



**MID YORKSHIRE
CHAMBER OF COMMERCE**

QUARTERLY ECONOMIC SURVEY

**2ND QUARTER 2013
(APRIL- JUNE)**

This report presents the results of the Quarterly Economic Survey (QES) of businesses throughout the Chamber area, conducted in collaboration with the British Chambers of Commerce (BCC).

The QES tracks trends in various aspects of economic activity including domestic and export sales; past and future employment; recruitment issues; confidence in future turnover and profitability; etc.

Chamber members and businesses throughout the Mid Yorkshire region are encouraged to continue to support this highly-respected and influential survey. The latest QES reports are available at www.mycci.co.uk

In this Q2 2013 report:

HOME AND EXPORT SALES CONTINUE TO IMPROVE

UK ORDERS DISAPPOINT

BOOST TO EMPLOYMENT EXPECTATIONS

FALL IN INVESTMENT CAUSES CONCERN

BUSINESS CONFIDENCE STALLS IN SECOND QUARTER

PRICE PRESSURES NOW LESS OF AN ISSUE

INFLATION REMAINS KEY WORRY

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 the 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.

Mid Yorkshire Chamber of Commerce Head of Policy Steven Leigh comments on this survey:

In the first Quarter of this year our survey reflected a strong sense of renewed optimism. Our businesses appeared to be more confident about the year ahead, having perhaps tired of waiting for new policies or improved economic conditions - and almost all the economic indicators in our Survey reflected upward momentum. Confidence appeared to be in the ascendency, and in our commentary we welcomed the renewed positivity which businesses had reported in our region.

But disappointingly, this Quarter 2 report presents a far less upbeat picture. A mixed set of results discloses Sales and Order books which are inconsistent, and which include a worrying decline in Order levels in the UK marketplace. Likewise, whilst Employment Expectations have improved, actual Employment growth has slowed. Elsewhere, Investment has dropped and business confidence has also fallen since the start of the year.

Having seen very mixed results, quarter by quarter, over the last several years, we consider it would be hasty to make any major assumptions regarding these results. Certainly we have not achieved the momentum we had all hoped for, and we are not yet witnessing economic growth at the sort of levels which will be necessary if we are to drive a sustainable recovery. But there are some positives among these results and it would therefore be unproductive to prematurely read trends into single Quarter figures. Although the upswing in confidence seen earlier this year has not been maintained, it is nevertheless positive that both Profitability and Turnover Expectations remain above 2011 levels. It is to be hoped that the falls in confidence and investment are blips, representing the uncertainty felt by businesses, rather than any material change in conditions. Clearly, they are not borne out in actual economic performance - with Export Sales in particular showing growth this Quarter.

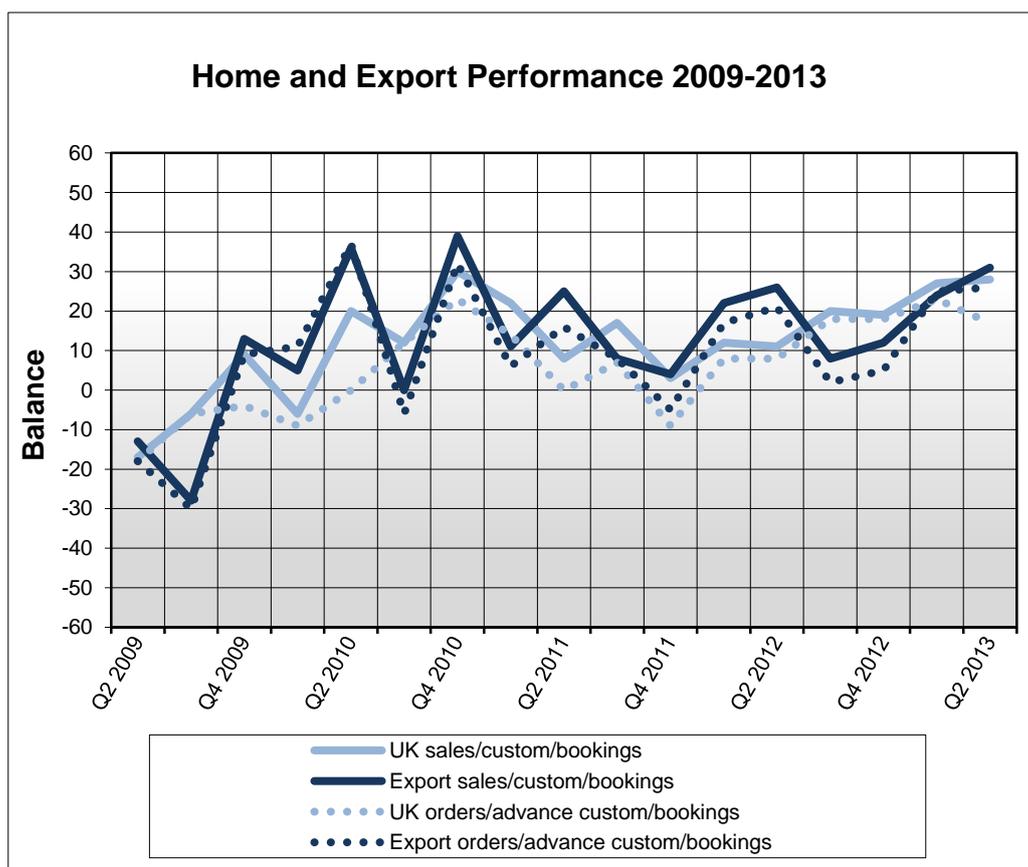
The Chancellor's Spending Review in June provided some positive announcements on infrastructure development and support for exporters which particularly correspond with our recent lobbying agenda. In a period of austerity this support for business is commendable. But unfortunately the levels of investment provided for projects in the Northern regions, when compared with the South East of the country, still serves to increase the North/South divide rather than to reduce it. In the area of export support the Government's actions continue to deliver less than the rhetoric. Continued funding for UKTI is essential - but greater investment is required and without comprehensive support our exporters will continue to struggle in increasingly competitive global markets. We will continue to lobby the Government for further business-friendly measures to be introduced at the earliest opportunity in order to promote sustainable growth at a level which will ensure our economic recovery.

HOME AND EXPORT SALES CONTINUE TO IMPROVE UK ORDERS DISAPPOINT

- Export markets positive
- Home performance mixed

It is encouraging that our Q2 Survey report begins with some positive figures. Both UK and Export Sales have improved for a second consecutive quarter, building upon the progress seen last time. Home Sales have improved marginally (from 27 points to 28 this time), whilst Export Sales improved by 7 points from 24 to 31. Export Orders also improved slightly, from 25 to 26, giving rise to cautious optimism for the remainder of the year. However, UK Orders have disappointingly bucked the upward trend this quarter, falling by 6 points from 23 to 17 this time.

These figures are mainly positive, and Export figures have pleasingly continued their upward trend, but a mixed set of UK figures serve to emphasise that the economy remains weak, and markets uncertain.



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From free advice and expertise to training, events, translations and certification services our international trade arm provides comprehensive support to both new and experienced exporters.

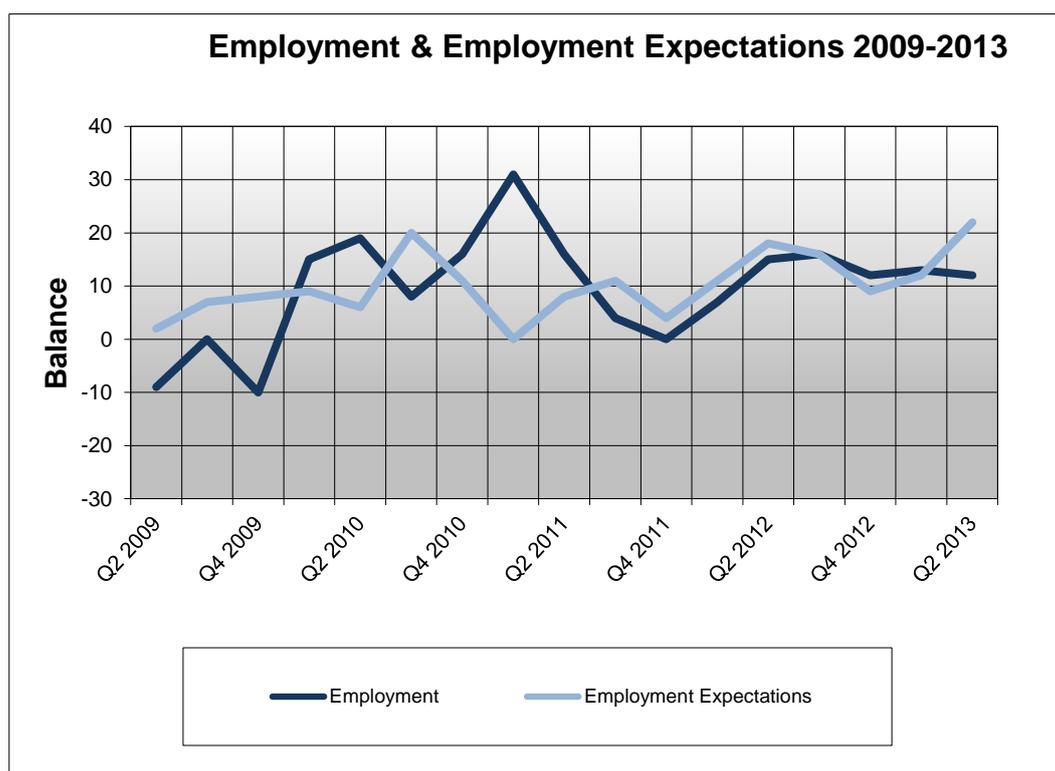
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BOOST TO EMPLOYMENT EXPECTATIONS

- **Employment static in 2nd Quarter**

Employment figures are mixed this Quarter with growth in Employment Expectations negated by a slowing of Employment growth. Having risen to 13 points last Quarter Employment fell back by 1 point to a balance of 12. However, we are pleased to note that Employment Expectations increased significantly by 10 percentage points (from 12 points in Quarter 1 to 22 points this time).

In his Budget this year the Chancellor announced £2,000 per year employment allowance towards employer's National Insurance Contributions, to be introduced in April 2014 in order to reduce the cost of hiring staff. We had lobbied consistently for some abatement of NI tax on employers, and we are pleased that the Coalition has responded by introducing this tax break, which will without doubt stimulate new employment and growth. The fact that this will prove more significant and beneficial for small businesses makes the move more commendable, and we now urge the Government to frame the eligibility criteria and the specifics of the initiative as widely as possible in order to maximise its impact.

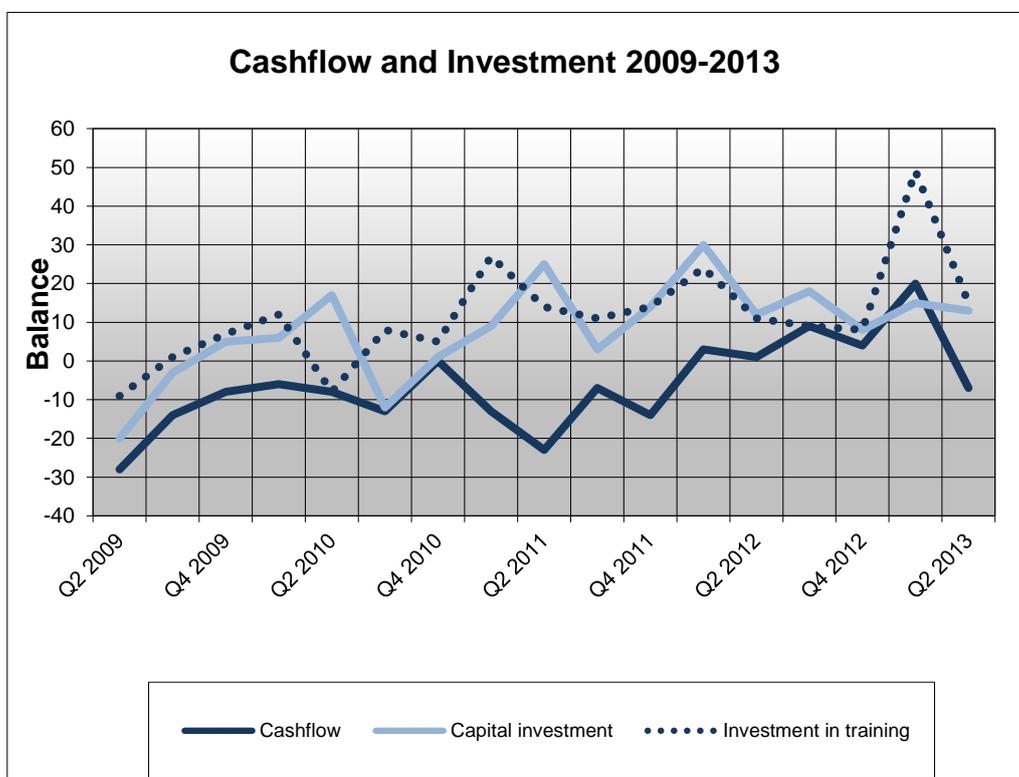


FALL IN INVESTMENT CAUSES CONCERN

- **Cashflow figures fall significantly**
- **Capital investment flat**
- **Investment in Training drops**

There is a worryingly significant fall in both Cashflow and Investment in Training this Quarter. Following broadly positive improvements in Q1, these figures give cause for concern. Cashflow has plummeted down into negative territory (having improved steadily since Q3 2011) by dropping from a positive balance of 20 to -7, showing the first negative balance since Q1 2012. Investment in Training has also fallen alarmingly by 34 percentage points, from a Q1 balance of 49 points to just 15 this time. Capital Investment has remained broadly flat, falling by 2 points from 15 in Q1 to 13 this time.

These results paint a worrying picture of investment levels in our region. Although balances remain higher than the levels witnessed during the depths of the financial crisis in 2009 or the worst months of the recession since, the dramatic reversal of positive growth in investment is a very serious concern. The fall in Cashflow is particularly alarming and has no doubt been exacerbated by increasingly obstructive late payment issues. In part these problems could be eased through improved access to finance, which the Government is seeking to tackle through a new British Business Bank. Implementation plans for the Business Bank should be rapidly expedited in order to provide greater availability of funding to businesses at the earliest opportunity.



BUSINESS CONFIDENCE STALLS IN SECOND QUARTER

- **Very disappointing fall in confidence likely to hinder recovery**

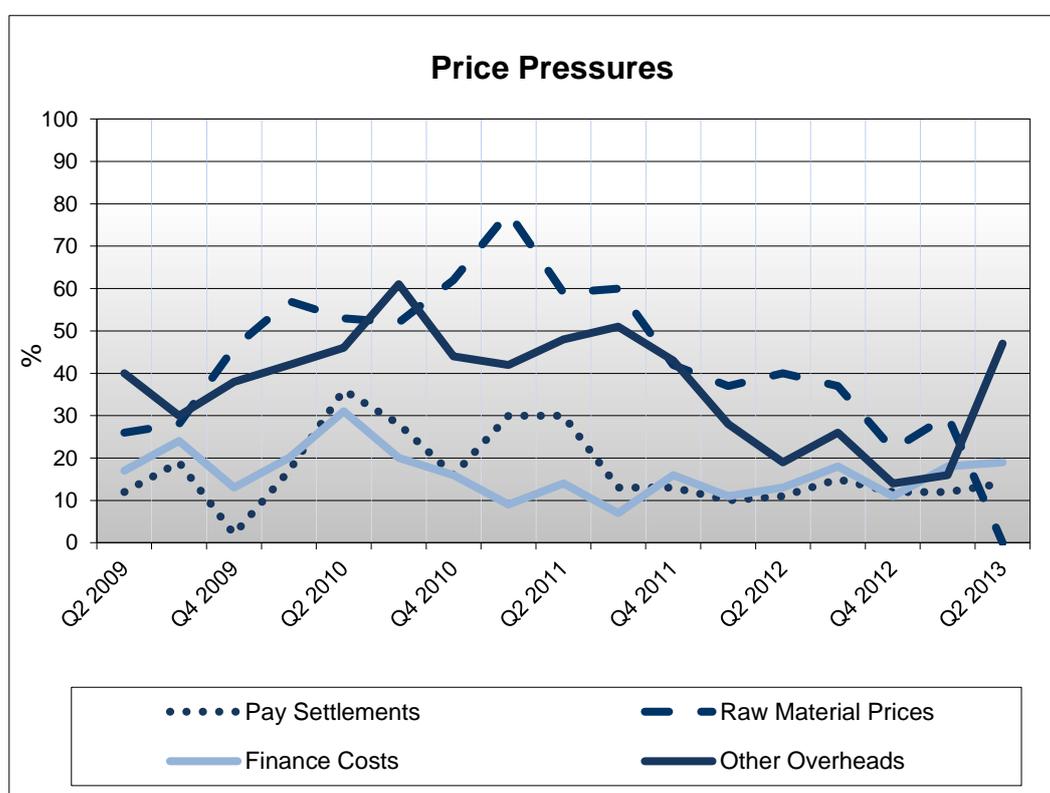
Both Turnover and Profitability expectations for the coming year have stalled this Quarter, returning to levels last seen throughout 2012 - after confidence had briefly and unexpectedly ascended to new heights during the first Quarter this year. This is very disappointing and suggests that the early positivity which had seemed to herald growing momentum in our recovery has faltered. Turnover Expectations fell from 74 to a balance of 49, bringing our graph back to precisely the position seen at the end of last year. Alarming, Profitability Expectations have fallen even further, from 68 points in Quarter 1 to 40 this time. This returns profitability expectations back down to the levels last seen in early 2012. While these figures may seem reasonable when compared with the low levels of expectations during 2009 and 2011 they are nevertheless disappointing – particular after such a bright and bullish start to this year.



PRICE PRESSURES NOW LESS OF AN ISSUE

- **Raw Material concerns, in particular, abate**
- **Other Overheads rise despite trend**

With interest rates remaining at record low levels, and the difficult economic landscape continuing to moderate pay settlements, some Price Pressures have broadly fallen away, and have not been an issue for several years. Even worries about Raw Material prices continue to abate, no doubt due to generally lower levels of economic activity throughout the world giving rise to lower commodity prices in highly competitive international markets. But interestingly, the category describing non-specific business costs ('Other Overheads') has risen significantly, by 32 percentage points (from 16% in Q1 to 48% this time). As may be seen in the next section of this report, Inflation is by far the biggest external factor of concern for businesses in our region, and it is the feeling that costs are rising due to domestic inflation which is doubtless the reason for the expression of heightening concerns about 'Other Overheads'.

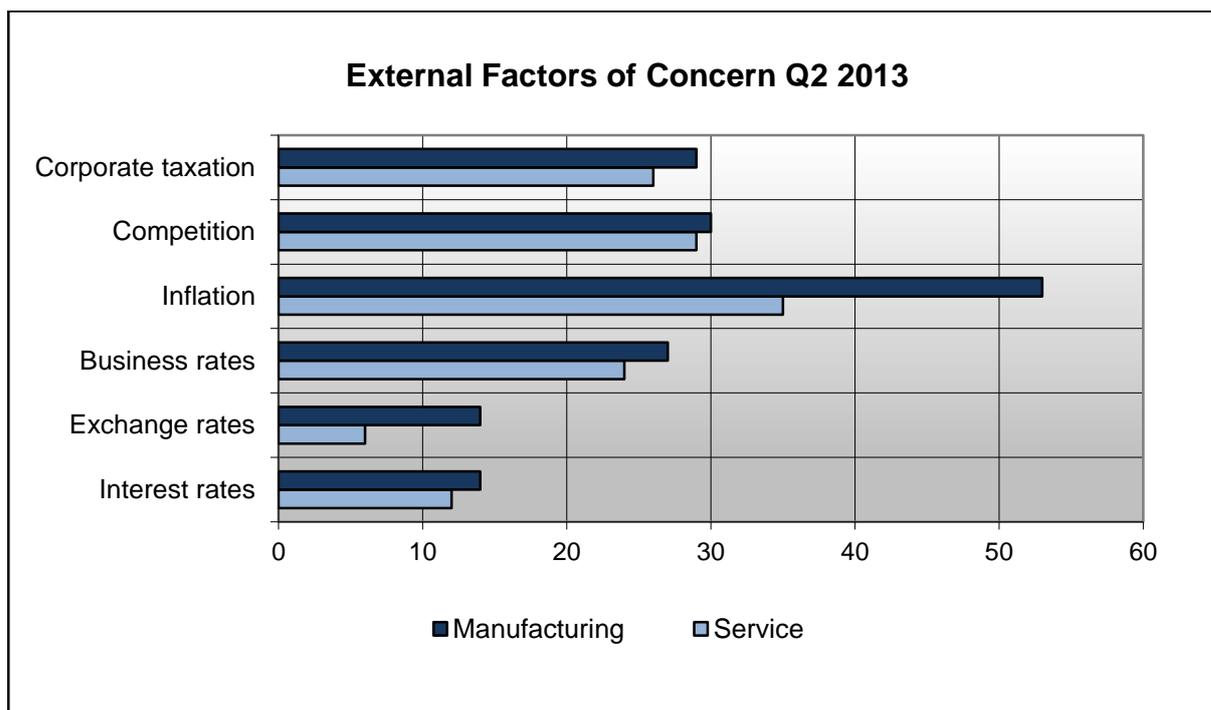


INFLATION REMAINS KEY WORRY

- **Competition and taxation also concern our Regions businesses**

External Factors of Concern follow the same patterns and ratios for both the Manufacturing and Service Sectors. Exchange Rates are understandably of more concern to manufacturers than to the

service sector because with margins squeezed to maintain competitiveness the smallest adverse variations in exchange rates when buying from or selling into world markets can cause loss-making situations to arise very quickly indeed. But it is inflation which is of the biggest concern to our members. With some uncertainty now arising from the departure of Mervyn King from the BoE and the arrival of Mark Carney as the new Governor, and with some £425bn of new money having been injected into the economy in the form of Quantitative Easing, the concern is understandable.



USEFUL LINKS

Mid Yorkshire Chamber of Commerce and Industry
www.mycci.co.uk

Office for National Statistics
www.statistics.gov.uk

HM Treasury
www.hm-treasury.gov.uk

British Chambers of Commerce
www.britishchambers.org.uk/

Department for Business, Innovation and Skills
<https://www.gov.uk/government/organisations/department-for-business-innovation-skills>

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.