

QES LANCASHIRE QUARTERLY
ECONOMIC SURVEY

Quarter 4, 2015



In association with



SECTION	PAGE
Summary	3
Domestic Market	4
Export Market	4
Employment	4
Recruitment	5
Business Confidence	5
Investment Intentions	6
Capacity Utilisation and Cashflow	6
Prices	7
External Factors	7
Quarterly Balance Changes	9
Lancashire v UK	10

About this Quarter's Survey

The Q4 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 9th November and 2nd December 2015.
- Responses were received from 249 companies across Lancashire employing 19,851 people.
- From the manufacturing sector, 85 business (34%) employing 8,818 people responded to the survey.
- From the service sector, 164 businesses (66%) employing 11,033 people responded to the survey.
- 122 companies (49%) 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 Q4 2015 still show modest growth in the Lancashire economy but the pace of growth in both sectors has slowed for a third consecutive quarter. The survey also reveals that most key manufacturing and services balances were weaker this quarter, but manufacturing firms fared far worse. This has led Lancashire's two-tier growth trend to become further entrenched.

Most key balances for the services sector dipped slightly again on the previous quarter, with domestic sales continuing to be the main contributor to overall growth. The sector however continues to remain resilient in the face of global headwinds.

However the manufacturing sector continues to struggle. Domestic and export sales and order balances have now fallen considerably, suggesting that the sector is close to stagnation. Firms are looking to increase prices markedly in the next 12 months, but are also thinking about investing more in plant and machinery and training, suggesting that the sector is keen to make the most of low inflation and low interest rates to improve productivity.

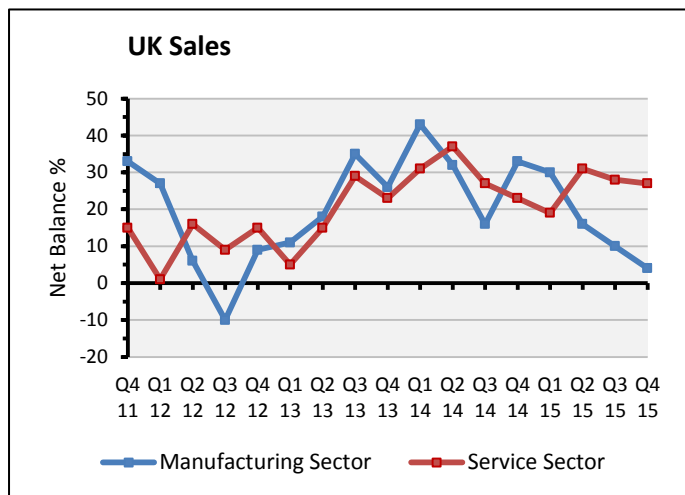
Coming after relatively weak figures in our Q3 survey, the falling balances in Q4 highlight the risk that the pace of growth may slow further. The results also underscore the serious obstacles that the UK will face when trying to rebalance the economy towards net exports. While worsening global circumstances are the main impediment, we are not doing enough closer to home to encourage businesses to trade overseas.

Key Findings in the Q4 Survey:

- In **manufacturing**, both domestic balances were down; **domestic sales** (+4%, down from +10% in Q3) and **domestic orders** (-1%, down from 0% in Q3).
- In **services**, the **domestic sales** balance weakened slightly (+27%, down from +28% in Q3); whilst the **domestic orders** balance remained static on Q3 (+21%).
- The **manufacturing export sales** balance remained in contraction, falling nine points (-13%, down from -4%). The **services export sales** balance also contracted, losing 13 points (-13%, down from neutral in Q3).
- Both sectors report workforce levels have fallen over the past three months. The **services employment** balance dropped 10 points (+19%, down from +29% in Q3) whilst the **manufacturing employment** balance was down 11 points (0%, down from +11% in Q3).
- The **manufacturing investment** balances saw some improvement in Q4, with increases in both training and capital investment plans.
- The balance of **manufacturing** firms reporting that **cashflow** had improved climbed four points (+8%, up from +4% in Q3); whilst the **services cashflow** balance was up seven points (+18%, up from +11% in Q3).
- Confidence that **turnover** and **profitability** will improve in the next twelve months weakened in both sectors.
- Intentions to **increase prices** rose markedly in **manufacturing**, (+18%, up from +9% in Q3). In **services** however, this fell to +15% (down nine points).
- 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

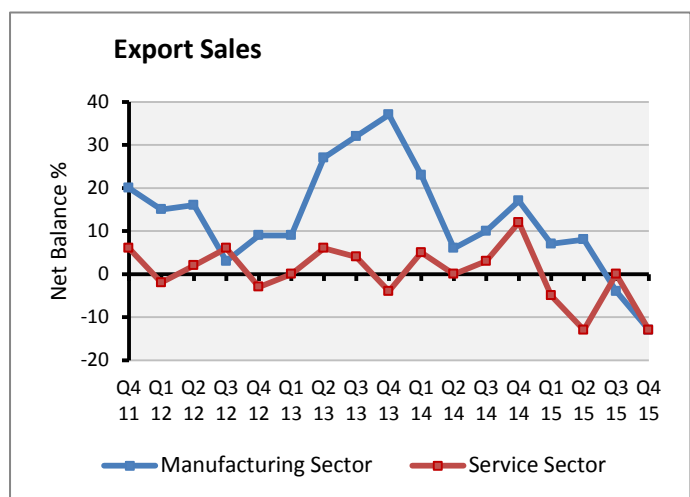


All of the domestic sales and orders balances weakened in Q4 and the decline was once again more pronounced in the manufacturing sector.

The manufacturing domestic sales balance lost six points this quarter (+4%, down from +10%), whilst the domestic orders balance was in retraction, losing a single point (-1%, down from 0%).

The service sector UK sales balance weakened by a single point (+27%, down from +28%) but still remains strong and above its historical average. The service sector orders balance remained static in Q4 (+21%).

Export Market

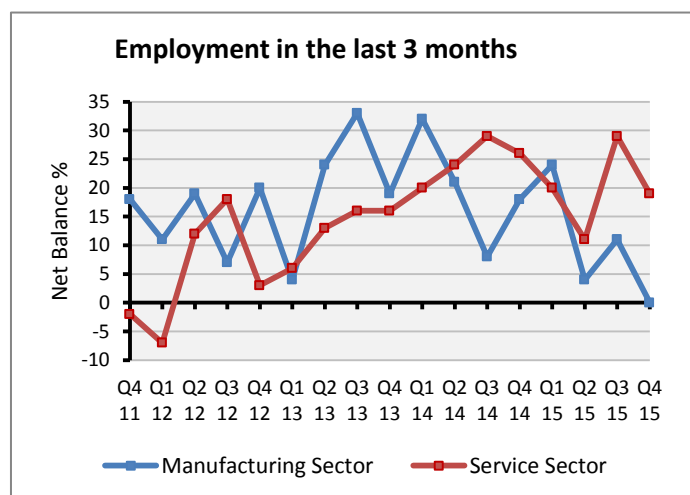


It has been another disappointing quarter for Lancashire exporters as the trend of falling export sales continued.

The manufacturing export sales balance lost nine points and went further in to contraction (-13%, down from -4% in Q2). After a quarter of recovery in Q3, the service sector export sales balance declined thirteen points (-13%, down from 0%) and matched its historical low of Q2 2015.

Looking at export orders over the next three months the picture was equally concerning. Both export order balances were in contraction with the manufacturing export orders balance reaching a record low (-23%, down from -5%) whilst the service sector export orders balance lost a further ten points (-15%, down from -5%).

Employment

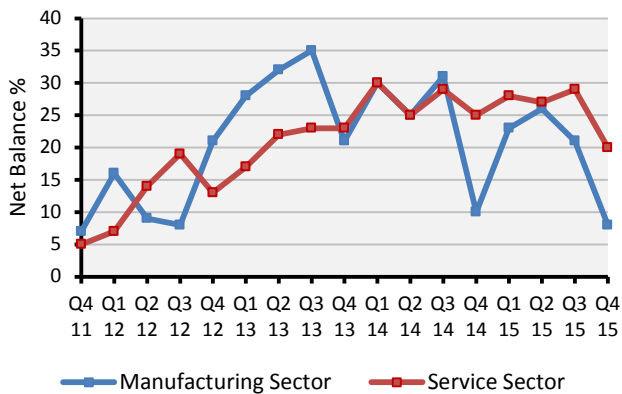


Both sectors have reported declining workforce numbers over the past three months although the service sector employment balances remain strong.

The net balance of service sector companies reporting that their workforce has increased was down ten points (+19%, down from +29%).

The retrospective employment balance for manufacturing was down eleven points and reached a new historical low for Lancashire (0%, down from +11%).

Employment in the next 3 months



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

The forward-looking employment balance for manufacturing fell thirteen points (+8%, down from +21%), whilst the service sector balance lost nine points (+29%, down from +20%) and remains above its historical average.

Recruitment

At least half of all firms have attempted to recruit in Q4 although there have been signs of weakening in their recruitment intentions. The percentage of manufacturing

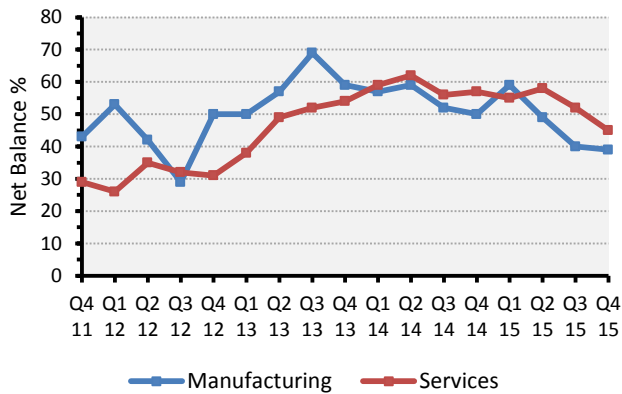
firms attempting to recruit in the last three months fell by three points (55%, down from 58%), whilst the percentage of service sector businesses attempting to recruit dropped eight points (50%, up from 58%).

Of all firms attempting to recruit, 45% were seeking to fill permanent vacancies (no change), with 23% looking to take on temporary workers (down 2%). 86% of firms attempted to recruit for full-time positions (up 4%), whilst 25% were offering part-time roles (down 3%).

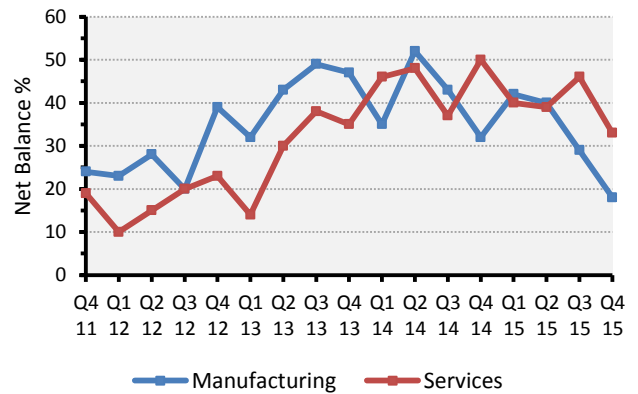
More than half of firms attempting to recruit said they experienced difficulties finding suitable staff (54%, down from 57%). In manufacturing, skilled manual and technical positions were again the most difficult to fill (65%, down from 74%); whilst service businesses had most difficulty recruiting for professional/managerial positions (51%, down from 52%).

Business confidence

Business confidence - Turnover



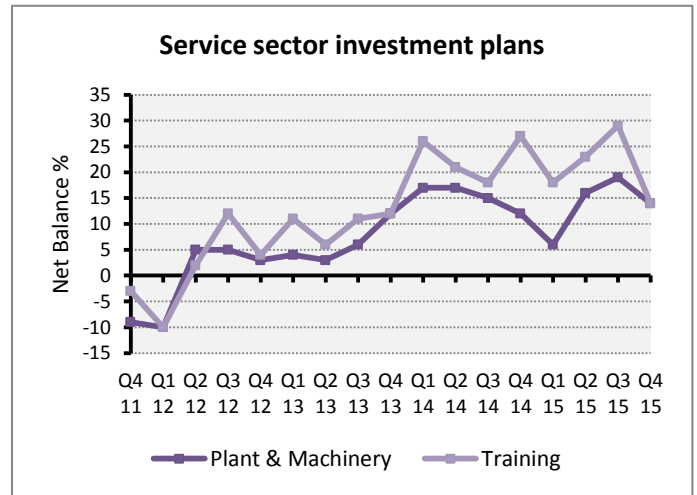
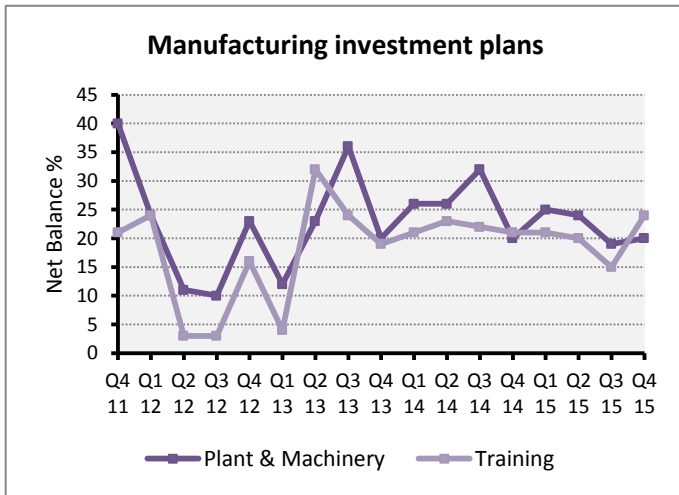
Business confidence - Profitability



There was a weakening in all four business confidence measures in Q4 as firms in both sectors appear less confident about turnover and profitability expectations in the year ahead. Overall the confidence balances still remain fairly strong apart from the manufacturing profitability balance which fell to a four-year low (+18%, down from +29%). The net balance of manufacturing companies expecting turnover to improve over the next 12 months was down one point (+39%, down from +40%).

In the service sector, the net balance of companies expecting turnover to improve over the next 12 months was down seven points (+45%, down from +52%). The services profitability balance weakened by thirteen points (+33%, down from +46%).

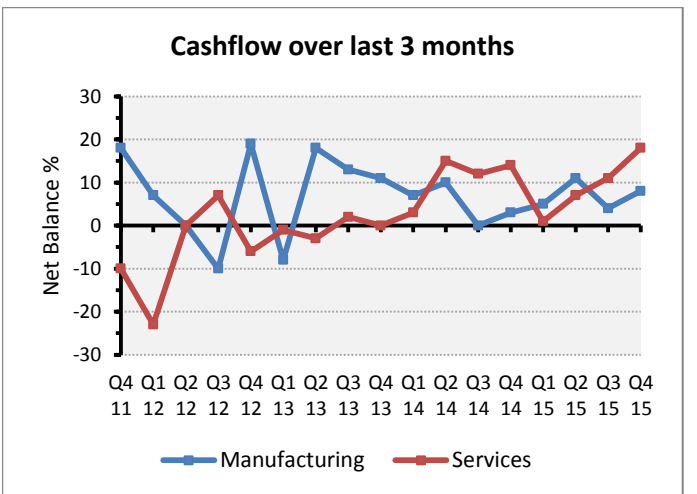
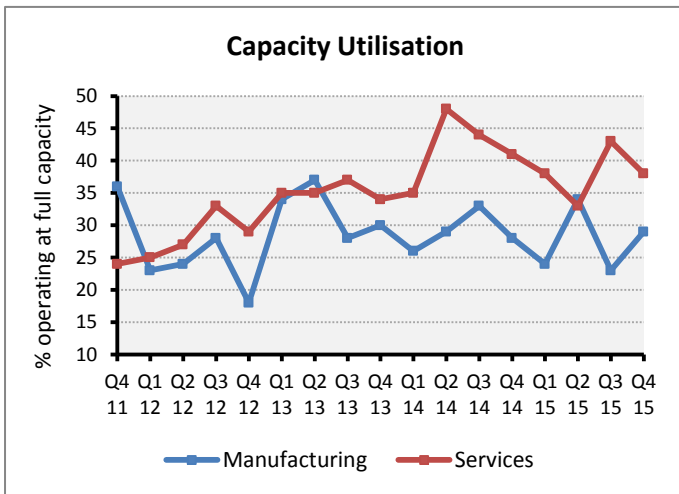
Investment intentions



Manufacturing investment intentions improved slightly this quarter. The training investment balance gained nine points (+24%, up from +15%) whilst the capital investment balance improved by a single point (+20%, up from +19%).

Both of the service sector investment balances fell back from their historical four-year high. The net balance of service sector firms planning to increase investment in training was down fifteen points (+14%, down from +29%), whilst the service sector capital investment balance dropped five points (+14%, down from +19%).

Capacity Utilisation and Cashflow

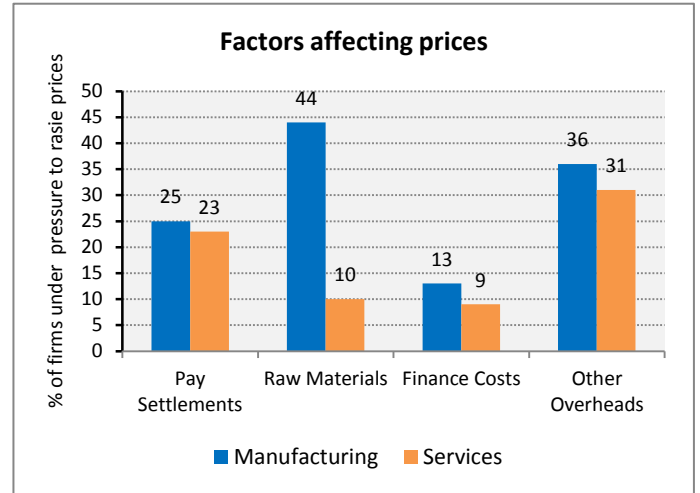
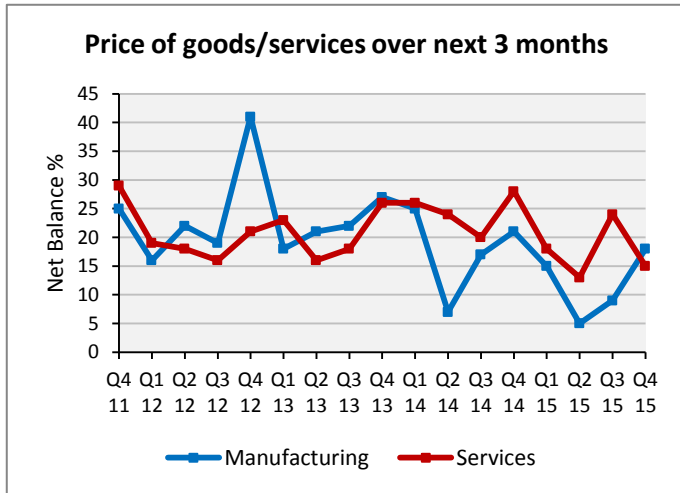


The share of manufacturing firms operating at full capacity in Q4 was up six points to 29% whilst the share of service firms operating at full capacity fell by five points to 38%.

The manufacturing cashflow balance improved by four points (+8%, up from +4%); whilst the services cashflow balance strengthened by seven points this quarter and reached a new high for the Lancashire QES (+18%, up from +11%).

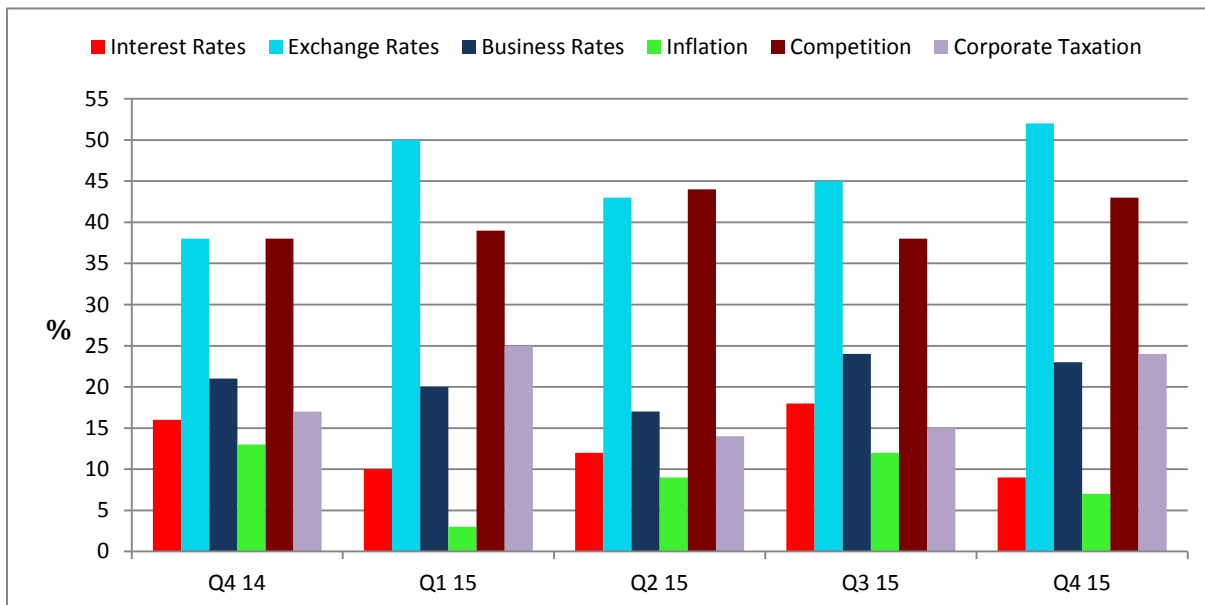
Prices

Almost three quarters of all firms in this survey (72%) expect prices to remain the same over the next quarter. However, manufacturing firms appear more likely to raise prices than those in the service sector. The net balance of manufacturing firms intending to increase prices went up nine points (+18%, up from +9%); whilst the service sector prices balance fell nine points climbed eleven points (+24%, down from +13%).



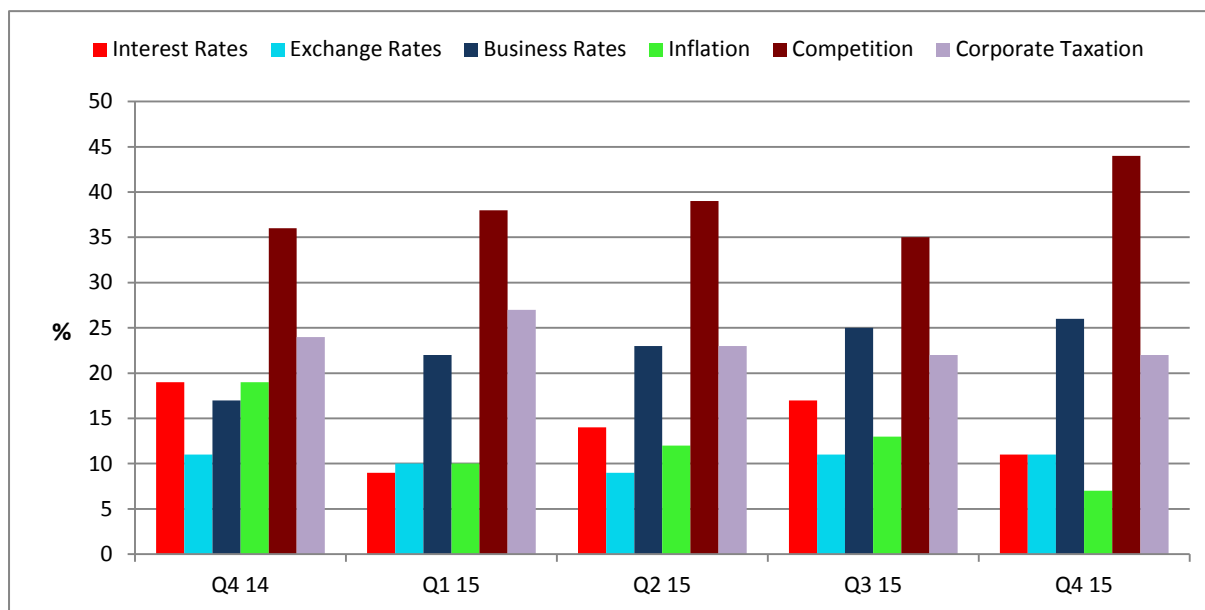
The cost of raw materials continues to be the biggest price pressure for manufacturers (44%, up from 35%), with pressure from other overheads the next biggest pressure (36%, up from 31%). In the services sector, other overheads remain the most significant price pressure (37%, up from 31%). 25% of manufacturing firms (up 1%) and 23% of service businesses (up 3%) 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 (52%, up from 45%). There was a nine per cent increase in businesses more worried about business taxation, whilst fears about competition rose by five points (43%, up from 38%). Manufacturers' concerns about interest rates, business rates and inflation all increased eased this quarter.

Business Concerns (external factors) – Services

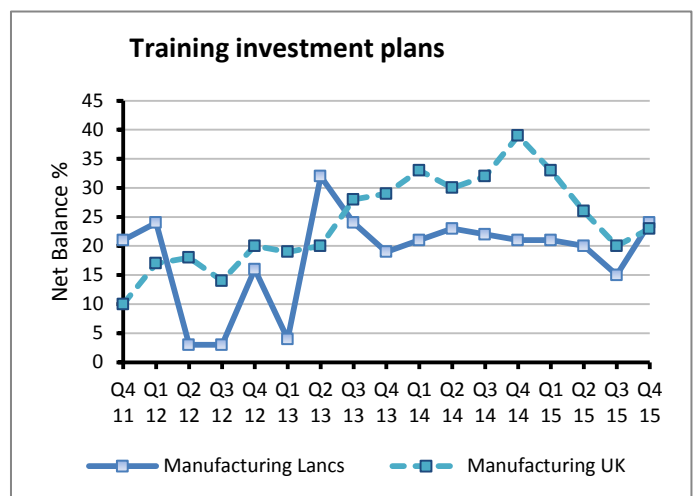
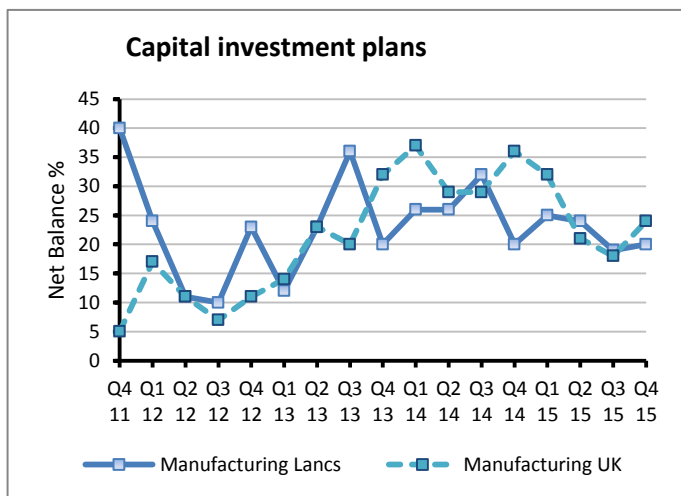
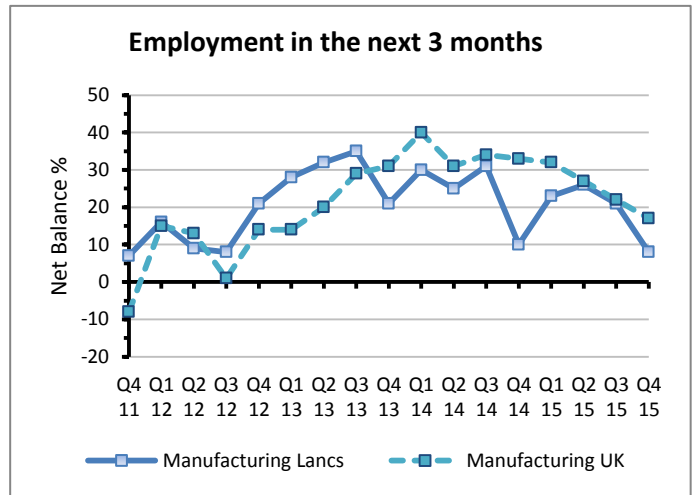
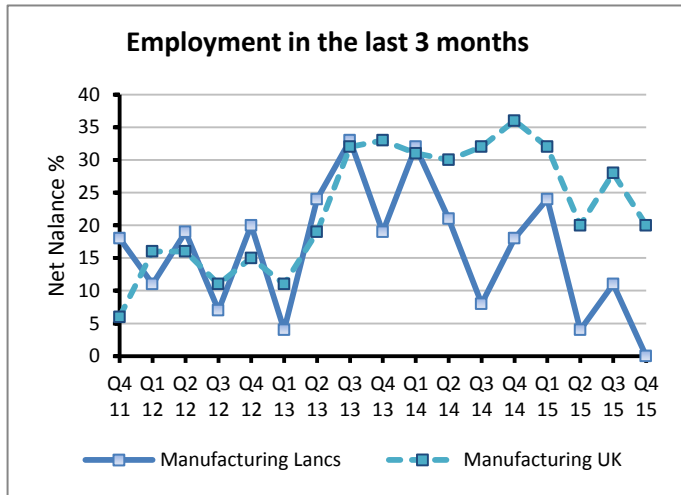
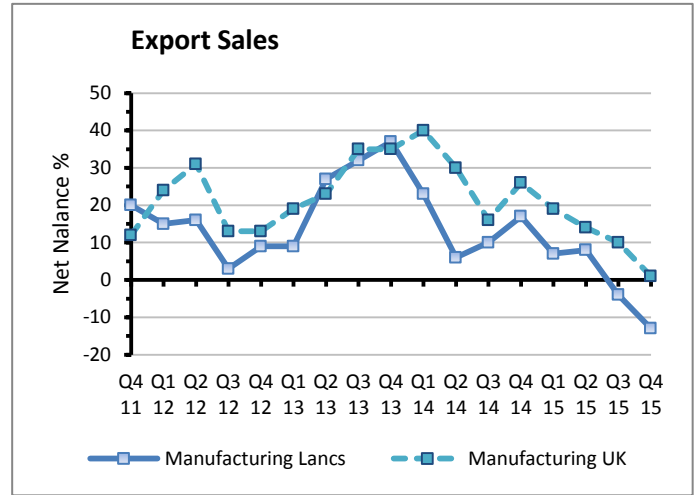
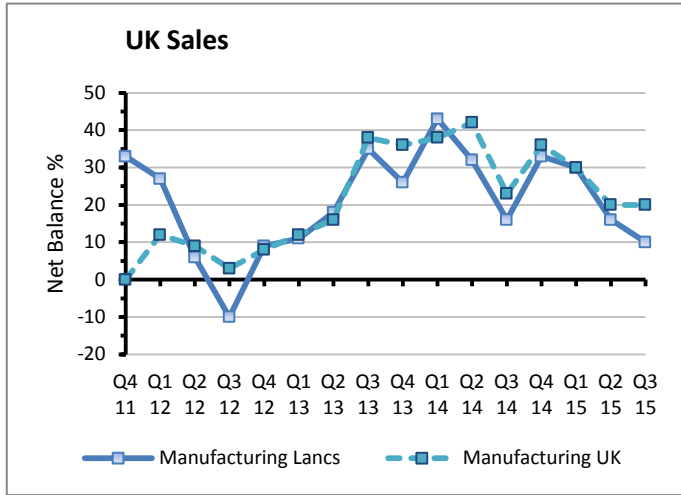


Business competition remains the most significant concern for firms in the service sector (44%, up from 35%); followed by business rates (26%, up from 25%). Worries about interest rates (11%) and inflation (7%) both weakened by six points this quarter, with concerns exchange rates (11%) and corporate taxation (22%) staying at the same level as three months ago.

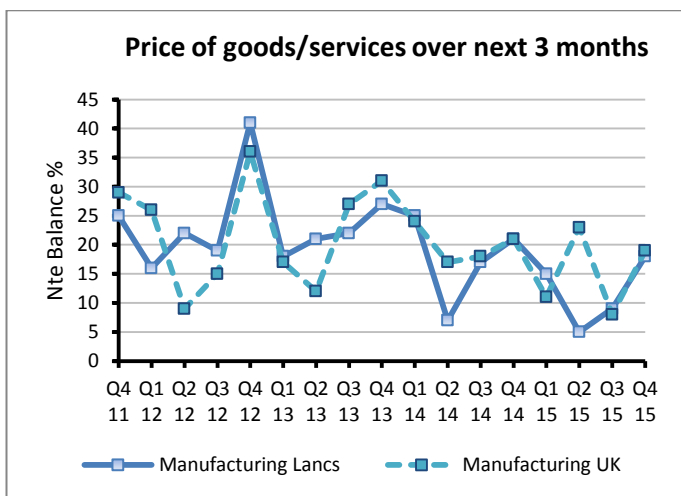
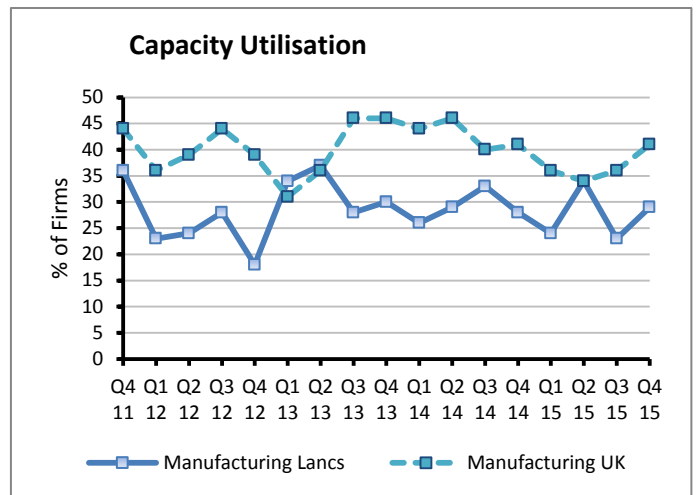
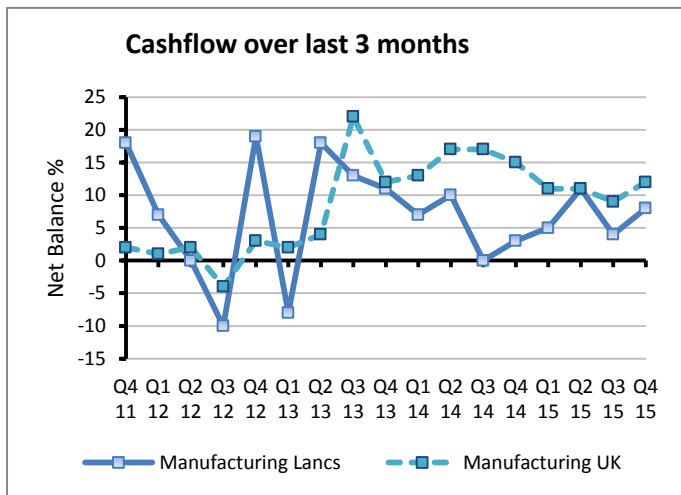
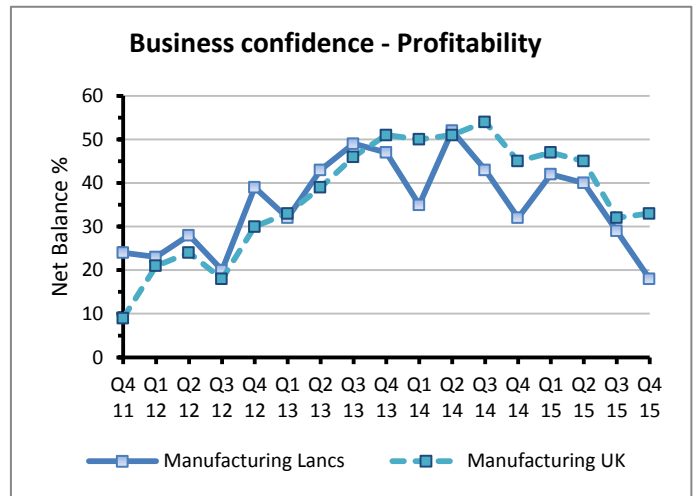
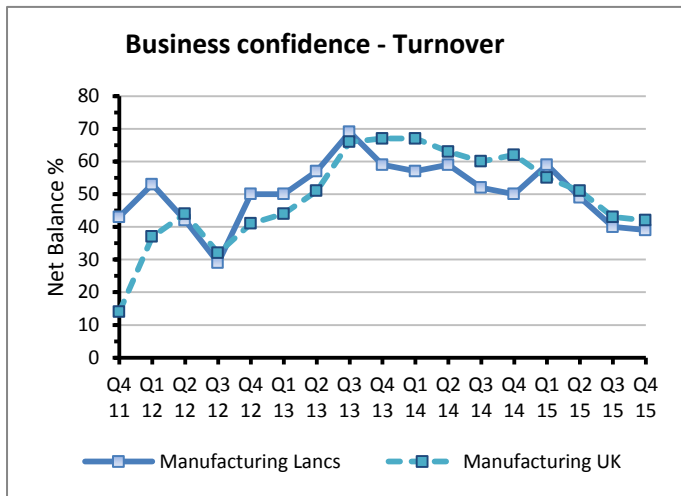
BALANCE CHANGES

	Manufacturing		Services		Quarterly Change	
	3Q 15	4Q 15	3Q 14	4Q 15	Manufacturing	Services
					Q4 2015	Q4 2015
Domestic Sales	10	4	28	27	-6	-1
Domestic Orders	0	-1	21	21	-1	0
Export Sales	-4	-13	0	-13	-9	-13
Export Orders	-5	-23	-5	-15	-18	-10
Employment last 3 months	11	0	29	19	-11	-10
Employment next 3 months	21	8	29	20	-13	-9
% Tried to recruit	58	55	58	50	-3	-8
% Part-time	19	8	34	35	-11	1
% Full-time	83	85	82	87	2	5
% Temporary	35	38	18	15	3	-3
% Permanent	44	38	45	49	-6	4
% Recruitment difficulties	43	51	64	56	8	-8
% Skilled manual	74	65	41	40	-9	-1
% Professional/Managerial	35	35	52	51	0	-1
% Clerical	26	22	24	24	-4	0
% Semi and unskilled	57	39	22	13	-18	-9
Cashflow	4	8	11	18	4	7
Investment - plant/machinery	19	20	19	14	1	-5
Investment - training	15	24	29	14	9	-15
Confidence - turnover	40	39	52	45	-1	-7
Confidence - profitability	29	18	46	33	-11	-13
% Full capacity	23	29	43	38	6	-5
Prices	9	18	24	15	9	-9
% Pay Settlements	24	25	20	23	1	3
% Raw materials	35	44	9	10	9	1
% Financial costs	8	13	8	9	5	1
% Other overheads	31	36	37	31	5	-6
<i>External Factors of more concern than 3 months ago</i>						
% Interest rates	18	9	17	11	-9	-6
% Exchange rates	45	52	11	11	7	0
% Business rates	24	23	25	26	-1	1
% Inflation	12	7	13	7	-5	-6
% Competition	38	43	35	44	5	9
% Tax	15	24	22	22	9	0

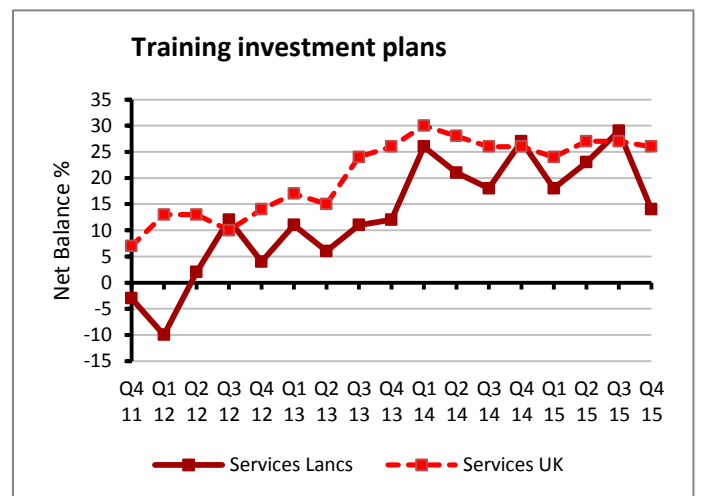
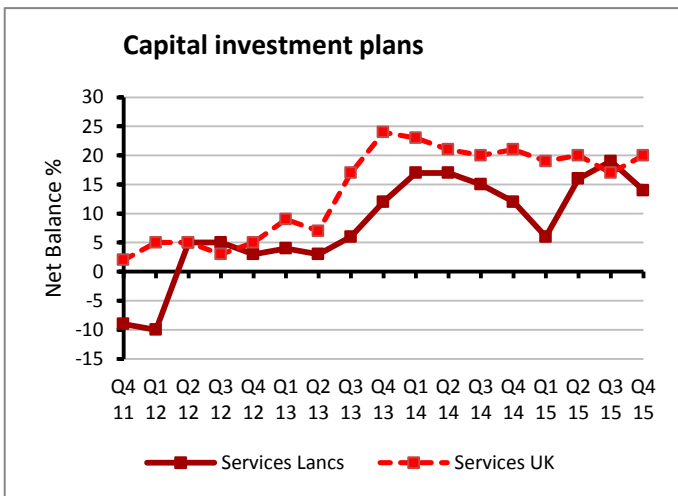
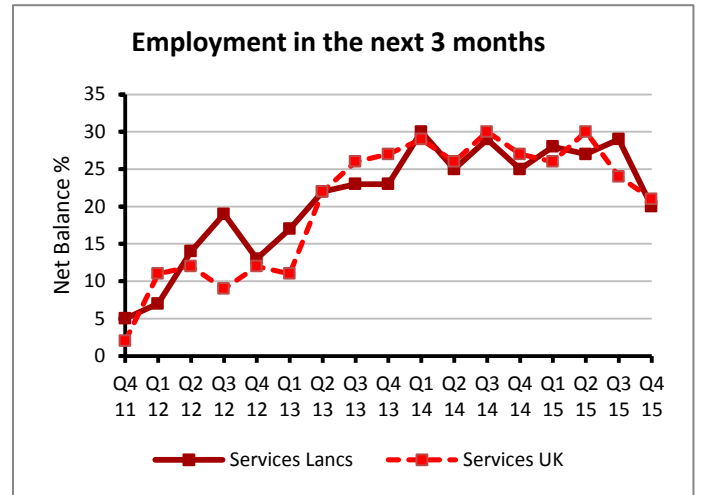
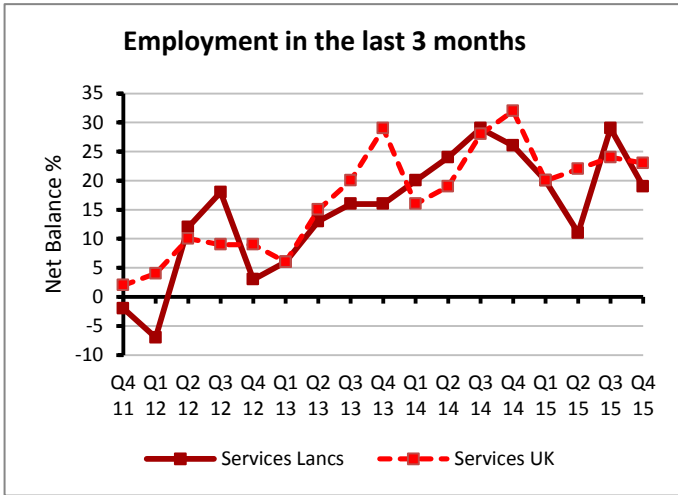
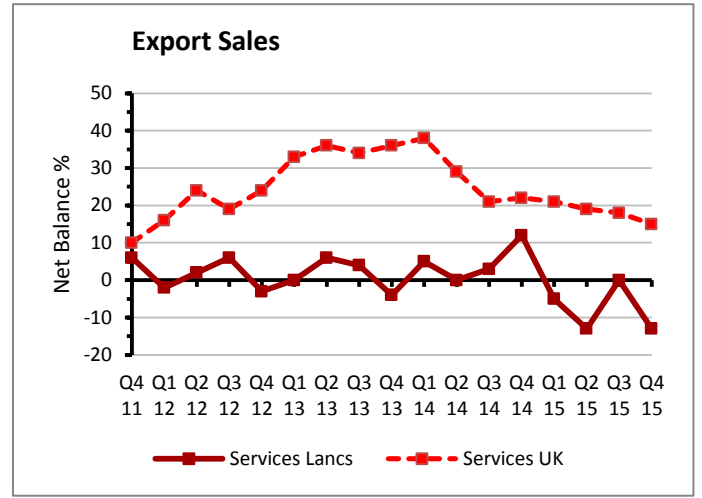
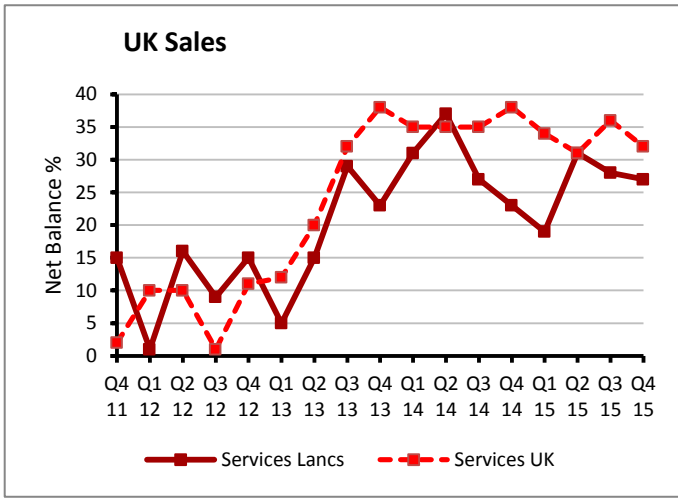
Lancashire/UK comparison – Manufacturing



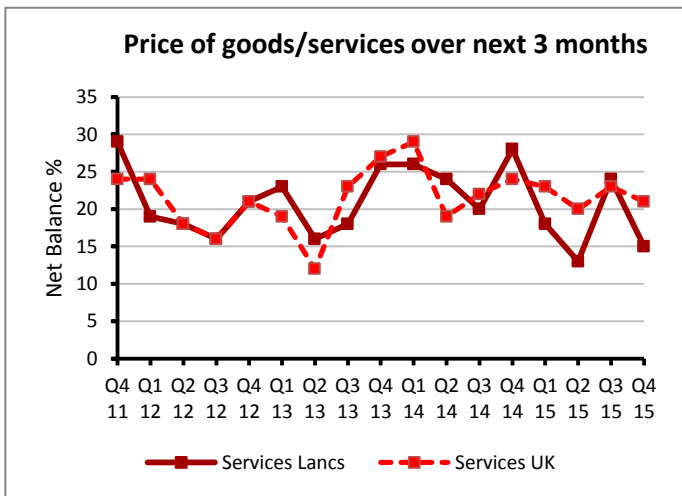
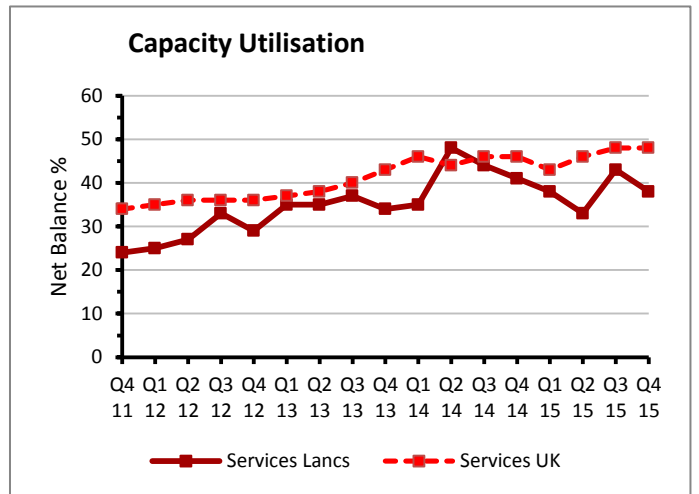
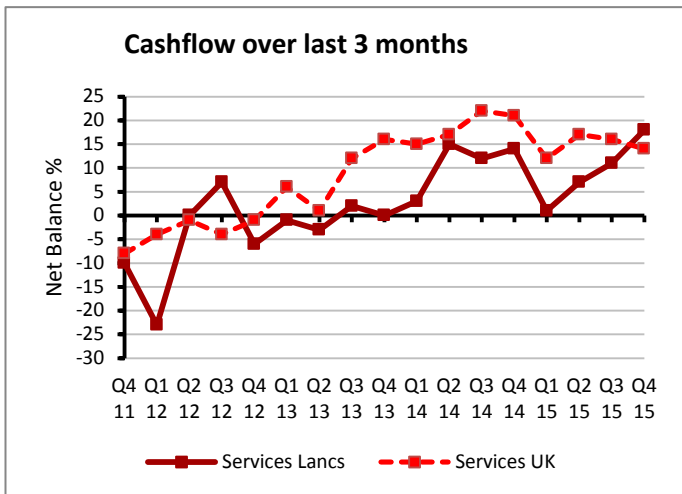
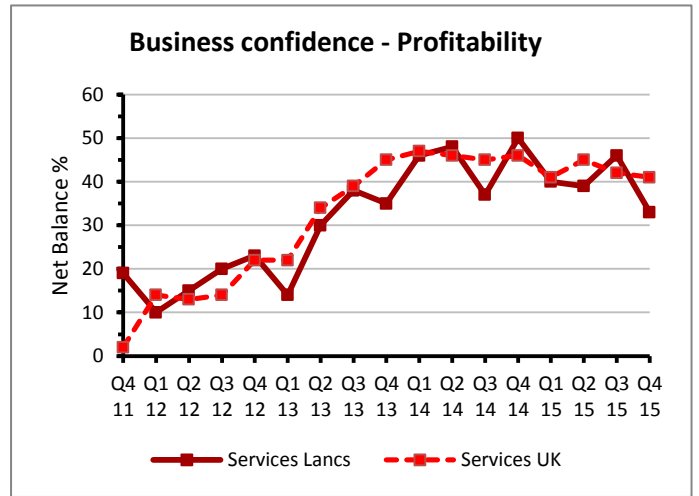
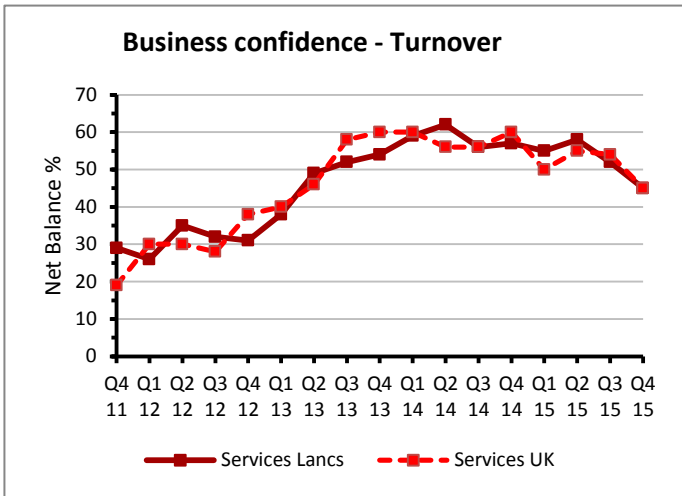
Lancashire/UK comparison – Manufacturing



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