



Quarterly Economic Survey

Quarter 3 2019 Results



Herefordshire
& Worcestershire
Chamber of Commerce

Foreword

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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 third quarter of 2019. The absence of political clarity and unprecedented uncertainty has meant that the UK economy has demonstrated another drop off in activity.

The figures for Q3 2019 paint a worrying picture. The minimal improvement demonstrated by Q2 results during the short reprieve in Brexit negotiations over the summer have all but dissipated. All indicators suggest that quarter is Q1 2019 “take two”. As businesses approach the second EU exit deadline the economic indicators demonstrate another challenging few months with real world implications for business operations, planning and investment. The moderate improvements we saw in Q2 have all but disappeared leaving another challenging picture for businesses as we approach the second EU exit deadline.

Sector analysis of Q3 reveals that business confidence in profitability and turnover is plummeting in the manufacturing sector. Although cash flow for many local manufacturers has improved since Q1 2019, it is clear that they feel they are at the greatest risk of external shocks associated with the prolonged uncertainty associated with the EU exit negotiations. With manufacturing overseas sales and orders continuing to deteriorate, it is no surprise that manufacturers are extremely concerned about the coming months.

Businesses in the local service sector have suffered during Q3 2019 markedly more than during Q1 2019. Exports have dropped significantly and business confidence has fallen once again. Although cash flow is faring much better than in the lead up to the first EU exit date in March, the majority of businesses are holding back on investment due to the absence of clarity. Remaining competitive in a slowing global economy remains the primary concern of service sector businesses.

Staffing costs were identified by 51% of businesses as the primary cause of pressure to raise prices during Q3 2019. Evidently the wage bill is becoming a growing burden for many SMEs. Including bonuses, wages are now growing at 4% a year in cash terms for the first time since 2008 (ONS, 2019). Once adjusted for inflation wages have grown above 2% for the first time in nearly 4 years, reflecting the tight labour market and national skills shortage. If demand for appropriately skilled workers continues to outstrip supply, combined with historically low levels of capital investment, poor productivity will become further embedded in the UK economy and prove an overwhelming obstacle to British business in the coming years.

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During Quarter 3 (Q3) 2019, 561 businesses in Herefordshire and Worcestershire responded to the Quarterly Economic Survey (QES).

Data collection took place during the period between Monday 26 August 2019 to Monday 16 September 2019.

In this document some of the QES results are presented as balance figures. Balance figures show the difference between the increase and decrease in activity. If the figure is a plus, it indicates an expansion of activity. If the figure is a minus it indicates a contraction of activity against the previous quarter.

Business sector classification

Throughout the document business sectors are used to make comparisons of activity. The sectors are defined as follows:

Manufacturing Sector

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

Service Sector

- Main business activity provides a service to businesses as well as final consumers (including retail/wholesaling, professional services, and marketing).

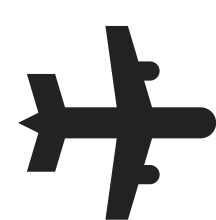
Data Collection periods referenced in this report

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. 9to Monday 16 September 2019.

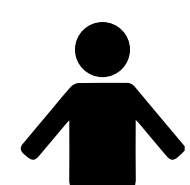


Executive Summary: Key Findings



UK & Overseas Market

- The net balance of UK orders has fallen in Q3 and is at the lowest level since Q1 2012.
- Overseas sales and orders are negative for the first time in 7 years.



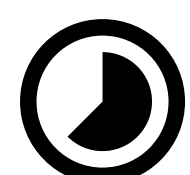
Employment

- 50% of businesses attempted to recruit and of those, 61% experienced difficulties during the recruitment process. Fewer businesses have attempted to recruit this quarter than at any other point during the year.



Cash flow

- Manufacturing businesses reported that cash flow has recovered slightly during this quarter from -7% (Q2 2019) to 0% (Q3 2019).



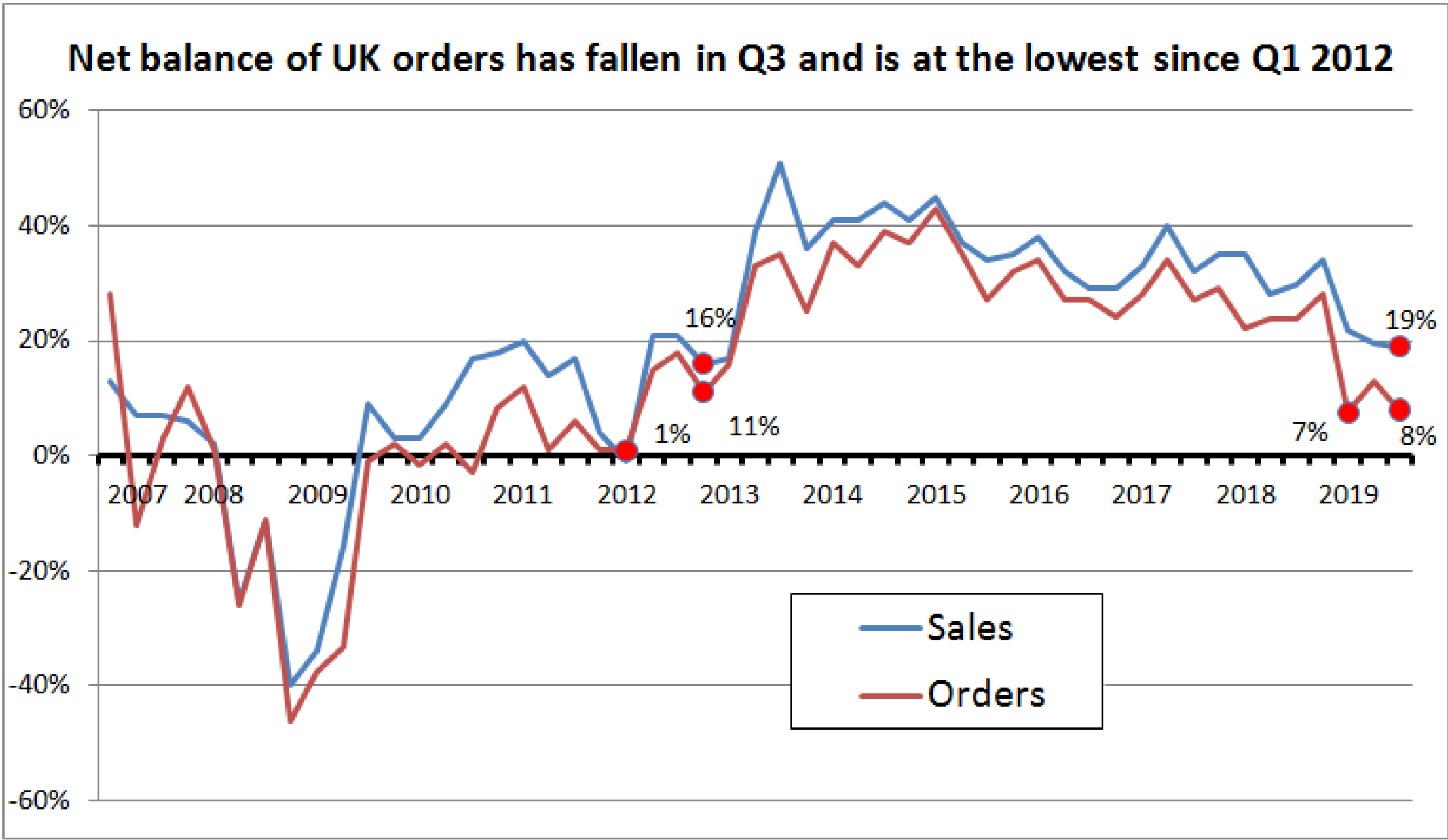
Price Pressures & Business Concerns

- Staffing costs were identified by 51% of businesses as the primary cause of pressure to raise prices during Q3 2019.
- Exchange rates are the primary concern for businesses at the moment.



Sales and orders in the domestic market

Sales in the UK market continue to stagnate. Orders in the UK market have dropped once again to a similar level to the figures seen in Q1 when businesses expected the UK to leave the EU on the 29 March. There are similar patterns in the figures to the last time businesses approached an EU exit deadline. Orders in the UK market are three times lower than this time last year.



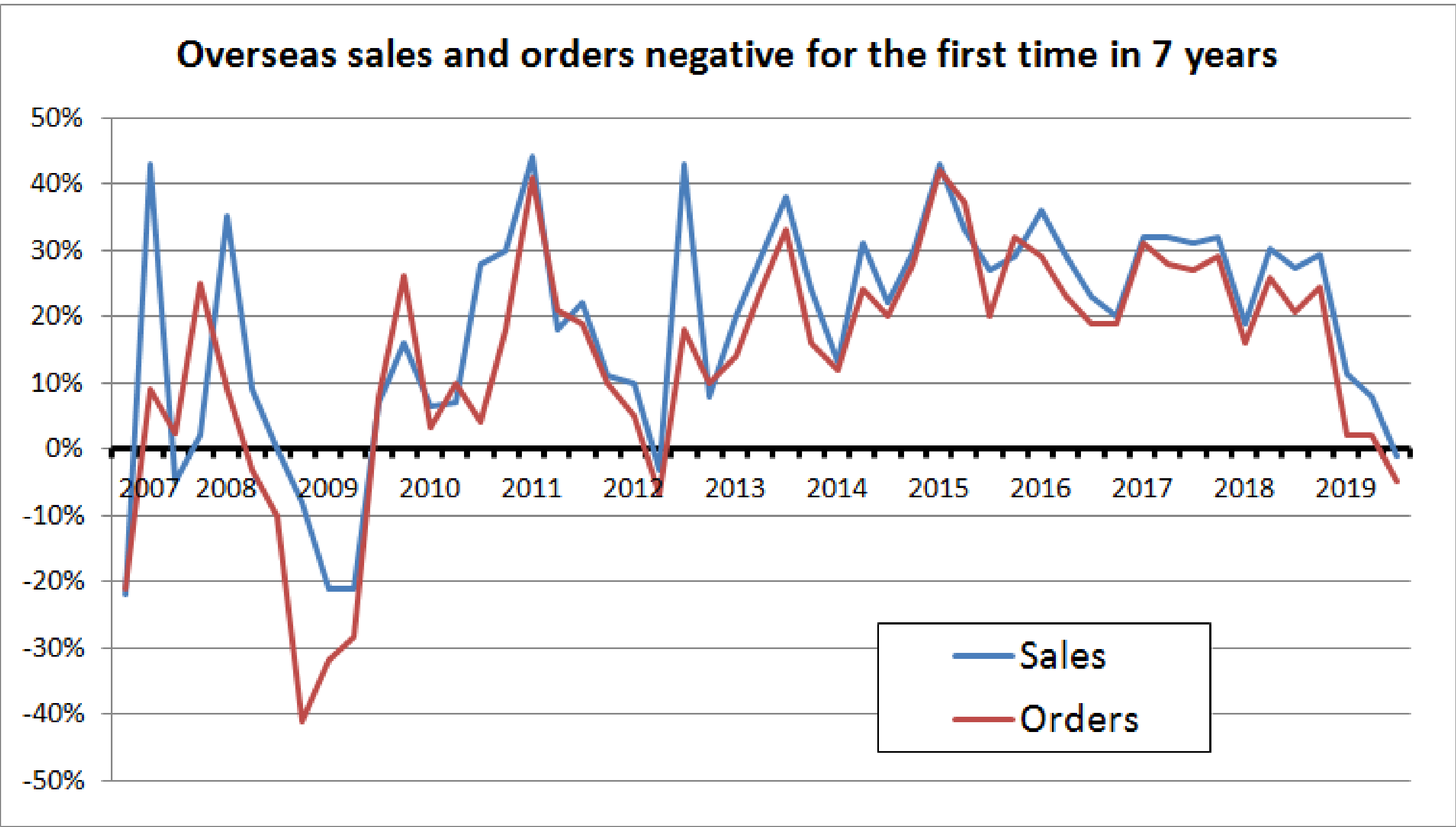
Manufacturing sector insight: The balance of manufacturing businesses reporting an increase in UK sales has decreased this quarter. When comparing manufacturing sales for year on year however, sales are a third of what was reported this time last year, moving from 32% during Q3 2018 to 9% in Q3 2019. The majority of companies have seen their UK orders decrease for the third quarter in a row.

Service sector insight: The balance of service sector companies reporting an increase in UK sales has decreased this quarter from 30% (Q2 2019) to 22% (Q3 2019). The net balance of companies reporting an increase in UK orders has halved since last quarter from 21% (Q2 2019) to 10% (Q3 2019).

Sales and orders in the overseas market

Sales in the overseas market hit negative territory for the first time since Q2 2012. This means that a greater number of businesses are reporting a decrease in overseas sales than the number of businesses reporting an increase in overseas sales.

Overseas orders have also moved into negative territory, with more businesses reporting decreased overseas orders than businesses reporting increased overseas orders. The last time overseas sales and orders were this low was Q2 2012.



Manufacturing sector insight: The balance of companies reporting increased overseas sales has more than halved from 14% (Q2 2019) to 6% (Q3 2019). This is the fifth consecutive decline in activity. The balance of companies reporting an increase in overseas sales has fallen for the fifth consecutive quarter and is now at 0%.

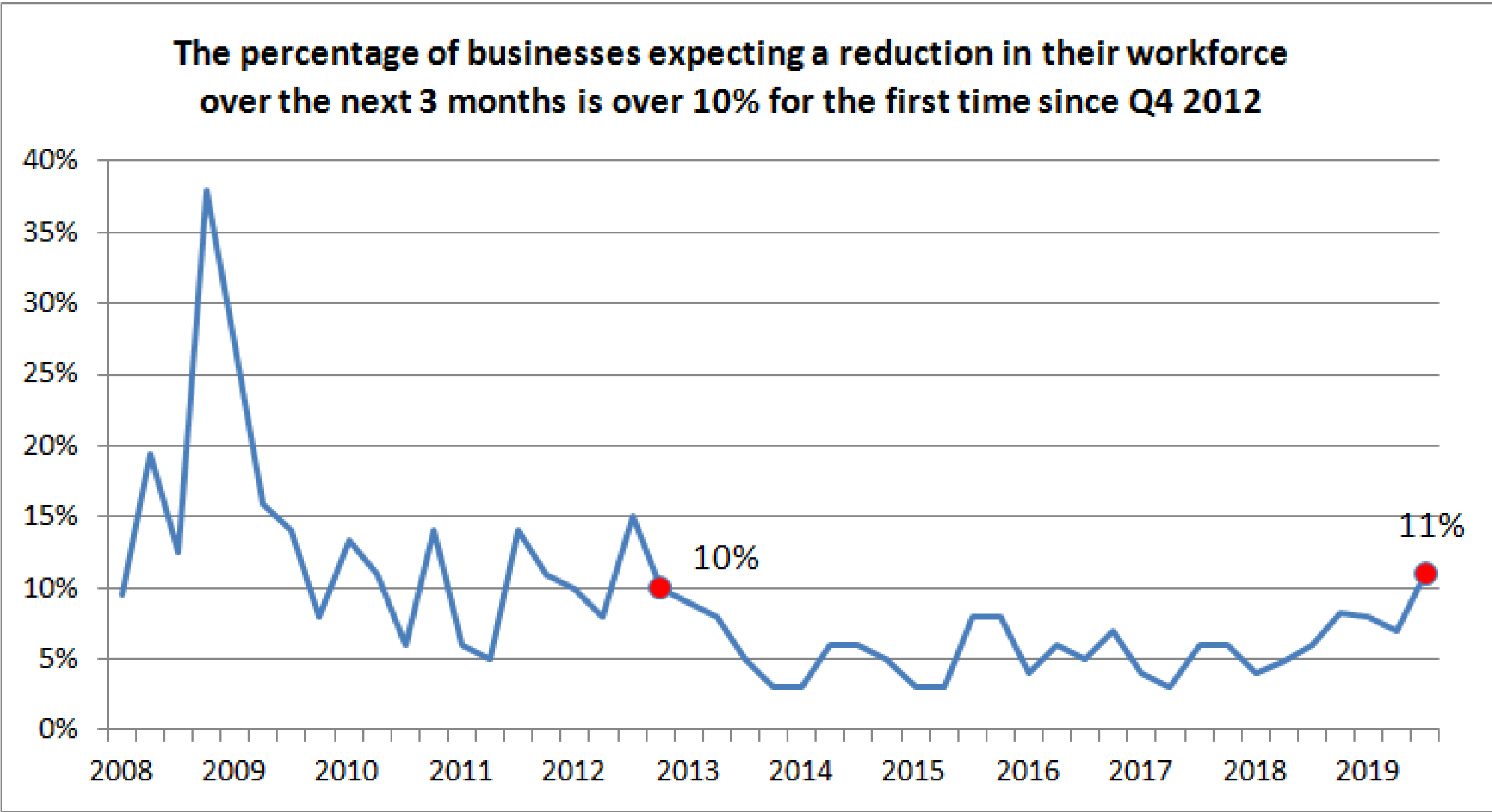
Service sector insight: The net balance of companies reporting an increase in overseas sales has fallen into negative territory. This means that the majority of companies have seen their overseas sales decrease this quarter. The balance of companies reporting an increase in overseas sales has fallen for the third quarter in a row and is now negative.

Employment & Recruitment

The employment indicators evoke no major concerns regarding the number of businesses reporting reduced workforce. When comparing the net balance of businesses reporting changes to their workforce over the past 3 months however, the figures are 7% down on this time last year. In other words, 7% fewer businesses are expanding their workforce than this time last year.

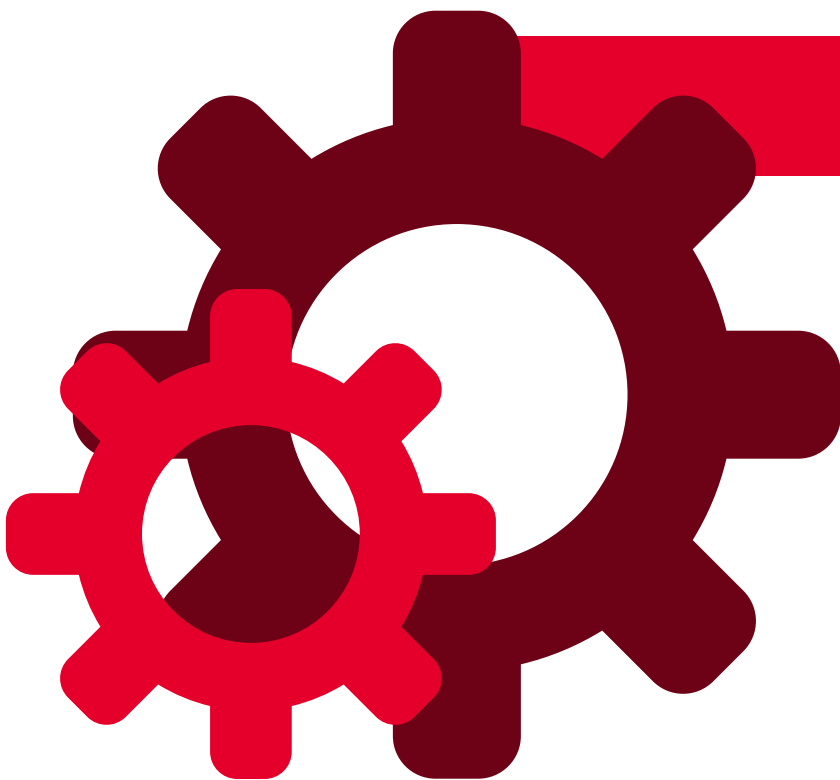
When asked about their projections for workforce change in the next 3 months, 11% of businesses reported that they expect their workforce to reduce. This is the largest figure for this indicator since Q3 2012. These figures do not necessarily indicate that businesses will be actively reducing their workforce. Anecdotal evidence suggests that this may be because businesses expect some of their EU workforce to migrate back to their country of origin. This is supported by the results of the most recent Migration Statistics Quarterly Report, published by the Office for National Statistics (ONS). Net migration estimates that more U8 citizens (those from the Central and Eastern European countries) are now leaving than arriving (ONS August, 2019).

50% of businesses attempted to recruit and of those, 61% experienced difficulties during the recruitment process. Fewer businesses have attempted to recruit this quarter than at any other point during the year, however, a greater proportion of businesses experienced difficulties during recruitment than previous quarters. Compared to this time last year, 7% fewer businesses reported attempting to recruit apprentices. 38% of businesses in Herefordshire and Worcestershire employ a workforce where 50% or more of their employees are aged 50 and over.



Manufacturing sector insight: 13% of companies have increased their workforce over the last three months, which is nearly half of the balance reported this time last year (25%) during Q3 2018. The balance of manufacturing businesses expecting their workforce to increase over the next three months has dramatically decreased this quarter from 19% (Q2 2019) to 5% (Q3 2019).

Service sector insight: The balance of companies who've increased their workforce over the last three months has reduced by a third in the last quarter from 24% (Q2 2019) to 16% (Q3 2019). For the third quarter in a row the percentage of services companies struggling to recruit professional/managerial talent has increased. The percentage has now reached 53%.



MANUFACTURING SECTOR

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

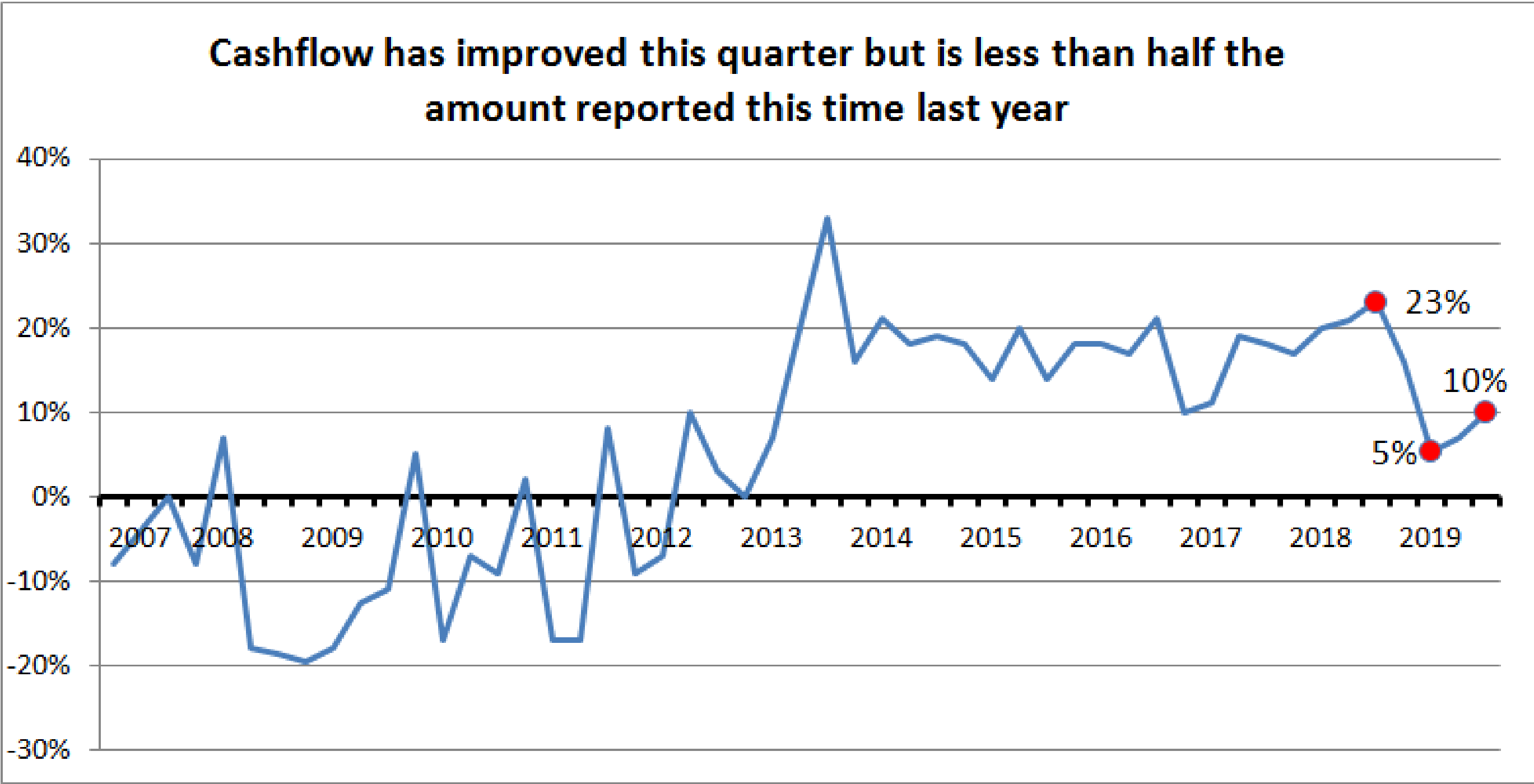


SERVICE SECTOR

Main business activity provides a service to businesses as well as final consumers (including retail/wholesaling, professional services, and marketing).



Unlike Q1 2019, cash flow is faring a lot better than the lead up to the first EU exit date of the 29 March 2019. Although the number of businesses reporting improved cash flow remains at historically low levels, when comparing the figures for Q3 2019 to Q1 2019, a marked improvement can be seen. Prior to the 29 of March 2019, just 5% of businesses reported improved cash flow. This figure now sits at 10%. Although improvements in cash flow are welcome, it is important to note that the figures reported this quarter remain half what they were this time last year.



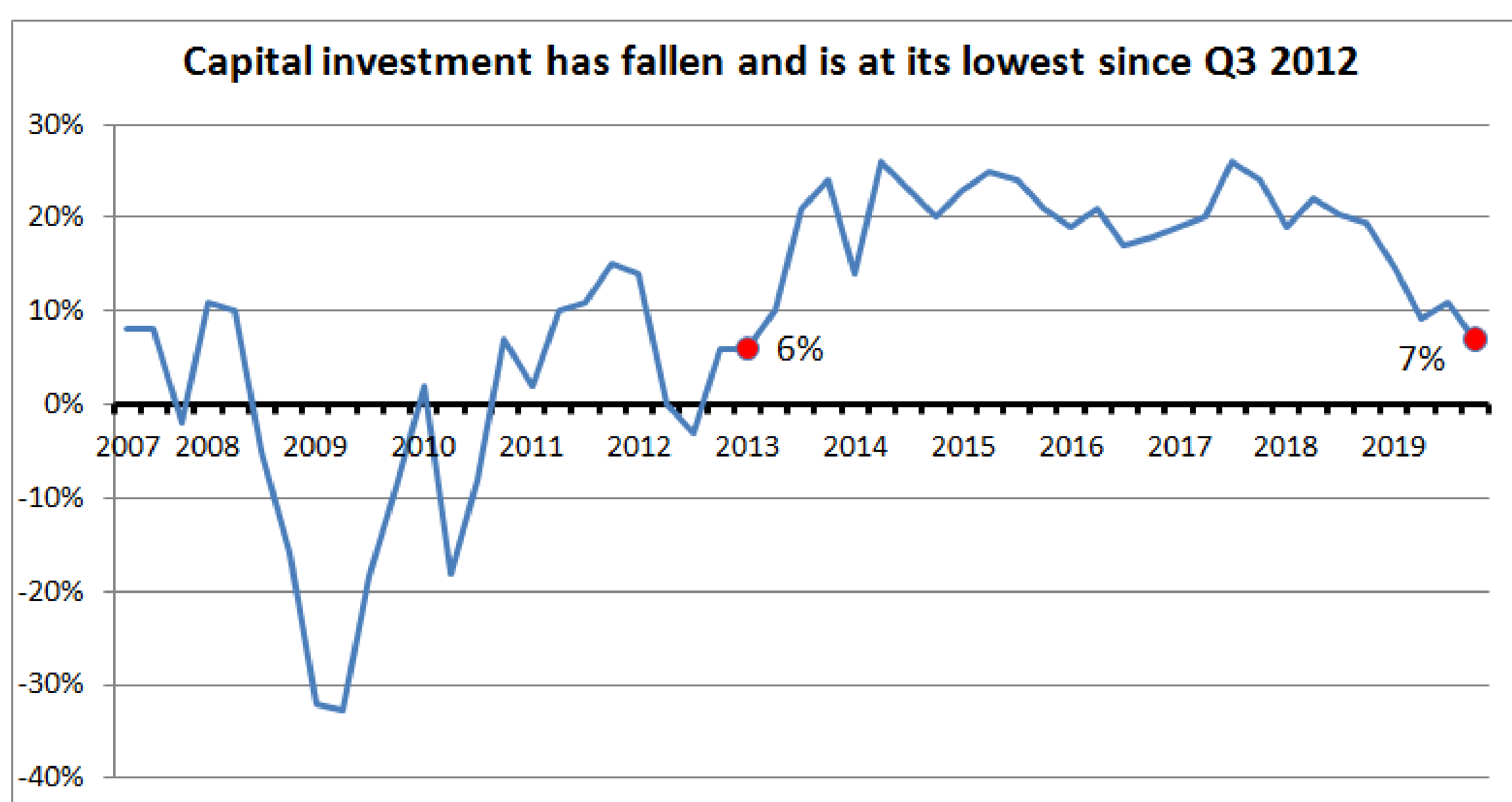
Manufacturing sector insight: Manufacturing businesses reported that cash flow has recovered slightly this quarter from -7% (Q2 2019) to 0% (Q3 2019).

Service sector insight: The balance of companies reporting improved cash flow has fallen this quarter after a brief recovery in Q2. Compared to this time last year the balance has almost halved from 23% (Q3 2018) to 12% (Q3 2019).

Investment

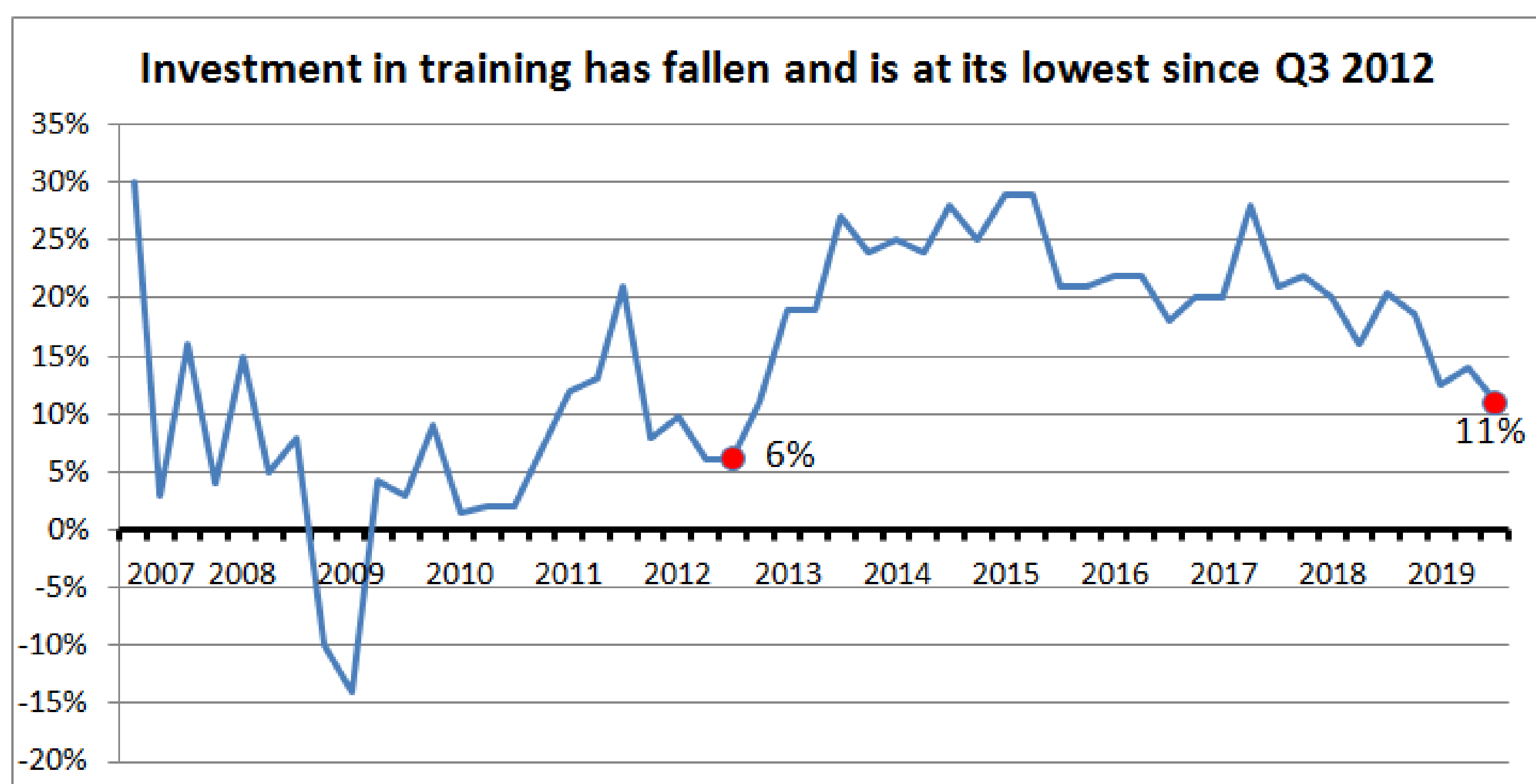
The impact of the volatility which characterises the Brexit negotiations and the unprecedented uncertainty it creates, coupled with political chaos in Westminster, is evident when scrutinising the investment figures for Q3 2019. The number of businesses revising investment plans upwards is at its lowest level since Q4 2013. The number of businesses reporting increased capital investment is at its lowest level since Q4 2012. The pause in investment has been symptomatic of the rampant uncertainty in the political sphere, which continues to prevent future trading conditions from being known. The consequences for the British economy in terms of productivity and competitiveness will be dire if uncertainty continues to prevail, discouraging businesses away from capital investment. The net balance of businesses investing in training for their staff is half what it was this time last year and at the lowest level since Q4 2012.

The implications of historically low capital investment are demonstrated by the proportion of businesses operating at full capacity. On the surface it may appear that business is booming, but in reality these figures mask poor levels of productivity and reduced capital investment. As fewer businesses invest in their people and machinery, greater numbers of businesses report operating at full capacity and the further embedded poor productivity becomes into the domestic economy.



Manufacturing sector insight: The balance of businesses planning to increase capital expenditure has reduced by more than three quarters from 28% (Q3 2018) to 6% (Q3 2019) since this time last year.

Service sector insight: The balance of companies planning to increase capital expenditure has reduced by more than two thirds since this time last year - reducing from 16% (Q3 2018) to just 5% (Q3 2019).

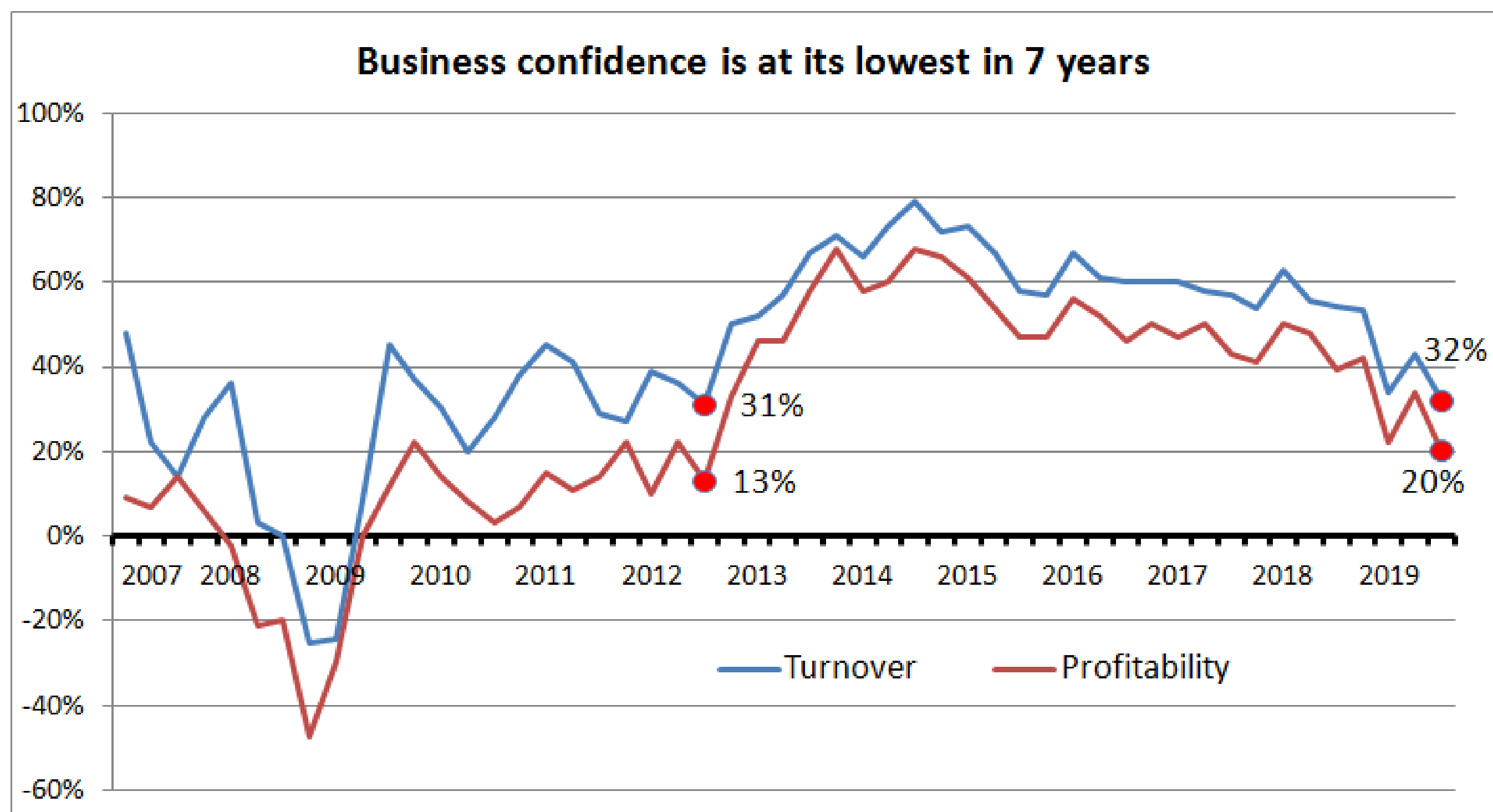


Manufacturing sector insight: The balance of manufacturing businesses planning to increase investment in training has recovered slightly this quarter from 6% (Q2 2019) to 10% (Q3 2019). However, it is still less than half the amount reported this time last year (25%) during Q3 2018.

Service sector insight: After a small recovery last quarter the balance of companies planning to increase investment in training has reduced again from 19% (Q2 2019) to 13% (Q2 2019).

Turnover & Confidence

It is no surprise that business confidence in turnover and profitability has dropped to the lowest level since Q3 2012. Crucially, these figures have dropped lower than during Q1 2019 in the lead up to the first EU exit date.

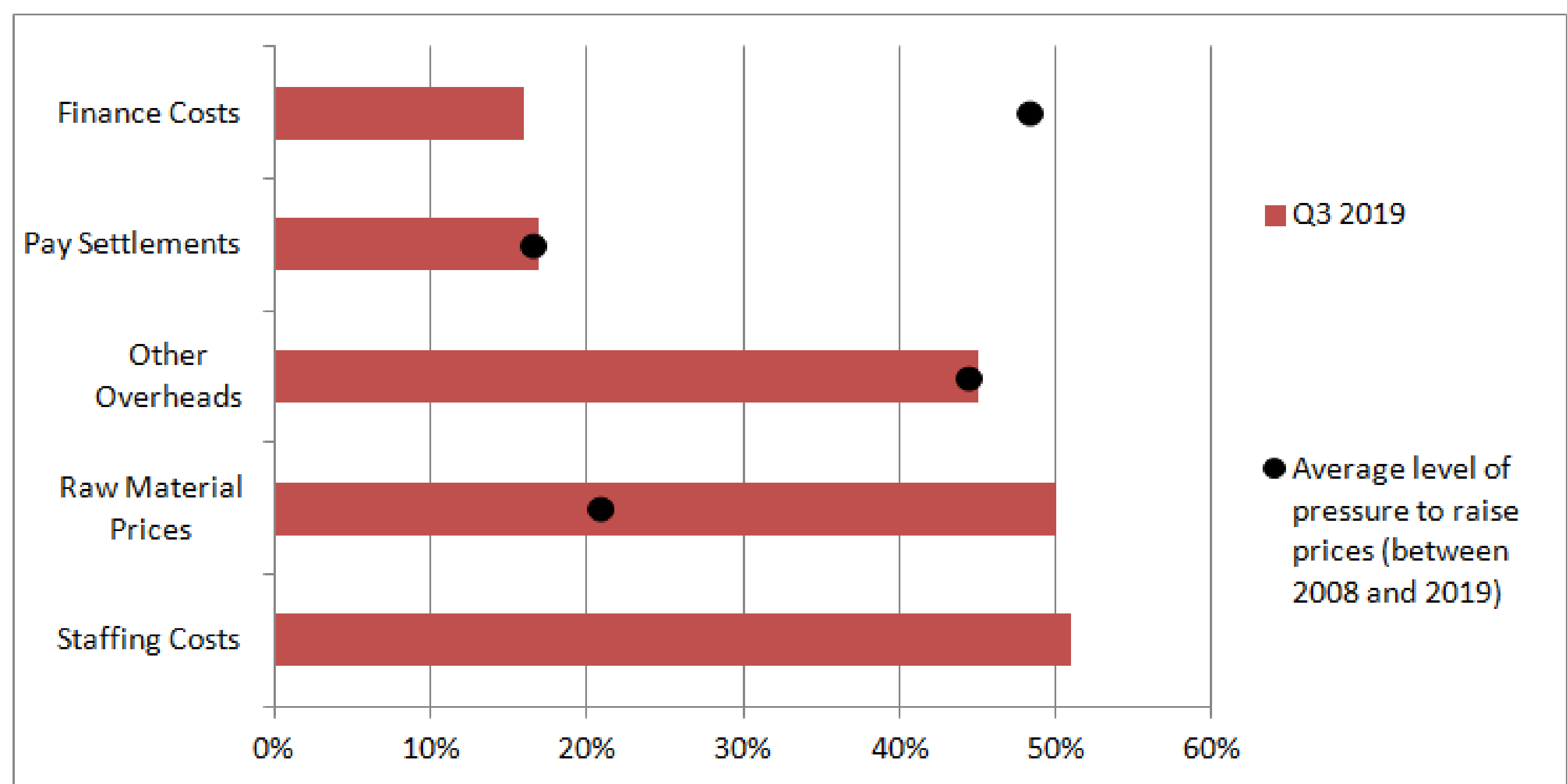


Manufacturing sector insight: Business confidence in increased turnover has more than halved since last quarter from 28% (Q2 2019) to 12% (Q3 2019). Business confidence in profitability has decreased for the fifth quarter in a row and is now at just 2%.

Service sector insight: The balance of companies reporting confidence in increased turnover has decreased by 10% this quarter, from 50% (Q2 2019) to 40% (Q3 2019). Business confidence in profitability has dramatically decreased this quarter from 44% (Q2 2019) to 30% (Q3 2019).

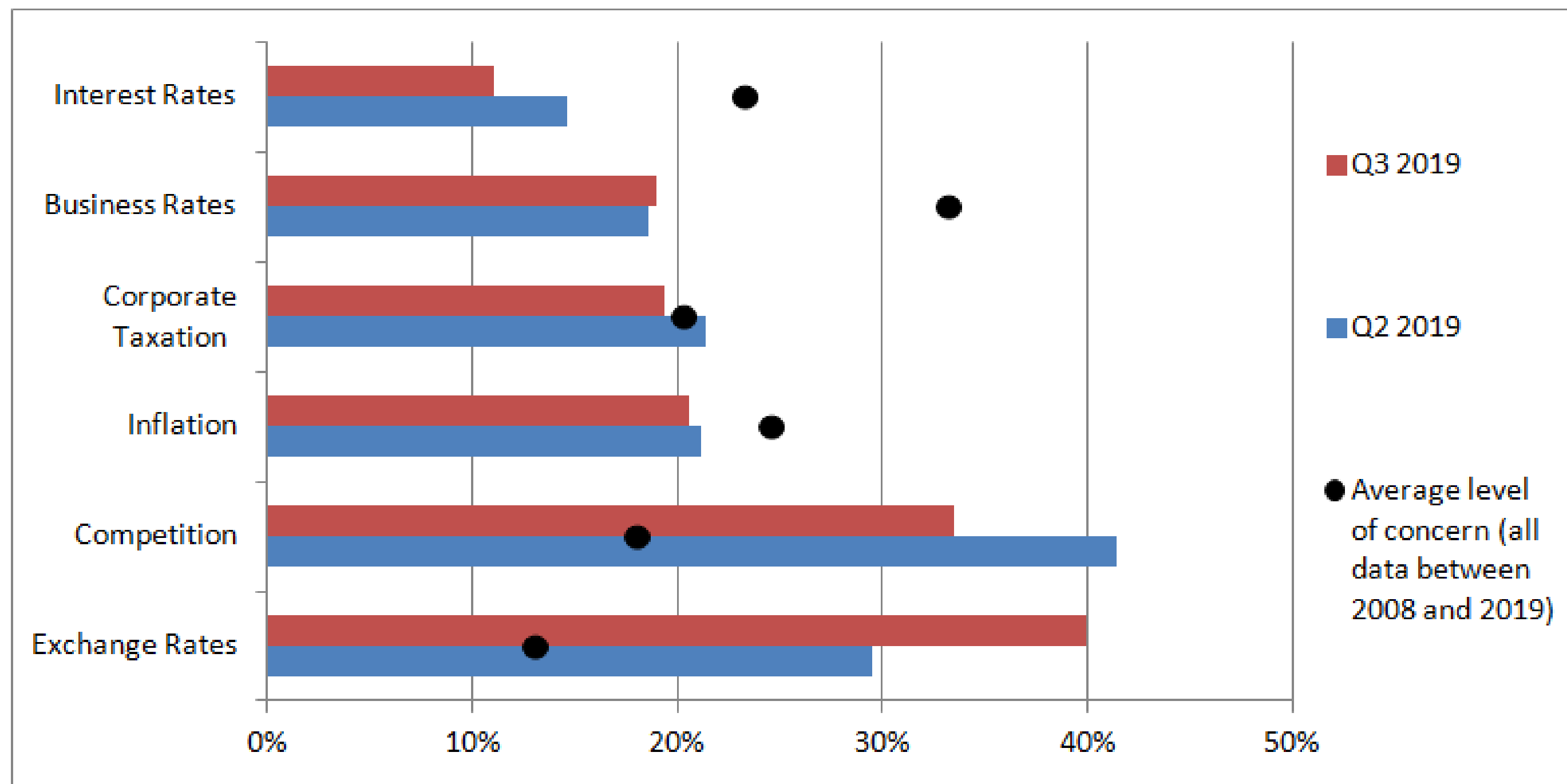
Price Pressures and Factors of Concern

Causes of pressure to raise prices:



Staffing costs were identified by 51% of businesses as the primary cause of pressure to raise prices during Q3 2019. Evidently the wage bill is becoming a growing burden for many SMEs. Including bonuses, wages are now growing at 4% a year in cash terms for the first time since 2008 (ONS, 2019). Once adjusted for inflation wages have grown above 2% for the first time in nearly 4 years, reflecting the tight labour market and national skills shortage.

Factors of concern to businesses:



It is no surprise that exchange rates are the primary concern for businesses at the moment. Concerns regarding competition and remaining competitive remain top of the business agenda, as the slowing global economy and uncertainty regarding the future relationship with the EU temper the competitive edge of British businesses.

Manufacturing sector insight: Over half (61%) of the manufacturing companies identified exchange rates as their primary concern this quarter.

Service sector insight: The top two concerns for service sector businesses are competition (36%) and exchange rates (30%).

Chamber Policy Contacts



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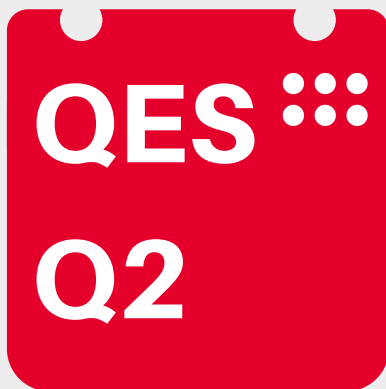
**LISA
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Policy, Research and Public
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Upcoming QES Data Collection



Monday 17 February -
Monday 9 March 2020



Monday 18 May -
Monday 8 June 2020



Monday 26 August -
Monday 26 September 2020

Future Policy Events

Sustainability Forum
Friday 24 October 2019

Access to Finance
Thursday 21 November 2019

HR Conference
Thursday 21 November 2019

Business Manifesto Launch
Friday 20 March 2020



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