



Quarterly Economic Survey

Quarter 1, 2016

www.hull-humber-chamber.co.uk

Overview

Humber economy shows marked slowdown

THERE was a marked slowdown in all the key indicators in the first quarter of 2016, with domestic sales and orders and exports both dipping significantly.

According to research by the Hull & Humber Chamber of Commerce, the number of companies planning to invest in plant and machinery also fell sharply, with the balance figure dropping by a substantial 20% on the previous quarter, with fears of increasing competition also becoming an issue for businesses in the Humber.

The forthcoming Referendum on Brexit is likely to be adding to the economic slowdown, with many businesses now holding off on investment decisions until the Brexit result is confirmed - one way, or another.

If you would like the opportunity to find out more about the implications of staying in, or leaving the EU, then join us on June 8 at Costello Stadium for the opening of Chamber Expo 2016, when we will have two of the region's leading MPs debating the pros and cons of this huge decision which will shape the UK's future for decades to come. MPs Alan Johnson and David Davis are intending to be in the spotlight and take questions from business leaders after the initial debate, so this will be your opportunity to hear first-hand the latest views in the great debate.

In terms of this QES, the Home Sales balance also fell 14 points to just five, its lowest level for some months, with around a third of firms reporting a slowdown. The Home Orders balance halved to 7 points compared to Quarter 4 of last year.

Exports Sales dropped 9 points, with the number of firms reporting an increase in sales falling by more than half compared to the last quarter. Export Orders also saw a big

fall this time around, with the balance figure dropping by 18 points.

There was a marked drop in the number of companies planning to invest in plant and machinery, with the balance falling by a considerable 20 points compared to the last quarter.

Cashflow also took a big hit, with nine per cent more firms reporting an increase in concerns which saw the balance figure dropping to -15.

Turnover expectations told a similar story, with fewer firms expecting turnover to increase and more firms saying they expected their profits to worsen, leading to a balance figure of just 2, which is a noticeable shift from the previous quarter's figure of 37.

Firms are also predicting it will be more difficult to make a profit in the next three months, with 11 per cent more firms expecting profits to fall, with the balance figure dropping from 38 points to just 2.

Pay settlement worries led to the biggest surge in concerns over price pressures, with an increase of 15% to 31, while finance costs and other overheads were also predicted to rise.

Reinforcing the view of more difficult trading conditions in the Humber, the biggest changes in external concerns were competition (up 15%) and exchange rates (up 10 points).

And despite the Chancellor cutting business rates in his March Budget, there was a 7% increase in the number of Humber firms airing their concerns

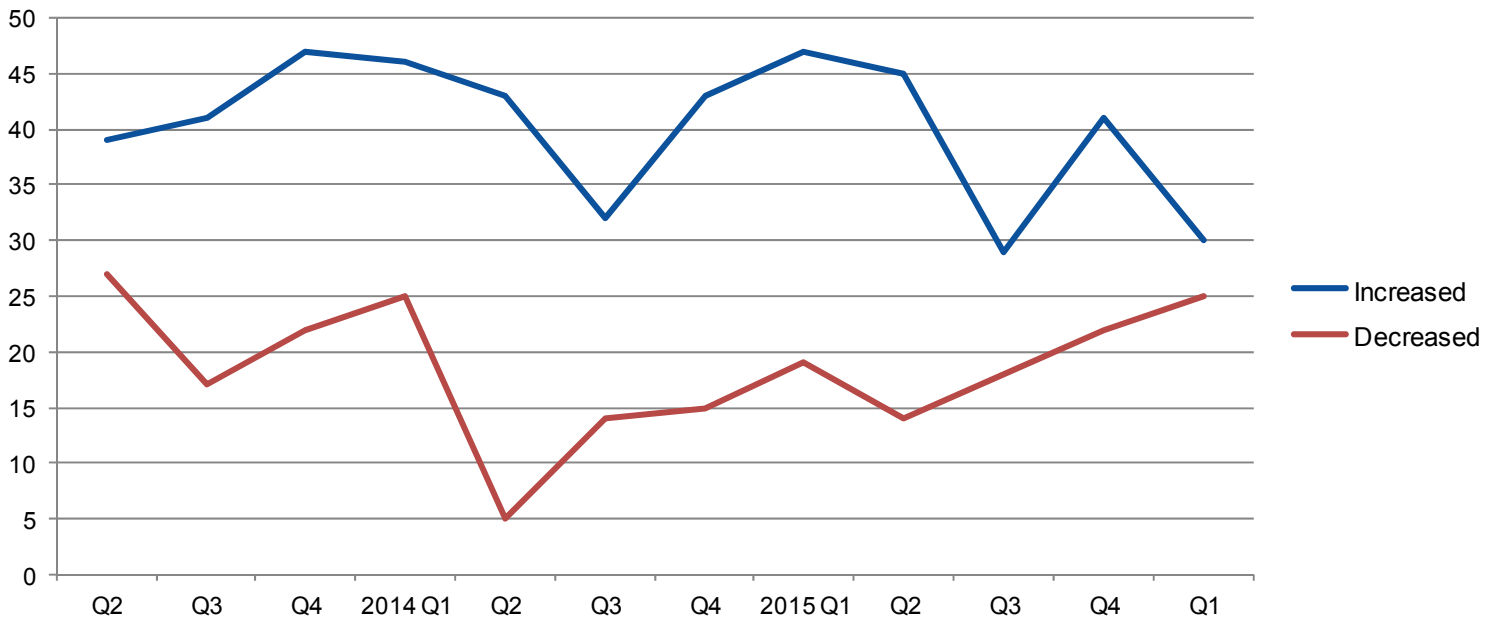
Interest rate concerns also rose slightly, but inflation fears dropped back 7 points.

Key balances

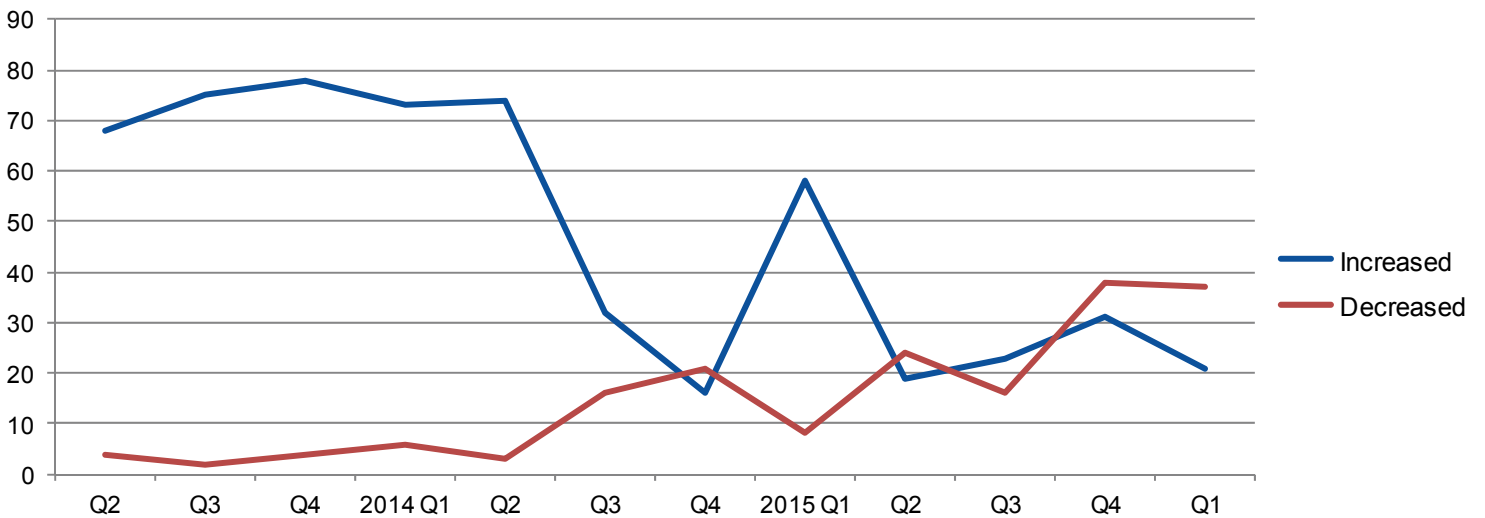
- Home sales balance drops 14%
- Home orders balance down 7%
- Export sales balance figure falls to -16.
- Export orders balance falls from -8 to -26.
- Part-time jobs increases by 9 points
- Firms trying to recruit temporary staff increases by 13 points.
- Difficulties increasing unskilled or semi-skilled staff increases by 10 points.
- Big drop in turnover expectations balance figure to 13 points from 37 last quarter.
- Profit expectations dip by 17 points.
- Pay settlement concerns rise by 15 points.

Key indicators

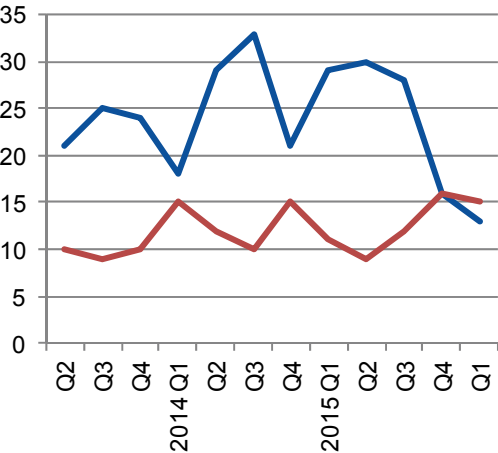
Home sales



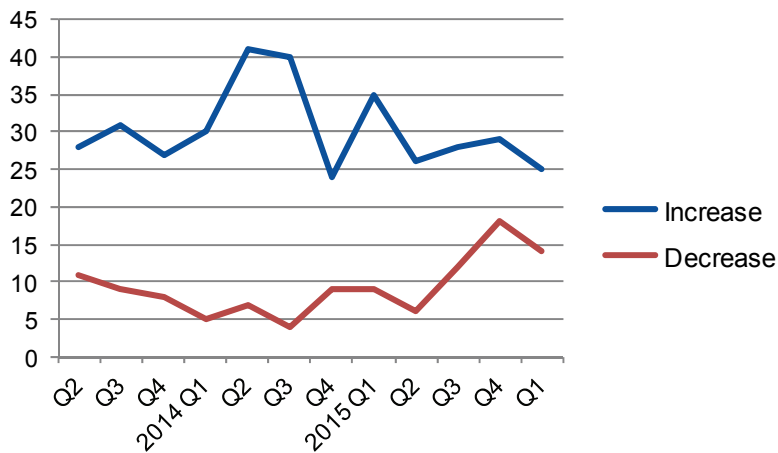
Export sales



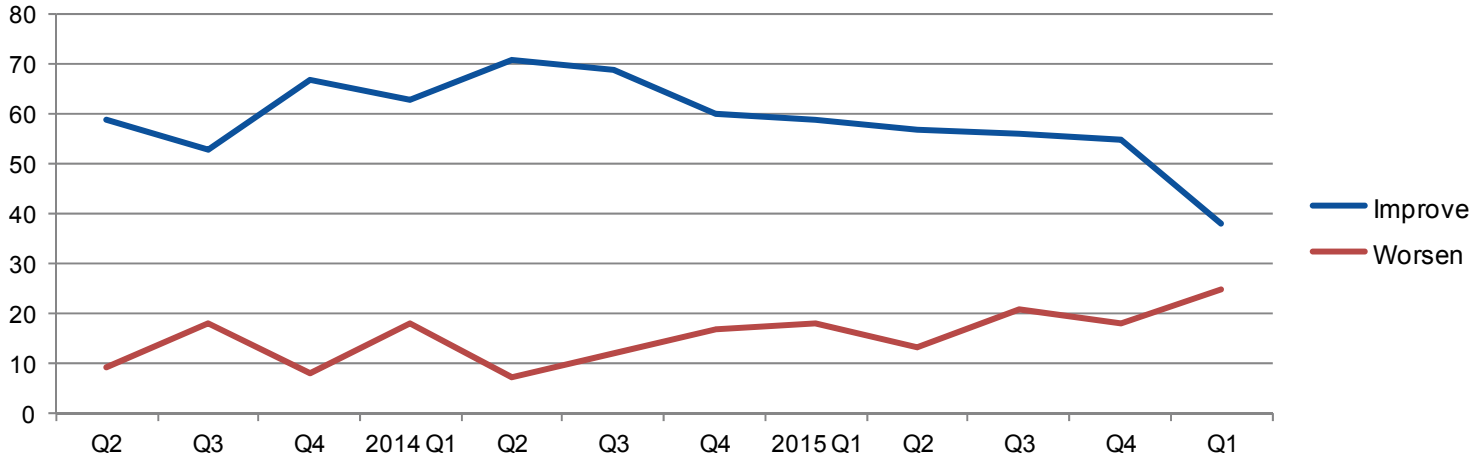
Employment



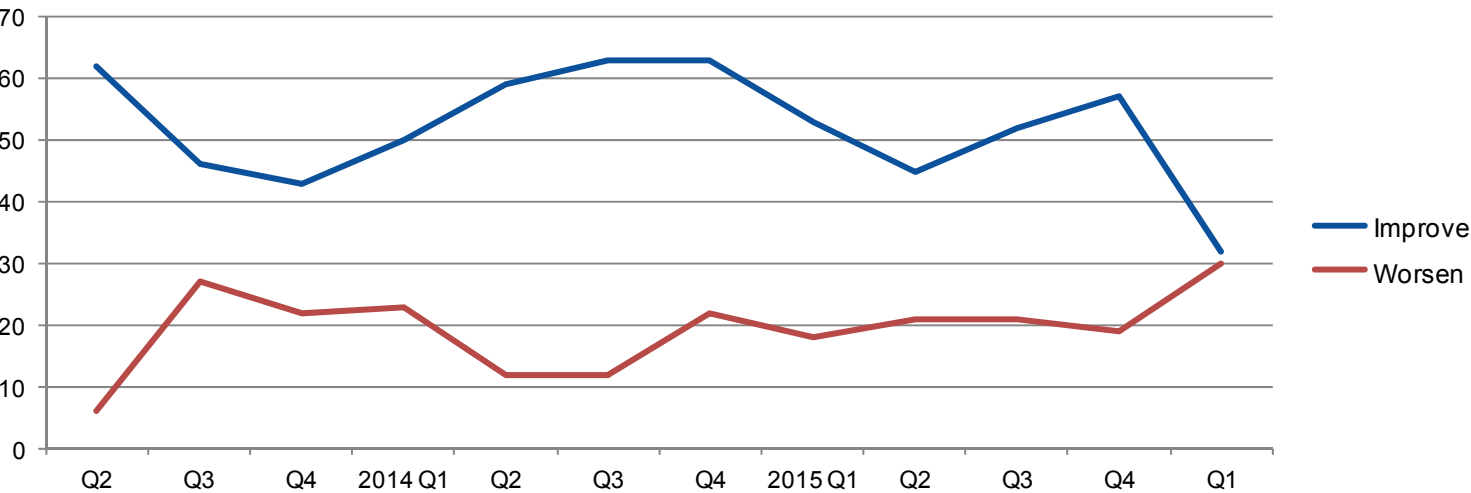
Employment expectations



Turnover expectations

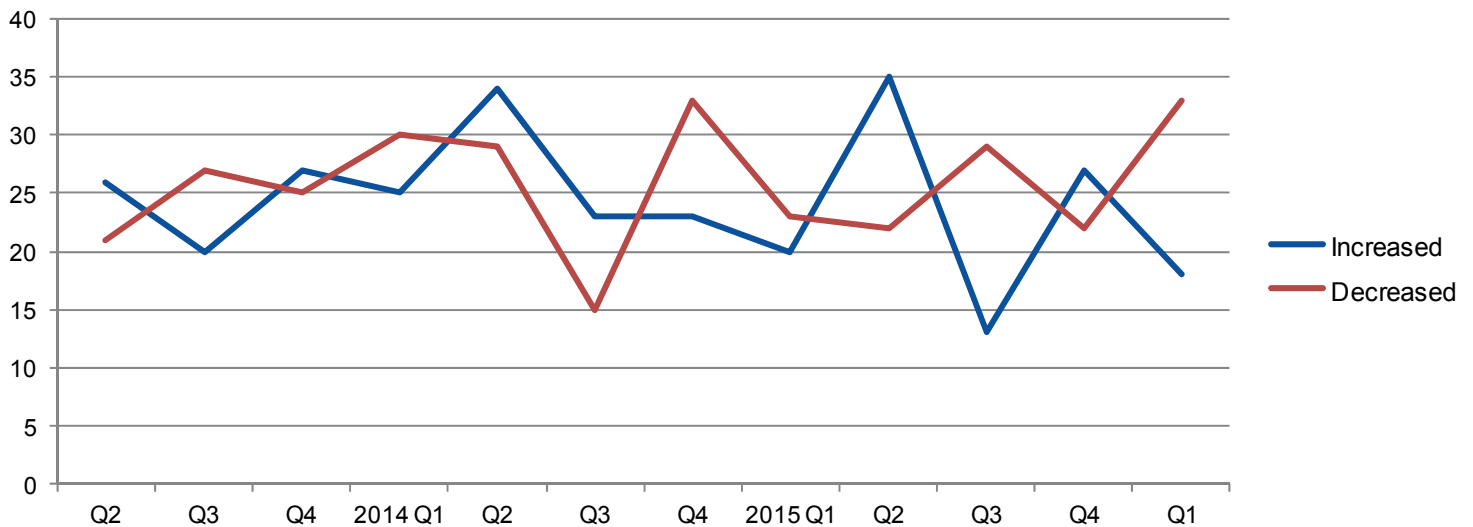


Profit expectations



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 2,000 member companies and affiliates 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

UK economic growth continues to soften as services sector slows

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 – Britain's largest and most authoritative private sector business survey, based on **over 8,500 responses** from firms in Q1 2016 – suggests that growth in the UK economy continued to soften in the first quarter, with most key survey indicators either static or decreasing.

Several key indicators for the services sector – the UK's main driver of economic growth – fell slightly this quarter, with domestic sales and orders reaching their lowest level for over three years. For manufacturing, domestic sales fell again, and remain low in historical terms.

While some manufacturing sector indicators have shown slight improvements, these increases are from a very low base. Combined with the slight weakening in some areas of the dominant services sector, the Q1 figures suggest a static picture — with potential downside risks for UK economic growth ahead.

Key findings in the Q1 2016 survey:

- Overall, the figures for both the services and manufacturing sectors indicate continued growth. However, this has remained static across many indicators, and slackened in others.
- In the manufacturing sector, there has been a slight increase in the number of firms reporting improved export sales and orders – both indicators rising to a percentage balance of +8 from the near-stagnation of +1 seen in Q4 2015
- However, fewer manufacturing firms have grown their workforce in the last three months (+13), or are looking to do so in the next three months (+13), down from a percentage balance of +20 and +17 respectively
- In the services sector, the percentage of

companies who are struggling to recruit has risen to 68, the highest level for 18 years – however, more firms expect to increase their workforce in the next three months (+27 up from +21)

- Confidence in turnover and profitability for both services and manufacturing remains low by historical standards
- Domestic indicators largely fell, although they remain stronger than export indicators. The balance of manufacturers reporting improved domestic sales balance fell two points to +11, although the balance of firms reporting improved orders was up slightly to +13 (from +10). In services, the balance of firms reporting improved domestic sales fell six points to +26, while orders fell two points to +21. For both sectors, these are the lowest levels in nearly three years.
- The balance of manufacturers intending to increase prices fell sharply, from +19 to +8 (reversing the rise of the previous quarter), but rose in services, from +21 to +27
- The balance of firms intending to invest in plant and machinery and training fell in the services sector

Fewer companies reported increased pressures for higher pay settlements (33 in manufacturing, 27 in services). In manufacturing, the level is still higher than before the financial crisis.

Dr Adam Marshall, of the British Chambers of Commerce, said: “Our latest survey results suggest that the UK economy is in a holding pattern. While the picture is static overall, there are clear indications that economic growth is continuing to soften. From sales and orders to confidence and investment intentions, many of the business indicators we track are at a low ebb.

Analysis

Dr Ian Kelly

Chief Executive

Hull & Humber Chamber of Commerce

"We were pleased the Chancellor made significant changes to the business rates threshold in his recent Budget which will help a lot of small to medium sized businesses in this area. However, it is concerning to see such a significant slowdown, especially in the Humber's manufacturing sector in this quarter's figures.

With the problems at Tata Steel in Scunthorpe and uncertainty over Brexit, investment decisions also appear to be being delayed on a significant scale.

Overall, these figures highlight the vital importance of a strong policy framework to help key industrial sectors like steel, which are essential to our manufacturing and export base, especially at a time when our current account deficit is the worst it has been since 1948".

David Kern

Chief Economist

British Chambers of Commerce

"These results are disappointing but not surprising. Although GDP growth for the previous quarter was upgraded slightly, our survey points to a slowdown in Q1 2016. This is the inevitable consequence of mounting global and domestic uncertainties, but it is nevertheless concerning that the vibrant and dominant services sector is likely to face mounting challenges in the next few years. The mediocre employment balances are a warning that we cannot afford to be complacent about the continued dynamism of our labour market.

"The improvement in the manufacturing export balances, probably helped by sharp falls in Sterling, is welcome. But exports are still weak by historical standards. Our current account deficit has escalated to a record high in 2015 and is likely to remain unacceptably large in the next few years. Britain's credit rating will be at risk, unless we make improving our trade balance and boosting our exports national priorities.

"In spite of the headwinds facing our economy, Britain has major areas of strength that can make a sustainable recovery possible, if correct policies are adopted. In this survey we report a few setbacks, but UK businesses are very resilient. Our labour market and the services sector remain dynamic, and Britain is still likely to grow faster than most other G7 economies in the next two to three years."

Results in full

		2015				2016
		Q1	Q2	Q3	Q4	Q1

Home sales ²			2015				2016
			Q1	Q2	Q3	Q4	Q1
Home sales ²	Increased		47	45	29	41	30
	Constant		33	41	53	38	46
	Decreased		19	14	18	22	25
	Balance		28	31	11	19	5

Home orders ²			2015				2016
			Q1	Q2	Q3	Q4	Q1
Home orders ²	Increased		47	37	28	30	27
	Constant		44	45	53	54	53
	Decreased		9	18	22	16	20
	Balance		38	19	4	14	7

Export sales ²			2015				2016
			Q1	Q2	Q3	Q4	Q1
Export sales ²	Increased		58	19	23	31	21
	Constant		33	57	61	31	42
	Decreased		8	24	16	38	37
	Balance		50	-5	7	-7	-16

Export orders ²			2015				2016
			Q1	Q2	Q3	Q4	Q1
Export orders ²	Increased		58	18	21	23	11
	Constant		33	59	59	46	53
	Decreased		8	23	21	31	37
	Balance		50	-5	0	-8	-16

Workforce ²			2015				2016
			Q1	Q2	Q3	Q4	Q1
Workforce ²	Increased		29	30	28	16	11
	Constant		60	61	60	68	53
	Decreased		11	9	12	16	37
	Balance		18	21	16	0	-26

Workforce expectations ³			2015				2016
			Q1	Q2	Q3	Q4	Q1
Workforce expectations ³	Increase		35	26	28	29	13
	Constant		56	69	60	53	72
	Decrease		9	6	12	18	15
	Balance		26	20	16	11	-2

Recruited staff ²			2015				2016
			Q1	Q2	Q3	Q4	Q1
Recruited staff ²	Yes		57	61	67	54	58
	- Part time		21	20	21	24	33
	- Full time		79	80	79	76	67
	- Temporary		27	29	31	25	38
	- Permanent		73	71	69	75	62
	No		43	39	33	46	54

Recruitment difficulties ²			2015				2016
			Q1	Q2	Q3	Q4	Q1
Recruitment difficulties ²	Yes		42	64	61	54	48
	- Skilled manual		35	26	28	30	26
	- Management		25	58	40	45	40
	- Clerical		15	26	16	20	9
	- Unskilled/semi-skilled		10	19	18	10	20
	No		58	36	39	46	48

		2015				2016
		Q1	Q2	Q3	Q4	Q1

Cashflow ²			2015				2016
			Q1	Q2	Q3	Q4	Q1
Cashflow ²	Increased		20	36	13	27	18
	Constant		57	43	57	51	49
	Decreased		23	22	29	22	33
	Balance		-3	13	-16	5	-15

Investment: Plant/machinery ²			2015				2016
			Q1	Q2	Q3	Q4	Q1
Investment: Plant/machinery ²	Increased		35	33	29	30	17
	Constant		59	56	58	49	53
	Decreased		6	10	13	22	29
	Balance		29	23	16	8	-12

Investment: Training ²			2015				2016
			Q1	Q2	Q3	Q4	Q1
Investment: Training ²	Increased		43	31	29	17	19
	Constant		54	51	60	64	53
	Decreased		3	18	11	19	28
	Balance		40	13	18	-2	-9

Turnover expectations ⁴			2015				2016
			Q1	Q2	Q3	Q4	Q1
Turnover expectations ⁴	Improve		59	57	56	55	38
	Same		24	30	23	26	38
	Worsen		18	13	21	18	30
	Balance		41	44	35	37	2

Profit expectations ⁴			2015				2016
			Q1	Q2	Q3	Q4	Q1
Profit expectations ⁴	Improve		53	45	52	57	32
	Same		29	34	27	24	38
	Worsen		18	21	21	19	30
	Balance		35	24	31	38	2

Capacity utilisation ¹			2015				2016
			Q1	Q2	Q3	Q4	Q1
Capacity utilisation ¹	Full capacity		44	52	32	34	22
	Below capacity		56	48	68	66	78

Prices ³			2015				2016
			Q1	Q2	Q3	Q4	Q1
Prices ³	Increased		34	24	21	29	28
	Constant		63	69	69	63	60
	Decreased		3	7	10	8	12
	Balance		31	17	11	21	16

Price pressures ¹			2015				2016
			Q1	Q2	Q3	Q4	Q1
Price pressures ¹	Pay settlements		33	15	21	16	31
	Raw materials		17	22	8	16	16
	Finance		19	19	4	6	13
	Other overheads		33	39	37	29	36

External concerns ¹			2015				2016
			Q1	Q2	Q3	Q4	Q1
External concerns ¹	Interest rates		8	9	14	8	10
	Exchange rates		19	20	13	11	21
	Business rates		22	17	15	11	18
	Inflation		64	44	46	45	38
	Competition		17	13	23	18	33
	Tax		3	4	4	3	3

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