

**QES** LANCASHIRE QUARTERLY  
ECONOMIC SURVEY

Quarter 4, 2020

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## About this Quarter's Survey

The Q4 2020 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 2<sup>nd</sup> November to 23<sup>rd</sup> November 2020.
- Responses were received from 137 companies across Lancashire employing 5,232 people.
- From the manufacturing sector, 33 business (24%) employing 2,576 people responded to the survey.
- From the service sector, 104 businesses (76%) employing 2,656 people responded to the survey.
- 71 companies (52%) 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

The Lancashire Chambers of Commerce Quarterly Economic Survey show a mixed picture as different sectors cope with the continued impact of restrictions brought about by the pandemic. The manufacturing sector has started to 'bounce back' following months of contraction, showing a return to growth in most metrics and a positive outlook for the next quarter to a year.

The service sector continues to struggle according to most metrics showing further contraction. Following a slowing of contraction in the third quarter, the imposition of entering Tier 3 restrictions and the second lockdown has resulted in a further contraction.

### Key findings in the Q4 2019 survey

#### Manufacturing sector:

- The balance of firms reporting increased domestic sales increased from +13 to +25; with domestic orders balance growing by twenty-five points from 0 to +25.
- The balance of firms reporting increased export sales reversed the recent trend of stagnation and contraction, growing from -22 to +22. The same happened with the balance reporting improved export orders, strengthening from -23 to +31.
- The balance of firms reporting an increase in their workforce over the past three months in fell slightly from -5 to -6, however, the balance of employment expectations in the next 3 months increased from +10 to +15.
- Manufacturers who tried to recruit increased from 42% to 70% over the last 3 months. 91% of those businesses tried to recruit people in full-time positions. There was also an increase in those finding it difficult to recruit, from 43% to 52%. While 83% of those who had difficulties saying this was in Skilled Manual roles this figure has remained static. The growth in difficulty has been in Professional/Managerial and Clerical roles.
- The balance of firms reporting increased cashflow increased significantly from -17 to +9.
- The balances of manufacturers reporting planned increases in investment strengthened for both plant/machinery (+2 to +19) and training (-12 to +12).
- 70% of manufacturers are currently suffering cost pressures due to raw materials, an increase of thirteen points from +57.

#### Services sector:

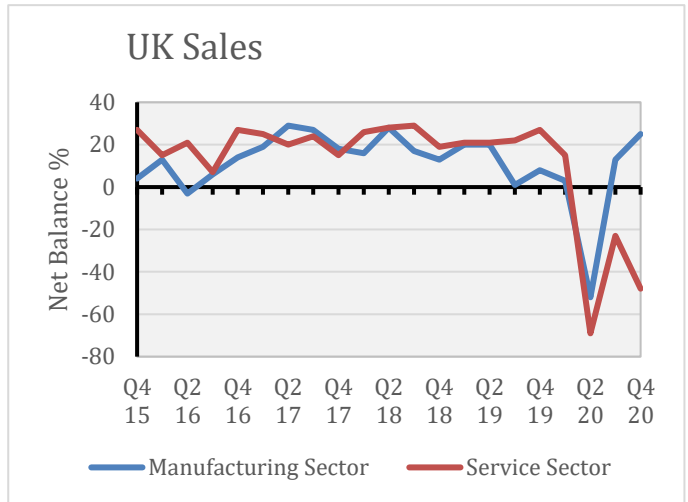
- The balance of firms reporting increased domestic sales went down from -23 to +48, while the balance reporting improved domestic orders worsened, from -25 to -43.
- The balance of firms reporting increased export sales fell, going up from -27 to -32. The balance reporting improved export orders also weakened, from -24 to -31.
- The balance of firms reporting an increase in their workforce over the past three months decreased, from -7 to -17. The forward-looking employment expectations balance also went down, from +4 to -8.
- The balance of firms reporting increased cashflow contracted further, down from -32 to -49.
- The balance of firms reporting increases in investment in equipment fell, from -28 to -42; while the balance in investment in training improved slightly though remains in a position of contraction; from -29 to -24
- The balance of firms expecting turnover to increase in the next 12 months decreased, from +8 to -11; confidence that profitability will improve over the next twelve months also decreased, from -2 to -14.

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

## Domestic Market

In the manufacturing sector, the UK sales balance continued to recover following one of the biggest slumps seen in years in Q2, increasing by 12 points on the previous quarter (+25%, up from +13%). The UK advance manufacturing orders balance for the 3 months ahead is also recovering following the slump in Q2 and stagnation in Q3 (+25%, up from +0%).

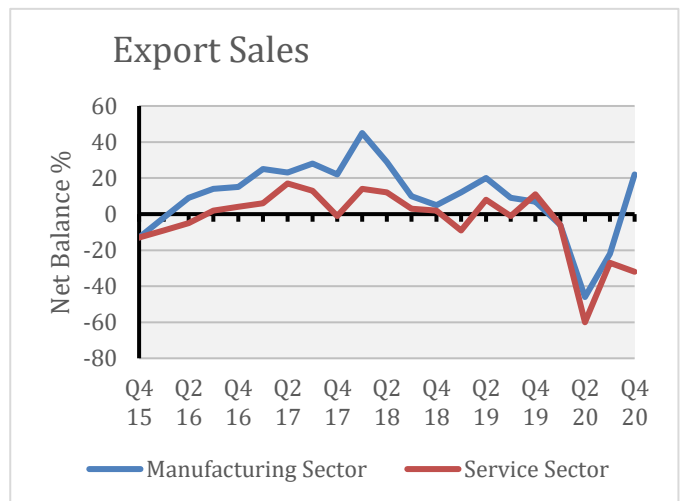
In the service sector, following an improvement in Q3 has fallen again with the UK sales balance losing 25 points on the previous quarter (-48%, down from -43%). The advance orders/bookings balance decreased by 18 points (-43%, down from -25%).



## Export Market

In manufacturing, the export sales balance was up 44 points (+22%, up from -22%) which is the first quarter of growth in 2020 following 3 quarters of contraction. The advance export orders balance also moved out of a position of contraction, strengthening by 54 points on the previous quarter (+31%, up from -23%).

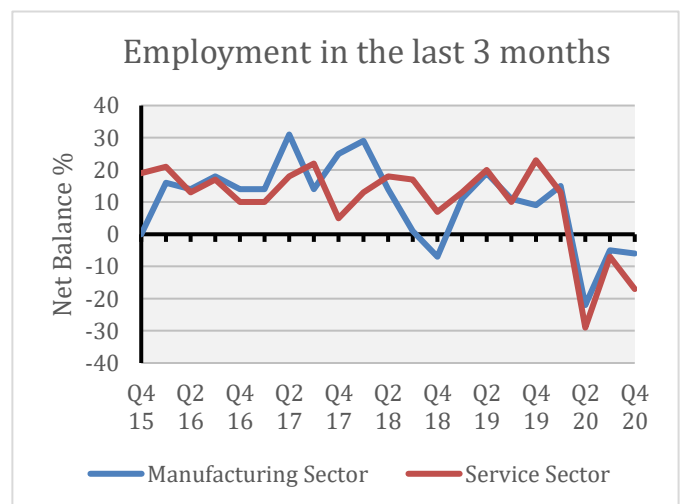
The services export sales balance weakened after a small recovery in the previous quarter, down 5 points (-32%, down from -27%); whilst the services export orders balance was down by 7 points (-31%, down from -24%). This is the fourth consecutive quarter of contraction in both export sales and orders for the service sector.



## Employment

In manufacturing, the net balance of companies reporting that their workforce had increased over the past three months was down 1 point this quarter (-6%, down from -5%), however the employment expectations balance for the three months ahead increased by 5 points (+15%, up from +10%).

In services, the balance of firms reporting an increase in their workforce over the past three months also weakened, dropping 10 points on the previous quarter (-17%, down from +7%). The forward-looking employment expectations returned to contraction after a positive outlook in the last quarter, losing 12 points (-8%, down from +4%).

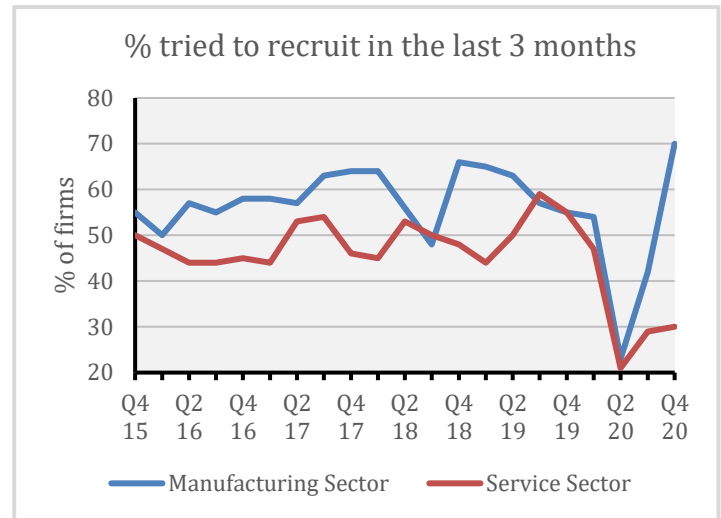


## Recruitment

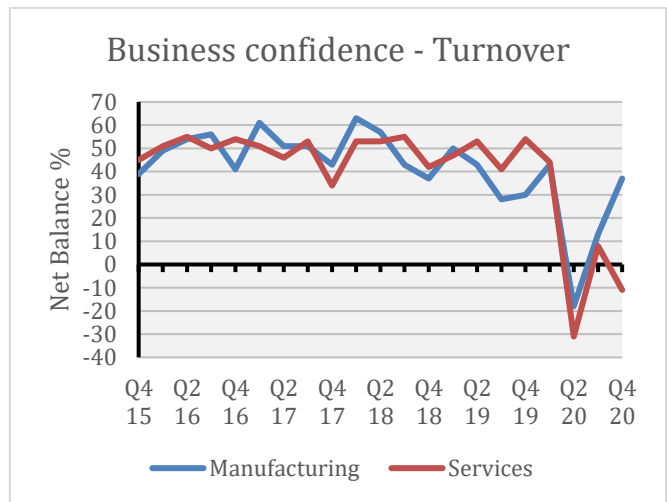
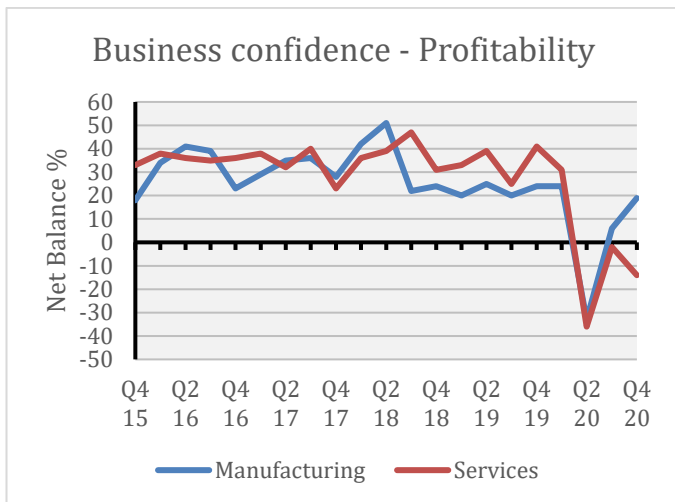
Both sectors reported growth in the percentage of firms looking to recruit over the last 3 months, building on the recovery seen in the last quarter following the lows of Q2. Manufacturing reported a growth of 28% to a new high of 70%. Despite a growth of 1%, the service sector is still recruiting to lower levels than usual.

Of all firms attempting to recruit, 47% were seeking to fill permanent vacancies (up 16%), with 25% looking to take on temporary workers (up 3%). 74% of firms attempted to recruit for full-time positions (down 7%), whilst 28% were looking to fill part-time roles (up 1%).

40% of firms attempting to recruit said they experienced difficulties finding suitable staff (up 1%).



## Business confidence



There is a stark difference between the two sectors when looking at measures of confidence. The picture for manufacturing is increasingly optimistic while the opposite is true of the service sector.

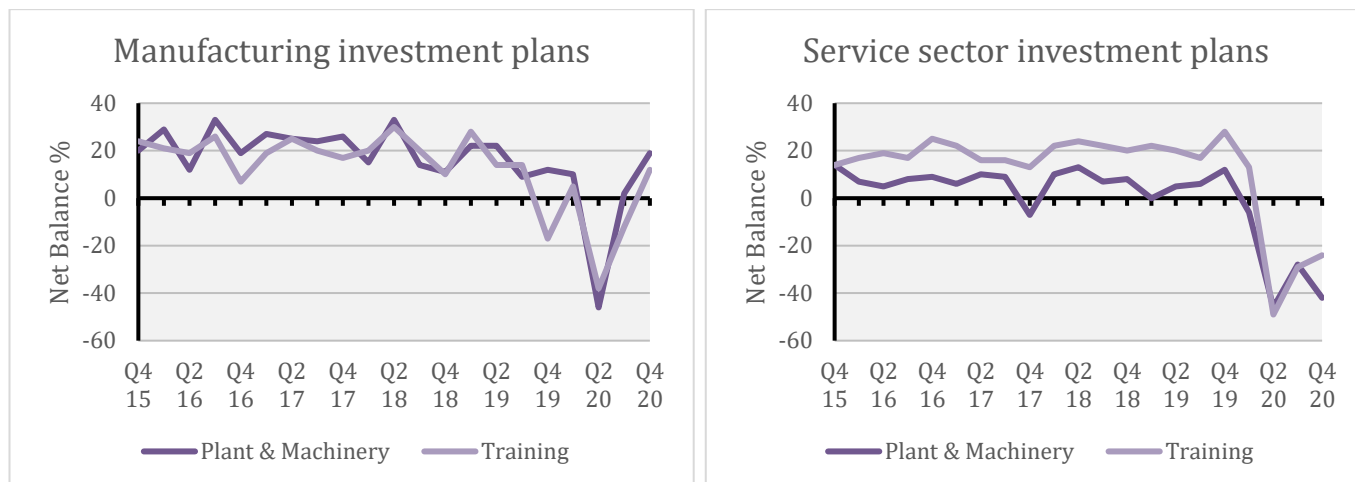
The net balance of manufacturing companies expecting turnover to improve in the coming year strengthened by 24 points (+37%, up from +13%). The manufacturing profitability balance was up 13 points (+19%, up from +6%).

After an upturn in the previous quarter in the services sector, the net balance of firms expecting turnover to improve over the next 12 months declined by 19 points (-11%, down from +8%); whilst the services profitability balance was down 12 points on the previous quarter (-14%, down from -2%).

After a large increase in Q3 in the percentage of manufacturing firms operating at full capacity, Q4 saw a slight drop of 2 points (42%, down from 44%); this is still well above the numbers we have historically seen. The percentage of service businesses reporting they were working at full capacity dropped by 5 points (21%, down from 26%); this remains at levels lower than have been seen since 2011/12.

More manufacturing companies have seen their cashflow improve than have seen it get worse over the last 3 months; this is after two quarters where the opposite was true. The manufacturing cashflow balance increased significantly by 26 points (+9%, up from -17%). The balance of services firms reporting that their cashflow improved over the past three months weakened by 17 points (-49%, down from -32%); the cashflow balance has not been above 0% throughout 2020.

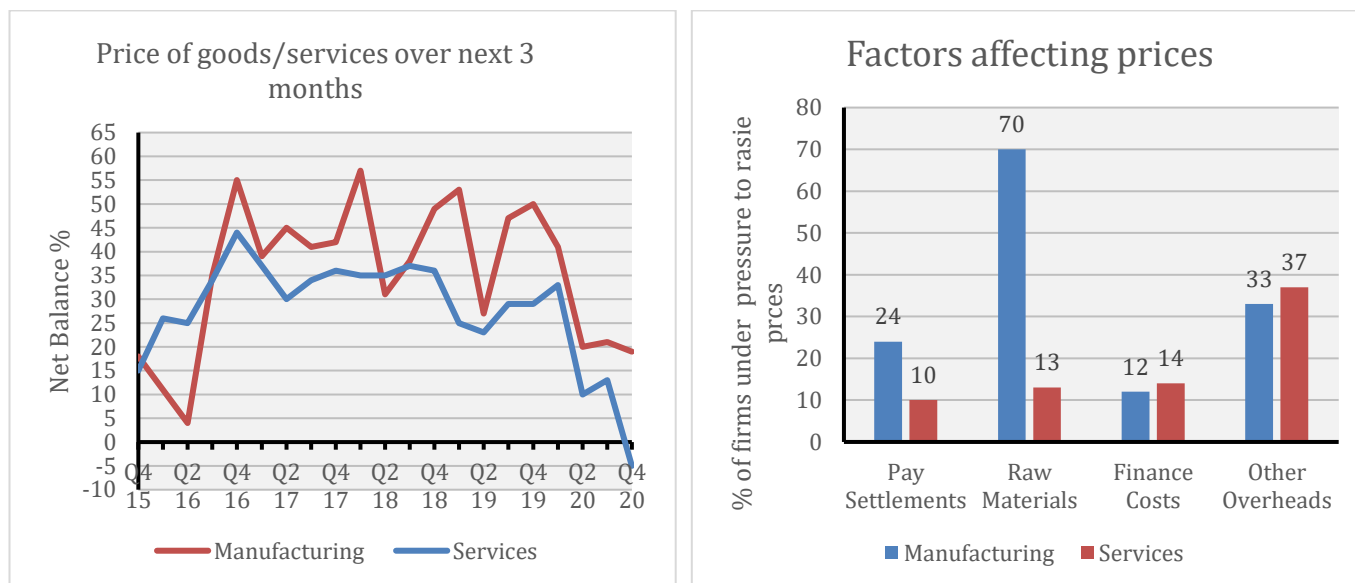
### Investment intentions



In manufacturing, the capital investment balance continued recovering from a loss in Q2 with a 17-point gain (+19%, up from +2%). The training investment recovered from a negative position 24 points (+12%, up from -12%).

For services businesses, the capital investment balance was down 14 points (-42%, down from -28%), whilst the training investment balance increased 5 points but remains in a position of contraction (-24%, up from -29%).

### Prices

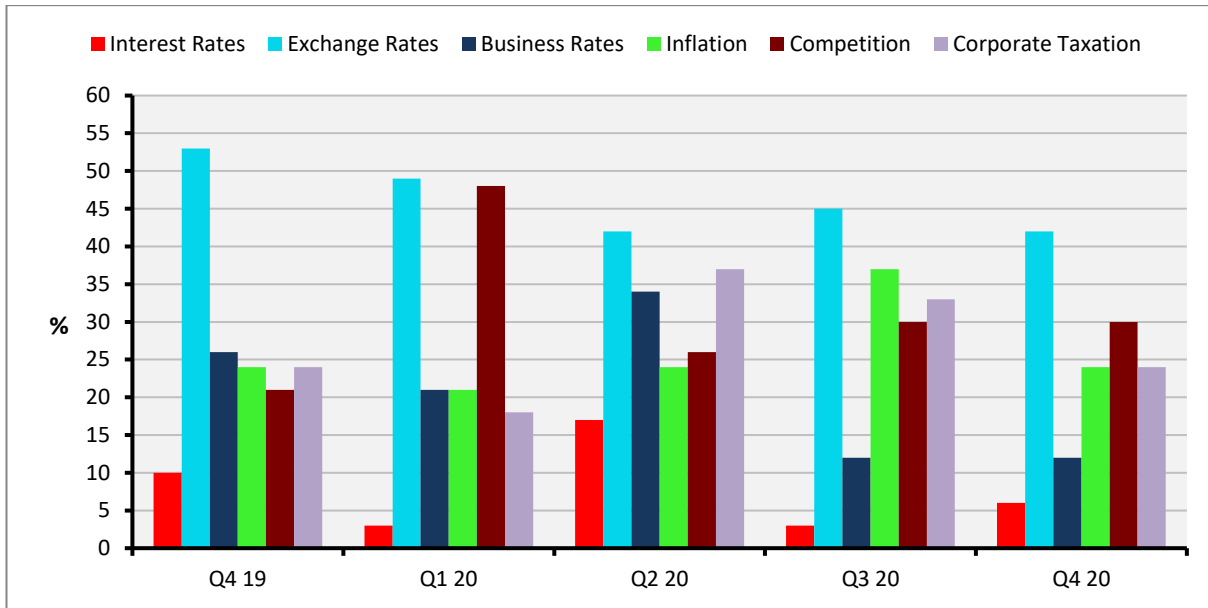


In manufacturing, the percentage balance of firms expecting their prices to rise reduced by 2 points (+19%, down from +21%). In the services sector, the percentage balance of firms expecting their prices to increase in the next three months fell below 0 for the first time in records going back over 9 years, a drop of 18 points on the previous quarter (-5%, down from +13%). This shows that more firms expect prices to reduce over the next year than to go up.

In terms of factors affecting the price of goods and services, 70% of manufacturers said raw material costs were a factor behind the need to raise prices although that pressure which is a considerable rise on the previous quarter (up 13 points from 57%). The pressure from other overhead costs pay settlement increased by 9 points (24%, up from 15%). However, pressure from financial costs eased by 8 points (12%, down from 20%).

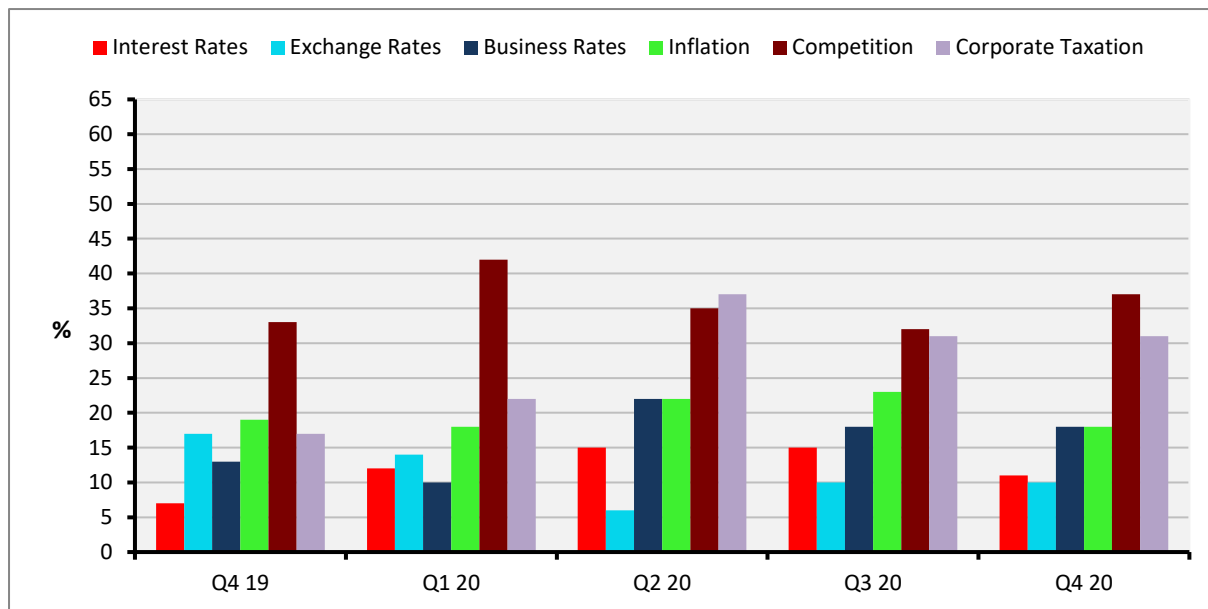
Other overhead costs remained the biggest pressure in prices for service sector firms and this increased by 3 points (37%, up from 32%). Other factors saw an easing of pressure with the largest change being in pay settlements which reduced by 6 points (+10%, down from 16%).

## Business Concerns (external factors) - Manufacturing



While still the biggest concern for manufacturing firms remains to be **exchange rates** the level of concern has decreased (**42%**, down from 45%). **Competition** has become the second largest concern (**37%**, no change). Concerns about **inflation** reduced (**24%**, down from 37%) as with **corporate taxation** (**24%**, down from 33%). **Business rates** concerns sees no change (**12%**) and there's only a small change with **interest rates** concerns (**6%**, up from 3%).

## Business Concerns (external factors) – Services



The service sector reported only small changes in all external areas of concern in Q4. **Competition** was again cited as the biggest concern for firms in the service sector (**37%**, down from 32%); followed by **corporate taxation** (**31%**, no change); **inflation** (**18%**, down from 23%); **business rates** (**18%**, no change); **interest rates** (**11%**, down from 15%); and **exchange rates** (**10%**, no change).

**BALANCE CHANGES**

					Quarterly Change	
	Manufacturing		Services		Manufacturing	Services
	Q3 2020	Q4 2020	Q3 2020	Q4 2020	Q4 2020	Q4 2020
Domestic Sales	13	25	-23	-48	12	-25
Domestic Orders	0	25	-25	-43	25	-18
Export Sales	-22	22	-27	-32	44	-5
Export Orders	-23	31	-24	-31	54	-7
Employment last 3 months	-5	-6	-7	-17	-1	-10
Employment next 3 months	10	15	4	-8	5	-12
% Tried to recruit	42	70	29	30	28	1
% Part-time	12	17	36	37	5	1
% Full-time	80	91	82	60	11	-22
% Temporary	20	30	24	20	10	-4
% Permanent	40	39	24	53	-1	29
% Recruitment difficulties	43	52	37	32	9	-5
% Skilled manual	83	83	67	55	0	-12
% Professional/Managerial	42	50	80	73	8	-7
% Clerical	8	25	13	27	17	14
% Semi and unskilled	83	75	33	9	-8	-24
Cashflow	-17	9	-32	-49	26	-17
Investment - plant/machinery	2	19	-28	-42	17	-14
Investment - training	-12	12	-29	-24	24	5
Confidence - turnover	13	37	8	-11	24	-19
Confidence - profitability	6	19	-2	-14	13	-12
% Full capacity	44	42	26	21	-2	-5
Prices	21	19	13	-5	-2	-18
% Pay Settlements	15	24	16	10	9	-6
% Raw materials	57	70	16	13	13	-3
% Financial costs	20	12	19	14	-8	-5
% Other overheads	30	33	32	37	3	5
<i>External Factors of more concern than 3 months ago</i>						
% Interest rates	3	6	15	11	3	-4
% Exchange rates	45	42	10	10	-3	0
% Business rates	12	12	18	18	0	0
% Inflation	37	24	23	18	-13	-5
% Competition	30	30	32	37	0	5
% Tax	33	24	31	31	-9	0





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