MID YORKSHIRE

CHAMBER OF COMMERCE

QUARTERLY ECONOMIC SURVEY

1st QUARTER 2014

(January – March)

Executive Summary

UK Sales & Orders

The domestic market remains positive following a return to growth last quarter with 92% of manufacturers reporting stable or increased sales.

Export Sales & Orders

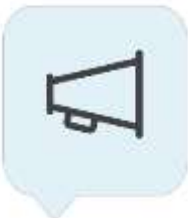
Export performance continues on an upwards trend. 61% of companies experienced an increase in sales this quarter.

Employment

Companies began the New Year in buoyant spirits as new recruitment increased. Employment expectations for the year ahead have also risen.

Investment

Investment indicators gather momentum for firms across both sectors. Cashflow improvements are particularly welcome.



Confidence

Confidence attained a high-point last quarter and has remained steady at the start of the New Year. 83% of businesses expect turnover to improve this year, while 81% expect increased profitability.

Price Pressures & External Factors of Concern

Raw material prices remain a significant concern, particularly for manufacturers. Inflation and business rates remain a worry, and threaten to impact upon business performance.

Foreword

This QES report for the first Quarter of 2014 evidences the continuation of the broadly positive trends reported at the end of last year, as well as a recovery that is gathering momentum. This is particularly apparent in the employment figures and in our 'Business Confidence' indicators. There are also encouraging signs that investment is picking up pace. Government announcements on investment allowances will bring an additional boost, and hopefully encourage companies to bring forward deferred expenditure on R & D and Plant and Machinery.

Indeed, the Chancellor's recent budget demonstrated just what can be achieved when economic growth is prioritised at the heart of policy making. Although there were no showy, surprise announcements on business policy, and no headline-grabbing new initiatives, the common sense Budget included a number of measures which have been welcomed by businesses throughout the country. From a pledge to exempt all under 21 year olds from employer's national insurance contributions, to greater support for exporters, there was plenty in the Budget to encourage business. It is to be hoped that all political parties follow a similar approach in the lead-up to the General Election in 2015. Reassurance and confidence in economic decision-making is absolutely essential. Hopefully we will now see an end to rafts of new initiatives that either take years to get started or are dropped as quickly as they have been promised. Rather, the business community needs to be confident that Government will provide a stable platform of consistent and long-term policies, clearly thought-through and driven by sound economic judgement.

Throughout the year we will continue to lobby on the issue of Business Rates, which has again featured as a key concern in our survey. Ahead of the Budget we suggested that there should be a comprehensive and fundamental review of the Business Rates system, and we called for realistic and enlightened proposals for alternative ways of raising this revenue. Our concern is that rates freezes and short-term relief packages will fail to address the basic problem. The British Retail Consortium (BRC), alongside a Department of Business, Innovation and Skills (BIS) Select Committee on Retail recognised the impact of rates on the high street, and this may have influenced the Government's decision to offer relief to retailers, pubs and restaurants. However, businesses in all sectors face the same unsustainable pressure of having to pay this levy which is due irrespective of company performance or ability to pay, and we think it is now high time it was reformed, hence our continued call for a wider parliamentary review.

Finally, we hope that the positivity evident in this quarter's survey will be maintained throughout the year. Clearly the global recovery remains finely balanced, and the threat of instability (most recently evidenced by the political events in Ukraine) illustrates the sensitivity of the global economy to unexpected news. However, there are also great opportunities for UK firms, and renewed domestic levels of confidence in the economic outlook should help to encourage businesses to expand, take on staff, develop new products and explore new markets.

As ever, the Chamber will be here to support you.

Chamber Head of Policy Steven Leigh

Mid Yorkshire Chamber of Commerce and Industry

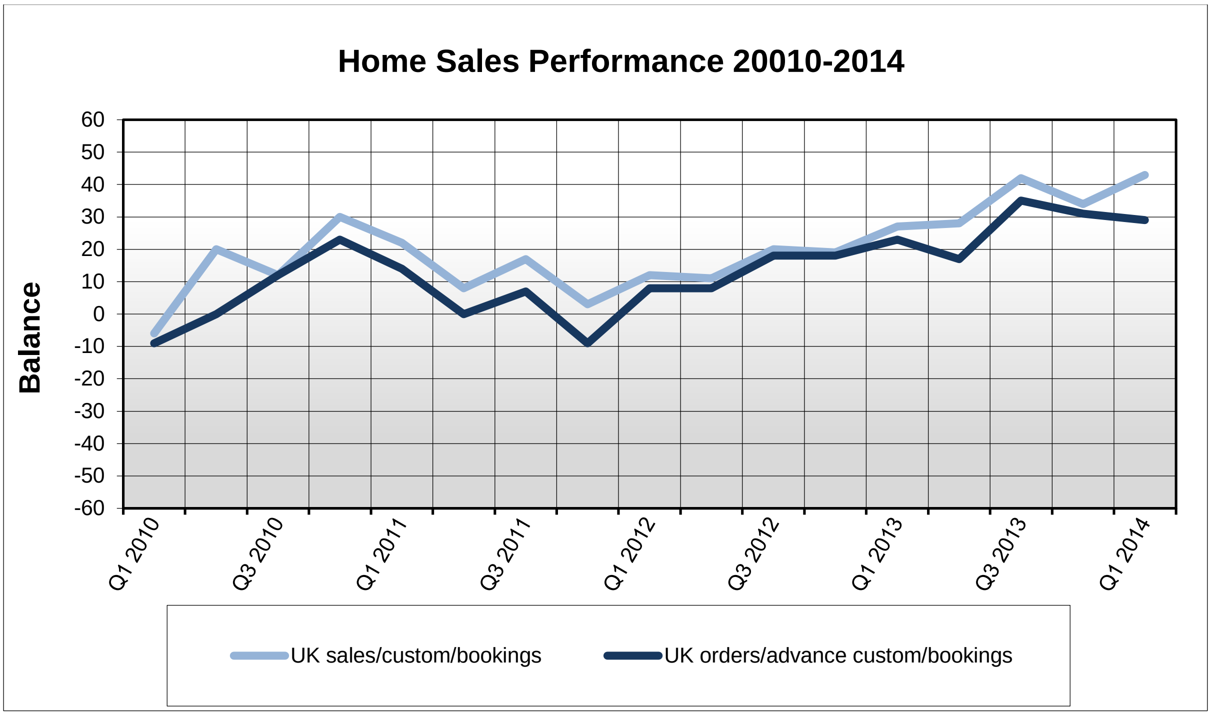
UK SALES AND ORDERS STABLE

UK Sales and Orders for the first quarter of 2014 have remained positive, with a modest increase in Sales and a small fall in Orders on the final quarter of 2013. The overall picture is of a steadily recovering domestic market, although the broad stasis over two quarters may raise the implication of stagnant growth should it continue.

Home Sales have risen by 9 points to 43 this quarter, from 34 in Quarter 3. The detail of our survey, however, reveals that 92% of firms reported that Home Sales have either remained constant or increased this quarter.

Similarly, UK Orders have fallen from 31 points to 29 this quarter, but in this case 90% of firms have reported Orders remaining constant or increasing. In this case two consecutive quarters of reduced figures belie the strength of the underlying data.

However, it is clear that the domestic recovery remains sluggish. It is far too early to feel comfortable, and achieving a sustained and accelerating pace of growth will require time and continued effort from both business owners and policy makers.

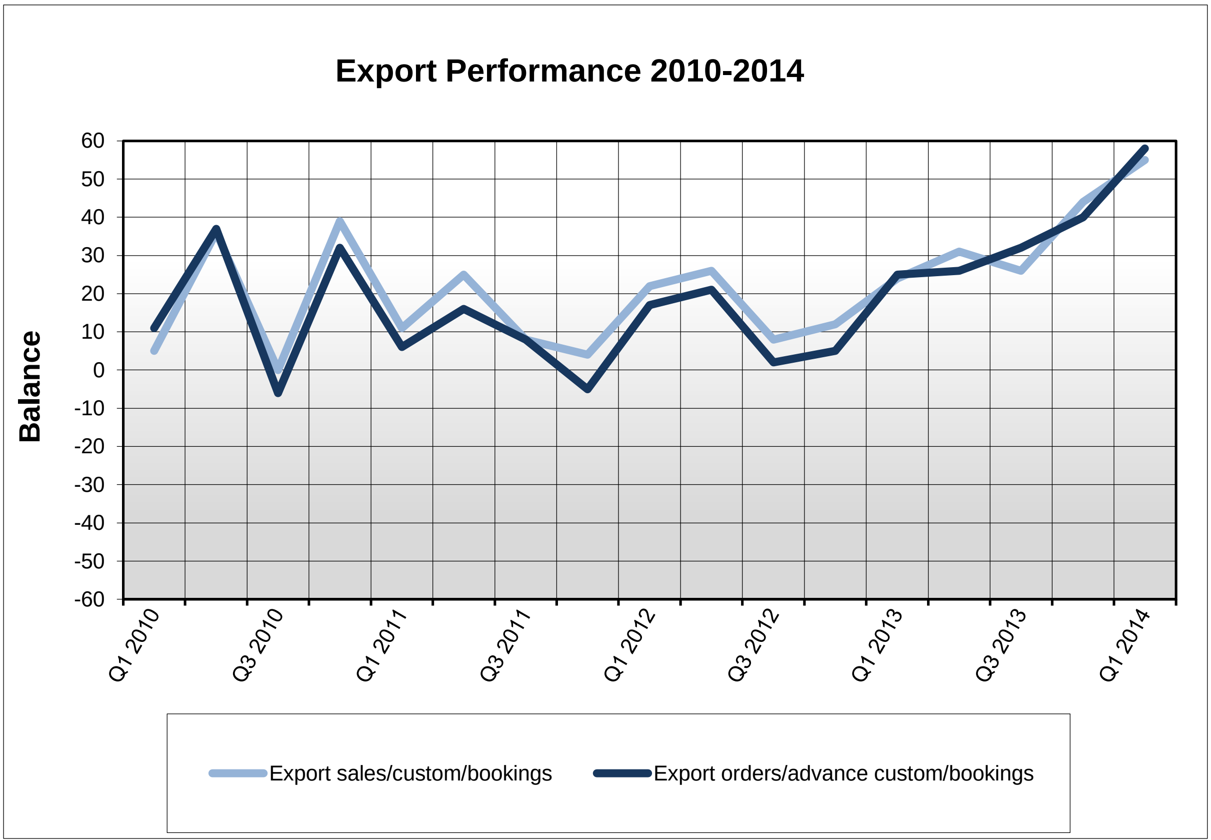


EXPORT GROWTH CONTINUES

The positive upswing in our region's export growth continued during the Quarter. This trend has now been sustained for almost four years, and has been a consistent success story in our Quarterly Economic Surveys over the last year and a half.

Export Sales balances this quarter have reached 55, rising encouragingly from 44 points last time, whilst Export Orders are up 18 points, to 58% this time from 40 in Q4.

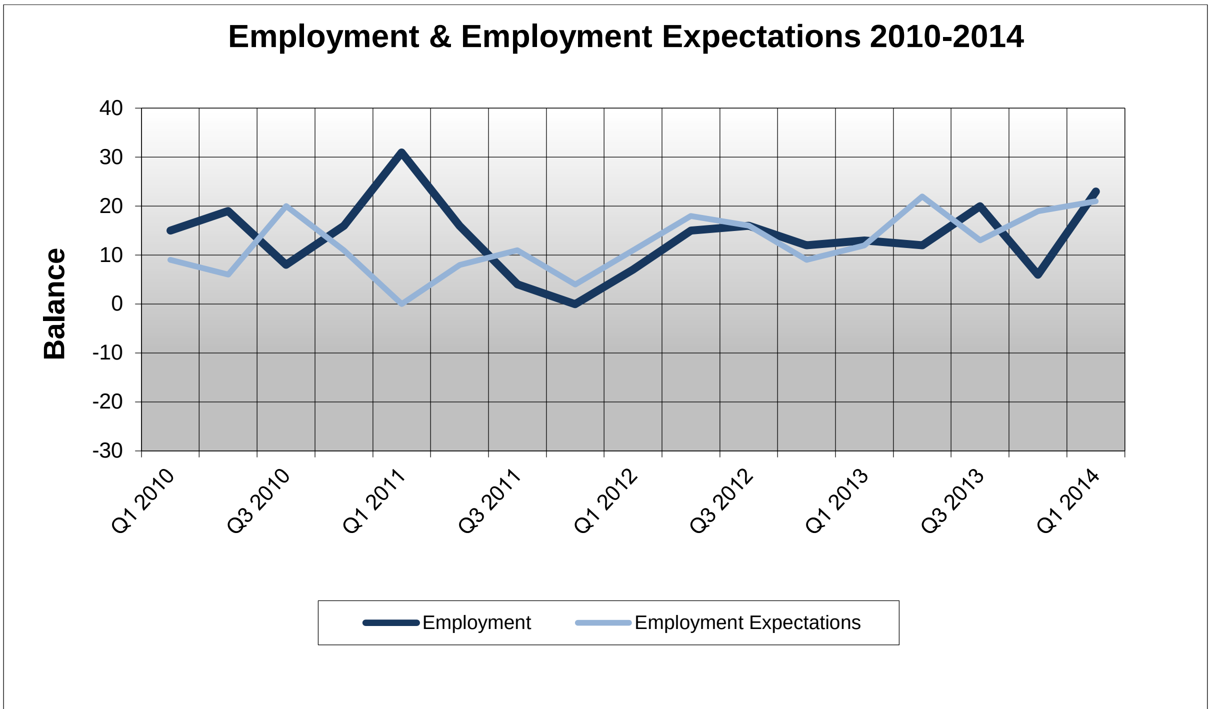
Our national economic growth will rely upon the continuing expansion of our exporting activities. The Government has set ambitious targets to double our export value to £1trillion, and while this will be a difficult and long-term task, there are encouraging signs in our regional performance which suggest this aim may just be achievable. Increased support for exporters from UK Export Finance (UKEF) and UK Trade and Investment (UKTI), announced in last year's Autumn Statement and the recent Budget, will go some way to helping UK businesses realise their export potential. However, still more can be done. Air Passenger Duty (APD), the tax on air travel, continues to punish those business travellers who seize the initiative and travel overseas to promote UK trade, and in spite of the Budget announcement of future funding increases, UKTI financial provision remains modest when compared to the export support agencies of many of our competitor nations.



EMPLOYMENT GROWTH ACCELERATES
EMPLOYMENT EXPECTATIONS REMAIN HIGH

Our graph depicts an upturn in the Employment trend line, which is most welcome, representing accelerating growth in recruitment this quarter. That Employment Expectations also remain high adds to the sense of bullishness evident elsewhere in this survey. Businesses are expanding their staff and realising growth plans – a real indication that recovery is underway. Employment Growth has increased from a balance of 6% in Q4 to 23% Quarter 1, while Employment Expectations have remained steady (which in view of the sharp rise in employment is a very good sign), rising from 19% to 21% this time.

Employment rates are an important measure of the health of our economy, but beyond simply raising the level of employment there is significant work to be done in tackling persistent and structural issues around labour and skills. We have consistently warned of the dangers of youth unemployment, which risks extricating much of a generation entirely from the world of work. Continuing efforts must be made to raise skills levels and to engage young people in work-placements, internships, study and training so that the skills they possess are fresh and relevant to the workplace. In addition more can be done to ensure that skills provision – from basic education to vocational qualifications and degrees – is meeting the future needs of employers.

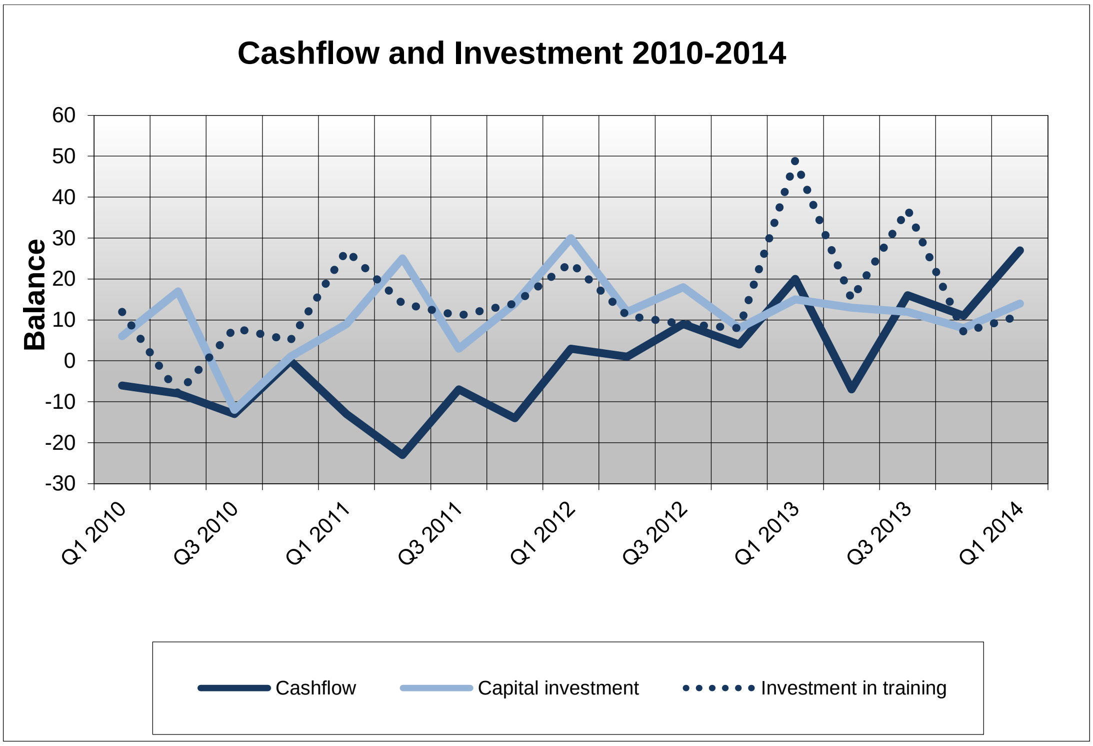


ALL INVESTMENT INDICATORS STRONG
CASHFLOW IMPROVES IN QUARTER 1

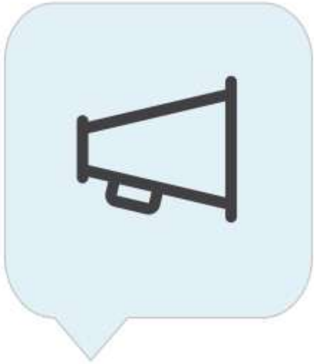
What is most evident from the graph below is the volatility of investment indicators over the last four years. Even as wider economic balances have settled into more consistent trends, Investment has remained somewhat erratic.

Cashflow balances, which fell to 11% in Quarter 4 have improved by 16 points to 27% this time, while balances for Capital Investment have increased from 8% to 14% in this quarter. Investment in Training which suffered a 30 point fall in Quarter 4 has rallied from 7% to 11%. These are positive improvements following a decline in all indicators last Quarter. The improvement in Cashflow is particularly welcome, marking the strongest figure of the last four years. As recently as Quarter 2 2013 Cashflow figures had descended into negative territory, with more firms reporting worsening Cashflow than those reporting improved figures.

In our letter to the Chancellor ahead of the Budget this year we urged the Treasury to consider extending the increase of Capital Allowances and expanding this relief to buildings and premises. We were encouraged therefore by the doubling of the allowance for plant and machinery, and the extension of this until 2015. These measures should encourage businesses to bring forward investment, thereby stimulating supply chains and growing capacity.



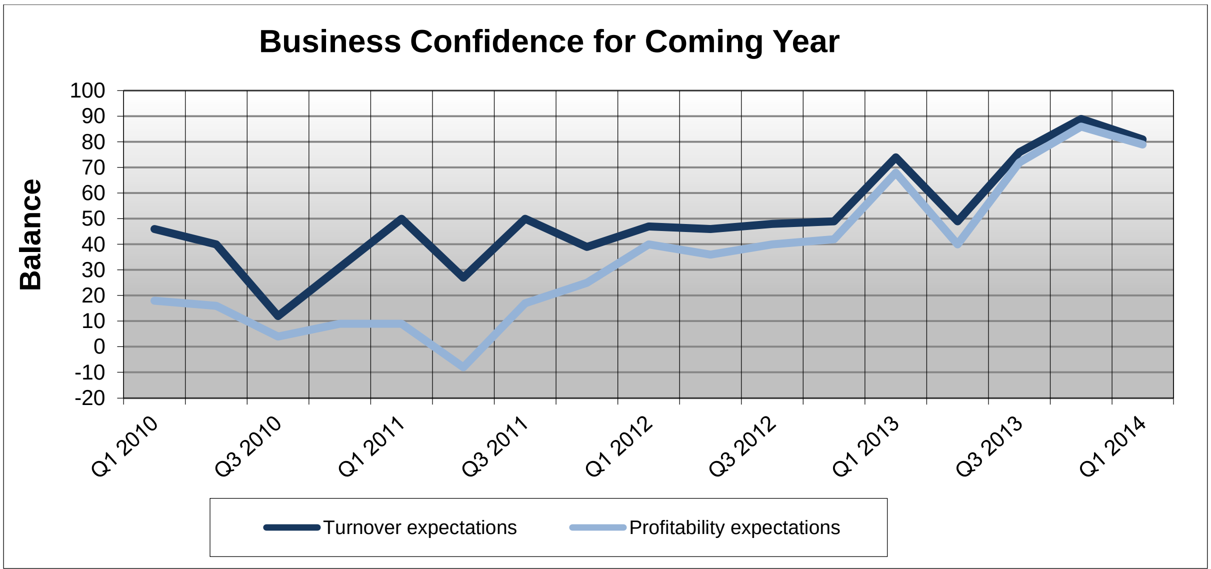
BUSINESS CONFIDENCE REMAINS BULLISH



Although our graph appears to illustrate a slight downturn in confidence this Quarter it is worth noting the strength of resurgence over the last 3 years. Confidence plunged in early 2011 and it has been a slow and difficult recovery since. However, the bullishness that Mid Yorkshire businesses felt at New Year has not dissipated, and both Turnover and Profitability Expectations remain high.

Turnover Expectations have decreased slightly from 89% in Quarter 4 to 81% this time, and Profitability Expectations have fallen from 86% to 79% this quarter. These are historically very high levels, and they indicate continued confidence that business conditions are improving.

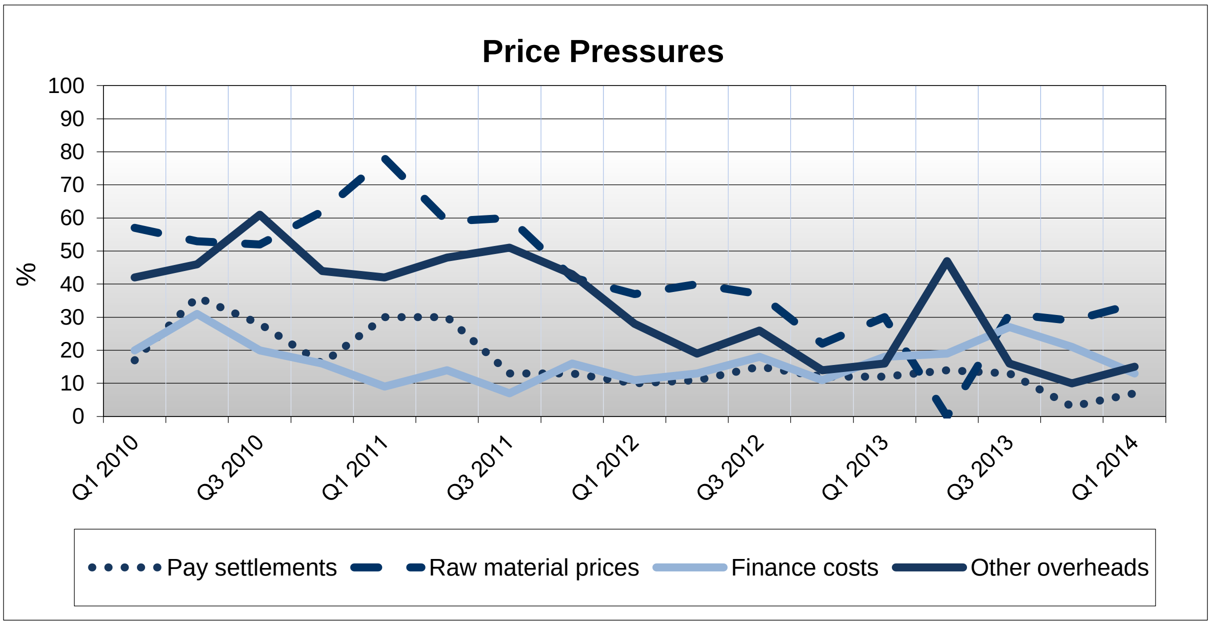
Sustained business confidence will be key to continued economic growth. Many of the measures set out in the budget, from Capital Allowances and Export Finance to the exemption of under-21's from employers' National Insurance Contributions will reassure businesses that economic growth is at the heart of Government policy. However, it is essential that this focus is maintained as parliamentarians begin to build up to 2015's General Election.



MOST PRICES AT LOW LEVELS OF CONCERN
RAW MATERIAL COSTS CONTINUE TO BE A WORRY

Input costs remain the greatest price pressure on businesses in the first quarter of 2014. Finance costs have fallen slightly, while all other indicators remain broadly the same as in the final quarter of 2013.

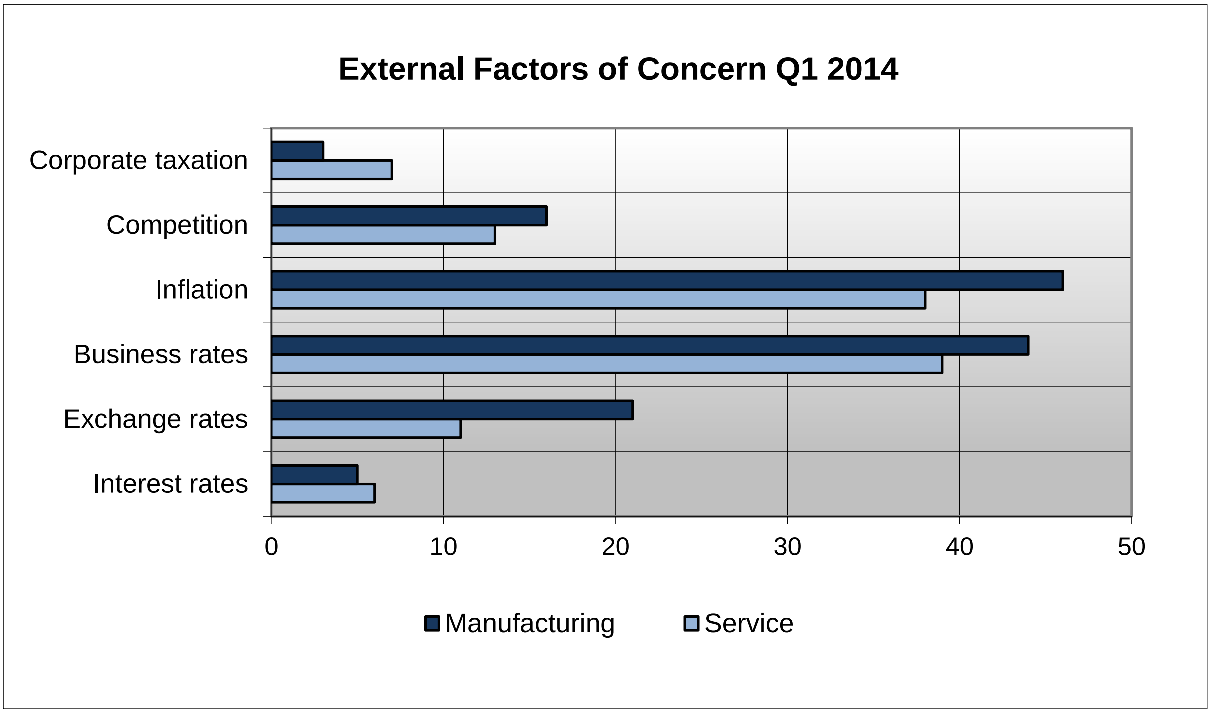
Pay Settlements have increased from 3 points to 7 this time, while Finance costs have fallen from 21 to 13 in this quarter. Other Overheads have rebounded from 10 to 15 in this quarter. Raw Material Prices remain a stubborn concern, and have increased once again from 29 to 34 points. This is a particular issue for manufacturers, with 69% of manufacturing firms reporting Raw Material Prices as a serious worry for their business. By comparison Other Overheads remain the key issue for service sector firms, with 18% of businesses registering this as their primary concern.



INFLATION WORRIES FOR BOTH SECTORS
BUSINESS RATES IMPACTING ON PERFORMANCE

For all the good news evidenced elsewhere in this survey – in improved business confidence, and in renewed investment and recruitment – the graph below gives an indication of the residual obstacles faced by growing businesses. The two clearest areas of concern for both sectors are Inflation and Business Rates. While inflation has broadly come down over the last two years it can take some time for the consequences of long-term inflation to work their way out of the system. Inflation reached 5.6% in September 2011 and has only just fallen below the Bank of England target of 2%. Sustained elevated inflation rates have driven up the cost of doing business and impacted on margins across all sectors of economy.

We have repeatedly warned about the effect that Business Rates are having on companies in our region. Business Rates recalculations have been deferred, meaning that rates remain tied to boom-era property prices. In addition, and in spite of recent freezes, the high rates of inflation in 2011 meant accelerating rates. In our submission to the Chancellor ahead of the 2014 budget we called for a full review of these taxes, which have become a significant burden on businesses and are stifling growth. The Chancellor announced a package of relief aimed at retailers, pubs and restaurants, which was welcome and may go some way to reviving our high streets and town centres. However, the effects of the Business Rates burden are impacting all areas of industry and we will continue to lobby Government for a fundamental and comprehensive review of this tax.



ABOUT THE SURVEY

The balance figures used throughout this survey are calculated by subtracting the percentage number of companies that report a decrease in sales, orders etc. from those reporting an increase. A positive balance therefore reflects the fact that more companies than not report an increase and these balances are used to track trends over time using results from previous surveys. The Mid Yorkshire Chamber responses, together with the results from other UK Chambers of Commerce, are incorporated into the British Chambers of Commerce (BCC) national results publication.

The survey is the largest and most representative of its kind in the UK.

Whilst the figures conveyed in our summary derive from the Mid Yorkshire Survey replies, the interpretation is the responsibility of the Mid Yorkshire Chamber of Commerce, and should not be regarded as necessarily representing the view of any individual contributing business.