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Herefordshire and Worcestershire Chamber of Commerce



Q1 2014 Economic Review

How's business in Herefordshire & Worcestershire?



SUMMARY

“The Quarterly Economic Survey for Q1 2014 shows evidence of growth in the economy. Overall, the Q1 results show that for both manufacturing and services, the critical Q1 balances are stronger than previous quarters”.

“Locally, the trends remain positive and show progress”.

Rachel Edwards, Head of PR & Policy

GENERAL NATIONAL OVERVIEW

For both manufacturing and services, all the major Q1 balances are stronger than their long-term averages, and most are higher than their 2007 pre-recession levels.

Both export balances in the services sector rose in Q1, surpassing their Q4 all-time highs: export sales (+38%) and export orders (+39%).

Six key manufacturing balances are at all-time highs. This continues a trend seen over the last three quarters where an initial spurt in manufacturing has developed into consistent growth: domestic sales (+38%), domestic orders (+42%), employment expectations (+40%), investment in plant and machinery (+37%), investment in training (+33%), and turnover confidence (+67%).

Almost all the key balances in the services sector remain above their 2007 pre-recession levels.

But some concerns still exist. There was a significant drop in the employment balance in the services sector (down 13 to +16%).

While recent falls in inflation have dampened the concerns of firms, it remains the biggest concern for both manufacturers and service-based companies.

The Q4 2013 results are positive and point to continued growth in the short term. For both manufacturing and services, all the critical Q4 balances are stronger than their long-term averages. Most key balances are also higher than their pre-recession levels in 2007, and some are at all-time highs for our survey. In manufacturing, the key balances for domestic sales and export orders fell slightly in Q4 compared with Q3, but these balances still remain high by historical standards. Manufacturing cashflow also fell back from its unusually high Q3 level, possibly indicating problems in accessing finance.

But manufacturers remain positive, with employment and confidence balances at all-time highs. In services, all key balances rose between Q3 and Q4, while both export balances

and one employment balance reached all-time highs. Since capacity utilisation balances are at high levels, it is good news that investment intentions in plant and machinery rose in both manufacturing and services. Intentions to raise prices rose in both sectors, as inflation remains a major area of concern for businesses.

Most Q1 2014 national domestic balances were higher than Q4 2013. One service sector balance recorded a small fall, but all the domestic balances remain at historically high levels in both sectors. The manufacturing sector's net balance for domestic sales increased from +36% to +38%, equalling its all-time high for our survey. The balance for manufacturers' home orders rose from +35% to +42%, a new all-time high. The service sector's balance for domestic sales fell from +38% to +35%, still close to historically high level. The net balance for service domestic orders rose from +32% to +33%, the best level since Q1 1997.

The national export balances rose in Q1 2014. For both manufacturing and services, all the balances are at historically high levels. The manufacturing balance for export sales increased from +35% to 40%, the best level since Q4 1994. The manufacturing balance for export orders rose from +30% to +35%, the highest since Q4 2010. The service balance for export sales increased by two points, to +38%, an all-time high for our survey. The service export orders balance increased by six points, to +39%, also a new all-time high.

The employment balances recorded divergent movements in Q1. For both sectors, the backward-looking employment balances fell (but still indicate growth), while the forward-looking employment expectations balances rose. In manufacturing, the employment balance fell two points, to +31%, while the employment expectations balance rose nine points, to +40%, an all-time high. The service employment balance fell 13 points, to +16%, while the employment expectations balance rose two points, to +29%, the highest level since Q4 2007.

Most national investment balances rose in Q1. One service balance fell very slightly, but all balances remain at historically high levels. The balance of manufacturing firms that have revised upwards their plans to invest in plant & machinery increased by five points, to +37%, an all-time high. Manufacturing intentions to invest in training increased four points, to +33%, equalling the all-time high. The balance of service firms that have revised upwards their plans to invest in plant & machinery fell one point to +23%, but remains near historically high level. Service sector intentions to invest in training rose four points to +30%, the best level since Q3 2007. All the investment balances are now above their long-term historical averages.

All the national confidence balances remained at historically high levels in Q1. Confidence that manufacturing turnover will improve in the next 12 months was +67% in Q1, and continues to be at an all-time high. Confidence that manufacturing profitability will improve in the next 12 months fell from +51% to +50%, but remains at a very high level, only just below the all-time high. Confidence that service sector turnover will improve in the next 12 months was +60%, the same as in Q4, and remains the highest level seen since Q4 1997. Confidence that service sector profitability will improve in the next 12 months rose from +45% to +47%, the best level since Q3 2007.

The share of manufacturing firms operating at full capacity fell two percentage points to 44%, but remains very high. The share of service firms operating at full capacity increased by three points to +46%, only just below the all-time high recorded in Q4 1996.

The Q1 cashflow balances recorded small divergent movements. The manufacturing cashflow balance rose one point to +13%, well above the long-term historical average. However, services cashflow fell one point to +15%, but remains well above the long-term historical average.

OVERVIEW LOCAL LEVEL

The national trend shows that the key balances have improved. The manufacturing sector has particularly showed improvement which is very important to our economic recovery. Overall, the latest GDP figures support our view that the UK's economic recovery remains on course.

Locally, trends are showing positive signs from the domestic market. Domestic sales and orders have showed an overall improvement and have increased for both services and manufacturing firms.

Overseas sales and orders have declined locally in this quarter.

There has been an increase in workforce over the last 3 months and over the next 3 months workforce is also expected to increase. Full-time positions have increased. Firms that had difficulties in recruiting decreased.

There has been an increase in cashflow which is at a similar level to Q4. There has been a slight increase in investments in plant and machinery. Manufacturing and service firms have remained at a similar level to Q4.

Overall, turnover and profitability locally has decreased although 'manufacturing' firms have an improvement in both turnover and profitability.

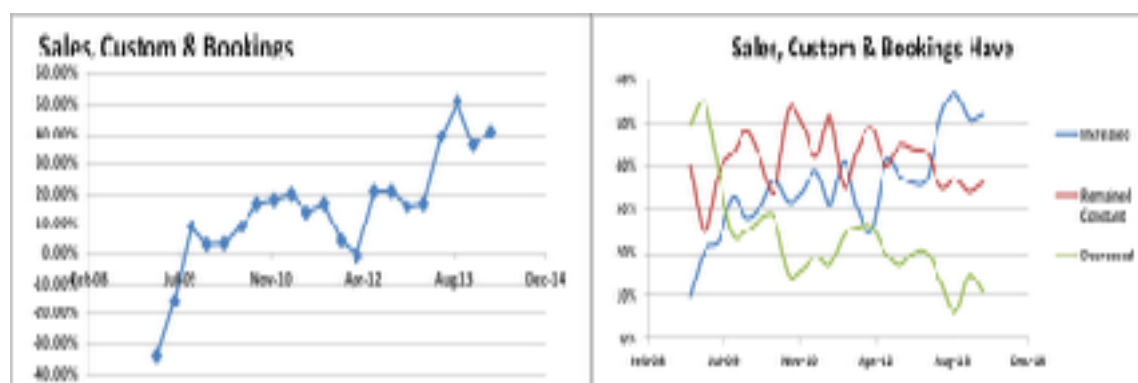
Pressure to raise prices has decreased, while raw materials and other overheads remain major concerns.

Concerns locally are competition, corporation tax and business rates.

DOMESTIC SALES

SALES, CUSTOM AND BOOKINGS

The domestic sales balance is 41%, which is 5% higher than Q4. Nationally, most Q1 2014 national domestic balances were higher than Q4 2013 and reflects the increase in retail sales. All the domestic balances remain at historically high levels in both sectors. Increased sales were reported by 52% of local businesses, 1% higher than the previous quarter. 36% reported their sales figures have remained constant.



61% of local manufacturing saw an increase in sales (up 14% from Q4). Figures for the local service sector show an increase of 48% (down 6% on Q4), a decrease of 11%, with 39% remaining constant.

ORDERS/ADVANCE CUSTOM AND BOOKINGS

Overall figures show a 46% increase for orders and advance bookings in the domestic market (up 5% on Q4). The balance is at 37% (Q4 the balance was 25%).

53% of local manufacturing saw an increase in orders, 6% higher than Quarter 4.

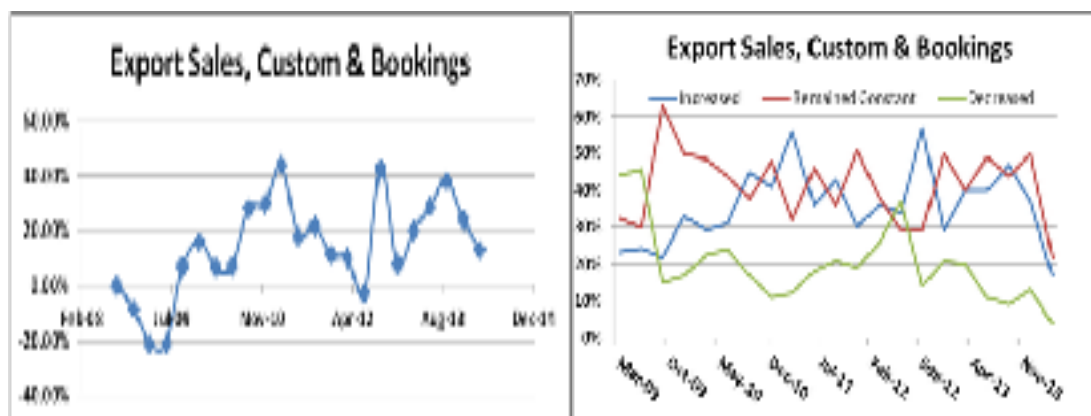
The local service sector figures show 44% reporting an increase in orders, 10% lower than Q4, 43% with orders remaining constant and 9% with decreasing orders over the last three months (16% lower than Q4).



EXPORT SALES

SALES, CUSTOM AND BOOKINGS

This quarter, 17% saw export sales increase, which is 20% lower than the last quarter. 4% of companies saw a decrease in their overseas sales (9% lower from last quarter).



Local manufacturers reported 23% increased sales, 3% decreased sales and 37% experienced constant overseas sales. Local service sector sales figures were lower at 17% increased sales, although 2% higher than Q4, 4% decrease but with 17% remaining constant.

ORDERS/ADVANCE CUSTOM AND BOOKINGS

The balance for overseas orders has decreased from 16% in Q4 to 12% in Q1.

OVERVIEW - EMPLOYMENT



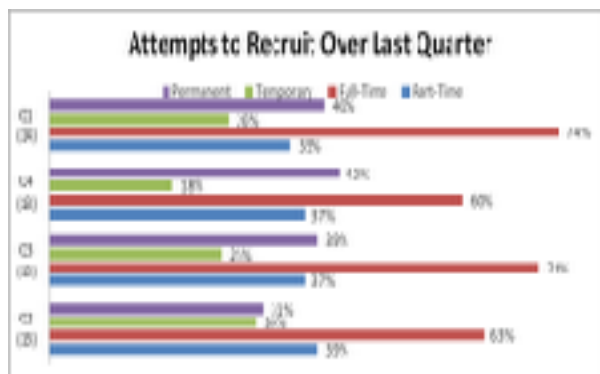
Changes to Workforce

The workforce change balance has increased to 20% (7% higher than Q4). There was an 18% increase in workforce in Q4, but in Q1 there are 9% points difference at 27% at Q1. Outlook regarding employment is still remaining positive. This improvement mirrors the latest unemployment figures which have fallen. 35% of companies responding reported plans to

increase their workforce over the next three months (previous quarter was 20%), with just 3% with plans to decrease the workforce.

ATTEMPTS TO RECRUIT

74% have attempted to recruit full-time staff, an increase of 14% on the last quarter. Employing permanent positions has decreased by 2% on the previous quarter. There is an 8% increase on last quarter for filling temporary positions. Taking a closer look at the local level we see that 56% of local manufacturers have attempted to recruit in the last quarter which is up 22% on last quarter and 44% in the service sector, which is up 5% on Q4.



The recruitment of permanent staff has decreased slightly to 40%. Part-time recruitment has also decreased 2%. Full-time staff recruitment is higher at 74%.

39% of local manufacturers have seen an increase in their workforce. Turning to the local service sector, 23% increased their labour force.

RECRUITMENT DIFFICULTIES

Recruitment difficulties have decreased by 14% on the previous quarter. 24% of businesses experienced difficulties recruiting. 31% of local manufacturers (a drop of 8%) and 22% of local services (a drop of 6%) have reported recruitment problems.

The key difficulty for manufacturer and service sector businesses alike was finding skilled manual/technical staff and also professional/managerial staff. This follows a similar pattern to the last quarter.

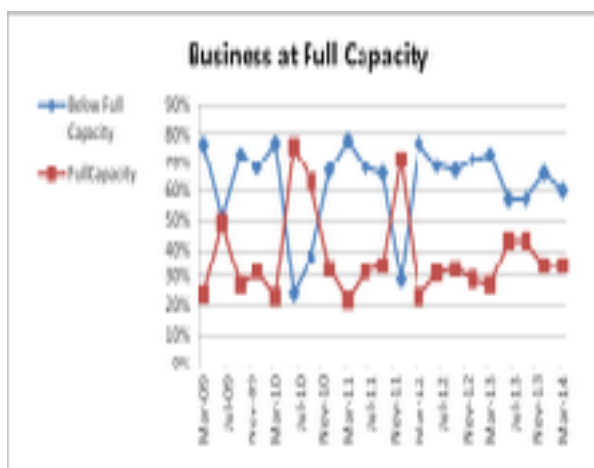


EXPECTATIONS TO RECRUIT NEXT QUARTER

The balance for changes to workforce is 32% which is a 15% increase from the previous quarter.

Local manufacturers and service businesses both reported they expect their workforces will remain on the same level. 58% of local service and local manufacturing sector

businesses believe they will maintain their current staff levels.

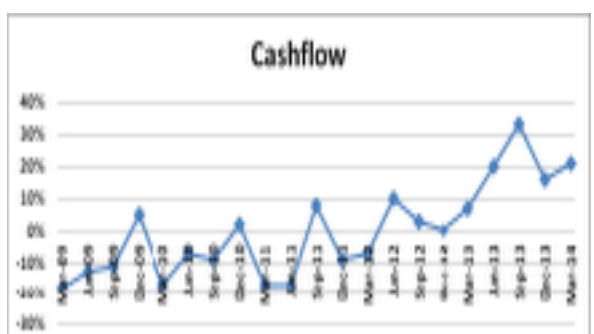


CAPACITY CONSOLIDATION, CASHFLOW & INVESTMENT

Capacity

The full capacity balance has remained the same as the last quarter at 34%. 60% of local businesses reported to be operating below full capacity. Turning to local manufacturers, 39% stated over the last period they operated at full capacity and 59% reported to be

operating below full capacity. Figures in the service sector show that 60% are operating below full capacity and 32% operating at full capacity.



CASHFLOW

Regarding the cashflow balance this has increased to 21% in Q1 from 17% in Q4.

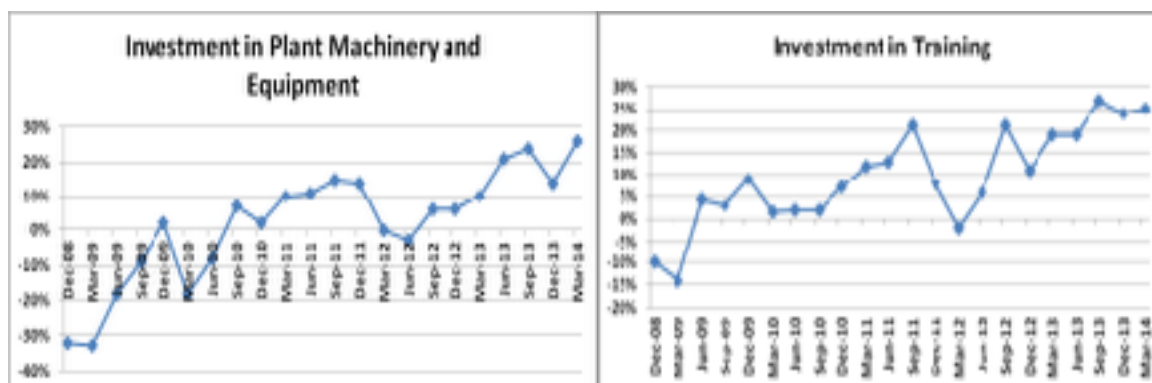
35% reported an improved cashflow experience, similar to Q4 and 46% stated their cashflow remained the same which is up just 2% from the previous quarter. 35% reported

improved cashflow figures in the service sector which is similar to the last quarter. 36% reported improved cashflow in the manufacturing sector.

INVESTMENT

Overall the investment balance is -41%. Investment in plant machinery and equipment is up 12% to 26%. Investment in training is up just 1% from the last quarter.

47% of local manufacturer's have seen investment in plant machinery and equipment remain the same. 66% of local services have seen investment in training remain the same.



EXTERNAL FACTORS

PRICE PRESSURES

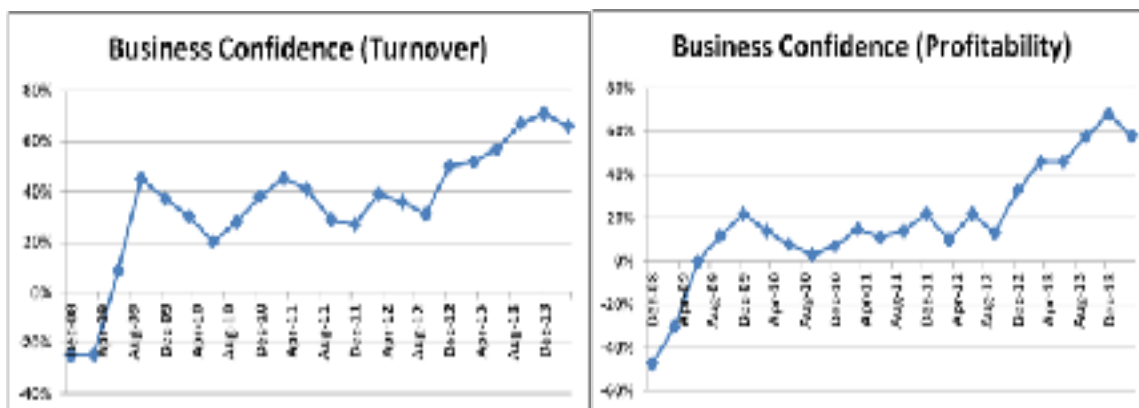
The balance figure for pressure on businesses to raise prices has decreased to 19% from 26%. 21% of companies surveyed experienced pressures to raise their prices, which is a drop of 11%. 2% reported they expect prices to decrease over the next quarter. 71% anticipate their price levels to remain

unaffected. 20% of local services and 25% of local manufacturing firms expect prices to rise .

Overall, raw materials and other overheads were mentioned as main contributors to price increases. This is similar to the previous four quarters. Local manufacturing mentioned that raw materials and other overheads were too the main contributors to price raises. Local service sector mention raw materials, pay settlements and other overheads as the main contributors, similar to previous quarters.

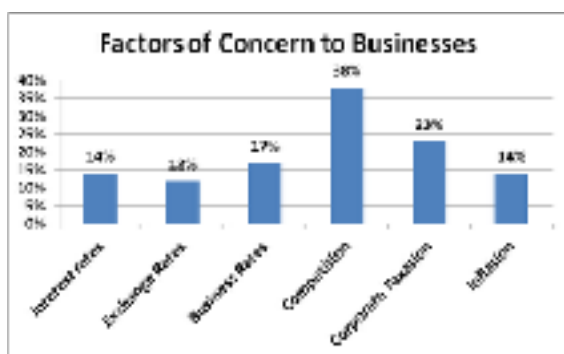
BUSINESS CONFIDENCE

Both the turnover and profitability balance have decreased. Turnover confidence decreased 7% (from 77% to 70%). Confidence regarding profitability also decreased from 68% to 58%.



69% of local manufacturers are expecting an increase in turnover, 10% higher than Q4 and 64% believe profitability will improve, 25% higher than Q4. Confidence figures for the local service sector vary only slightly. 70% believe they will see an improvement of turnover (an increase of 1% from Q4) and 65% expect profitability to increase (an increase of 26%).

FACTORS OF CONCERN TO BUSINESSES



The main factors of concern for businesses are competition, corporation tax and business rates (38% and 23% and 17%).

Competition and corporation tax have been major concerns for companies over many quarters now.

Summary 1st Quarter 2014

The Q1 2014 results are overall upbeat. All the critical Q1 balances for both manufacturing and services are stronger than their long-term averages and some are at all-time highs for our survey. In manufacturing, most key balances rose between Q4 2013 and Q1 2014. There were very small falls in employment and profitability confidence, but these balances are still positive and at historically high levels, indicating continued growth. Six manufacturing balances are at all-time highs: domestic sales; domestic orders; employment expectations; investment in plant & machinery; investment in training; and turnover confidence. In services, there were some small mixed movements between Q4 and Q1, but almost all the key balances remain above their average 2007 levels. There was a surprisingly large fall in the Q1 service employment balance, but this follows a large increase in the previous

quarter. The services employment expectations balance rose, and is now higher than its historical average.

Both service export balances rose to new all-time highs in Q1. Intentions to raise prices fell in manufacturing and rose slightly in services; but inflation remains a major area of concern for businesses in both sectors.

Commenting on the results, John Longworth, Director General of the BCC, said:

“It is great to see another positive story as we enter the 25th year of our survey. Confidence is high and our members are determined to continue driving the recovery. We are brilliant at services and very successful at exporting our knowledge-based industries all over the world. This includes everything from accountancy and marketing through to literature and the IT sector.

“In addition, our dynamic, high-value manufacturing sector is once again confounding expectations, and going from strength to strength. But UK firms are ambitious, and more support is needed if we are to place the recovery on a sustainable, broader footing in the medium-term.

“We have witnessed many false dawns during the recovery, and external shocks still loom on the horizon. Given that over the next year or so we face political change at home and abroad, long-term policies that support our businesses as they look to grow and invest are crucial.

“Access to finance and export support also remain vital if we are to secure a truly great economic recovery. Only by repairing our broken business finance system will viable, growing firms gain access to the capital that will allow them to invest in their staff and machinery, and enter new markets. And despite recent falls, inflation remains a key concern for our businesses, and the Bank of England must strive to maintain an investment-friendly environment, with clarity on forward interest rates and action to keep inflation low.”

David Kern, BCC Chief Economist, said:

“The results of our survey suggest that growth is strengthening in the short-term, and support our recent forecasts that the economic recovery is moving at a solid pace. But challenges persist and despite this progress, the recovery is not yet secure.

“UK growth is still reliant on consumer spending, driven by a resurgent housing market and a declining savings ratio. Given that UK personal debt levels are too high and need to fall, it will be hard to maintain growth levels in the medium-term without significant structural changes to our economy. Our current account deficit is the largest in the G7 and will pose long-term risks unless it is tackled. Investment and exports must play a larger contribution to our economic future, or else there is a risk that our recovery could stall.

“Businesses need a stable environment to plan ahead and invest. So while this period of low inflation and low interest rates cannot last forever, every effort must be made to sustain it for as long as possible.”