

QES LANCASHIRE QUARTERLY
ECONOMIC SURVEY

Quarter 2, 2021

SECTION	PAGE
Summary	3
Domestic Market	4
Export Market	4
Employment	4
Recruitment	5
Business Confidence	5
Investment Intentions	6
Prices	6
External Factors	7
Quarterly Balance Changes	8

About this Quarter's Survey

The Q2 2021 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 17th May to 7th June 2021.
- Responses were received from 142 companies across Lancashire employing 5,991 people.
- From the manufacturing sector, 37 business (26%) employing 2,542 people responded to the survey.
- From the service sector, 105 businesses (74%) employing 3,449 people responded to the survey.
- 81 companies (57%) 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 shows an improving domestic market offset by continued struggles for exporters.

The service sector has finally started to recover as restrictions continue to ease, with many indicative metrics returning to growth for the first time after a year of contraction.

Confidence has returned with both sectors believing that conditions will improve over the next 12 months.

Key findings in the Q2 2021 survey

Manufacturing sector:

- The balance of firms reporting increased domestic sales improved to a position of growth from -4 to +17; the domestic orders balance also increased from -7 to +8.
- The balance of firms reporting increased export sales fell from stagnation to a position of contraction, dropping from 0 to -16. The balance reporting improved export orders worsened and remains in a position of contraction, from -5 to -23.
- The balance of firms reporting an increase in their workforce over the past three months dropped but remains in growth, from +21 to +5, while the balance of employment expectations in the next 3 months increased significantly from +18 to +36.
- Manufacturers who tried to recruit increased slightly from 46% to 53% over the last 3 months. The majority of those trying were recruiting for full-time (95%) and permanent (53%) positions. There remain problems to recruitment with 55% (from 57) reporting difficulties.
- The balances of manufacturers reporting planned increases in investment weakened further for plant/machinery (down from -3 to -8) and dropped for training (down from +14 to -8).
- The balance of manufacturers reporting pressure on prices continued to rise, increasing from +52 to +74. The percentage of those suffering cost pressures due to raw materials remains high, 89% from 93%.

Services sector:

- The balance of firms reporting increased domestic sales improved dramatically from -19 to +24, returning to a position of growth, which is the same for the balance reporting improved domestic orders which went up from -28 to +15.
- The balance of firms reporting increased export sales improved but remains in contraction, going up from -51 to -24. Similarly, the balance reporting improved export orders also improved, from -49 to -28.
- There was a return to growth in the balance of firms reporting an increase in their workforce over the past three months, up from -17 to +3. The forward-looking employment expectations for the next three months balance improved further, from +11 to +27.
- The balance of firms reporting increased cashflow has returned to a position of growth, from -15 to +14.
- Investment intention increased for both plant/machinery (up from -33 to 0) and training (up from -26 to +14).
- Business confidence in conditions improving over the next twelve months in the service sector continued to increase for both turnover (up from +34 to +67) and profitability (up from +15 to +42).

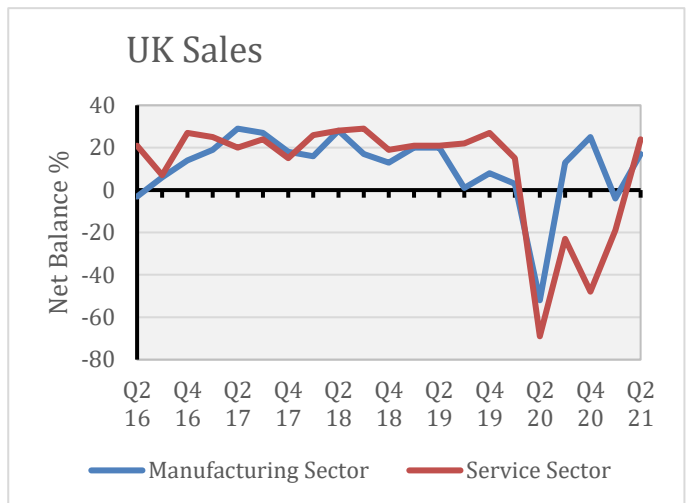
+Positive number represents an expansion -Negative number represents a contraction

Domestic Market

In the manufacturing sector, the UK sales balance returned to growth (+17%, up from -4%) following one quarter of contraction. The UK advance manufacturing orders balance for the 3 months ahead is also recovered (+8%, up from -7%).

Following a year of contraction the service sector UK sales balance returned to growth, improving by 43 points on the previous quarter (+24%, up from -19%).

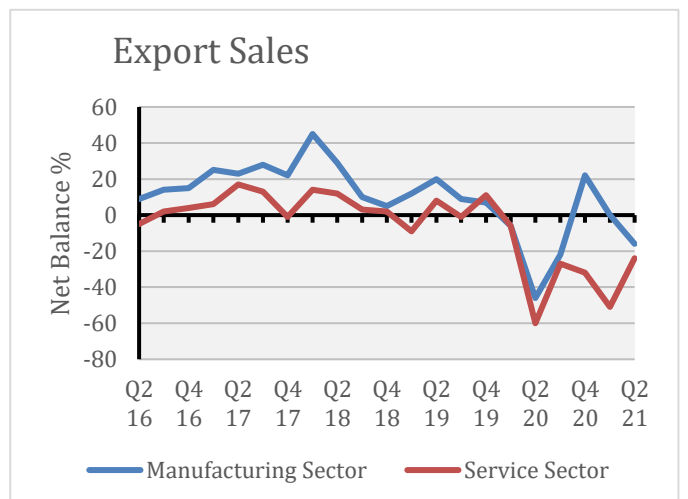
The advance orders/bookings balance increased, by 43 points also returning to growth (+15%, up from -28%).



Export Market

In manufacturing, the export sales balance fell 16 points (-16%, down from +0%), dropping to a position of contraction. The advance export orders balance weakened by 18 points on the previous quarter (-23%, down from +5%).

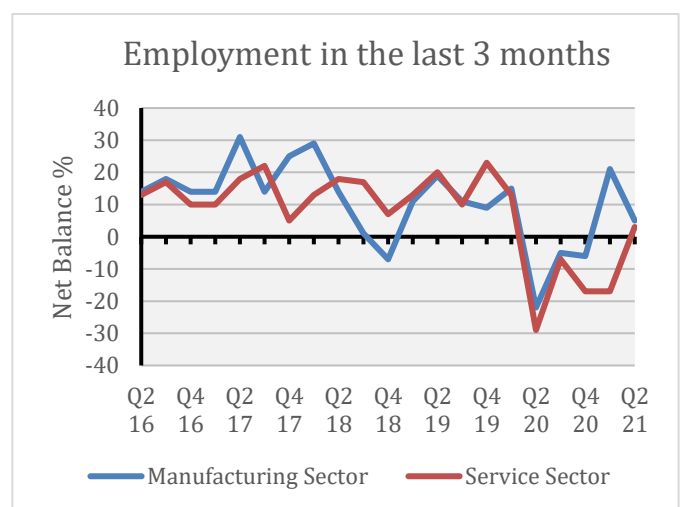
The services export sales balance improved by 27 points (-24%, up from -51%); whilst the services export orders balance was up by 21 points (-28%, up from -49%). Despite these improvements both metrics remain in contraction and have been for five consecutive quarters.



Employment

In manufacturing, the net balance of companies reporting that their workforce had increased over the past three months dropped 16 points this quarter (+5%, down from +21%). However, the employment expectations balance for the three months ahead increased, by 18 points (+36%, up from +18%).

In services, the balance of firms reporting an increase in their workforce over the past three months increased, by 20 points (+3%, up from -17%), returning to growth following four consecutive quarters in contraction. The forward-looking employment expectations also improved, gaining 16 points (+27%, up from +11%).

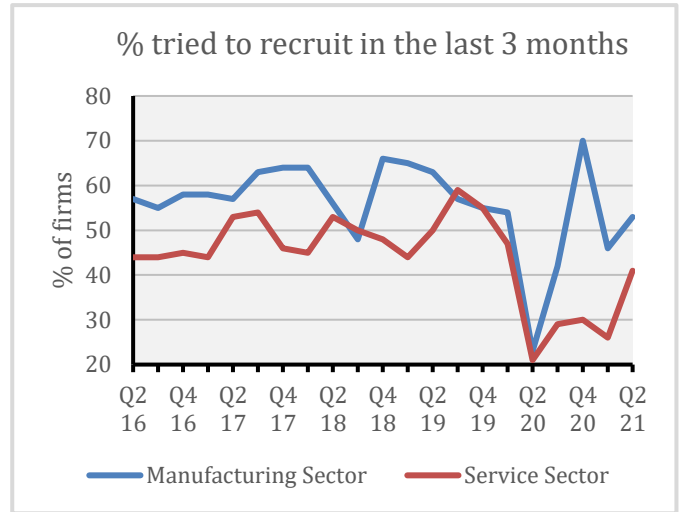


Recruitment

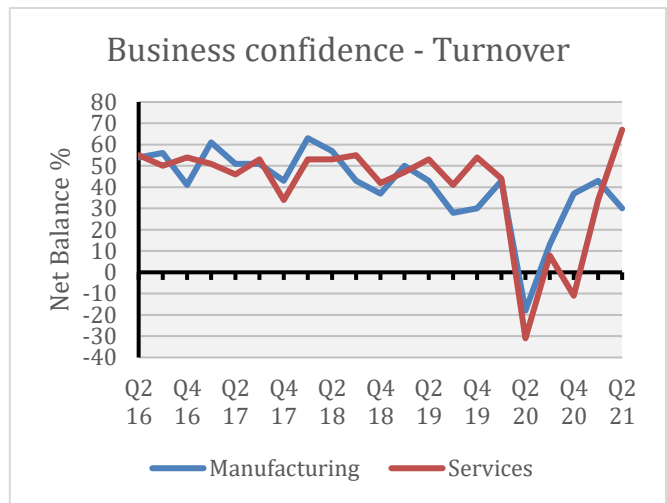
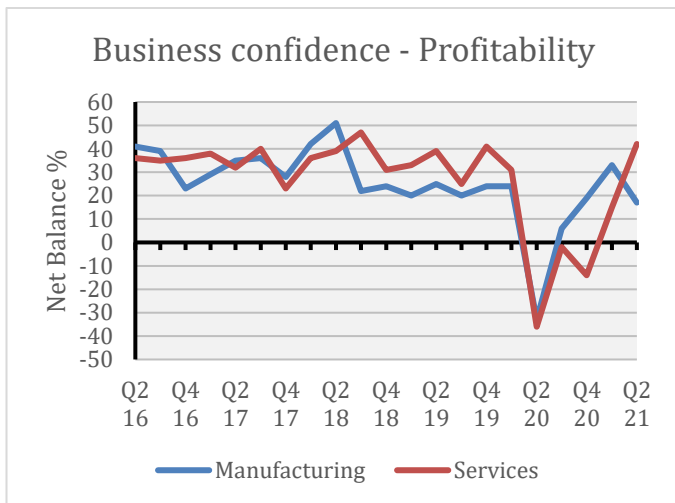
Both sectors reported an upturn in the percentage of firms looking to recruit over the last 3 months. Manufacturing reported an improvement of 7% to 53%. The service sector saw a larger increase of 15% to 41%.

Of all firms attempting to recruit, 48% were seeking to fill permanent vacancies (down 8%), with 13% looking to take on temporary workers (down 9%). 87% of firms attempted to recruit for full-time positions (up 18%), whilst 20% were looking to fill part-time roles (down 19%).

65% of firms attempting to recruit said they experienced difficulties finding suitable staff (up 10%). This was primarily due to increased difficulties within the service sector (70%, up 16%).



Business confidence



Firms in both sectors continue to report confidence in future conditions.

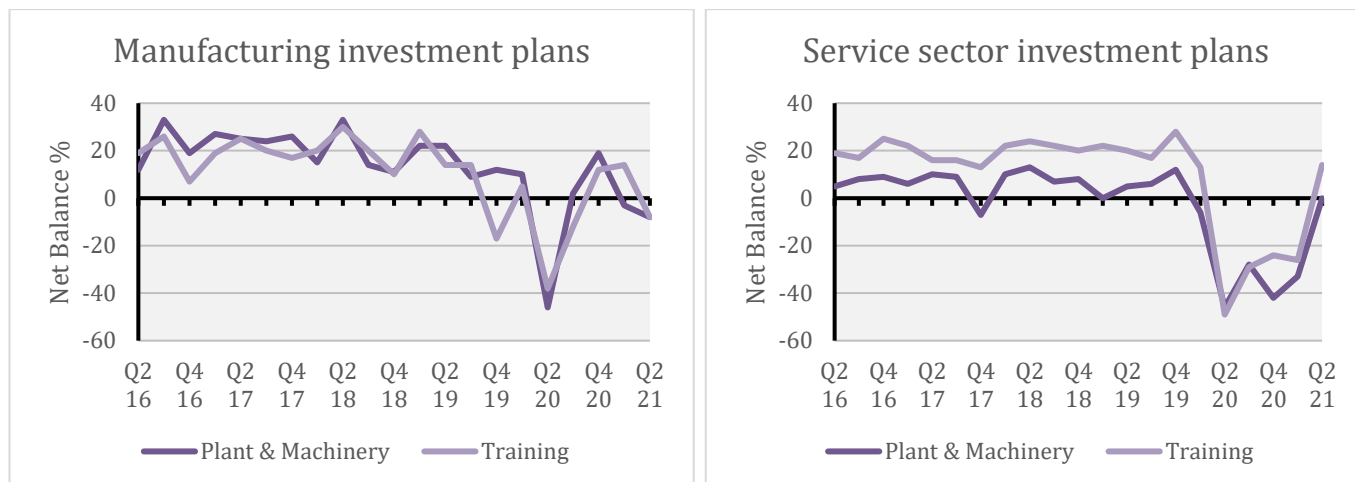
Issues around exporting and price increases (see below) have meant that manufacturing companies have lowered levels of confidence compared to the previous quarter. The net balance of manufacturing companies expecting turnover to improve in the coming year weakened by 13 points (+30%, down from +43). The manufacturing profitability balance was down 16 points (+17%, down from +33%).

Driven by the easing of restrictions and the re-opening of many firms, the services sector saw significant improvement in confidence. The net balance of firms expecting turnover to improve over the next 12 months increased by 33 points (+67%, up from +34%); whilst the services profitability balance was up 27 points on the previous quarter (+42%, up from +15%).

The percentage of manufacturing firms operating at full capacity saw a slight drop for the third quarter in a row of 7 points (32%, down from 39%). The percentage of service businesses reporting they were working at full capacity increased by 17 points (38%, up from 21%).

Manufacturing companies reporting their cashflow has improved over the last 3 months dropped by 14 points (-10%, down from +4%) to a position of contraction. Conversely, the balance of services firms reporting that their cashflow improved over the past three months improved significantly by 29 points (+14%, up from -15%), returning to a position of growth for the first time since Q4 2019.

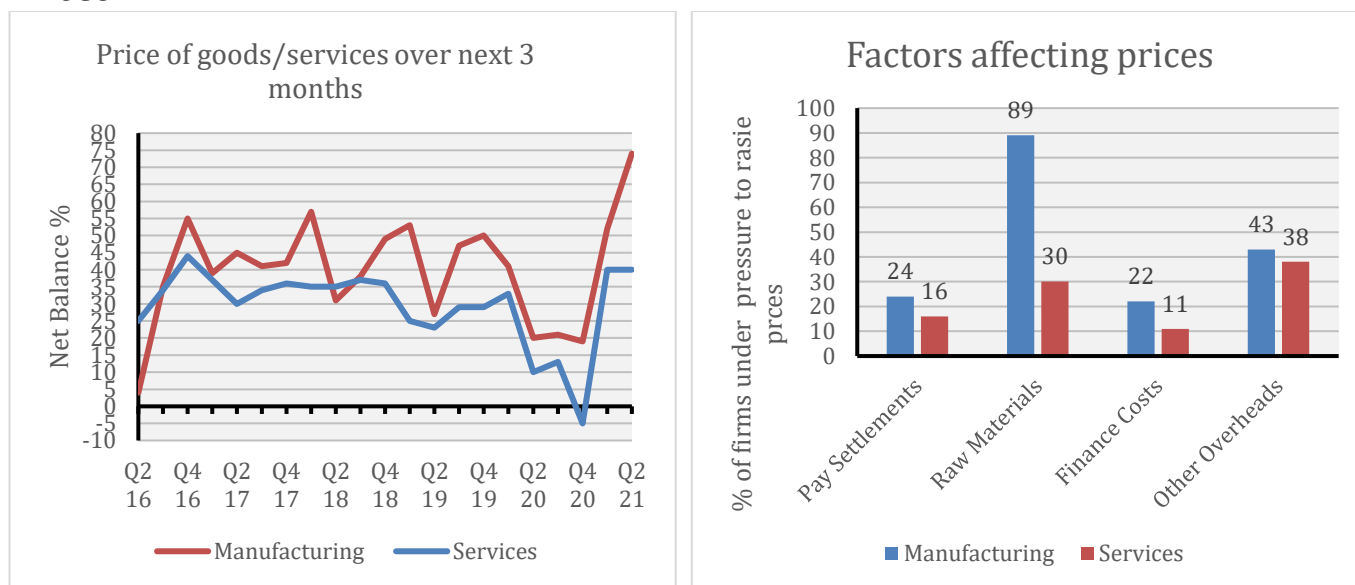
Investment intentions



In manufacturing, the capital investment balance sees a second quarter of contraction with a 5-point loss (-8%, down from +3%). The recovery in training investment seen over the recent quarters has ended with a 22-point loss (-8%, down from +14%).

For services businesses, the capital investment balance improved by 33 points, ending five consecutive quarters of contraction (+0%, up from -33%), whilst the training investment returned to growth after four quarters of contraction with a 40-point increase (+14%, up from -26%).

Prices



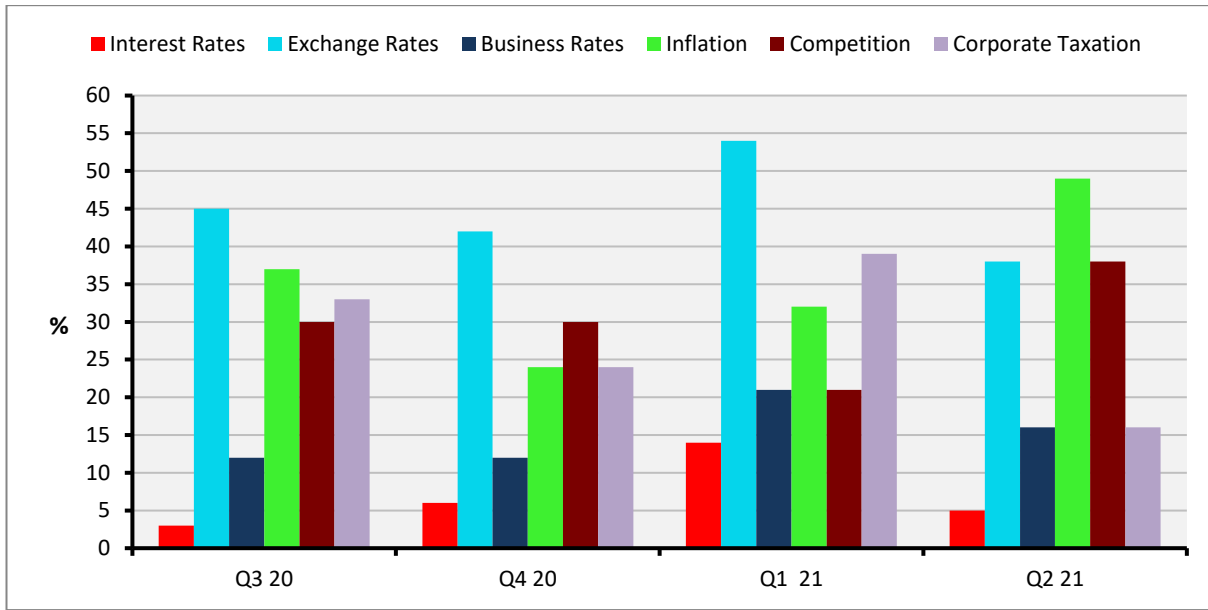
In manufacturing, the percentage balance of firms expecting their prices to rise increased by 22 points (+74%, up from +52%) to historically high levels.

Despite a small drop by 4 points (89%, down from 93%, raw materials remain the biggest factor affecting prices. Other overheads are also creating price pressures with a 14-point rise (43, up from 29%).

In the services sector, the percentage balance of firms expecting their prices to increase in the next three months saw no change from the previous quarter (+40%).

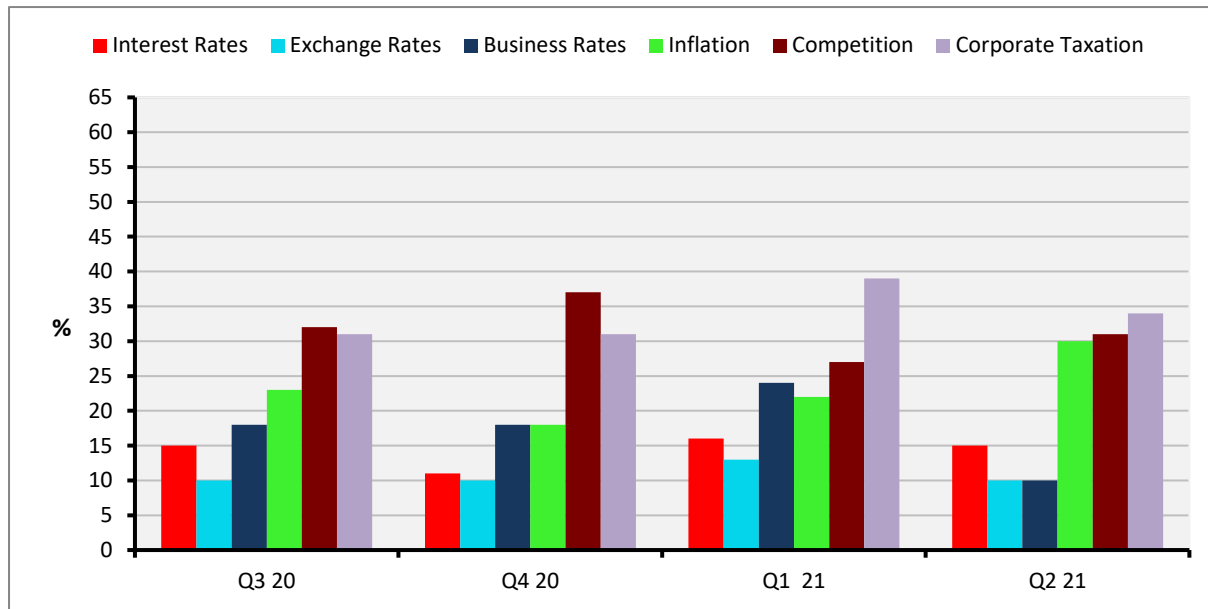
Other overheads remains the biggest pressure despite a 10-point fall (38%, down from 48%). Those reporting pressures from inflation saw an 8-point increase (30%, up from 22%).

Business Concerns (external factors) - Manufacturing



Inflation has replaced exchange rates as the biggest concern for manufacturing businesses (**49%**, up from 32%). **Exchange rates** (**38%**, down from 54%) and **competition** (**38%**, up from 21%) are the next biggest concerns. Concerns about **corporate taxation** have eased significantly (**16%**, down from 24%). **Business rates** concerns have eased slightly (**16%**, down from 21%) as **interest rates** (**5%**, down from 14%).

Business Concerns (external factors) – Services



Corporate taxation remains the biggest concern for firms in the service sector despite a small drop (**34%**, down from 39%). Concerns about **competition** have increased slightly and is still the second biggest area (**31%**, up from 27%). **Inflation** has seen the biggest rise in increase as an area of concern (**30%**, up from 22%). All other area of concern have eased: **business rates** (**10%**, down from 24%); **interest rates** (**15%**, down from 16%); and **exchange rates** (**10%**, down from 13%).

BALANCE CHANGES

					Quarterly Change	
	Manufacturing		Services		Manufacturing	Services
	Q1 2021	Q2 2021	Q1 2021	Q2 2021	Q2 2021	Q2 2021
Domestic Sales	-4	17	-19	24	21	43
Domestic Orders	-7	8	-28	15	15	43
Export Sales	0	-16	-51	-24	-16	27
Export Orders	-5	-23	-49	-28	-18	21
Employment last 3 months	21	5	-17	3	-16	20
Employment next 3 months	18	36	11	27	18	16
% Tried to recruit	46	53	26	41	7	15
% Part-time	23	26	48	17	3	-31
% Full-time	85	95	61	83	10	22
% Temporary	8	16	30	12	8	-18
% Permanent	69	53	48	45	-16	-3
% Recruitment difficulties	57	55	54	70	-2	16
% Skilled manual	42	91	60	47	49	-13
% Professional/Managerial	17	27	33	63	10	30
% Clerical	17	36	33	70	19	37
% Semi and unskilled	33	55	27	37	22	10
Cashflow	4	-10	-15	14	-14	29
Investment - plant/machinery	-3	-8	-33	0	-5	33
Investment - training	14	-8	-26	14	-22	40
Confidence - turnover	43	30	34	67	-13	33
Confidence - profitability	33	17	15	42	-16	27
% Full capacity	39	32	21	38	-7	17
Prices	52	74	40	40	22	0
% Pay Settlements	4	24	11	16	20	5
% Raw materials	93	89	22	30	-4	8
% Financial costs	25	22	20	11	-3	-9
% Other overheads	29	43	48	38	14	-10
<i>External Factors of more concern than 3 months ago</i>						
% Interest rates	14	5	16	15	-9	-1
% Exchange rates	54	38	13	10	-16	-3
% Business rates	21	16	24	10	-5	-14
% Inflation	32	49	22	30	17	8
% Competition	21	38	27	31	17	4
% Tax	39	16	39	34	-23	-5



North & Western
Lancashire
Chamber of Commerce



mha
MOORE & SMALLEY

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