

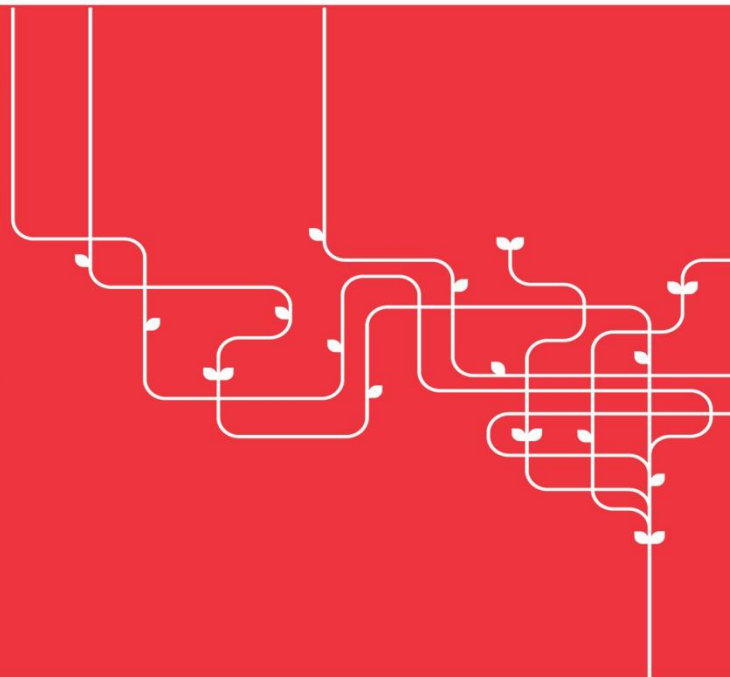


Herefordshire
& Worcestershire
Chamber of Commerce

Herefordshire &
Worcestershire

Quarterly Economic Survey
Q2 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



Our latest survey results reflect the outlook of companies of all sectors and sizes across the two counties, and indicates that for many businesses, growth is relatively static but has improved from the initial shocks of this time last year. This is not surprising following the most recent bout of economic uncertainty during and immediately following the General Election 2017. Now, despite how complicated, we have a Government and it's time for politicians to knuckle down to the business at hand.

The economy must be at the heart of the national agenda, with a key focus on forging the best possible environment for business growth in Herefordshire and Worcestershire. Now more than ever, Government must address fundamentals holding businesses back, including skills shortages, weak physical and digital infrastructure, as well as high upfront costs dampening growth. Our subdued growth locally underlines the importance of getting as much clarity on the Brexit transition as possible, to help businesses prepare for some of the biggest changes in our political and economic make up some of us will see in our lifetime.



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

Findings from the latest QES report highlights more progress for local businesses, with cash flow having increased during the past 3 months for over a third of companies (34%) and two thirds are expecting to increase their turnover in the next 12 months.

Local businesses are also expanding their workforce at an increasing rate, with over 29% having increased their workforce in the past 3 months and over 35% of companies set to increase their number of staff in the next 3 months. However, the report recognises the potential risks being caused by inflation, with nearly a third of businesses suffering pressures to increase the price of their goods and services over the next quarter and over half of those companies citing rising raw materials prices as a pressure.

The picture remains positive as a whole for Worcestershire and we have already seen two high profile achievements this year, having recently achieved the strongest growth in workforce productivity and higher level workforce skills in the UK. We are now opening registrations for our Worcestershire LEP Annual Conference 2017 on 1 December to discuss these successes further. To register your place, visit the Worcestershire LEP website, www.wlep.co.uk

Domestic Performance

The sales balance sits at 40%, the highest sales balance we've seen since the EU referendum in June 2016. This quarter we have seen 50% of companies report an increase in sales, an improvement on last quarter which only saw 46% report the same. 40% of businesses reported domestic sales remained constant and 10% reported a decrease in sales. When looking ahead at orders and advanced bookings, after a long lull we have returned to the same order balance as Q1 2016 at 34%.

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%, exactly the same as the Q1. 44% of respondents identified themselves as exporters. Out of these firms, 43% saw an increase in export sales over the last three months. The majority of businesses (46%) report that business remains constant; with 11% reporting a decrease.

We identified in the previous report that despite the depreciation of sterling, the benefits brought for exporters did not appear to have been passed on to 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

Labour Force and Recruitment

The majority of businesses reported no changes to their workforce (63%) and 61% also expect there to be no changes until the end of the summer. However, we've seen the highest number of businesses expecting to increase their workforce in the next three months (36%) since Q2 2015.

55% of businesses attempted to recruit this quarter, the largest amount of local recruiting we've seen since Q2 2014. However, despite this growth, hiring suitable staff continues to remain a prevalent issue for local businesses, half of the respondents experiencing difficulties. Skills remains a serious concern to all sectors, with 45% of businesses having difficulty with hiring skilled manual and skilled technical staff. This is closely followed by difficulty hiring professional and managerial staff (42%) and unskilled / semi-skilled roles (26%).

10% 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 put you in touch with local training providers.

Price Pressures and Cashflow

The number of businesses expecting to increase their prices sits at 33%. This number has significantly increased since the EU Referendum, but has decreased on Q1 2017 which sat at 41%. This signals not that businesses feel less pressure to raise prices than before, but that businesses have already taken the steps to do so. This is mostly attributed to raw material prices (57%) and other overheads (54%).

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 19% after we saw fewer businesses reporting a worsening issue.

Business Investment and Confidence

2017 appears to have signalled a 'new year' for business investment balances. Locally we are seeing the highest investment balances in training and in premises or equipment, since Q2 2015 and Q1 2014 respectively.

This quarter, 34% of businesses increased investment into plant, machinery and equipment and 33% increased investment in training. Due to concerns around Brexit we are hearing more and more from businesses about how they are investing in themselves and preparing themselves for challenges to come, increasing productivity and developing staff to help towards retention – a key issue for an area struggling with a skills shortage.

Business confidence remains resilient with the majority expecting turnover and profitability to improve over the next year, a similar story to the previous quarter. A positive message, but in order for this confidence to remain it is vital that government gets a move on with Brexit negotiations and begins to fix the fundamentals at home to support local business.

Business Concerns

In Q2 2017 corporate taxation was found to be the biggest concern to businesses at 37%. This is quite surprising as we would have predicted exchange rates to continue to top the charts. However, when analysing more closely you can attribute this to the high profile discussion of raising corporate taxation during the General Election 2017 campaigns, as well as the Apprenticeship Levy, National Living Wage, Immigration Skills Charge and auto-enrolment coming into effect.

Exchange rates still remains a top concern (35%), as well as competition (35%) and Inflation (32%). Currency continues to put pressure on businesses to increase their prices or absorb as much as possible, as the costs of their imports have significantly increased since June last 2016 and in turn is affecting their ability to be competitive. Naturally, inflation is increasing as a concern for businesses as it reached a four year high in May 2017 at 2.9%.

Chamber Analysis:

Sophia Haywood,

Policy Manager

The results for Q2 2017 paint a subdued picture, but also highlights the incredible resilience of businesses in the face of increasing upfront costs and uncertainty, once again from the snap election of 2017.

This is the highest sales balance (40%) we've seen since the EU Referendum last year, yet there is so much more potential for growth – as long as businesses are supported by Government.

The latest results also point to a continued pick-up in export activity. With the support of our local Department for International Trade team, local firms have grown in some of the UK's key international markets and have been boosted by weaker sterling.

Rising inflation also remains a key challenge locally and nationally in 2017. It is likely that consumer prices will continue to rise over the summer, as the increasing costs of importing raw materials and other overheads get passed down the supply chain. The drop in the number of businesses expecting to raise prices should not be seen as moderating, instead it would signal its already been done.

It was fascinating to see that Corporate Taxation (37%) was the biggest concern for local businesses. I would attribute this significant rise in concern as a result of the worrying policies and discussions aired during the snap election by major parties. As well as number of upfront charges coming into play in April 2017, such as the Apprenticeship Levy, which businesses don't expect to get back (much like a tax).

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 584 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.



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