



Quarterly Economic Survey

Quarter 4, 2014

www.hull-humber-chamber.co.uk

Overview

Home sales remain strong, but exports struggle

THE last Quarterly Economic Survey of businesses in 2014 carried out by the Hull & Humber Chamber of Commerce painted a picture of a general slowdown in most sectors, but there was better news on the domestic front.

Home Sales remained strong showing an increase, with the balance figure rising by 10 points to 28 which is the second strongest figure in the last two years, only being surpassed by a balance figure of 38 points in Quarter 2. More positive news came with the number of firms declaring an upturn in sales and bookings rising by 11 points.

However, exporters again suffered in the last quarter, continuing the decline we saw in the third quarter of the year, although this time around the slowdown was much less dramatic.

Firms expecting an increase in export sales again halved, while firms expecting to see a decrease rose five points and companies expecting to see some consistency rose to 63 points from 53 in the previous quarter.

There was also an increase in firms seeing consistency in sales, up nine points to 53, with a drop in the number of firms expecting their orders to increase, down to 24 points from 33 in quarter three. This saw the Export Orders balance figure drop to zero, down from 11 points in Q3 and 74 points in Q2.

The number of firms that have increased their workforce in the last three months dropped from 33% to 21%, with 65% reporting constant staffing levels — up from 57% in quarter three, while 15% of firms say their workforce has reduced, up from 10% last time, with the balance figure dropping from 23 to 6%, a 17% drop and the lowest it has been since the first quarter of the year.

Perhaps unsurprisingly then, there has also been a sizeable drop in the number of businesses expecting to take on new staff in the first three months of 2015, with just 24% saying they would look to do so, a 16 point reduction from Q3, with a slight rise in the number of firms expecting their workforce to decrease, with the overall balance figure dropping by 21 points.

Recruitment is fairly evenly split at 51% and 49%. Of the 51% recruiting staff, all are for part-time positions, but of those, 61% of those roles were permanent jobs.

Possibly reflecting the type of staff firms have been looking for, those reporting difficulties finding suitable staff dropped this quarter, but management and skilled manual jobs are still proving the most difficult vacancies to fill, which is a fairly consistent theme over the last year.

Turnover expectations for the next 12 months have also settled, with more companies expecting turnover to remain the same, with the balance figure dropping 14 points to 43. In a similar vein, profit expectations are also settling somewhat, with more firms predicting a less profitable New Year, although 63% still expect to see an improvement, which is the same number as in the last quarter.

There was a sharp increase (up 24%) in the number of companies expecting their prices to increase in the next 12 months, while those expecting consistency fell back 26% to 54 points.

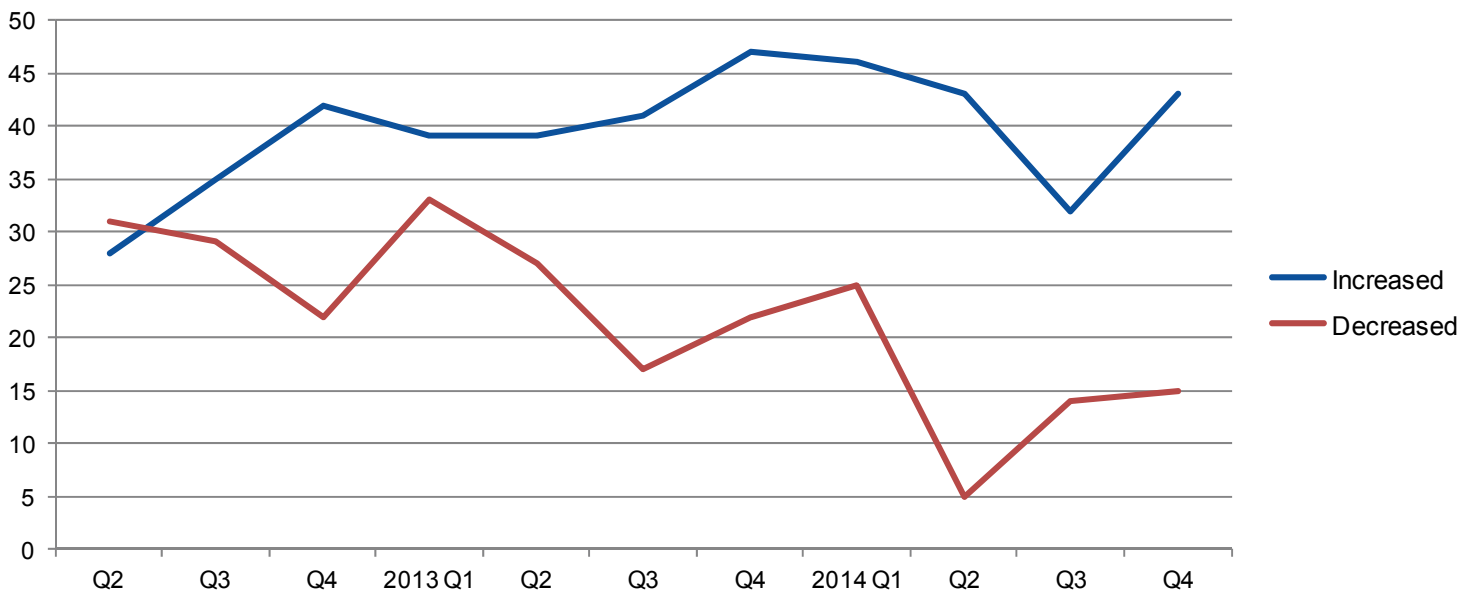
Concerns over pay settlements were up slightly, as were the costs of overheads, but external concerns over interest rates had dropped, more bosses were fretting over business rates, inflation, increased competition and tax.

Key balances

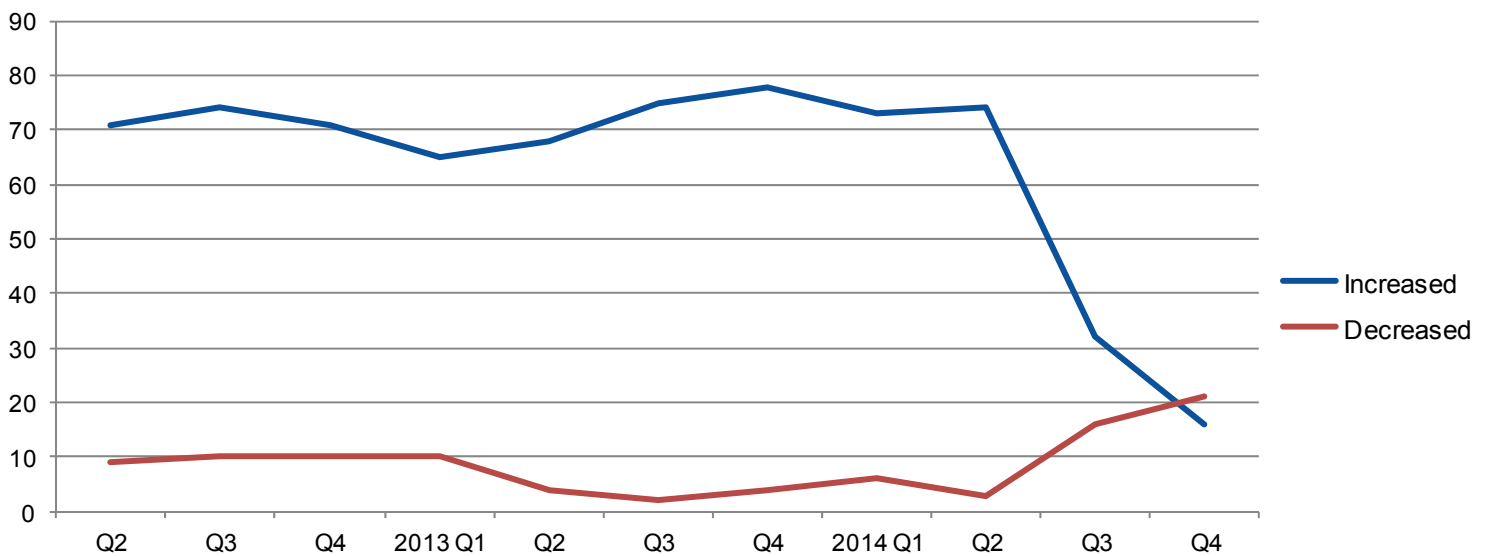
- Home sales balance increases by 10 points.
- The Export Sales balance decreased 21 points.
- Export Orders were also down, falling back 11 points.
- 21% of firms tried to increase their workforce—down 12 points on Q3.
- 67% of firms expect their workforce to remain stable.
- 100% of vacancies were for part-time jobs.
- 50% say management jobs are the most difficult to fill.
- 18% firms say cashflow difficulties have increased.
- The prices balance is 38%, up from 16 points last quarter.

Key indicators

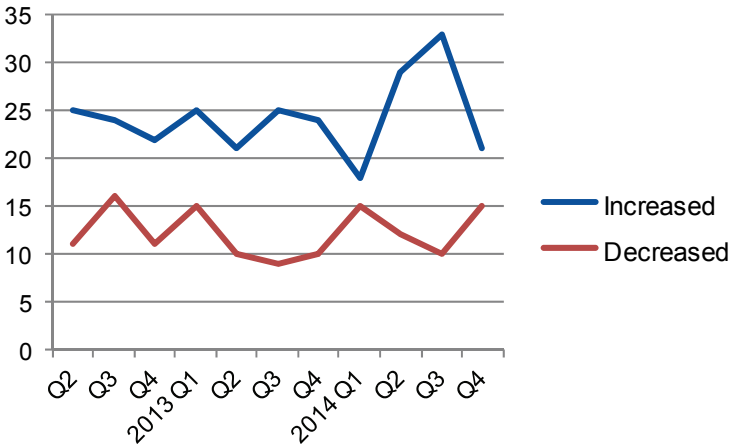
Home sales



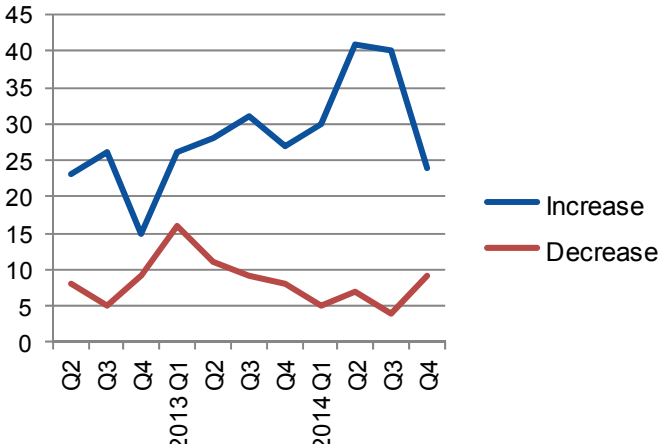
Export sales



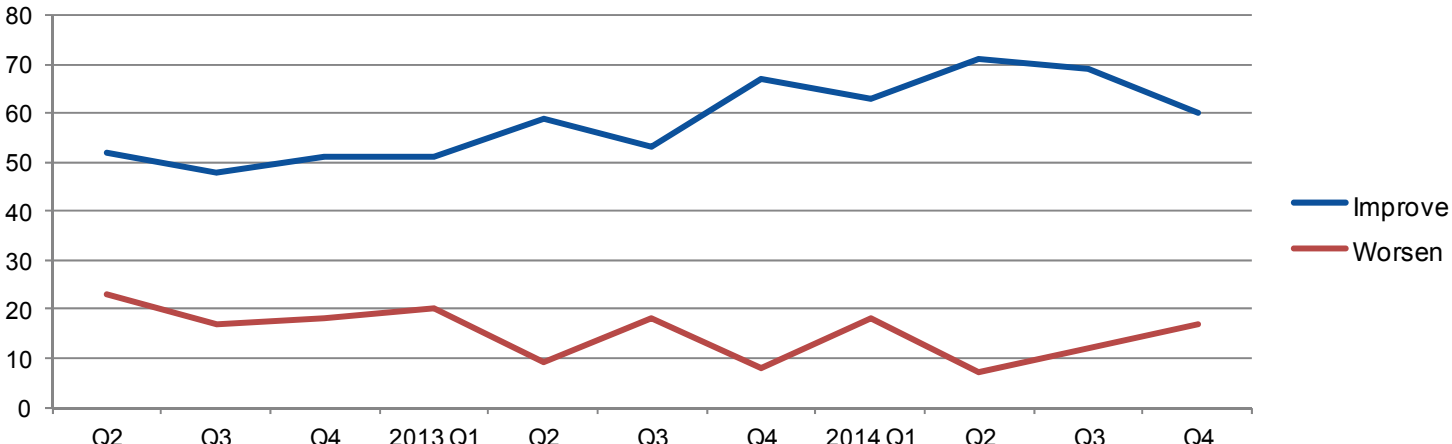
Employment



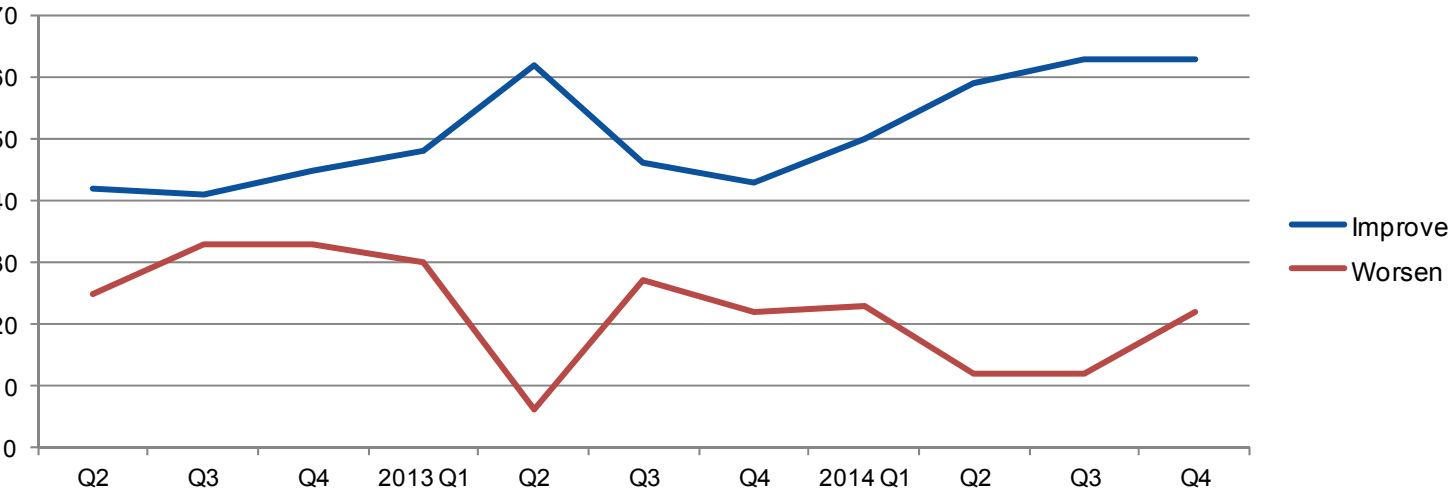
Employment expectations



Turnover expectations

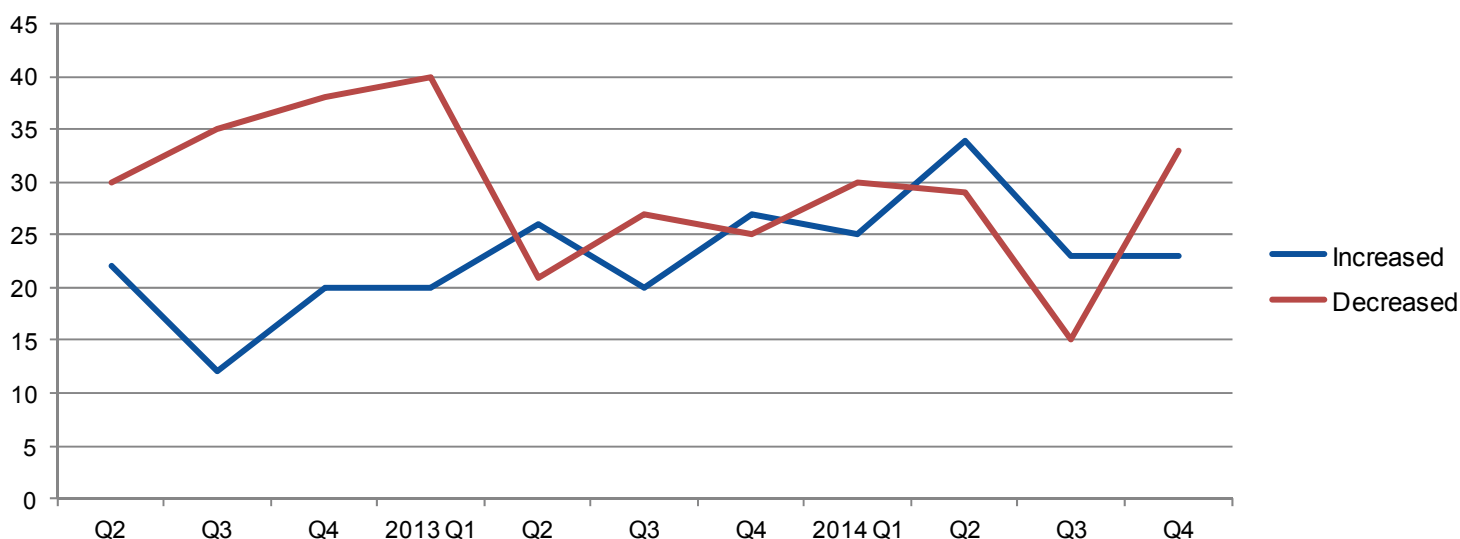


Profit expectations



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

Business bounces back in Q4, but will it last in the New Year?

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.

MANUFACTURING and services firms reported strong growth to end 2014, according to the latest Quarterly Economic Survey (QES) published by the British Chambers of Commerce (BCC).

Shrugging off recent signs of a slowdown, the manufacturing sector recorded increases in the balances for domestic sales (+36%, up from +23% in Q3), export sales (+26%, up from +16% in Q3), recruitment intentions (+85%, up from +73% in Q3) and turnover confidence (+62%, up from +60% in Q3).

The survey, made up of responses from almost 7,000 businesses, also shows that firms set out to recruit staff at an all-time high rate in the last three months of 2014. BCC's Director General, John Longworth, says that firms' strong performance at the end of 2014 could translate to a strong year of growth in 2015 – but this will depend on unwavering support for business throughout the General Election and beyond.

Key findings in the Q4 2014 Quarterly Economic Survey:

- In **manufacturing**, both domestic balances increased substantially; **domestic sales** (+36%, up from +23% in Q3) and **domestic orders** (+38%, up from +24% in Q3). However, these balances are still below the record highs recorded earlier in 2014.
- In **services**, balances rose in Q4 after stagnating in Q3; **domestic sales** (+38%, up from +35% in Q3) and **domestic orders** (+33%, up from +29% in Q3).
- An all-time high number of businesses have set out to **recruit staff in the last three months**, in both manufacturing (+36%, compared to +32% in Q3) and services (+32%, up from +28% in Q3).
- The balance of **manufacturing firms** oper-

ating at full capacity rose by one point to +41% in Q4, while the number of **service firms** operating at full capacity remained consistent (+46%).

- All **export** balances improved in Q4; **manufacturing export sales** rose by 10 points to +26%, while **service export sales** increased by one point to +22%.

- A record number of manufacturers **invested in training** in Q4 (+39%, up from +32% in Q3) and a historically high proportion **invested in plant and machinery** (+36%, up from +29% in Q3).

In the **manufacturing** sector, the **turnover confidence** balance rose to +62%, five points below its last peak in Q1 2014. The **service** sector **turnover confidence** balance increased by two points to +60%, a historically high level.

Commenting on the results, John Longworth, Director General of the BCC, said: "British businesses are well placed to grow in 2015 – a testament to their hard-work and resilience. It is particularly pleasing to see the manufacturing sector bounce back, despite signs of a slowdown in recent months.

However we must aim for growth that is sustainable for the long-term, rather than settle for second best.

"With employment and investment intentions at high levels, it is now vitally important that firms are able to convert their growth ambitions into reality. Strengthening our business finance system, which constrains the growth aspirations of too many firms, will remain a decisive factor in securing a sustainable recovery.

"Low interest rates and reduced regulation will also go a long way to creating an environment that encourages enterprise and wealth creation".

Analysis

Dr Ian Kelly

Chief Executive

Hull & Humber Chamber of Commerce

"We are pleased to see that home sales remain positive but are concerned about the fall in export orders.

"These figures reflect the more cautionary mood of business following talk towards the end of last year of problems in the Eurozone economy, which clearly affects our exporters. However, with the price of oil and petrol plummeting, we will wait and see if this has an overall benefit on lower costs and global growth levels versus international confidence in the future".

David Kern

Chief Economist

British Chambers of Commerce

"The latest results support our view that UK growth will stabilise well above 2%, and that Britain's medium-term economic growth will be slightly higher in the next few years than the recent OBR forecast predicted.

"However, many balances remain below the high levels seen earlier this year, indicating that the overall pace of GDP expansion is easing. In the face of a weak Eurozone growth and domestic policies aimed at stabilising our public finances, a slowdown in economic growth may yet occur in 2015 and 2016, despite increased strength and optimism from businesses.

"Despite a slight improvement at the end of 2014, the current account deficit is unacceptably large. The UK needs a long-term push to rebalance the economy towards net exports and investment, rather than relying too heavily on consumer spending to keep growth going.

"With inflation likely to stay around 1% for much of the next year, the MPC must delay interest rate rises for the time being."

Results in full

2014				
Q4	Q1	Q2	Q3	Q4

Home sales ²		2014				
		Q4	Q1	Q2	Q3	Q4
Home sales ²	Increased	47	46	43	32	43
	Constant	31	30	52	54	41
	Decreased	22	25	5	14	15
	Balance	25	21	38	18	29

Home orders ²		2014				
		Q4	Q1	Q2	Q3	Q4
Home orders ²	Increased	47	47	36	29	31
	Constant	33	32	52	58	50
	Decreased	20	21	12	13	19
	Balance	20	26	24	16	12

Export sales ²		2014				
		Q4	Q1	Q2	Q3	Q4
Export sales ²	Increased	78	73	74	32	16
	Constant	18	22	23	53	63
	Decreased	4	6	3	18	21
	Balance	74	67	71	16	-5

Export orders ²		2014				
		Q4	Q1	Q2	Q3	Q4
Export orders ²	Increased	80	71	77	33	24
	Constant	16	25	21	44	53
	Decreased	4	4	3	22	24
	Balance	76	67	74	11	0

Workforce ²		2014				
		Q4	Q1	Q2	Q3	Q4
Workforce ²	Increased	24	18	29	33	21
	Constant	67	67	59	57	64
	Decreased	10	15	12	10	15
	Balance	14	3	17	23	6

Workforce expectations ³		2014				
		Q4	Q1	Q2	Q3	Q4
Workforce expectations ³	Increase	27	30	41	40	24
	Constant	65	65	51	56	67
	Decrease	8	5	7	4	9
	Balance	19	25	34	36	15

Recruited staff ²		2014				
		Q4	Q1	Q2	Q3	Q4
Recruited staff ²	Yes	67	54	45	79	51
	- Part time	12	29	25	29	100
	- Full time	88	71	75	71	0
	- Temporary	62	45	54	54	39
	- Permanent	38	55	46	46	61
	No	33	46	55	21	49

Recruitment difficulties ²		2014				
		Q4	Q1	Q2	Q3	Q4
Recruitment difficulties ²	Yes	46	38	32	49	41
	- Skilled manual	18	23	11	16	33
	- Management	24	33	28	30	50
	- Clerical	9	10	17	19	4
	- Unskilled/semi-skilled	9	13	11	14	13
	No	54	62	68	51	59

2014					
Q4	Q1	Q2	Q3	Q4	

Cashflow ²		2014				
		Q4	Q1	Q2	Q3	Q4
Cashflow ²	Increased	27	25	34	23	23
	Constant	47	46	37	62	44
	Decreased	25	30	29	15	33
	Balance	2	-5	5	8	-10

Investment: Plant/machinery ²		2014				
		Q4	Q1	Q2	Q3	Q4
Investment: Plant/machinery ²	Increased	37	32	37	34	20
	Constant	55	58	56	53	63
	Decreased	8	11	7	13	17
	Balance	29	21	30	21	3

Investment: Training ²		2014				
		Q4	Q1	Q2	Q3	Q4
Investment: Training ²	Increased	37	32	34	26	28
	Constant	55	54	56	68	59
	Decreased	8	14	10	6	13
	Balance	29	18	24	20	15

Turnover expectations ⁴		2014				
		Q4	Q1	Q2	Q3	Q4
Turnover expectations ⁴	Improve	67	63	71	69	60
	Same	25	19	22	18	23
	Worsen	8	18	7	12	17
	Balance	59	45	64	57	43

Profit expectations ⁴		2014				
		Q4	Q1	Q2	Q3	Q4
Profit expectations ⁴	Improve	43	50	59	63	63
	Same	35	27	29	24	15
	Worsen	22	23	12	12	22
	Balance	21	27	47	51	41

Capacity utilisation ¹		2014				
		Q4	Q1	Q2	Q3	Q4
Capacity utilisation ¹	Full capacity	39	35	34	35	32
	Below capacity	61	65	66	65	68

Prices ³		2014				
		Q4	Q1	Q2	Q3	Q4
Prices ³	Increased	25	30	32	18	42
	Constant	69	67	63	80	54
	Decreased	6	4	5	2	4
	Balance	19	26	27	16	38

Price pressures ¹		2014				
		Q4	Q1	Q2	Q3	Q4
Price pressures ¹	Pay settlements	18	21	26	26	29
	Raw materials	25	21	24	30	23
	Finance	16	18	21	16	17
	Other overheads	51	46	43	34	46

External concerns ¹		2014				
		Q4	Q1	Q2	Q3	Q4
External concerns ¹	Interest rates	16	11	14	16	10
	Exchange rates	8	19	12	18	13
	Business rates	20	12	17	12	19
	Inflation	55	44	45	44	50
	Competition	29	14	38	22	33
	Tax	31	11	19	18	19

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