



QUARTERLY ECONOMIC REVIEW

QUARTER 4 2016

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REPORT SUMMARY

Sales for manufacturers have bounced back and county firms have increased the size of their workforces 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 October to December 2016, shows that sales within the manufacturing sector rebounded during the fourth quarter of the year. In total 74% of manufacturing firms reported that sales had either increased or remained the same compared to the previous quarter.

The survey for Q4 2016 was conducted from November 7 to November 28 last year and contains responses from 97 businesses employing 8,680 people from across the county.

Research into export sales activity revealed 87% of manufacturing businesses and 70% of service sector firms said export sales were the same as Q3 or had increased.

In total 54% of businesses operating across the services sector reported that UK sales remained in line with the previous quarter. Only 16% of services sector businesses reported a decline in UK sales during the fourth quarter.

Export orders for manufacturing firms reported a net balance figure of +33% up from -31% in the previous quarter. For the service sector the picture was the opposite with a balance figure for businesses operating across the sector of below 0, indicating an overall contraction in export orders. Meaning that more firms cited a decline in export orders versus those that reported an increase.

Encouragingly both sectors revealed they had increased their headcount during the final quarter of 2016. Manufacturers, in particular, reported their second consecutive quarterly increase in employee headcount with the balance figure of 24%, the highest level recorded in 2016. Looking ahead the service sector is expected to outperform manufacturers in terms of hiring staff during the next quarter.

Manufacturing firms and the services sector both reported an improvement in investment during the fourth quarter.

In total 33% of manufacturers reported increased investment in plant/machinery and 95% revealed their investment in training had either remained the same or increased during Q4.

During the same period 18% of services sector firms increased investment in plant/machinery and 80% said their investment in training had increased or remained the same.

When questioned 96% of service sector firms and 85% of manufacturers reported that confidence as measured by turnover had increased or was consistent with Q3. Also 81% of manufacturing firms said their profitability had increased or stayed the same when compared with the second quarter of the year.

Northamptonshire Chamber of Commerce chief executive Paul Griffiths said: "It's reassuring to see now that the immediate dust has settled from the fallout of the EU referendum vote, businesses across the county have adopted a 'business as usual' approach, with manufacturing firms in particular seeing an increase in activity. And in some cases outperforming their services sector counterparts.

Furthermore, we're encouraged to see that both sectors – manufacturing and services – have increased the size of their respective workforces. However, we'll monitor whether this hiring activity is down to seasonal trends when we survey businesses again during the first of 2017.

With around a fifth of service sector businesses investing in plant/machinery over the quarter coupled with the majority maintaining the same level of investment in their workforce it's evident that the sector is taking long term approach whilst riding out the current waves of uncertainty."

Paul Griffiths, Chief Executive
Northamptonshire Chamber of Commerce



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RESPONSES

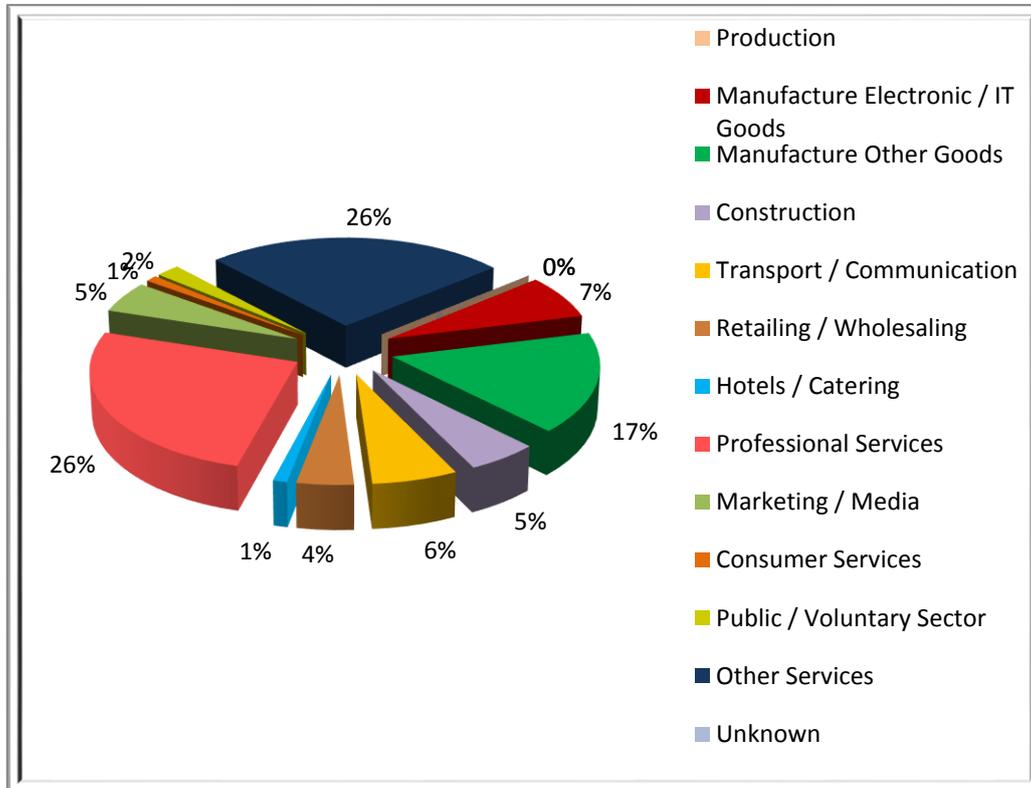
Northamptonshire Chamber of Commerce's Quarterly Economic Survey (QES) is a regular independent business survey and forms part of the biggest and most representative survey of its kind in the UK.

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 7th November to 28th November 2016. This report therefore sets out analysis and interpretation of the findings for the fourth quarter of 2016. A total of 97 businesses, employing 8,680 people from across the county responded. The sector split of respondents is shown in the pie chart below.



UK SALES AND ORDERS

As highlighted by the graph below UK sales activity for firms operating across the manufacturing sector rebounded during the fourth quarter. UK sales for manufacturing firms recovered from their Q3 slump with the balance figure back above the 0 line indicating that more firms reported sales increases versus those that reported a sales decrease during the fourth quarter. 74% of businesses operating in the manufacturing sector reported sales that either remained consistent with the previous quarter or had increased over the past three months.

Whilst at first glance UK sales for the businesses operating across the services sector appeared to have declined, 54% of firms actually reported sales that remained in line with Q3. Only 16% of services sector businesses reported a decline in UK sales during the fourth quarter when compared to Q3.

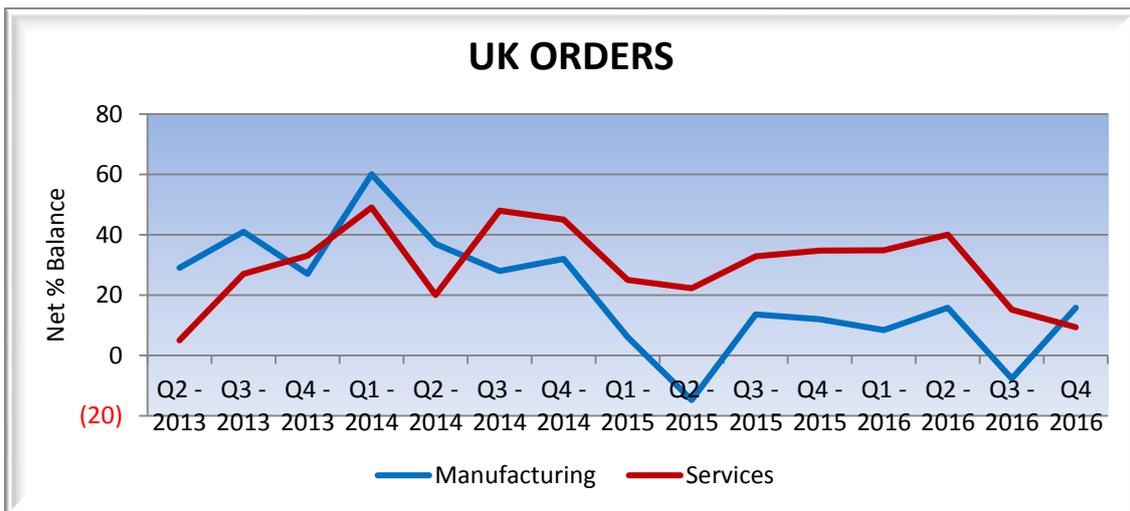
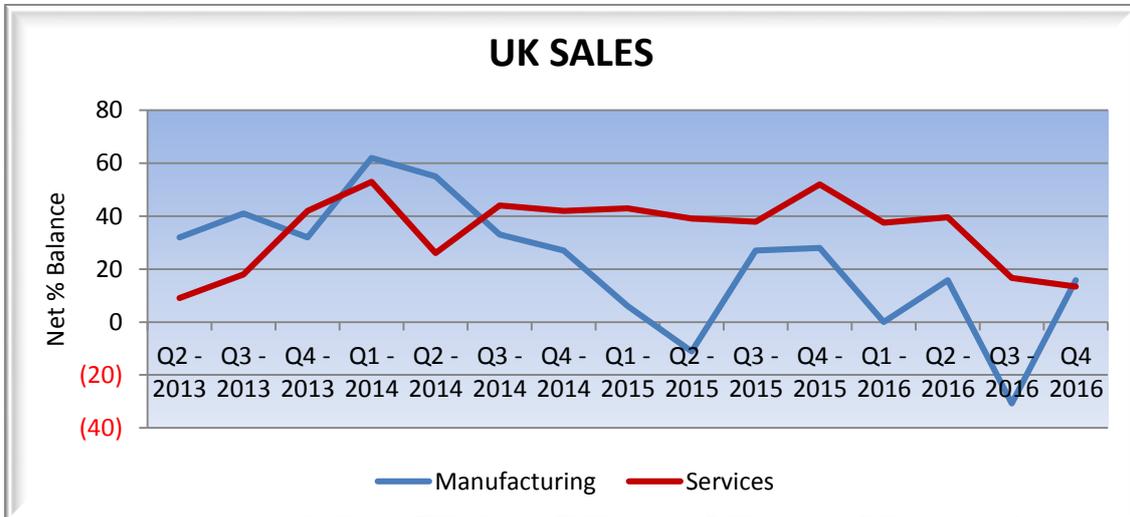
As can be seen when looking at the UK orders during the fourth quarter for both sectors the pattern is almost identical to that of UK sales, again with manufacturing rebounding.





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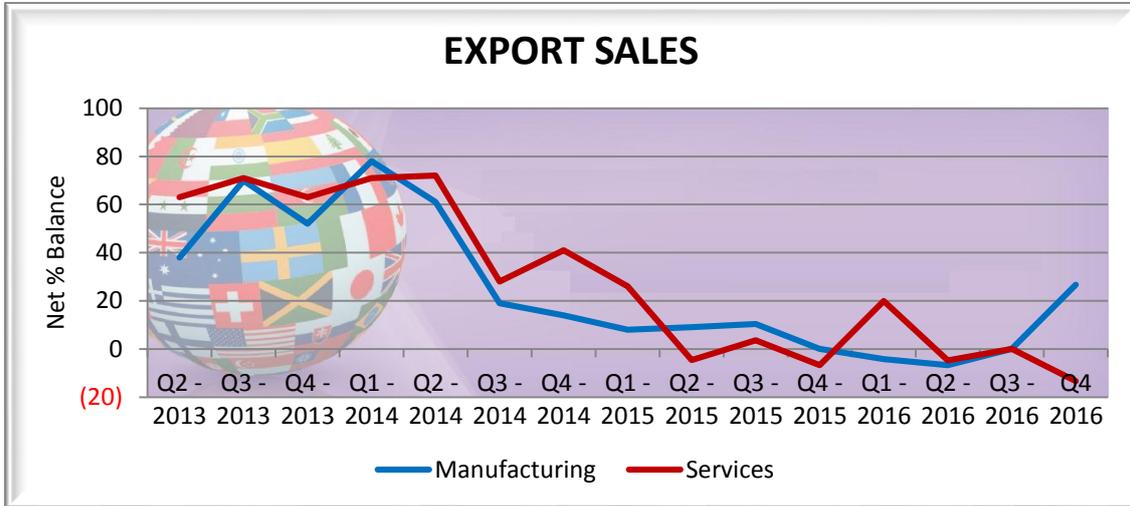


* Net (percentage) balances are the difference between the percentage of businesses that expect improving or increasing positions and those expecting worsening or decreasing ones.

EXPORT SALES AND ORDERS

The trend for export sales and orders for both sectors were remarkably similar to that of UK sales and orders with the manufacturing sector outperforming their counterparts in the services sector. During the previous quarter both sectors recorded a balance figure of 0 – meaning that the same number of firms reported an increase as those that reported a decrease.

87% of manufacturing businesses that responded to this quarter’s survey stated that export sales had either increased or remained consistent with the third quarter. 70% of services sector firms reported that their export sales had either remained in-line with the third quarter or had increased during the fourth quarter.



Export orders mirrored that of export sales with the services sector again underperforming their counterparts in the manufacturing sector. With the balance figure for businesses operating across the services sector below 0, there were more firms citing a decline in orders versus those that cited an increase. Conversely, manufacturing businesses reported the opposite with a net balance of +33% of businesses saying export orders had increased.



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

EMPLOYMENT

Encouragingly, both sectors reported that they had increased their headcount during the final quarter of 2016 with both sectors reporting a positive +24%. 57% of businesses operating in the manufacturing sector cited that their workforce had remained consistent with the third quarter. Additionally, manufacturing firms reported their second consecutive quarterly increase in employee headcount and the balance figure is now at its highest level this year.

Whilst firms operating across the services sector during the previous quarter reported a decreased in their headcount, it's reassuring to see that hiring activity has picked up again during the fourth and final quarter of 2016.

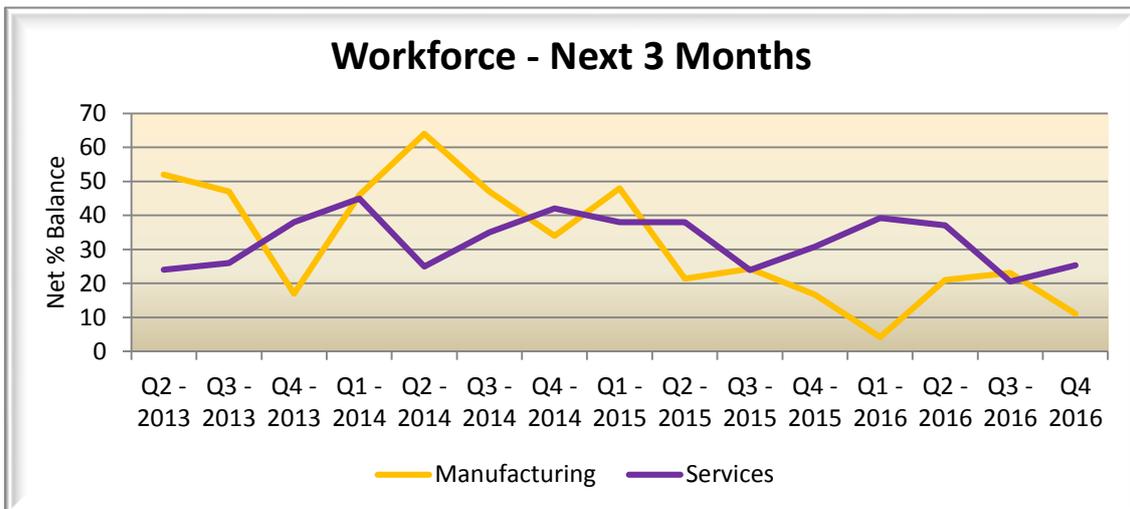
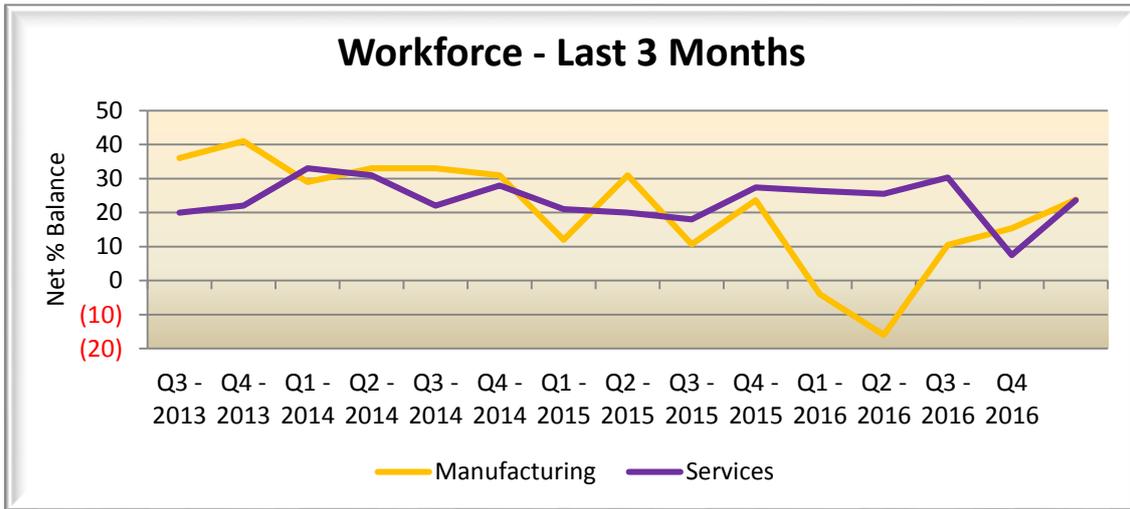




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Despite both sectors reporting an increase in their headcount during the fourth quarter, there has been a divergence in the data when asked about their hiring intentions over the next three months with the services sector outperforming their peers in the manufacturing sector.

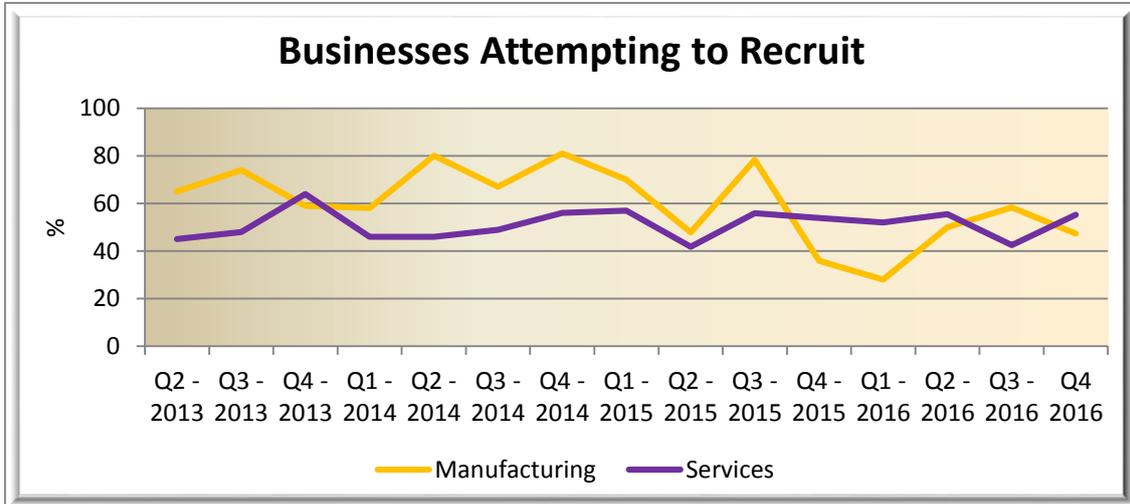


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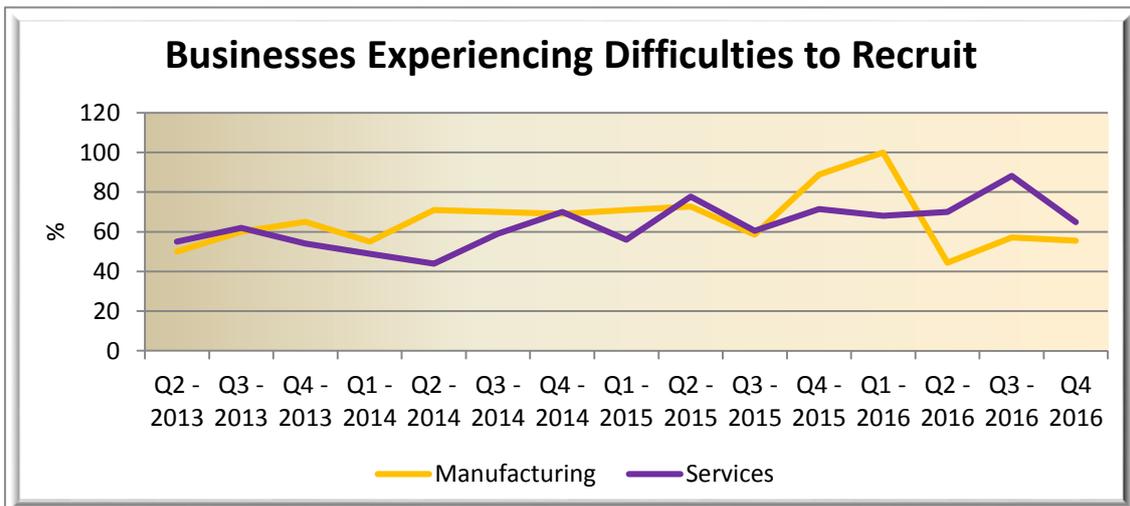
RECRUITMENT & SKILLS SHORTAGES

47% of manufacturing firms stated they had attempted to hire staff during the fourth quarter which represents a decrease of 9% when compared to the third quarter. This represents the lowest figure recorded since Q1 2016.

55% of services sector firms stated that they had attempted to take on additional staff during the final quarter of 2016 which represents a 12% decrease over the quarter. Similarly, this also represents the lowest figure dating back to Q1 2016.



Optimistically, there was a decline in businesses operating across both sectors that had reported difficulties in recruiting staff over the fourth quarter. 56% of service sector businesses stated that they struggled to recruit staff over the final three months of 2016 versus 57% for the third quarter. There was a substantial 23% of firms operating across the manufacturing sector that had reported a decrease in recruitment difficulties with the figure for the fourth quarter standing at 65% compared to 88% for the third quarter.

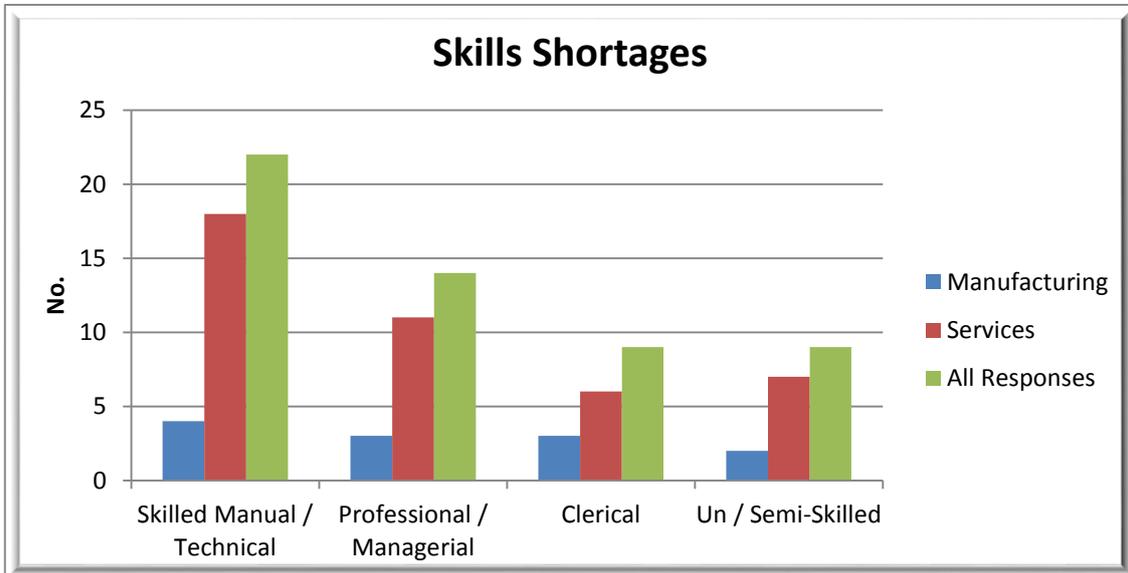


The following table highlights the skills areas where businesses experienced difficulty in sourcing new employees during the quarter.



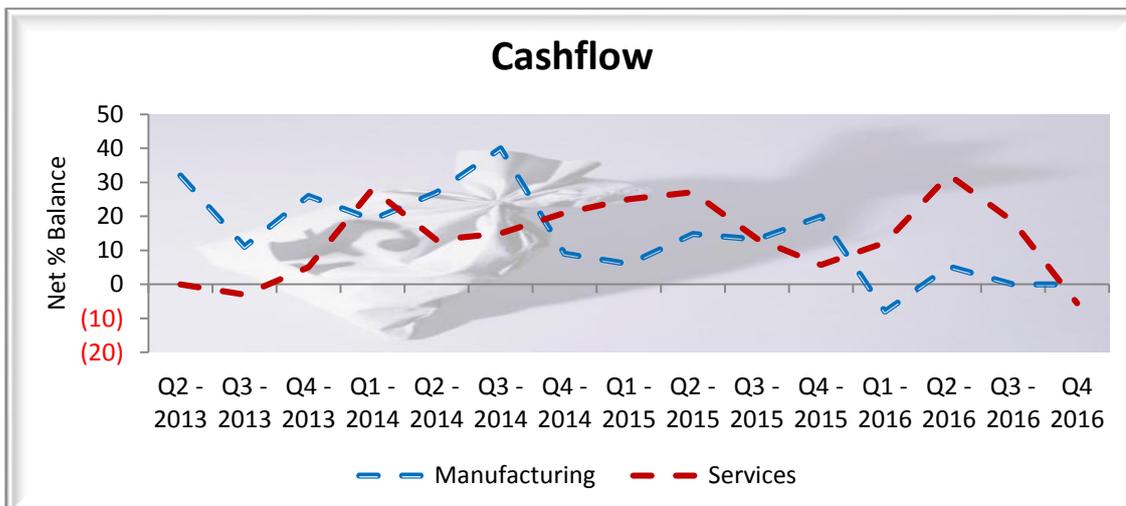
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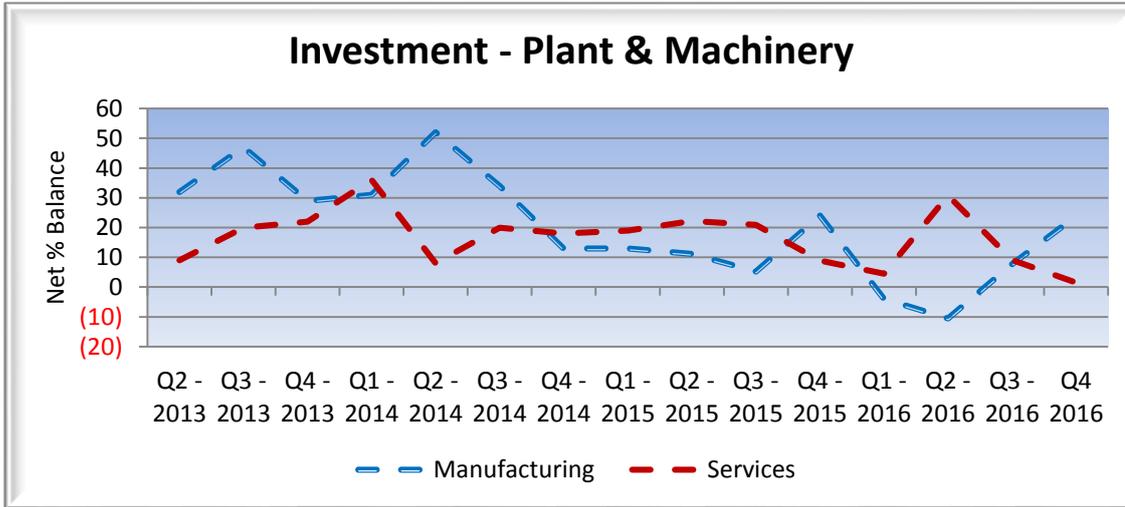
CASHFLOW & INVESTMENT

For the first time since Q3 2013 the services sector reported an overall contraction in cashflow, meaning that more businesses reported a decrease in cashflow versus those that had reported an increase. 61% said that cashflow had remained consistent with the third quarter. There was an equal number of businesses across the manufacturing sector reported an increase in cashflow, at 33% as reported a decrease.



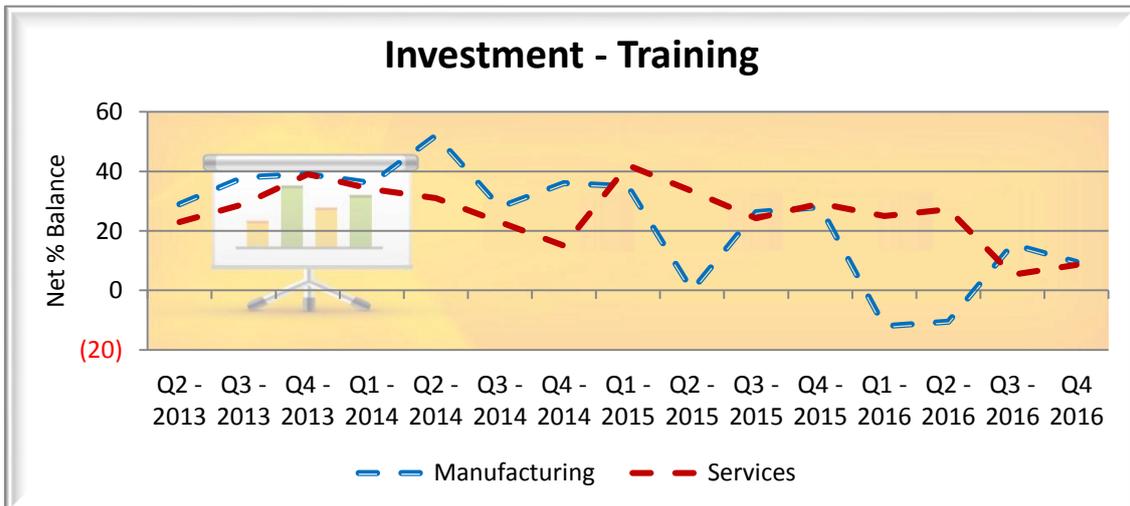
Investment in plant and/or machinery for businesses operating across the manufacturing sector increased markedly over the fourth quarter with 33% of firms reporting an increase. 18% of firms within the services sector reported that they had increase investment in plant/machinery.

57% of manufacturing firms reported that their investment in plant/machinery remained consistent with the third quarter with 66% saying the same for the services sector.



95% of manufacturing firms reported that they had either increased investment in training or that it had remained in line with the third quarter. 80% of services sector firms said that their investment in training had either remained consistent with the third quarter or had increased over the previous three months.

Overall investment in training had remained consistent with the third quarter.



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CONFIDENCE



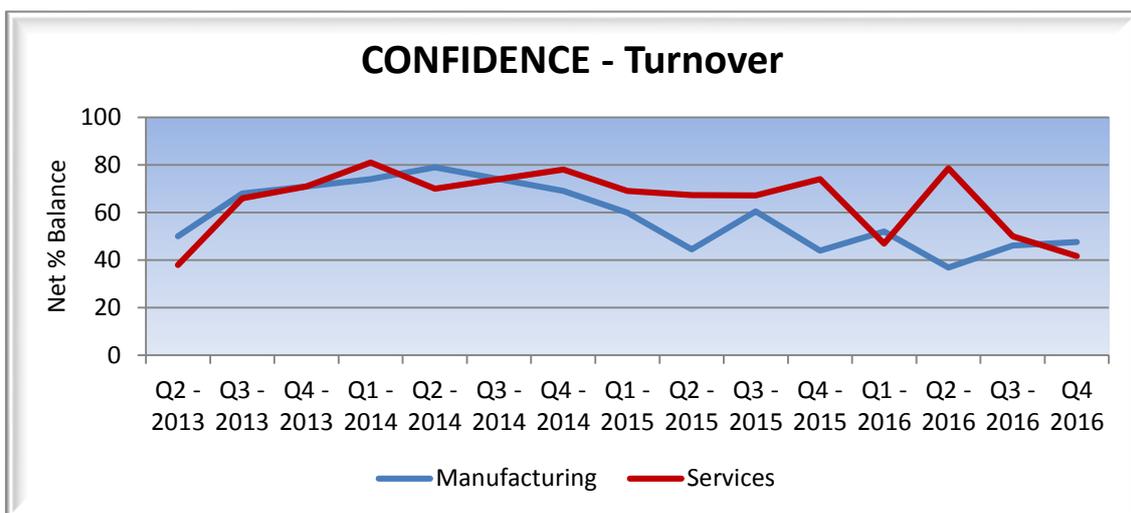
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85% of manufacturing firms cited that their turnover either increased or remained the same when compared with the third quarter.

96% of service sector firms reported that confidence as measured by turnover was consistent with the previous quarter or had increased.

56% of service sector firms reported an increase in turnover with 62% of manufacturing firms' reporting an increase in turnover.



BUSINESS CONFIDENCE - TURNOVER NEXT 12 MONTHS - NET BALANCES

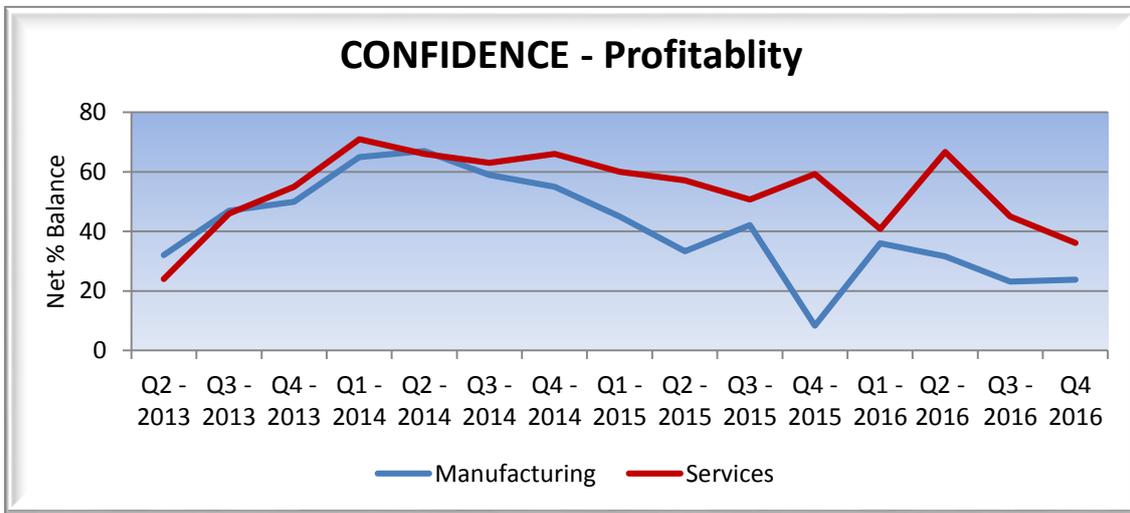
% Balance	Q2 - 2013	Q3 - 2013	Q4 - 2013	Q1 - 2014	Q2 - 2014	Q3 - 2014	Q4 - 2014	Q1 - 2015	Q2 - 2015	Q3 - 2015	Q4 - 2015	Q1 - 2016	Q2 - 2016	Q3 - 2016	Q4 - 2016
Manufacturing	50	68	71	74	79	74	69	60	44	61	44	52	37	46	48
Services	38	66	71	81	70	74	78	69	67	67	74	47	79	50	42

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

81% of manufacturing firms cited that their profitability either increased or remained the same when compared with the second quarter.

82% of service sector firms reported that confidence as measured by profitability was consistent with previous quarter or increased.

43% of service sector firms reported an increase in turnover with 54% of manufacturing firms reporting an increase in turnover.



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	Q4 - 2016
Manufacturing	50	68	71	74	79	74	69	60	44	61	44	52	37	46	24
Services	38	66	71	81	70	74	78	69	67	67	74	47	79	50	36

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

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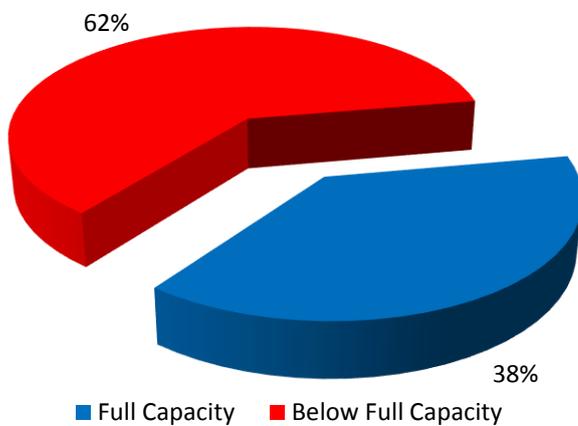


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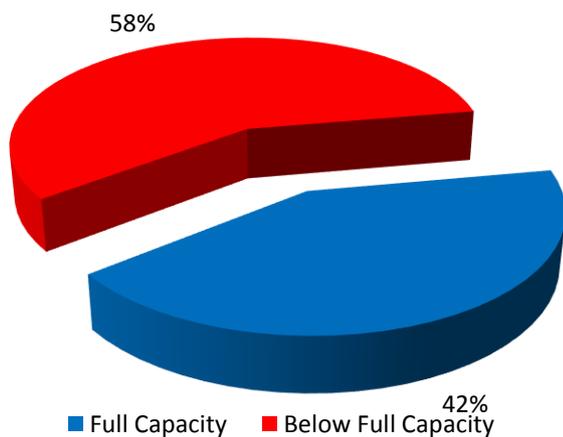
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The majority of businesses operating across both the manufacturing and services sector are still reporting that they're operating below capacity – as was the case during the third quarter. There was a 7% increase in businesses in the manufacturing sector stating that they were operating at full capacity – 31% in Q3 versus 38% in Q4 – the most recent quarter.

CAPACITY - Manufacturing

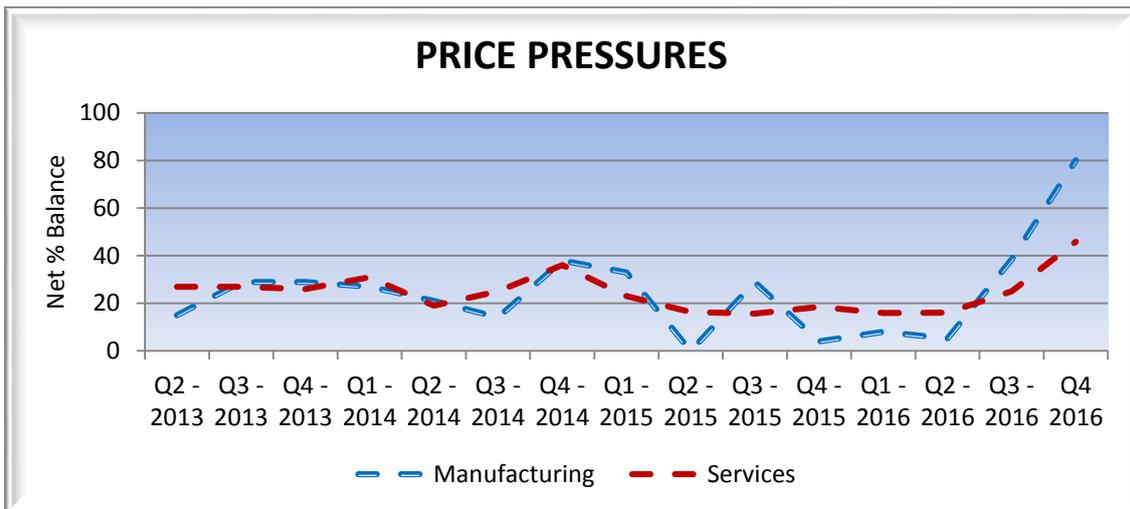


CAPACITY - Services

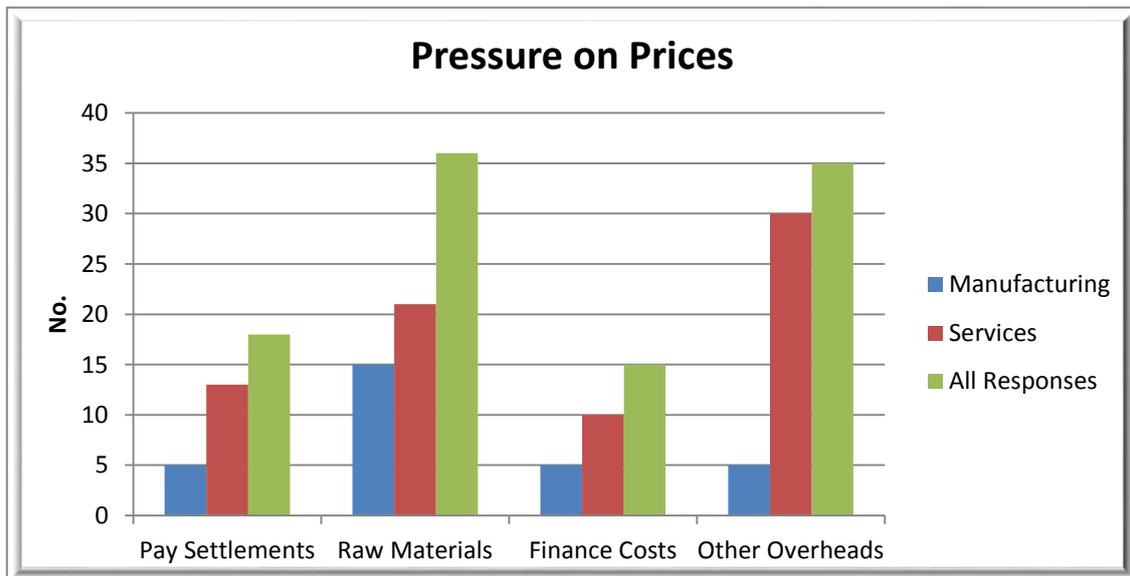


PRICE PRESSURES

There was a substantial increase across both sectors that reported an increase in price pressures during the fourth quarter which could explain the deterioration in cashflow for both sectors as mentioned previously in this report. A substantial 80% of firms across the manufacturing sector reported that there was an increase in price pressures during the fourth quarter with 46% citing this was also the case. 0% of firms that operate across the manufacturing sector said that price pressures had decreased over the fourth quarter. This was also the case for the businesses within the services sector.



Overall across both sectors, raw material costs were the main contributing factor to businesses when asked what was resulting in them increasing their prices during the fourth quarter. The services sectors main pressure of prices was other overheads – such as energy costs whereas the manufacturing sectors was raw material costs.



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EXTERNAL FACTORS





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The main cause for concern for businesses during the fourth quarter was exchange rates which is not surprising given the volatility of the pound over the past three months.

During the fourth quarter of 2016 when surveyed, no businesses raised the issue of corporation tax as a concern for their business.

Whilst not the first area of concern overall, competition was still key cause for concern for businesses surveyed this quarter.

