Greater Lincolnshire
Local Enterprise Partnership

QUARTERLY BRIEFING Q3. 2020

- OVERSEAS SALES ACTIVITY IMPROVES BUT FURTHER FALLS FOR ORDERS
- PRICE PRESSURES RETURN
- CASH FLOW AND INVESTMENT PLANS IMPROVE BUT REMAIN NEGATIVE
- CURRENT AND FUTURE RECRUITMENT ACTIVITY REMAIN NEGATIVE
- CONFIDENCE LEVELS SHOW SOME SIGNS OF RECOVERY

QUARTERLY BRIEFING Q3. 2020

Back in August the UK economy officially went into recession following negative growth in both Q1 and Q2 2020. Strong growth during the summer has resulted in positive Q3 GDP estimates, which have indicated that between July and September the UK economy grew by a record 15.5%.

However, the latest estimate for September at 1.1% growth is disappointing, meaning that the UK economy is still some way off from pre-Covid levels of economic output, and effectively ends any hopes of a V-shaped recovery for the UK economy, with a W shaped recovery more likely, particularly if there continues to be a pattern of enforced lockdown.

We note here that since the publication of Quarter 2's briefing that the latest estimate from the Office for National Statistics shows that the economy contracted by 19.8% in Quarter 2 (Apr to June) 2020 (revised from the initial estimate of a 20.4% fall) and that the 15.5% growth in Quarter 3 is currently a provisional estimate.

We also note that whilst the revision upwards of the Q2 GDP and Q3 growth estimate is good news, Q1 GDP has subsequently been revised further downwards (from -2.2% to -2.5%) showing that the economy was in a weaker state than first thought even before the full effects of a UK lockdown.

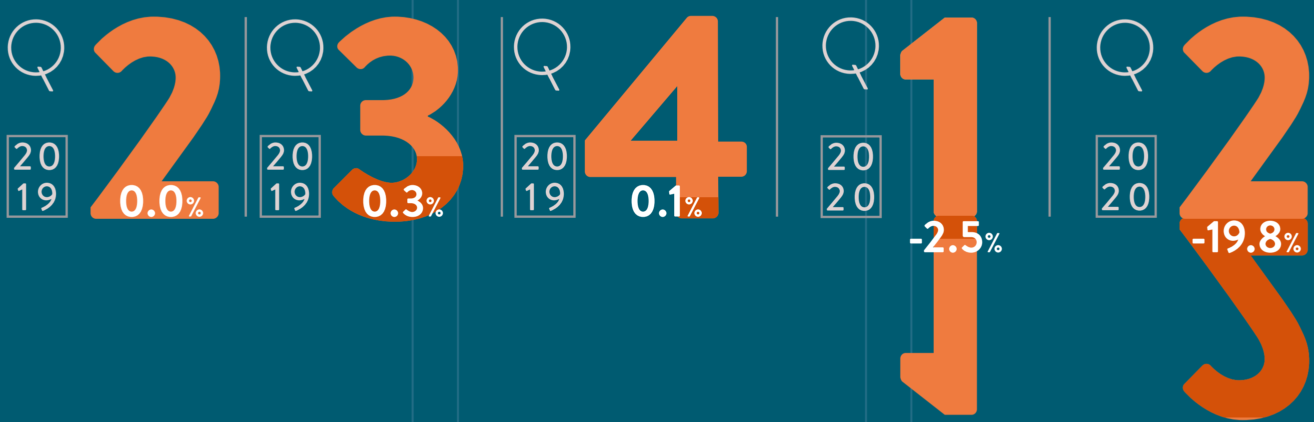
ACTIVITY LEVELS IMPROVE BUT REMAIN NEGATIVE

Despite an improvement, the balance of responses for UK sales has remained negative this quarter, moving from -53 to -14. Advanced sales and bookings tell a similar story with the balance of responses moving from -48 to -17. Beneath these top-level results, the improvements in activity are much more pronounced in the Services sector than that of Manufacturing.

UK GDP GROWTH

(Change in GDP compared to previous quarter)

Source: Office for National Statistics



Turning to more recent and local data on the impacts of the coronavirus we can report that as at the end of September 8.1% of Greater Lincolnshire employment was still furloughed compared to 10.3% nationally.

We have also estimated that currently around 3.5% of businesses are either temporarily or permanently closed, compared to 3.7% nationally.

Before getting onto the latest local Quarterly Economic Survey results, and in order to provide some context to the fast-changing backdrop against which businesses were completing the survey, the following announcements were made during the survey period (26th August – 16th September):

- The July 2020 GDP estimate was released showing that the UK economy grew by 6.6% in July 2020, the third consecutive monthly increase, but it still had only recovered just over half of the lost output caused by the coronavirus.
- Data on retail spend and service sector activity from research firm IHS showing that the sector rose to a five year high of 58.8 in August, up from 56.5 in July (anything above 50 indicates growth).
- The IHS Markit/CIPS UK Manufacturing Purchasing Managers' Index climbed to a 30-month high of 55.2 in August, up from 53.3 in July.
- There was a concerted effort by government to encourage people back into their places of work, even if they were able to work from home, though this advice has now changed given the upturn in the Covid infection rate.
- The Prime Minister and the Chancellor of the Exchequer both made announcements that highlighted the tough economic conditions that lay ahead for the country.

OVERSEAS SALES ACTIVITY IMPROVES

BUT FURTHER FALLS FOR ORDERS

The balance of responses for overseas sales has also remained negative this quarter, improving from -50 to -27. Worryingly, and bucking the trend so far, the balance of responses for overseas orders has fallen further into negative territory, from -37 to -43. Service sector balance of responses figures for both these indicators have improved, but this is not the case for Manufacturing.

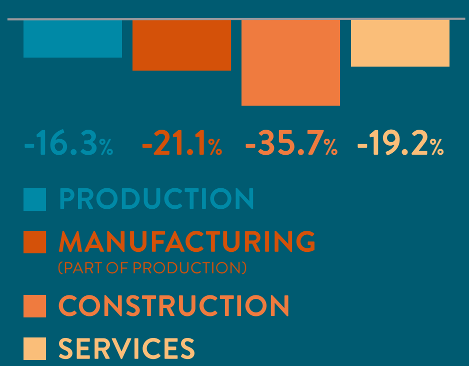
PRICE PRESSURES RETURN

With increases in demand over the last few months then it is no surprise that the balance of businesses expecting to increase prices of their goods/services over the next three months has risen from +13 to +30.

UK SECTORAL GROWTH

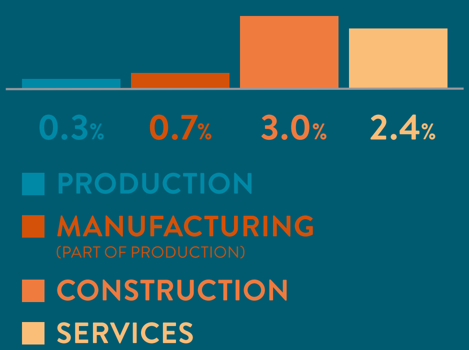
Q2 2020 % CHANGE ON PREVIOUS QUARTER

Source: Office for National Statistics



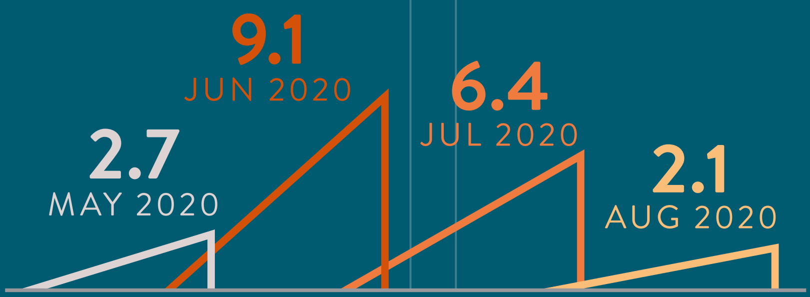
AUG 2020 % CHANGE ON PREVIOUS MONTH

Source: Office for National Statistics



UK GDP MONTHLY ESTIMATE

Source: Office for National Statistics



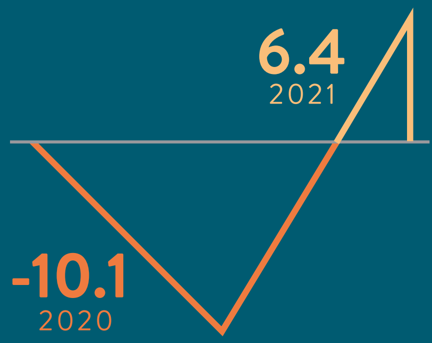
By and large then, and despite the expected recession, there were definitely some economic positives to be had at the time (though the above points are not exhaustive, and clearly there will have been some negative news stories during this period), and we can see this is in the latest results.

CONFIDENCE LEVELS SHOW SOME SIGNS OF RECOVERY

Despite some of the above results, confidence levels appear to have shifted and improved the most of any indicators, with the balance for future profitability moving from -39 to -6, whilst the balance of responses for future turnover has moved into positive territory, from -28 to +3. If we look at sector level results then for Services businesses the balance of responses for both profitability and turnover have shifted quite markedly into positive territory, from -47 to +4, and -40 to +12 respectively. However, it is quite a different story for Manufacturing businesses, with the balance of responses for profitability and turnover actually worsening in Q3, moving from -16 to -35, and from +8 to -24 respectively.

UK ECONOMIC GROWTH (GDP) FORECAST

Source: HM Treasury, Forecasts for the UK Economy: a comparison of independent forecasts, No. 399 October 2020



INFLATION

Source: Office for National Statistics

CONSUMER PRICES INDEX (CPI)

↑ 0.2% AUG 2020

↑ 0.5% SEP 2020

PRODUCER PRICES INDEX (PPI)

↓ AUG 2020 -0.9%

↓ SEP 2020 -0.9%

	2019				2020								
12 MONTH ANNUAL RATE (%)	SEP	OCT	NOV	DEC	JAN	FEB	MAR	APR	MAY	JUN	JUL	AUG	SEP
INPUT PRODUCER PRICE INDICES	-3.0	-5.0	-1.8	1.0	1.6	-0.2	-3.4	-10.6	-10.3	-6.7	-5.7	-5.6	-3.7
OUTPUT PRODUCER PRICE INDICES	1.2	0.8	0.5	0.8	1.0	0.5	0.3	-0.7	-1.2	-0.9	-0.9	-0.9	-0.9

EXCHANGE RATES

Source: x-rates.com

£1 EQUALS

OCT 19	SEP 20	OCT 20
$1.29	$1.29	$1.30
€1.16	€1.10	€1.10

BANK OF ENGLAND INTEREST RATE

0.1%

CASH FLOW AND INVESTMENT PLANS IMPROVE BUT REMAIN NEGATIVE

The balance of responses for cash flow has moved from -57 to -23 with improvement more marked for Manufacturing. Investment plans for both capital and training have improved with the respective balance of responses shifting from -49 to -15, and from -33 to -15. We note also that Manufacturing capital investment plans are in positive territory (+6).

BUSINESS IMPACT OF COVID-19 SURVEY

% of all enterprises that have temporarily/permanently closed, or temporarily paused trading
Source: Office for National Statistics

3.7 NATIONAL

3.5 GREATER LINCOLNSHIRE INC. RUTLAND

CORONAVIRUS JOB RETENTION SCHEME STATISTICS

% of employment furloughed
Source: Oct 2020, HM Revenue & Customs

10.3% NATIONAL

8.1% GREATER LINCOLNSHIRE INC. RUTLAND

HOUSEHOLD SPENDING (CHAINED VOLUME MEASURE)

Numbers refer to Quarter on Quarter change in spending.
Source: Office for National Statistics http://www.ons.gov.uk/ons/rel/consumer-trends/consumer-trends/index.html

Q2 2019	Q3 2019	Q4 2019	Q1 2020	Q2 2020
0.5%	0.0%	-0.4%	-3.0%	-23.6%

In summary then we can clearly see improvements in nearly all indicators (the notable exception being that of ‘overseas orders activity’).

However, this improvement has not been enough to move most of the balance of responses into positive territory, meaning that levels of activity in sales and orders (both at home and abroad), recruitment, and investment have all still been contracting over the last quarter.

Two areas of note where there is some limited positivity are those concerning cash flow and confidence levels. Cash flow has improved markedly from its dire position last quarter, and whilst it still remains negative (meaning that more businesses than not are experiencing cash flow issues) this does mean that government support has made a welcome difference in this area. Secondly, confidence levels for both future levels of profitability and turnover have also improved significantly with levels of confidence in turnover returning to positive territory.

Responses this quarter have again split quite neatly 75%/25% in terms of Services and Manufacturing, mirroring the makeup of the economy. However, in contrast to what we reported last quarter, looking at this level of results shows that the Service sector is currently more positive about current conditions and the year ahead, compared to Manufacturing. Worryingly, Manufacturing sector confidence in future levels of profitability and turnover have actually worsened since last quarter whilst the same indicators for the Service sector are now positive.

The improvement in the outlook of the Service sector coincides with, and most likely as a result of, the gradual opening up of the economy from lockdown during this period, the effects of which did and continue to have a greater impact on the Services sector. Given that we are now currently seeing more and more local lockdowns and restrictions come into effect in a bid to counter the second wave of the virus, it will be interesting to see if and how this manifests in the next set of survey results.

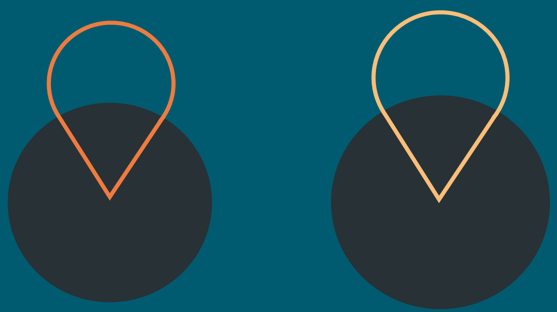
CURRENT AND FUTURE RECRUITMENT ACTIVITY REMAIN NEGATIVE

Recruitment activity has improved over the last three months, but the balance of responses remains negative, moving from -26 to -8, whilst future recruitment plans has seen the balance shift from -13 to -3. Beneath these results it is Service sector businesses where workforces are being downsized with recruitment activity in Manufacturing businesses being positive.

EMPLOYMENT RATE (AGED 16-64)

Source: Annual Population Survey, Office for National Statistics

JUL 19 - JUN 20



73.0%
GREATER LINCOLNSHIRE INC. RUTLAND

76.1%
UK

UNEMPLOYMENT RATE (AGED 16-64)

Source: Annual Population Survey, Office for National Statistics

JUL 19 - JUN 20

4.9%
GREATER LINCOLNSHIRE INC. RUTLAND

3.9%
UK

Greater Lincolnshire
Local Enterprise Partnership

Lancaster House | 36 Orchard Street
Lincoln | LN1 1XX

T: 01522 550540
E: greaterlincslep@lincolnshire.gov.uk

@GreaterLincsLEP

WWW.GREATERLINCOLNSHIRELEP.CO.UK