



the  
**chamber**  
Leeds, York and North Yorkshire



**UNIVERSITY OF LEEDS**

Leeds University Business School

# Quarterly Economic Survey

Leeds, York and North Yorkshire

Quarter One 2011



## Information about the QES

The Leeds, York and North Yorkshire Chamber of Commerce Quarterly Economic Survey (QES) is the largest and most representative independent business survey of its kind in the region. Businesses are questioned on a wide range of issues, including: home sales and orders, export sales and orders, employment prospects, investment, recruitment difficulties, cashflow, confidence and price pressures.

The QES is the first economic indicator of the quarter, published in advance of official figures and other private surveys, and it consistently mirrors trends in the national economy. For this reason, the survey is closely watched by policymakers such as the Treasury, the Bank of England and the new Office of Budget Responsibility.

## Methodology

The fieldwork and analysis of the QES this quarter is the product of a new partnership between the Leeds, York and North Yorkshire Chamber of Commerce and researchers at Leeds University Business School. This collaboration has looked at ways to increase the response rate of the survey and has sought to explore new and emerging issues of importance to Yorkshire businesses through additional survey questions and qualitative interviews and focus groups. The Quarterly Economic Survey fieldwork was conducted via email and telephone. There were 367 respondents of either business owner/senior manager status.

Alongside the Quarterly Economic Survey, the research team from Leeds University Business School also undertook qualitative interviews with a sample of 10 managers in Yorkshire companies. Five of the respondents were in manufacturing companies, and five were in the service sector. Questions were asked about general economic conditions.

This partnership between the Chamber and Leeds University Business School will continue in the future. The survey and qualitative interviews are a key method through which we can communicate with Chamber members and identify issues of current importance. Contact details for the research team at Leeds University can be found at the end of the report

## The Charts

- The charts in the next few pages plot how sections of the economy (sales, investment, employment levels, etc) have been performing over successive quarters
- Respondents report whether activity levels in each area had increased, decreased or remained constant on the previous quarter
- Statistics refer to the 'net balance', obtained by subtracting % of companies reporting a decrease from % reporting an increase
- Above zero denotes overall growth, but at a different rate (up or down) on previous quarters; below zero mark means a contraction.

## Introduction

“This quarter’s results highlight the fragility of the Leeds, York and North Yorkshire economy and reaffirm the need for growth enhancing policies as businesses face a challenging year ahead. Export activity remains strong, particularly amongst manufacturers and it is encouraging to see that, despite the fluctuating performance in the domestic market, the majority of business still expect turnover to increase over the course of 2011.

“Overall, the results for the first quarter of the year are mediocre. There were some slight improvements, but there has also been decline across a number of key balances. Of concern, is the sharp fall in profit expectations amongst manufacturers, which may be attributed to growing cost pressures.

“Strong performance in exports, particularly amongst manufacturers, appears to be the main driver for growth within the local economy and it is important that the Government nurtures this by breaking down the barriers to international trade and bolstering the role of UKTI to help businesses explore opportunities in emerging markets”.

**- Mark Goldstone, head of corporate relations, Leeds, York and North Yorkshire Chamber**

“We are pleased to be working with the Leeds, York and North Yorkshire Chamber of Commerce to help to provide timely economic data on the state of the Yorkshire economy. Building on the existing Quarterly Economic Survey, we will be looking to introduce new questions to the survey on issues of current and emerging importance to Yorkshire businesses.

“Our aims in the partnership with the Chamber of Commerce are: to help the Chamber to achieve a robust, representative set of survey responses each quarter; to provide detailed statistical analysis of key trends; and to supplement the survey results with follow-up interviews and focus groups each quarter.

“These follow up interviews will allow us to examine particular topics in more depth. Contact details for the Leeds University Business School research team can be found at the end of the report”.

**- Dr Andrew Robinson, Dr Chris Forde, Laura Wilson, Leeds University Business School**

## Report Summary

### Manufacturing

- Decline in domestic market following significant improvements in Q4 2010
- Robust exports as two-thirds experience an increase in overseas trade
- Confidence over turnover for the next 12 months is maintained, but sharp fall in profit expectations
- Increase in investment plans for training and plant equipment & machinery

### Service

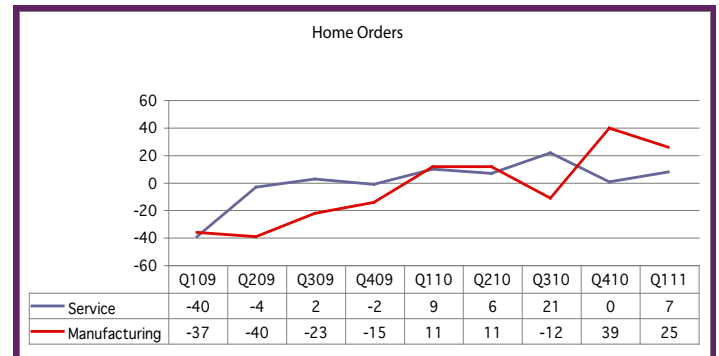
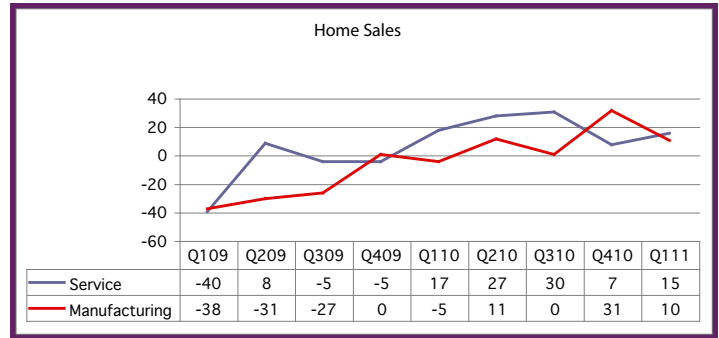
- Slight improvements in domestic trade following last quarter's fall
- Year on year improvement in export market
- Confidence over turnover and profit expectations
- Year on year improvements in employment levels

## Domestic and Overseas Markets

After reporting disappointing results for the fourth quarter of 2010, the Leeds, York and North Yorkshire service sector showed an improvement for the first quarter of 2011. Domestic sales increased 8% on the previous quarter, whilst, Domestic Orders showed an improvement of 7%.

Of concern, is that levels for both balances are slightly lower than a year ago when the economy was still in recession - indicating that we are not out of the woods just yet. Domestic Sales have fallen -2% on the first quarter of 2010 and Domestic Orders have dropped -1%.

Overall, domestic sales and orders for the region's service sector remain fairly flat and there is little sign that the UK market is growing. For the majority of service providers, Domestic Sales and Orders either remain constant or have decreased.



In contrast to the increase reported by the service sector, manufacturers reported a decline in both Domestic Sales and Orders of -21% and -14%, respectively. This fall follows a significant improvement in the domestic market for the fourth quarter of 2010, suggesting that recovery within the sector is continuing to fluctuate. Like the service sector, the balance for Domestic Sales is slightly lower (-1%) than the first quarter of 2010, however, Domestic Orders have seen a year on year increase of +14%.

Like the Service Sector, overall Domestic Sales and Orders remain flat with the majority of manufacturers reporting that UK custom has remained constant or decreased.

In terms of business size, micro-businesses (0-9 employees) saw the largest percentage with a decrease in Domestic Sales (27.7%) and Domestic Orders (30.8%). Large businesses (100+ employees) showed the highest percentage reporting an increase in Domestic Sales (45.7%) and Domestic Orders (42.9%). These results could suggest the size of a company influences its ability to withstand economic downturns and that larger corporations are in a better position to overcome challenging economic periods.

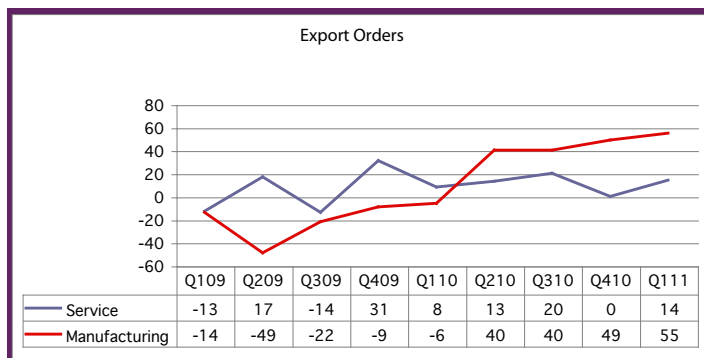
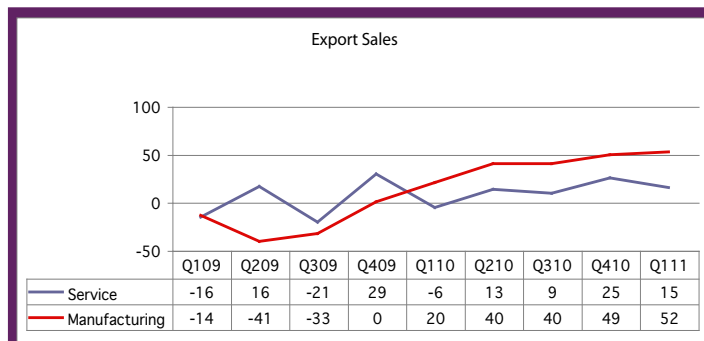
The QES indicates some improvements in overseas trade for the first quarter of 2011. Manufacturers reported a +3% increase in Export Sales and a +6% increase in Export Orders. Year-on-year, there has been a significant improvement in Export Sales and Orders of 32% and 61%, respectively.

Although, the service sector reported a fall in Export Sales of -10%, there was a 14% increase in Export Orders. Year-on-year, export sales increased 21% and export orders increased 6% for the service sector, which isn't as robust as the growth witnessed in the manufacturing sector, but a positive sign that overseas trade is improving for both sectors.

## Domestic and Overseas Markets

When the overseas trade figures are examined further, it is clear that export performance is significantly more robust amongst manufacturers compared to service providers. Just under two thirds of manufacturers report an increase in Export Sales and Orders, compared to just under one third of service sector businesses.

An increase in exports is skewed towards the larger firms. 78.6% of businesses with 100+ employees saw an increase in Export Orders, compared to only 28.6% of businesses with 1-9 employees.



## Chamber Comment:

### Robust Exports Drive Growth, but Stagnant UK Market Highlights Challenges Ahead

This quarter's QES domestic sales and orders figures reaffirm the need for growth enhancing policy. The improvement is not as strong as previously hoped, particularly after the UK economy contracted by 0.5% in the fourth quarter of 2010, much of which was attributed to the bad weather. However, the flat domestic sales and orders suggest that the economy is still in a fragile condition and that home growth is broadly stagnant. Other national statistics highlight the volatility of the UK market and economy. Retail sales figures for February 2011 decreased by 0.8% following, 1.9% growth in January.

The fluctuating result for the manufacturers in the UK market is of concern. Official figures show that national output for the sector in January 2011 is still 7% lower than in 2006, which reinforces the need for more robust policies to support the sector and rebalance the economy. The strong overseas sales and orders for manufacturers support the notion of an export-led recovery. However, the poor results for the service sector show that further action is needed to help all types of business.

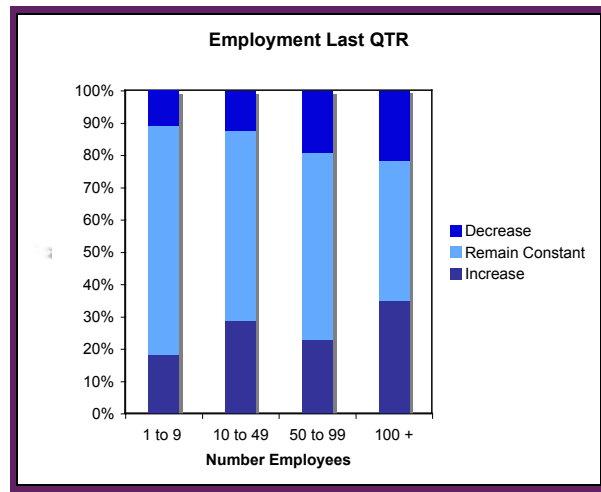
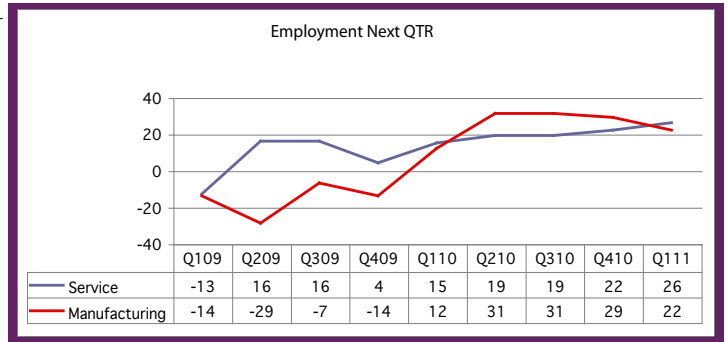
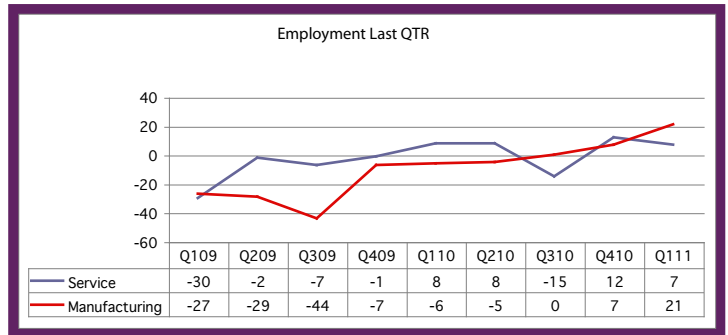
The increase in R&D Tax Credits, which was announced in the 2011 Budget, will be of benefit to smaller manufacturers, as will the increased investment in Apprenticeships. The Government's Trade and Investment Whitepaper sets out initial steps to help SMEs export, including improved trade finance and insurance, greater focus from UKTI on emerging markets and increased lobbying of European partners to radically improve the regulatory environment in the Single Market for SMEs.

## Employment and Recruitment

Businesses report mixed results in employment and recruitment for the first quarter of 2011. Manufacturers reported an increase of 14% in levels for employment last quarter, however there is a fall of -7% in terms of employment for the next quarter.

In contrast, the service sector reports a decrease of -5% for employment last quarter, but expects a slight improvement in the second quarter of 2011, as next quarter's employment levels report an increase of 3%. Employment levels for both sectors have improved year on year.

Encouragingly, balances for both sectors in terms of employment last quarter and next quarter remain in positive territory. For the manufacturing sector, this is the third quarter that employment levels for the last quarter have remained in positive territory after 8 previous quarters of negative territory. For the majority of both service businesses and manufacturers, employment levels for both this quarter and last quarter remain constant and the number of firms increasing their workforce outweighs those decreasing it.



Across the different sizes of business, the majority are reporting that workforce levels have remained constant. Positively, increases in workforce dominate decreases across all firm sizes. However, the largest increase and largest decrease in employment trends are reported in the largest size category. This seems to suggest that larger firms are more volatile in terms of employment, although this is also expected, as larger firms have the resources in place to take on new employees more easily, but also having larger workforce means that they can decrease their workforce more easily in order to make efficiency savings.

In the first quarter 2011, almost twice as many Leeds businesses decreased their workforce in comparison to businesses in York and North Yorkshire. However, the modal response for both geo-graphic areas was remained constant and 24% of businesses in Leeds increased their workforce and 25% in York and North

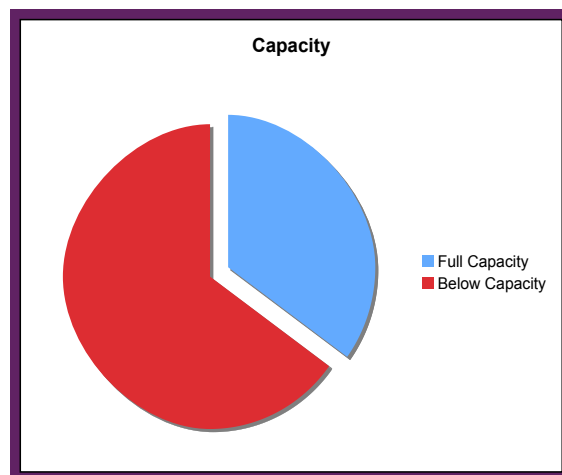
## Employment and Recruitment

Employment expectations for Leeds businesses are positive for the second quarter of 2011. One third of Leeds businesses expect their workforce to increase over the next three months, compared to only 6% that expect it to decrease. York and North Yorkshire's expectations are less positive than those in Leeds, with less than one quarter of businesses expecting to increase their workforce.

48% of businesses attempted to recruit in the last quarter and of those, 9 out of ten businesses were looking to take on permanent staff. This is compared to 75% looking to take on permanent staff in the previous quarter.

While, it is difficult to say whether the two-thirds of businesses looking to recruit is an expansion or simply replacing vacancies, it is a sign of confidence that the mass majority of businesses are looking to take on employees with a permanent contracts compared to temporary contracts.

Less than one-third of businesses are currently operating at full capacity.



## Chamber Comment

### Is the Private Sector Ready to soak up the Public Sector Job Losses?

There have been some improvements in this quarter's QES employment results, but with the spending cuts due to take impact in the second quarter of 2011 questions arise over whether the private sector is ready to create the jobs needed to replace those lost in the public sector. It has also been predicted that half a million private sector jobs will be lost as result of the cuts, which is of concern.

Third-party reports have suggested that York faces significant challenges ahead. The city's dependency on public sector job creation now places and the economy at risk and with less than one quarter of city's businesses expecting to increase its workforce next quarter, there is concern over the private sectors ability to replace the job losses.

With only one-third of businesses operating at full capacity, there is scope for job creation if supported by business growth. The Government needs to create an environment that encourages private sector job creation by cutting burdensome red tape. New regulation incoming over the next four years is set to cost Yorkshire's businesses in excess of £1.6 billion – money that could be spent on job creation and growth. Regulatory exemptions for micro-businesses and the scrapping of poorly-designed legislation, such as dual-discrimination provisions, which were announced in the Budget, are modest steps in the right direction but the Chamber believes that more must be done and that civil service must work in partnership to develop a regulatory framework respondent to business's needs.

## Business Confidence and Investment Plans

There has been little change (+1%) in Turnover expectation amongst manufacturers compared to last quarter. Although, profit expectations across the sector have seen a sharp fall of -30% in comparison to the previous three months, but still remains in positive territory. The service sector has seen improvements on last quarter in both turnover and profit expectations of 15% for both balances.

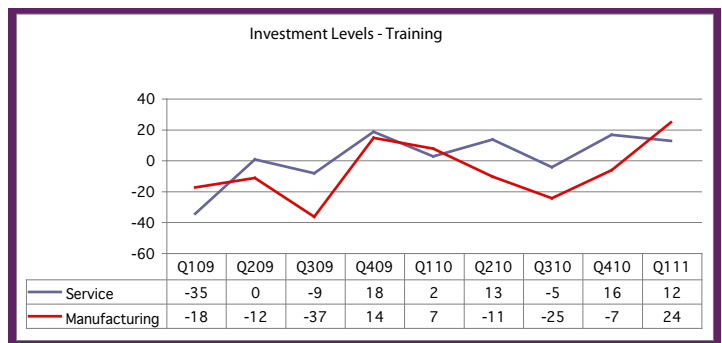
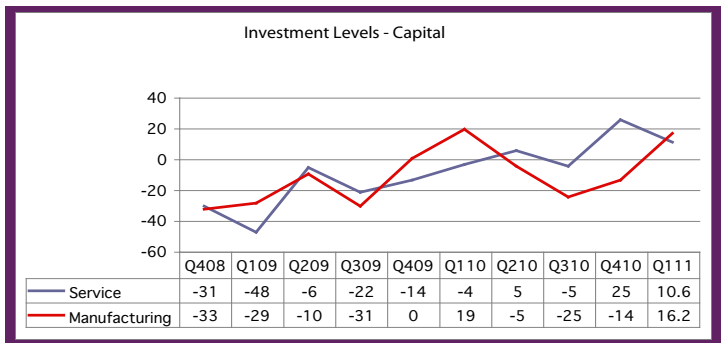
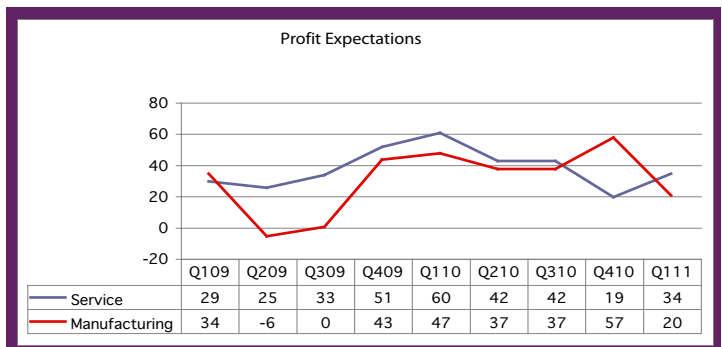
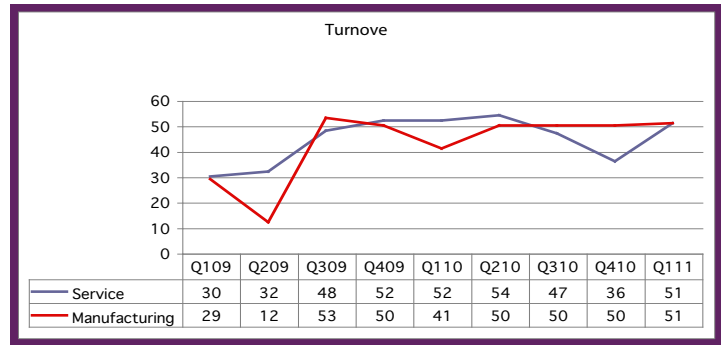
Although domestic sales and orders levels for the quarter have remained fairly flat, the survey shows that the majority of businesses are still reasonably confident about the future. 62% of manufacturers and 63% of service providers believe that their turnover will increase over the next six months, whilst 44% of the former and 54% of the latter believe that profit will improve over the next two quarters.

The largest firms are least confident about the future. Only 34% expect profitability to improve over the next 12 months, compared to 57% of companies in the 0-10 category.

The manufacturing sector reports a noticeable improvement in investment plans compared to the previous quarter. However, there has been a slight fall in service sector investment plans. Investment in plant machinery and equipment increased 32% on the previous quarter for manufacturers, taking the balance into positive territory since the first quarter of 2010. Investment in plant and machinery levels for the service sector fell 14% on the previous quarter.

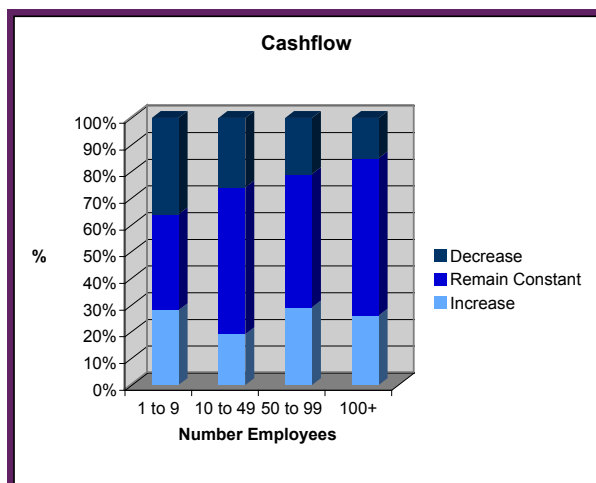
Manufacturers also reported an improvement (+31%) in Training Investment Levels compared to the previous quarter - lifting the balance into positive territory for the first time since the first quarter of 2010.

The service sector reported a slight decline (-4%) in training investment levels on the previous quarter, however, the sector reports a year on year increase



## Business Confidence and Investment Plans

Cash flow is particularly an issue for the smallest firms relative to other size categories. 36% of the smallest firms have seen a decrease in cash flow, compared to only 15% of the largest firms. Results show that the larger the company, the more likely it is to have a constant or increasing cash flow. 85% of businesses with 100+ employees have seen cash flow either increase or remain constant, compared to 64% of firms in the 0-9 size category.



## Chamber Comment

### Are Cost Pressures to Blame for Fall in Profit Expectations?

This quarter's positive results show that business confidence over turnover is being maintained, although it is beginning to level off. These results highlight the resilience of businesses despite the turbulent economy; however, the sharp fall in manufacturing profit expectations on the previous quarter could be attributed to the increase in cost pressures (raw materials, energy etc) impacting on margins.

As small businesses still struggle with cash flow, there is also a role for the Government to play in helping businesses access finance. The Bank of England's Credit Condition report for the first quarter of 2011 shows that the overall availability of credit has increased a little, but the amount offered to small- and medium- sized businesses is broadly unchanged.

The Chamber would like to see greater responsiveness from Government to help companies seeking to make major investment in people, machinery and innovation. We would like the Government to create an environment that encourages private investment, through fair taxes. From the banks, we would like to see a return to localised decision making that is practised by a number of Yorkshire's financial institutions.



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

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