



Herefordshire
& Worcestershire
Chamber of Commerce

Herefordshire &
Worcestershire

Quarterly Economic Survey
Q3 2017

Full Report & Economic
Brief



working in partnership with



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



The latest survey results highlight the pressurized scenario businesses find themselves in during this uncertain time.

Remaining competitive in the UK and international markets has become a key concern for local firms, the need to increase prices, rocketing import costs, labour shortages and a significant bout of political uncertainty is having an impact.

The skills shortage continues to remain a key issue, with almost two-thirds of firms that attempted to recruit experiencing difficulty. We're currently championing activity around skills through activity from the Chamber Manifesto and recently, sponsored by Worcester, Bosch took senior business leaders down to Westminster to discuss solutions and actions we can take in 2018.

Despite the uncertainty, Herefordshire and Worcestershire businesses remain strong. While businesses aren't overly positive about Brexit, firms will continue to work to innovate and grow whatever the political climate.



Analysis: James Pearson, Political Reporter, BBC Hereford & Worcester

Whether it's in forensic science, agricultural machinery or cyber security, the two counties seem to have no shortage of market-leading firms. Since last year's referendum, many have reported a surge in exports thanks to the relatively low value of the pound, in some cases adding 20-30% to turnover.

Yet while many are looking forward to life outside the EU, this economic survey suggests that more firms are feeling anxious about Brexit than upbeat. Given some of our businesses' global reach, it seems surprising only 3% of survey respondents see future opportunities for trade deals with non-EU countries as a key issue for them, compared to 25% who picked resolving future customs and trade arrangements with Europe. Manufacturers in particular seem pessimistic.

Though there are still more than 500 days to go until the end of March 2019, many firms are beginning to plan now for an event that falls within their next financial year. So far the message from local Conservative MPs, including ministers like Robin Walker, has been one of reassurance; that the government will prioritise market access, and provide clarity for business. However, if uncertainty continues, or transition talks between Westminster and Brussels are delayed further, this winter may see more companies experience a new frostiness in a working relationship with a continental partner, or a pause in investment, as some have already reported privately.

Domestic Performance

The sales balance sits at 32%, a fall of 8% compared to the previous quarter and is the lowest balance this year. This quarter we have seen 46% of companies report an increase in sales, a slight fall from last quarter which saw 50% increase their sales. 40% of businesses reported domestic sales remained constant and 14% reported a decrease in sales, a rise of 4% on the last quarter. While in the last report we reported a 6% increase in the orders and advanced bookings balance, however it's fallen back to a post-referendum average of 27%.

We would encourage any business experiencing challenges to contact Worcestershire Business Central for expert advice on what support and funding is available at www.business-central.co.uk/

Exports

The export balance currently sits at 31%, a minor fall of 1% on last quarter, but the community actually saw fewer firms reporting decreases than in early summer. 49% of respondents identified themselves as exporters. Out of these firms, 40% saw an increase in export sales over the last three months. The majority of businesses (51%) report that business remains constant; with 9% reporting a decrease.

We've heard from our members that despite the depreciation of sterling, the sharp rising costs of importing outweigh any positives that come out of improved exporting. We are also seeing this put pressure on firms to raise prices to combat rocketing costs.

Despite this, we're seeing lots of firms try out exporting for the first time. 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

Labour Force and Recruitment

The majority of businesses reported no changes to their workforce (60%) and 64% also expect there to be no changes until the end of the summer. However, we're seeing a third of firms expecting to increase their workforce by Christmas.

49% of businesses attempted to recruit this quarter and 60% of them experienced difficulties recruiting the right staff. Skills remain a serious concern to all sectors, with 47% of businesses having difficulty with hiring skilled manual and skilled technical staff. This is closely followed by difficulty hiring professional and managerial staff (36%) and unskilled / semi-skilled roles (28%).

14% of respondents also struggled to recruit for apprentices. If you are looking to take on apprentices or are having difficulties please get in touch and we can connect you with local training providers.

Price Pressures and Cashflow

The number of businesses expecting to increase their prices sits at 36%. This number has significantly increased since the EU Referendum when it sat at 18%, but has decreased since Q1 2017 which sat at 41%. This continues to remain a serious issue for a number of firms, with cost increases at all levels of the supply chain. This is predominantly attributed to raw material prices (58%) and other overheads (50%).

The cashflow balance has somewhat recovered since its dramatic fall in Q4 2016 where it reached the lowest levels since 2013 at 11%. It now stands at 18% with the majority of firms reporting an unchanged situation.

Business Investment and Confidence.

This quarter, 33% of businesses increased investment into plant, machinery and equipment and 27% increased investment in training. Looking at the impact of Brexit so far on investment, 11% of firms maintain that it has delayed decisions to invest locally, with 2% cancelling investment and 4% bringing forward investment. The majority of firms however maintained that Brexit hadn't impacted their investment at all.

Business confidence in turnover remains resilient with the majority expecting turnover and to improve over the next year. However, this quarter we have seen the lowest profitability balance since Q4 2012 at 43%. This is concerning and highlights the immense pressures businesses are experiencing at the bottom-line, due to import costs, labour market shortage and rising upfront costs on firms.

Business Concerns

This quarter Competition (38%) took over exchange rates (35%) as the biggest concern for the first time since the referendum, both issues however are inherently connected. Firms are concerned about competition as they get squeezed by the impact of exchange rates. Corporate Taxation fell by 13% as a key concern since the last quarter, perhaps highlighting our prediction it was a concern with election narrative.

Looking at Brexit, 31% of firms felt negative or very negative about our future outside the European Union, compared to 23% of firms who felt positive or very positive about it. The top three Brexit related concerns were: political uncertainty in the UK (29%), the strength of the pound (28%) and future customs and trade arrangements with Europe (25%).

Chamber Analysis

Sophia Haywood, Policy Manager

Despite 67% of firms stating that Brexit has had a neutral impact on their business since the referendum, I'd be surprised if these firms have not been affected by exchange rates or price rises in their supply chain this year.

While the official break up is still some time away, it's already made a footprint on a number of sectors, and is beginning to impact firms of all shapes and sizes.

In October 2017 I took the Migration Advisory Committee who are carrying out a post-Brexit migration review around local agricultural, food & drink producers and manufacturing firms to discuss access to an EU workforce. These firms are already struggling to attract labour, and we haven't even left the EU yet.

Exchange rates have also remained, and will continue to remain a challenge for firms, whether they directly feel the squeeze from importing or by rising costs in the supply chain. Highlighting why 28% of firms are concerned about the strength of the pound, and 35% are worried about exchange rates.

Lastly, with a great deal of exporters in the region, who made up half of our respondents, future trade deals with the EU are a principal concern, more so than trade deals with non-EU countries. Tariffs and non-tariff barriers are at the forefront of firms minds in regards to how this may affect their competitiveness.

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 544 responses from the local business community and earned second 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:

Sophia Haywood

Policy Manager

Herefordshire & Worcestershire Chamber of
Commerce

sophiah@hwchamber.co.uk

01905 673 600