



# Quarterly Economic Survey

Quarter 3, 2021

[www.hull-humber-chamber.co.uk](http://www.hull-humber-chamber.co.uk)

# Overview

## Economy slows as inflation fears take hold

THE emphatic bounceback that we saw in the Quarter 2 Economic Survey results 3 months ago have largely been reversed or stalled in the latest set of results.

Research by the Hull & Humber Chamber of Commerce has shown that the initial enthusiasm shown as the country came out of lockdown, has now been replaced by a more cautious reality, as increases in national insurance, energy prices, transport and food costs point to rising inflation and ultimately increases in interest rates.

It is against this rather bleak economic outlook that we have seen Home Sales and Home Orders both fall back into negative territory, with orders taking the biggest hit with a balance figure of -15 points. Home Sales fared slightly better, dropping only five points.

Export Orders and Sales both fell back seven points as freight and logistics costs continue to be affected by Covid, not only in this country, but also in China where so many of our imports are sourced.

Employment in the last quarter also dropped back markedly, falling 31 per cent compared to the previous quarter, and 23 per cent fewer firms said they planned to increase their staff numbers in the next three months.

Recruitment also fell eight points compared to the previous quarter, but on a more positive note, there were more full time positions available and a small number of these vacancies were for permanent roles, however, 94 per cent of

businesses said they had found it difficult to recruit the staff they needed.

The squeeze on businesses was also evident in their cashflow in the last three months, with more firms reporting issues and the balance figure dropping by 35 points to -3.

Investment plans for plant and machinery also dropped slightly, down to four points, a drop of three points on the previous quarter.

The number of companies planning to invest in staff training remained similar to the last quarter, dropping only one point to -3.

It is clear that optimism for the coming months has also receded in the last quarter, with turnover and profit expectations both down markedly, with balance figure for turnover dropping by 17 points to 36 and profit expectations dropping by 12 points to 22.

Only 36 per cent of firms said they were working at full capacity this quarter, down two per cent on the previous results.

With a shortage of labour, pay settlements was the biggest pressure on prices, followed by overheads and finance, but raw material costs seemed to be stable.

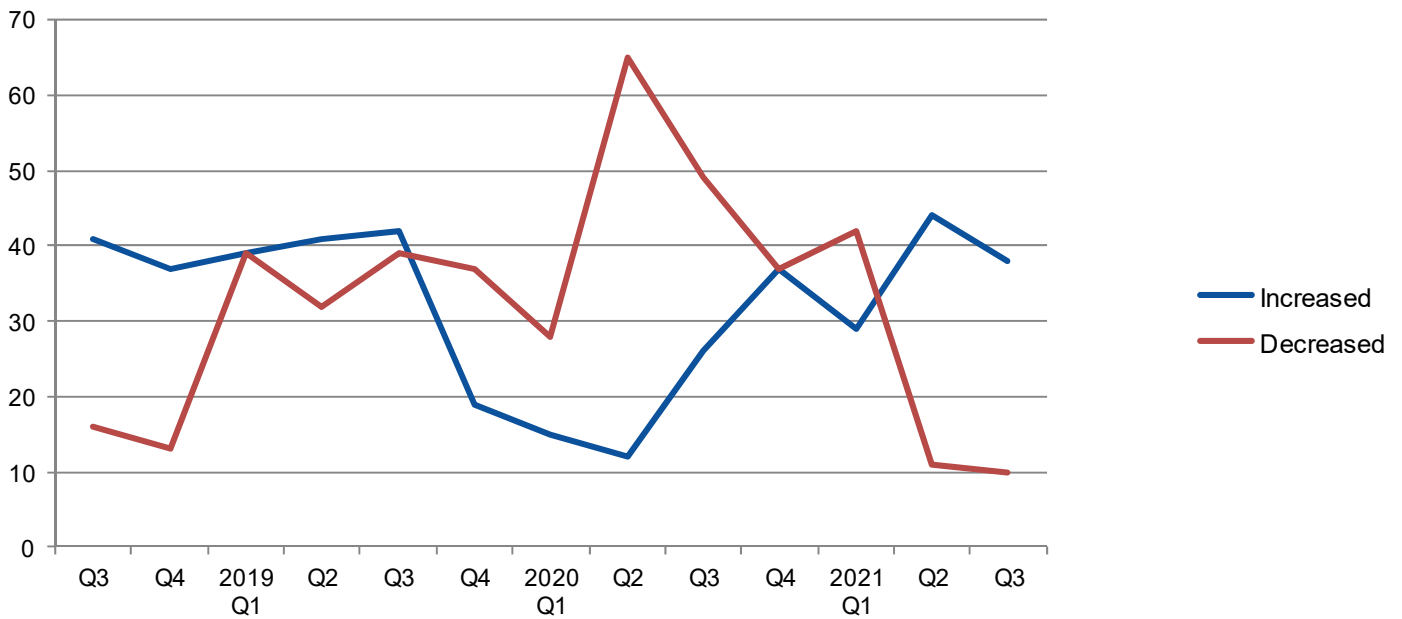
The biggest external concern this quarter was inflation, up 23 points on the last quarter, along with fears of rising interest rates and business rates. Competition, down eight points, was less of a worry, as was tax.

### Key balances

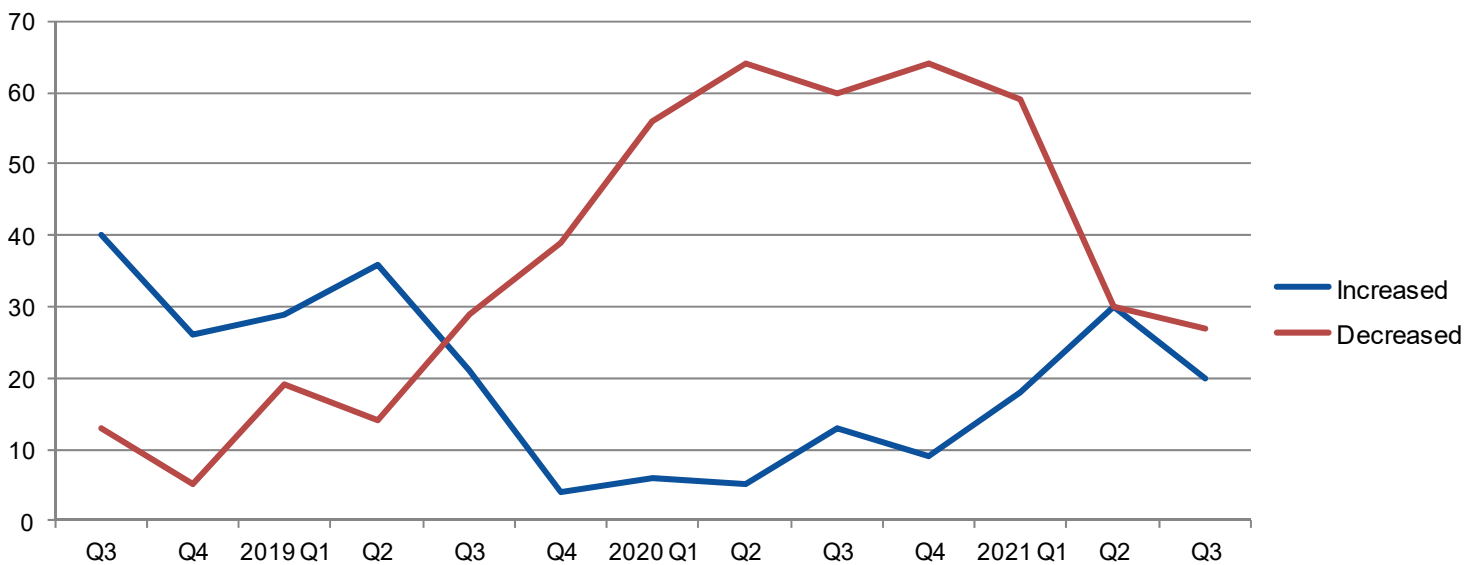
- ➔ Home Sales was down 5 points to 28.
- ➔ Home Orders was down 15 points at 24.
- ➔ Export Sales was down 7 points at -7.
- ➔ Employment was down 31 points to -6.
- ➔ Expected Employment was down 23 points to 12.
- ➔ Investment in Plant and Machinery was down 3 points to 4.
- ➔ Training was up one point to 13.
- ➔ Turnover Expectations were down 17 points to 36.
- ➔ Prices were up 3 points to 56.
- ➔ Inflation fears were up 23 points to 57.
- ➔ Interest rate concerns were up 7 to 10 points.

# Key indicators

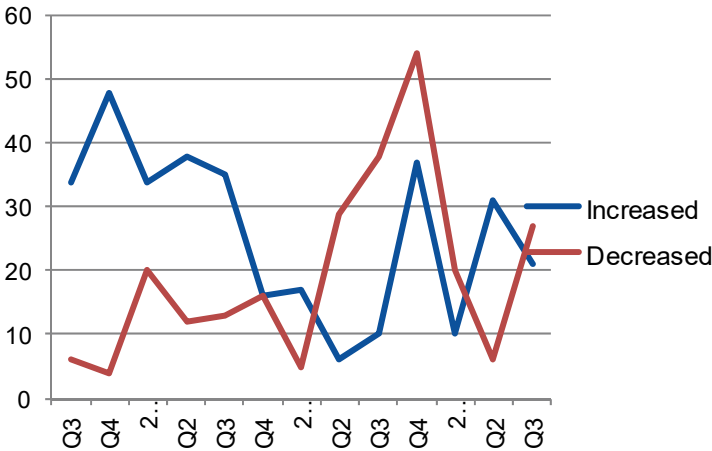
## Home sales



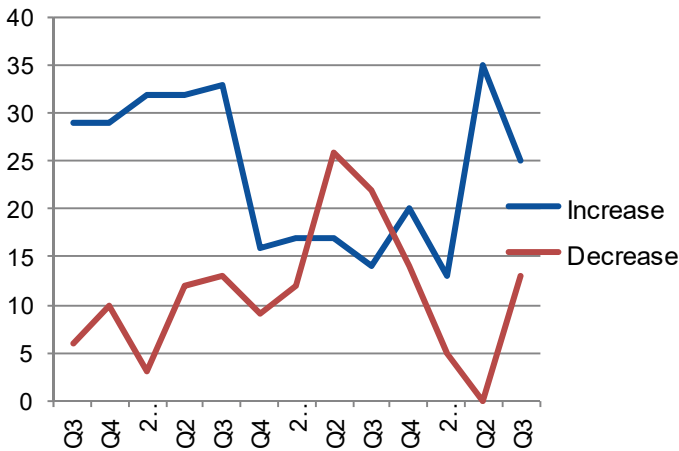
## Export sales



### Employment



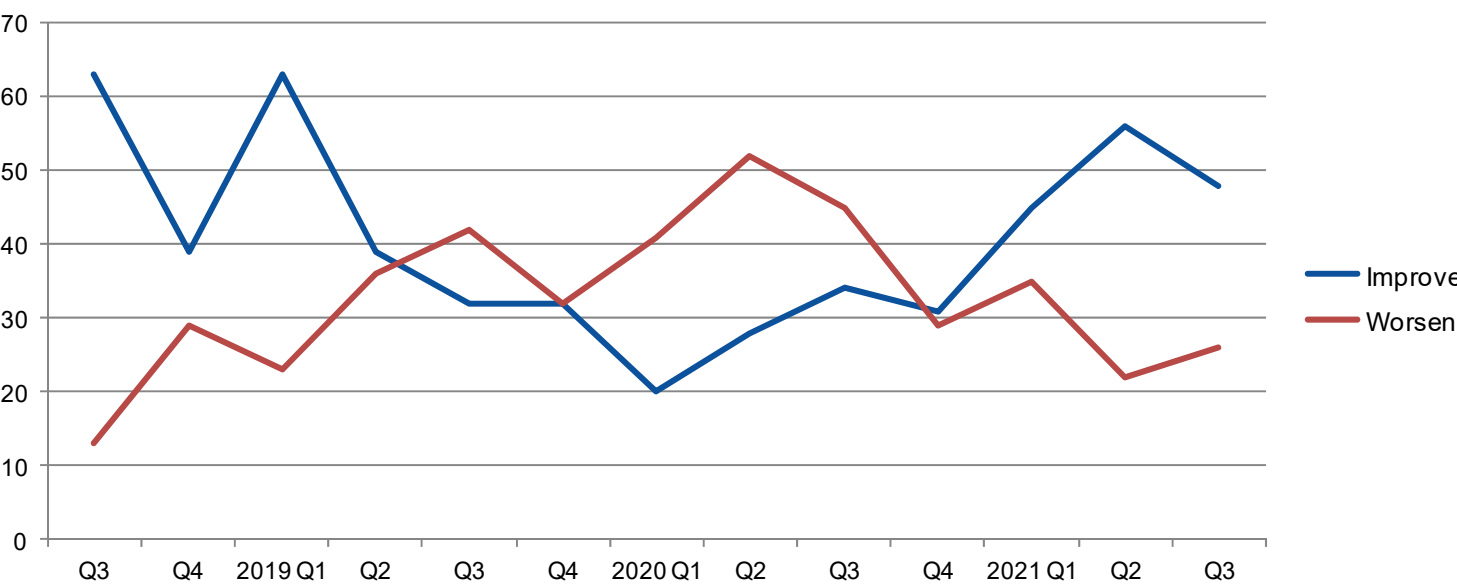
### Employment expectations



### Turnover expectations

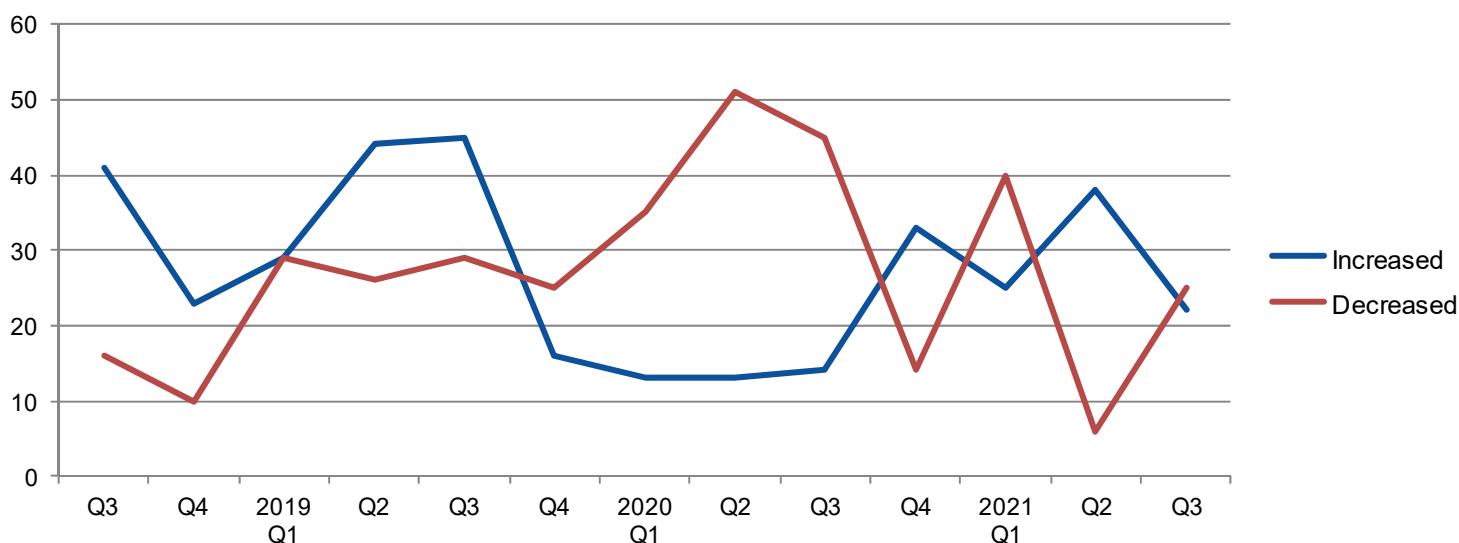


### Profit expectations



## Key indicators (continued)

### Cashflow



### About the Quarterly Economic Survey

The Hull & Humber Chamber of Commerce Quarterly Economic Survey is part of the largest and most representative survey of its kind in the UK, forming part of the British Chambers of Commerce QES.

Hull & Humber Chamber of Commerce has over 2,000 member companies and affiliates of all sizes and sectors across the Humber region.

This survey is supported by regular 'state of trade' reports at Chamber Council and Area Council meetings.

The balance figures are determined by subtracting the percentage of companies reporting decreases from those reporting increases.

Separate figures for the service sector and the manufacturing sectors are available with their sum being used as an overall figure for the Humber sub-region.

#### Example

Excluding seasonal variations during the past three months, have your UK sales:

Increased	24%
Remained constant	57%
Decreased	19%

#### Possible statements

- The balance for UK sales was +5%
- 24% of companies surveyed

showed a rise in domestic sales in the previous quarter.

- Nearly 1 in 5 companies said that their UK sales had fallen in the last quarter.
- 57% of those surveyed said that their sales in the domestic market had shown no change over previous quarters.

#### More information

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# National picture

## Economy feels the strain under inflationary pressure

### British Chambers of Commerce

The British Chambers of Commerce co-ordinates the QES on behalf of 53 accredited Chambers across the UK.

The BCC results are closely analysed by the Bank of England's Monetary Policy Committee and HM Treasury, making the QES one of the most influential business surveys in the country.

For further information on the national results go to [www.britishchambers.org.uk](http://www.britishchambers.org.uk).

THE BCC's Quarterly Economic Survey (QES) – the UK's largest independent survey of business sentiment and a leading indicator of UK GDP growth – has shown that while businesses continue to recover from the deepest recession on record, persistent weakness in several indicators highlight concerns over the strength of the recovery.

The survey of over 5,700 firms showed that some indicators, such as domestic sales and orders improved in Q3.

However, it also revealed stagnation in the proportion of firms reporting improved cashflow and increased investment. Worryingly, firms' expectations of price increases and fears about inflation are hitting record levels.

47% of respondents overall reported increased domestic sales in Q3 (compared to 44% in Q2), while 16% reported a decrease (20% in Q2).

In the services sector, the balance of firms reporting increased domestic sales increased to +31% in Q3, the highest since Q4 2015 and up from +20% in Q2. The balance of services firms reporting increased domestic orders rose to +27 in Q3, the highest since Q3 2015 and up from +17% in Q2.

In the manufacturing sector, the balance of firms reporting increased domestic sales was +28% in Q3, unchanged from Q2. The balance of manufacturers reporting increased domestic orders eased slightly to +22 in Q3, from +25% in Q2.

Firms in the hospitality sector were most likely to have seen increased domestic sales as restrictions eased, with nearly 2 in 3 (63%) reporting as much. This was followed by transport/distribution, and marketing/media, both on 50%.

33% overall reported increased cash flow in Q3 (compared to 32% in Q2), much lower than the percentage of firms who reported a rise in domestic sales (47%).

1 in 5 firms (22%) reported a decrease in their

cash flow, while 44% reported no change. Given the dramatic worsening of cash flow at the onset of the pandemic in Q2 2020, the failure to see any significant increases in this metric is a cause for concern.

Micro (28%) and small (20%) businesses were also more likely than medium (17%) or large (12%) businesses to report a decrease in cash flow in the quarter.

Overall 27% of firms reported an increase in investment in Q3 (unchanged from Q2), far lower than the percentage of firms who reported a rise in domestic sales (47%). The failure to see any positive movement in investment is another troubling warning sign for longer term recovery.

Questioned about inflation, 47% expected their prices to increase over the next three months (42% in Q2) with just 2% expecting prices to decrease (unchanged from Q2).

In the services sector, the balance of firms reporting expecting to increase their prices rose to +38% in Q3, up from +31% in Q1, the highest level since Q3 2008.

In the manufacturing sector, the balance of firms expecting to increase their prices rose to +60% in Q3, up from +57% in Q2. Becoming the new highest level in the history of the QES dataset starting in 1989.

52% of respondents cited inflation as an increased cause of concern (40% in Q2). 64% for manufacturers (46% in Q2) and 51% for service sector firms (40% in Q2), both of these sectoral figures are the highest seen since the metric was first collected in Q4 2009.

Around 9 in 10 (88%) manufacturers cite raw materials costs as the driver of price increases. In contrast, just 1 in 5 (22%) manufacturers cite pay settlements as a driver of price increases, still below its pre-pandemic level.

# Analysis

## David Hooper

External Affairs Director

Hull & Humber Chamber of Commerce

“It is clear that businesses in the Humber are facing a difficult period and there is considerable trepidation about what the future may hold, in the face of rising costs, supply issues and rising inflation.

“We hope the end of the furlough scheme will see some easing in the jobs market, with more vacancies being filled as previously furloughed workers return to the jobs market.

“However, there seems little doubt that it is going to be a tough winter for many as the public draw back on their spending as living costs rise, and a potential rise in interest rates looms on the horizon”.

[Click here for more information.](#)

## The National View

British Chambers of Commerce

“Our latest data indicates a disappointingly modest uptick in economic activity in the third quarter as the boost from the end of restrictions was increasingly stymied by supply and staff shortages and rising cost pressures.

“The key services sector recorded the strongest improvements as consumer-focused firms, including hotels and hospitality, received the biggest boost from the easing of social distancing restrictions. Manufacturers saw more limited gains as increasingly severe supply chain disruption stifled their ability to fulfil orders and meet customer demand.

“The results point to an underwhelming three months for business investment as the damage done to firms’ cash flow by the pandemic and growing concerns over a more burdensome tax regime squeezed investment intentions.

“Acute supply shortages and rising raw material costs drove an historic surge in inflationary pressures in the third quarter. However, with little evidence in our figures that higher inflation is stoking a broad-based escalation in pay settlements, the MPC should have enough leeway to keep interest rates steady over the medium term.

“Though the UK economy remains on track for moderate growth in the third quarter, with staff and supply shortages increasingly having a suffocating effect on economic activity and price pressures intensifying, a spell of stagflation maybe inevitable.”



# Results in full

		2021				
		Q3	Q4	Q1	Q2	Q3
Home sales <sup>2</sup>	Increased	26	13	29	44	38
	Constant	25	26	29	44	52
	Decreased	49	37	42	11	10
	<b>Balance</b>	<b>-23</b>	<b>0</b>	<b>-13</b>	<b>33</b>	<b>28</b>

Home orders <sup>2</sup>	Increased	19	36	19	50	38
	Constant	37	21	38	39	48
	Decreased	44	42	43	11	14
	<b>Balance</b>	<b>-25</b>	<b>-6</b>	<b>-24</b>	<b>39</b>	<b>24</b>

Export sales <sup>2</sup>	Increased	13	9	18	30	20
	Constant	27	27	23	40	53
	Decreased	60	64	59	30	27
	<b>Balance</b>	<b>-47</b>	<b>-55</b>	<b>-41</b>	<b>0</b>	<b>-7</b>

Export orders <sup>2</sup>	Increased	13	17	19	30	20
	Constant	27	17	24	40	53
	Decreased	60	67	57	30	27
	<b>Balance</b>	<b>-47</b>	<b>-50</b>	<b>-38</b>	<b>0</b>	<b>-7</b>

Workforce <sup>2</sup>	Increased	10	37	10	31	21
	Constant	53	16	70	63	52
	Decreased	38	54	20	6	27
	<b>Balance</b>	<b>-28</b>	<b>-17</b>	<b>-10</b>	<b>25</b>	<b>-6</b>

Workforce expectations <sup>3</sup>	Increase	14	20	13	35	25
	Constant	64	66	82	65	63
	Decrease	22	14	5	0	13
	<b>Balance</b>	<b>-8</b>	<b>6</b>	<b>8</b>	<b>35</b>	<b>12</b>

Recruited staff <sup>2</sup>	<b>Yes</b>	<b>32</b>	<b>57</b>	<b>30</b>	<b>63</b>	<b>55</b>
	- Part time	23	15	17	28	35
	- Full time	73	70	67	72	94
	- Temporary	23	20	50	11	6
	- Permanent	27	15	42	56	59
	<b>No</b>	<b>68</b>	<b>43</b>	<b>70</b>	<b>37</b>	<b>45</b>

Recruitment difficulties <sup>2</sup>	<b>Yes</b>	<b>78</b>	<b>71</b>	<b>58</b>	<b>76</b>	<b>94</b>
	- Skilled manual	28	40	57	46	41
	- Management	50	40	43	46	47
	- Clerical	11	20	43	23	41
	- Unskilled/semi-skilled	22	27	43	62	41
	<b>No</b>	<b>22</b>	<b>29</b>	<b>42</b>	<b>24</b>	<b>6</b>

		2021				
		Q3	Q4	Q1	Q2	Q3
Cashflow <sup>2</sup>	Increased	14	33	25	38	22
	Constant	41	53	35	56	53
	Decreased	45	14	40	6	25
	<b>Balance</b>	<b>-31</b>	<b>19</b>	<b>-15</b>	<b>32</b>	<b>-3</b>

Investment: Plant/machinery <sup>2</sup>	Increased	15	26	8	17	17
	Constant	44	35	57	73	70
	Decreased	41	38	35	10	13
	<b>Balance</b>	<b>-26</b>	<b>-12</b>	<b>-27</b>	<b>7</b>	<b>4</b>

Investment: Training <sup>2</sup>	Increased	9	32	13	25	19
	Constant	65	41	56	63	74
	Decreased	26	26	31	13	6
	<b>Balance</b>	<b>-17</b>	<b>6</b>	<b>-18</b>	<b>12</b>	<b>13</b>

Turnover expectations <sup>4</sup>	Improve	37	38	48	59	52
	Same	18	32	28	34	32
	Worsen	45	30	25	6	16
	<b>Balance</b>	<b>-8</b>	<b>8</b>	<b>23</b>	<b>53</b>	<b>36</b>

Profit expectations <sup>4</sup>	Improve	34	31	45	56	48
	Same	21	40	20	22	26
	Worsen	45	29	35	22	26
	<b>Balance</b>	<b>-11</b>	<b>2</b>	<b>10</b>	<b>34</b>	<b>22</b>

Capacity utilisation <sup>1</sup>	Full capacity	27	38	18	38	36
	Below capacity	73	62	83	63	64

Prices <sup>3</sup>	Increased	20	34	48	56	59
	Constant	59	54	43	41	38
	Decreased	21	11	10	3	3
	<b>Balance</b>	<b>-1</b>	<b>23</b>	<b>38</b>	<b>53</b>	<b>56</b>

Price pressures <sup>1</sup>	Pay settlements	18	21	7	26	37
	Raw materials	32	32	46	48	48
	Finance	21	5	21	13	15
	Other overheads	71	84	64	61	67

External concerns <sup>1</sup>	Interest rates	13	7	3	3	10
	Exchange rates	34	17	22	21	20
	Business rates	25	27	16	10	17
	Inflation	25	27	25	34	57
	Competition	57	40	34	48	40
	Tax	43	63	56	41	40

Key: 1 = Current; 2 = Past 3 months; 3 = Next 3 months; 4 = Next 12 months