

QES LANCASHIRE QUARTERLY
ECONOMIC SURVEY

Quarter 2, 2015

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About this Quarter's Survey

The Q2 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 25th May and 17th June 2015.
- Responses were received from 258 companies across Lancashire employing 21,830 people.
- From the manufacturing sector, 83 business (32%) employing 6,196 people responded to the survey.
- From the service sector, 175 businesses (68%) employing 15,634 people responded to the survey.
- 132 companies (51%) 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.

Summary

Following a mediocre set of figures in Q1, the results for the second quarter of 2015 indicate a further slowdown in the Lancashire economy. Most of the key economic balances have remained static or worsened this quarter, with the manufacturing sector having a particularly disappointing three months. The only exceptions to the general pattern of lower balances in Q2 was the rise in service sector domestic sales and orders, underlining the fact that consumer spending in the UK remains the main driver of the recovery. There were also marginal improvements in cashflow reported in both sectors.

The Q2 results highlight some major challenges facing Lancashire businesses in key areas: exports; employment; investment and confidence. Uncertainty caused by the general election campaign may have had some impact on recruitment and investment decisions in Q2. However, continuing problems in the Eurozone, along with slower economic growth in the USA and China, are undoubtedly giving exporters cause for concern. ONS figures show that the UK trade deficit stood at £13.4bn in Q1 2015, up from £10.6bn in Q4 2014. The results in this survey suggest that this gap could widen even further in Q2.

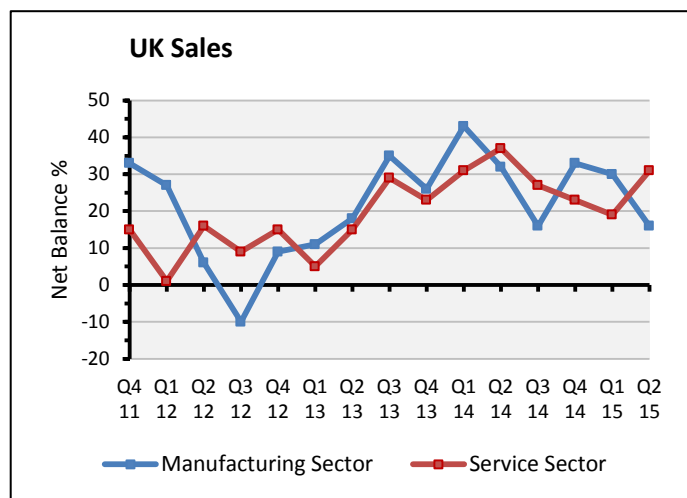
However, despite the general slowdown in Q2, many of the economic balances remain strong and are above their historical average of the last four years. There is a high level of confidence in both sectors that turnover and profitability will improve over the coming year; and there are signs that firms intend to increase capital and training investment. Fewer firms are intending to raise prices in the next three months, indicating that inflation will continue to stay low despite increases in oil prices.

Key Findings in the Q2 Survey:

- In **manufacturing**, both domestic balances were down; **domestic sales** (+16%, down from +30% in Q1) and **domestic orders** (+10%, down from +21% in Q1).
- In **services**, the domestic balances improved; **domestic sales** (+31%, up from +19% in Q1) and **domestic orders** (+24%, up from +19% in Q1).
- The **manufacturing export sales** balance gained a single point (up to +8%) but all other export balances weakened. The **services export sales** balance contracted by 8 points (-13%, down from -5% in Q1) and reached a historical low for the Lancashire QES.
- Both sectors report slowing employment growth in Q2. The **services employment** balance fell by nine points (+11%, down from +20% in Q1) whilst the **manufacturing employment** balance fell twenty points to equal its historical low (+4%, down from +24% in Q1).
- More firms **attempted to recruit** staff in Q2 (53%, up from 47% in Q1), but reported increasing difficulties finding suitable people.
- The balance of **manufacturing** firms reporting that **cashflow** had improved climbed six points (+11%, up from +5% in Q1); whilst the **services cashflow** balance was up six points (+7%, up from +1% in Q1).
- Confidence that **turnover** and **profitability** will improve remains strong, despite a weakening in three out of four balance measures in Q2. Business confidence is slightly higher in the service sector.
- The net balance of firms **intending to raise prices** in the next quarter has continued to fall. The prices balance in both sectors stand at historical lows.

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

Domestic Market

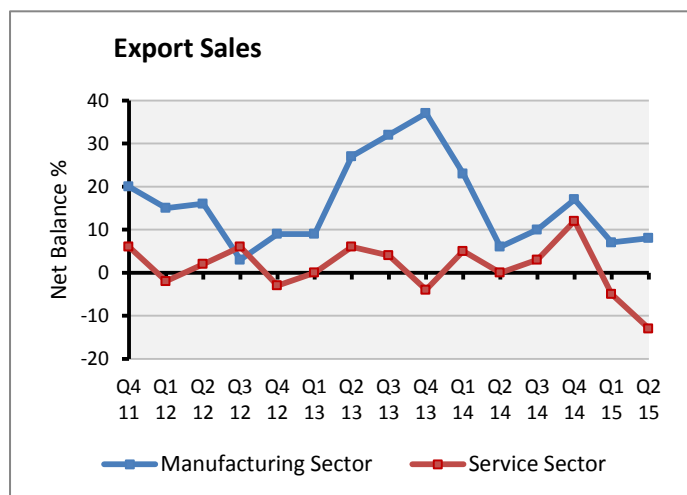


The results for Q2 have revealed contrasting fortunes for manufacturing and service sector firms in terms of domestic sales.

Lancashire manufacturers have had a disappointing second quarter, with the UK sales balance losing fourteen points (+16%, down from +30%), falling to the same level as Q3 2014. The manufacturing domestic orders balance was also in decline, losing eleven points (+10%, down from +21%).

The service sector has had a quarter of accelerated growth in Q2, as the UK sales balance improved twelve points (+31%, up from +19%) reaching its highest level since Q2 2014. The service sector orders balance also increased by five points this quarter (+24%, up from +19%).

Export Market



Lancashire exporters have had another difficult quarter in Q2. The manufacturing export sales balance gained a single point but remains relatively weak (+8%, up from +7%), whilst the export orders balance dropped five points (+1%, down from +6%).

Service sector exports contracted further this quarter. The export sales balance fell eight points (-13%, down from -5%) reaching a historical low for the Lancashire QES and lagging significantly behind the UK average (see page 12).

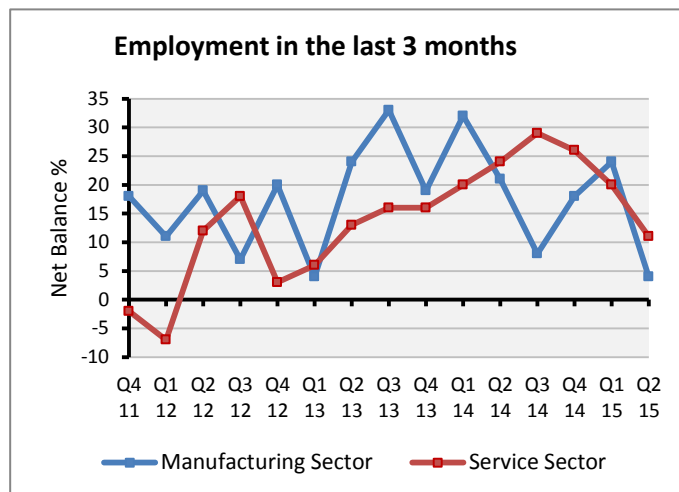
Service sector export orders were also in decline for the second successive quarter, falling twelve points in Q2 (-13%, down from -1%).

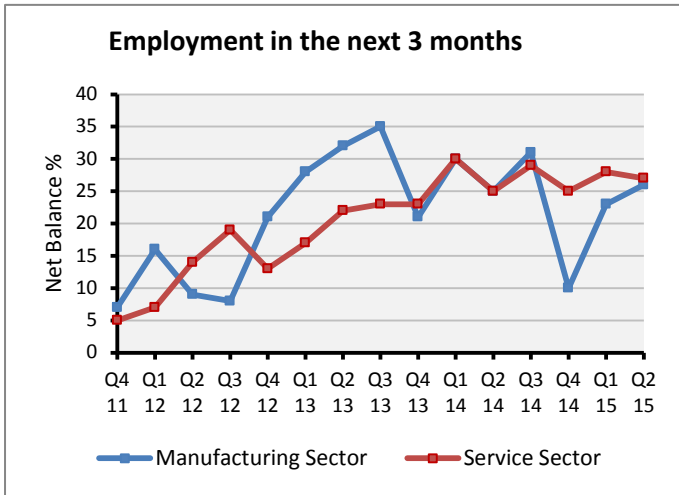
Employment

Q2 figures indicate that firms in both sectors have seen a slowdown in employment growth over the last three months.

The net balance of service sector companies reporting that their workforce has increased over the past three months fell by nine points (+11%, down from +20%).

The retrospective employment balance for manufacturing fell even more sharply, down twenty points to equal its historical low (+4%, down from +24%).





Overall, employment growth across both sectors was 8% lower than anticipated in the previous quarter.

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

The forward-looking employment balance for manufacturing gained three points (+26%, up from +23%), whilst the service sector balance lost just a single point (+27%, down from +28%) and remains above its historical average.

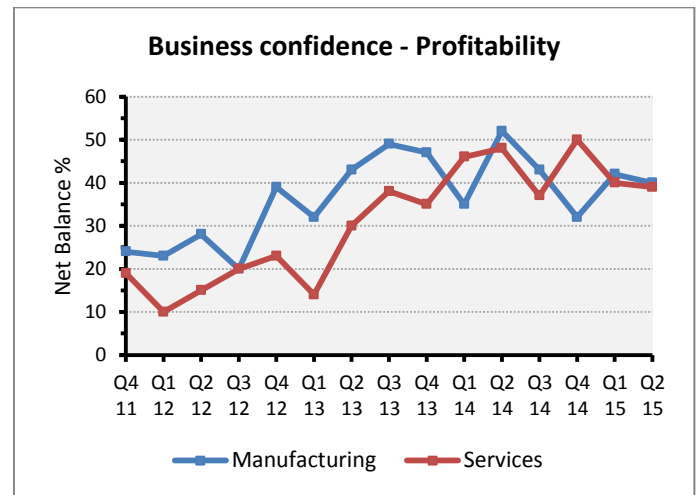
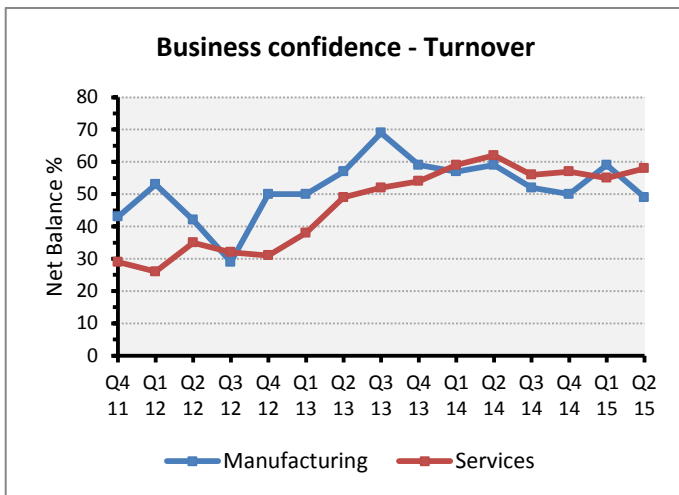
Recruitment

The percentage of manufacturing firms attempting to recruit in the last three months increased by seventeen points (64%, up from 47%), whilst the percentage of service sector businesses attempting to recruit increased by a single point (48%, up from 47%).

Of all firms attempting to recruit, 44% were seeking to fill permanent vacancies (up 3%), with 21% looking to take on temporary workers (down 2%). 79% of firms attempted to recruit for full-time positions (up 1%), whilst 32% were offering part-time roles (down 5%).

More than half of firms attempting to recruit said they experienced difficulties finding suitable staff (52%, up from 51%). Skilled Manual and Technical positions were the most difficult to fill (54%, same as Q1) followed by Professional/Managerial positions (49%, down from 52%).

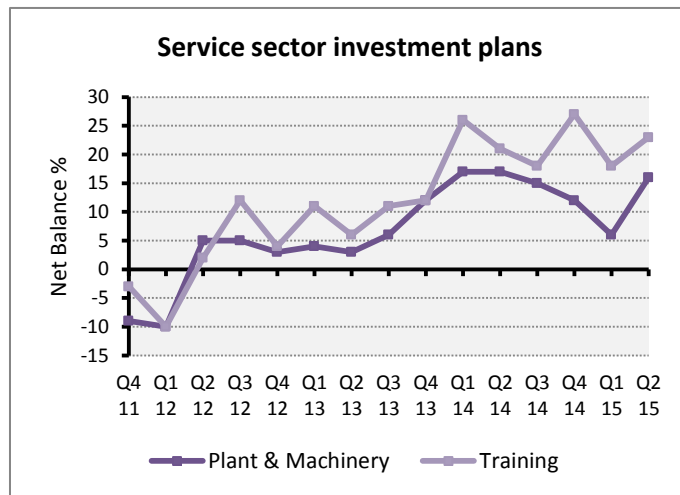
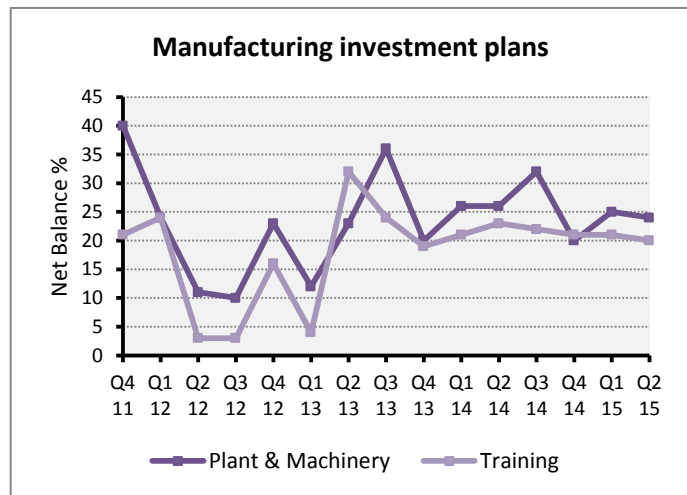
Business confidence



There was a slight weakening in business confidence measures in Q2. The net balance of manufacturing companies expecting turnover to improve over the next 12 months was down ten points (+49%, down from +59%). Confidence that manufacturing profitability will improve in the next 12 months was also weaker this quarter, down two points to +40%.

In the service sector, the net balance of companies expecting turnover to improve over the next 12 months was up by three points to +58%, whilst confidence that profitability will improve fell by a single point (+39%, down from +40%).

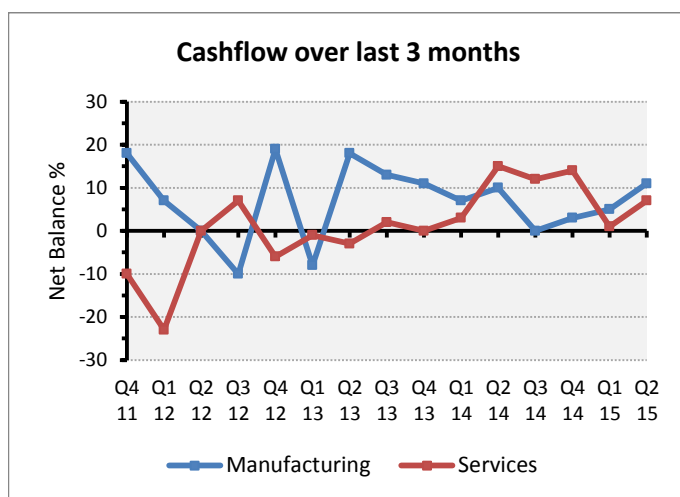
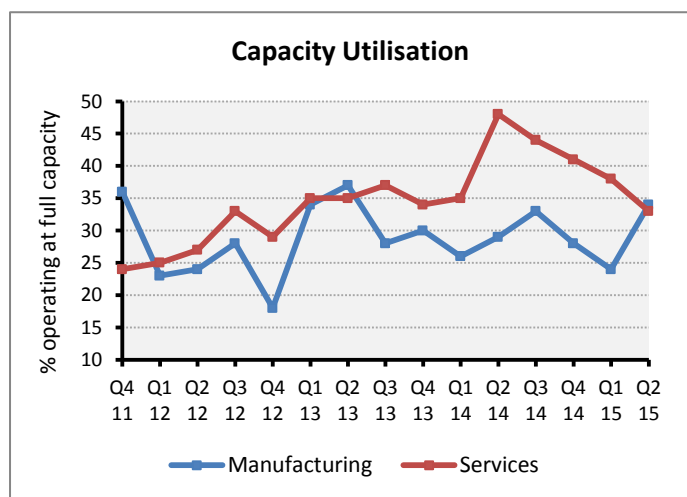
Investment intentions



Manufacturing investment intentions remained relatively static this quarter. The training investment balance lost one point (+20%, down from +21%) whilst the capital investment balance also was up four points at +24%.

There was improvement in both of the service sector investment balances in Q2. The net balance of service sector firms planning to increase investment in training was up five points (+23%, up from +18%), whilst the service sector capital investment balance climbed ten points (+16%, up from +6%).

Capacity Utilisation and Cashflow

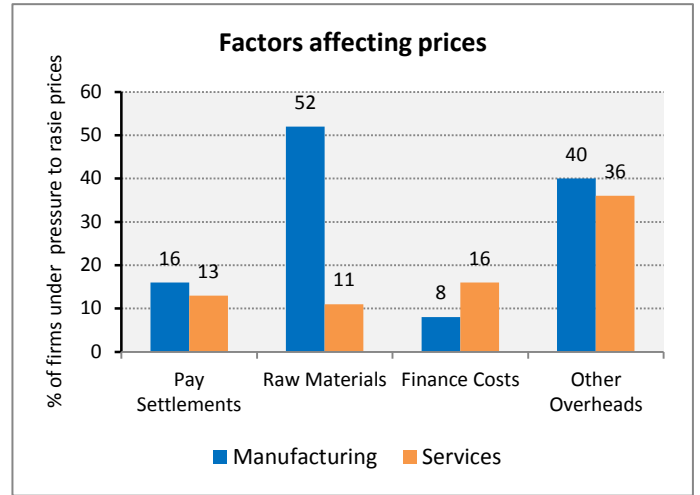
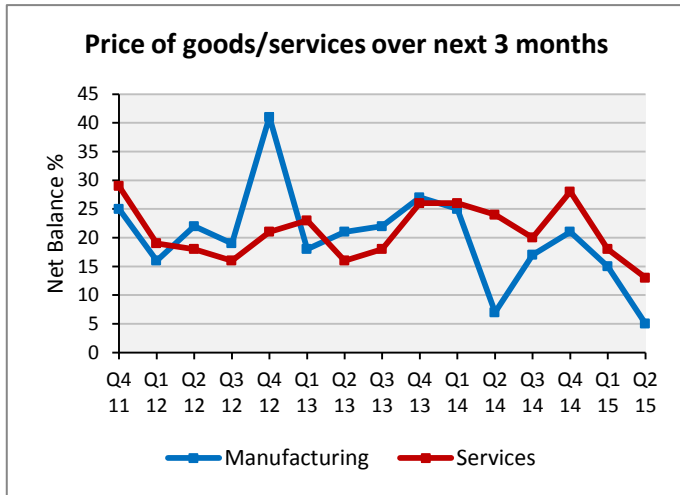


The share of manufacturing firms operating at full capacity in Q2 increased by ten points to 34%. The share of service firms operating at full capacity was down by five points (33%, down from 38%).

The manufacturing cashflow balance continued its gradual improvement of the last three quarters (+11%, up from +5%) and stands at roughly the same level as Q2 2014. The services cashflow balance also strengthened six points this quarter (+7%, up from +1%). The results show that cashflow in both sectors continues to be an issue.

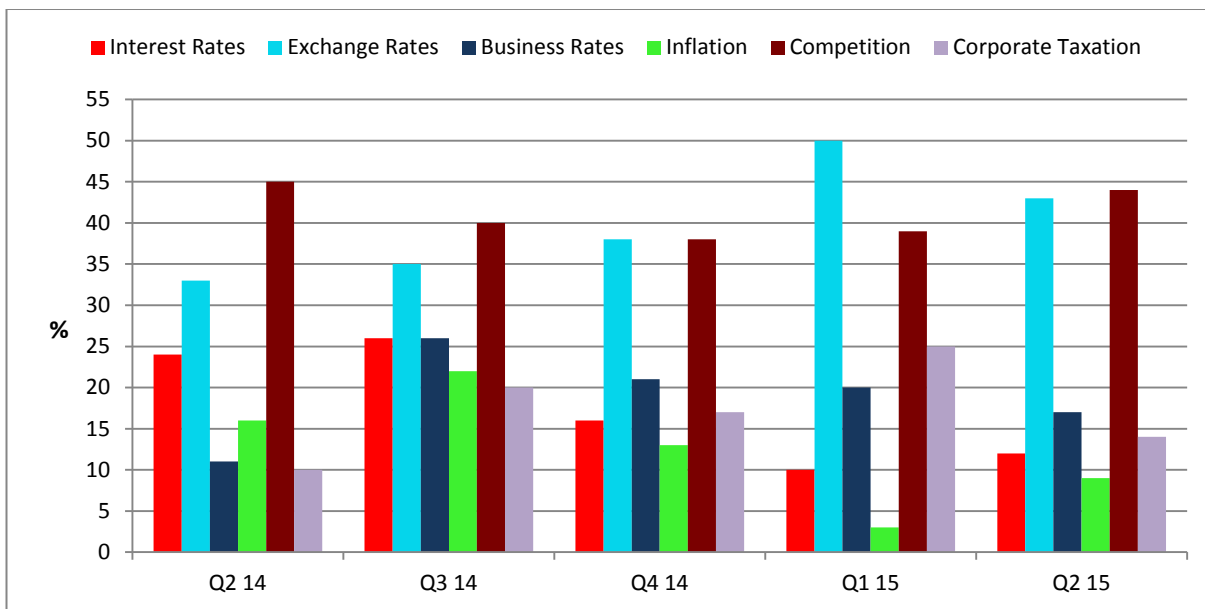
Prices

The net balance of firms intending to raise prices in the next quarter has continued to fall, with both sectors now at historical lows. The net balance of manufacturing companies intending to increase prices fell by ten points (+5%, down from +15%); whilst the service sector prices balance weakened by five points (+13%, down from +18%).



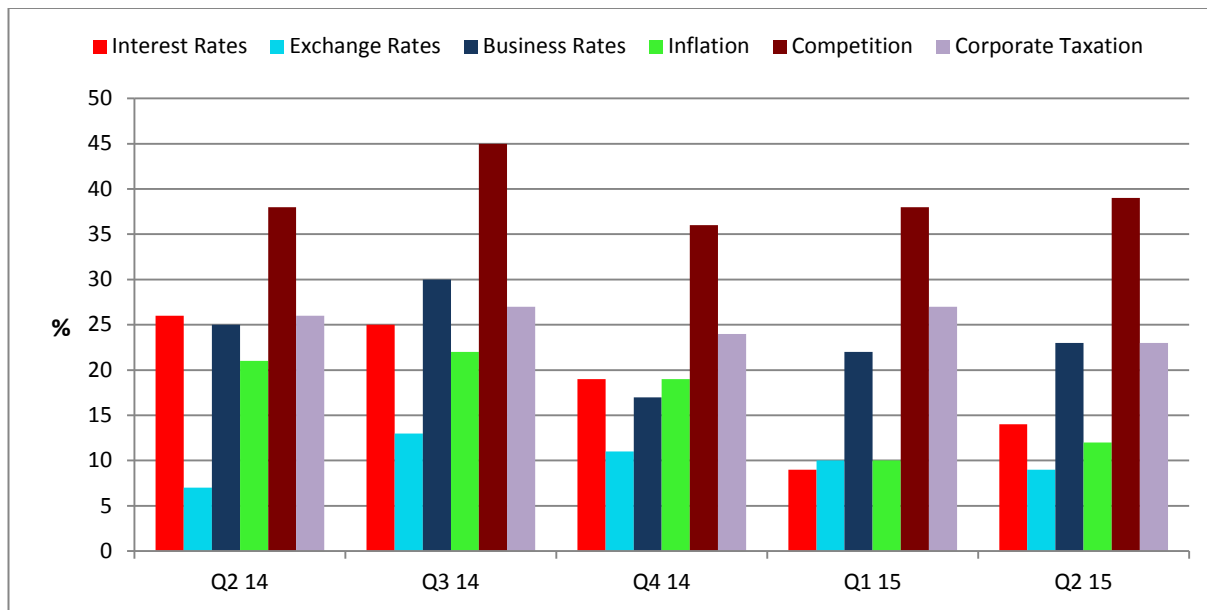
The cost of raw materials continues to be the biggest price pressure for manufacturers (52%, up from 35%), with pressure from other overheads the next biggest pressure (40%, up from 35%). In the services sector, other overheads remain the most significant price pressure (36%, down from 41%).

Business Concerns (external factors) - Manufacturing



Exchange rate concerns have eased since Q1 but continue to be a worry for a significant percentage of manufacturing firms (43%, down from 50%). There was a five per cent increase in businesses more worried about their competitors (44%, up from 39%), making business competition the most significant concern amongst manufacturers in Q2. Concerns about interest rates and inflation were up marginally, whilst concerns about business rates and business taxes were lower this quarter.

Business Concerns (external factors) – Services

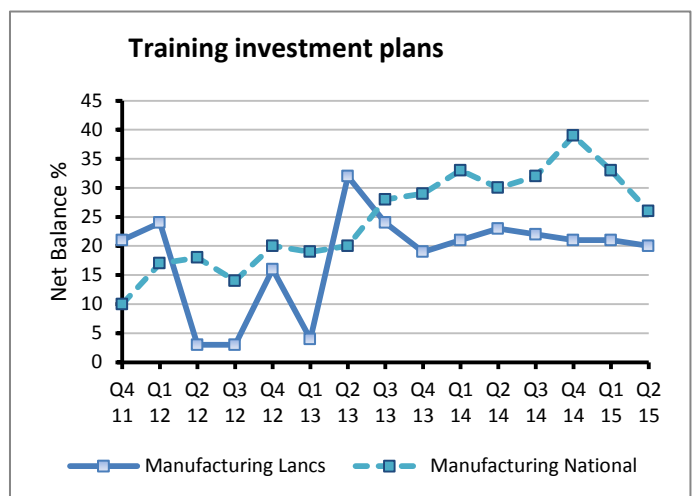
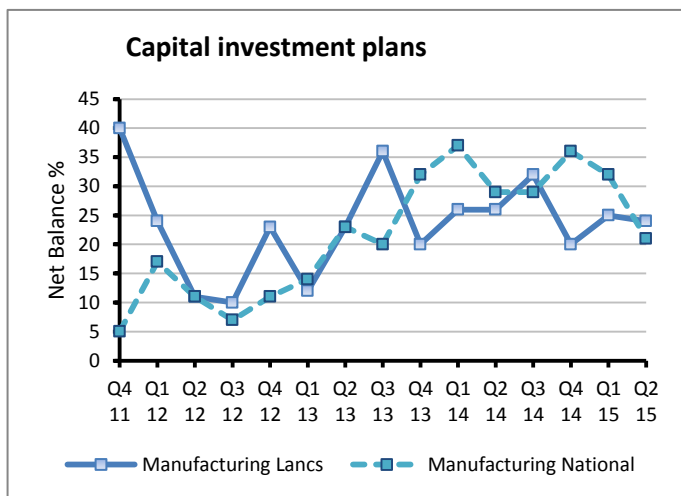
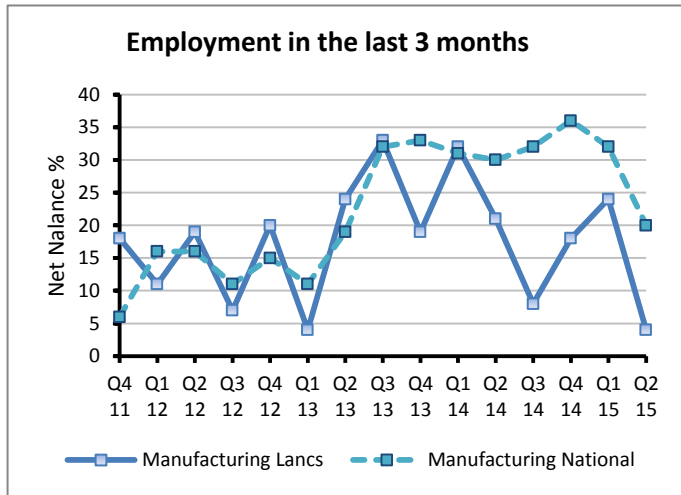
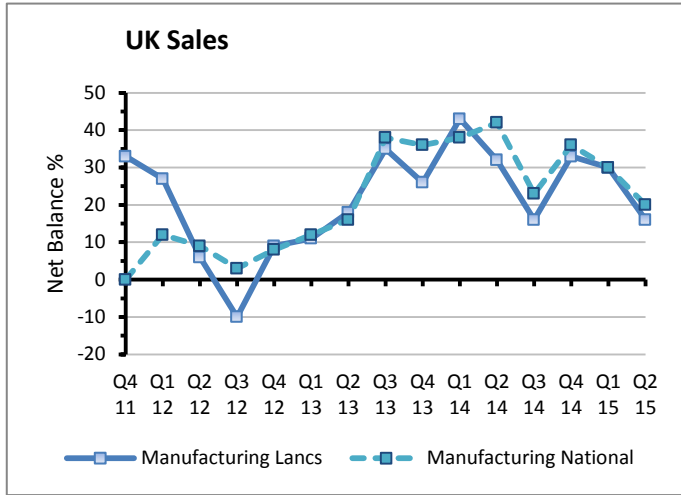


Business competition remains the most significant concern for firms in the service sector (39%, up from 38%); followed by corporate taxation (23%, down from 27%) and business rates (23%, up from 22%). Worries about interest rates were slightly higher in Q2 (14%, up from 9%), with concerns over inflation and exchange rates staying at roughly the same level as three months ago.

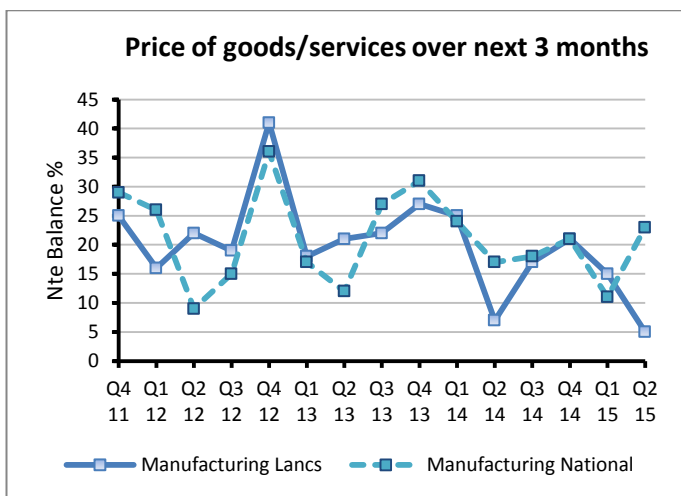
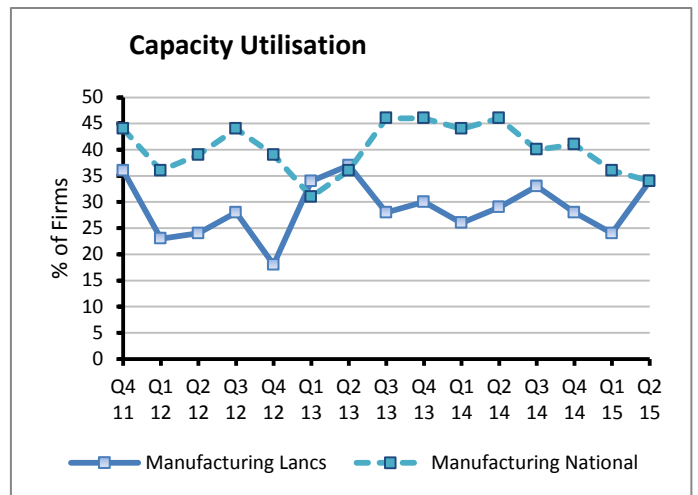
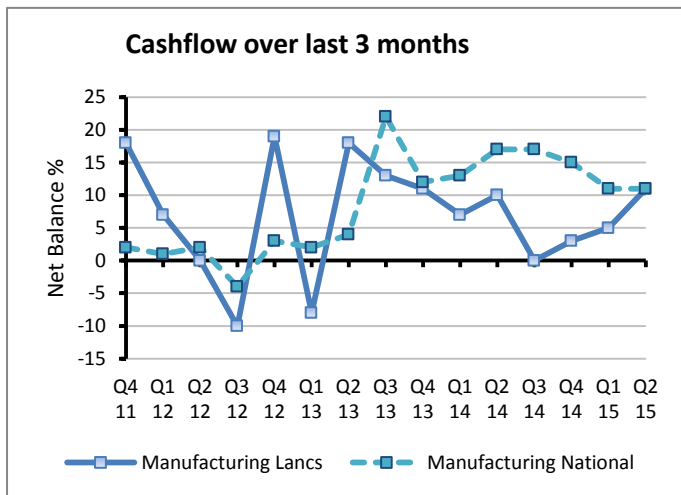
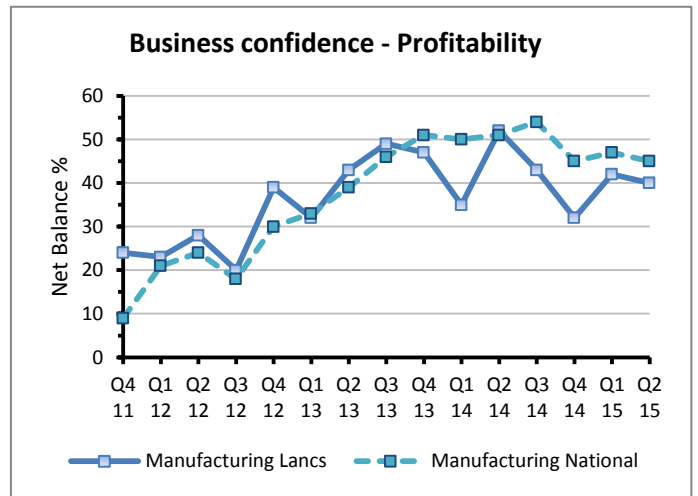
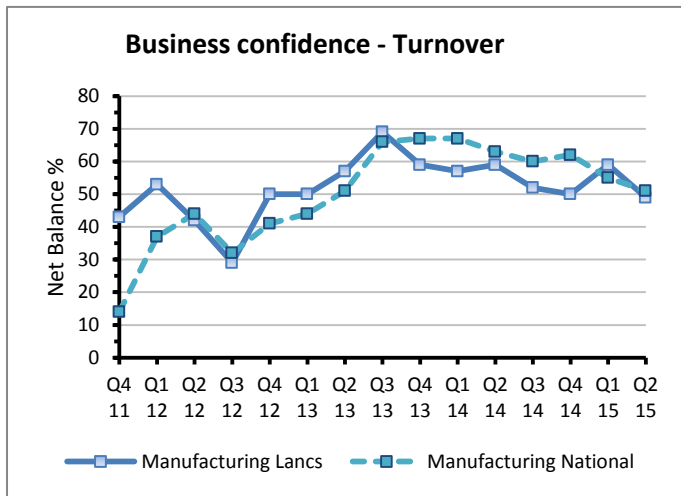
BALANCE CHANGES

	Manufacturing		Services		Quarterly Change	
	1Q 15	2Q 15	1Q 15	2Q 15	Manufacturing	Services
					Q2 2015	Q2 2015
Domestic Sales	30	16	19	31	-14	12
Domestic Orders	21	10	19	24	-11	5
Export Sales	7	8	-5	-13	1	-8
Export Orders	6	1	-1	-13	-5	-12
Employment last 3 months	24	4	20	11	-20	-9
Employment next 3 months	23	26	28	27	3	-1
% Tried to recruit	47	64	47	48	17	1
% Part-time	32	20	39	39	-12	0
% Full-time	84	76	76	81	-8	5
% Temporary	24	22	23	21	-2	-2
% Permanent	41	49	41	42	8	1
% Recruitment difficulties	40	52	58	53	12	-5
% Skilled manual	80	70	43	43	-10	0
% Professional/Managerial	25	47	63	50	22	-13
% Clerical	30	27	35	43	-3	8
% Semi and unskilled	65	30	27	22	-35	-5
Cashflow	5	11	1	7	6	6
Investment - plant/machinery	25	24	6	16	-1	10
Investment - training	21	20	18	23	-1	5
Confidence - turnover	59	49	55	58	-10	3
Confidence - profitability	42	40	40	39	-2	-1
% Full capacity	24	34	38	33	10	-5
Prices	15	5	18	13	-10	-5
% Pay Settlements	14	16	18	13	2	-5
% Raw materials	35	52	12	11	17	-1
% Financial costs	16	8	10	16	-8	6
% Other overheads	35	40	41	36	5	-5
<i>External Factors of more concern than 3 months ago</i>						
% Interest rates	10	12	9	14	2	5
% Exchange rates	50	43	10	9	-7	-1
% Business rates	20	17	22	23	-3	1
% Inflation	3	9	10	12	6	2
% Competition	39	44	38	39	5	1
% Tax	25	14	27	23	-11	-4

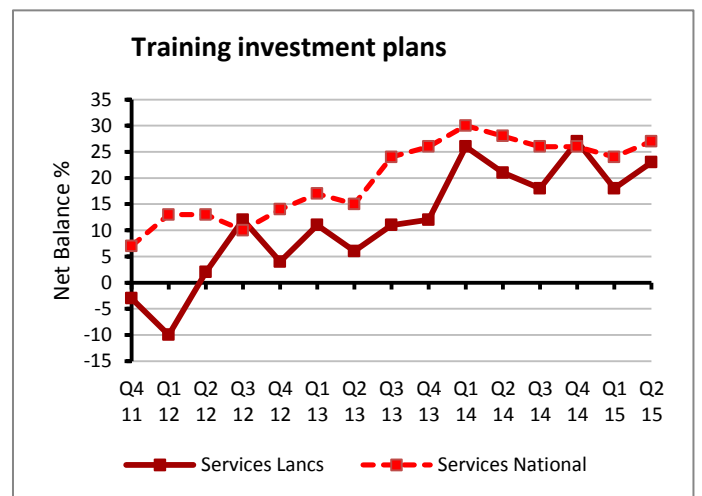
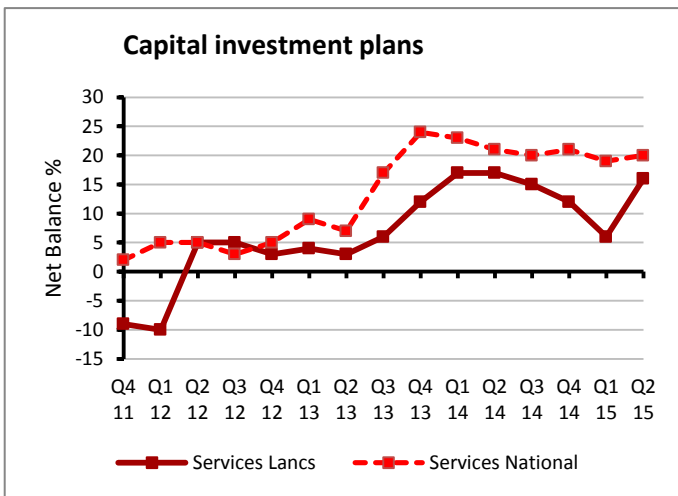
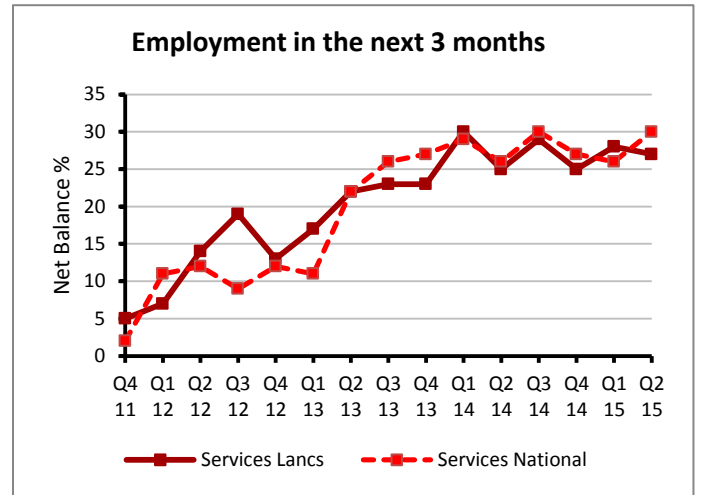
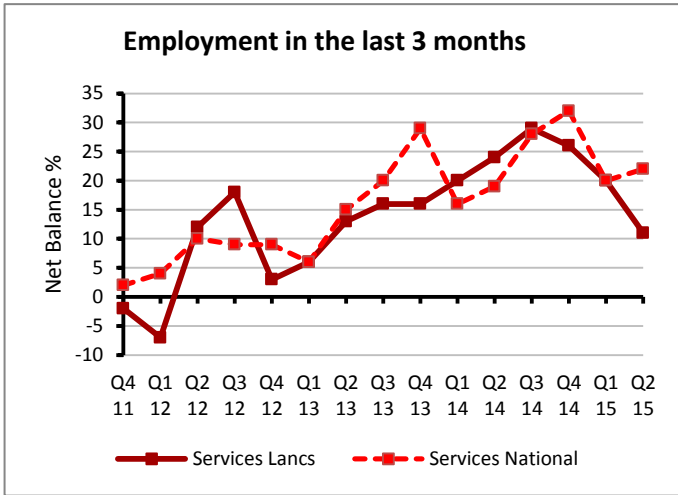
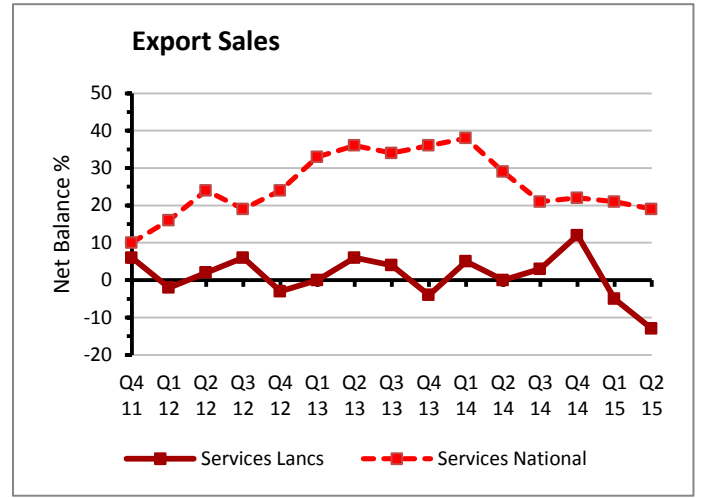
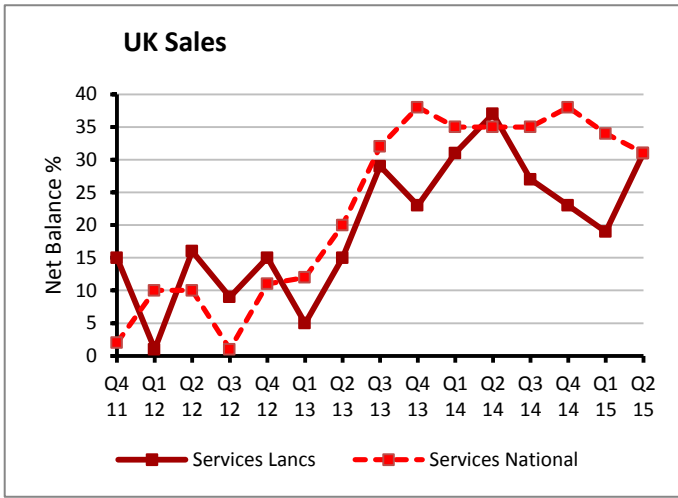
Lancashire/UK comparison – Manufacturing



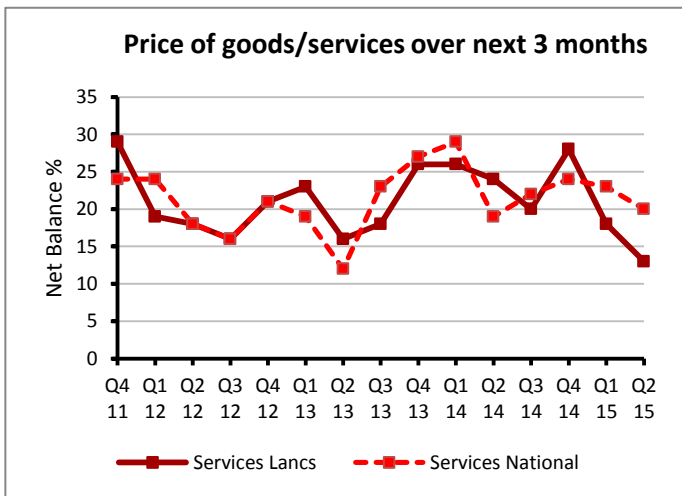
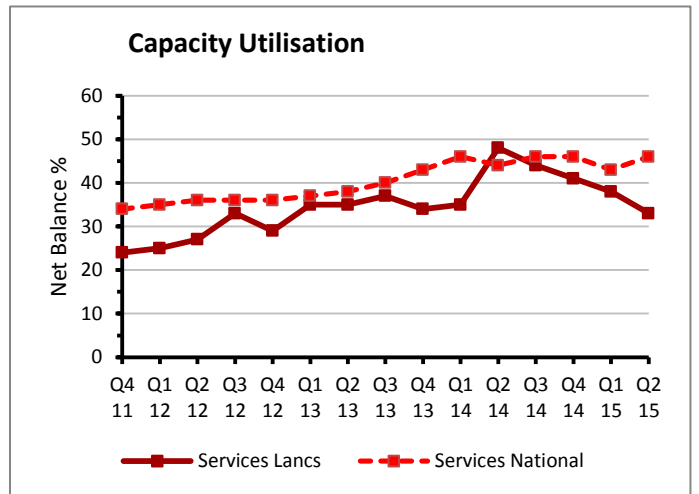
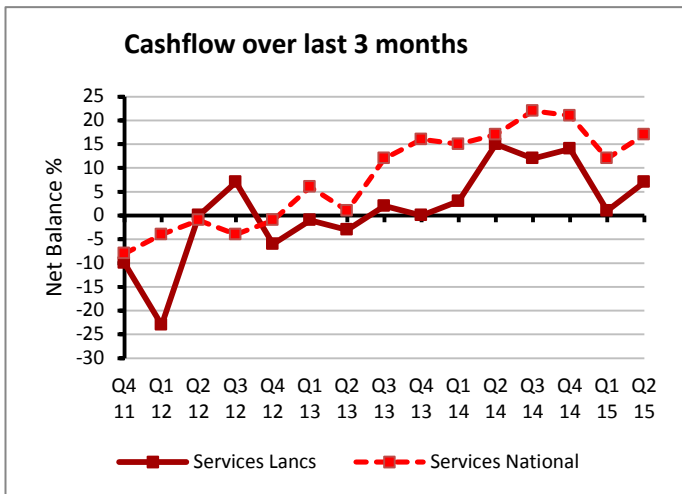
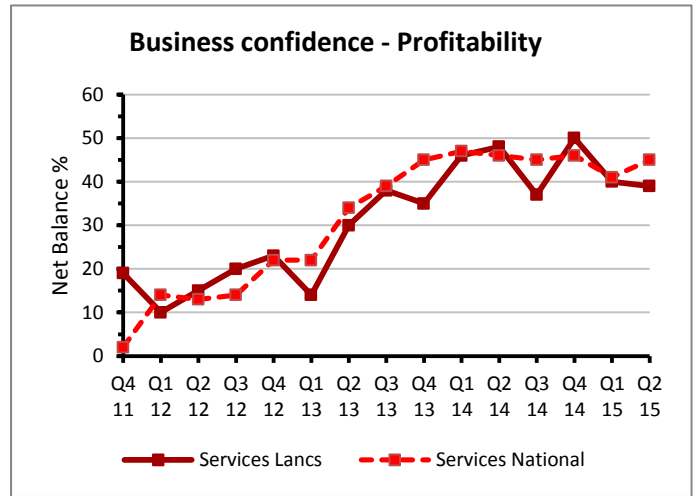
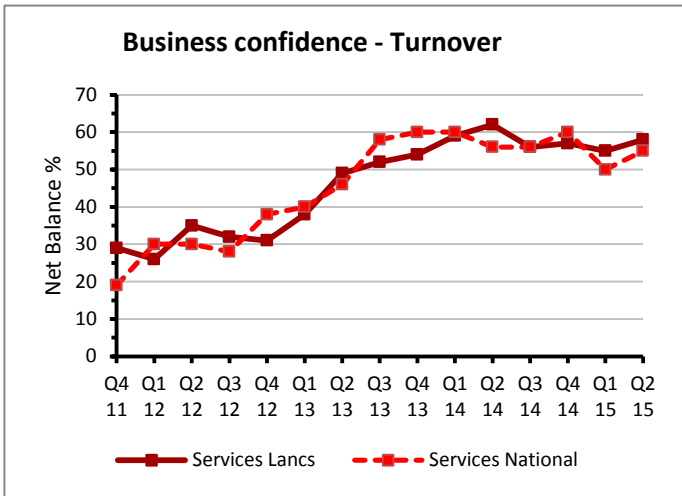
Lancashire/UK comparison – Manufacturing



Lancashire/UK comparison – Services



Lancashire/UK comparison – Services





Head Office
9-10 Eastway Business Village
Olivers Place // Fulwood
Preston // PR2 9WT

T // 01772 653000
F // 01772 655544
E // info@lancschamber.co.uk

Fylde Coast Office
1-2 Lockheed Court
Amy Johnson Way
Blackpool // FY4 2RN

T // 01253 347063
F // 01772 655544
E // info@lancschamber.co.uk



Preston Office
Richard House
9 Winckley Square // Preston
Lancashire // PR1 3HP

T // 01772 821021
E // info@mooreandsmalley.co.uk

Blackpool Office
Fylde House
Skyways Commercial Campus
Amy Johnson Way // Blackpool
Lancashire // FY4 3RS

T // 01253 404404
E // info@mooreandsmalley.co.uk