



QUARTERLY ECONOMIC REVIEW

QUARTER 3 2016

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REPORT SUMMARY

Hiring and investment picks up for manufacturing firms in Northamptonshire as export activity increases according to the latest Quarterly Economic Survey from Northamptonshire Chamber of Commerce.

The results in the recently published report, which covers the three months from July to September 2016 show that the manufacturing sector reported an increase in their headcount over the third quarter of the year, continuing their upward trajectory.

A total of 85% of manufacturing firms said their workforce had either increased or remained the same compared to the previous quarter. And more than half had attempted to recruit new staff in that time.

The survey for Q3 2016 was conducted from 22 August to 12 September this year and contains responses from 53 businesses employing 1,576 people across the county.

Export sales activity saw an increase across both manufacturing and service sectors. Almost three quarters of manufacturing firms surveyed said export sales were the same as Q2 or had increased.

It was a different picture for UK sales however, with a decline in domestic sales activity across all industries during the same three month period.

Manufacturing firms reported a net balance figure of -31%, down from +16% in the previous quarter. For the service sector, the balance figure of 17% is the lowest recorded since Q2 2013.

UK orders also saw a marked decrease across the board.

But despite this, manufacturing firms indicated a marked improvement in investment plans during the third quarter of 2016. Investment intentions for these companies showed a rebound from -11% in Q2 to positive 15% in Q3. And the same firms reported an increase in confidence as determined by turnover.

For the service sector, confidence as determined by turnover decreased over the same time frame, but 80% reported that confidence as measured by profitability had increased or was consistent with the previous quarter. Also 65% of service sector firms had an increase in profitability in that time.

Northamptonshire Chamber of Commerce chief executive Paul Griffiths said: "It is unsurprising to see a decline in domestic sales activity following the Brexit vote in June, which has caused uncertainty for the whole UK economy.

"We await urgent changes from the new Prime Minister and her newly instated Government to reassure our businesses and create a much needed stability.

“Despite this, I am glad to see an increase in export sales across the board and a wary confidence still shining through among our county’s firms.”

**Paul Griffiths, Chief Executive
Northamptonshire Chamber of Commerce**



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QUARTERLY ECONOMIC REVIEW

QUARTER 3 2016

RESPONSES

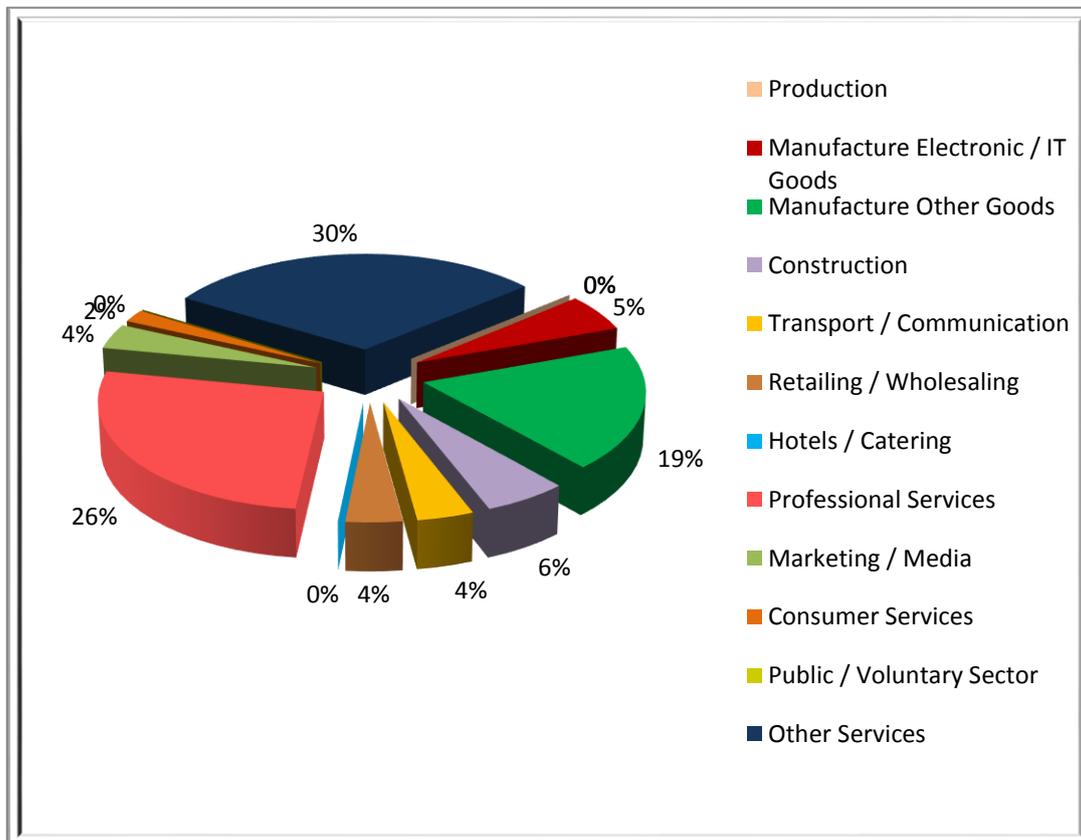
Northamptonshire Chamber of Commerce's Quarterly Economic Survey (QES) is a regular independent business survey and forms part of the biggest and most representative survey of its kind in the UK.

It is widely recognised as a key economic indicator by Government, The Bank of England and independent economists alike. It also provides both central and local policymakers with an important source of feedback of the performance, concerns and views of businesses across Northamptonshire.

The QES questionnaire covered ten broad sections;

- UK Sales and Orders Activity
- Export Sales and Orders Activity
- Employment
- Recruitment and Skills Shortages
- Cashflow
- Investment
- Business Confidence
- Capacity
- Price Pressures
- External Factors

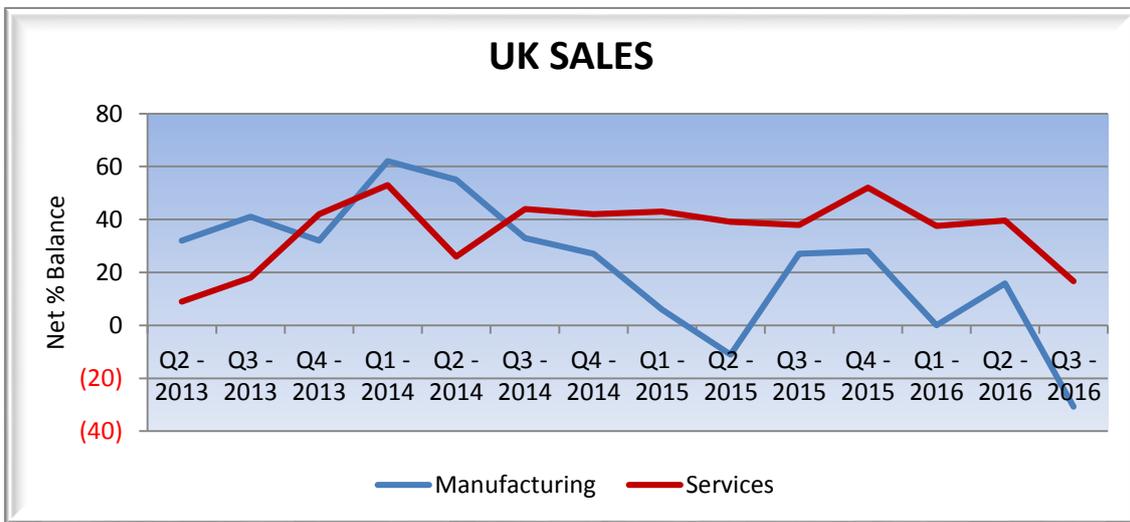
The fieldwork for Northamptonshire Chamber of Commerce's latest QES was conducted via electronic, hard copy questionnaires and via Survey Monkey during the period of 22nd August to 12th September. This report therefore sets out analysis and interpretation of the findings for the third quarter of 2016. A total of 53 businesses, employing 1,576 people from across the county responded. The sector split of respondents is shown in the pie chart below.



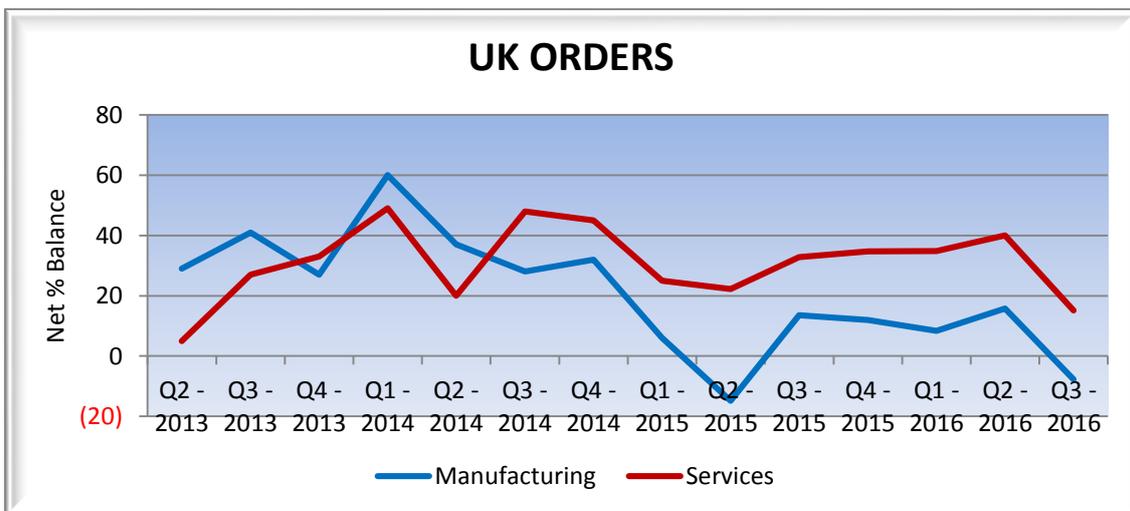
UK SALES AND ORDERS

As can be seen by the chart below, firms operating in both the services and manufacturing sectors saw a decline in UK sales activity over the past three months – during the third quarter of 2016.

Manufacturing firms reported a net balance figure of -31%, from a previous balance figure of +16%. However, just over a fifth (20%) of businesses reported that their UK sales activity remained consistent with the previous quarter. 77% of manufacturing companies reported that UK sales activity either increased or had remained consistent when compared to the second quarter. Similarly, businesses operating across the services sector also reported a marked slowdown in UK sales activity with the balance figure this quarter standing at 17% versus 40% in Q2. Whilst not in contraction territory, the balance figure of 17% is lowest recorded since Q2 2013.



Corresponding to UK sales activity, UK orders for both manufacturing and services sectors also saw a marked decline. Those firms operating across the manufacturing sector reported that their UK orders had entered contraction with overall balance figure standing at -8% in Q3 versus 16% in Q2. The services sector's UK sales declined by 15% with the Q3 figure standing at 15% versus 40% in Q2.



* Net (percentage) balances are the difference between the percentage of businesses that expect improving or increasing positions and those expecting worsening or decreasing ones.





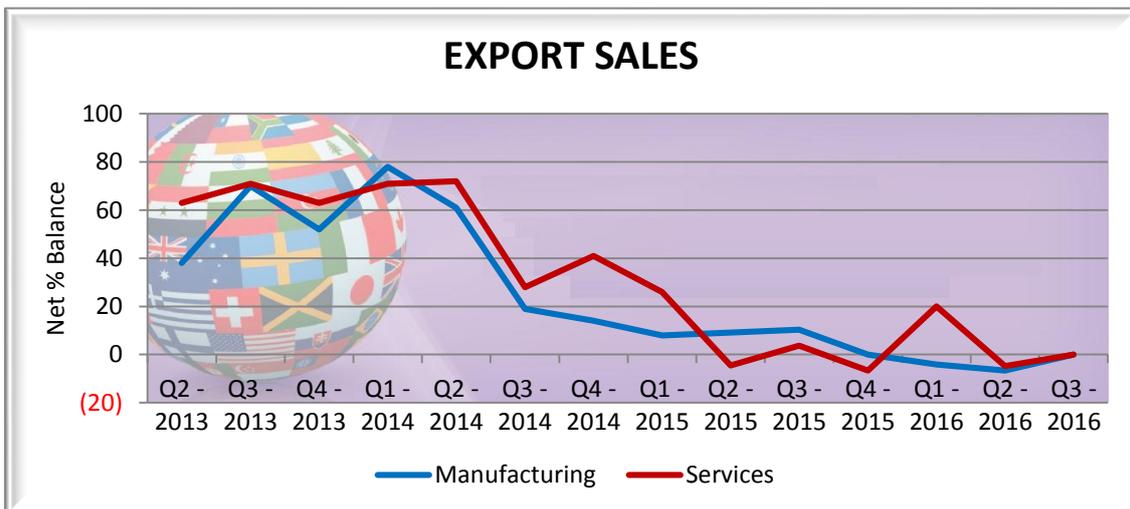
QUARTERLY ECONOMIC REVIEW

QUARTER 3 2016

EXPORT SALES AND ORDERS

In contrast to UK sales activity, export sales activity actually saw a slight increase across both manufacturing and services sectors. The manufacturing sector and services sector both recorded a balance figure of 0, meaning that in percentage terms the same amount of businesses reported an increase versus those that reported a decrease.

At the same time 45% of manufacturing firms surveyed said that export sales activity in Q3 had remained consistent with Q2. 40% of businesses operating in the services sector also stated that Q3 export sales had remained in line with Q2. 73% of manufacturing firms reported export sales either in line with the previous quarter or had increased. Service sector firms said that their export sales had either increased or had remained consistent with the previous quarter.



The chart for export orders paints a remarkably similar picture to that of export sales with the manufacturing and services sector both reporting a balance figure of 0.

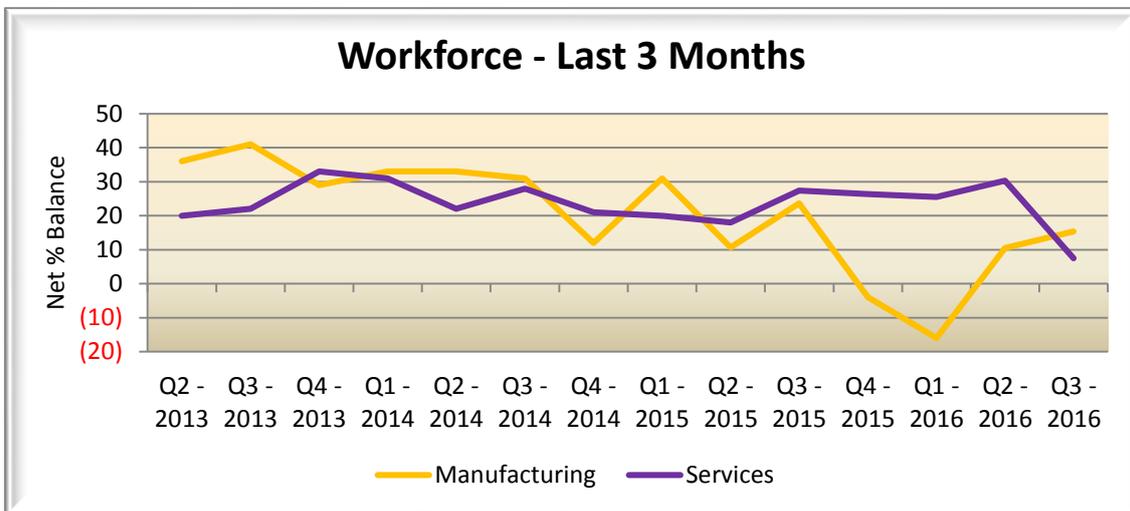


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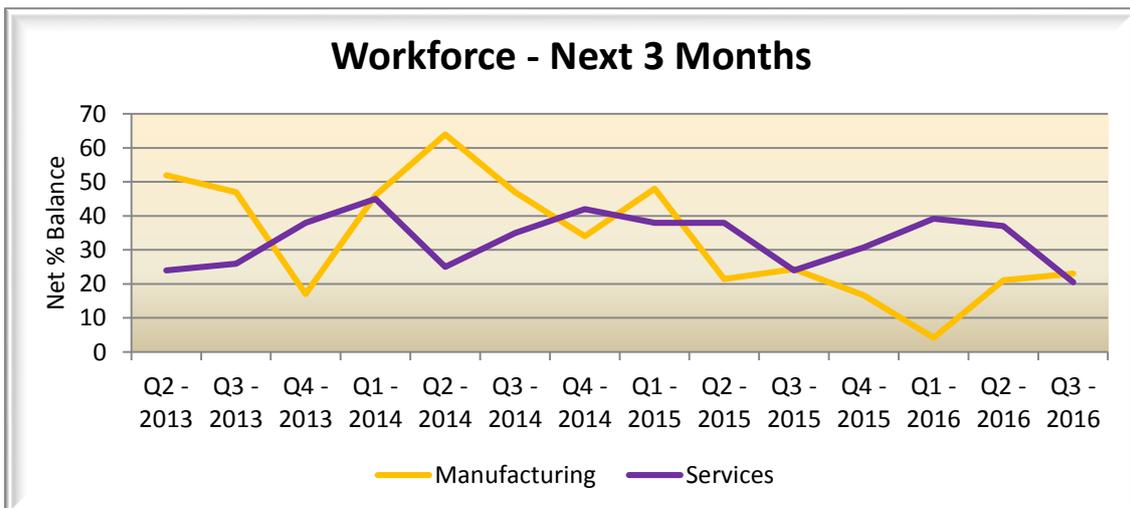
EMPLOYMENT

Hiring trends for businesses operating across the manufacturing sector continued their upward trajectory with firms reporting an increase in their headcount over the third quarter. 31% of manufacturing firms said that their workforce had increased versus only 15% that said it had decreased. The remaining 54% said their headcount had remained similar to that of the previous quarter.

Conversely, businesses in the services sector reported saw an overall decline in hiring activity during the previous three months. The balance figure for Q2 being 30% versus 8% for the latest quarter. However, 68% of service sector firms stated that they headcount had remained consistent with Q2, with only 13% of firms citing a decline in headcount.



Projected hiring activity over the next three during Q4 almost mirrored that of the previous three months, with the services sector reporting a fall and the manufacturing sector reporting an increase. The net balance figure for manufacturing firms was 23% versus 21% for services sector businesses. Previously, the manufacturing balance figure was 21% whilst the service sector balance figure was 37%.



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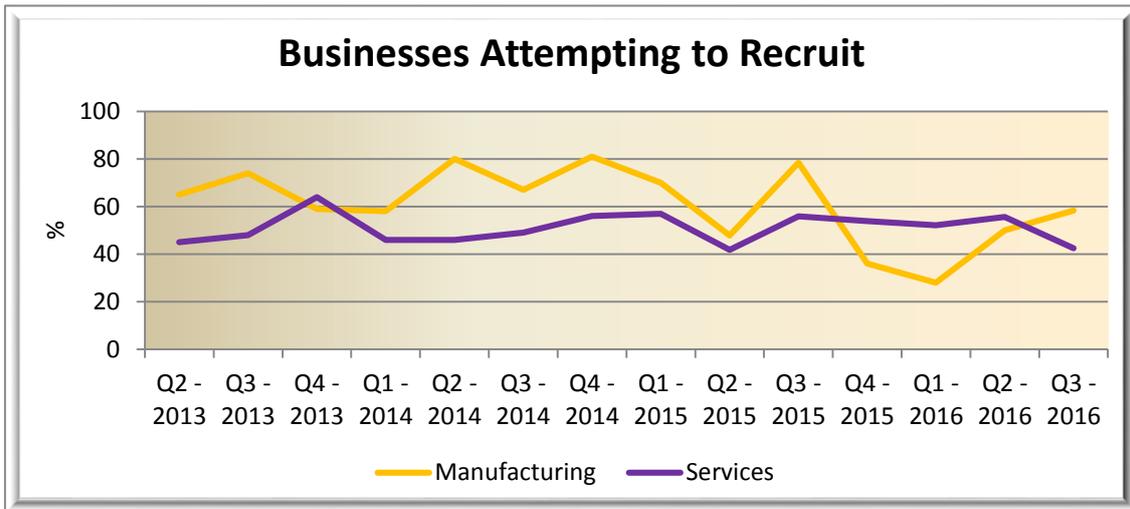


QUARTERLY ECONOMIC REVIEW

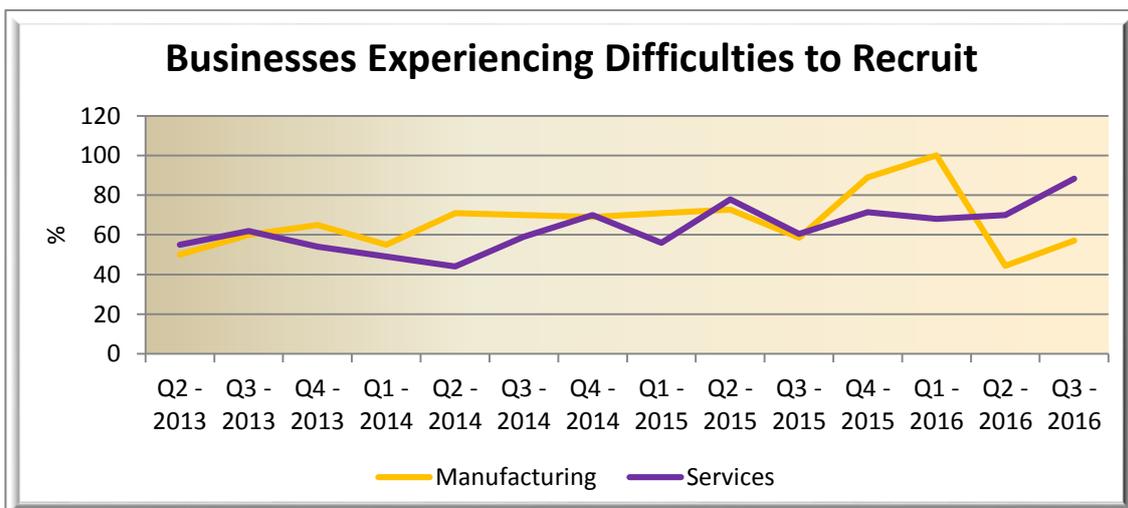
QUARTER 3 2016

RECRUITMENT & SKILLS SHORTAGES

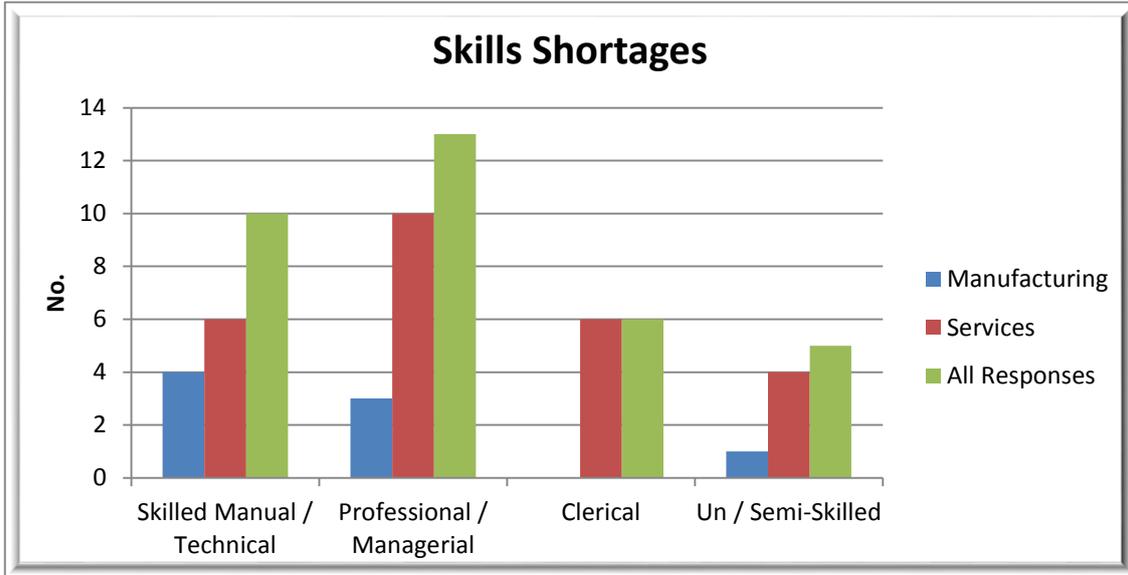
There was a slight decrease in the number of firms operating across the services sector attempting to recruit staff over the past three months – with the figure for Q3 standing at 43%. On the other hand, manufacturing businesses when surveyed stated that they'd attempted to recruit staff over the three month period during Q3 – with 58% of firms indicating this.



With 43% of service sector firms and 58% of manufacturing attempting to recruit staff it's disturbing to find that the number of businesses across both sectors have seen an increased in recruitment difficulties. 88% of those service sector businesses that had attempted to recruit staff said that they had encountered difficulties finding suitable staff. Their counterparts in the manufacturing sector also experienced similar difficulties, whilst less acute, 57% still indicated that they'd encountered difficulties in recruiting staff.

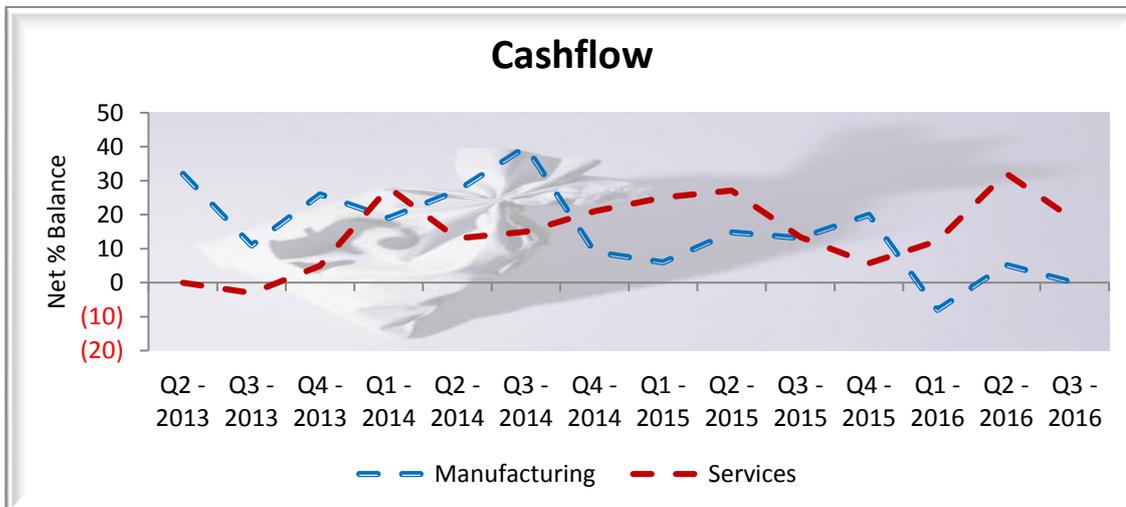


The following table highlights the skills areas where businesses experienced difficulty in sourcing new employees during this most recent quarter.



CASHFLOW & INVESTMENT

There was a marked deterioration in cashflow for businesses operating across both the manufacturing and services sector during the third quarter as is highlighted by the graph below. 77% of manufacturers reported that their cashflow had either improved or had remained consistent with the second quarter. Similarly, 84% of service sector firms said that their cashflow had either remained constant or increased when compared to the second quarter.

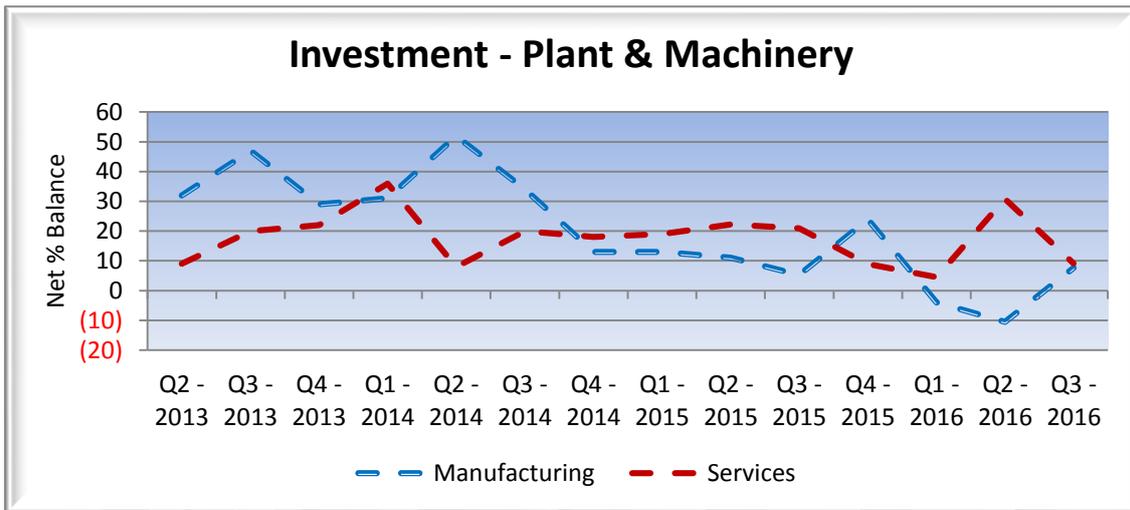




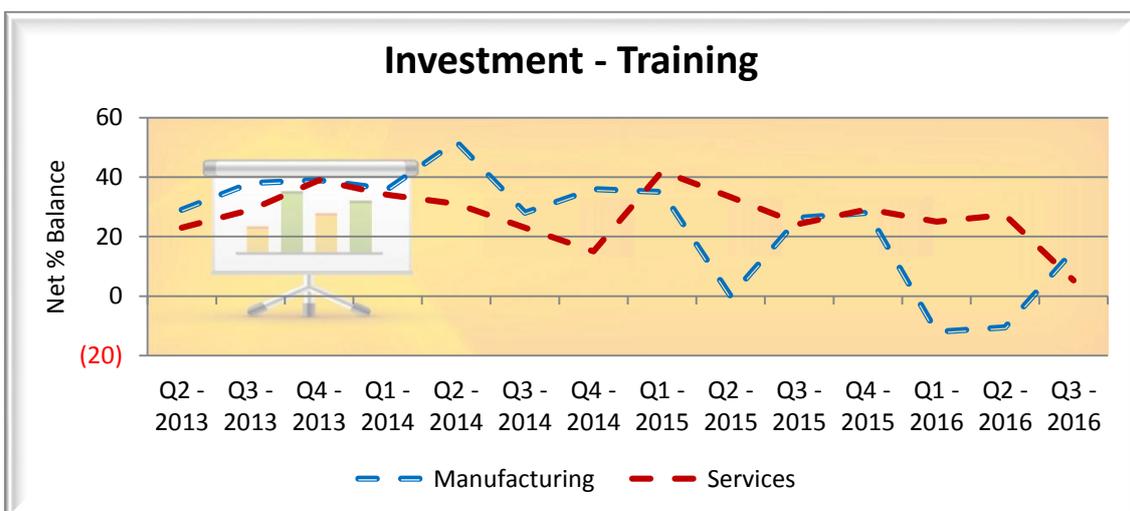
QUARTERLY ECONOMIC REVIEW

QUARTER 3 2016

Whilst cashflow deteriorated for both sectors during the third quarter – as seen by the previous chart – investment plans for the manufacturing sector at least saw a marked improvement during the same time frame. During the same three months, businesses operating throughout the services sector reported a decline in investment plans for plant and machinery. The Q2 figure being 31% for Q2 versus 9% for Q3. The manufacturing balance figure in contraction territory during Q2 – with a balance figure of -11% - improved markedly over the past three months – now with a reading of 8%.



The dichotomy between the services and manufacturing sectors continued when asked about their investment in training during three months during Q3. Investment intentions for businesses operating in the manufacturing rebounded from negative 11% in Q2 to positive 15% in Q3. In stark contrast, businesses in the services sector saw an overall decline in training activity over the three months during Q3. Previously, the net balance figure for service sector firms was positive 27% in Q2 versus 5% in Q3.

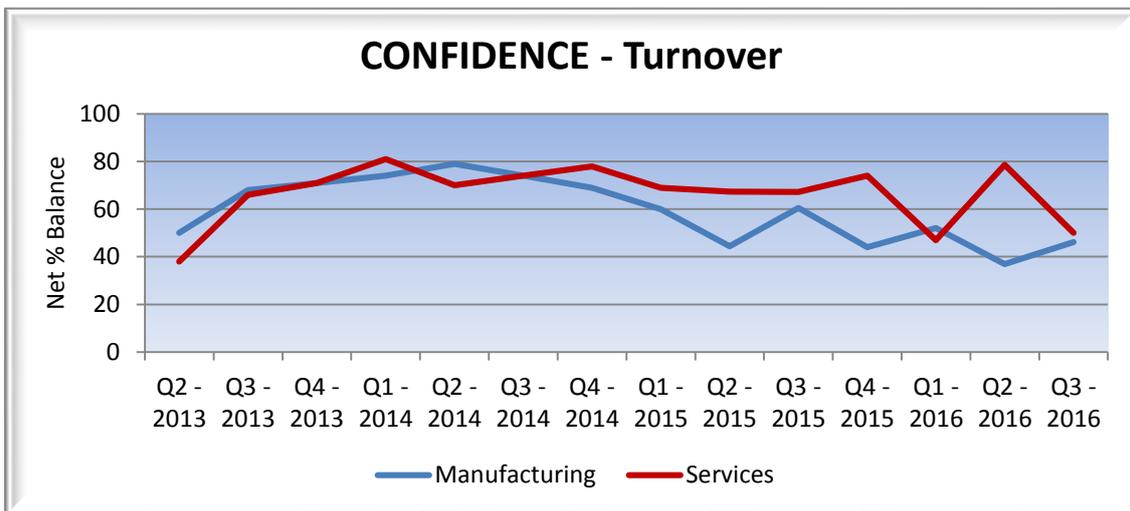


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CONFIDENCE

Confidence – as determined by turnover – for businesses operating across the services sector decreased over the past three months with the balance figure now at level in Q3 now at 50% versus 79% during the previous quarter. On the other hand manufacturing firm’s confidence as determined by turnover has increased during the third quarter – with a balance figure of 46% versus 37% in Q2.

Reassuring is the fact that 54% of manufacturing business said that their turnover had remained the same when compared to the second quarter. 15% of businesses operating across the services sector said that their turnover had remained the same during the second quarter when compared to first quarter.



BUSINESS CONFIDENCE –TURNOVER NEXT 12 MONTHS - NET BALANCES

% Balance	Q2 - 2013	Q3 - 2013	Q4 - 2013	Q1 - 2014	Q2 - 2014	Q3 - 2014	Q4 - 2014	Q1 - 2015	Q2 - 2015	Q3 - 2015	Q4 - 2015	Q1 - 2016	Q2 - 2016	Q3 - 2016
Manufacturing	50	68	71	74	79	74	69	60	44	61	44	52	37	46
Services	38	66	71	81	70	74	78	69	67	67	74	47	79	50

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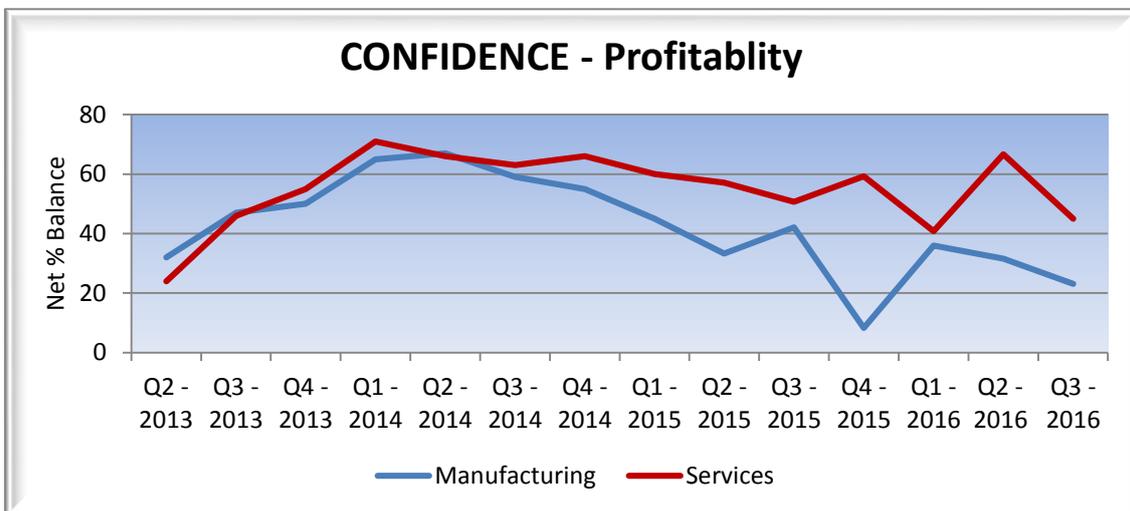
QUARTERLY ECONOMIC REVIEW

QUARTER 3 2016

85% of manufacturing firms cited that their profitability had either increased or remained the same when compared with the second quarter.

80% of service sector firms reported that confidence as measured by profitability was consistent with previous quarter or increased.

65% of service sector firms reported an increase in profitability with 38% of manufacturing firms reporting an increase in profitability.



BUSINESS CONFIDENCE – PROFITABILITY NEXT 12 MONTHS – NET BALANCES

% Balance	Q2 - 2013	Q3 - 2013	Q4 - 2013	Q1 - 2014	Q2 - 2014	Q3 - 2014	Q4 - 2014	Q1 - 2015	Q2 - 2015	Q3 - 2015	Q4 - 2015	Q1 - 2016	Q2 - 2016	Q3 - 2016
Manufacturing	32	47	50	65	67	59	55	45	33	42	8	36	32	23
Services	24	46	55	71	66	63	66	60	57	51	59	41	67	45

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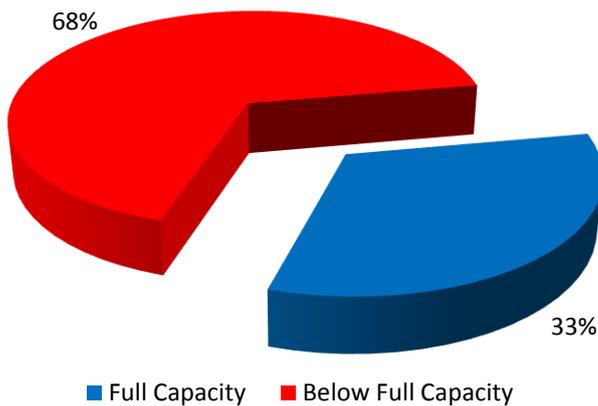
CAPACITY

The majority of businesses operating across the manufacturing sector are still reporting that they're operating below capacity – as was the case during the second quarter.

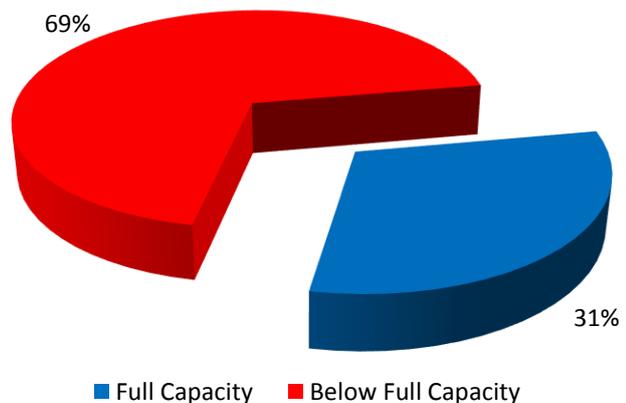
Furthermore, just over two thirds (68%) of services sector firms said that they were also operating below capacity during the three months of the second quarter.

There was a 1% decrease in service sector businesses reporting that they were operating below capacity over the past three months. There was a 16% rise in businesses across the manufacturing sector that were operating below capacity when compared to the second quarter.

CAPACITY - Services



CAPACITY - Manufacturing



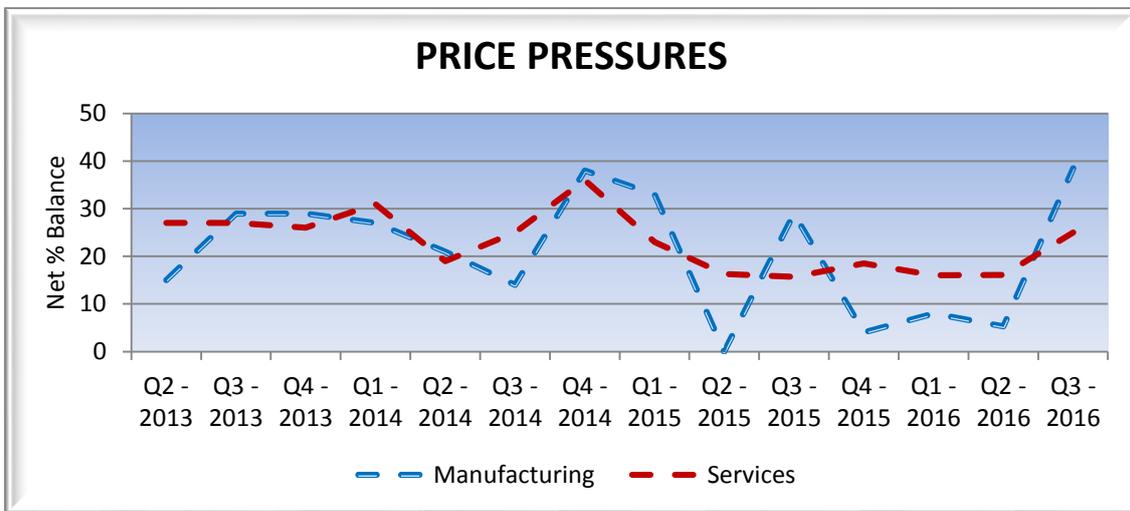


QUARTERLY ECONOMIC REVIEW

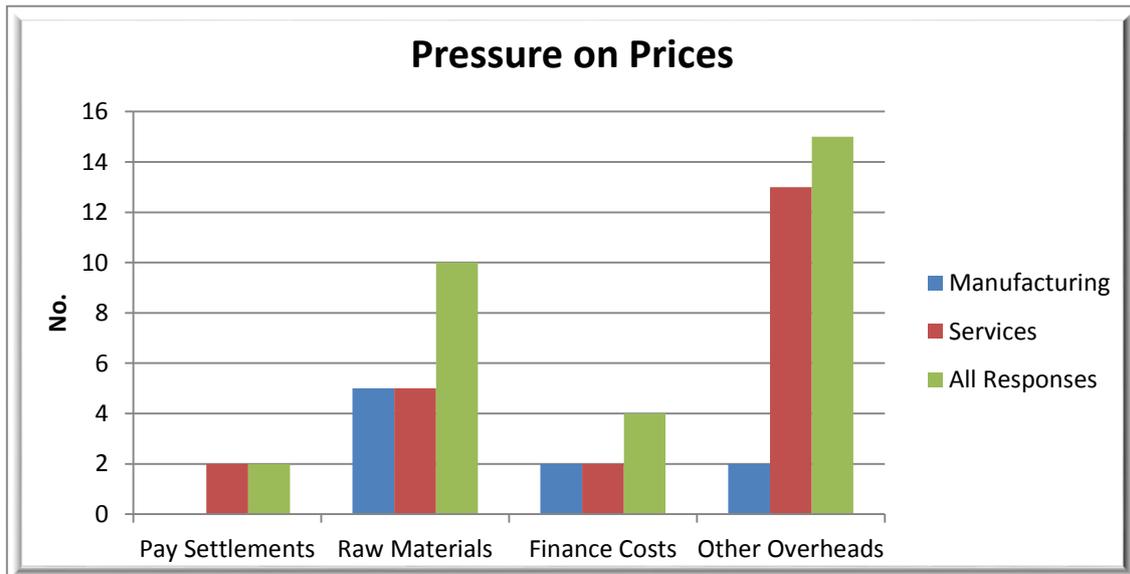
QUARTER 3 2016

PRICE PRESSURES

There was significant increase in businesses across both sectors reporting an increase in price pressures during the third quarter as can be seen when looking at the chart below. 46% of manufacturing firms reported an increase in price pressures during the previous three months, with only 8% reporting a decrease in prices pressures – producing a net balance figure of 38%. 28% of service sector firms reported an increase in price pressure during Q3, with 3% reporting a decline in price pressures over the same timeframe – producing a net balance figure of 25%. 70% of service sector firms reported prices pressures remaining consistent with Q2, whereas 46% of manufacturing businesses cited prices pressure remaining in line with Q2



Other overheads (e.g. energy costs) was the main pressure on prices for businesses (this is when the figures for both the service and manufacturing sectors are combined). For the services sector other overheads were the main pressure on prices whereas for the manufacturing sector raw material costs were the factor



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EXTERNAL FACTORS

The main cause for concern for businesses during the third quarter was competition which matches data compiled during the second quarter of 2016.

The manufacturing sector's second external factor of concern was exchange rates with corporation tax being the third.

The service sectors second external factor of concern was exchange rates, followed by interest rates.

