



Quarterly Economic Survey

Quarter 2, 2015

www.hull-humber-chamber.co.uk

Overview

Steady progress, but future looks uncertain

STEADY progress was reported by businesses in the Humber region over the last quarter, according to the Chamber's Economic Survey results for the second quarter of 2015.

The exports sector's peaks and troughs of recent months seem to have settled a little, according to research by the Hull & Humber Chamber of Commerce, as businesses move towards the middle of the year, with 57% of firms reporting export sales remained constant in the last three months. There was a similar number of firms reporting a steadying of export orders, at 59%.

There was little change on the home sales and orders front, with 41% of firms reporting stable trading conditions on Home Sales, with the balance figure rising three points, while Home Orders saw 45% of firms' order books holding steady, with fewer firms expecting an increase. The Home Orders balance figure dropped to 19 points.

Recruitment issues, a hot topic for businesses across the Humber, was again highlighted in this quarter's survey results, with 64 per cent of firms reporting difficulties in finding the right calibre of staff to fill vacancies. 58%, up from 25% last quarter, said they had difficulty in recruiting suitable candidates for management positions, while those struggling to fill clerical positions rose from 15% to 26%. Unskilled and semi-skilled rose from 10% last quarter to 19% this time around, although skilled manual vacancies were easier to fill, with 26% of firms saying they had difficulties finding suitable recruits, down from 35% last quarter. On a more positive note, most vacancies were for full-time permanent jobs.

Fewer firms expect to recruit new staff in the next three months, with 69% planning to

keep staffing levels as they are, with only 26% planning to recruit, down from 35% last quarter. Only 6% of firms said they expected their workforce to decrease, taking the balance figure to 20 points, down 5 points on the last quarter.

More firms expected their cashflow to increase, with a rise of 15%, with the balance figure rising 10 points, back into positive territory this quarter, at 13.

More firms expected their turnover to remain constant in the next three months, this increase coming from a drop in the number of companies expecting their turnover to drop. This combination saw the balance figure rise by a modest three points to 44.

However, the balance figure for expected profit for the next 12 months fell by 11 points. This is because fewer firms expect things to improve, and there was a slight increase in the number of businesses which expected their profits to worsen, but more firms expected a consistent level, with that figure rising by 5%.

Eight per cent more firms said they were working at full capacity this quarter.

The number of firms planning to invest in new plant and machinery fell slightly, down 2% with the balance figure dropping to 23, down six points on the previous quarter.

Plans for putting money into training took a bit of a hit this quarter, with 12% fewer firms planning to invest in training for staff than in the previous three months.

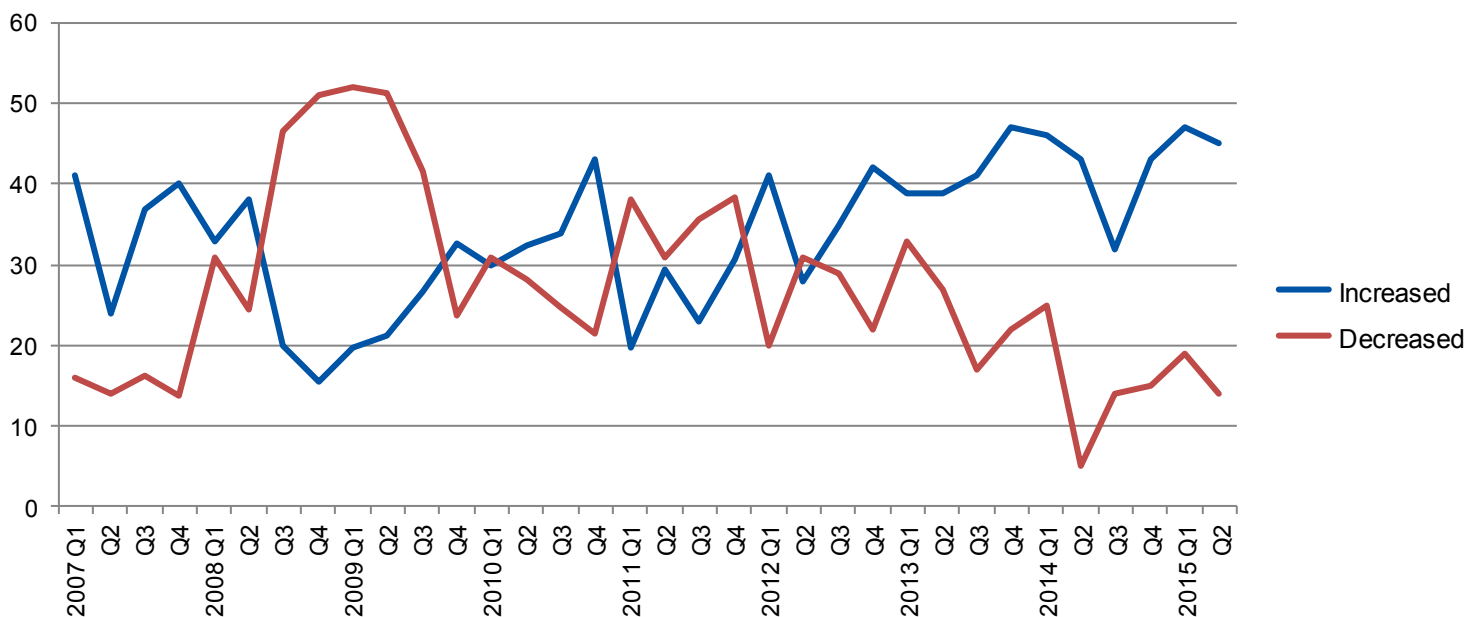
Fewer firms expected their prices to increase with 69% expecting to see them remain constant. This was due to reduced pressure from pay settlements, although concerns over raw material costs were up 5% and other overheads by 6% last quarter, but concerns on finance costs were the same as in the first quarter of the year at 19%.

Key balances

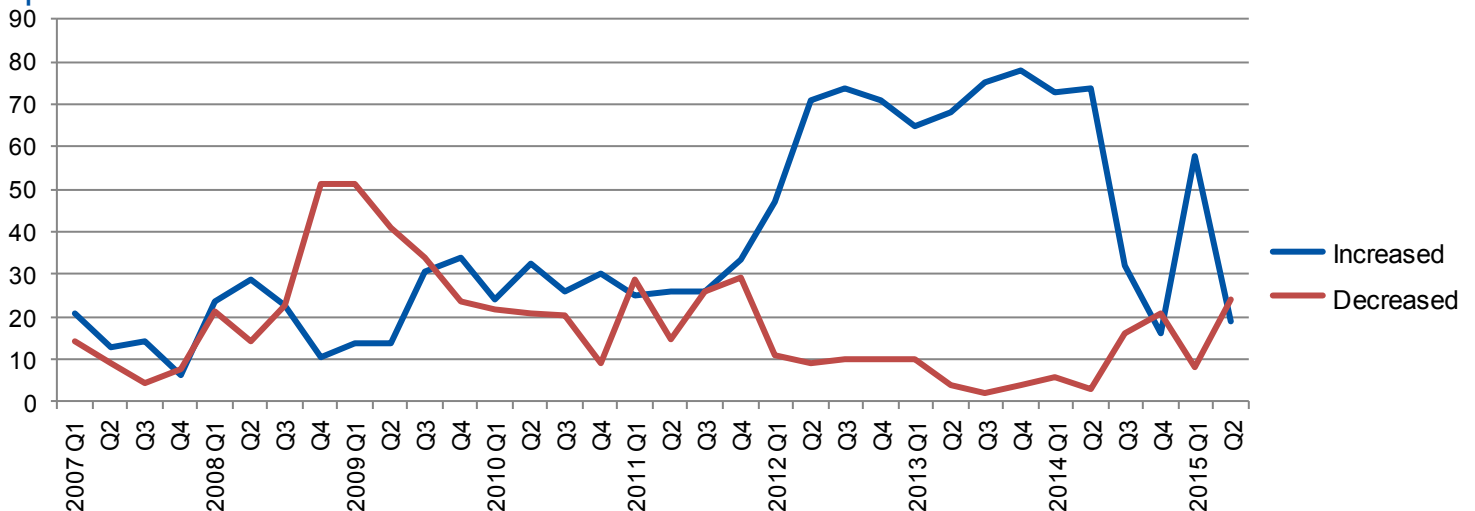
- The Home Sales balance figure rises by 3 points
- Employment balance figure increases by 3 points.
- Expected Employment balance figure down 8 points.
- Cashflow balance figure rises by 10 points.
- Investment in Plant and Machinery falls by 6 points.
- Turnover expectations grow by 3 points.
- Profit expectations falls by 11%.
- Capacity Utilisation rises by 8 per cent.
- The Price Pressures balance figure drops to 14%.
- Concerns over Exchange Rates rise slightly to 20%.

Key indicators

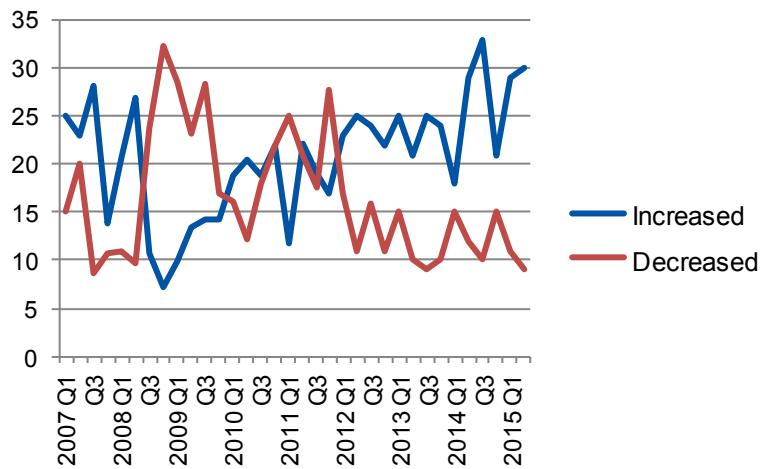
Home sales



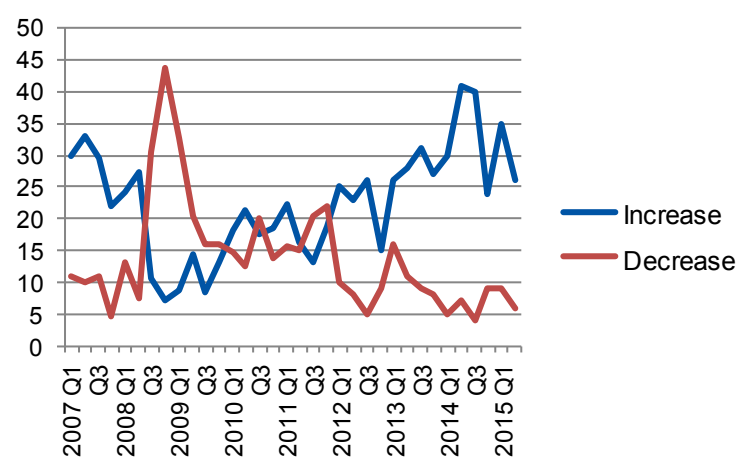
Export sales



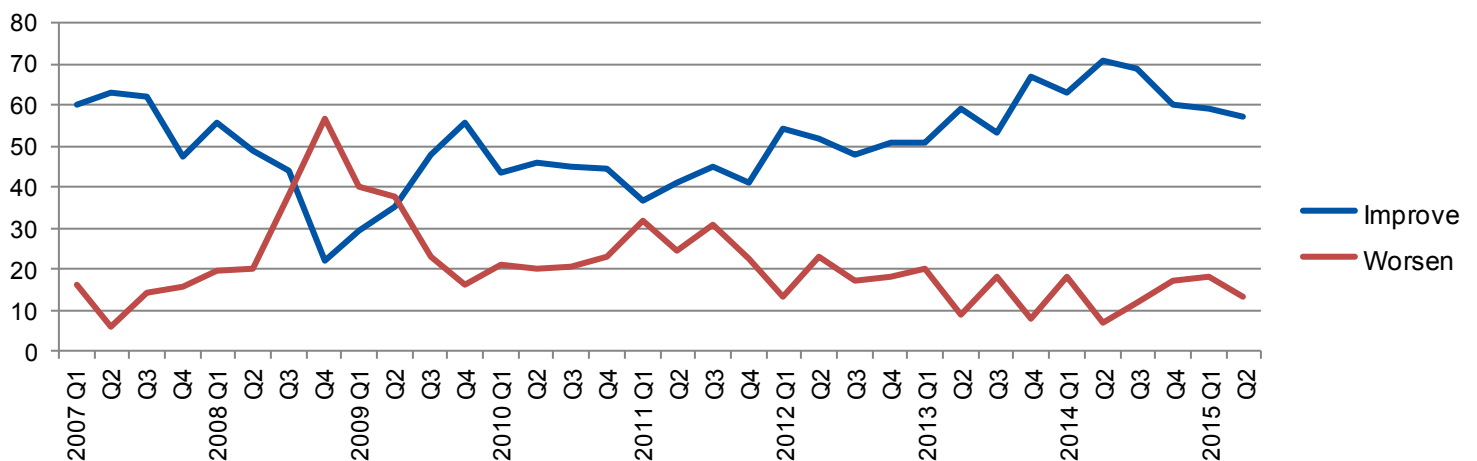
Employment



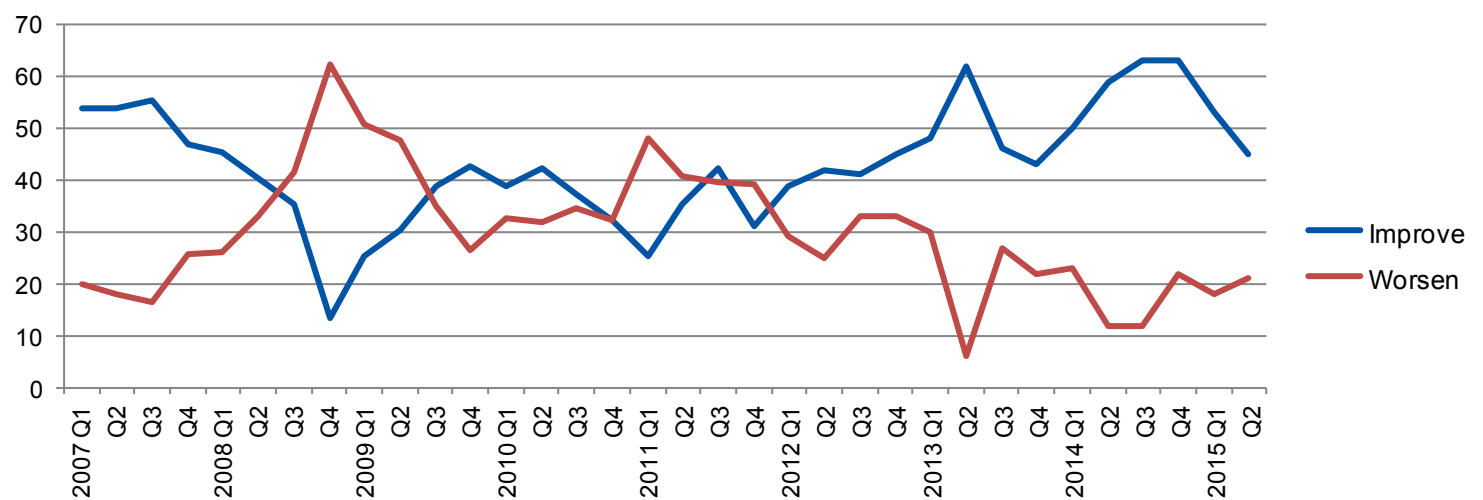
Employment expectations



Turnover expectations

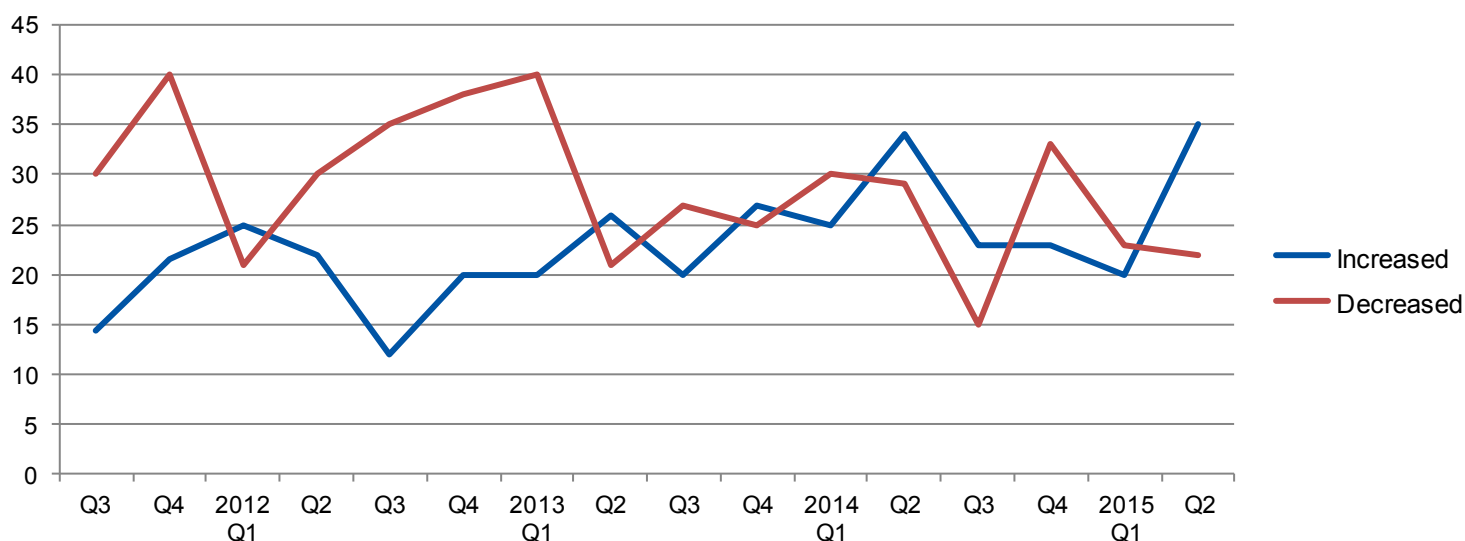


Profit expectations



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

For more information please contact:
David Hooper
Tel: 01482 324976
d.hooper@hull-humber-chamber.co.uk
34-38 Beverley Road, Hull,
HU3 1YE.

National picture

Steady progress for service sector, manufacturing falters

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) Quarterly Economic Survey (QES) – one of Britain's largest and most authoritative private business surveys, based on almost 7,500 responses from firms, employing around 800,000 people – shows that in the second quarter of 2015 the service sector continued its current trend of steady progress but manufacturing firms reported much weaker growth.

While most key national service sector balances recorded small increases in Q2 2015, virtually all the key national manufacturing balances recorded declines in Q2 – continuing the slowdown seen in Q1.

Key findings in the Q2 2015 Quarterly Economic Survey: Most key national **service sector** balances recorded small increases in Q2 2015, and most balances are now higher than their average 2007 pre-recession levels.

- In **services**, the domestic and export balances recorded mixed movements in Q2, but the overall growth level for sales and orders remained broadly static. The balance for domestic sales fell (+31% in Q2 2015, down from +34% in Q1 2015), while the balance for domestic orders increased marginally (+29% in Q2, up from +28% in Q1). The export sales balance fell by two points in Q2 to +19%, and the export orders balance increased by three points in Q2 to +20%.
- However, the **service sector** balances for employment, investment, confidence and cashflow increased slightly between Q1 & Q2 2015, signalling stronger growth.
- In contrast, all the key **manufacturing** balances fell in Q2 2015 and most balances are now lower than their average 2007 pre-recession levels.
- The intentions to raise prices balance has

risen markedly in **manufacturing** (+23% in Q2 2015, up from +11% in Q1 2015) but is down slightly in **services** (+20% in Q2 2015, down from +23% in Q1 2015).

- The balance for pressures on capacity is down slightly in **manufacturing** (+34% in Q2 2015, down from +36% in Q1 2015) and is up slightly in **services** (+46% in Q2 2015, up from +43% in Q1 2015).

In spite of disappointing features, the Q2 results still point to continued economic growth, but with many headwinds, notably in **manufacturing**.

John Longworth, Director General of the British Chambers of Commerce, said:

"These figures give us the most current insight into business experience and sentiment. Overall, they indicate that we will see continued growth in the economy, thanks mainly to the strength of the services sector, but the difference in results raises the prospect of experiencing two-tier growth – with modest expansion in services and slower growth in manufacturing and goods.

"The manufacturing sector has battled against structural problems for years but, the scale of the slowdown being experienced by our manufacturers is a surprise and a concern. Part of the reason might be down to the strength of Sterling against the euro and dollar. But currency fluctuations are not the only issues at stake.

"We have three structural problems that are also hurting our manufacturers and growth companies. First, chronic underinvestment, exacerbated by lack of capital and long-term incentive. Second, underinvestment in infrastructure and third, insufficient focus on helping more businesses succeed in new markets overseas. The Chancellor's Budget, the forthcoming spending review and the remainder of this Parliament should focus on tackling these issues for the long-term."

Analysis

Dr Ian Kelly

Chief Executive

Hull & Humber Chamber of Commerce

"The Humber saw steady progress in business activity over the past three months but an uncertain future seems likely as the international crisis affecting Greece continues and the impact of the autumn spending cuts by Government shapes local policymakers' thinking.

"These are uncertain times, especially for exporters and manufacturers, who have broadly been performing well in the Humber.

"Hopefully Germany and Greece will be able to find the right compromise over the coming period which will give certainty and confidence to business and allow the recovery to continue locally as well as nationally and internationally".

David Kern

Chief Economist

British Chambers of Commerce

"The Q2 2015 results point to continued moderate growth in the UK economy over the next year, driven mostly by the service sector. But the Q2 declines in all the key manufacturing balances are as disappointing as they are worrying.

"In the service sector, the Q2 2015 results are positive overall, and most key balances recorded small increases. With most service balances now higher than their average 2007 pre-recession levels, the sector's prospects remain encouraging. In contrast, manufacturing and construction are facing difficult problems that require a determined policy response.

"It is clear that the UK recovery remains unbalanced and growth is still too reliant on consumer spending. While a healthy consumer sector is vital, much greater efforts are needed to increase the economic contributions of investment and exports - which, in turn, will boost our productivity and help tackle the unsustainable external deficit."

Results in full

		2014		2015		
		Q2	Q3	Q4	Q1	Q2
Home sales ²	Increased	43	32	43	47	45
	Constant	52	54	41	33	41
	Decreased	5	14	15	19	14
	Balance	38	18	29	28	31

Home orders ²	Increased	36	29	31	47	37
	Constant	52	58	50	44	45
	Decreased	12	13	19	9	18
	Balance	24	16	12	38	19

Export sales ²	Increased	74	32	16	58	19
	Constant	23	53	63	33	57
	Decreased	3	18	21	8	24
	Balance	71	16	-5	50	-5

Export orders ²	Increased	77	33	24	58	18
	Constant	21	44	53	33	59
	Decreased	3	22	24	8	23
	Balance	74	11	0	50	-5

Workforce ²	Increased	29	33	21	29	30
	Constant	59	57	64	60	61
	Decreased	12	10	15	11	9
	Balance	17	23	6	18	21

Workforce expectations ³	Increase	41	40	24	35	26
	Constant	51	56	67	56	69
	Decrease	7	4	9	9	6
	Balance	34	36	15	26	20

Recruited staff ²	Yes	45	79	51	57	61
	- Part time	25	29	100	21	20
	- Full time	75	71	0	79	80
	- Temporary	54	54	39	27	29
	- Permanent	46	46	61	73	71
	No	55	21	49	43	39

Recruitment difficulties ²	Yes	32	49	41	42	64
	- Skilled manual	11	16	33	35	26
	- Management	28	30	50	25	58
	- Clerical	17	19	4	15	26
	- Unskilled/semi-skilled	11	14	13	10	19
	No	68	51	59	58	36

		2014		2015		
		Q2	Q3	Q4	Q1	Q2
Cashflow ²	Increased	34	23	23	20	36
	Constant	37	62	44	57	43
	Decreased	29	15	33	23	22
	Balance	5	8	-10	-3	13

Investment: Plant/machinery ²	Increased	37	34	20	35	33
	Constant	56	53	63	59	56
	Decreased	7	13	17	6	10
	Balance	30	21	3	29	23

Investment: Training ²	Increased	34	26	28	43	31
	Constant	56	68	59	54	51
	Decreased	10	6	13	3	18
	Balance	24	20	15	40	13

Turnover expectations ⁴	Improve	71	69	60	59	57
	Same	22	18	23	24	30
	Worsen	7	12	17	18	13
	Balance	64	57	43	41	44

Profit expectations ⁴	Improve	59	63	63	53	45
	Same	29	24	15	29	34
	Worsen	12	12	22	18	21
	Balance	47	51	41	35	24

Capacity utilisation ¹	Full capacity	34	35	32	44	52
	Below capacity	66	65	68	56	48

Prices ³	Increased	32	18	42	34	24
	Constant	63	80	54	63	69
	Decreased	5	2	4	3	7
	Balance	27	16	38	31	17

Price pressures ¹	Pay settlements	26	26	29	33	15
	Raw materials	24	30	23	17	22
	Finance	21	16	17	19	19
	Other overheads	43	34	46	33	39

External concerns ¹	Interest rates	14	16	10	8	9
	Exchange rates	12	18	13	19	20
	Business rates	17	12	19	22	17
	Inflation	45	44	50	64	44
	Competition	38	22	33	17	13
	Tax	19	18	19	3	4

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