MID YORKSHIRE

CHAMBER OF COMMERCE

QUARTERLY ECONOMIC SURVEY

4TH QUARTER 2013

(OCTOBER- DECEMBER)

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 Q4 2013 report:

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GROWTH CONTINUES IN EXPORT MARKETS

EMPLOYMENT EXPECTATIONS RAISED FOR 2014

INVESTMENTS STALL

BUSINESS CONFIDENCE RESURGENT

PRICE PRESSURES DECREASE

BUSINESS RATES AND EXCHANGE RATES MAIN EXTERNAL CONCERNS

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.

Chamber Head of Policy, Steven Leigh, comments on this survey:

“As we begin a New Year it is encouraging to see positivity among Mid Yorkshire companies. It has been a difficult few years for the business community and many firms across all industries and of all sizes have had to be agile and determined in order to survive. However for many companies this determination has paid off. Difficulties in the home market have encouraged companies to find new customers at home and abroad. Rising costs have led many businesses to re-negotiate supply chains, and some companies have used the period to update their core products and services by investing in research and development. And so it is with a degree of optimism that we approach the New Year, in the hope that these strategic decisions; the efficiencies found, the new products and services developed, the difficulties overcome, will place Mid Yorkshire firms in an ideal position to exploit new opportunities in the coming year.

But much of this will rely on Government. Whilst the substance of many recent policy announcements – national insurance tax breaks, infrastructure investment, the British Business Bank – has been positive, there has been too much equivocation on issues of real significance. This has particularly been the case with politically sensitive areas, such as membership of the European Union, where divisions both between Coalition partners and within parties have been evident. On such a serious issue, which has a significant impact on investment decisions for UK companies, as well as trading decisions for overseas partners, more certainty is vital. Political posturing on this issue, and on the future of our airports and railways, creates a climate of uncertainty. It is our sincere hope that during 2014, and in the lead-up to the 2015 General Election, there will not be further exaggerated political posturing on these issues.

Finally, we also hope for a longer term solution to the issue of Business Rates. As we have repeatedly stated, this tax is a counter-intuitive levy which is having serious continuing effects on small businesses and on our high streets. Government should give consideration to a full review of the ongoing fairness and relevance of this tax in view of new factors, such as the increase in internet trading, if we are to prevent our town centres from becoming even more adversely affected. We will be emphasising this message to policymakers at all levels in the New Year.”

Speaking on behalf of Chambers in the Yorkshire and Humber Region, Chamber President David Horsman added:

“Businesses in the Yorkshire & Humber region had another good quarter according to our latest survey. All the key balance figures indicate healthy growth for both manufacturing and service firms, particularly in export markets. What is especially pleasing is the strong confidence balance figures. Businesses across both sectors are confident that the next 12 months will see their turnover and profitability increasing. And this should result in more investment and greater employment in the region. But the economy is still not in as strong a position as we would like. If the recovery is to be sustainable in the longer term then we need to see many more pro-business policies from the government. Business rates, poor infrastructure and difficulty accessing finance are just some of the issues that continue to hold businesses back and require serious consideration from policy-makers”.

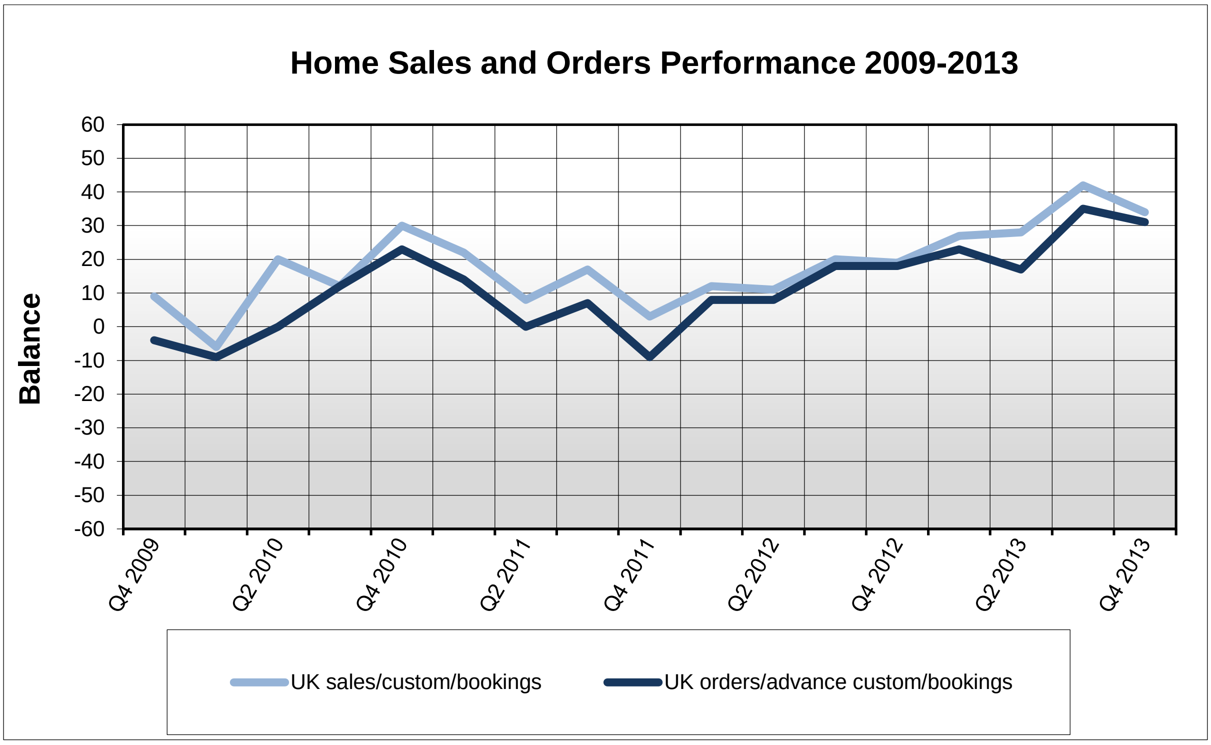
UK SALES AND ORDERS ENCOURAGING

While first impressions of the trend lines depicting UK Sales and Orders in Quarter 4 may appear disappointing, the graph belies an encouraging quarter of figures, with the overwhelming majority of firms reporting positive results.

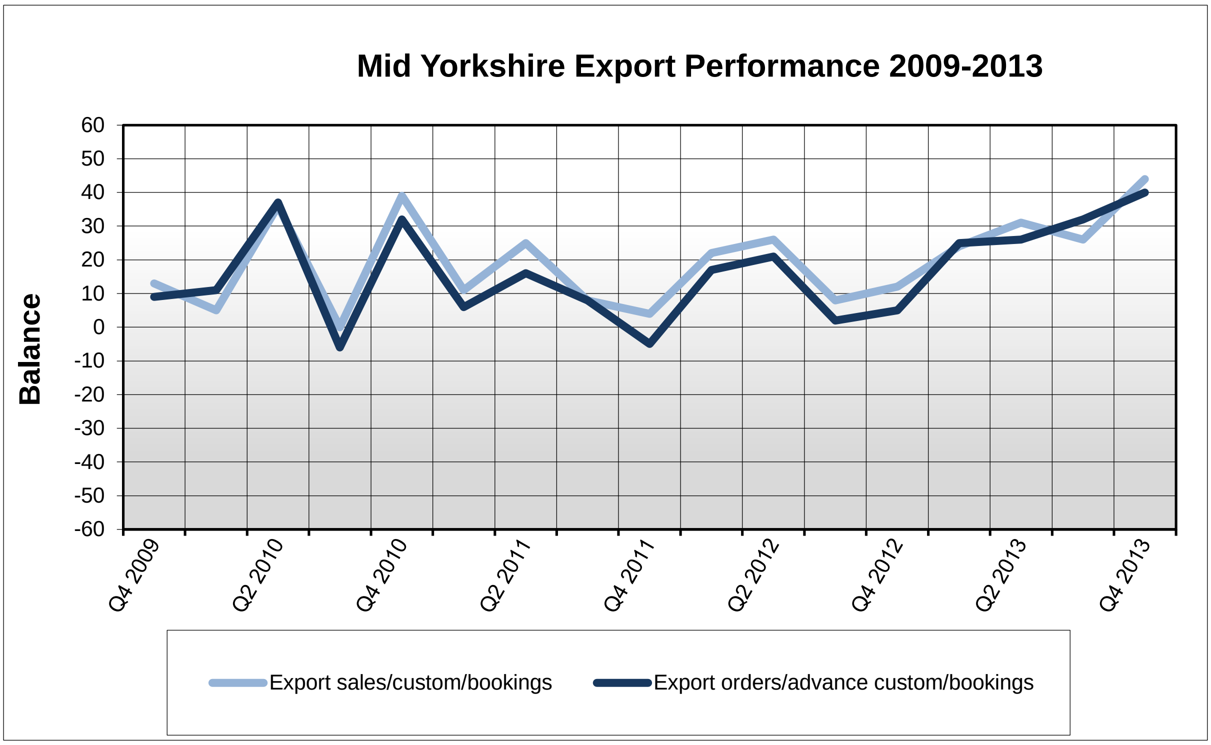
Home Sales have fallen by 8 points to 34 this quarter, from a peak of 42 points in Quarter 3. The detail of our survey, however, reveals that 93% of firms reported that Home Sales have either remained constant or increased this quarter.

Similarly, UK Orders have fallen from 35 points to 31 this quarter, but in this case 98% of firms have reported Orders remaining constant or increasing. This indicates a local economy which is beginning to settle into more moderated growth, and it is worth noting that this quarter's figures remain at a higher level than since our graph started in Q4 2009.

Stability is returning to the domestic market and many firms are now beginning to return to growth. We hope that this stability will remain a feature of our economy in 2014, and will be matched with a renewed confidence that will encourage firms to invest and expand.

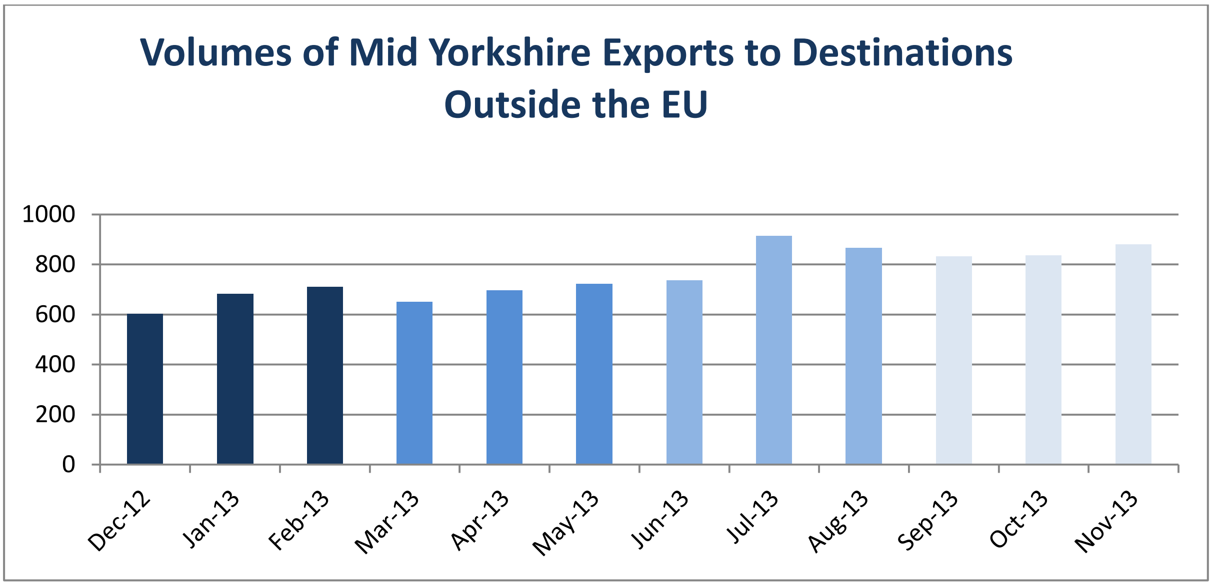


GROWTH CONTINUES IN EXPORT MARKETS



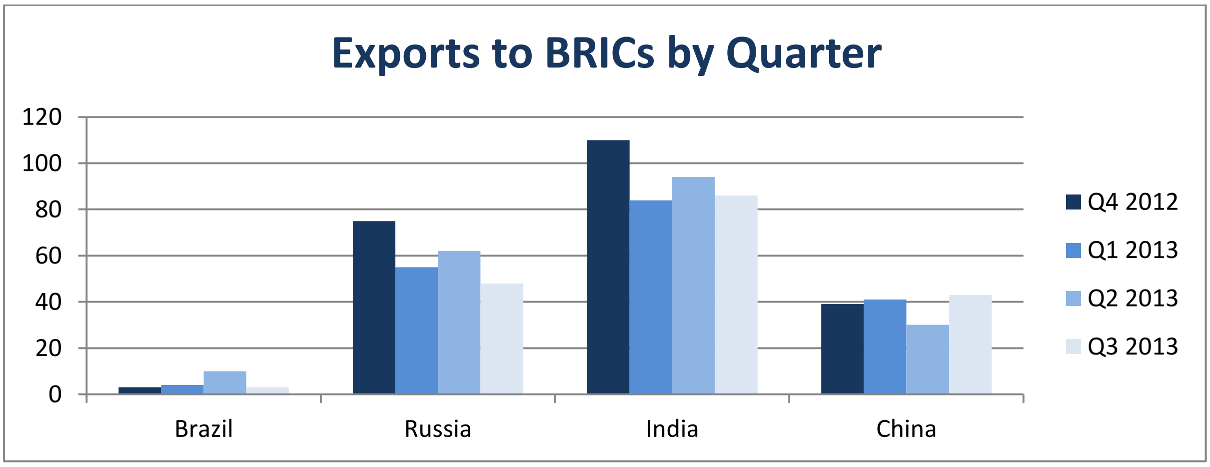
This graph shows export performance over time. As may be seen, this is an indicator which is subject to particular volatility, but during 2013 the trend line has steadied and clearly indicates more consistent quarterly growth. Comparing current export levels to historic figures it should be noted that present performance figures exceed quarterly highs over the whole of the last four years.

Export Sales balances this quarter have reached 44, rising encouragingly from 26 points last quarter, while Export Orders are up 14 points, to 40% this time from 26 in Q3. These are welcome figures for the final quarter of the year, and there is room for cautious optimism that these improved trends will be maintained in the first Quarter of 2014.



The above graph shows export volumes to destinations outside the European Union across the year. After a strong start to the year businesses experienced a slight decline in sales in the second quarter. The final two quarters of the year have been more positive, with export volumes maintaining a consistently high trend line.

The graph below shows Mid Yorkshire exports to the BRIC economies over the last year. This selection of export destinations depicts comparative volumes of trade, as well as illustrating growth or decline in that trade over the last year. There is clear room for growth in exports to the BRIC economies, but firms require greater support to reach these markets. UK Export Finance is a particularly useful product, but more can be done to raise awareness among businesses of this provision and to ensure the service is relevant and suitable for smaller firms.

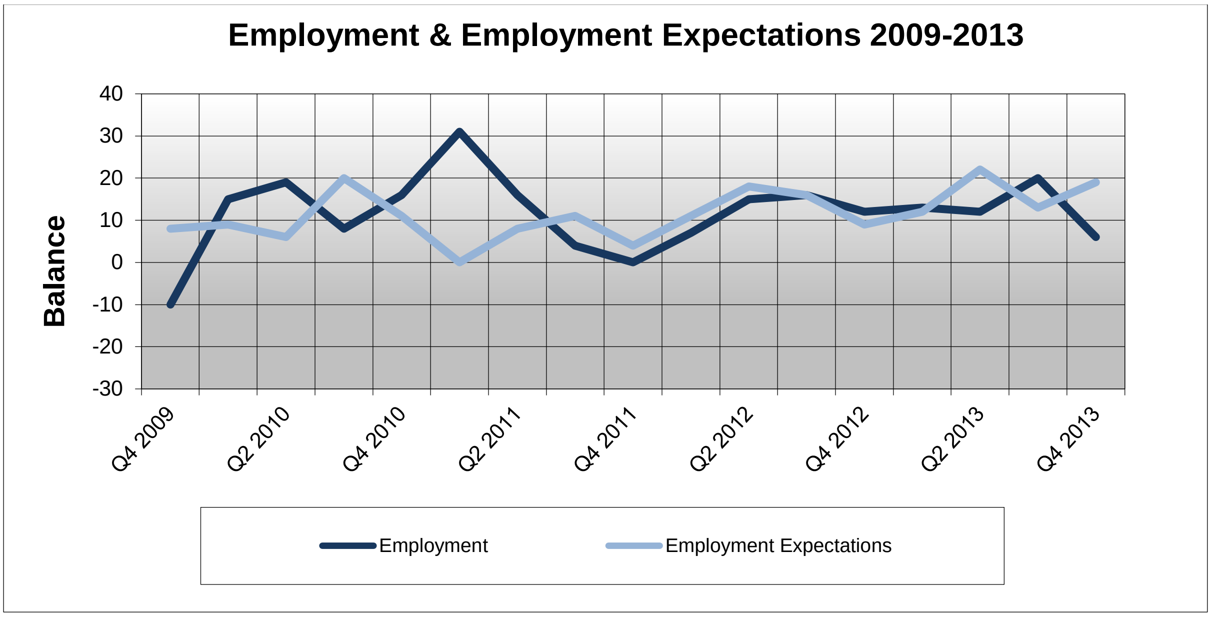


EMPLOYMENT GROWTH UNSTEADY
EMPLOYMENT EXPECTATIONS RAISED FOR 2014

For the third consecutive quarter Employment Growth and Employment Expectations have shown divergent trends, with a fall in Employment Growth counterbalanced by a boost to Employment Expectations. This is to be expected in view of the nature of the two indicators.

Employment Growth has fallen from a balance of 20% in Q3 down to just 6% in Quarter 4, but this was largely mitigated by growth in the balances for Employment Expectations, up 6 percentage points from 13 in Q3 to 19% this time.

Employment Growth, whilst somewhat volatile and unsteady, remains in positive territory - indicating more companies are recruiting than those reducing the size of their workforce. A continued steady growth in employment will be a real test of our economic recovery in 2014. Government incentives to recruit, discounting national insurance obligations by up to £2000, come into force in April and should encourage more companies to bring forward staff expansion plans.

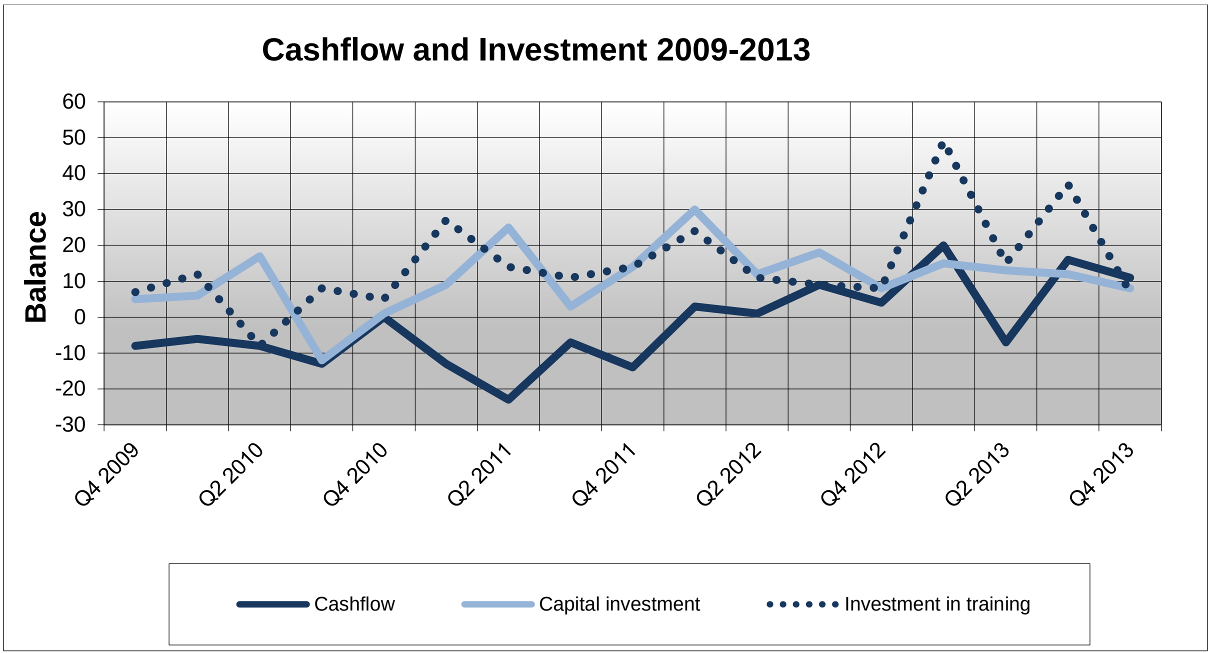


INVESTMENTS STALL IN THIS LAST QUARTER
CASHFLOW ISSUES CONTINUE

Investment indicators have unfortunately failed to match the positivity seen elsewhere in our survey for this last Quarter of the year. All figures are converging around the 10% mark, with Investment in Training showing a particularly marked decline this quarter.

Cashflow balances, which rebounded in Q3, have fallen 5 points, from 16 to 11%, while balances for Capital Investment have declined from 12 to 8%. Surprisingly, Investment in Training has fallen 30 points from 37% in Q3 to just 7% this time.

Investment figures are a useful indicator of the strength of business confidence, as they illustrate companies turning sentiment into substantive action. It is therefore disappointing that the wider business confidence reported elsewhere in our survey has not yet materialised as investment. We continue to lobby the Government to encourage business investment, expanding the Employer Ownership of Skills Pilot to boost Investment in Training and widening capital allowances for firms ready to grow.

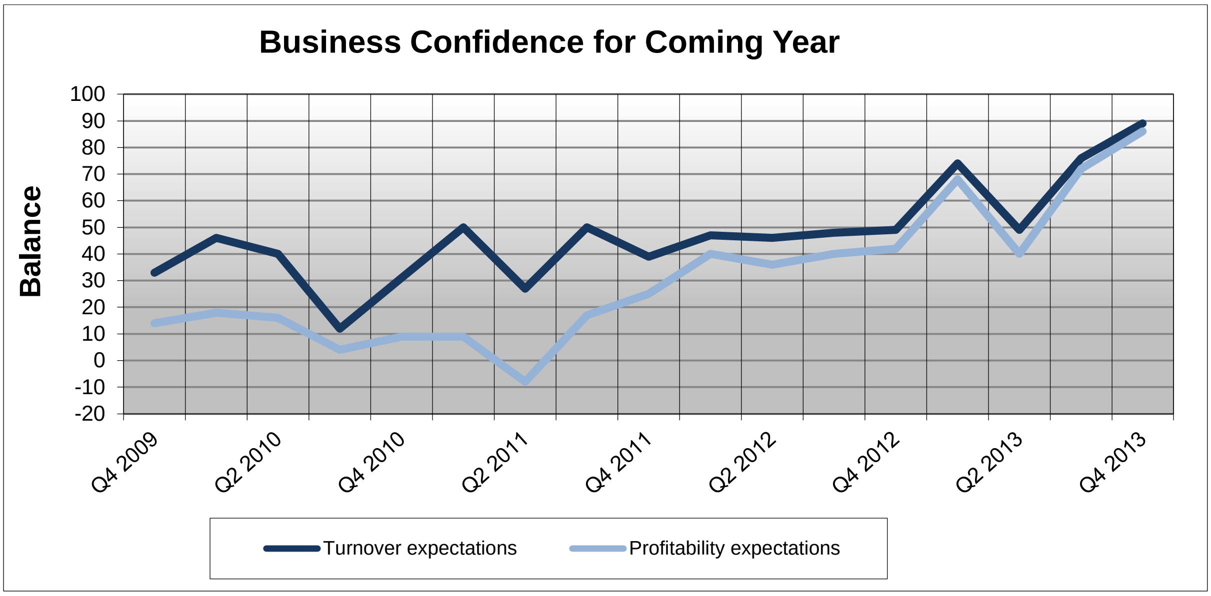


BUSINESS CONFIDENCE RESURGENT

FIRMS REPORT POSITIVE EXPECTATIONS FOR 2014

Confidence has continued to grow, as companies report improving expectations for Turnover and Profitability in the New Year. Turnover Expectation balances have increased from 76% in Quarter 3 to 89% this time, and Profitability Expectation indicators have grown from 72% to 86% this quarter. These are the highest figures seen on our graph, and clearly the businesses in the Mid Yorkshire region are feeling confident about the year ahead, after a sustained period of difficulty and uncertainty.

As the UK's first fixed-term Parliament nears the end of its five-year tenure all major parties will begin to focus upon the forthcoming General Election in 2015, and it is to be hoped that our sustained economic recovery will remain at the top of the Coalition policy agenda throughout the period. It will no doubt be tempting for all parties to concentrate on electioneering, and for politicians to make bold statements about our economic future, but business requires the application of sound and consistent policies if we are to sustain economic growth and renewed prosperity.

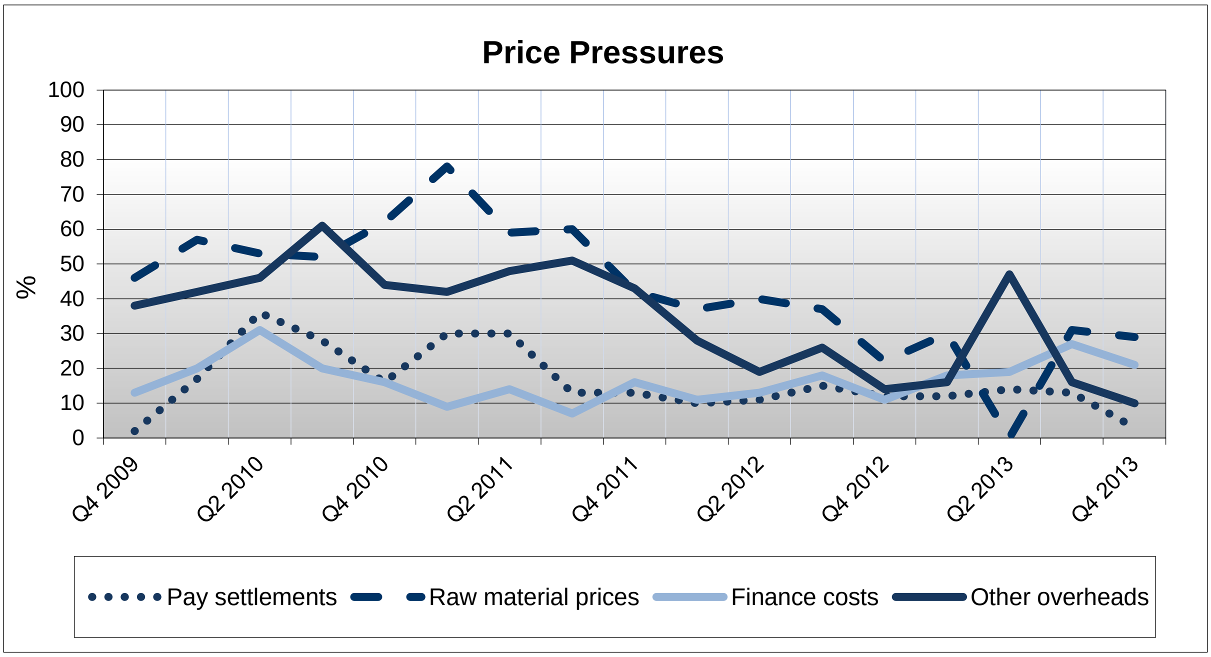


PRICE PRESSURES DECREASE
RAW MATERIAL PRICES REMAIN BIGGEST THREAT

All price pressures have diminished this quarter, with concerns over Pay Settlements particularly low. It is encouraging to see these pressures continue to slide, following a marked peak in 2010 and 2011. It is particularly pleasing to see falls in Finance Costs and Other Overheads, which had become growing concerns earlier this year.

Pay Settlements have fallen from 13% last quarter to 3 points this time, while Finance costs have fallen from 27 to 21. Other Overheads have reduced from 16 points to 10 in this quarter. Raw Material Prices remain a stubborn concern, and have only fallen by 2 points from 31 to 29. This is a particular issue for manufacturers, with 63% of manufacturing firms reporting Raw Material Price worries as a factor for their business. By comparison Finance Costs remain the key issue for service sector firms, with 24% of businesses registering this as their primary obstacle.

There have been a number of attempts to solve the issue of finance for business, but we continue to hear that companies are struggling to access affordable funding to enable them to grow. The British Business Bank, first announced in 2012, will be operational from autumn 2014. We hope that this new institution will have sufficient capital to ease funding to businesses so that younger, high-growth firms, which may represent a riskier investment, will be able expand their activities.



BUSINESS RATES AND EXCHANGE RATES MAIN EXTERNAL CONCERNS SERVICE SECTOR REPORTS INFLATION WORRIES

What is clearest from the chart below is the significance of Business Rates as a concern for both manufacturers and service sector firms. Margins have become increasingly squeezed during the recession, and yet Business Rates have continued to rise unabated. This tax is unrelated to performance and is imposed before a firm has turned over a single Pound. Business Rates continue to impact adversely on business competitiveness, and for this reason we have repeatedly labelled Business Rates a ‘counter-intuitive’ tax, as we believe it is a contributing factor to the demise of our town centres, and continues to have a significant negative mpact on the profitability of firms across all sectors.

In his Autumn Statement George Osborne announced a cap on Business Rate rises at 2%. By nature this policy announcement recognises the pertinence of the issue, and yet it fails to address the root of the problem. Historic rate rises, linked to the September RPI figure, have driven Business Rates to unsustainable highs. Businesses require a more substantive solution to the problem, and we have called for a full Parliamentary Review of the ongoing relevance of this outdated tax.

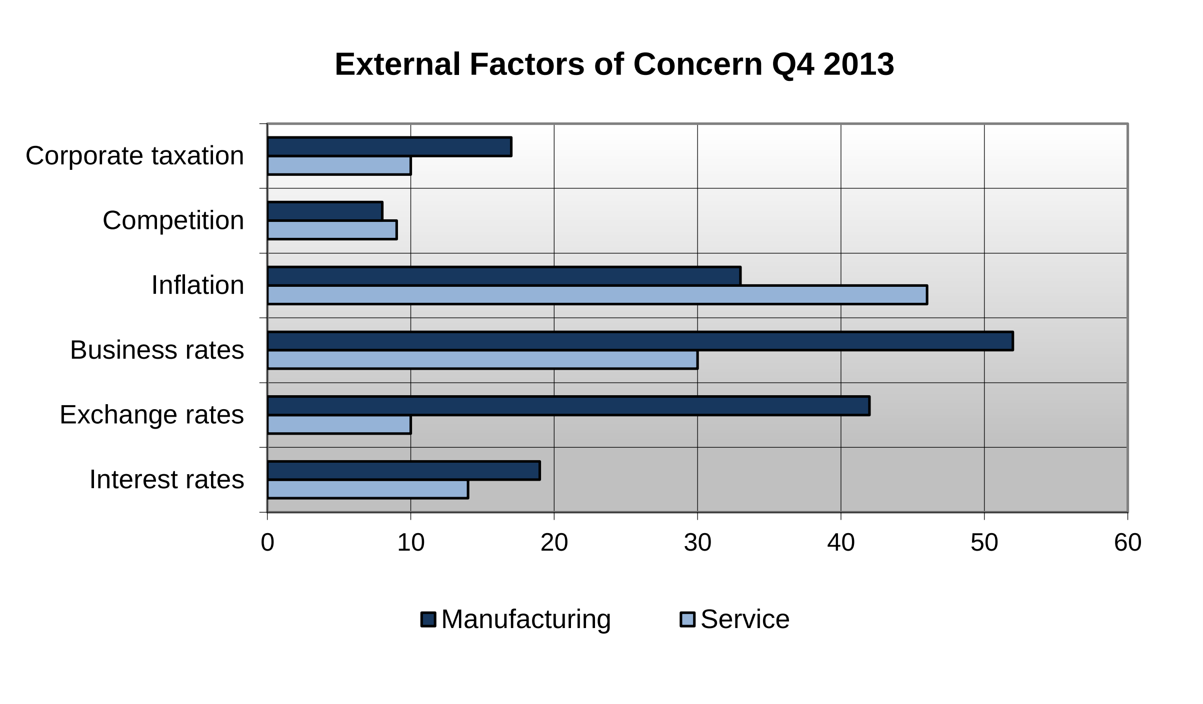
Inflation also remains a significant concern for the Service Sector, sticking stubbornly above the Bank of England's 2% target. The Consumer Price Index measure stood at 2.2% in October, while the Retail Prices Index of inflation stood at 2.6%. These inflationary pressures have created a cumulative strain on businesses, and have remained above target every quarter for the last four years.

For manufacturers Exchange Rates present a serious worry.

Christopher Redfern, Dealing Manager at Moneycorp, providers of the Chamber Foreign Exchange Service commented:

"Sterling and the UK have been the top performers amongst the world's major currencies and economies in Q4. The pound has reached a two year high against the dollar and an 11 month high against the euro on the accelerating performance of the UK economy. This has come at a time when Europe is only just coming out of recession and US politicians play dangerous games with the US economy while their recovery falters.

Overall, importers have benefited from the recent strength in the pound but should be wary as the Bank of England and UK government are thought to favour a weaker currency and the implied benefit this has exports, in order to strengthen our export performance - which is still perceived to be a major weakness in the UK economy. UK manufacturers are rightly concerned about currency implications for the previous quarter and for the start of 2014 and should seek assistance to manage their exposure to foreign exchange."



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.