

QUARTERLY ECONOMIC REVIEW

Quarter 1 2015



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East Midlands Chamber



East Midlands Chamber



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Introduction



Following a stabilisation of growth at the end of 2014, businesses enjoyed a positive start to 2015, with a slight increase in the rate of growth across a number of key economic indicators.

Perhaps most significantly, business confidence remains unbowed by the uncertainties of a changing Government. Indeed, an increasing number of firms are now planning to increase their investment to grow their businesses.

Five years ago, in the summer of 2010, the current coalition was formed against a backdrop of massive economic uncertainty.

The priority was the formation of a stable Government which could calm the markets and create an environment in which the economy could return to growth.

In 2010, the Chamber's State of the Economy Index, which tracks business performance against a range of economic indicators, hovered around the 100 mark as the economy began to slowly improve.

This slow growth persisted well into 2013, at which point the pace of growth started to pick up significantly.

The Index grew more than three-fold during the course of the Parliament, reflecting the hard work and tenacity demonstrated by businesses in the East Midlands and the graph on page three of this report provides a stark illustration of how well the economy has progressed during this period.

This progress was only achieved because of the political stability which was present over the last Parliament and it is absolutely essential that the new Government - however it is made up - remains similarly stable.

At the tail end of Q1 2015, Chancellor George Osborne delivered the final Budget of the coalition and – by and large – heeded Chamber calls to avoid any dramatic announcements or last minute giveaways that would signal a shift away from the long-term stability in his plans. This was in contrast to some of the recent manifesto commitments announced by all the parties during the election campaign.

The next quarter's QES findings will be the first to be delivered under the new Government of the United Kingdom.

Regardless of its political make-up, if business had one overarching message to give, it would be to focus on delivering long-term policy and avoid the kind of political short-termism that only acts to complicate the planning and running of a successful business.

Liz Fothergill CBE, President

**For more information about the survey contact Chris Hobson,
Head of Information and Representation on 0333 320 0333 or
email chris.hobson@dnlcc.co.uk**

Profile of respondents

There were **427** respondents to the Quarterly Economic Survey, Q1 2015. Of those, **206** said their primary operating base was within Derbyshire, **85** in Leicestershire and Rutland and **136** in Nottinghamshire.

103 respondents described manufacturing and engineering as being the sector which best fits their primary activity, **96** professional services, **32** construction, **30** retail, **26** education or training and **20** transport and logistics.

Other sectors represented include marketing/media, finance, hospitality, energy and water supply, agriculture, tourism and leisure, production of raw materials and public/voluntary.

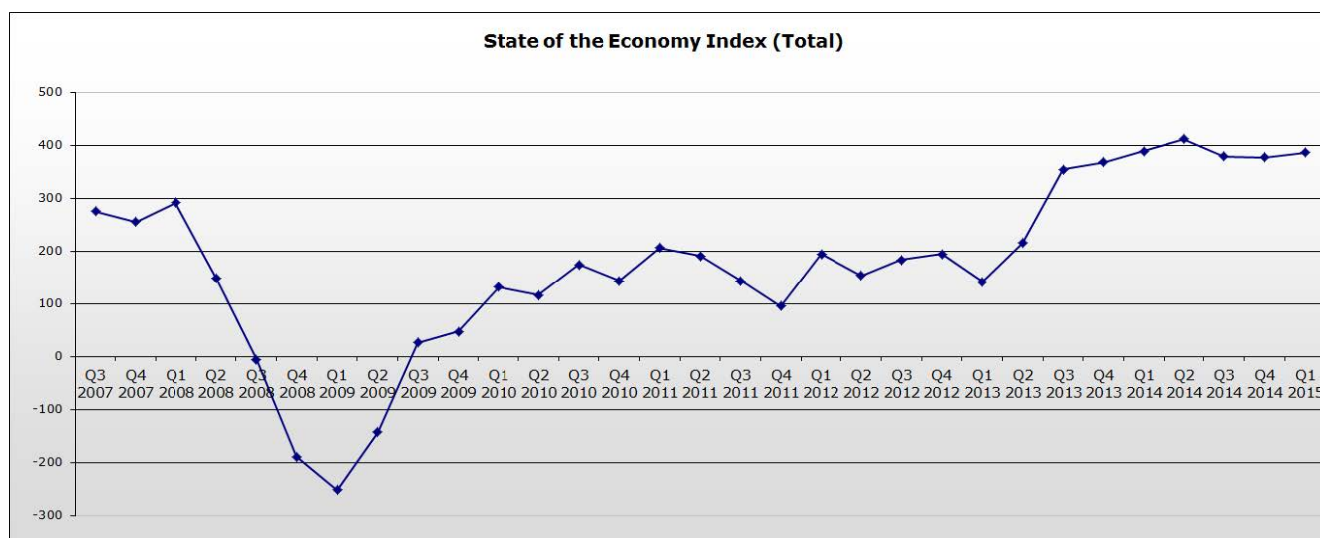
167 respondents had fewer than 10 employees, **145** had between 11-49, **81** had between 50-249 and **34** had over 250.



State of the Economy

The Chamber's Quarterly Economic Survey (QES) tracks business performance across a range of economic indicators to produce a quarterly 'State of the Economy Index' (SEI). Indicators include UK and export sales and orders, future recruitment plans, investment intentions, confidence levels, price expectations, employment levels and cash flow.

After two consecutive quarters of slight decline, which saw the index fall from its record high of 411 in Q2 2014 to 377 in Q4, the Index returned to 386 in Q1, a similar level to where it stood in the same quarter 12 months ago. The index was bolstered by firms' strengthening confidence in their future profits and turnover in 2015, which is translated into increasing staffing levels and plans to recruit and invest being revised upwards.



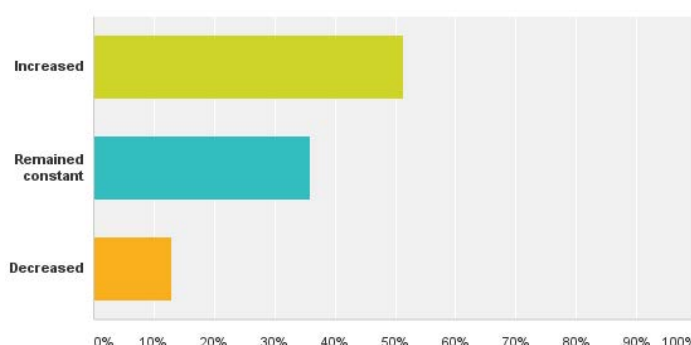
Sales and Orders

Just as in Q4 2014, **51%** of all respondents reported an increase in UK sales and activity during Q1. There was a **one per cent** fall in those reporting a decrease, down to **13%**.

After a marked slowdown in Q4 for manufacturers and engineers, these sectors picked up again slightly in Q1 2015, with those reporting an increase rising by two per cent to **40%**.

Despite national reports of a slight slowdown for construction, businesses in this sector continued to outperform others, with those reporting an increase growing from **65%** in Q4 2014 to **79%** in the latest quarter.

UK Sales (Q1 2015)



Encouragingly, despite a second Quarter that will include the UK General Election, advanced orders and bookings increased on the end of 2014, with **48%** of businesses reporting an increase (up from **43%**) and only **nine per cent** reporting a decrease (down from **11%**).

In contrast to resilient UK data, there was a further deterioration in quarter-on-quarter performance in overseas markets with **29%** reporting growth over the past three months (down from **33%**) and **one-in-five** reporting a decrease.

Despite slightly weaker net growth overall, in terms of the bigger picture, half of all respondents reported no change in overseas markets.

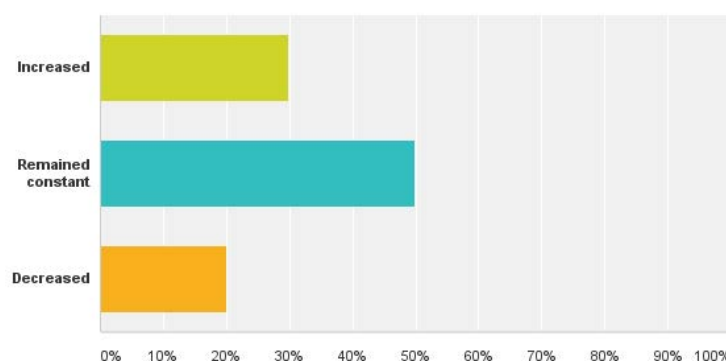
Looking at the results broken down by global region, there was a slight net decrease in terms of businesses which saw an improvement versus businesses which saw a deterioration for those trading in North American and Non-EU European markets.

This was in contrast to those with activity in Middle East and African markets, where **29%** saw an improvement in the past quarter against **11%** that saw a decrease in activity.

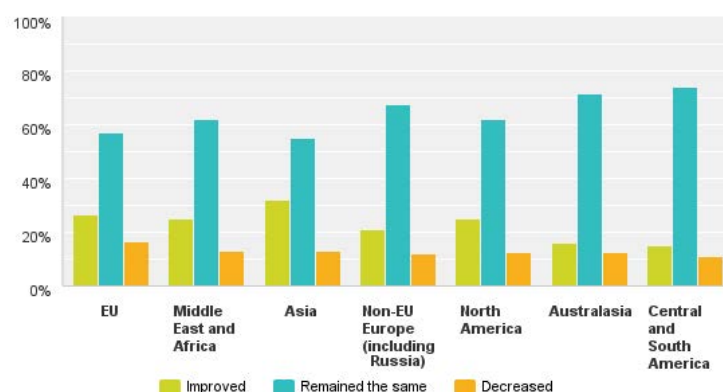
The Chamber's international trade team processed export documentation for goods and services worth more than **£130m** in Q1, an increase of **£3.4m** on Q4 2014.

The three top-performing export markets for businesses utilising the Chamber's export documentation service in Q1 were Turkey, which saw documents worth **£22m** processed, the United Arab Emirates (worth **£18.3m**) and Saudi Arabia (worth **£14.6m**).

Export Sales (Q1 2015)

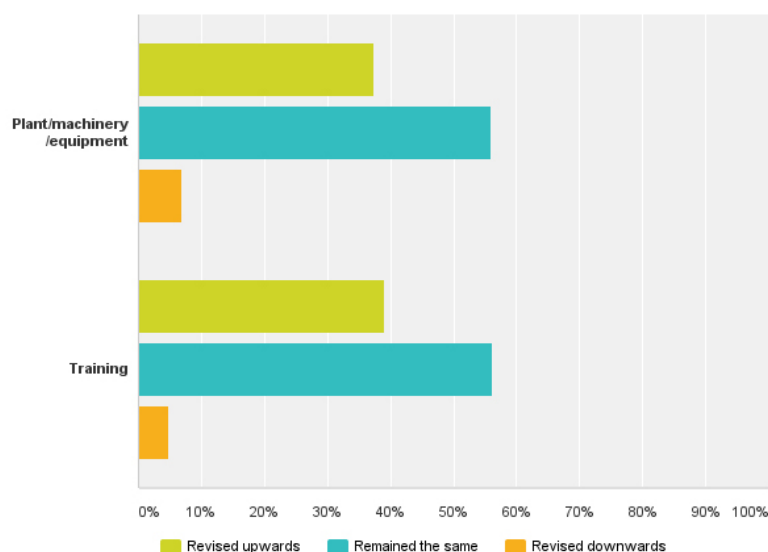


Export Sales by Region



Cash Flow, Capacity and Investment Intentions

Investment Plans (Q1 2015)



There was little change in the overall cash flow situation across the region, with **35%** seeing an increase in cash flow against **19%** reporting a decrease.

This remained a particular issue for Manufacturers and Engineers, where the **23%** which saw an increase here were more than matched by **25%** which saw a decrease.

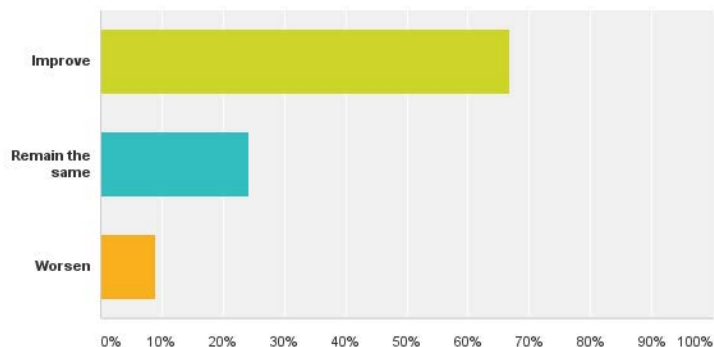
Entering 2015, there was a marked increase in businesses revising their investment plans upwards – with **37%** revising plant, machinery and equipment investment upwards (up from **30%** in Q4), and **39%** revising training budgets upwards (up from **35%**).

In contrast to the increased investment, a majority of businesses are continuing to operate below full capacity, with this figure rising to **68%** in Q1 2015, up from **61%** at the end of 2014.

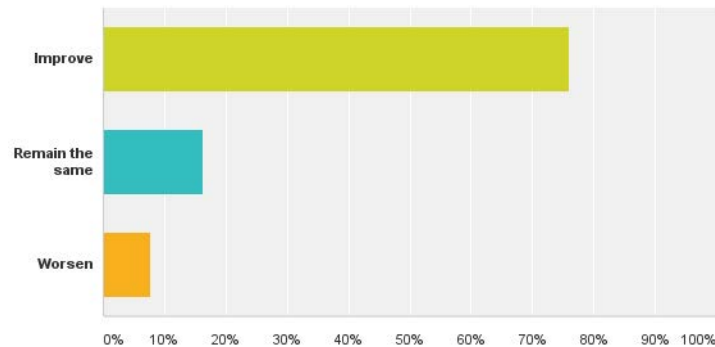
Business Confidence and Economic Outlook

Following a dip at the end of 2014, there was an increase in business confidence indicators at the start of 2015, with **67%** expecting profitability to improve over the coming year (up from **64%** in Q4 2014) and **76%** predicting an improvement in turnover (up from **71%**). Those expecting deterioration here were **nine per cent** and **eight per cent** respectively.

Over the next 12 months, do you expect your profits to...



Over the next 12 months, do you expect your turnover to...



As the market improves and business opportunities grow, competition continues to become less of an issue for respondents, with **40%** reporting this as being more of a concern now than three months ago, down from **45%** in Q4 and **49%** in Q3 2014.

Recent shifts in currency markets have been reflected in over a quarter of respondents citing exchange rates as being more of an issue now than last quarter.

During a quarter in which the Bank of England cooled speculation of a rate rise, those citing interest rates as a growing concern fell again, from **18%** to **ten per cent**, while **32%** of respondents anticipated an increase in their prices over the coming three months.

Staffing, Skills and Pay

In a further sign of a growing regional economy, the overall labour force in the region continued to grow at a similar pace to the end of 2014, with **36%** saying their labour force had increased against **nine per cent** saying this had decreased.

The main reason for any changes continues to be a growth in business (**74%**). An increased number of businesses expected to grow their workforce over the coming quarter, up to **42%** from **one-third** in the previous quarter.

Of the **59%** of respondents that had attempted to recruit over the quarter, the vast majority continue to be looking to fill full-time positions (**86%**).

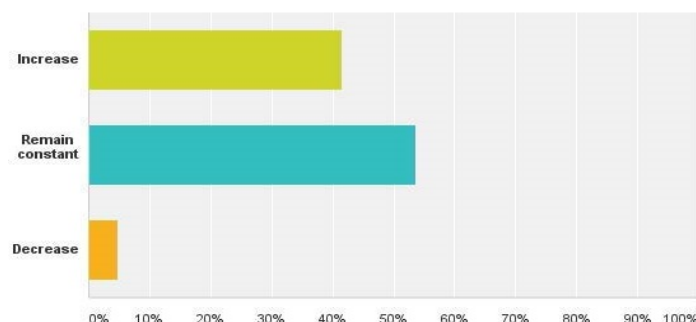
Those reporting difficulties in recruiting dipped slightly from the end of 2014, although remains at a high level, falling from **62%** to **57%** in the first quarter of 2015.

The greatest difficulties in recruiting remains for those companies looking for skilled manual/technical roles, at **57%** of all respondents, however, problems are being experienced across the whole spectrum of job types, with **18%** struggling to fill unskilled/semi-skilled roles and **21%** struggling to fill clerical roles.

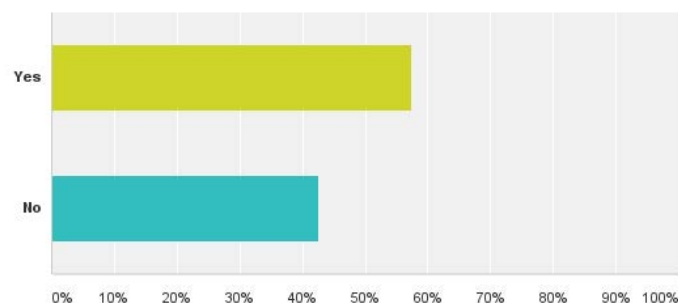
As recruitment difficulties continue, the number of businesses anticipating awarding a general pay rise over the coming 12 months grew to **77%** in the first Quarter of 2015, up from **67%** at the end of 2014.

Of this figure, the vast majority (**80%**) said this will be at or above inflation. Increases in income looks set to be a key campaigning issue in the forthcoming General Election, so as the traditional pay award period nears, these figures will be of interest to many observers.

Over the next three months, do you expect the size of your workforce to...



Over the past three months, have you experienced difficulties when recruiting...



Chamber Commentary on QES Q1 2015



Given the proximity to a General Election, it's encouraging to see such a resilient performance from East Midlands businesses in the Q1 findings, with many indicators of business success even seeing small improvements in growth rates.

Over the past year, the Chamber's message to politicians and decision-makers has been that the East Midlands has moved on from being a 'bellwether' of the UK economy to a national leader and so it is equally encouraging to see this message borne out in these findings, with the figures in this report exceeding their national equivalents*.

There are a number of factors contributing to this success, including the broad spread of business sectors present across this region and the drive and commitment that exists within East Midlands businesses and their employees. These characteristics will continue to stand the region in good stead post-election.

The relative strength of the East Midlands aside, the key findings of the final QES of the last Parliament emphasise the issues that have characterised the past 12 months for businesses in the East Midlands.

The main narrative is one of growth continuing at a steady pace. The UK market continues to outperform overseas markets and firms remain bullish about their prospects for the year ahead. The increase in investment is particularly encouraging.

Skill shortages continue to be the biggest barrier to growth and it is right that the skills boards and local enterprise partnerships for the three cities and counties focus on these areas.

Locally, the Chamber continues to work with business and education providers to promote work-readiness among young people and inspire them to enter into growing areas of the economy, particularly manufacturing and construction.

As the labour market tightens, there will be more focus placed upon increasing productivity which will, in turn, fuel higher pay and improving living conditions.

The evidence provided by this survey will assist the Chamber in highlighting the issues requiring immediate attention from the incoming Government.

George Cowcher, Chief Executive

* The British Chambers of Commerce's national Q1 report is available online at <http://bit.ly/1lBitYq>