MID YORKSHIRE

CHAMBER OF COMMERCE

QUARTERLY ECONOMIC SURVEY

3rd QUARTER 2018

(July – September)

This report presents the results of the Quarterly Economic Survey (QES) of businesses throughout the Mid Yorkshire Chamber area, conducted in collaboration with the British Chambers of Commerce (BCC). The BCC National Survey is the UK's largest private-sector Survey of business sentiment, and a leading indicator of UK GDP Growth.

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

Executive Summary

UK Sales give up recent gains, whilst UK Orders take a dip

Despite the fact that **UK Sales relinquished the improvements reported in Q2, and Orders dipped too, the figures remain at historically robust levels.** The figures are relatively stable and **hopefully they will be maintained through to the end of the year.**

Export Sales and Orders disappoint

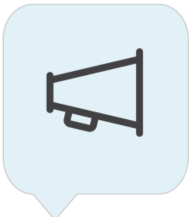
Unfortunately, **Export Sales and Orders were disappointing, reverting back to 2017 levels.** This is a reminder that Export markets can quickly be affected by world events. It is to be hoped that global markets will be more favourable to our Exporters during the last Quarter of the year.

Employment and Employment Expectations Steady

Employment and Employment Expectation balances held steady at levels which were generally last reported back in 2015. **This healthy level** is corroborated by official ONS figures for numbers of people in employment.

Cashflow balances at 4-year high, Capital Investments are on hold, and less appetite for Investment in Training.

Pleasingly, Cashflow balances increased by 10 points to a 4-year high balance of 15%. **Capital Investments dried-up this time** (probably accounting for the good Cashflow figures). Investments in Training moderated slightly.



Business Confidence and Profit Expectations dip slightly

Turnover and Profit Expectations have dipped somewhat, but in both cases the balances are generally at levels not much seen since 2014 and the figures point to **a reasonable business outlook** for the rest of the year.

Price Pressures and External Factors of Concern

For Service Sector companies, **Competition** remains the principal item of concern. For **Manufacturers, Exchange Rates** are by far the greatest worry. Unfortunately, rising prices of **Raw Materials** combined with '**Other Overheads'** and **Fuel/Utility costs** continue to outweigh the competitive advantages which apply when we are selling into Export Markets.

Foreword

This survey for the third Quarter of 2018 has produced a mixed and subdued set of results which overall indicate that optimism is beginning to flag as we enter the final Quarter of 2018.

Some of the important indicators in the Survey have been resilient (with Cashflow Balances and Employment the high spots), but Home and Export **Sales and Orders have all been reported at lower levels** than in Quarter 2. However, and on the plus side, UK Sales and Order balances are nevertheless riding at reasonably robust levels which were last recorded in early 2015 - and it is also worth recording that our Survey reports that UK Sales (86%) and Orders (83%) either increased or remained constant during Quarter 3.

Disappointingly, **Export Sales and Orders have decreased significantly,** with both over-compensating for the excellent figures which were recorded in Q2. But despite the lower balances this Quarter, the results are nonetheless standing at the typical and sustained levels which were being recorded during the period 2014-2016.

The slowdown in Export activities has not really come as a surprise – with Brexit uncertainties and the **increasing cost of Raw Materials** making overseas trading progressively more difficult. Whilst the lower Exchange Rates have been beneficial for Exporters in general terms, the Q3 Survey results provide further evidence that the **persistent weakness in Sterling is now probably doing more harm than good**. As a consequence, economists and forecasters are predicting that during the third Quarter of the year our Net Trade is unlikely to have contributed much to UK GDP growth in Q3.

It is no doubt a matter of great concern to the Government that sales and orders both at home and abroad are, at best, static. Weaker Sterling is no longer providing a boon to many of our Exporters, and our Economists at the BCC say that consumer spending is failing to boost the domestic market. Against this background, the Bank of England’s puzzling recent (in August) decision to raise the Base Rate by 0.25% continues to look like a misjudgement. With economic conditions subdued and ongoing Brexit uncertainty, the BCC believes “there needs to be a greater emphasis on providing increased monetary stability alongside a marked fiscal loosening to lift the UK out of its current low growth trajectory”.

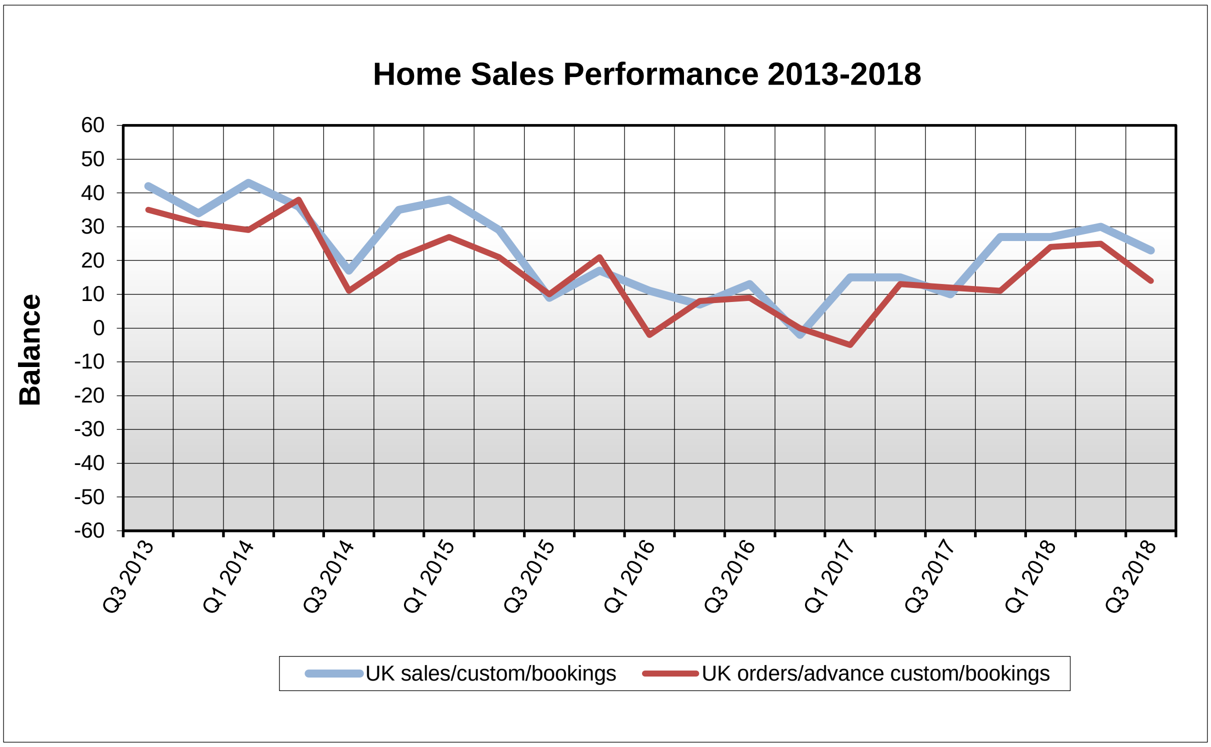
The upcoming Budget on October 29th must surely be aimed at delivering decisive action to boost growth and productivity – because this is precisely the time that the economy needs it most. There has rarely been a more appropriate opportunity for a Government to bolster Business Investment (down in our Q3 Survey), and inspire greater Business Confidence (also down in our Q3 Survey), in the face of the significant business challenges which lie ahead.

In amongst all this, there is one thing which our Members, and the wider business community in our Chamber area, can be certain about. It is that all of us here at the Mid Yorkshire Chamber of Commerce will continue to strive to help businesses to succeed, and to produce true wealth and prosperity in our region for the good of all.

Steven Leigh – Chamber Head of Policy and Representation

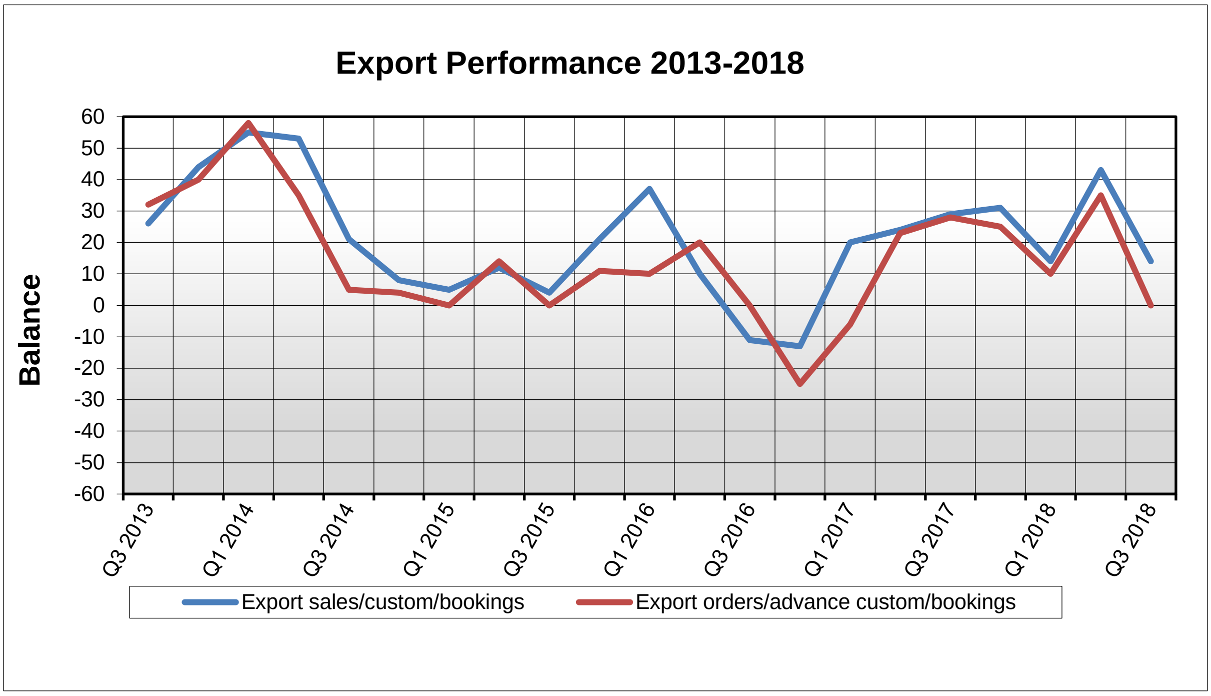
UK SALES RELINQUISH RECENT GAINS
UK ORDERS TAKE A DIP

UK Sales indicators gave up recent gains, at 23% this time, falling from 30% in Q2 - but maintaining levels not generally seen since 2015. The fact is that 86% of companies reported that Sales either increased or remained constant during this third Quarter of 2018. UK Orders dipped by 11 percentage points in Q3 to 14%, (from 25% in Q2). But once again, these balances maintained a level not generally reported since 2015 with 83% of respondents reporting that their Orders increased or remained constant during the Quarter. The relative stability of UK Sales and Orders at these levels, even though they fell this time, is reasonably robust, and hopefully the present levels will be continue through to the end of the year.



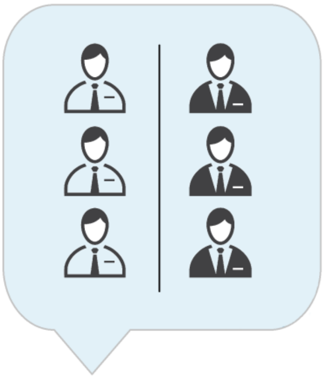
EXPORT SALES AND ORDERS DISAPPOINT

During this third Quarter of 2018, Export Sales decreased significantly, unfortunately falling by 29 percentage points to 14% in Q3 (from a recent high of 43% in Q2). The Export Order balances fell back even more significantly by 35 points to a zero balance (35% in Q2). Disappointingly, these figures from our Exporters are a reminder that Export markets can quickly be adversely affected by world events (this time probably lack of Brexit progress, crude oil price rises and consequential international Currency adjustments).

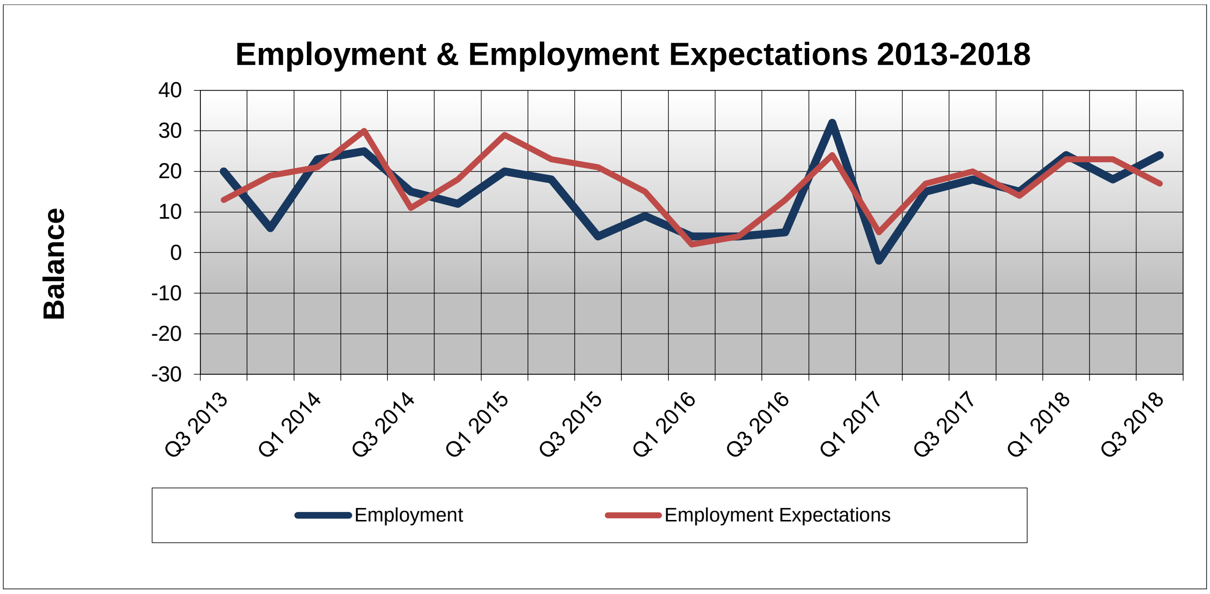


UK EMPLOYMENT BALANCES RISE SLIGHTLY

EMPLOYMENT EXPECTATIONS ADJUST DOWNWARD



After a slight reduction in Q2, Employment balances perked up slightly, but there was a compensating downwards adjustment of Employment Expectations. Employment in Q3 increased by 6 points to 24% (from 18% in Q2). Meanwhile, Employment Expectations were relatively stable at 17%, six points less than in Q2. As Employment figures rise there is naturally a tendency for Employment Expectations to fall as positions are filled. Once again, these are robust balances which are corroborated by recent official ONS Employment figures.

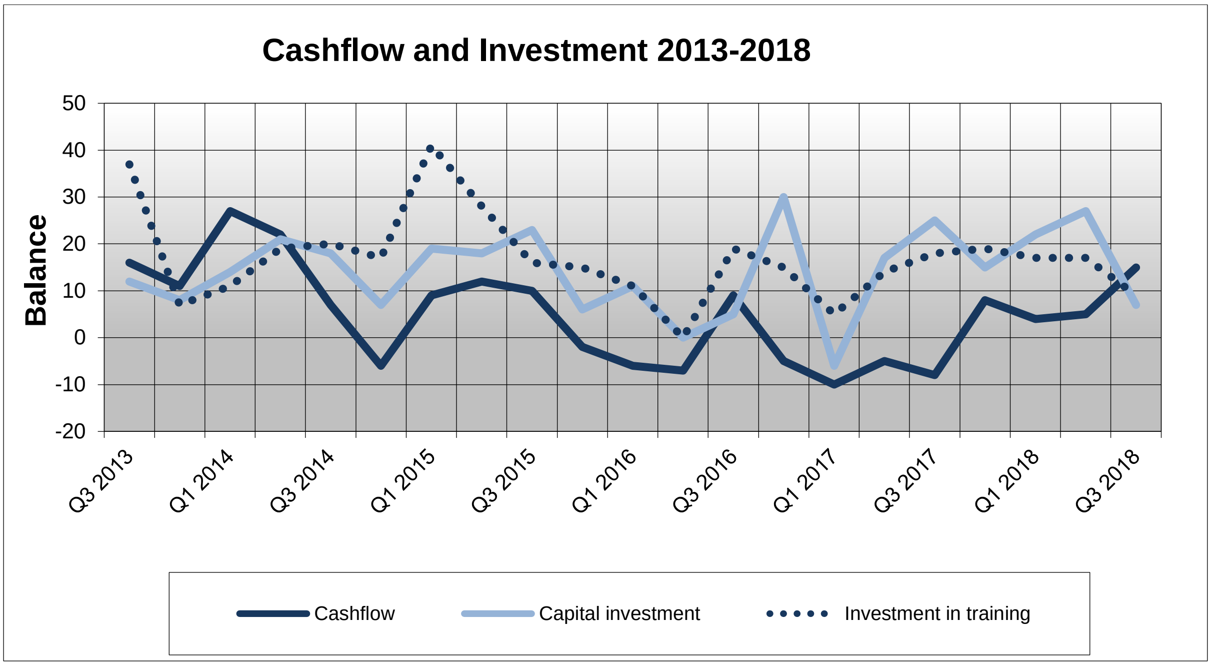


CASHFLOW AT A FOUR-YEAR HIGH

CAPITAL INVESTMENTS ON HOLD

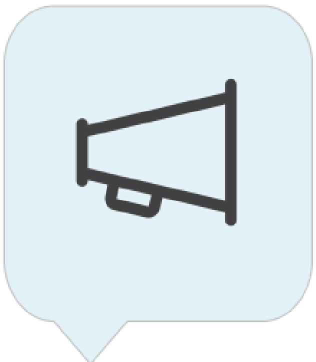
INVESTMENT IN TRAINING DECLINES

In Q3 it is pleasing to report an improving Cashflow balance of 15% (probably due to falling Capital Investments this Quarter, see below). Capital Investment balances fell significantly (7% in Q3 from 27% in Q2). There was also less appetite for Investment in Training (9% this time from 17% in Q2) [This may partly be due to the fall-off in the take-up of Apprenticeship programmes since the introduction of the Apprenticeship Levy last year].

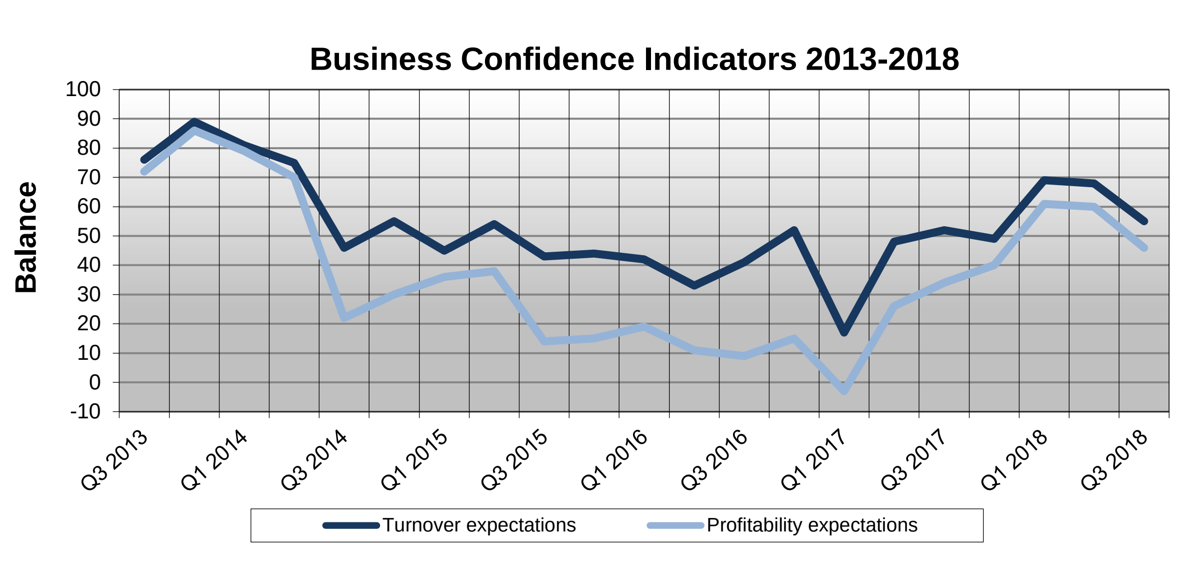


BUSINESS CONFIDENCE LESS CERTAIN

TURNOVER & PROFIT BALANCES STALL

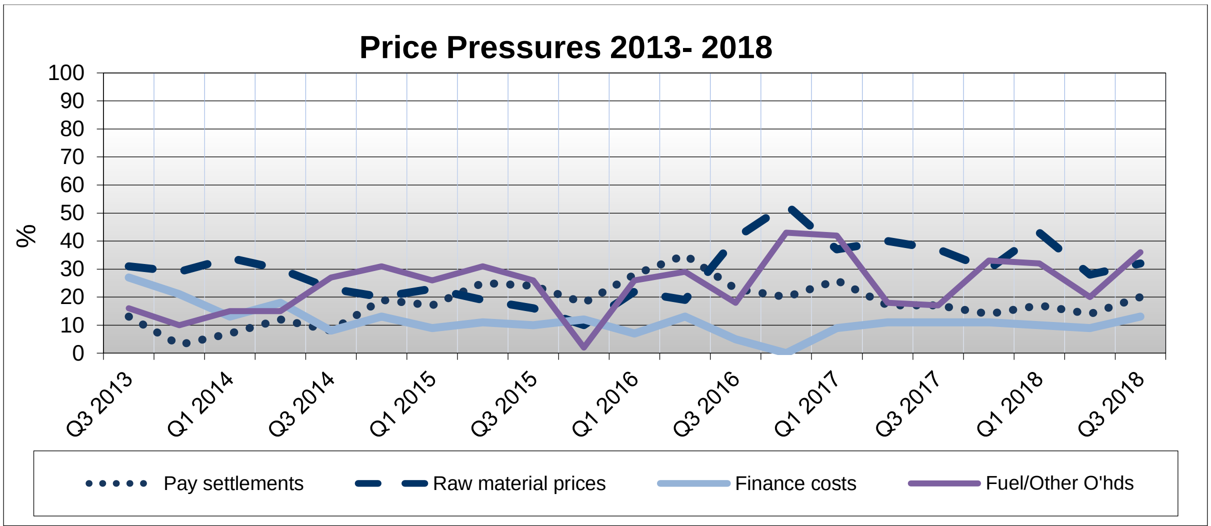


Whilst relatively stable in historic terms, it is nevertheless disappointing to report that Turnover and Profit Expectations have fallen somewhat during Q3. However, it is worth recording that in both cases the balances are generally at levels not much seen since 2014. Turnover and Profitability Expectations both stalled, at 55% and 46% respectively. During this third Quarter of 2018 businesses reported 'increased' or 'remained constant' results for Turnover and Profitability at 93% and 88% respectively (compared with 94% and 93% in Q2). These figures point to a reasonable business outlook for the rest of the year.



PRICE PRESSURES ALL INCREASE DURING THE QUARTER
'OTHER OVERHEADS' WITH FUEL/ UTILITIES AN INCREASING WORRY
RAW MATERIAL PRICES AN ESCALATING CONCERN FOR MANUFACTURERS

In this third Quarter of 2018 all balances for pricing pressures increased compared with the previous Quarter. Concerns about Raw Material Prices increased again this Quarter (32% from 28% last time). 'Other Overheads' combined with Fuel/Utilities became the biggest price pressure at 36% (from 20% in Q2). Sector balances disclose that for **Manufacturing businesses Raw Material Prices remain the greatest concern, at 63%, and 'Other Overheads' when combined with Fuel/Utilities come out at 56%.** Overall, the concerns about Finance Costs remain at a low level (Q3 13%, Q2 was 9%), and worries about Pay Settlements also increased slightly at 20% (from 14% in Q2).

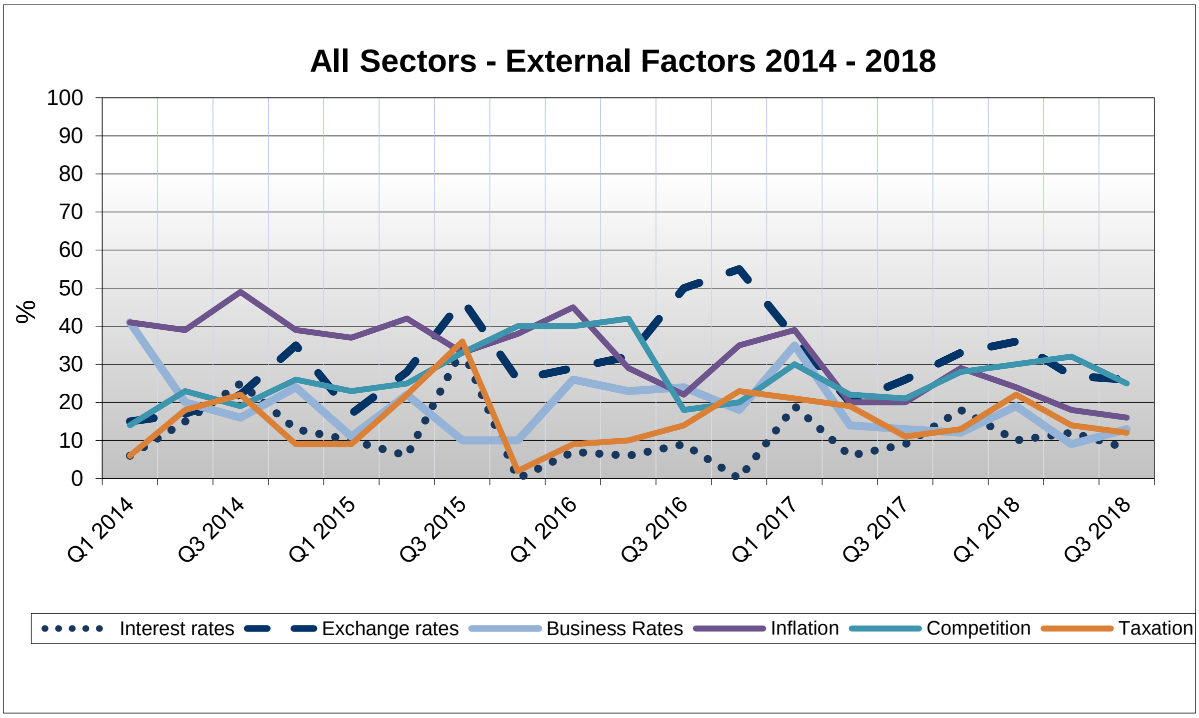


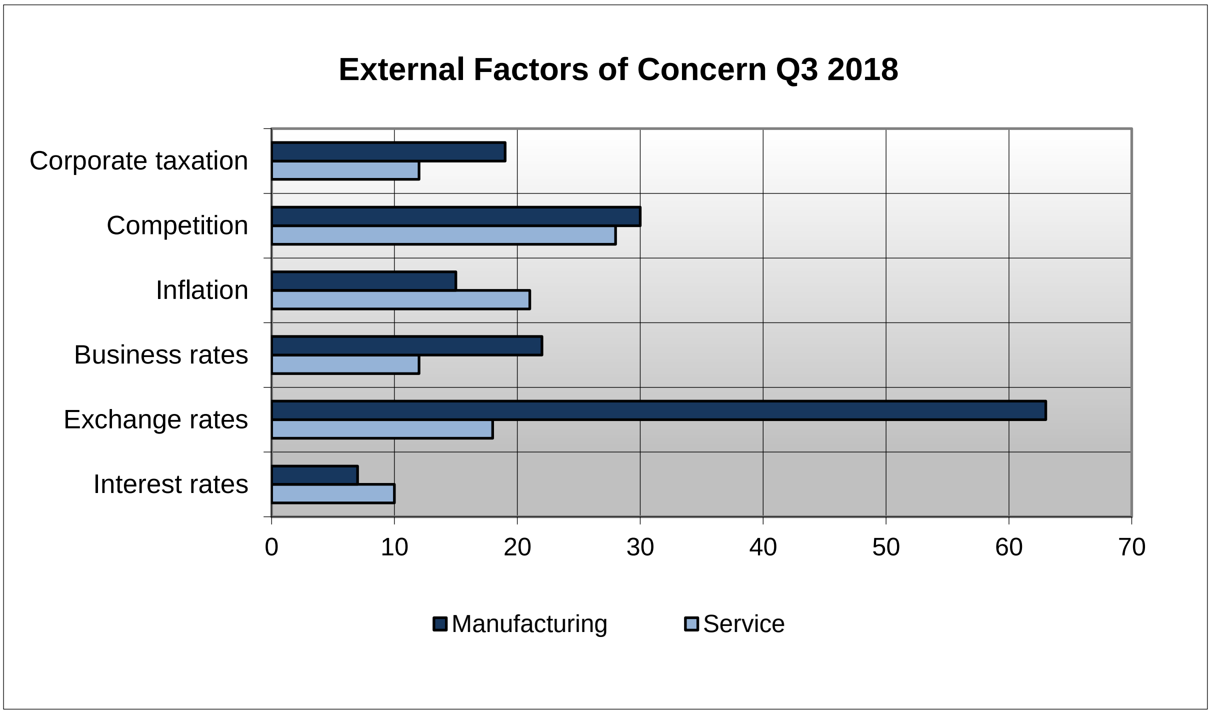
EXTERNAL FACTORS OF CONCERN

EXCHANGE RATES THE PREDOMINANT WORRY FOR MANUFACTURERS
COMPETITION WORRIES BOTH SECTORS
INFLATION BEGINNING TO CONCERN THE SERVICE SECTOR

For Service Sector companies, **Competition** and **Inflation** are the principal items of concern. For Manufacturers, **Exchange Rates** and **Competition** are **the greatest worries.**

Over both Sectors the only increasing (but slightly) concern is **Business Rates**.





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 Limited
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, Energy & Industrial Strategy
www.gov.uk/government/organisations/department-for-business-energy-and-industrial-strategy

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.