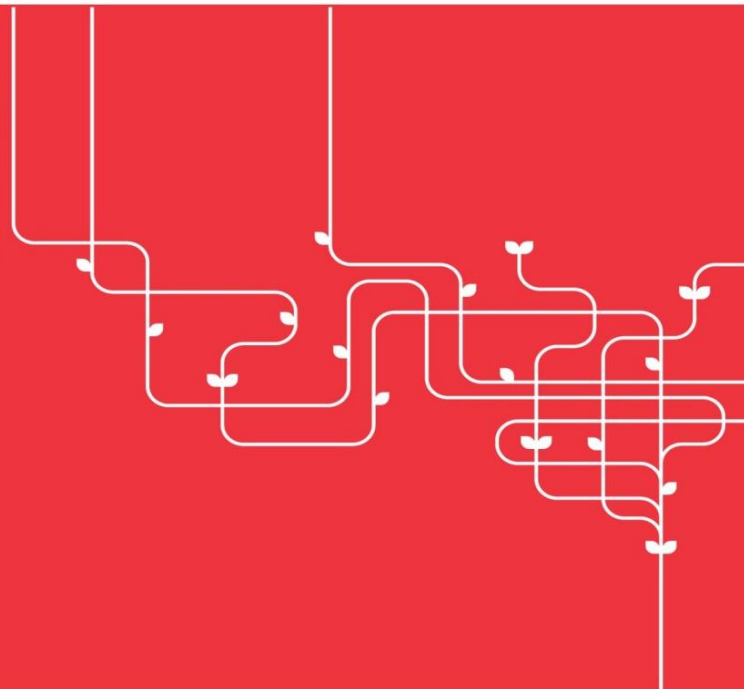


Herefordshire &
Worcestershire

Quarterly Economic Survey
Q4 2016

Full Report & Economic
Brief



working in partnership with



Worcestershire
Local Enterprise Partnership



British
Chambers of
Commerce
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Foreword: Mike Ashton, Chief Executive, Herefordshire & Worcestershire Chamber of Commerce



This quarter we are beginning to see the uncertainty around Brexit hit local business. The number of businesses expecting to raise prices has more than doubled and cash flow poses a real concern. However, businesses remain resilient and the outlook for the year remains positive, with the majority of business expecting turnover and profitability to improve.

To combat these concerns, at the end of the month we are launching our Business Manifesto for 2017, which contains all our priorities for local and national government. We've put this together following consultation with local business and through your input in our latest survey, you can find out more later on in the report.

This will be my last introduction to the QES as Chief Executive as I get ready to retire in March 2017. Before I sign off, I'd like to wish businesses all across the two counties a prosperous New Year.



Analysis: Gary Woodman, Chief Executive, Worcestershire Local Enterprise Partnership

The results of the latest QES show growing optimism within the local business community, reflected in increased investment and increased business confidence. This can be seen with nearly 70% of businesses expecting a greater turnover and nearly 63% predicting an increase in profitability.

However, it is clear that businesses are still concerned over Brexit and future growth. Figures show that cash flow has decreased for more businesses in comparison to previous quarters, and a greater number of businesses have been reporting a decrease in export sales. But it is great to see that companies are protecting their long-term growth by investing in new machinery, equipment and buildings, contributing to Worcestershire's impressive productivity growth over recent years.

It is also good to find that businesses are having greater success in recruiting this quarter. Worcestershire LEP is committed to ensuring businesses have a skilled workforce to recruit from and has invested in a number of projects to raise the skills in the area, for example, we have invested funds from the Government's Growth Deal into the Redditch Skills Academy which will support an increasing number of engineering apprentices, and our Annual Apprenticeship Awards further celebrate excellence in skills.

Domestic Performance

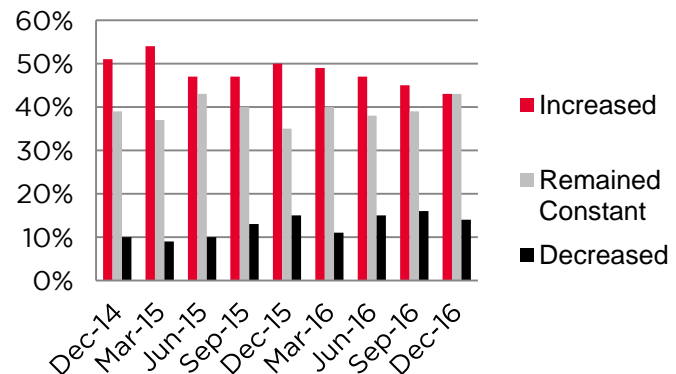
The sales balance sits at 29%, the lowest sales balance since Q1 2013.

This quarter we have seen the number of businesses reporting increases in domestic sales continue to fall. 43% of companies reported an increase in sales, down from 45% in Q3 and 14% reported a decrease. Despite the 'business as usual' message from companies across Britain, global headwinds are beginning to impact on revenue.

If we break these results down between the manufacturing and services sectors, we see the majority of manufacturers remaining constant, with 40% reporting increases. It's a similar story with the services sector as 42% have reported increases over the last three months, while 15% report decreases.

Slightly more manufacturers have reported decreases (16%), compared to the service sector (15%). We would encourage any business experiencing challenges to contact Worcestershire Business Central for expert advice on what support and funding is available.

**Graph 2: Domestic Sales
Q4 2014 - Q4 2016**



Exports

The export balance currently sits at 20%, down 9% from where we were at in Q4 2015.

29% of respondents identified themselves as exporters. Out of these firms, one third saw an increase in export sales and advanced overseas orders over the last three months. The majority of businesses (58%) report that business remains constant; with 11% reporting a decrease. 13% of business also reported a decrease in overseas orders during the last three months.



Despite the depreciation of sterling, the benefits it brings do not appear to have been passed onto local exporters. We have seen the smallest percentage of firms reporting an increase in sales since the beginning of 2014. However, with this comes problems for firms reliant on imports and the additional costs they now face.



If you are thinking about exporting and would like to learn more, please visit the Global Trade Hub website at hwchamber.co.uk/global-trade-hub



Labour Force and Recruitment

The majority of businesses reported no changes to their workforce (64%) and 67% expect there to be no changes until the end of Q1 2017.

Just over half of respondents attempted to recruit over the last three months - as usual these were mostly for full time, permanent roles. However, this quarter we saw the most part-time positions sought after since Q1 2015.

Hiring suitable staff continues to remain a prevalent issue for local businesses, with 53% experiencing difficulties. When broken down into sectors, two-thirds of manufactures experienced difficulties, compared to 46% of services. Skills remains a serious concern to all sectors, with 47% of businesses having difficulty with hiring skilled manual and skilled technical staff. This is followed by difficulty hiring professional and managerial staff (36%) and clerical roles (12%).

It is also worth noting that there is still significant demand for semi-skilled recruitment (20%), which should not be discounted, such employment is vital for the day-to-day running of companies – particularly in the manufacturing and agricultural sectors.

We are particularly concerned about what the Brexit deal will bring to businesses who have grown from and benefited from seasonal and EU labour.

Price Pressures and External Factors

The number of businesses expecting to raise their prices has risen by 25% since the EU Referendum.

In Q2 2016, 18% reported pressure to pass increasing costs onto the consumer, this rose to 30% in Q3 and it now sits at 43%. This is mostly attributed to raw material prices (56%) and other overheads (49%). The volatile exchange rates we have been experiencing since the vote will undoubtedly have played a role here.



The Cashflow balance has also halved and now sits at 10%, with 20% of businesses reporting a worsening situation. This is the most negative feedback for cashflow since Q1 2013.

Leading onto the biggest business concerns of Q4 2016, we see exchange rates continue to top the charts at 40%, closely followed by corporate taxation (37%) and competition (33%). It is interesting to see corporate taxation rise as a concern; this could perhaps be attributed to the Apprenticeship Levy due to begin in April 2017, which is mostly seen as a tax by the business community. Interestingly, Inflation and Interest rates have also both increased as concerns by 7%. All in all, the rises in most options highlight the number of concerns businesses have right now and reveal uncertainty on a number of fronts.

Business Investment and Confidence

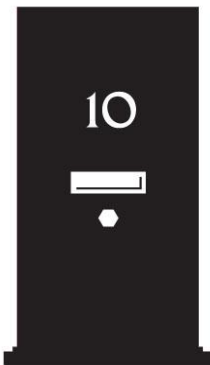
Business investment continued to fall in Q4 2016, a trend of the last year or so.

The majority of businesses, 63% and 70% respectively, have not changed their investment plans for plant/machinery/equipment (PME) or training. However, it is great to see more businesses investing in PME since Q1 2015.



Given the uncertainty businesses are currently experiencing, it is not surprising that investment intentions will have been put on hold. However, the Chamber will look into what can be done locally to encourage investment and unlock potential investment opportunities.

Business confidence remains resilient with the majority expecting turnover and profitability to improve over the next year. It is generally more positive than last quarter, although we have seen the highest number of businesses expecting profitability to worsen over the next 12 months since June 2013.



What you want the Chamber to champion in 2017

The QES asked you, the business community, what key policy areas you would like us to champion for you.

Over half of businesses (57%) felt that skills should be one of the Chamber's biggest priorities this year. This was closely followed by Taxation & Red Tape (37%), as well as Transport & Connectivity (32%). We will be launching our manifesto for 2017 with our recommendations around all these important areas, on the 3rd of February 2017.

What single issue should be a key business priority for Government during the Brexit negotiations?

The majority of businesses felt that trade deals should be the biggest focus for Government. Out of these, one in five businesses think there is merit in exploring new deals and opportunities with non-EU countries. Following trade deals, 25% of respondents thought the UK should stay in the single market.

After trade deals and the single market, issues around migration, transparency and red tape were also highlighted as key concerns, but not to the same extent. These results stress the importance of the Brexit Department and the International Trade Department in getting these trading deals right.

Chamber Analysis: **Sophia Haywood,** **Policy Executive**

While Q4 2016 has revealed a number of challenges for local businesses, the outlook for 2017 remains positive and businesses are set to start the year in solid health.

The latest results highlight how the impact of the Brexit vote is beginning to show in the two counties. While we haven't even officially begun the process of leaving the EU yet, by triggering Article 50, the uncertainty is still dramatically affecting confidence.

This Quarter we have seen the number of businesses feeling pressure to raise prices more than doubling since the vote on the 23 June last year. Recruitment difficulties continue to pose a problem for local business and we have also seen the cashflow balance halve since Q3, with 20% of businesses reporting a worsening cashflow situation.

However, despite the difficulties they are facing, the business community continues to remain resilient. The majority of respondents expect profitability and turnover to improve over the next 12 months, generally having a much more positive outlook compared to Q3 2016.

Here at the Chamber we call on government to make the transition to Brexit Britain as smooth as possible. Keeping the business community, the key to growth and prosperity in the nation, at the forefront of their minds.

About the Quarterly Economic Survey

Formed in 1989, the Quarterly Economic Survey (QES) is the private sector's leading indicator of the UK economy.

At the regional level, Herefordshire & Worcestershire Chamber of Commerce conducts the QES every quarter across the two counties to assess how businesses are performing on a range of key indicators. The feedback from the survey helps to shape our business policy priorities.

Nationally, the results from the QES are monitored by the Bank of England, HM Treasury, and the European Commission as a quarterly indication of business conditions.

This quarter we received 614 responses from the local business community and earned first place in the BCC league tables for number of responses.

About Herefordshire & Worcestershire Chamber of Commerce

Herefordshire & Worcestershire Chamber of Commerce is a not for profit member organisation that supports over 1500 businesses from across Herefordshire, Worcestershire and beyond.

The Chamber exists to support, grow and celebrate local businesses and to represent them on a national scale. Accredited by the British Chambers of Commerce, Herefordshire & Worcestershire Chamber of Commerce is part of a global network that encompasses 52 accredited Chambers in the UK and many more around the world.



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