



# Quarterly Economic Survey

Quarter 4, 2015

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

# Overview

## Home sales and orders recover lost ground

HOME sales and orders finished 2015 on a positive note in the last quarter of the year, recovering some lost ground, having seen a big downward change in the third quarter.

Research by the Hull & Humber Chamber of Commerce showed the balance figure for Home Sales rise by 8 points to 19, but that is still some way off the Quarter 2 balance of 31 points.

Home Orders followed a similar trend, rising by 10 points, but was also still down on the Quarter 2 balance of 19, which in turn was down on the 38 point balance of the first quarter.

Export sales and orders remained in the doldrums, despite 31% of firms reporting an increase in orders. The difference arose through more firms reporting a decrease in sales, with fewer firms staying at a constant level, which led to the overall balance figure dropping by a total of 14 points.

The Export Orders balance also dropped by 8 points to -8, again attributable to more firms reporting a decrease in orders, despite a slight increase in orders for some exporters.

There was a noticeable drop in the number of companies airing concerns about possible changes to interest rates, down by almost a half on the previous period. Exchange rates were also slightly less of a concern, as were Business Rates, Inflation, Competition and taxation.

Cashflow made a noticeable improvement, bouncing back into positive territory with a balance of eight points, contrasting positively with Quarter 3's balance figure of -16 points.

Plant and Machinery investment plans were down, possibly reflecting the slowdown in the run-up to the festive season, with more

firms cutting back their plans to buy new equipment for their businesses.

Turnover expectations improved slightly, with the balance rising by 2 points to 37, but is still some way below the balances of Quarters 1 and 2, at 41 and 44 points respectively.

In the last three months, only 16 per cent of firms had increased their workforce, this was a drop on the third quarter's figure of 28%, but 68% of firms had kept their workforce at a constant level, with only 4 per cent more firms in Q3 reporting a decrease.

In the next three months, 29% of firms are expecting their workforce to increase, up 1% on Q3, with 18% expecting to see a decrease in staffing levels, up 6%, with just over half of companies expecting to see their workforce remaining constant.

Of the 54% who said they recruited staff, the largest number of vacancies were for full time and permanent positions, (75%), while 24% were for part-time roles, and 25% were for temporary positions. 46% of respondents said they hadn't tried to recruit staff.

Management and skilled manual jobs were again the hardest positions to fill, while only 10% said they had difficulty recruiting unskilled or semi-skilled people.

The biggest pressures on prices this time around were on overheads, although fewer businesses were concerned about pay settlements. There was a rise in worries over raw material costs, with twice as many firms reporting concerns than last time around, although access to finance now seems to be much less of an issue.

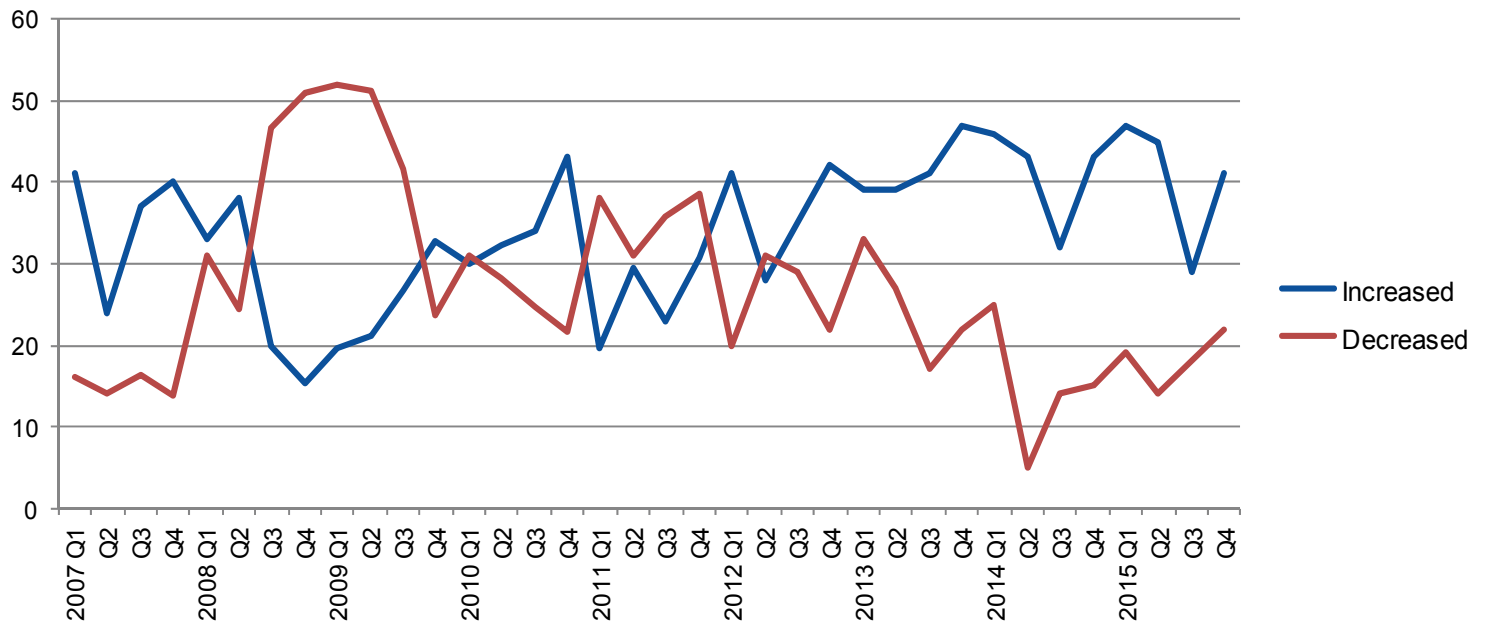
So with home sales going up but set against a backdrop of tough global markets, the New Year begins on a positive but cautious note as we look forward to 2016.

### Key balances

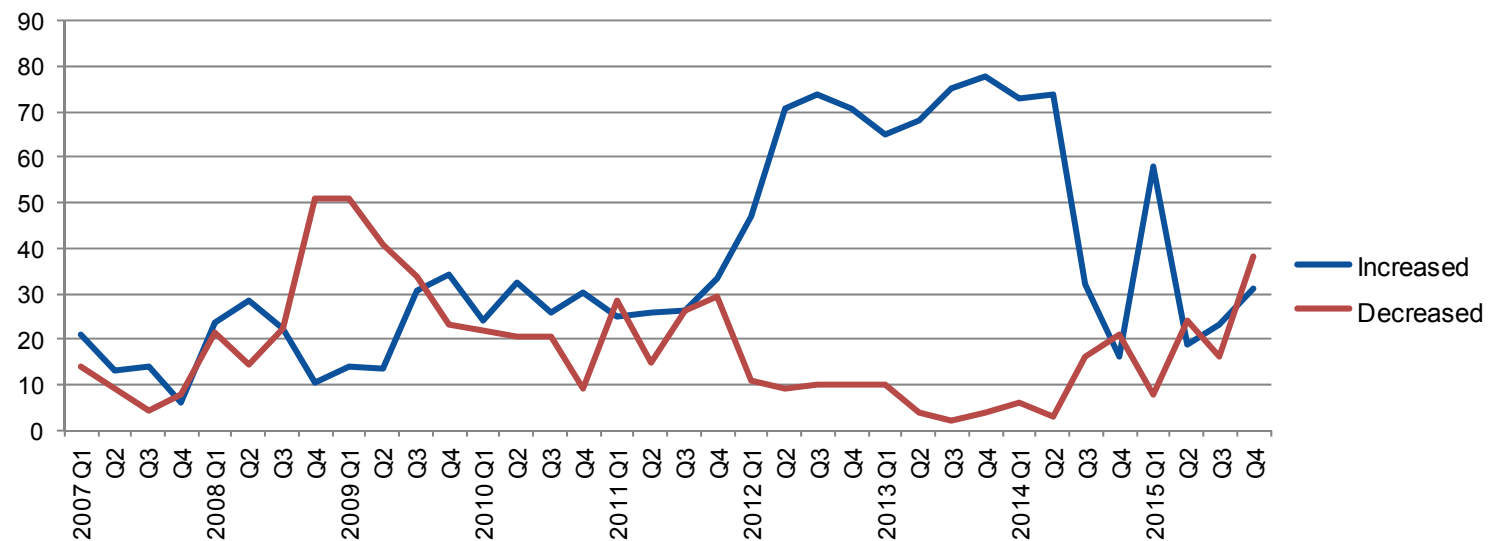
- ➔ The Home Sales balance figure rises 8 points.
- ➔ Home Orders is also up by 10 points.
- ➔ Export Sales drop to -7, a swing of 14 points.
- ➔ The Export Orders balance drops in negative territory at -8.
- ➔ Firms planning to recruit new staff drops 5 points to 11.
- ➔ 54% of firms tried to recruit staff.
- ➔ 45% found difficulty recruiting for management positions.
- ➔ 30% found it hard to find skilled manual employees.
- ➔ Cashflow was back into positive territory at +6 points.

# Key indicators

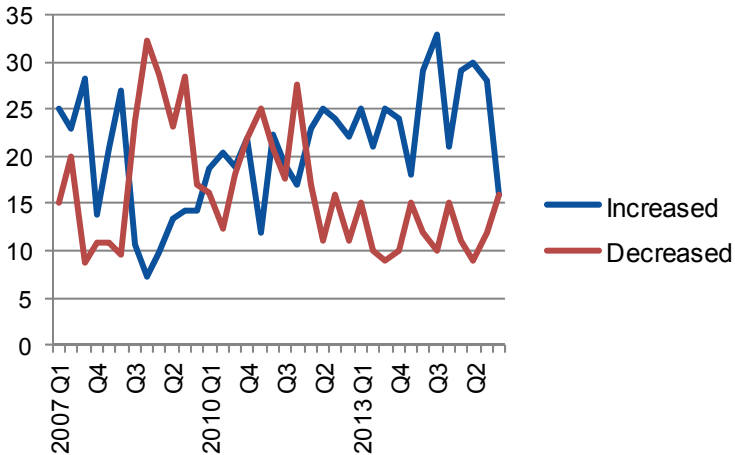
## Home sales



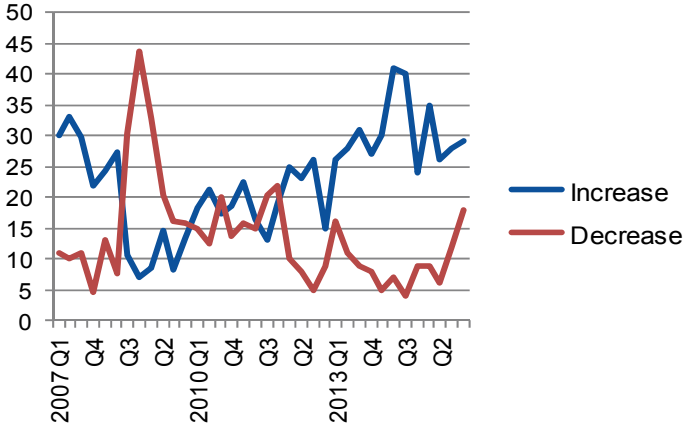
## Export sales



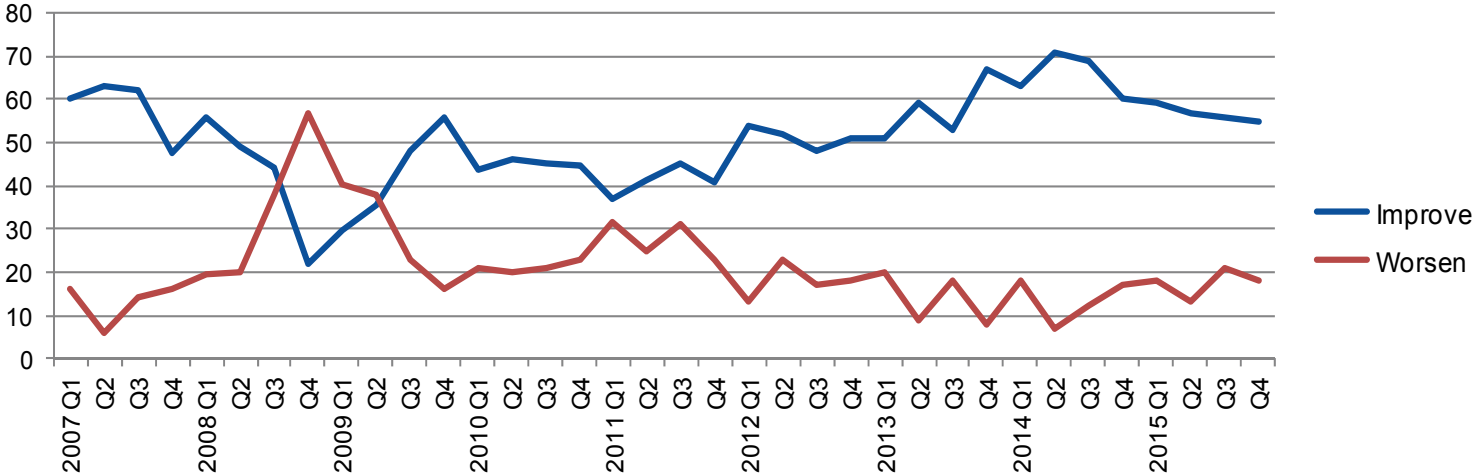
### Employment



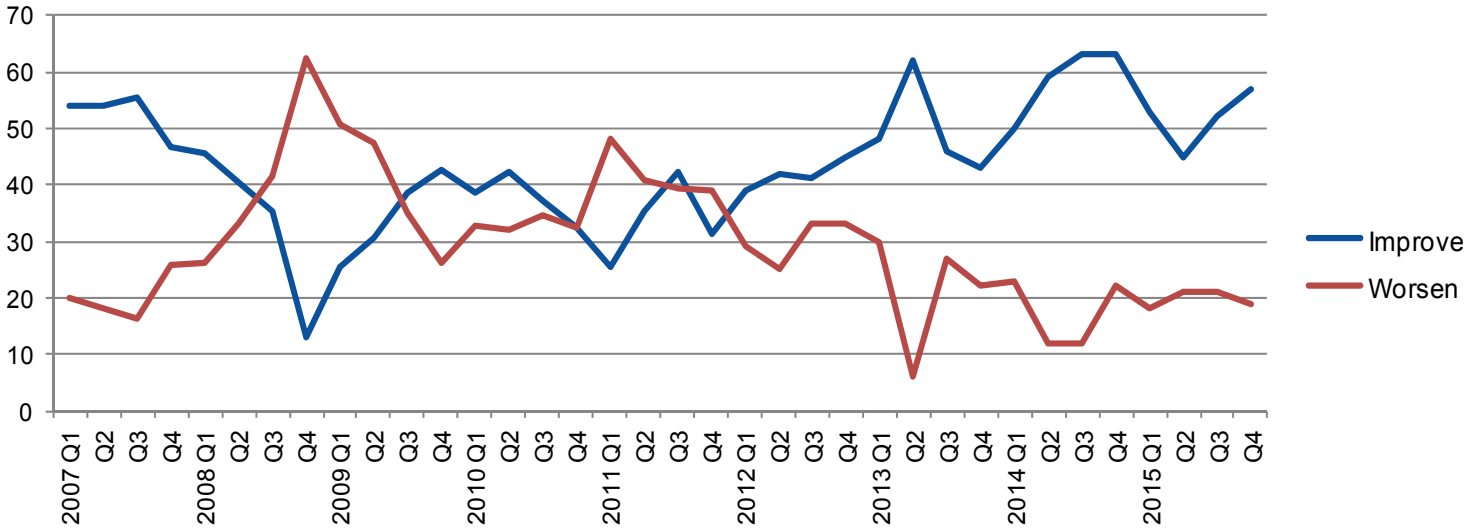
### Employment expectations



### Turnover expectations

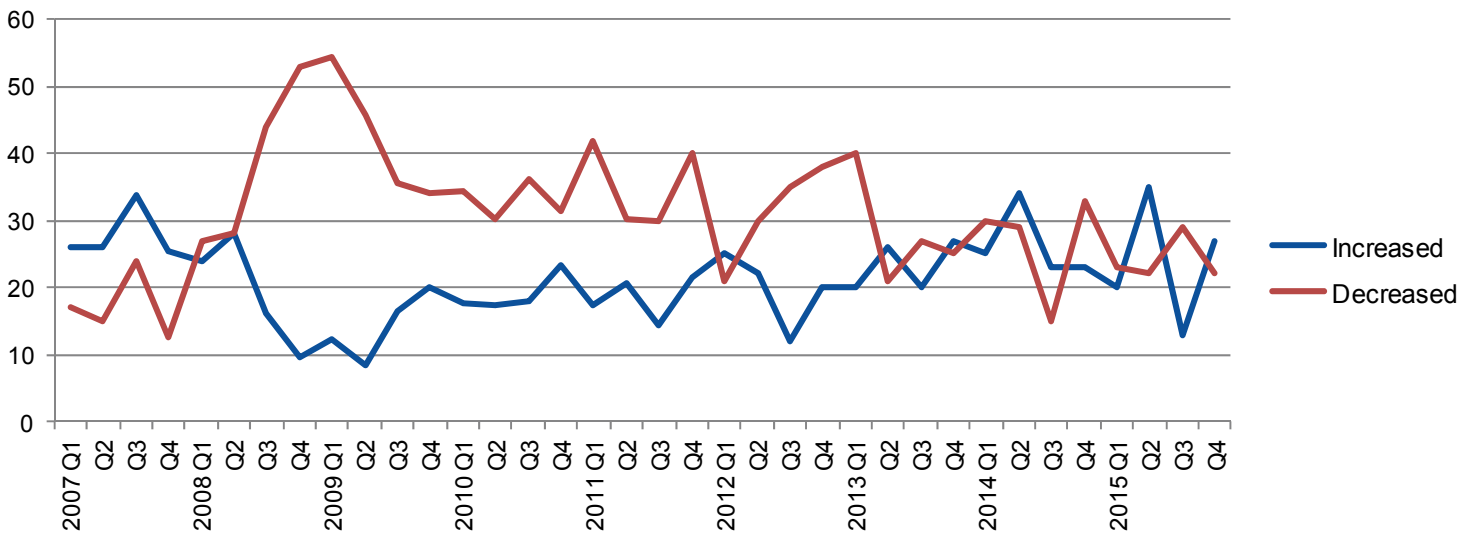


### Profit expectations



## 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

## Positive economic growth, but manufacturing exports slump

### British Chambers of Commerce

The British Chambers of Commerce co-ordinates the QES on behalf of 52 accredited Chambers and is the UK's largest and most authoritative private sector business survey.

It is based on almost 7,500 responses from firms employing around 800,000 people.

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 BCC survey shows that most key manufacturing and services balances were weaker this quarter, but manufacturing firms fared far worse. This has led Britain's two-tier growth trend to become further entrenched.

Most key balances for the services sector dipped slightly again on the previous quarter, with domestic sales continuing to be the main contributor to overall growth. The sector however continues to remain resilient in the face of global headwinds.

However the manufacturing sector continues to struggle. Domestic and export sales and order balances have now fallen well below their pre-recession levels in 2007, suggesting that the sector is close to stagnation. Firms are looking to increase prices markedly in the next 12 months, but are also thinking about investing more in plant and machinery, suggesting that the sector is keen to make the most of low inflation and low interest rates to improve productivity.

#### Key findings in the Q4 2015 Quarterly Economic Survey:

- Overall, the results suggest positive economic growth over the next year, albeit at a slower pace, but built mainly off the back of the services sector. The UK recovery continues to face many global challenges
- Most key balances were weaker in Q4 than in Q3 for both the manufacturing and services sectors; the falls in services are in general smaller than the declines in manufacturing
- Export manufacturing balances declined sharply to levels approaching stagnation – export sales declined nine points to +1%, the lowest level since Q3 2009 – while export orders fell to +1%
- The services sector export sales balance also fell by three points to +15% - the lowest level since 2011
- Domestic balances were stronger than export balances, despite falling. Manufacturing sales

balance fell seven points to +13%, while domestic orders were down eight points to +10%. In services, domestic sales balance fell four points to +32%, with orders dropping six points to +23%

- Intentions to increase prices rose markedly in manufacturing, from +8% in Q3 to +19% in Q4. In services however, this fell slightly to +21%
- Both sectors report increased pressures for higher pay settlements
- On a positive note, both sectors report increased intentions to invest in plant and machinery. Manufacturing rose six points to +24%, while services rose three points to +20%

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

"While these latest figures demonstrate growth, it is clear there are warning signs of potential trouble ahead. The declines across the board should send a message to Government that UK firms are in desperate need of a favourable business environment, not more administrative burdens.

"It is not enough to rely on consumer spending and the housing market to grow the economy, nor to rely purely on services to drive export growth. We need a rebalanced economy if we are to continue punching above our weight on the global stage. The quality of our goods and services is what gives Brand Britain its strength overseas.

"The vast windfall from the OBR in the Autumn Statement led to revised forecasts based on improving tax receipts. However businesses can't focus on growing amid a storm of red tape and tax compliance burdens.

"The real concern is that this period of two-tier growth becomes the norm rather than a blip. This requires the Government to make 2016 a year of action, on infrastructure, skills, and access to non-equity finance for firms. Otherwise the UK economy could suffer negative consequences in the face of increasing global uncertainty."



# Analysis

## Dr Ian Kelly

Chief Executive

Hull & Humber Chamber of Commerce

*“Businesses across the Humber performed noticeably better than their counterparts across the UK over the last quarter, certainly in terms of the home market.*

*This reflects several good news stories locally, from Hull City of Culture, to Flemingate in Beverley, as well as progress in renewables on both banks of the Humber with Siemens’ and Dong’s investments in particular.*

*However, in manufacturing and exports, alarm bells are ringing. China’s slowdown is impacting on global trade generally and its dumping of steel into UK and European markets is causing intense problems locally as we see at Tata Steel in Scunthorpe.*

*The Government must redouble its efforts to help ensure a level playing field for UK manufacturing via an active industry policy for the likes of the steel and chemicals industries in which this area is strongly represented. This is a must to ensure the Humber can play its full role in making the Northern Powerhouse initiative a reality on this side of the Pennines, across the North South divide and in the lop-sided balance between services and manufacturing.*

*As we enter the New Year, we strongly endorse Chancellor George Osborne’s view that UK debt must continue to be brought down, even and especially in the difficult global conditions we face in 2016.*

*Essential strategic decisions affecting business are also likely to be made this year. On Devolution, keeping the Hull and Humber City Region and its “Energy Estuary” together are absolutely vital, as is getting the very best deal possible for the UK in determining our future relationship with the rest of Europe.*

*Understanding the economic consequences of managing these issues badly and not listening to business views enough, is something the Government and politicians generally have to be most careful about in 2016”.*

## David Kern

Chief Economist

British Chambers of Commerce

*“Coming after relatively weak figures in our Q3 survey, the falling balances in Q4 highlight the risk that the pace of growth may slow further. The results also underscore the serious obstacles that the UK will face when trying to rebalance the economy towards net exports. While worsening global circumstances are the main impediment, we are not doing enough closer to home to encourage businesses to trade overseas.*

*“The sharp decline in export manufacturing balances, to levels approaching stagnation, is particularly disturbing. Slowing growth in international markets is causing these firms to become pessimistic about their short-term prospects.*

*“Though our vibrant and resilient services sector will remain the main UK growth driver, the Q4 results indicate that it is also losing some of its momentum. But the challenges facing manufacturing are much more serious.*

*“While we must not forget the strengths of the UK economy - with higher growth than in most G7 economies and with a dynamic and flexible labour market - the recovery is still fragile. Given the global uncertainties, it is important to avoid unnecessary risks. Though wage pressures are rising, inflation is likely to remain below target over the next 18 months, and the MPC should keep interest rates at their current low levels for the time being.”*

# Results in full

		2014		2015		
		Q4	Q1	Q2	Q3	Q4

Home sales <sup>2</sup>			2014		2015		
			Q4	Q1	Q2	Q3	Q4
Increased			43	47	45	29	41
Constant			41	33	41	53	38
Decreased			15	19	14	18	22
<b>Balance</b>			<b>29</b>	<b>28</b>	<b>31</b>	<b>11</b>	<b>19</b>

Home orders <sup>2</sup>			2014		2015		
			Q4	Q1	Q2	Q3	Q4
Increased			31	47	37	28	30
Constant			50	44	45	53	54
Decreased			19	9	18	22	16
<b>Balance</b>			<b>12</b>	<b>38</b>	<b>19</b>	<b>4</b>	<b>14</b>

Export sales <sup>2</sup>			2014		2015		
			Q4	Q1	Q2	Q3	Q4
Increased			16	58	19	23	31
Constant			63	33	57	61	31
Decreased			21	8	24	16	38
<b>Balance</b>			<b>-5</b>	<b>50</b>	<b>-5</b>	<b>7</b>	<b>-7</b>

Export orders <sup>2</sup>			2014		2015		
			Q4	Q1	Q2	Q3	Q4
Increased			24	58	18	21	23
Constant			53	33	59	59	46
Decreased			24	8	23	21	31
<b>Balance</b>			<b>0</b>	<b>50</b>	<b>-5</b>	<b>0</b>	<b>-8</b>

Workforce <sup>2</sup>			2014		2015		
			Q4	Q1	Q2	Q3	Q4
Increased			21	29	30	28	16
Constant			64	60	61	60	68
Decreased			15	11	9	12	16
<b>Balance</b>			<b>6</b>	<b>18</b>	<b>21</b>	<b>16</b>	<b>0</b>

Workforce expectations <sup>3</sup>			2014		2015		
			Q4	Q1	Q2	Q3	Q4
Increase			24	35	26	28	29
Constant			67	56	69	60	53
Decrease			9	9	6	12	18
<b>Balance</b>			<b>15</b>	<b>26</b>	<b>20</b>	<b>16</b>	<b>11</b>

Recruited staff <sup>2</sup>			2014		2015		
			Q4	Q1	Q2	Q3	Q4
Yes			51	57	61	67	54
- Part time			100	21	20	21	24
- Full time			0	79	80	79	76
- Temporary			39	27	29	31	25
- Permanent			61	73	71	69	75
No			49	43	39	33	46

Recruitment difficulties <sup>2</sup>			2014		2015		
			Q4	Q1	Q2	Q3	Q4
Yes			41	42	64	61	54
- Skilled manual			33	35	26	28	30
- Management			50	25	58	40	45
- Clerical			4	15	26	16	20
- Unskilled/semi-skilled			13	10	19	18	10
No			59	58	36	39	46

		2014		2015		
		Q4	Q1	Q2	Q3	Q4

Cashflow <sup>2</sup>			2014		2015		
			Q4	Q1	Q2	Q3	Q4
Increased			23	20	36	13	27
Constant			44	57	43	57	51
Decreased			33	23	22	29	22
<b>Balance</b>			<b>-10</b>	<b>-3</b>	<b>13</b>	<b>-16</b>	<b>5</b>

Investment: Plant/machinery <sup>2</sup>			2014		2015		
			Q4	Q1	Q2	Q3	Q4
Increased			20	35	33	29	30
Constant			63	59	56	58	49
Decreased			17	6	10	13	22
<b>Balance</b>			<b>3</b>	<b>29</b>	<b>23</b>	<b>16</b>	<b>8</b>

Investment: Training <sup>2</sup>			2014		2015		
			Q4	Q1	Q2	Q3	Q4
Increased			28	43	31	29	17
Constant			59	54	51	60	64
Decreased			13	3	18	11	19
<b>Balance</b>			<b>15</b>	<b>40</b>	<b>13</b>	<b>18</b>	<b>-2</b>

Turnover expectations <sup>4</sup>			2014		2015		
			Q4	Q1	Q2	Q3	Q4
Improve			60	59	57	56	55
Same			23	24	30	23	26
Worsen			17	18	13	21	18
<b>Balance</b>			<b>43</b>	<b>41</b>	<b>44</b>	<b>35</b>	<b>37</b>

Profit expectations <sup>4</sup>			2014		2015		
			Q4	Q1	Q2	Q3	Q4
Improve			63	53	45	52	57
Same			15	29	34	27	24
Worsen			22	18	21	21	19
<b>Balance</b>			<b>41</b>	<b>35</b>	<b>24</b>	<b>31</b>	<b>38</b>

Capacity utilisation <sup>1</sup>			2014		2015		
			Q4	Q1	Q2	Q3	Q4
Full capacity			32	44	52	32	34
Below capacity			68	56	48	68	66

Prices <sup>3</sup>			2014		2015		
			Q4	Q1	Q2	Q3	Q4
Increased			42	34	24	21	29
Constant			54	63	69	69	63
Decreased			4	3	7	10	8
<b>Balance</b>			<b>38</b>	<b>31</b>	<b>17</b>	<b>11</b>	<b>21</b>

Price pressures <sup>1</sup>			2014		2015		
			Q4	Q1	Q2	Q3	Q4
Pay settlements			29	33	15	21	16
Raw materials			23	17	22	8	16
Finance			17	19	19	4	6
Other overheads			46	33	39	37	29

External concerns <sup>1</sup>			2014		2015		
			Q4	Q1	Q2	Q3	Q4
Interest rates			10	8	9	14	8
Exchange rates			13	19	20	13	11
Business rates			19	22	17	15	11
Inflation			50	64	44	46	45
Competition			33	17	13	23	18
Tax			19	3	4	4	3

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