



# Quarterly Economic Survey

Quarter 4, 2017

[www.hull-humber-chamber.co.uk](http://www.hull-humber-chamber.co.uk)

# Overview

## Businesses feeling the post-Budget squeeze

FOLLOWING the Chancellor's Budget in November and the first interest rate rise in 10 years which followed shortly after, businesses in the Humber are clearly feeling the pressure of a toughening marketplace, according to the Chamber's economic survey results for the last quarter of 2017.

Research by the Hull & Humber Chamber of Commerce reveals that price pressures are having a more pronounced effect at the end of the year than at the beginning, with 35% of firms expressing concerns about interest rates and 52% (+9% on the last quarter) of companies worried about competition.

Companies also highlighted their concerns on tax issues, up 11% and inflation which was up two points, while business rates also rose seven points.

In the next three months 62% of businesses told us they expected prices to rise, up 23% on the third quarter, which saw the balance figure rise from 32 in Quarter 3 to 59 in Quarter 4, its highest level for two years.

At home, domestic sales were up, with the balance figure rising six points on the previous quarter, while Home Orders fell back slightly to 17 points, down one point.

Abroad, the balance figure for Export Sales was down four points to 29, while Export Orders, possibly reflecting the exchange rate, was up 14 points on last quarter, just two points shy of its highest level in 2017— 38 in the first quarter.

Set against the background of rising inflation, pay settlements were a growing concern for businesses, as was finance, with the balance figures rising by 14% and 20% respectively, although raw material costs were less of an issue this time around.

The employment figure for the last three months was also down in Quarter 3, dropping 11 points to 14, although more businesses were planning to increase their employment levels in the next three months, with the balance figure rising three points to 10.

There was positive news for those looking for work as the year drew to a close, with more permanent, full time jobs on offer. 20% more firms were looking for permanent staff, redressing a blip in the third quarter's figures, while 88% of those jobs (up 8% on the last quarter) were full time positions.

Skilled manual jobs and unskilled or semi-skilled roles proved to be the hardest to fill in Quarter 4, while clerical and management vacancies were less difficult to recruit for.

Turnover expectations for the next 12 months showed a degree of positivity, with the balance figure rising 12 points to 48, while profit expectations also improved slightly, rising six per cent to 27. However, fewer firms were working at full capacity, with a figure of just 34%.

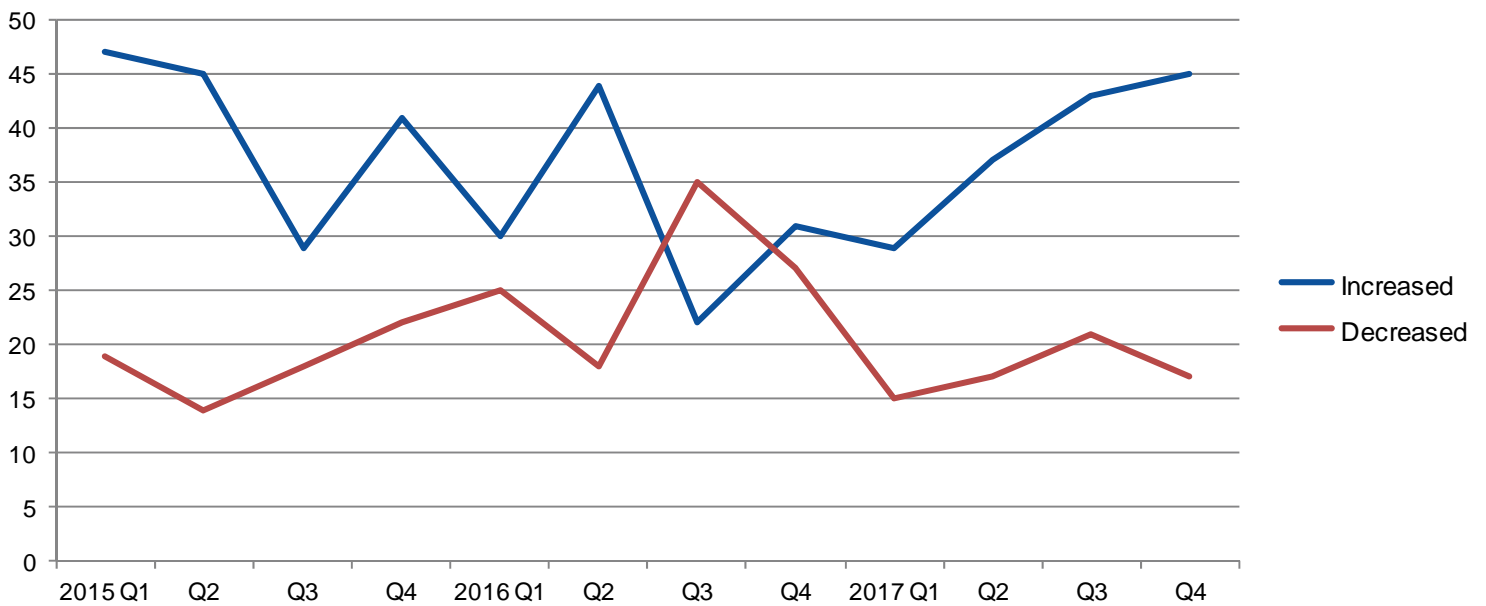
There was good news for those needing more training, with 17% of businesses planning to invest in training in the coming three months.

### Key balances

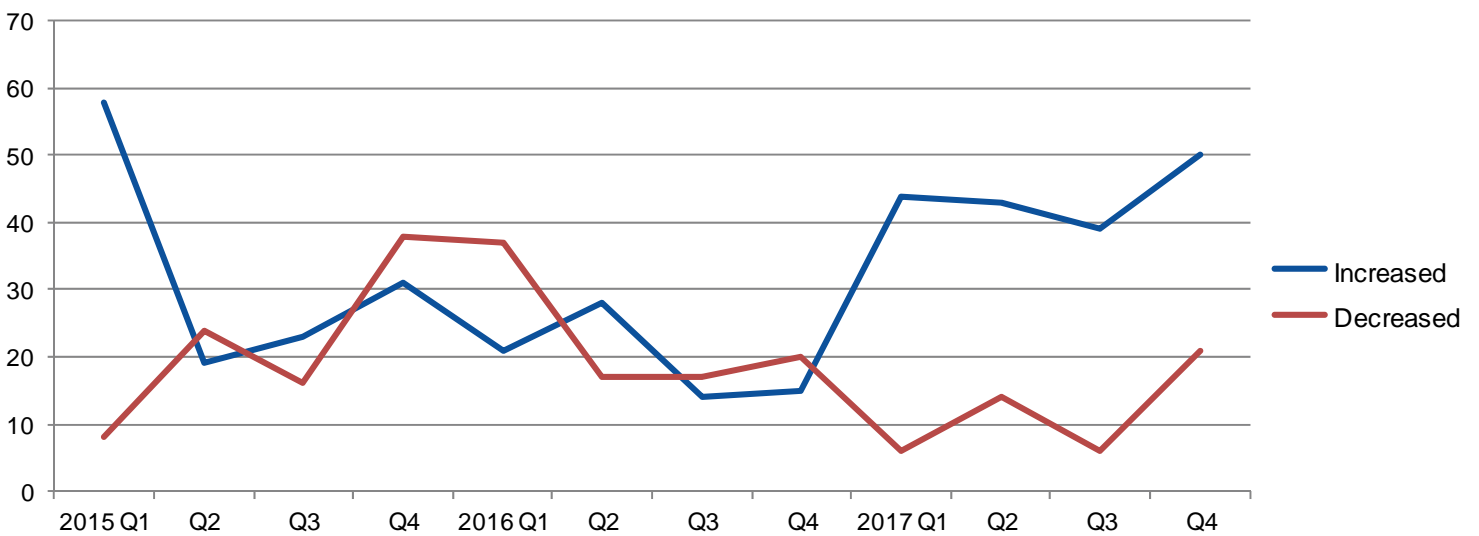
- ➔ Interest rates—35% more companies expressed fears.
- ➔ Tax—30% of companies raised concerns (+11)
- ➔ 48% of business were expecting turnover to increase.
- ➔ But only 27% were expecting their profits to rise.
- ➔ The balance figure for price increases over the next three months was up 27 points at 59.
- ➔ More firms were planning to invest in training, with the balance figure up 17 points to 13.
- ➔ Employment expectations for the next three months rose slightly to 10 points.
- ➔ The Home Sales balance rose to 28 points, up six.

# Key indicators

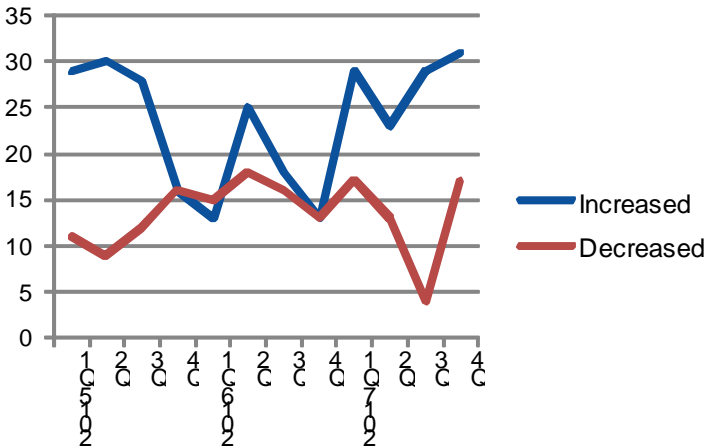
## Home sales



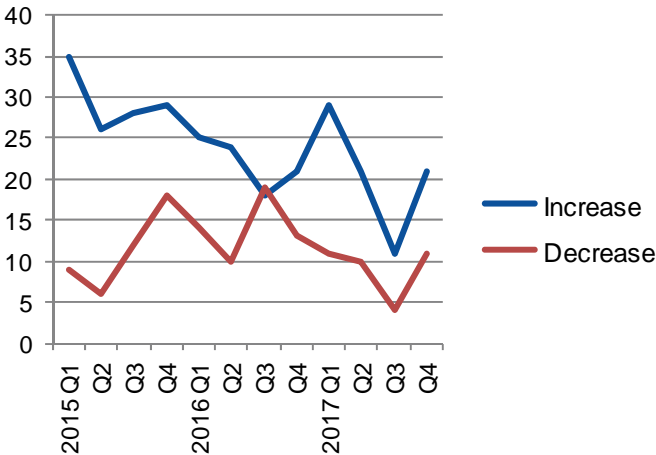
## Export sales



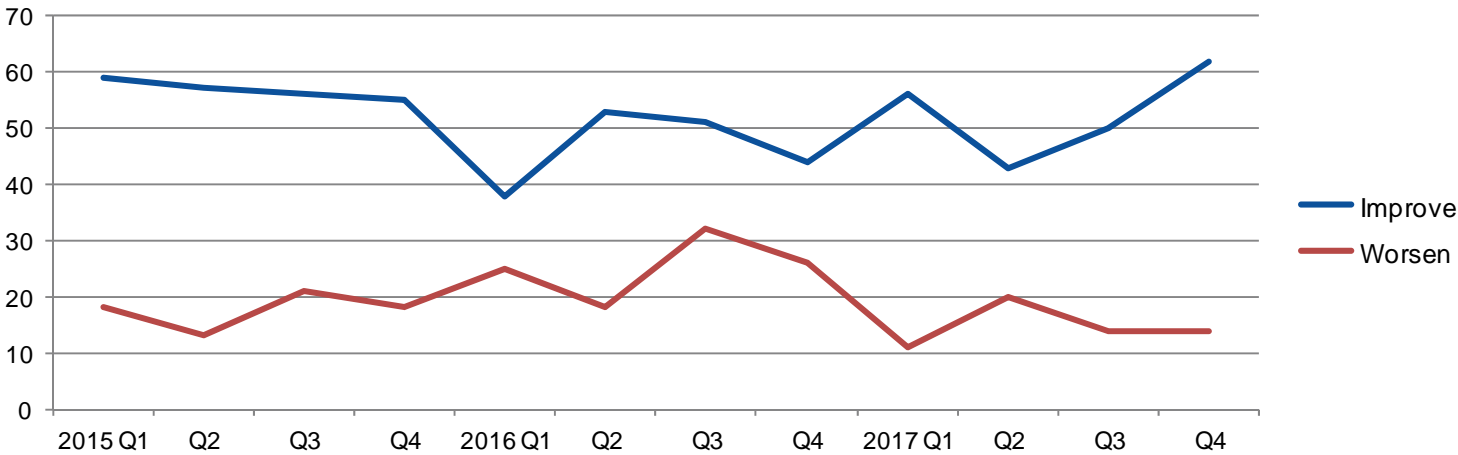
### Employment



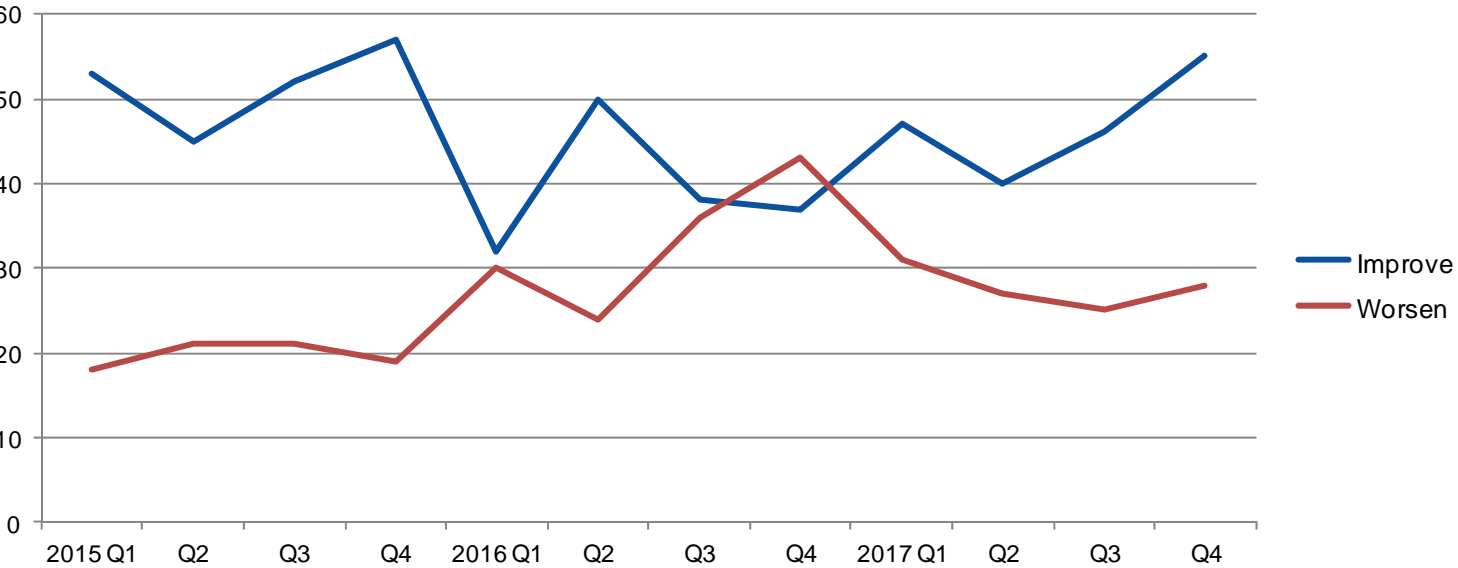
### Employment expectations



### Turnover expectations

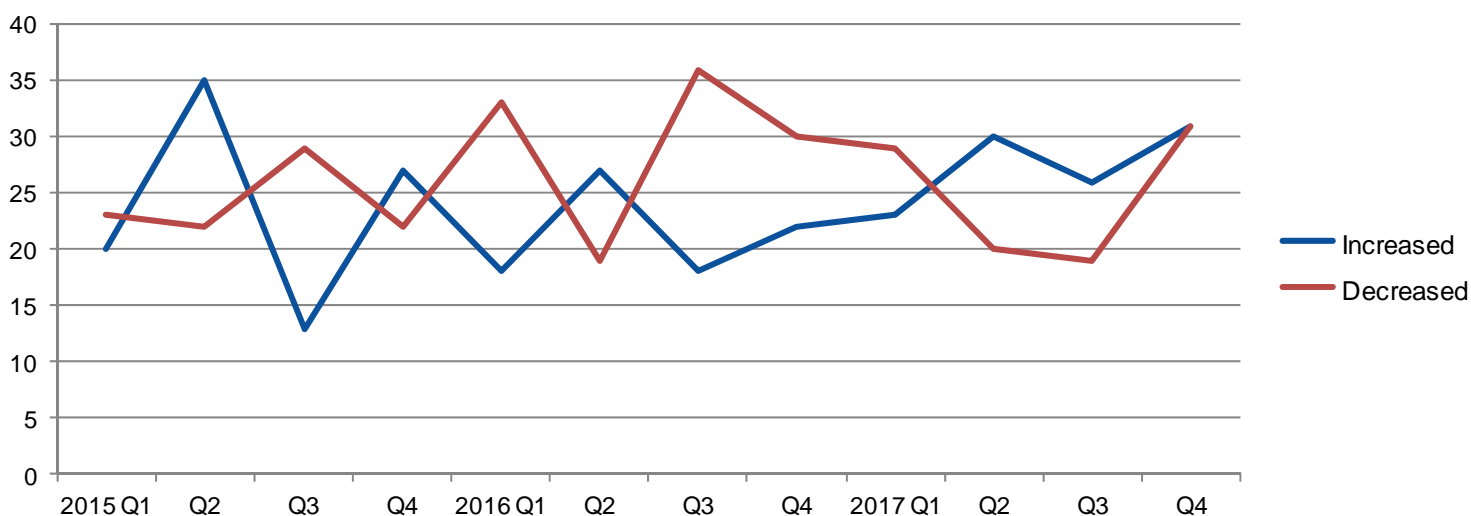


### Profit expectations



## 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

## Skills shortage biggest risk for business

### 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](http://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 7,000 businesses, the survey shows that growth in the UK economy remains subdued, with almost all services indicators below their pre-EU referendum levels and the strong performance of manufacturers easing slightly in the final quarter of 2017.

The findings of the survey indicate the skills shortages are reaching critical levels. Of the service sector firms hiring, the percentage of firms reporting recruitment difficulties rose to 71%, the highest since records began. In manufacturing, the percentage of recruiting firms reporting greater difficulties is at its highest since Q4 2016.

In the manufacturing sector, the proportion of firms reporting improved export sales and orders fell slightly compared to the previous quarter. The indicators for domestic sales, employment expectations, recruitment and confidence in turnover are also lower than in the previous quarter.

In the service sector, a key driver of the UK economy, growth remains muted and relatively unchanged from the previous three months, and is below historic averages. The proportion of firms confident that turnover and profitability will improve in the next year decreased, and firms reporting improved cashflow remains low.

Both sectors have seen considerable rises in the proportion of businesses expecting

prices to increase in the next three months. In the services sector, the percentage balance of firms expecting their prices to rise jumped to +36%, the highest since Q3 2008. In the manufacturing sector, the percentage balance of firms expecting their prices to rise increased from +35% to +50%, the highest since Q4 2016.

The results emphasise the need to kickstart the economy by addressing the barriers to growth – in particular the growing skills gap – which is hindering the ability of companies to find the workers they need to develop.

Commenting on the results, a British Chambers of Commerce spokesman said: "While there are many business bright spots across the UK, the evidence from the biggest private business survey in the country shows that growth and confidence remain subdued overall as we enter a New Year.

"Labour and skills shortages are set to be the biggest potential drag anchor on business in 2018, since ultimately it is people that make businesses work. Business itself must do more – by training and investing wherever possible in people – but government must also give firms the confidence to put their livelihoods on the line and go for growth.

"This must be the year employers act rather than just complain on skills, and the year government delivers clarity, leadership and investment in people and infrastructure. Kick-starting growth, and boosting wages and prosperity for all, depends on this."



# Analysis

## Dr Ian Kelly

Chief Executive

Hull & Humber Chamber of Commerce

*“The quarter point increase in interest rates which happened during the fieldwork period for this survey has highlighted the pressures businesses face as they adopt a cautious approach as we head into a New Year.*

*“However, we welcome the good news from the Government that the Brexit talks are moving into the next phase to secure a trade deal, along with positive economic noises from the USA and China which may help to restore important business confidence in the coming months.*

*“It’s good to see that Home Sales and Export Sales are still maintaining their positive numbers and companies may keep looking to invest more in training as we start 2018.*

*“Continued business investment, especially in training, is crucial to address the skills issues which are now affecting the UK, not just our part of the world here in the Humber.”*

## The National View

British Chambers of Commerce

*“These results suggest that GDP growth remained underwhelming in the fourth quarter of 2017. Services sector activity remains subdued with most indicators still below their pre-EU referendum levels. Consumer-facing firms in particular are facing an uphill struggle due to negative real wage growth, which is continuing to stifle consumer spending. That said, the sector is still likely to have been the main determinant of growth in the fourth quarter.*

*“Following a strong showing for much of 2017, the manufacturing sector did come off the boil a little in the last quarter, with most of the key indicators weakening in the quarter.*

*“The latest results also confirm that inflation remains a concern with a significant spike in inflation expectations in the quarter. While inflation is likely to peak in the coming months it is likely to remain stubbornly above the Bank of England’s 2% inflation target for a prolonged period, maintaining the cost pressures on both consumers and businesses.*

*“Looking forward, the UK economy is set to continue on an underwhelming growth trajectory over the near term with uncertainty over the impact of Brexit coupled with high inflation and weak productivity likely to dampen overall economic activity.”*

# Results in full

		2016		2017		
		Q4	Q1	Q2	Q3	Q4

Home sales <sup>2</sup>			2016		2017		
			Q4	Q1	Q2	Q3	Q4
Increased			31	29	37	42	45
Constant			42	56	47	36	38
Decreased			27	15	17	21	17
<b>Balance</b>			<b>4</b>	<b>14</b>	<b>20</b>	<b>22</b>	<b>28</b>

Home orders <sup>2</sup>			2016		2017		
			Q4	Q1	Q2	Q3	Q4
Increased			27	22	27	39	38
Constant			51	59	53	39	41
Decreased			22	19	20	21	21
<b>Balance</b>			<b>5</b>	<b>3</b>	<b>7</b>	<b>18</b>	<b>17</b>

Export sales <sup>2</sup>			2016		2017		
			Q4	Q1	Q2	Q3	Q4
Increased			15	44	43	39	50
Constant			65	50	43	56	29
Decreased			20	6	14	6	21
<b>Balance</b>			<b>-5</b>	<b>38</b>	<b>29</b>	<b>33</b>	<b>29</b>

Export orders <sup>2</sup>			2016		2017		
			Q4	Q1	Q2	Q3	Q4
Increased			20	44	40	28	57
Constant			65	50	53	67	21
Decreased			15	6	7	8	21
<b>Balance</b>			<b>5</b>	<b>38</b>	<b>33</b>	<b>22</b>	<b>36</b>

Workforce <sup>2</sup>			2016		2017		
			Q4	Q1	Q2	Q3	Q4
Increased			13	29	23	29	31
Constant			74	54	63	68	52
Decreased			13	17	13	4	17
<b>Balance</b>			<b>0</b>	<b>12</b>	<b>10</b>	<b>25</b>	<b>14</b>

Workforce expectations <sup>3</sup>			2016		2017		
			Q4	Q1	Q2	Q3	Q4
Increase			21	29	21	11	21
Constant			65	60	69	85	68
Decrease			13	11	10	4	11
<b>Balance</b>			<b>8</b>	<b>18</b>	<b>11</b>	<b>7</b>	<b>10</b>

Recruited staff <sup>2</sup>			2016		2017		
			Q4	Q1	Q2	Q3	Q4
Yes			66	79	62	56	59
- Part time			30	33	16	13	6
- Full time			70	67	74	80	88
- Temporary			22	42	5	27	12
- Permanent			78	58	47	27	47
No			44	22	38	44	41

Recruitment difficulties <sup>2</sup>			2016		2017		
			Q4	Q1	Q2	Q3	Q4
Yes			60	86	70	48	82
- Skilled manual			31	54	53	8	29
- Management			38	43	47	67	57
- Clerical			14	7	29	33	14
- Unskilled/semi-skilled			14	14	18	8	36
No			40	14	30	52	18

		2016		2017		
		Q4	Q1	Q2	Q3	Q4

Cashflow <sup>2</sup>			2016		2017		
			Q4	Q1	Q2	Q3	Q4
Increased			22	23	30	26	31
Constant			48	49	50	56	38
Decreased			30	29	20	19	31
<b>Balance</b>			<b>-8</b>	<b>-6</b>	<b>10</b>	<b>7</b>	<b>0</b>

Investment: Plant/machinery <sup>2</sup>			2016		2017		
			Q4	Q1	Q2	Q3	Q4
Increased			13	11	17	15	21
Constant			60	57	60	67	48
Decreased			28	31	23	19	31
<b>Balance</b>			<b>-15</b>	<b>-20</b>	<b>-6</b>	<b>-4</b>	<b>-10</b>

Investment: Training <sup>2</sup>			2016		2017		
			Q4	Q1	Q2	Q3	Q4
Increased			8	14	23	11	34
Constant			67	77	57	47	45
Decreased			25	9	20	15	21
<b>Balance</b>			<b>-17</b>	<b>5</b>	<b>3</b>	<b>-4</b>	<b>13</b>

Turnover expectations <sup>4</sup>			2016		2017		
			Q4	Q1	Q2	Q3	Q4
Improve			44	56	43	50	62
Same			30	33	37	36	24
Worsen			25	11	20	14	14
<b>Balance</b>			<b>18</b>	<b>45</b>	<b>23</b>	<b>36</b>	<b>48</b>

Profit expectations <sup>4</sup>			2016		2017		
			Q4	Q1	Q2	Q3	Q4
Improve			37	47	40	46	55
Same			20	22	33	29	17
Worsen			43	31	27	25	28
<b>Balance</b>			<b>-6</b>	<b>16</b>	<b>13</b>	<b>21</b>	<b>27</b>

Capacity utilisation <sup>1</sup>			2016		2017		
			Q4	Q1	Q2	Q3	Q4
Full capacity			35	39	30	46	34
Below capacity			65	61	70	54	66

Prices <sup>3</sup>			2016		2017		
			Q4	Q1	Q2	Q3	Q4
Increased			55	53	43	39	62
Constant			41	44	57	54	34
Decreased			4	3	0	7	3
<b>Balance</b>			<b>51</b>	<b>50</b>	<b>43</b>	<b>32</b>	<b>59</b>

Price pressures <sup>1</sup>			2016		2017		
			Q4	Q1	Q2	Q3	Q4
Pay settlements			25	36	37	28	42
Raw materials			20	44	37	56	42
Finance			15	14	21	17	37
Other overheads			36	39	84	67	53

External concerns <sup>1</sup>			2016		2017		
			Q4	Q1	Q2	Q3	Q4
Interest rates			13	3	0	0	35
Exchange rates			32	29	39	52	43
Business rates			8	25	14	10	17
Inflation			34	39	46	33	35
Competition			17	31	36	43	52
Tax			25	17	32	19	30