

**QES** LANCASHIRE QUARTERLY  
ECONOMIC SURVEY

Quarter 4, 2017

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## About this Quarter's Survey

The Q4 2017 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 MHA Moore & Smalley Chartered Accountants and Business Advisors.

- The survey collection period was from 6<sup>th</sup> November to 27<sup>th</sup> November 2017.
- Responses were received from 253 companies across Lancashire employing 14,060 people.
- From the manufacturing sector, 94 business (37%) employing 8,638 people responded to the survey.
- From the service sector, 159 businesses (63%) employing 5,422 people responded to the survey.
- 152 companies (60%) 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 results suggest a further slowdown in Lancashire economy with most key balances down on the previous quarter and in some cases worse than a year ago. All of the domestic sales and order balances weakened in Q4, and it was a similar picture for export markets although the manufacturing sector continues perform well by recent historical standards.

In the service sector, the main driver of the economy, growth remains muted and is below historic averages. The proportion of firms confident that turnover and profitability will improve in the next year decreased, and firms reporting improved cashflow remains low. There was also a considerable decline in the retrospective and forward looking employment balances for service sector firms, as well as a fall in the percentage of service businesses attempting to recruit. Investment intentions were also down on the previous quarter.

In manufacturing, there was a significant rise in the number of firms reporting that their workforce levels had increased in the past three months and there was also a small increase in the capital investment balance. However, nearly all other indicators including turnover and profitability expectations, training investment plans, recruitment intentions, domestic and overseas sales, were all weaker.

The results also show that firms are still under considerable pressure to increase prices with 43% of firms in the survey expecting to increase the price of their goods and services in the next three months. Raw material costs and exchange rate fluctuations are of greatest concern to manufacturers, whilst overhead costs and inflation are having a greater impact on service businesses.

### Key findings in the Q4 2017 survey:

#### Manufacturing sector:

- The balance of firms reporting increased export sales fell from +28 to +22. Export orders increased from +18 to +23. The balance of firms reporting increased domestic sales fell from +27 to +18 and domestic orders from +16 to +12.
- The percentage of manufacturers that attempted to recruit in the last three months increased from 63% to 64%. Of those, 58% had recruitment difficulties. Of these, skilled manual labour was the leading area of recruitment difficulties (55%).
- The balance of manufacturers expecting their prices to increase was up from +41 to +42; with the cost of raw materials remaining the key driver, with 72% reporting it as a cause of price pressure.
- The balance of firms confident turnover will increase in the next 12 months fell from +51 to +43, while confidence in profitability also fell by eight points (+28, down from +36)
- The balance of companies reporting cashflow improvements remains low at +8, while the balance of firms investing in plant and machinery was up from +24 to +26. Investment in training was down from +20 to +17.

#### Services sector:

- The balance of firms reporting improved export sales fell from +13 to -1 (a contraction) whilst the export orders balance was down from +7 to +2. Domestic sales shrunk from +24 to +15, while the UK orders balance was down from +16 to +7.
- The percentage of businesses attempting to recruit was down from 54% to 46%. Of those, the percentage of services firms reporting recruitment difficulties rose from 63% to 65%.
- The balance of services firms expecting prices to increase rose from +34 to +36.
- The services cashflow balance improved but remains very weak, climbing from -4 to +4. Investment intentions also remain muted, with investment in plant and machinery standing at -7 (down from +9) and training +13 (down from +16)
- The balance of firms confident turnover will increase fell from +53 to +34, the weakest since Q4 2012. Confidence in profitability also fell from +40 to +23.

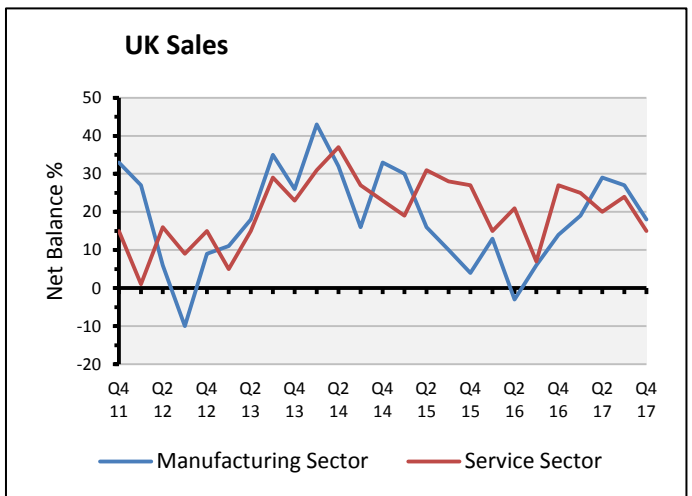
**+Positive number represents an expansion -Negative number represents a contraction**

## Domestic Market

Both manufacturing and service sector businesses have seen UK sales and orders slowdown in Q4 with all four domestic balances shrinking on the previous quarter.

In manufacturing, the UK sales balance lost nine points this quarter, (+18%, down from +27%) whilst the advance sales/orders balance weakened by four points (+12%, down from +16%). On a positive note, year on year comparison shows that the domestic sales balance for this quarter (+18%) remains three points stronger than in Q4 2016.

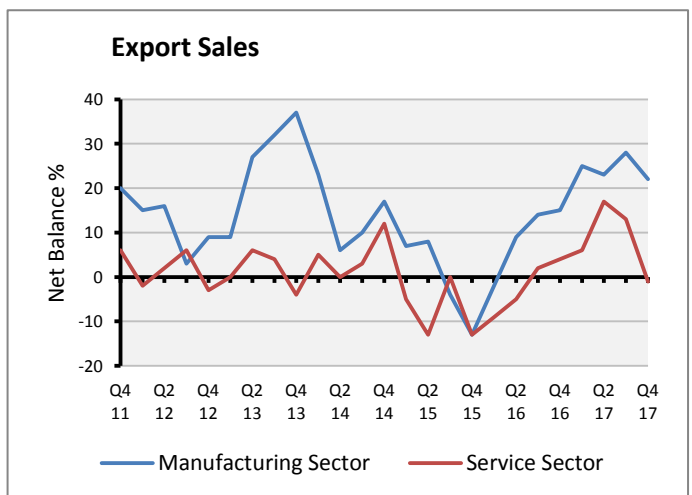
The services UK sales balance lost nine points in Q4 (+15%, down from +24%); and was matched by the fall in the advance orders/bookings balance which shrank from +16% to +7%. Year on year, the service sector UK sales balance is 12 points weaker than Q4 2016.



## Export Market

After several quarters of steady export growth since the lows of Q4 2015, this quarter has seen a weakening in the export balances especially in the service sector. The services export sales balance contracted fourteen points (-1%, down from +13%) whilst the export orders balance was down five points (+2%, down from +7%).

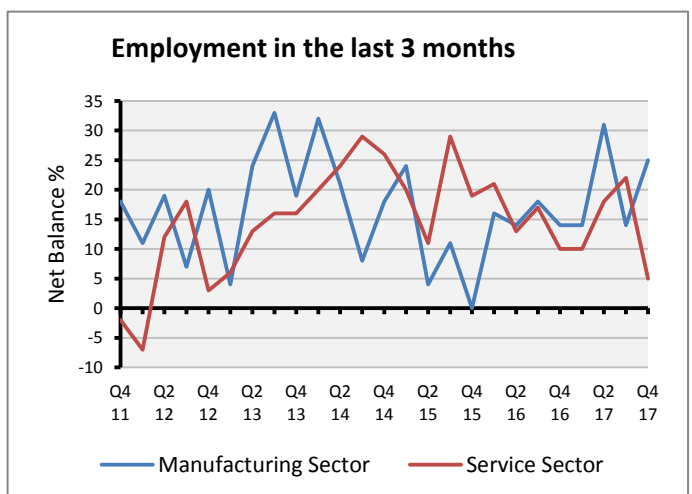
The manufacturing sector continues to drive export growth in Lancashire and despite the export sales balance losing six points in Q4 (+22%, down from +28%) it remains above its historical average. Looking forwards, there was further good news in manufacturing as the export orders balance gained five points this quarter (+18%, down from +25%).



## Employment

This quarter's results show a contrasting picture in terms of employment growth. The highlight was an 11 point increase in the net balance of manufacturing companies reporting that their workforce has increased over the past three months (+25%, up from +14%). However there was a slight weakening in the net balance of manufacturers expecting their workforce to increase in the three months ahead (+15, down from +18%).

In the services sector, both employment balances weakened in Q4. The balance of firms reporting an increase in their workforce over the past three months lost 17 points (+5%, down from +22%) reaching its lowest level for five years. The forward-looking employment expectations balance lost eight points (+19%, down from +27%).

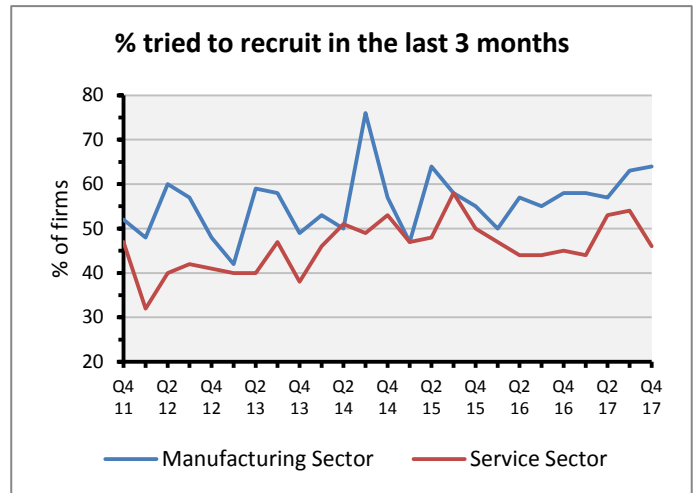


## Recruitment

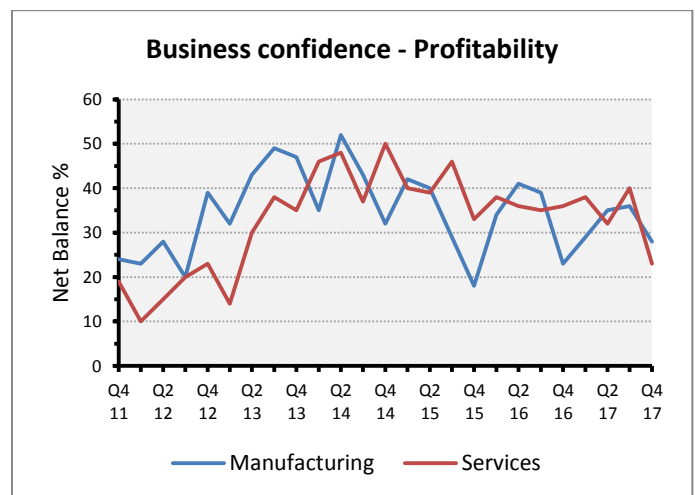
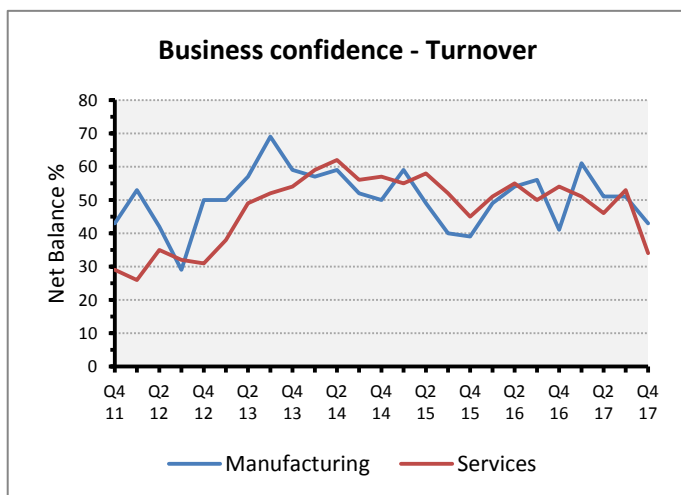
The overall percentage of firms attempting to recruit in the past three months was down slightly on Q3, mainly as result of fewer service businesses trying to recruit. 64% of manufacturing firms attempted to recruit (up 1%); compared with 46% of service businesses (down 8%).

Of all firms attempting to recruit, 44% were seeking to fill permanent vacancies (up 5%), with 19% looking to take on temporary workers (up 2%). 80% of firms attempted to recruit for full-time positions (down 3%), whilst 24% were offering part-time roles (up 4%).

62% of firms attempting to recruit said they experienced difficulties finding suitable staff (up from 60%). For manufacturing firms, skilled manual and technical positions continue to be the most difficult to fill (55%, down from 67%). Service sector businesses found that professional/managerial positions were the most difficult for them to fill this quarter (51%, down from 56%).



## Business confidence



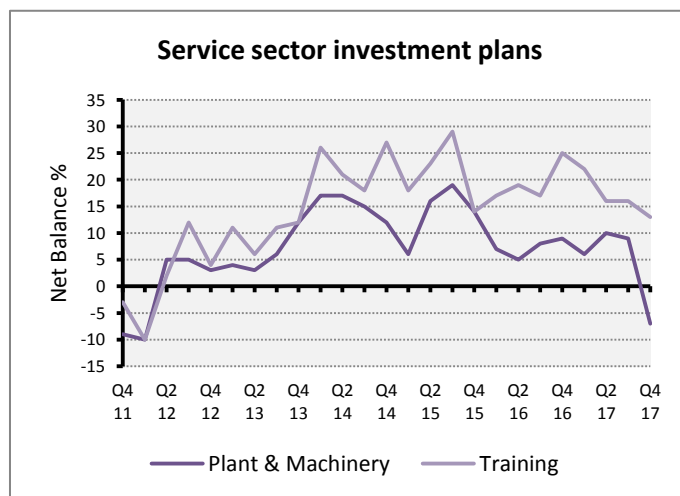
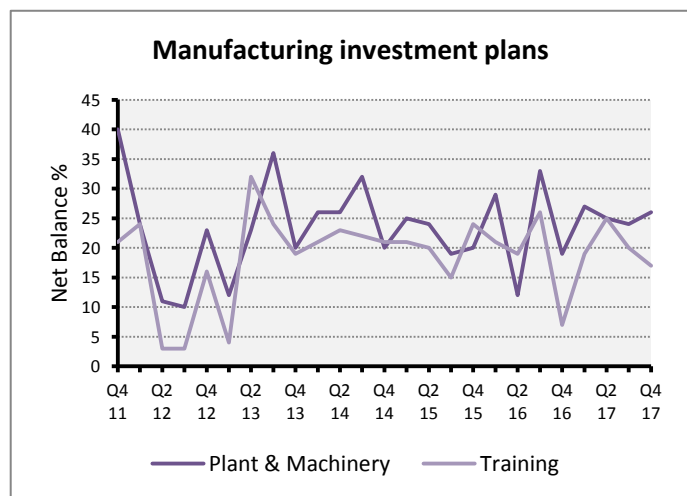
Looking at turnover and profitability expectations over the next 12 months, all of the business confidence balances weakened in Q4. The net balance of manufacturing companies expecting turnover to improve in the coming year lost 8 points (+43%, down from +51%), as did the manufacturing profitability balance (+28%, down from +36%).

Weakening confidence was more apparent in the services sector, with the net balance of firms expecting turnover to improve down 19 points (+34%, up from +53%); whilst the services profitability balance lost 17 points on the previous quarter (+23%, down from +40%).

Fewer businesses reported that they were operating at full capacity in Q4 (31%, down from 35%).

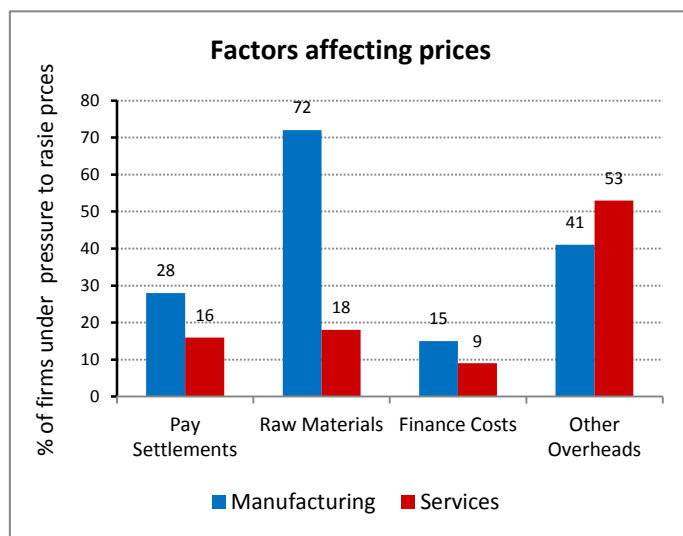
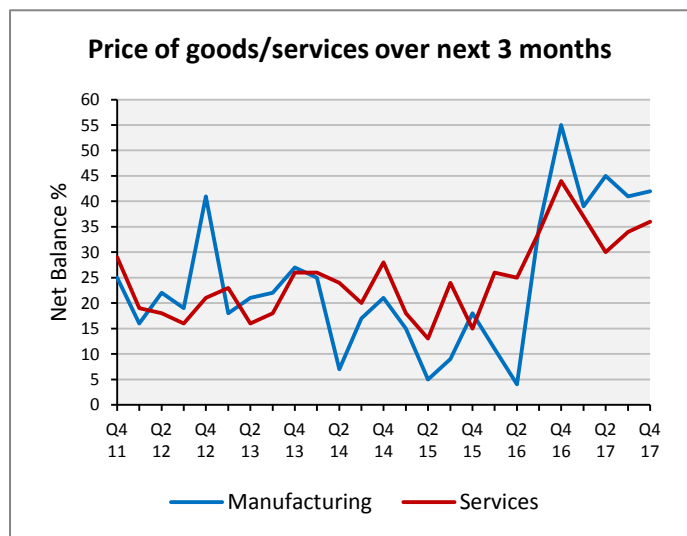
Cashflow continues to be a problem for Lancashire businesses, although there was some improvement in both sectors on the previous quarter. The net balance of services firms reporting that say their cashflow improved over the past three months gained 8 points (+4%, up from -4%); whilst the manufacturing cashflow balance improved slightly, up four points (+8%, up from +4%).

## Investment intentions



Three out of four investment balances weakened this quarter, with the capital (plant & machinery) investment balance in the service sector in contraction for the first time since Q1 2012. In manufacturing, the capital investment balance gained two points (+26%, up from +24%); whilst the training investment balance lost three points (+17%, down from 20%). Investment intentions in the services sector are well below their historical average - the training investment balance down three points (+13, down from +16%), whilst the capital investment balance lost 16 points (-7%, down from +9%).

## Prices

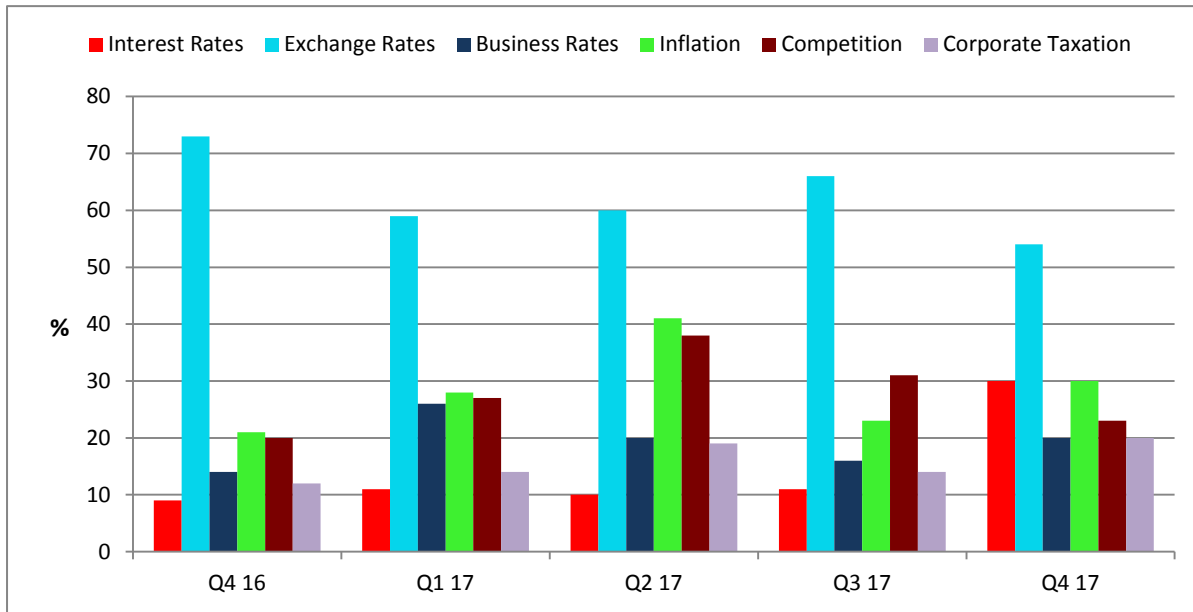


Both sectors have seen slight increases in the proportion of businesses expecting prices to increase in the next three months. In the services sector, the percentage balance of firms expecting their prices to rise climbed two points to +36%, the highest since Q4 2016. In the manufacturing sector, the percentage balance of firms expecting their prices to rise increased from +41% to +42%.

In terms of factors affecting the price of goods and services, 72% of manufacturers said they were under more pressure to raise prices because of raw material costs (down 9%), with 41% under more pressure as a result of other overhead costs (up 8%). There was also ten point increase in manufacturers under pressure to raise prices because of pay settlements (28%, up from 18%).

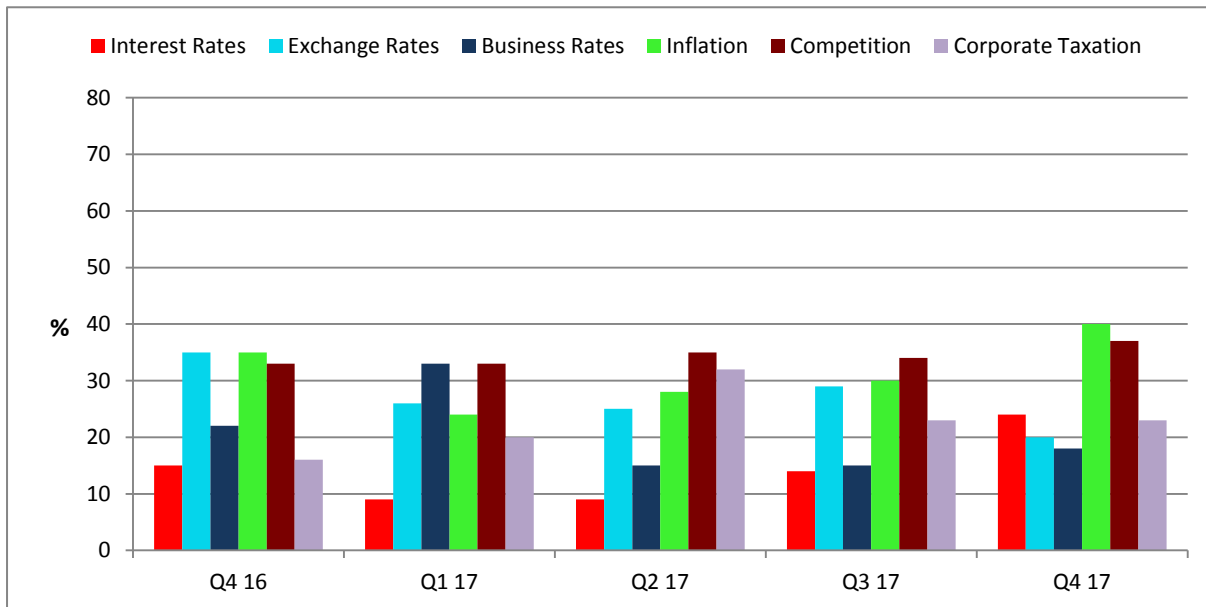
Prices in the service sector continue to be under greatest pressure from other overheads (53%, up from 41%). The cost of raw materials was the second greatest pressure on services firms (18%, down from 28%), with pressure from pay settlements (16%, down from 17%) and finance costs (9%, down from 11%) remaining relatively unchanged on the previous quarter.

## Business Concerns (external factors) - Manufacturing



In terms of external factors that are of greater concern than three months ago, exchange rates continue to be the biggest issue for manufacturing firms (54%, down from 66%). The percentage of businesses more worried about inflation rose by seven points (30%, up from 23%) whilst the largest increase in was in those more concerned about interest rates (30%, up from 11%). Those more concerned about competition dropped eight points this quarter (23%, down from 31%).

## Business Concerns (external factors) – Services



There was a ten point increase in the percentage of service businesses more concerned about inflation (40%, up from 30%) and interest rates (24%, up from 14%) than 3 months ago. Inflation has now overtaken competition (37%, up from 34%) as the external factor of most concern in the sector. There was a minor increase in those more concerned about business rates in Q4 (18%, up from 15%) whilst concerns over exchange rates eased off (20%, down from 29%).

**BALANCE CHANGES**

	Manufacturing		Services		Quarterly Change	
	Q3	Q4	Q3	Q4	Manufacturing	Services
	2017	2017	2017	2017	Q4 2017	Q4 2017
Domestic Sales	27	18	24	15	-9	-9
Domestic Orders	16	12	16	7	-4	-9
Export Sales	28	22	13	-1	-6	-14
Export Orders	18	23	7	2	5	-5
Employment last 3 months	14	25	22	5	11	-17
Employment next 3 months	18	15	27	19	-3	-8
% Tried to recruit	63	64	54	46	1	-8
% Part-time	11	10	26	35	-1	9
% Full-time	85	74	81	85	-11	4
% Temporary	16	24	18	15	8	-3
% Permanent	37	44	40	43	7	3
% Recruitment difficulties	57	58	63	65	1	2
% Skilled manual	67	55	42	33	-12	-9
% Professional/Managerial	31	24	56	51	-7	-5
% Clerical	23	21	27	20	-2	-7
% Semi and unskilled	44	48	27	16	4	-11
Cashflow	4	8	-4	4	4	8
Investment - plant/machinery	24	26	9	-7	2	-16
Investment - training	20	17	16	13	-3	-3
Confidence - turnover	51	43	53	34	-8	-19
Confidence - profitability	36	28	40	23	-8	-17
% Full capacity	34	25	35	35	-9	0
Prices	41	42	34	36	1	2
% Pay Settlements	18	28	17	16	10	-1
% Raw materials	81	72	28	18	-9	-10
% Financial costs	11	15	11	9	4	-2
% Other overheads	33	41	41	53	8	12
<i>External Factors of more concern than 3 months ago</i>						
% Interest rates	11	30	14	24	19	10
% Exchange rates	66	54	29	20	-12	-9
% Business rates	16	20	15	18	4	3
% Inflation	23	30	30	40	7	10
% Competition	31	23	34	37	-8	3
% Tax	14	20	23	23	6	0





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