

**QES** LANCASHIRE QUARTERLY  
ECONOMIC SURVEY

Quarter 3, 2016

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## About this Quarter's Survey

The Q3 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 22<sup>nd</sup> August and 12<sup>th</sup> September 2016.
- Responses were received from 267 companies across Lancashire employing 12,001 people.
- From the manufacturing sector, 99 business (37%) employing 7,110 people responded to the survey.
- From the service sector, 168 businesses (63%) employing 4,891 people responded to the survey.
- 166 companies (62%) 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 results for the Q3 survey show a mixed picture, with an improved short-term performance in the manufacturing sector set against a further slowdown in growth in the services sector.

The survey – the first covering the period after the EU referendum – shows that manufacturers enjoyed improved domestic and export sales compared with the previous quarter, with some benefitting from sterling's recent fall. Meanwhile, the balance of service sector firms reporting improved domestic sales was at the lowest level seen since 2013, although service sector exports saw their first quarter of growth since Q4 2014.

The results suggest that the Lancashire economy is still growing - albeit at a slower rate than before the referendum - and supports the British Chambers of Commerce forecast for growth of 1% in 2017.

The survey suggests that near-term uncertainty following the vote to leave the European Union has led to some firms lower expectations for hiring, investment and profitability. However, despite a mild weakening in some key balances, overall business confidence across Lancashire appears to be strong and relatively stable following the Brexit vote.

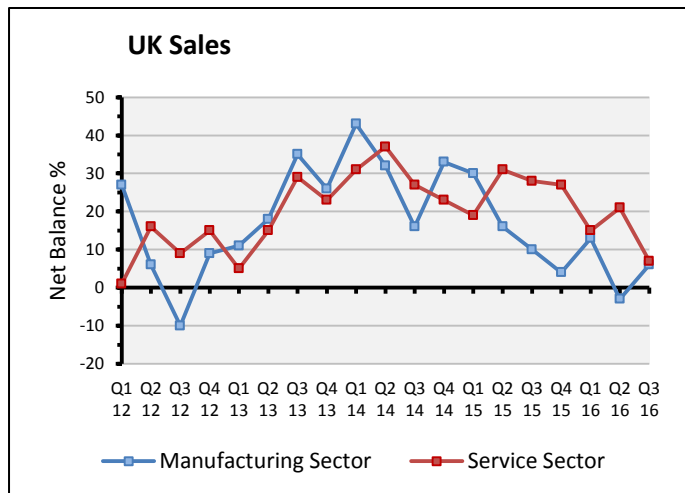
Given this mixed picture, and muted business investment intentions, the Chamber of Commerce is urging the government to use next month's Autumn Statement to boost business confidence - by giving the green light to key infrastructure projects, and by introducing measures that 'crowd in' business investment and job creation.

### Key Findings in the Q3 Survey:

- Overall, the figures for both the manufacturing and services firms indicate growth, but at a slower pace than before the referendum
- In the manufacturing sector, the balance of firms reporting improved export sales rose to +14, from +9 in Q2. The balance of firms reporting an increase in export orders is +16, up from +9. One factor may be the fall in sterling, which has made some UK manufacturers more competitive
- Domestically, the balance of manufacturers reporting increased sales rose to +6 from -3, and those reporting increased advance orders rose to +11 from -2
- In the last three months, the balance of manufacturers hiring more staff rose four points to +18 (from +14); whilst the services sector employment balance also climbed four points to +17 (from +13)
- Fewer manufacturing firms expect to take on staff in the next quarter (+3, down 15 points) is the lowest since Q1 2013
- The balance of services firms reporting improved domestic sales fell sharply to +7 from +21, while the advance orders balance fell from +18 to +8 – indicating a significant slowing of growth
- Both of the services export balances moved in to positive territory after several quarters of contraction, although the export sales balance (+2) and export orders balance (+4) remain weak
- Fewer firms in both sectors are reporting that they are confident that their turnover and profitability will improve in the next year, although both remain positive
- Firms in both sectors have reported that exchange rates are of greater concern to their business than three months ago, with 29% of services businesses (up from 21%) and 73% of manufacturers (up from 53%) more concerned than in Q2.

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

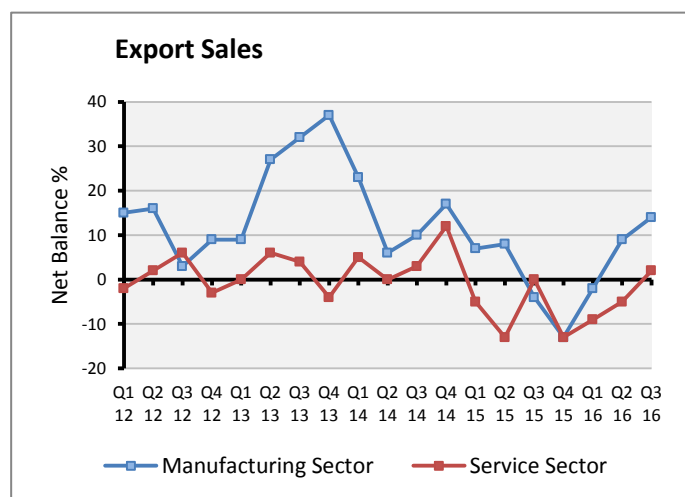
## Domestic Market



Results this quarter show that the Lancashire economy is still seeing signs of growth but the pace is slower than at any time in the last four years. In manufacturing, both domestic balances improved in Q3 having gone in to contraction in the previous quarter. The UK manufacturing sales balance gained nine points (+6, up from -3) whilst the manufacturing orders balance gained thirteen points (+11, up from -2).

Of more concern is the continued slowdown in the service sector, which has been the main driver of economic recovery since 2008. The services UK sales balance lost fourteen points (+7, down from +21) whilst the domestic orders balance lost ten points (+8, down from +18).

## Export Market

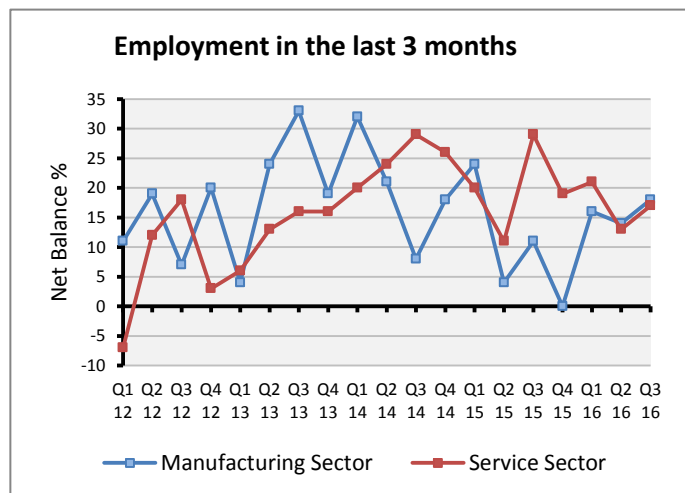


The UK's vote to leave the EU has resulted in a further weakening of the pound in Q3, thus making exported goods and services more attractive to overseas customers. Indeed, all of the export balance measures in this survey improved in Q3.

The manufacturing export sales balance climbed five points (+14, up from +9), whilst the export orders balance was up seven points (+16, up from +9).

Lancashire's service sector exports continue to lag behind those in manufacturing; however Q3 has seen the services export balances back in positive territory for the first time since Q4 2014. The services export sales balance was up seven points (+2, up from -5), whilst the export orders balance gained sixteen points (+4, up from -12).

## Employment



There was a slight improvement in three out of the four employment measures in Q3 indicating that businesses are still confident enough to recruit despite increasing economic uncertainty following the Brexit vote.

Both of the retrospective employment balances gained four points, with the services employment balance reaching +17 (up from +13) and the manufacturing employment balance at +18 (up from +14).

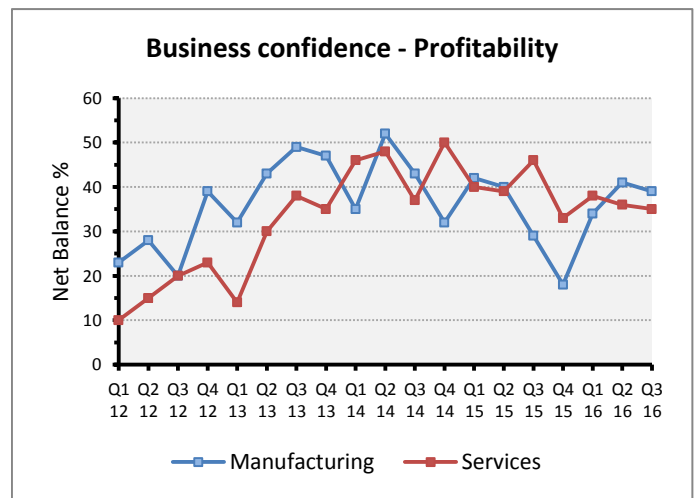
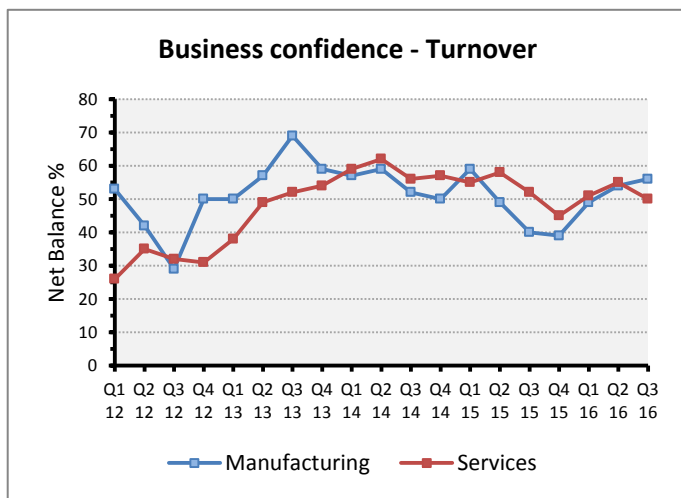
Looking ahead, service sector employment expectations improved slightly Q3 after a large fall in the previous quarter (+22, up from +19). However, the forward-looking employment balance for manufacturing slumped fifteen points (+3, down from +18) and is cause for concern.

## Recruitment

The percentage of firms attempting to recruit in the last three months remained relatively unchanged from the previous quarter (48%, down from 50%). Of all firms attempting to recruit, 42% were seeking to fill permanent vacancies (down 5%), with 25% looking to take on temporary workers (up 8%). 68% of firms attempted to recruit for full-time positions (down 12%), whilst 26% were offering part-time roles (up 8%).

Just over half of firms attempting to recruit said they experienced difficulties finding suitable staff (55%, up from 54%). For manufacturing firms, skilled manual and technical positions continue to be the most difficult to fill (73%, up from 68%). Service businesses found that professional/managerial positions were the most difficult for them to fill this quarter (45%, down from 51%).

## Business confidence

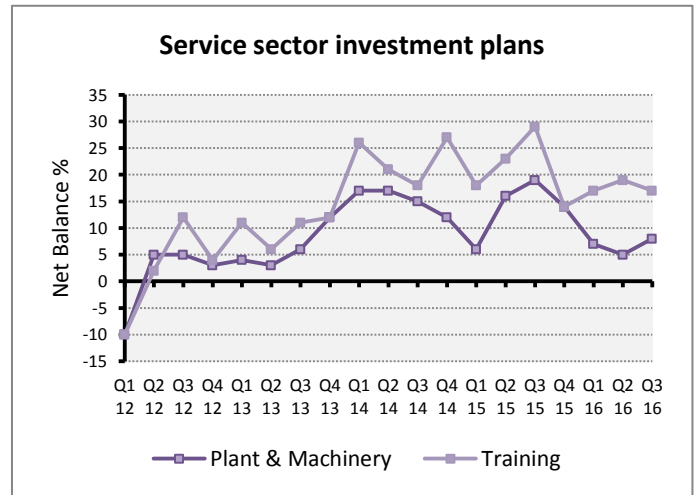
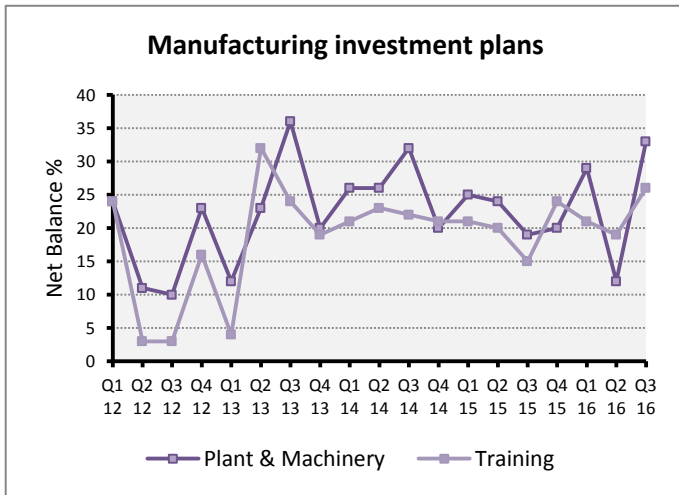


There was a mild weakening in three out of four business confidence measures in Q3, but overall business confidence in Lancashire remains strong.

In the service sector, the net balance of companies expecting turnover to improve in the year ahead was down five points (+50, down from +55) whilst the service sector profitability balance weakened just a single point on the previous quarter (+35, down from +36).

Manufacturers were slightly more optimistic that turnover and profitability would improve over the next 12 months. The net balance of manufacturing companies expecting turnover to improve was up two points (+56, up from +54), whilst the manufacturing profitability balance lost two points (+39, down from +41).

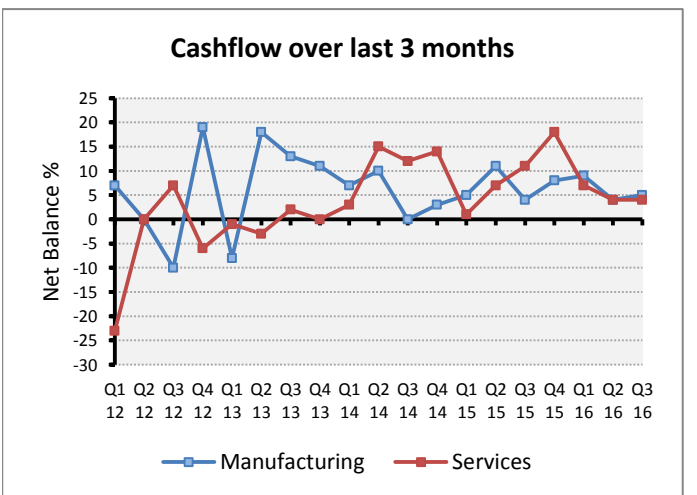
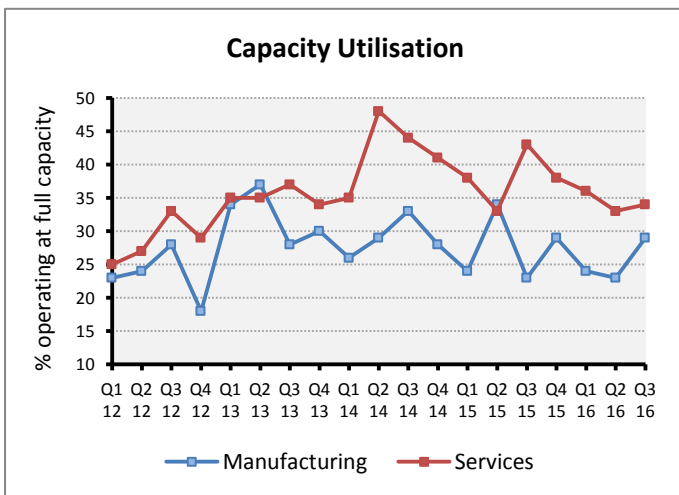
## Investment intentions



The vote to leave the EU doesn't appear to have any immediate impact on investment intentions as far as respondents to this survey are concerned. In manufacturing, the plant & machinery investment balance rebounded this quarter with a 21 point gain (+33, up from +12). Q3 has also seen an improvement in the manufacturing training investment balance which climbed seven points (+26, up from +19).

For service businesses, training investment plans weakened marginally in Q3 but continue to be a higher priority than investment in capital assets. The training investment balance lost two points (+17, down from +19), whilst the capital investment balance gained three points this quarter (+8, up from +5).

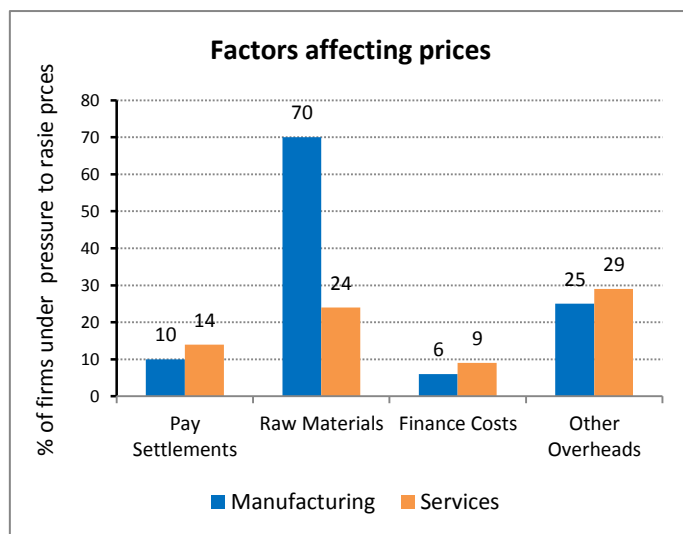
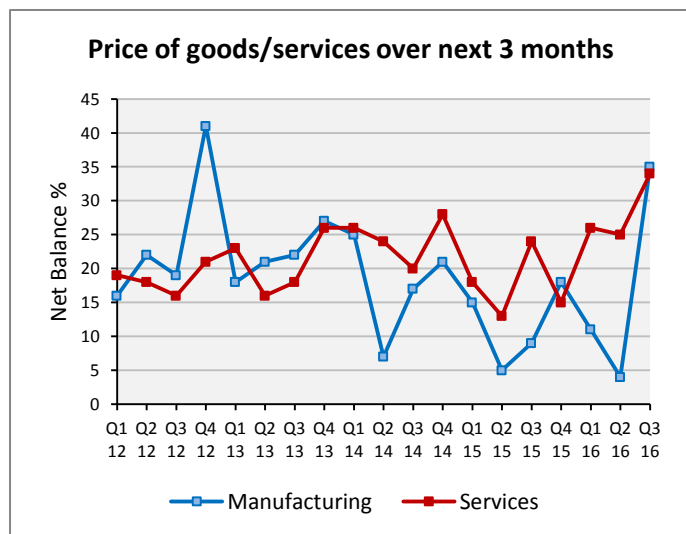
## Capacity Utilisation and Cashflow



There was a slight increase in the percentage of firms operating at full capacity this quarter. The share of manufacturing firms operating at full capacity was up six points to 29%; whilst the share of service firms operating at full capacity increased by a single point to 33%.

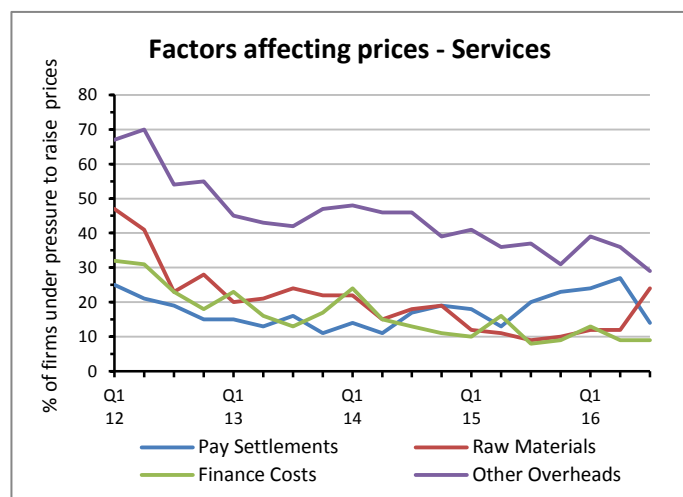
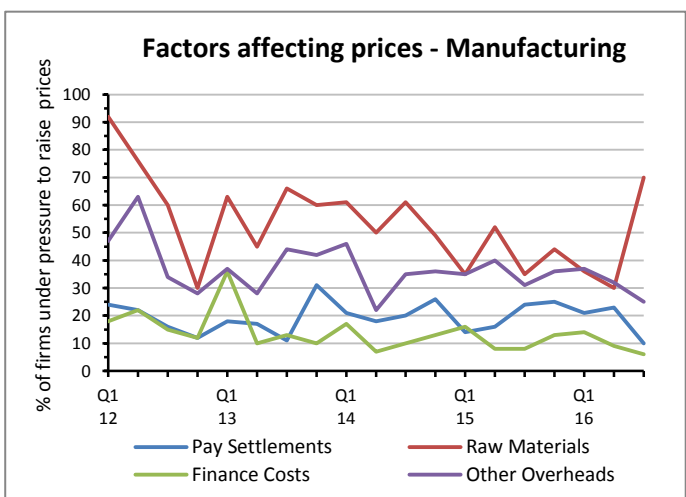
Cashflow in both sectors remains weak. The manufacturing cashflow balance gained a single point (+5, up from +4) whilst the services cashflow balance remained static at +4.

## Prices



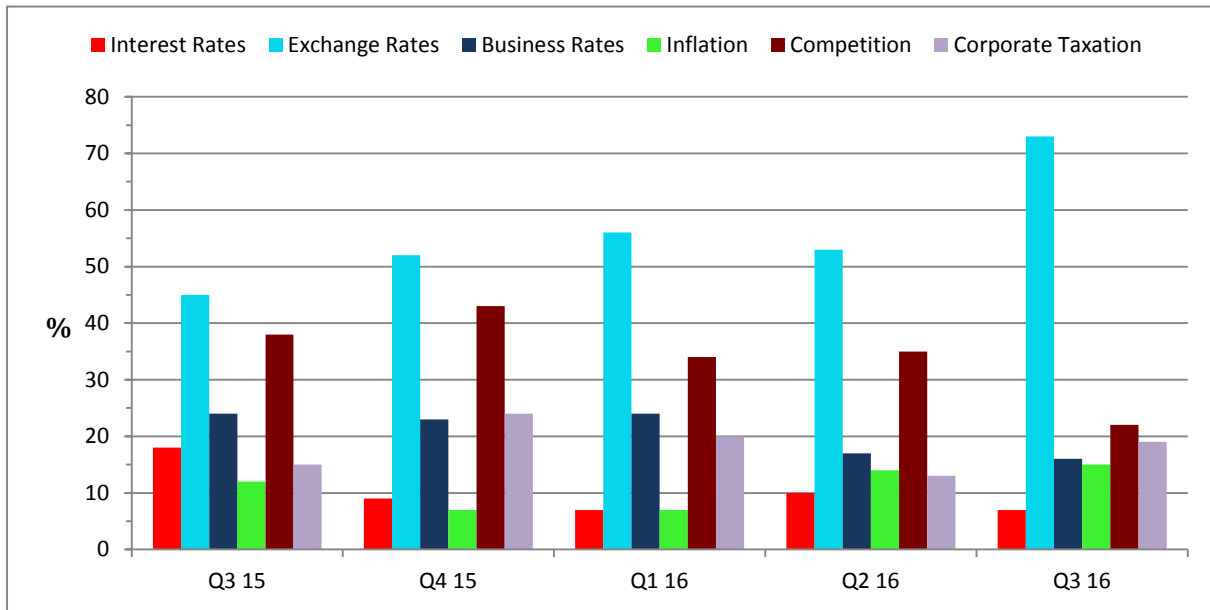
Q3 has seen a significant jump in the number of firms expecting to increase prices over the next three months. The net balance of manufacturing firms intending to increase prices jumped 31 points (+35, up from +4); whilst the services net balance was up nine points (+34, up from +25).

In terms of factors affecting the price of goods and services, almost three quarters of manufacturing firms (70%, up from 30%) 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 (24%, up from 12%), although other overheads remains the biggest pressure (29%, down from 36%).



There was a weakening in both sectors in terms of pressure from pay settlements, with 10% of manufacturing firms (down 13%) and 14% of service sector businesses (down 13%) likely to raise prices as a consequence of pay awards. Concerns over implementation of the new National Living Wage in April 2016 could have eased this quarter, although pressure to maintain wage differentials with higher paid workers may continue to put pressure on firms in future quarters.

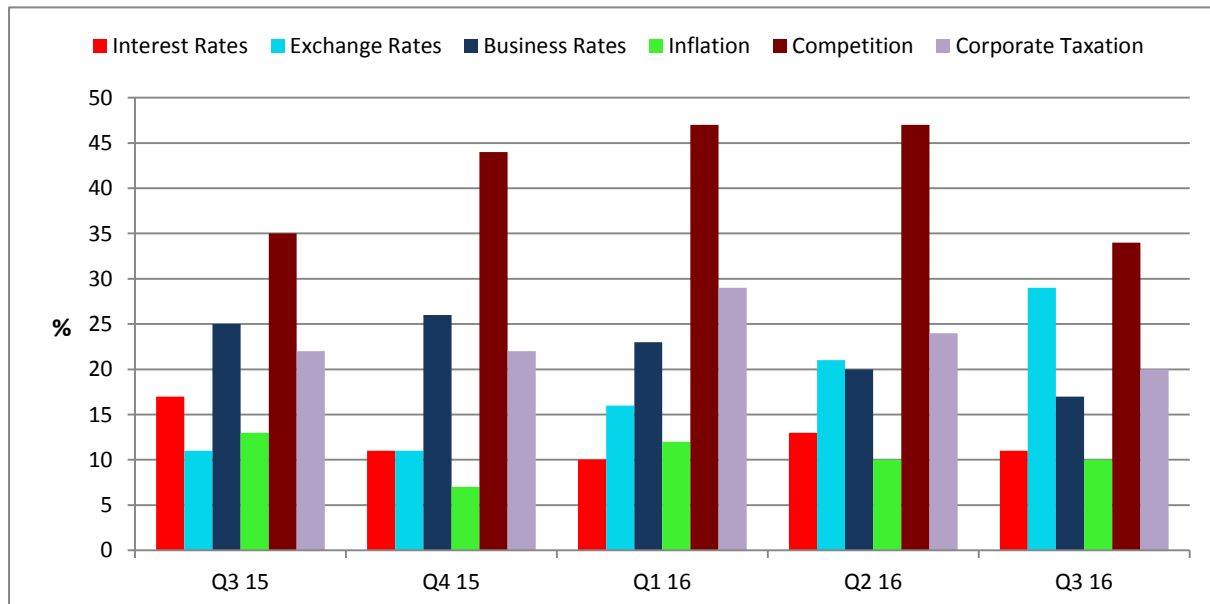
## Business Concerns (external factors) - Manufacturing



73% of manufacturing firms in the survey said they had more concern about exchange rates than three months ago (up from 53%). This is a record high for the Lancashire QES, and is also 28% higher than at this time last year. This is clear evidence that Brexit is giving businesses cause for concern as the pound continues to weaken.

Concerns over competition eased this quarter (34%, down from 47%) whilst slightly more firms were worried about business taxation (19%, up from 13%). Concerns over business rates, interest rates, and inflation were relatively unchanged from the previous quarter.

## Business Concerns (external factors) – Services



Competition remains the most significant concern for firms in the service sector (34%, down from 47%); followed by exchange rates (29%, up from 21%). All other measures of concern either eased or remained static amongst service businesses compared to three months ago.



**BALANCE CHANGES**

	Manufacturing		Services		Quarterly Change	
	Q2	Q3	Q2	Q3	Manufacturing	Services
	2016	2016	2016	2016	Q3 2016	Q3 2016
Domestic Sales	-3	6	21	7	9	-14
Domestic Orders	-2	11	18	8	13	-10
Export Sales	9	14	-5	2	5	7
Export Orders	9	16	-12	4	7	16
Employment last 3 months	14	18	13	17	4	4
Employment next 3 months	18	3	19	22	-15	3
% Tried to recruit	57	55	44	44	-2	0
% Part-time	8	11	27	38	3	11
% Full-time	76	89	83	53	13	-30
% Temporary	19	17	15	31	-2	16
% Permanent	48	40	46	43	-8	-3
% Recruitment difficulties	55	46	53	62	-9	9
% Skilled manual	68	73	51	42	5	-9
% Professional/Managerial	43	37	51	45	-6	-6
% Clerical	19	20	31	28	1	-3
% Semi and unskilled	32	40	18	17	8	-1
Cashflow	4	5	4	4	1	0
Investment - plant/machinery	12	33	5	8	21	3
Investment - training	19	26	19	17	7	-2
Confidence - turnover	54	56	55	50	2	-5
Confidence - profitability	41	39	36	35	-2	-1
% Full capacity	23	29	33	34	6	1
Prices	4	35	25	34	31	9
% Pay Settlements	23	10	27	14	-13	-13
% Raw materials	30	70	12	24	40	12
% Financial costs	9	6	9	9	-3	0
% Other overheads	32	25	36	29	-7	-7
<i>External Factors of more concern than 3 months ago</i>						
% Interest rates	10	7	13	11	-3	-2
% Exchange rates	53	73	21	29	20	8
% Business rates	17	16	20	17	-1	-3
% Inflation	14	15	10	10	1	0
% Competition	35	22	47	34	-13	-13
% Tax	13	19	24	20	6	-4



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