

QES LANCASHIRE QUARTERLY
ECONOMIC SURVEY

Quarter 4, 2018

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About this Quarter's Survey

The Q4 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 6 November to 27 November 2018.
- Responses were received from 235 companies across Lancashire employing 25,270 people.
- From the manufacturing sector, 90 business (38%) employing 15,568 people responded to the survey.
- From the service sector, 145 businesses (62%) employing 9,702 people responded to the survey.
- 100 companies (43%) were involved in exports.

METHODOLOGY:

QES results are generally presented as balance figures - the percentage of firms that reported an increase minus the percentage that reported a decrease. If the figure is a plus it indicates expansion of activity and if the figure is a minus it indicates contraction of activity. A figure above 0 indicates growth, while a figure below 0 indicates contraction.

For example, if 50% of firms told us their sales grew and 18% said they decreased the balance for the quarter would be +32% (an expansion).

If 32% told us their sales grew and 33% said they fell the balance would be -1% (a contraction).

Summary

After a year of slow growth for Lancashire businesses the survey suggests that economic conditions were worryingly subdued in the final quarter of 2018, with a number of key indicators continuing to weaken under the weight of persistent Brexit uncertainty and rising cost pressures.

The results show a significant slow-down in domestic sales and orders for the service sector, which is the main driver of the economy and makes up two-thirds of responses to this survey. The slow-down in sales has also affected business confidence in the sector, with expectations that turnover and profitability will improve in the coming year taking a backward step.

The downturn in business confidence is also reflected in a weakening employment picture for both manufacturing and services firms. Despite this, over half of the firms in the survey attempted to recruit during the last three months of the year with 74% of manufacturers reporting difficulty recruiting skilled manual workers. Skills shortages continue to be a major concern for Lancashire businesses and we urge the government to proceed with caution over changes to immigration policy as we leave the European Union.

Firms are still under considerable pressure to increase prices as concerns about raw material costs and exchange rates remain high. However, price pressures from wage settlements remain relatively muted.

Key findings in the Q4 2018 survey

Manufacturing sector:

- The balance of firms reporting increased domestic sales fell, from +17 to +13; while the domestic orders balance was in contraction at -1, down from +8.
- The balance of firms reporting increased export sales fell from +10 to +5. The balance reporting improved export orders also fell, from +12 to +2.
- The balance of firms increasing investment in training was down, from +20 to +10; while the balance of those increasing investment in plant and machinery dropped from +14 down to +11.
- The percentage of firms looking to recruit increased from 48% to 66%; with 74% of those recruiting reporting difficulties trying to find skilled manual labour.
- Manufacturers are still under significant pressure to raise prices due to the cost of raw materials. 78% of firms said they were more concerned about raw materials costs than three months ago (up from 63%).
- Confidence that turnover will improve over the next twelve months weakened from +43 to +37; whilst confidence that profitability will improve was up slightly from +22 to +24.

Services sector:

- The balance of firms reporting increased domestic sales went down from +29 to +19, while the balance reporting improved domestic orders also shrank, from +28 to +14.
- The balance of firms reporting increased export sales fell marginally, from +3 to +2. The balance reporting improved export orders was also down, from +9 to +7.
- The balance of firms expecting turnover to increase in the next year fell from +55 to +42; whilst confidence that profitability will improve over the next twelve months dropped sharply, from +47 to +31.
- The balance of firms reporting an increase in their workforce over the past three months lost ten points on the previous quarter (+7, down from +17). The forward-looking employment expectations balance was down 5 points (+29, down from +34).
- 48% of service sector firms had tried to recruit over the past three months (down from 50%) and of those recruiting, 65% said they faced difficulties getting the right people.

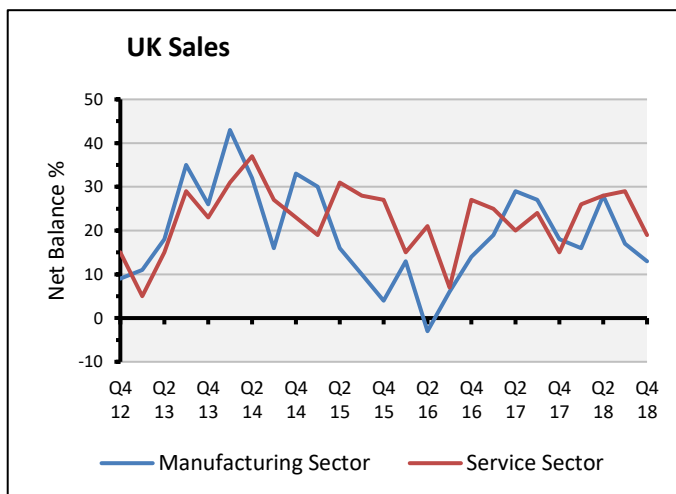
+Positive number represents an expansion -Negative number represents a contraction

Domestic Market

The Q4 survey reveals a further weakening in domestic sales and orders across both sectors during the final months of the year.

The services UK sales balance lost 10 points on the previous quarter (+19%, down from +29%); whilst the advance orders/bookings balance fell by 14 points (+14%, down from +28%).

In manufacturing, the UK sales balance lost 4 points from the previous quarter (+13%, down from +17%); whilst the advance sales/orders balance lost 9 points and fell in to contraction (-1%, down from +8%).

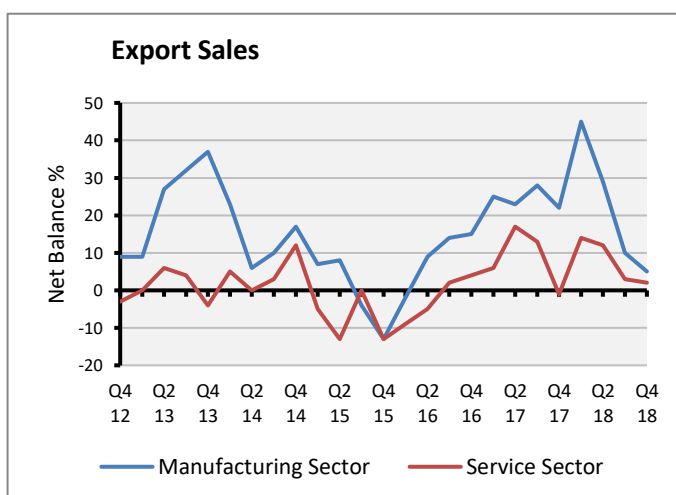


Export Market

Both sectors have again seen export sales and orders weaken in Q4 and collectively this quarter has seen the weakest level of export performance since Q1 2016.

In manufacturing, the export sales balance was down 5 points on Q3 (+5%, down from +10%) and some 40 points down on the record high seen in the first quarter of 2018. The manufacturing export orders balance lost 10 points in Q4 (+2%, down from +12%).

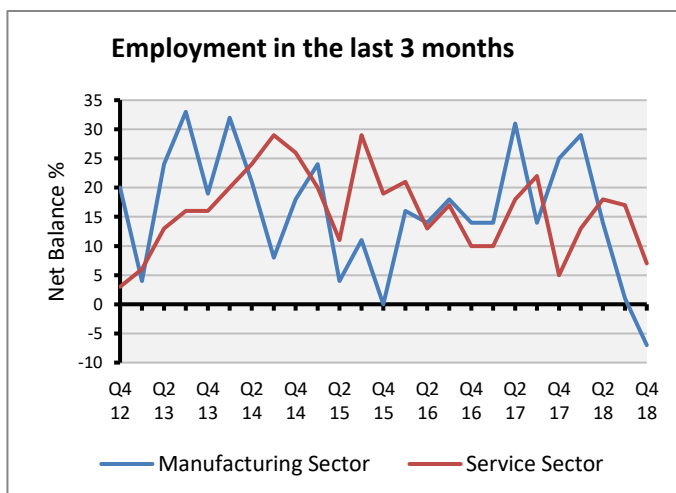
The services export sales balance weakened by a single point (+2%, down from +3%); whilst the services export orders balance was down by 2 points (+7%, down from +9%).



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).

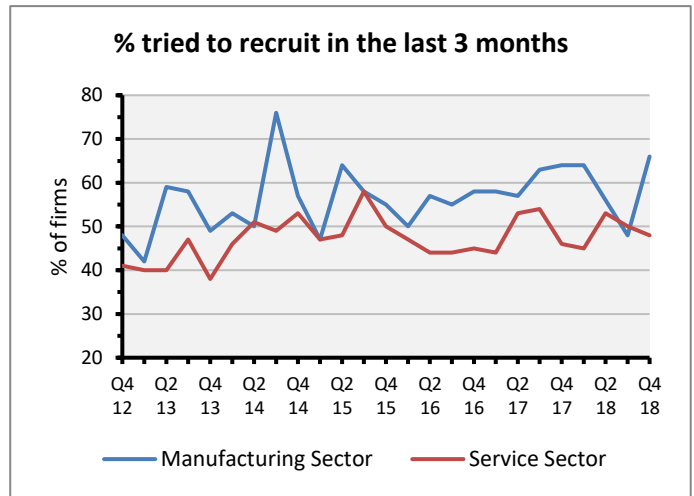


Recruitment

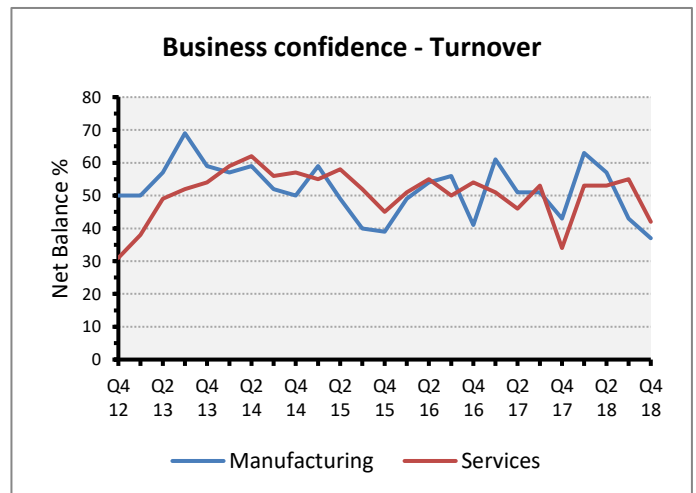
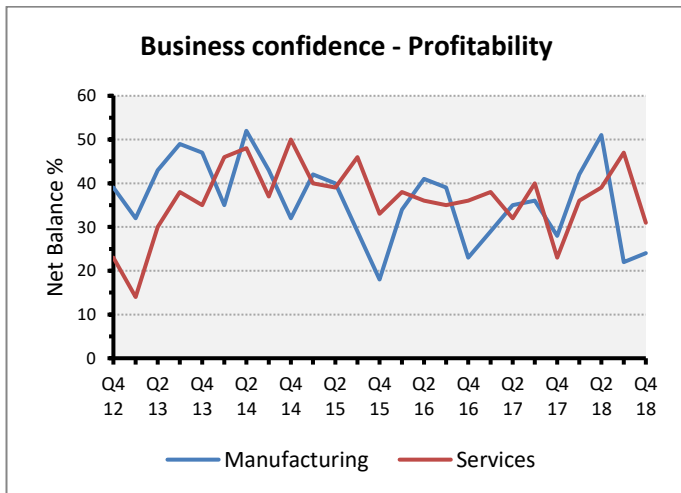
55% of firms across both sectors have attempted to recruit staff in the past three months (up 5%). In manufacturing, 66% of firms said that they had attempted to recruit (up 18%); compared with 48% of service businesses (down 2%).

Of all firms attempting to recruit, 41% were seeking to fill permanent vacancies (down 4%), with 20% looking to take on temporary workers (up 8%). 85% of firms attempted to recruit for full-time positions (up 10%), whilst 26% were looking to fill part-time roles (down 12%).

66% 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 (74%, up from 65%). Service sector businesses found that professional/managerial positions were the most difficult for them to fill this quarter (69%, up from 58%).



Business confidence



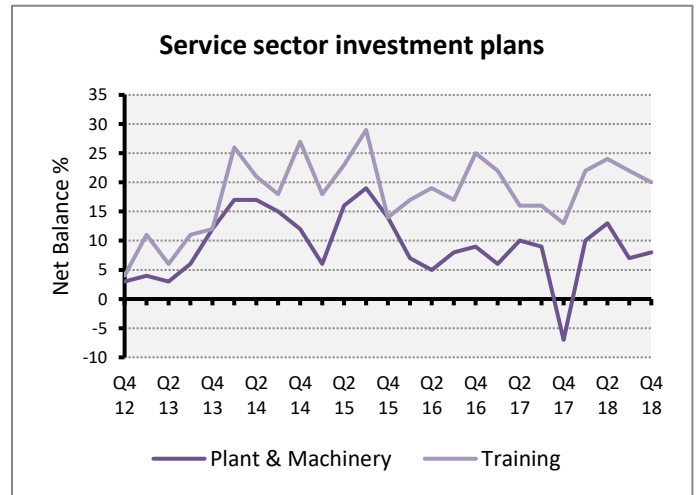
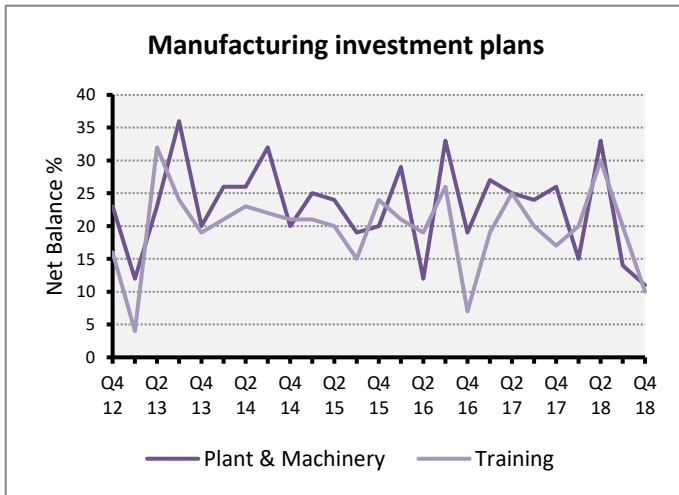
Three out of four confidence measures weakened this quarter, with the manufacturing profitability balance the only measure to improve after its previous slump of 29 points in Q3. The net balance of manufacturing companies expecting turnover to improve in the coming year weakened by 6 points (+37%, down from +43%), whilst the manufacturing profitability was up 2 points (+24%, up from +22%).

In the services sector, the net balance of firms expecting turnover to improve over the next 12 months weakened by 13 points (+42%, down from +55%); whilst the services profitability balance was down 16 points on the previous quarter (+31%, up from 47%).

There was a six-point rise in the percentage of businesses across both sectors operating at full capacity (40%, up from 34%).

The balance of services firms reporting that their cashflow improved over the past three months weakened (+2%, down from +8%); whilst the manufacturing cashflow balance lost 2 points (+2%, down from +4%).

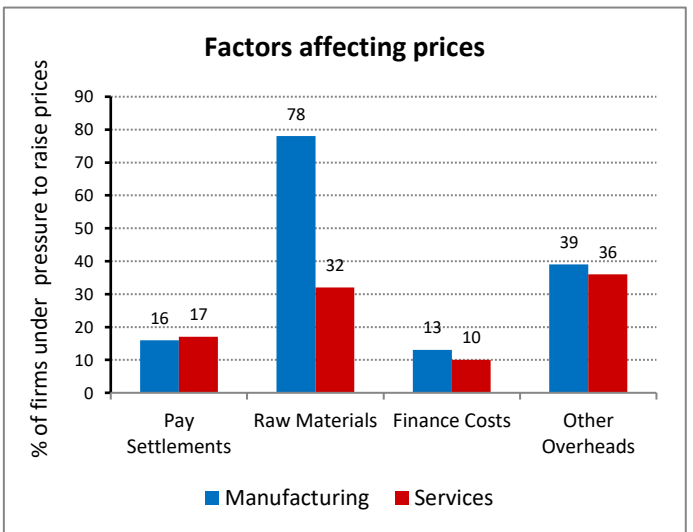
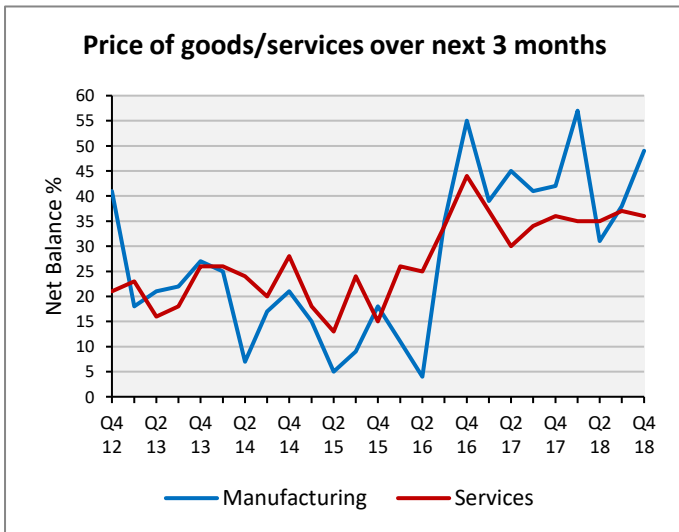
Investment intentions



In manufacturing, the capital investment balance lost 3 points and fell to its lowest level in six years (+11%, down from +14%). The training investment balance was down another 10 points on the previous quarter and reached its lowest level since Q4 2016 (+10%, down from +20%).

For services businesses, investment plans have stuttered this quarter but remain above levels seen in the final quarter of 2017. The capital investment balance was up a single point (+8%, up from +7%), whilst the training investment balance lost 2 points (+20%, down from +22%).

Prices

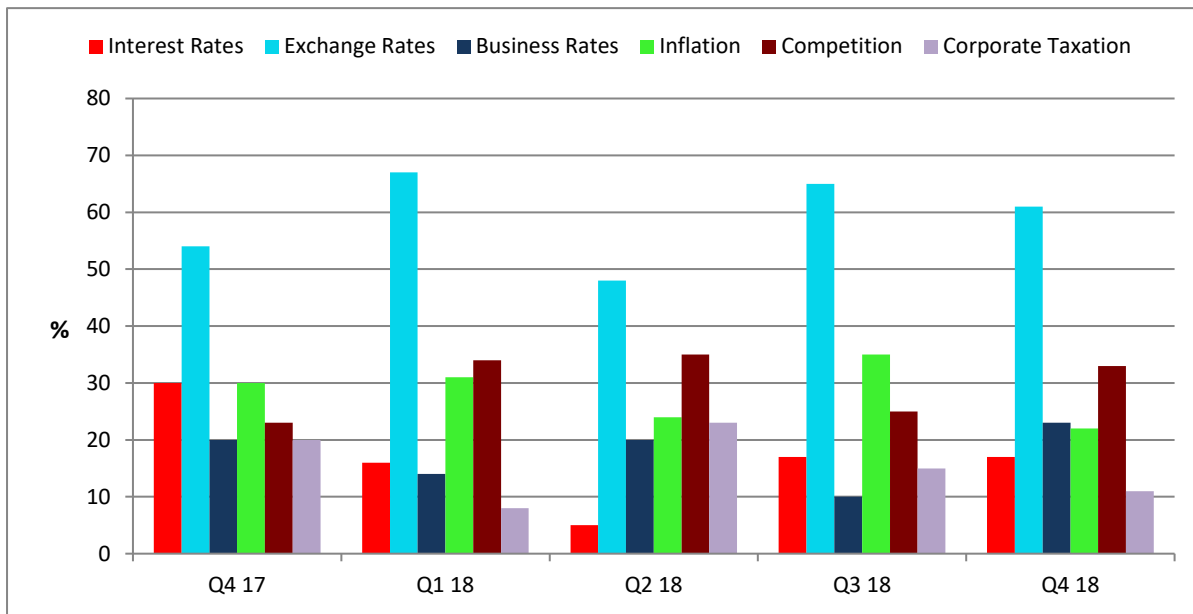


In manufacturing, the percentage balance of firms expecting their prices to rise gained 11 points (+49%, up from +38%). In the services sector, the percentage balance of firms expecting their prices to increase in the next three months fell just a single point (+36%, down from +37%).

In terms of factors affecting the price of goods and services, 78% of manufacturers said they were under more pressure to raise prices because of raw material costs (up from 63%). 39% of manufacturers were under more pressure from other overhead costs (down from 42%); whilst pressure from pay settlements was relatively unchanged (16%, down from 17%).

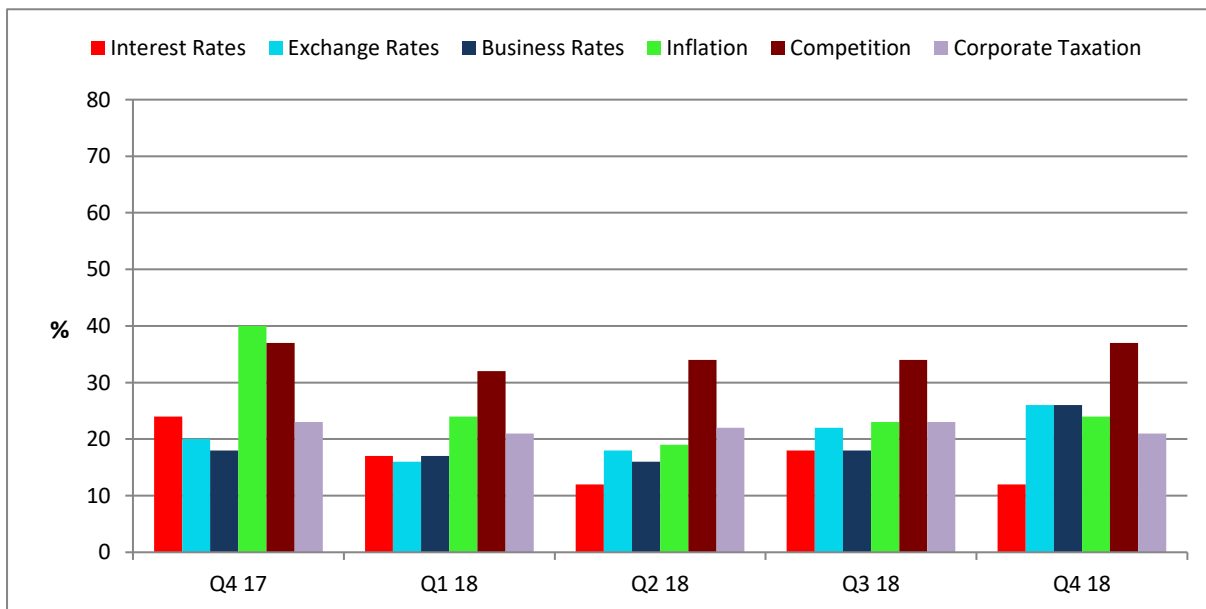
Service sector firms were under greatest pressure to increase prices as a result of other overhead costs (36% - unchanged), followed by raw materials costs (32%, up from 21%). Pressure from pay settlements increased a fraction on Q3 (17%, up from 16%) whilst 10% said they were under more pressure from finance costs (down 6%).

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 (61%, down from 65%). Competition as the second most significant concern (33%, up from 25%), and there was a 13 point increase in the percentage of firms more concerned over business rates (+23%, up from +10%). Inflation was less of a concern this quarter (22%, down from 35%), as was corporate taxation (11%, down from 15%). There was no change in percentage of manufacturing firms more concerned about interest rates (17%).

Business Concerns (external factors) – Services



In the services sector, levels of business concern were broadly on par with Q3 across most factors and have shown little fluctuation throughout 2018. Competition is still the biggest concern (37%, up from 34%); followed equally by exchange rates (26%, up from 22%) and business rates (26%, up from 18%). The percentage of firms more concerned about inflation was relatively unchanged (24%, up from 23%), whilst there was a 6-point fall in the percentage of firms more concerned about interest rates (12%, down from 18%).

BALANCE CHANGES

	Manufacturing		Services		Quarterly Change	
	Q3	Q4	Q3	Q4	Manufacturing	Services
	2018	2018	2018	2018	Q4 2018	Q4 2018
Domestic Sales	17	13	29	19	-4	-10
Domestic Orders	8	-1	28	14	-9	-14
Export Sales	10	5	3	2	-5	-1
Export Orders	12	2	9	7	-10	-2
Employment last 3 months	1	-7	17	7	-8	-10
Employment next 3 months	19	7	34	29	-12	-5
% Tried to recruit	48	66	50	48	18	-2
% Part-time	22	14	44	37	-8	-7
% Full-time	87	86	71	84	-1	13
% Temporary	9	23	15	18	14	3
% Permanent	70	37	35	44	-33	9
% Recruitment difficulties	59	66	56	65	7	9
% Skilled manual	65	74	37	39	9	2
% Professional/Managerial	29	36	58	69	7	11
% Clerical	35	15	34	43	-20	9
% Semi and unskilled	35	54	29	35	19	6
Cashflow	4	2	8	2	-2	-6
Investment - plant/machinery	14	11	7	8	-3	1
Investment - training	20	10	22	20	-10	-2
Confidence - turnover	43	37	55	42	-6	-13
Confidence - profitability	22	24	47	31	2	-16
% Full capacity	35	38	33	42	3	9
Prices	38	49	37	36	11	-1
% Pay Settlements	17	16	16	17	-1	1
% Raw materials	63	78	21	32	15	11
% Financial costs	15	13	16	10	-2	-6
% Other overheads	42	39	36	36	-3	0
<i>External Factors of more concern than 3 months ago</i>						
% Interest rates	17	17	18	12	0	-6
% Exchange rates	65	61	22	26	-4	4
% Business rates	10	23	18	26	13	8
% Inflation	35	22	23	24	-13	1
% Competition	25	33	34	37	8	3
% Tax	15	11	23	21	-4	-2



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