



LANCASHIRE QUARTERLY
ECONOMIC SURVEY



LANCASHIRE QUARTERLY ECONOMIC SURVEY

Quarter 1, 2016



In association with



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About this Quarter's Survey

The Q1 2016 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 22nd February and 14th March 2016.
- Responses were received from 336 companies across Lancashire employing 27,372 people.
- From the manufacturing sector, 122 business (36%) employing 17,722 people responded to the survey.
- From the service sector, 214 businesses (64%) employing 9,650 people responded to the survey.
- 106 companies (32%) 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

The Q1 survey results show that despite the global slowdown and fears over “Brexit” the Lancashire economy continues to experience slow but sustained growth. The growth is mainly being driven by the services sector, although the Q1 figures show a decline in domestic sales and orders for service businesses. In manufacturing, domestic sales and orders recovered slightly after a weak set of results in Q4 2015. However, the domestic balance measures were still below their historical average of the last four years.

Lancashire’s exporters continue to face difficulties. Despite some improvement on Q4 2015, the export balance measures in both sectors were again in contraction. Further evidence, if needed, that the economy remains unbalanced and far too reliant on consumer spending.

There was positive news on employment with both sectors reporting an increase in workforce levels during Q1 and increased optimism that workforce levels will increase in the next quarter. Confidence that turnover and profitability will improve in the next twelve months also increased in both sectors.

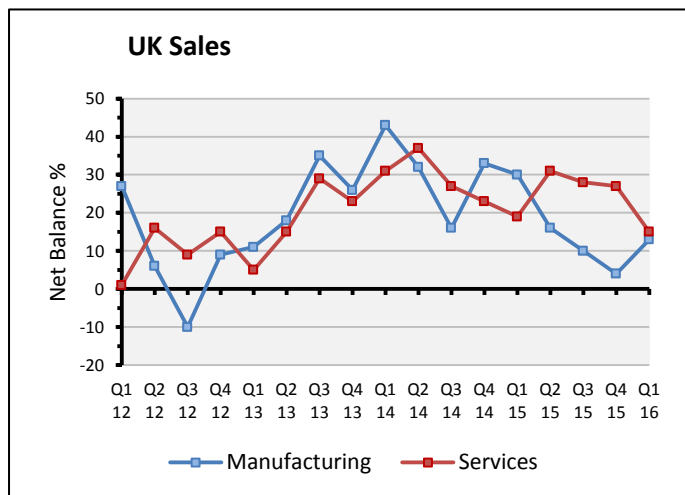
Overall the results show that the Lancashire economy is making slow progress but there are challenges ahead. The UK trade deficit remains excessive and longer-term comparisons show a distinct worsening of our trade position. The Government must do more to address the growing imbalances in our economy. This must include supporting businesses who are looking to export and those trying to enter new export markets.

Key Findings in the Q1 Survey:

- In **manufacturing**, both domestic balances improved; **domestic sales** (+13%, up from +4% in Q4) and **domestic orders** (+7%, up from -1% in Q4).
- In **services**, the **domestic sales** balance lost 12 points on the previous quarter (+15%, down from +27% in Q4); whilst the **domestic orders** balance also weakened slightly on Q4 (+19%, down from +21%).
- The **manufacturing export sales** balance was in contraction for the third consecutive quarter, despite recovering 11 points on Q4 2015 (-2%, up from -13%). The **services export sales** balance also remains in negative territory (-9%, up from -13%), the fourth period of contraction in the last five quarters.
- Both sectors report workforce levels have risen over the past three months. The **services employment** balance gained 2 points (+21%, up from +19% in Q4) whilst the **manufacturing employment** balance was up 16 points from neutral in Q4.
- The **manufacturing capital investment** balance improved 9 points (+29%, up from +20% in Q4), although the training investment balance fell to +21% (down 3 points).
- The balance of **manufacturing** firms reporting that **cashflow** had improved gained a single point (+9%, up from +8% in Q4); whilst the **services cashflow** balance lost 11 points (+7%, down from +18% in Q4).
- Confidence that **turnover** and **profitability** will improve in the next twelve months increased in both sectors.
- Intentions to **increase prices** rose markedly in **services**, (+26%, up from +15% in Q4). In **manufacturing** however, this fell to +11% (down 7 points).
- Over half of **manufacturers** (56%) said they were more concerned about **exchange rates** than 3 months ago.

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

Domestic Market

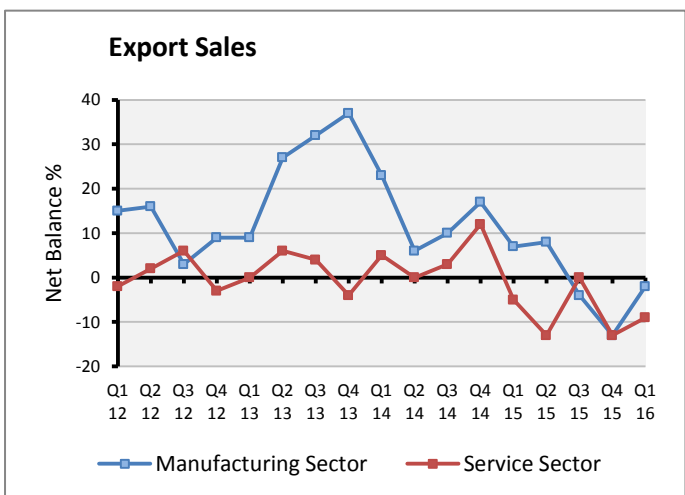


Manufacturing and service sector firms have had contrasting fortunes in Q1 in terms of the domestic market.

After four successive quarters of shrinking growth, the manufacturing domestic sales balance gained nine points (+13%, up from +4%), only its second rise since Q1 2014. The manufacturing forward orders balance also improved by eight points in Q1 (+7%, up from -1%).

Service sector firms in Lancashire are continuing to see domestic sales slowing down. The services UK sales balance weakened by twelve points (+15%, down from +27%) to reach its lowest level since Q1 2013 and fall below its four-year average. The advanced orders/bookings balance weakened by two points (+19%).

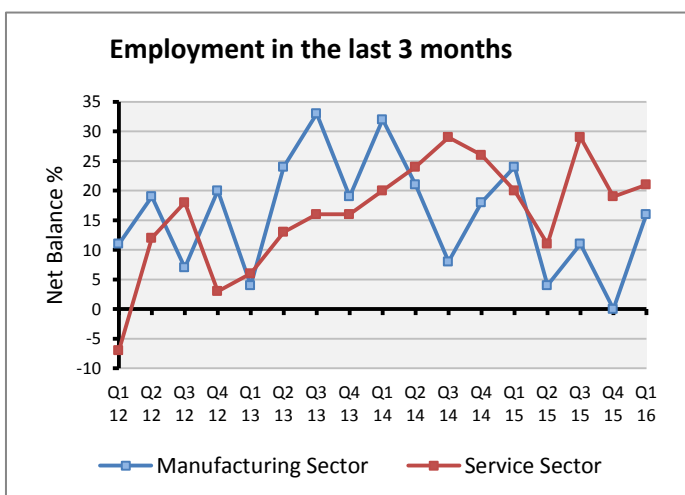
Export Market



The opening quarter of the year has seen a marginal improvement for export sales and orders compared with Q4 2015. However, all of the export balance measures remain in negative territory thus indicating a further contraction in Lancashire's exports. The manufacturing export sales balance improved eleven points (-2%, up from -13%), whilst the service sector export sales balance climbed four points (-9%, up from -13%).

Looking at export orders over the next three months again gives cause for concern. Both sector's order balances remain in contraction, although the manufacturing export orders balance recovered the eighteen points it lost in Q4 2015 (-5%, up from -23%). The service sector export orders balance was up three points (-12%, up from -15%).

Employment

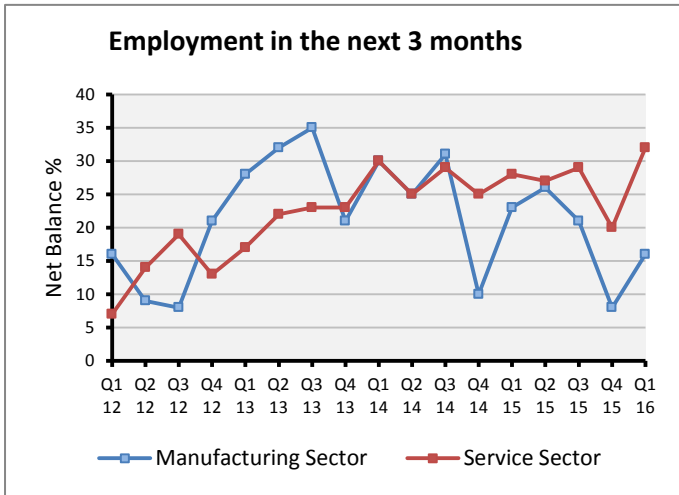


There was positive news on the employment front with both sectors reporting an increase in workforce numbers over the past three months.

The net balance of service sector companies reporting that their workforce has increased over the past three months was up two points (+21%, up from +19%).

The retrospective employment balance for manufacturing recovered from a four-year low in Q4 2015, increasing sixteen points (+16%, up from +0%).

Despite the improvement being more pronounced in manufacturing, the service sector employment balance remains the stronger.



In terms of employment expectations over the next three months, both sectors are more optimistic that workforce levels will increase.

The forward-looking employment balance for manufacturing climbed eight points (+16%, up from +8%), whilst the service sector balance was up twelve points (+32%, up from +20%) and reached a four-year high.

Recruitment

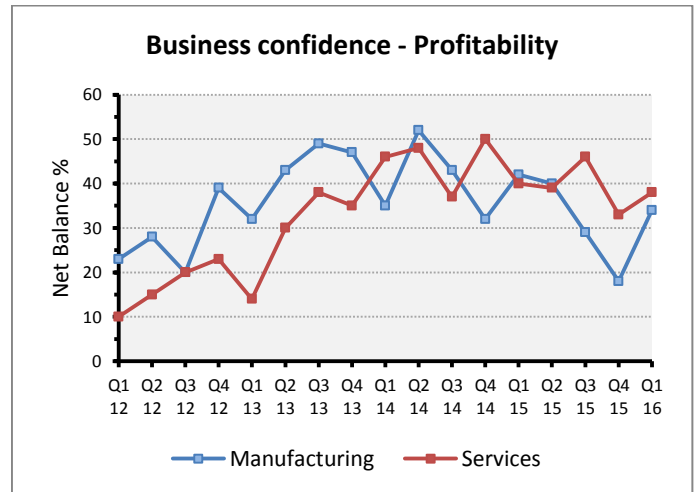
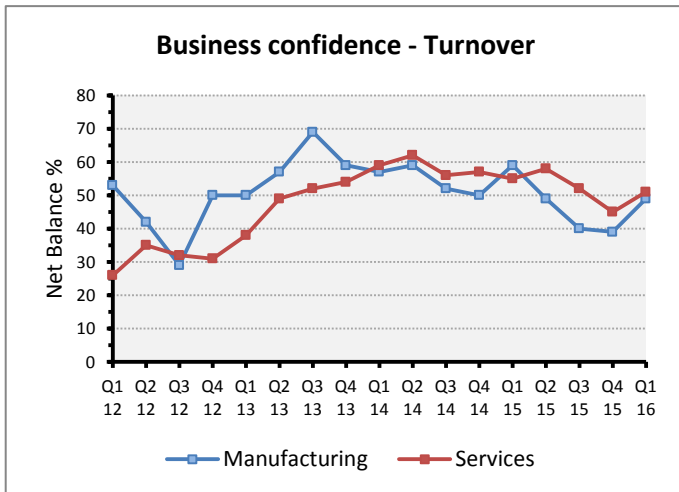
The percentage of manufacturing firms attempting to recruit in the last three months fell by five points (50%, down from 55%), whilst the percentage of service sector

businesses attempting to recruit dropped three points (47%, down from 50%).

Of all firms attempting to recruit, 42% were seeking to fill permanent vacancies (down 3%), with 22% looking to take on temporary workers (down 1%). 81% of firms attempted to recruit for full-time positions (down 5%), whilst 31% were offering part-time roles (up 6%).

More than half of firms attempting to recruit said they experienced difficulties finding suitable staff (51%, down from 54%). For manufacturing firms, skilled manual and technical positions continue to be the most difficult to fill (54%, down from 65%). Service businesses had increased difficulties finding clerical staff and semi/unskilled workers this quarter, however professional/managerial positions remained the most difficult to fill (49%, down from 51%).

Business confidence

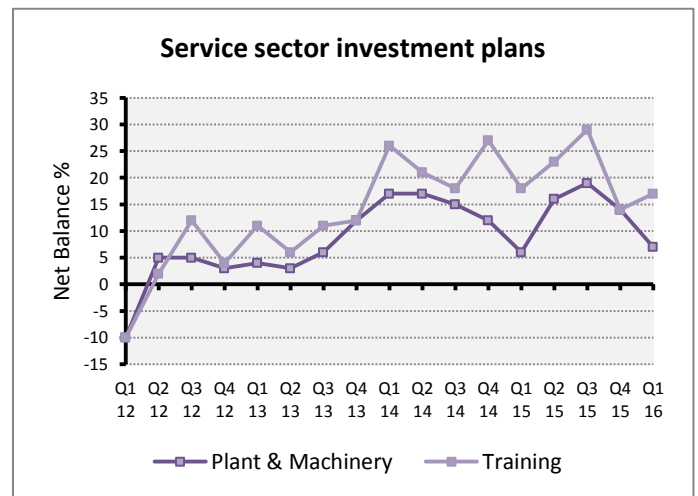
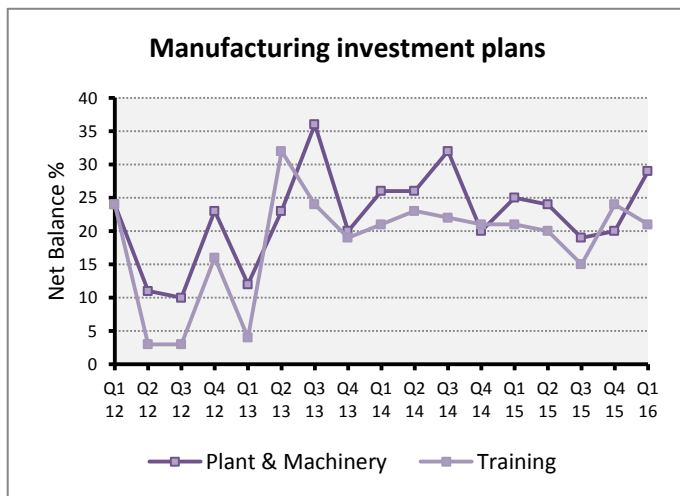


There was improvement in all four business confidence measures in Q1 as firms in both sectors appear more optimistic about turnover and profitability expectations in the year ahead.

The net balance of manufacturing companies expecting turnover to improve over the next 12 months was up ten points (+49%, up from +39%). The manufacturing profitability balance jumped sixteen points from a four-year low in Q4 (+34%, up from +18%).

In the service sector, the net balance of companies expecting turnover to improve over the next year was up six points (+51%, up from +45%). The services profitability balance strengthened by five points (+38%, up from +33%).

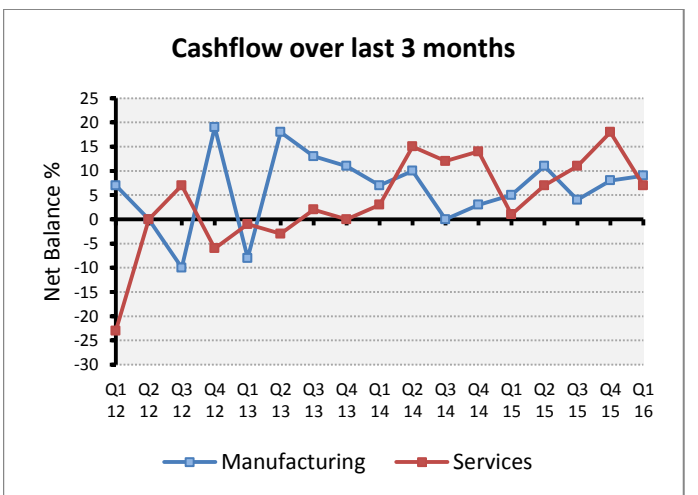
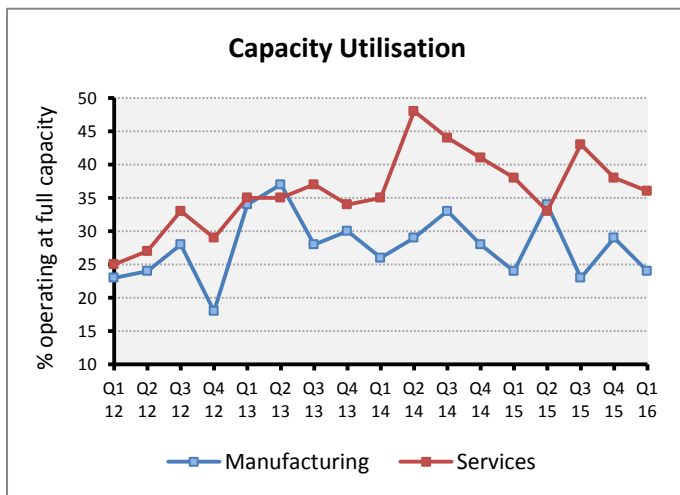
Investment intentions



The results show a mixed picture as far as investment intentions this quarter. In manufacturing, the capital investment balance improved by nine points (+29%, up from +20%), whilst the training investment balance weakened slightly (+21%, down from +24%).

By contrast, capital investment intentions in the service sector weakened, falling seven points (+7%, down from +14%). The training investment balance was up three points (+17%, up from +14%).

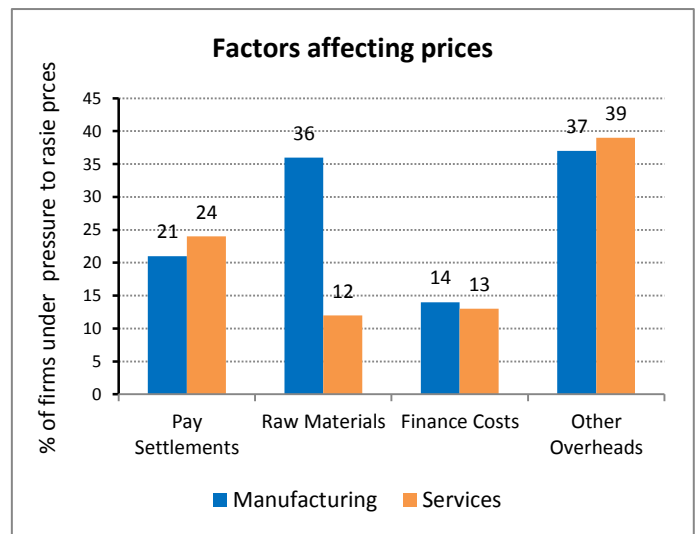
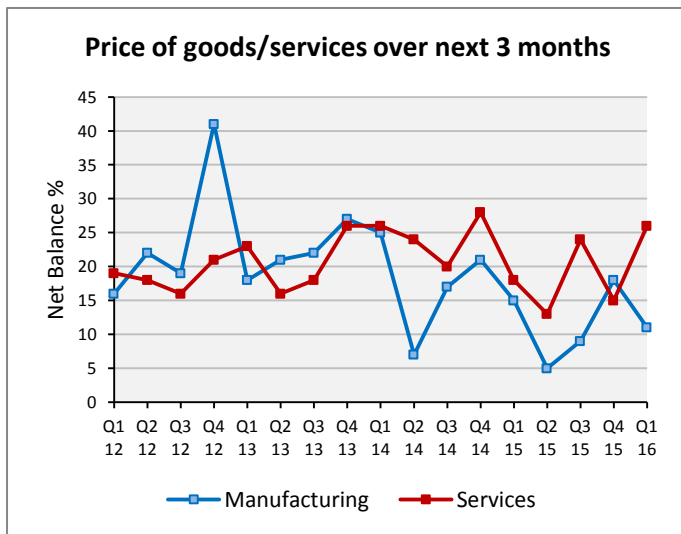
Capacity Utilisation and Cashflow



Both sectors saw a fall in the percentage of firms operating at full capacity this quarter. The share of manufacturing firms operating at full capacity was down five points to 24% whilst the share of service firms operating at full capacity fell by two points to 36%.

Cashflow balances remain relatively weak with less than a third of businesses seeing any improvement in their cashflow over the past three months. The manufacturing cashflow balance improved by a single point (+9%, up from +8%); whilst the services cashflow balance shrunk by eleven points after reaching a four-year high in Q4 (+7%, down from +18%).

Prices

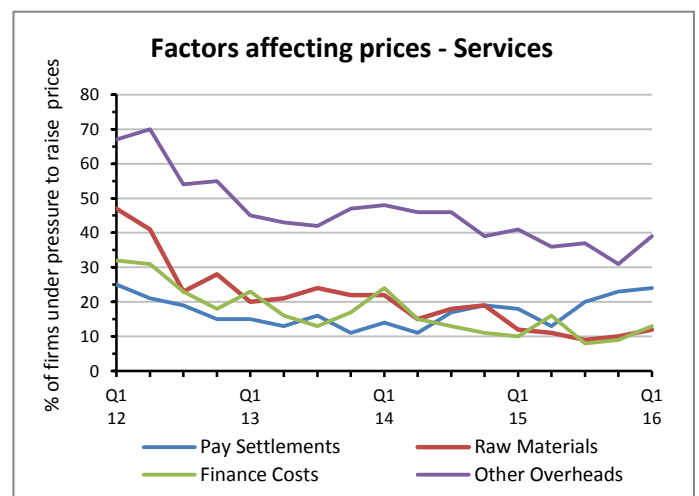
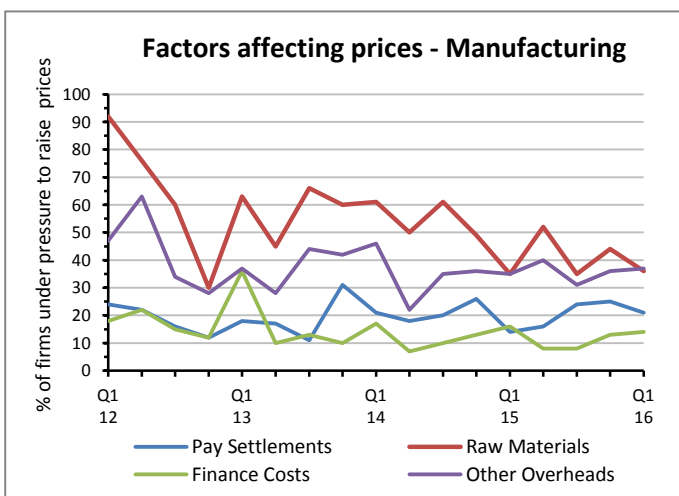


Just over two thirds of all firms in this survey expect prices to remain the same over the next quarter. However, intentions to increase prices in the coming three months are greater amongst service sector businesses, possibly because they are more likely to be affected by the new National Living Wage being introduced on 1st April. The service sector prices balance rose eleven points (+26%, up from +15%). The net balance of manufacturing firms intending to increase prices weakened by seven points (+11%, down from +18%).

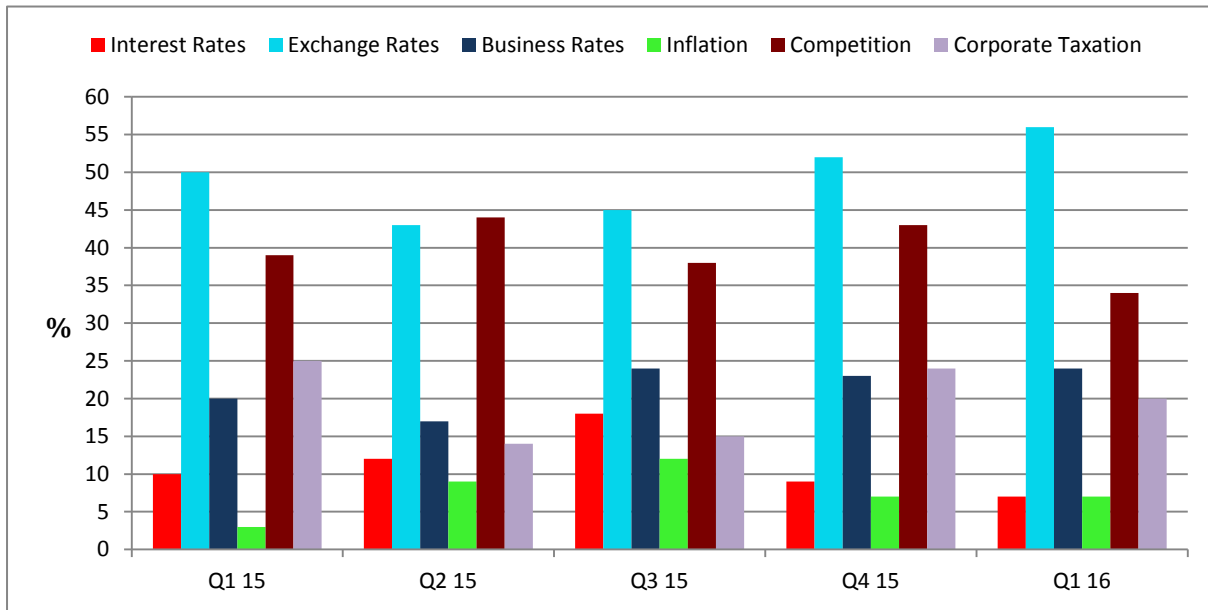
In terms of factors affecting the price of goods and services, 'Other overheads' is now cited as the most significant price pressure in both sectors (37% manufacturing; 39% services).

Pressure from raw material costs continues to have a bigger impact on the manufacturing sector although this has weakened in recent quarters. 36% of manufacturers stated they were under pressure to raise prices because of their raw material costs, against 12% of service businesses.

21% of manufacturing firms (down 4%) and 24% of service sector businesses (up 1%) were under pressure to raise prices from pay settlements.

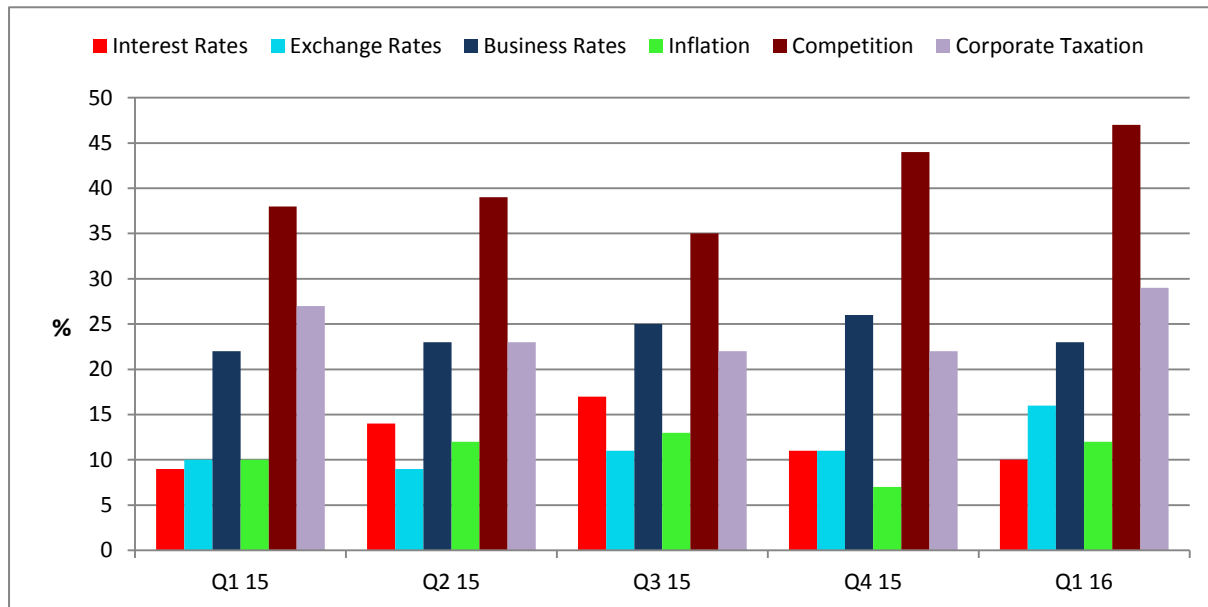


Business Concerns (external factors) - Manufacturing



Exchange rates continue to be the most significant concern for manufacturing firms (56%, up from 52%). There was a four per cent fall in businesses more worried about business taxation, whilst fears about competition eased by nine points (34%, down from 43%). Manufacturers’ concerns about interest rates, business rates and inflation remain relatively unchanged this quarter.

Business Concerns (external factors) – Services



Business competition remains the most significant concern for firms in the service sector (47%, up from 44%); followed by corporate taxation (29%, up from 22%). There was a five per cent increase in businesses more worried about exchange rates (16%) and inflation (12%), whilst concerns about interest rates (10%) and business rates (23%) eased slightly compared to three months ago.

BALANCE CHANGES

	Manufacturing		Services		Quarterly Change	
	Q4	Q1	Q4	Q1	Manufacturing	Services
	2015	2016	2015	2016	Q1 2016	Q1 2016
Domestic Sales	4	13	27	15	9	-12
Domestic Orders	-1	7	21	19	8	-2
Export Sales	-13	-2	-13	-9	11	4
Export Orders	-23	-5	-15	-12	18	3
Employment last 3 months	0	16	19	21	16	2
Employment next 3 months	8	16	20	32	8	12
% Tried to recruit	55	50	50	47	-5	-3
% Part-time	8	17	35	39	9	4
% Full-time	85	80	87	82	-5	-5
% Temporary	38	34	15	14	-4	-1
% Permanent	38	39	49	44	1	-5
% Recruitment difficulties	51	52	56	50	1	-6
% Skilled manual	65	54	40	46	-11	6
% Professional/Managerial	35	49	51	49	14	-2
% Clerical	22	32	24	42	10	18
% Semi and unskilled	39	27	13	29	-12	16
Cashflow	8	9	18	7	1	-11
Investment - plant/machinery	20	29	14	7	9	-7
Investment - training	24	21	14	17	-3	3
Confidence - turnover	39	49	45	51	10	6
Confidence - profitability	18	34	33	38	16	5
% Full capacity	29	24	38	36	-5	-2
Prices	18	11	15	26	-7	11
% Pay Settlements	25	21	23	24	-4	1
% Raw materials	44	36	10	12	-8	2
% Financial costs	13	14	9	13	1	4
% Other overheads	36	37	31	39	1	8
<i>External Factors of more concern than 3 months ago</i>						
% Interest rates	9	7	11	10	-2	-1
% Exchange rates	52	56	11	16	4	5
% Business rates	23	24	26	23	1	-3
% Inflation	7	7	7	12	0	5
% Competition	43	34	44	47	-9	3
% Tax	24	20	22	29	-4	7



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