

QES LANCASHIRE QUARTERLY
ECONOMIC SURVEY

Quarter 2, 2018

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About this Quarter's Survey

The Q2 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 21st May to 11th June 2018.
- Responses were received from 257 companies across Lancashire employing 15,479 people.
- From the manufacturing sector, 80 business (31%) employing 6,102 people responded to the survey.
- From the service sector, 177 businesses (69%) employing 9,377 people responded to the survey.
- 168 companies (65%) 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 this survey show that Lancashire firms have endured another quarter of subdued growth, although there were small gains in the domestic sales and order balances in both sectors.

Growth in export sales weakened in comparison to the first quarter of 2018, suggesting that slowing global economic growth is forcing businesses to look domestically for sales.

Fewer firms look set to increase prices in coming quarter as concerns about exchange rates and the cost of raw materials weakened. Confidence that turnover and profitability would increase in the year ahead remained relatively unchanged, whilst investment intentions in both sectors improved despite ongoing confusion around Brexit.

Key findings in the Q2 2018 survey

Manufacturing sector:

- The balance of firms reporting increased domestic sales rose from +16 to +28, while the balance reporting improved domestic orders also rose, from +15 to +24
- The balance of firms reporting increased export sales fell from +45 to +29. The balance reporting improved export orders also fell, from +41 to +30
- The balance of firms increasing investment in training increased, from +20 to +30, while the balance of those increasing investment in plant and machinery rose, from +15 to +33.
- The percentage of firms looking to recruit dropped from 64% to 56%, while the number of those experiencing recruitment difficulties rose significantly, from 44% to 72%
- Cashflow continues to be a concern within manufacturing, with just 22% reporting improved cashflow against 21% that said it had worsened (a balance of +1%)
- 69% of firms in the sector expect the cost of their raw materials to rise in the next three months (down from 78%)
- Confidence that turnover will improve over the next twelve months eased slightly from +63 to +57; whilst confidence that profitability will improve strengthened from +42 to +51

Services sector:

- The balance of firms reporting increased domestic sales rose from +26 to +28, while the balance reporting improved domestic orders also rose, from +20 to +22
- The balance of firms reporting increased export sales fell, from +14 to +12. The balance reporting improved export orders rose slightly, to +12 from +7
- The balance of firms increasing investment in training rose slightly to +24 from +22
- The percentage of firms looking to recruit rose from 45% to 53%, although the number of those struggling to recruit reduced to 60% (from 71%)
- Cashflow is a concern, with just 32% reporting improved cashflow against 23% that said it had worsened (a balance of +9%).
- The balance of firms expecting turnover to increase in the next year remained constant at +53; whilst confidence that profitability will improve over the next twelve months increased from +36 to +39

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

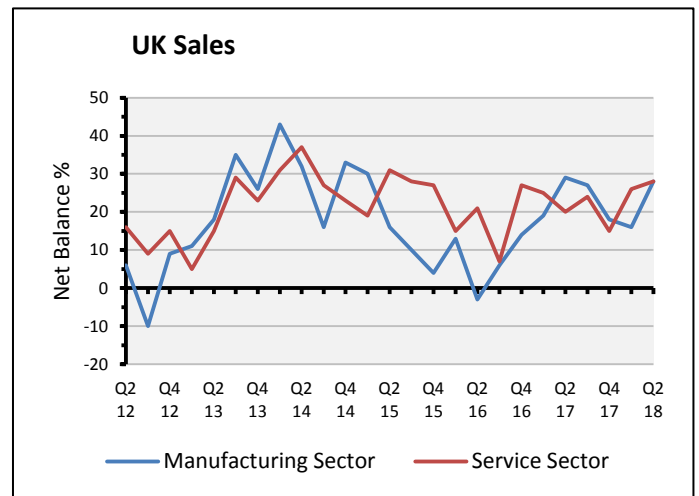
Domestic Market

All four domestic balances strengthened in Q2, indicating modest levels of growth for Lancashire firms in terms of UK sales and orders.

The services UK sales balance gained 2 points (+28%, up from +26%); whilst the advance orders/bookings balance also increased by the same amount (+22%, up from +20%).

In manufacturing, the UK sales balance strengthened for the first time since Q2 2017 and was up 12 points on the last quarter (+28%, up from +16%). The advance sales/orders balance gained nine points (+24%, up from +15%).

Collectively, 41% of firms in the survey reported an increase in domestic sales over the past 3 months (up 1%).

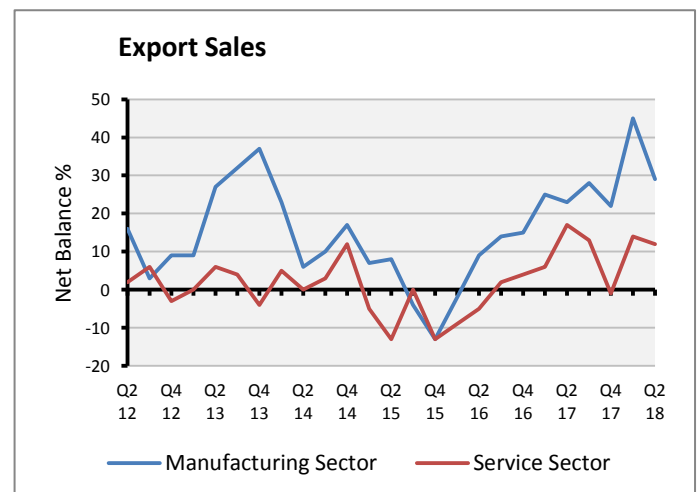


Export Market

After a strong start to 2018, firms in both sectors have seen export sales weaken in Q2 although the balance measures in this survey remain above their historical average.

In manufacturing, the export sales balance was down 16 points from a record high in Q1 (+29%, down from +45%); whilst the export orders balance lost 11 points (+30%, down from +41%).

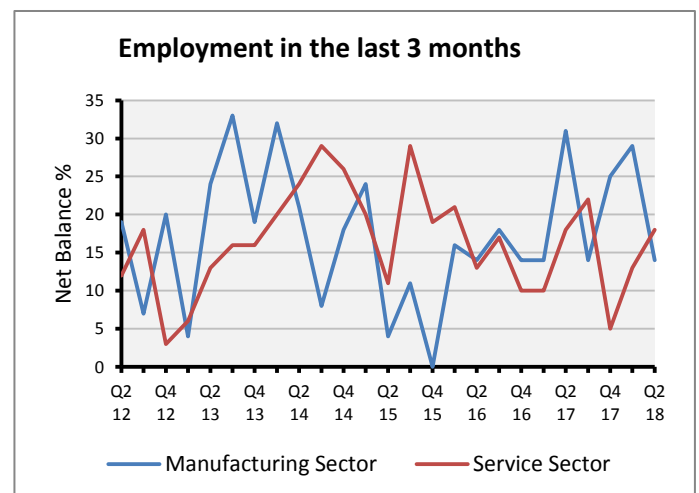
The services export sales balance weakened slightly (+12%, down from +14%); whilst the services export orders balance gained five points (+12%, up from +7%).



Employment

In manufacturing, the net balance of companies reporting that their workforce had increased over the past three months was down 15 points (+14%, down from +29%), whilst the employment expectations balance for the three months ahead improved by 9 points (+34%, up from +25%).

In the services sector, the balance of firms reporting an increase in their workforce over the past three months was up by five points (+18%, up from +13%). The forward-looking employment expectations balance lost 8 points (+30%, down from +38%).

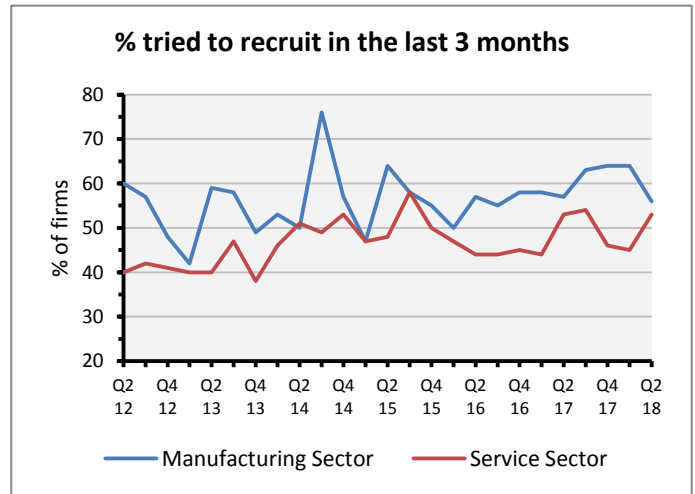


Recruitment

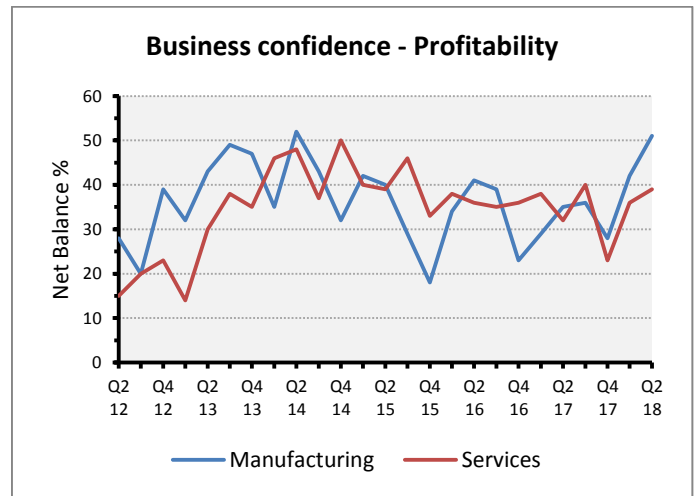
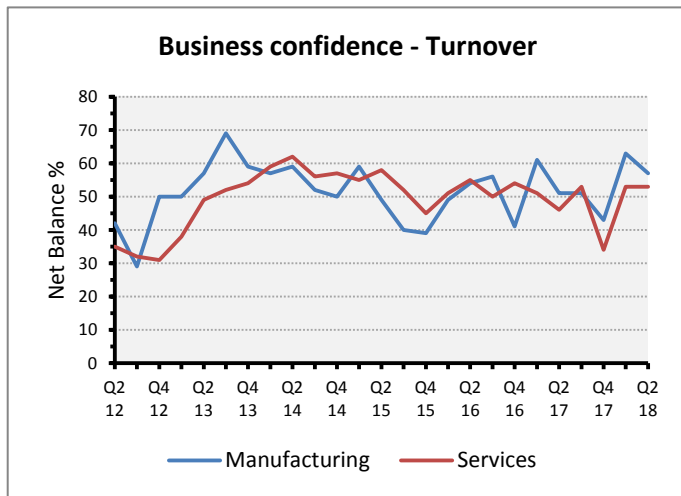
The overall percentage of firms attempting to recruit in the past three months was up slightly on Q1. 56% of manufacturing firms attempted to recruit (down 8%); compared with 53% of service businesses (up 8%).

Of all firms attempting to recruit, 41% were seeking to fill permanent vacancies (down 2%), with 21% looking to take on temporary workers (up 5%). 83% of firms attempted to recruit for full-time positions (down 5%), whilst 28% were offering part-time roles (up 8%).

64% 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 (67%, down from 84%). Service sector businesses found that professional/managerial positions were the most difficult for them to fill this quarter (57%, down from 63%).



Business confidence



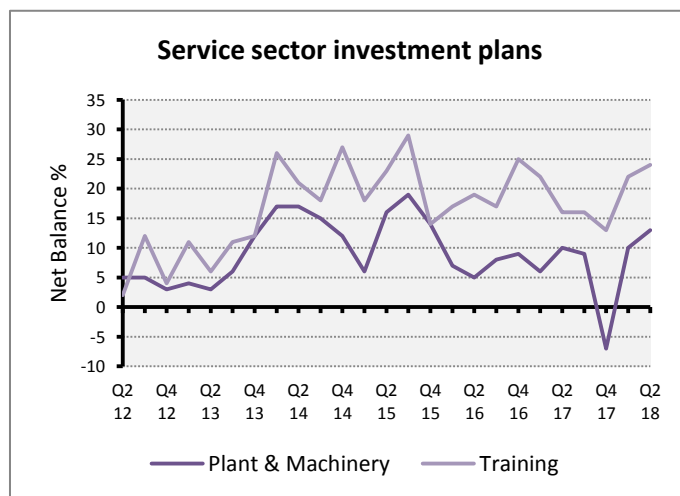
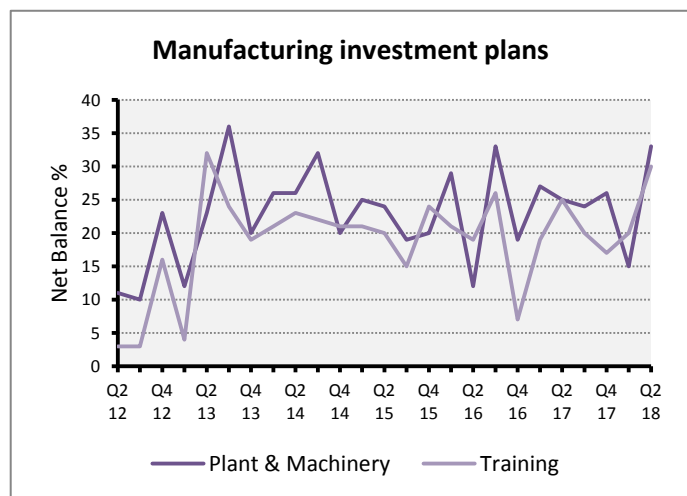
The net balance of manufacturing companies expecting turnover to improve in the coming year weakened by 6 points (+57%, down from +63%), whilst the manufacturing profitability balance gained 9 points (+51%, up from +42%).

In the services sector, the net balance of firms expecting turnover to improve over the next 12 months held constant (+53%); whilst the services profitability balance gained 3 points on the previous quarter (+39%, up from +36%).

There was a single point increase in the percentage of businesses operating at full capacity (39%, up from 38%).

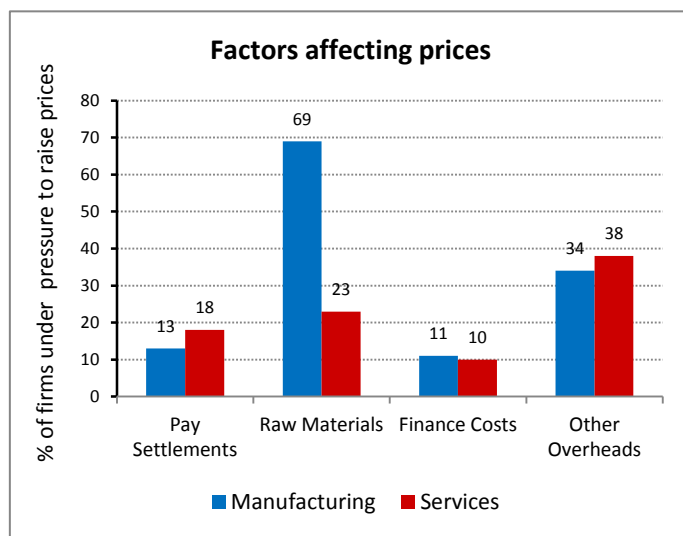
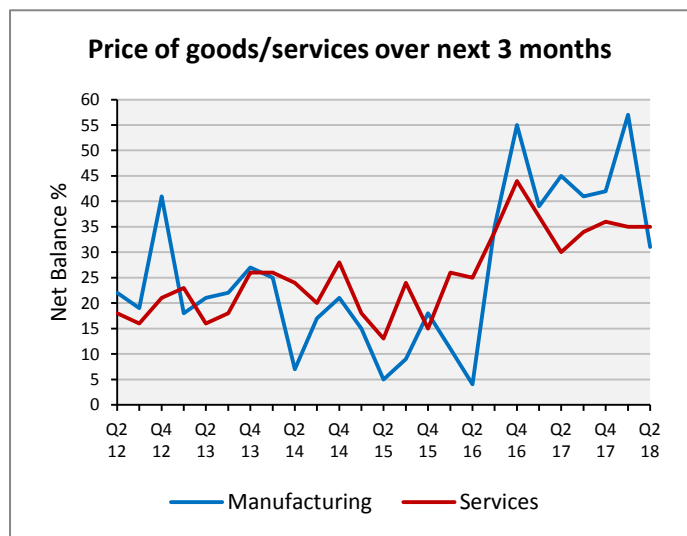
The net balance of services firms reporting that their cashflow improved over the past three months increased slightly (+9%, up from +4%); whilst the manufacturing cashflow balance weakened by five points (+6%, down from +8%).

Investment intentions



All four investment balances improved this quarter. In manufacturing, the capital investment balance climbed 18 points (+33%, up from +15%); whilst the training investment balance gained 10 points (+30%, up from +20%). For services businesses, investment intentions have shown little change on the previous quarter. The services capital investment balance was up 3 points (+13%, up from +10%), whilst the training investment balance gained 2 points (+24%, up from +22%).

Prices

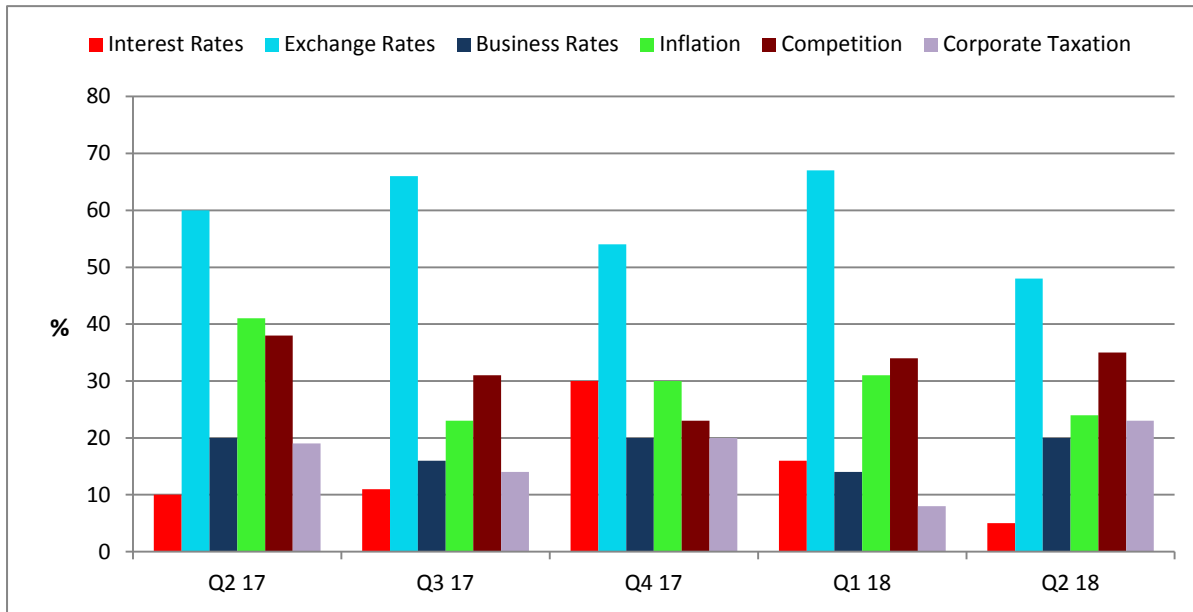


There was an overall weakening in the balance of firms under pressure to increase prices in the next three months. In manufacturing, the percentage balance of firms expecting their prices to rise fell back 26 points from a record high (+31%, down from +57%). In the services sector, the percentage balance of firms expecting their prices to increase in the next three months was unchanged at +35%, but still well above the historical average.

In terms of factors affecting the price of goods and services, 69% of manufacturers said they were under more pressure to raise prices because of raw material costs (down from 78%). 38% of manufacturers were under more pressure from other overhead costs (down from 30%); whilst pressure from pay settlements also weakened (13%, down from 19%).

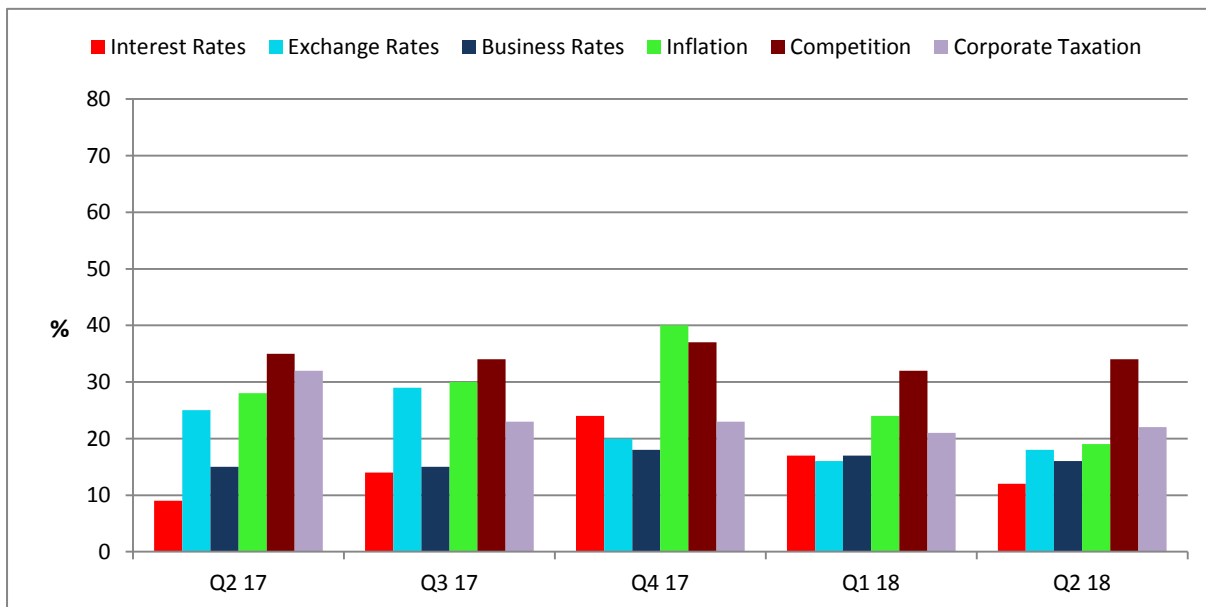
Service sector firms were under greatest pressure to increase prices as a result of other overhead costs (38%, up from 37%), followed by raw materials costs (23%, up from 19%). Fewer firms were under pressure from pay settlements this quarter (18%, down from 21%) whilst 10% (unchanged) were under pressure from finance costs.

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 although concern has subsided considerably in Q2 (48%, down from 67%). Competition remains the second most significant concern (35%, up from 34%), followed by inflation (24%, down from 31%). Concerns about business rates and corporate taxation both increased this quarter, whilst the percentage of manufacturers more concerned about interest rates receded to just 5%.

Business Concerns (external factors) – Services



In the services sector, levels of business concern remained relatively unchanged across most factors. The most significant concern continues to be competition (34%, up from 32%) followed by corporate taxation (22%, up from 21%). Concerns over interest rates eased by five points (12%, down from +17%), as did concerns about inflation (19%, down from 24%). 18% of services firms were more concerned about exchange rates than three months ago (up 2%), whilst 16% had greater concerns about business rates (down 1%).

BALANCE CHANGES

	Manufacturing		Services		Quarterly Change	
	Q1	Q2	Q1	Q2	Manufacturing	Services
	2017	2018	2017	2018	Q2 2018	Q2 2018
Domestic Sales	16	28	26	28	12	2
Domestic Orders	15	24	20	22	9	2
Export Sales	45	29	14	12	-16	-2
Export Orders	41	30	7	12	-11	5
Employment last 3 months	29	14	13	18	-15	5
Employment next 3 months	25	34	38	30	9	-8
% Tried to recruit	64	56	45	53	-8	8
% Part-time	10	16	26	34	6	8
% Full-time	83	89	92	80	6	-12
% Temporary	22	34	11	14	12	3
% Permanent	46	36	41	43	-10	2
% Recruitment difficulties	44	72	71	60	28	-11
% Skilled manual	84	67	46	28	-17	-18
% Professional/Managerial	26	21	63	57	-5	-6
% Clerical	47	18	43	31	-29	-12
% Semi and unskilled	63	55	22	33	-8	11
Cashflow	6	1	4	9	-5	5
Investment - plant/machinery	15	33	10	13	18	3
Investment - training	20	30	22	24	10	2
Confidence - turnover	63	57	53	53	-6	0
Confidence - profitability	42	51	36	39	9	3
% Full capacity	33	35	40	41	2	1
Prices	57	31	35	35	-26	0
% Pay Settlements	19	13	21	18	-6	-3
% Raw materials	78	69	19	23	-9	4
% Financial costs	16	11	10	10	-5	0
% Other overheads	30	34	37	38	4	1
<i>External Factors of more concern than 3 months ago</i>						
% Interest rates	16	5	17	12	-11	-5
% Exchange rates	67	48	16	18	-19	2
% Business rates	14	20	17	16	6	-1
% Inflation	31	24	24	19	-7	-5
% Competition	34	35	32	34	1	2
% Tax	8	23	21	22	15	1



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