



Quarterly Economic Survey

Quarter 3, 2016

www.hull-humber-chamber.co.uk

Overview

Confidence dips as post-Brexit economy slows

AS the first Quarterly Economic Survey since the UK voted to leave the European Union in the June 23 Referendum, these results are more observed than most.

Home sales and orders have fallen in the last three months with their balance figures dropping 39 points and 27 points respectively. The number of firms reporting an increase in home sales fell by 22% while the firms reporting an increase in home orders was 16% down on the previous quarter.

The export figures also disappointed, with the number of firms reporting an increase in sales in the last quarter falling by half, with 13% more firms reporting a constant level of sales.

Export orders held their ground in the last quarter, with 66% of firms, the same number as last quarter, reporting a consistent order book, although there was a 6% fall in the number of businesses seeing a rise in orders, with the balance figure dropping 13 points overall.

Cashflow in the last three months also dropped sharply, with the balance figure falling 26 points to -18.

Fewer companies were planning to invest in plant and machinery, with the balance figure dropping 19 points to -12, although the number of firms expecting their investment in new kit to remain constant only fell slightly, from 54% last time to 45% this quarter.

Companies planning to increase their training levels also fell back, dropping 9 points to 14, although 8% more firms expected their training levels to remain constant, however the balance figure dropped 14 points.

Looking ahead to the next 12 months turnover and profit expectations receded. The number of firms expecting their turnover to remain the same fell by almost half to 18 points, the lowest level seen since Quarter 3 of 2014, but those expecting turnover to increase fell by only 2%, however, the overall balance figure was down 16 points.

Similarly, the balance figure for profit expectations for the next 12 months also fell 24 points, reflecting a sharp drop in the number of firms expecting to see their profits improve, with 8% of respondents expecting their profitability to worsen in the next year.

Businesses working at full capacity were down by 23% with 77% reporting that they were working below their full capacity, an increase on the last quarter, but comparable to the first quarter of this year.

Many businesses are expecting their prices to increase in the next three months, double the number last quarter, possibly reflecting the drop in Sterling and the higher prices that will have to be paid for imported goods.

The cost of raw materials was the biggest pressure on prices in the last quarter, rising to its highest level since Quarter 3 of 2014, although the low interest rates meant that only 9% of firms were concerned about finance and 23% were worried about pay settlements.

Perhaps unsurprisingly, exchange rates was the biggest external concern for firms, with 53% worried about currency costs, and tax fears also rose sharply to 25%, the highest level for a couple of years.

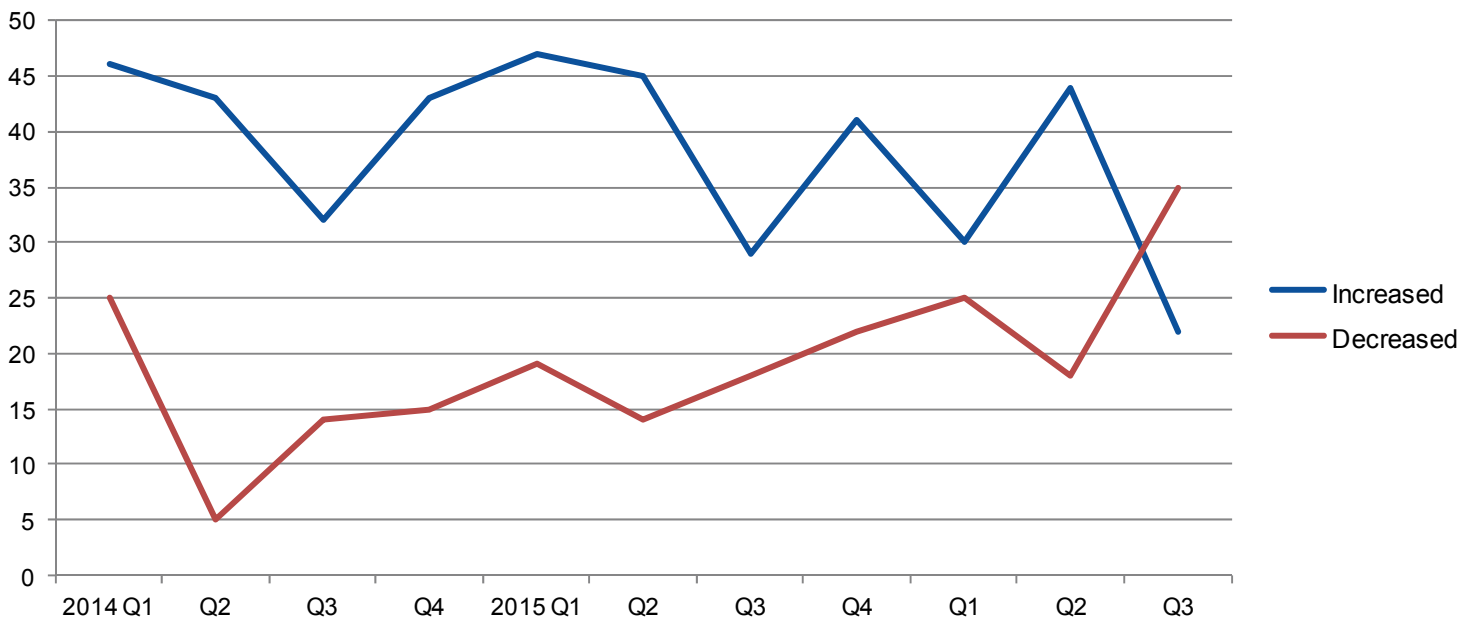
On the flip side,, fears over business rates, inflation and competition all fell slightly.

Key balances

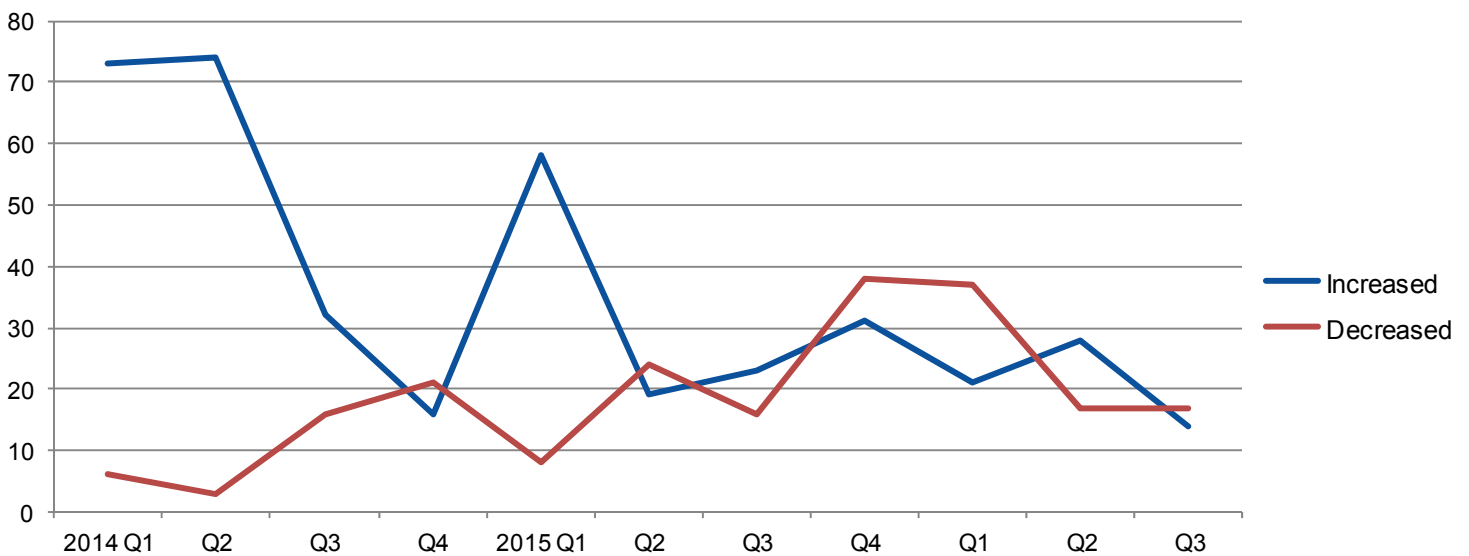
- Home sales balance fell 39 points to -13.
- Home orders was down 27 points to -15.
- Export sales dropped 14 points to -3.
- Export Orders fell 13 points to -7.
- Recruitment was still strong, with 59% of firms saying they had recruited in the last quarter.
- The cashflow balance fell 26 points to -18.
- Training in the last three months fell back 14 points to -4.
- Turnover expectations fell 16 points to 19.
- Profit expectations dropped 24 points to 2.
- 53% of firms expressed fears over exchange rates, up from 22% in Q2.

Key indicators

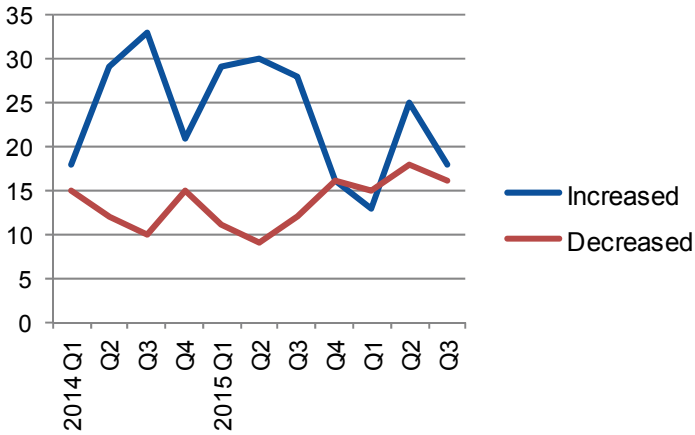
Home sales



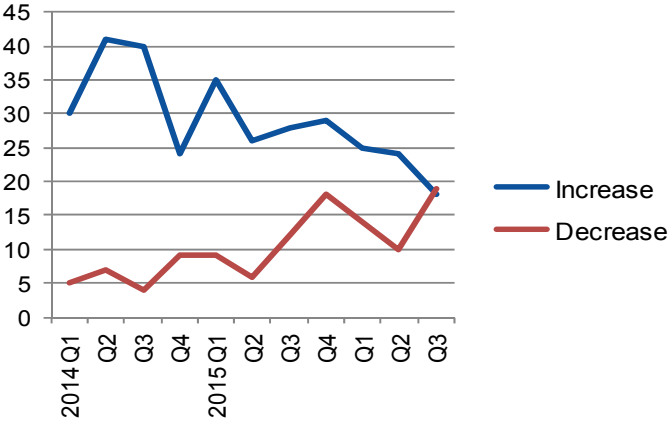
Export sales



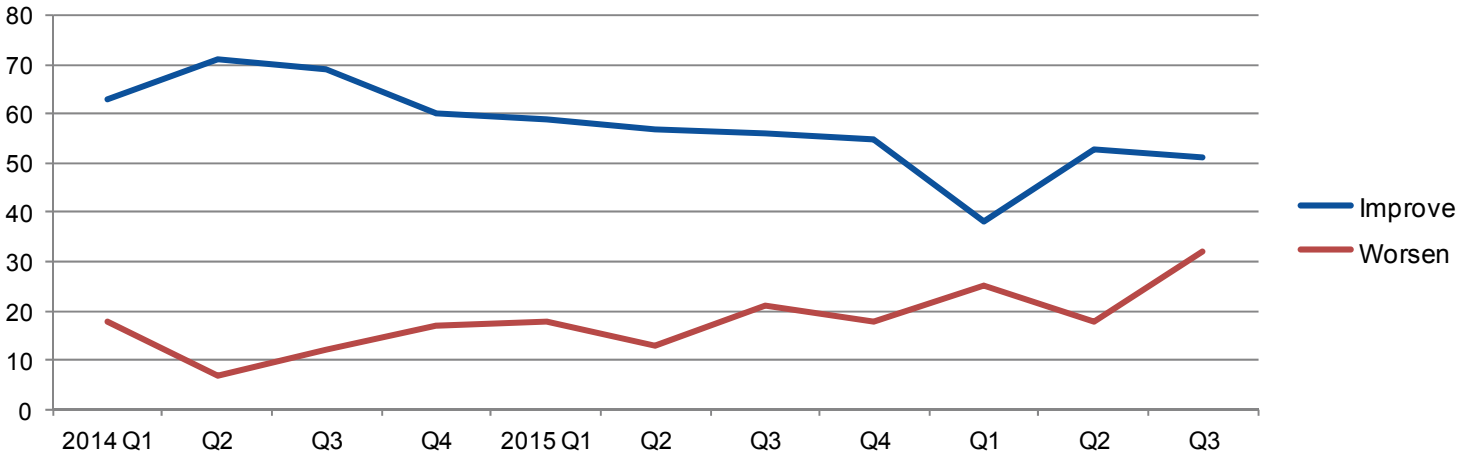
Employment



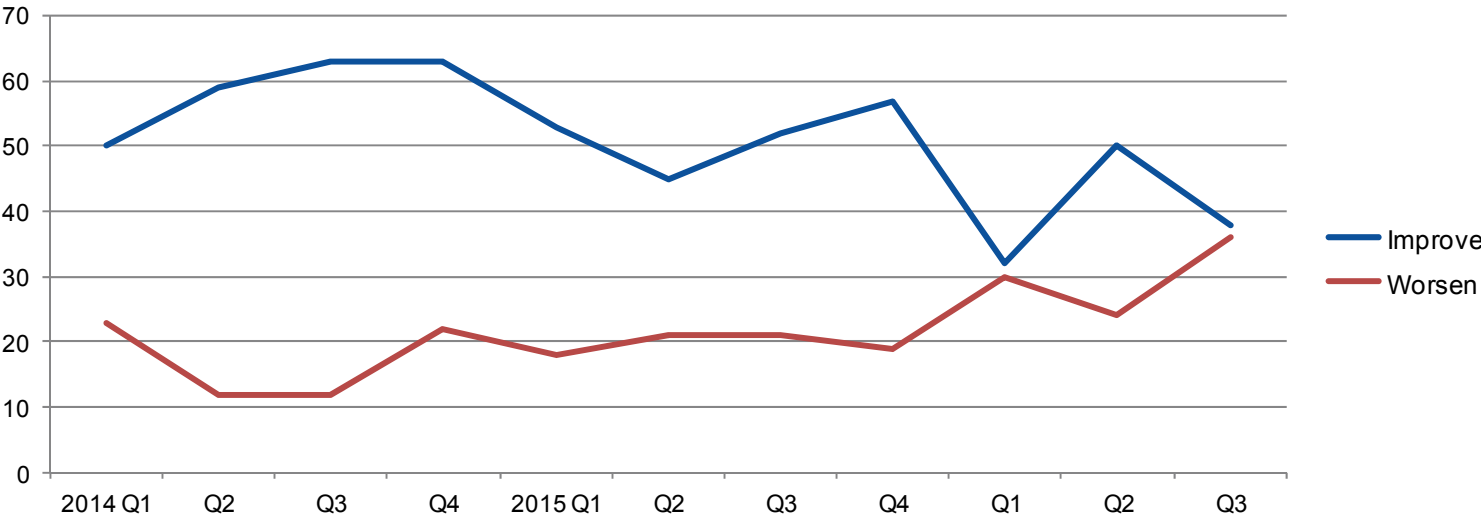
Employment expectations



Turnover expectations

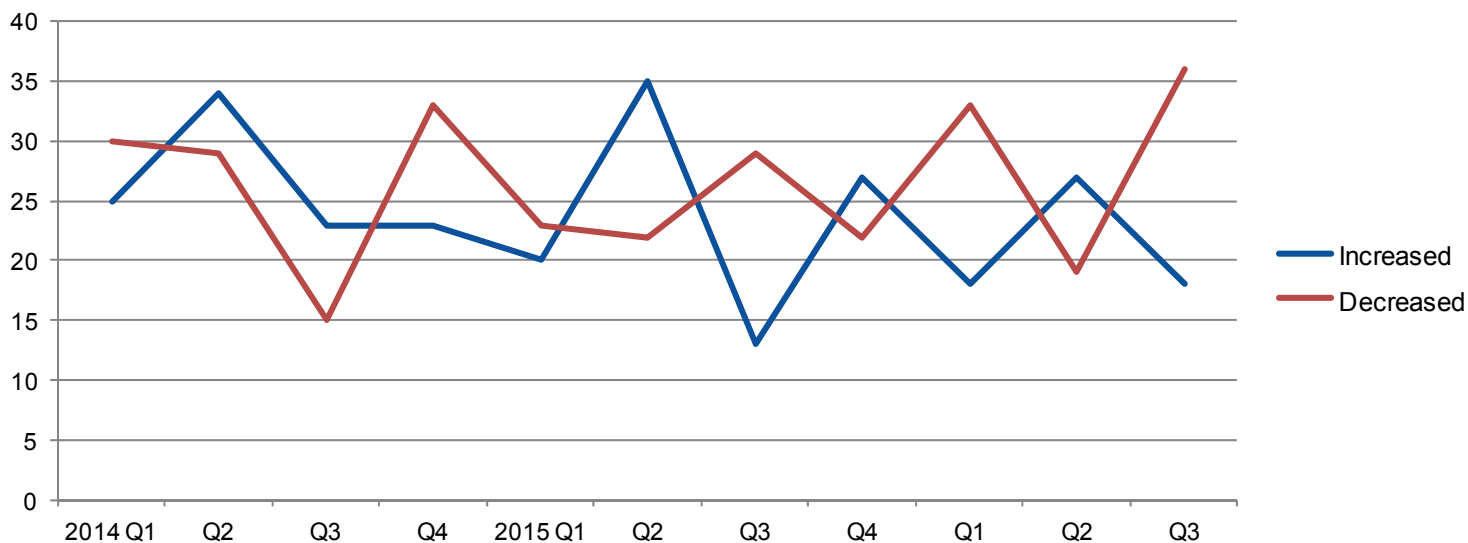


Profit expectations



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

Mixed economic picture emerges post-Referendum

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 **more than 7,000 responses** from firms in Q3 2016 – shows a mixed picture, with an improved short-term performance in the manufacturing sector set against a further slow-down in growth in the services sector.

The survey – the first covering the period after the EU Referendum – shows that manufacturers enjoyed improved domestic and export sales compared with the previous quarter, with some benefitting from Sterling's recent fall. Meanwhile, the balance of service sector firms reporting improved domestic and export sales was at the lowest level seen since 2012.

The survey's results suggest that the UK economy is still growing - albeit at a lower level than before the Referendum - and supports the BCC's forecast for growth of 1% in 2017.

The survey suggests that near-term uncertainty following the vote to leave the European Union has led businesses to lower their expectations for hiring, turnover, and investment in plant, machinery, and training.

Given this mixed picture, and muted business investment intentions, the BCC is urging the Government to use next month's Autumn Statement to boost business confidence - by giving the green light to key infrastructure projects, and by introducing measures that 'crowd in' business investment and job creation.

Key findings in the Q3 2016 survey:

- Overall, the figures for both the manufacturing and services firms indicate growth, but at a slower pace than before the Referendum
- In the manufacturing sector, the balance of firms reporting improved export sales rose to +17, from +9 in Q2 2016.

- The balance of firms reporting an increase in advance orders is +12, up from +5. One factor may be the fall in Sterling, which has made some UK manufacturers more competitive.
- Domestically, the balance of manufacturers reporting increased sales rose to +13 from +9, although those reporting increased advance orders fell slightly, to +7 from +9
- In the last three months, the balance of manufacturers hiring more staff rose three points to +15 from +12, although in the services sector the number fell five points to +14 from +19
- Fewer firms in both sectors expect to take on staff in the next year. For services the balance for firms (+15, down 13) is the lowest since Q1 2013
- In the services sector, many balances saw a decrease on the previous quarter
- The balance of services firms reporting improved domestic sales fell sharply to +9 from +24, while the advance orders balance fell from +20 to +8 – indicating a significant slowing of growth
- On services exports, the balance of firms reporting improved sales fell from +11 in Q2 to +8 in Q3 2016, while the balance of firms reporting an increase in advance orders fell further, from +13 to +5
- Fewer firms in both sectors are reporting that they are confident that their turnover and profitability will improve in the next year, although both remain positive. Firms in both sectors have reported that the exchange rate is a greater concern to their business than three months ago, with 30% of services businesses (up from 15%) and 48% of manufacturers (up from 35%).

Analysis

Dr Ian Kelly

Chief Executive

Hull & Humber Chamber of Commerce

"This quarter's figures have shown that growth has slowed significantly over the past three months.

"The drop in domestic sales and orders demonstrates that some firms are taking stock of the current situation, although the exports sector has fared slightly better due to the drop in Sterling.

"It is encouraging to see that the recruitment sector is still performing steadily with some firms in our region continuing to recruit staff, while other businesses are ready with their training plans, although investment in new equipment is reducing slightly.

"With the Government having now confirmed that the official process to leave the EU will begin early next year, businesses are taking a closer look at their exposure to the potential risks and this may be reflected in the latest quarter's figures.

"We urge the Government to use the Autumn Statement to support the Northern Powerhouse agenda with some key infrastructure projects which will help boost business confidence and create and secure more jobs.

"Rail commitments on electrification, a direct south bank service to London, improved Hull to Liverpool and Manchester Airport links and more 'parkway' station facilities at Howden, Goole and Selby would all boost confidence significantly in the local area".

British Chambers of Commerce

"While many manufacturers have seen something of a bounce this summer, the UK's services sector has slowed significantly, and our data suggests that slower growth is likely in the months ahead.

"Although it is important not to take one quarter's figures in isolation, our survey does show that growth has slowed further since the EU Referendum. Boosting business must be a key task for Government in the months ahead, particularly as forward confidence on turnover and profitability has flagged for firms across the UK.

"The Prime Minister has given businesses some clarity on the timetable for Article 50, and on short-term regulatory and legal issues. This is helpful, but needs to be followed up by a firm demonstration that the Government has a clear and coherent strategy to defend the UK's economic and business interests in the negotiations that lie ahead.

"Firms are concerned over investment, hiring, and profitability. The Chancellor's Autumn Statement is a crucial opportunity to incentivise business investment and overseas trade. Final and irrevocable decisions on infrastructure projects, both big and small, would also boost business confidence and support investment all across the UK."

Results in full

		2015		2016		
		Q3	Q4	Q1	Q2	Q3

Home sales ²			2015		2016		
			Q3	Q4	Q1	Q2	Q3
Increased			29	41	30	44	22
Constant			53	38	46	38	44
Decreased			18	22	25	18	35
Balance			11	19	5	26	-13

Home orders ²			2015		2016		
			Q3	Q4	Q1	Q2	Q3
Increased			28	30	27	36	20
Constant			53	54	53	40	45
Decreased			22	16	20	24	35
Balance			4	14	7	12	-15

Export sales ²			2015		2016		
			Q3	Q4	Q1	Q2	Q3
Increased			23	31	21	28	14
Constant			61	31	42	56	69
Decreased			16	38	37	17	17
Balance			7	-7	-16	11	-3

Export orders ²			2015		2016		
			Q3	Q4	Q1	Q2	Q3
Increased			21	23	11	20	14
Constant			59	46	53	66	66
Decreased			21	31	37	14	21
Balance			0	-8	-16	6	-7

Workforce ²			2015		2016		
			Q3	Q4	Q1	Q2	Q3
Increased			28	16	11	25	18
Constant			60	68	53	58	67
Decreased			12	16	37	18	16
Balance			16	0	-26	7	2

Workforce expectations ³			2015		2016		
			Q3	Q4	Q1	Q2	Q3
Increase			28	29	13	24	18
Constant			60	53	72	66	63
Decrease			12	18	15	10	19
Balance			16	11	-2	14	-1

Recruited staff ²			2015		2016		
			Q3	Q4	Q1	Q2	Q3
Yes			67	54	58	70	59
- Part time			21	24	33	22	24
- Full time			79	76	67	78	76
- Temporary			31	25	38	57	35
- Permanent			69	75	62	43	65
No			33	46	54	30	41

Recruitment difficulties ²			2015		2016		
			Q3	Q4	Q1	Q2	Q3
Yes			61	54	48	56	49
- Skilled manual			28	30	26	27	31
- Management			40	45	40	30	38
- Clerical			16	20	9	20	6
- Unskilled/semi-skilled			18	10	20	21	28
No			39	46	48	44	51

		2015		2016		
		Q3	Q4	Q1	Q2	Q3

Cashflow ²			2015		2016		
			Q3	Q4	Q1	Q2	Q3
Increased			13	27	18	27	18
Constant			57	51	49	54	45
Decreased			29	22	33	19	36
Balance			-16	5	-15	8	-18

Investment: Plant/machinery ²			2015		2016		
			Q3	Q4	Q1	Q2	Q3
Increased			29	30	17	27	20
Constant			58	49	53	53	48
Decreased			13	22	29	20	32
Balance			16	8	-12	7	-12

Investment: Training ²			2015		2016		
			Q3	Q4	Q1	Q2	Q3
Increased			29	17	19	25	14
Constant			60	64	53	60	68
Decreased			11	19	28	15	18
Balance			18	-2	-9	10	-4

Turnover expectations ⁴			2015		2016		
			Q3	Q4	Q1	Q2	Q3
Improve			56	55	38	53	51
Same			23	26	38	30	18
Worsen			21	18	30	18	32
Balance			35	37	2	35	19

Profit expectations ⁴			2015		2016		
			Q3	Q4	Q1	Q2	Q3
Improve			52	57	32	50	38
Same			27	24	38	26	27
Worsen			21	19	30	24	36
Balance			31	38	2	26	2

Capacity utilisation ¹			2015		2016		
			Q3	Q4	Q1	Q2	Q3
Full capacity			32	34	22	36	23
Below capacity			68	66	78	64	77

Prices ³			2015		2016		
			Q3	Q4	Q1	Q2	Q3
Increased			21	29	28	23	46
Constant			69	63	60	70	44
Decreased			10	8	12	6	11
Balance			11	21	16	15	35

Price pressures ¹			2015		2016		
			Q3	Q4	Q1	Q2	Q3
Pay settlements			21	16	31	22	23
Raw materials			8	16	16	21	26
Finance			4	6	13	15	9
Other overheads			37	29	36	33	33

External concerns ¹			2015		2016		
			Q3	Q4	Q1	Q2	Q3
Interest rates			14	8	10	14	9
Exchange rates			13	11	21	22	53
Business rates			15	11	18	20	14
Inflation			46	45	38	46	28
Competition			23	18	33	26	18
Tax			4	3	3	16	25

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