Quarterly Economic Survey

Quarter 2, 2023

www.hull-humber-chamber.co.uk

Overview

More positive, but firms remain cautious

THE general improvement in business sentiment we saw in the first quarter of 2023 has continued into quarter two, according to the latest results of the Chamber's Quarterly Economic Survey of the Humber economy.

However, there is still a cautious tone, with firms keeping a tight control on costs as the highest interest rates we've seen for years combined with high energy costs and inflation are making their presence felt.

The inflationary pressures are leading to higher pay claims, with 79 per cent of firms highlighting that as a concern, double the number in the previous quarter, making higher pay settlements a key issue.

On a more positive note, raw materials costs have dropped slightly, down 11 points on the quarter one figures, the first drop seen in several months.

As the tougher economic conditions continue to bite, the number of firms which said they were planning to invest in plant and machinery dropped 18 points, to -3, while the number of firms planning to invest in training their staff also fell, down 2 points to 3.

Turnover expectations were also markedly down this quarter, with more firms saying they were expecting their turnover to fall, with the balance figure dropping sharply by 21 points to 3.

However, profit expectations improved by 18 points this quarter, but while this was the third quarter in which the figure had improved, it still remained stubbornly in negative territory with a balance figure of –10.

Cashflow also improved slightly this quarter, continuing the improvement we have seen over the last four quarters, rising this time by 12 points but again remaining in negative territory at –7.

On the home front, Home Sales held their ground in the last three months, with a balance figure of 13 points, but Home Orders improved by 11 points, returning to positive territory with a balance figure of 3.

Export Sales also made a solid improvement, climbing by 42 points in the last quarter, but again remaining 31 points in negative territory, but these results hint at things moving in the right direction.

Export Orders were also up on the last quarter, improving by 6 points, but were down overall with a balance figure of –54.

Employment improved in the last three months, with a rise of 11 points to 16, while the number of companies which said they were planning to recruit in the next three months was fairly static, with an increase of 1 on the previous quarter, to a balance figure of 34.

Of the 53% of firms who said they had tried to recruit staff this quarter, management and skilled manual positions were the most difficult roles to fill, while full -time positions were also problematic.

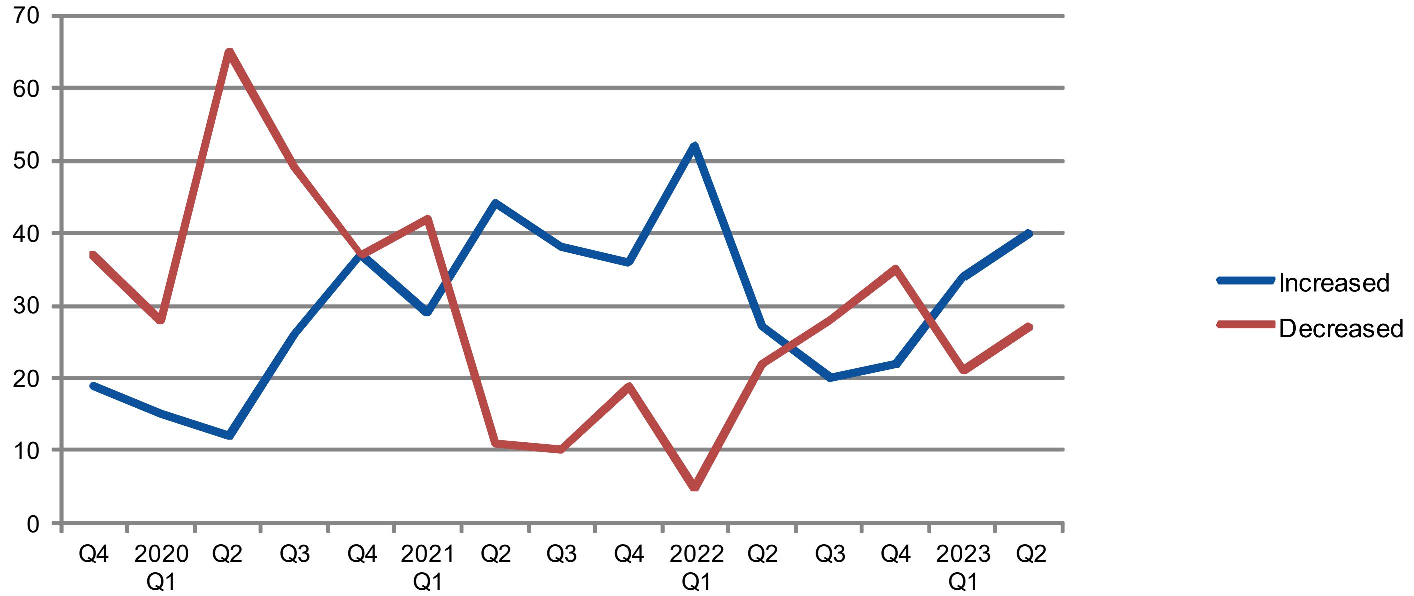
While we've seen some improvements this quarter, only 37% of firms said they were working at full capacity.

Key balances

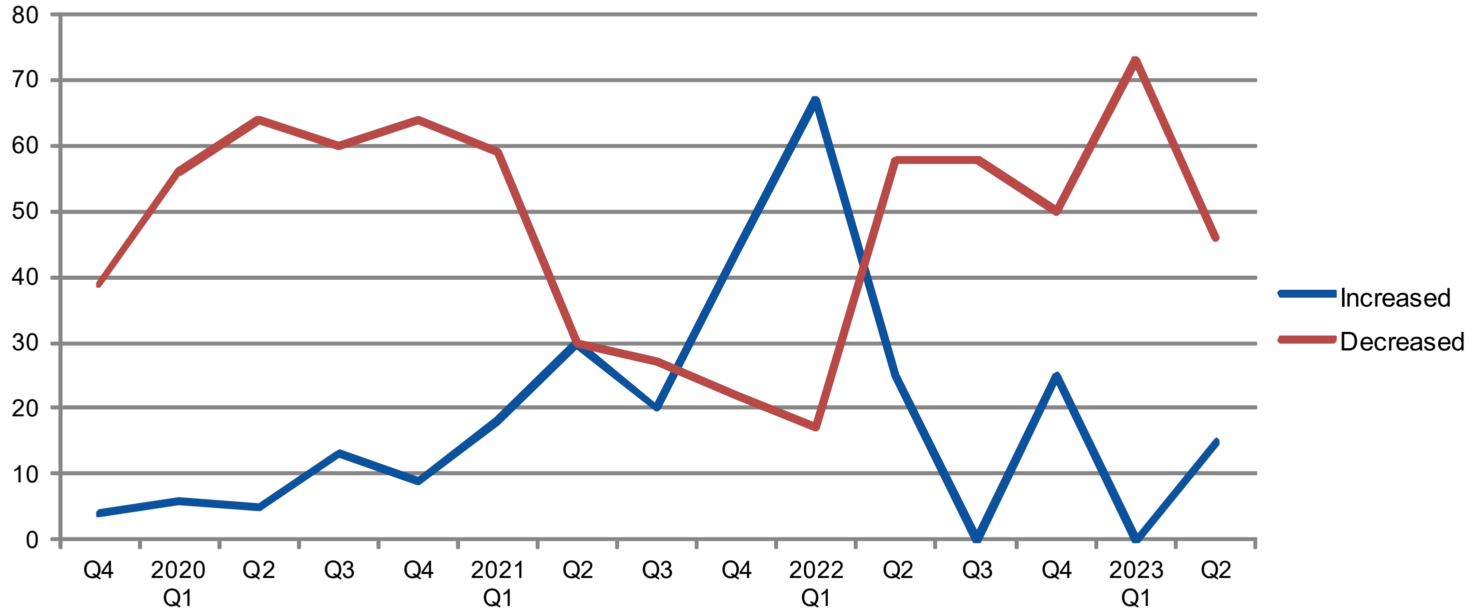
- Home Sales were up 6 points to a balance figure of 13.
- Home Orders were up 9 points to a balance fiture of 3.
- Export Sales were up 15 points to a balance figure of –31.
- Export Orders improved by 4 points to a balance figure of-54.
- Employment rose by 11 points to a balance figure of 16.
- Expected employment rose by 1 point to a balance figure of 34.
- Recruitment figures showed that 53% of firms tried to recruit.
- Cashflow rose slightly with the balance figure rising to –7.
- Profit Expectations rose 18 points to –10.

Key indicators

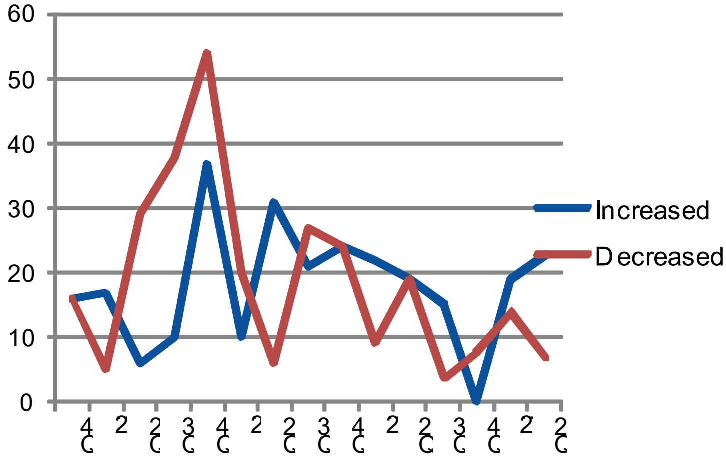
Home sales



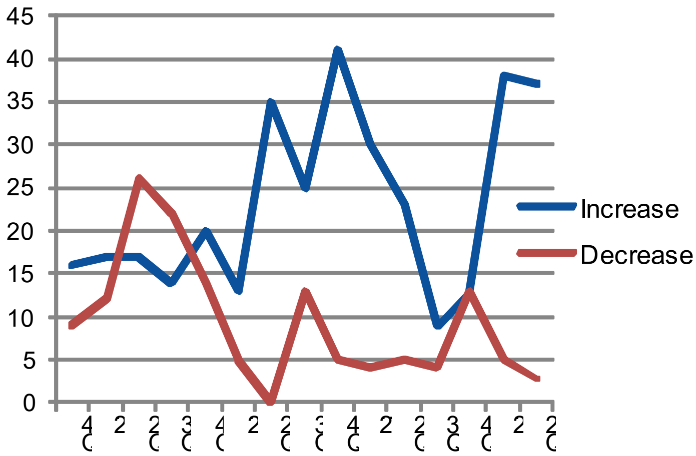
Export sales



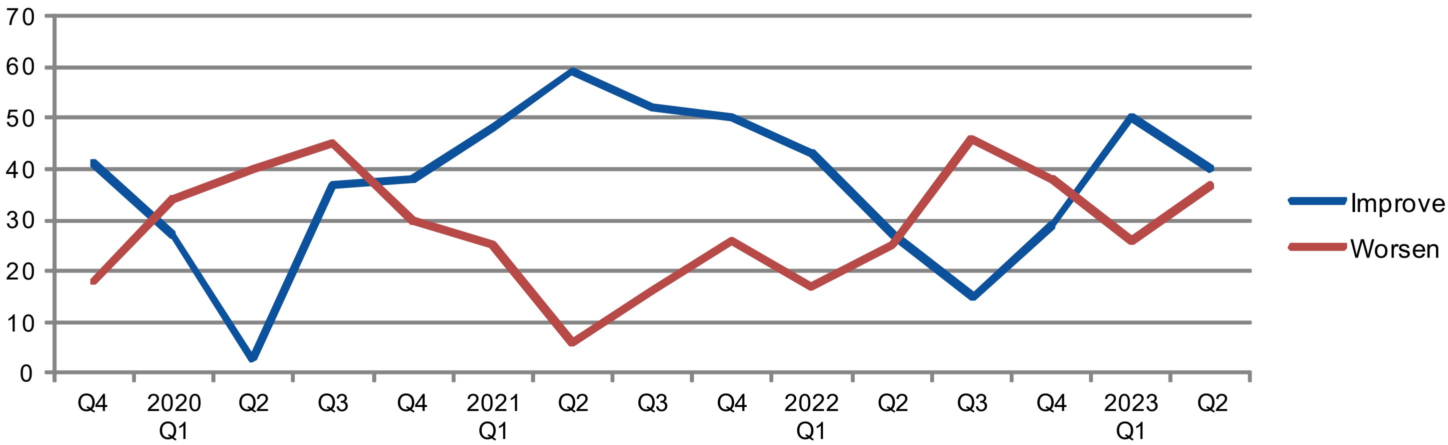
Employment



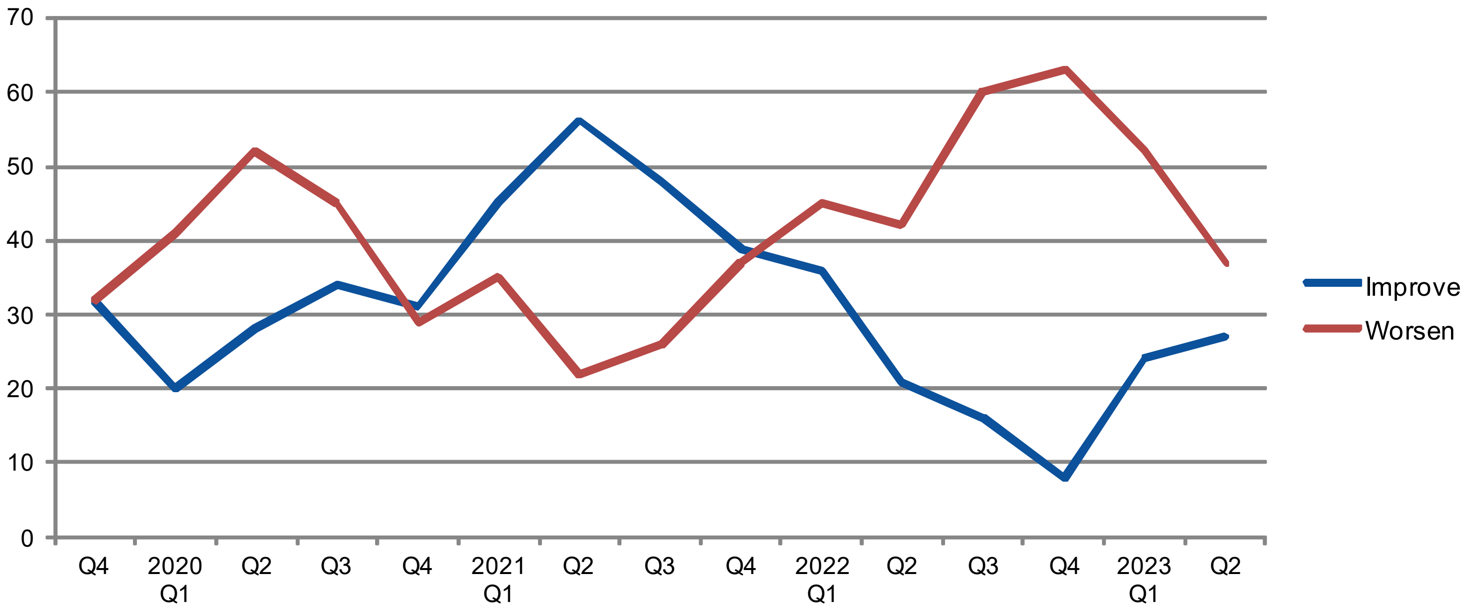
Employment expectations



Turnover expectations

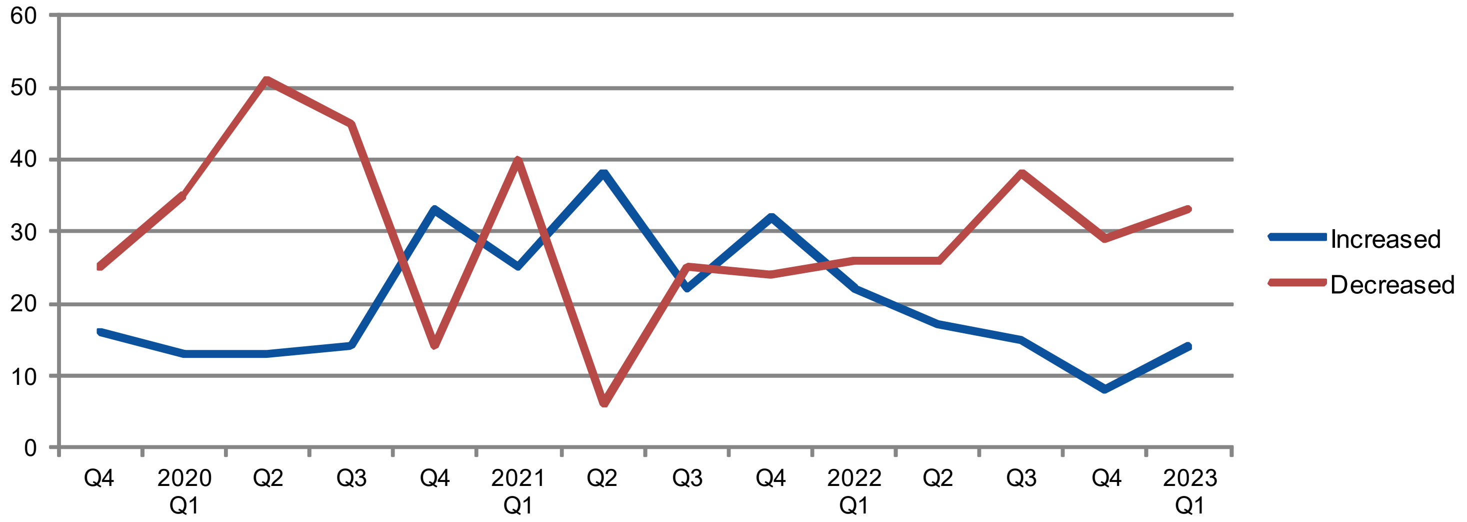


Profit expectations



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

Signs inflation pressure easing, says BCC

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.

THE BCC's Quarterly Economic Survey (QES) for Q2 2023 shows that less than half of firms now plan to raise prices in the next three months as cost pressures ease.

However, the data also reveals that the main factor for increasing costs is now coming from wages rather than utility bills or raw materials.

The survey, by the BCC's Insights Unit, of over 5,000 firms – 92% of whom are SMEs – also reveals business performance across different sectors varies considerably, with hospitality and retail firms suffering more widely from cashflow difficulties.

The research took place between 15 May and 9 June and before the Bank of England increased the base rate to 5%. Respondents were split into 27% manufacturing and 73% services industries, with 47% exporting.

Growth in business activity remains weak, with no significant improvement to sales and cashflow data.

The percentage of firms reporting increased domestic sales remained largely static, with 35% reporting a rise (broadly unchanged from 34% last quarter). Meanwhile 24% reported a decrease and 41% reported no change.

For cashflow, more businesses continue to report a decrease, rather than an increase and again the picture remains largely unchanged since Q1. Just over one in four (26%) businesses said their cash flow has increased over the last three months (25% in Q1), while 29% have seen it decrease (30% in Q1).

Pressures remain highest in the retail and hospitality sectors with 38% and 37% respectively reporting reduced cashflow, while PR and Marketing was the most positive sector with 33% reporting growth.

After business confidence showed signs of a rebound in Q1 2023, it has now stalled again.

There was a small increase in the percentage of firms believing their business turnover will rise over the next 12 months, up to 54%, from 52% in Q1.

Profitability confidence also improved slightly to 44% from 42% in Q1, but it continues to remain weaker than turnover confidence.

This slightly improved outlook is not translating through to increased business investment.

The number of respondents reporting an increase to investment in plant/equipment dropped to 23% from 25% in Q1. Over the last six years this measure has dropped as low as 9% of firms, at the start of the pandemic, but it has never gone higher than 28% (Q1 2018).

Inflationary pressures continue to ease, but still remain the top concern.

The percentage of firms expecting their prices to rise fell below 50% for the first time since Q3 in 2021. It has fallen from 60% of firms in Q4 2022 to 45% in Q2 2023.

While inflation remains firms' biggest concern, the level has dropped for the second quarter running, with 69% of firms now worried compared to 74% in Q1. However there has been a corresponding 5 percentage point rise in businesses worried about interest rates, increasing from 36% in Q1 to 41% in Q2.

Labour costs are now the number one cost pressure for businesses.

With concern around utility costs dropping, 63% report these as an issue (74% in Q3 2022), the number of firms struggling with wage costs has risen to 68% (67% in Q1) and is now the lead cost pressure.

Analysis

David Hooper

External Affairs Director
Hull & Humber Chamber of Commerce

“While it is good to see the more positive sentiment we saw in the first quarter of the year continuing, there is still a clear note of caution being sounded by business in the Humber.

“Interest rates, inflation and energy costs are all having an effect, and fact that fewer firms are willing to invest in new equipment or training is telling.

“Recruitment difficulties continues to be an issue as businesses struggle to find the right calibre of staff, something numerous firms repeatedly tell us at our Area Council meetings.

“While cashflow has improved, turnover fell and profit expectations are some way off where they should be, so while businesses around the Humber are as resilient as ever, there is still plenty for their leaders to take into account.”

Click here for more information.

The National View

Shevaun Haviland
British Chambers of Commerce

Responding to the findings, Director General of the British Chambers of Commerce, Shevaun Haviland, said:

“With inflationary pressures weakening, but wage cost concerns remaining high, our research should give the Government and Bank of England pause for thought on their next steps.

“There is a fine balancing act to be struck here. Push too hard on interest rates and there is a real danger that the long-term outlook for economic growth and prosperity will be dented.

“The Bank of England has itself identified the tight labour market as a key factor in the UK’s stubbornly high inflation.

“Fierce competition for skills, wage demands and candidates’ expectations leave many businesses with job vacancies they can’t fill.

“The Government must redouble its efforts to get people back into work and create the right conditions for employers to invest in staff training and development. Where firms cannot recruit and train from their local or national labour market, a flexible, efficient and affordable immigration system is crucial.

““Further upcoming changes on trade with the EU, such as new customs requirements and charges for imports, will also add upward pressure on prices. We need to think carefully about adding in further costs for businesses when they are already under strain.”

Results in full

		2022 Q2	2022 Q3	2022 Q4	2023 Q1	2023 Q2
Home sales [2]	Increased	27	20	22	34	40
	Constant	51	52	43	45	33
	Decreased	22	28	35	21	27
	Balance	**5**	**-8**	**-13**	**13**	**13**
Home orders [2]	Increased	18	10	18	24	33
	Constant	62	40	36	45	37
	Decreased	21	50	45	32	30
	Balance	**-3**	**-40**	**-27**	**-8**	**3**
Export sales [2]	Increased	25	0	25	0	15
	Constant	17	42	25	27	38
	Decreased	58	58	50	73	46
	Balance	**-33**	**-58**	**-25**	**-73**	**-31**
Export orders [2]	Increased	17	0	25	7	8
	Constant	17	33	25	27	27
	Decreased	67	67	50	67	62
	Balance	**-50**	**-67**	**-25**	**60**	**-54**
Workforce [2]	Increased	19	15	0	19	23
	Constant	63	81	92	67	70
	Decreased	19	4	8	14	7
	Balance	**0**	**11**	**-8**	**5**	**16**
Workforce expectations [3]	Increase	23	9	13	38	37
	Constant	73	87	75	58	60
	Decrease	5	4	13	5	3
	Balance	**18**	**5**	**0**	**33**	**34**
Recruited staff [2]	**Yes**	**64**	**36**	**58**	**60**	**53**
	- Part time	36	33	36	32	25
	- Full time	79	78	86	68	81
	- Temporary	21	33	21	16	6
	- Permanent	32	100	29	40	38
	No	**36**	**64**	**42**	**40**	**47**
Recruitment difficulties [2]	**Yes**	**84**	**75**	**100**	**96**	**94**
	- Skilled manual	35	44	21	25	33
	- Management	23	44	43	54	67
	- Clerical	50	56	36	42	33
	- Unskilled/semi-skilled	54	22	43	42	7
	No	**16**	**25**	**0**	**4**	**6**

		2022 Q2	2022 Q3	2022 Q4	2023 Q1	2023 Q2
Cashflow [2]	Increased	17	15	8	14	20
	Constant	57	46	63	52	53
	Decreased	26	38	29	33	27
	Balance	**-9**	**-23**	**-21**	**-19**	**-7**
Investment: Plant/ machinery [2]	Increased	19	4	21	33	27
	Constant	51	60	54	50	43
	Decreased	30	36	25	18	30
	Balance	**-11**	**-32**	**-4**	**15**	**-3**
Investment: Training [2]	Increased	17	8	21	18	23
	Constant	57	62	63	70	57
	Decreased	26	30	17	13	20
	Balance	**-9**	**-28**	**4**	**5**	**3**
Turnover expectations [4]	Improve	27	15	29	50	40
	Same	48	38	33	24	23
	Worsen	25	48	38	26	37
	Balance	**2**	**-31**	**-9**	**24**	**3**
					24	
Profit expectations [4]	Improve	21	16	8	24	27
	Same	37	24	29	54	23
	Worsen	42	60	63	22	37
	Balance	**-21**	**-44**	**-55**	**-28**	**-10**
Capacity utilisation [1]	Full capacity	30	19	33	45	37
	Below capacity	70	61	67	55	63
Prices [3]	Increased	73	62	67	62	38
	Constant	27	38	29	33	55
	Decreased	0	0	4	5	7
	Balance	**73**	**62**	**63**	**57**	**31**
Price pressures [1]	Pay settlements	67	58	68	34	79
	Raw materials	64	50	45	49	38
	Finance	21	23	14	17	14
	Other overheads	45	38	45	39	41
External concerns [1]	Interest rates	28	31	38	36	41
	Exchange rates	16	31	21	21	28
	Business rates	21	23	13	21	31
	Inflation	98	85	92	64	62
	Competition	26	27	29	28	28
	Tax	26	15	29	46	52

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