Greater Lincolnshire
Local Enterprise Partnership

QUARTERLY BRIEFING Q3. 2019

- SALES AND ORDERS INCREASE
- OVERSEAS SALES STABLE BUT ORDERS FALL AGAIN
- CONFIDENCE LEVELS CONTINUE TO RISE
- PRICE PRESSURES RETURN
- CURRENT AND FUTURE RECRUITMENT ACTIVITY BOTH RISE

QUARTERLY BRIEFING Q3. 2019

Q3 results on the whole are very positive, with many indicators reversing last quarter's slumps. We should note here though that local performance data on sales and confidence levels are at odds with what is being reported at the national level, with the British Chamber of Commerce reporting (in their Q3 2019 Quarterly Economic Survey report) that the latest quarterly results "point to a worrying drop-off in UK economic activity, with unrelenting uncertainty over Brexit and a notable slowing in global growth prospects dragging down almost all the key indicators".

This positive set of results arrived just as the Office for National Statistics (ONS) announced that UK gross domestic product (GDP) in volume terms contracted by 0.2% in Q2 (April to June) 2019. This was something that we expected locally based on the last set of quarterly results (though perhaps not as marked as this) which showed a reduction in activity across many indicators.

So, based on this latest (local) data we were optimistic for a rebound in the GDP figures for the period covering July to September 2019 and this has happened, with the ONS reporting a return to growth for the UK economy in Q3 of 0.3%. However, the year-on-year growth rate shows that the economy has slowed to 1% from 1.3%, which is its lowest rate in almost a decade.

SALES & ORDERS INCREASE

The balance of responses for UK sales has risen back up this quarter, from +8 to +21. Beneath that figure we can see that this increase has been driven by businesses being less likely to report both worsening and similar levels of sales to the previous quarter. This brings an end to a run of three quarters where businesses were increasingly reporting worsening levels of sales.

UK GDP GROWTH

(Change in GDP compared to previous quarter)

Source: Office for National Statistics

Q3 2018	Q4 2018	Q1 2019	Q2 2019	Q3 2019
0.6%	0.3%	0.6%	-0.2%	0.3%

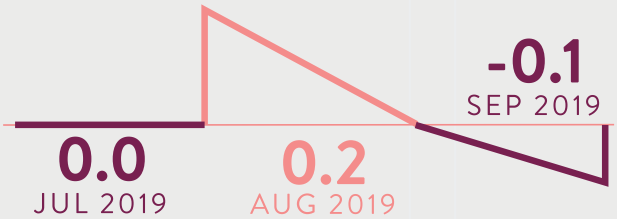
Latest independent forecasts point to an annual growth figure for 2019 of 1.2%.

The concern here though is that these positive quarterly results may once again be the result of stockpiling and early order completion by some businesses in the run-up to the 31st October Brexit deadline, as was observed in Q1 results in the run up to the 31st March Brexit deadline. If this is the case, and based on the fact that yet another Brexit deadline has passed without change, then Q4 could see a repeat of the slump in activity which was observed in Q2.

UK GDP MONTHLY ESTIMATE

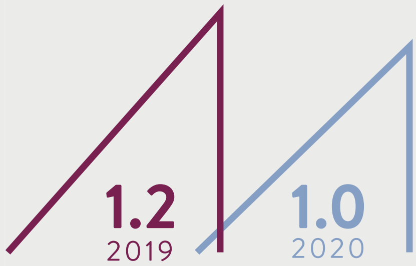
(Change in GDP compared to previous month)

Source: Office for National Statistics



UK ECONOMIC GROWTH (GDP) FORECAST

Source: HM Treasury, Forecasts for the UK Economy: a comparison of independent forecasts, No. 384 June 2019

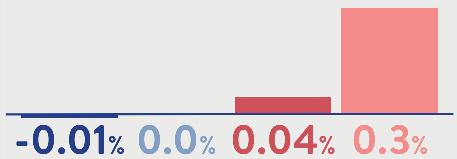


OVERSEAS SALES STABLE BUT ORDERS FALL AGAIN

This quarter sees the balance of responses for overseas sales increase slightly from +14 to +15, and brings some positive stability to results which have leapt about after zero balances during the end of 2017 and most of 2018. Over the same period, the balance of response for overseas orders has fallen from +14 to just +4. This performance has been driven by an increase in businesses stating worsening levels of advance orders, with a quarter of businesses stating this as the case.

UK SECTORAL GROWTH (Q3 2019 % CHANGE ON PREVIOUS QUARTER)

Source: Office for National Statistics



- PRODUCTION
- MANUFACTURING (PART OF PRODUCTION)
- CONSTRUCTION
- SERVICES

Perhaps the stand-out results in this set of Q3 results are those of confidence levels around future levels of turnover and profitability which increased quite substantially in the run-up to the 31st October 2019.

This is noteworthy as prior to the 31st March 2019 Brexit deadline we saw local confidence levels plummet in the Q1 survey results. As we move past the deadline, into Q4 and the run-up to the General Election, it will be interesting to see whether business confidence remains at these levels.

Moving away from Brexit, there are a couple of other issues in the results which we need to be mindful of. Firstly, the cash flow position appears to have worsened for many businesses responding to the survey. This is something that we will monitor and check for improvements on in the next set of survey results.

CONFIDENCE LEVELS CONTINUE TO RISE

Q3 sees confidence levels around future profitability and turnover continue to rise with the respective balance of responses increasing from +20 to +35, and from +31 to +51. We should note here that this result was recorded in the run-up to the 31st October Brexit deadline, which is at odds with what we saw in confidence levels as we approached the 31st March deadline.

INFLATION

Source: Office for National Statistics

CONSUMER PRICES INDEX (CPI)

1.7% SEP 19

1.5% OCT 19

PRODUCER PRICES INDEX (PPI)

1.2% SEP 19

0.8% OCT 19

	2018				2019								
12 month annual rate (%)	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct
INPUT PRODUCER PRICE INDICES	10.4	5.4	3.1	2.7	4.1	3.1	4.6	1.4	0.3	1.0	-0.9	-3.0	-5.1
OUTPUT PRODUCER PRICE INDICES	3.3	3.0	2.4	2.1	2.4	2.2	2.1	1.9	1.6	1.9	1.7	1.2	0.8

PRICE PRESSURES RETURN

After last quarter's fall, the balance of businesses expecting to increase prices of their goods/services over the next three months has increased sharply, from +31 to +44. 'Other overheads' and 'Raw material prices' (both 44%) are the main reasons given for exerting pressure on prices.

EXCHANGE RATES

£1=

OCT 18

$1.28 €1.13

SEP 19

$1.23 €1.13

OCT 19

$1.29 €1.16

Source: x-rates.com

BANK OF ENGLAND INTEREST RATE

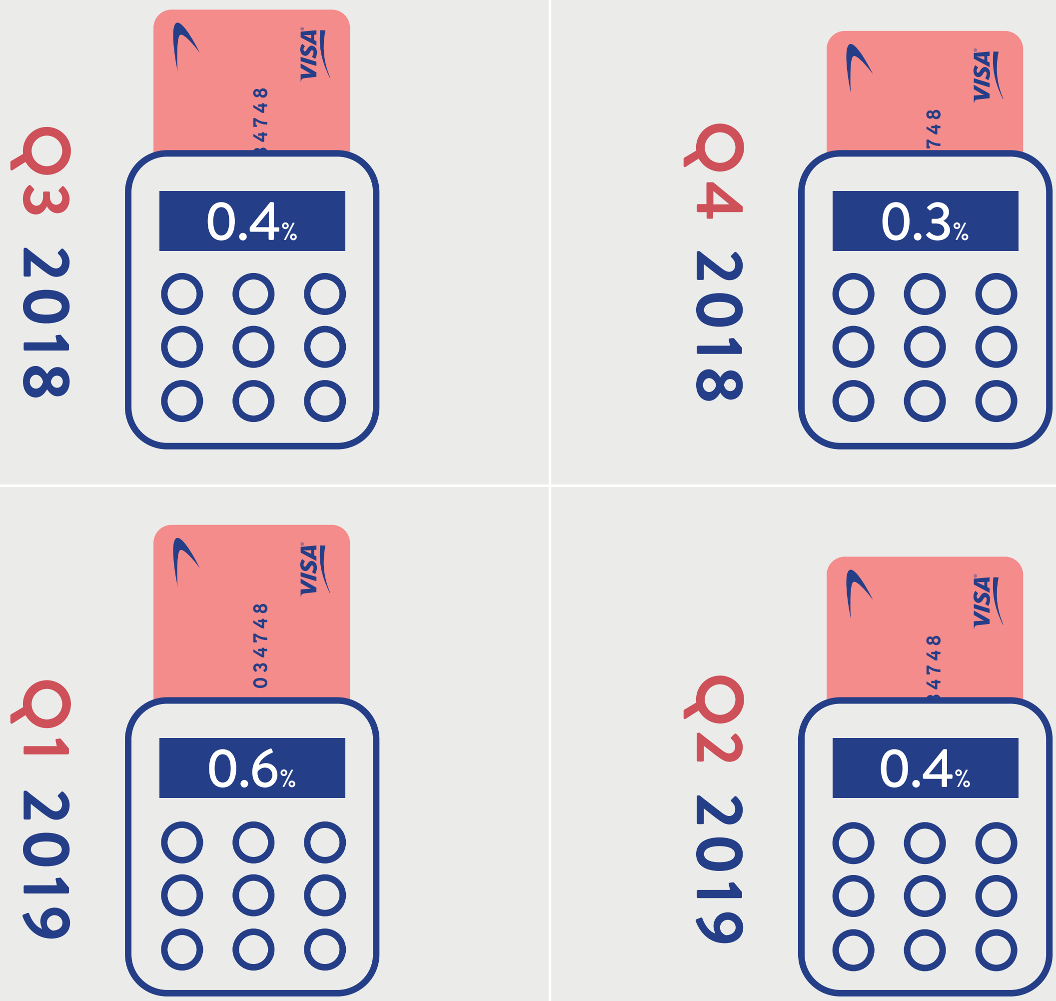
0.75%

CASH FLOW WORSENS INVESTMENT PLANS FALL BUT STAY POSITIVE

This quarter has seen another large drop in the balance of responses for cash flow, from +10 to 0. Investment plans for both capital and training have also decreased this quarter (after last quarter's sharp increases), with the respective balance of responses decreasing from +12 to +4, and +31 to +21.

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



Secondly, this quarter sees the return of price pressures with a sharp increase in businesses expecting to increase prices of their goods/services over the next three months. 'Other overheads' and 'Raw material prices' are the main reasons given for exerting pressure on prices. This was expected given recent events in the Gulf of Oman (a crucial route for global energy suppliers) were likely to push up crude oil prices (a significant element of producer inputs), but these effects are yet to factor into the latest statistics on Producer Price Inflation (as they are calculated over a 12 month period) which showed input prices contract, and output producer price inflation down to 0.8% during October. Crude oil prices, exacerbated by recent attacks on Saudi oil refineries and growing tensions in the region with Iran, have increased throughout October, and despite falls in November, remain relatively high. These higher prices will start to feed into input prices, placing further pressures on producers to raise their output prices, and as a result, the Q4 survey is very likely to show us that these price pressures remain and have increased.

CURRENT AND FUTURE RECRUITMENT

BOTH RISE

After last quarter's sharp drop, the balance of responses for recruitment activity has risen back up this quarter, from +6 to +14. This performance has been driven by businesses moving away from a position of maintaining current levels in their workforce, to a position of expanding their workforce (32%, compared to only 20% last quarter). We can also see a similar pattern of performance for future workforce expectations with the balance of responses rising from +14 to +21. This brings to an end a run of five straight quarters of decreases in the balance of responses figure.

EMPLOYMENT RATE (AGED 16-64)

Source: Annual Population Survey, Office for National Statistics

JUL 18 - JUN 19

GREATER LINCOLNSHIRE	UK
75.0%	75.5%

UNEMPLOYMENT RATE (AGED 16-64)

Source: Annual Population Survey, Office for National Statistics

JUL 18 - JUN 19

GREATER LINCOLNSHIRE	UK
5.0%	4.1%

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