

QES LANCASHIRE QUARTERLY
ECONOMIC SURVEY

Quarter 4, 2016

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About this Quarter's Survey

The Q4 2016 Survey was conducted by the North & Western Lancashire Chamber of Commerce, the Chamber of Commerce East Lancashire, and the Lancaster District Chamber in conjunction with Moore & Smalley Chartered Accountants and Business Advisors.

- The survey collection period was between 7th November and 28th November 2016.
- Responses were received from 274 companies across Lancashire employing 37,283 people.
- From the manufacturing sector, 91 business (33%) employing 15,956 people responded to the survey.
- From the service sector, 183 businesses (67%) employing 21,327 people responded to the survey.
- 163 companies (59%) 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

This quarter's survey shows that having slowed in Q3 2016, growth in domestic sales and orders in the services sector rebounded in Q4, although they have not yet returned to historic levels. The fall in Sterling may be benefiting some manufacturers, with export sales and orders remaining at the increased levels seen in Q3.

The survey results are further evidence that rising prices will be a key challenge to the economy over the next year, with the significant rise in the cost of raw materials increasing the pressure on firms to raise prices in the coming months.

While growth is likely to have remained on trend in the quarter, growth prospects in the near-term are expected to be more subdued, weighed down by rising inflation and the uncertainty surrounding Brexit.

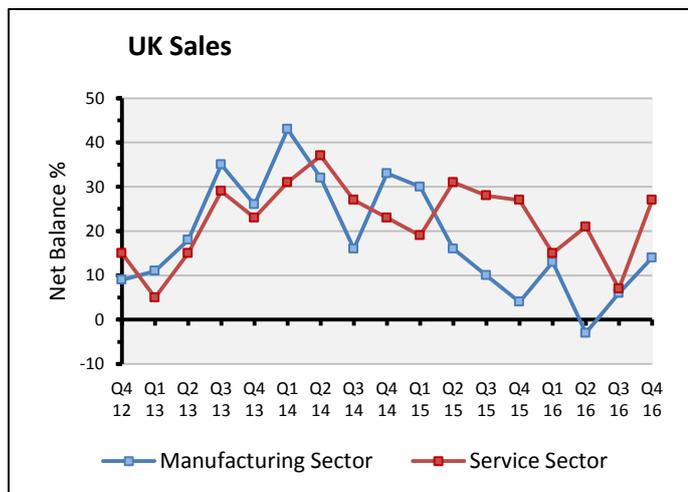
The findings suggest growth will continue in 2017, albeit at a more modest pace. The government must act strongly this year to support investment and improve the business environment – both of which are crucial to boosting business confidence, and therefore further growth.

Key Findings in the Q4 Survey:

- Overall, the figures for both sectors indicate growth in the Lancashire economy but the pace of growth remains slow.
- There was a considerable rise in the balance of firms in both sectors expecting the prices of their goods and services to increase over the next three months, with the balance for manufacturers rising from +35 to +55 and service firms from +34 to +44. This is the highest on record in both sectors. This pressure is predominately as a result of an increase in raw material prices following the post-referendum devaluation of Sterling.
- In the manufacturing sector, the balance of firms reporting improved export sales remained broadly steady, slightly increasing from +14 in Q3 2016, to +15. The balance for export orders weakened to +12, down from +16 in the previous quarter. Both of the manufacturing export balances are up considerably from the same quarter last year when they were in negative territory (in contraction).
- Domestically, the balance of services firms reporting increased sales rebounded after falling considerably in the last quarter. Domestic sales were up from +7 to +27; whilst the domestic orders balance rose from +8 to +23. The balance of manufacturers reporting increased UK sales rose to +14 from +6, although the UK orders balance weakened nine points, from +11 to +2.
- In the last three months, the employment balance in both sectors weakened slightly. The balance of manufacturers hiring more staff fell from +18 to +14, and in services from +17 to +10. However, manufacturers were more optimistic about workforce levels in the next three months as the forward looking employment balance increased from +3 to +22.
- Manufacturers were less optimistic about turnover and profitability increasing over the next 12 months. The net balance of manufacturing companies expecting turnover to improve was down fifteen points (+41, down from +56), whilst the manufacturing profitability balance lost sixteen points (+23, down from +39).
- 73% of manufacturers and 35% of services businesses said exchange rates were of more concern to their business than three months ago. There was also a 25% increase in the percentage of service businesses more concerned about inflation than in the previous quarter (35%, up from 10%).

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

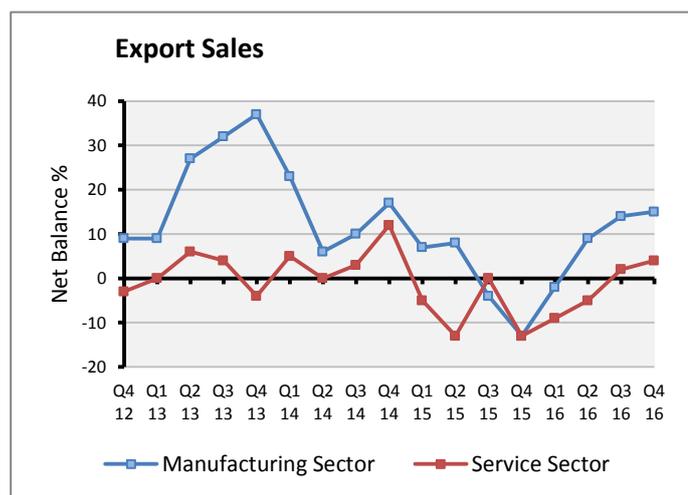
Domestic Market



Three out of the four domestic balances improved in Q4, with both manufacturing and service sector firms seeing an improvement in their UK sales. The manufacturing sales balance gained eight points on the previous quarter (+14, up from +6); whilst the services sales balance climbed twenty points (+27, up from +7). Year on year, the manufacturing domestic sales balance is now ten points stronger (+14, up from +4); whilst the service sector sales balance is at the same level as Q4 2015 (+27).

Advance orders/bookings were also up for service sector firms in Q4. The service sector domestic orders balance improved fifteen points (+23, up from +8); whilst the manufacturing orders balance was down nine points (+2, down from +11).

Export Market

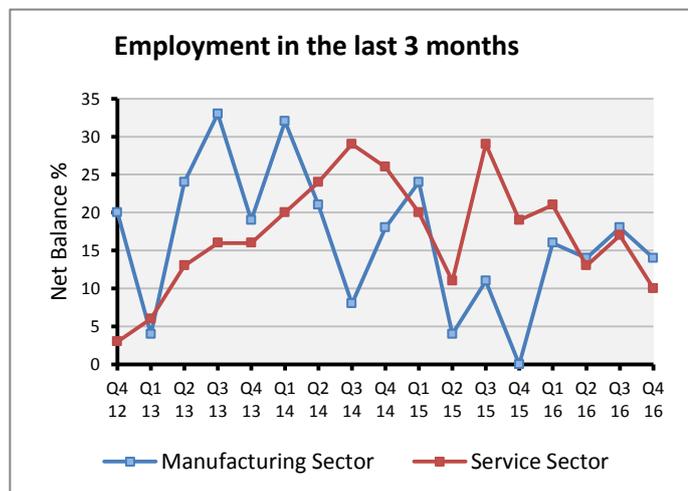


There has been relatively little change in any of the export balance measures in Q4. The manufacturing export sales balance gained a single point (+15, up from +14), whilst the export orders balance lost four points (+12, down from +16).

Lancashire’s service sector export balances remain weaker than those in manufacturing. The services export sales balance gained two points (+4, up from +2), whilst the services export orders balance was static at +4.

Year on year comparison shows a notable improvement in export sales across both sectors. The service sector export sales balance is 17 points stronger than Q4 2015 (+4, up from -13); whilst the manufacturing export sales balance has improved 28 points (+15, up from -13).

Employment



There was an overall weakening in workforce levels in Q4. The services employment balance lost seven points (+10, down from +17); and the manufacturing employment balance was down four points (+14, down from +18).

Compared to the same quarter a year ago, the manufacturing employment balance is 14 points stronger, whilst the services employment balance is nine points weaker.

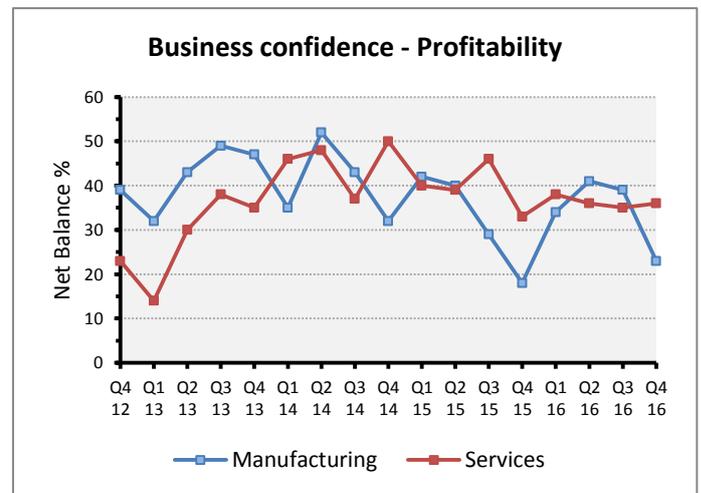
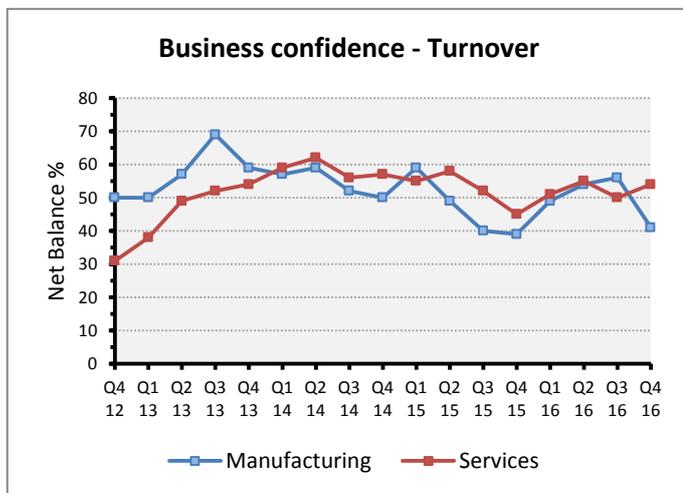
Looking at workforce levels over the next three months, the forward-looking employment balance for manufacturing jumped nineteen points (+22, up from +3); whilst the service sector balance improved slightly (+23, up from +22).

Recruitment

The percentage of firms attempting to recruit in the last three months remained relatively unchanged from the previous quarter (49%, up from 48%). Of all firms attempting to recruit, 47% were seeking to fill permanent vacancies (up 5%), with 22% looking to take on temporary workers (down 3%). 71% of firms attempted to recruit for full-time positions (up 3%), whilst 20% were offering part-time roles (down 6%).

Just over half of firms attempting to recruit said they experienced difficulties finding suitable staff (54%, down from 55%). For manufacturing firms, skilled manual and technical positions continue to be the most difficult to fill (56%, down from 73%). Service businesses found that professional/managerial positions were the most difficult for them to fill this quarter (56%, up from 45%).

Business confidence

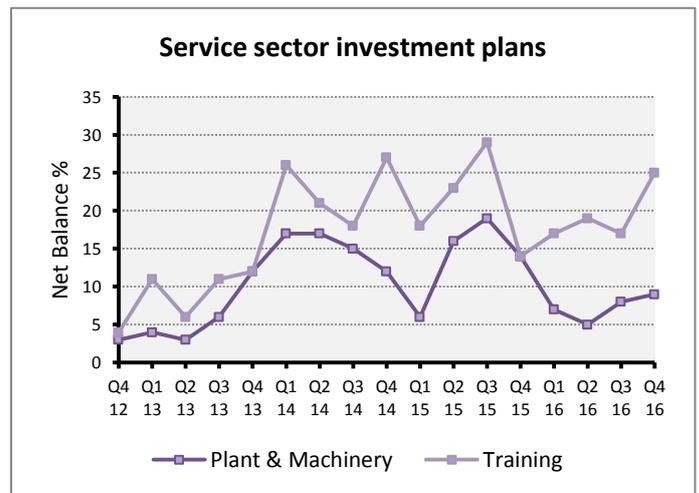
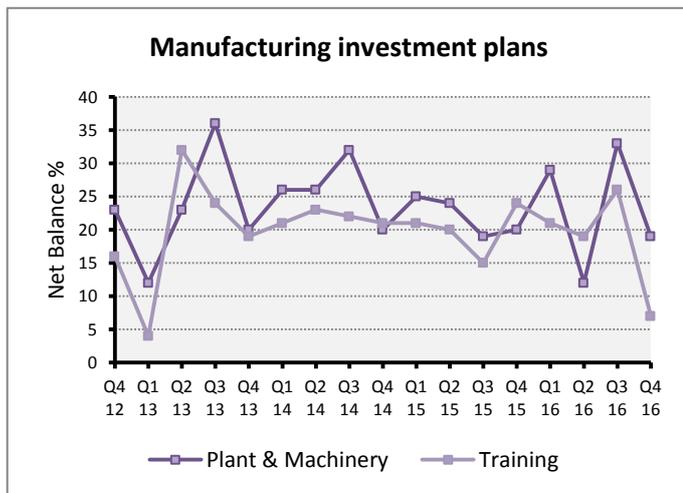


Looking at turnover and profitability expectations over the next 12 months, there is a notable weakening in business confidence amongst Lancashire manufacturers in Q4. The net balance of manufacturing companies expecting turnover to improve was down fifteen points (+41, down from +56), whilst the manufacturing profitability balance lost sixteen points (+23, down from +39).

In the service sector, the net balance of companies expecting turnover to improve in the year ahead was up four points (+54, up from +50) whilst the service sector profitability balance gained just a single point on the previous quarter (+36, up from +35).

Despite the apparent weakening in business confidence amongst manufacturers this quarter, all of the business confidence balances are roughly on par with the same quarter last year.

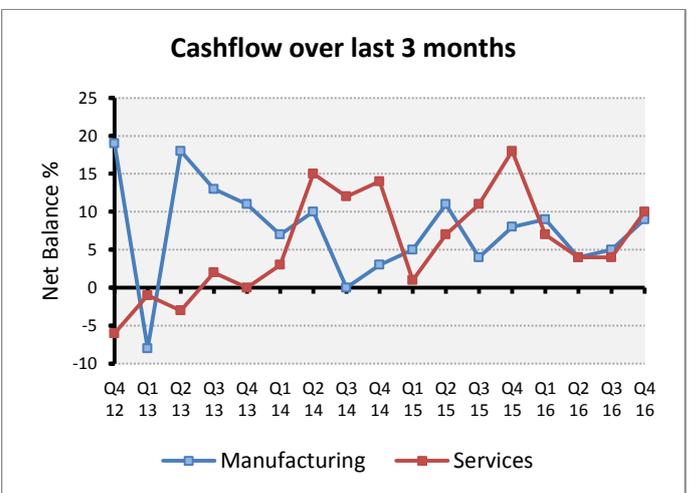
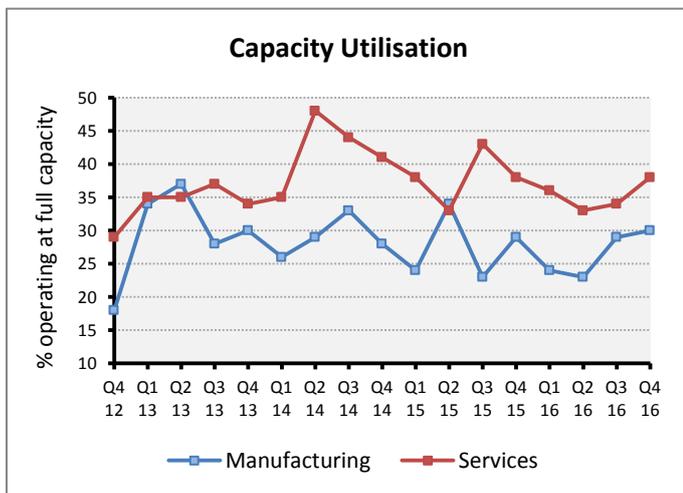
Investment intentions



In manufacturing, both investment balances were in decline this quarter. The plant & machinery investment balance fell by fourteen points (+19, down from +33); whilst the manufacturing training investment balance lost nineteen points (+7, down from +26).

For service businesses, the training investment balance increased by five points (+22, up from +17), whilst the capital investment balance gained a single point (+9, up from +8).

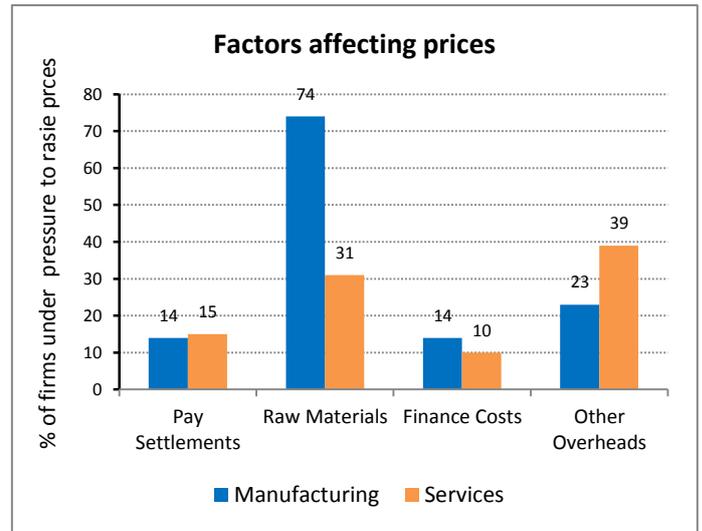
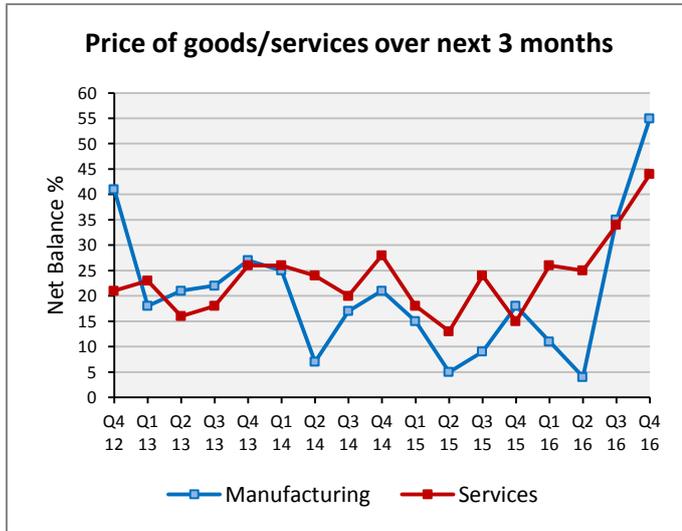
Capacity Utilisation and Cashflow



This quarter, the share of manufacturing firms operating at full capacity was up by a single point to 30%; whilst the share of service firms operating at full capacity increased by four points to 38%.

Cashflow in both sectors remains weak. The manufacturing cashflow balance gained four points (+9, up from +5) whilst the services cashflow balance gained six points (+10, up from +4).

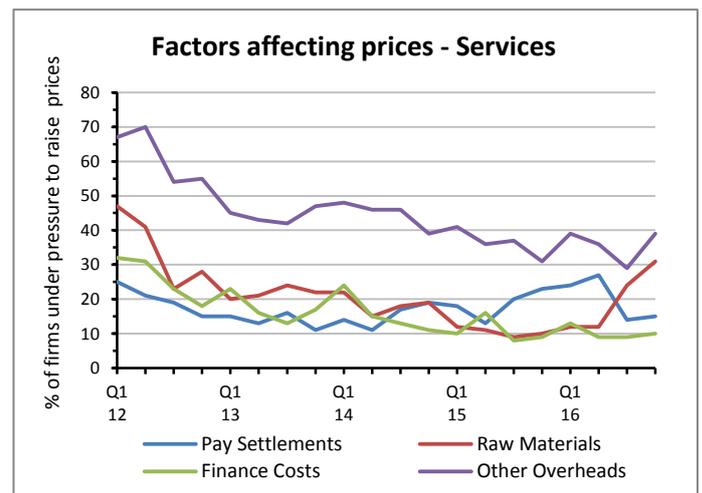
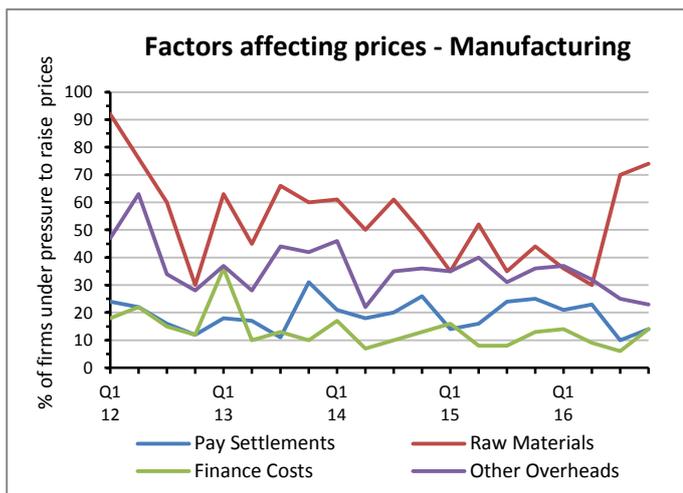
Prices



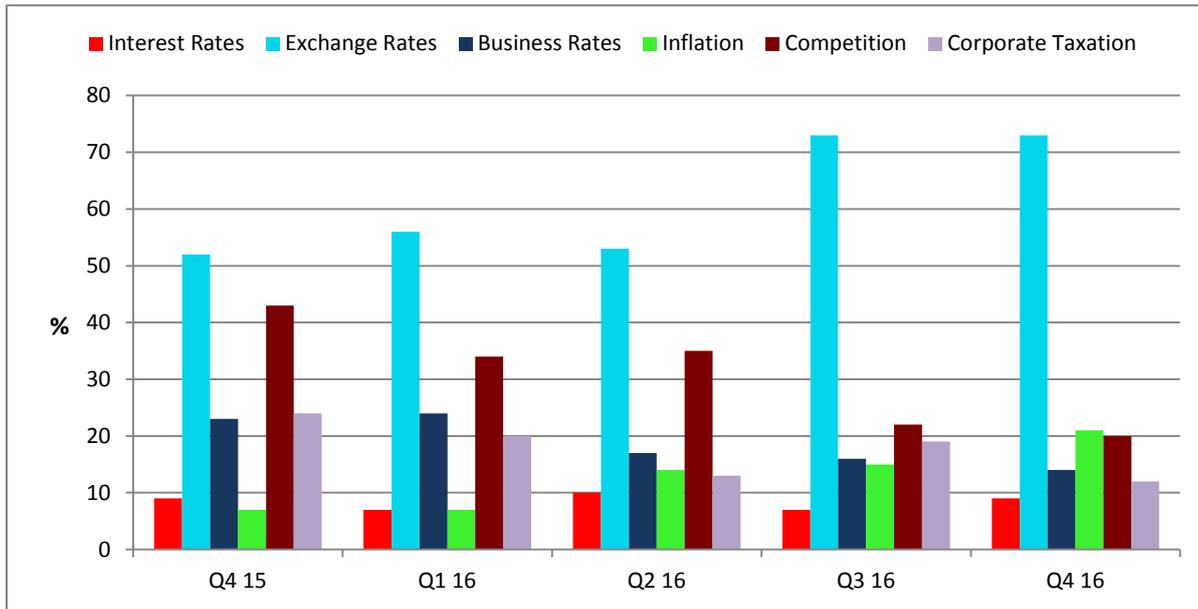
The number of firms expecting to increase prices over the next three months has increased once again in Q4. The net balance of manufacturing firms intending to increase prices jumped 20 points (+55, up from +35); this is an increase of 51 points over the past two quarters of the survey.

In the service sector, net balance of firms expecting to increase prices was up ten points (+44, up from +34). Intentions to increase prices are considerably higher in both sectors than at this time last year.

In terms of factors affecting the price of goods and services, almost three quarters of manufacturing firms (74%, up from 70%) said they were under pressure to raise prices because of raw material costs. Service sector firms were also under more pressure to increase prices from raw material costs (31%, up from 24%), although other overheads remains the biggest pressure (39%, up from 29%).



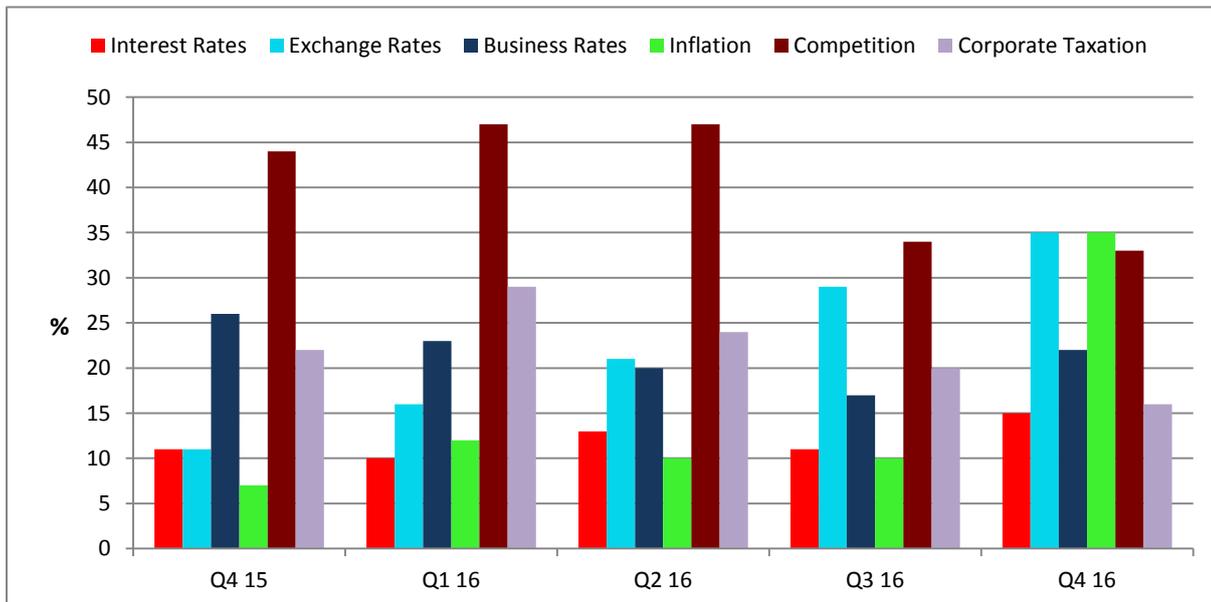
Business Concerns (external factors) - Manufacturing



Exchange rates continue to be the biggest concern for manufacturing firms in the survey (73%, equal to Q3). This is 21% higher than at this time last year. Currency fluctuations and ongoing uncertainty about the UK’s relationship with the EU continue to worry Lancashire manufacturers.

Concerns over competition eased this quarter (20%, down from 22%) whilst fewer firms were worried about business taxation (12%, down from 19%). Concerns over business rates and interest rates were relatively unchanged from the previous quarter, although there was a six point increase in firms more concerned about inflation (+21%, up from +15%).

Business Concerns (external factors) – Services



Exchange rates (35%, up from 29%) and inflation (35%, up from 10%) have overtaken competition (33%, down from 34%) as the most significant concern for firms in the service sector. The number of firms more concerned about taxation fell by four points (16%, down from 20%), whilst those concerned about interest rates (15%) and business rates (22%) increased by 4% and 5% respectively.

BALANCE CHANGES

	Manufacturing		Services		Quarterly Change	
	Q3	Q4	Q3	Q4	Manufacturing	Services
	2016	2016	2016	2016	Q4 2016	Q4 2016
Domestic Sales	6	14	7	27	8	20
Domestic Orders	11	2	8	23	-9	15
Export Sales	14	15	2	4	1	2
Export Orders	16	12	4	4	-4	0
Employment last 3 months	18	14	17	10	-4	-7
Employment next 3 months	3	22	22	23	19	1
% Tried to recruit	55	58	44	45	3	1
% Part-time	11	10	38	28	-1	-10
% Full-time	89	69	53	73	-20	20
% Temporary	17	31	31	16	14	-15
% Permanent	40	50	43	45	10	2
% Recruitment difficulties	46	46	62	59	0	-3
% Skilled manual	73	56	42	36	-17	-6
% Professional/Managerial	37	36	45	56	-1	11
% Clerical	20	20	28	22	0	-6
% Semi and unskilled	40	52	17	24	12	7
Cashflow	5	9	4	10	4	6
Investment - plant/machinery	33	19	8	9	-14	1
Investment - training	26	7	17	25	-19	8
Confidence - turnover	56	41	50	54	-15	4
Confidence - profitability	39	23	35	36	-16	1
% Full capacity	29	30	34	38	1	4
Prices	35	55	34	44	20	10
% Pay Settlements	10	14	14	15	4	1
% Raw materials	70	74	24	31	4	7
% Financial costs	6	14	9	10	8	1
% Other overheads	25	23	29	39	-2	10
<i>External Factors of more concern than 3 months ago</i>						
% Interest rates	7	9	11	15	2	4
% Exchange rates	73	73	29	35	0	6
% Business rates	16	14	17	22	-2	5
% Inflation	15	21	10	35	6	25
% Competition	22	20	34	33	-2	-1
% Tax	19	12	20	16	-7	-4



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