

## CHAMBER OF COMMERCE QUARTERLY ECONOMIC SURVEY

The Chamber of Commerce, Herefordshire & Worcestershire (CCH&W) carries out quarterly surveys of its members, to ascertain recent and anticipated trading experiences. 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 **December 2008**. The response rate for Herefordshire is relatively small meaning that the results can only give an indication of local economic trends.

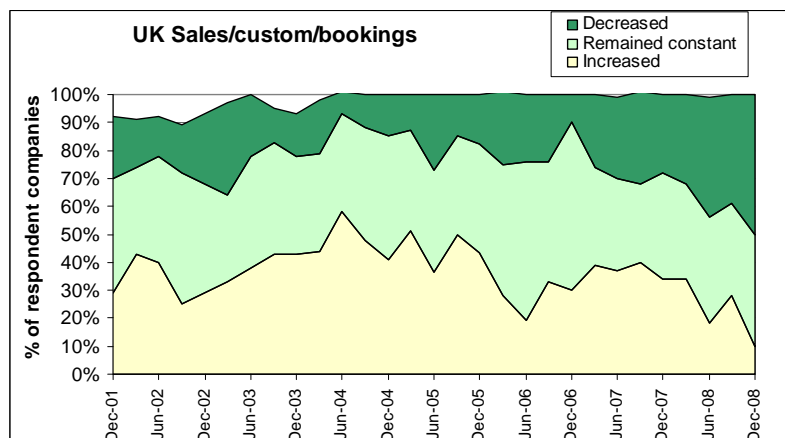
This article provides a summary of the trends for the quarterly survey results, specifically comparing data from December 2008, with the same quarter previous year and the previous quarter (September 2008).

In comparison with figures for the previous 10 years, latest results from December 2008 saw:

- The lowest proportion of businesses reporting increases in UK sales and orders over the past 3 months.
- The highest proportion reporting decreases in UK sales and orders and overseas orders over the past 3 months.
- The highest proportion expecting a decrease in their workforce over the next 3 months.
- + An increase since the previous quarter in businesses reporting an improvement in their cash flow over the last 3 months.
- The highest proportion of businesses revising their investment plans around plant, machinery and equipment downward, along with the lowest proportion revising investment plans upwards for training and plant, machinery and equipment.
- A lower proportion of businesses expecting turnover to improve over the next 12 months and the highest proportion expecting profitability to get worse over the next 12 months.
- + A decrease compared with the previous quarter and previous year in the proportion of businesses who expect the prices of their goods and services to increase.

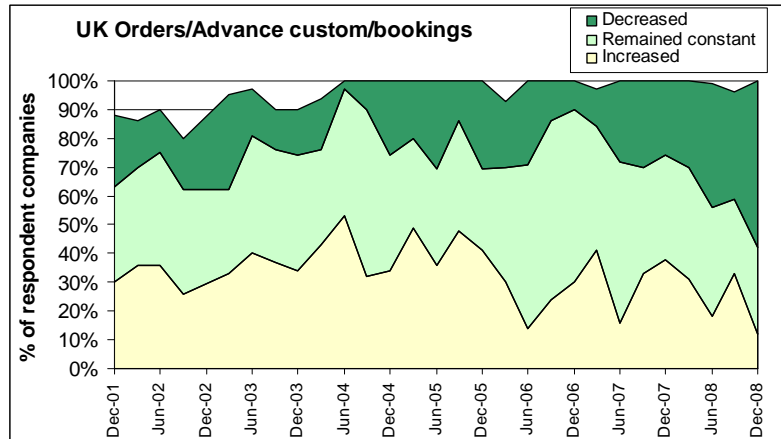
**Chart 1 Changes in UK sales/custom/bookings for Herefordshire**

- In December 08, 10% of businesses reported an increase in UK sales, which is the lowest proportion reporting an increase since the survey began in December 1998, probably reflecting the current economic climate. During the last quarter, September 08, 28% reported an increase as did 34% this time last year.
- 50% of businesses reported a decrease in sales in December 08, again the highest proportion reporting this since December 1998. The median value (middle value of all percentages reported) for businesses reporting a decrease in UK trade since 1994 was 19%, showing that the current figure (50%) is much higher than would 'normally' be reported.
- 40% of businesses reported no change in December 2008.

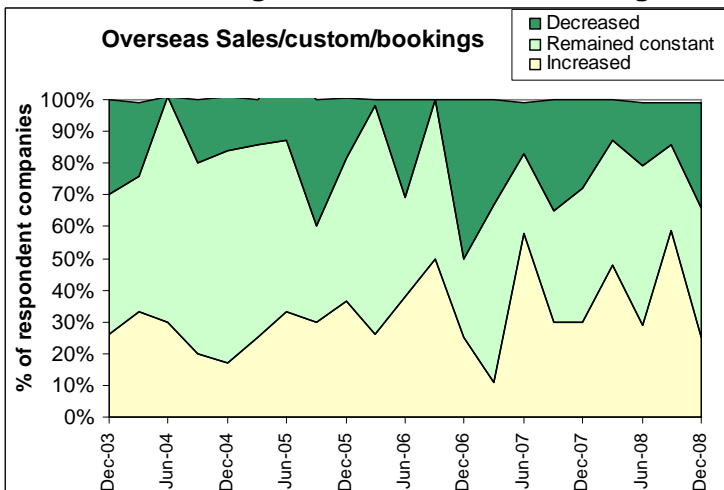


**Chart 2 Changes in UK orders/advance custom & bookings for Herefordshire**

UK orders have experienced a similar pattern to that of UK sales; a very low proportion reporting an increase (12% in December 2008) and a high proportion reporting a decrease (58%). Both of these figures are the lowest and highest proportions we have seen since the beginning of the survey in December 1998.



**Chart 3 Changes in sales/custom/bookings in overseas markets for Herefordshire**

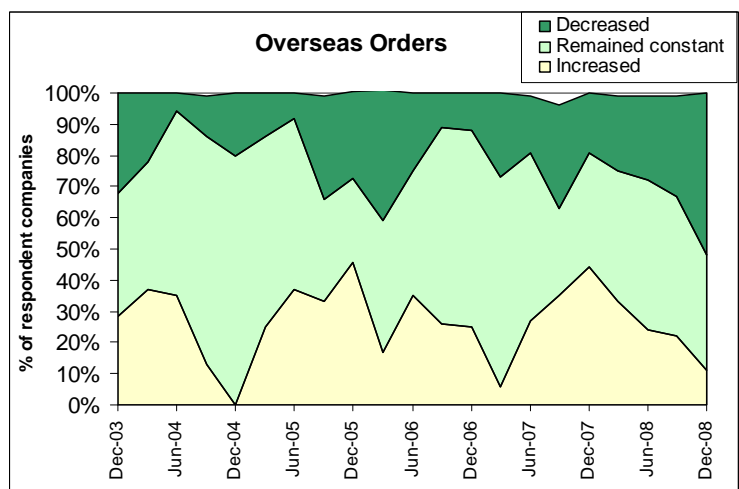


- 25% of businesses reported an increase in overseas sales in December 08, which is better than UK sales (see above) and previous quarters, 11% in March 2007 but not as good as in September 2008 (59%).
- Generally, the proportion reporting a decrease in overseas sales has fluctuated from when this survey began, ranging between 0% and 50%. In December 2008, 33% of businesses reported a decrease in overseas sales during that quarter.
- 41% of businesses reported no

change in December 2008 for overseas sales.

**Chart 4 Changes in orders/advance custom & bookings in overseas markets for Herefordshire**

- 11% of businesses reported an increase in overseas orders but in a similar pattern to sales figures, proportions reporting this have fluctuated between 0% and 45%. However, this proportion has declined over the previous few quarters, 44% in December 07, 33% in March 08, 22% in September 08.
- In December 08, 52% of businesses reported a decrease in overseas orders, which is the highest this has been since the survey began in December 1998. The median value (middle value of all percentages reported) for businesses reporting a decrease in overseas orders since 1994 was 13%, showing that the current figure (52%) is much higher than would 'normally' be reported.
- 37% of businesses reported no change in overseas orders in December 2008. Figures for September 08 and December 07 were 45% and 37% respectively.



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### Workforce Changes over the last 3 months

Over half of businesses (52%) reported no change in their workforce, a similar figure to September 08 (59%) and December 07 (60%). See below for those reporting an increase or decrease over the last year:

Workforce increased: 18% of businesses reported an increase in their workforce, similar to previously, 19% in September 07 and 20% in December 07.

Workforce decreased: 30% reported a decrease in the workforce, which is slightly higher than previous quarters 23% in September 08 and 20% in December 07.

### Predicted workforce Changes over the next 3 months

Predictions for workforce changes for the following 3 months are: **52% expect no change**

Expecting an increase: 10% are expecting an increase in their workforce, down from 23% in September 08 and 25% in December 07.

Expecting a decrease: 38% are expecting a decrease in their workforce, which is the highest proportion since the survey began in December 1998. The median value (middle value of all percentages reported) for businesses predicting a decrease in the workforce over the next 3 months since 1998 was 9%, showing that the current figure (38%) is much higher than would 'normally' be reported.

48% of businesses attempted to **recruit staff** over the last quarter. Recruitment levels have not changed that much over the year as the average (median) proportion of businesses saying they have tried to recruit over the last 3 months was 57%, with proportions ranging from 41% to 81% of businesses.

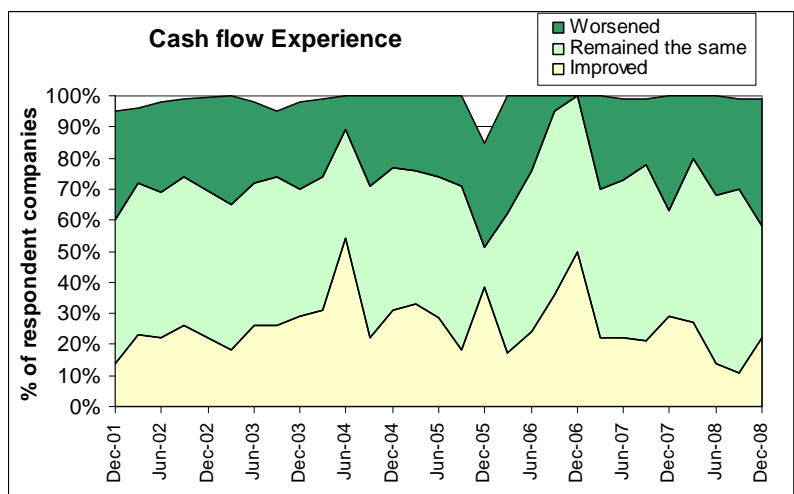
39% of businesses reported wanting to recruit full time staff and 24% wanting to recruit permanent staff, the proportions of businesses looking to recruit these types of staff have always been higher than part time or temporary staff.

52% of the firms attempting to recruit staff reported having difficulty in recruiting, which is a fairly typical of patterns seen over the monitoring period. 40% reported difficulties in filling skilled manual and technical worker positions, 27% for professional/managerial and 22% for unskilled/semi-skilled workers.

### Chart 5 Cash flow experience over the past quarter

Cash flow improved: 22% of businesses reported that their cash flow had improved over the last quarter, this figure is up from 11% in September 08 and similar to December 2007 (29%).

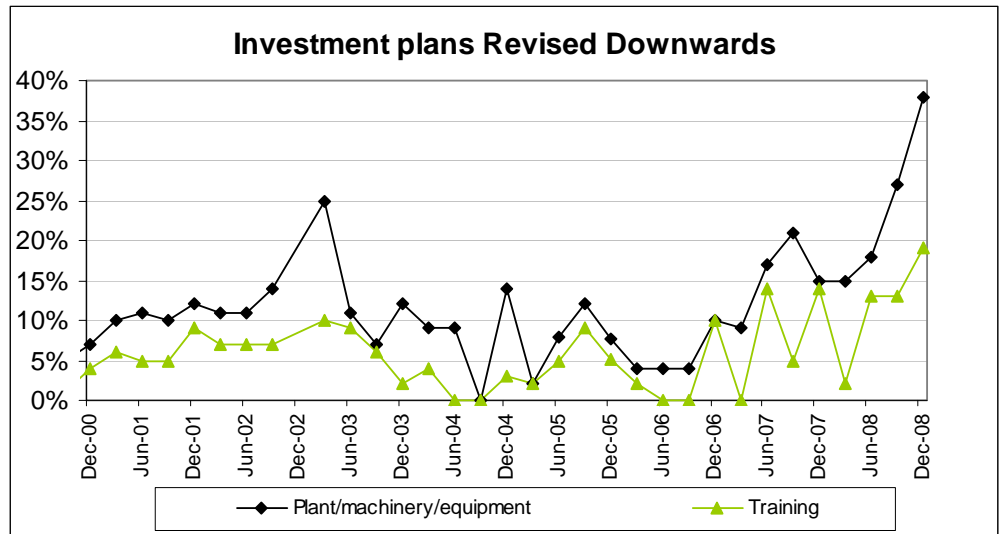
Cash flow worsened: However, 41% of businesses reported that their cash flow had worsened over the last quarter. This is up from 29% in September 08 but similar to December 2007 (37%).



**Investment Plans**

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

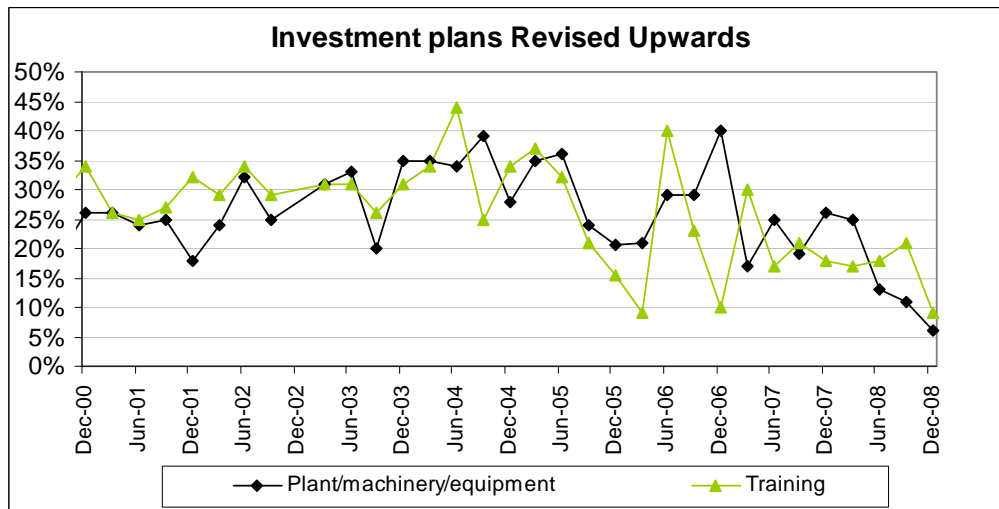
**Chart 6 - Investment Plans Revised Downwards**



Plant/machinery/equipment: 38% of businesses revised these plans downwards in December 08, the highest proportion reporting this since the survey began in December 1998. This proportion has been increasing since March 2008.

Training: Generally the proportion revising investment plans in training downwards has fluctuated, however December 08 saw the highest proportion over the monitoring period, 19%.

**Chart 7 - Investment Plans Revised Upwards**



Revised Upwards

There has been a general downward trend in the proportion of businesses revising their investment plans upwards over the previous quarter. This may well be in response to the current economic climate.

Only 6% of businesses reported revising upwards their investment plans around plant, machinery and equipment and 9% around training. In both cases, this is the lowest proportion over the monitoring period.

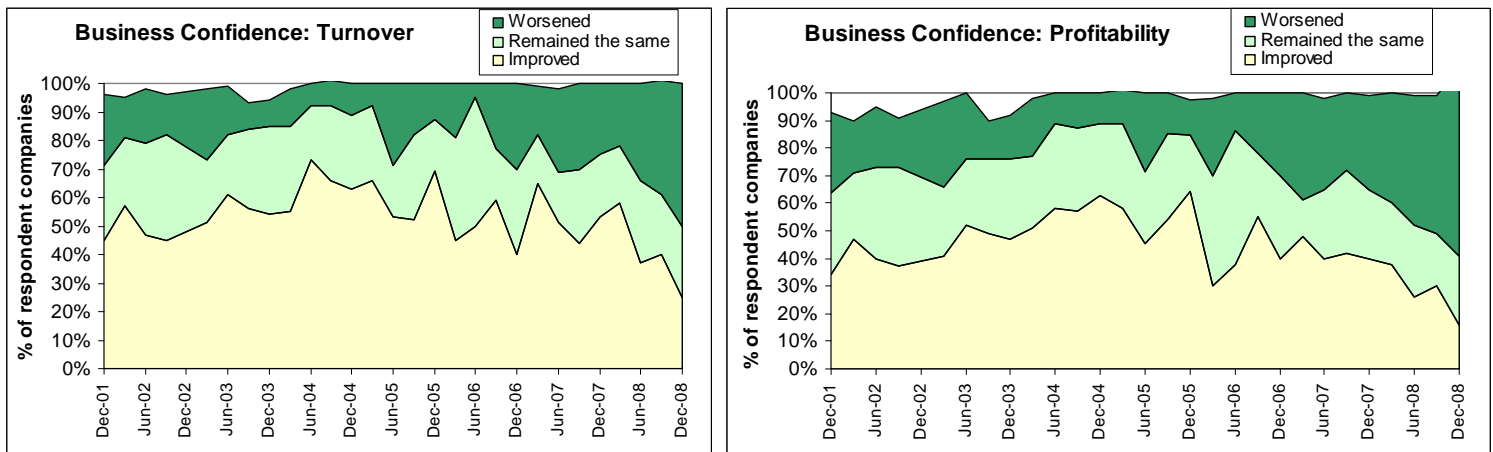
**Business Confidence**

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: 25% of businesses expect their turnover to improve over the next 12 months; The median value (middle value of all percentages reported) for businesses expecting turnover to improve since 1994 was 54%, showing that the current figure (25%) is much lower than would 'normally' be reported. Again this could be a result of the economic downturn.

Turnover worsening: Further to this, 50% of businesses expect their turnover to get worse over the next 12 months; an increase from 40% in September 08 and 25% in December 07. This is the highest proportion reporting this over the monitoring period.

**Charts 8 & 9. Expectations around turnover and profitability over the next 12 months**



Profitability takes on a similar pattern as turnover but slightly more marked; smaller proportions expecting an improvement in profitability and larger proportions expecting it to get worse.

Profitability improving: 16% of businesses expect profitability to improve, compared to 30% in September 08 and 40% in December 07.

Profitability worsening: 68% expect profitability to get worse over the next 12 months. This is the largest proportion over the monitoring period and figures have been steadily increasing since September 07 (28%).

**Operating levels**

74% of businesses reported operating below capacity in December 08, which is similar to proportions reporting this over the last few quarters, 67% in September 08 and 70% in December 07.

**Prices/costs**

Businesses were asked what they foresee happening to the price of their goods/services over the next 3 months.

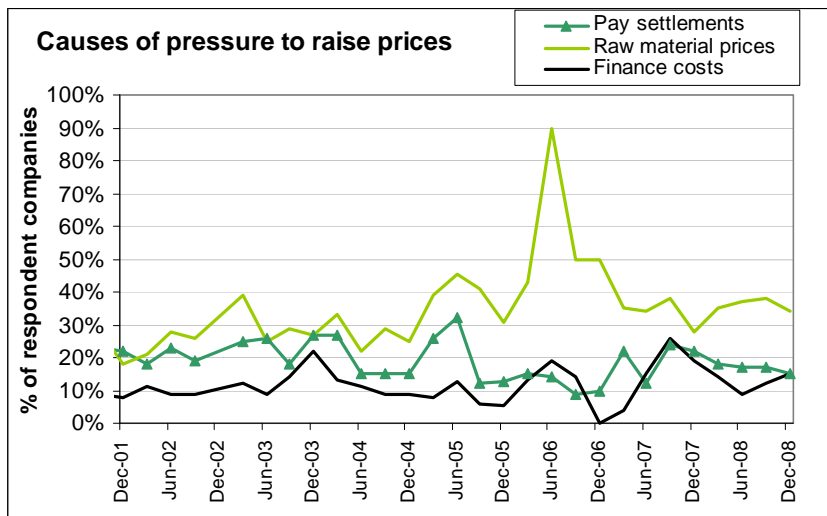
Prices increasing: 36% of businesses expected the prices of their goods/services to increase, a decrease from 53% who reported this last quarter in September 08 and 60% in December 07.

Prices decreasing: 18% of businesses expected prices to decrease this coming quarter compared to 0% in September 08 and 2% in December 07. The highest figure since December 06 (20%).

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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 10.

**Chart 10 - Causes of Pressure to Raise Prices**



There have not been any major changes in causes of pressure to raise prices, with causes remaining fairly stable, compared to June 06 which saw a large spike in raw materials prices.

Generally there is a higher proportion of businesses reporting that raw material costs are the causes for increased prices.

In December 08, 34% of businesses reported raw material prices were a cause of pressure to raise prices followed by 15% citing both pay settlements and finance costs.

Other causes of pressure to raise business costs reported by businesses were interest rates, exchange rates, business rates, competition, corporate taxation and inflation

**Summary of National British Chambers of Commerce’s March 2009 report (Quarter 1)**

This information is included to provide some national context as well as provide more timely data as that for March 2009 is not yet available for Herefordshire. Balance figures, referred to in the following section are determined by subtracting the percentage of companies reporting decreases in a factor from the percentage of companies reporting increases.

**Key Findings**

All the critical national balances remained in negative territory in Q1, for both manufacturing and services. However, the Quarter 1 (Q1) results also reveal a clear divergence between a further disturbing deterioration in manufacturing, and an improvement in services (even though the sector is still in decline). The manufacturing sector’s balances worsened further in Q1, and fell to record lows in almost all critical areas. The only exception is an improvement in manufacturing employment expectation; but the balance is deeply negative, and very weak by historical standards. In contrast, the service sector’s balances, though still negative, recorded a Q1 improvement in most key areas. Despite this, the overall exports position of the service sector is broadly unchanged, and export sales as well as orders remain in negative territory. The UK economy is still facing very serious threats, and there is a clear need for corrective action.

**Economic climate**

The Q1 QES results confirm that the UK recession is still very serious, and is likely to continue for some time. The results highlight a very worrying deterioration in manufacturing, with falls to record lows in almost all critical balances. In contrast, the service sector’s balances, though still distinctly negative, recorded an improvement in most key areas. The pace of decline in services is moderating. However, these hopeful signs will fizzle out and will not generate a sustained recovery without further urgent corrective measures that support and nurture wealth-creating businesses.

Source: British Chamber of Commerce Online

For more information see: <http://www.britishchambers.org.uk/6798219246983319010/quarterly-economic-survey.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](mailto:GaryW@hwchamber.co.uk)

**Interested in Chamber Membership?** Contact your local Chamber Membership team on 0845 641 1641.