



Quarterly Economic Survey

Quarter 3, 2014

www.hull-humber-chamber.co.uk

Overview

Firms still focus on recruitment through quieter summer period

BUSINESS activity has eased during the summer holiday period, but the latest research from the Hull & Humber Chamber of Commerce reveals many firms have still been recruiting staff.

Businesses expecting their workforce to increase has followed an upward trend for the last two quarters, and the third quarter has shown another rise in the number of firms which have taken on more staff, with a balance figure of 23, up six points.

Finding the right calibre of staff for senior positions remains an issue for 49% of firms who are reporting problems filling management and skilled manual roles,

On a similar theme, more firms expect their workforce to remain constant in the next three months, with fewer companies expecting to see a decrease.

Home Sales, Home Orders and Export Sales and Orders are all still positive but slowing somewhat in growth levels.

The cashflow balance figure also improved slightly, up three points to eight, suggesting that more firms are achieving a degree of stable improvement in their businesses.

However, plant and machinery investment fell back by nine points from the second quarter's figure, returning to the same balance figure of 21 that we saw in the first quarter of the year, but there is still broad consistency in this sector, with the number of firms reporting a steady level of investment, only slightly down on the last quarter.

Levels of investment in training noted with a slight four point drop in the balance figure, falling back to 20 points, but this is still two points ahead of the 18 point figure from the first quarter.

Overall, the outlook seems to be a continuing but slowing improvement for many businesses, with a four-point rise in profit expectations for the next year, building on the big jump of 20 points from the first quarter to the second quarter.

There has been a drop in the number of firms which expect their prices to increase in the next three months, showing a softening of demand in the market place.

Unfortunately the high pound has affected exports but this comes after strong positive growth with 53% of firms still seeing export sales remaining constant.

Inflation was again the biggest external concern flagged up by firms. Exchange rates were also more of a concern than in the last quarter, but business rate and tax issues were proving less of a worry for respondents.

Competition worries also dropped back markedly from the last quarter's result, but were still ahead of the figure for the first quarter.

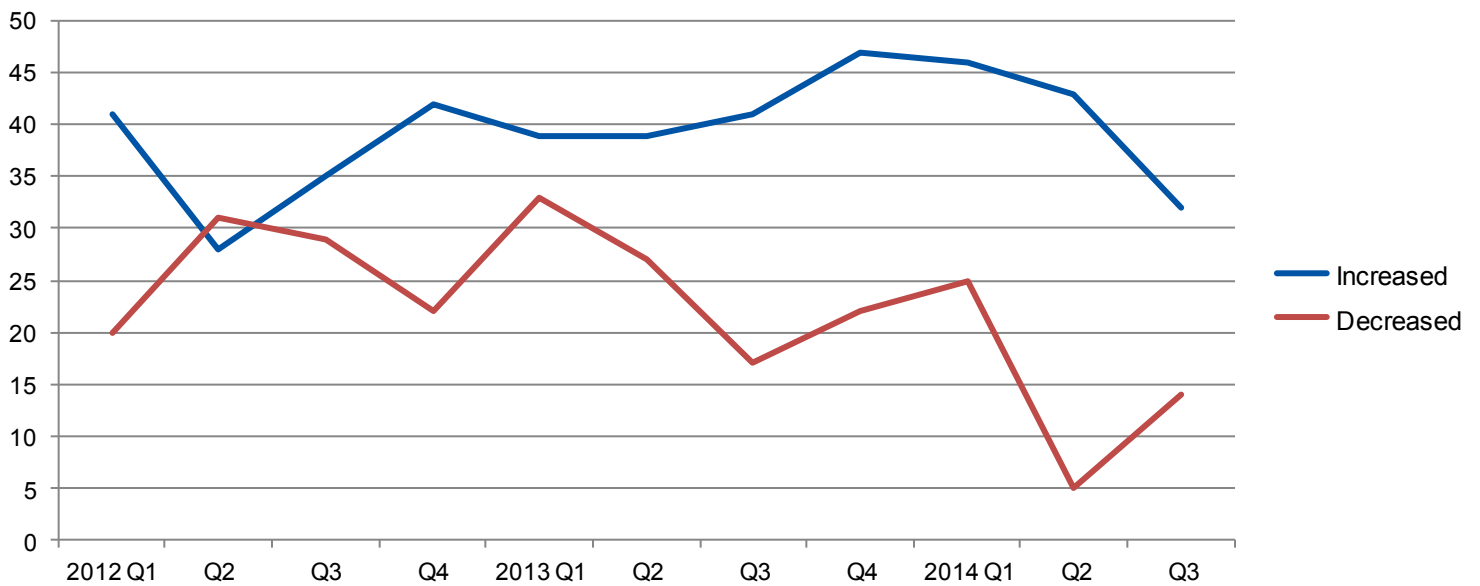
The number of firms which report that they are working at full capacity has remained fairly constant over the last year or so, with 35% of respondents claiming to be fully committed, with 65% claiming they have capacity for more work within their businesses.

Key balances

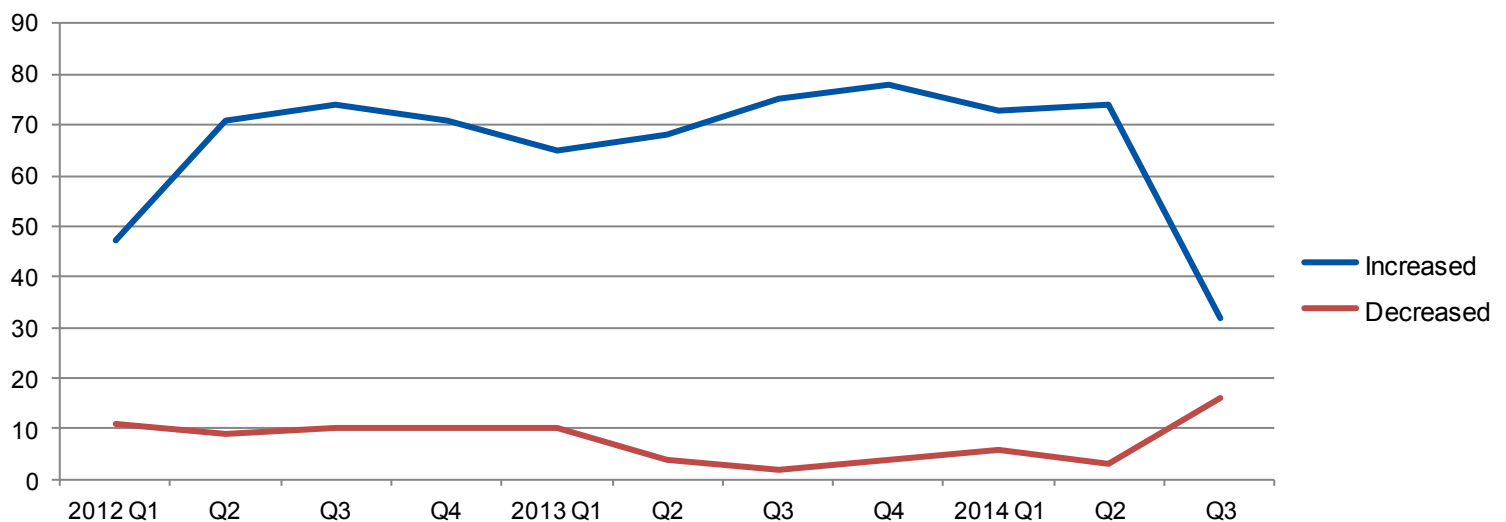
- Home sales balance drops back by 20 points
- Home orders also falls by 8 points to 16.
- 53% of firms are reporting steady activity in the Export sales
- Cashflow is up 3% on last quarter with a balance figure of 8.
- Turnover is down slightly, falling by 7 points to 57.
- Profit expectations have risen by 4 points to 51.
- Fewer firms are planning to invest in plant and machinery in the next three months.
- Inflation and exchange rates are currently the biggest external concerns

Key indicators

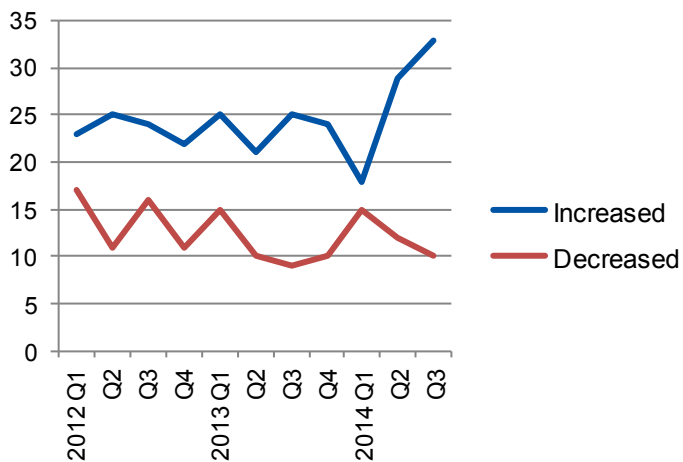
Home sales



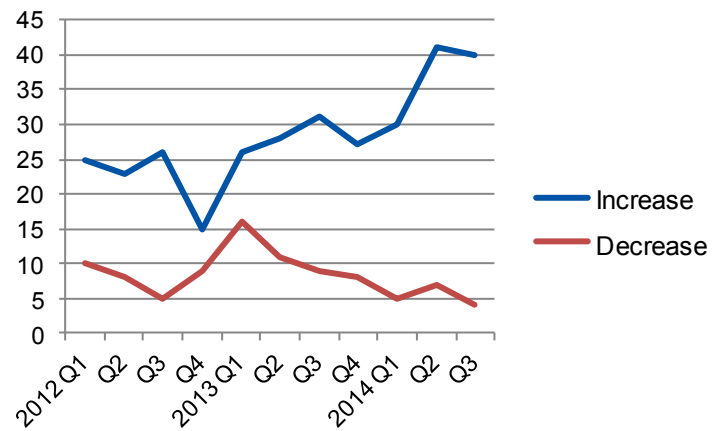
Export sales



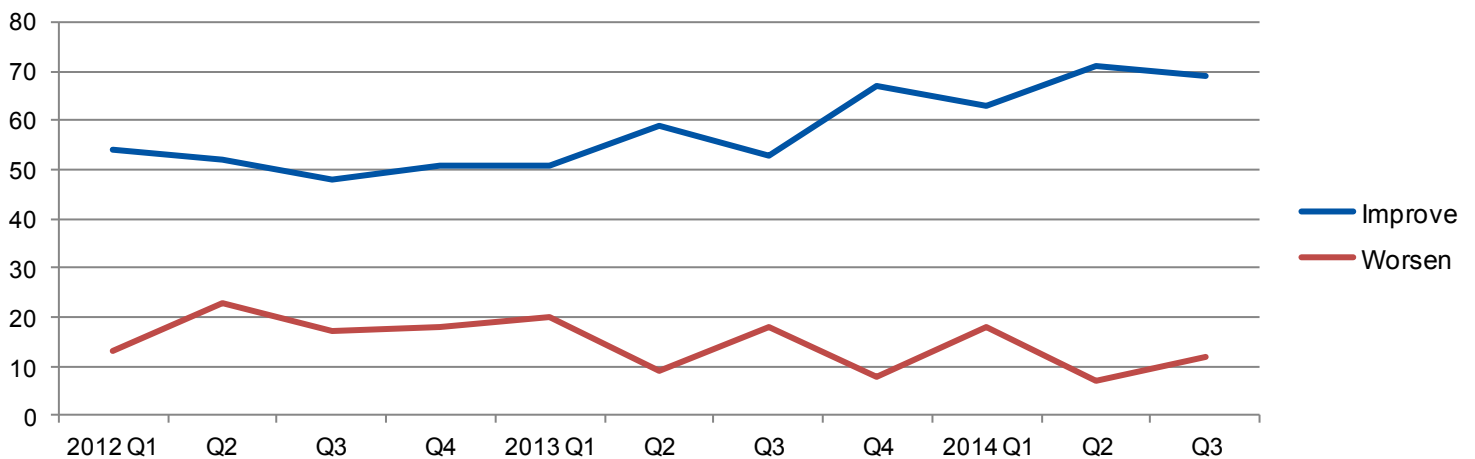
Employment



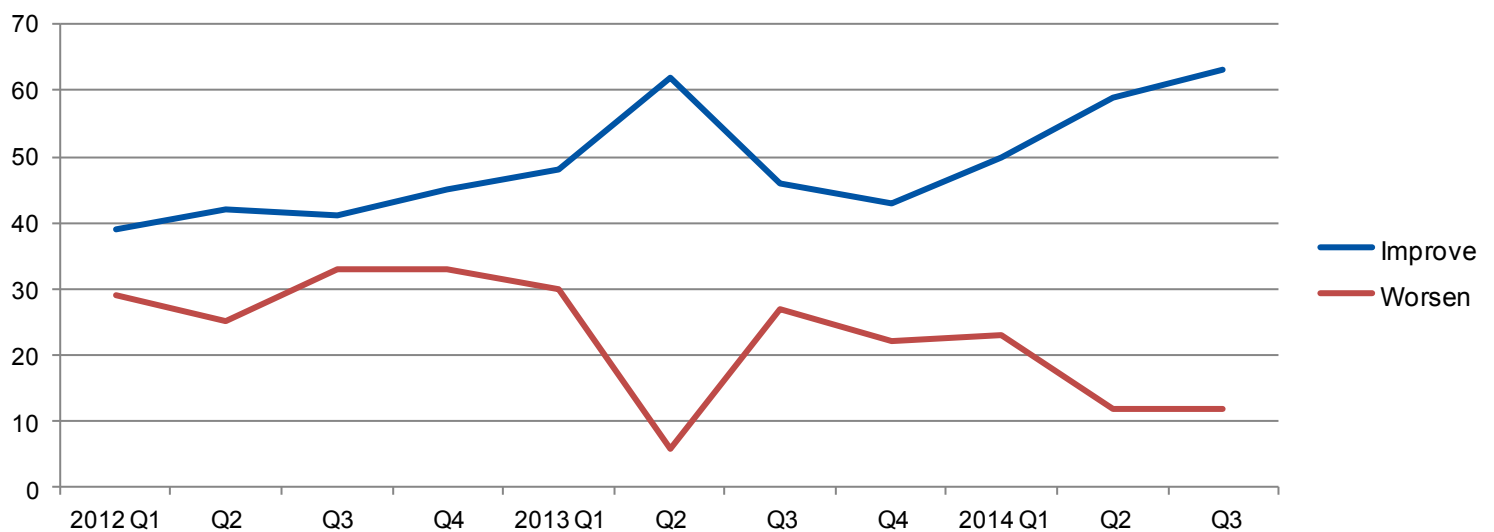
Employment expectations



Turnover expectations

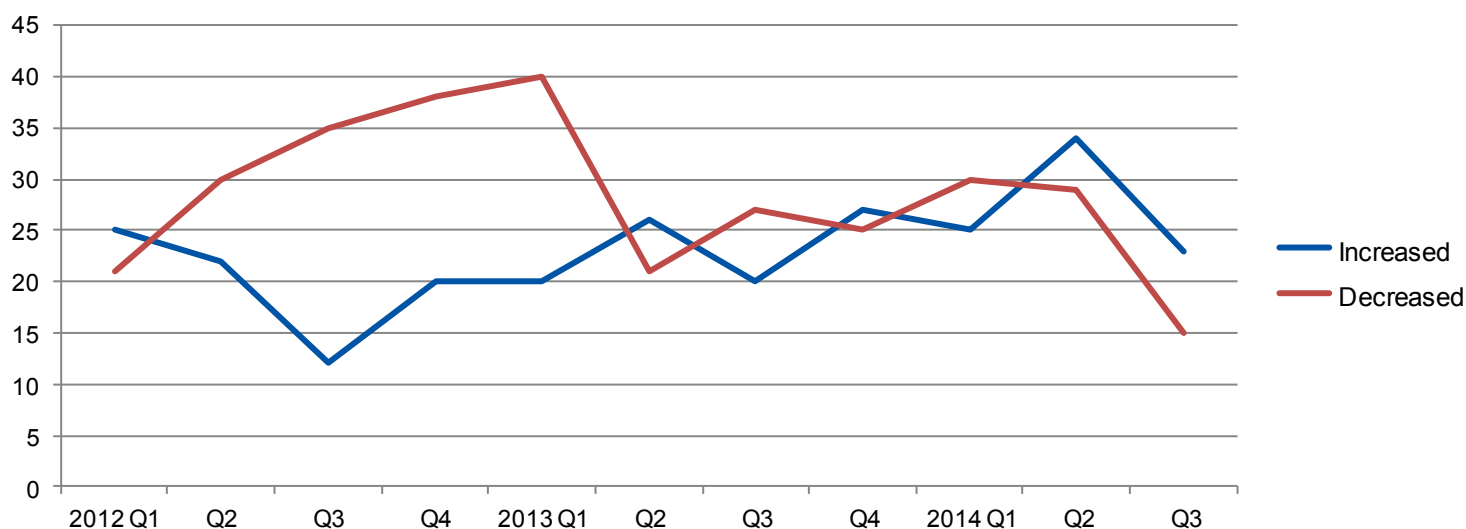


Profit expectations



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 1,400 member companies 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

British economy still growing, but more slowly in third quarter, says BCC

British Chambers of Commerce

The British Chambers of Commerce co-ordinates the QES on behalf of 55 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) has published its Quarterly Economic Survey for Q3 2014.

The results, made up of responses from 7,000 UK businesses, show that while the economy is still growing, it slowed in Q3. Balances for both manufacturing and service sector exports were down on the quarter, highlighting the challenges facing UK exporters.

A decline in the rate of growth in Q3 for the UK manufacturing sector reinforces the BCC's most recent Economic Forecast that predicted economic growth would slow leading into 2015.

BCC Director General, John Longworth, says the results for domestic manufacturing and exports in this quarter may be the 'first alarm bell' to warn of slower economic growth.

Key findings in the Q3 2014 Quarterly Economic Survey:

- For **manufacturing**, two balances fell steeply in Q3 2014; **domestic sales** (+23%, down from +42% in Q2) and **domestic orders** (+24%, down from +41% in Q2). This is in contrast to three all-time high balances in Q2 2014.
- For **services**, balances remained largely unchanged but stayed at a historically high level; **domestic sales** (+35%) were stable and domestic orders (+29%, down from +30% in Q2) fell slightly.
- The balance of **manufacturing firms** operating at full capacity fell by 6 points to +40% in Q3, while the number of **service firms** operating at full capacity rose to a very high level (+46%).
- All **export** balances fell in Q3, for both exports and services; **manufacturing export sales** fell from +30% in Q2 to +16% in Q3, while **service export sales** dropped by 17 points to +14%.

- **Business confidence** remains higher than the 2007 pre-recession levels, for both manufacturing profitability (+54%) and service sector profitability (+45%).
- The **manufacturing employment** balance rose from +30% in Q2 to +32% in Q3. The balance for **services sector employment** increased from +19% to +28% over the same period.
- In the **manufacturing** sector, the **cashflow** balance remained at +17%, five points below its last peak in Q3 2013. The **service** sector **cashflow** balance increased by five points to +22%, the highest on record.

The **manufacturing price** balance (intentions to raise prices) increased by one point to +18%, whilst the **price** balance for **service** sector increased by three points to +22%.

Commenting on the results, John Longworth, Director General of the BCC, said:

"The British economy has strengthened significantly since the recession but to say that strong growth cannot be sustained indefinitely is simply not good enough. To avoid sinking back into mediocrity we must steer clear of measures that dampen business confidence and press ahead with reforms to the business environment.

"As we predicted in our economic forecast, the strong upsurge in UK manufacturing at the start of the year appears to have run its course. We may be hearing the first alarm bell for the UK economy, but this need not be the case. The share of manufacturing firms operating at full capacity fell in Q3, signalling that there is more spare capacity in our production sector

Concerns over the strength of the pound are also high and rising. Together with a worsening outlook for the eurozone, these factors reinforce the case against an early interest rate rise.

Analysis

Dr Ian Kelly

Chief Executive

Hull & Humber Chamber of Commerce

"These remain reasonably good figures, but not as good as in recent quarters. It therefore remains important for the Government to continue nurturing growth and for the Bank of England not to increase interest rates any time soon".

David Kern

Chief Economist

British Chambers of Commerce

"These results point to continued UK economic growth, but the pace is easing. The signs of the slowdown are particularly noticeable in manufacturing, where all the key domestic and export balances recorded declines in Q3. The multiplier effects of a rise or fall in industrial production are important, not least for those regions of the UK whose traditional dependence on manufacturing industries remains high.

"Services remain more resilient than manufacturing, but there were disappointing declines in the service export balances between Q2 and Q3 2014. In contrast the Q3 results are positive for employment, cashflow and business confidence.

"Noticeable falls in all the export balances and increased signs of slower growth require a forceful policy response. UK growth cannot rely permanently on consumer spending, and on unsustainable current account and budget deficits. Unless exports and investment play a bigger role in growth, the recovery will stall.

"With inflation well below target and with earnings still rising annually by less than 1pc, it is clearly unjustified to endanger the recovery with a premature increase in official interest rates. To sustain growth, the MPC must reassure businesses that rates will only start edging up if and when objective circumstances require such a move.

"On its part, the Government must strengthen support for exporters and improve access to finance for growing businesses."

Results in full

		2013		2014		
		Q3	Q4	Q1	Q2	Q3
Home sales ²	Increased	41	47	46	43	32
	Constant	41	31	30	52	54
	Decreased	17	22	25	5	14
	Balance	24	25	21	38	18

Home orders ²	Increased	37	47	47	36	29
	Constant	41	33	32	52	58
	Decreased	22	20	21	12	13
	Balance	15	20	26	24	16

Export sales ²	Increased	75	78	73	74	32
	Constant	23	18	22	23	53
	Decreased	2	4	6	3	18
	Balance	73	74	67	71	16

Export orders ²	Increased	71	80	71	77	33
	Constant	27	16	25	21	44
	Decreased	2	4	4	3	22
	Balance	69	76	67	74	11

Workforce ²	Increased	25	24	18	29	33
	Constant	66	67	67	59	57
	Decreased	9	10	15	12	10
	Balance	16	14	3	17	23

Workforce expectations ³	Increase	31	27	30	41	40
	Constant	59	65	65	51	56
	Decrease	9	8	5	7	4
	Balance	22	19	25	34	36

Recruited staff ²	Yes	63	67	54	45	79
	- Part time	22	12	29	25	29
	- Full time	78	88	71	75	71
	- Temporary	45	62	45	54	54
	- Permanent	56	38	55	46	46
	No	38	33	46	55	21

Recruitment difficulties ²	Yes	30	46	38	32	49
	- Skilled manual	18	18	23	11	16
	- Management	15	24	33	28	30
	- Clerical	10	9	10	17	19
	- Unskilled/semi-skilled	3	9	13	11	14
	No	70	54	62	68	51

		2013		2014		
		Q3	Q4	Q1	Q2	Q3
Cashflow ²	Increased	20	27	25	34	23
	Constant	53	47	46	37	62
	Decreased	27	25	30	29	15
	Balance	-7	2	-5	5	8

Investment: Plant/machinery ²	Increased	27	37	32	37	34
	Constant	59	55	58	56	53
	Decreased	14	8	11	7	13
	Balance	13	29	21	30	21

Investment: Training ²	Increased	35	37	32	34	26
	Constant	57	55	54	56	68
	Decreased	8	8	14	10	6
	Balance	29	29	18	24	20

Turnover expectations ⁴	Improve	53	67	63	71	69
	Same	31	25	19	22	18
	Worsen	18	8	18	7	12
	Balance	35	59	45	64	57

Profit expectations ⁴	Improve	46	43	50	59	63
	Same	27	35	27	29	24
	Worsen	27	22	23	12	12
	Balance	19	21	27	47	51

Capacity utilisation ¹	Full capacity	34	39	35	34	35
	Below capacity	66	61	65	66	65

Prices ³	Increased	25	25	30	32	18
	Constant	61	69	67	63	80
	Decreased	14	6	4	5	2
	Balance	11	19	26	27	16

Price pressures ¹	Pay settlements	17	18	21	26	26
	Raw materials	36	25	21	24	30
	Finance	14	16	18	21	16
	Other overheads	48	51	46	43	34

External concerns ¹	Interest rates	13	16	11	14	16
	Exchange rates	16	8	19	12	18
	Business rates	22	20	12	17	12
	Inflation	44	55	44	45	44
	Competition	22	29	14	38	22
	Tax	22	31	11	19	18

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