

**QES** LANCASHIRE QUARTERLY  
ECONOMIC SURVEY

Quarter 3, 2017

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## About this Quarter's Survey

The Q3 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 21<sup>st</sup> August and 11<sup>th</sup> September 2017.
- Responses were received from 262 companies across Lancashire employing 19,701 people.
- From the manufacturing sector, 100 business (38%) employing 12,929 people responded to the survey.
- From the service sector, 162 businesses (62%) employing 6,772 people responded to the survey.
- 165 companies (63%) 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

Based on responses from over 260 companies, the survey shows that the Lancashire economy grew at a muted rate in the third quarter of 2017.

In the manufacturing sector, the proportion of firms reporting improved domestic sales weakened slightly but remains considerably stronger than at the same period last year. Export sales also improved, as stronger recent economic growth in a number of key markets has helped support demand for UK products. However, advanced export orders weakened and could give further cause for concern in light of recent announcements by British Aerospace to streamline their operations in Lancashire.

In the services sector, the proportion of firms reporting improved domestic sales and orders increased marginally compared to the second quarter of 2017. However, service sector exports fell by a small margin and remain traditionally weak compared to Lancashire's manufacturing sector.

The results of the survey also reveal a significant drop in the proportion of manufacturing firms reporting increased workforce levels. This decline was also matched by a fall in the percentage of firms expecting to increase their workforce in the next 3 months, although the majority of firms in both sectors expect workforce numbers to remain constant in Q4.

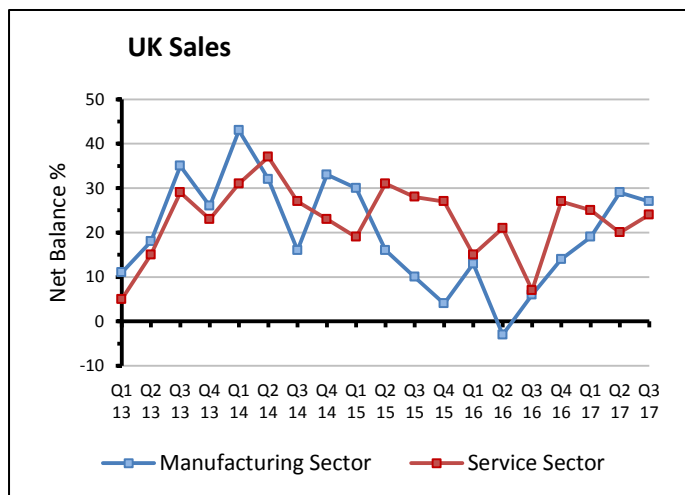
Over half of the businesses responding to this survey continue to experience difficulties recruiting staff, with skilled manual jobs being the most difficult to fill for manufacturers and professional/managerial positions in the services sector.

Capital and training investment intentions remained relatively static across both sectors in Q3, as did all of the business confidence measures.

The latest results also confirm that rising costs remains a worry for businesses, particularly in manufacturing. However, while still high by historic standards, the easing in a number of indicators of pricing pressures since the start of the year suggests that inflation will peak sooner rather than later, possibly by the end of the year.

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

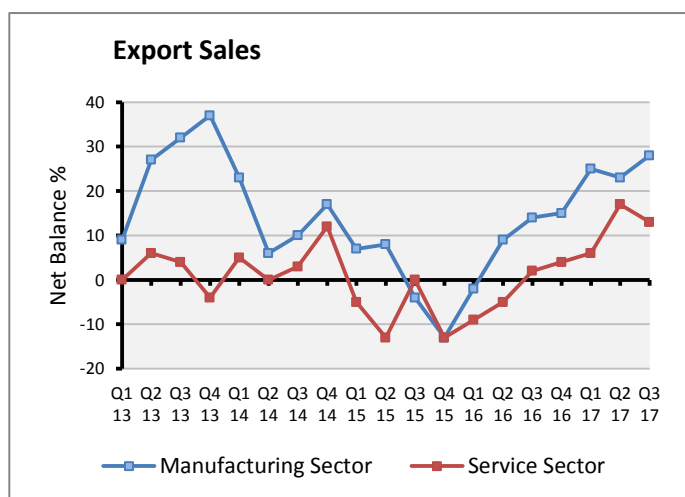
## Domestic Market



Manufacturers have enjoyed another strong quarter in terms of UK sales, despite a slight weakening in the domestic sales balance this quarter, (+27%, down from +29%). The manufacturing advance sales/orders balance also weakened by two points this quarter (+16%, down from +18%). However, year on year comparison shows a twenty-one point improvement in the manufacturing domestic sales balance, compared to Q3 2016.

For service businesses, the UK sales balance improved four points (+24%, up from +20%) with growth levels continuing to stabilise over the past year. The services advance orders/bookings balance gained two points in Q3 (+16%, up from +14%) but this relatively weak balance suggests that consumer confidence remains fragile amidst economic uncertainty.

## Export Market

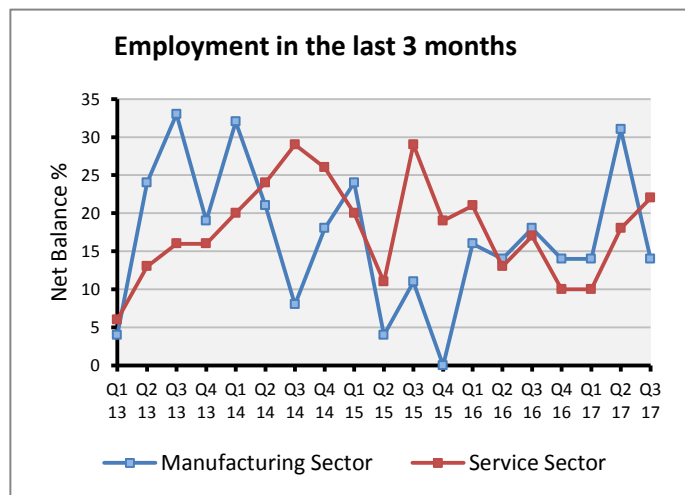


3 out of the 4 export balances weakened in Q3 but the changes were only marginal compared to the previous quarter. The one balance to strengthen was the manufacturing export sales balance, which gained five points (+28%, up from +23%) and is at its highest level since Q4 2013. The manufacturing export orders balance lost seven points this quarter (+18%, down from +25%).

In the services sector, overseas sales and orders tailed off slightly in Q3. The services export sales balance lost four points (+13%, down from +17%) whilst the export orders balance was down two points (+7%, down from +9%).

Year on year results show that all of the export balances have strengthened since Q3 2016, especially those in manufacturing.

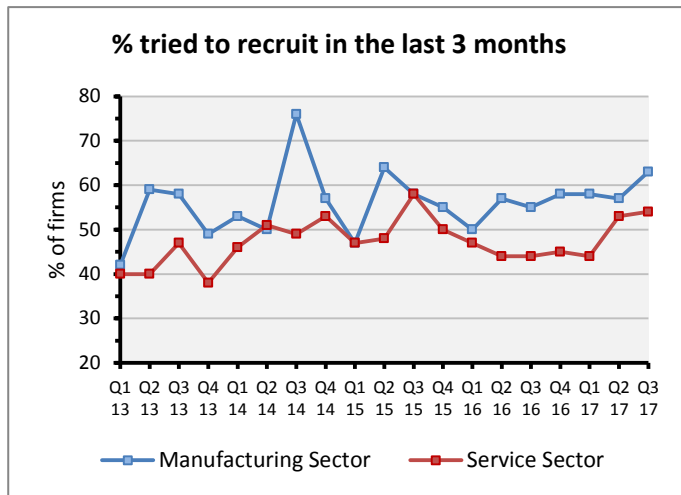
## Employment



Contrary to expectations last quarter, both of the manufacturing employment balances weakened substantially in Q3, although there was still employment growth in the sector. The retrospective employment balance was down seventeen points (+14%, down from +31%); as was the forward looking employment balance (+18%, down from +35%).

In the services sector, both employment balances improved slightly in Q3. The balance of firms reporting an increase in their workforce over the past three months increased four points (+22%, up from +18%); whilst the employment expectations balance gained two points (+27%, up from +25%).

## Recruitment



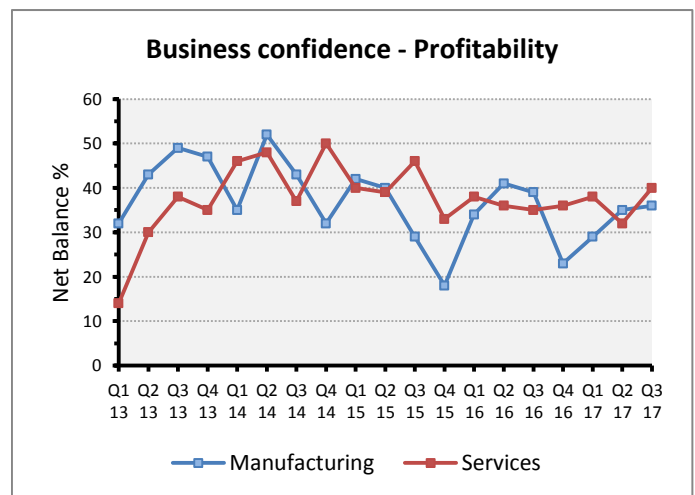
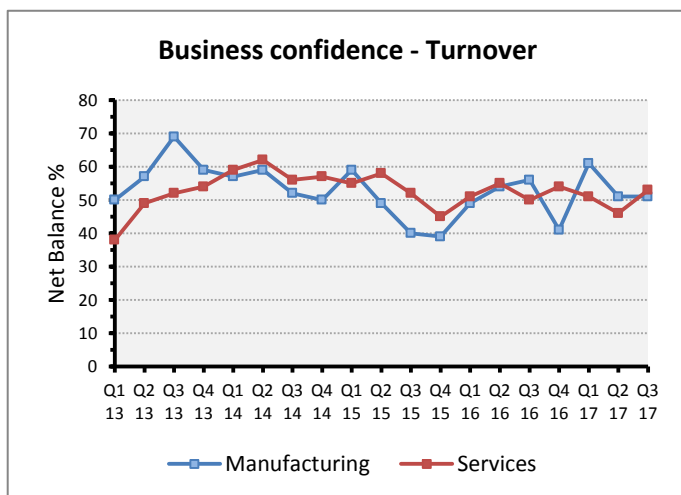
The percentage of firms attempting to recruit in the last three months increased slightly. 63% of manufacturing firms had attempted to recruit (up 6%); compared with 54% of service businesses (up 1%).

Of all firms attempting to recruit, 39% were seeking to fill permanent vacancies (down 14%), with 17% looking to take on temporary workers (down 6%). 83% of firms attempted to recruit for full-time positions (up 1%), whilst 20% were offering part-time roles (down 1%).

60% of firms attempting to recruit said they experienced difficulties finding suitable staff (up from 57%). For manufacturing firms, skilled manual and technical positions continue to be the most difficult to fill (67%, down from 71%). Service businesses found that professional/managerial positions were the most difficult for them to fill this quarter (56%, down from 64%).

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## Business confidence



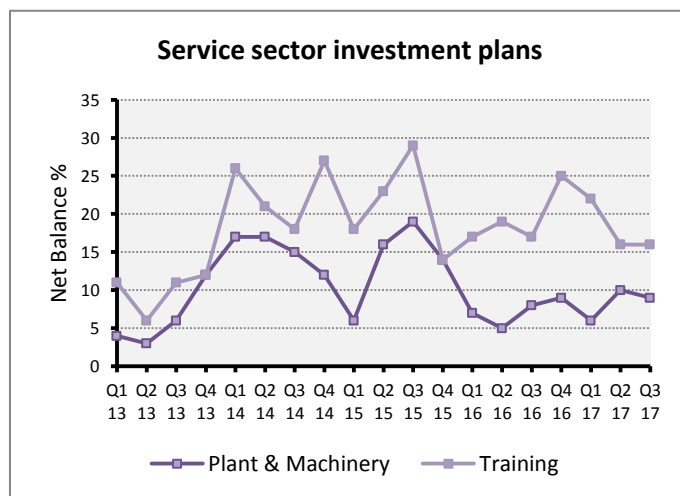
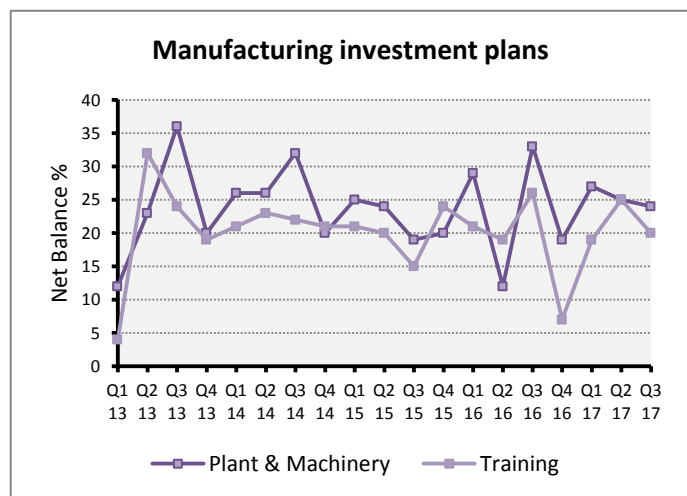
All of the confidence balances remain strong although there was little fluctuation on the previous quarter's results. There was no change in the net balance of manufacturing companies expecting turnover to improve in the coming year (+51%), whilst the manufacturing profitability balance gained a single point (+36%).

There was a slight increase in confidence amongst service businesses in Q3, with the net balance of service firms expecting turnover to improve up seven points (+53%, up from +46%); whilst the profitability balance gained eight points on the previous quarter (+40%, up from +32%).

Just over one third of businesses reported that they were operating at full capacity in Q3 (35%, up from 34%).

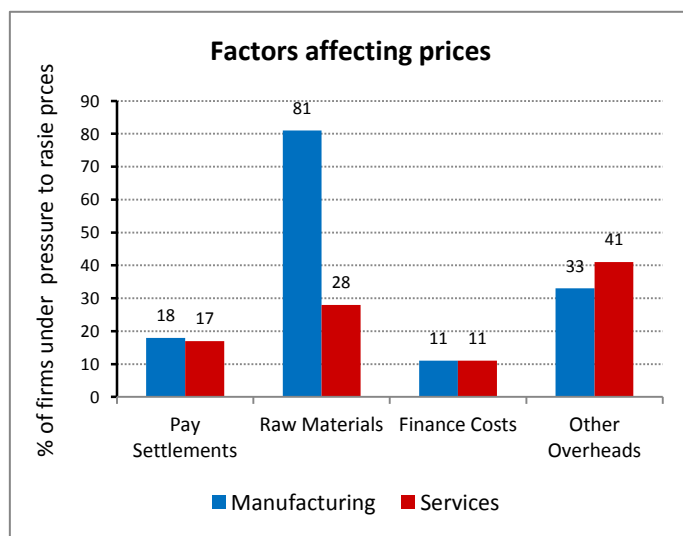
Cashflow continues to be a problem in both sectors, particularly for service businesses where a ten point fall in the cashflow balance moved it into negative territory (-4%, down from +6%). The manufacturing cashflow balance improved slightly, up four points from a neutral position in Q2.

## Investment intentions



Investment intentions across both sectors also saw little change this quarter. In manufacturing, the plant & machinery investment balance lost one point (+24%, down from +25%); whilst the training investment balance lost five points (+20%, down from 25%). In the services sector, there was no change in the training investment balance (+16%), whilst the capital investment balance lost a single point (+9%, down from +10%).

## Prices

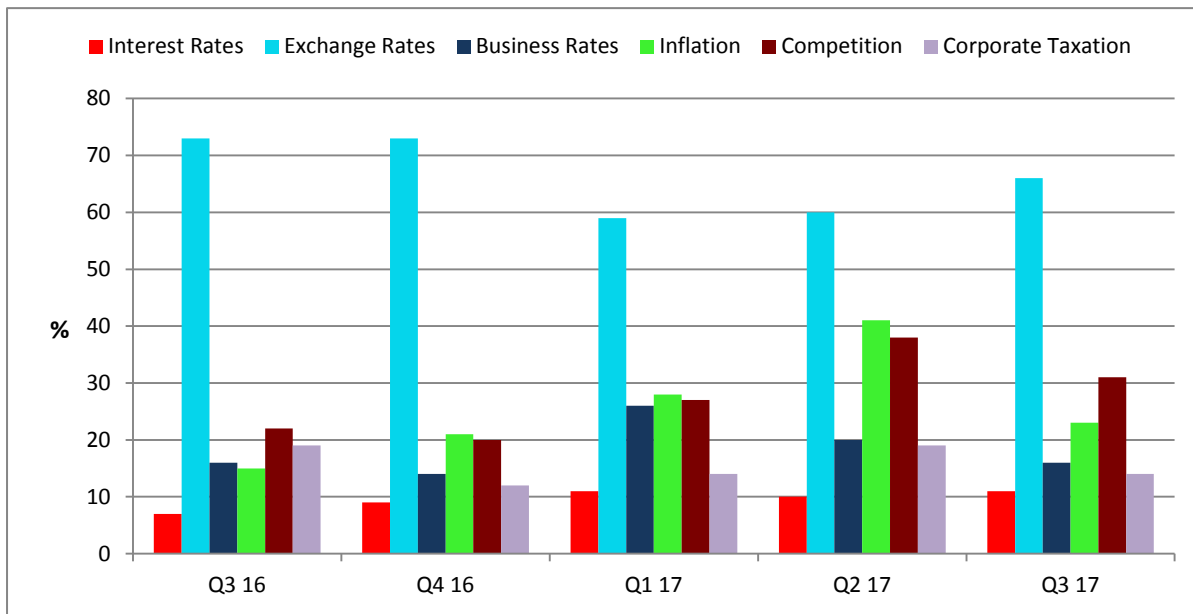


There was a slight weakening in the net balance of manufacturing firms expecting to increase prices over the next three months (+41%, down from +45%) but the sector is still under significant pressure from raw material costs. In the services sector, the net balance of firms expecting to increase prices gained four points (+34%, up from +30%).

In terms of factors affecting the price of goods and services, more than four fifths of manufacturing firms (81%, up from 79%) said they were still under pressure to raise prices because of raw material costs. 33% of manufacturers said that they were under more pressure to increase prices as a result of other overhead costs (up 6%), whilst pressures from pay settlements (18%, up from 17%) and finance costs (11%, no change) were low.

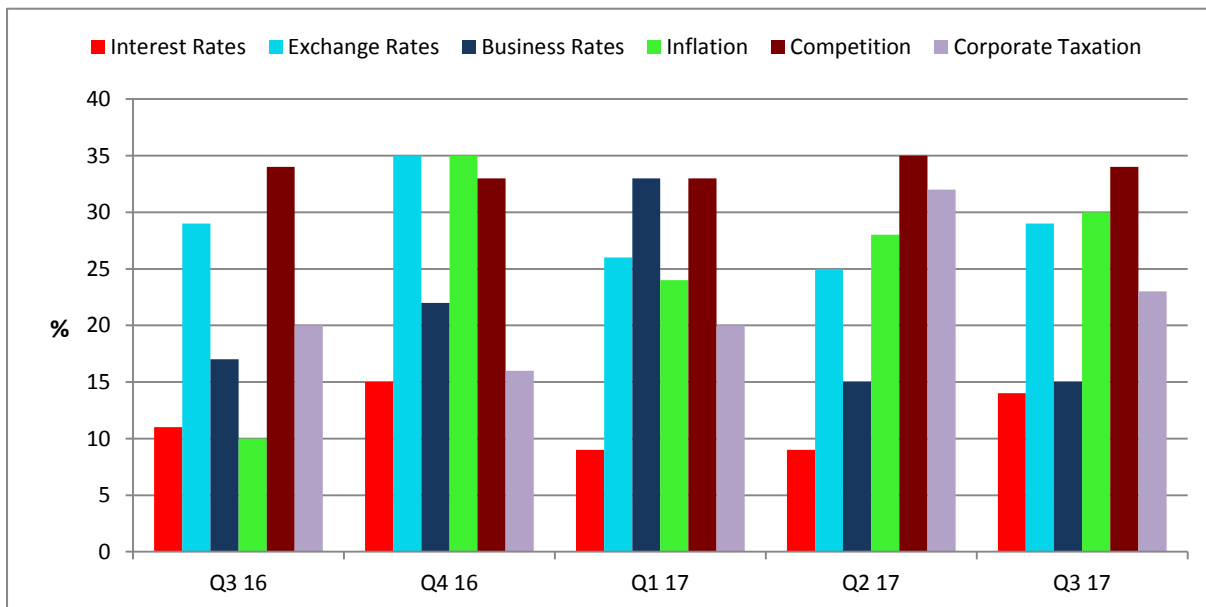
Prices in the service sector continue to be under greatest pressure from other overheads (41%, up from 35%). The cost of raw materials was the second greatest pressure on services firms (28%, up from 22%), with pressure from pay settlements (17%, up from 15%) and finance costs (11%, down from 13%) on par with the manufacturing sector.

## Business Concerns (external factors) - Manufacturing



Since the EU referendum in June 2016, exchange rates have been by far the biggest concern for manufacturing firms in the survey and this quarter is no exception (66%, up from 60%). After mounting worries in the past two quarters, concerns about inflation eased in Q3 (23%, down from 41%) and have been overtaken by competition (31%, down from 38%) as the second biggest concern for manufacturers.

## Business Concerns (external factors) – Services



34% of service businesses are more concerned about competition than they were 3 months ago (down from 35%), this is the factor of greatest concern in the sector. There was a two point rise in businesses more concerned about inflation (30%, up from 28%) making it the second greatest concern for the service sector. Fewer firms were concerned about corporate taxation this quarter (23%, down from 32%), although concerns about exchange rates (29%, up from 25%) and interest rates (14%, up from 9%) were on the increase. Concerns about business rates (15%) remain unchanged from the last quarter.

**BALANCE CHANGES**

	Manufacturing		Services		Quarterly Change	
	Q2	Q3	Q2	Q3	Manufacturing	Services
	2017	2017	2017	2017	Q3 2017	Q3 2017
Domestic Sales	29	<b>27</b>	20	<b>24</b>	-2	4
Domestic Orders	18	<b>16</b>	14	<b>16</b>	-2	2
Export Sales	23	<b>28</b>	17	<b>13</b>	5	-4
Export Orders	25	<b>18</b>	9	<b>7</b>	-7	-2
Employment last 3 months	31	<b>14</b>	18	<b>22</b>	-17	4
Employment next 3 months	35	<b>18</b>	25	<b>27</b>	-17	2
% Tried to recruit	57	<b>63</b>	53	<b>54</b>	6	1
% Part-time	16	<b>11</b>	24	<b>26</b>	-5	2
% Full-time	84	<b>85</b>	81	<b>81</b>	1	0
% Temporary	25	<b>16</b>	22	<b>18</b>	-9	-4
% Permanent	62	<b>37</b>	46	<b>40</b>	-25	-6
% Recruitment difficulties	56	<b>57</b>	57	<b>63</b>	1	6
% Skilled manual	71	<b>67</b>	28	<b>42</b>	-4	14
% Professional/Managerial	37	<b>31</b>	64	<b>56</b>	-6	-8
% Clerical	34	<b>23</b>	40	<b>27</b>	-11	-13
% Semi and unskilled	34	<b>44</b>	28	<b>27</b>	10	-1
Cashflow	0	<b>4</b>	6	<b>-4</b>	4	-10
Investment - plant/machinery	25	<b>24</b>	10	<b>9</b>	-1	-1
Investment - training	25	<b>20</b>	16	<b>16</b>	-5	0
Confidence - turnover	51	<b>51</b>	46	<b>53</b>	0	7
Confidence - profitability	35	<b>36</b>	32	<b>40</b>	1	8
% Full capacity	33	<b>34</b>	35	<b>35</b>	1	0
Prices	45	<b>41</b>	30	<b>34</b>	-4	4
% Pay Settlements	17	<b>18</b>	15	<b>17</b>	1	2
% Raw materials	79	<b>81</b>	22	<b>28</b>	2	6
% Financial costs	11	<b>11</b>	13	<b>11</b>	0	-2
% Other overheads	27	<b>33</b>	35	<b>41</b>	6	6
<i>External Factors of more concern than 3 months ago</i>						
% Interest rates	10	<b>11</b>	9	<b>14</b>	1	5
% Exchange rates	60	<b>66</b>	25	<b>29</b>	6	4
% Business rates	20	<b>16</b>	15	<b>15</b>	-4	0
% Inflation	41	<b>23</b>	28	<b>30</b>	-18	2
% Competition	38	<b>31</b>	35	<b>34</b>	-7	-1
% Tax	19	<b>14</b>	32	<b>23</b>	-5	-9





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