LANCASHIRE QUARTERLY ECONOMIC SURVEY

Quarter 2, 2016

North & Western Lancashire Chamber of Commerce
CELEBRATING 100 YEARS IN BUSINESS

In association with

Moore & Smalley
Trusted Thinking

About this Quarter's Survey

The Q2 2016 Survey was conducted by the North & Western Lancashire Chamber of Commerce and the Chamber of Commerce East Lancashire, in conjunction with Moore & Smalley Chartered Accountants and Business Advisors.

- The survey collection period was between 23rd May and 13th June 2016.
- Responses were received from 276 companies across Lancashire employing 18,432 people.
- From the manufacturing sector, 115 business (42%) employing 7,113 people responded to the survey.
- From the service sector, 185 businesses (58%) employing 11,319 people responded to the survey.
- 185 companies (67%) 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

The results of the latest Quarterly Economic Survey (QES) show that the Lancashire economy was softening in the run-up to the EU Referendum.

Nearly all of the key economic balance measures in the survey weakened compared to the previous quarter. Workforce levels, cashflow, investment, domestic sales and orders were down across both sectors, with manufacturers in particular continuing to have a difficult time.

Perhaps the most positive news from this quarter's survey was that almost all of the business confidence measures improved, with firms in both sectors optimistic that turnover and profitability would increase over the next 12 months. However, with fieldwork for the survey closing prior to polling day for the EU referendum, the concern now must be what impact the 'Brexit' result has on business confidence for the rest of 2016 and beyond.

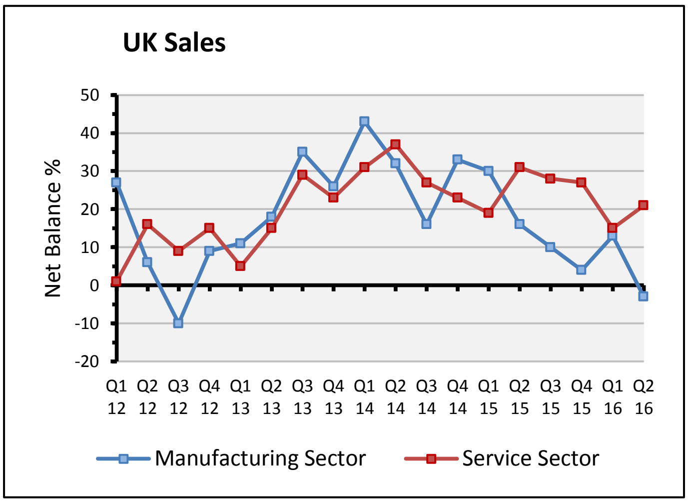
The results suggest that even before the uncertainty caused by the EU referendum result, uninspiring growth rates would have required future action to shore up business confidence and promote investment. The Lancashire Chambers of Commerce call on the government to get on with the big domestic decisions that underpin investment and business confidence, such as direct investment in the transport, energy, housing and digital schemes that can have a major impact on communities, supply chains, jobs and productivity.

Key Findings in the Q2 Survey:

- In **manufacturing**, both domestic balances were in contraction; **domestic sales** (-3%, down from +13% in Q1) and **domestic orders** (-2%, down from +7% in Q1).
- In **services**, the **domestic sales** balance gained 6 points on the previous quarter (+21%, up from +15% in Q1); although the **domestic orders** balance weakened slightly on Q4 (+18%, down from +19%).
- The **manufacturing export sales** balance gained 11 points on the previous quarter (+9%, up from -2%), recording growth for the first time since Q2 2015. The **services export sales** balance remained in negative territory despite a four-point improvement (-5%, up from -9%).
- Both sectors report workforce levels have fallen over the past three months. The **services employment** balance lost 8 points (+13%, down from +21% in Q1) whilst the **manufacturing employment** lost 2 points (+14%, down from +16%). Services firms are also expecting workforce levels to drop further in the next three months, as the forward looking employment balance fell 13 points (+19%, down from +32% in Q1).
- The **manufacturing capital investment** balance fell 17 points (+12%, down from +29% in Q1), whilst the **services capital investment** balance fell to +5% (down 2 points).
- The balance of **manufacturing** firms reporting that **cashflow** had improved lost 5 points (+4%, down from +9% in Q1); whilst the **services cashflow** balance lost 3 points (+4%, down from +7% in Q1).
- Confidence that **turnover** and **profitability** will improve in the next twelve months increased in both sectors.
- Intentions to **increase prices** weakened in **services**, (+25%, down from +26% in Q1) and in **manufacturing** (+4%, down from +11%).
- Over half of **manufacturers** (53%) said they were more concerned about **exchange rates** than 3 months ago.

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

Domestic Market

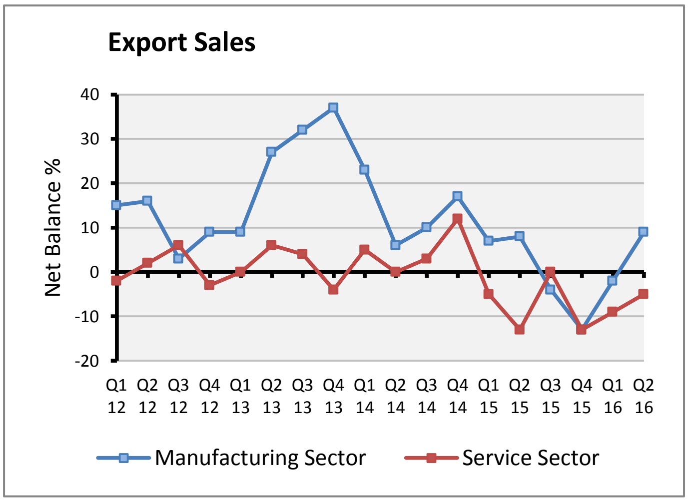


Lancashire's service businesses have again outperformed those in manufacturing in terms of UK sales and orders. After a modest first quarter, the services domestic sales balance gained six points in Q2 (+21%, up from +15%), whilst the advance orders balance held steady, falling just a single point to +18%.

By contrast, the manufacturing domestic sales balance lost sixteen points in Q2 (-3%, down from +13%) and went in to contraction for the first time since Q3 2012. The advanced orders balance was also in contraction, weakening by nine points (-2%, down from +7%).

There has been a significant decline in domestic manufacturing sales balance since Q1 2014, when the figure reached a high of +43%.

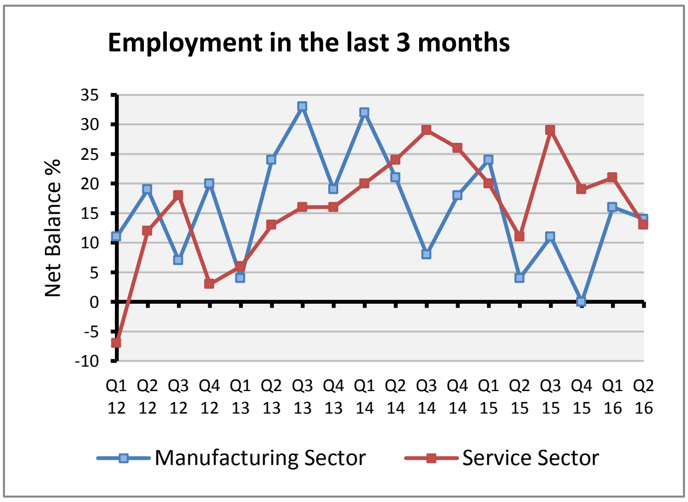
Export Market



Both of the manufacturing export balances improved in Q2 but still remain weak. After three successive quarters of contraction, the export sales balance gained eleven points and moved out of negative territory (+9%, up from -2%), whilst the export orders balance climbed fourteen points (+9%, up from -5%).

In Lancashire, service sector exports continue to struggle. Whilst there was some slight improvement in the export sales balance (-5%, up from -9%), the services export orders balance froze at -12% meaning both export measures remained in contraction.

Employment



There was weakening in three out of the four employment measures in Q2 which may indicate that the labour market is starting to soften.

The net balance of service sector companies reporting that their workforce has increased over the past three months was down eight points (+13%, down from +21%). The retrospective employment balance for manufacturing weakened by two points (+14%, down from +16%).

Looking ahead, service sector employment expectations over the next three months weakened considerably with the forward looking balance losing thirteen points (+19%, down from +32%). The forward-looking employment balance for manufacturing gained two points (+18%, up from +16%).

Recruitment

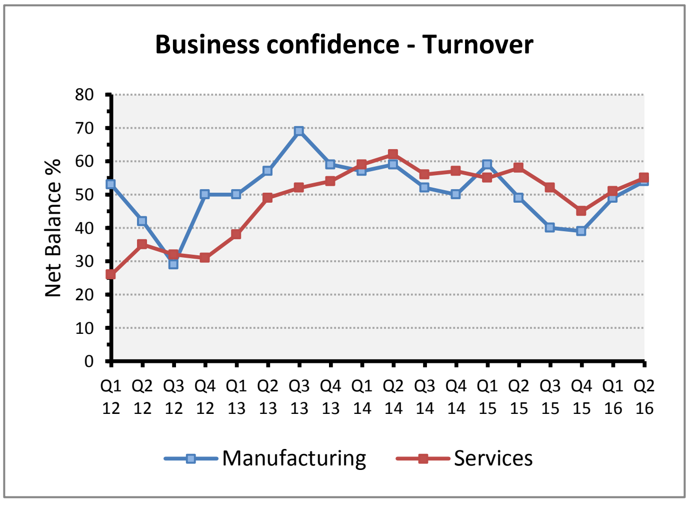
The percentage of manufacturing firms attempting to recruit in the last three months was up by seven points (57%, up from 50%), whilst the percentage of service sector businesses attempting to recruit dropped three points (44%, down from 47%).

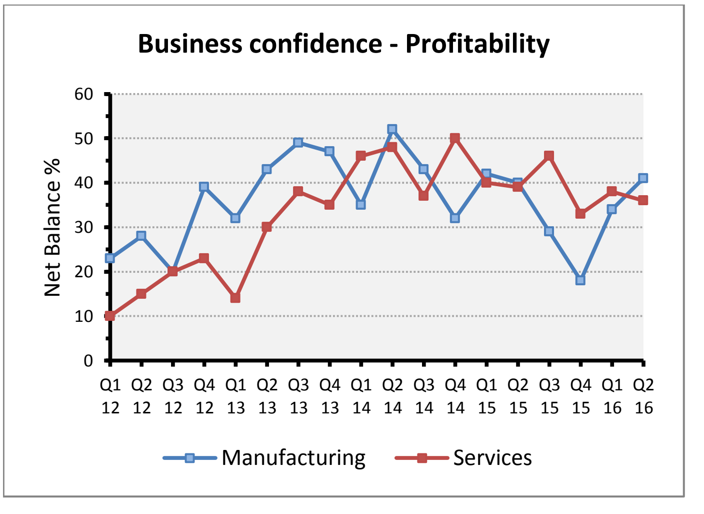
Of all firms attempting to recruit, 47% were seeking to fill permanent vacancies (up 5%), with 17% looking to take on temporary workers (down 5%). 80% of firms attempted to recruit for full-time positions (down 1%), whilst 18% were offering part-time roles (down 13%).

More than half of firms attempting to recruit said they experienced difficulties finding suitable staff (54%, up from 51%). For manufacturing firms, skilled manual and technical positions continue to be the most difficult to fill (68%, up from 54%).

Service businesses had increased difficulties finding clerical staff and semi/unskilled workers this quarter, however professional/managerial positions remained the most difficult to fill (49%, down from 51%).

Business confidence



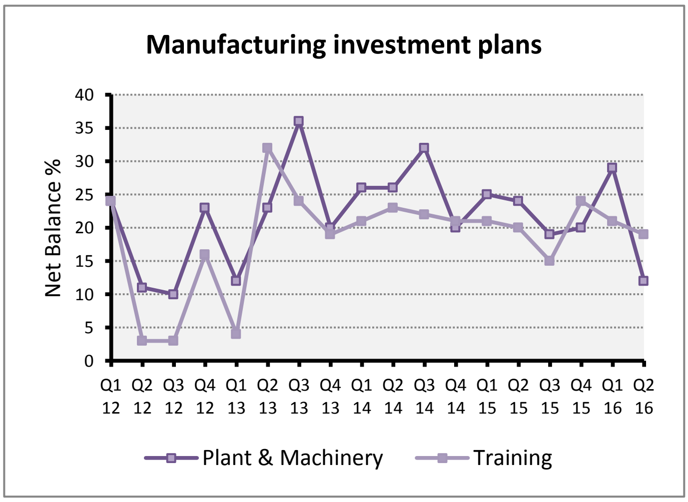


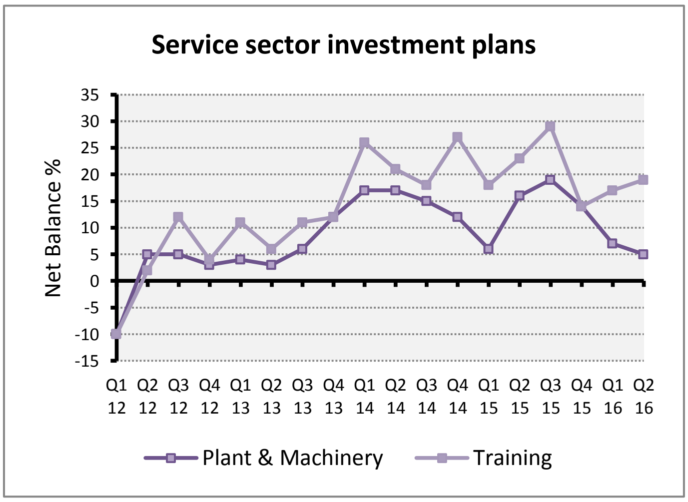
There was improvement in three out of four business confidence measures in Q2 with service sector profitability over the coming year being the only confidence measure to fall back from the previous quarter (+36%, down from +38%).

Despite weakening domestic sales this quarter, manufacturers were slightly more optimistic that turnover and profitability would improve over the next 12 months. The net balance of manufacturing companies expecting turnover to improve was up five points (+54%, up from +49%), whilst manufacturing profitability balance gained seven points (+41%, up from +34%).

In the service sector, the net balance of companies expecting turnover to improve over the next year was up four points (+55%, up from +51%).

Investment intentions

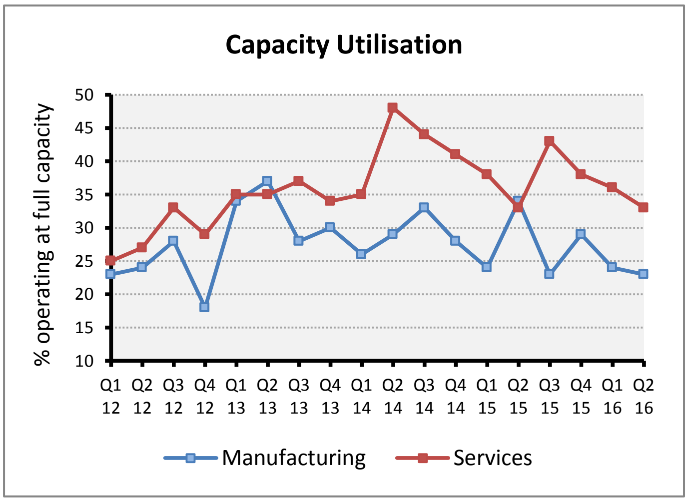


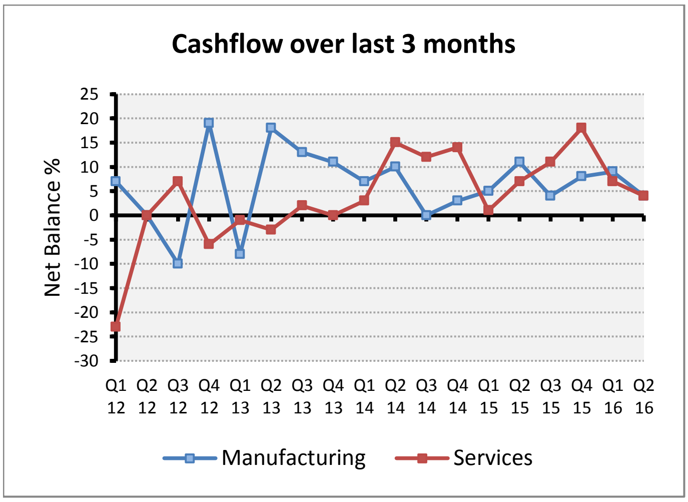


Although the business confidence measures in this survey remain relatively strong it appears that business uncertainty in the wider economy is having some impact on investment intentions. Plans to invest in plant and machinery have fallen across both sectors, in particular in manufacturing which saw a 17 point decline in its capital investment balance (+12%, down from +29%). The manufacturing training investment balance weakened slightly (+19%, down from +21%).

Capital investment intentions in the service sector also weakened, falling two points (+5%, down from +7%). The training investment balance was up two points (+19%, up from +17%).

Capacity Utilisation and Cashflow

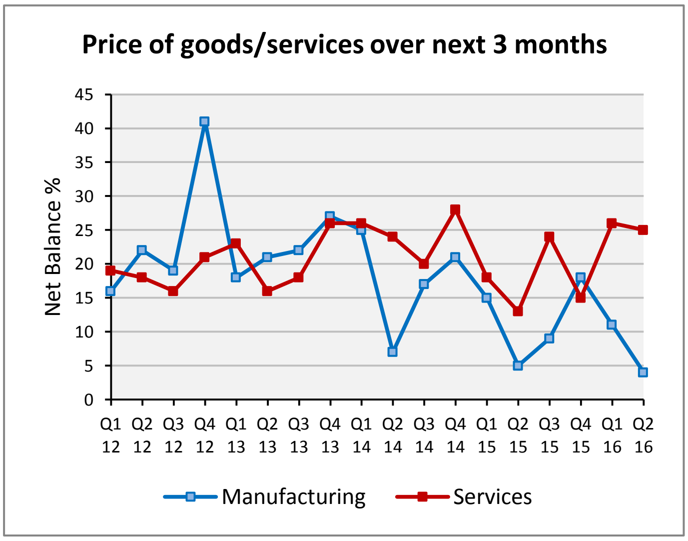


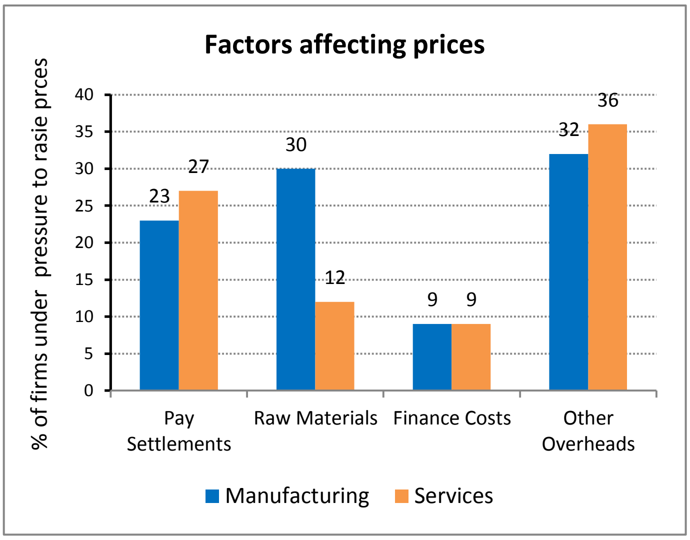


Both sectors saw a fall in the percentage of firms operating at full capacity this quarter. The share of manufacturing firms operating at full capacity was down by a single point to 23% whilst the share of service firms operating at full capacity fell by three points to 33%.

Cashflow in both sectors remains weak. The manufacturing cashflow balance was down five points (+4%, down from +9%); whilst the services cashflow balance lost three points (+4%, down from +7%).

Prices



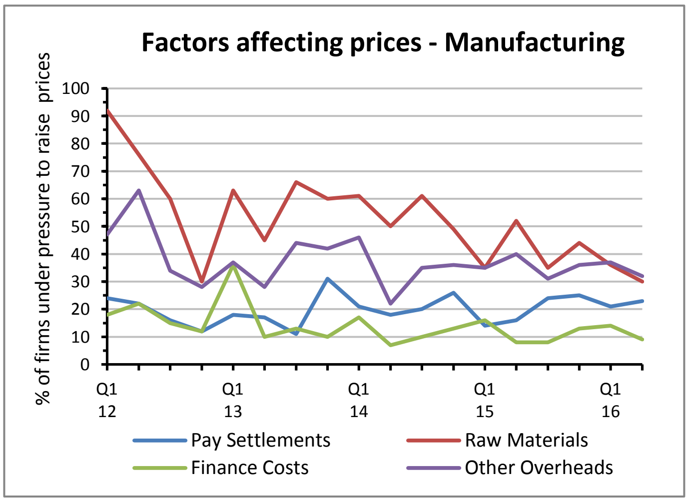


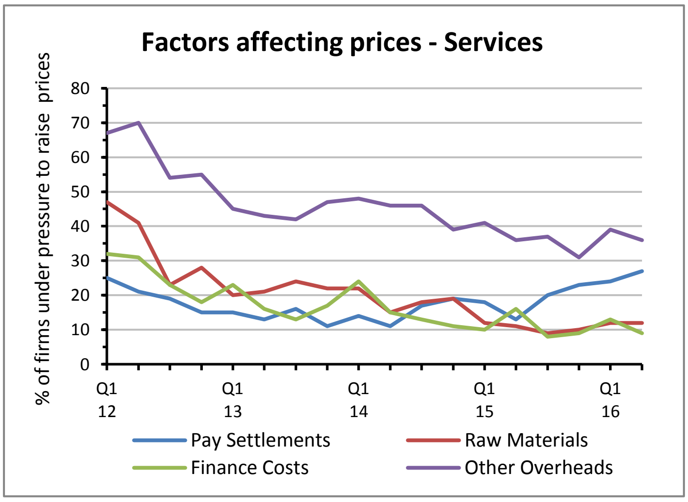
Almost three quarters of all businesses (72%, up from 68%) expect their prices to remain constant over the next three months, with just over one fifth (22%, down from 26%) expecting the price of goods and services to increase. Pressure to increase prices was greater in the service sector, although the prices net balance fell back one point in Q2 (+25%, down from +26%). The net balance of manufacturing firms intending to increase prices weakened by seven points (+4%, down from +11%).

In terms of factors affecting the price of goods and services, ‘Other overheads’ was cited as the most significant price pressure in both sectors (32% manufacturing; 36% services), although overhead costs look to be having less of an impact on prices than four years ago (see below).

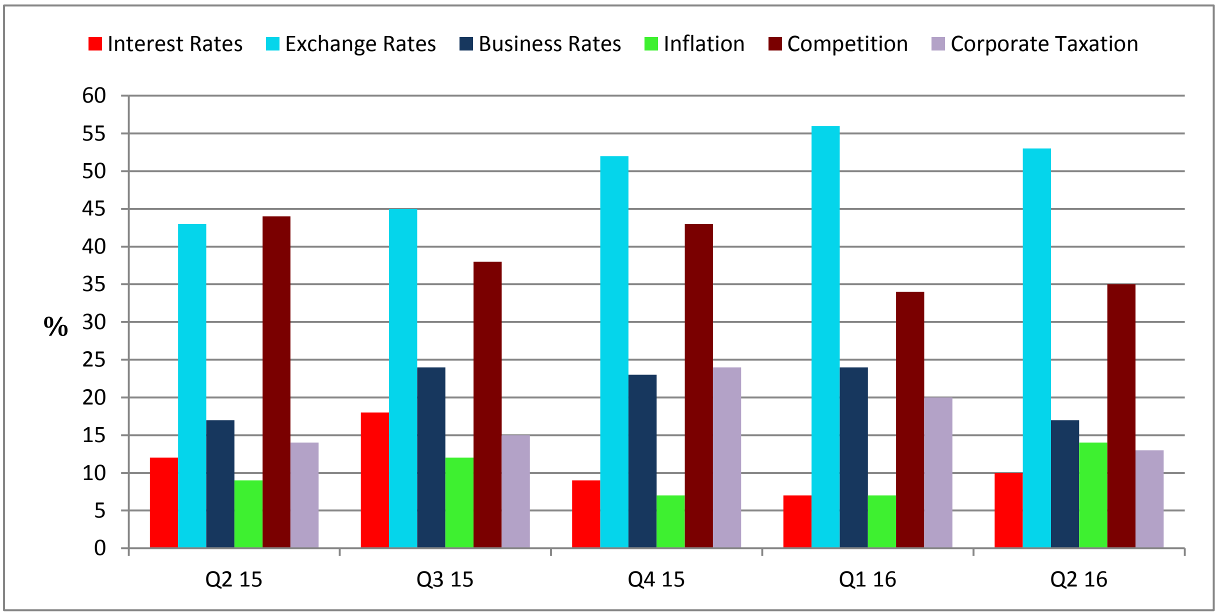
Pressure from raw material costs continues to weaken, especially in manufacturing. 30% of manufacturers stated they we under pressure to raise prices because of their raw material costs (down 6%), against 12% of service businesses (unchanged).

23% of manufacturing firms (up 2%) and 27% of service sector businesses (up 3%) were under pressure to raise prices from pay settlements. For services, this is the highest percentage recorded in four years.



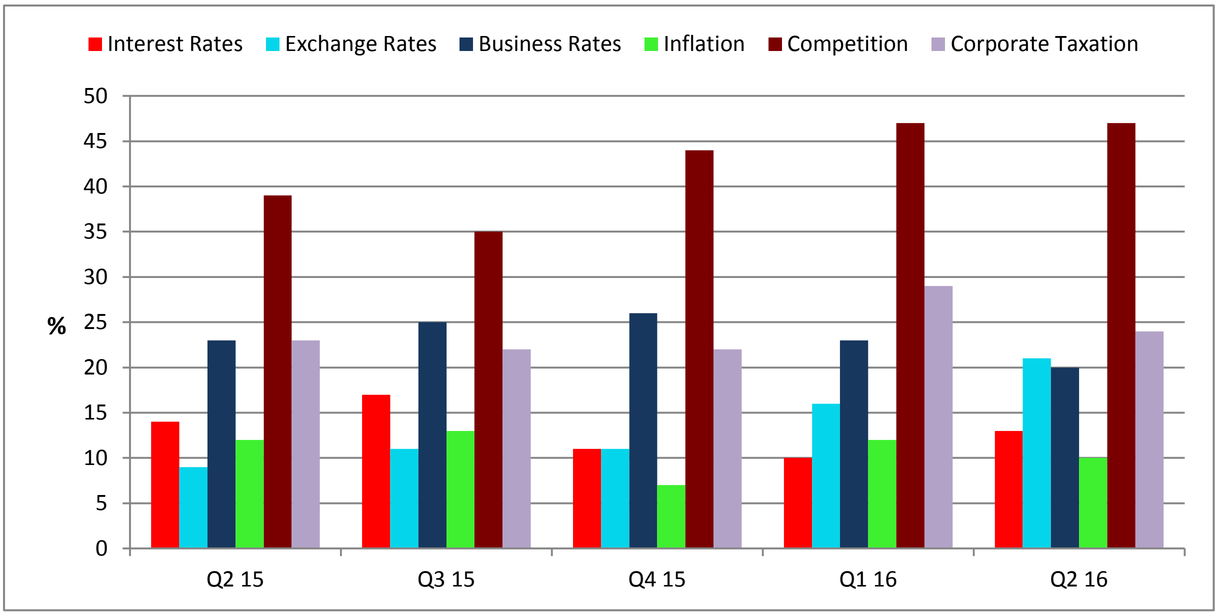


Business Concerns (external factors) - Manufacturing



Although concerns about exchange rates eased slightly in Q2, still over half of manufacturing firms in the survey said they had more concern about exchange rates than three months ago (53%, down from 56%). There was slightly more concern this quarter over interest rates (10%, up from 7%), inflation (14%, up from 7%) and competition (35%, up from 34%); whilst concerns eased over business taxation (13%, down from 20%) and business rates (17%, down from 24%).

Business Concerns (external factors) – Services



Business competition remains the most significant concern for firms in the service sector (47%, unchanged); followed by corporate taxation (24%, down from 29%). There was a five per cent increase in service businesses more worried about exchange rates (21%, up from 16%), and a three percent rise in those more concerned about interest rates (13%, up from 10%). Concerns over business rates and inflation eased slightly compared to three months ago.

BALANCE CHANGES

	Manufacturing		Services		Quarterly Change Manufacturing	Quarterly Change Services
	Q1 2015	Q2 2016	Q1 2015	Q2 2016	Q2 2016	Q2 2016
Domestic Sales	13	**-3**	15	**21**	-16	6
Domestic Orders	7	**-2**	19	**18**	-9	-1
Export Sales	-2	**9**	-9	**-5**	11	4
Export Orders	-5	**9**	-12	**-12**	14	0
Employment last 3 months	16	**14**	21	**13**	-2	-8
Employment next 3 months	16	**18**	32	**19**	2	-13
% Tried to recruit	50	**57**	47	**44**	7	-3
% Part-time	17	**8**	39	**27**	-9	-12
% Full-time	80	**76**	82	**83**	-4	1
% Temporary	34	**19**	14	**15**	-15	1
% Permanent	39	**48**	44	**46**	9	2
% Recruitment difficulties	52	**55**	50	**53**	3	3
% Skilled manual	54	**68**	46	**51**	14	5
% Professional/Managerial	49	**43**	49	**51**	-6	2
% Clerical	32	**19**	42	**31**	-13	-11
% Semi and unskilled	27	**32**	29	**18**	5	-11
Cashflow	9	**4**	7	**4**	-5	-3
Investment - plant/machinery	29	**12**	7	**5**	-17	-2
Investment - training	21	**19**	17	**19**	-2	2
Confidence - turnover	49	**54**	51	**55**	5	4
Confidence - profitability	34	**41**	38	**36**	7	-2
% Full capacity	24	**23**	36	**33**	-1	-3
Prices	11	**4**	26	**25**	-7	-1
% Pay Settlements	21	**23**	24	**27**	2	3
% Raw materials	36	**30**	12	**12**	-6	0
% Financial costs	14	**9**	13	**9**	-5	-4
% Other overheads	37	**32**	39	**36**	-5	-3
External Factors of more concern than 3 months ago						
% Interest rates	7	**10**	10	**13**	3	3
% Exchange rates	56	**53**	16	**21**	-3	5
% Business rates	24	**17**	23	**20**	-7	-3
% Inflation	7	**14**	12	**10**	7	-2
% Competition	34	**35**	47	**47**	1	0
% Tax	20	**13**	29	**24**	-7	-5

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