

Quarterly Economic Survey Quarter 1 2005 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 2005.

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%

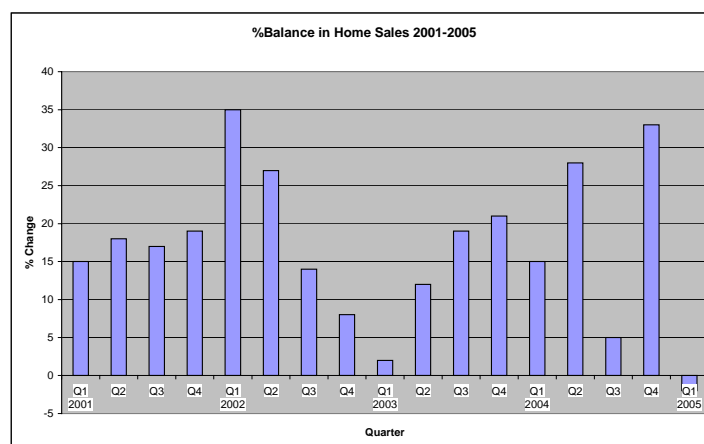
Possible Statements

- 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.

47 Companies took part in this Quarter's study

General (Manufacturing and Services)

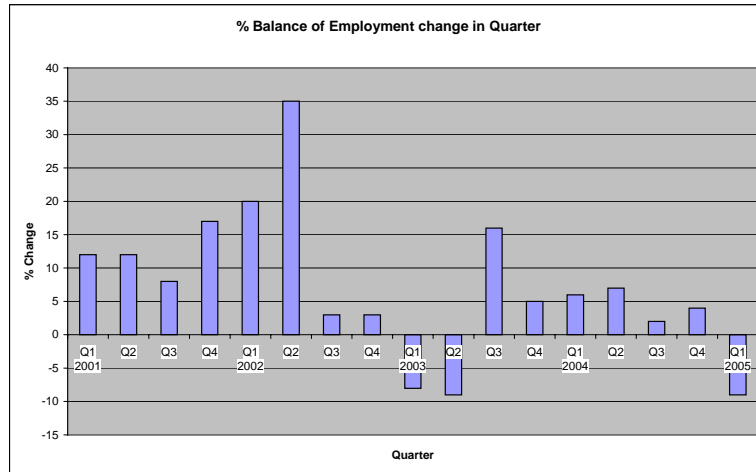
- Both **UK sales** (-2%) and **UK orders** (-2%) took a distinct turn for the worse this quarter. It was the first time in 4 years that UK sales in the Humber had produced a negative balance.



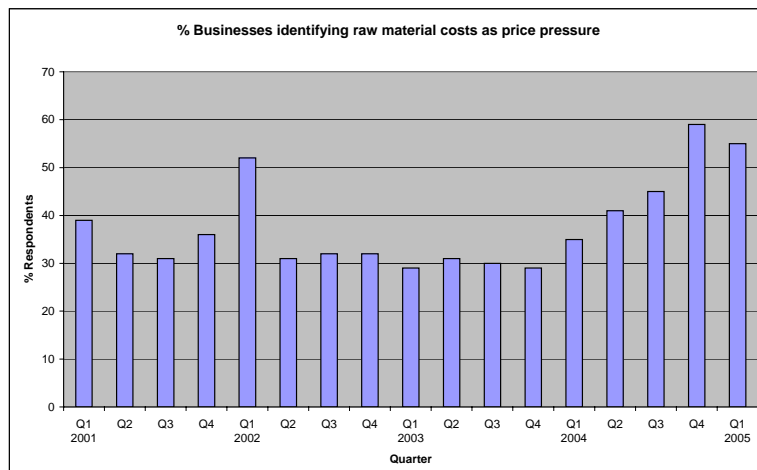
- On the contrary, **export sales** at +22% showed a surprisingly positive quarter. The result was the best balance for several years. For a second quarter running **export orders** showed

an even balance for increases and decreases, which was consistent with longer terms trends.

- Almost a quarter of respondents said they had decreased (24%) their **workforce** in the last quarter, with 61% reporting no movement and 15% an increase in workforce. This –9% balance contrasts with the 3 year average of +9%. It also contrasts strongly with the largely positive +17% balance of companies expecting to recruit over Quarter 2 2005.



- 44% of companies surveyed said they had tried to **recruit** in the January to March period, which compares to the previous 3 year average of 57%. There was an equally revealing result from the types of job recruited for with an uncharacteristic emphasis on part time jobs as opposed to full time jobs.
- **Investment** decisions in plant/machinery and training did not seem to be adversely affected by the sales and orders results, with reported levels around the average.
- Similarly balances for **turnover** (+42%) and **profit expectations** (+36%) continued broadly in line with yearly averages.
- Following the previous quarter's leap to 42% **capacity utilisation**, the first quarter for 2005 returned to its traditional level at around 30% full capacity utilisation.
- In a similar vein, figures for anticipated **price increases** returned to long term averages from the high balances of the last two quarters of 2004 (+52% and +62% respectively) with the balance for the Quarter 1 2005 at +23%.
- Raw material prices were again prominent in the list of reasons for **raising prices** with over 50% saying that high raw material costs were putting pressure on them to raise prices.



- 36% of companies registered inflation as being more of a **concern** than previously, which compares to just 6% in the same period last year.

Comment

The abrupt downturn in domestic sales and domestic orders is concerning and reflects much anecdotal evidence of a slowdown in trading conditions, especially in the retail sector. With concerns about high credit spending getting out of control, difficulties of mortgage repayments and the much reported pensions crisis, it is little wonder that consumers seem to be tightening their belts to adjust to the new conditions and that this in turn is having a knock on effect throughout the economy.

The relative downturns in indicators for employment, recruitment levels and the type of employment (increasingly part time) seem to reflect these macro economic concerns. However, It is interesting to observe that the indicators for investment decisions and turnover expectations seem to be relatively unaffected by the sales data but this could be due to companies not yet adapting to changed trading conditions. It will be interesting to see the results for these indicators for the April to June quarter and to see if companies are cutting back on investments of both kinds and whether the hard trading conditions of the first 3 months will impact upon their financial expectations.

The return down of anticipated price rises to its normal levels after substantial rises at the end of the year also might indicate that companies are not willing to raise prices at a moment of overall uncertainty for future trading conditions. Raw material prices continue to cause concern to business as they seek to control costs and it is no surprise that inflation is back on the table as a main source of external concerns to businesses.

**Hull and Humber Chamber of Commerce
May 2005**