

CHAMBER OF COMMERCE QUARTERLY ECONOMIC SURVEY

The Chamber of Commerce, Herefordshire & Worcestershire (CCH&W) carry out quarterly surveys of its members, to ascertain recent and anticipated trading experience. Questions cover sales and orders in UK and overseas markets, changes in the workforce (including skills shortages experienced), what is happening with their cash flow, investment plans, business confidence and their prices. With over 10 years of back data, the survey is the longest running private survey of service sector conditions in the UK. The most recent survey was in **March 2007**. Due to relatively small response rates (23 businesses participated), results can only give an indication of local economic trends.

This article provides a summary of the trends for the quarterly survey results, specifically comparing data from March 2006, same quarter previous year and the previous quarter (December 2006) with the data obtained in the March 2007 survey.

Changes in Sales in the UK

- In March 07, 39% of businesses reported an increase in UK sales, an increase from 30% in December 06 and 28% in March 06.
- 26% of businesses reported a decrease in sales in March 07, which is a significant increase from December 06 (10%) but the same figure reported for March 06.
- The proportions of businesses reporting no change has fluctuated over the past 4 quarters, ranging from 35% this quarter (March 07), 60% in December 07 and 47% in March 06.

Changes in Orders in the UK

- UK orders have experienced a similar pattern to that of UK sales, with those reporting an increase rising from 30% in both March 06 and December 06 to 41% currently in March 07.
- 13% of businesses reported a decrease in UK orders which is similar to 10% reporting this in December 06 but has decreased from 23% in March 06.

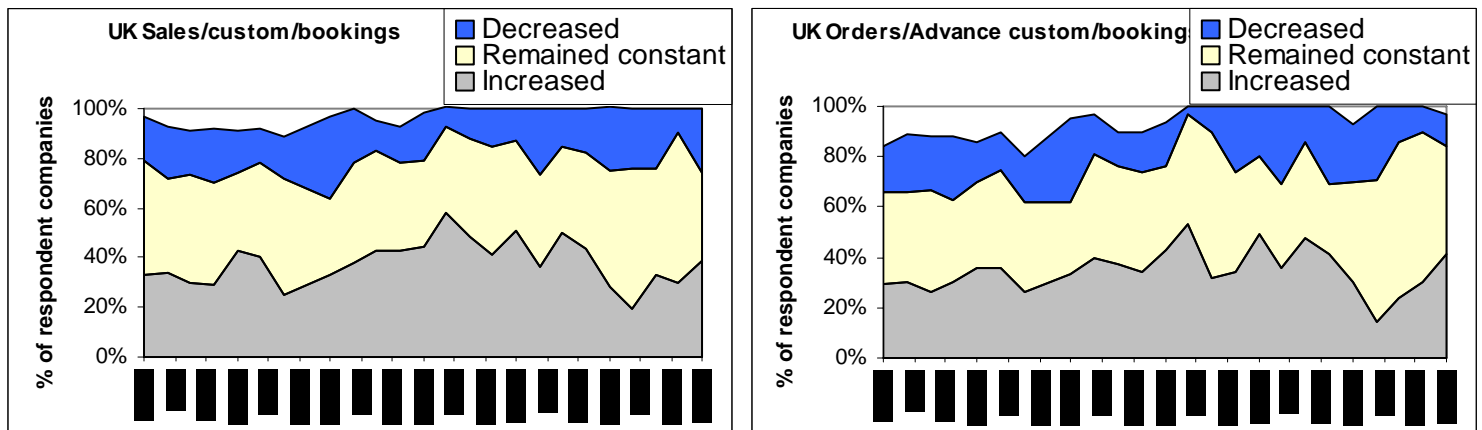
Changes in Sales in Overseas Markets

- Only 11% of businesses reported an increase in overseas sales in March 07, compared to 25% in December 06 and 26% of businesses in March 06.
- The proportion of businesses reporting no change has fluctuated over the last year (from 72% in March 06 and 25% in December 06 to 56% this quarter, March 07).
- 33% of businesses this quarter reported a decrease in overseas sales, compared to 50% in December 06 and just 2% in March 06.

Changes in Orders in Overseas Markets

- Overseas orders have also been affected. The proportion of businesses reporting an increase in overseas orders dropped sharply from 25% in December of last year to just 6% in March 07, compared to 17% in March 06.
- In March 07, 27% of businesses reported a decrease in overseas orders, up from 12% in December 06 but down from 42% in March 06.
- 67% of businesses reported no change in overseas orders in March 07. Figures for December 06 and March 06 were 63% and 42% respectively

Chart 1 & 2 UK Sales and Orders



Workforce Changes

Over half of businesses (61%) reported no change in their workforce, a similar figure to December 06 (60%) and March 06 (62%). See below for those reporting an increase or decrease over the last year:

Increase in the workforce 26% of businesses reported an increase in their workforce, down slightly from 30% in December 06 and an increase from 19% in March 06.

Decrease in the workforce 13% reported a decrease in the workforce, compared to 10% in December 06 and 19% in March 06.

Predictions for workforce changes for the following 3 months are: **57% expect no change**

Expecting an increase 35% reported expecting an increase in their workforce, up from 20% in December 06 and 23% in March 06.

Expecting a decrease 8% are expecting a decrease, which is no significant change from the figures of 10% and 11% recorded in December 06 and March 06 respectively.

48% of businesses attempted to **recruit staff** over the last quarter. This figure hasn't changed significantly from 50% in December 06 and 43% in March 06. 82% of businesses reported wanting to recruit full time staff, compared to 80% in December 06 and 75% in March 06. 27% were also looking for part time staff, down from 55% in March 06 (20% in December 06). 23% of businesses attempting to recruit were looking for permanent staff; this figure has dropped dramatically from the 95% of businesses trying to recruit permanent staff in March 06.

82% of the firms attempting to recruit staff reported having difficulty in recruiting, up from 60% in December 06 and a substantial worsening of the situation from March 06 when the figure was just 38%. Over half of firms (56%) reported difficulties in filling skilled manual and technical worker positions, compared to only 33% in December 06 and 38% in March 06.

Cash flow

Cash flow improved 22% of businesses reported that their cash flow has improved over the last quarter, this figure is down from 50% in December 06 but has improved slightly from 17% in March 06.

Cash flow worsened 30% of businesses reported that their cash flow had worsened over the last quarter. This is a substantial increase from 0% in December 06 but a decrease from 38% in March 06.

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Investment Plans

The proportion of companies reporting no change over the previous quarter in their levels of investment for plant/machinery/equipment and training are higher than those who revised them downwards or upwards.

Revised Downwards

The proportion of businesses that revised their investment plans downwards changed slightly from March 06 and December 06, as shown in Chart 3

Chart 3 - Investment Plans Revised Downwards

Plant/machinery/equipment
9% of businesses revised these plans downwards in March 07, similar proportions to December 06 (10%) and up from 4% in March 06.

Buildings Unfortunately this question was not asked in this quarterly survey.

Training No businesses reported revising these plans downwards in March 07. (However this figure did rise to 10% in December 06 compared to 2% in March 06).

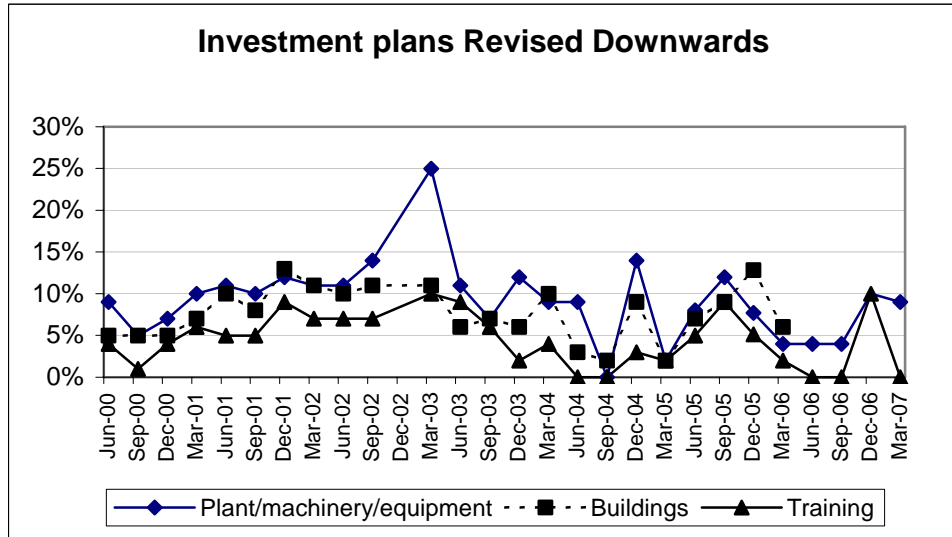
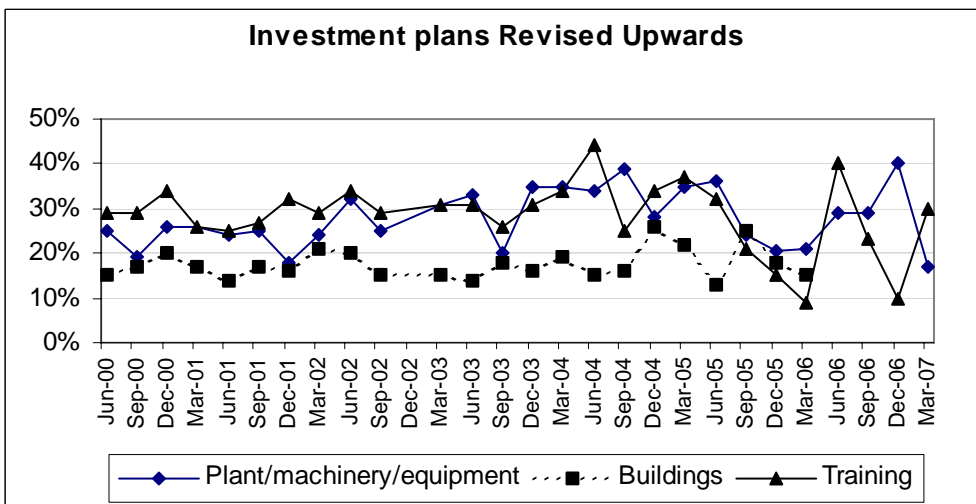


Chart 4 - Investment Plans Revised Upwards



Revised Upwards
Chart 4 shows the proportion of businesses reporting they had revised their investment plans upwards over the previous quarter. The proportions of businesses revising their investment plans upwards are:

Plant/machinery/equipment 17% of businesses revised these plans upwards (a sharp decrease from 40% in December 06 and a decrease from 21% in March 06).

Buildings Unfortunately this question was not asked in this quarterly survey.

Training 30% of businesses revised these plans upwards, up significantly from 10% in December 06 and 9% in March 06.

Business Confidence

In this survey, business confidence is defined as what businesses feel will happen to the turnover and profitability of their business over the next 12 months.

Turnover improving 65% of businesses expect their turnover to improve over the next 12 months; this has improved significantly from the figure of 40% recorded in December 06 and 45% in March 06.

Turnover worsening 17% of businesses expect their turnover to get worse over the next 12 months; a decrease from 30% in December 06 but similar to proportions in March 06 (19%).

Profitability improving 48% of businesses expect profitability to improve, compared to 40% in December 06 and an increase from 30% in March 06.

Profitability worsening 39% expect profitability to get worse over the next 12 months. This figure has increased from 30% in December 06 and 28% in March 06.

Operating levels

Over half (57%) of businesses reported operating below capacity in March 07, which is a decrease from 70% in December 06 and 77% in March 06.

Prices/costs

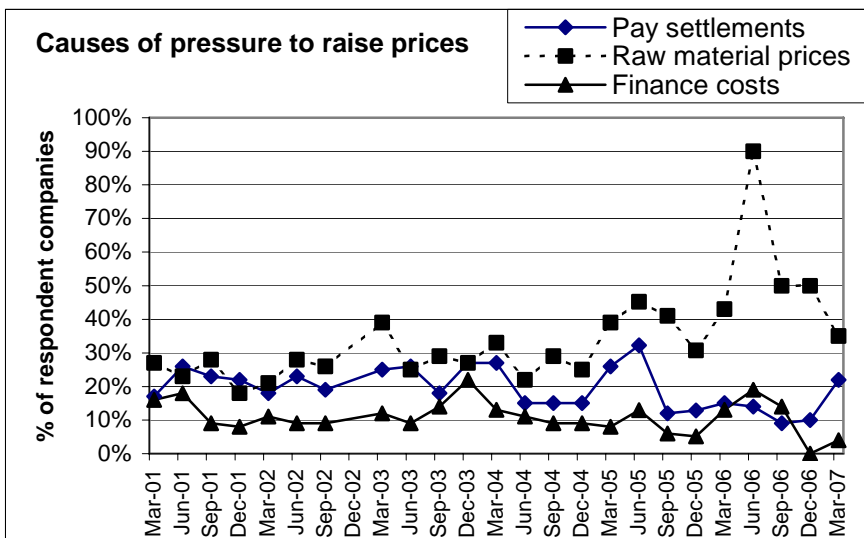
Businesses were asked what they foresee happening to the price of their goods/services over the next 3 months. 57% of businesses expected their prices to remain constant, compared with 40% in December 06 and 47% in March 06.

Prices increasing 35% of businesses expected the prices of their goods/services to increase, compared to 40% in December 06 and 38% in March 06.

Prices decreasing 8% of businesses expected prices to decrease this quarter compared to 20% in December 06 and 15% in March 06.

Businesses were also asked if they had been placed under pressure to raise their prices as a result of certain factors, as shown in Chart 5.

Chart 5 - Causes of Pressure to Raise Prices



There has been a large decrease in the proportion of businesses (35%) reporting that raw material prices cause pressure to raise prices, down from 50% in December 06 and 43% in March 06.

Finance costs (4%) have also shown an increase from 0% in December 06 but a decrease over the year from 13% in March 06.

The Euro

In previous quarterly surveys businesses were asked if they would like to see the UK adopt the Euro, however this question was not asked during this quarter.

Summary of National British Chambers of Commerce's March 2007 report (Quarter 1)

The British Chambers of Commerce Q1 2007 Quarterly Economic Survey of 4,700 businesses appears to indicate that the cumulative impact of the three recent Interest Rate increases has significantly dampened the pace of economic growth and the pressure to raise prices

- The Q1 2007 balances show distinct declines for both the Service and Manufacturing sectors, signalling a clear weakening in the pace of activity.
- The manufacturing sector recorded weaker balances for home sales & orders, employment and employment expectations, investment and cashflow.
- The service sector's Q1 balances weakened for home sales & orders, export sales & orders, employment, confidence and cashflow.
- Critically, in comparison to the 2006 Q4, the Q1 results show that pressures to raise prices were markedly down, in both manufacturing and services. Clearly businesses are taking a more modest and realistic view about their pricing power.

Note: Balance figures, referred to above, are determined by subtracting the percentage of companies reporting decreases in a factor from the percentage of companies reporting increases.

Source: British Chamber of Commerce Online

For more information see: <http://www.chamberonline.co.uk/YQ19tSk.html>

For further information on the Herefordshire and Worcestershire Quarterly Economic Survey, please contact Gary Woodman at the Chamber of Commerce on 0845 641 1501 or GaryW@hwchamber.co.uk

Interested in Chamber Membership?

Contact your local Chamber representative Michelle Morgan on 0845 641 1528 or michellem@hwchamber.co.uk