



# Quarterly Economic Survey

## Quarter 2 2019 Results

# Foreword



**Sharon Smith**  
*Chief Executive*

**Herefordshire & Worcestershire Chamber of Commerce**

“ This report – produced from the largest private sector survey of business sentiment and a leading indicator of UK GDP growth, closely watched by policymakers including the Bank of England – demonstrates that underlying economic conditions remained stagnant in the second quarter of 2019. The absence of political clarity and unprecedented uncertainty has meant that business has been unable to bounce back from Quarter 1 (Q1) 2019.

On the whole, the domestic market appears inert, with minimal improvement since last quarter. This is of exceptional concern given that last quarter saw some of the worst figures since 2012/2013. Businesses need to be relieved of this uncertainty to prevent a further pause on investment, and to ensure this dive in business indicators does not evolve into a more prolonged slump.

Although the service sector remains subdued, the figures in this report demonstrate a modest bounce back for businesses operating in this sector. Service sector business confidence in profitability and turnover has bolstered to some extent. Service sector domestic sales and orders have also made a come back, returning to levels recorded this time last year, which is a welcome positive. Unfortunately, the service sector figures in the overseas market paint a far more worrying picture.

The manufacturing sector is clearly bearing the brunt of the political impasse associated with Brexit negotiations. The low value of the Sterling raises raw material prices, which places pressure on manufacturers when attempting to remain competitive. If the UK wants to remain a competitive economy on a global scale, this uncertainty must come to an end to allow businesses to move on from Brexit and to invest in their capacity and boost productivity. Both the domestic and overseas market remain in paralysis as sales and orders have been unable to recover from the cliff edge decreases demonstrated in Q1.

It is vital that government takes heed of the figures in this report and allow businesses to get back to focussing on the fundamental components to business growth. By failing to reach an agreement over Brexit and allowing these negotiations to eclipse the political narrative, government is not facilitating business growth.






# Introduction

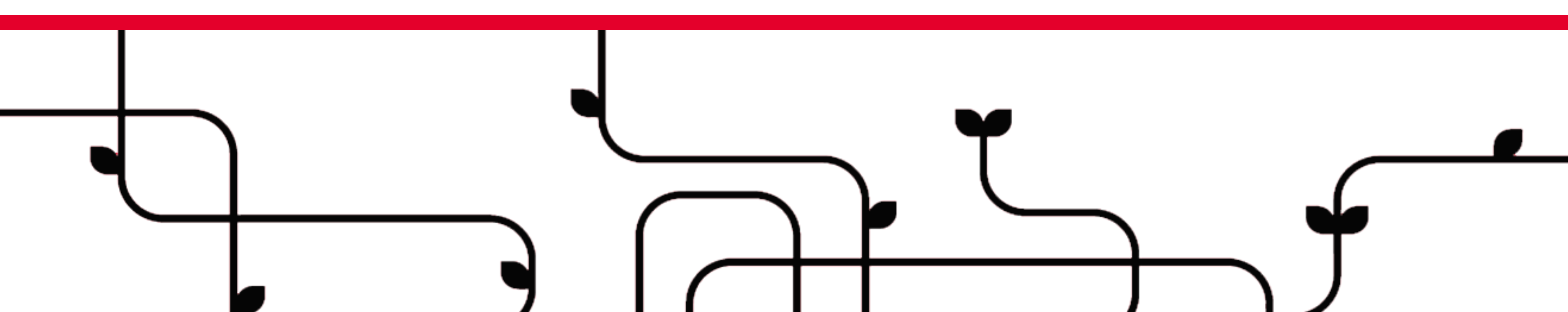
The Quarterly Economic Survey (QES) is the private sector's largest business survey that enables local businesses to have their voices heard on a national level in less than 3 minutes.

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

During Quarter 2 (Q2) 2019, 590 businesses in Herefordshire and Worcestershire responded to the Quarterly Economic Survey (QES). Data collection took place during the period between Monday 20 May 2019 to Monday 10 June 2019.

In this document 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 report, business sectors are used to make comparisons between different industries. The industries included in each sector are listed below.

### **Manufacturing**

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

### **Service Industries**

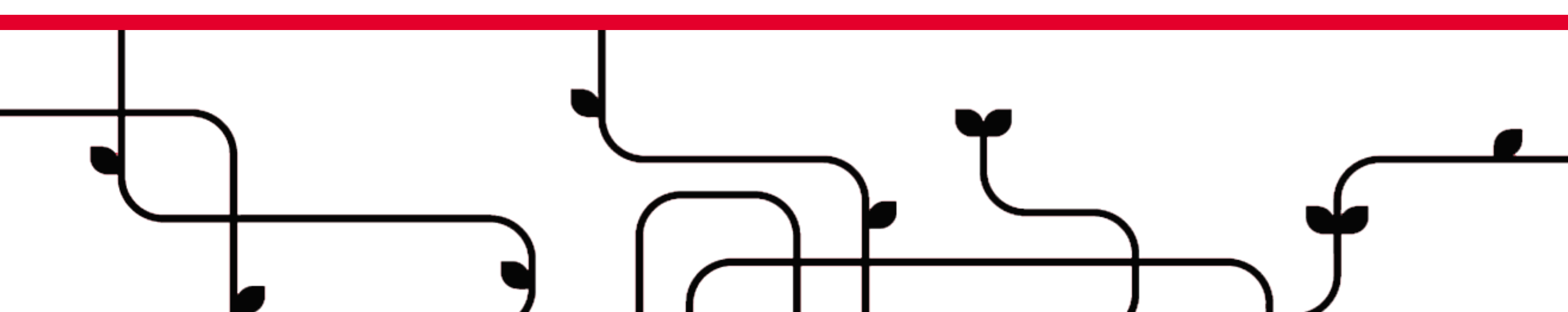
Main business activity provides a service to businesses as well as final consumers. Such services include construction, retail/wholesale, professional services, and marketing.

## ***Data Collection periods referenced in this report***

*Quarter 1 (Q1) 2019 refers to the data collection period from 18 February 2019 to 11 March 2019.*

*Quarter 2 (Q2) 2019 refers to the data collection period from Monday 20 May 2019 to Monday 10 June 2019.*

*Quarter 4 (Q4) 2018 refers to the data collection period from 6 November 2018 to 27 November 2018.*



# Executive Summary: Key Findings

## *UK and Overseas Market*

The balance of businesses reporting an increase in UK sales decreased for the third quarter in a row and remains at the lowest level since Q1 2013.

The balance of businesses reporting an increase in overseas orders is 13 times smaller than it was this time last year and is the lowest figure on record since Q2 2012.

## *Employment*

55% of businesses attempted to recruit this quarter and of those, over half struggled to recruit.

62% of firms had problems recruiting new staff, especially for semi/unskilled labour.

## *Cash Flow*

The percentage of businesses reporting improved cash flow has increased marginally compared to last quarter from 5% (Q1 2019) to 7% (Q2 2019). Figures for cash flow remain some of the lowest reported in the past 5 years.

For manufacturing businesses, cash flow continues to be of serious concern, moving further into negative territory. The number of businesses reporting improved cash flow has declined for the third quarter in a row.

## *Price Pressures & Business Concerns*

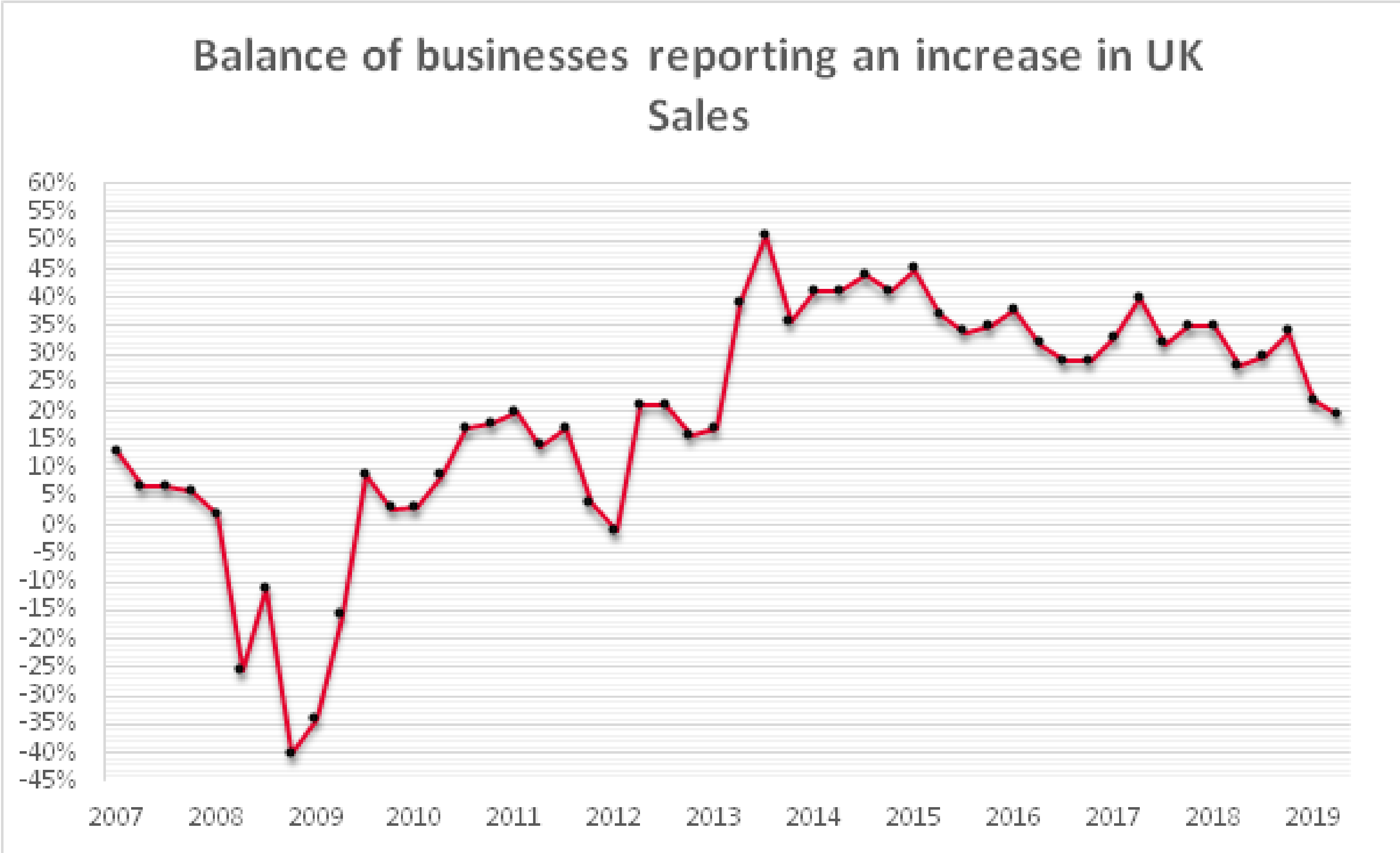
Competition is by far the biggest concern for businesses this quarter as they attempt to remain competitive in a slowing global market and as raw material prices rise.



# Domestic Sales and Orders

Overall, businesses within Herefordshire and Worcestershire once again saw a decrease in domestic activity in the UK market during this quarter. The balance of businesses reporting an increase in UK sales fell for the third quarter in a row and remains at the lowest level since Q1 2013.

On the whole, the domestic market appears stagnant, with minimal improvement since last quarter. This is of exceptional concern given that last quarter saw some of the worst figures since 2012/2013. The last time UK sales and orders were this poor was during Q4 2012 through to Q1 2013.



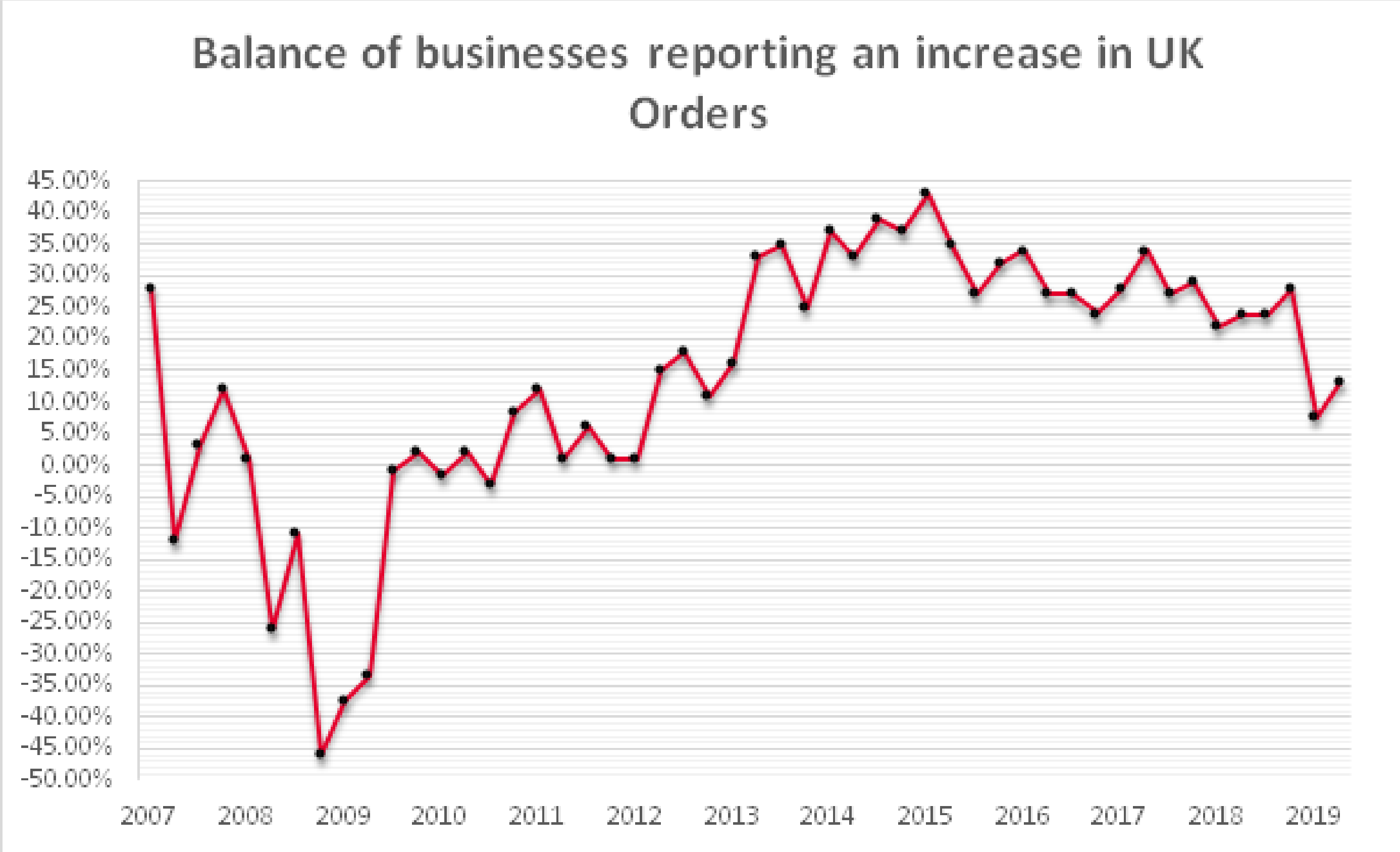
**Service Sector Insight:** Domestic sales and orders in the UK service sector have made a marginal recovery compared to Q1 2019 and have returned to the figures recorded for this sector this time last year.

**Manufacturing Sector Insight:** Domestic sales and orders in the UK manufacturing sector have decreased for the third quarter in a row. The percentage of manufacturing businesses reporting increased domestic sales is 8 times smaller than it was this time last year.



# Domestic Sales and Orders

Orders in the UK market have made a modest recovery compared to UK sales. With the exception of last quarter, this is the lowest figure for orders in the UK market since Q4 2012.



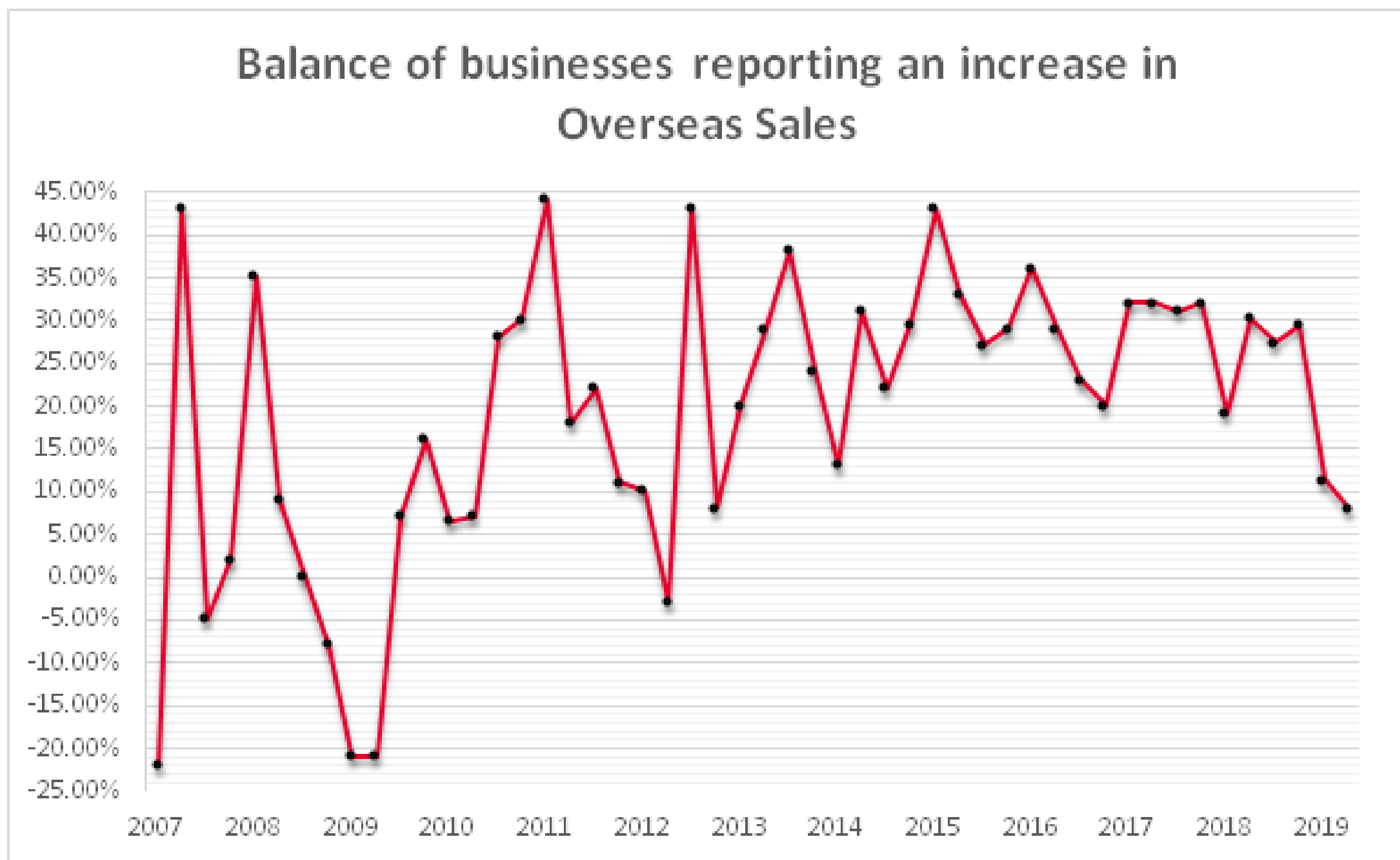
**Service Sector Insight:** UK orders in the service sector have made a tentative bounce back. The percentage of service sector businesses reporting an increase in domestic orders in the UK market has doubled since last quarter from 11% (Q1 2019) to 21% (Q2 2019).





# Overseas Sales and Orders

Sales in the overseas market have declined for the third quarter in a row, whilst overseas orders have stagnated this quarter. The balance of businesses reporting an increase in overseas orders is 13 times smaller than it was this time last year and is the lowest figure on record since Q2 2012.



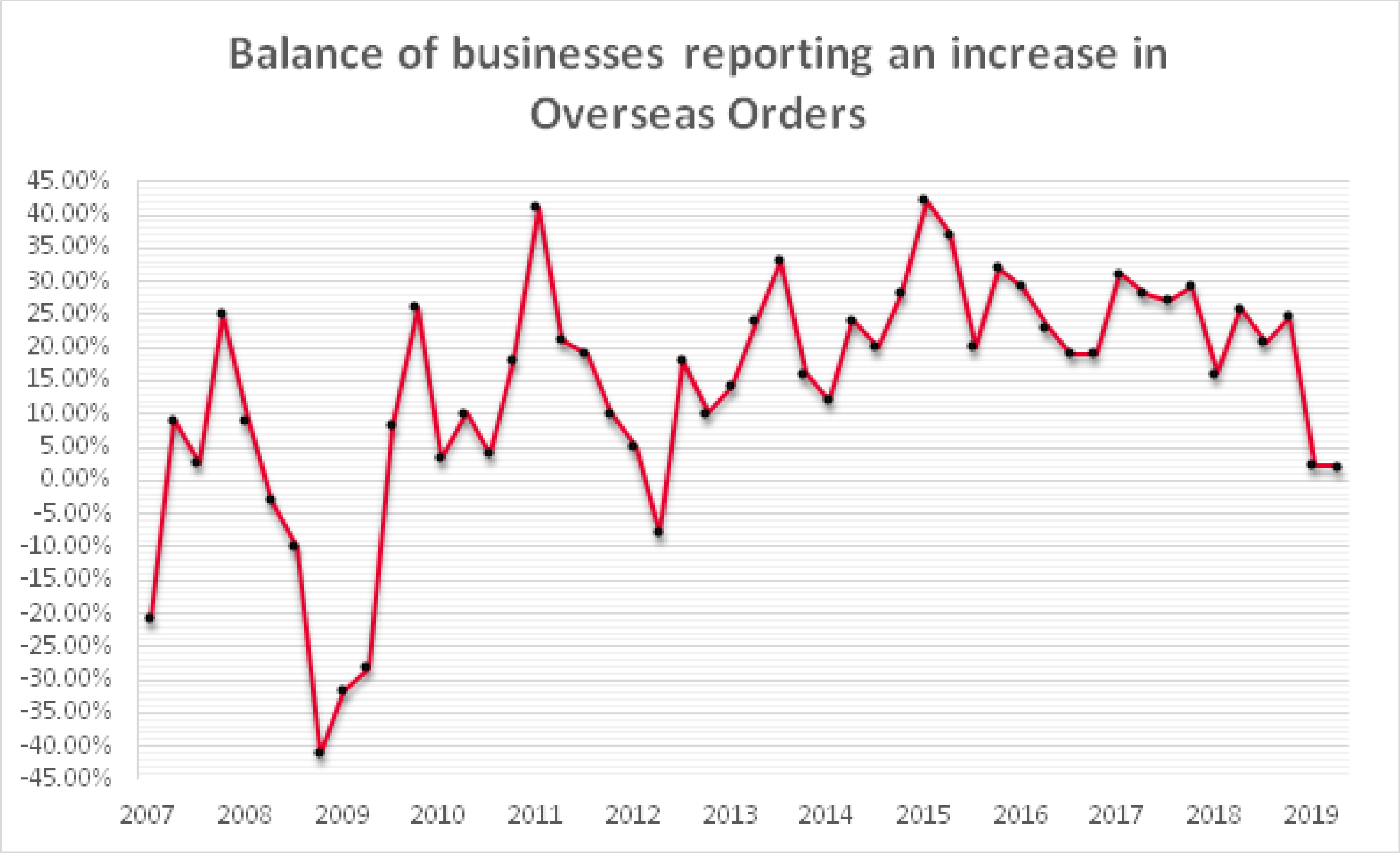
**Service Sector Insight:** Since last quarter, service sector sales in the overseas market have declined from 7% (Q1 2019) to 2% (Q2 2019). This time last year (Q2 2018) the percentage of service sector businesses reporting increases in overseas sales was 14 times larger (28%).

**Manufacturing Sector Insight:** Compared to this time last year, the balance of businesses in the manufacturing sector reporting increased sales in the overseas market has more than halved from 34% (Q2 2018) to 14% (Q2 2019).



# Overseas Sales and Orders

The percentage of businesses reporting improved overseas orders has stagnated this quarter. The percentage of businesses reporting improved overseas orders is more than 13 times lower than this time last year and remains the lowest figure on record since Q2 2012.



**Service Sector Insight:** The balance of service sector businesses reporting an increase in overseas orders is currently 2%. This time last year (Q2 2018) the balance figure stood at 24%, 14 times greater than current figures.

**Manufacturing Sector Insight:** The balance of manufacturing businesses reporting an increase in overseas orders has decreased for the third quarter in a row to 2%. This time last year 28% of manufacturing businesses reported increases in their overseas orders, a staggering 14 times greater than this quarter (2%).



# Employment

55% of businesses attempted to recruit this quarter and of those, over half struggled to recruit. Just under half of those who attempted to recruit are maintaining organisational structures as opposed to creating new roles and expanding their workforce.

**Service Sector Insight:** 53% of service sector businesses attempted to recruit this quarter, which is an 8% increase on last quarter and is similar to figures from this time last year. The percentage of service sector businesses attempting to recruit for apprenticeships has increased from 13% to 20% compared to this time last year. The number of service sector businesses experiencing difficulties when attempting to recruit for apprentices has also increased by 8% compared to last year.

**Manufacturing Sector Insight:** 59% of manufacturers attempted to recruit this quarter and a staggering 66% of those who attempted to recruit experienced difficulties.

**The Percentage of businesses that attempted to recruit for specific types of contracts in relation to business sector**

Contract Type	Service	Manufacturing
Part-time	44%	15%
Full-time	75%	86%
Temporary	17%	21%
Permanent	30%	28%
Apprenticeships	20%	12%

**The percentage of businesses that struggled to recruit for specific roles in relation to business sector**

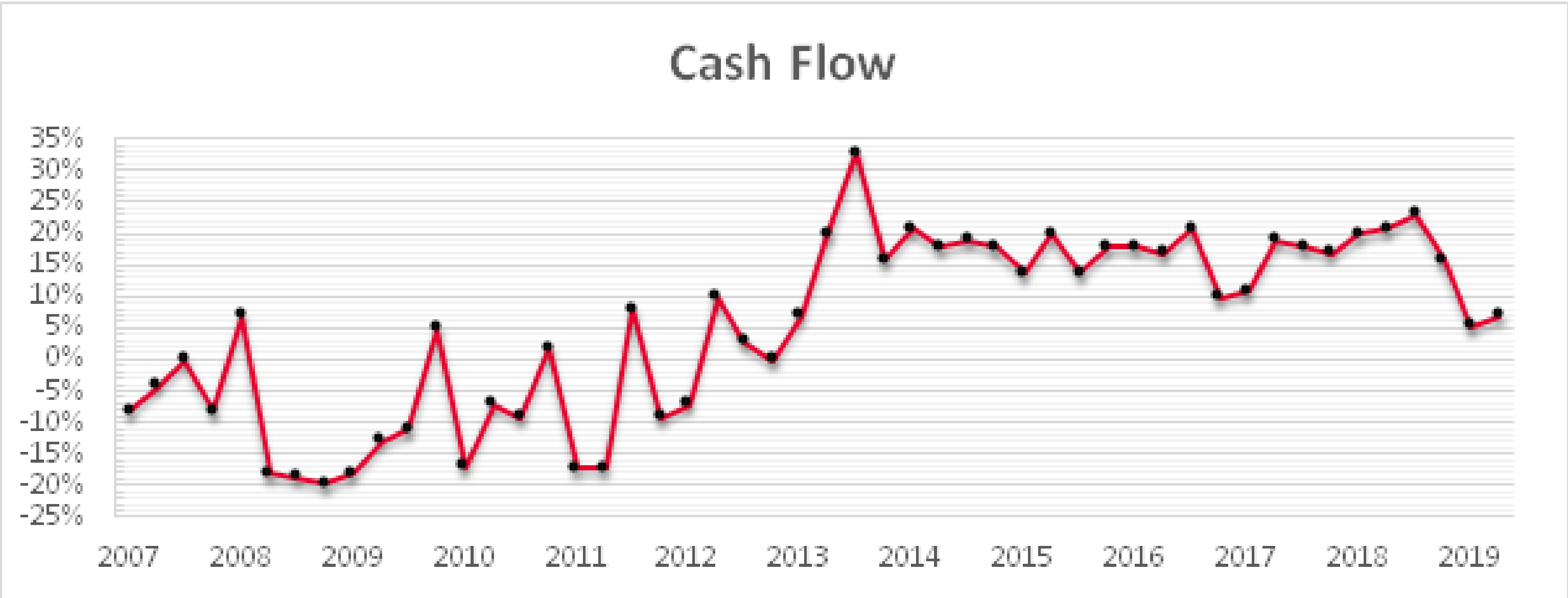
Vacancy by Role Type	Service	Manufacturing
Skilled manual/technical	45%	72%
Professional/managerial	46%	31%
Clerical	15%	9%
Unskilled/ semi-skilled	28%	24%
Apprenticeships	18%	7%
Other	8%	4%



# Cash Flow

The percentage of businesses reporting improved cash flow has increased marginally compared to last quarter from 5% (Q1 2019) to 7% (Q2 2019). Figures for cash flow remain some of the lowest reported in the past 5 years. The percentage of businesses reporting improved cash flow is three times lower compared to this time last year. With the exception of last quarter, cash flow is at its lowest level since Q1 2013.

Although the balance of firms reporting improved cash flow picked up in the quarter, it remains low by historic standards, which is concerning as cash flow is a key indicator of financial health.



**Manufacturing Sector Insight:** For manufacturing businesses, cash flow continues to be of serious concern as it moves further into negative territory. The number of businesses reporting improved cash flow has declined for the third quarter in a row.



# Capital Investment

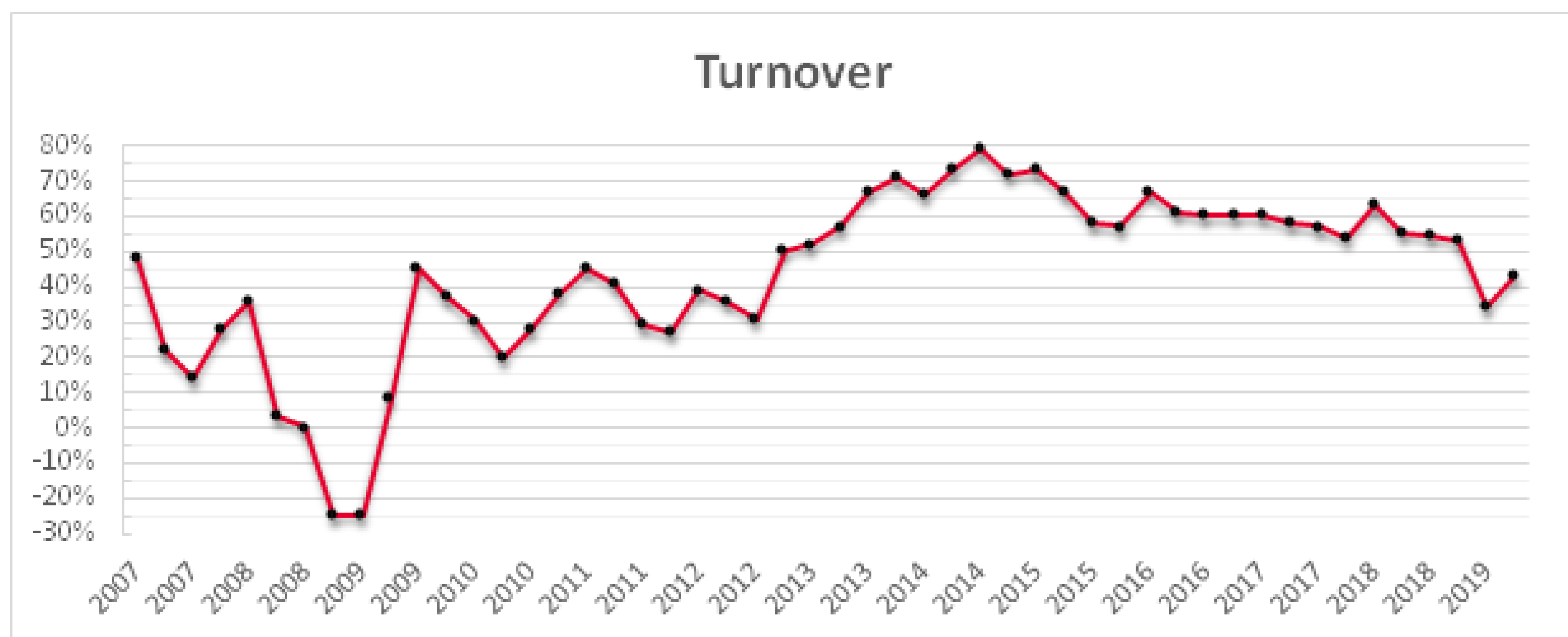
Capital investment is half what it was this time last year. With the exception of last quarter (Q1 2019) capital investment is at its lowest level since Q1 2013.



**Investment in training:** A quarter of businesses have revised their investment in training upwards.

# Turnover and Profitability

Although business confidence in turnover and profitability has bounced back slightly this quarter, it remains at a historically low level. With the exception of last quarter, the last time the percentage of businesses reporting improve turnover was this low was during Q3 2012.



**Service Sector Insight:** Businesses operating in the service sector have regained more confidence than those in the manufacturing sector. There has been a substantial increase in confidence in this sector compared to last quarter, with approximately 50% of service sector businesses reporting improved turnover and profitability compared to 37% last quarter (Q1 2019).



# Turnover and Profitability

With the exception of last quarter, profitability is at its lowest level since Q4 2012.



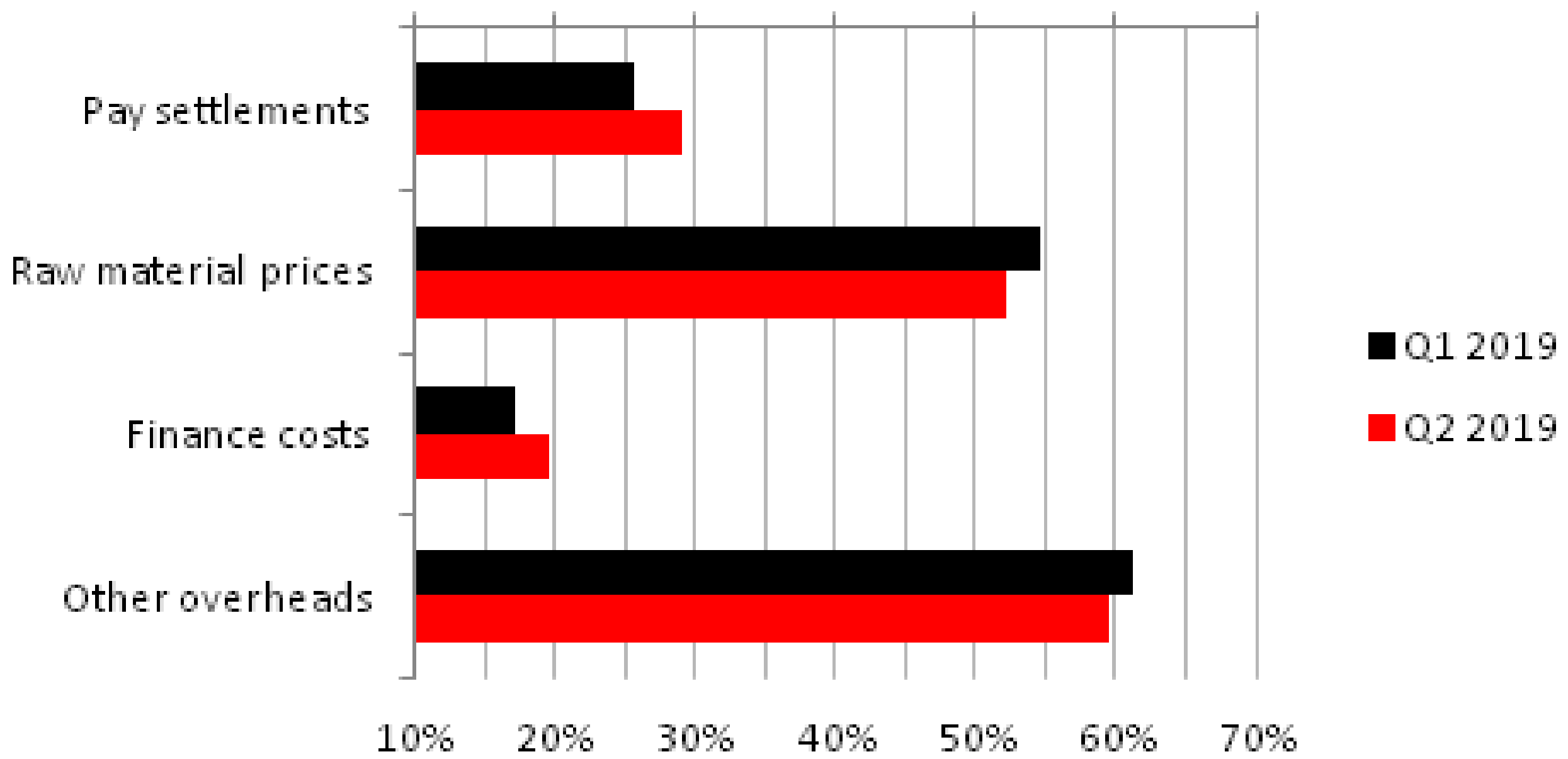
**Service Sector Insight:** Business confidence in profitability has almost doubled compared to last quarter.

**Manufacturing Sector Insight:** Compared to this time last year, business confidence in profitability in the manufacturing sector has dropped from 44% (Q2 2018) to 12% (Q2 2019).

**Operational Capacity:** Compared to this time last year, twice as many businesses are operating at full capacity, which is symptomatic of the pause in business investment.

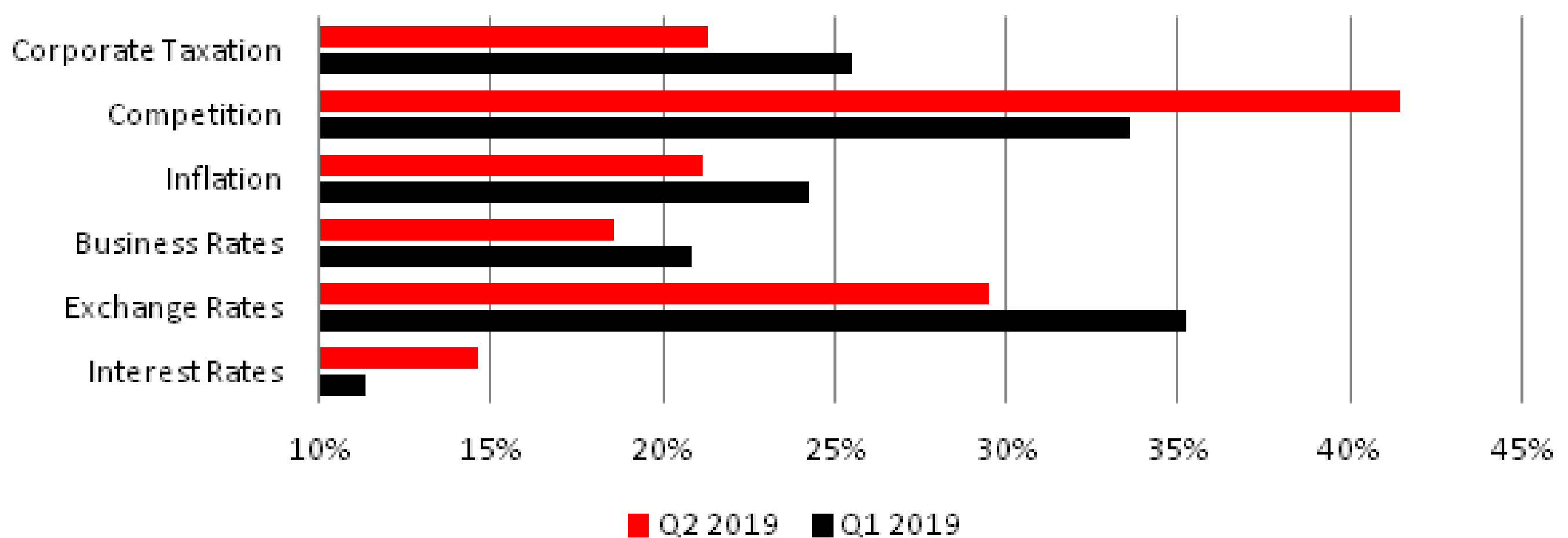
# Price Pressures and Business Concerns

## Causes of pressure to raise prices



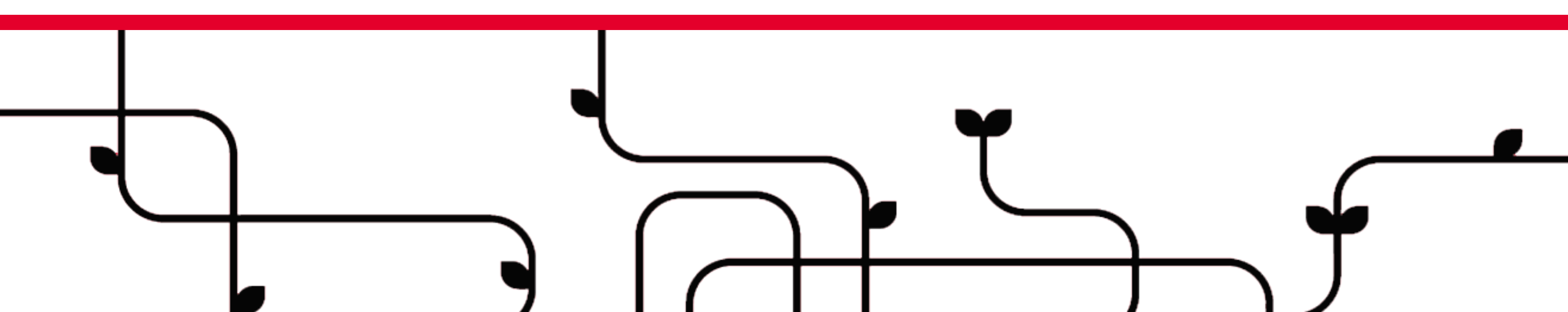
**Manufacturing Sector Insight:** Raw material prices remain the greatest cause of pressures to raise prices with 83% of manufactures identifying this as this greatest pressure.

## Business Concerns



**Service Sector Insight:** Remaining competitive and fighting off competition remains the primary concern of businesses in the service sector.

**Manufacturing Sector Insight:** Exchange rates remain the primary concern for manufacturing businesses followed closely by competition.





# Chamber Policy Contacts



**CASSIE  
BRAY**

Director of  
Business Engagement



**POPPY  
BRAMFORD**

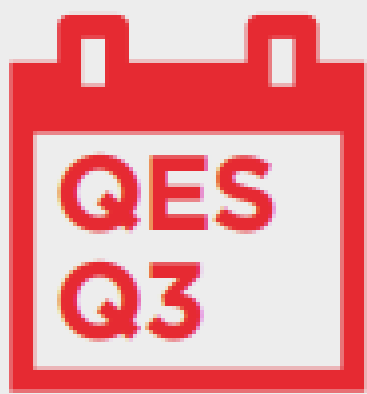
Policy Manager



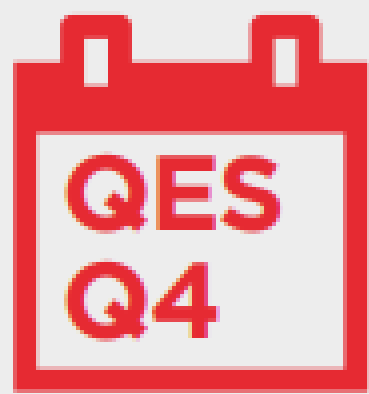
**DAISIE  
REES-EVANS**

Policy Executive

## Upcoming QES Data Collection



Monday 26 August -  
Monday 16 September 2019



Monday 4 November -  
Monday 25 November 2019

## Future Policy Events

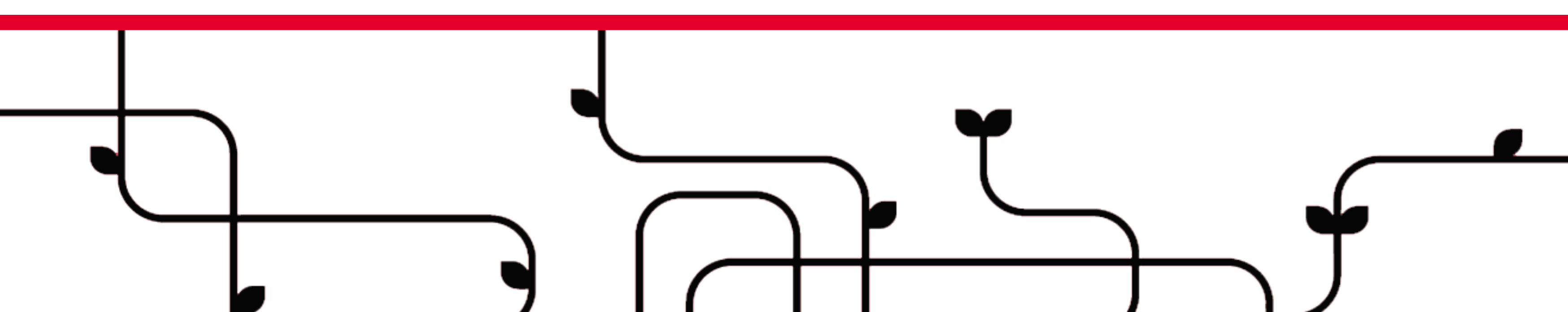
**Worcestershire Cyber Forum**  
Tuesday 30 July 2019

**Herefordshire Cyber Forum**  
Friday 1 August 2019

**Annual Bank of England  
Breakfast**  
Friday 20 September 2019

**Chamber Business Expo**  
Thursday 10 October 2019

**Business Manifesto Launch**  
Friday 20 March 2020



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