HULL & HUMBER
Chamber of Commerce

Quarterly Economic Survey

Quarter 4, 2016

www.hull-humber-chamber.co.uk

Overview

Positive, but cautious note for Humber economy

AFTER a something of a roller-coaster ride in 2016, the economy in the Humber region heads into 2017 on a more positive note, recovering some of the ground lost in Quarter 3, but retaining a cautious outlook.

Notably, Home sales and orders regained some ground, with home sales showing a rise of 17 points, coming back into positive territory with a balance figure of 4 points, while home orders rose 20 points, also returning to positive territory with a balance figure of 5.

The exports sector didn't fare quite so well, with more firms reporting a decrease in export sales with the balance figure dropping a further two points on the third quarter's figure to –5.

Export orders did noticeably better this time around, possibly reflecting the drop in Sterling making UK goods more attractive abroad, with six per cent more firms reporting an increase in orders with the balance figure rebounding 13 points on Quarter 3 from –7 to 5.

The jitters over the exchange rate seen in last quarter's figures have also subsided. It jumped from 22% in Quarter 2 to 55% last quarter, but the latest set of figures saw it drop back 22 points to 32, showing there are still some concerns in the market heading into the New Year.

Four per cent more firms (13%) were concerned about rising interest rates, up from 9% in the last quarter, but the figure is still one point lower than in quarter two.

With inflation predicted to rise in 2017, businesses said they were concerned about increasing costs, with 25% of firms citing higher pay settlements, finance costs and other overheads.

Concerns over competition and tax showed little change this quarter.

The number of firms planning to invest in Plant and Machinery dropped a further three points to –15. Companies planning to increase investment dropped seven points, while those maintaining their current investment levels rose by 12 percentage points to 60%.

Investment in training also took a dive in the last quarter of 2016, dropping 13 points further into negative territory to –17, with seven per cent more firms cutting back on their training plans for the next three months.

The number of firms expecting their turnover to remain the same for the next 12 months rose to 30 points, up 12 on the last quarter, with seven per cent fewer companies predicting an increase. The balance figure fell one point to 18.

Employment figures look fairly stable, with seven per cent more firms (74%) having maintained their existing staffing levels.

Looking to the next three months, the balance figure for the number of firms planning to recruit staff rose by nine points, returning to positive territory.

Of the firms recruiting new staff, 78 per cent were looking to fill permanent positions, although there was a slight drop in the number of full time roles, and a rise in the number of part-time positions.

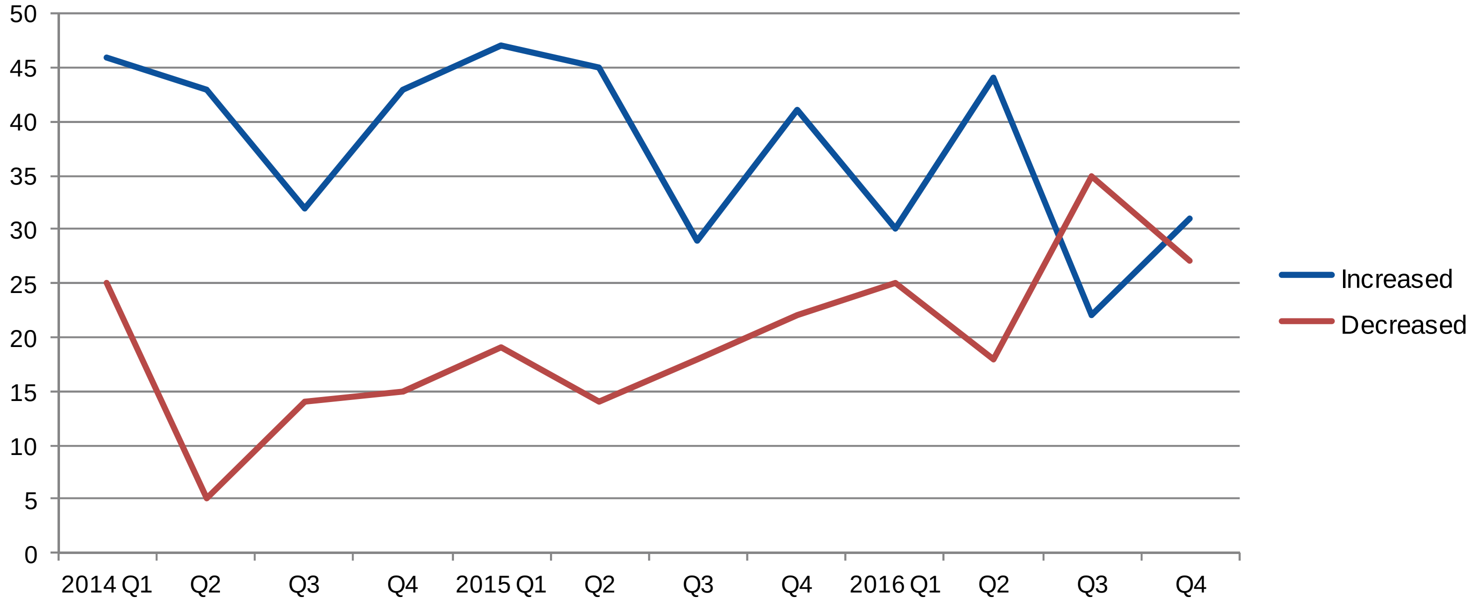
The number of firms reporting difficulties recruiting was up 11 points, with the biggest challenges to be found in sourcing clerical staff, up 8%. There was a drop of 14 points in difficulties finding unskilled or semi-skilled workers. The figures for skilled manual and management roles were the same as in Q3.

Key balances

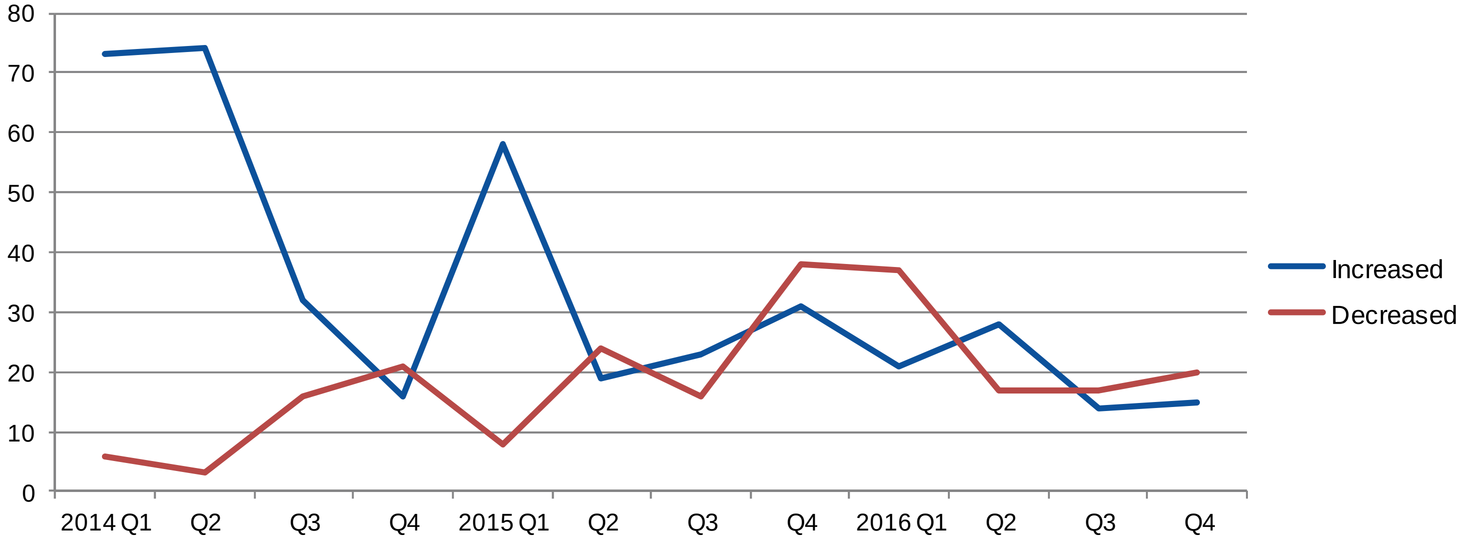
- Home sales balance rose 17 points to 4.
- Home orders balance figure rose 20 points to 5.
- Export sales dropped two points to –5.
- Export orders rose 13 points to +13.
- Employment fell two points.
- Expected employment rose 9 points to 8.
- 35% of firms were working at full capacity—up 11.
- Training investment was down 13 points.
- Profit expectations fell 8 points to –6.
- Prices rose 16 points to 51.
- Interest rate fears rose 4 points to 13%.

Key **indicators**

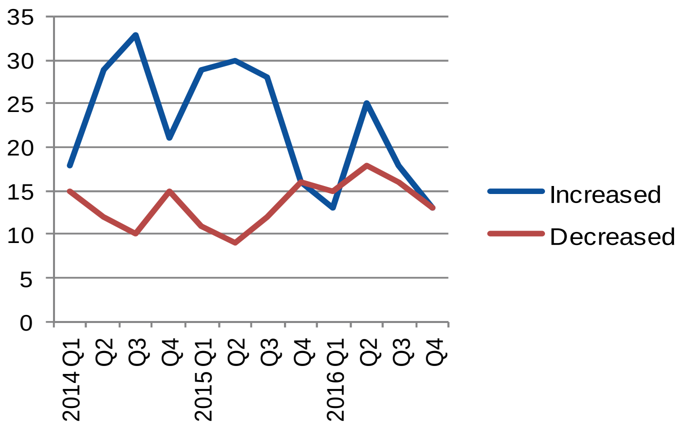
Home sales



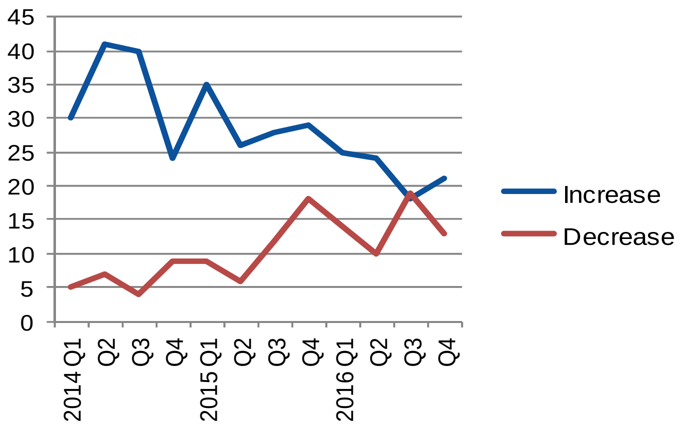
Export sales



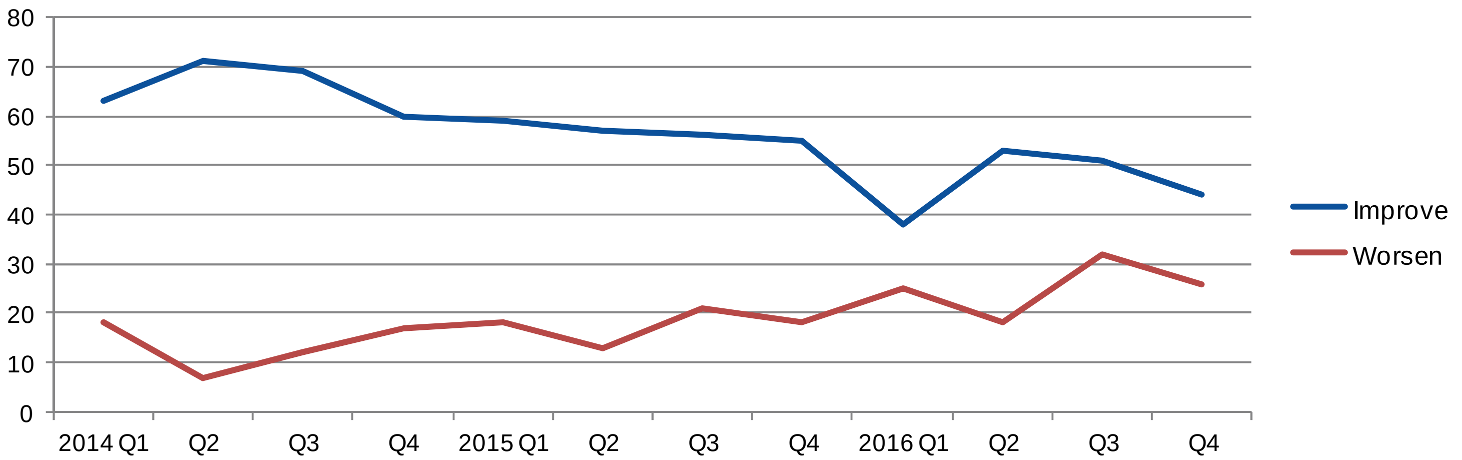
Employment



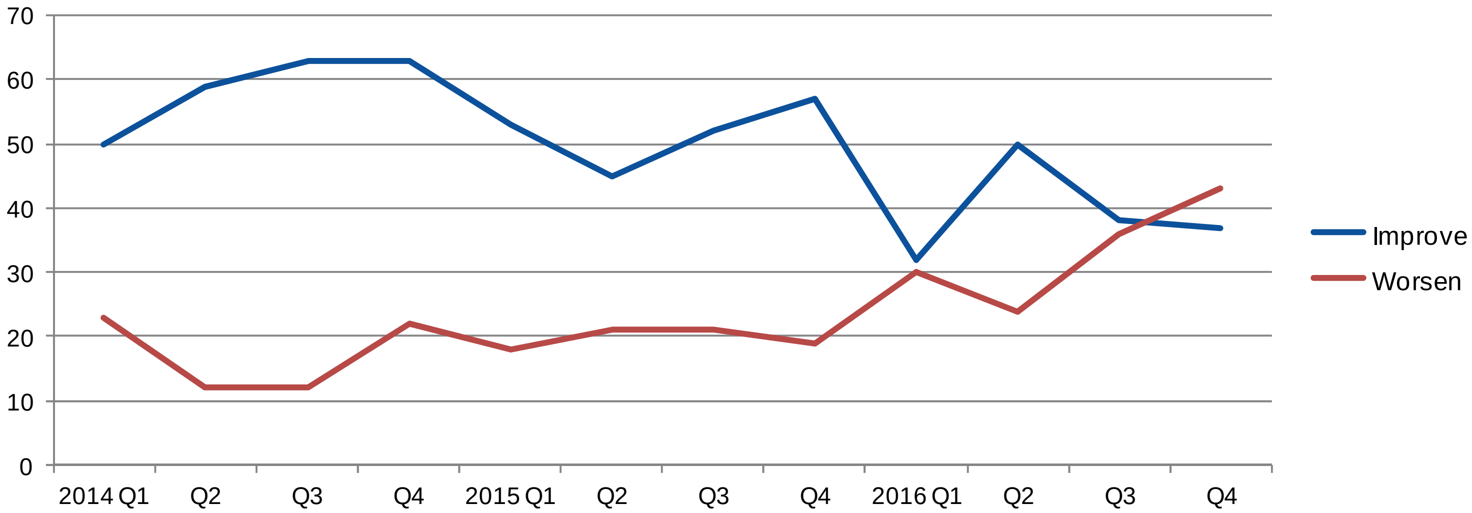
Employment expectations



Turnover expectations

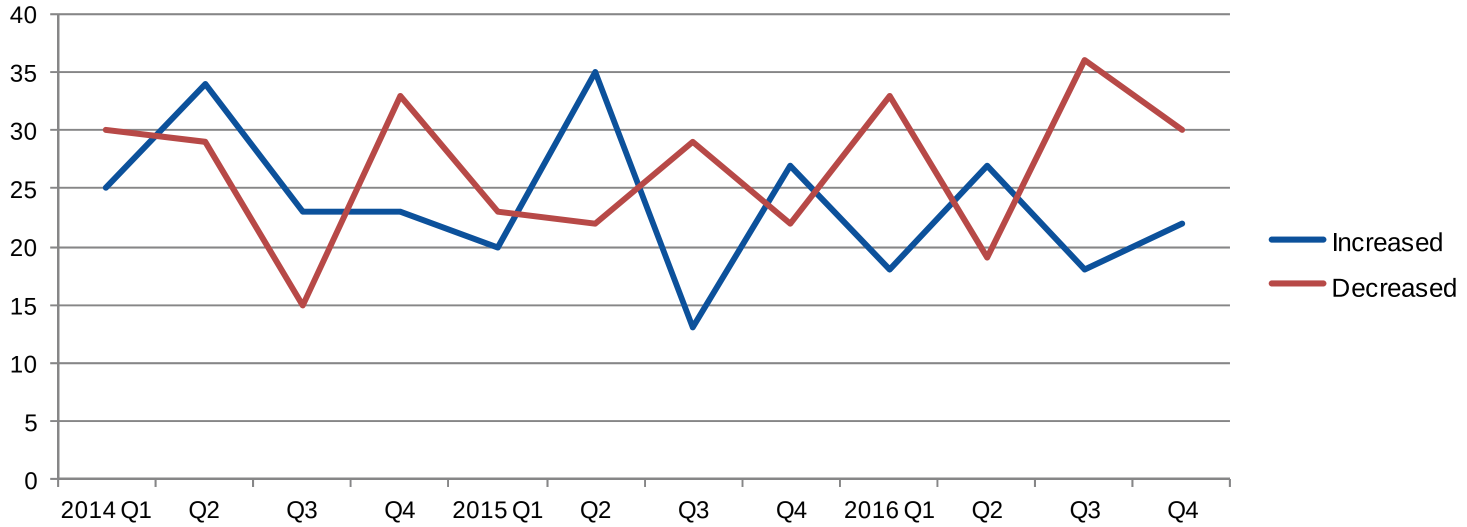


Profit expectations



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

Businesses start New Year in solid health, but inflation a concern

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 shows the uptick in Q3 in the manufacturing sector has been sustained in the final quarter, and more service sector firms were expecting growth than they were just after the EU referendum.

The survey shows that having slowed in Q3 2016, growth in domestic sales and orders in the services sector rebounded slightly in Q4, although they have not yet returned to historic levels. The fall in Sterling may be benefiting some manufacturers, with export sales and orders remaining at the increased levels seen in Q3.

The survey also indicates that, having fallen in Q3, confidence in future turnover, hiring expectations and investment in plant and machinery have improved for both manufacturing and services firms in Q4.

However, the survey found that firms in both sectors, particularly in manufacturing, are facing pressure to raise prices, principally as a result of the cost of raw materials and other overheads.

The results support BCC's forecast for continuing growth, but at a slower pace, an expectation which is backed up by the fact that many survey balances remain well off historic levels.

Key findings in the Q4 2016 survey:

- Overall, the figures for both sectors indicate continued expansion, but at a lower level for the services sector than before the EU referendum
- There was a considerable rise in the balance of firms in both sectors expecting the prices of their goods and services to increase over the next three months, with the balance for manufacturers rising from +31% to +52% and service firms from +20% to +30%. This is the highest on record in the manufacturing sector, and the highest since Q1 2011 for service firms. This pressure is predominately as a result of an increase in raw material prices following the devaluation of Sterling
- In the manufacturing sector, the balance of firms reporting improved export sales remained broadly steady, slightly decreasing from +17% in Q3 2016, to +16. The balance for export orders is +13%, similar to +12% in the previous quarter. Both balances are up from +1% in the same quarter last year.
- Domestically, the balance of manufacturers reporting increased sales rose to +15% from +13%, and those reporting increased advance orders remained level at +7%. The balance for services firms rebounded slightly, after falling considerably in the last quarter. Domestic sales were up from +9% to +15% and orders rose from +8% to +13%. In Q2 2016, to compare, they had been +24% and +20% respectively
- The percentage of manufacturing firms reporting recruitment difficulties increased considerably from 64% to 76%
- In the last three months, the balance of manufacturers hiring more staff rose from +15% to +23%, and services rose from +14% to +16%.

Analysis

Dr Ian Kelly

Chief Executive
Hull & Humber Chamber of Commerce

"It was pleasing to see a recovery in the domestic market finishing the year on a positive note for the Humber economy.

"The exports sector in our area is reflecting the national picture, with exporters benefiting from the drop on the pound, while importers are seeing their costs increase as the exchange rate affects prices, particularly of raw materials.

"This quarter's survey has shown a more cautious approach from business, with a reduction in investment in training and concerns surfacing over inflation and rising prices and pay settlements in the coming months.

"We hope that 2017 and Hull's year as the UK City of Culture will bring an added boost to the regional economy and its businesses, building on the positive but cautious tone of our last quarterly economic report for 2016".

The National View

British Chambers of Commerce

"As we start 2017, businesses are continuing to trade through the uncertainty, and are looking to seize opportunities as they arise. Our findings suggest that business communities across the UK remain resilient, and many firms are expecting continued growth in the months ahead.

"Inflation has emerged in our survey as a rising concern for many businesses. Both manufacturing and services firms say they are under pressure, particularly from the rising cost of inputs, which is squeezing margins and may weaken future investment.

"Overall, our findings suggest growth will continue in 2017, albeit at a more modest pace. The government must act strongly this year to support investment and improve the business environment – both of which are crucial to boosting business confidence, and therefore further growth."

Results in full

		2015 Q4	2016 Q1	Q2	Q3	Q4
Home sales [2]	Increased	41	30	44	22	31
	Constant	38	46	38	44	42
	Decreased	22	25	18	35	27
	Balance	**19**	**5**	**26**	**-13**	**4**
Home orders [2]	Increased	30	27	36	20	27
	Constant	54	53	40	45	51
	Decreased	16	20	24	35	22
	Balance	**14**	**7**	**12**	**-15**	**5**
Export sales [2]	Increased	31	21	28	14	15
	Constant	31	42	56	69	65
	Decreased	38	37	17	17	20
	Balance	**-7**	**-16**	**11**	**-3**	**-5**
Export orders [2]	Increased	23	11	20	14	20
	Constant	46	53	66	66	65
	Decreased	31	37	14	21	15
	Balance	**-8**	**-16**	**6**	**-7**	**5**
Workforce [2]	Increased	16	11	25	18	13
	Constant	68	53	58	67	74
	Decreased	16	37	18	16	13
	Balance	**0**	**-26**	**7**	**2**	**0**
Workforce expectations [3]	Increase	29	13	24	18	21
	Constant	53	72	66	63	65
	Decrease	18	15	10	19	13
	Balance	**11**	**-2**	**14**	**-1**	**8**
Recruited staff [2]	**Yes**	**54**	**58**	**70**	**59**	**66**
	- Part time	24	33	22	24	30
	- Full time	76	67	78	76	70
	- Temporary	25	38	57	35	22
	- Permanent	75	62	43	65	78
	No	**46**	**54**	**30**	**41**	**44**
Recruitment difficulties [2]	**Yes**	**54**	**48**	**56**	**49**	**60**
	- Skilled manual	30	26	27	31	31
	- Management	45	40	30	38	38
	- Clerical	20	9	20	6	14
	- Unskilled/semi-skilled	10	20	21	28	14
	No	**46**	**48**	**44**	**51**	**40**

		2015 Q4	2016 Q1	Q2	Q3	Q4
Cashflow [2]	Increased	27	18	27	18	22
	Constant	51	49	54	45	48
	Decreased	22	33	19	36	30
	Balance	**5**	**-15**	**8**	**-18**	**-8**
Investment: Plant/ machinery [2]	Increased	30	17	27	20	13
	Constant	49	53	53	48	60
	Decreased	22	29	20	32	28
	Balance	**8**	**-12**	**7**	**-12**	**-15**
Investment: Training [2]	Increased	17	19	25	14	8
	Constant	64	53	60	68	67
	Decreased	19	28	15	18	25
	Balance	**-2**	**-9**	**10**	**-4**	**-17**
Turnover expectations [4]	Improve	55	38	53	51	44
	Same	26	38	30	18	30
	Worsen	18	30	18	32	25
	Balance	**37**	**2**	**35**	**19**	**18**
Profit expectations [4]	Improve	57	32	50	38	37
	Same	24	38	26	27	20
	Worsen	19	30	24	36	43
	Balance	**38**	**2**	**26**	**2**	**-6**
Capacity utilisation [1]	Full capacity	34	22	36	23	35
	Below capacity	66	78	64	77	65
Prices [3]	Increased	29	28	23	46	55
	Constant	63	60	70	44	41
	Decreased	8	12	6	11	4
	Balance	**21**	**16**	**15**	**35**	**51**
Price pressures [1]	Pay settlements	16	31	22	23	25
	Raw materials	16	16	21	26	20
	Finance	6	13	15	9	15
	Other overheads	29	36	33	33	36
External concerns [1]	Interest rates	8	10	14	9	13
	Exchange rates	11	21	22	53	32
	Business rates	11	18	20	14	8
	Inflation	45	38	46	28	34
	Competition	18	33	26	18	17
	Tax	3	3	16	25	25

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