

QES LANCASHIRE QUARTERLY
ECONOMIC SURVEY

Quarter 1, 2018

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About this Quarter's Survey

The Q1 2018 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 19th February to 12th March 2018.
- Responses were received from 229 companies across Lancashire employing 10,860 people.
- From the manufacturing sector, 74 business (32%) employing 4,055 people responded to the survey.
- From the service sector, 155 businesses (68%) employing 6,805 people responded to the survey.
- 133 companies (58%) 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

The results of the Q1 2018 survey reveal a more positive picture of the Lancashire economy than we have seen for a while with most key balance measures improving on the previous quarter. The services sector, the main driver of the domestic economy, had a much stronger three months in terms of UK sales and orders. This was buoyed by a very strong export performance from Lancashire's manufacturing sector in Q1, which saw its export sales and export order balances reached record highs for this survey.

There was also positive news on employment with all of the employment balances strengthening and just over half of the firms in the survey attempting to recruit staff. However, there are still significant concerns over skills shortages, especially in the manufacturing sector where 84% of firms with recruitment difficulties had problems finding skilled manual workers.

There was an upturn in business confidence with firms in both sectors more confident that turnover and profitability will improve in the year ahead. Three out of four business investment balances also strengthened the exception here being the manufacturing capital investment balance which weakened to its lowest level since Q2 2016.

The results also suggest that cash flow is increasingly an issue for businesses who remain under pressure from a combination of high upfront business costs, subdued financing levels and unfair payment practices.

The survey also shows that businesses in both sectors remain under considerable pressure to increase prices. In manufacturing, the percentage balance of firms expecting their prices to rise reached a record high for this survey (+57%, up from +42%) fuelled by increasing raw material costs and concerns about exchange rates.

Key findings in the Q1 2018 survey:

Manufacturing sector:

- The balance of firms reporting increased export sales jumped from +22 to +45. Export orders increased from +23 to +41. The balance of firms reporting increased domestic sales fell from +18 to +16, whilst the domestic orders balance improved slightly from +12 to +15.
- The percentage of manufacturers that attempted to recruit in the last three months was unchanged at 64%. Of those, 44% had recruitment difficulties. Of these, skilled manual labour was the leading area of recruitment difficulties (84%).
- The balance of manufacturers expecting their prices to increase was up from +42 to +57; with the cost of raw materials remaining the key driver, with 78% reporting it as a cause of price pressure.
- The balance of firms confident that turnover will increase in the next 12 months strengthened from +43 to +63, while confidence in profitability gained 14 points (+42, up from +28).
- The balance of companies reporting cashflow improvements remains low at +6, while the balance of firms investing in plant and machinery was down from +26 to +15. Investment in training was up from +17 to +20.

Services sector:

- The balance of firms reporting improved export sales moved out of negative territory from -1 to +14, whilst the export orders balance was up from +2 to +7. The domestic sales balance climbed from +15 to +26, while the UK orders balance was up from +7 to +20.
- The percentage of businesses attempting to recruit was down marginally from 46% to 45%. Of those, the percentage of services firms reporting recruitment difficulties rose from 65% to 71%.
- The balance of services firms expecting prices to increase was down a fraction from +36 to +35.
- The services cashflow balance was unchanged at +4. The balance of firms confident that turnover will increase jumped from +34 to +53. Confidence in profitability was up from +23 to +36.

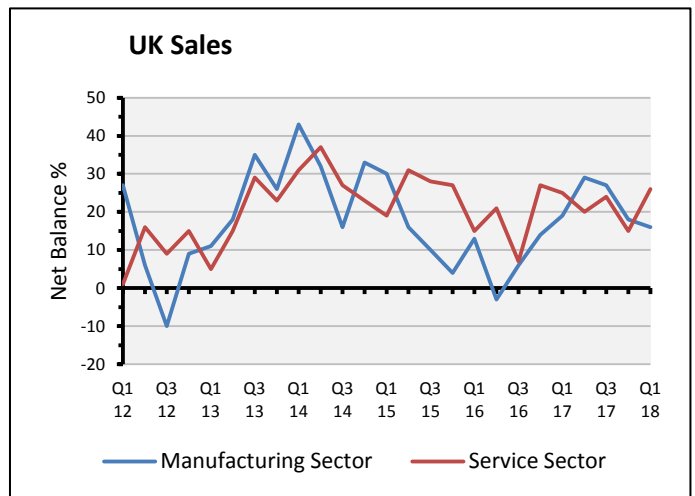
+Positive number represents an expansion -Negative number represents a contraction

Domestic Market

Three of the four domestic balances strengthened in Q1, with service sector firms having a stronger quarter domestically than those in manufacturing.

The services UK sales balance recovered all of the ground lost in Q4 2017, gaining 11 points (+26%, up from +15%); whilst there was a similar improvement in the advance orders/bookings balance which jumped 13 points this quarter (+20%, up from +7%).

In manufacturing, the UK sales balance weakened for the third successive quarter, down two points on Q4 2017 (+16%, down from +18%) whilst the advance sales/orders balance gained three points (+12%, down from +16%).

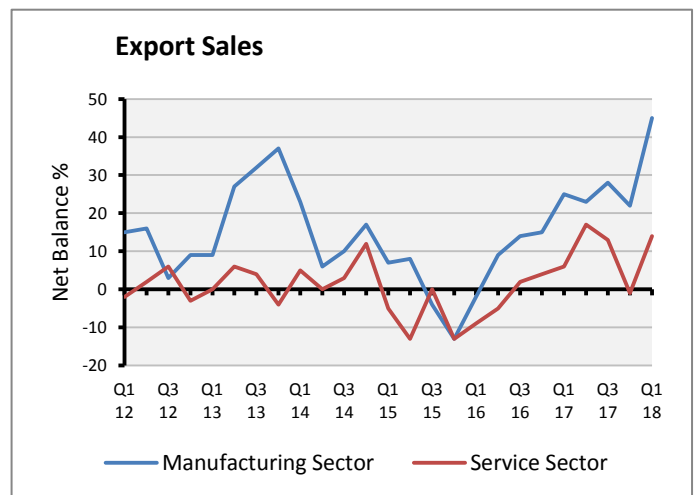


Export Market

The relatively weak pound continues to help export sales and orders with all four export balance measures up on the previous quarter.

In manufacturing, the export sales balance reached a record high for the Lancashire QES (+45%, up from +22%); whilst the export orders balance also strengthened considerably in Q1, up 18 points (+41%, up from +23%).

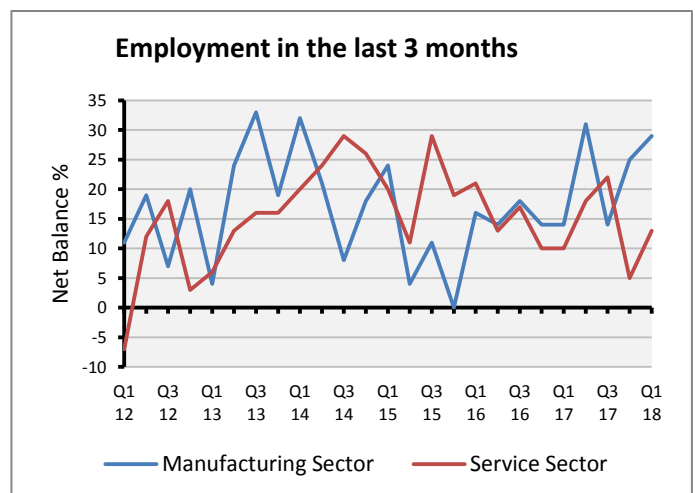
The services export sales balance, having been in contraction in the previous quarter, rebounded by 15 points (+14%, up from -1%). The services export orders balance was up five points (+7%, up from +2%).



Employment

There was positive news on employment this quarter as all of the employment balances showed signs of growth. In manufacturing, the net balance of companies reporting that their workforce had increased over the past three months was up four points (+29%, up from +25%), whilst the employment expectations balance for the three months ahead improved by 10 points (+25%, up from +15%).

In the services sector, the balance of firms reporting an increase in their workforce over the past three months climbed eight points (+13%, up from +5%). The forward-looking employment expectations balance doubled in strength (+38%, up from +19%) perhaps indicating an increase in business confidence among service businesses.

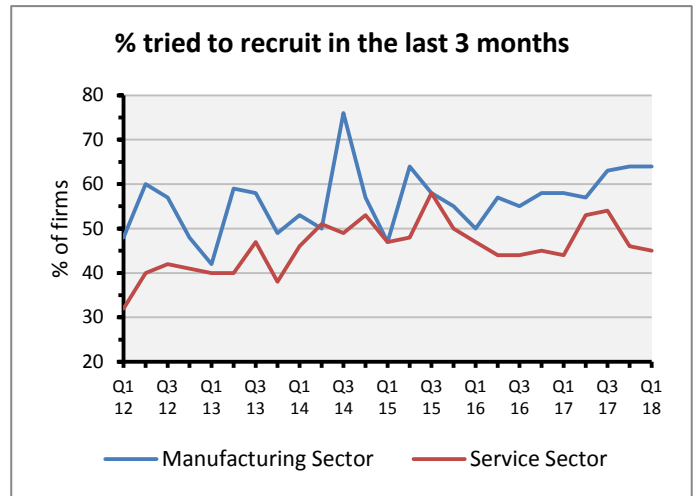


Recruitment

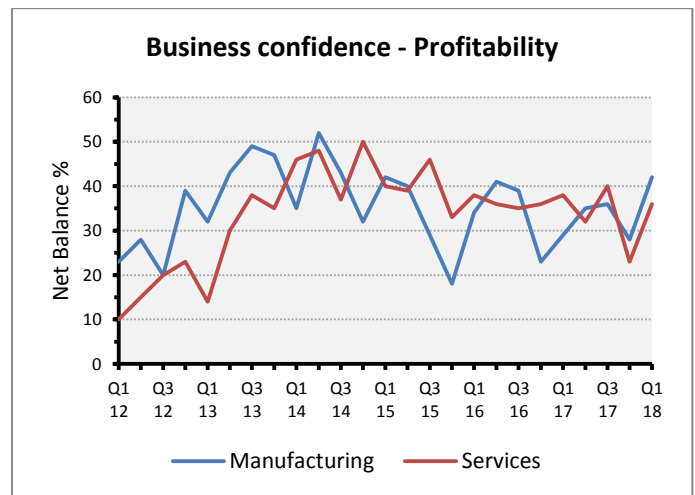
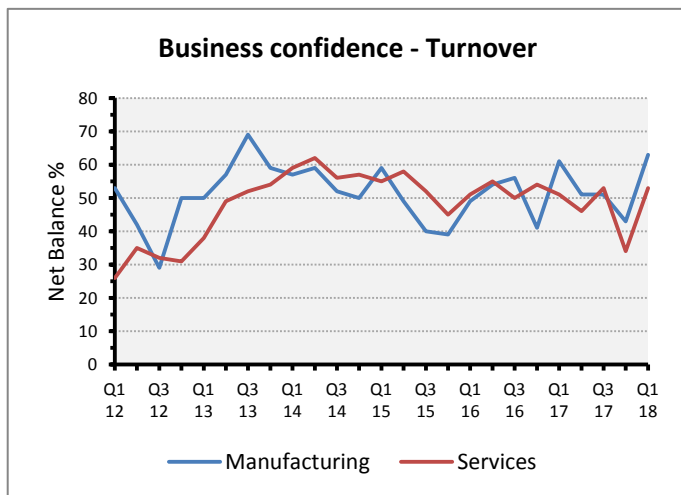
The overall percentage of firms attempting to recruit in the past three months was down a fraction on Q4. 64% of manufacturing firms attempted to recruit (no change); compared with 45% of service businesses (down 1%).

Of all firms attempting to recruit, 43% were seeking to fill permanent vacancies (down 1%), with 16% looking to take on temporary workers (down 3%). 88% of firms attempted to recruit for full-time positions (up 8%), whilst 20% were offering part-time roles (down 4%).

60% of firms attempting to recruit said they experienced difficulties finding suitable staff (down from 62%). For manufacturing firms, skilled manual and technical positions continue to be the most difficult to fill (84%, up from 55%). Service sector businesses found that professional/managerial positions were the most difficult for them to fill this quarter (63%, up from 51%).



Business confidence



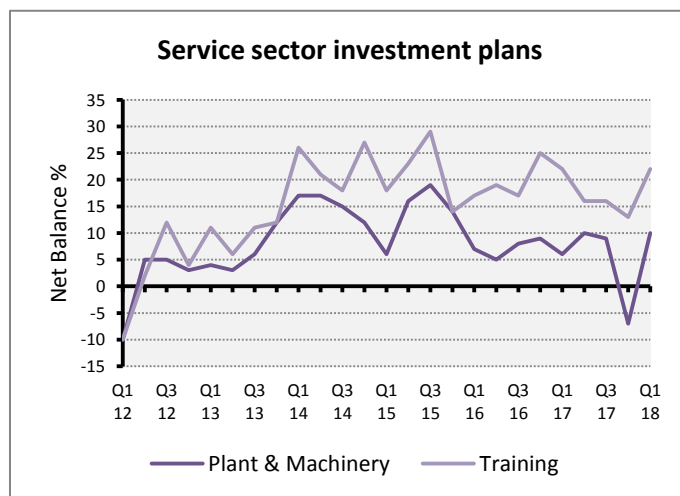
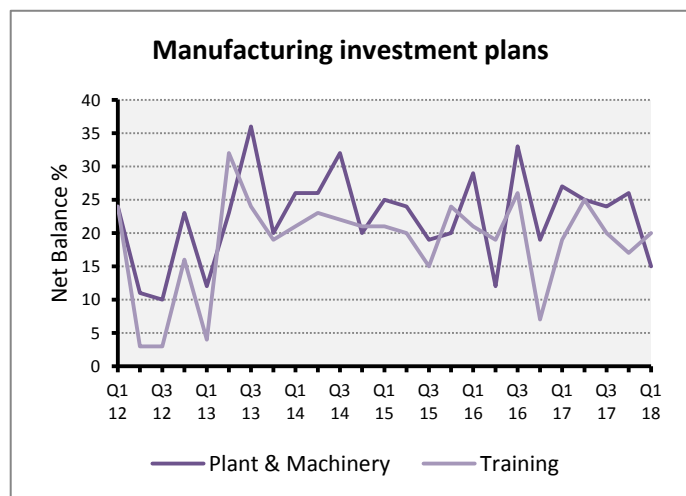
Looking at turnover and profitability expectations over the next 12 months, all of the business confidence balances improved in Q1. The net balance of manufacturing companies expecting turnover to improve in the coming year gained 20 points (+63%, up from +43%), whilst the manufacturing profitability balance was up 14 points (+%, down from +36%).

In the services sector, the net balance of firms expecting turnover to improve was up 19 points (+53%, up from +34%); whilst the services profitability balance gained 13 points on the previous quarter (+36%, up from +23%).

There was a 7 point increase in the percentage of businesses operating at full capacity (38%, up from 31%).

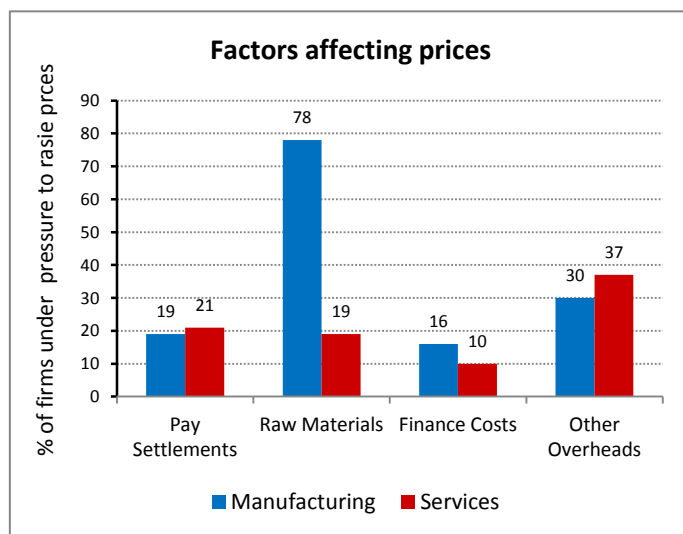
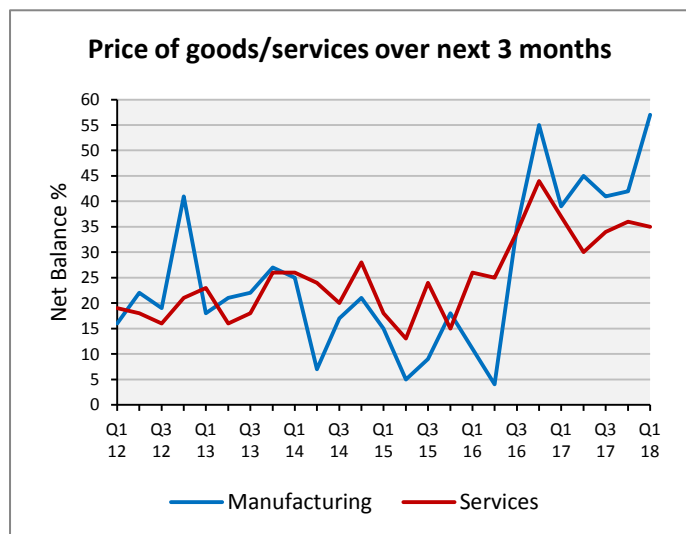
Cashflow continues to be a problem for Lancashire businesses. The net balance of services firms reporting that their cashflow improved over the past three months was unchanged (+4%); whilst the manufacturing cashflow balance weakened by two points (+6%, down from +8%).

Investment intentions



Three out of four investment balances improved this quarter. Most notably, the capital (plant & machinery) investment balance in the service sector gained 17 points, recovering all of ground lost in the previous quarter (+10%, up from -7%). The service sector training investment balance was up nine points, from +13% to +22%. In manufacturing, the capital investment balance lost 11 points (+15%, down from +26%); whilst the training investment balance gained three points (+20%, up from 17%).

Prices

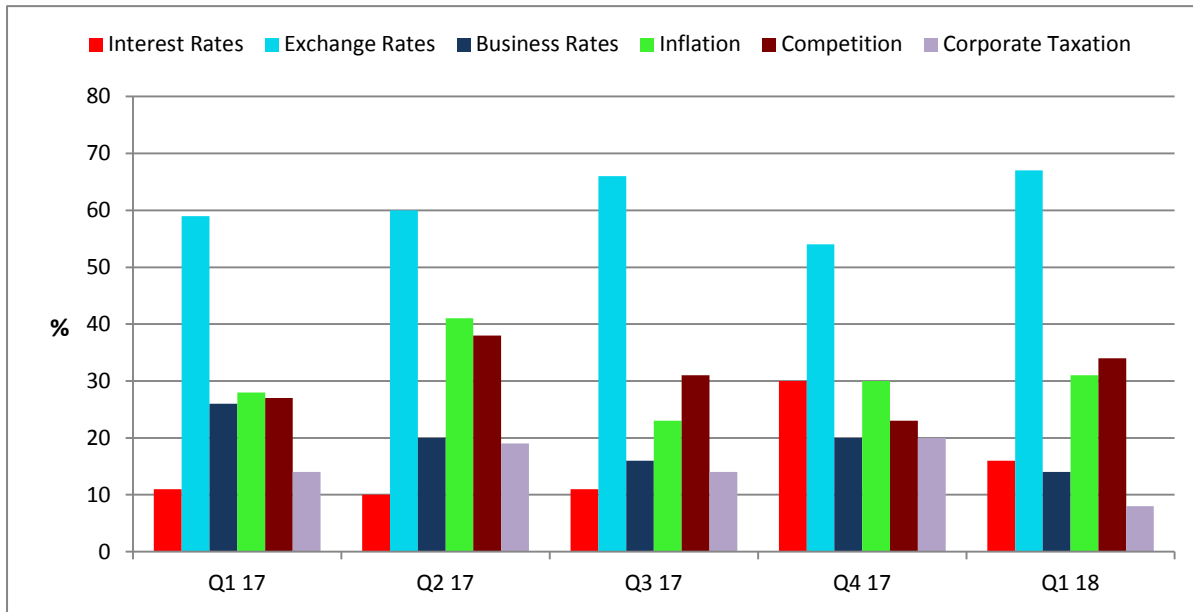


Firms in both sectors are still coming under considerable pressure to increase prices. In manufacturing, the percentage balance of firms expecting their prices to rise reached a record high for this survey (+57%, up from +42%). In the services sector, the percentage balance of firms expecting their prices to increase in the next three months dropped by a single point to +35%, but remains well above the historical average.

In terms of factors affecting the price of goods and services, almost four fifths (78%) of manufacturers said they were under more pressure to raise prices because of raw material costs (up 6%). 30% of manufacturers were under more pressure from other overhead costs (down 11%); whilst pressure from pay settlements also weakened (19%, down from 28%).

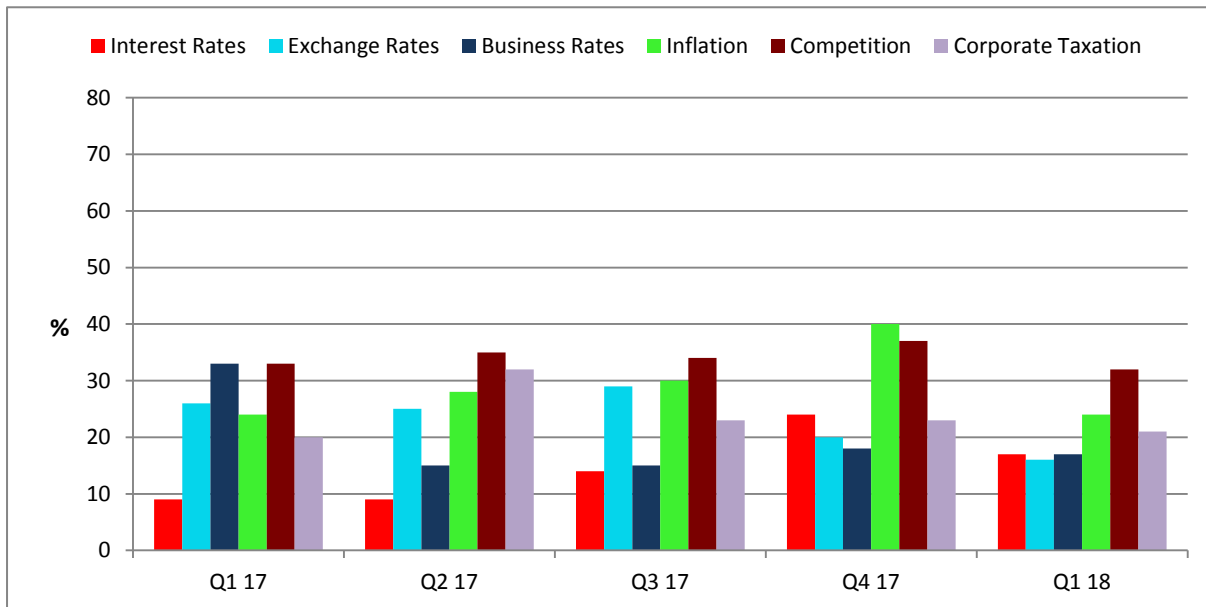
Service sector firms were under greatest pressure from other overheads, although this factor weakened considerably in Q1 (37%, down from 53%). There was a five points rise in the percentage of firms under pressure from pay settlements (21%, up from 16%) whilst pressure from raw materials costs (19%, up from 18%) and finance costs (10%, up from 9%) were 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 (67%, up from 54%), followed by competition (34%, up from 23%). 31% of manufacturers said they were more concerned about inflation (up 1%), whilst worries over interest rates, business rates and corporate taxation subsided this quarter.

Business Concerns (external factors) – Services



There was an overall weakening in business concerns reported by the service sector in Q1, with all external factors down on the previous quarter. The most significant concern was competition (32%, down from 37%) followed by inflation (24%, down from 40%). Concerns over interest rates eased by seven points (17%, down from +24%), whilst exchange rates, business rates and corporate taxation were of less concern than three months ago.

BALANCE CHANGES

	Manufacturing		Services		Quarterly Change	
	Q4	Q1	Q4	Q1	Manufacturing	Services
	2017	2018	2017	2018	Q1 2018	Q1 2018
Domestic Sales	18	16	15	26	-2	11
Domestic Orders	12	15	7	20	3	13
Export Sales	22	45	-1	14	23	15
Export Orders	23	41	2	7	18	5
Employment last 3 months	25	29	5	13	4	8
Employment next 3 months	15	25	19	38	10	19
% Tried to recruit	64	64	46	45	0	-1
% Part-time	10	10	35	26	0	-9
% Full-time	74	83	85	92	9	7
% Temporary	24	22	15	11	-2	-4
% Permanent	44	46	43	41	2	-2
% Recruitment difficulties	58	44	65	71	-14	6
% Skilled manual	55	84	33	46	29	13
% Professional/Managerial	24	26	51	63	2	12
% Clerical	21	47	20	43	26	23
% Semi and unskilled	48	63	16	22	15	6
Cashflow	8	6	4	4	-2	0
Investment - plant/machinery	26	15	-7	10	-11	17
Investment - training	17	20	13	22	3	9
Confidence - turnover	43	63	34	53	20	19
Confidence - profitability	28	42	23	36	14	13
% Full capacity	25	33	35	40	8	5
Prices	42	57	36	35	15	-1
% Pay Settlements	28	19	16	21	-9	5
% Raw materials	72	78	18	19	6	1
% Financial costs	15	16	9	10	1	1
% Other overheads	41	30	53	37	-11	-16
<i>External Factors of more concern than 3 months ago</i>						
% Interest rates	30	16	24	17	-14	-7
% Exchange rates	54	67	20	16	13	-4
% Business rates	20	14	18	17	-6	-1
% Inflation	30	31	40	24	1	-16
% Competition	23	34	37	32	11	-5
% Tax	20	8	23	21	-12	-2



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