



**MID YORKSHIRE
CHAMBER OF COMMERCE**

QUARTERLY ECONOMIC SURVEY

3rd QUARTER 2014

(July - September)

Executive Summary



UK Sales & Orders

The domestic market has lost some momentum during the summer period, with reduced sales and diminished order books.



Export Sales & Orders

Export performance has disappointed in the third Quarter of the year, with sales and orders proving more difficult to secure.



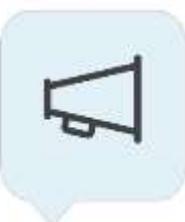
Employment

Reported Employment and Employment Expectations faltered over the holiday period.



Investment

Investment indicators remained stable in the third Quarter, but money invested has had an adverse effect on Cashflow.



Confidence

Business Confidence has fallen over the summer period, with issues surrounding interest rates, exchange rates, currencies and world events creating business uncertainty.



Price Pressures & External Factors of Concern

Raw Material Prices remain a key concern for manufacturers. Worries about Inflation now affecting manufacturing and service sectors.

Foreword

A number of our economic indicators have fallen during this third Quarter of the year. This was unexpected after we reported last time that the economic recovery had broadly been maintained. As we have often pointed out about the QES survey, optimism in some areas is counterbalanced by weaker figures elsewhere, and that peaks and troughs are to be expected. But quite a number of events over the summer period have occurred which have created uncertainty, and our survey reflects reduced levels of business confidence.

Home Sales and Orders have declined during the period, and exporters have reported significant reductions in sales and order intake. The difficulties for exporters include declining market demand in Europe and the continuing financial uncertainties within the Eurozone which have reduced demand for our products in Europe - our biggest overseas market. German business confidence recently fell for the fifth successive month, Eurozone business growth continues to slow down, and stagnation has been in evidence elsewhere in Europe, particularly in France. But for British exporters all these European problems when combined, throughout the last Quarter, with the continued strengthening of the Pound against the Euro and the US Dollar have rendered our goods and services much less competitive in all overseas markets. Business Confidence has also been shaken due to uncertainty which has arisen due to other factors - there has been little perceived management or leadership of the economy over the last three months as Parliament was closed for the summer recess and politicians were largely pre-occupied with the Scottish Referendum. The escalating troubles in the Middle East have progressively added to uncertainty. Even more uncertainty has been caused by mixed messages about interest rates, and, business confidence is likely to remain uncertain until the UK General Election has taken place and a settled economic landscape has been clearly defined.

Steven Leigh – Chamber Head of Policy and Representation

Regarding particular difficulties with exporting:

“The recent political and economic uncertainty surrounding Scottish independence and an EU referendum which could result in a withdrawal from the Common Market highlight the need for all businesses to consider the question as to whether they should be involved in export. Our success as a nation depends very much on our ability to sell our goods and services worldwide, and whilst exports from the U K have generally improved, much more needs to be done if we are to achieve economic stability. Too much of our overseas trade is with Europe and there are large areas of the globe where we do very little in the field of exports. The recent initiative by BCC and UKTI to create an international business network connecting our businesses to markets through our unique global Chamber of Commerce movement should offer a more structured system of support, and at last the Government appears to have woken up to the idea that such services are key to enable us all to achieve economic success.”

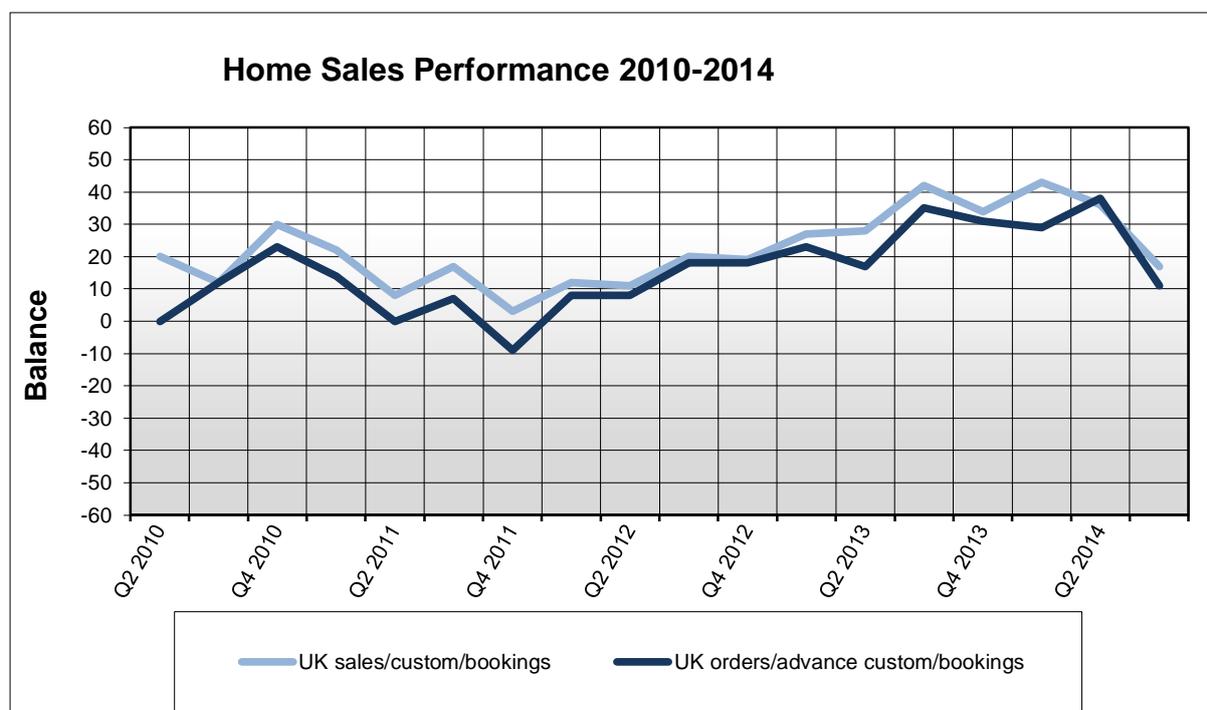
David Horsman – Chairman of the Chamber Board

UK SALES AND ORDERS LOSE PACE

UK Sales and Orders during the third quarter of 2014 have fallen to mid-2012 levels, with a significant drop in sales balances and orders levels marking the first results since Q1 2013 which have bucked a generally positive and upward trend.



However, whilst Home Sales declined by 19 points to 17 this quarter, our survey reveals that some 79% of firms reported that Home Sales either remained constant or increased during the quarter. UK Orders also fell significantly, by 27 percentage points - from 38 points last time to 11% this quarter, but again a large proportion of firms (75%) reported that Orders remained constant or increased. But overall, the domestic recovery has lost momentum during Q3 and it is likely that achieving an accelerating pace of growth will become a major challenge to business owners and policy makers through to the end of the year and into 2015.



EXPORT SALES HARDER TO SECURE EXPORT ORDERS TAKE A TUMBLE

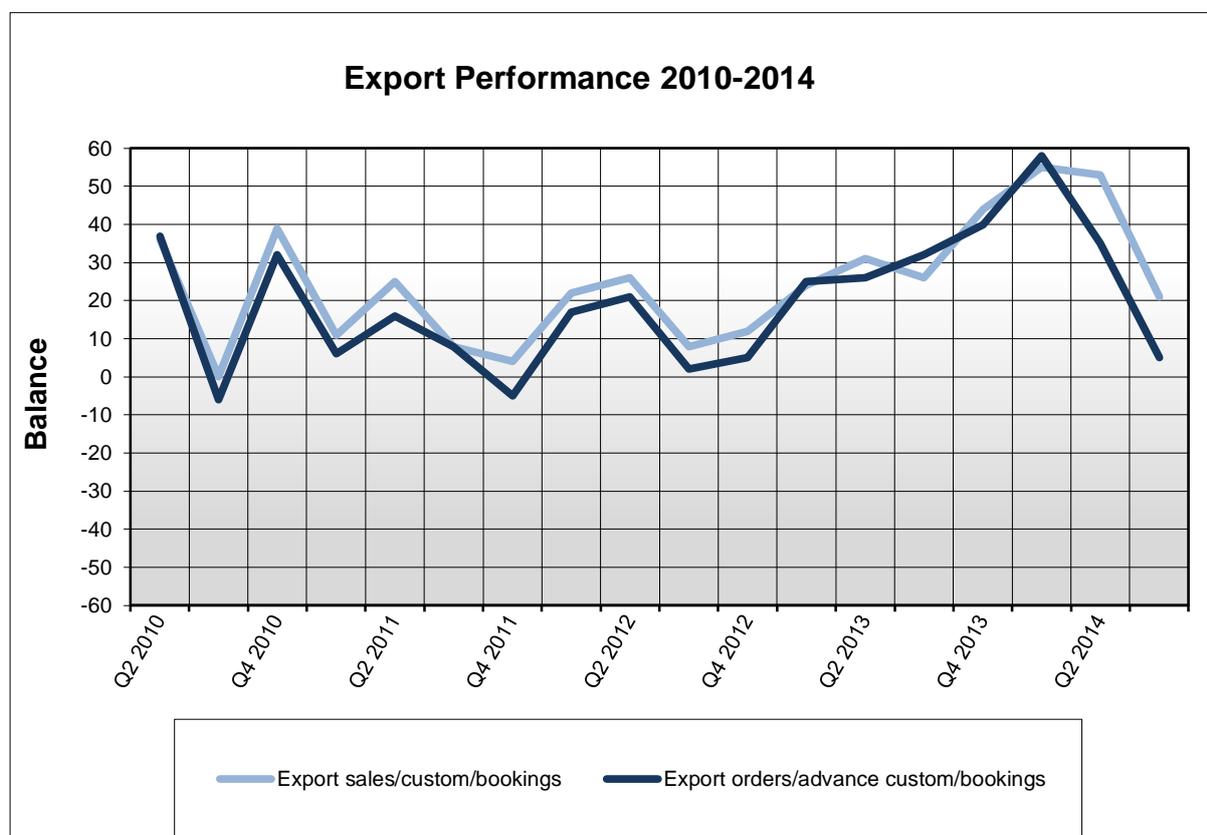
The positive upswing in our region's export sales growth took a tumble during the summer, and after a sustained period of upward trends the sales and order balances fell back to levels last seen in 2012.

Export Sales balances suffered a large fall of 32 points, from 53% in Q2 down to 21% this time, and unfortunately Export Orders also tumbled, from 35% last time to just 5% in Q3.



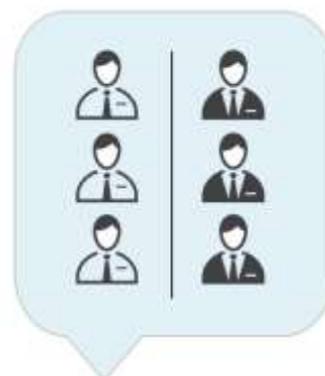
In common with the Home Sales and Orders, a more positive interpretation of these Export figures is that 83% and 73% of businesses reported either 'remained constant' or 'increased' for sales and orders respectively. But nevertheless, the declining balances in both should be taken as a strong warning that we cannot take it for granted that continued and sustained recovery is any kind of a formality. No doubt the declining market demand in Europe and the continuing financial uncertainties within the Eurozone are having serious effects on demand for our products in Europe - our biggest overseas market - and throughout the last Quarter the continued strengthening of the Pound Sterling against the Euro and the US Dollar has made our products much less attractive in export markets further afield.

Whilst earlier in the year we have welcomed increased support for exporters from UK Export Finance (UKEF) and UK Trade and Investment (UKTI), we need to recognise that the rebalancing of our economy towards exports will not come easily - and much more could be done to promote international trade if greater funding were made available by Government. Recent initiatives by the British Chambers of Commerce (BCC) and UKTI to create an international business network utilising the unique connections of Chambers of Commerce throughout the world will no doubt facilitate a more structured system of support. It is envisaged that soon any Chamber member will be able to contact their local Chamber and receive comprehensive help and support with exporting to most countries in the world. The Mid Yorkshire Chamber has for many years lobbied for help with funding for the provision of services of this nature, and at last the Government appears to have woken up to the idea that such services will be key to enabling us to achieve export success and to securing our wider economic wellbeing.

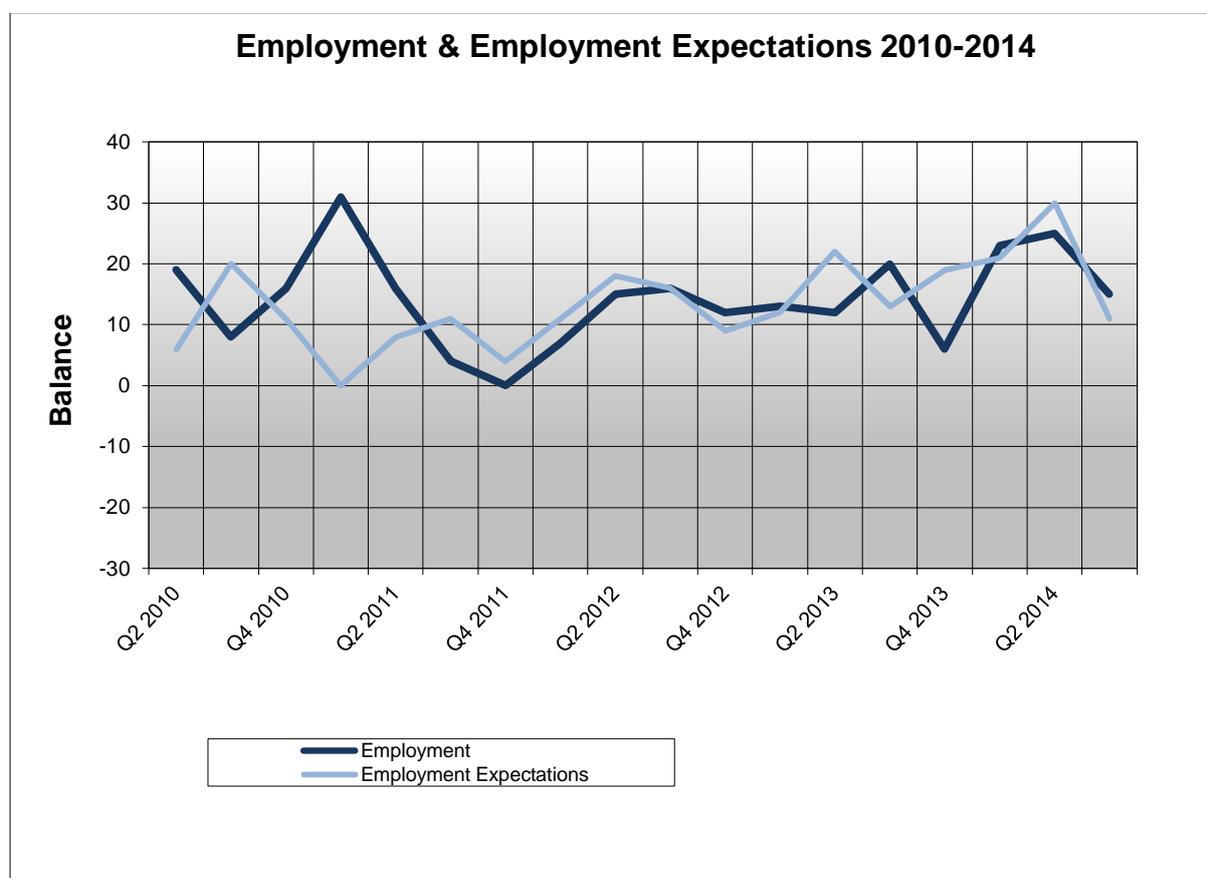


EMPLOYMENT GROWTH FALTERS EMPLOYMENT EXPECTATIONS DIMINISH

Unfortunately, the steady progress which we had reported in the earlier part of the year was not sustained during the third Quarter. Our chart below which until Q2 had depicted a generally modest ongoing upturn in the Employment and Employment Expectations trends fell back to more modest levels.



Employment balances have fallen by 10 points from 25% in Q2 to 15% this time, and Employment Expectations disappointingly fell away from 30% in Q2 to 11% in Q3. This is a reminder that our economic recovery remains a great challenge, and that there are still numerous structural issues surrounding labour and skills which need to somehow be resolved. As we have observed before, major concerns remain regarding youth unemployment, and we need to reinforce our efforts to raise skills levels and to engage young people in work-placements, study and training so that they will possess the skills which are relevant to the workplace and which meet the needs of employers.



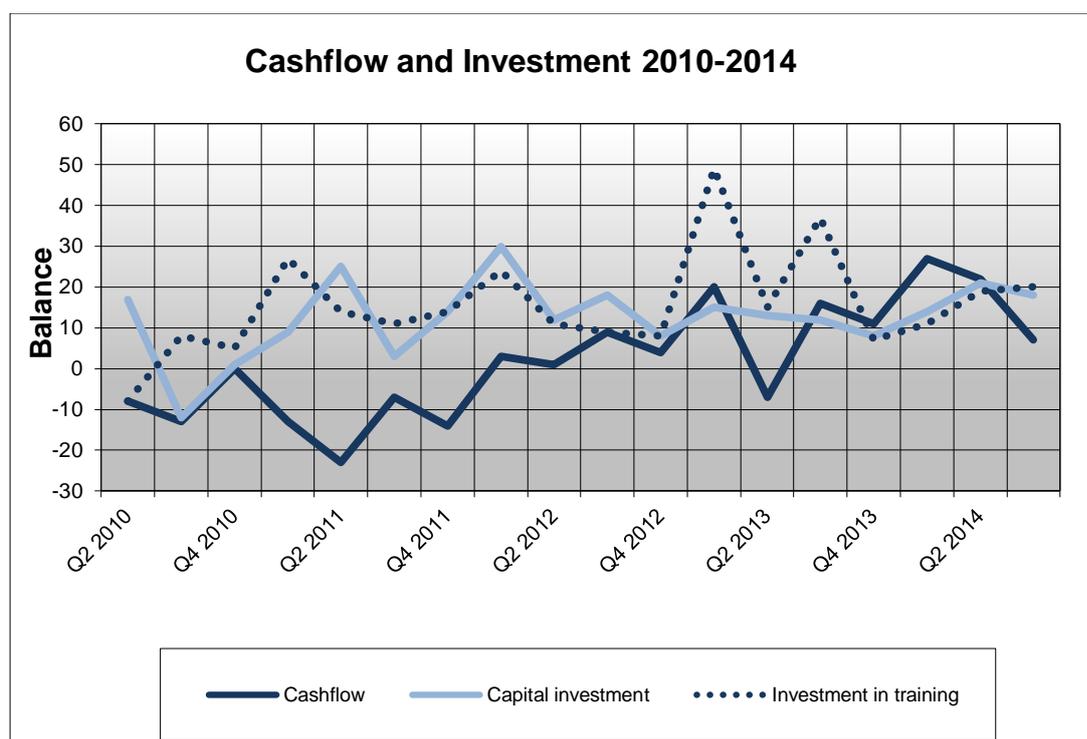
INVESTMENT INDICATORS STABLE CASHFLOW CONTINUES TO BE ERRATIC



Our chart below demonstrates the erratic patterns which we have reported in recent years. The investment indicators have stabilised since our Q2 survey, but the Cashflow figures continue to follow an erratic course.

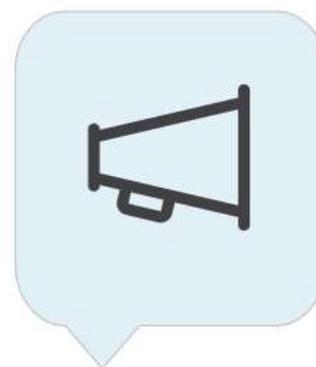
It is good to see that the balances for Capital Investment in Plant and Machinery have been maintained in Q3 at a similar level to last time at 18% (Q2 21%), and that Investment in Training has stabilised during Q3 in like manner at 20% (Q2 19%). These are welcome signs following the improvements which had been reported earlier this year. The Cashflow figure has unfortunately fallen back to levels last seen in Q3 2013, with a drop of 15 percentage points from 22% in Q2 to 7% this time, and this re-emphasises the erratic nature of Cashflow balances which have been reported over the last four years.

In our QES Analysis last time (Q2 2014) we referred to and welcomed budget measures which doubled the tax allowances for investments in plant and machinery through 2015, and whilst those measures will no doubt have encouraged businesses to continue to invest in Training and Capital Projects the expenditure could have adversely affected Cashflow in many cases as is suggested by these results and our graph below.



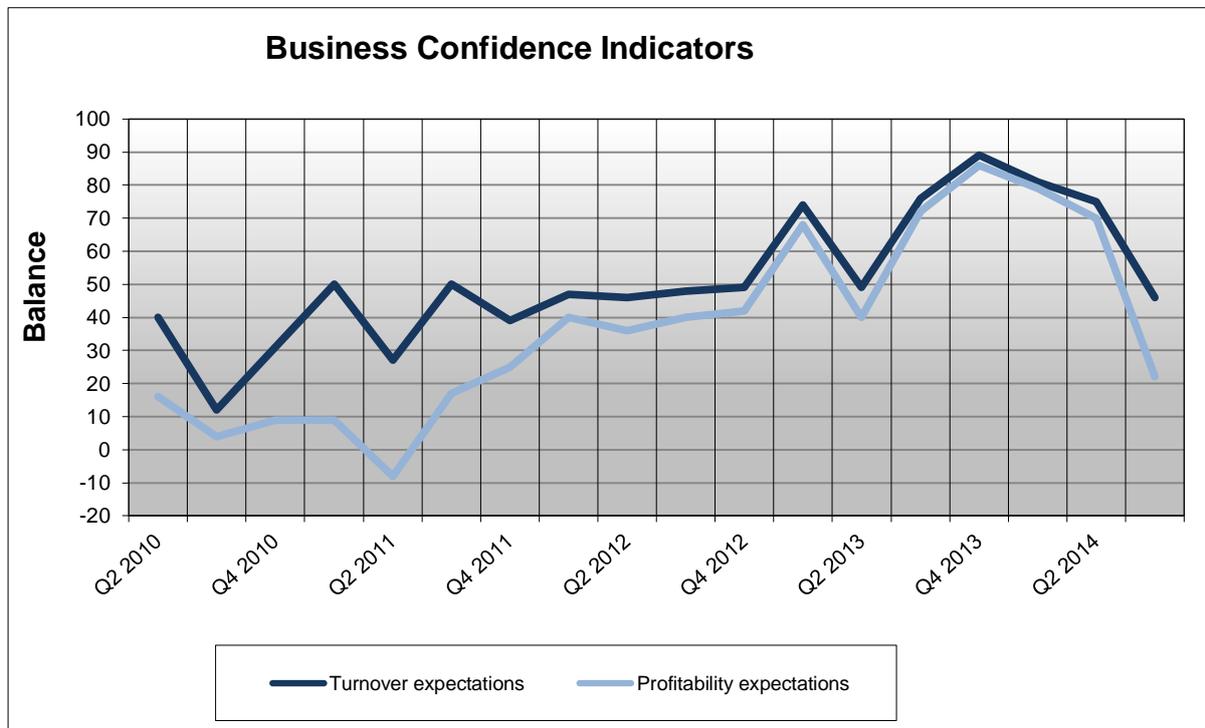
BUSINESS CONFIDENCE SHAKEN

It is worth reiterating that our survey reports the sentiments of our businesses rather than analysing hard data. It is therefore worth noting that 89% of firms reported that they expected that Turnover would either remain constant or increase, and some 77% of companies thought Profitability would improve or stay the same.



Turnover Expectations took a tumble in Q3 down to 46% from 75% in Q2, and Profitability Expectations decreased significantly in Q3 down to just 22% from 70% last time. This indicates that confidence has clearly been shaken over the last three months.

Sustained business confidence is essential if we are to achieve economic growth, and there are a number of possible reasons why business confidence has been shaken recently. Firstly, there has been little perceived management or leadership of the economy over the last three months as Parliament was in the summer holiday recess at the same time as politicians were largely pre-occupied with the Scottish Referendum. The escalating troubles in the Middle East have progressively added to uncertainty, as have the economic difficulties in Europe. Yet more uncertainty has been caused by mixed messages about interest rates as well as difficulties for our exporters due to the continued strength of the Pound against the Euro and US Dollar. Finally, business confidence is likely to remain uncertain until the UK General Election has taken place and a settled economic landscape has been clearly defined.

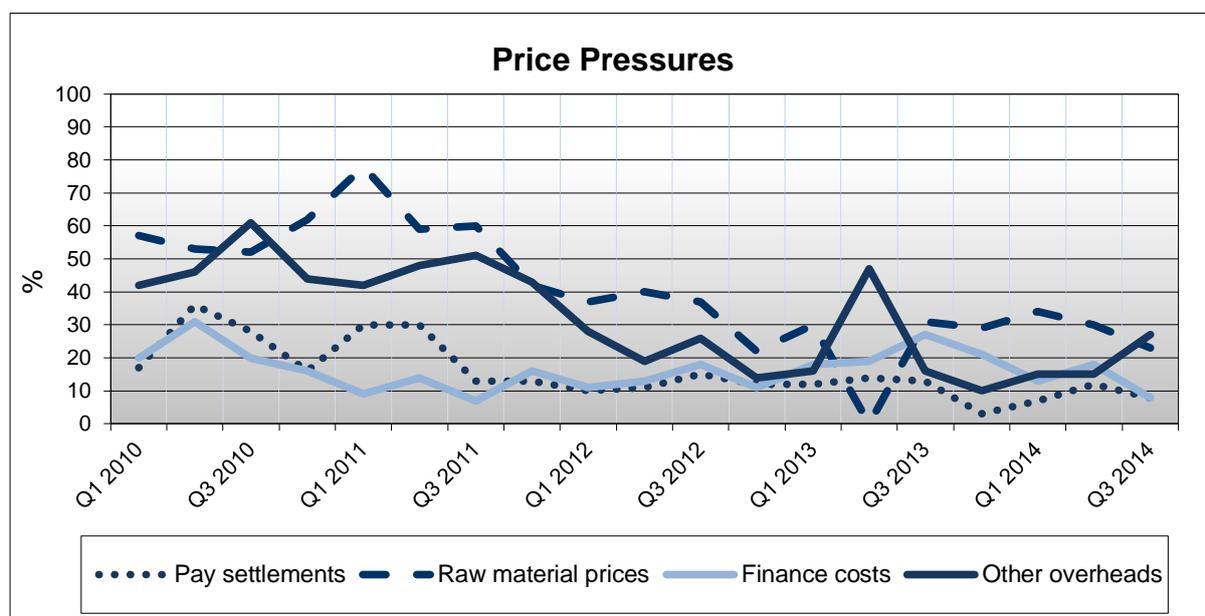


PRICE PRESSURES AT RELATIVELY LOW LEVELS RAW MATERIAL COSTS WORRY MANUFACTURERS

Overhead costs remain the greatest price pressure on businesses in the third Quarter of 2014. Finance Costs, Pay Settlement and Raw material Price worries have all abated somewhat during the last three months.



Pay Settlements have fallen back to 8 points in Q3 (from 12% last time, and Finance Cost concerns have also fallen from 18% last time to 8% in Q3. Other Overheads have risen by 12 points from 15% in Q2 to 27% this time. Raw Material Price worries have again fallen slightly, but remain a concern (30% in Q2 down to 23% this time). For manufacturers, Raw material Prices are the principle issue, with 42% reporting Raw Material Prices as a serious worry for their business.



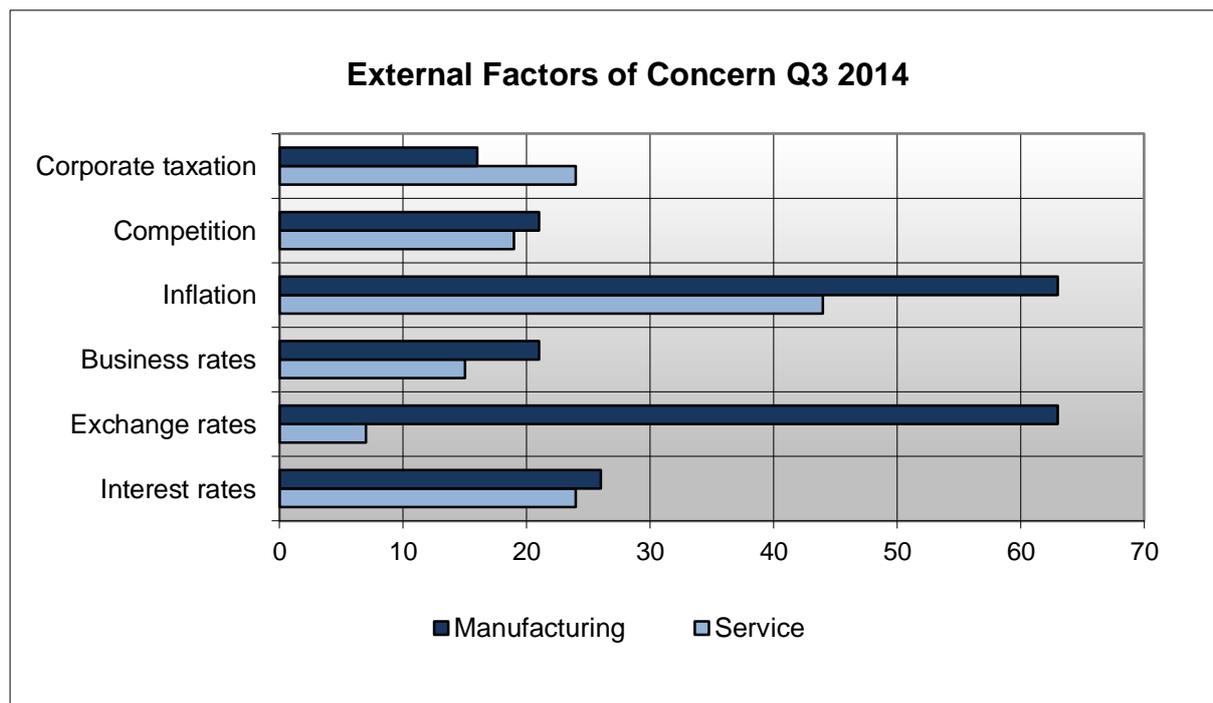
INFLATION WORRIES FOR BOTH SECTORS

EXCHANGE RATES A BIG ISSUE FOR MANUFACTURERS

The common key area of concern for businesses across both the manufacturing and service sectors is Inflation. For manufacturers Exchange Rates have become as equally concerning as inflation, and for Service Sector Companies Interest Rates and Corporate Taxation are becoming more worrying.

Inflation has returned as the principle concern for business. As we have said in previous surveys, the cumulative effect of inflation in recent years has eroded margins for many businesses and it is clear that this impact is not working it's way out of the system.

It is worth noting that for exporting manufacturers Exchange Rates have now become a very serious concern. The continued strength of the Pound against the Euro and the US Dollar is now making it very difficult for our exporters to compete internationally. The aggregation of a weak domestic market, persistently high overhead costs of doing business, greater competition overseas and less competitive export prices are now presenting manufacturers with very significant challenges.



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.

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.