



YORKSHIRE & HUMBER
CHAMBERS
OF COMMERCE



Economic Review Yorkshire & Humber

Issue 9: First Quarter, January to March 2008



www.yhchambers.org

SUMMARY (I)

'Real' economy damaged by uncertainty

SUMMARY

- Home sales slow by 7% to +18
- Positive quarter for export sales and orders, up by 8% and 10% respectively
- Business confidence indicators continue to show sharp decline
- Businesses increasing prices rises to +39, up 7%

Business confidence in Yorkshire & Humber took a serious hit in the first quarter of 2008 falling to five year record lows. Profitability expectations fell 5% between January and March 2008 following the 11% drop in the previous quarter as concerns over the economy have risen. There are also early indications that financial crisis are starting to impact on the 'real economy' with home sales slowing by 7%. However, a range of other indicators were more stable and export sales and orders improved sharply as sterling has weakened.


The figures are compiled from the Quarterly Economic Surveys of the eight Chambers of Commerce in Yorkshire & Humber which include responses from 657 businesses in the quarter from January to March 2008. The figures for the final quarter of 2007 showed that confidence was shaken by global economic turbulence but most businesses had yet to feel any real impacts on their sales, order books or employment.

These trends have continued in the first quarter of the year for most indicators although the sharp slowdown in home sales (down 7% to +18) and home orders (down 4% to +12) give cause for concern. UK sales weakened in both services and manufacturing. The overall home sales balance for the region of +18 is now the weakest for two years.

Expectations for the rest of the year reflected weakening sales. Business confidence dropped further with turnover expectations down 2% to +45. This is 12% lower than the third quarter of last year and the lowest in the past twenty quarters reported in this survey. Profitability expectations were down 5% to +28 which is 16% lower than two quarters ago and the lowest recorded over the past five years.

(Continued on page 3)







SERVICES

	CHANGE ON Q4	Q1 2008
HOME SALES		+24
EXPORT SALES		+11
EMPLOYMENT		+13
INVESTMENT		+13
CONFIDENCE		+32

MANUFACTURING

	CHANGE ON Q4	Q1 2008
HOME SALES		+8
EXPORT SALES		+16
EMPLOYMENT		+7
INVESTMENT		+8
CONFIDENCE		+17

KEY INDICATORS

	Q1 2008	CHANGE ON Q4	CHANGE ON YEAR	Q4 2007	Q3 2007	Q2 2007	Q1 2007	
HOME SALES 	+18	-7	-8	+25	+22	+25	+26	Page 5
EXPORT SALES 	+13	+8	+5	+5	+6	+4	+8	Page 5
EMPLOYMENT 	+12	+1	+1	+11	+12	+10	+11	Page 6
CAPITAL INVESTMENT 	+12	+4	-7	+8	+13	+14	+19	Page 7
CONFIDENCE 	+28	-5	-12	+33	+44	+39	+40	Page 8
PRICES 	+39	+7	+11	+32	+26	+22	+28	Page 7

Confidence slips to record lows

CHANGE ON PREVIOUS QUARTER



(Continued from page 2)

On a more positive note, the strong improvement in export performance was matched by a surprising increase in capital investment (up 4% to +12). Employment and employment expectations were stable.

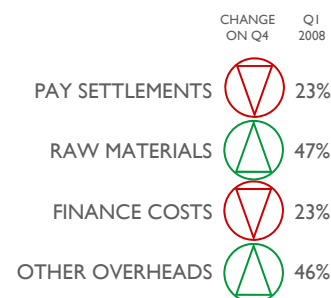
The number of Yorkshire & Humber firms increasing prices rose for the third successive quarter, this time by 7% to +39, primarily because of rising raw material costs and 'other overheads' such as fuel and energy. Raw material costs, of concern to 47% of businesses, were up for the fourth successive quarter. Despite the 'credit crunch', the cost of finance as a price pressure fell 2% to 23%.

Michael Oughtred, President of the Yorkshire & Humber Chambers of Commerce commented:

"This survey adds further evidence to the picture of falling confidence in the economy and shows some early warning signs that this is spreading to the real economy with weakening sales in the home market. Whilst these trends are clearly worrying, we should be encouraged that exports are improving, investment is up and employment is high and stable."

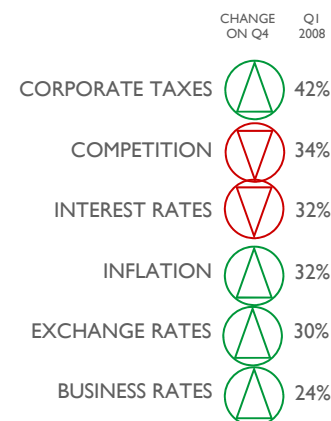
"Our concern for the economy as a whole is that neither the Chancellor nor the Bank of England have much room for manoeuvre if firm action is necessary to stave off recession. Rising inflation, record levels of borrowing and high levels of public spending mean that taxes are going up at precisely the time they should be coming down to keep the economy moving."

PRICE PRESSURES



EXTERNAL CONCERNS

ARROW SHOWS CHANGE FROM Q4



ABOUT THE SURVEY

Yorkshire & Humber Chambers of Commerce Economic Review is the largest regular business trends survey in the region. The survey is conducted every quarter by the Chambers of Commerce in the region and is also part of the highly respected British Chambers of Commerce Quarterly Economic Survey.

The balance figures used throughout this survey are calculated by subtracting the number of companies that report a decrease in sales, orders, cashflow etc. from those that report an increase. A positive balance would therefore reflect the fact that more companies than not report an increase quarter to quarter.

All figures are actual numbers from respondents and unless specified are unweighted in relation to the size of business and distribution of their sector across the region.

KEY

- A Production
- B Manufacture: electronic/IT goods
- C Manufacture: other goods
- D Construction
- E Transport/communication
- F Retailing/wholesaling
- G Hotels/catering
- H Professional services
- I Marketing/media
- J Consumer services
- K Public/voluntary sector services
- L Other services

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Nick
PONTONE
DIRECTOR OF POLICY

Now is not the time to panic

The evidence is increasingly starting to show that uncertainty in financial markets is now impacting on real businesses and real people in Yorkshire & Humber. Whilst the figures for the final quarter of last year were about falling confidence, this quarter is about how this is starting to effect sales in UK markets.

The media fascination with the economy, especially the housing market, grows by the day partly because the Government's political fortunes appear to be increasingly tied to the performance of the economy. Whilst at one level this survey makes worrying reading as home sales fall sharply, the reasons for this slowdown are more complicated than it would first appear.

There are a number of possible scenarios for Yorkshire's economy in the coming months. The optimistic view would be that when confidence suffers from uncertainty in financial markets the logical human reaction of consumers, business owners and managers is to reign back spending until future prospects become clearer. Home sales would therefore fall as a natural consequence of uncertainty and can quickly recover as and when confidence returns.

A more worrying scenario is that something significant has changed, which means falling confidence and sales continue for the rest of the year hitting investment and crucially employment. This domino effect could turn a drama into a crisis. There is some worrying evidence that supports this scenario. In this survey, the spiralling costs of raw materials and energy show no signs of easing which is pushing up prices and threatens inflation. Economic growth in the future could be compromised if consumers take a more conservative view of personal debt which has been the foundation of much of our growth. Both of these structural factors could mean the downturn becomes more serious.

The fact is that no-one really knows which of these scenarios or variants of them will come to pass. Anecdotal evidence from business is mixed depending on what sectors we talk to. Retailers, hauliers and some construction firms are notably more pessimistic than a year ago but many other sectors continue to be bullish about future prospects. The fundamentals still remain strong. Sales are still growing, just more slowly. More businesses than not still expect to grow and be more profitable, and indicators such as investment and employment are holding up well. Now is not the time to panic.

What is of concern is that the die has been cast. Our usual reaction to weaker growth and falling confidence would be to call for an interest rate cut but their impacts are now diluted as base rate cuts don't result in cheaper money. We would call for the 2p freeze in fuel duty to be abolished rather than implemented but the impact would be wiped out by higher oil prices. We would call for targeted tax cuts to help get the economy moving but the state of the public finances, and particularly public debt, provides little room for manoeuvre.

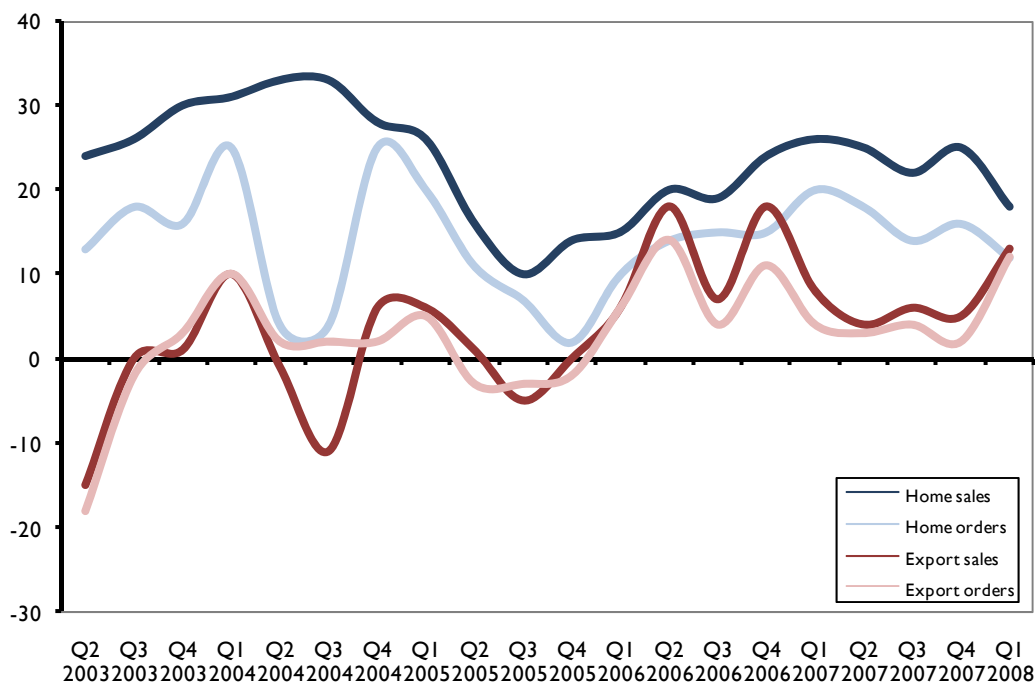
These are certainly tougher times for many businesses in Yorkshire but we should base judgements on the economic evidence not lazy assumptions that problems in global credit markets automatically pushes some of our firms to the brink.

“

More businesses than not still expect to grow and be more profitable and indicators such as investment and employment are holding up well. Now is not the time to panic.

”

UK market slows but exports surge



SUMMARY

- Home sales down 7% from quarter 4 2007 to +18
- Export sales and orders both up 8% and 10% respectively
- Home orders drop by 4% to +12

Home sales and orders in Yorkshire & Humber slowed significantly in the period between January and March 2008 in what could be the first sign that economic turbulence and the resulting dip in confidence could be starting to impact on the 'real' economy.

Home sales overall weakened by 7% to a balance of +18, the lowest balance for two years. Companies in service sectors (+23) reported significantly stronger balances than manufacturers (+8). The weakening in sales within the service sector was 3% (from +27 to +24) compared to 10% for manufacturing (from +18 to +8). The slowdown in home sales of 7% is the largest change in the past five years.

Home order books also weakened by 4% to a balance of +12 although the fall was less sharp than for sales. Once again, the figures weakened more significantly for manufacturers (down 6% to +3) compared to services (down 2% to +17).

The trends for export performance contrasted markedly with the UK market. **Export sales** rose 8% to +13 the highest balance reported since the end of 2006. The balance for manufacturers rose to +16 and +12 for services.

Export orders also strengthened with the overall balance for Yorkshire & Humber rising from +2 in the final quarter of 2007 to +12 in the first quarter of this year. Export orders for manufacturers rose from +3 to +8 on the previous quarter, compared to a rise from +2 to +15 for service sector companies.

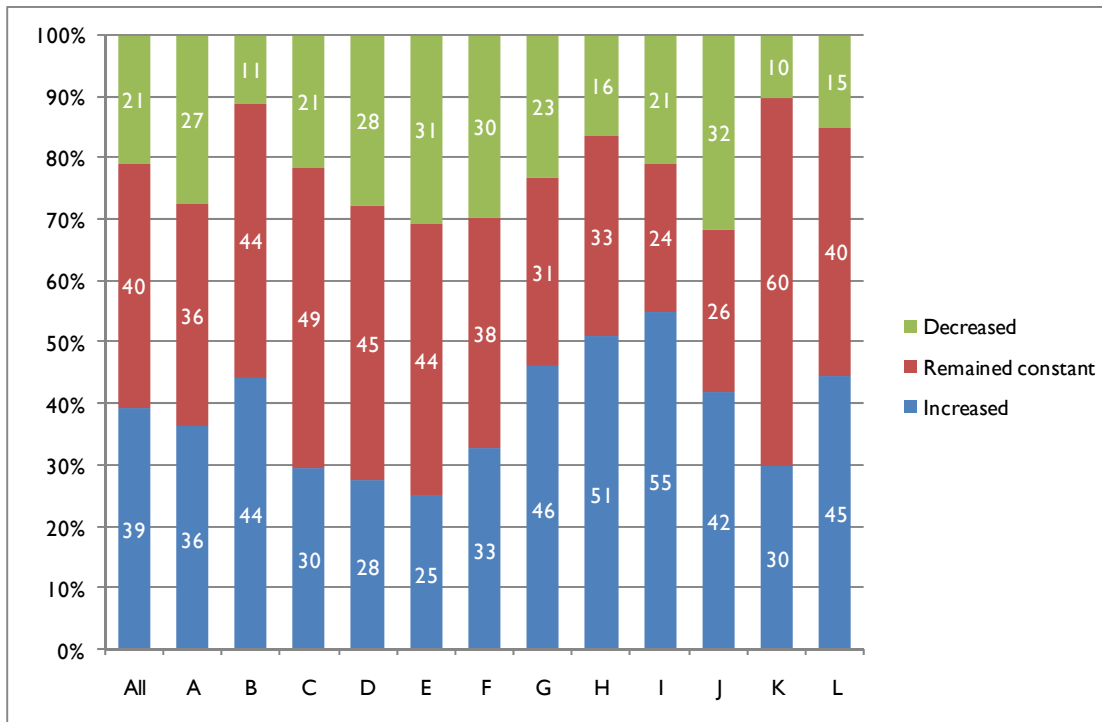
MANUFACTURING

	CHANGE ON Q4	Q1 2008
HOME SALES	-7%	+8
HOME ORDERS	-6%	+3
EXPORT SALES	+8%	+16
EXPORT ORDERS	+10%	+7

SERVICES

	CHANGE ON Q4	Q1 2008
HOME SALES	-3%	+23
HOME ORDERS	-2%	+17
EXPORT SALES	+12%	+12
EXPORT ORDERS	+15%	+15

SALES AND ORDERS



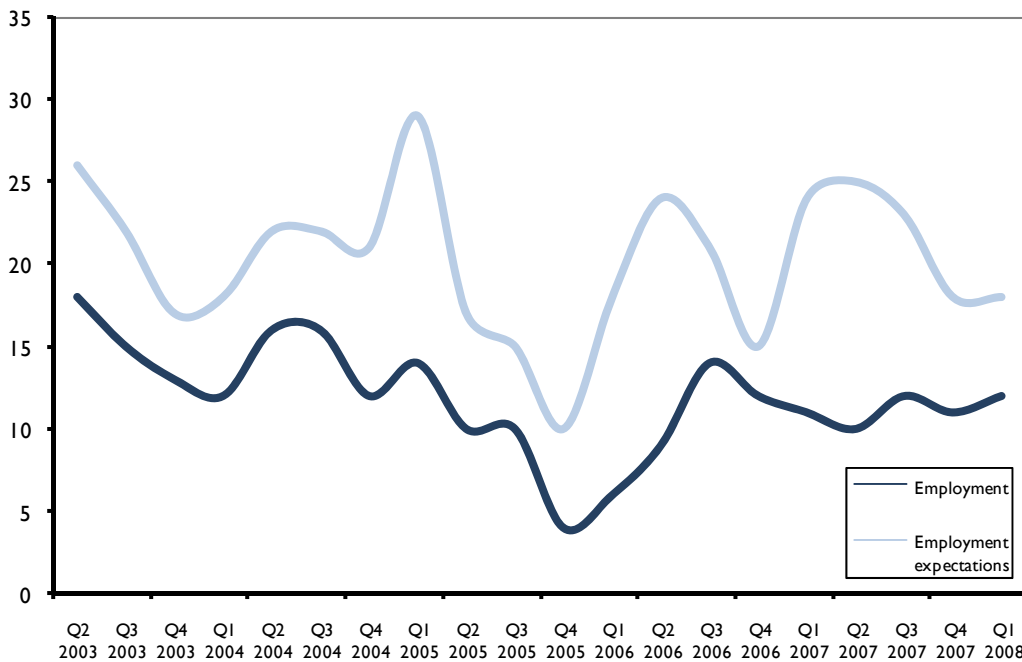
KEY

- A Production
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- C Manufacture: other goods
- D Construction
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- H Professional services
- I Marketing/media
- J Consumer services
- K Public/voluntary sector services
- L Other services

Home sales performance in Yorkshire & Humber by sector, Quarter I 2008

These increases come after a year of stable balances throughout 2007 for both export sales and orders. In quarter 4 of 2007, 83% of firms reported that export sales had remained constant compared to 58% in quarter 1. There has actually been a sharp increase in the number of firms reporting their export sales had decreased over the quarter (up from 6% in Q4 to 15% in Q1) however this was offset by the number of firms increasing export sales (11% in Q4 rising to 27% in Q1). The conclusion therefore is twofold. The positive news is that export performance overall has improved significantly this quarter in certain markets after a period of stable but slow growth. On the downside it appears the volatility exporters experienced in 2006 has returned, which will mean there are likely to be losers as well as winners as the year progresses.

Employment holds steady



SUMMARY

- Employment expectations static at +18
- Employment increases slightly by 1% to +12
- Employment and employment expectations edge up for both manufacturers and services

Falling levels of business confidence and weakening home sales this quarter have had no immediate impact on employment in Yorkshire & Humber.

The number of firms increasing the size of their workforce edged up slightly on the previous quarter with 24% of firms reporting an increase. The **employment** balance for the past three months of +12 was 1% higher than the final quarter of last year. This balance has not had any significant change since the final quarter of 2006, during which it has been within the narrow band of +10 to +12.

Employment expectations were also static with the balance of +18, unchanged from the previous quarter. The balance was stronger for services (+21) than manufacturing (+13). Nonetheless, the positive balances suggest that at this stage, more businesses than not expect to grow rather than contract the size of their workforce in the coming months across both services and manufacturing.

52% of businesses in the region recruited staff in the past quarter, down 5% on the final quarter of the year. 75% were for full time positions and 69% were permanent jobs. 54% of those recruiting experienced difficulties in doing so. 32% said they found difficulties recruiting for skilled manual or technical positions and 31% struggled to fill professional or managerial posts.

MANUFACTURING

CHANGE Q1
 EMPLOYMENT +7
 EXPECTATIONS +12

SERVICES

CHANGE Q1
 EMPLOYMENT +13
 EXPECTATIONS +21

% OF COMPANIES WHO RECRUITED STAFF IN Q1

52%

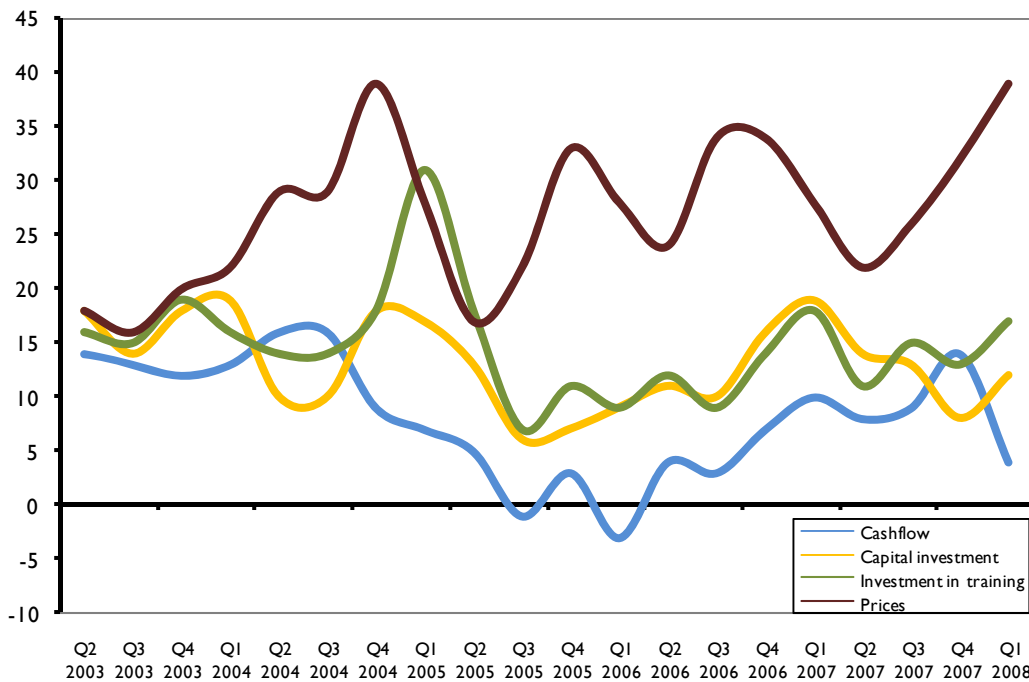
% OF THESE REPORTING RECRUITMENT DIFFICULTIES

54%

RECRUITMENT DIFFICULTIES

Q1
 SKILLED MANUAL / TECHNICAL 32%
 PROFESSIONAL / MANAGERIAL 31%
 CLERICAL 14%
 SEMI OR UNSKILLED 16%

Prices rise as firms pass on costs



SUMMARY

- Businesses increasing prices rises by 7% to +39
- Cashflow balances drop by 10% to +4
- Rises of 4% in both capital investment and investment in training

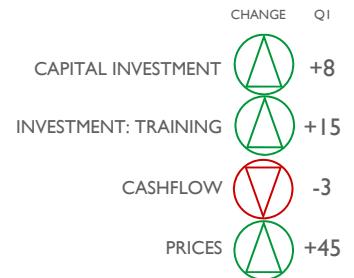
The number of businesses raising their prices has risen strongly in the past quarter as firms suffer from very significant cost pressures such as rising petrol, energy and raw material costs. Cash-flow has also deteriorated after two years of steady improvement.

The more positive findings are that investment levels have increased over the quarter. **Capital investment** in plant and machinery rose 4% to +12 which followed three successive quarters of falls. Overall, 27% of firms increased their levels of investment with 15% decreasing them, leaving the balance of +12. There was a similar increase in **investment in training** rising from +13 in the final quarter of 2007 to +17. These improvements were reflected in both service and manufacturing sectors.

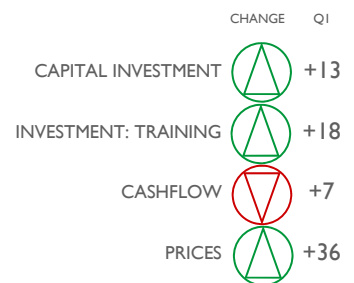
Prices rose for the third successive quarter. In the second quarter of 2007, 26% of businesses in the region were increasing their prices compared to 43% in the first quarter of 2008. During this period, the balance has risen from +22 to +39. Prices are rising faster in manufacturing sectors.

It is not surprising that prices are rising when we consider the **cost pressures** firms are facing. The cost of raw materials has risen as a business concern for the fourth successive quarter to 47%. This is followed closely by other overheads at 46% which would include petrol and energy costs. In contrast, pay settlements are less of a concern (down 4% to 23%). Finance costs also fell as a cost pressure (down 2% to 23%), which suggests the 'credit crunch' may have affected businesses, but more because of the impacts on demand rather than the impacts of the cost of money.

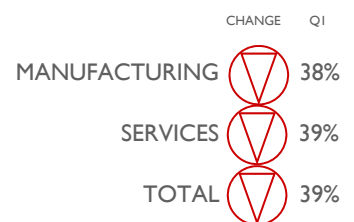
MANUFACTURING



SERVICES



CAPACITY UTILISATION % OPERATING AT FULL CAPACITY



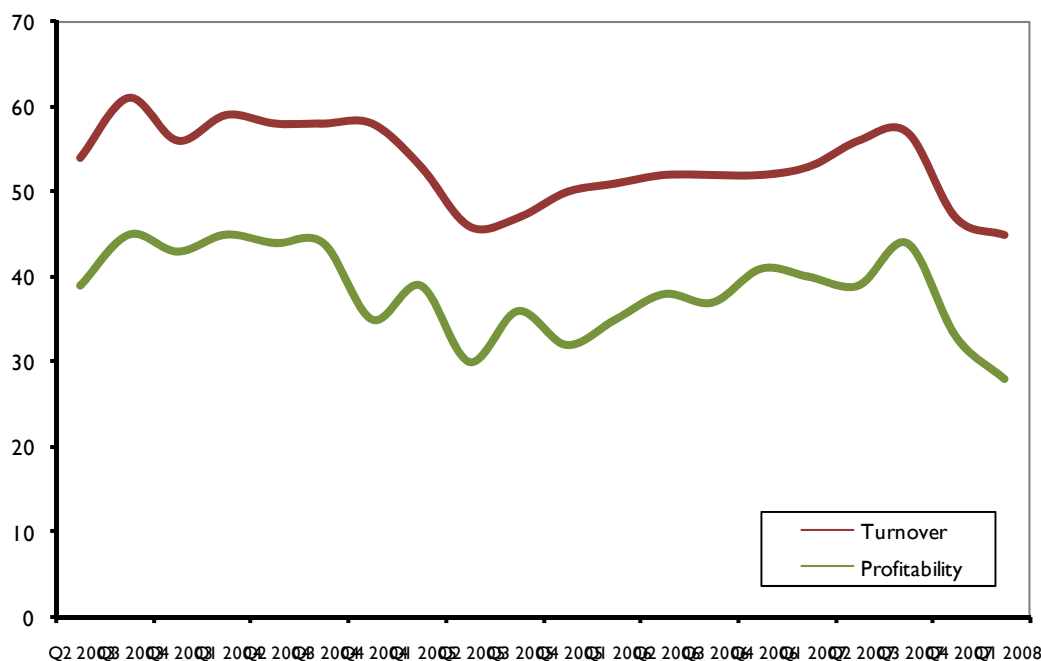
CASHFLOW BALANCE IN FIRST QUARTER 2007

+10

CASHFLOW BALANCE FIRST QUARTER 2008

+4

Business confidence falls again



SUMMARY

- Turnover expectations drop 2% to +45
- Profitability expectations fall by 5% to +28
- Corporate taxes become greatest concern up 4% to 42%

The key headline in the last quarter of 2007 was the sharp decline in levels of business confidence in Yorkshire and Humber and these trends have continued into the new year as concerns over the economy have grown. The levels of business confidence are now at the lowest in the past five years.

Confidence expressed in terms of **turnover expectations** has slipped 2% to +45. This is a fall of 12% in the past two quarters. **Profitability expectations** have fallen more sharply, down a further 5% this quarter to a balance of +28. The deteriorating levels of confidence were experienced in both manufacturing and services.

At a time of general 'doom and gloom' over the economy, it is worth putting these figures into some context. Half of all companies in the region responding to this survey expect their profitability to improve this year and 60% expect an increase in their turnover. The reports of lower levels of confidence are true in that there are sharp falls in the balances relative to previous quarters, but a majority of companies still expect to grow even in difficult economic times.

The most significant external concern for businesses in the region was **corporate taxation**, cited by 42% of businesses as a concern, which is up 4% on the previous quarter. **Interest rates** have fallen very significantly as an external concern from 48% in the third quarter of last year to 32% in the first quarter of 2008 as the direction of travel is down, at least in terms of the Bank of England base rate.

BUSINESS CONFIDENCE MANUFACTURING

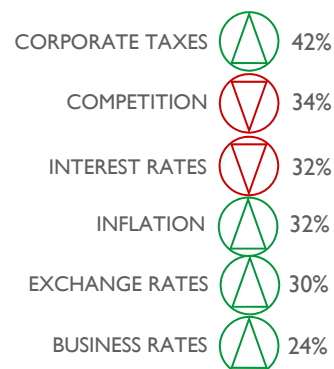


BUSINESS CONFIDENCE SERVICES

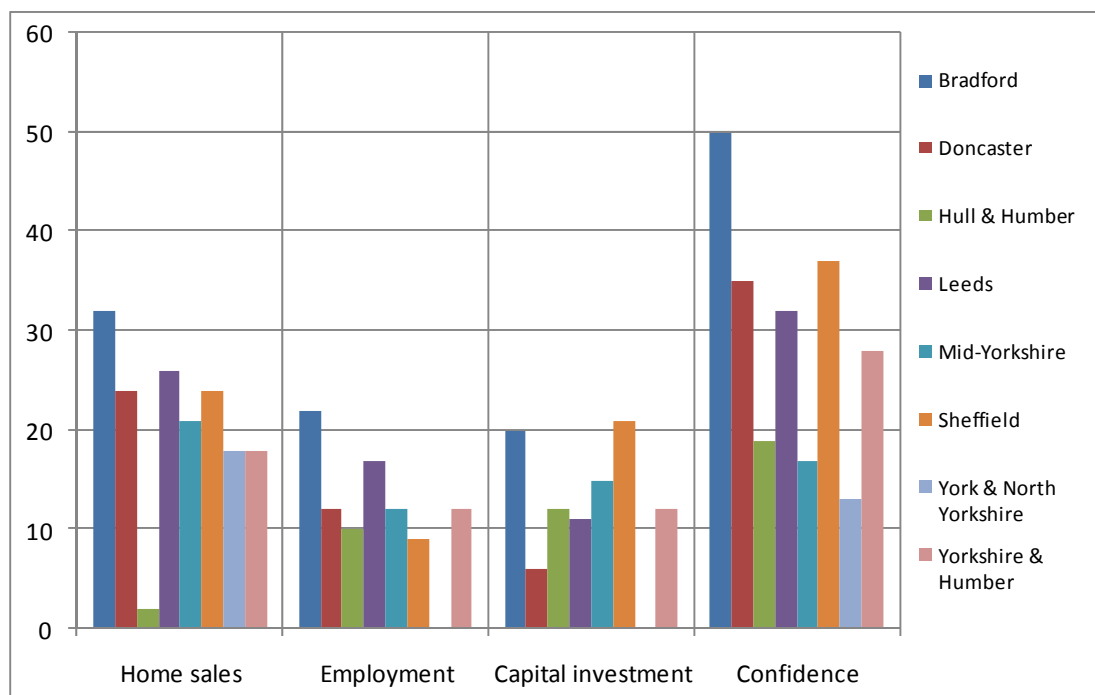


EXTERNAL CONCERNS

ARROW SHOWS CHANGE FROM Q4



Confidence strongest in Bradford



SUMMARY

- Homes sales and business confidence highest in Bradford.
- Capital investment highest in Sheffield.
- Hull & Humber reports significantly weaker UK sales.

There were some wide variations in performance across the region in the first quarter of the year. Home sales were strongest in Bradford with a balance of +32. Leeds, Doncaster and Sheffield also reported balances above the regional average, although members in Hull & Humber reported significantly weaker growth with a balance of +2.

Bradford and Leeds also reported the strongest employment balances with Doncaster, Hull & Humber and Mid Yorkshire close to the regional average. Sheffield companies reported the highest levels of capital investment of anywhere in the region, although its actual balance had fallen since the final quarter of 2007. Bradford firms investment in plant and machinery rose sharply from a negative balance of -1 in the previous quarter to +20 in this, largely reflecting the strong sales and confidence they reported this quarter.

Business confidence levels were highest in Bradford and lowest in York & North Yorkshire this quarter. Sheffield and Doncaster businesses reported strong balance.

LOCAL DATA / CONTACTS

Barnsley & Rotherham
www.brchamber.co.uk

Doncaster
www.doncaster-chamber.co.uk

Leeds
www.leedschamber.co.uk

Sheffield
www.scci.org.uk

Bradford
www.bradfordchamber.co.uk

Hull & Humber
www.hull-humber-chamber.co.uk

Mid-Yorkshire
www.mycci.co.uk

York & North Yorkshire
www.ynycc.com

UK business climate deteriorates sharply in first quarter of 2008

Introduction

The Q1 2008 results are gloomy. Virtually all the critical balances have worsened, for both manufacturing and services. In manufacturing, the falls are larger; the sector's balances declined in home sales and orders, exports sales and orders, cashflow, investment, and both confidence balances. Some key manufacturing balances are at historically low levels. The cashflow balance is in negative territory. The overall trend in manufacturing is clearly negative, with very small firms facing acute stress. Most service sector balances also recorded worrying falls: in home sales and orders, investment, cashflow, and employment expectations. Both service sector confidence balances fell sharply. Intentions to raise prices rose again to new peaks in Q1, for both manufacturing and services, and this will complicate the job of the MPC. But the decline in the capacity utilisation balances suggests that pressures on resources may be easing. Though the MPC's room for manoeuvre is limited, we believe interest rate cuts will be needed in the next few months.

Domestic Market

The manufacturing sector's domestic balances recorded sharp falls. The net balance for home sales dropped to +12% in Q1, from +32% in Q4, and was lowest since Q3 2005. The balance for manufacturers' home orders plummeted in Q1, from +27% to 8%, and was lowest since Q4 2005. Both manufacturing balances are disturbingly low by historical standards.

The service sector's domestic balances also fell in Q1, but less sharply than in manufacturing. The net balance for home sales fell 11 points to +17%, lowest since Q3 2005. The net balance for home orders fell 4 points to +14%, lowest since Q4 2005. The Q1 service sector home balances are disappointingly low, but are stronger than the manufacturing balances.

Export Market

The manufacturing sector's export performance weakened further in Q1. The export sales balance fell 6 points to +16%, lowest since Q4 2005. The export orders balance fell 3 points to +16%, lowest since Q2 2006. The service sector's export balances recorded small divergent movements in Q1, but there was little net overall change. The export sales balance rose 2 points to +17%. The balance for export orders fell 1 point to +11%, lowest since Q4 2005.

Employment

The manufacturing employment balance fell 2 points in Q1, to +9%, lowest equal since Q2 2006. The employment expectations balance edged up 1 point, to +9%, still relatively low. In the service sector, the employment balance fell 1 point to +16%. The employment expectations balance fell 8 points, to +21%, lowest since Q4 2005.

Investment

The Q1 balance of manufacturing firms planning to increase investment in plant and machinery fell 9 points to +12%, lowest since Q4 2005 and worryingly weak. Intentions to invest in training fell by 3 points to +21%. In services, the balance of firms planning to increase investment in plant & machinery fell 6 points to +8%, lowest



MORE INFORMATION

Further details on the BCC Quarterly Economic Survey are available at:

www.britishchambers.org.uk

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NATIONAL PERSPECTIVE

equal since Q3 2005. The service balance for intentions to invest in training fell 3 point to +24%, weakest since Q2 2006.

Business Confidence

The manufacturing sector's turnover confidence balance fell 3 points to +43%, lowest equal since Q3 2005. Manufacturing profitability confidence dropped 12 points to +27%, weakest since Q1 2006. The service sector's Q1 confidence balances recorded big falls. Turnover confidence fell 10 points to +40%, lowest equal since Q1 2003. Profitability confidence plummeted 13 points to +17%, lowest since Q4 1998.

Capacity Utilisation and Cashflow

The balance of manufacturing firms operating at full capacity fell 6 points to +40%. In services, +42% of firms worked at full capacity, down 4 points. Both cashflow balances fell in Q1 and are very weak: manufacturing plunged 11 points, and is negative at -3%, weakest since Q1 2005; services fell 5 points, to +5%, lowest equal since Q1 2005.

Prices

The balance of manufacturing firms reporting pressure to raise prices rose 1 point in Q1, to +42%, a new all time high. In services, the balance of firms expecting to increase prices rose 3 points to +43%, also a new all time high.

Economic Climate

The Q1 QES results signal a worsening in UK prospects. Almost all key balances deteriorated, for both manufacturing and services. Manufacturing balances fell more sharply. But service sector balances worsened in most areas, with particularly big falls in confidence. The global credit crisis is likely to damage growth for some time, before it is resolved. The UK economy is set to slow very markedly in 2008, even if the MPC cuts interest rates. The unpleasant mixture of sharply slowing growth, and new peaks in intentions to raise prices, confronts the MPC with difficult choices. Inflation risks cannot be ignored. But with demand weakening, and capacity utilisation balances declining, firms are unlikely to secure big price increases. We believe recession can be avoided. But the threats to growth are mounting, and there is no room for complacency. Further interest rate cuts will clearly be needed, to ease the credit squeeze and prevent further dangerous losses in confidence. Special measures may be required to support very small vulnerable firms.



MORE INFORMATION

Further details on the BCC Quarterly Economic Survey are available at:

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FULL RESULTS: YORKSHIRE & HUMBER

		2008	2007	2007	2007	2007			2008	2007	2007	2007	2007
		Q1	Q4	Q3	Q2	Q1			Q1	Q4	Q3	Q2	Q1
Home sales	Increased	39	41	39	40	43	Cashflow	Improved	30	33	32	30	32
	Remained constant	40	43	44	46	40		Remained the same	44	48	45	48	46
	Decreased	21	16	17	15	17		Worsened	26	19	23	22	22
	Balance	18	25	22	25	26		Balance	4	14	9	8	10
Home orders	Increased	35	32	31	35	38	Investment	Improved	27	24	26	28	30
	Remained constant	43	52	52	47	44	Plant/Machinery	Remained the same	58	60	61	59	59
	Decreased	23	16	17	17	18	Worsened	15	16	13	14	11	
	Balance	12	16	14	18	20	Balance	12	8	13	14	19	
Export sales	Increased	28	11	13	21	27	Investment	Improved	27	25	25	23	27
	Remained constant	57	83	80	62	54	Training	Remained the same	63	63	65	65	65
	Decreased	15	6	7	17	19	Worsened	10	12	10	12	9	
	Balance	13	5	6	4	8	Balance	17	13	15	11	18	
Export orders	Increased	27	10	11	19	24	Turnover	Improved	60	60	66	64	64
	Remained constant	58	83	82	65	56		Remained the same	25	27	24	28	26
	Decreased	15	8	7	16	20		Worsened	15	13	9	8	11
	Balance	12	2	4	3	4		Balance	45	47	57	56	53
Employment	Increased	24	23	25	26	24	Profitability	Improved	49	53	59	55	56
	Remained constant	64	65	62	59	63		Remained the same	30	27	26	29	28
	Decreased	12	12	13	16	13		Worsened	21	20	15	16	16
	Balance	12	11	12	10	11		Balance	28	33	44	39	40
Emp. expectations	Increased	28	26	31	31	31	Capacity	Full capacity	39	42	40	45	42
	Remained constant	63	66	62	62	62		Below capacity	61	58	60	55	58
	Decreased	10	8	8	6	7	Prices	Increased	43	37	30	26	32
	Balance	18	18	23	25	24		Remained constant	54	59	66	70	64
Recruited staff	Yes	52	57	56	53	52		Decreased	4	5	4	4	4
	No	48	43	44	47	48		Balance	39	32	26	22	28
For	Part-time Jobs	25	26	24	25	26	Price pressures	Pay settlements	23	27	25	20	29
	Full-time Jobs	75	74	76	75	74		Raw materials	47	44	41	38	37
	Temporary Jobs	31	31	28	31	31		Finance costs	23	25	23	18	20
	Permanent Jobs	69	69	72	69	69		Other overheads	46	45	43	37	43
Recruitment difficulties	Yes	54	54	55	52	59	External concerns	Interest rates	32	39	48	46	38
	No	46	46	45	48	41		Exchange rates	30	28	20	26	24
For	Skilled manual / technical	32	33	35	38	33		Business rates	24	23	16	21	20
	Professional / managerial	31	29	33	33	36		Inflation	32	26	30	32	36
	Clerical	14	15	21	16	22		Competition	34	37	30	29	28
	Semi or unskilled	16	14	15	17	19		Corporate taxation	42	38	34	31	35

All figures in %