



Quarterly Economic Survey

Quarter 4 2018 Results

Foreword



Sharon Smith
Chief Executive

Herefordshire & Worcestershire Chamber of Commerce

“ During the final Quarter of 2018, businesses in the two counties have continued to operate in the context of unprecedented uncertainty and political turmoil. Although businesses have demonstrated relentless resilience, it is high time politicians in Westminster reach a point of agreement to allow business as usual to resume. The investment freeze experienced during the final months of 2018, demonstrated by the data in this report, is symptomatic of the uncertainty surrounding the future arrangements for the movement of goods and people.

Businesses with supply chains which weave in and out of Europe are those most impacted by the absence of certainty. Whilst the weak sterling is pushing up prices for importers of raw materials, it has proved favourable for those exporting their goods overseas. With global growth slowing, businesses need domestic stability to reach their full potential. 35% of the manufacturing sector identified exchange rates as the greatest concern for their business during Q4 of 2018. This is a clear demonstration of the impact of uncertainty which must not continue.




Despite domestic challenges, the UK labour market remains buoyant. The data from this Quarter demonstrates that demand remains high within the local labour market for skilled manual and technical jobs, in addition to managerial and professional staff. With a record low level of unemployment it is becoming increasingly difficult for local firms to recruit talent into their business. An unprecedented level of employment, coupled with record numbers of vacancies, is fuelling a tight labour market. ”

Introduction

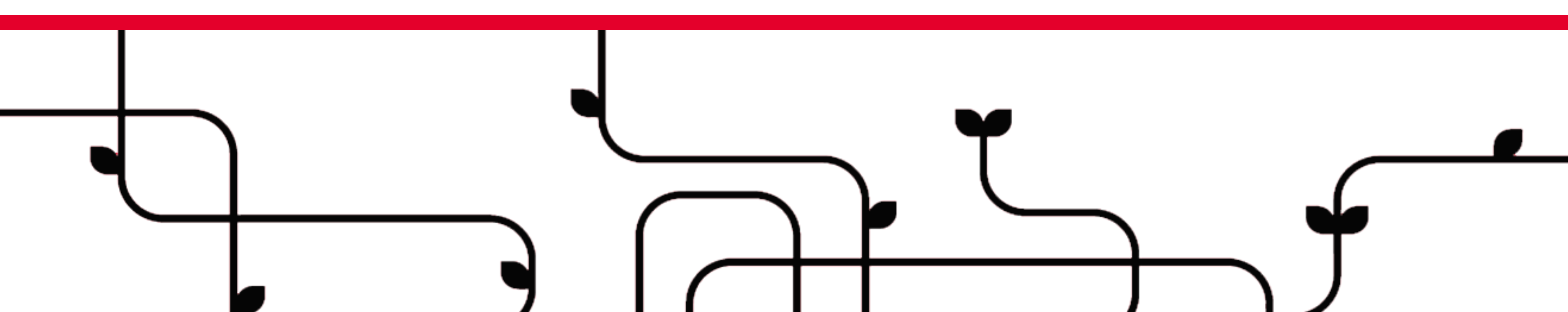
The Quarterly Economic Survey (QES) is the private sector's largest business survey that enables local businesses to have their voices heard on a national level in less than 3 minutes.

On a local level, your response helps to shape the policy work Herefordshire & Worcestershire Chamber of Commerce carries out, allowing us to lobby on issues key to local firms.








On a national level, your input forms a leading indicator that is followed by key stakeholders:

-  The Bank of England's Monetary Policy Committee uses the QES as one of its key benchmarks when setting interest rates
-  HM Treasury and the independent Office for Budget Responsibility use the QES to put together their forecasts for the UK's economic performance.
-  The European Commission uses the QES to assess the health of the UK economy.

Your continued support allows us to lobby on the key issues that businesses face and we are extremely grateful for sharing your views with us.



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Methodology

577 businesses in Herefordshire and Worcestershire responded to the Quarterly Economic Survey (QES) during Quarter 4. Data collection took place during the period between 6 November 2018 and 27 November 2018.

Some of the QES results are presented as balance figures. Balance figures show the difference between the increase and decrease. If the figure is a plus, it indicates expansion of activity. If the figure is a minus it indicates contraction of activity against the previous Quarter.

Business Sector Classification

Throughout this document, business sectors are used to make comparisons between different industries during this Quarter. We have combined these sectors into two industries as follows:

Manufacturing

Main business activity includes manufacturing of goods (including electronic or information technology goods) or production of raw materials, agriculture, fishing, mining, utilities.

Service Industries

Main business activity provides a service to businesses as well as final consumers. Such services include construction, retail/wholesale, professional services, and marketing.



Executive Summary



UK and Overseas Market

- Domestic activity increased by 4% compared to the previous quarter
- Exporting increased in Q4: overseas sales increased by 3% and overseas orders increased by 5%



Employment

- The number of firms attempting to recruit in Q4 decreased by 5% compared to Q3, (from 56% to 51%)
- 62% of firms had problems recruiting new staff, especially for semi/unskilled labour



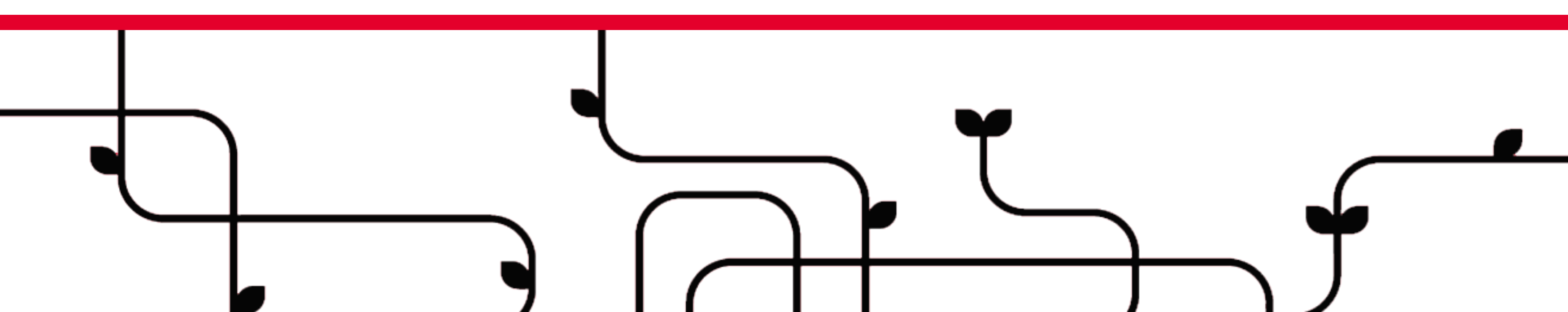
Business Concerns

- The price of raw materials continues to be identified as the most significant price pressure for businesses, with 56% reporting that this was the greatest price pressure
- Businesses were significantly more concerned about remaining competitive in Q4 (40%) than in Q3 (31%)



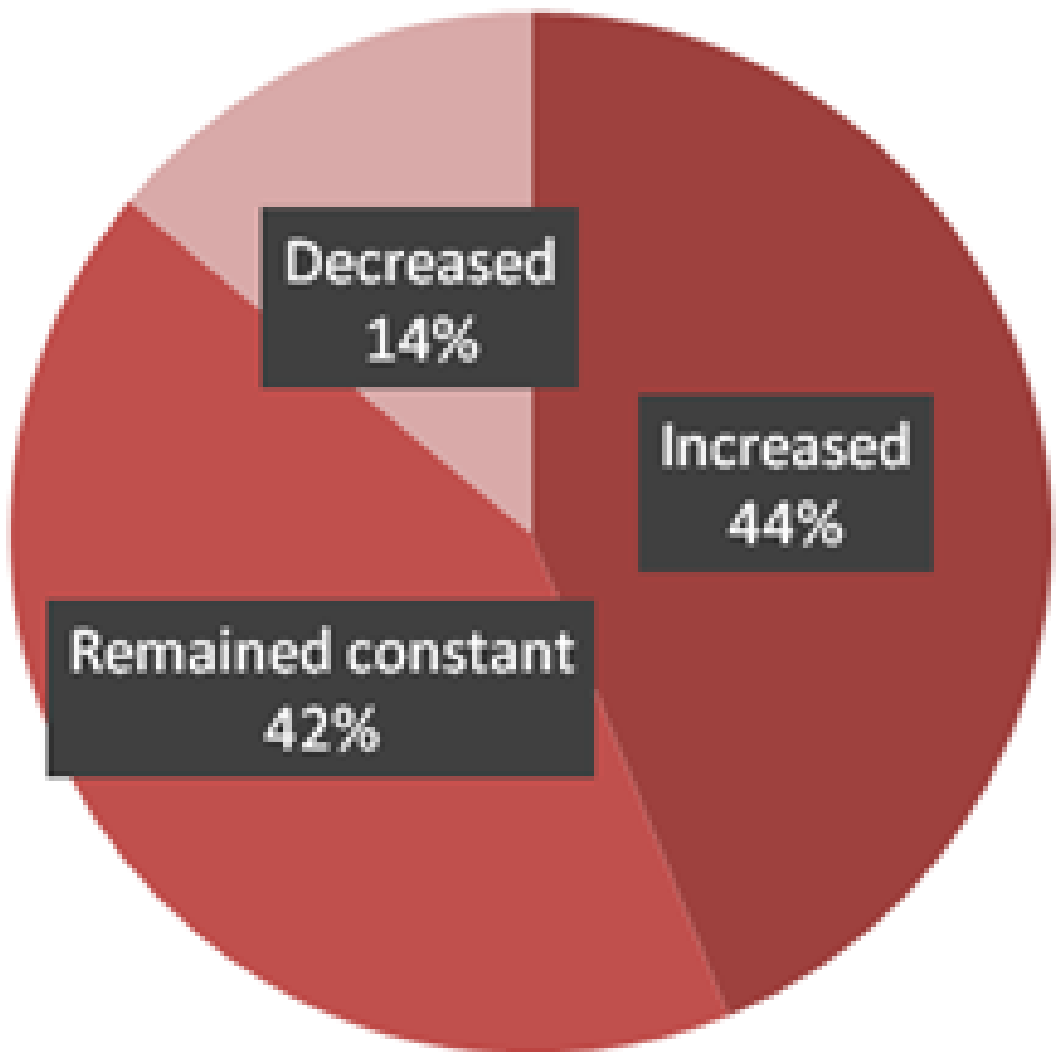
Investment

- Investment plans have decreased for many firms. Over the past three-months, the proportion of businesses reporting decreases in their capital investment has risen from 9% to 12%

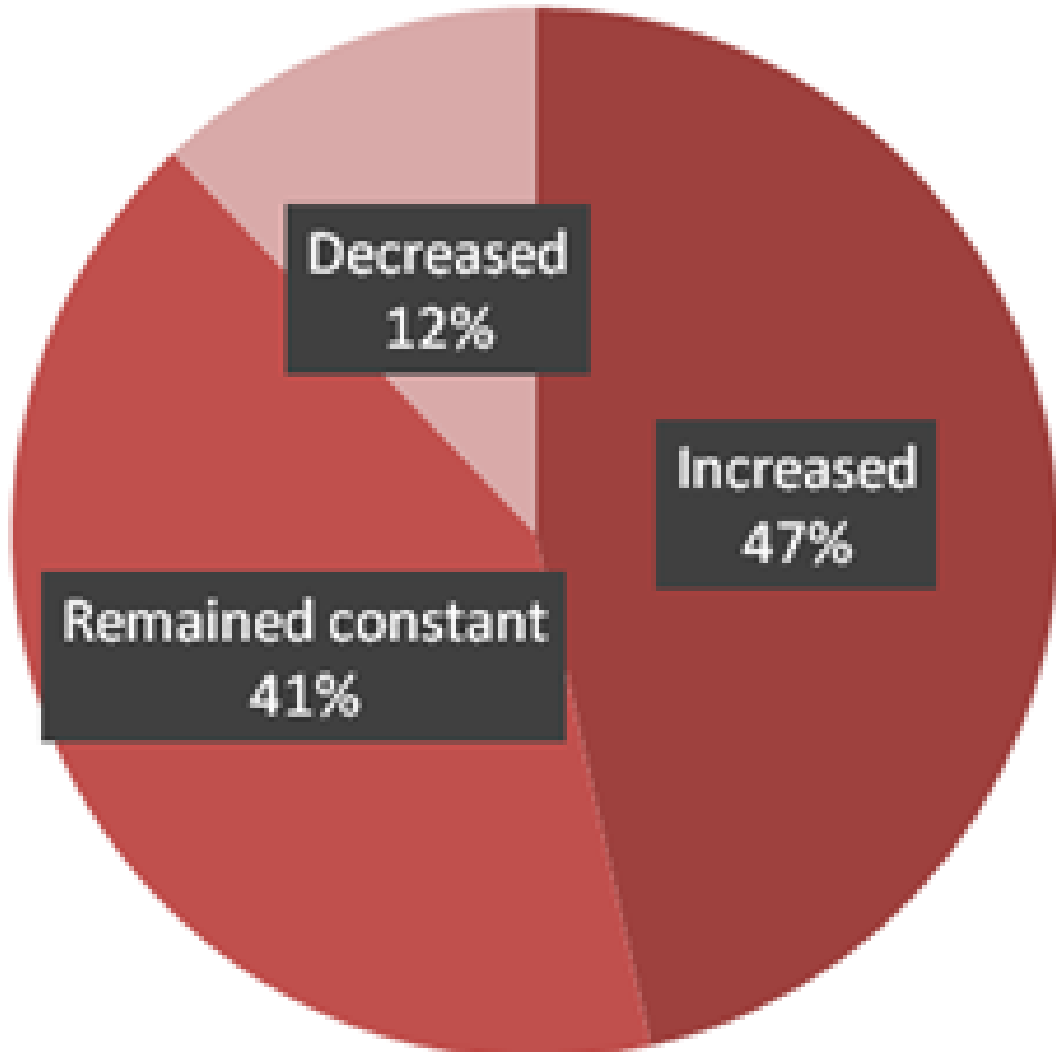


Domestic Sales and Orders

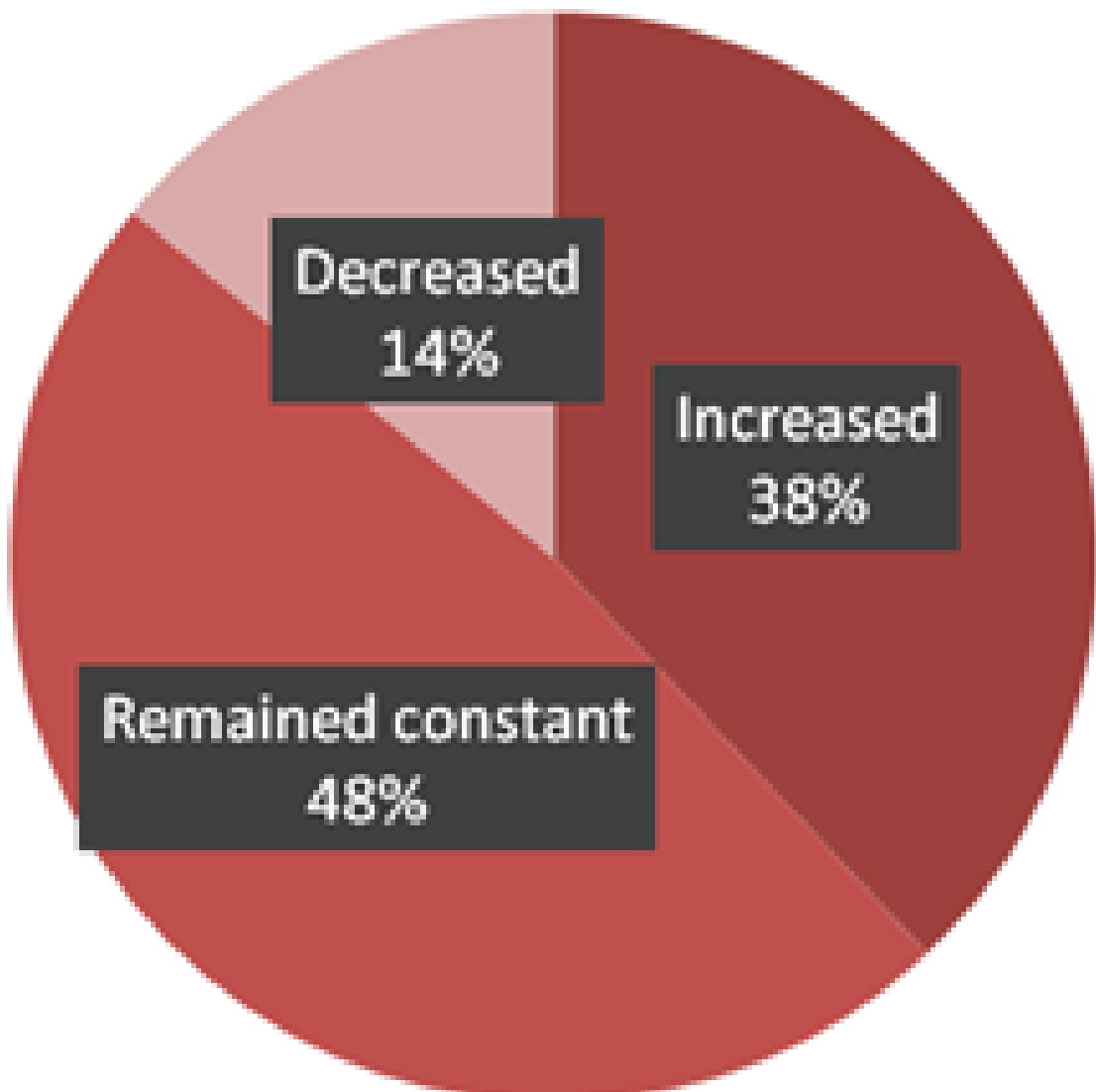
Q3: Domestic Sales



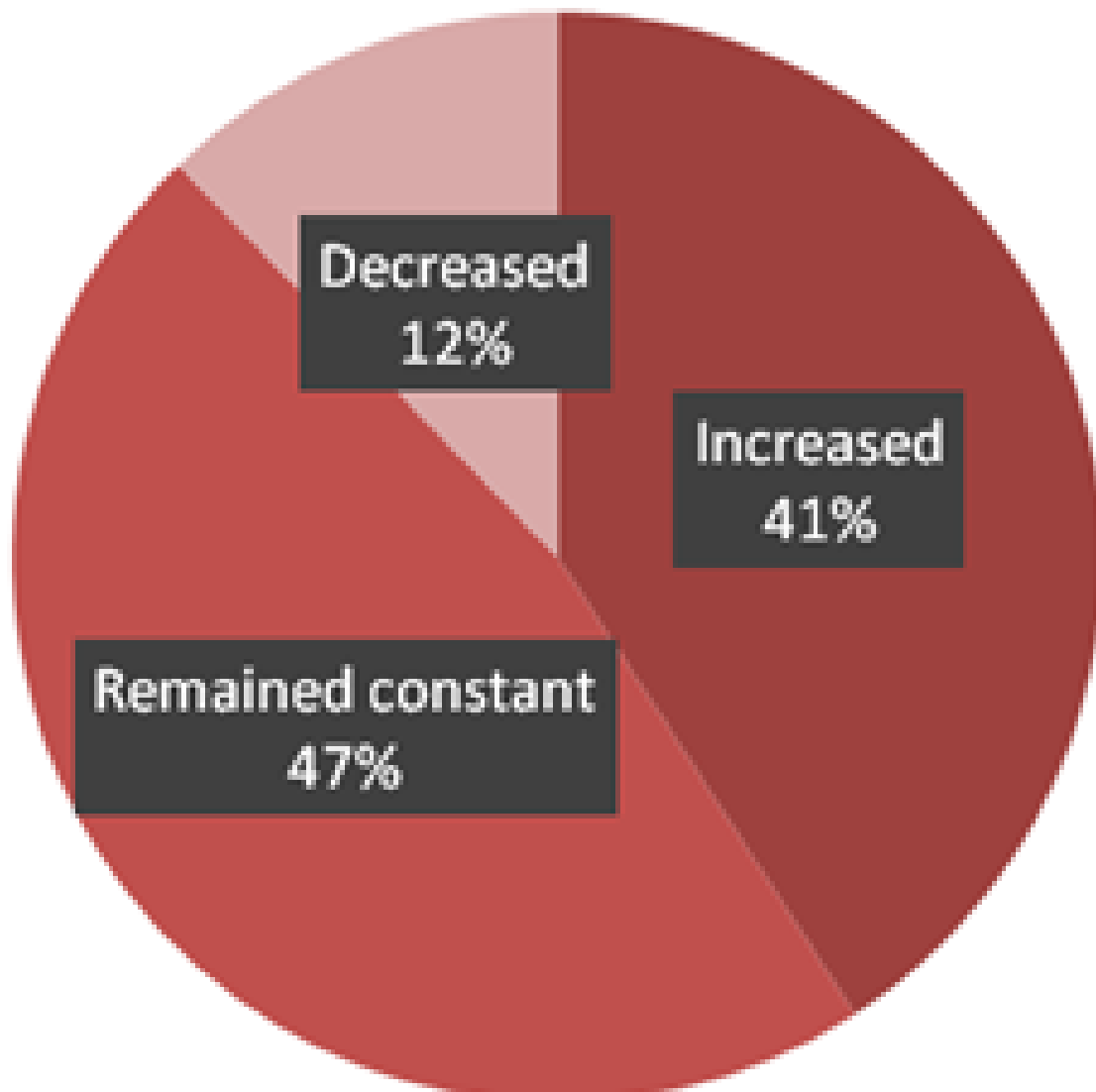
Q4: Domestic Sales



Q3: Domestic Orders



Q4: Domestic Orders



Domestic Sales and Orders

Nationally, the pace of growth and the number of firms reporting an increase in domestic activity has slowed. However, trends in the local data suggest that there is a steady increase in both domestic sales and orders locally. Businesses in Herefordshire and Worcestershire continue to demonstrate resilience.

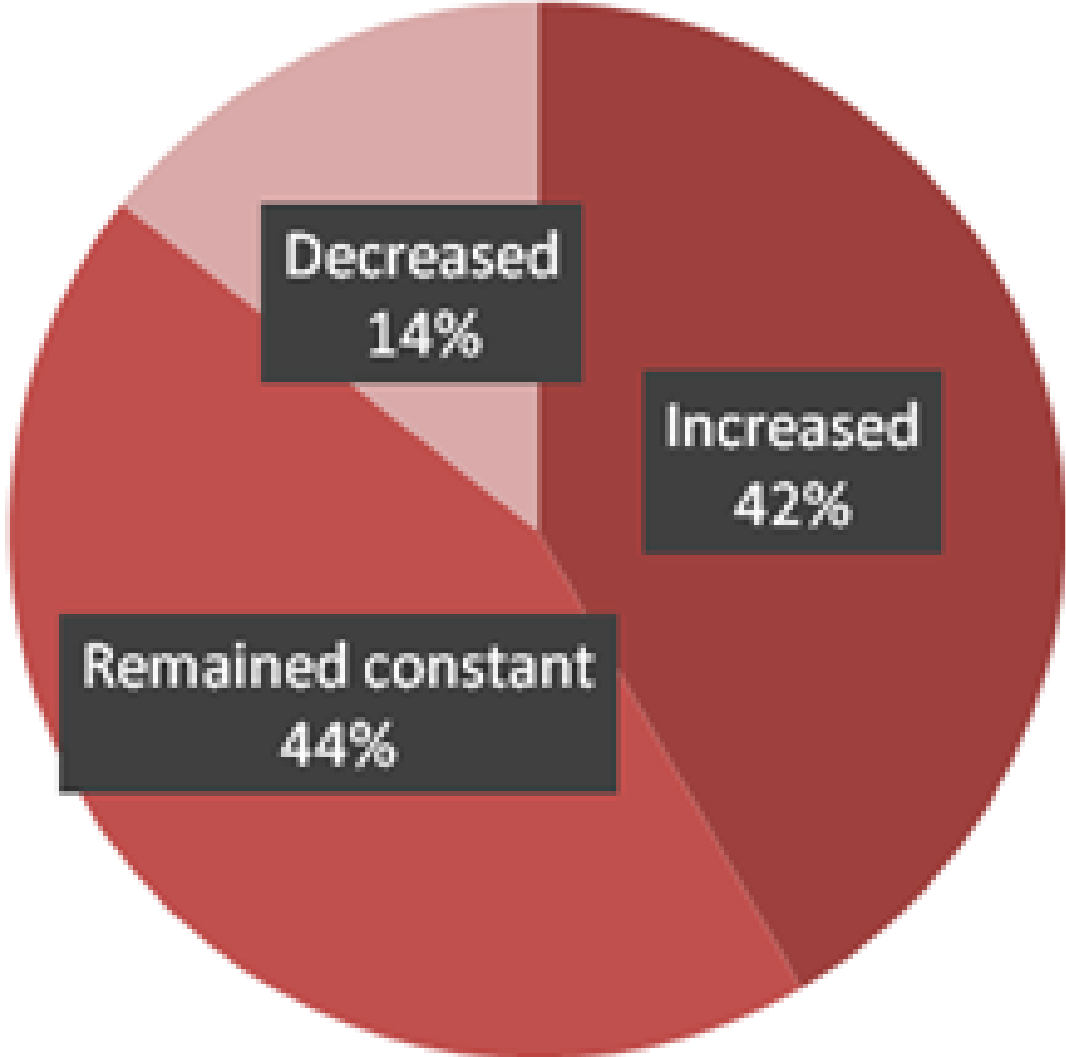
When examining the data by sector, a clear increase in domestic activity within both the service and manufacturing sectors becomes apparent during Q4.

Manufacturers have had a good Quarter with domestic sales demonstrating a 3% increase in Q4 and a 2% increase in domestic orders compared to the previous Quarter. Manufacturers struggled in Q2 for both sales (15%) and orders (12%) but this activity has more than doubled in Q4 (35% and 28% respectively) which is promising.

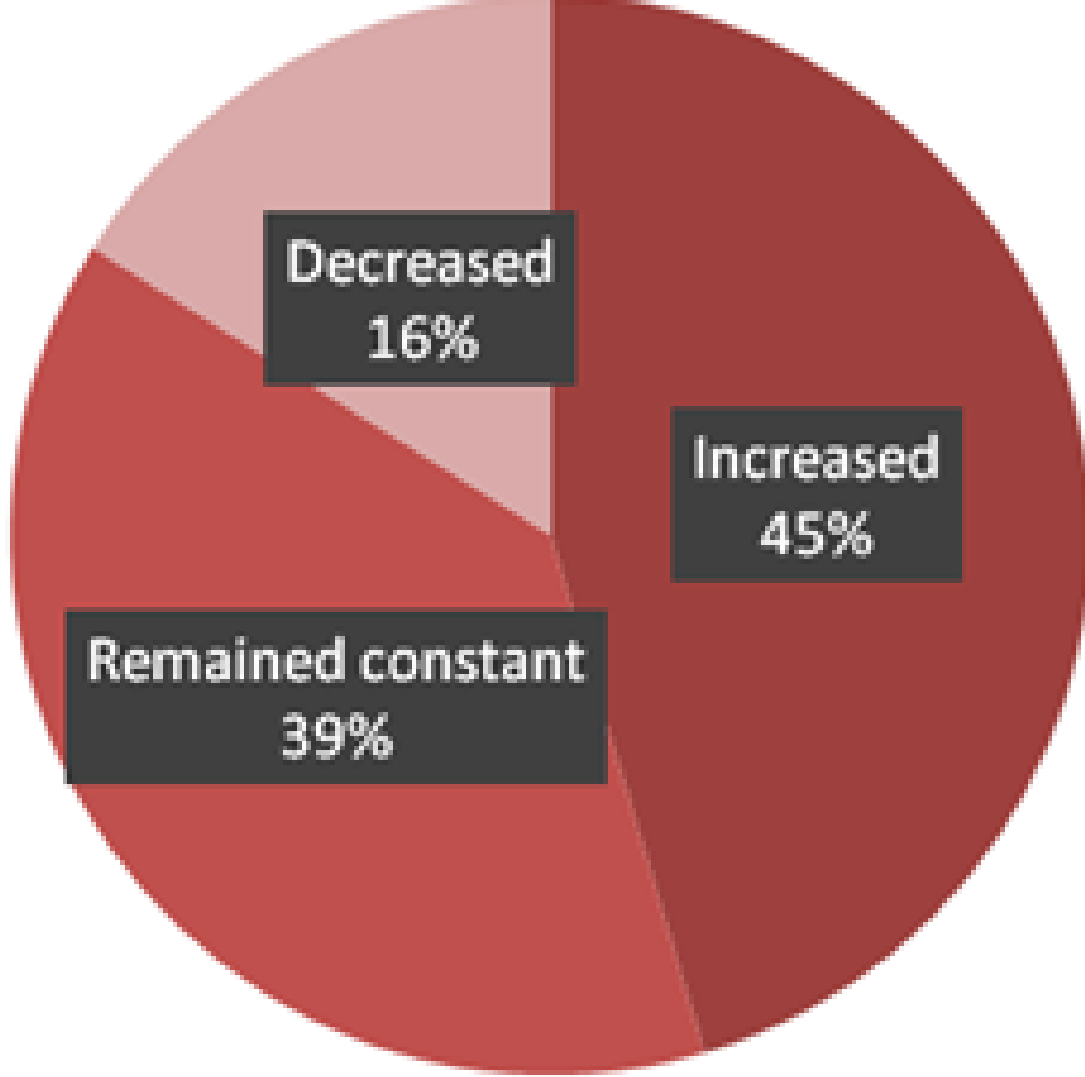


Overseas Sales and Orders

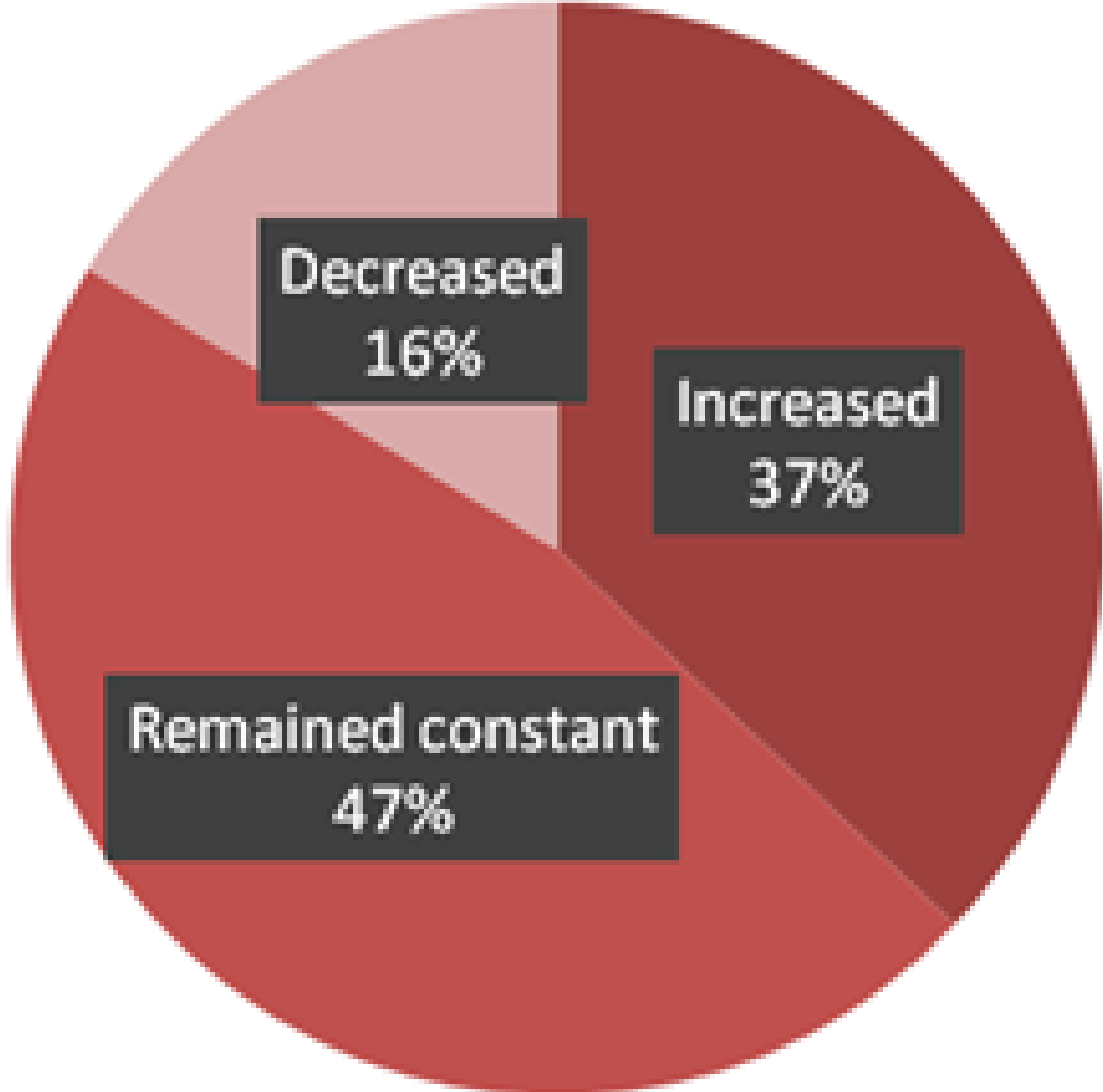
Q3: Overseas Sales



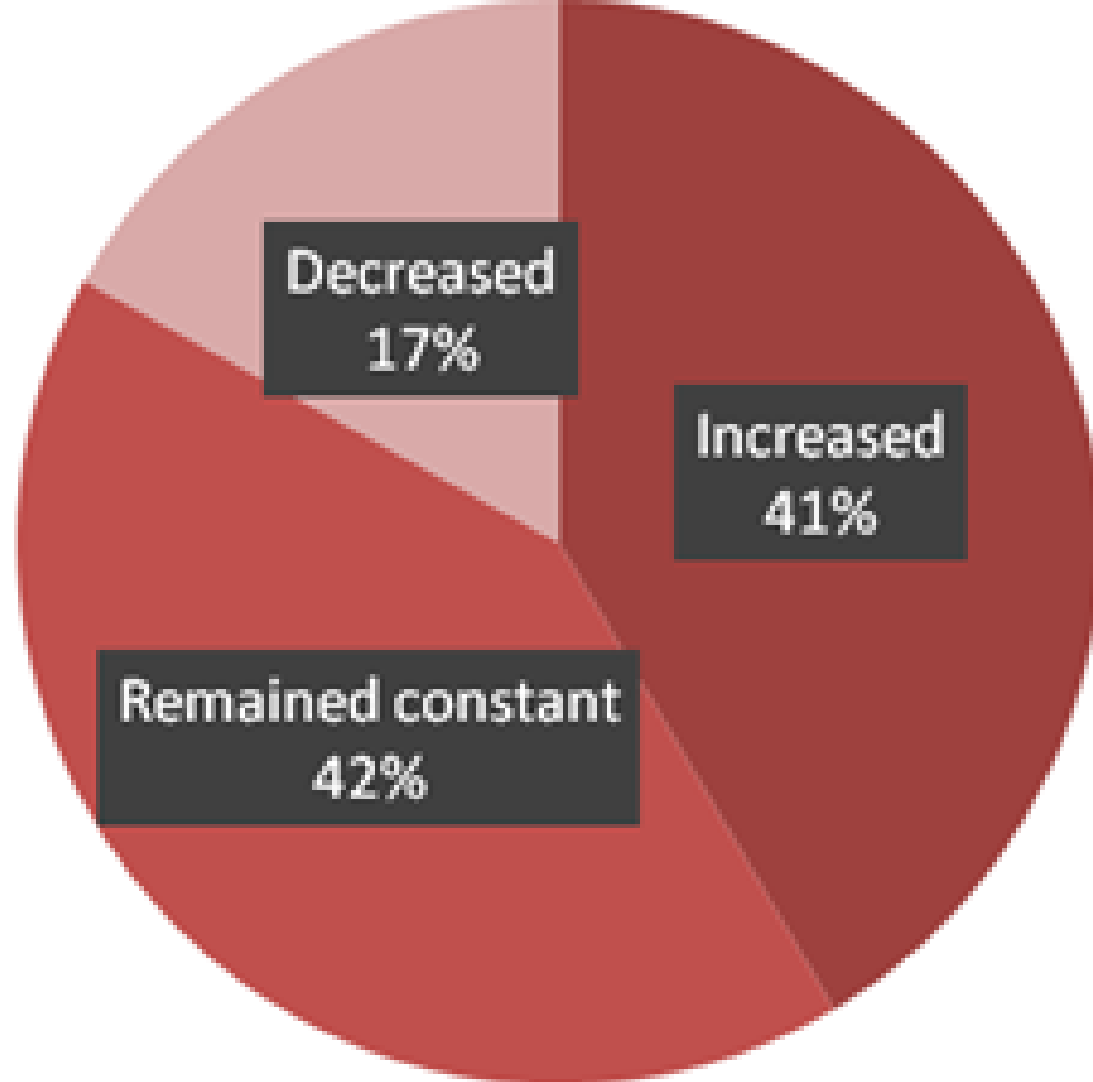
Q4: Overseas Sales



Q3: Overseas Orders



Q4: Overseas Orders



Overseas Sales and Orders

Despite starting the year with lower than usual levels of overseas activity, overseas sales and advanced orders have risen throughout 2018 to their highest levels in Q4.

At the start of 2018 33% of businesses saw an increase in overseas sales and 30% saw an increase in orders.

This increased steadily throughout the year, ending with just under half (46%) of firms reporting an increase in their sales overseas and 40% reporting an increase in their orders.

Interestingly, 58% of businesses in retail reported an increase in sales overseas and 43% reported an increase in advanced orders.

Of businesses within the manufacturing sector, 46% reported an increase in overseas sales and 44% reported an increase in advanced orders.



Employment

Balance of firms reporting an expansion of workforce



Locally, growth in workforce is at its lowest since 2013 with a net balance of +14% this Quarter. The number of businesses who have attempted to recruit decreased during Q4 from 56% of businesses attempting in Q3, to only 51%. The number of local firms experiencing difficulties has slightly decreased with over half (62%) reporting they have struggled to find suitable staff.

Employment vacancy by sector	Service	Manufacturing
Full time	75%	81%
Part time	31%	15%
Temporary	18%	24%
Permanent	30%	37%
Apprenticeships	18%	17%

The demand for full-time staff remains high for both the service and manufacturing sectors. Manufacturing businesses continue to struggle to recruit across the board.



Employment

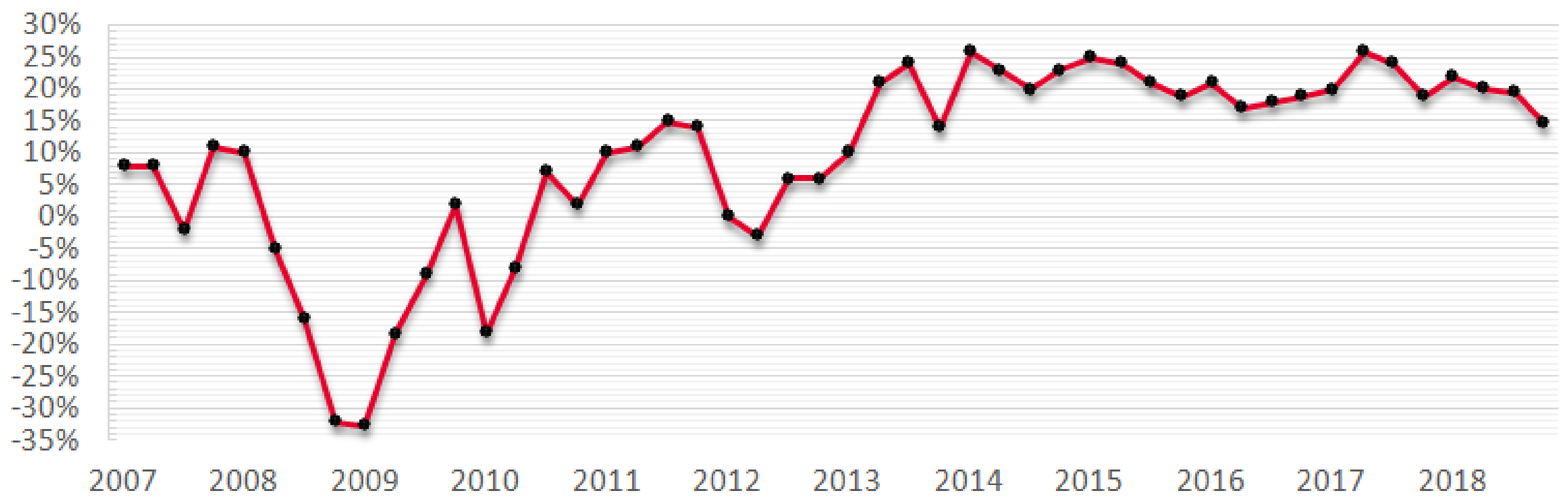
Recruitment difficulties	Service	Manufacturing
Skilled manual/Technical	48%	64%
Professional/Managerial	37%	34%
Clerical	12%	8%
Semi/Unskilled	29%	36%
Apprenticeships	12%	12%

Both the service and manufacturing sector continue to report a consistent level of difficulty recruiting skilled manual and technical employees.

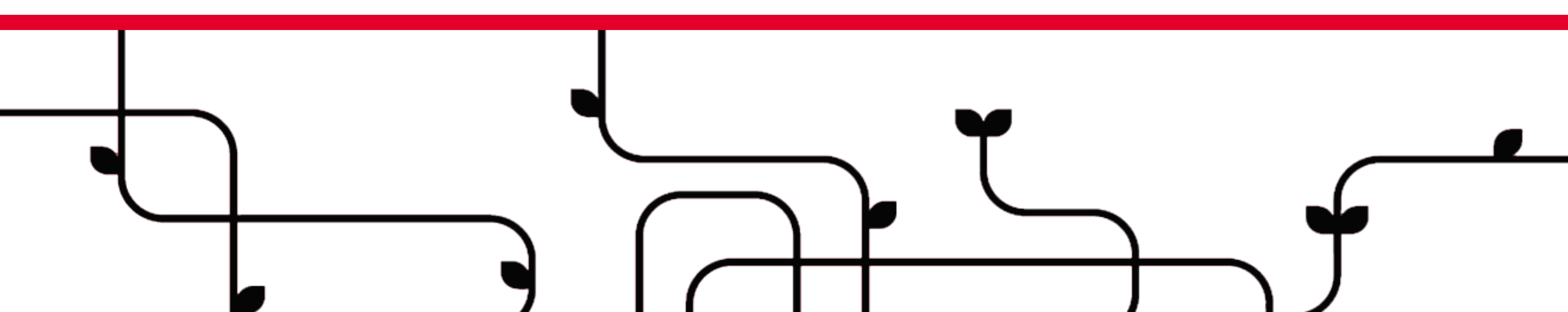
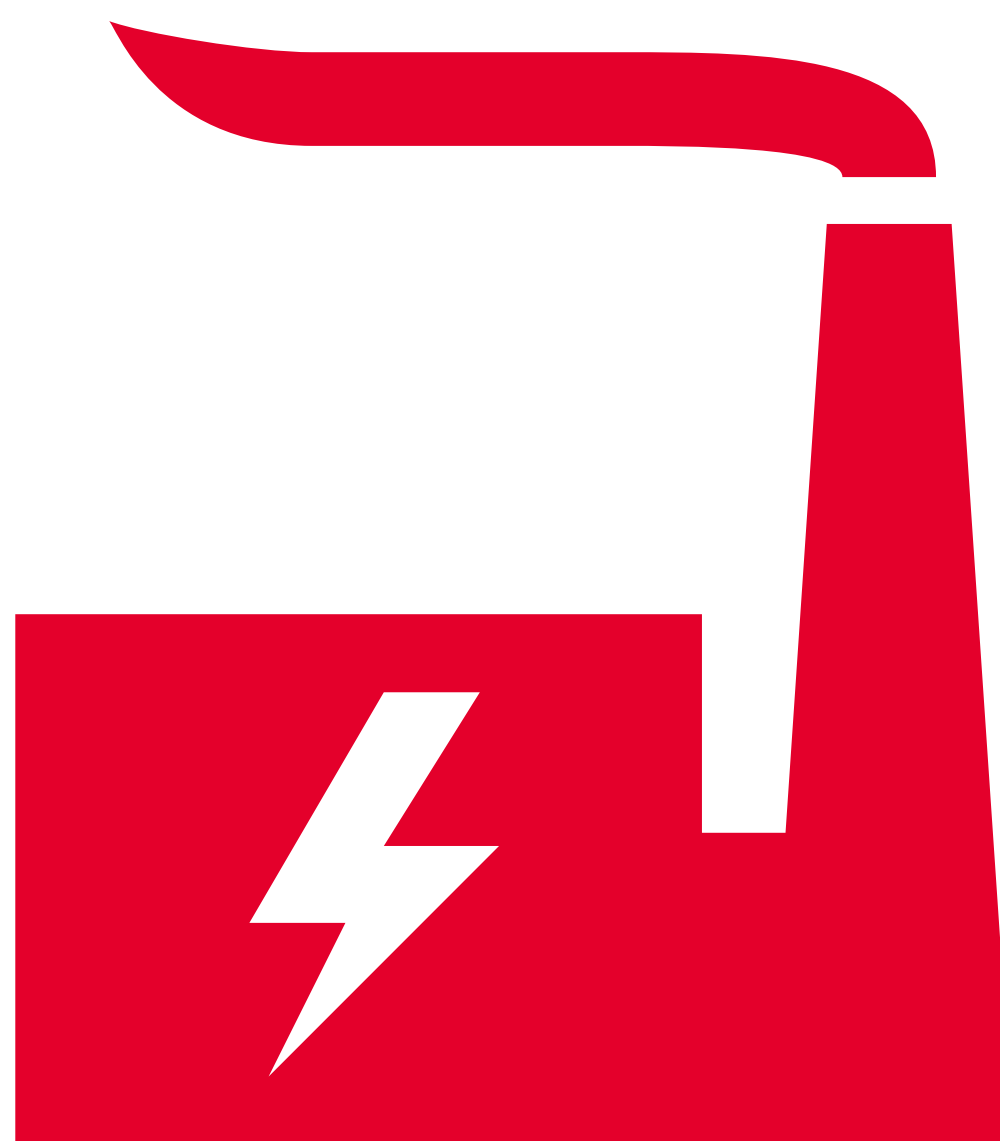


Investment

Balance of firms increasing capital investment

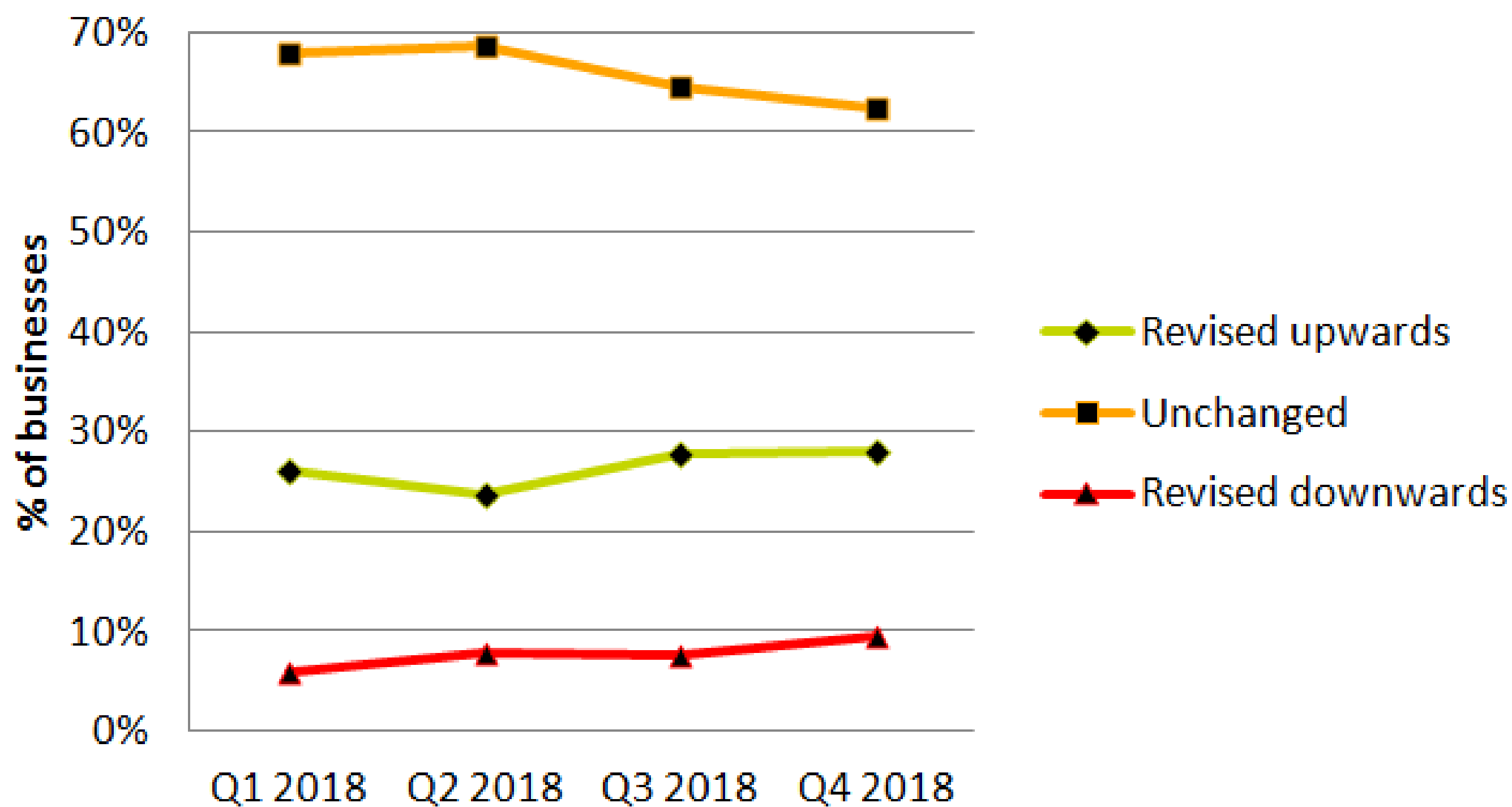


Within Herefordshire and Worcestershire, capital investment is at its lowest level since Q4 of 2013. It is no surprise to see firms have held back investing in their plant, machinery and equipment with the uncertainty of Brexit.



Investment

Training investment



Investment in training staff remains steady for local businesses.

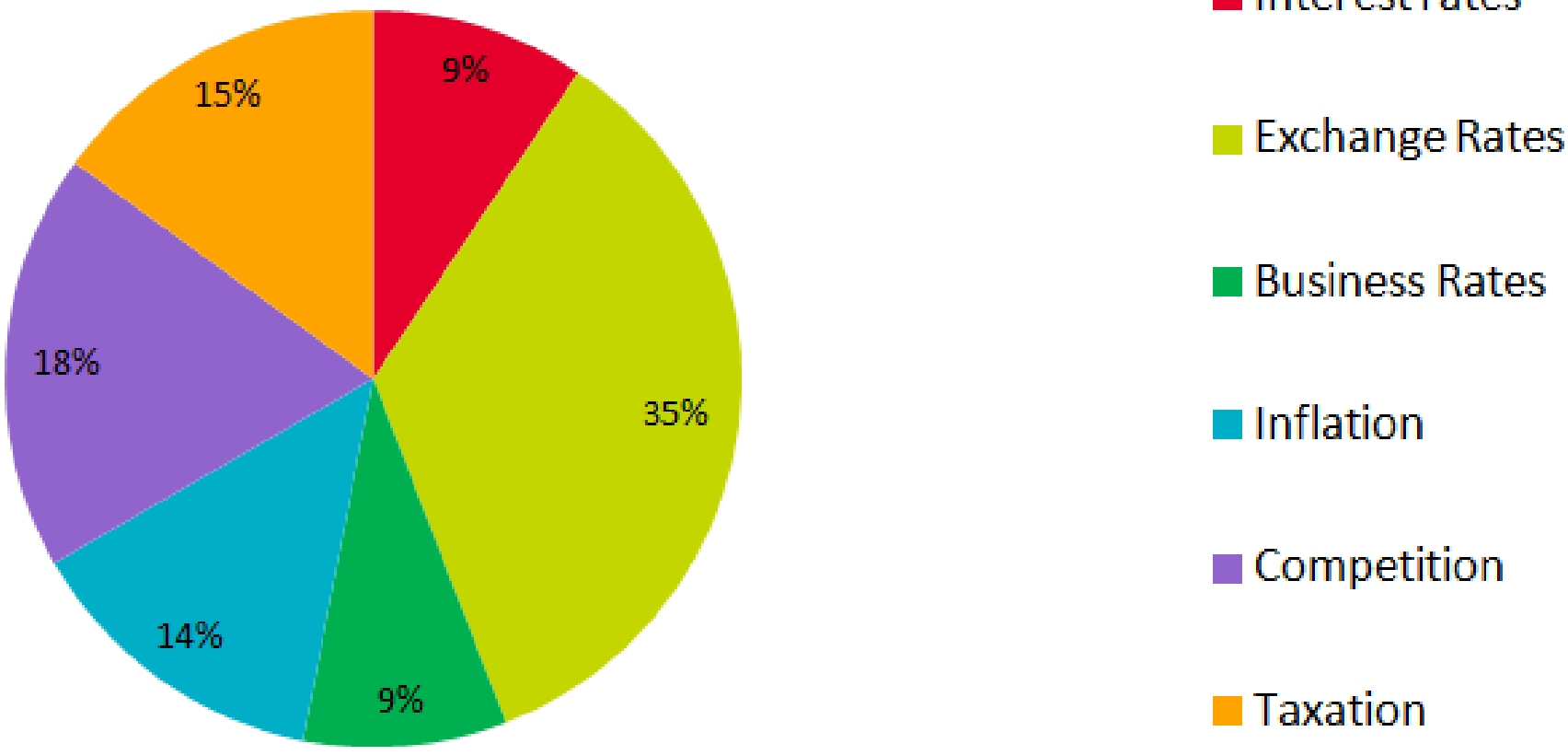
Increasingly more businesses are reporting that their investment is unchanged, which is good to hear.

Those who are increasing their investment in training are in the transport and distribution sector (57%) as well as those in the consumer services sector (40%).

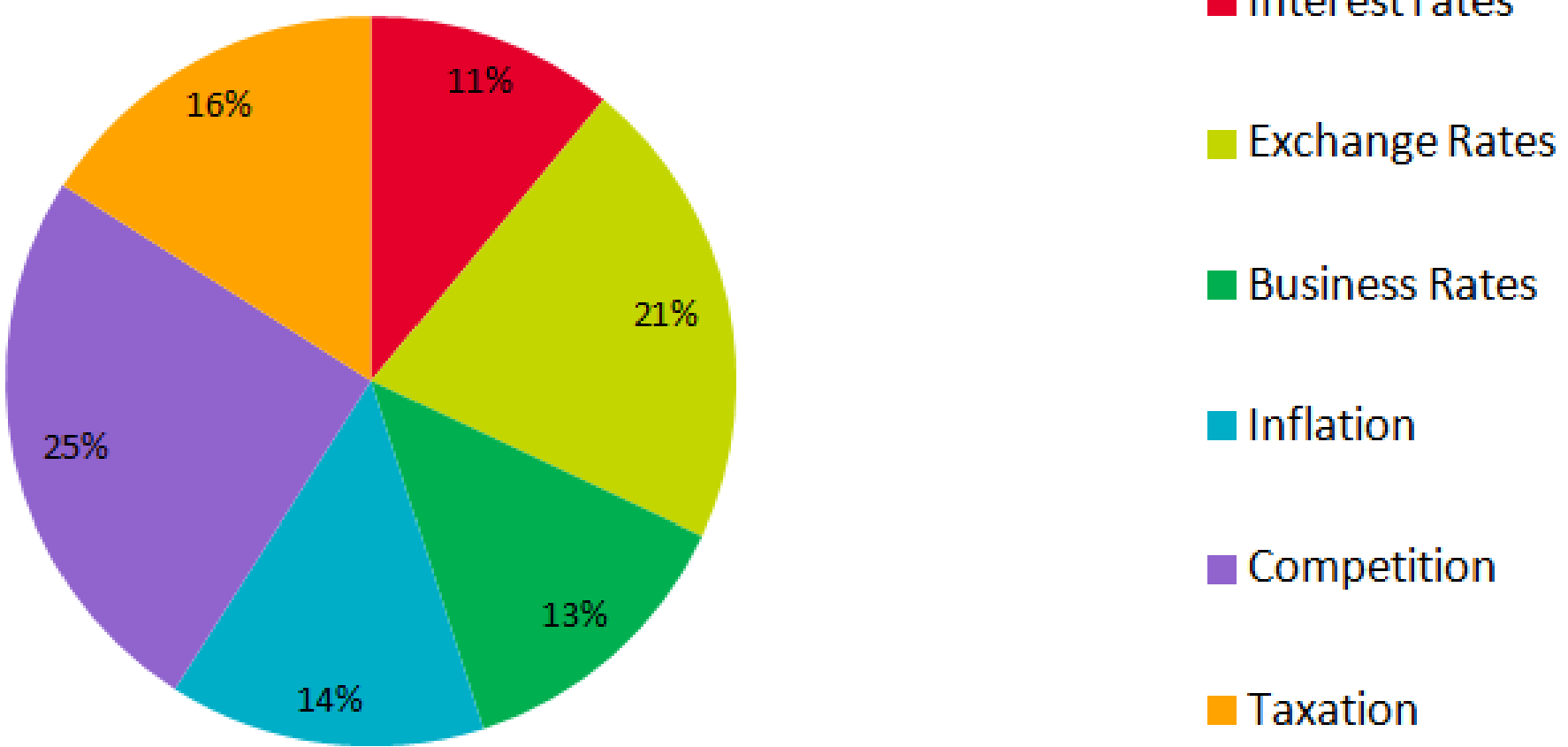


Business Confidence

Factors of concern for the manufacturing industry



Factors of concern for the service industry



Levels of confidence in 2018 have slowly decreased, as uncertainties around the terms associated with leaving the European Union have continued throughout the year. The pressure to increase the price of goods/services continued to rise throughout 2018 with Q4 demonstrating a +35% net balance increase.

The rising costs of raw materials, increasing energy costs and the impact of currency fluctuations all appear to be hurting local businesses. Locally, more businesses are concerned about competition this quarter compared to the previous. The service sector was most concerned about competition (25%) while manufacturing firms were the most concerned about exchange rates (35%). These concerns combined with uncertainty around Brexit have had an impact in the level of confidence.



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