

Quarter 3, 2019

In association with



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Lancashire Quarterly Economic Survey, Q3 2019

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**About this Quarter’s Survey**

The Q3 2019 Survey was conducted by the North & Western Lancashire Chamber of Commerce; Chamber of Commerce East Lancashire; and Lancaster & District Chamber in conjunction with MHA Moore & Smalley Chartered Accountants and Business Advisors.

* The survey collection period was from 26th August to the 16th September 2019.
* Responses were received from 256 companies across Lancashire employing 41,682 people.
* From the manufacturing sector, 88 business (34%) employing 34,153 people responded to the survey.
* From the service sector, 168 businesses (66%) employing 7,529 people responded to the survey.
* 160 companies (63%) 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

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The Lancashire Chambers of Commerce Quarterly Economic Survey has found that economic conditions weakened in the third quarter amid a significant deterioration in manufacturing sector activity. The latest results of the survey of over 250 Lancashire firms point to an economy sagging under the weight of relentless uncertainty, another looming Brexit deadline, and deteriorating global economic conditions amid heightened trade tensions.

In the manufacturing sector, there was a marked downward shift in many indicators in the third quarter. The balance of firms reporting increased domestic sales dropped 19 points on the previous quarter and was at its lowest level since Q2 2016. It was a similar picture for export sales, which also reached a 3-year low and was well below historical levels for this survey.

Employment levels have also shown signs of weakening this quarter. All of the quarterly retrospective and forward-looking employment balances are down on Q2 levels, with manufacturing hardest hit. The business confidence measures in both sectors have also weakened considerably, with firms far less optimistic about their turnover and profitability expectations for the coming year.

Manufacturers reported that their cashflow position – a key indicator of the financial health of a business – has deteriorated. In the services sector, cashflow held steady, but remains low by historical standards.

**Key findings in the Q3 2019 survey**

**Manufacturing sector:**

* The balance of firms reporting increased domestic sales fell significantly, from +20 to +1; while the domestic orders balance lost nine points from +10 to +1.
* The balance of firms reporting increased export sales fell from +20 to +9. The balance reporting improved export orders also weakened, from +11 to +7.
* The balance of firms increasing investment in plant and machinery dropped from +22 down to +9, although the training investment balance held steady at +14.
* Manufacturers are still under significant pressure to raise prices due to the cost of raw materials. 71% of firms said they were more concerned about raw materials costs than three months ago (up from 52%).
* Confidence that turnover will improve over the next twelve months weakened from a balance of +43 to +28; whilst confidence that profitability will improve was also weakening from +25 to +20.
* The balance of firms expecting cashflow to improve worsened by thirteen points and fell in to negative territory (-12, down from +1).

**Services sector:**

* The balance of firms reporting increased domestic sales went up slightly from +21 to +22, while the balance reporting improved domestic orders lost one points, from +2 to +1.
* The balance of firms reporting increased export sales fell nine points into contraction, from +8 to -1. The balance reporting improved export orders was also down, from +9 to +7.
* The balance of firms reporting an increase in their workforce over the past three months lost ten points on the previous quarter (+10, down from +20). The forward-looking employment expectations balance was down four points (+22, down from +26).
* The balance of firms expecting turnover to increase in the next 12 months fell from +53 to +41; whilst confidence that profitability will improve over the next twelve months dropped sharply, from +39 to +25.
* 59% of service sector firms had tried to recruit over the past three months (up from 50%) and of those recruiting, 66% said they faced difficulties getting the right people.

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

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Domestic Market

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In the manufacturing sector, the UK sales balance saw one of its biggest slumps in recent years, losing 19 points on the previous quarter (+1%, down from +20%). This is the weakest domestic sales performance since Q2 2016 when the balance was in contraction at -3%. The UK advance manufacturing orders balance for the 3 months ahead also fell to a worrying level at +1%, down from +10%.

In the service sector, the UK sales balance held steady gaining a single point on the previous quarter (+22%, up from +21%).

The advance orders/bookings balance fell by 4 points (+10%, down from +14%).

Export Market

After a slight improvement in Q2, both sectors have seen export sales and orders weaken again in Q3.

In manufacturing, the export sales balance was down 11 points (+9, down from +20%) and sits roughly at the same level as a year ago. The advance export orders balance weakened by 4 points on the previous quarter (+7%, down from +11%).

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 8 points this quarter (+11%, down from +19%), whilst the employment expectations balance for the three months ahead lost 15 points (+5%, down from +20%).

In services, the balance of firms reporting an increase in their workforce over the past three months also weakened, losing 10 points on the previous quarter (+10%, down from +20%). The forward-looking employment expectations balance lost 4 points but remained relatively strong (+22%, down from +26%).

Recruitment

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58% of firms across both sectors have attempted to recruit staff in the past three months (up 3%). In manufacturing, 57% of firms said that they had attempted to recruit (down 6%); compared with 59% of service businesses (up 9%).

Of all firms attempting to recruit, 33% were seeking to fill permanent vacancies (down 15%), with just 13% looking to take on temporary workers (down 5%). 77% of firms attempted to recruit for full-time positions (down 5%), whilst 26% were looking to fill part-time roles (down 1%).

64% of firms attempting to recruit said they experienced difficulties finding suitable staff (up 5%). In both sectors, skilled manual and technical positions were the most difficult to fill. 88% of manufacturers (up 11%) and 54% of service businesses (up 4%) said they had difficulties this quarter.

Business confidence

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All four confidence measures weakened this quarter, with firms across both sectors less optimistic that turnover and profitability will increase over the next 12 months.

The net balance of manufacturing companies expecting turnover to improve in the coming year weakened by 15 points (+23%, down from +48%), whilst the manufacturing profitability balance was down 5 points (+20%, down from +25%).

In the services sector, the net balance of firms expecting turnover to improve over the next 12 months weakened by 12 points (+41%, down from +53%); whilst the services profitability balance was down 14 points on the previous quarter (+25%, down from +39%).

Q3 saw a marked decline in the percentage of manufacturing firms operating at full capacity (23%, down from 36%), whilst 39% of service businesses reported they were working at full capacity (up 3%).

Both sector’s cashflow balances have gone in to contraction this quarter, meaning that there are more firms experiencing worsening cashflow than there are seeing it improve. The balance of services firms reporting that their cashflow improved over the past three months weakened by 3 points (-3%, down from neutral); whilst the manufacturing cashflow balance lost 13 points (-12%, down from +1%).

Investment intentions

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In manufacturing, the capital investment balance lost 13 points and fell to its lowest level in a decade (+9%, down from +22%). The training investment balance remained constant on the previous quarter (+14%).

For services businesses, investment plans have stuttered this quarter but remain at roughly the same levels as a year ago. The capital investment balance was up a single point (+6%, up from +5%), whilst the training investment balance lost 3 points (+17%, down from +20%).

Prices

In manufacturing, the percentage balance of firms expecting their prices to rise gained 20 points (+47%, up from +27%). In the services sector, the percentage balance of firms expecting their prices to increase in the next three months went up by 6 points (+29%, down from +23%).

In terms of factors affecting the price of goods and services, 71% of manufacturers said they were under more pressure to raise prices because of raw material costs (up from 52%). 47% of manufacturers were under more pressure from other overhead costs (up from 37%); whilst pressure from pay settlements eased slightly (21%, down from 24%).

Service sector firms were under greatest pressure to increase prices as a result of other overhead costs (34%, down from 36%), followed by raw materials costs (21%, up from 20%). Pressure from pay settlements was unchanged (15%) whilst 11% said they were under more pressure from finance costs (down 1%).

Business Concerns (external factors) - Manufacturing

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In terms of external factors that are of greater concern than three months ago, **exchange rates** are easily the biggest issue for manufacturing firms (**60%**, up from 48%). **Inflation** was the second most significant concern (**24%**, up from 21%), whilst all of the other business concern measures were relatively unchanged on the previous quarter - **competition** (**22%**, up from 21%); **corporate taxation** (**21%**, up from 19%); **business rates** (**19%**, up from 17%); **interest rates** (**14%**, up from 13%).

Business Concerns (external factors) – Services

In the services sector, levels of business concern have stayed relatively static across most factors for the past year with competition cited as the leading concern each quarter. Q3 2019 was no different, with **38%** of firms indicating **competition** as the biggest concern (down from 39%); followed by **exchange rates** (**23%**, up from 19%); **inflation** (**23%**, up from 19%); **corporate taxation** (**22%**, down from 23%); **business rates** (**18%**, up from 14%); and **interest rates** (**14%**, up from 13%).

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| BALANCE CHANGES  Lancashire Quarterly Economic Survey, Q3 2019 |  |  |  |  | **Quarterly Change**  Page 8 | |
|  | **Manufacturing** | | **Services** | | **Manufacturing** | **Services** |
|  | **Q2 2019** | **Q3 2019** | **Q2 2019** | **Q3 2019** | **Q3 2019** | **Q3 2019** |
| Domestic Sales | 20 | **1** | 21 | **22** | -19 | 1 |
| Domestic Orders | 10 | **1** | 14 | **10** | -9 | -4 |
| Export Sales | 20 | **9** | 8 | **-1** | -11 | -9 |
| Export Orders | 11 | **7** | 2 | **1** | -4 | -1 |
| Employment last 3 months | 19 | **11** | 20 | **10** | -8 | -10 |
| Employment next 3 months | 20 | **5** | 26 | **22** | -15 | -4 |
| % Tried to recruit | 63 | **57** | 50 | **59** | -6 | 9 |
| % Part-time | 15 | **9** | 33 | **34** | -6 | 1 |
| % Full-time | 91 | **91** | 77 | **69** | 0 | -8 |
| % Temporary | 11 | **16** | 22 | **11** | 5 | -11 |
| % Permanent | 47 | **45** | 49 | **26** | -2 | -23 |
| % Recruitment difficulties | 57 | **61** | 60 | **66** | 4 | 6 |
| % Skilled manual | 77 | **88** | 50 | **54** | 11 | 4 |
| % Professional/Managerial | 31 | **30** | 59 | **49** | -1 | -10 |
| % Clerical | 9 | **21** | 17 | **23** | 12 | 6 |
| % Semi and unskilled | 31 | **42** | 29 | **28** | 11 | -1 |
| Cashflow | 1 | **-12** | 0 | **-3** | -13 | -3 |
| Investment - plant/machinery | 22 | **9** | 5 | **6** | -13 | 1 |
| Investment - training | 14 | **14** | 20 | **17** | 0 | -3 |
| Confidence - turnover | 43 | **28** | 53 | **41** | -15 | -12 |
| Confidence - profitability | 25 | **20** | 39 | **25** | -5 | -14 |
| % Full capacity | 36 | **23** | 36 | **39** | -13 | 3 |
| Prices | 27 | **47** | 23 | **29** | 20 | 6 |
| % Pay Settlements | 24 | **21** | 15 | **15** | -3 | 0 |
| % Raw materials | 52 | **71** | 20 | **21** | 19 | 1 |
| % Financial costs | 16 | **10** | 12 | **11** | -6 | -1 |
| % Other overheads | 37 | **47** | 36 | **34** | 10 | -2 |
| *External Factors of more concern than 3 months ago* |  |  |  |  |  |  |
| % Interest rates | 13 | **14** | 13 | **14** | 1 | 1 |
| % Exchange rates | 48 | **60** | 19 | **23** | 12 | 4 |
| % Business rates | 17 | **19** | 14 | **18** | 2 | 4 |
| % Inflation | 21 | **24** | 19 | **23** | 3 | 4 |
| % Competition | 21 | **22** | 39 | **38** | 1 | -1 |
| % Tax | 19 | **21** | 23 | **22** | 2 | -1 |

