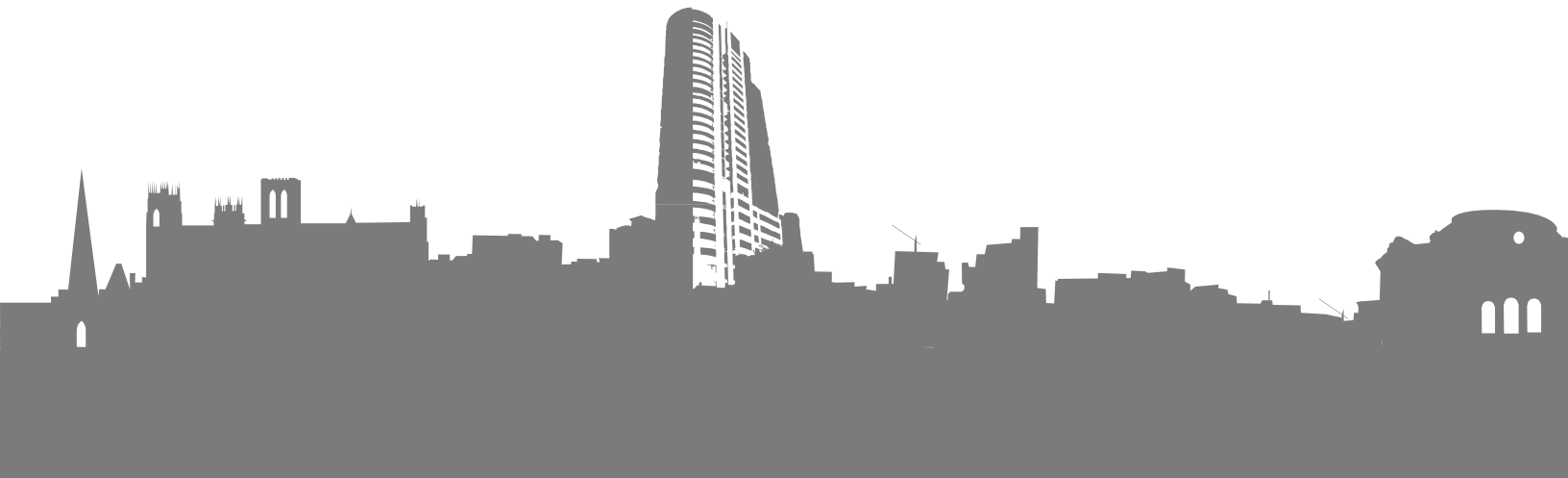


# Quarterly Economic Survey

## Leeds, York & North Yorkshire

### Quarter 4 2011



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## Methodology

The fieldwork and analysis of this special report is the product of a new partnership between the Leeds, York and North Yorkshire Chamber of Commerce and researchers at Leeds University Business School. The Quarterly Economic Survey was conducted via email and telephone. There were 803 respondents of either business owner/ senior manager status. Businesses were surveyed by telephone and online questionnaires between the period of 14 November and 7 December.

Balance figures referred to throughout this report and represented in the graphs are determined by subtracting the percentage of companies reporting decreases in a factor from the percentage of companies reporting increases.

## Business Size Classification

- 1 - 10 employees - micro-businesses
- 11 - 50 employees - small business
- 51 - 200 employees - medium business
- 200 + employees - large business

## Foreward

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QES results for the final quarter of 2011 show an economy that is sluggish and struggling to overcome the hangover of the previous recession. Reassuringly, the results provide no real indication that the local economy will head back into recession as all key balances remain in positive territory and there have been some improvements, particularly regarding overseas trade, on the previous quarter. What is clear from these results though is that the first half of 2012 will be challenging for businesses and weak activity in the domestic market risks a prolonged period of economic stagnation.

Confidence is the biggest problem for businesses as we head into 2012. Turnover expectations have fallen significantly for businesses compared to the start of 2011, particularly amongst manufacturers, suggesting that more must be done to accelerate an economic renaissance within the sector.

Just over half of businesses say that they expect their turnover to improve over the next 12 months, leaving 46% of businesses who expect their turnover to either stagnate or worsen through 2012. This is a worryingly high proportion when you consider that many of these businesses are still operating at turnover levels below what they were at the start of the recession. The absence of confidence is also having a negative impact on job creation and investment, with balances in both these areas remaining weak.

Overseas markets continue to present opportunities for exporters and there has been noticeable improvements following the slowdown in international sales and orders during the third quarter; but, as highlighted in previous chamber reports, only a minority of businesses currently export their product or service and there is an urgent need for more businesses to expand into international markets. Once again however it comes down to confidence and the economic troubles in the euro zone, as well as growing political tensions around the world, provide little reassurance about the future of the global economy.

In his upcoming Budget in March, the Chancellor needs to restore confidence and create an environment that encourages businesses to invest, grow and create jobs. Ahead of the Budget, which is set to take place on March 21st, the Chamber would like to hear member's views on what specific - and realistic - policies would help them to grow their business, expand into new markets and take on new staff. This feedback will be in our submission to the Chancellor, ensuring that Leeds, York and North Yorkshire businesses have a voice in the run up to this pivotal budget. Please send your views to [representation@yourchamber.org.uk](mailto:representation@yourchamber.org.uk)”

- Mark Goldstone, Head of Business Representation  
Leeds, York & North Yorkshire Chamber.

“

The picture from the latest QES is mixed, although there is more evidence this quarter than in previous surveys of growing pessimism about the immediate future. Businesses in the region are clearly facing challenging economic conditions. Sales in manufacturing firms in the region have stagnated and service firms are now also struggling to a greater degree than in previous recent quarters. The picture is more positive for firms who have penetrated export markets, and some of these appear to be weathering current conditions with more success, although businesses that operate in export markets are by far the exception rather than the rule.

Employment levels and expectations continue to be a cause for concern. Employment levels are flat and there looks to be little sign of any pick-up in employment in the next three months. Business confidence remains patchy and is down on levels from a year ago. This can be linked to concerns over competition, raw material prices and inflation, all of which are reflective of the broader uncertainty in the domestic and international economy.”

- Professor Chris Forde and Professor Andrew Robinson, Leeds University Business School

## Results Summary



### UK Growth Loses Pace as Sales and Orders Take a Hit

The fragility of the UK market continues into the final quarter with the majority of businesses experiencing flat or falling home sales / orders.

Within the manufacturing sector, net balances dropped significantly with sales falling faster than orders suggesting a tumultuous road to recovery.

UK sales and orders within the service sector remain fairly weak as net balances indicate sales increased by one point to +11% and orders declined by one point to +4%.



### Export Sales Improve after last quarter's slowdown

Signs of increased demand in overseas markets as both manufacturing and service sectors report growth in their international sales and orders.

Net balances in the manufacturing sector indicate a 17 point increase for export sales and a 19 point increase for orders suggesting businesses gained greater confidence in exporting their goods this quarter.

Large companies performed the strongest in international sales and orders with micro businesses reporting healthier trade.



### Economic Challenges Hit Business Confidence

There has been noticeable falls in business confidence compared to the beginning of 2011. However, just over half (54%) of businesses expect turnover to improve compared to 16% expecting turnover to worsen during 2012.

Concerns over competition and inflation can be attributed to the fall in confidence.

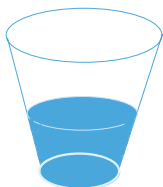
Business confidence is patchy amongst manufacturers with net balances indicating turnover expectations falling 6 points but with profit expectations increasing 17 points.



### Employment Levels Stay Flat as Businesses remain in a Vulnerable Position

Businesses report flat employment levels as 66% of companies said their work force remained constant over the last three months and with this trend set to continue into the next quarter.

Manufacturers remain cautious as businesses report some of the lowest employment figures this year with employment expected to fall a further 10 points to +3% during the next quarter.



### Q4 sees Patchy Investment Levels as Businesses Continue to Feel the Squeeze

Overall investment levels remain constant with 18% of businesses reporting an increase in capital investment but with just under half (44%) staying the same.

This quarter has seen services experiencing some difficulty with falling capital investment levels but with investment in training augmenting slightly.

Across both sectors, firms experience little improvement to their cash flow as they continue to feel the squeeze. Overall, approximately 66% of businesses reported operating below capacity reflecting the tough climate



## UK Market

### Q | Over the past three months in your UK market...

**Sales have:** Increased / Remained Constant / Decreased

**Orders & Advance Bookings have:**

Increased / Remained Constant /

The UK market remains fragile as businesses take a further hit to their domestic sales and orders during the final quarter of 2011. Businesses have experienced patchy growth since Q1 2011 as net balances (the difference between the percentage of businesses reporting an increase and the percentage of businesses reporting a decrease) have fluctuated. This volatility continues into the fourth quarter with 66% of businesses reporting flat or falling domestic sales. Overall, 43% of businesses reported domestic sales remained constant, 34% experienced an increase and 23% reported a decline. Results for domestic orders also reveal similar results. However, with net balances remaining in positive territory suggests there are pockets of growth across both sectors.

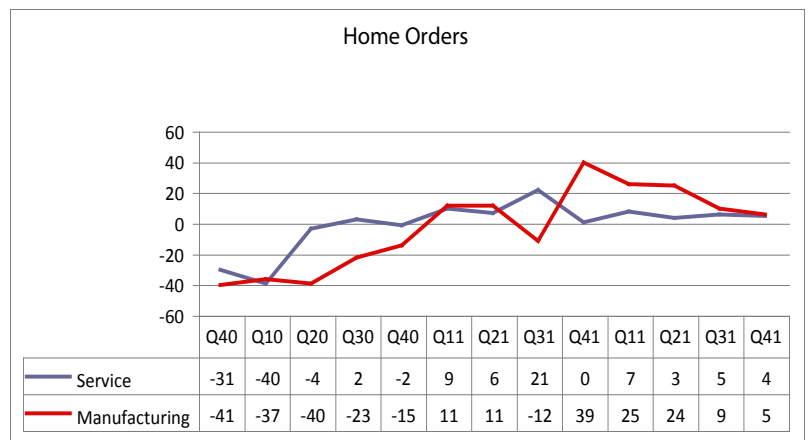
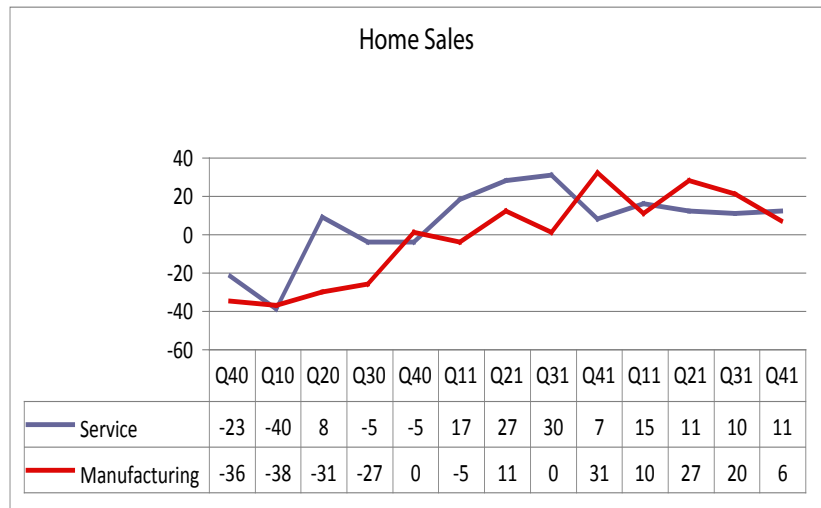
This quarter manufacturers experienced a fall in home sales and to a lesser extent orders. Net balances dropped a further 14 points to +6% (sales) and four points to +5% (orders). The number of home orders has continued to decline since the start of the year with figures now demonstrating a 20 point drop between Q1 and Q4 2011. The fragility of the UK market within the sector indicates a difficult road to recovery lies ahead.

In comparison, figures for the service sector are more stable. Results however still indicate little growth within the sector in terms of UK sales and orders and with the overall net balance remaining relatively weak. This quarter, UK sales marginally grew as net balances increased one point to +11% and orders declined one point to +4%. Services have not experienced the same market fluctuations as manufacturers but overall growth appears to have stagnated.

The message in the Chancellor's Autumn Statement revealed that GDP had been downgraded to 0.9% last year. On the whole, the vulnerability of the UK market has been evident throughout 2011 with the majority of Leeds, York and North Yorkshire businesses reporting fluctuations in domestic growth between Q1 and Q3 2011. Home sales and orders continue to ebb and flow across both the service and manufacturing sectors with results from Q4 2011 now suggesting that growth during the first part of 2012- and perhaps beyond will be challenging.

Across both sectors, large companies displayed improved performance in domestic sales and orders when compared to Q3 2011 and with figures returning approximately to that of Q2 2011. This quarter, 45% of large companies reported an increase in domestic sales and 42% an increase in orders. Medium and small sized businesses also reported an improvement in domestic sales with micro businesses following closely behind. Nevertheless, the majority of companies have remained constant and with large companies performing the strongest.

Within the service sub-sectors, Transport and Distribution again present strong performance within the UK market with results comparable to Q3 2011. Consumer services performed the worse this quarter with approximately 77% of companies reporting flat or falling home sales which could be attributed to the continuing decline in consumer confidence. It appears the UK market is struggling to provide businesses with the same growth prospects it used to before the recession began in 2008.





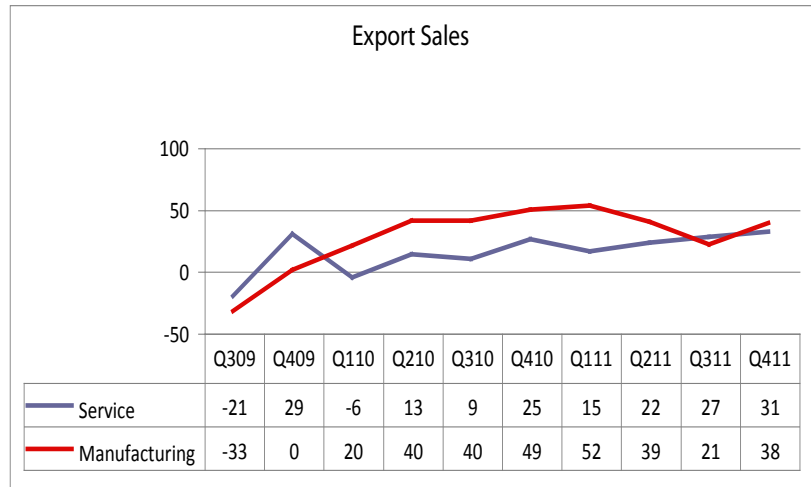
## Q | Over the past three months in your overseas market...

**Sales have:** Increased / Remained Constant / Decreased

**Orders & Advance Bookings have:** Increased / Remained Constant / Decreased

EAAfter last quarter’s slowdown in export growth, there are signs of increased demand in overseas markets as manufacturers and services report improvements in their international sales and orders. Overall, 45% of exporters reported an increase in overseas sales and 46% in overseas orders.

During Q3 2011, there was evidence that the manufacturing sector’s growth in foreign markets was losing pace as net balances fell 18 points (sales) and 21 points (orders) compared to Q2 2011-which was the second consecutive quarter of decline. This quarter however, net balances improved as businesses reported a 17 point increase to +38% for export sales and a 19 point increase to +37% for export orders. These results suggest that international demand for UK products has increased on the previous quarter. This is despite the euro zone fiscal crisis looming over most if not all European countries which are a major trading partner for Leeds, York and North Yorkshire companies.



Similarly, the service sector experienced increased exports this quarter with approximately 43% of businesses reporting an improvement to their overseas sales and orders. On the previous quarter, net balances indicate that international sales increased by four points to +31% and international orders by six points to +30%. This quarterly increase is not as dramatic as the manufacturing sector but growth is stable indicating that foreign markets continue to provide an environment of opportunities.

Since Q2 2011, services have reported steady growth each quarter in both international sales and orders. In comparison, the manufacturing sector has suffered far more foreign market insecurity with net balances (sales and orders) falling considerably between Q1 and Q3 2011 from +52% to +21% and +55% to +18% respectively. The overall net balance for manufacturers has remained relatively strong demonstrating the importance of overseas markets to this sector; however the net balance remains noticeably lower than the start of the year. Furthermore, when asked if their business is involved in overseas markets, 73% of firms across both sectors revealed they are currently not exporting suggesting that a large percentage of companies continue to face trade barriers.

In terms of the different sized businesses, large companies performed the strongest as 50% of these businesses reported increased overseas sales. On the previous quarter, medium sized companies experienced increased international sales and orders. Small sized companies also reported an increase in overseas orders (50%) but with sales (44%) remaining flat. Micro businesses also reported healthier trade with approximately 44% of companies reporting increased export sales compared to 12% reporting a decrease.

There is a clear correlation between businesses that export and improved performance compared to non exporters across some indicators. In terms of employment last quarter, 24% of exporters experienced an increase in labour force compared to 19% of non exporters. There are signs that cash flow also improved at a greater rate with 30% of exporters reporting an increase compared to 25% of non exporters. However, across both areas, businesses reported similar turnover and profit expectations for 2012. This suggests that despite an increase in the number of businesses trading overseas this quarter, business confidence amongst exporters remains shaky.



# Business Confidence

## Q | Do you believe over the next 12 months...

**Turnover Will:** Improve / Remain Constant / Worsen

**Profitability Will:** Improve/ Remain Constant / Worsen

**Is your business currently under pressure to raise its prices from any of the following:** Pay Settlements/ Raw Material Prices/ Finance Costs/ Other Overheads

**Please indicate which of the following factors are more of a concern to your business than three months ago:** Interest Rates/ Exchange Rates/ Business Rates/ Inflation/ Competition/ Taxation

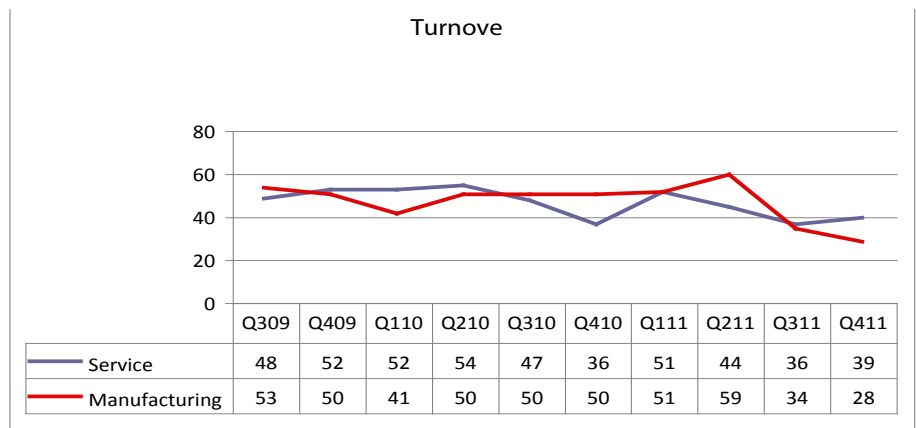
**How does your current business turnover compare to the start of the recession (QTR 2008)** Significantly Higher/ Slightly Higher/ About the Same/ Slightly Lower/ Significantly Lower

On the face of it, this quarter's results for business confidence appears fairly optimistic with just over half of businesses expecting their turnover levels to improve and just under half forecasting a profit increase. Conversely, in reality this means that a large proportion of businesses expect their turnover and profitability to either worsen or stagnate during what is already an extremely weak period of economic activity. Confidence is also falling amongst some businesses concerned about external factors such as competition and inflation.

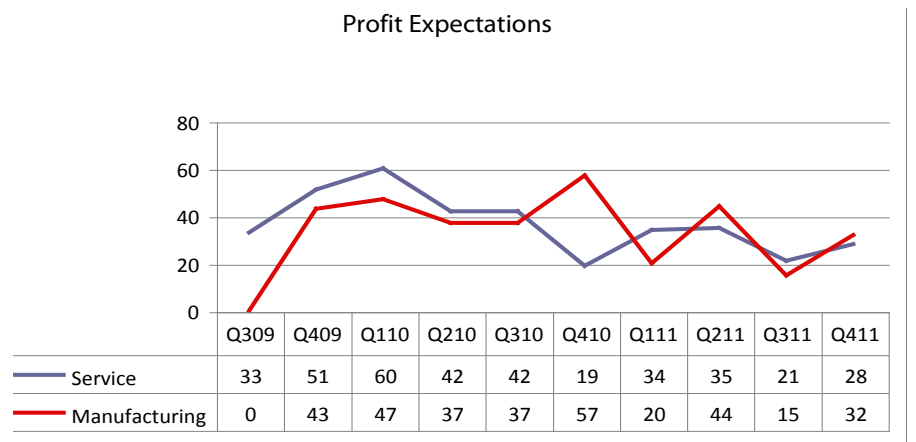
Turnover expectations have fallen noticeably compared to the start of 2011, particularly within the manufacturing sector which at the start of the year was painted as a panacea for economic recovery. The fall in confidence is extremely concerning considering the low economic growth experienced in 2011 and suggests that the recovery is unlikely to gain much momentum during the first half of 2012.

Within the service sector, net balances for turnover and profit are expected to increase by three points to +39% and seven points to +28% respectively. The small increase in business confidence this quarter follows successive decline in turnover since Q1 2011. Between Q1 and Q3 2011, turnover fell 15 points and overall turnover levels in Q4 remain noticeably lower than the start of the year.

Turnove



Profit Expectations





## Business Confidence

Concerns over competition, followed by inflation and taxation have contributed to the erosion of overall business confidence this quarter. These factors are echoed in the manufacturing sector where 56% of companies have reported competition as more of a concern to their business than three months ago. Similarly, 57% of companies within services reported competition as being a key concern to their business.

When asked how their present turnover compares to the start of the recession (Q2 2008), 15% of companies stated that it was significantly higher than three years ago and 25% said it was slightly higher. 21% reported turnover was significantly lower whilst 20% said it was slightly lower. 19% of businesses said their turnover was about the same. Overall, 41% of businesses are performing worse than at the start of the recession compared to 40% reporting an improvement.

For the second consecutive quarter, manufacturers appear to have recovered slightly quicker than services, with 15% reporting significantly higher turnover than Q2 2008 compared to 14% within services. However, these figures are down from the last quarter which saw 26% of manufacturers and 17% of services reporting a significant increase to their business turnover than three years ago. This result could be attributed to the worsening domestic economy this quarter which has seen manufacturers and services report very little growth in both home sales and orders. This is with the exception of services reporting a marginal one point increase in home sales since Q3 2011. Again, evidence this quarter suggests that exporting has offered some protection against the economic downturn.

Interestingly, business confidence amongst companies that export reveal similar turnover and profit expectations to companies that do not export – 54% of exporters compared to 53% of non exporters expect turnover to improve over the next 12 months. This is in contrast to the previous quarter where exporters were more optimistic than non exporters about turnover improving during 2012. This quarter's results can again be partially attributed to unstable markets in Europe. Furthermore, with 32% of exporters expecting the price of their goods / services to increase over the next three months compared to 21% of non exporters suggests that companies involved in exporting this quarter have been faced with increased external barriers.

## Employment



**Q** | Over the past three months has your workforce: Increased / Remained Constant / Decreased  
 Over the next three months will your workforce: Increase / Remained Constant / Decrease  
 Have you experienced any difficulties recruiting staff? Yes/No  
 Which of the following categories of staff did you have difficulties recruiting? Skilled Manual or technical/  
 Professional or Managerial/ Clerical/ Semi -Skilled or Unskilled

For the third consecutive quarter, employment remains flat with the majority of businesses maintaining their current workforce levels. A large percentage of businesses (66%) reported their workforce remained constant over the last three months and 71% expect it to remain the same over the next quarter.

Employment net balances for the manufacturing sector over the last quarter fell seven points to +6% and are expected to decline by ten points to +3% during the next quarter. These results are amongst the lowest recorded this year and despite turnover and profit expectations gaining some momentum, companies continue to remain cautious in terms of job creation.

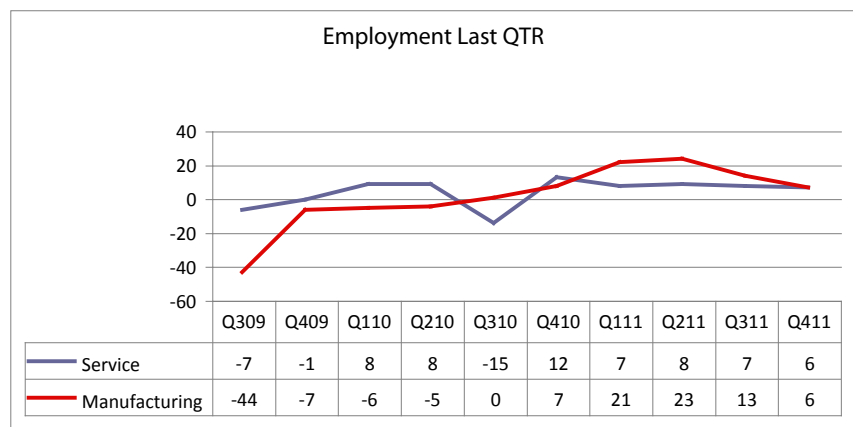
However though employment net balances remain in positive territory, the majority (65%) of manufacturers remain constant this quarter and this trend is expected to continue into the next quarter. Nevertheless, 20% of businesses plan to increase their workforce next quarter indicating pockets of growth across the sector.

Within services, employment levels remain weak as net balances indicate no increase in labour force. Businesses reported a one point drop in employment to +6% over the last three months and over the next quarter expect employment to fall two points to +10%. These figures show that job creation remains weak but appear more stable than the manufacturing sector.

Recruitment across the manufacturing sector remains worrying with 60% of businesses reporting no attempt to recruit staff this quarter. On the plus side, of businesses (40%) attempting to recruit staff the majority have been hiring for full-time positions (84%) and reported no difficulty in finding suitable employees (61%). This suggests that businesses remain cautious but are being strategic in their recruitment plans i.e. hiring fewer staff but for full-time roles. On the downside, 49% of manufacturers reported particular difficulty in recruiting skilled manual / technical staff. This trend has persisted throughout much of 2011 with the last two quarters reporting similar results indicating the continued skills shortages facing businesses at this level. Services also report similar results indicating that not a great deal has improved since Q3 2011 with both sectors experiencing similar recruitment difficulties.

In terms of service sub-sectors, results indicate that Transport and Distribution (20%) and Marketing /Media (17%) reported the strongest employment levels. Consumer services and Hotels/Catering are the sectors where the least job creation took place. Of particular interest is despite the run up to Christmas, the Hotels/Catering industry have struggled in terms of recruiting appropriate staff. As a case in point, 63% of businesses in this sub sector attempted to recruit staff over the past three months (the highest figure amongst the sub-sectors) but with almost a third reporting difficulty in finding suitable staff suggesting a recruitment issue within this particular sub sector.

Large businesses (36%) reported the strongest increase in labour force over the past three months with growth continuing into the next quarter. Medium (24%) and small (29%) sized companies also reported improvements to employment but with micro (14%) businesses lagging behind. Despite these increases the majority of companies have remained constant and will continue to do so into the next quarter leaving the job market overly saturated.



# Capacity, Cashflow and Investment



## Q I Over the past three months what changes have you made to your investment plans for...

**Plant/Machinery/Equipment:** Increased/ Remained Constant / Decreased

**Training:** Increased/ Remained Constant / Decreased

**During the past three months has your cash flow:** Increased/ Remained Constant/Decreased

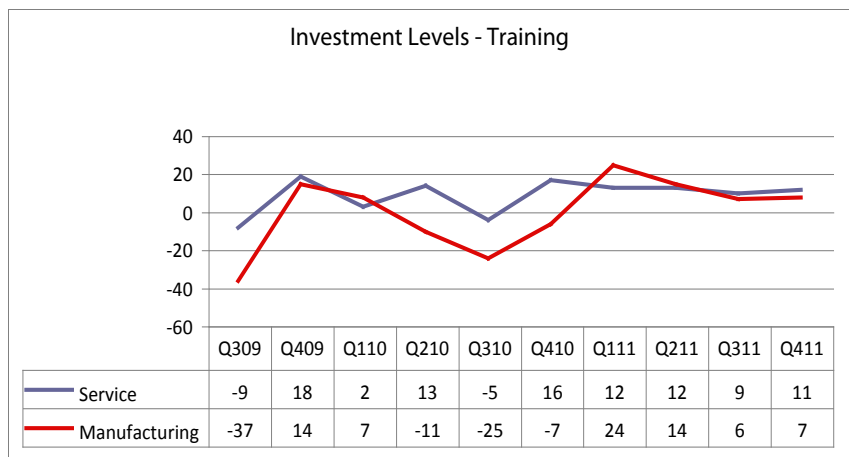
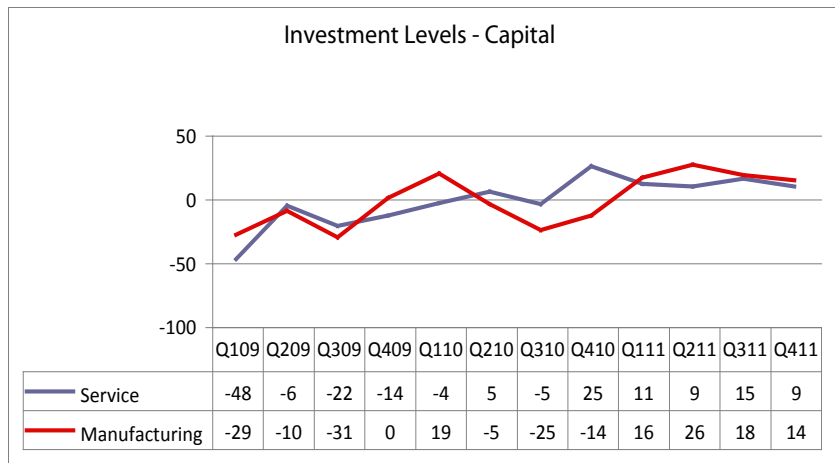
**Are you currently operating at:** Full Capacity/Below Capacity

Overall investment levels remain flat in the final quarter of 2011. A small percentage (20%) of businesses reported a positive investment in training and 18% reported an increase in capital investment but with 45% staying the same. Companies during Q3 2011 also reported very similar results with investment levels remaining fairly flat as firms remained cautious about the future.

Investment in capital within the manufacturing sector has declined with levels falling slightly this quarter. Net balances now indicate a four point drop to +14%. Investment net balances in training on the other hand have increased by one point to +7%. Much like Q3 2011, the majority of businesses expect their capital and training investment plans to remain constant. As cash flow stagnates for the majority of businesses, many manufacturers (66%) also reported operating below capacity reflecting the difficult business environment that firms are now operating.

This quarter has seen services experiencing particular difficulty with falling capital investment levels. Net balances fell six points to +9% but with investment in training augmenting slightly by two points to +11%. Service businesses continue to feel the squeeze and experience very little improvement to their cash flow. Just under half (49%) of respondents have reported stagnant cash flow over the last three months. With 65% of businesses in the sector revealing they are operating below capacity, any upturn in the domestic market may not result in immediate job creation.

Of particular interest this quarter is with investment levels remaining fairly flat suggest that the majority of companies are uncertain about the short term economic climate and continue to remain cautious about their investment plans.



## Results Breakdown



### Manufacturing

	Inc%	RC%	Dec%	NB%	QTR Change
Domestic sales	34	42	23	6	-14
Domestic orders	30	41	26	5	-4
Overseas sales	45	43	12	38	+17
Overseas orders	46	41	14	37	+19
Employment last qtr	20	66	14	6	-7
Employment next qtr	20	71	10	3	-10
Turnover next 12 months	54	30	16	28	-6
Profitability next 12 months	50	30	21	32	+17
Investment in capital	19	45	9	14	-4
Investment in training	20	57	9	7	+1
Cash flow	26	49	25	1	+9
Price of product/ service	24	67	9	15	-16



### Services

	Inc%	RC%	Dec%	NB%	QTR Change
Domestic sales	34	42	23	11	+1
Domestic orders	30	41	26	4	-1
Overseas sales	43	45	12	31	+4
Overseas orders	43	43	14	30	+6
Employment last qtr	20	67	13	6	-1
Employment next qtr	19	72	9	10	-2
Turnover next 12 months	55	30	15	39	+3
Profitability next 12 months	49	30	21	28	+7
Investment in capital	17	44	8	9	-7
Investment in training	20	56	9	11	+2
Cash flow	26	49	25	1	+4
Price of product/ service	23	68	10	13	-2



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