

QES LANCASHIRE QUARTERLY
ECONOMIC SURVEY

Quarter 3, 2015

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About this Quarter's Survey

The Q3 2015 Survey was conducted by the North & Western Lancashire Chamber of Commerce, the Lancaster District Chamber of Commerce and the Chamber of Commerce East Lancashire, in conjunction with Moore & Smalley Chartered Accountants and Business Advisors.

- The survey collection period was between 24th August and 16th September 2015.
- Responses were received from 254 companies across Lancashire employing 38,093 people.
- From the manufacturing sector, 84 business (36%) employing 25,648 people responded to the survey.
- From the service sector, 162 businesses (64%) employing 12,445 people responded to the survey.
- 148 companies (58%) were involved in exports.

NB: The net balance figures referred to throughout this report are calculated by subtracting the percentage of businesses reporting a decrease in a factor from those reporting increases. A figure above 0 indicates growth, while a figure below 0 indicates contraction.

Summary

Results for Q3 2015 reveal modest growth in the Lancashire economy but the pace of growth in both sectors has slowed for the second consecutive quarter. Overall the results are disappointing as most key balances weakened, most notably in the manufacturing sector. Of particular concern was the contraction in manufacturing exports where both the sales and orders balances fell in to negative territory (i.e. more firms reporting a decrease than an increase).

This trend was not exclusive to Lancashire; results from the British Chambers of Commerce this quarter reveal that the national manufacturing export sales balance fell to a six year low (see p.10). Global uncertainty, weakened demand from China and the strength of the pound are some of the factors likely hindering manufacturers' performance. If the manufacturing sector has entered a prolonged period of slow growth, then closing the trade deficit and improving the current account deficit will become more difficult.

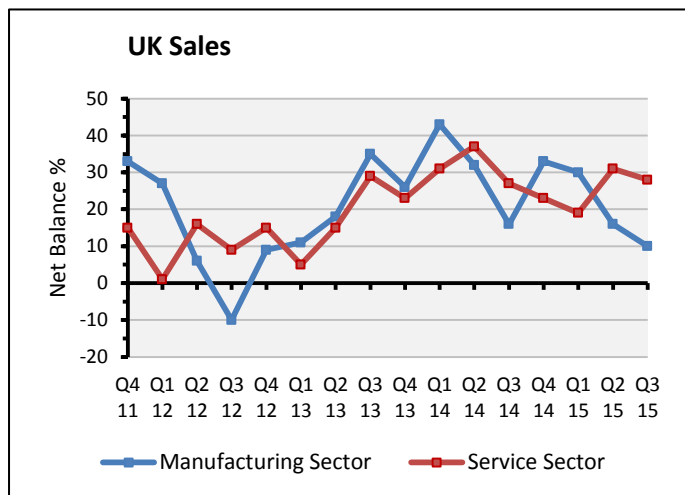
One of the few positives in this quarter's results was the increase in both sector's workforce levels. Despite slower growth over the last two quarters, firms are still recruiting and reporting workforce levels are up. Business confidence also remains high in both sectors, although stronger amongst service businesses.

Key Findings in the Q3 Survey:

- In both manufacturing and services, most key balances were weaker in Q3 than in Q2, even though there were a few improvements.
- In absolute terms, most Q3 service balances are stronger than the manufacturing balances.
- In **manufacturing**, both domestic balances were down; **domestic sales** (+10%, down from +16% in Q2) and **domestic orders** (0%, down from +10% in Q2).
- In **services**, both domestic balances weakened slightly; **domestic sales** (+28%, down from +31% in Q2) and **domestic orders** (+21%, down from +24% in Q2).
- The **manufacturing export sales** balance was in contraction for the first time in four years, falling twelve points (-4%, down from +8%). The **services export sales** balance improved by 13 points, leaving a neutral balance (0%, up from -13% in Q2).
- Both sectors report workforce levels have increased over the past three months. The **services employment** balance improved eighteen points (+29%, up from +11% in Q2) whilst the **manufacturing employment** balance was up seven points (+11%, up from +4% in Q2).
- The **services investment** balances reached new highs in Q3, with increases in both training and capital investment plans.
- The balance of **manufacturing** firms reporting that **cashflow** had improved fell seven points (+7%, down from +11% in Q2); whilst the **services cashflow** balance was up four points (+11%, up from +7% in Q2).
- Confidence that **turnover** will improve in the next twelve months weakened in both sectors.
- Confidence that **profitability** will improve in the next twelve months increased in services but fell in manufacturing.
- The net balance of firms **intending to raise prices** in the next quarter increased in both sectors for the first time since Q3 2014. Services firms were much more likely to increase prices than those in manufacturing.
- Overall, the results signal moderate economic growth over the next year but the UK economy is facing serious global challenges.

+Positive number represents an expansion -Negative number represents a contraction

Domestic Market

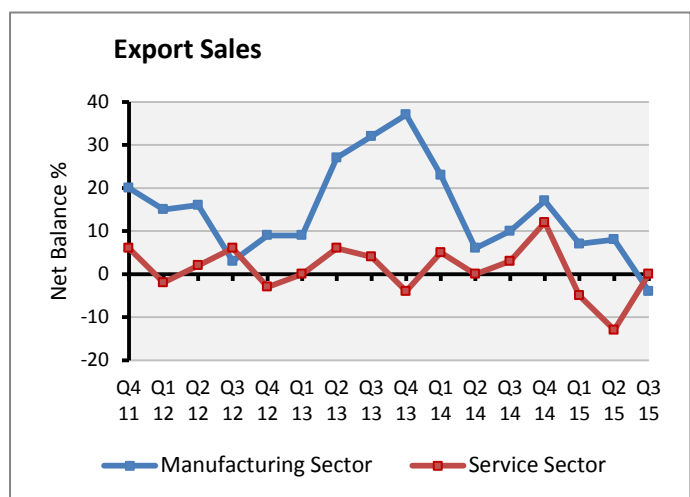


All of the domestic sales and orders balances weakened in Q3 but the decline was more pronounced in manufacturing.

The manufacturing domestic sales balance lost six points this quarter (+10%, down from +16%), its lowest level since Q4 2012. The manufacturing domestic orders balance was also in decline, losing ten points (+0%, down from +10%).

The service sector UK sales balance weakened three points (+28%, down from +31%) but remains strong and well above its historical average. The service sector orders balance also dropped three points this quarter (+21%, down from +24%). The figures indicate that the moderate growth in the UK economy is being driven mostly by services and by domestic demand.

Export Market

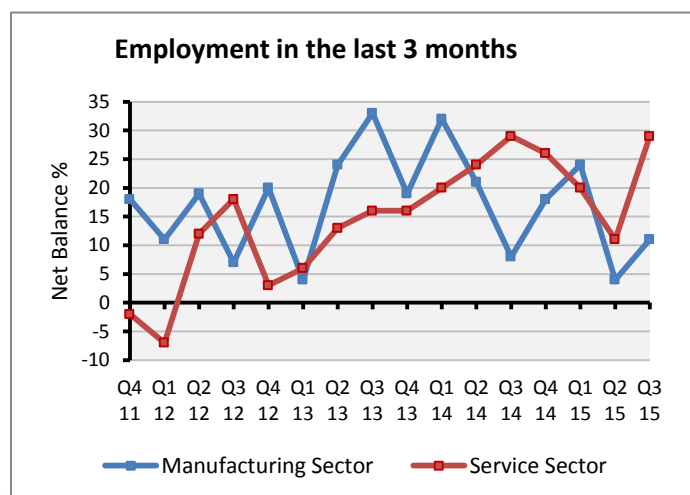


Lancashire exporters have had another difficult quarter in Q3, although there were signs of improvement for the service sector.

The manufacturing export sales balance lost twelve points and went in to contraction for the first time in four years (-4%, down from +8% in Q2). The export orders balance also went in to negative territory, dropping six points (-5%, down from +1%).

Service sector exports improved this quarter but remain weak. The export sales balance, after reaching a historical low in Q2, gained thirteen points in Q3 (0%, up from -13%). The service sector export orders balance improved by eight points but was still in contraction (-5%, up from -13%).

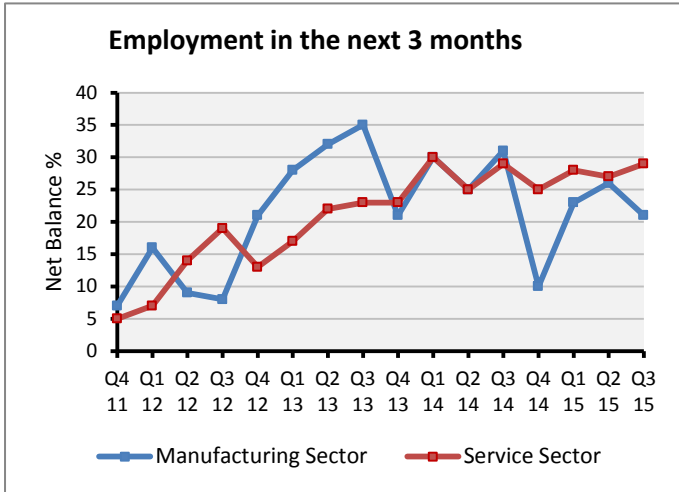
Employment



There was positive news on employment in Q3 with both sectors reporting increases in workforce levels over the past three months.

The net balance of service sector companies reporting that their workforce has increased went up eighteen points (+29%, up from +11%) equalling the four-year high for Lancashire observed in Q3 2014.

The retrospective employment balance for manufacturing was up seven points from a historical low in Q2 (+11%, up from +4%). This is encouraging, especially given the falls in manufacturing sales at home and abroad over the last six months.



However, employment growth in Lancashire manufacturing is lagging well behind the UK average (see p.10).

In terms of employment expectations over the next three months, both sectors are optimistic that workforce levels will increase although there was a slight weakening in manufacturing expectations.

The forward-looking employment balance for manufacturing fell five points (+21%, down from +26%), whilst the service sector balance gained two points (+29%, up from +27%) and remains above its historical average.

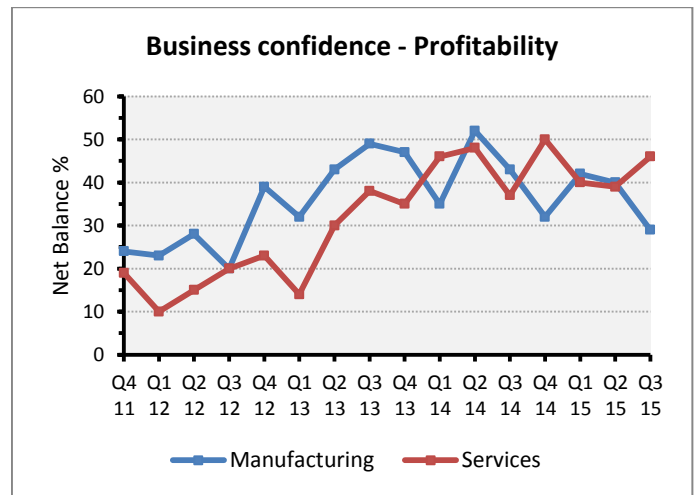
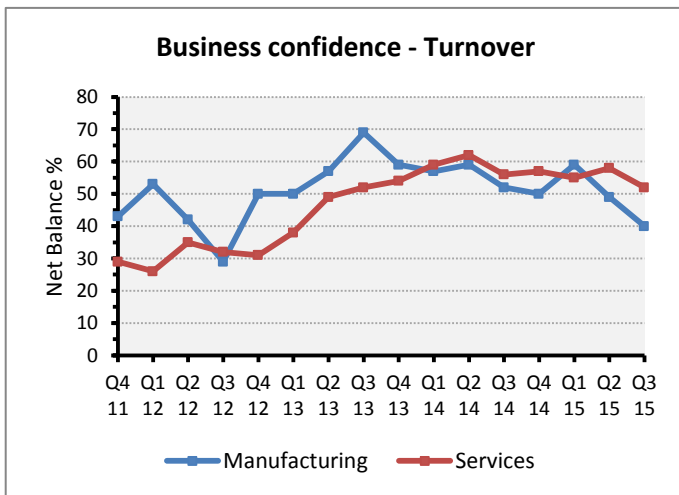
Recruitment

The percentage of manufacturing firms attempting to recruit in the last three months fell by six points (58%, down from 64%), whilst the percentage of service sector businesses attempting to recruit increased ten points (58%, up from 48%).

Of all firms attempting to recruit, 45% were seeking to fill permanent vacancies (up 1%), with 25% looking to take on temporary workers (up 4%). 82% of firms attempted to recruit for full-time positions (up 3%), whilst 28% were offering part-time roles (down 4%).

More than half of firms attempting to recruit said they experienced difficulties finding suitable staff (57%, up from 52%). In manufacturing, skilled manual and technical positions were again the most difficult to fill (74%, up from 70%); whilst service businesses had most difficulty recruiting for professional/managerial positions (52%, up from 50%).

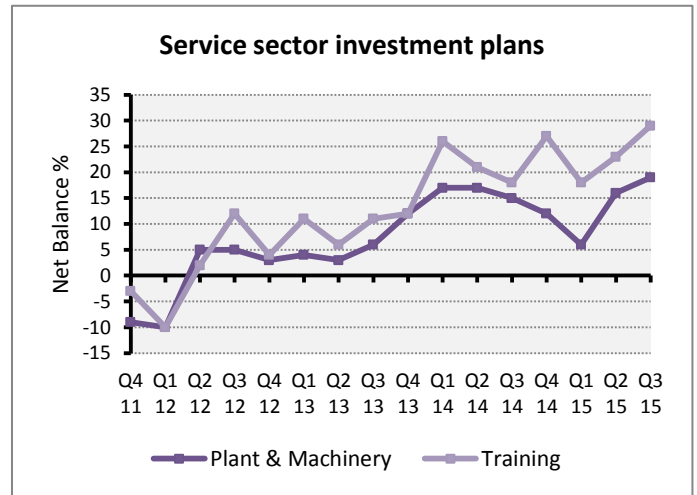
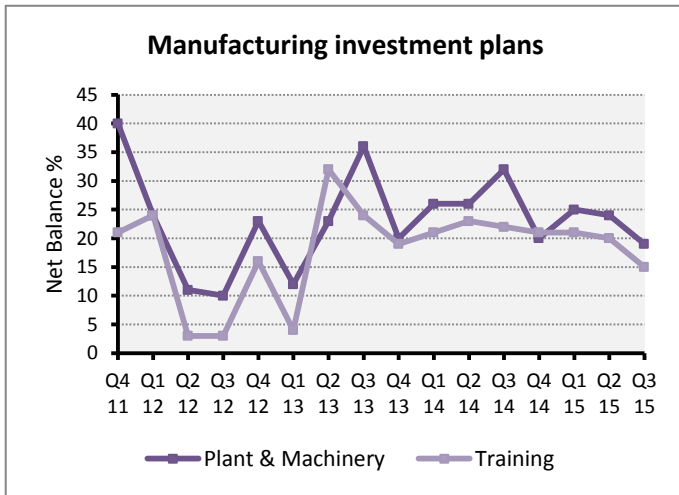
Business confidence



There was a weakening in three out of four business confidence measures in Q3 but overall the confidence balances remain fairly strong in both sectors. Only the service sector profitability balance improved this quarter (+46%, up from +39%).

The net balance of manufacturing companies expecting turnover to improve over the next 12 months was down nine points (+40%, down from +49%). Confidence that manufacturing profitability will improve in the next 12 months was also weaker this quarter, down eleven points to +29%. In the service sector, the net balance of companies expecting turnover to improve over the next 12 months was down six points to +52%.

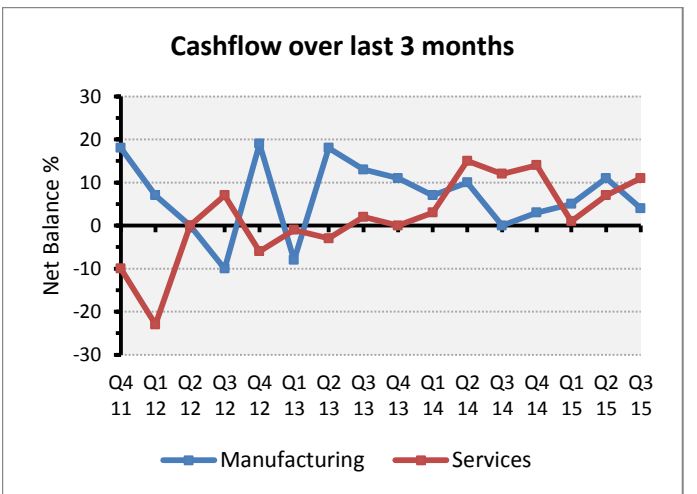
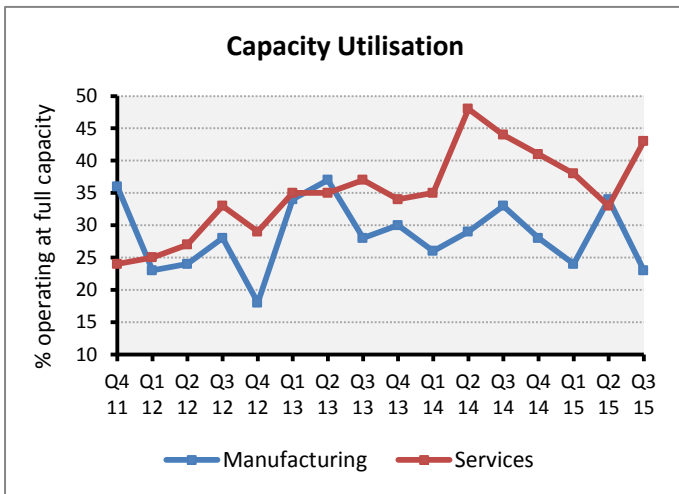
Investment intentions



Manufacturing investment intentions weakened this quarter. The training investment balance lost five points (+15%, down from +20%) whilst the capital investment balance also fell by five points to +19%.

By contrast, both of the service sector investment balances reached new highs in Q3. The net balance of service sector firms planning to increase investment in training was up six points (+29%, up from +23%), whilst the service sector capital investment balance climbed three points (+19%, up from +16%).

Capacity Utilisation and Cashflow

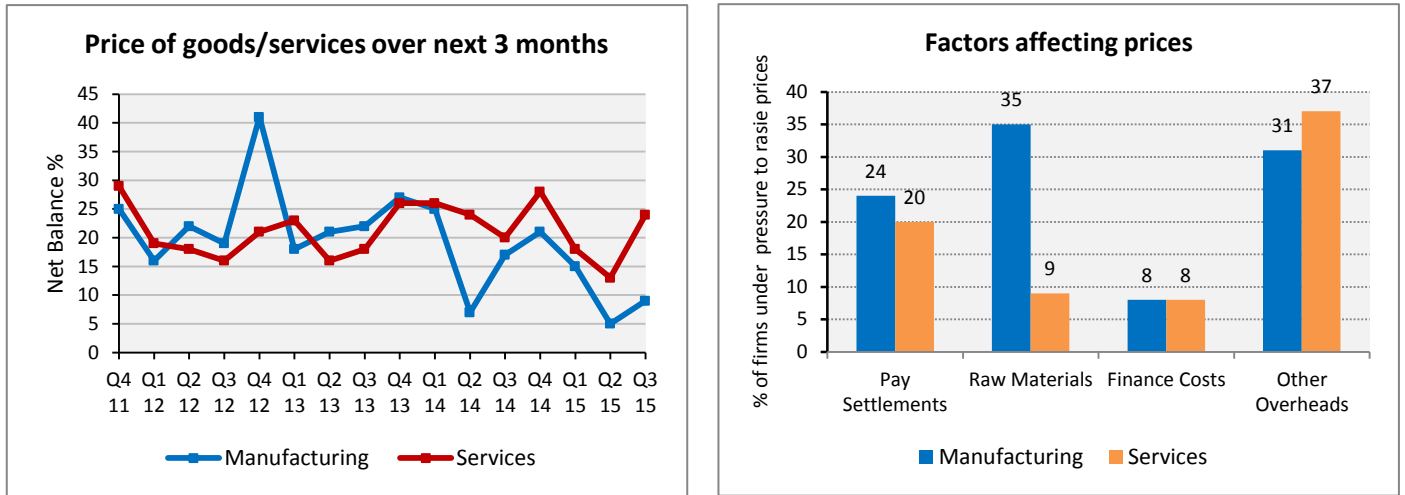


The share of manufacturing firms operating at full capacity in Q3 dropped eleven points to 23%, which is well below the national average of 36%. The share of service firms operating at full capacity was up ten points to 43% (5% below the national average of 48%).

The manufacturing cashflow balance worsened seven points in Q3 (+4%, down from +11%); whilst the services cashflow balance strengthened four points this quarter (+11%, up from +7%). The results show that cashflow in both sectors continues to be an issue.

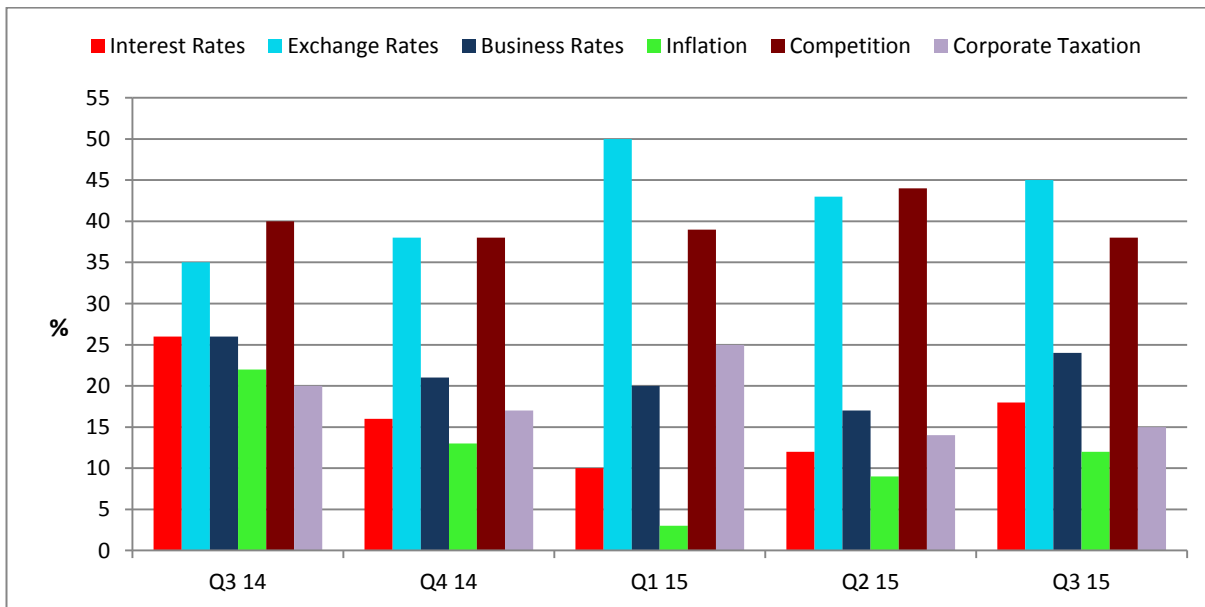
Prices

The net balance of firms intending to raise prices in the next quarter has risen slightly in both sectors. The net balance of manufacturing companies intending to increase prices went up 4 points (+9%, up from +5%); whilst the service sector prices balance climbed eleven points (+24%, down from +13%).



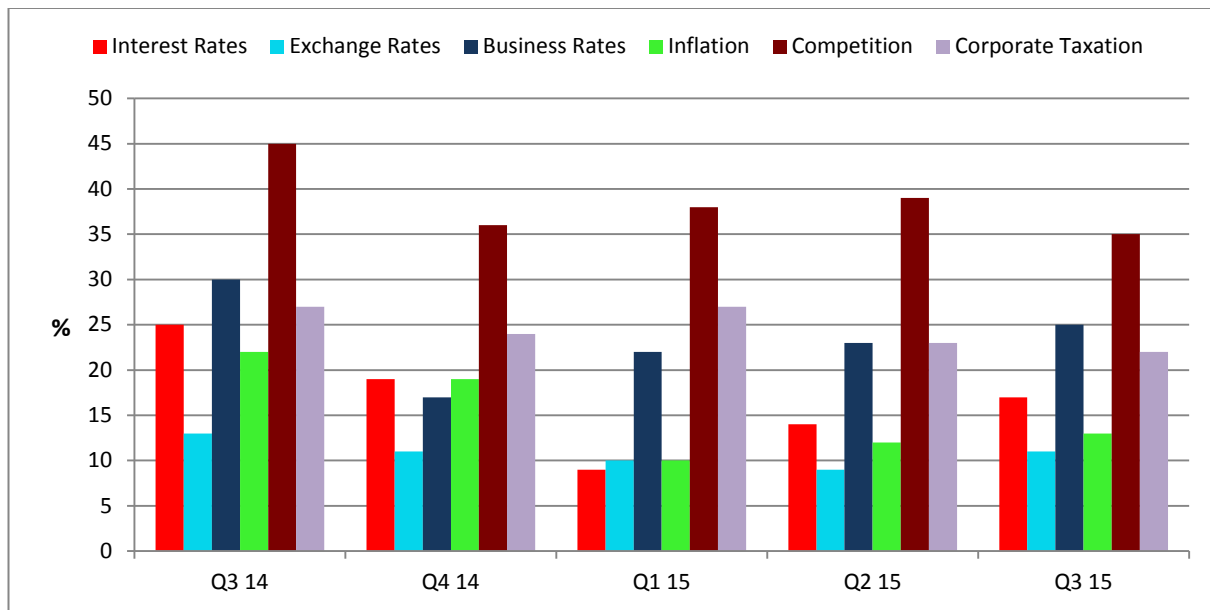
The cost of raw materials continues to be the biggest price pressure for manufacturers (35%, down from 52%), with pressure from other overheads the next biggest pressure (31%, down from 40%). In the services sector, other overheads remain the most significant price pressure (37%, up from 36%). 24% of manufacturing firms (up 8%) and 20% of service businesses (up 7%) said they were under pressure to increase prices as a result of pay settlements.

Business Concerns (external factors) - Manufacturing



Exchange rates continue to be the most significant concern for manufacturing firms (45%, up from 43%). There was a seven per cent increase in businesses more worried about business rates, whilst fears about competition eased by six points (38%, down from 44%). Manufacturers' concerns about interest rates, inflation and corporate taxation all increased marginally this quarter.

Business Concerns (external factors) – Services

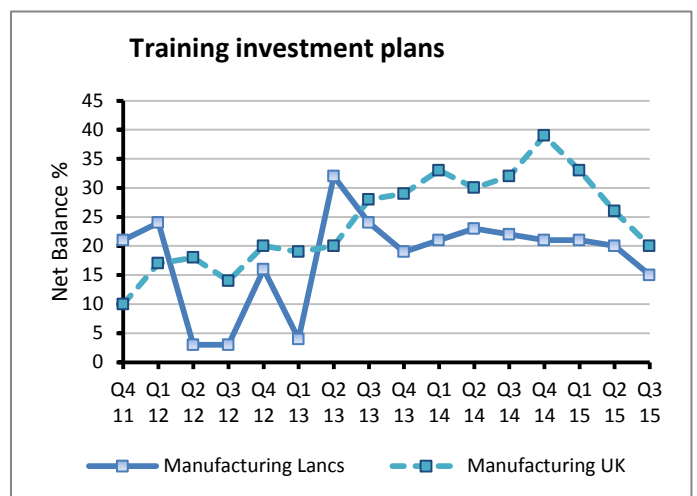
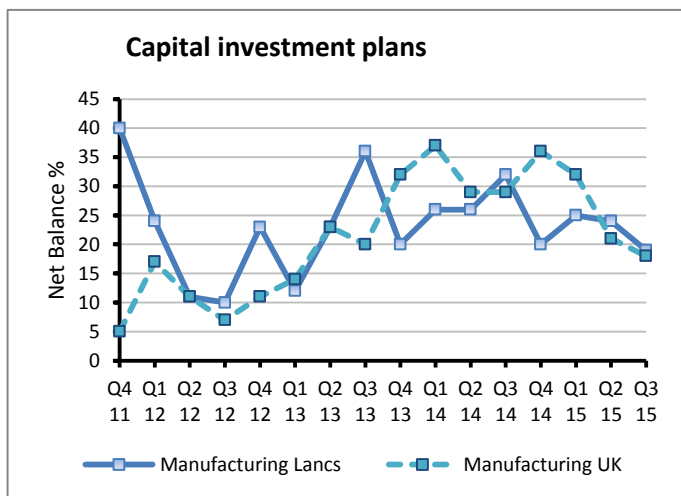
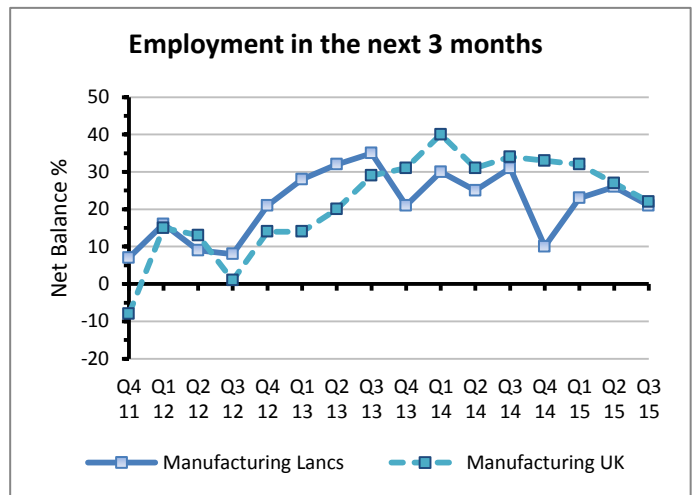
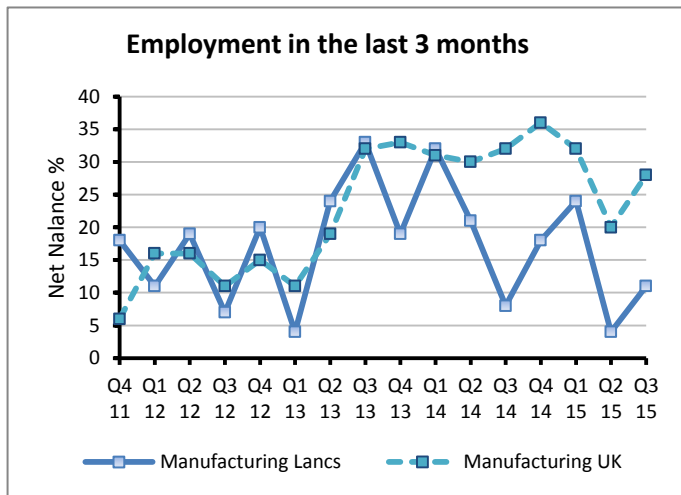
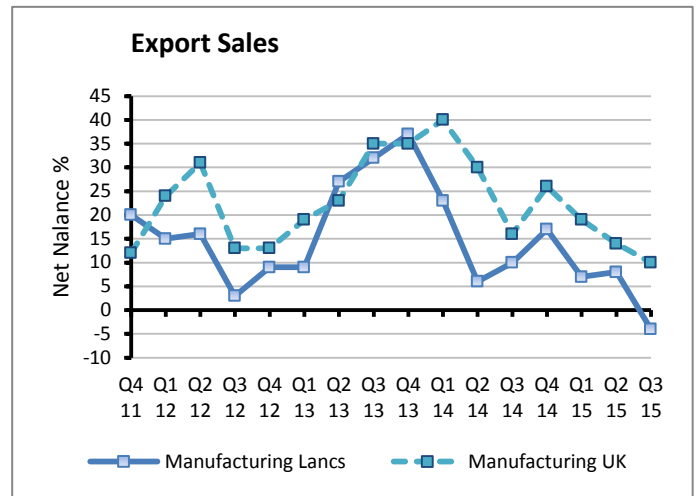
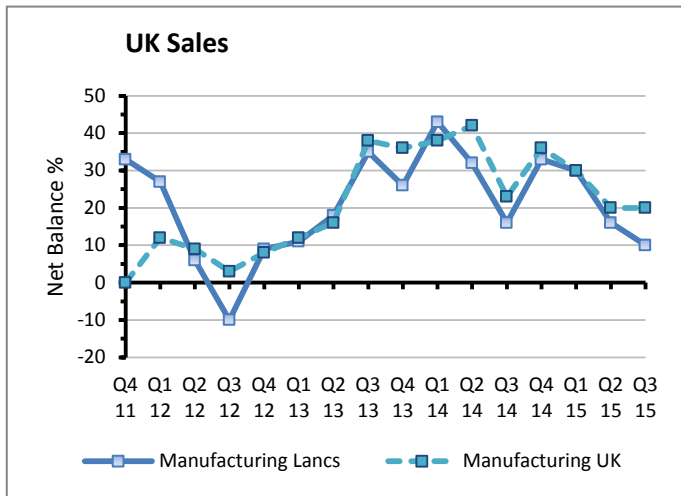


Business competition remains the most significant concern for firms in the service sector (35%, down from 39%); followed by business rates (25%, up from 23%). Worries about interest rates were slightly higher in Q3 (17%, up from 14%), with concerns over inflation, exchange rates and corporate taxation staying at roughly the same level as three months ago.

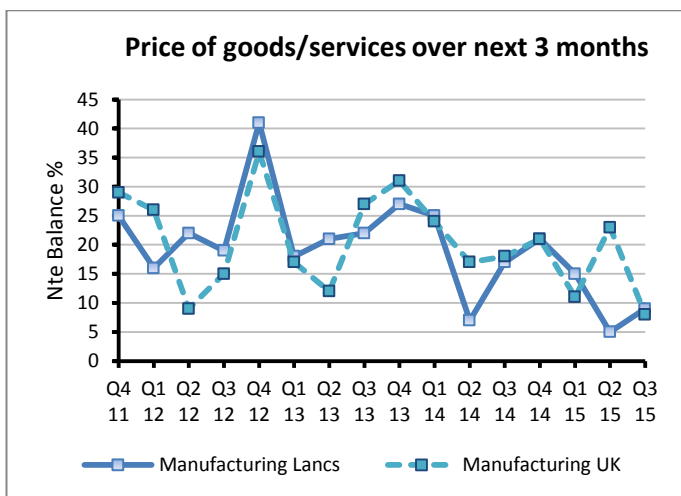
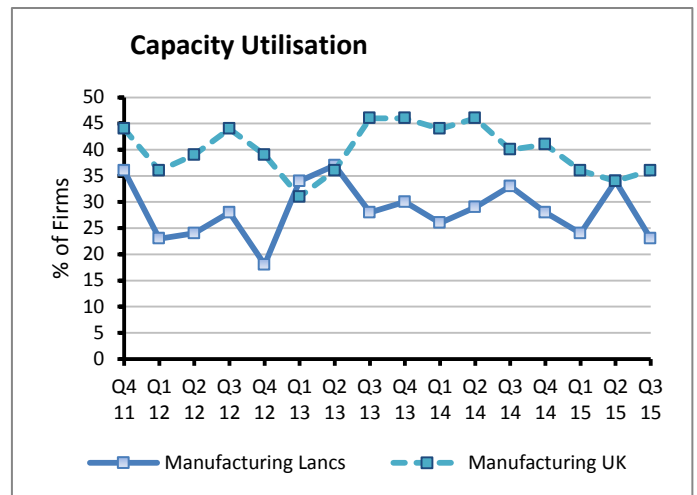
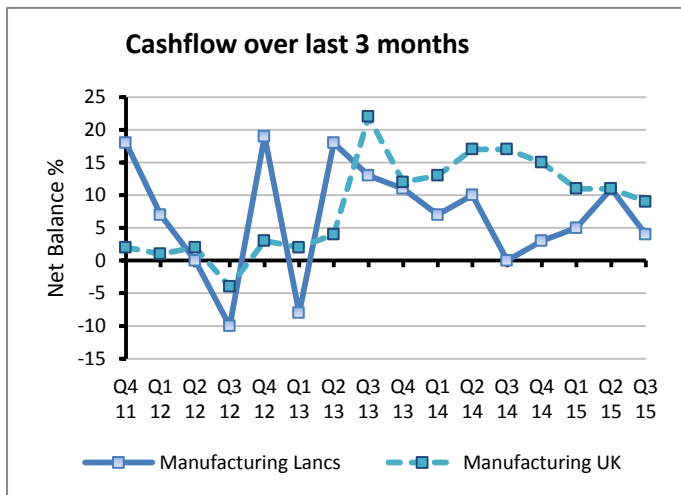
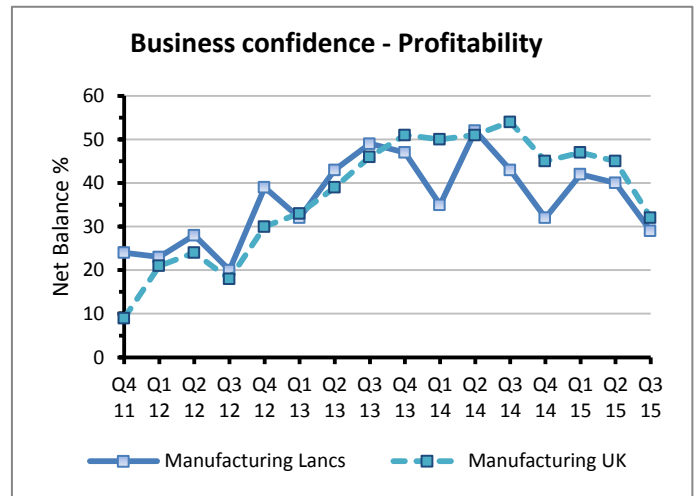
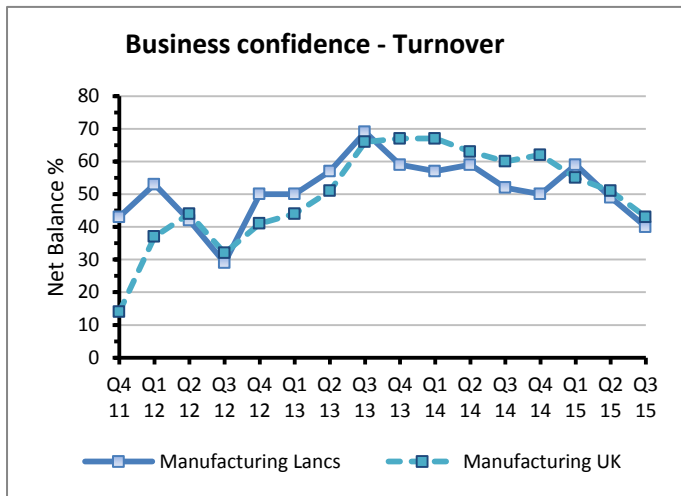
BALANCE CHANGES

	Manufacturing		Services		Quarterly Change	
	2Q 15	3Q 15	2Q 14	3Q 15	Manufacturing	Services
					Q3 2015	Q3 2015
Domestic Sales	16	10	31	28	-6	-3
Domestic Orders	10	0	24	21	-10	-3
Export Sales	8	-4	-13	0	-12	13
Export Orders	1	-5	-13	-5	-6	8
Employment last 3 months	4	11	11	29	7	18
Employment next 3 months	26	21	27	29	-5	2
% Tried to recruit	64	58	48	58	-6	10
% Part-time	20	19	39	34	-1	-5
% Full-time	76	83	81	82	7	1
% Temporary	22	35	21	18	13	-3
% Permanent	49	44	42	45	-5	3
% Recruitment difficulties	52	43	53	64	-9	11
% Skilled manual	70	74	43	41	4	-2
% Professional/Managerial	47	35	50	52	-12	2
% Clerical	27	26	43	24	-1	-19
% Semi and unskilled	30	57	22	22	27	0
Cashflow	11	4	7	11	-7	4
Investment - plant/machinery	24	19	16	19	-5	3
Investment - training	20	15	23	29	-5	6
Confidence - turnover	49	40	58	52	-9	-6
Confidence - profitability	40	29	39	46	-11	7
% Full capacity	34	23	33	43	-11	10
Prices	5	9	13	24	4	11
% Pay Settlements	16	24	13	20	8	7
% Raw materials	52	35	11	9	-17	-2
% Financial costs	8	8	16	8	0	-8
% Other overheads	40	31	36	37	-9	1
<i>External Factors of more concern than 3 months ago</i>						
% Interest rates	12	18	14	17	6	3
% Exchange rates	43	45	9	11	2	2
% Business rates	17	24	23	25	7	2
% Inflation	9	12	12	13	3	1
% Competition	44	38	39	35	-6	-4
% Tax	14	15	23	22	1	-1

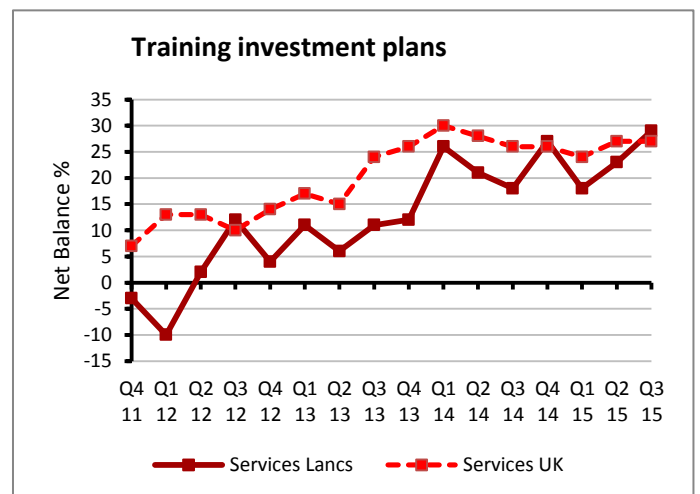
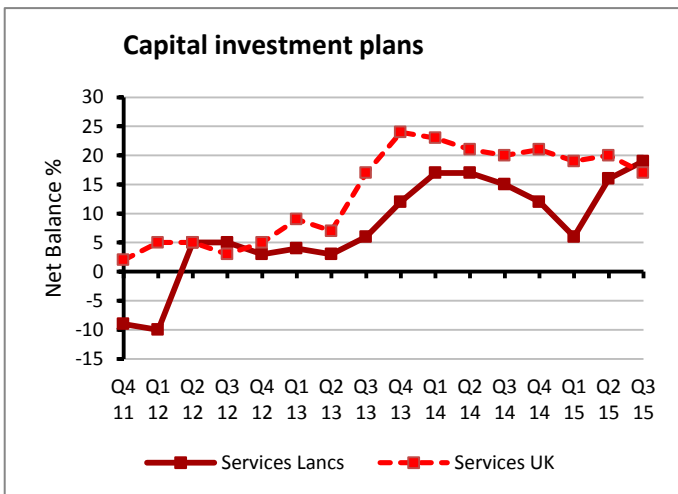
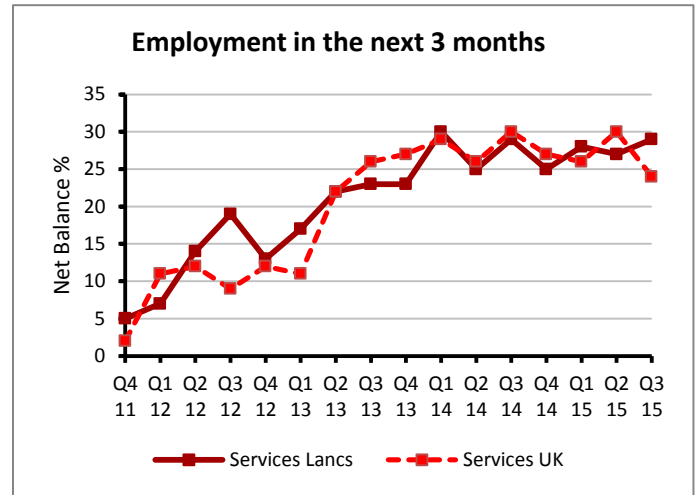
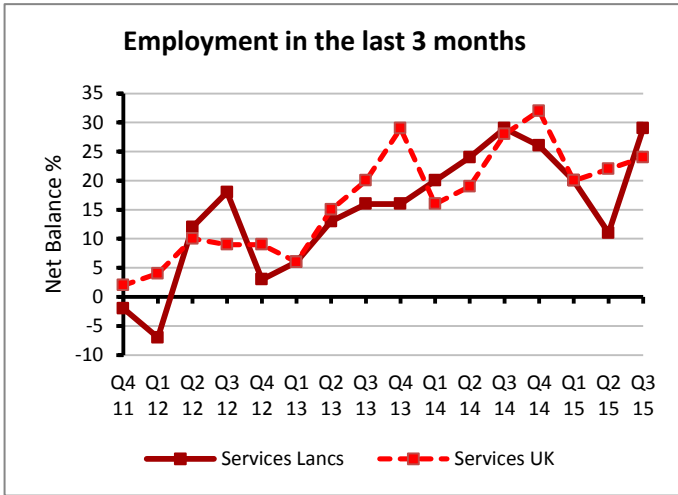
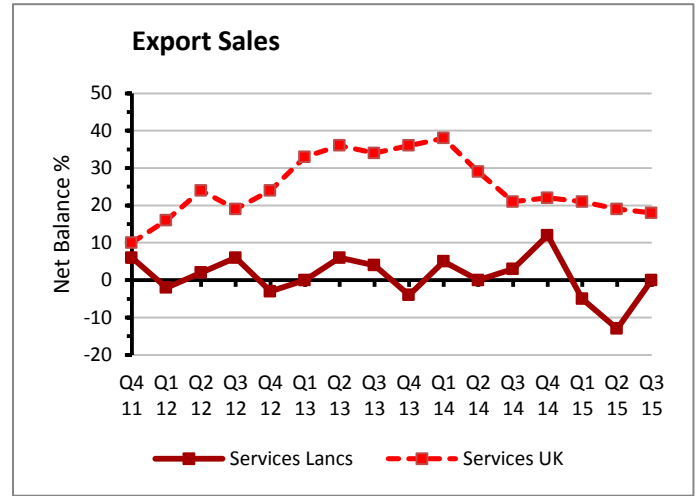
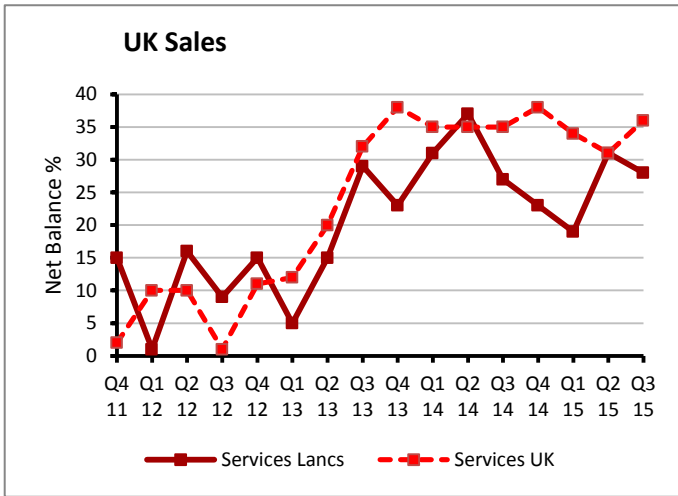
Lancashire/UK comparison – Manufacturing



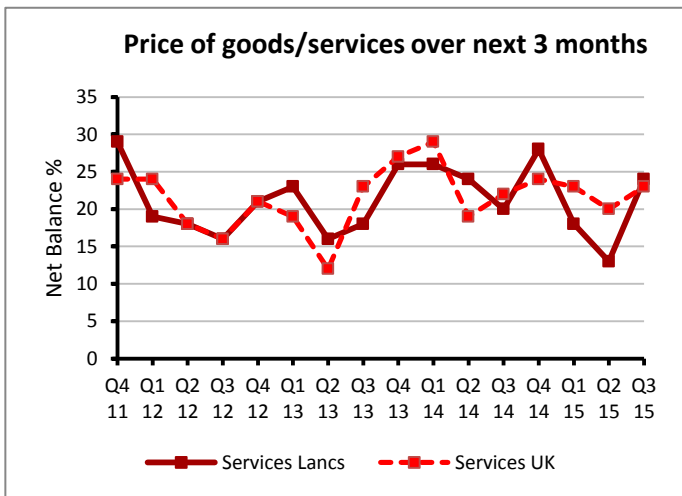
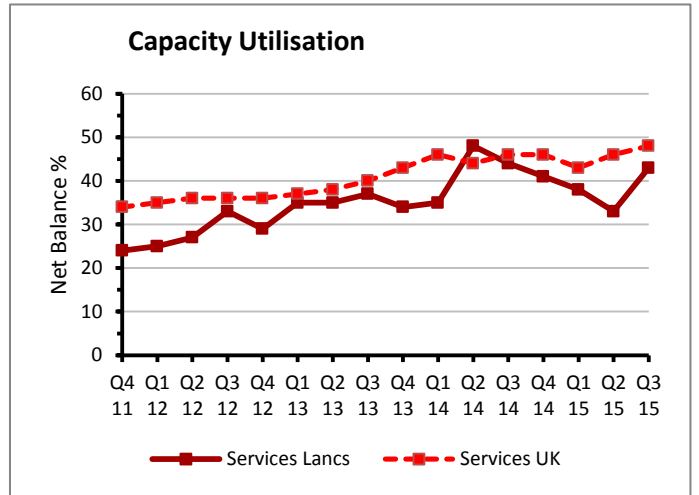
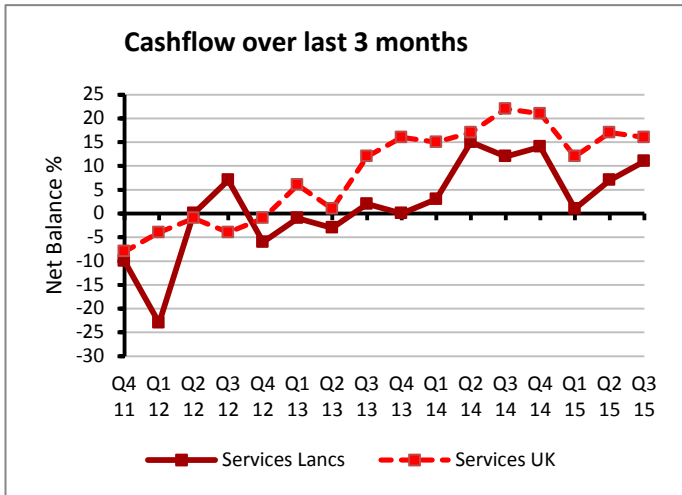
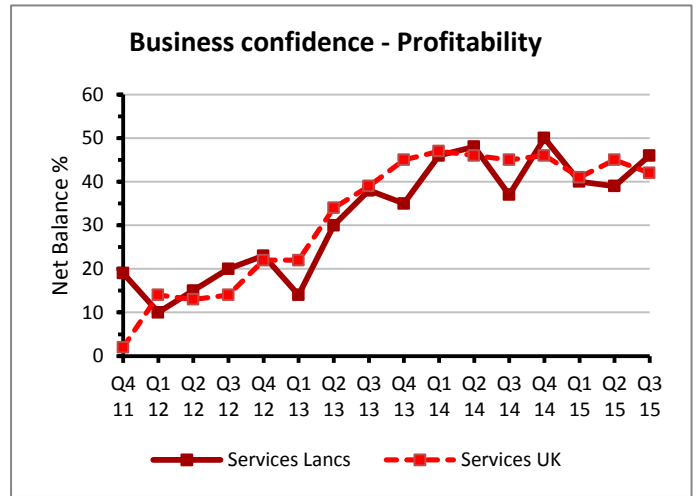
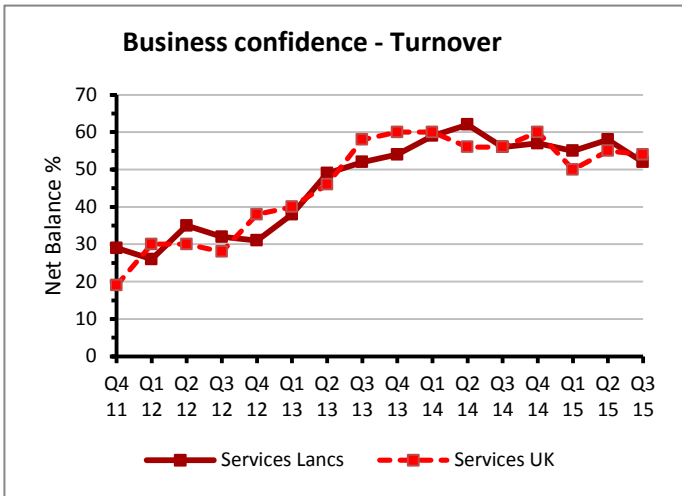
Lancashire/UK comparison – Manufacturing



Lancashire/UK comparison – Services



Lancashire/UK comparison – Services





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