

High interest rates and overheads put pressure on Humber business

Concern among businesses in the Humber region over interest rates has reached a new high, the latest results from the Chamber's Quarterly Economic Survey have revealed.

48% of businesses said that they were more concerned about interest rates now than they were three months ago: more than double the figure from the same period last year.

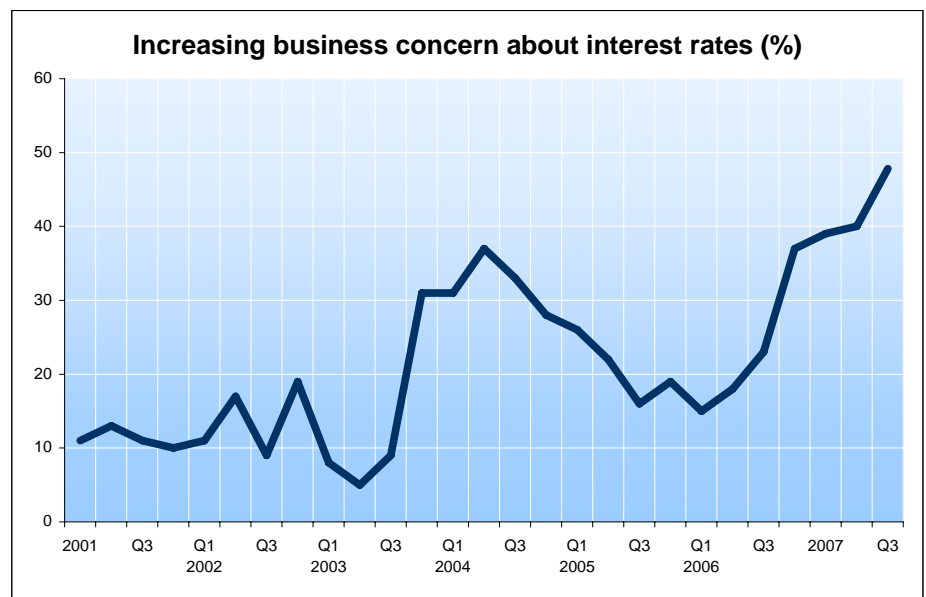
The Bank of England maintained its base rate at 5.75% for the third month running in October, but many analysts predict a cut later this year as the global credit crunch is felt.

Finance costs were also a concern in Q3 for 23% of respondents, up from 15% in the previous quarter.

Rising property prices, fuel costs and utility bills are meanwhile making life difficult for some businesses, with 58% saying overheads are putting them under pressure to increase their prices.

The result was 14 percentage points higher than in the previous two quarters, and the highest since Q4 2003.

Costs for businesses transporting goods are likely to rise further in Q4 following the 2p increase in fuel duty which came into effect on 1st October.



The last Budget revealed another 2p rise next April, and a further 1.84p rise in April 2009.

Energy bills are also likely to continue to rise in the face of climate change.

The Chamber has recently been encouraging businesses to look at how they can reduce their energy bills.

A representative from The Carbon Trust spoke to members in Scunthorpe on the subject last month.

Employment up in Q3

The balance of employment was at its highest in the last quarter since Q2 2002.

Excluding seasonal variations, 28% of businesses said that their workforce had increased between July and September 2007, with a balance of +20.

Expected employment for the next quarter was also positive, as businesses reported their highest Q4 expectations for five years.

30% of businesses expected their

workforce to increase over the next three months, compared to 11% expecting it to decrease.

However, of the 53% of businesses which tried to recruit in Q3, 57% said that they had experienced difficulties.

Skilled manual staff were the hardest to recruit, with 44% of employers reporting difficulties.

Management positions were easier to fill than in Q2 but 31% still found recruitment difficult.

Results at a glance

- Business at home has improved on last quarter. The balance of home sales increased 11 points to +21, while home orders rose to +18 points.
- Export sales (+6) and export orders (+5) also increased in Q3.
- Employment levels rose 13 points to +20, but expected employment over the next three months fell back from +23 to +19.
- Balances for turnover fell 9 points to +48, but profit expectations rose 3 points to +39.
- A third of businesses saw their cashflow increase in the last quarter, but the balance fell from +11 to +10.

Results are from the Chamber's Quarterly Economic Survey for Q3 2007, conducted in September 2007.



About the survey

The Hull & Humber Chamber of Commerce Quarterly Economic Survey is part of the largest and most representative survey of its kind in the UK, forming part of the British Chambers of Commerce QES.

Hull & Humber Chamber of Commerce has 1,700 member companies of all sizes and sectors from across the Humber region. This survey is supported by regular 'state of trade' reports at Chamber Council and Area Council meetings.

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 seasonal variations during the past 3 months, have your UK sales:

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

More information

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Mixed picture for cashflow

The proportion of businesses reporting an increase in cashflow is at its highest for four years.

34% of businesses said that their cashflow had increased in Q3, compared to 26% for the previous two quarters.

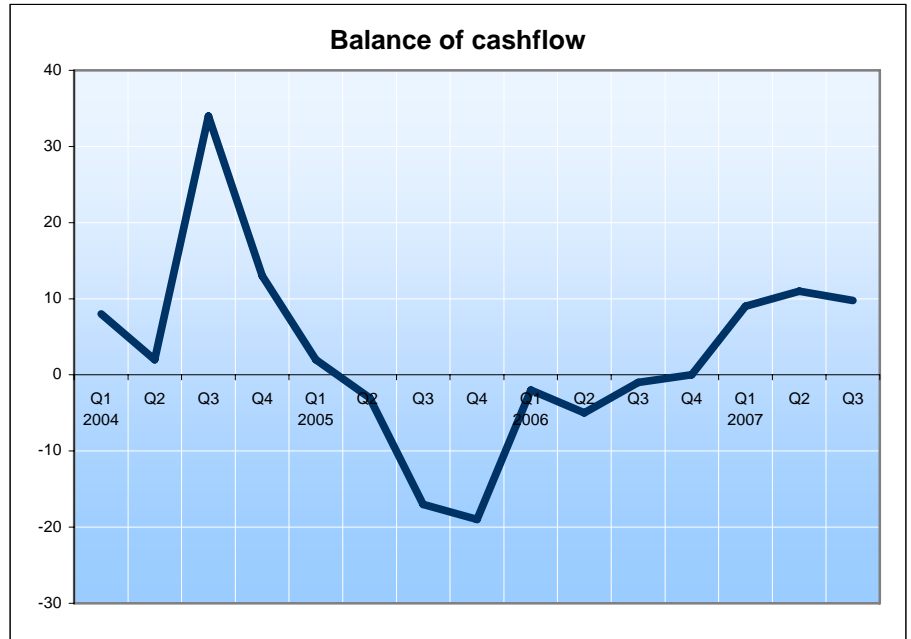
However, overall the picture was less rosy than in the previous quarter, with 24% of businesses reporting a decrease in cashflow.

This compares to 15% in Q2, and gives a balance of +10 for Q3.

Expectations of increased turnover and profits for the next 12 months were fairly constant with Q2.

Overall, though, the balance of turnover expectations was down 9 points on Q2 to +48.

Profit expectations were up 3 points to +39.



Investment up on previous quarter

Planned investment in plant and machinery has improved from Q2.

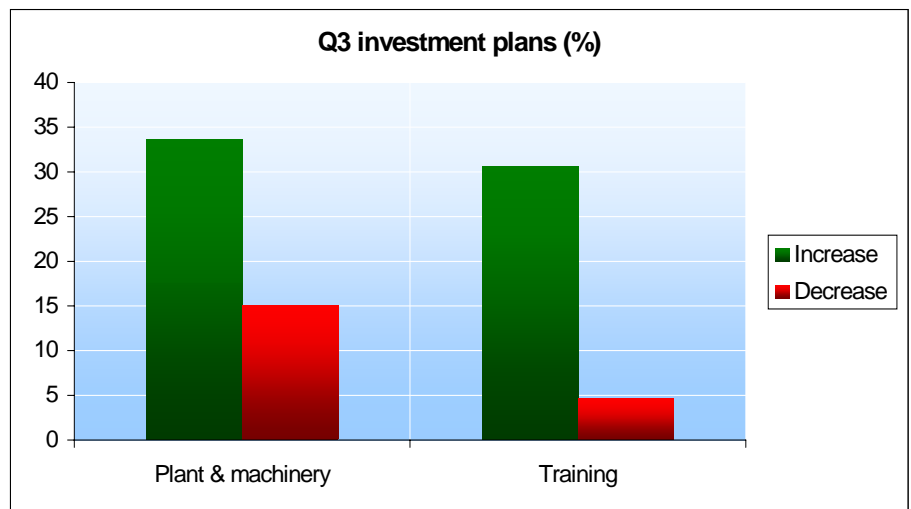
34% of businesses were planning to increase investment, taking the balance to +19.

The proportions of businesses planning increased investment for the same periods in 2005 and 2006 were 19% and 27% respectively.

There was also a positive picture for investment in training.

31% of businesses planned investment in this area, with a balance of +26.

This was again an improvement on 2005 and 2006, when the figures for the same period stood at 14% and 24% respectively.



Sales recover from poor Q2

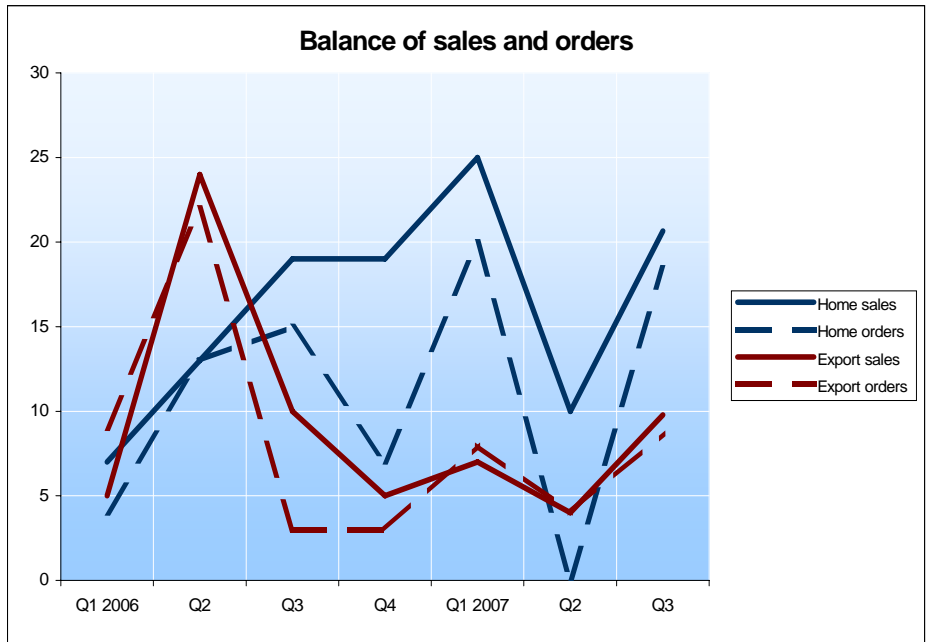
Domestic sales and orders showed a recovery from a poor Q2 in Q3.

The balance for home sales in Q3 was up 11 points to +21, with 37% of businesses reporting an increase. This compares to a figure of 24% in Q2.

Increases in home orders were reported by 34% of businesses, up from 19% in Q2, with a balance of +18.

Growth in export sales and orders was slower but remained steady when compared to the previous quarter.

The balance was, however, better than Q2 at +10 for sales and +9 for orders.



The national picture

The domestic market

The manufacturing sector's domestic balances recorded mixed movements. The net balance for home sales rose to +36% in Q3, from +31% in Q2, and was highest equal on record (since the current series started in 1989).

The balance for manufacturers' home orders fell 3 points in Q3 to +26%, still a historically high level.

The service sector's domestic balances recorded falls in Q3, but both remained at adequate levels. The net balance for home sales fell 7 points to +29%. The net balance for home orders fell 1 point to +23%, lowest since Q3 2006. The Q3 service sector home balances are weaker than the Q3 manufacturing balances.

Export market

The manufacturing sector's export performance worsened marginally in Q3, but the Q2 gains were mostly kept. The export sales balance fell 1 point to +29%. The export orders balance remained unchanged, at +26%. The service sector's export balances worsened in Q3 for the third month in a row. The balance for export sales fell 2 points to +18%. The balance for export orders fell 2 points to +11%. Both balances were at their lowest since Q4 2004.

Employment

The manufacturing employment balance rose 3 points in Q3 to +20%, highest since Q3 1996. The employment expectations balance rose 5

points to +19%, highest since Q1 2005. In the service sector, the employment balance was unchanged, at +21%. The employment expectations balance fell 9 points to +24%, lowest since Q4 2006.

Investment

The Q3 manufacturing figures rose further. The balance of firms planning to increase investment in plant & machinery rose 5 points to +33%, a record high. Intentions to invest in training rose by 13 points to +35%, also a record high. In services, the balance of firms planning to increase investment in plant & machinery fell 2 points to +17%, lowest since Q2 2006. The service balance for intentions to invest in training rose 1 point to +32%.

Business confidence

The manufacturing sector's turnover confidence balance fell 9 points in Q3, to +52%, still satisfactory. Manufacturing profitability confidence fell 2 points to +35%, still adequate. The service sector's Q3 confidence balances recorded improvements, and are relatively high. Turnover confidence increased 4 points to +59%. Profitability confidence rose 1 point to +47%.

Capacity utilisation and cashflow

The proportion of firms operating at full capacity in Q3 rose 7 points to +45% in manufacturing, and 2 points to +42% in services. Cashflow fell 3 points to +14% in manufacturing, but rose 1 point to +16% in services.

Prices

The balance of manufacturing firms reporting pressure to raise prices increased 8 points in Q3, to +32%. In services, the balance of firms expecting to raise prices was unchanged, at +28%. Both Q3 balances are below Q4 2006 peaks.

Economic climate

Economic prospects, UK & global, have worsened following the Northern Rock crisis and the wider credit problems. The Q3 QES results are mixed. Though many manufacturing balances are strong, most service sector balances show disappointing falls. Given the weight of services in GDP, the Q3 results point to weaker overall performance. Manufacturing sector balances are stronger for home sales, but weaker for home orders. Manufacturing balances improved for employment, employment expectations and investment; but cashflow is weaker, and lower confidence balances are a cause for concern.

The service sector recorded Q3 falls in its balances for domestic sales & orders, export sales & orders, plant & machinery investment, and employment expectations. Though cashflow and confidence are stronger, the service sector's overall Q3 performance clearly worsened. Intentions to raise prices in Q3 were stronger for manufacturing, and unchanged for services. Relatively strong price pressures, though below the Q4 2006 peaks, signal risks of 'stagflation'.



The regional picture

Local businesses are leading the way in the Yorkshire and Humber region when it comes to investment in training, a comparison of Q3 2007 QES data shows.

At +26, businesses in Hull & Humber had the highest balance of investment in training, followed by York & North Yorkshire on +25 and Doncaster on +22.

Rotherham scored the lowest with a balance of -5.

Hull & Humber also scored well on employment in Q3. It was 10 points above the regional average of +11, although at +19 employment expectations were below the average of +23.

However, confidence among businesses was the lowest in the region except for Bradford, which had a balance of +37 for turnover expectations compared to Hull & Humber's +48.

The most optimistic businesses were in Doncaster (+70), Leeds (+68) and Mid Yorkshire (+65).

Cashflow in Hull & Humber matched the regional average of +10 in Q3. The stand-out result was York & North Yorkshire with +44, which was more than twice that of the nearest competitor.

Balances

	Hull & Humber	Yorks & Humber
UK sales	21	21
UK orders	18	13
Export sales	10	6
Export orders	9	4
Employment	20	11
Future employment	19	23
Cashflow	10	10
Investment: plant	19	13
Investment: training	26	15
Turnover expectations	48	57
Profit expectations	39	44
Prices	36	26

Hull & Humber also matched the regional average for domestic sales, and was ahead on UK orders.

Local businesses scored better than most in the region on the export markets, with sales standing at +10 and orders at +9, compared to a regional average of +6 and +4.

Prices locally are among the likeliest to rise, at a balance of +36 compared to an average of +26 and are second only to Barnsley's +38.

Comment



Dr Ian Kelly

Chief Executive,
Hull & Humber Chamber of Commerce

Businesses in the Hull & Humber region have fought back from a difficult second quarter to produce some positive results.

Sales and orders at home and abroad are both showing signs of growth, and businesses are optimistic about the future.

Yorkshire-wide figures show that Hull & Humber is doing well on training but still has some way to go before it can match its best performing neighbours on other measures.

High interest rates are putting increasing pressure on businesses across the country. The MPC may need to consider a cut before too long.

Overheads are also causing problems for businesses, with high energy bills a concern.

It's not the easiest of times for business but with investment plans above the regional average the results from Q3 are encouraging.

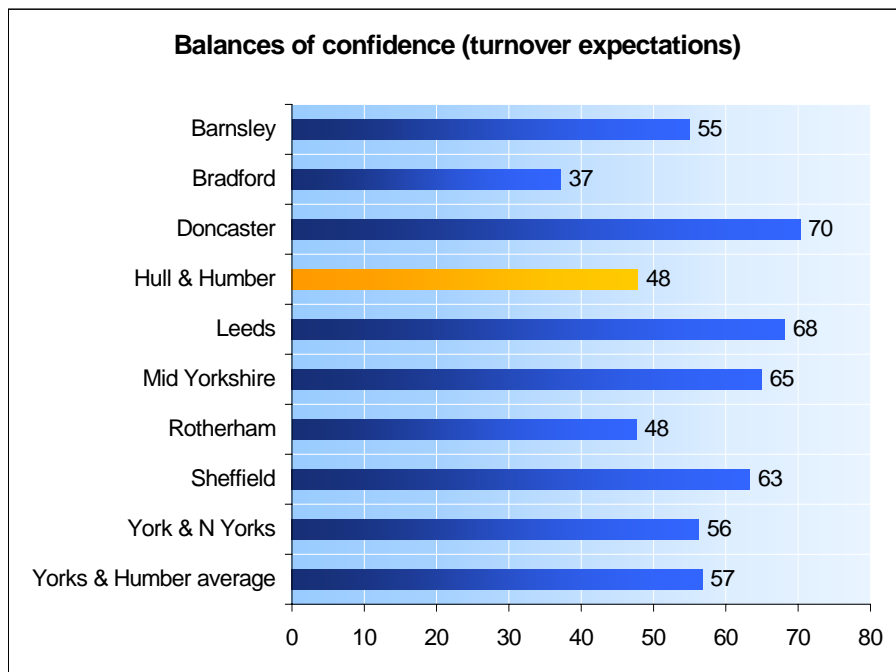
David Kern

Economic Adviser, BCC

The results of this survey show that the MPC must cut interest rates in November. An early cut in interest rates will reduce the need for larger and riskier cuts later on.

Small businesses face growing threats in the year ahead. The Chancellor has reduced his growth forecast whilst using the PBR to hit entrepreneurs. By reducing rates next month the MPC can help businesses through what are likely to be turbulent times.

Balances of confidence (turnover expectations)



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Results in full

		2006		2007					2006		2007		
		Q3	Q4	Q1	Q2	Q3			Q3	Q4	Q1	Q2	Q3
Home sales ²	Increased	36	41	41	24	37	Cashflow ²	Increased	23	30	26	26	34
	Constant	47	38	42	62	47		Constant	54	41	56	59	42
	Decreased	17	22	16	14	16		Decreased	24	30	17	15	24
	Balance	19	19	25	10	21		Balance	-1	0	9	11	10
Home orders ²	Increased	34	31	34	19	34	Investment: Plant/machinery ²	Increased	24	27	38	25	34
	Constant	47	45	52	61	51		Constant	67	64	51	67	51
	Decreased	19	24	14	19	15		Decreased	10	9	12	8	15
	Balance	15	7	20	0	18		Balance	14	18	26	17	19
Export sales ²	Increased	23	25	21	13	14	Investment: Training ²	Increased	27	22	33	29	31
	Constant	65	55	65	78	82		Constant	63	70	59	63	65
	Decreased	13	20	14	9	4		Decreased	11	7	8	8	5
	Balance	10	5	7	4	10		Balance	16	15	25	21	26
Export orders ²	Increased	16	22	23	13	12	Turnover expectations ⁴	Improve	61	56	60	63	62
	Constant	72	59	63	78	85		Same	31	30	24	31	24
	Decreased	13	19	15	9	3		Worsen	8	15	16	6	14
	Balance	3	3	8	4	9		Balance	53	41	44	57	48
Workforce ²	Increased	29	27	25	23	28	Profit expectations ⁴	Improve	52	50	54	54	55
	Constant	59	62	60	57	63		Same	31	32	26	28	28
	Decreased	12	11	15	20	9		Worsen	16	18	20	18	16
	Balance	17	16	10	3	20		Balance	36	32	34	36	39
Workforce expectations ³	Increase	23	30	30	33	30	Capacity utilisation ¹	Full capacity	34	29	45	40	41
	Constant	72	60	60	57	59		Below capacity	66	71	55	60	59
	Decrease	4	10	11	10	11	Prices ³	Increased	51	43	41	28	40
	Balance	19	20	19	23	19		Constant	47	51	57	66	57
						Decreased		1	6	2	6	3	
Recruited staff ²	Yes	55	53	51	60	53	Balance	50	37	39	22	36	
	- Part time	24	27	23	33	23	Price pressures ¹	Pay settlements	30	20	38	32	27
	- Full time	76	73	77	67	77		Raw materials	39	44	36	38	41
	- Temporary	32	34	29	34	31		Finance	13	17	23	15	23
	- Permanent	68	66	71	66	69	Other overheads	48	54	44	44	58	
	No	45	47	49	40	47	External concerns ¹	Interest rates	23	37	39	40	48
Recruitment difficulties ²	Yes	55	58	58	51	57		Exchange rates	21	24	23	32	26
	- Skilled manual	38	45	36	25	44		Business rates	13	30	21	13	20
	- Management	31	40	48	38	31		Inflation	25	29	38	35	34
	- Clerical	18	26	10	15	29		Competition	27	33	26	35	29
	- Unskilled/semi-skilled	26	17	20	15	8		Tax	31	39	37	25	38
No	45	42	42	49	43								

Key: 1 = Current; 2 = Past 3 months; 3 = Next 3 months; 4 = Next 12 months