

**QES** LANCASHIRE QUARTERLY  
ECONOMIC SURVEY

Quarter 3, 2018

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## About this Quarter's Survey

The Q3 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 27 Aug to 17 Sept 2018.
- Responses were received from 177 companies across Lancashire employing 19,811 people.
- From the manufacturing sector, 48 business (27%) employing 13,292 people responded to the survey.
- From the service sector, 129 businesses (33%) employing 6,519 people responded to the survey.
- 112 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

In general terms, most economic indicators in the survey have weakened in Q3 and there are signs that Lancashire firms are starting to feel less confident about their turnover and profitability expectations for the next 12 months. It looks like a particularly weak set of results for the county's manufacturers who have seen a significant decline in the key balances for domestic sales & orders; export sales & orders; and employment. The balance of manufacturers expecting their prices to increase also rose, with 63% citing the cost of raw materials as the driver of cost increases.

However, domestic sales and orders in the service sector have held steady which is vital given that the service sector is the main driver of economic activity and make up two thirds of responses to this survey. Notwithstanding, the results also show that firms are scaling back their investment intentions and fewer firms are attempting recruit, which is perhaps understandable given the level of economic uncertainty they are currently facing.

### Key findings in the Q3 2018 survey

#### Manufacturing sector:

- The balance of firms reporting increased domestic sales fell, from +28 to +17; while the balance reporting improved domestic orders also weakened, from +24 to +8.
- The balance of firms reporting increased export sales fell from +29 to +10. The balance reporting improved export orders also fell, from +30 to +12.
- The balance of firms increasing investment in training was down, from +30 to +20; while the balance of those increasing investment in plant and machinery dropped from +33 down to +14.
- The percentage of firms looking to recruit dropped from 56% to 48%, while the number of those experiencing recruitment difficulties was down from 72% to 49%.
- The manufacturing Cashflow balance remains very weak at +4, with just 26% reporting improved cashflow against 22% that said it had worsened.
- Manufacturers are still under significant pressure to raise prices due to the cost of raw materials. 63% of firms said they were more concerned about raw materials costs than three months ago (down from 69%).
- Confidence that turnover will improve over the next twelve months weakened from +57 to +43; whilst confidence that profitability will improve plummeted from a balance of +51 to +22.

#### Services sector:

- The balance of firms reporting increased domestic sales improved a fraction from +28 to +29, while the balance reporting improved domestic orders also rose, from +22 to +28.
- The balance of firms reporting increased export sales fell, from +12 to +3. The balance reporting improved export orders was also down, from +12 to +9.
- The balance of firms expecting turnover to increase in the next year improved marginally, up two points to +55; whilst confidence that profitability will improve over the next twelve months increased from +39 to +47.
- The balance of firms reporting an increase in their workforce over the past three months held relatively steady, losing a single point on the previous quarter (+17, down from +18). The forward-looking employment expectations balance gained 4 points (+34, up from +30).
- 50% of service sector firms had tried to recruit over the past three months (down from 53%) and of those recruiting, 56% said they faced difficulties getting the right people.

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

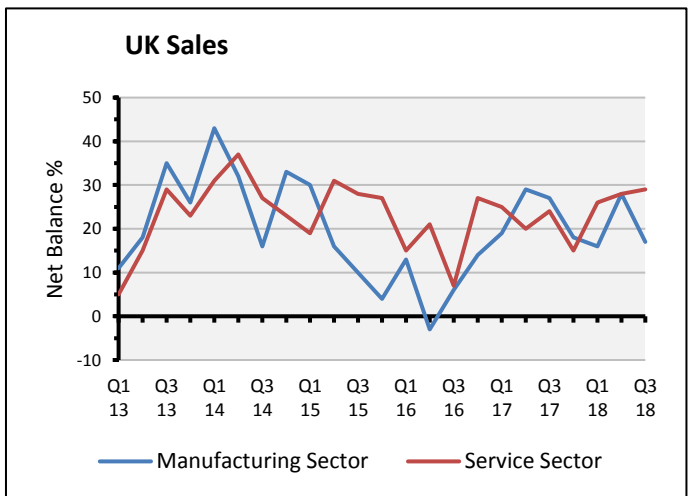
## Domestic Market

Domestic sales and orders held steady for service sector firms in Q3, but it was a different story for Lancashire’s manufacturing sector as both domestic balances weakened.

The services UK sales balance gained 1 point (+29%, up from +28%); whilst the advance orders/bookings balance increased by 6 points (+28%, up from +22%).

In manufacturing, the UK sales balance lost all of the gains from the previous quarter, dropping 11 points (+17%, down from +28%); whilst the advance sales/orders balance lost 16 points (+8%, down from +24%).

Collectively, 40% of firms in the survey reported an increase in domestic sales over the past 3 months (down 1%).

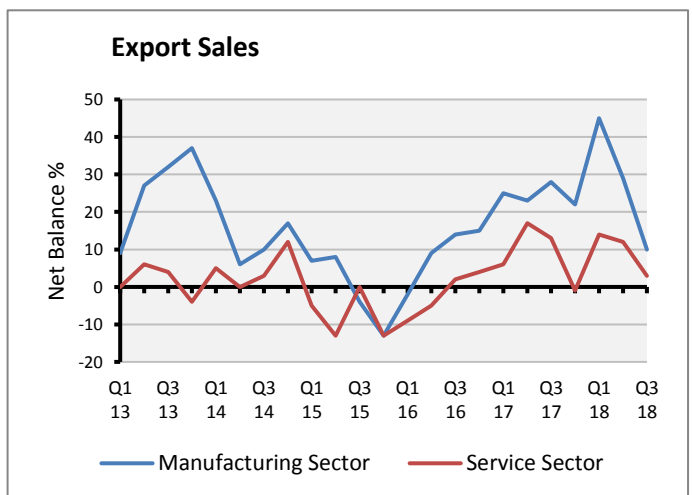


## Export Market

After a disappointing set of results in Q2, both sectors have once again seen a fall in the export sales and order balances in Q3 - perhaps indicating that the benefits of weaker Sterling have started to dissipate.

In manufacturing, the export sales balance was down 19 points on Q2 (+10%, down from +29%) and some 35 points down on the record high seen in the first quarter of 2018. The manufacturing export orders balance lost 3 points in Q3 (+9%, down from +12%).

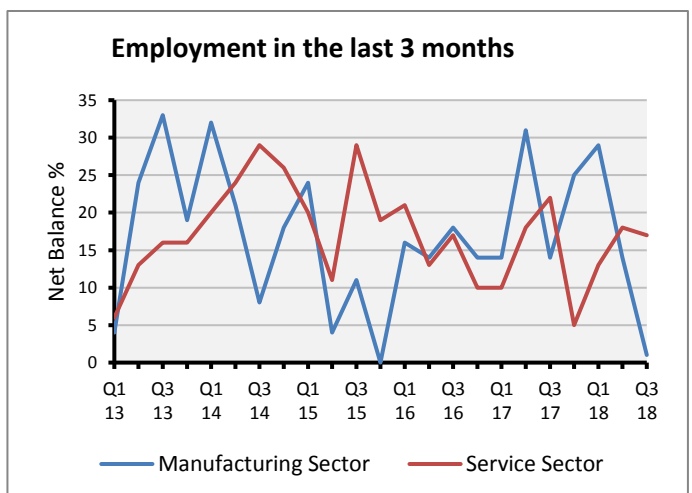
The services export sales balance weakened by 9 points (+3%, down from +12%); whilst the services export orders balance was down by 3 points (+9%, down from +12%).



## Employment

In manufacturing, the net balance of companies reporting that their workforce had increased over the past three months was down 13 points (+1%, down from +14%), whilst the employment expectations balance for the three months ahead lost 15 points (+19%, down from +34%).

The balance of firms reporting an increase in their workforce over the past three months held relatively steady, losing a single point on the previous quarter (+17, down from +18). The forward-looking employment expectations balance gained 4 points (+34, up from +30).

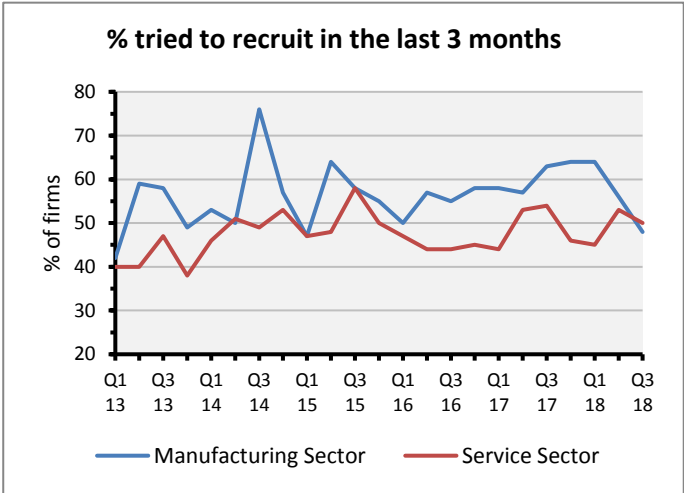


## Recruitment

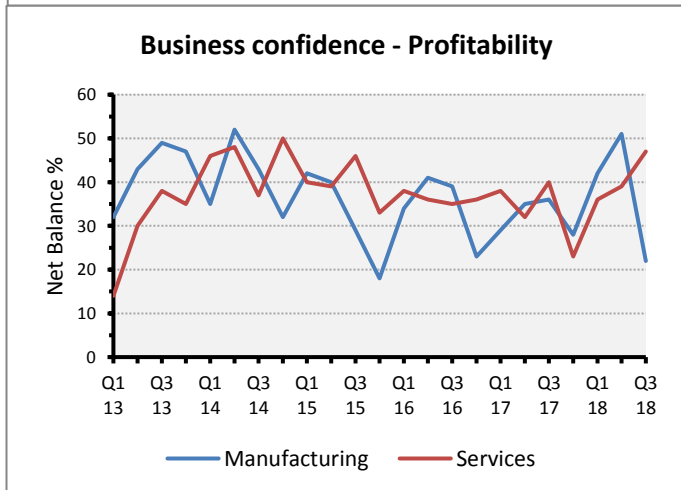
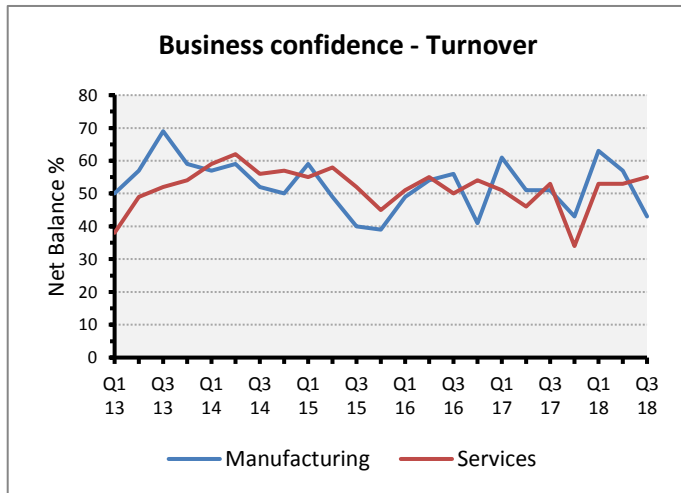
The overall percentage of firms attempting to recruit in the past three months was slightly down this quarter. 48% of manufacturing firms said that they had attempted to recruit (down 8%); compared with 50% of service businesses (down 3%).

Of all firms attempting to recruit, 45% were seeking to fill permanent vacancies (up 4%), with just 13% looking to take on temporary workers (down 8%). 75% of firms attempted to recruit for full-time positions (down 8%), whilst 38% were looking to fill part-time roles (up 10%).

57% of firms attempting to recruit said they experienced difficulties finding suitable staff (down from 64%). For manufacturing firms, skilled manual and technical positions continue to be the most difficult to fill (65%, down from 67%). Service sector businesses found that professional/managerial positions were the most difficult for them to fill this quarter (58%, up from 57%).



## Business confidence



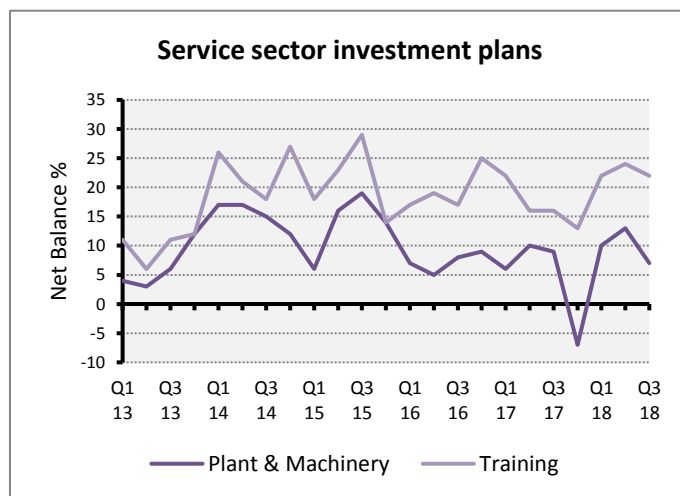
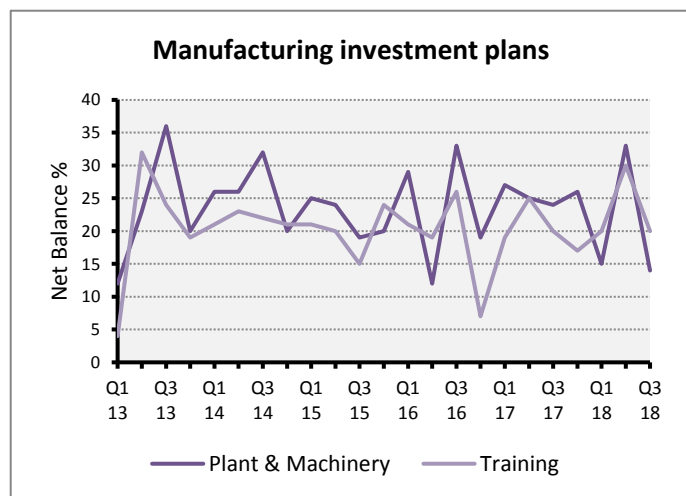
Q3 shows a significant weakening in business confidence among manufacturers. The net balance of manufacturing companies expecting turnover to improve in the coming year weakened by 14 points (+43%, down from +57%), whilst the manufacturing profitability balance lost 29 points (+22%, down from +51%).

In the services sector, the net balance of firms expecting turnover to improve over the next 12 months improved slightly (+55%, up from +53%); whilst the services profitability balance gained 8 points on the previous quarter (+47%, up from +39%).

There was a five point decline in the percentage of businesses across both sectors operating at full capacity (34%, down from 39%).

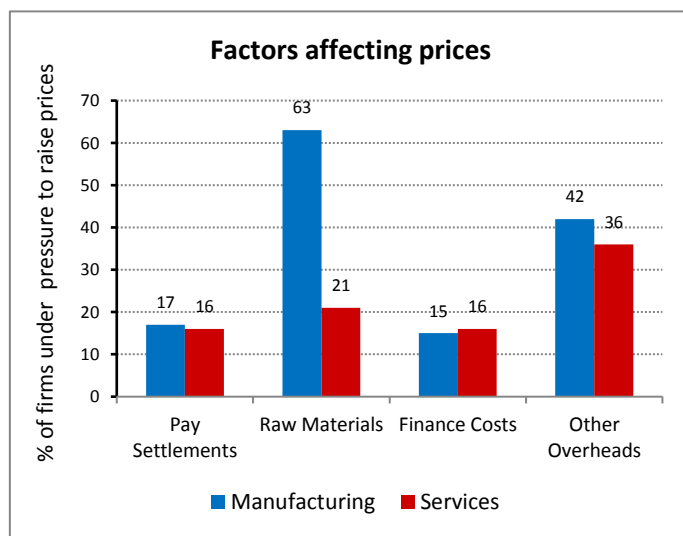
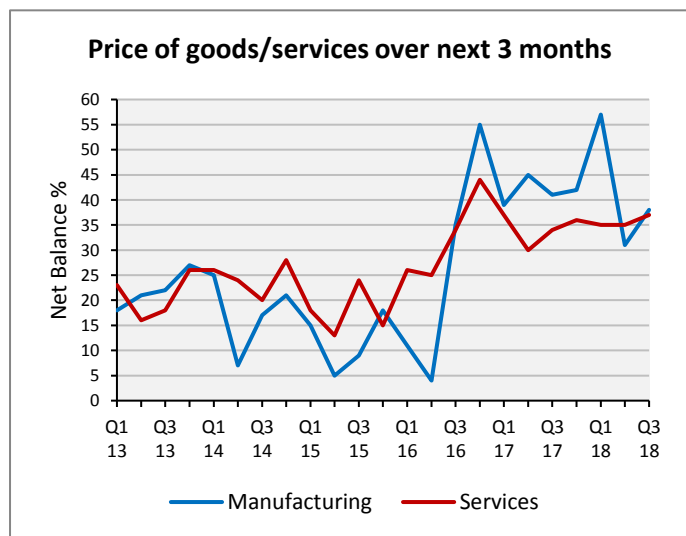
The net balance of services firms reporting that their cashflow improved over the past three months weakened slightly (+8%, down from +9%); whilst the manufacturing cashflow balance gained three points (+6%, down from +8%).

## Investment intentions



All four investment balances weakened this quarter. In manufacturing, the capital investment balance lost 19 points and retracted to roughly the same level seen in Q1 (+14%, down from +33%). It was a similar story for training investment which was down 10 points on the previous quarter and matched the balance seen in Q1 (+20%, down from +30%). For services businesses, investment intentions weakened marginally on the previous quarter. The services capital investment balance was down 6 points (+7%, down from +13%), whilst the training investment balance lost 2 points (+22%, down from +24%).

## Prices

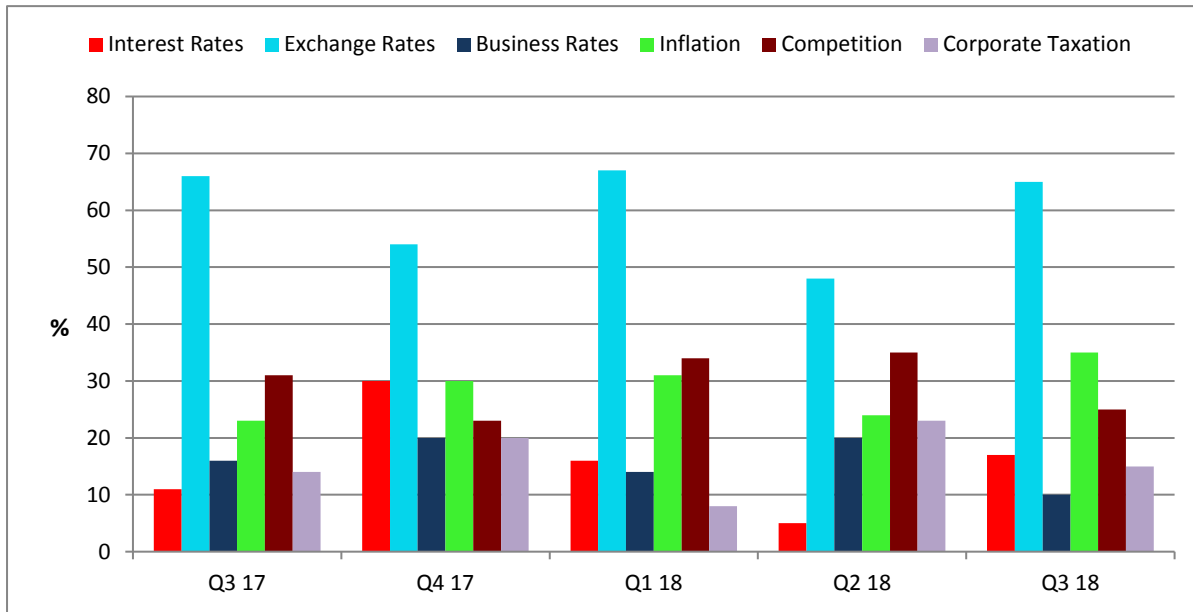


There was a small increase in the balance of firms under pressure to increase prices in the next three months. In manufacturing, the percentage balance of firms expecting their prices to rise gained 7 points (+38%, up from +31%). In the services sector, the percentage balance of firms expecting their prices to increase in the next three months was up 2 points (+37%, up from +35%), and remains above the historical average.

In terms of factors affecting the price of goods and services, 63% of manufacturers said they were under more pressure to raise prices because of raw material costs (down from 69%). 42% of manufacturers were under more pressure from other overhead costs (up from 38%); whilst pressure from pay settlements increased (17%, up from 13%).

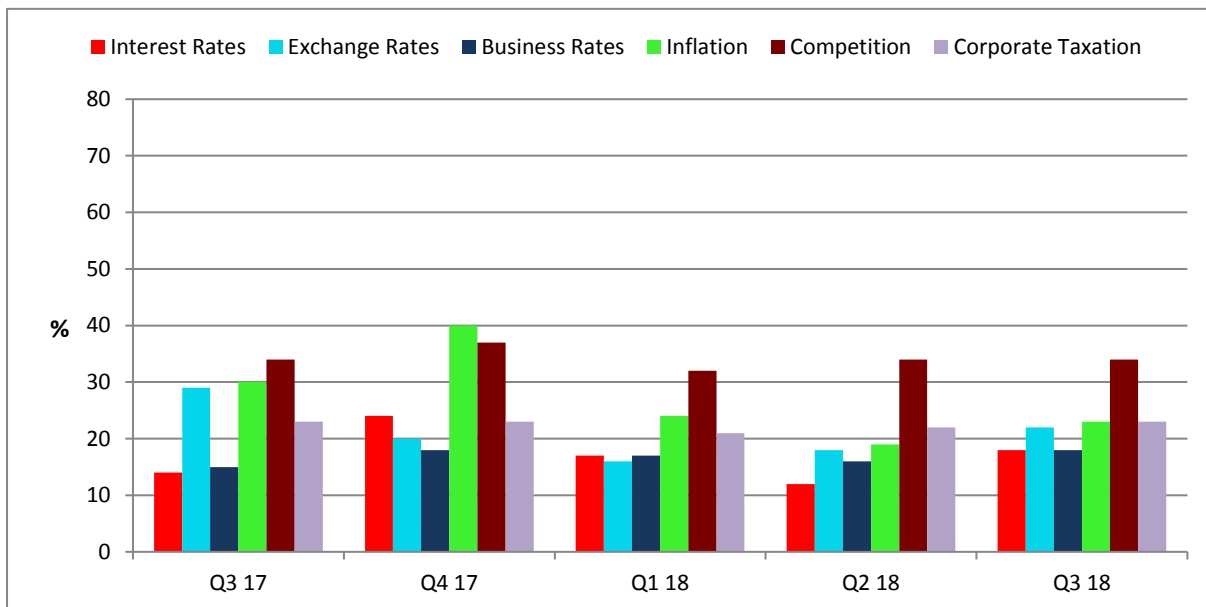
Service sector firms were under greatest pressure to increase prices as a result of other overhead costs (36%, down from 38%), followed by raw materials costs (21%, down from 23%). Fewer firms were under pressure from pay settlements this quarter (16%, down from 18%) whilst 16% (up 6%) were under pressure from finance costs.

## Business Concerns (external factors) - Manufacturing



In terms of external factors that are of greater concern than three months ago, worries about exchange rates were again on the increase and continue to be the biggest issue for manufacturing firms (65%, up from 48%). Inflation has overtaken competition as the second most significant concern (35%, up from 24%), and there was a 12 points increase in the percentage of firms more concerned over interest rates (+17%, up from +5%). Concerns about business rates and corporate taxation both eased this quarter.

## Business Concerns (external factors) – Services



In the services sector, levels of business concern were up slightly across most factors but have remained constant throughout 2018. The most significant concern continues to be competition (34%, unchanged); followed equally by corporate taxation (23%, up from 22%) and inflation (23%, up from +19%). Concerns over exchange rates went up by four points (22%, up from +18%). There was a 6 point rise in the percentage of firms more concerned about interest rates (18%, up from 12%), whilst business rates concerns also increased marginally (18%, up from 16%).



**BALANCE CHANGES**

	Manufacturing		Services		Quarterly Change	
	Q2	Q3	Q2	Q3	Manufacturing	Services
	2018	2018	2018	2018	Q3 2018	Q3 2018
Domestic Sales	28	17	28	29	-11	1
Domestic Orders	24	8	22	28	-16	6
Export Sales	29	10	12	3	-19	-9
Export Orders	30	12	12	9	-18	-3
Employment last 3 months	14	1	18	17	-13	-1
Employment next 3 months	34	19	30	34	-15	4
% Tried to recruit	56	48	53	50	-8	-3
% Part-time	16	22	34	44	6	10
% Full-time	89	87	80	71	-2	-9
% Temporary	34	9	14	15	-25	1
% Permanent	36	70	43	35	34	-8
% Recruitment difficulties	72	59	60	56	-13	-4
% Skilled manual	67	65	28	37	-2	9
% Professional/Managerial	21	29	57	58	8	1
% Clerical	18	35	31	34	17	3
% Semi and unskilled	55	35	33	29	-20	-4
Cashflow	1	4	9	8	3	-1
Investment - plant/machinery	33	14	13	7	-19	-6
Investment - training	30	20	24	22	-10	-2
Confidence - turnover	57	43	53	55	-14	2
Confidence - profitability	51	22	39	47	-29	8
% Full capacity	35	35	41	33	0	-8
Prices	31	38	35	37	7	2
% Pay Settlements	13	17	18	16	4	-2
% Raw materials	69	63	23	21	-6	-2
% Financial costs	11	15	10	16	4	6
% Other overheads	34	42	38	36	8	-2
<i>External Factors of more concern than 3 months ago</i>						
% Interest rates	5	17	12	18	12	6
% Exchange rates	48	65	18	22	17	4
% Business rates	20	10	16	18	-10	2
% Inflation	24	35	19	23	11	4
% Competition	35	25	34	34	-10	0
% Tax	23	15	22	23	-8	1



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