



Quarterly Economic Survey

Quarter 2, 2017

www.hull-humber-chamber.co.uk

Overview

Home sales and orders climb as exports ebb

HOME Sales and Orders both climbed further into positive territory during the second quarter of the year, according to the latest Economic Survey results.

Research by the Hull & Humber Chamber of Commerce reveals that eight per cent more firms said that their order books had increased, with the balance figure rising by six points.

Home orders were also on the up overall, with the balance figure rising a further four points higher than in the first quarter of the year.

It was a different story for Export Sales and Orders this time around. Both sectors reported strong increases during the first quarter of the year, but these have now fallen back, with the balance figure dropping nine points to 29, with Export Orders dropping back five points, although both sectors are still much stronger than they were for most of the previous year.

Perhaps unsurprisingly set against a Brexit backdrop, businesses' biggest concerns last quarter were exchange rates (up 10 points on Q1) and inflation (up a further seven points on the first quarter). Fears over increased competition and tax were also a concern to business leaders in the Humber, while concerns over a hike in interest rates continued to recede.

Concerns over pay settlements also rose slightly, up by one per cent, but raw material and finance pressures ebbed away a bit in this quarter of the year.

Turnover and profit expectations also took a hit in Quarter Two. The balance

figure for Turnover Expectations for the next three months fell 27 points this time around, but was still ahead of the last two quarters of 2016.

Fewer firms said they expected to see their profits increase in the next three months, with the balance figure falling back a modest three points, but again, was more positive than in the last six months of 2016.

More companies said they were planning to invest in Plant and Machinery in the next three months, with the balance figure rising by 14 points, but remaining in negative territory.

Plans to invest in training in the next three months was a mixed picture. Nine per cent of firms said they would increase their investment, while 11 per cent of respondents said they would cut back on plans, but the balance figure saw only a slight reduction of two points.

Fewer firms said they were considering recruiting new staff in the next three months, with the balance figure dropping seven points, to 11.

In recruitment, skilled manual workers were proving to be the hardest to find this quarter, while clerical staff were also proving more difficult to source.

The management and unskilled sectors also saw an increase in firms expressing difficulty in filling vacancies with suitable candidates.

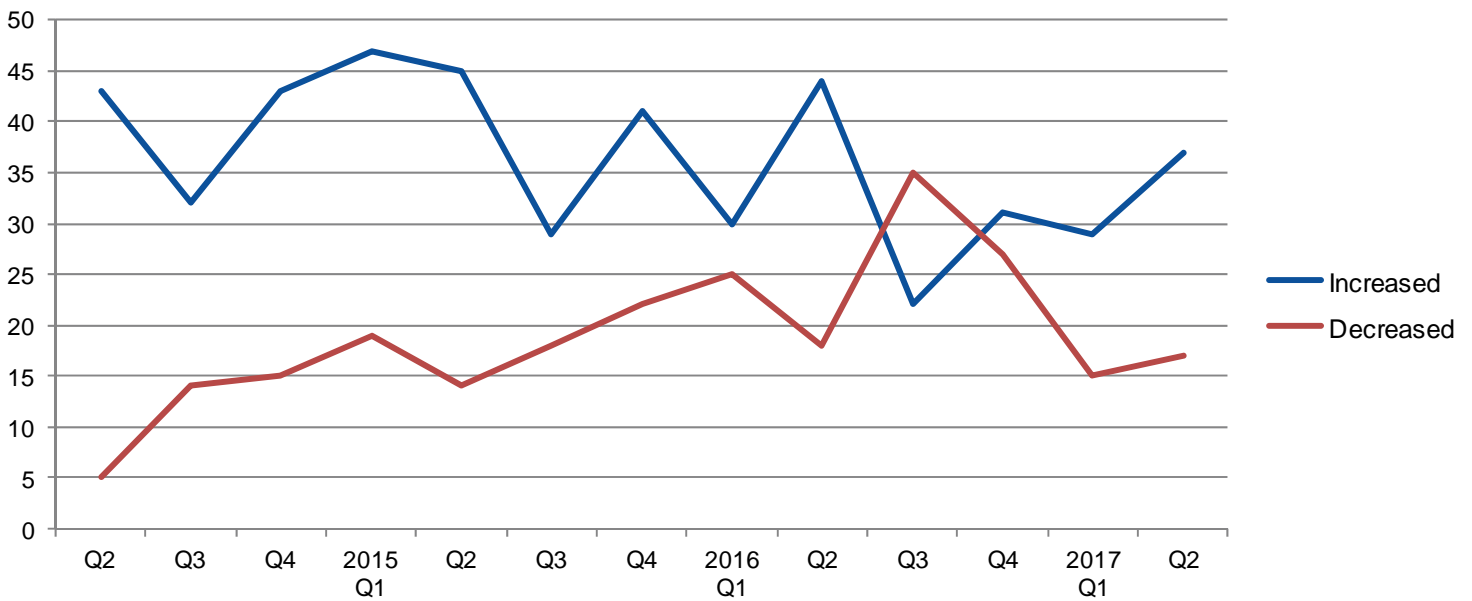
The number of firms which said they were working at full capacity, was also down nine per cent this quarter.

Key balances

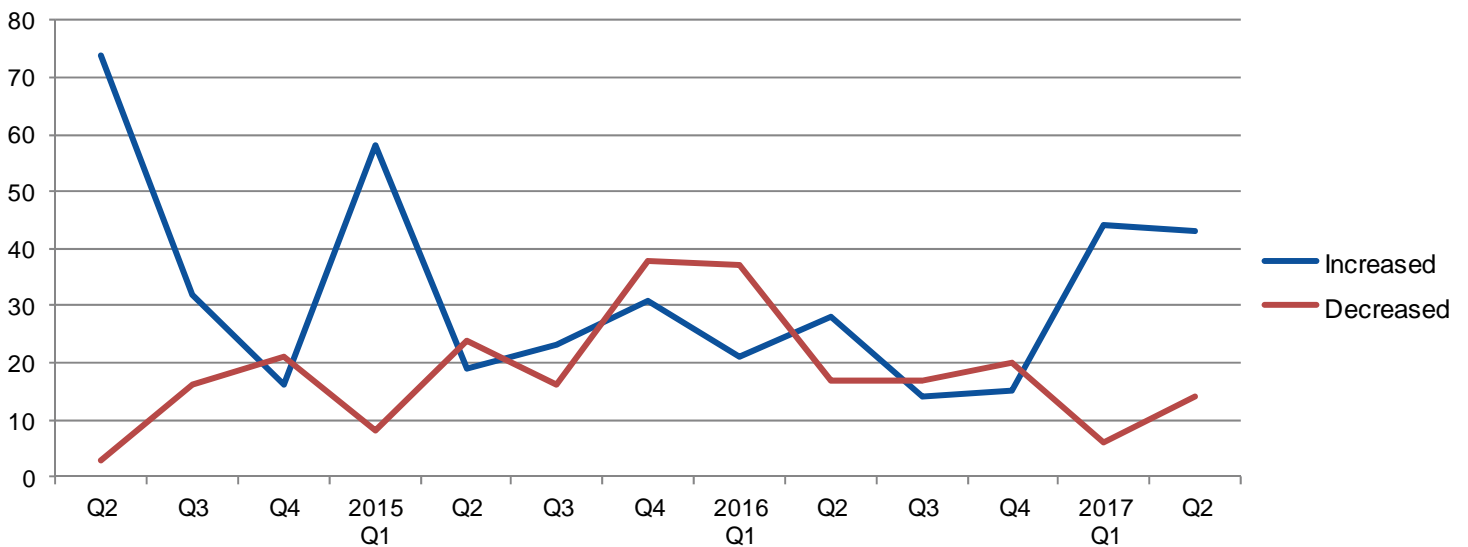
- Home sales balance rose 6 points to 20.
- Home orders balance rose four points to seven.
- Export sales fell nine points to 29.
- Export Orders fell five points to 33.
- The overall employment balance figure fell by 2 points.
- Fewer firms were planning to recruit in the next 3 months—down seven points.
- Clerical staff were the hardest to find—up 22 points.
- Inflationary fears rose by 7 points.
- Exchange rate concerns were also up—by 10 points.
- Increasing competition was another concern—up by 5 points.

Key indicators

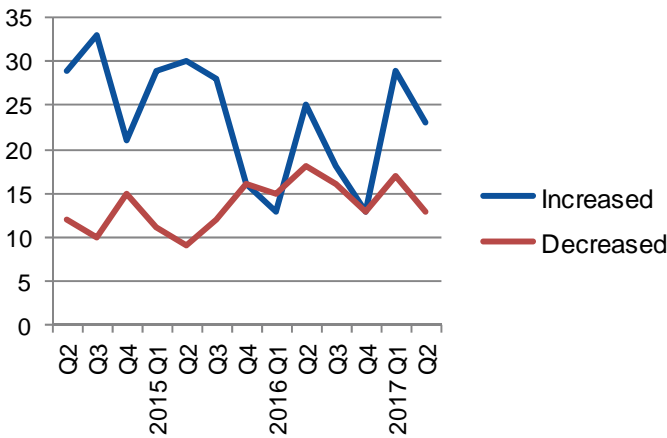
Home sales



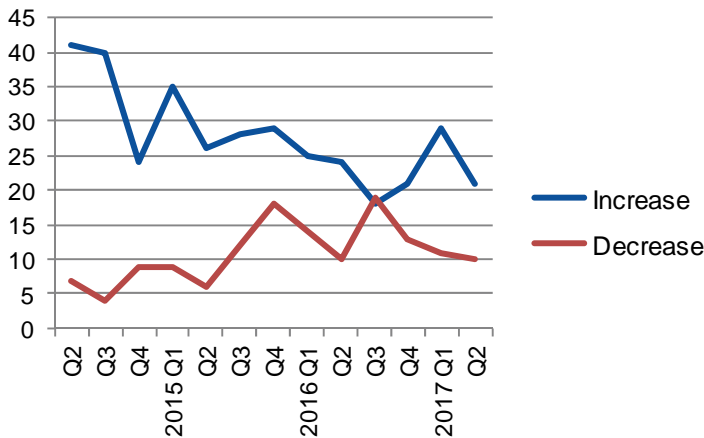
Export sales



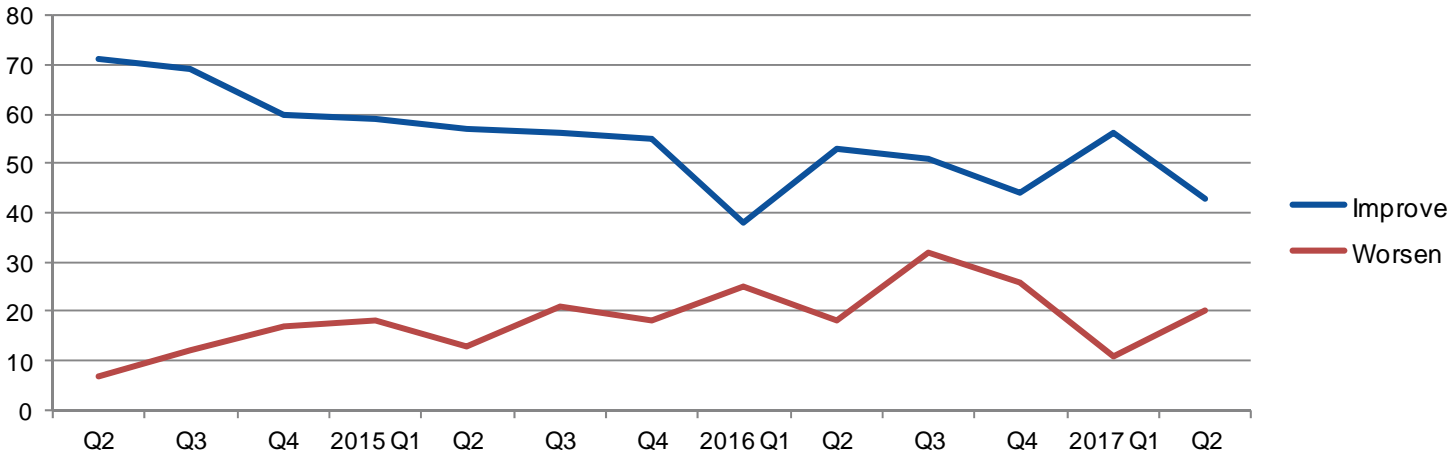
Employment



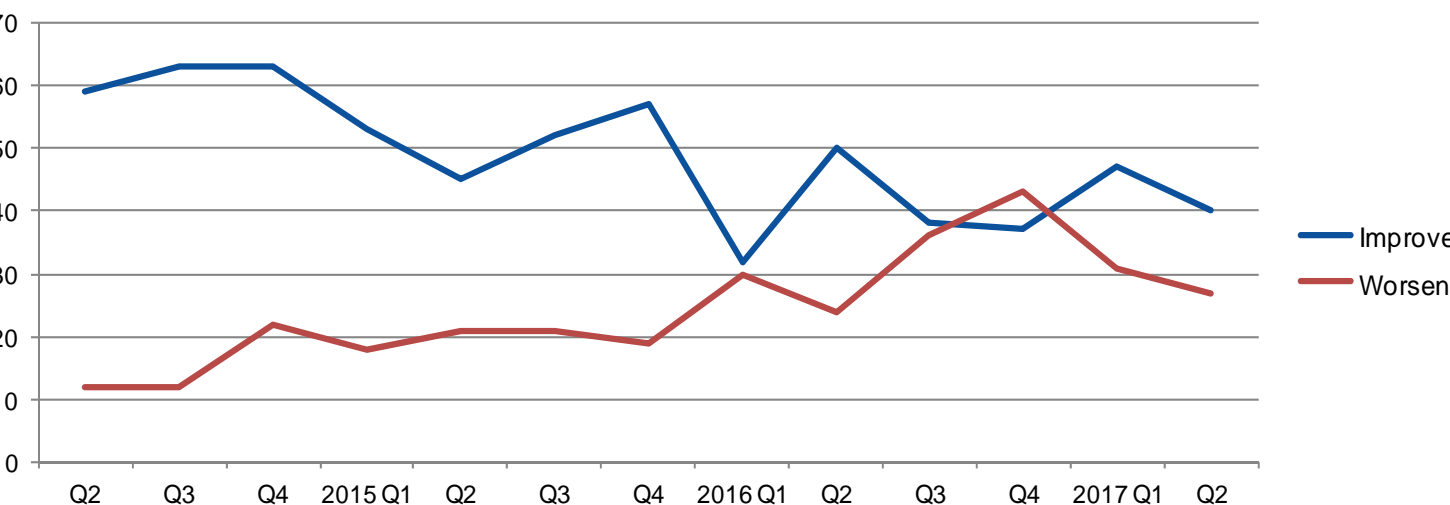
Employment expectations



Turnover expectations

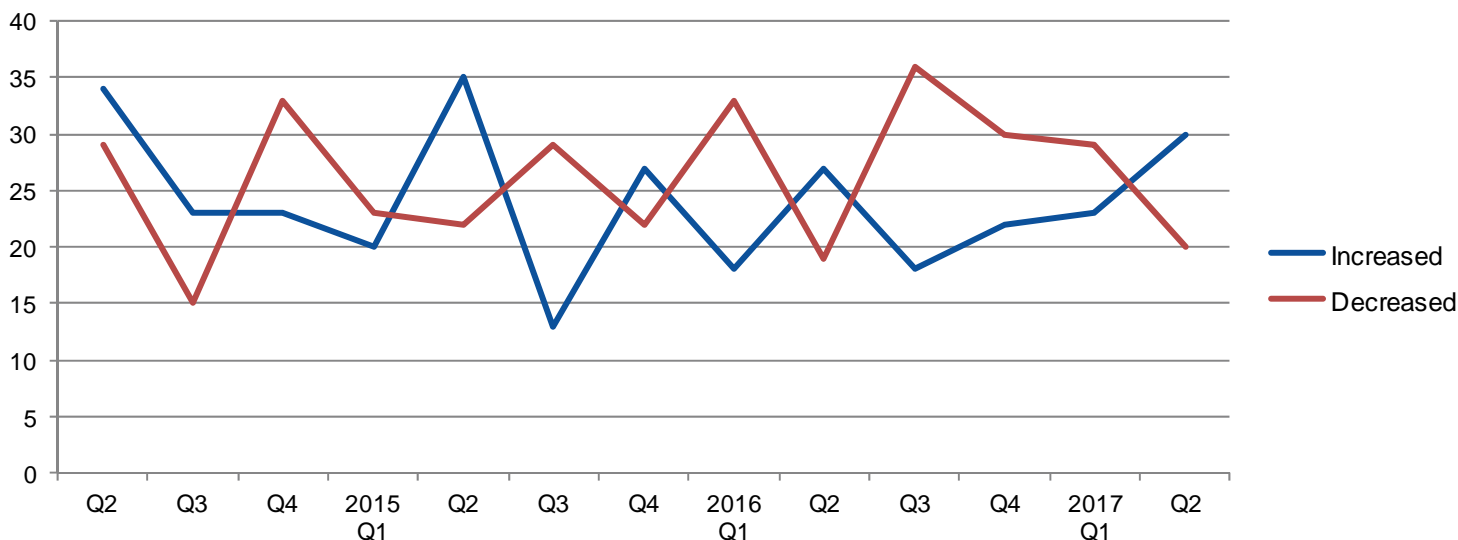


Profit expectations



Key indicators (continued)

Cashflow



About the Quarterly Economic 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 2,000 member companies and affiliates of all sizes and sectors 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 three 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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National picture

Subdued growth in Q2 amid challenging business conditions

British Chambers of Commerce

The British Chambers of Commerce co-ordinates the QES on behalf of 52 accredited Chambers across the UK.

The BCC results are closely analysed by the Bank of England's Monetary Policy Committee and HM Treasury, making the QES one of the most influential business surveys in the country.

For further information on the national results go to www.britishchambers.org.uk.

THE British Chambers of Commerce (BCC) Quarterly Economic Survey is the UK's largest and most authoritative private-sector business survey. Based on the responses of over 7,700 businesses in Q2 2017, the results for both sectors indicate that the UK economy grew at a subdued rate in the second quarter of 2017.

The services sector, a key driver of UK economic growth, saw indicators of domestic activity, employment and investment continue to weaken slightly in the quarter. Consumer-facing industries such as retail outlets and hotels reported weaker growth rates compared to B2B businesses in the quarter.

The survey shows export sales and orders in the manufacturing sector remain solid and well above historical averages. While export activity increased marginally in the services sector, it remains below historic levels.

The balance of firms expecting prices to rise has decreased across both sectors, but remains close to the historically high levels seen in the wake of the EU Referendum. The percentage of manufacturers reporting raw materials as the key driver of increased prices remains near record highs.

The findings indicate that while confidence in future turnover and profitability is improving, the balance of service firms revising their investment in training upwards is also at historical lows, particularly for retailers and wholesalers. Both sectors report low levels of improvement in cash flow.

Key findings in the Q2 2017 survey:

- Overall, the figures for both sectors indicate static growth, with the services sector remaining below historic levels
- The percentage balance of manufacturing firms expecting the price of their goods to

increase over the next three months has fallen slightly from the near-historic-highs reported in the previous quarter (from +47% to +34%), and fell in services from +32% to +28%

- However, manufacturers report continued pressure from the price of raw materials, with 60% reporting this as the cause of price increases (down from 76%). Pressure from financial costs also rose in both, rising from 12% to 15% in manufacturing and 9% to 13% in services
- In the manufacturing sector, the balance of firms reporting increasing domestic sales held steady at +20, while domestic orders fell slightly from +16 to +15. The balance reporting export sales rose marginally from +26 to +27 and export orders fell from +22 to +20
- In services, the balance of firms reporting increasing domestic sales fell from +22 to +19 and domestic orders fell from +19 to +15. The balance reporting increasing export sales rose from +10 to +13 and export orders also rose from +5 to +9
- The percentage of businesses in both sectors attempting to recruit fell somewhat but remain relatively high at 65% in manufacturing (down from 86%) and 49% in services (down from 59%). Of those, the percentage of firms facing recruitment difficulties dropped but remains high in both sectors at 64% (down from 74%) in manufacturing and 42% in services (down from 58%)

Confidence across the board held fairly steady in the second quarter. The balance of manufacturers confident that turnover would improve over the next 12 months rose from +44 to +46.

Analysis

Dr Ian Kelly

Chief Executive

Hull & Humber Chamber of Commerce

"It was good to see the domestic sales and orders sector recovering slightly this quarter, even though the exports sector has fallen back after showing a surge in the first part of the year.

"In the Humber the export sector is still stronger than it was for most of last year, so despite dropping back a touch this quarter, things are still looking encouragingly strong.

"Concerns over exchange rates, inflation and interest rates are to be expected at this time, but we hope businesses will continue to do what they do best, and it is encouraging to see many companies still planning to invest in new equipment and training in the coming months".

The National View

British Chambers of Commerce

"Our latest survey indicates that UK economic activity remains subdued in the second quarter of 2017.

"Services sector activity stuttered a little with a number of the key balances weakening this quarter. Consumer-focused industries were the worst performers - further evidence that rising inflation is dampening consumer activity. That said, the sector is likely to have been the key driver of second quarter growth. While the manufacturing sector enjoyed a solid quarter, the improvements are from a low base and the longer-term trends suggests that the sector's contribution to overall UK growth will not be enough to offset weaknesses elsewhere.

"The latest results also point to a continued pick-up in export activity for both service sector firms and manufacturers. The improving growth outlook for some of the UK's key international markets and the weaker Sterling have helped improve trading conditions for UK exporters.

"Rising inflation remains the key challenge for the UK economy this year. Consumer prices are likely to keep rising in the coming months as the recent sizeable increases in the cost of raw materials and other overheads filter through supply chains. However, while still high, the drop in the balance of firms expecting prices to rise indicates that price pressures at the factory gate have moderated a little".

Results in full

		2016		2017		
		Q2	Q3	Q4	Q1	Q2
Home sales ²	Increased	44	22	31	29	37
	Constant	38	44	42	56	47
	Decreased	18	35	27	15	17
	Balance	26	-13	4	14	20

Home orders ²	Increased	36	20	27	22	27
	Constant	40	45	51	59	53
	Decreased	24	35	22	19	20
	Balance	12	-15	5	3	7

Export sales ²	Increased	28	14	15	44	43
	Constant	56	69	65	50	43
	Decreased	17	17	20	6	14
	Balance	11	-3	-5	38	29

Export orders ²	Increased	20	14	20	44	40
	Constant	66	66	65	50	53
	Decreased	14	21	15	6	7
	Balance	6	-7	5	38	33

Workforce ²	Increased	25	18	13	29	23
	Constant	58	67	74	54	63
	Decreased	18	16	13	17	13
	Balance	7	2	0	12	10

Workforce expectations ³	Increase	24	18	21	29	21
	Constant	66	63	65	60	69
	Decrease	10	19	13	11	10
	Balance	14	-1	8	18	11

Recruited staff ²	Yes	70	59	66	79	62
	- Part time	22	24	30	33	16
	- Full time	78	76	70	67	74
	- Temporary	57	35	22	42	5
	- Permanent	43	65	78	58	47
	No	30	41	44	22	38

Recruitment difficulties ²	Yes	56	49	60	86	70
	- Skilled manual	27	31	31	54	53
	- Management	30	38	38	43	47
	- Clerical	20	6	14	7	29
	- Unskilled/semi-skilled	21	28	14	14	18
	No	44	51	40	14	30

		2016		2017		
		Q2	Q3	Q4	Q1	Q2
Cashflow ²	Increased	27	18	22	23	30
	Constant	54	45	48	49	50
	Decreased	19	36	30	29	20
	Balance	8	-18	-8	-6	10

Investment: Plant/machinery ²	Increased	27	20	13	11	17
	Constant	53	48	60	57	60
	Decreased	20	32	28	31	23
	Balance	7	-12	-15	-20	-6

Investment: Training ²	Increased	25	14	8	14	23
	Constant	60	68	67	77	57
	Decreased	15	18	25	9	20
	Balance	10	-4	-17	5	3

Turnover expectations ⁴	Improve	53	51	44	56	43
	Same	30	18	30	33	37
	Worsen	18	32	25	11	20
	Balance	35	19	18	45	23

Profit expectations ⁴	Improve	50	38	37	47	40
	Same	26	27	20	22	33
	Worsen	24	36	43	31	27
	Balance	26	2	-6	16	13

Capacity utilisation ¹	Full capacity	36	23	35	39	30
	Below capacity	64	77	65	61	70

Prices ³	Increased	23	46	55	53	43
	Constant	70	44	41	44	57
	Decreased	6	11	4	3	0
	Balance	15	35	51	50	43

Price pressures ¹	Pay settlements	22	23	25	36	37
	Raw materials	21	26	20	44	37
	Finance	15	9	15	14	21
	Other overheads	33	33	36	39	84

External concerns ¹	Interest rates	14	9	13	3	0
	Exchange rates	22	53	32	29	39
	Business rates	20	14	8	25	14
	Inflation	46	28	34	39	46
	Competition	26	18	17	31	36
	Tax	16	25	25	17	32

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