



Quarterly Economic Survey

Quarter 3, 2017

www.hull-humber-chamber.co.uk

Overview

Domestic market steady as materials costs rise

DOMESTIC Sales and Orders both held their ground in Quarter 3, according to the latest Economic Survey results.

Research by the Hull & Humber Chamber of Commerce reveals that Homes Sales rose two points overall, while Home Orders showed a stronger increase, with the balance figure rising 11 points over that of Quarter 2 and 15 points up on Quarter 1 of 2017.

The balance figure for export sales rose by four points, with 13% more companies reporting an increase in trade, while on the export orders front, 14% of companies reported a consistent picture, with fewer declaring an increase in orders, but the balance figure dropped by 11 points on the second quarter.

In the last three months, six per cent of respondents reported an increase, with fewer firms losing staff, with the resulting balance figure showing a healthy increase of 15 points on the second quarter.

In the next three months, the majority of businesses (85%) say they are expecting their staffing levels to remain constant, however, the balance figure was four points down on the last quarter.

The first two quarters of the year have seen a steady drop in the number of firms recruiting staff, but in Quarter Three, 56% of firms were on the lookout for new staff, with 80% of businesses looking for full time employees with an equal mix of full and part-time positions.

The ease with which companies can recruit staff is still an issue, with

management roles being the hardest to fill this time around, with 67% of firms reporting difficulties.

Good clerical staff are also in short supply this quarter, while skilled manual and unskilled posts were easier to fill.

The balance for Cashflow fell back slightly this quarter, but again there was a rise in the number of firms reporting a degree of consistency.

Plans to invest in Plant and Machinery in the next few months were also holding steady, with the balance figure improving slightly by two points, but at -4 remained in negative territory.

It was a similar picture with training plans, with fewer firms planning to increase their training plans with most keeping the status quo, however the balance figure dropped by seven points.

More firms were expecting their turnover to increase in the coming months, with the balance figure climbing 13 points to 36.

Profit expectations were also on the up, with the balance figure rising eight points to 21.

However, the balance figure for prices continued this year's decline, dropping a further 11 points on the second quarter.

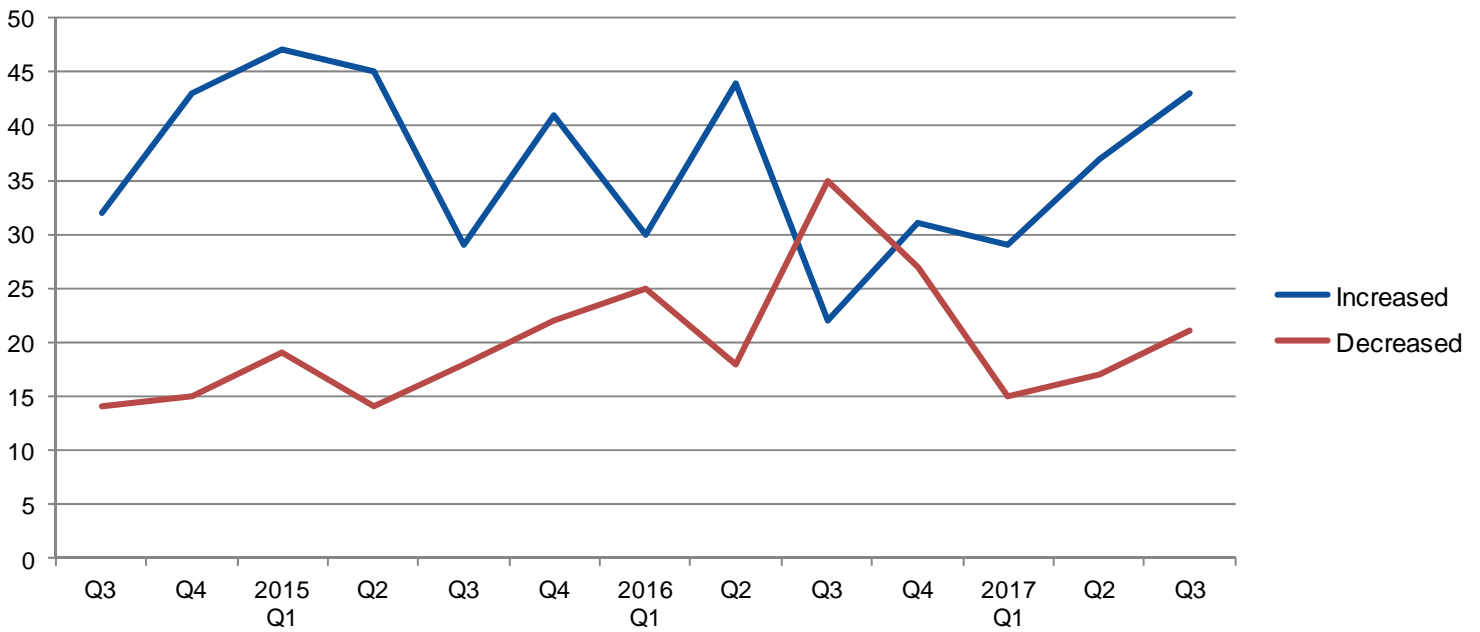
Rising raw material costs were the biggest concern for firms this quarter, along with exchange rates and increased competition, while concerns over interest rates, business rates and tax continued to fall away this time around.

Key balances

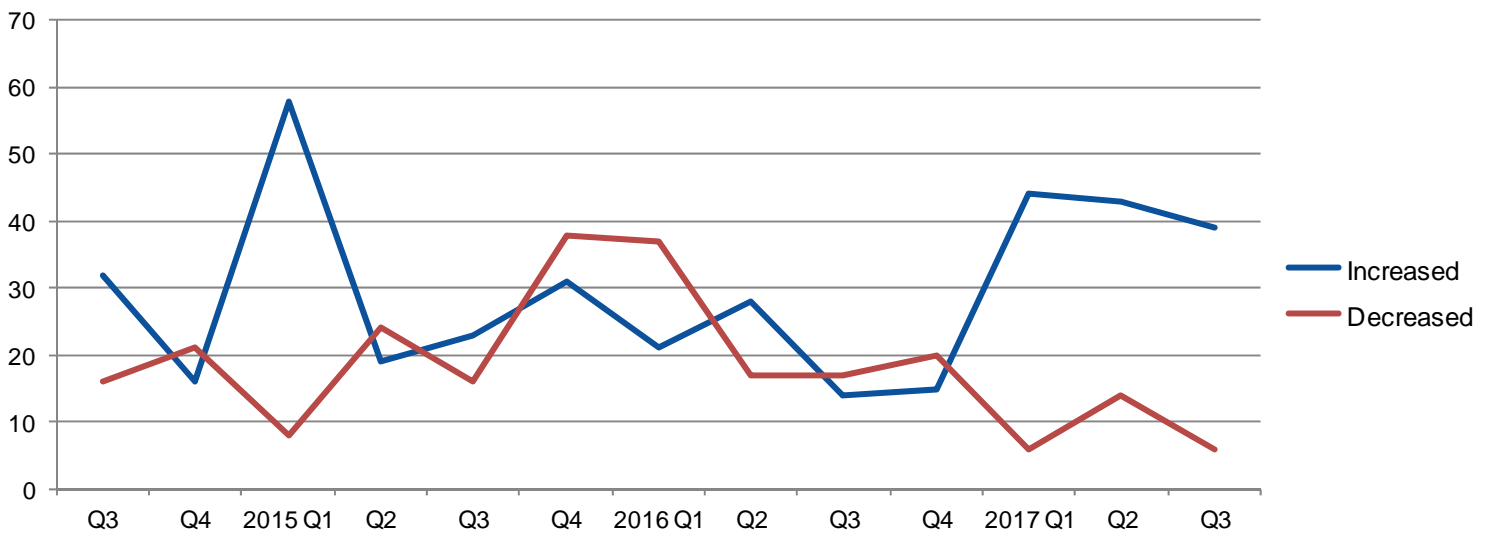
- Home sales balance figure rose 2 points to 22.
- Home orders balance figure also rose, up 11 points to 18.
- Export sales balance figure climbed 4 points to 33.
- Export orders balance figure fell 11 points to 22.
- The employment figure rose 15 points on last quarter to 25.
- Fewer firms were looking to recruit staff, down 6 points to 56.
- Of those recruiting, 6% more firms were looking for full-time staff.
- Management roles were proving the hardest to fill, up 20 points.
- Investment in plant and machinery was up 2 points to -4.

Key indicators

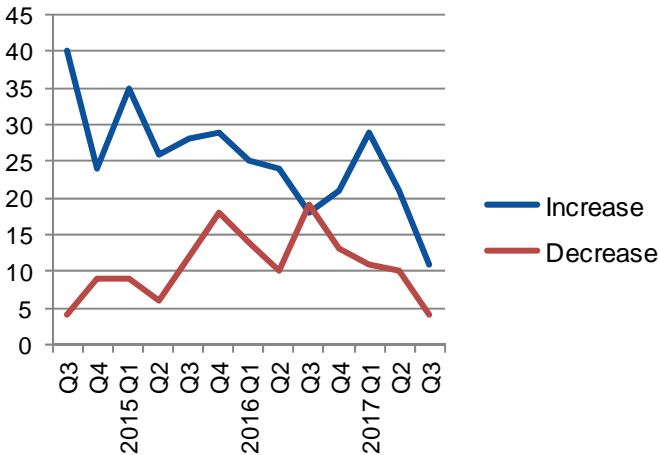
Home sales



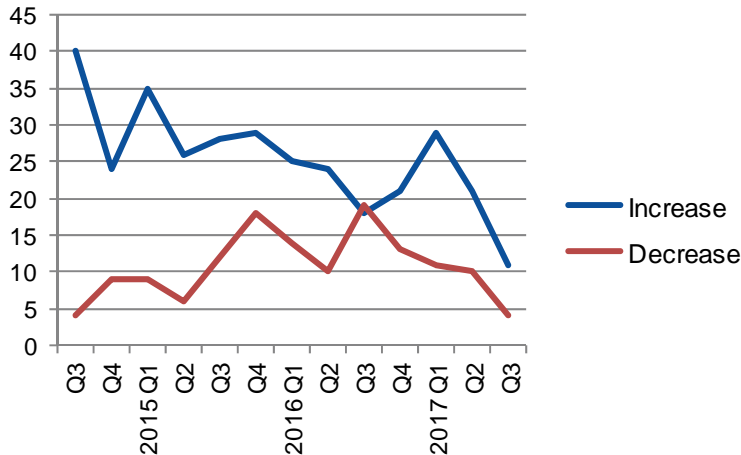
Export sales



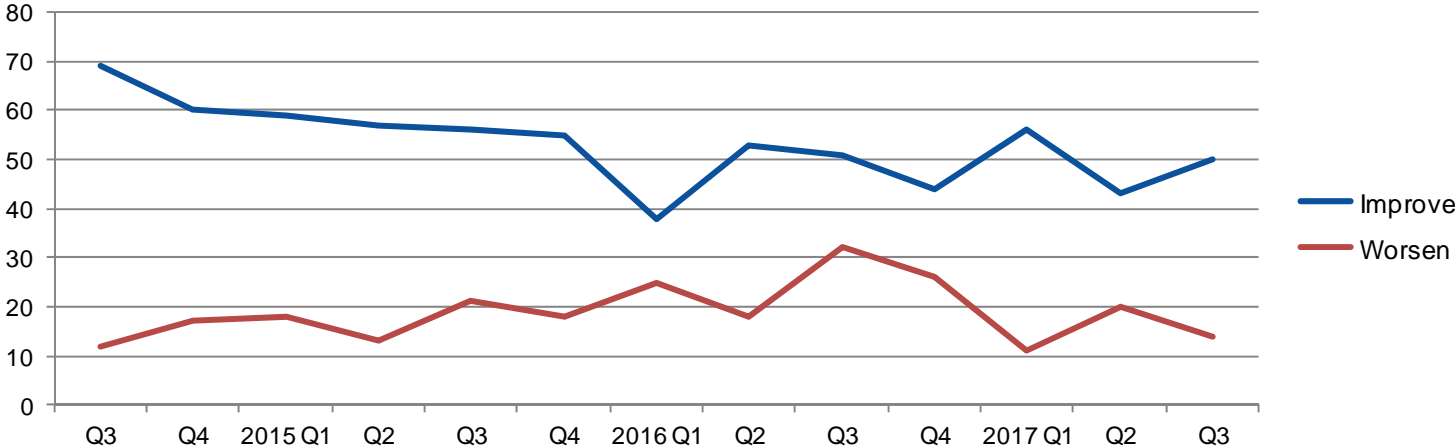
Employment



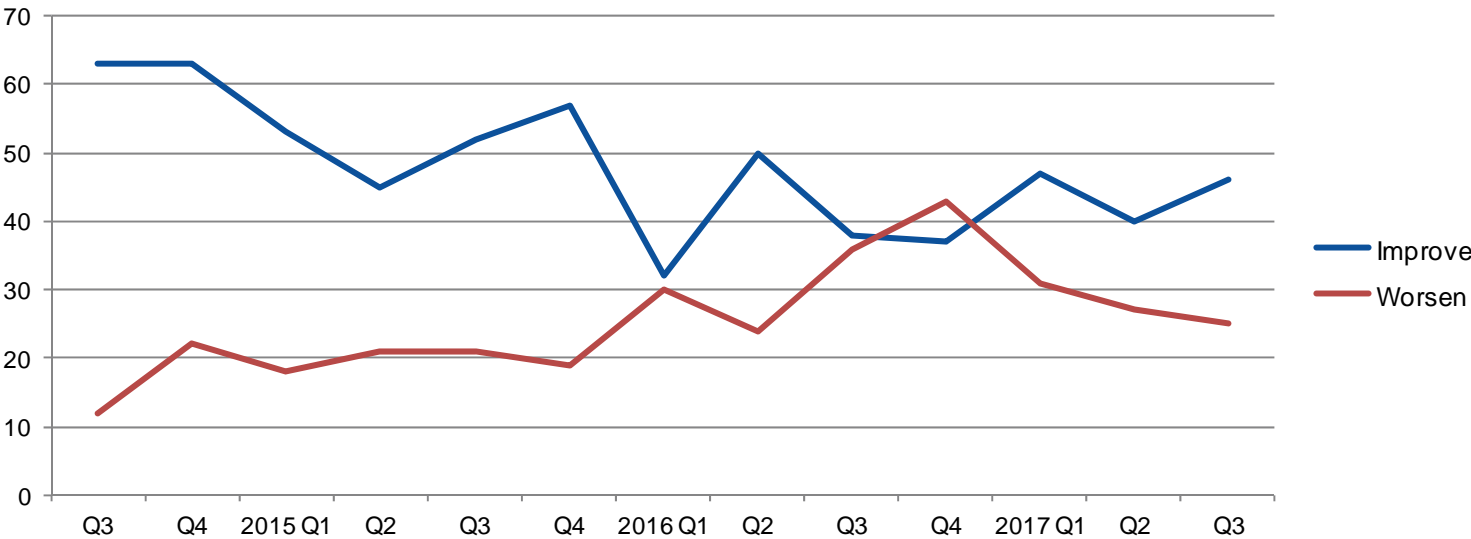
Employment expectations



Turnover expectations

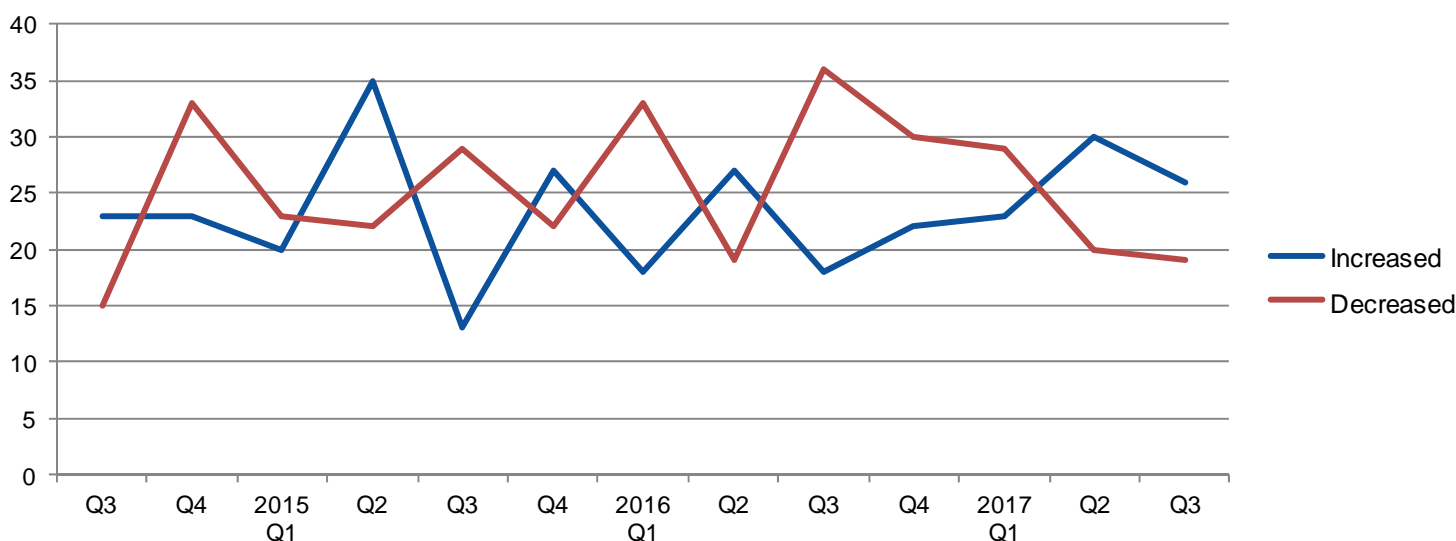


Profit expectations



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

Manufacturing boost fails to lift UK growth

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 7,100 businesses, the survey shows that despite improvements in the manufacturing sector, the UK economy grew at a muted rate in the third quarter.

In the manufacturing sector, the proportion of firms reporting improved domestic sales and orders both rose in the quarter to their highest level since Q1 2015. Export sales and orders also improved, as stronger recent economic growth in a number of key markets has helped support demand for UK products.

However, in the services sector, traditionally the main driver of UK economic growth, domestic sales and orders remained static in Q3, as did the sector's employment expectations, investment in training, and confidence in profitability and turnover. Almost all services indicators remain below their pre-EU referendum levels, with consumer-focused businesses reporting weaker growth rates compared to B2B firms.

The results of the survey also show the prevalence of recruitment difficulties facing UK businesses, which worsened further in Q3. Almost three-quarters of manufacturers reported difficulties hiring staff, and in services, the percentage rose to its highest level since Q1 2016.

The muted results make clear the need for the upcoming Autumn Budget to provide a fillip to the economy – and begin to address some of the issues undermining the UK's growth prospects, including skills gaps, high upfront costs and aging infrastructure.

Key findings in the Q3 2017 survey:

Manufacturing sector:

- The balance of firms reporting increased export sales rose from +27 to +29, and export

orders from +20 to +24, the highest level since Q1 2015. The balance of firms reporting improved domestic sales also rose from +20 to +24, and orders from +15 to +21, also to the highest level since Q1 2015

- The percentage balance of manufacturing firms expecting the price of their goods to increase over the next three months remains well above the historical average, rising slightly from +34 to +35. This is mainly driven by pressures from the price of raw materials, with 61% reporting it as a cause of price pressure (up slightly from 60% in Q2)
- The percentage of manufacturers attempting to recruit increased, rising from 65% to 71%. The percentage of firms reporting greater recruitment difficulties rose from 71% to 74%
- Confidence in the manufacturing sector rose slightly, with +51 of firms confident that turnover will increase over the next 12 months – but profitability confidence was +34.

Services sector:

- Exports remained fairly flat, with the balance reporting improved export sales standing at +14 (up from +13 in the previous quarter) and orders at +8 (down from +9). The balance reporting improved domestic sales (+19) and orders (+15) both remained the same
- The percentage of businesses attempting to recruit increased, rising from 49% to 52%. The percentage of services firms reported greater recruitment difficulties, rose from 65% to 67%.
- The percentage balance of services firms expecting the price of their goods to increase over the next three months remained unchanged at +28, which is above the average.

Analysis

Dr Ian Kelly

Chief Executive

Hull & Humber Chamber of Commerce

"It is pleasing to see our local home markets performing better than nationally in this quarter's survey.

"With employment also at a 45-year high the forthcoming Budget needs to strike a more confident note and encourage entrepreneurs to boost investment in particular.

"The Bank of England's softening on a possible hike in interest rates highlights how the UK economy is slowly returning to normal after the financial crash and that it is only political uncertainty that is holding us back."

The National View

British Chambers of Commerce

"The uninspiring results we see in our third quarter findings reflect the fact that political uncertainty, currency fluctuations and the vagaries of the Brexit process are continuing to weigh on business growth prospects.

"The Chancellor's Autumn Budget is an opportunity to demonstrate that the Government stands ready to incentivise investment and support growth here at home".

Suren Thiru, Head of Economics at the British Chambers of Commerce, said:

"The manufacturing sector saw a welcome improvement across a number of indicators, boosted in part by stronger growth in key export markets. However, the relative size of the sector means that its contribution to UK GDP growth is likely to have remained limited this quarter.

"The services sector remains under pressure, and with most indicators broadly static in the quarter, the sector has yet to recover from the loss of momentum suffered in the wake of the EU referendum.

"The latest results also confirm that rising costs remain a worry for businesses, particularly in manufacturing. However, while still high by historic standards, the easing in a number of indicators of pricing pressures since the start of the year suggests that inflation will peak sooner rather than later, possibly by the end of the year.

"Against this backdrop, it seems extraordinary that the Bank of England is considering raising interest rates. With UK economic conditions softening and continued uncertainty over Brexit, it is vital that the MPC provides monetary stability. We'd caution against an earlier than required tightening in monetary policy, which could hit both business and consumer confidence and weaken overall UK growth. While interest rates need to rise at some point, it should be done slowly and timed so as not to harm the UK's growth prospects."

Results in full

| | | 2016 | | 2017 | | |
|-------------------------|----------------|------------|----------|-----------|-----------|-----------|
| | | Q3 | Q4 | Q1 | Q2 | Q3 |
| Home sales ² | Increased | 22 | 31 | 29 | 37 | 42 |
| | Constant | 44 | 42 | 56 | 47 | 36 |
| | Decreased | 35 | 27 | 15 | 17 | 21 |
| | Balance | -13 | 4 | 14 | 20 | 22 |

| | | | | | | |
|--------------------------|----------------|------------|----------|----------|----------|-----------|
| Home orders ² | Increased | 20 | 27 | 22 | 27 | 39 |
| | Constant | 45 | 51 | 59 | 53 | 39 |
| | Decreased | 35 | 22 | 19 | 20 | 21 |
| | Balance | -15 | 5 | 3 | 7 | 18 |

| | | | | | | |
|---------------------------|----------------|-----------|-----------|-----------|-----------|-----------|
| Export sales ² | Increased | 14 | 15 | 44 | 43 | 39 |
| | Constant | 69 | 65 | 50 | 43 | 56 |
| | Decreased | 17 | 20 | 6 | 14 | 6 |
| | Balance | -3 | -5 | 38 | 29 | 33 |

| | | | | | | |
|----------------------------|----------------|-----------|----------|-----------|-----------|-----------|
| Export orders ² | Increased | 14 | 20 | 44 | 40 | 28 |
| | Constant | 66 | 65 | 50 | 53 | 67 |
| | Decreased | 21 | 15 | 6 | 7 | 8 |
| | Balance | -7 | 5 | 38 | 33 | 22 |

| | | | | | | |
|------------------------|----------------|----------|----------|-----------|-----------|-----------|
| Workforce ² | Increased | 18 | 13 | 29 | 23 | 29 |
| | Constant | 67 | 74 | 54 | 63 | 68 |
| | Decreased | 16 | 13 | 17 | 13 | 4 |
| | Balance | 2 | 0 | 12 | 10 | 25 |

| | | | | | | |
|-------------------------------------|----------------|-----------|----------|-----------|-----------|----------|
| Workforce expectations ³ | Increase | 18 | 21 | 29 | 21 | 11 |
| | Constant | 63 | 65 | 60 | 69 | 85 |
| | Decrease | 19 | 13 | 11 | 10 | 4 |
| | Balance | -1 | 8 | 18 | 11 | 7 |

| | | | | | | |
|------------------------------|-------------|-----------|-----------|-----------|-----------|-----------|
| Recruited staff ² | Yes | 59 | 66 | 79 | 62 | 56 |
| | - Part time | 24 | 30 | 33 | 16 | 13 |
| | - Full time | 76 | 70 | 67 | 74 | 80 |
| | - Temporary | 35 | 22 | 42 | 5 | 27 |
| | - Permanent | 65 | 78 | 58 | 47 | 27 |
| | No | 41 | 44 | 22 | 38 | 44 |

| | | | | | | |
|---------------------------------------|--------------------------|-----------|-----------|-----------|-----------|-----------|
| Recruitment difficulties ² | Yes | 49 | 60 | 86 | 70 | 48 |
| | - Skilled manual | 31 | 31 | 54 | 53 | 8 |
| | - Management | 38 | 38 | 43 | 47 | 67 |
| | - Clerical | 6 | 14 | 7 | 29 | 33 |
| | - Unskilled/semi-skilled | 28 | 14 | 14 | 18 | 8 |
| | No | 51 | 40 | 14 | 30 | 52 |

| | | 2016 | | 2017 | | |
|-----------------------|----------------|------------|-----------|-----------|-----------|----------|
| | | Q3 | Q4 | Q1 | Q2 | Q3 |
| Cashflow ² | Increased | 18 | 22 | 23 | 30 | 26 |
| | Constant | 45 | 48 | 49 | 50 | 56 |
| | Decreased | 36 | 30 | 29 | 20 | 19 |
| | Balance | -18 | -8 | -6 | 10 | 7 |

| | | | | | | |
|--|----------------|------------|------------|------------|-----------|-----------|
| Investment: Plant/machinery ² | Increased | 20 | 13 | 11 | 17 | 15 |
| | Constant | 48 | 60 | 57 | 60 | 67 |
| | Decreased | 32 | 28 | 31 | 23 | 19 |
| | Balance | -12 | -15 | -20 | -6 | -4 |

| | | | | | | |
|-----------------------------------|----------------|-----------|------------|----------|----------|-----------|
| Investment: Training ² | Increased | 14 | 8 | 14 | 23 | 11 |
| | Constant | 68 | 67 | 77 | 57 | 47 |
| | Decreased | 18 | 25 | 9 | 20 | 15 |
| | Balance | -4 | -17 | 5 | 3 | -4 |

| | | | | | | |
|------------------------------------|----------------|-----------|-----------|-----------|-----------|-----------|
| Turnover expectations ⁴ | Improve | 51 | 44 | 56 | 43 | 50 |
| | Same | 18 | 30 | 33 | 37 | 36 |
| | Worsen | 32 | 25 | 11 | 20 | 14 |
| | Balance | 19 | 18 | 45 | 23 | 36 |

| | | | | | | |
|----------------------------------|----------------|----------|-----------|-----------|-----------|-----------|
| Profit expectations ⁴ | Improve | 38 | 37 | 47 | 40 | 46 |
| | Same | 27 | 20 | 22 | 33 | 29 |
| | Worsen | 36 | 43 | 31 | 27 | 25 |
| | Balance | 2 | -6 | 16 | 13 | 21 |

| | | | | | | |
|-----------------------------------|----------------|----|----|----|----|----|
| Capacity utilisation ¹ | Full capacity | 23 | 35 | 39 | 30 | 46 |
| | Below capacity | 77 | 65 | 61 | 70 | 54 |

| | | | | | | |
|---------------------|----------------|-----------|-----------|-----------|-----------|-----------|
| Prices ³ | Increased | 46 | 55 | 53 | 43 | 39 |
| | Constant | 44 | 41 | 44 | 57 | 54 |
| | Decreased | 11 | 4 | 3 | 0 | 7 |
| | Balance | 35 | 51 | 50 | 43 | 32 |

| | | | | | | |
|------------------------------|-----------------|----|----|----|----|----|
| Price pressures ¹ | Pay settlements | 23 | 25 | 36 | 37 | 28 |
| | Raw materials | 26 | 20 | 44 | 37 | 56 |
| | Finance | 9 | 15 | 14 | 21 | 17 |
| | Other overheads | 33 | 36 | 39 | 84 | 67 |

| | | | | | | |
|--------------------------------|----------------|----|----|----|----|----|
| External concerns ¹ | Interest rates | 9 | 13 | 3 | 0 | 0 |
| | Exchange rates | 53 | 32 | 29 | 39 | 52 |
| | Business rates | 14 | 8 | 25 | 14 | 10 |
| | Inflation | 28 | 34 | 39 | 46 | 33 |
| | Competition | 18 | 17 | 31 | 36 | 43 |
| | Tax | 25 | 25 | 17 | 32 | 19 |

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