

**QES** LANCASHIRE QUARTERLY  
ECONOMIC SURVEY

Quarter 2, 2017

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## About this Quarter's Survey

The Q2 2017 Survey was conducted by the North & Western Lancashire Chamber of Commerce, the Chamber of Commerce East Lancashire in conjunction with Moore & Smalley Chartered Accountants and Business Advisors.

- The survey collection period was between 22<sup>nd</sup> May and 12<sup>th</sup> June 2017.
- Responses were received from 240 companies across Lancashire employing 15,425 people.
- From the manufacturing sector, 98 business (41%) employing 9,399 people responded to the survey.
- From the service sector, 142 businesses (59%) employing 6,026 people responded to the survey.
- 163 companies (68%) 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 shows that Lancashire firms are continuing to experience growth despite global economic uncertainty and ongoing concerns about Britain's exit from the European Union. The manufacturing sector has had a stronger quarter in terms of domestic sales and the weaker pound has continued to help exports in both sectors. However, there should be a note of caution as the service sector – which has been the key driver of the economy – has seen the UK sales balance weaken for a second successive quarter.

After a period of relatively weak employment growth, there has been a notable rise in the percentage of firms reporting an increase in workforce levels over the past three months. There is also an expectation that workforce levels will increase further in Q3 although perhaps not as strongly in the service sector.

Turnover and profitability expectations for the year ahead remain relatively unchanged, as have investment plans across both sectors. However, the survey has revealed that more firms are experiencing difficulties with cashflow.

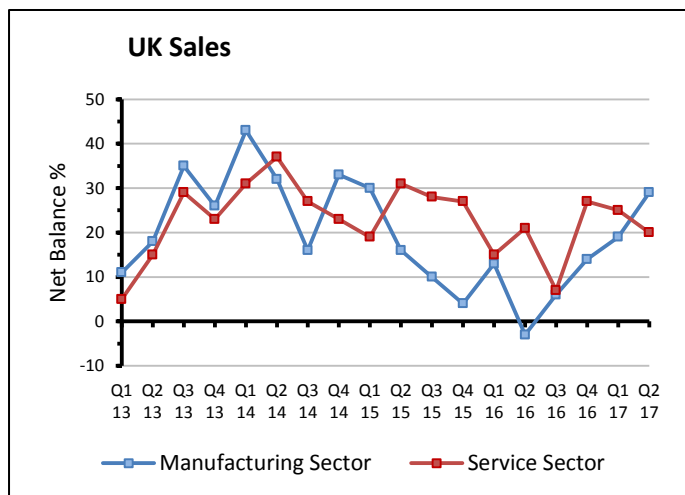
The balance of firms expecting prices to rise has weakened slightly, but remains close to the historically high levels seen in the wake of the EU referendum. The percentage of manufacturers reporting raw materials as the key driver of increased prices remains near record highs.

### Key Findings in the Q2 2017 Survey:

- Overall the figures for both sectors indicate growth in the Lancashire economy, albeit at a fairly slow pace.
- In the manufacturing sector, both domestic balances improved in Q2. The UK sales balance increased by ten points (+19 to +29), whilst the domestic orders balance was up five points (from +13 to +18). Export sales and orders held relatively steady during the quarter; the manufacturing export sales balance down slightly from +25 to +23, although export orders improved from +21 to +25.
- In services, the balance of firms reporting increasing domestic sales fell from +25 to +20 and domestic orders fell from +21 to +14. Service sector exports had a better three months but still remain weak. The balance reporting increasing export sales rose from +6 to +17 whilst export orders rose from +0 to +9.
- The percentage balance of manufacturing firms expecting the price of their goods to increase over the next three months has risen to almost the record levels seen in Q4 2016 (from +39 to +45), although fell in services from +37 to +30.
- Manufacturers are experiencing continued pressure from the cost of raw materials, with 79% reporting this as the cause of price increases (up from 71%). Pressure from financial costs also rose in both sectors, rising from 8% to 11% in manufacturing and 12% to 13% in services.
- Looking at turnover and profitability expectations over the next 12 months, there was a slight weakening in three out of four confidence measures with only the manufacturing profitability balance increasing in Q2 (+35, up from +29).
- However, the balance of firms in both sectors reporting improved cashflow remains at historical lows, at zero in manufacturing and +8 in services
- Although concerns about exchange rates have generally eased since last year's EU referendum, 60% of manufacturers say they are more concerned about exchange rates than they were 3 months ago, whilst 25% of service business said similar.

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

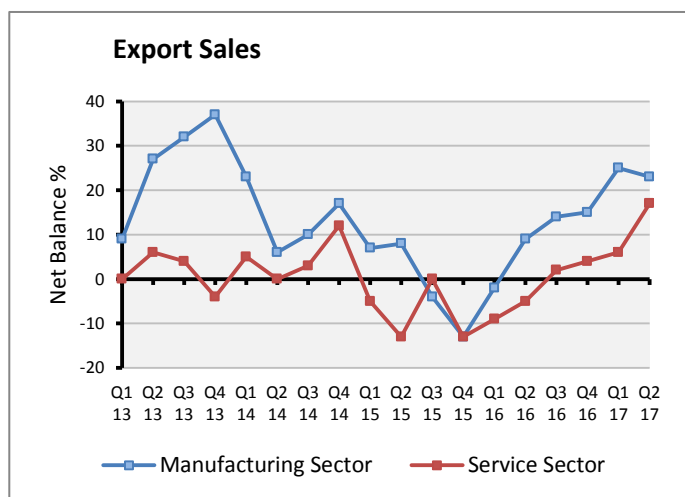
## Domestic Market



The Q2 2017 results show a fourth successive quarter of UK sales growth for manufacturing firms, with the domestic sales balance gaining ten points on Q1 (+29%, up from +19%). Year on year comparison shows a thirty-two point improvement in the manufacturing domestic sales balance, which was in contraction at -3% in Q2 2016. The manufacturing advance sales/orders balance also improved by five points this quarter (+18%, up from +13%).

For service businesses, the UK sales balance has weakened slightly (+20%, down from +25%) but levels of sales growth remains encouraging. However, the services advance orders/bookings balance also weakened in Q2 (+14%, down from +21%) perhaps hinting at a slowdown in consumer spending in the coming months.

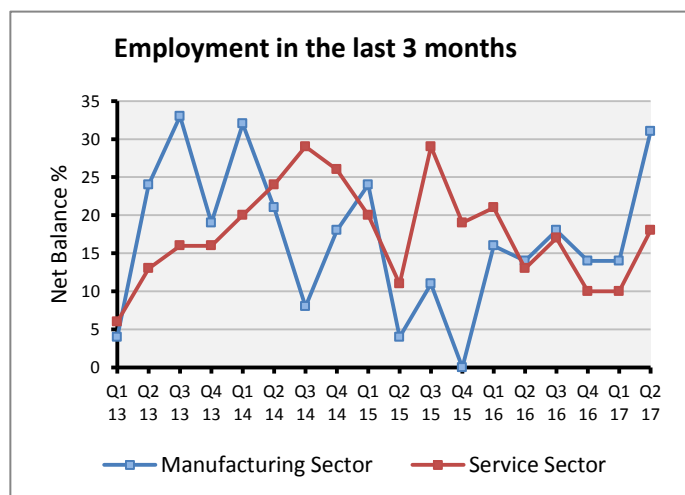
## Export Market



The survey results show another strong quarter for manufacturing exports, although not quite as strong as in the first three months of the year. The manufacturing export sales balance weakened slightly on Q1 (+23%, down from +25%), but remains well above the average over the last three years. The manufacturing export orders balance gained four points (+25%, up from +21%) and is also above its historical average.

There was positive news for service sector exports as the sales balance gained eleven points on Q1 (+17%, up from +6%) and reached its highest point in four years. The services export orders balance gained nine points from a neutral balance in Q1. The fall in the value Sterling since the vote to leave the EU continues to give exporters a boost.

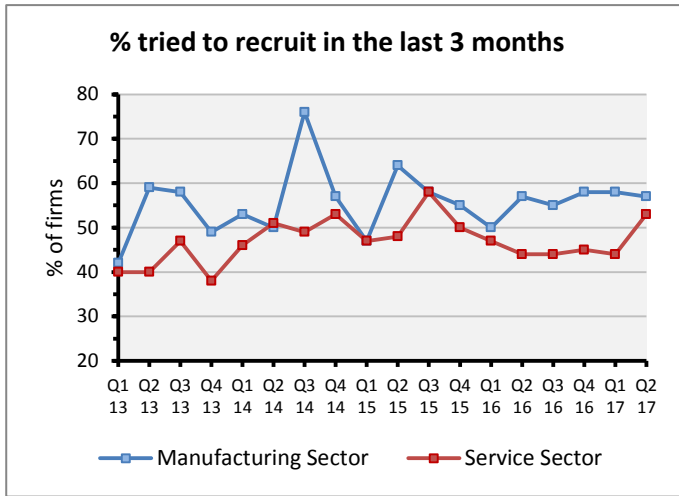
## Employment



Following six months of shallow growth in employment levels, Q2 has seen a sizeable jump in the percentage of firms that have increased their workforce. The services employment balance gained eight points (+18%, up from +10%); whilst the manufacturing employment balance increased by seventeen points (+31%, up from +14%). In real terms, 34% of firms across both sectors reported that their labour force had increased in the past three months, whilst 11% reported a fall in numbers.

Looking at employment expectations over the next three months, the forward-looking employment balance for manufacturing gained eight points (+35%, up from +27%); whilst the service sector balance was down four points (+25, down from +29).

## Recruitment



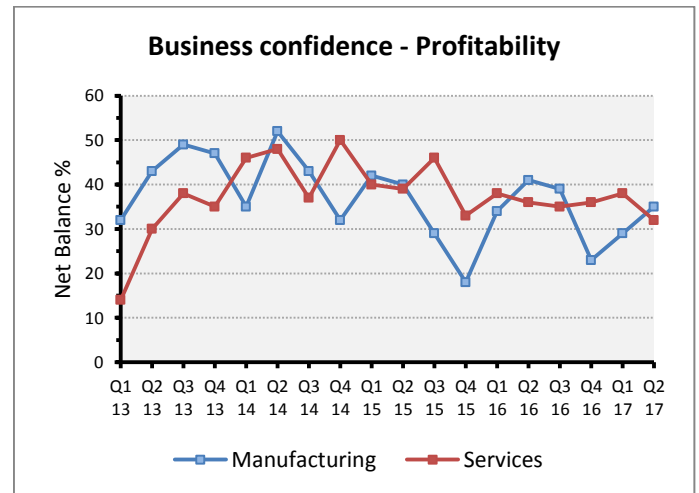
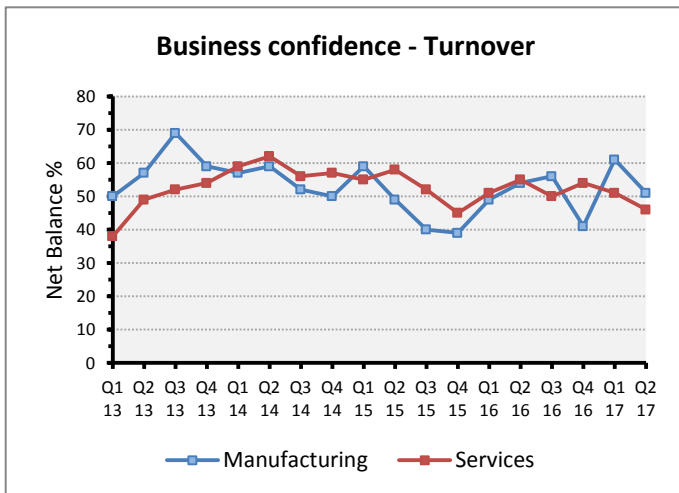
The percentage of firms attempting to recruit in the last three months has seen little change. 57% of manufacturing firms had attempted to recruit (down 1%); compared with 53% of service businesses (up 9%).

Of all firms attempting to recruit, 53% were seeking to fill permanent vacancies (up 6%), with 23% looking to take on temporary workers (up 2%). 82% of firms attempted to recruit for full-time positions (up 4%), whilst 21% were offering part-time roles (down 4%).

57% of firms attempting to recruit said they experienced difficulties finding suitable staff (down from 60%). For manufacturing firms, skilled manual and technical positions continue to be the most difficult to fill (71%, up from 65%). Service businesses found that professional/managerial positions were the most difficult for them to fill this quarter (64%, up from 51%).

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## Business confidence

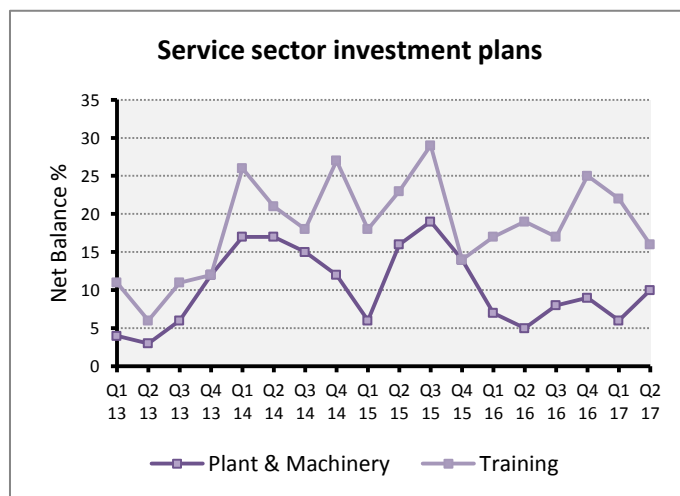
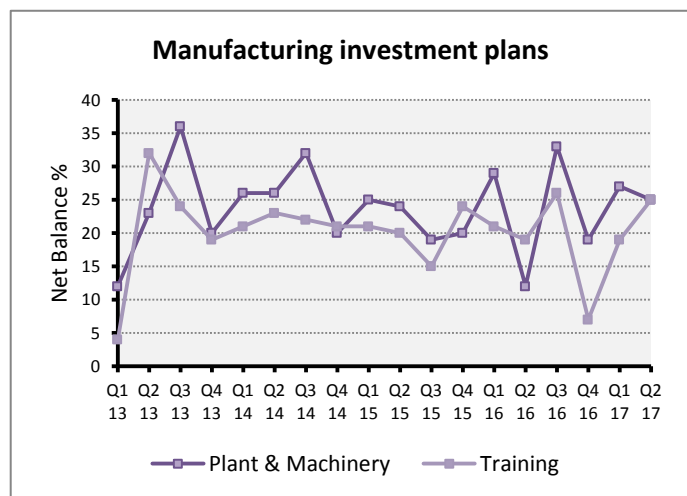


Looking at turnover and profitability expectations over the next 12 months, there was a slight weakening in three out of four confidence measures with only the manufacturing profitability balance increasing in Q2 (+35%, up from +29%).

The net balance of manufacturing companies expecting turnover to improve in the coming year lost ten points (+51%, down from +61%).

In the service sector, the net balance of service firms expecting turnover to improve was down five points (+46%, down from +51%); whilst the profitability balance lost six points on the previous quarter (+32%, down from +38%).

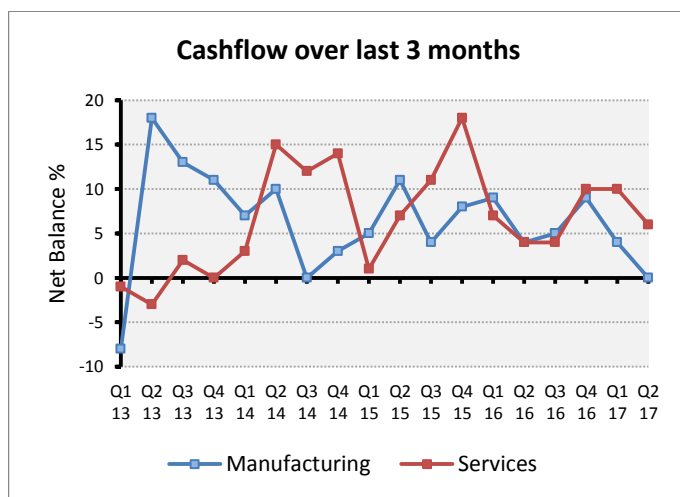
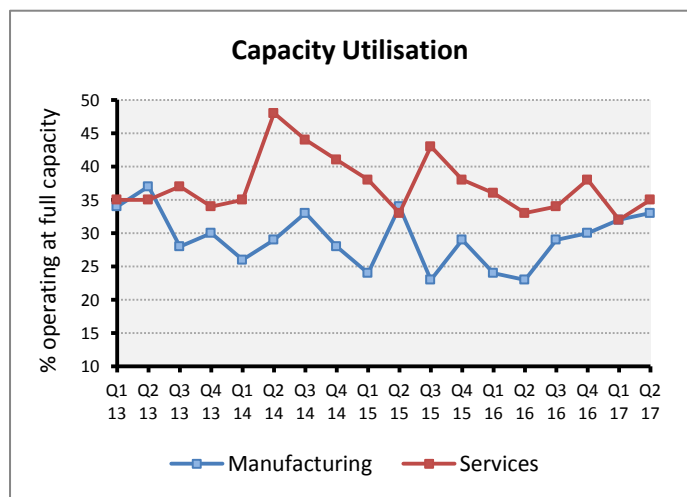
## Investment intentions



There was a mixed picture across both sectors in terms of investment intentions in Q2. In manufacturing, the plant & machinery investment balance lost two points (+25%, down from +27%); whilst the manufacturing training investment balance gained six points (+25%, up from 19%).

In the services sector, the training investment balance lost six points (+16%, down from +22%), whilst the capital investment gained four points (+10%, up from +6%).

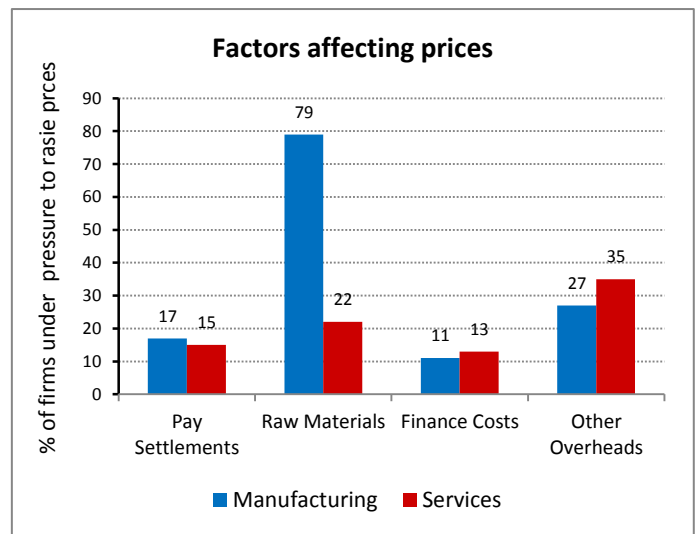
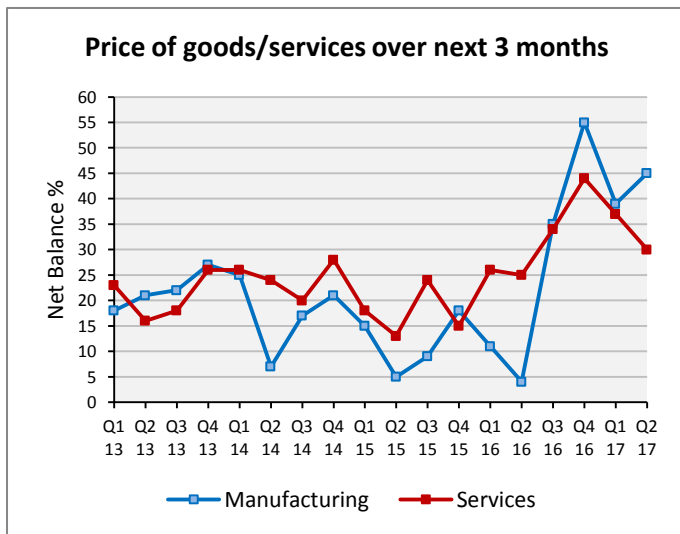
## Capacity Utilisation and Cashflow



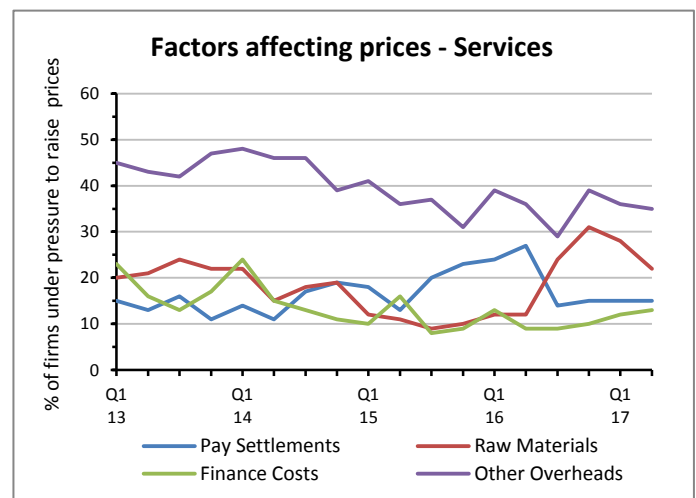
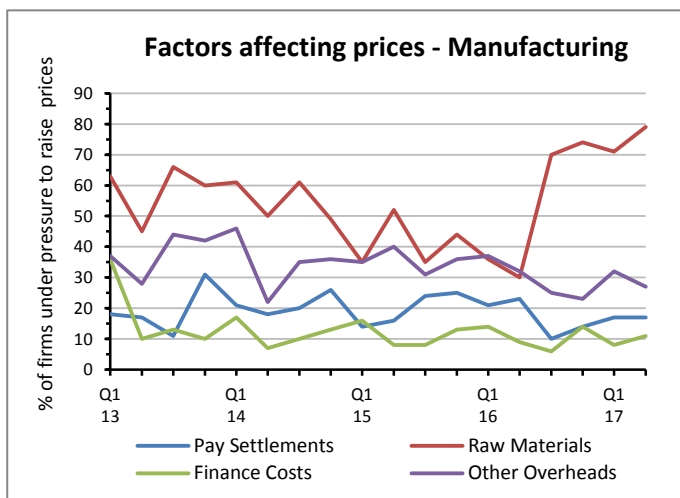
There was very little change in the percentage of firms operating at full capacity – 33% of manufacturers (up 1%) and 35% of service sector firms (up 3%).

Over the past three months, the net balance of manufacturers reporting an improvement in their cashflow was zero (down from +10%); whilst the services cashflow balance was down four points (+6%, down from +10%).

## Prices



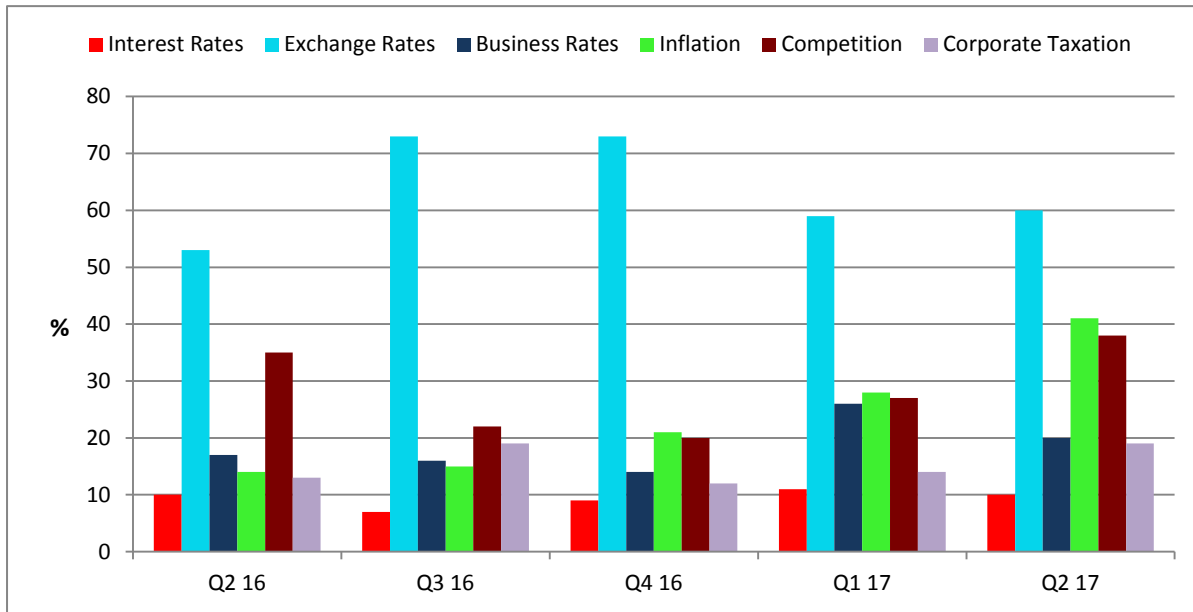
Q2 2017 has seen a slight weakening in the number of service firms expecting to increase prices but the manufacturing sector is still under pressure from raw material costs. The net balance of manufacturing firms intending to increase prices was up six points (+45%, up from +39%); whilst in the service sector, the net balance of firms expecting to increase prices was down seven points (+30%, down from +37%).



In terms of factors affecting the price of goods and services, more than three quarters of manufacturing firms (79%, up from 71%) said they were still under pressure to raise prices because of raw material costs. 27% of manufacturers said that they were under more pressure to increase prices as a result of other overhead costs (down 5%).

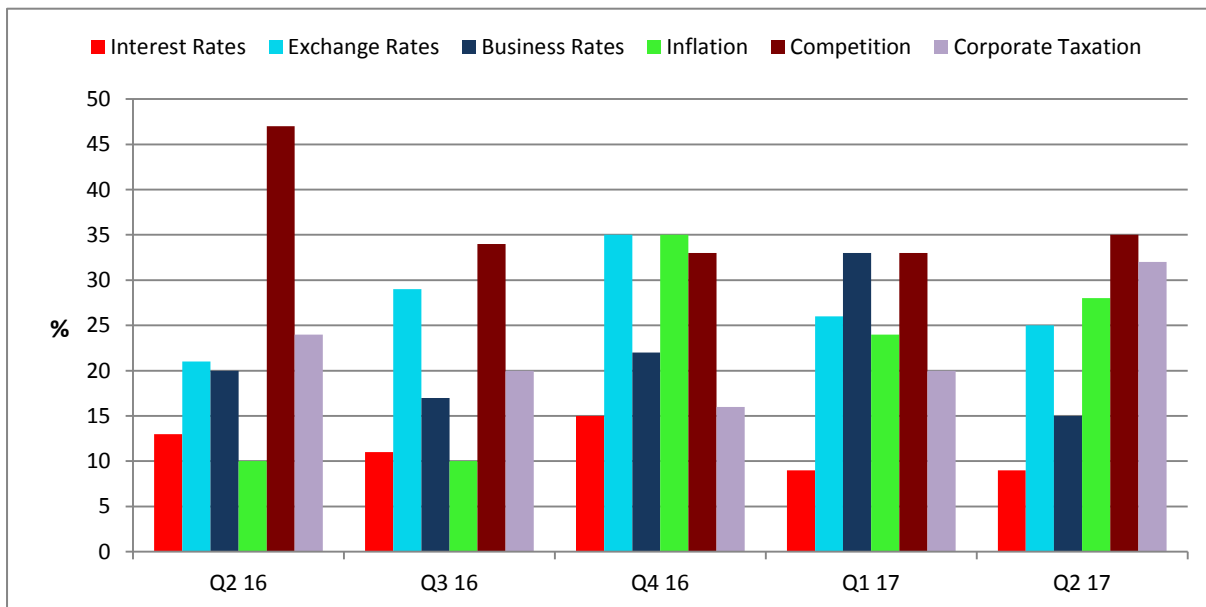
Prices in the service sector continue to be under greatest pressure from other overheads (35%, down from 36%), whilst pressure from the cost of raw materials was the second greatest pressure (22%, down from 28%). Pressure from finance costs and pay settlements was relatively unchanged and remains weak.

## Business Concerns (external factors) - Manufacturing



Exchange rates continue to be the biggest concern for manufacturing firms in the survey (60%, up from 59%). There was a sizeable increase in firms more concerned about inflation than three months ago (41%, up from 28%), whilst concerns about competition were again on the rise (38%, up from 27%).

## Business Concerns (external factors) – Services



35% of service businesses are more concerned about competition than they were 3 months ago (up from 33%), this is the factor of greatest concern in the sector.

32% are more concerned about business taxation this quarter, up from 20% in Q1 2017. Concerns about business rates have eased significantly following recent business rates revaluations (15%, down from 33%).

Concerns about exchange rates (25%) and interest rates (9%) remain virtually unchanged from 3 months ago.



**BALANCE CHANGES**

	Manufacturing		Services		Quarterly Change	
	Q1	Q2	Q1	Q2	Manufacturing	Services
	2017	2017	2017	2017	Q2 2017	Q2 2017
Domestic Sales	19	<b>29</b>	25	<b>20</b>	10	-5
Domestic Orders	13	<b>18</b>	21	<b>14</b>	5	-7
Export Sales	25	<b>23</b>	6	<b>17</b>	-2	11
Export Orders	21	<b>25</b>	0	<b>9</b>	4	9
Employment last 3 months	14	<b>31</b>	10	<b>18</b>	17	8
Employment next 3 months	27	<b>35</b>	29	<b>25</b>	8	-4
% Tried to recruit	58	<b>57</b>	44	<b>53</b>	-1	9
% Part-time	13	<b>16</b>	36	<b>24</b>	3	-12
% Full-time	81	<b>84</b>	75	<b>81</b>	3	6
% Temporary	27	<b>25</b>	15	<b>22</b>	-2	7
% Permanent	52	<b>62</b>	43	<b>46</b>	10	3
% Recruitment difficulties	56	<b>56</b>	63	<b>57</b>	0	-6
% Skilled manual	65	<b>71</b>	39	<b>28</b>	6	-11
% Professional/Managerial	40	<b>37</b>	51	<b>64</b>	-3	13
% Clerical	20	<b>34</b>	41	<b>40</b>	14	-1
% Semi and unskilled	38	<b>34</b>	18	<b>28</b>	-4	10
Cashflow	4	<b>0</b>	10	<b>6</b>	-4	-4
Investment - plant/machinery	27	<b>25</b>	6	<b>10</b>	-2	4
Investment - training	19	<b>25</b>	22	<b>16</b>	6	-6
Confidence - turnover	61	<b>51</b>	51	<b>46</b>	-10	-5
Confidence - profitability	29	<b>35</b>	38	<b>32</b>	6	-6
% Full capacity	32	<b>33</b>	32	<b>35</b>	1	3
Prices	39	<b>45</b>	37	<b>30</b>	6	-7
% Pay Settlements	17	<b>17</b>	15	<b>15</b>	0	0
% Raw materials	71	<b>79</b>	28	<b>22</b>	8	-6
% Financial costs	8	<b>11</b>	12	<b>13</b>	3	1
% Other overheads	32	<b>27</b>	36	<b>35</b>	-5	-1
<i>External Factors of more concern than 3 months ago</i>						
% Interest rates	11	<b>10</b>	9	<b>9</b>	-1	0
% Exchange rates	59	<b>60</b>	26	<b>25</b>	1	-1
% Business rates	26	<b>20</b>	33	<b>15</b>	-6	-18
% Inflation	28	<b>41</b>	24	<b>28</b>	13	4
% Competition	27	<b>38</b>	33	<b>35</b>	11	2
% Tax	14	<b>19</b>	20	<b>32</b>	5	12



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