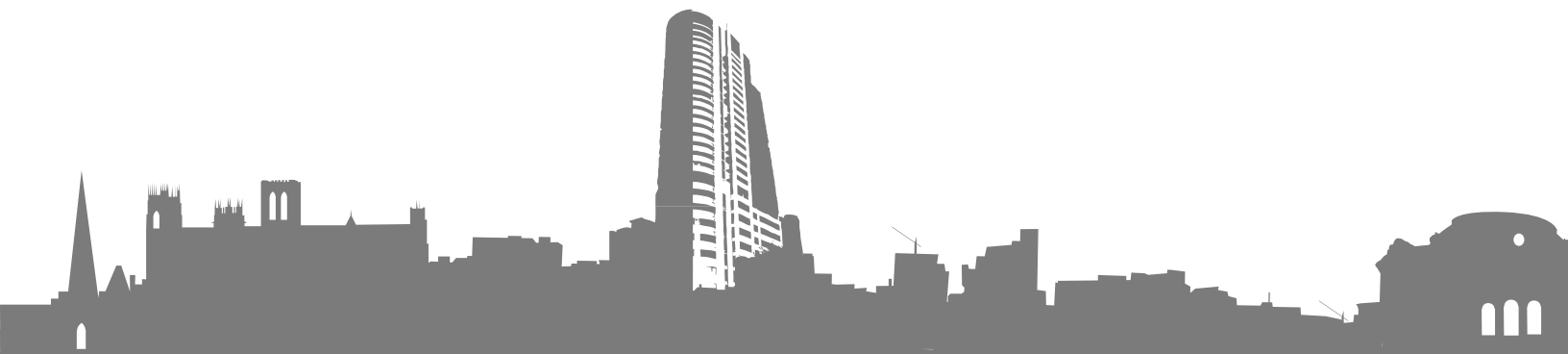


Quarterly Economic Survey

Leeds, York & North Yorkshire

Quarter 3 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 fieldwork was conducted via email and telephone. There were 700 respondents of either business owner/senior manager status. Businesses were surveyed by telephone and online questionnaires between the period of 30 August and 21 September.

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

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

Foreward

“

It is clear from Q3 2011 results that the economy remains in a vulnerable position. Whilst there are some pockets of growth, overall business performance has flat-lined. Disappointingly, the healthy growth reported by manufacturers in previous quarters appears to be stalling, whilst, the service sector remains stable, but weak. Business confidence in both sectors has fallen significantly on the previous quarter, as businesses lower their turnover and profit expectations. Although summer is typically a slow trading period for many sectors, results for advance orders and custom fail to indicate a dramatic change in fortunes as we move into the fourth quarter of the year.

At the time of putting the finishing touches to this report, the ONS revised UK GDP for the second quarter of 2011 to 0.1% from 0.2%, showing that the economy, instead of growing, is stagnating as inflationary pressures overwhelm weak demand. This quarter's results suggest that this weak growth is set to continue into the latter half of the year. Although, it is clear that there is demand within some markets, as a third of businesses say that their domestic sales and orders have increased and businesses with rising UK sales are also more likely to be experiencing better exports a trend we have seen in previous surveys.

However, this also means that two-thirds of businesses have experienced no growth whatsoever and it is clear that some businesses still face grave economic challenges. 43% of respondents report that their turnover is lower than the levels it was at the start of the recession and these businesses are also least confident about their turnover and profitability prospects.

As in the previous quarter, demand from overseas markets remains stronger than that of the UK market, but international growth is slowing amongst manufacturers, suggesting that we are not immune to the challenges on the continent or elsewhere. However, demand from overseas markets is still evident and reinforces the need for businesses to explore exporting, particularly to the emerging markets and this is something which will be explored in the Chamber's QES Special Supplement on exporting, which will be published later this year in partnership with Leeds University Business School and the Leeds City Region Local Enterprise Partnership.

However, China is not the Holy Grail to our economic woes and our policy makers need to look at new ways to kick start demand, particularly within the UK market. The investment in infrastructure announced by Government and proposals for 'credit easing' are welcomed by business, but with consumer confidence ailing and a significant proportion of businesses still caught in the shadow of the recession, will these policies be enough to rescue the nation from economic purgatory.

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

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The latest findings on the state of the regional economy point to increasingly subdued economic conditions. A significant proportion of firms are operating at or below their 2008 level of sales and are increasingly being squeezed by increasing costs and stagnant demand. The survey points to a certain amount of retrenchment by local firms with many of them adopting a 'wait and see' strategy until the economic picture becomes clearer. Of particular concern is the noticeable fall in business confidence compared to previous periods with many firms expressing concerns about inflation and competition. There is also evidence that export led growth is stalling as manufacturing firms experience flatter overseas sales.

The picture is not all negative, as some firms are bucking this trend and have seen increased sales and orders. Overall, though, there seems to have been a marked downward trend in the experiences and expectations of many firms over the last quarter

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- Professor Andrew Robinson, Leeds University Business School

Results Summary



Subdued Economy as Domestic Sales Flatline

There is little indication that a robust recovery is on the horizon. The economic climate remains subdued and overall, the majority of businesses experienced no growth in their domestic sales for the third quarter of 2011.

There are pockets of growth as one third of businesses say that sales and orders have increased

UK sales and orders for the service sector are stable, but weak.

There has been a noticeable decline in the manufacturing sector's UK sales and orders



Export Opportunities Remain, but Growth Loses Pace

Exports remain strong amongst manufacturers with 50% reporting an increase in international sales and 49% an increase in their international orders. However, for the second consecutive quarter, there is evidence that the sector's growth in foreign markets is losing pace.

In contrast to the manufacturing sector, the rate of export growth in the service sector is continuing to improve and for the first time since Q4 2009, the net balance for services' overseas sales is stronger than that of manufacturers.



Economic Challenges Hit Business Confidence

Significant fall in both turnover and profit expectations on the previous quarter

Business confidence is slightly stronger amongst service providers than manufacturers, reflecting both sectors' performances this quarter. Year-on-year, both sectors have seen a worsening in their business confidence

A number of businesses are struggling to recover from the recession, with 43% report that their current turnover is either slightly lower or significantly lower than it was at the start of the recession in Q2 2008

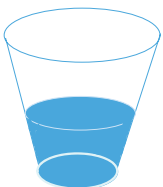


Businesses adopting 'wait and see' approach to taking on new staff

The majority of businesses in both manufacturing and services report that their employment levels have remained constant and are expected to remain constant into the next quarter.

Exporters are leading in the way in terms of job creation; however, in terms of 'Employment Next Quarter' the gap between the exporters and non-exporters marginally contracts and more exporters plan to decrease their workforce, which could be a sign that the slowdown in export growth is beginning to take its effect on the labour market.

There is a clear correlation between increased domestic/overseas sales and increased employment levels, suggesting that improvements in turnover are translating into job creation; however, it is clear that there is still a skills gap facing UK business, particularly when attempting to hire skilled manual/technical and professional/managerial roles.



Manufacturing Slowdown Results in Increased Spare Capacity

For all the positive views expressed about manufacturing over the last year, approximately 80% now report that they are operating at below capacity, which is attributable to the slowdown in growth within the sector and helps explain the weakening in employment levels.

Cash flow figures indicate that firms are increasingly feeling the squeeze and experiencing no improvement in their cash flow position.



UK Market

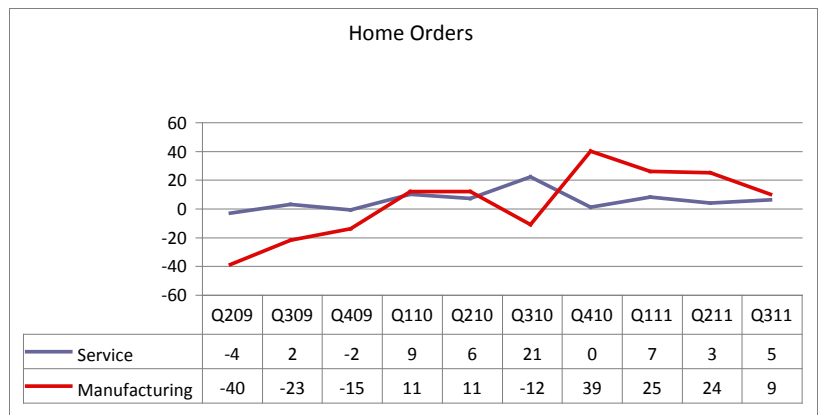
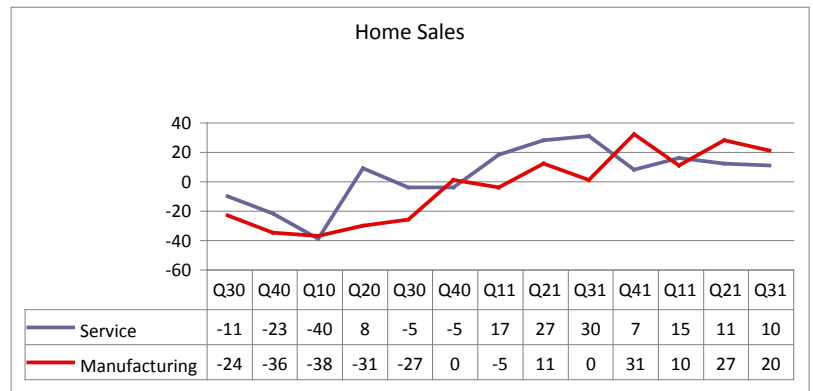
Q | Over the past three months in your UK market...

Sales have: Increased / Remained Constant / Decreased

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

Results for the third quarter of 2011 provide little indication that a robust recovery is on the horizon. The economic climate remains subdued and overall, the majority of businesses experienced no growth in their domestic sales for the third quarter of 2011; 43% of business said that their UK sales and orders remained constant and 22% experienced a decline, compared to 34% reporting an increase. However, net balances (the difference between the percentage of businesses reporting an increase and the percentage of businesses reporting a decrease) still remain in positive territory across some indicators, which suggests that some firms are leading the way forward during these difficult times.

UK sales and orders for the service sector are stable, but weak, and there has been little change on Q2s net balances. In contrast, there has been a noticeable decline in the manufacturing sector's UK sales and orders, as net balances fell seven points to 20% (sales) and 15 points to 9% (orders). However, in the UK market, manufacturers continue to outperform service providers. The number of manufacturers experiencing an increase in advance UK orders has fallen sharply (-10 points) on the previous quarter, suggesting that the worsening performance by this sector may continue into Q4 2011.



Despite the quarterly decline, manufacturers still maintain an annual improvement in the UK market, as the sector's net balances for home sales and orders have increased by 20 points and 21 points, respectively from this point in 2010. In contrast, the service sector has seen its home sales and orders net balances deteriorate year on year, falling by 20 points and 16 points. In terms of GDP, in Q3 2010 the UK grew by 0.6%; however, with the bulk of the economy made up of service sector businesses will the nation be able to achieve the same level of growth?

Within the service sectors, businesses in Transport and Distribution display the best performance in the UK market, with 46% of these businesses reporting an increase in home sales and 40% in home orders. The worst performing service sub-sector is consumer services, with only 29% reporting an increase in home sales and 27% an increase in home orders, evidence of weak consumer confidence and squeezed disposable incomes.

There has been a worsening of performance amongst large companies with only 28% experiencing an increase in domestic sales and 35% an increase in domestic orders, compared to 44% and 50% in Q2. Similarly, whilst no large companies reported a decrease in advance orders in Q2, 17% say advance orders have fallen in Q3. Medium-sized businesses display the strongest performance, with 44% reporting an increase in home sales. Micro and Small-sized businesses show a more diverse record of sales over the last three months; about a third report an increase in sales, but around a quarter report a decrease in sales. In terms of future sales, the picture looks stronger for medium to large firms and less favourable for micro and small sized businesses.

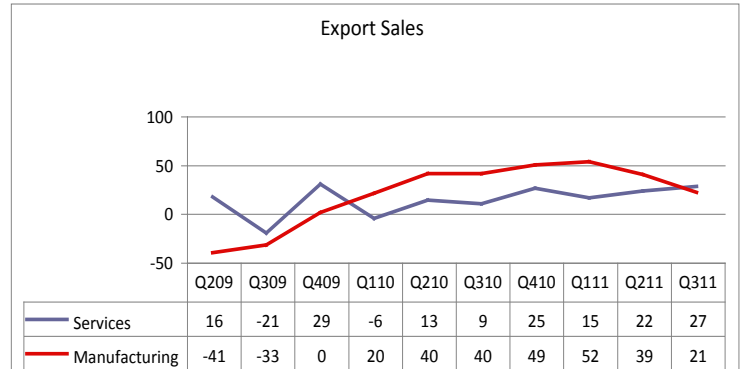


Q | Over the past three months in your overseas market...

Sales have: Increased / Remained Constant / Decreased

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

Exports remain strong amongst manufacturers with 50% reporting an increase in international sales and 49% an increase in their international orders. However, for the second consecutive quarter, there is evidence that the sector's growth in foreign markets is losing pace as net balances fall by 18 points to +21% in overseas sales and fall by 21 points to +18% in overseas orders. Compared to Q1 2011, net balances have fallen by 31 points and 37 points, respectively. There has been little change in the number of manufacturing exporters experiencing an increase in international sales and orders compared to Q2 2011 (down 2 points and 5 points); however, there has been a sharp increase in the number experiencing a decline (up 16 points and 17 points), which could be a result of the troubles in the euro zone and perhaps an indication that the manufacturing export-led recovery that the nation hopes for is far from being a reality. If this pace of decline continues, as the advance export orders suggest, it could see the manufacturing net balances hovering near negative territory and returning to similar levels not seen since the latter half of 2009.



In contrast to the manufacturing sector, the rate of export growth in the service sector is continuing to improve and for the first time since Q4 2009, the net balance for services' overseas sales is stronger than that of manufacturers. On the previous quarter, the net balances for exports sales and orders have increased by five points to +27% and six points to +24%, making it the third consecutive quarter of growth in terms of export orders. Although less service sector businesses are experiencing an increase in overseas sales than manufacturers (39% compared to 50%), only 12% are experiencing a decline resulting in a more stable export performance.

In terms of service sub-sectors, those in transport & logistics, professional services and media/marketing are most likely to export, with professional services reporting the strongest overseas sales (48% experiencing an increase) and media/marketing the weakest. The number of media/marketing businesses experiencing an increase in overseas sales has fallen from 46% in Q2 to 22% in Q3. There is a similar trend within this sector for UK sales, as the number of media/marketing companies reporting an increase has fallen from 44% to 33%. This could be symptom of companies reining in their advertising, marketing and PR budgets in anticipation of choppy waters ahead.

Unsurprisingly, there is a clear correlation between performance in domestic market and international markets. 73% of businesses experiencing an increase in home sales are also experiencing an increase in overseas sales, whilst 50% of businesses experiencing a decline in home sales are also experiencing a decline in export sales. This would suggest that poor sales are not only a result of the overall economic climate, but also due to weak demand for certain products or within specific sectors and/or territories.

Large businesses are experiencing the strongest overseas sales and orders, which could be because they have the investment and resources to target new emerging markets such as the BRIC economies, rather than trading solely with the ailing euro zone. Medium and micro-sized businesses report the weakest international sales.

Quarterly change in Export Orders net balance for Services and Manufacturing



+ 6%



- 21%



Business Confidence

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

Turnover Will: Improve / Remain Constant / Worsen

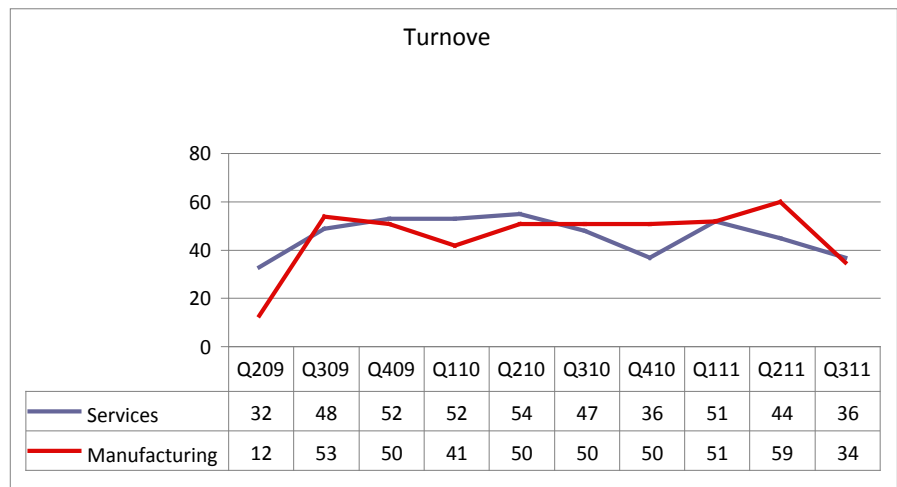
Profitability Will: Improve/ Remain Constant / Worsen

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

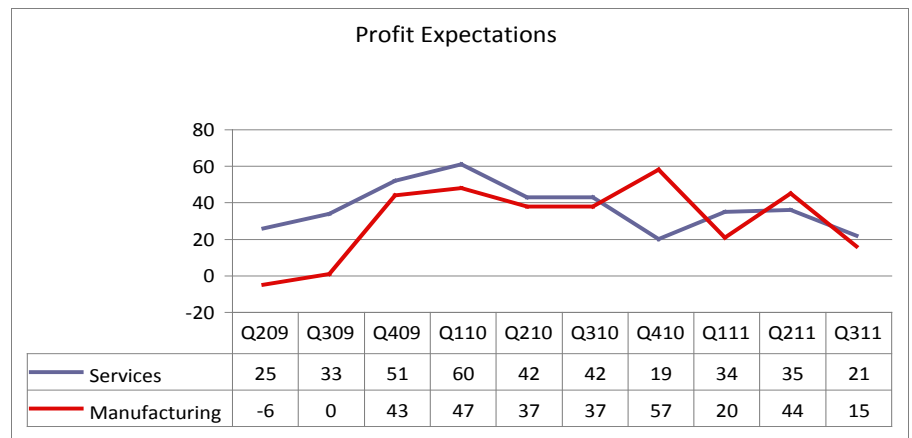
Please indicate which of the following factors are more of a concern to your business than three months ago: Interest Rates/ Exchange Rates/ Business Rates/ Inflation/ Competition/ Taxation

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

There has been a significant fall in business confidence compared to the previous quarter, which we attribute to the uncertain economic outlook, as well being linked to concerns over inflation, competition and rising overheads. In terms of net balances, the manufacturing sector's turnover and profit expectations have fallen 25 points and 29 points to +34% and +15%, respectively. In the service sector net balances have fallen by 8 points to +36% for turnover and it has fallen 14 points to +21% for profitability. However, despite the decline on last quarter the outlook is not completely bleak, with over 50% of businesses expecting a turnover to increase over the next 12 months and 44% predicting improvements in their profitability.



Business confidence is slightly stronger amongst service providers, with 51% predicting a rise in turnover and 49% in profit expectations compared to 49% and 39% in manufacturing, this correlates with the sectors' performance in both the UK and international markets, where the manufacturing sector is witnessing a slowdown in its pace of growth. Year-on-year, both sectors have seen a worsening in their business confidence, in terms of profit expectations, services net balance has fallen 21% and manufacturing is down -22%.



Out of the different sized businesses, Small firms are the most confident about future sales and profitability, which is surprising as they do not report the strongest domestic sales and orders; however, their confidence is still lower than the previous quarter with the number of small businesses expecting their turnover to increase falling nine points to 51%.



Business Confidence

Overall, there was more confidence about future turnover than future profitability and one in five businesses that expect their turnover to improve are predicting a fall in profitability, which once again could be attributed to concerns about inflation and overheads eating away at profit margins. Despite the evident inflationary pressures, the majority of businesses (69%) aim to keep their prices constant. Interestingly, it is businesses most concerned about exchange rates (37%) that are most likely to increase their prices over the next three months, suggesting the weak pound is negatively impacting importers.

When asked how their present turnover compares to the start of the recession (Q2 2008), the response from Leeds, York and North Yorkshire businesses is concerning as 43% are performing worse than they were over three years ago - 25% report that their turnover is significantly lower and 18% say it is slightly lower. 57% of businesses say that their turnover is at or above the start of the recession. These figures also reflect what is happening with the UK economy in terms of GDP, as during the recession the economy shrank by -6.15%, yet it has only recovered by 24%.

Manufacturers appear to have recovered at a faster rate than services, with 26% reporting a significantly higher turnover than Q2 2008 compared to 17%; this could be explained by the strong growth in manufacturing at the end of last year and start of this year. Exporting to some degree seems to have offered some protection from the economic downturn, with two-third of businesses that sell overseas reporting sales at or above 2008 levels, compared to 53% of non-exporters.

There is a clear correlation between confidence and a business's recovery since 2008. Of the businesses that said they expect their turnover to improve over the next 12 months, 73% are either at or above 2008 levels, compared to just over half of those that expect their turnover to remain constant and 25% of those that expect their turnover to fall. While on the face of it, these results are perhaps unsurprising it does suggest that there are many businesses still caught in the mind set of recession.

Which of the Following Factors are More of a Concern to Your Business than Three Months Ago

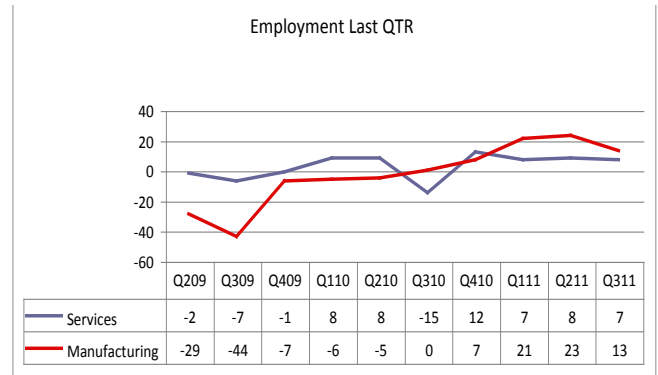
Interest Rates	19%
Exchange Rates	14%
Business Rates	18%
Inflation	50%
Competition	49%
Taxation	29%

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

Most businesses appear to be adopting a 'wait and see' strategy until the economic picture become clearer, as the majority of businesses in both manufacturing (58%) and services (68%) report that their employment levels have remained constant and are expected to remain constant into the next quarter. Although only a minority have decreased their workforce, there has still been a worsening in the results compared to Q2. Manufacturing net balance for 'Employment Last Quarter' fell 10 points to 13%, as the number of firms planning to increase their workforce fell and the number planning to decrease their workforce rose. The sector's net balance for 'Employment Next Quarter' fell seven points to +13%, suggesting that this trend is likely to continue into the next quarter. However, despite this, some job creation is taking place with 28% of manufacturers planning to increase their workforce.



Within the service sector, job creation is weaker than in manufacturing, but appears more stable with the net balances falling very slightly on the previous quarter. 'Employment Last Quarter' dropped one point to +7% and 'Employment Next Quarter' fell two points to +12%. Around one in five service providers have witnessed an increase in their workforce. Within the service sector, Transport & Distribution and Media/Marketing businesses report the strongest employment results with 35.7% and having increased their workforce. Professional Services and Hotel/Catering businesses display the weakest level of job creation with 17% and 8% having increased their staff levels. However, Hotel/Caterings plans for next quarters employment improve as 17% report an expected increase in employment; however, 20% plan to decrease their workforce next quarter, which is of concern considering Q4 will be the Christmas period, which should be one of busiest times for this industry.

As with all other areas of this survey, exporters are leading in the way in terms of job creation with 32% saying that their staff levels increased last quarter compared to 16% of non-exporters. However, in terms of 'Employment Next Quarter' the gap between the exporters and non-exporters marginally contracts to 30% and 18% expecting to increase their workforce and more exporters plan to decrease their workforce compared to non-exporters, which could be a sign that the slowdown in export growth is beginning to take its affect on the labour market.

There is a clear correlation between increased domestic/overseas sales and increased employment levels, suggesting that improvements in turnover are translating into job creation. In terms of employment, there is a clear split between the largest firms and others, as 32% of businesses with 250+ employees are still shedding labour and 26% are more likely to continue with this into the future. The corresponding figures for medium, small and micro firms are half of this. Conversely, small and medium firms are most likely to have increased their workforce over the last three months and plan to continue to do this over the next quarter.

% of Service Providers & Manufacturers Experiencing Recruitment Difficulties



41%



39%

39% of recruiting manufacturers and 41% of recruiting service providers say that they have experienced difficulties finding suitable staff. This has improved slightly on the previous quarter; however, it is clear that there is still a skills gap facing UK business, particularly when attempting to hire skilled manual/technical and professional/managerial roles

Capacity, Cashflow and Investment



Q | 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

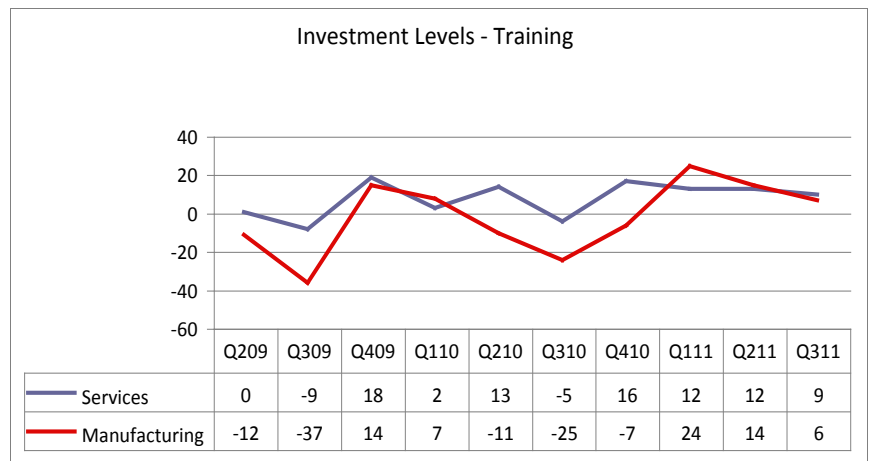
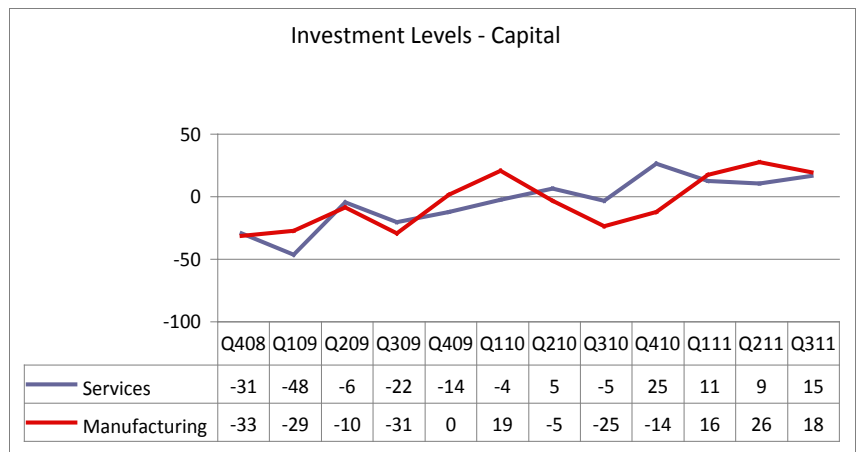
Are you currently operating at: Full Capacity/Below Capacity

The weakening of business confidence means that investment levels remain fairly flat as firms remain cautious about the future. Manufacturing capital investment has fallen 8 points to +18%, whilst services capital investment rose six point to +15%, a reflection of what is happening in both sectors across the other key balances. Overall, the majority of businesses expect their investment in capital to remain constant.

In terms of investment in training, both manufacturers and services have seen a fall in their net balances of eight points and three points, respectively. Overall, the majority of businesses expect their level of invest in training to remain constant.

Cash flow figures indicate that firms are increasingly feeling the squeeze and experiencing no improvement in their cash flow position. Approximately 80% of businesses in both sectors report stagnant or decreasing cash flow over the last three months. Of note is the lower proportion of manufacturing firms reporting an improved cash flow position, which links to their stalling sales and increased cost base. As with many of the performance indicators the modal response remains 'no change'. Of note, however, is the percentage of micro and small firms who report a worsening in their cash flow position (30% and 26% respectively) despite these two categories of businesses being most optimistic about their future turnover and profitability.

For all the positive views expressed about manufacturing over the last year, approximately 80% now report that they are operating at below capacity, which is attributable to the slowdown in growth within the sector and helps explain the weakening in employment levels. This is a noticeable increase on Q2, indicating that there may be difficult times ahead. The service sector remains much the same as the previous quarter, suggesting that there is a lot of scope for expansion if only demand could be stimulated.



Final Word

It is clear from this quarter's results that the economy remains in an extremely fragile position. It has been over three years since the start of the recession, yet there is no real indication of where growth is going to come from and there are still a large number of businesses who are yet to return to the same turnover level as Q2 2008. While overseas markets continue to offer opportunities for exporting businesses, growth is slowing and there is a real need for more businesses to expand beyond the euro zone and target emerging markets, such as China, Mexico, Singapore and Turkey.

How we stimulate the economy is the million dollar question and at present, policy makers appear unclear in trying to explain where growth will come from and when. The Chancellor's plans for 'credit easing' are an interesting prospect, although unlikely to be enough on its own. The QES shows that inflation is a major concern for businesses, so the Government should look at ways to help businesses reduce costs in other areas, such as reducing red-tape. Currently, the Government's rhetoric on reducing regulation does not match its action as new legislation continues to come into force; this month's latest includes the EU originating Agency Workers Directive.

Despite the negative overall picture, there are 'pockets' of growth showing that demand is out there in certain markets. The challenge for businesses is how to they exploit this demand and some may need to diversify their existing offering if they are to achieve growth. The chamber will continue to work with its members and policy makers to ensure that the environment for growth can be nurtured and opportunities exploited as and when they arise.

- Mark Goldstone, Leeds, York and North Yorkshire Chamber

Results Breakdown



Manufacturing

	Inc %	RC %	Dec %	NB %	QTR Change
Domestic Sales	40	41	19	20	- 6
Domestic Orders	32	45	23	9	- 15
Overseas Sales	50	21	30	21	-18
Overseas Orders	49	21	30	18	-21
Employment Last QTR	28	58	14	13	-10
Employment Next QTR	25	63	13	13	-7
Turnover Next 12 Months	49	37	15	34	-25
Profitability Next 12 Months	39	37	24	15	-29
Investment in Capital	25	68	7	18	-8
Investment in Training	19	76	5	6	-8
Cashflow	17	58	25	- 8	-5
Price of Product/Service	36	59	5	31	+10



Services

	Inc %	RC %	Dec %	NB %	QTR Change
Domestic Sales	33	44	23	10	-10
Domestic Orders	29	47	23	4	- 4
Overseas Sales	39	50	12	27	+6
Overseas Orders	39	47	15	24	+6
Employment Last QTR	19	68	13	7	-6
Employment Next QTR	21	71	9	12	-1
Turnover Next 12 Months	51	33	15	36	-8
Profitability Next 12 Months	44	33	23	21	-14
Investment in Capital	27	61	12	15	-3
Investment in Training	21	67	12	9	- 3
Cashflow	22	53	25	- 3	+5
Price of Product/Service	22	71	7	15	-16



Members of Leeds, York & North Yorkshire Chamber's Policy & Representation Team involved in the QES are Mark Goldstone, Head of Business Representation, and Hayley Johnson, Corporate Communications.

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