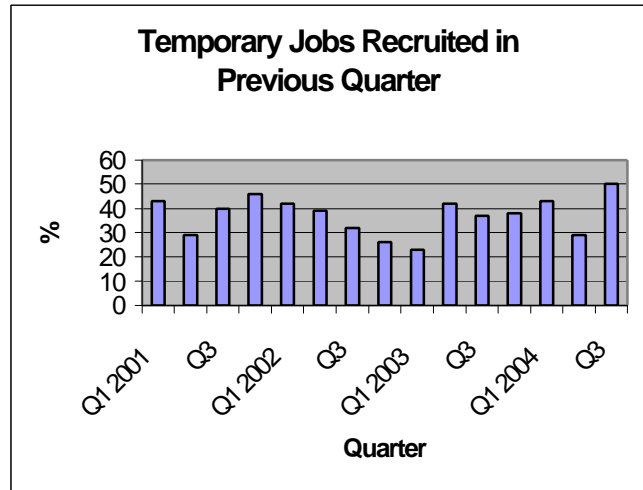
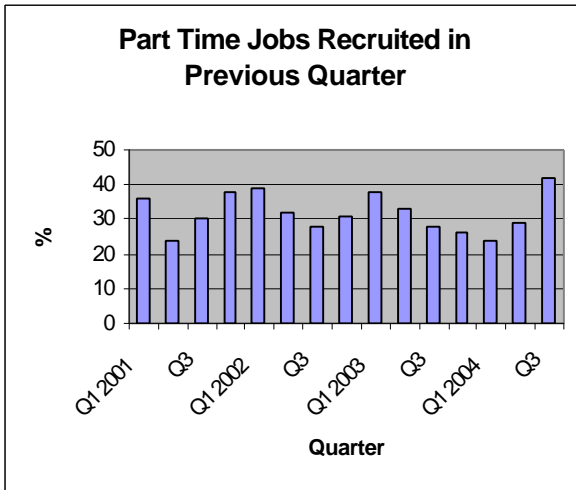
67 Companies took part in this Quarter's study

General (Manufacturing and Services)

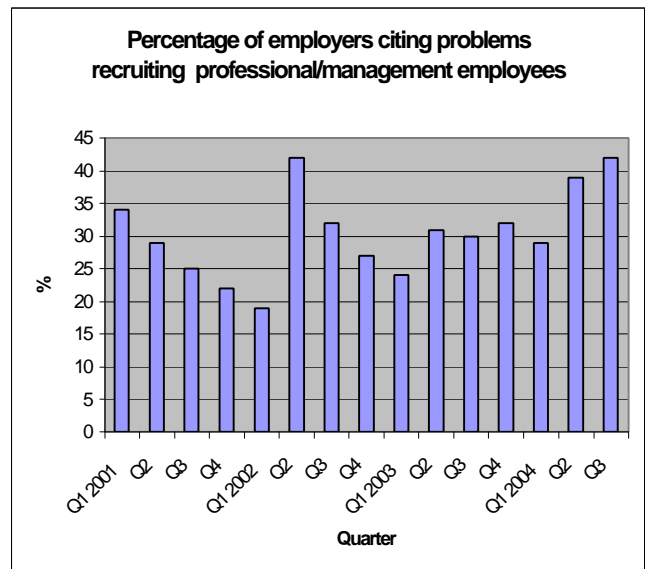
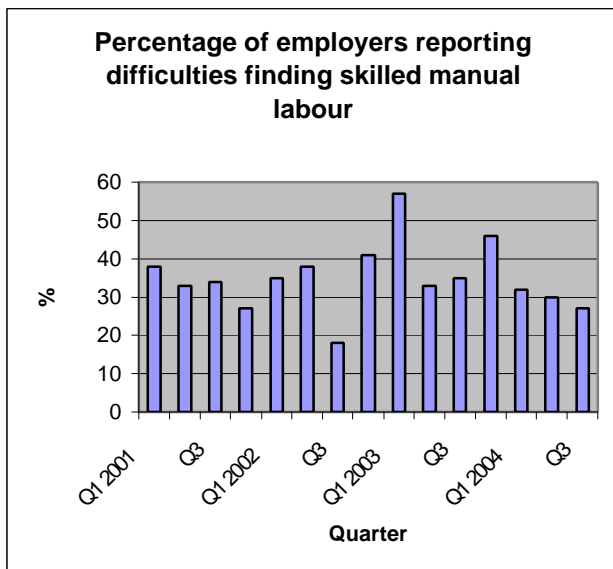
- Both **UK sales** (+5%) and **UK orders** (-8%) took a tumble this quarter compared to their two year averages (+15% and +6% respectively) and show a notable turn of fortunes to the double digit balances of earlier on in the year.



- **Export sales** (-8%) continued their see saw back into the red this quarter with **export orders** at a similar level (-8%). Both figures represent around the average level for export statistics over the last 3 years.
- Both **employment** for the period (+2%) and **expected employment** (+9%) showed similar slow downs compared to the first part of the year.
- There was a significant rise in the number of **part time jobs** recruited for in the quarter (see graph) with a corresponding decline in **full time jobs**. There was an equally surprising rise in the number of **temporary jobs** in the period.

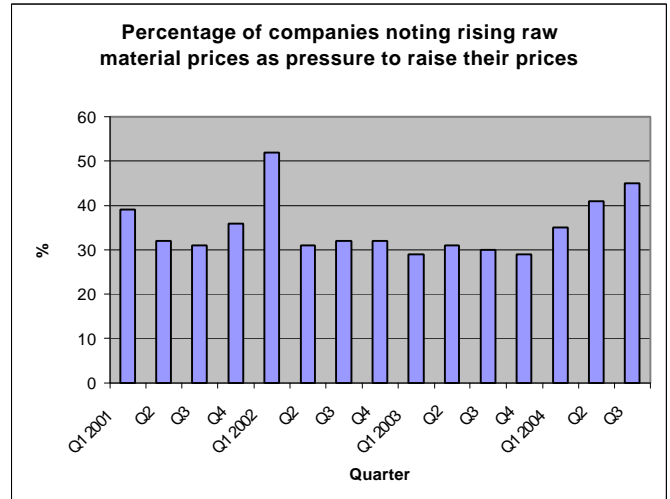
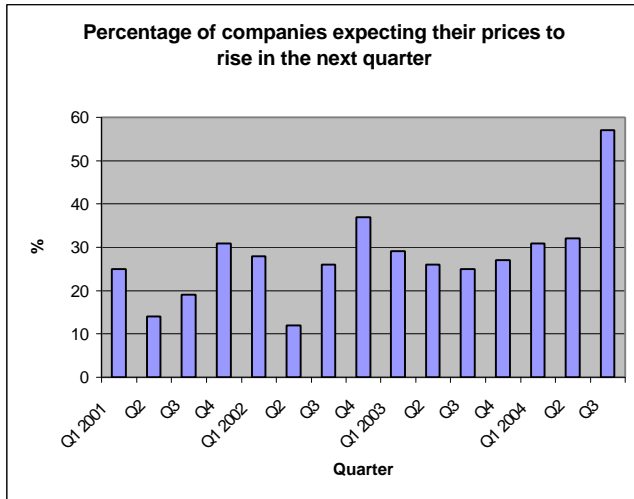


- 8 out of 10 employers **trying to recruit** over the period experienced difficulties in doing so, with a particular rise in problems recruiting managerial posts. A noticeable trend over the last 2 years has been the diminishing difficulties in finding skilled manual staff.



- At +37%, plans for **investment in plant and machinery** were at their highest level since the start of 2001. At +21% the plans for investment in training were also above trend.

- The level of anticipated **profits** showed a healthy balance of +34%.
- A +52% balance of companies anticipating their **prices** to rise compared to an average of around +25% was also very significant.



- The main cause of this **pressure on prices** seemed to be the rising cost of raw materials with 45% citing this as a price pressure compared with the previous two-year average of 32%.
- This trend for rising prices showed itself on the section about **concerns for business** with 31% citing inflation as more of a concern than previously, compared with just 6% at the start of the year. Traditionally the highest ranking concern, competition from other companies, this time only 15% regarded it this quarter as more of a concern than previously.

Local Analysis

East Riding of Yorkshire

- The core indicators of UK and Export sales and orders showed a similar picture to the Humber wide averages.
- This was somewhat confounded by the employment figures, with 38% saying that they had increased their workforce in the previous quarter. Importantly, of the 21 East Riding companies polled, not one expected their workforce to decrease in the coming 3 months.
- This relative confidence was reinforced by other indicators with 60% of the companies surveyed saying that cashflow had increased in the previous 3 months, compared to a Humber average of 42%. No company had plans to decrease their current investment in plant and machinery with only 13% planning to cut investment in training.
- Turnover expectations were particularly buoyant with 82% saying that they expected turnover to improve in the coming 12 months.
- Manufacturers in the area clearly saw rising raw material prices as a reason to raise their own prices

Northern Lincolnshire

- The core indicators of UK and Export sales and orders showed a similar picture to the Humber wide averages, though manufacturers in North Lincolnshire seemed to have fared worse than other manufacturers in the Humber.
- Both current employment and anticipated employment were fairly constant.
- As with the Humber, the two main categories experiencing problems with finding labour were both skilled manual and professional and managerial.
- Only 7% said they were planning to cut both investment in plant /machinery and training, with the rest saying they would maintain current levels or increase.
- Turnover expectations matched the Humber average at around 60% anticipating an increase in the coming 12 months.
- Unsurprisingly, manufacturers again cited raw material costs as cost pressures upon their businesses while non manufacturers cited pay settlements as a pressure for them to raise prices.

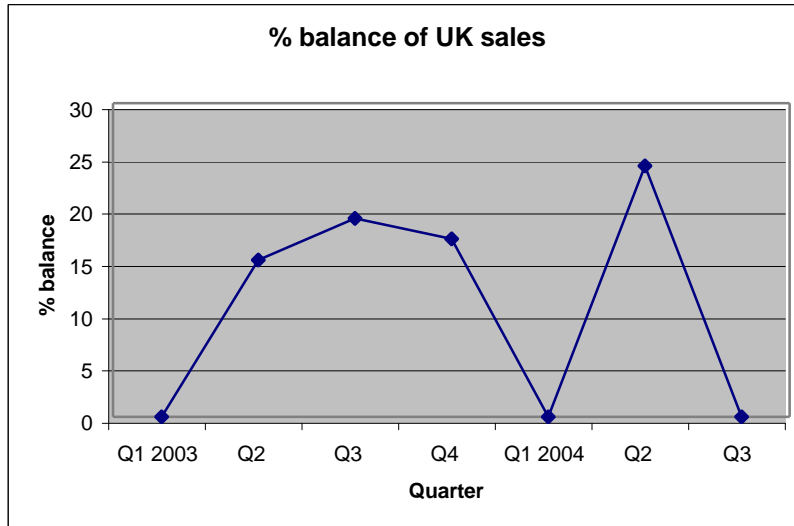
Hull

- The service sector seemed to perform quite well with none of the 14 companies reporting decreased indicators for their core sales and orders statistics. By contrast, manufacturing, normally strong in Hull, seemed less buoyant than normal.
- Overall figures for recruitment pointed to relative constancy similar to the Humber as a whole.
- All 14 non manufacturers said that their cashflow had remained constant in the previous quarter. They also all reported either rising or constant levels of investment.
- While manufacturers were balanced in reporting both anticipated rises and decreases in turnover and profitability, no company in the service sector expected their turnover or profit to decrease in the coming year and this was despite them admitting that nearly half of them were operating below capacity.
- Again for the service sector, pay settlements represented the biggest pressure to raise prices while the level of interest rates represented their largest concern compared to the previous 3 months. For manufacturers it was competition from other companies.

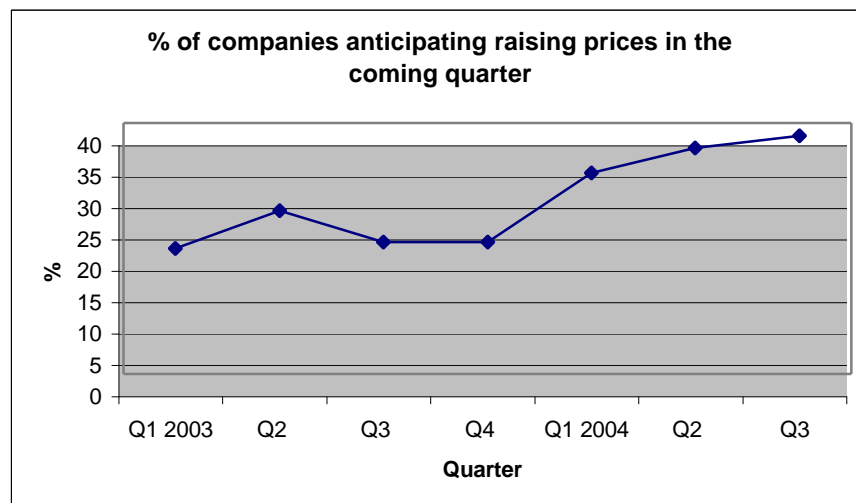
Sector Analysis

Humber Manufacturing

- Core manufacturing figures slumped again after an encouraging 2nd quarter, with all figures in the red except UK sales which showed zero balance. Export sales with a balance of -29% was particular disappointing.



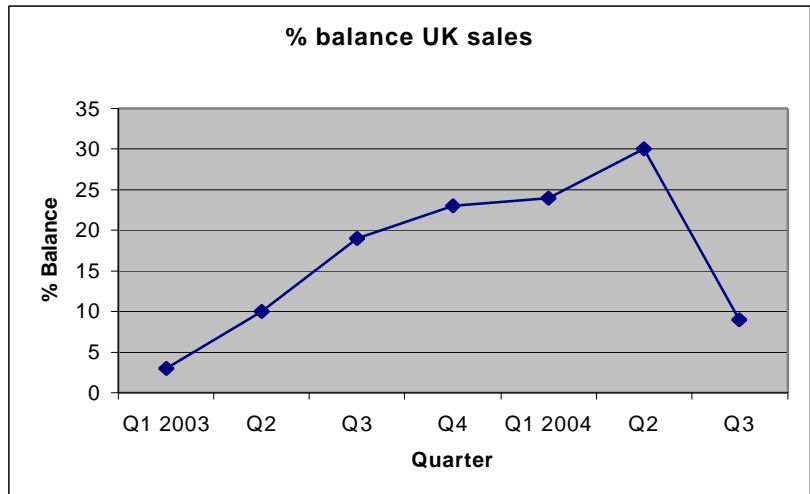
- To some extent this was reflected in recruitment in the period which was at -4%, though expected recruitment was more positive.
- Unlike the service sector the majority of jobs recruited for were full time permanent posts.
- However, a large 86% reported problems associated with recruitment, with 57% noting particular problems with professional/managerial posts compared with a previous average of 26%.
- However, confounding the core indicators were the balances for cashflow (+23%), investment in plant/machinery (+25%), investment in training (+23%). All these were significantly above their previous averages.
- And despite the poorish current performance, a balance of +48% of companies expected their profits to increase over the coming 12 months.
- Nearly 40% of companies expect their prices to increase in the coming quarter with 81% citing rising raw material costs as a reason for this.



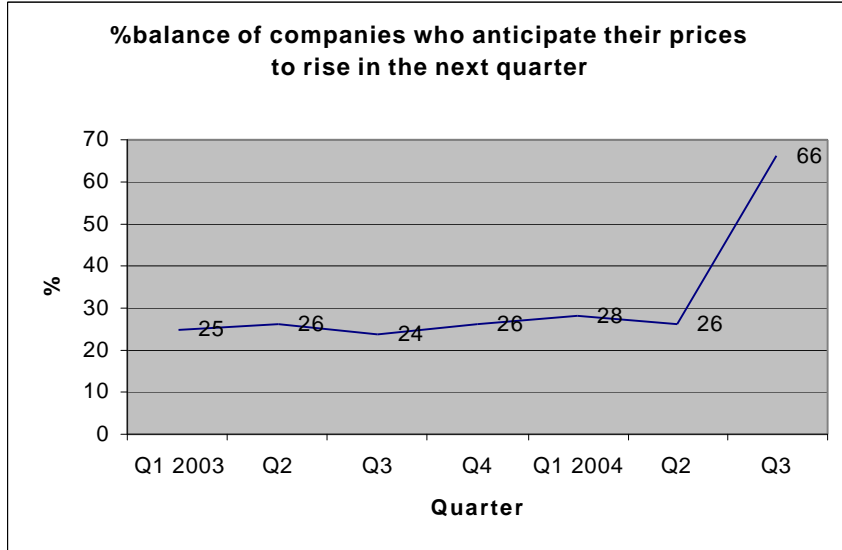
- Interestingly, concerns about inflation were the main concern for manufacturers with nearly a half (46%) saying it was more of a concern than previously with a noticeable decline in companies fearing competition.

Humber Services

- Both UK sales and orders for service firms in the Humber were disappointing compared with previous quarters with a balance of Humber service firms showing an increase in sales at +9%, compared the previous years average of +24%. The order books for the coming quarter were -8%.



- These disappointing figures did not seem to impact on employment figures which showed relative constancy of staffing levels. However, there was a sharp rise in part time and temporary workers with the number of temporary jobs offered (63%) more than double the previous quarter. 80% of companies attempting to recruit reported difficulties, though unlike the manufacturing sector difficulties were experienced across the board, including clerical and unskilled labour.
- However, like manufacturing, other indicators belied the poor core performances. For example, only 6% of companies experienced reduced cash flow and there were good levels of investment in plant/machinery (+44%) and training (+21%).
- More companies were expecting less in terms of profit with 52% of companies expecting their profits to stay the same in the next year and 32% expecting an increase.
- A substantial +66% balance of service companies expected to see their prices rise in the period up to Christmas, more than double the previous quarter average.



- The most popular contributory factor to these price pressures was pay settlements with 37% saying that this was the cause, 29% blamed other overheads.
- 34% of companies thought interest rates of increasing concerns and tax at 37%. Competition, the previous major concern troubled just 15% of those surveyed.

Comment

Overall this was a disappointing quarter following the positive signs in the first six months of the year. It clearly shows that the Humber economy is vulnerable to wider market forces and that in particular the putative recovery in manufacturing is still delicate. However, the downturn is UK wide so there is no indication of the Humber losing competitiveness.

Several interesting trends do present themselves. The sudden rises in the employment of part time and temporary staff may be a symptom of growing unease, though generally positive profit expectations added to strong levels of investment and training make the picture less easy to read.

Employment difficulties persist with 80% of those companies recruiting over the last quarter reporting some problem. In particular recruiting managers and professionals was cited as increasingly problematic while increasingly fewer employers seemed to identify finding skilled labour as an issue, a sign perhaps that work on the skills agenda over recent years is bearing fruit. However, with more young people attending university and leaving with graduate level qualifications, it is a concern that obtaining professionals and managers should be such a problem. The national results for such statistics appear more benign raising the suspicion, corroborated anecdotally on various occasions, that the Humber as a destination is not appealing to prospective candidates for these positions.

Another key trend from the Humber results was the clear evidence of companies, in both manufacturing and services, to raise prices in response to rising costs. As in previous quarters, the pressure for manufacturing companies came from rising raw material costs while for the service industry, pay settlements were having the largest impact. Unsurprisingly these pressures on companies to raise prices has in turn resulted in inflation arriving at the top of business concerns.