



Quarterly Economic Survey

Quarter 3, 2015

www.hull-humber-chamber.co.uk

Overview

Home sales and orders strike cautious note

HOME sales saw the most significant change in the third quarter of 2015, with the balance figure dropping by almost two-thirds compared to the last quarter, its lowest level since Quarter One of 2013, but 12% more companies also said their sales and bookings were holding steady.

According to research by the Hull & Humber Chamber of Commerce, home orders also saw a slowdown in the last quarter, with the balance figure for the sector dropping from 19 points in Quarter 2 to just four points this time around. Again there was a also rise in the number firms reporting constant trading conditions, which was up eight points to 53%.

The export sector improved slightly in the third quarter of the year, 61% of firms reporting steady trading conditions, up from 57% in the last quarter.

Export orders was a similar picture, with 59%, the same as in Quarter 2, reporting a steady level of orders, but with only 3% of firms reporting an increase.

In recruitment, 60% of firms said their staffing levels had remained the same in the last quarter, with only two per cent of firms having taken on new employees, while only three per cent reporting their staffing levels had decreased.

However, in the next three months, six per cent more firms expected to see their staffing levels decrease, while only two per cent thought they would increase. This saw the balance figure drop to 16 points, its lowest level this year.

However, with 67% of respondents having tried to recruit staff in the last three months, it's still a positive picture, but 79% of jobs were being for full-time roles and 69% of jobs being permanent positions. 21 per cent of jobs were part-time, and 31% temporary.

The figure for the number of firms finding difficulty in recruiting staff was broadly similar to the last quarter at 61% down from 64% in Quarter two, although there were fewer difficulties filling management roles, with an 18% drop to 40% raising such concerns. Clerical roles were less of an issue this time around, although 2% more firms were having trouble finding skilled manual positions.

The last three months saw a drop in the number of firms reporting an increase in their cashflow, with a drop of 22%, but 57%, up 14% on the previous quarter, said their cashflow had remained constant, although 7% more firms had seen a decrease.

The balance figure for the number of firms planning to invest in new plant and machinery in the last three months has also dropped slightly, but looking back to previous quarters, its fairly constant—58% this time, and 56% in Q2.

There was a slight increase in companies planning to invest in training, 60%, up nine points on the Q2 figure of 51%, with the balance figure rising 5 points to 18.

Turnover expectations took a bit of a hit, with the balance figure dropping to its lowest level since the third quarter of 2013 at 35, but Profit expectations made a modest improvement, with 52% of firms expecting to see an improvement, up seven points.

Fewer firms were working at full capacity, down 20 points at 32%, while 69% of firms thought their prices would be remain the same.

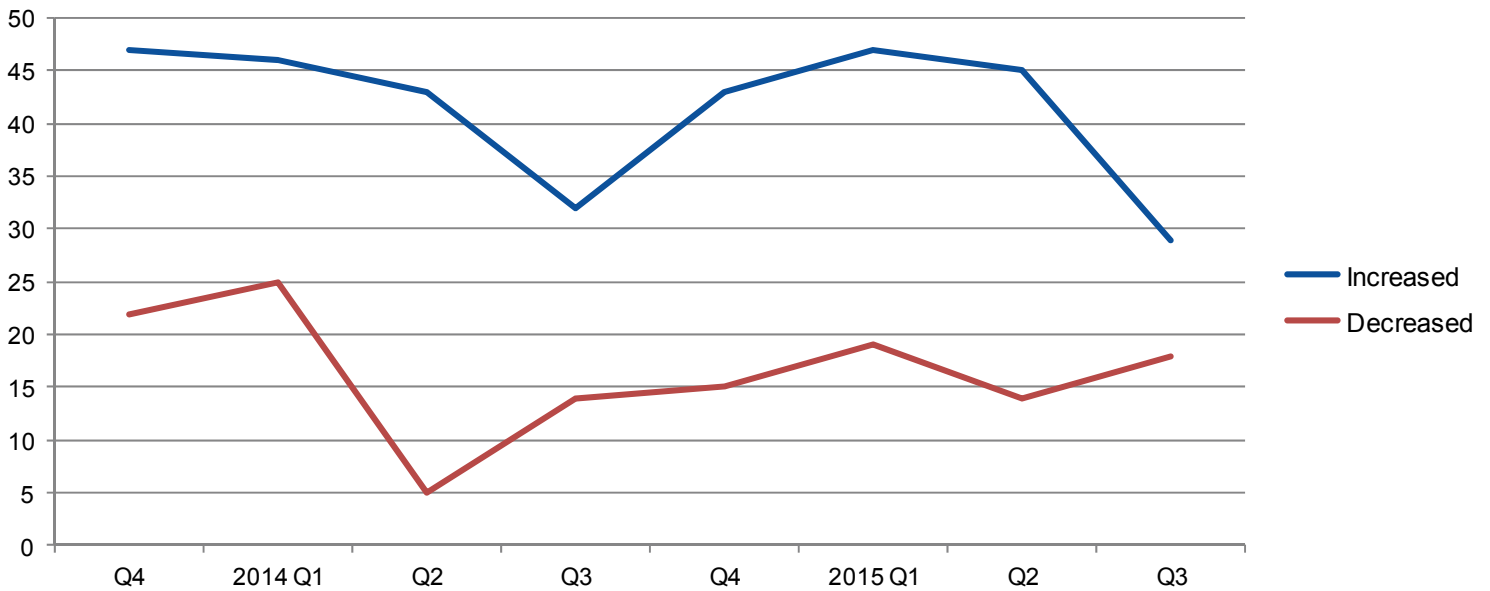
The big price pressures reported were pay settlements and other overheads. There was a drop in the number of firms concerned about raw material or finance costs, while the main external concerns were over interest rates and competition.

Key balances

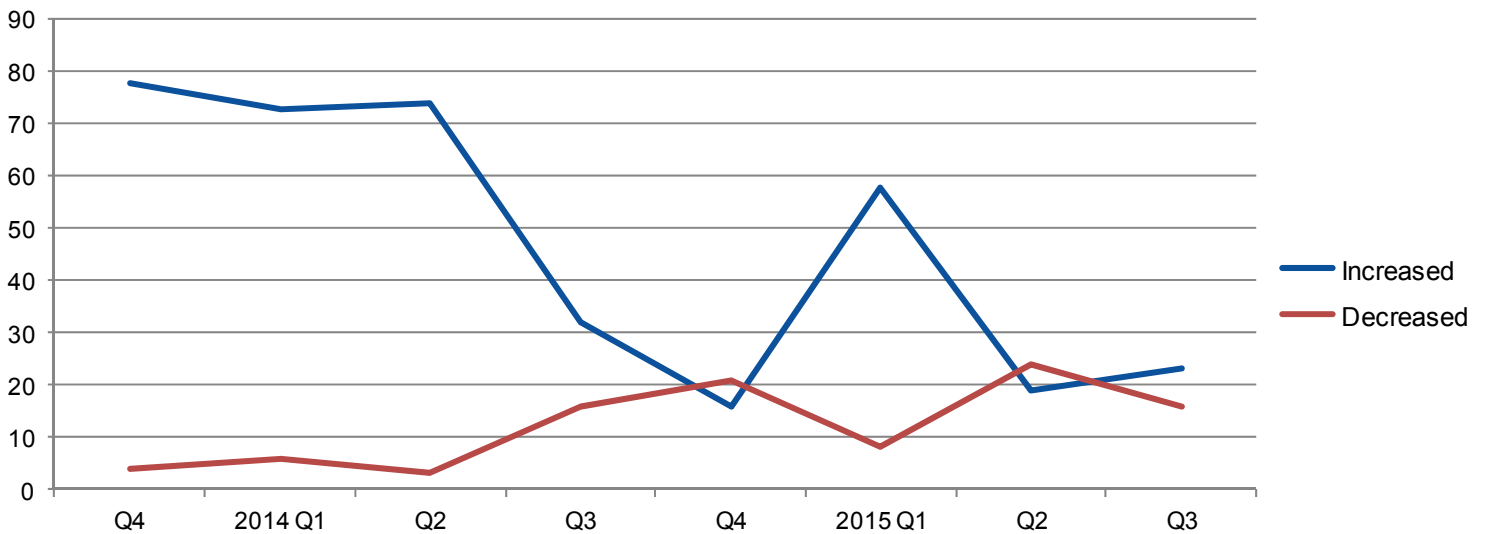
- The Home Sales balance figure drops from 31 to 11 points.
- Home orders balance drops from 19 to 4 points.
- Export sales balance rises 12 points.
- Export orders climbs up 5 points.
- 60% of firms are expecting their staffing levels to remain constant.
- 67% of firms are planning to recruit new staff in the next three months, up 6%
- Management and clerical posts the most difficult to fill.
- More firms have extra capacity to fill.
- Pay settlements and exchange rates are two of the main concerns.

Key indicators

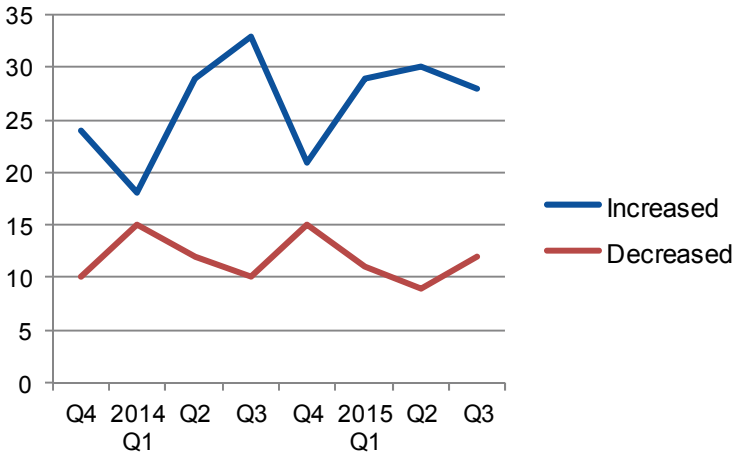
Home sales



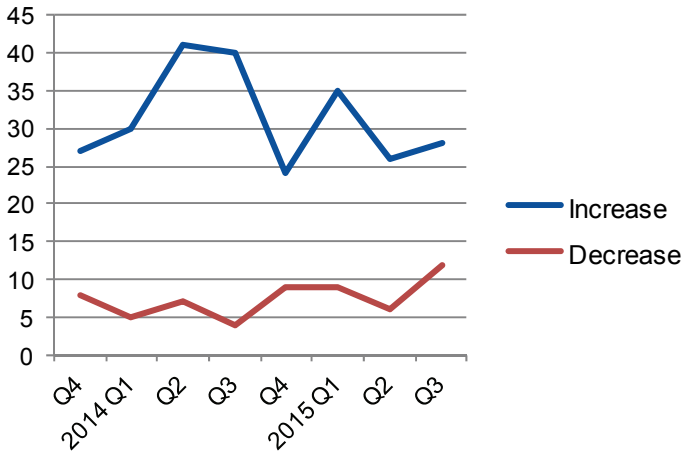
Export sales



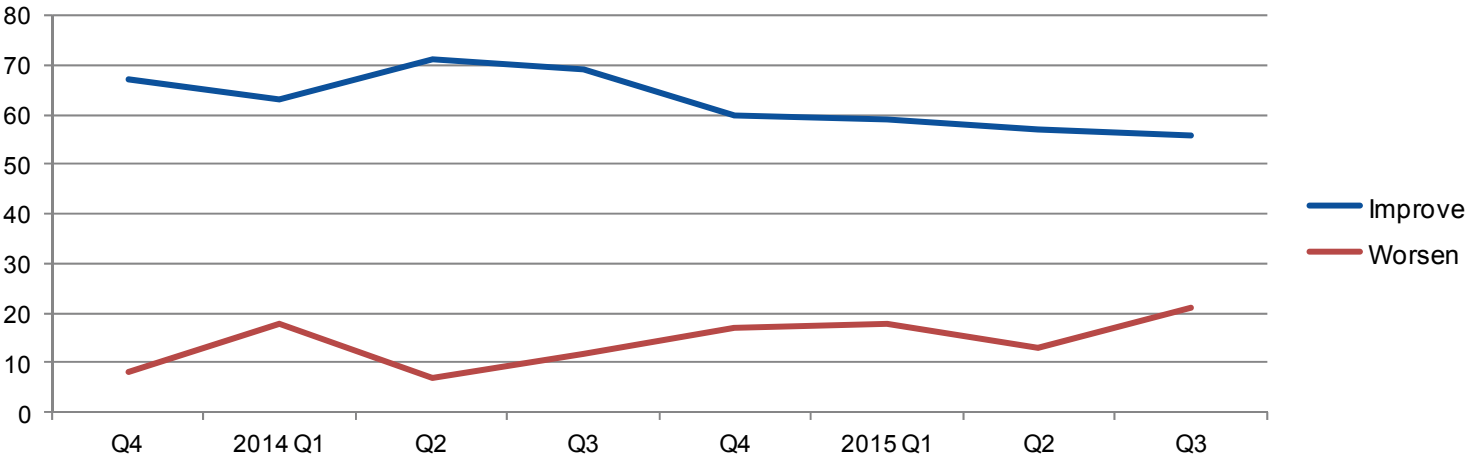
Employment



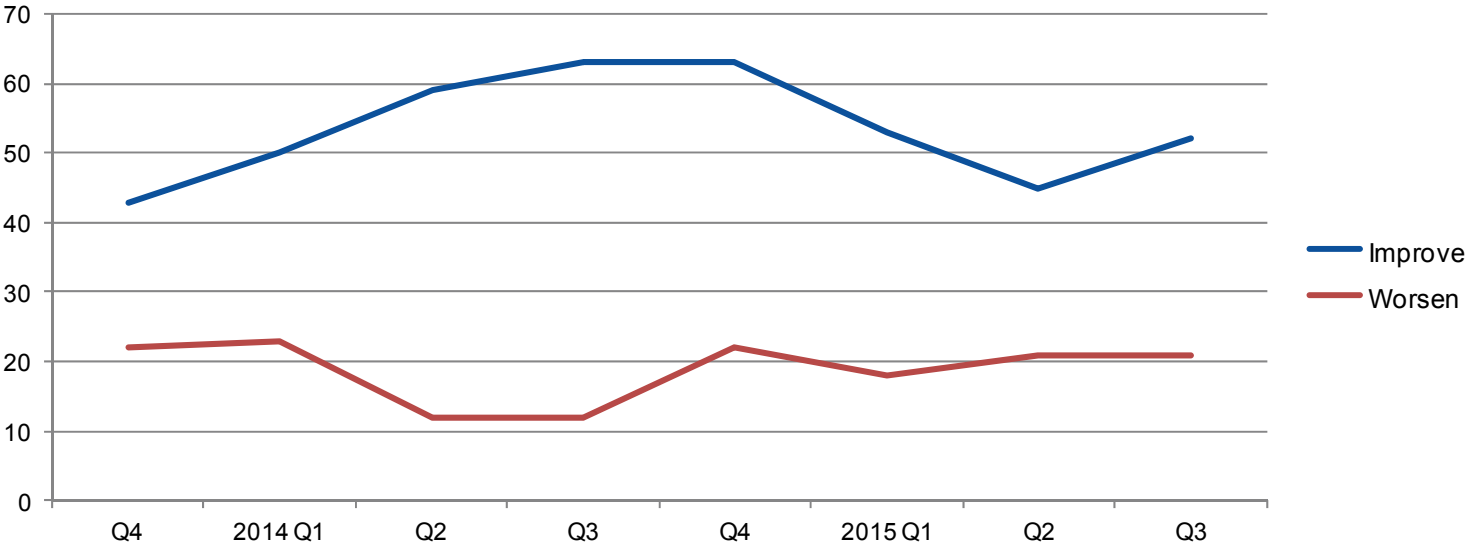
Employment expectations



Turnover expectations

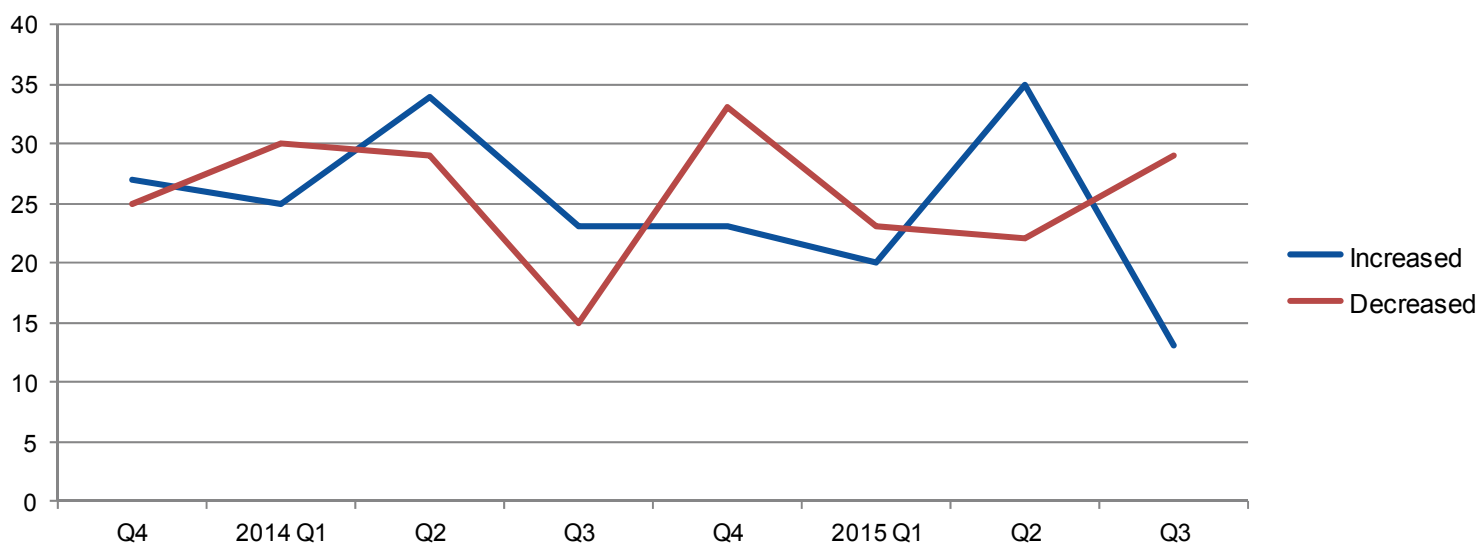


Profit expectations



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

'Two-tier' growth continues, with alarm bell for trade aspirations

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) - Britain's largest and most authoritative private sector business survey, based on almost 7,500 responses from firms, employing around 800,000 people – shows that Britain's two-tier growth trend continues. While both manufacturing and service balances were generally weaker this quarter, manufacturing balances declined to a much larger extent than in services.

Most key national balances for the service sector dipped slightly on the previous quarter, although the balance for domestic sales recorded a healthy improvement. Overall, service sector balances remain relatively strong, indicating the sector's overall health is still robust.

Nearly all key national manufacturing balances remained stagnant or fell, painting a picture of prolonged, slow manufacturing growth. Notably, the balance of manufacturing firms exporting their products reached a six year low.

Key findings in the Q3 2015 Quarterly Economic Survey:

- Overall, the results signal moderate economic growth over the next year, but the UK recovery is facing serious global challenges.

- In both manufacturing and services, most key balances were weaker in Q3 than in Q2, even though there were a few improvements.

- Even so, the falls in the Q3 service balances are in general smaller than the declines in the manufacturing balances.

- In absolute terms, most Q3 service balances are stronger than the manufacturing balances.

- Intentions to increase prices fell sharply in manufacturing (+23% in Q2 2015, +8% in Q3 2015) and rose slightly in services (+20% in Q2 2015, +23% in Q3 2015).

The percentage of firms operating at full capacity increased slightly in both main sectors.

Services

- In services, there were improvements from Q2 to Q3 in the domestic sales balance (increasing from

+31% to +36%) and the balance for employment in the previous three months (increasing from +22% to +24%).

However, all the other key service balances declined slightly between Q2 and Q3. Confidence in profitability went from +45% to +42%, investment in plant & machinery went from +20% to +17% and employment expectations fell from +30% to +24%.

Manufacturing

- In manufacturing, the balances for exports, investment, confidence, employment expectations and cashflow recorded falls between Q2 and Q3.

- From Q2 2015 to Q3 2015 export sales fell from +14% to +10%, export orders fell from +15% to +10%, investment in training fell from +26% to +20%, confidence in turnover fell from +51% to +43%, confidence in profitability fell from +45% to +32%, employment growth expectations fell from +27% to +22% and cashflow fell from +11% to +9%.

- The domestic manufacturing balances for sales and orders were static (+20% and +18% respectively) in Q3 2015, after weakening markedly in Q2 2015.

The main exception to the pattern of weaker manufacturing balances was a Q3 improvement in the balance of manufacturers who expanded their workforce in the last three months (+20% in Q2 2015, +28% in Q3 2015).

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

"These latest survey results are somewhat disappointing, as manufacturing and service firms experienced dampened growth. The real area of concern is manufacturing. Confidence is low, as growth continued to fall, and our measure of manufacturing export growth hit a six year low. Services growth, on the other hand, dipped only slightly and overall trends show the sector remains relatively strong and stable.

"Global uncertainty, weakened demand from China and the strength of the pound are some of the factors likely hindering manufacturers' performance. If the manufacturing sector has entered a prolonged period of slow growth, then closing the trade deficit and improving the current account deficit will become more difficult".

Analysis

Dr Ian Kelly

Chief Executive

Hull & Humber Chamber of Commerce

“Following market uncertainty in China and as the Government’s autumn spending review draws ever closer with deep cuts expected, perhaps it’s no surprise to see business taking a slightly more cautious stance.

“Exports in the Humber region are, however, still ahead of other parts of the UK which is good news after a difficult second quarter.

“It’s also good to see recruitment improving slightly, which is maybe reflecting a more positive mood around the Humber with renewables activity now progressing nicely”.

David Kern

Chief Economist

British Chambers of Commerce

“The Q3 2015 results point to moderate growth in the UK economy over the next year, driven mostly by services and by domestic demand. Overall, however the results are disappointing. Most key balances, for both manufacturing and services, are weaker in Q3 than in Q2. It is particularly concerning that the exports and confidence balances have weakened in both main sectors. The results suggest that the pace of GDP growth has decelerated slightly in Q3 2015.

“The manufacturing sector is facing major obstacles, while the service sector is more resilient overall. The Q3 falls in the manufacturing balances are in general larger than the declines in the service balances. In absolute terms, the manufacturing balances are weaker overall than the service balances. The exceptionally feeble manufacturing export balances are a stark reminder that rebalancing the economy and promoting exports in services must be national priorities.

“While we must not forget the strengths of the UK economy – after all we have higher growth than in most G7 economies and a dynamic and flexible labour market - the recovery is still fragile. Given the uncertain global situation, it is important to avoid unnecessary risks. The MPC should keep interest rates at their current low levels until well into 2016.”

Results in full

		2014		2015		
		Q3	Q4	Q1	Q2	Q3
Home sales ²	Increased	32	43	47	45	29
	Constant	54	41	33	41	53
	Decreased	14	15	19	14	18
	Balance	18	29	28	31	11

Home orders ²	Increased	29	31	47	37	28
	Constant	58	50	44	45	53
	Decreased	13	19	9	18	22
	Balance	16	12	38	19	4

Export sales ²	Increased	32	16	58	19	23
	Constant	53	63	33	57	61
	Decreased	18	21	8	24	16
	Balance	16	-5	50	-5	7

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

Workforce ²	Increased	33	21	29	30	28
	Constant	57	64	60	61	60
	Decreased	10	15	11	9	12
	Balance	23	6	18	21	16

Workforce expectations ³	Increase	40	24	35	26	28
	Constant	56	67	56	69	60
	Decrease	4	9	9	6	12
	Balance	36	15	26	20	16

Recruited staff ²	Yes	79	51	57	61	67
	- Part time	29	100	21	20	21
	- Full time	71	0	79	80	79
	- Temporary	54	39	27	29	31
	- Permanent	46	61	73	71	69
	No	21	49	43	39	33

Recruitment difficulties ²	Yes	49	41	42	64	61
	- Skilled manual	16	33	35	26	28
	- Management	30	50	25	58	40
	- Clerical	19	4	15	26	16
	- Unskilled/semi-skilled	14	13	10	19	18
	No	51	59	58	36	39

		2014		2015		
		Q3	Q4	Q1	Q2	Q3
Cashflow ²	Increased	23	23	20	36	13
	Constant	62	44	57	43	57
	Decreased	15	33	23	22	29
	Balance	8	-10	-3	13	-16

Investment: Plant/machinery ²	Increased	34	20	35	33	29
	Constant	53	63	59	56	58
	Decreased	13	17	6	10	13
	Balance	21	3	29	23	16

Investment: Training ²	Increased	26	28	43	31	29
	Constant	68	59	54	51	60
	Decreased	6	13	3	18	11
	Balance	20	15	40	13	18

Turnover expectations ⁴	Improve	69	60	59	57	56
	Same	18	23	24	30	23
	Worsen	12	17	18	13	21
	Balance	57	43	41	44	35

Profit expectations ⁴	Improve	63	63	53	45	52
	Same	24	15	29	34	27
	Worsen	12	22	18	21	21
	Balance	51	41	35	24	31

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

Prices ³	Increased	18	42	34	24	21
	Constant	80	54	63	69	69
	Decreased	2	4	3	7	10
	Balance	16	38	31	17	11

Price pressures ¹	Pay settlements	26	29	33	15	21
	Raw materials	30	23	17	22	8
	Finance	16	17	19	19	4
	Other overheads	34	46	33	39	37

External concerns ¹	Interest rates	16	10	8	9	14
	Exchange rates	18	13	19	20	13
	Business rates	12	19	22	17	15
	Inflation	44	50	64	44	46
	Competition	22	33	17	13	23
	Tax	18	19	3	4	4

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