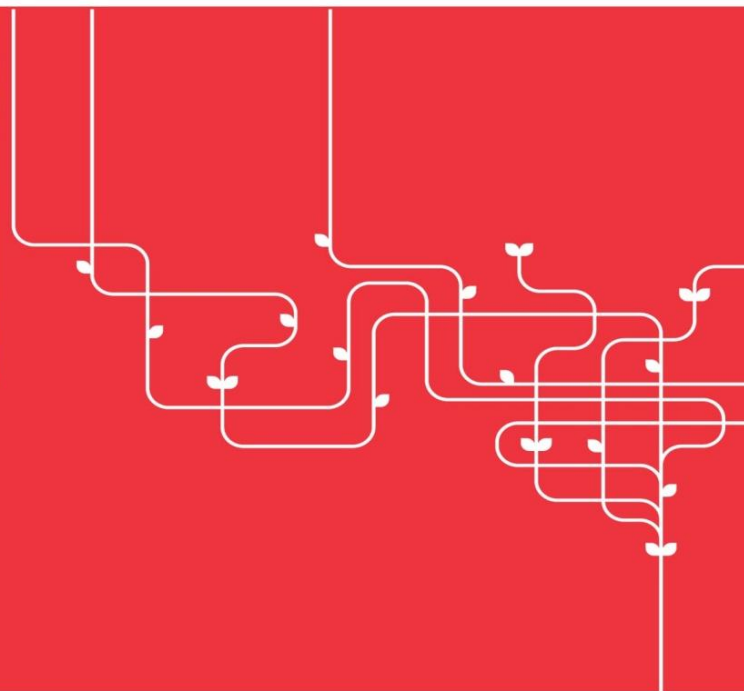




Herefordshire &  
Worcestershire

Quarterly Economic Survey  
Q1 2017

Full Report & Economic  
Brief



working in partnership with



Worcestershire  
Local Enterprise Partnership



British  
Chambers of  
Commerce  
Accredited

## Foreword: Sharon Smith, Chief Executive, Herefordshire & Worcestershire Chamber of Commerce



Firstly, I'm very pleased to be introducing this edition of our Quarterly Economic Survey (QES) as the new Chief Executive of Herefordshire & Worcestershire Chamber of Commerce. This quarter has highlighted what a strong, growing and innovative business community we have in the two counties, which makes me even prouder to be involved in the Chamber Network.

This quarter we have seen a growing domestic sales market, as well as some great advances among our businesses who export into Europe and across the world. This is all happening while local businesses are facing considerable difficulties and upfront costs such as the Apprenticeship Levy, National Living Wage and from exchange rates increasing the costs of importing raw materials.

Now that Theresa May, Prime Minister, has triggered Article 50 we as a Chamber can work to shape what post-Brexit Britain is going to look like and importantly, what this means for Herefordshire and Worcestershire. So it's going to be a busy year ahead for our policy team and we will continue to ensure the business voice is heard at every level of government.



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

Results from the latest QES survey paints a bright picture for the local businesses community with many companies having increased their turnover and number of employees. Sales within the UK market have grown for nearly 46% of businesses, as well as an increase for 42% of those selling outside of the UK market.

It is great to see that over a quarter of all companies surveyed have grown their workforce within the last three months and a higher amount (35%) are expecting to expand within the next three months. However, the findings of the QES also shows that local companies are finding challenges in recruiting suitable staff, despite a small improvement from the previous quarter. We will continue to work with partners to address this issue and to enable the sustainable growth of our local businesses.

Government's recent Local Growth Fund announcement of an additional £17.5m for Worcestershire will certainly help to boost skills and unlock growth in the county, particularly through the new Engineering Facility for Heart of Worcestershire College. We also continue to invest a portion of our previous allocations into skills projects such as Worcester's Centre of Vocational Excellence, which is set to open this summer and will provide training for several hundreds of learners each year.



## Domestic Performance

The sales balance sits at 33%, the highest sales balance we've seen since the EU referendum in June 2016.

This quarter we have seen 46% of companies report an increase in sales, an improvement on last quarter which had the lowest sales balance since 2013. 41% of businesses reported domestic sales remained constant and 13% reported a decrease in sales.

If we break these results down between the manufacturing and services sectors, we can see an improvement among manufactures with 44% reporting an increase in sales, compared to 40% the previous quarter. Service sector businesses also experienced an increase in sales compared to last quarter, with 47% revealing increased sales compared to 42% at the end of last year.

It appears that now the uncertainty around the Spring Budget and when Article 50 was going to be triggered is over, businesses have begun to get 'back to business' and it's great to see the community flourishing during some quite difficult business conditions.

In total, 13% of businesses reported decreases in sales, it was slightly more for manufactures which averaged at 16%. We would encourage any business experiencing challenges to contact Worcestershire Business Central for expert advice on what support and funding is available.

## Exports

The export balance currently sits at 32%, a fantastic increase of 12% since Q4 2016.

39% of respondents identified themselves as exporters. Out of these firms, 42% saw an increase in export sales over the last three months. The majority of businesses (48%) report that business remains constant; with 10% reporting a decrease. Looking ahead at advanced orders, it's been the best quarter for exporters since Q4 2015, as we've seen the lowest number of businesses report decreases, and the highest number of increased orders.



We identified in the previous report that despite the depreciation of sterling, the benefits brought for exporters did not appear to have been passed onto local business. However, we are now perhaps beginning to see this in the exporting community, but equally seeing a number of businesses pressured to raise prices due to costs of importing raw materials.

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





## Labour Force and Recruitment

The majority of businesses reported no changes to their workforce (63%) and 61% expect there to be no changes until the end of Q1 2017. However, we've seen the highest number of businesses expecting to increase their workforce in the next three months (35%) since Q2 2015.

Just over half of respondents attempted to recruit over the last three months - as usual these were mostly for full time, permanent roles. Hiring suitable staff continues to remain a prevalent issue for local businesses, half of the respondents experiencing difficulties.

When broken down into sectors, over two-thirds of manufactures experienced difficulties, compared to 46% of services. Skills remains a serious concern to all sectors, with 52% 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 (22%). The need for skilled workers rose slightly, but interestingly the need for clerical workers has almost doubled.

It is also worth noting that there is still significant demand for semi-skilled recruitment (18%), which should not be discounted, such employment is vital for the day-to-day running of companies – particularly in the manufacturing and agricultural sectors.

## Price Pressures, Cashflow and Capacity

The number of businesses expecting to increase their prices sits at 41%. This number has significantly increased since the EU Referendum and is mostly attributable to the emerging upfront costs on business, combined with exchange rates and market activity.



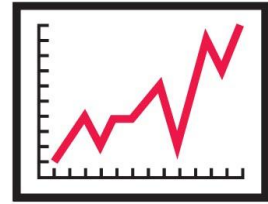
In Q2 2016, 18% reported pressure to pass increasing costs onto the consumer, this rose to 30% in Q3 and then at 43% last quarter. This is mostly attributed to raw material prices (56%) and other overheads (47%).

The Cashflow balance continues to remain a significant local issue at 11%. The last two quarters have seen the lowest cashflow balance since Q1 2013, with 20% again reporting a worsening situation. We're particularly seeing this among our small business members who are often disadvantaged by some larger businesses not paying their invoices on time. It's vital that this is addressed and we will be lobbying government about this in the next quarter.

On capacity, we've seen the largest number of businesses report to be operating at full capacity and outnumber those operating below capacity since Q4 2015, sitting at 56%.

## Business Investment and Confidence

Q1 2017 appears to have signalled a 'new year' for business investment balances, which have increased for the first time in twelve months.



The majority of businesses, 62% and 66% respectively, have not changed their investment plans for plant/machinery/equipment (PME) or training. However, we have seen the number of businesses increase their investment in both rise. In addition, when looking specifically at the number increasing investment in PME, we've seen the highest increase in investment 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.

## Business Concerns

Leading onto the biggest business concerns of Q1 2017, we see Exchange Rates continue to top the charts at 37%, closely followed by competition (34%) and Business Rates (32%).

Exchange rates continue to remain a massive concern for businesses in Herefordshire and Worcestershire, due to the local reliance on importing a number of key raw materials. We can see this concern spreading into huge pressure the community is feeling to pass these costs onto the consumer, the last resort for many businesses, as the pinch becomes all too real.



Following concerns around the revaluation process it is not surprising that business rates have jumped up by 12%. While as a whole, the area has seen a net decrease in costs, there are still businesses who have been negatively affected by the valuations. If your business has been disproportionately affected by these changes, please get in touch with Policy Manager, Sophia Haywood on [sophiah@hwchamber.co.uk](mailto:sophiah@hwchamber.co.uk)

The Spring Budget appears to have quelled concerns around corporate taxation, which has fallen as a concern from 37% in Q4 2016 down to 29%. However, we'd have still expected to see ongoing concerns around the Apprenticeship Levy and Migration Skills Charge, which came into effect from the beginning of April to be at the forefront of businesses minds.



## **Chamber Analysis:** **Sophia Haywood,** **Policy Manager**

Overall, the results for Q1 2017 paint a picture of growth, but also highlights the resilience of businesses in the face of increasing upfront costs and uncertainty.

We've seen a growth in the domestic sales balance which has increased by 4% on the previous quarter. There has been even more of a boost in the world of exports, of which the balance has risen by 12%. It's great to see such growth in these markets, as well as increased investment across Herefordshire and Worcestershire.

However, businesses are still experiencing pressure to raise prices, the number of which increased by 23% since the EU referendum. This is mostly attributed to the cost of raw materials which has been hiked up by fluctuating exchange rates. This remains the biggest concern for local business (37%), closely followed by business rates (32%).

In the last month Britain has triggered Article 50 and now the Prime Minister, Theresa May has called a snap election. It's vital that the snap election doesn't distract from fixing fundamentals for the business community and preparing the UK for Brexit.

This will undoubtedly add an extra layer of uncertainty for local businesses, who will want to see all political parties have business needs and a healthy, growing economy at the heart of their campaigns. Businesses don't want to see political games unfolding in Westminster; they want to see them knuckle down to the business at hand.

## 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 a 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 613 responses from the local business community and earned first place in the British Chambers of Commerce (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 connect and celebrate local businesses, creating opportunities and networks, and to represent them on a national scale. Accredited by the BCC, 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.



**Written by:**

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