



# QUARTERLY BRIEFING Q3. 2018

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# QUARTERLY BRIEFING

## Q3. 2018

The latest results from the Quarterly Economic Survey show that business conditions have been good over the summer for many of those businesses responding, with the hot and sunny weather helping many within the Visitor Economy. Inflationary pressures appear to have eased and business confidence currently holds strong and has improved.

However, whilst we continue to see some positive results from the survey, uncertainty over future trading conditions is acting as a brake on both businesses performance and decision making. Overseas sales have improved this quarter but there are concerns that we are starting to see a softening in activity when compared with last year.

Firstly, this quarter has seen a reduction in the balance of respondents expecting to increase prices of their goods/services over the next three months for the first time in a year. This might seem odd given that in August annual CPI (Consumer Price Index) inflation unexpectedly rose by 2.7%, against most forecasts and Bank of England estimates which expected prices to grow by 2.4%. However, what we are

seeing in these QES results is related to the Producer Price Index (PPI) with the headline figure for goods leaving the factory gates down to 2.9% from the 3.1% figure in July. Input prices are also going down even if their rate is still very high at 8.7% - down from 10.3% in the previous month. The latest increase in CPI has been driven mainly by increased transport costs as a result of oil price increases.

Obviously, oil price increases affected input prices for producers (which ties in with the majority of QES respondents stating 'Other overheads' as the main reason for suffering pressure to increase prices) but they were quicker to react to these hence why we are seeing the PPI coming down now whilst the CPI has risen.

The oil price remains high which means that the pressure that producers are feeling has not gone away (again, tying in with the QES results with businesses responding that they expect prices to stay the same as opposed to planned decreases) but the peak has passed, and we now expect to see further decreases in producer prices and subsequent decreases in consumer prices.

### SALES & ORDERS ACTIVITY HOLD AND REMAIN STRONG

Despite an overall fall in sales activity it remains high and positive, with underlying figures strong

#### UK GDP GROWTH

(Change in GDP compared to previous quarter)

Source: Office for National Statistics



We have reported this quarter that overseas sales have finally shown signs of improvement with the balance of responses increasing from 0 to +25 for the first time since Q4 2017.

The balance of response for overseas orders has improved, moving from -14 to 0, but this is down to all responding businesses stating that conditions remain unchanged. This is all encouraging to a certain extent but the Lincolnshire Chamber of Commerce point to a 'softening' in export activity based on more up-to-date data. The number of certificates of origin that they issue to support Lincolnshire businesses trade overseas have fallen behind last year's strong performance. In talking to their members, a slowdown has been reported

in export orders across both manufacturing and service sectors, with many suggesting they are currently treading water ahead of hearing more detail regarding Brexit negotiations. Given that much has happened on the Brexit front since the latest survey closed (17th September) this is an area to watch and, looking ahead to next quarters survey (which runs from the 6th to the 27th November), it will be interesting to see how businesses respond to the latest information we have on a deal with the European Union.

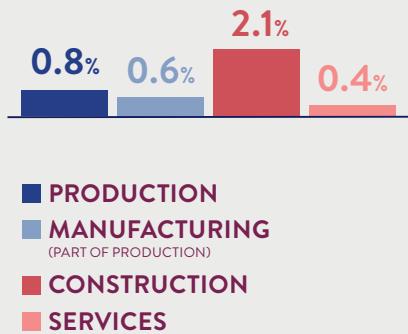
Also, and potentially related to Brexit negotiations, we note this quarter that survey results show both an improvement in training investment plans (+24, up from +6), and the increased concern around competition (nearly half of respondents compared to just over a quarter in the previous survey). It is too early at this stage to say how much of this will have been down to increased speculation over the summer around a 'No Deal' scenario and new immigration rules but these will be areas that will be looked at closely next quarter.

# OVERSEAS SALES LEVELS IMPROVE WITH ORDERS UNCHANGED

Overseas sales have finally shown signs of improvement with the balance of responses becoming positive (indicating growth) for the first time since Q4 2017

## UK SECTORAL GROWTH (Q3 2018 - % CHANGE ON PREVIOUS QUARTER)

Source: Office for National Statistics



## UK ECONOMIC GROWTH (GDP) FORECAST

Source: HM Treasury, Forecasts for the UK Economy: a comparison of independent forecasts, No. 376 Oct 2018



In summary, this quarter's latest set of results are encouraging (particularly given ongoing uncertainty and continued conjecture around future plans for tackling some of the key issues around Brexit) and highlight a number of positive developments albeit with some warnings attached.

Finally, and just prior to publication, the Chancellor of the Exchequer, Philip Hammond, delivered the first 'Monday' budget speech since 1962. Firstly, we note that the Office for Budget Responsibility (OBR) expect growth in the national economy to slightly higher at 1.6% than those independent forecasts reported elsewhere in this briefing. They go on to

forecast growth of 1.4% in both 2020 and 2021, increasing back up to 1.6% by 2023. Secondly, and perhaps more importantly given the pressures and losses on the high street that we have reported in previous briefings, the announcement that small retail businesses will see their business rates bills reduced by a third for two years (beginning in April 2019) will come as some relief.

In addition to this, a new Future High Streets Fund of £675 million was announced to support local areas to develop and fund plans to make their high streets and town centres fit for the future. The fund includes £55 million for heritage-based regeneration, restoring historic high streets to boost retail and bring properties back into use as homes, offices and cultural venues.

# BUSINESS CONFIDENCE HOLDS AND IMPROVES

THIS QUARTER SEES FURTHER INCREASES IN CONFIDENCE LEVELS FOR BOTH TURNOVER AND PROFITABILITY OVER THE NEXT YEAR



## INFLATION

Source: Office for National Statistics

### CONSUMER PRICES INDEX (CPI)



### PRODUCER PRICES INDEX (PPI)



	2017						2018						
12 month annual rate (%)	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep
INPUT PRODUCER PRICE INDICES	8.3	5.0	7.7	5.6	4.4	3.9	4.5	5.6	9.6	10.3	10.3	9.4	10.3
OUTPUT PRODUCER PRICE INDICES	3.3	2.9	3.1	3.1	2.8	2.6	2.5	2.5	3	3.3	3.1	2.9	3.1



## BANK OF ENGLAND INTEREST RATE

# 0.75%

### EXCHANGE RATES



OCT-17  
\$1.33 €1.14

SEP-18  
\$1.30 €1.12

OCT-18  
\$1.28 €1.13

Source: x-rates.com

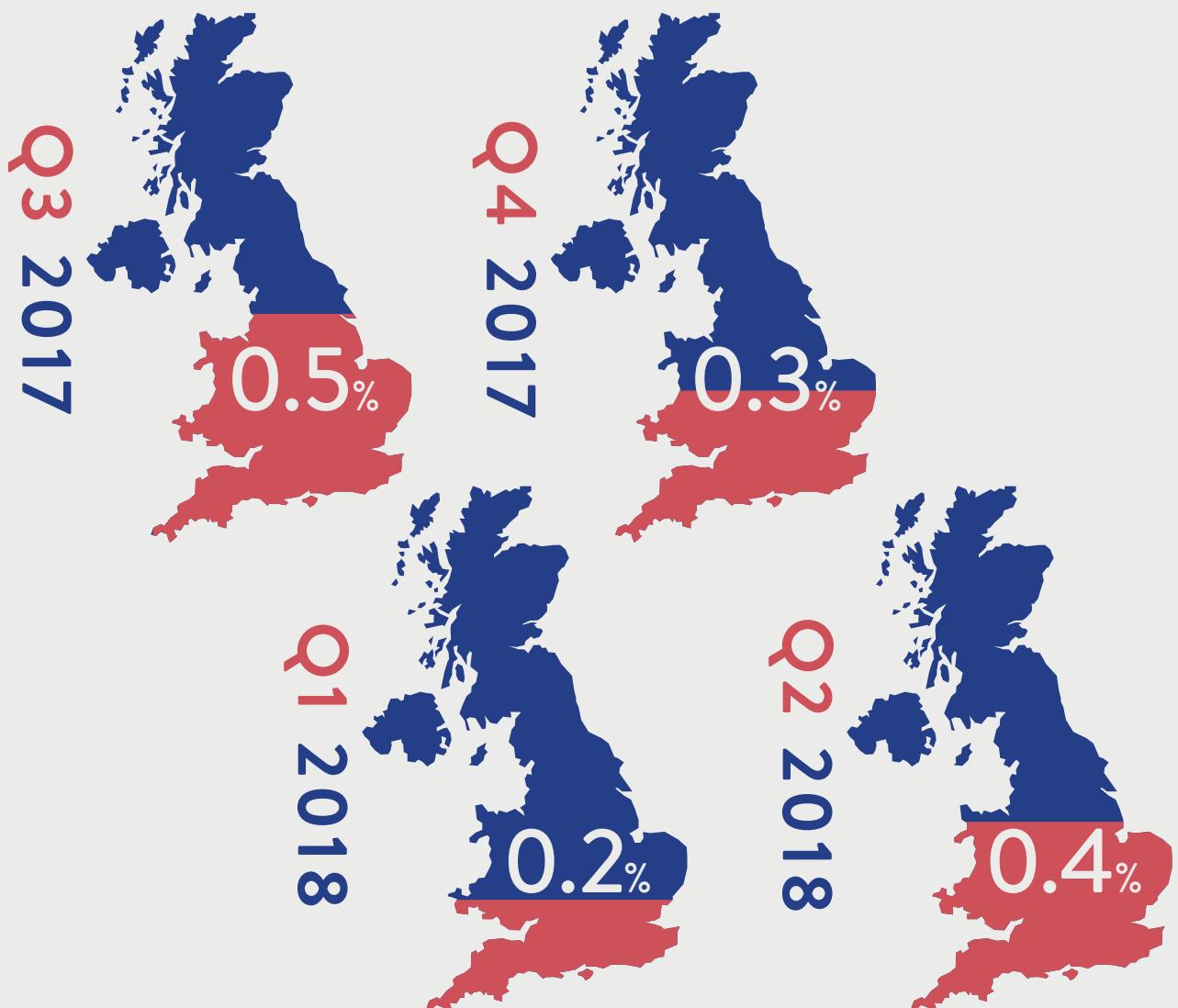
# PRESSURE ON PRICES EASE

For the first time in a year, this quarter has seen a reduction in the balance respondents expecting to increase prices of their goods/services over the next three months



## HOUSEHOLD SPENDING

Source: Office for National Statistics



# FUTURE RECRUITMENT AND TRAINING INVESTMENT INTENTIONS ARE STRONG

Recruitment activity during the last quarter fell (not unsurprisingly at this time of year), with future expectations around recruitment remaining strong and positive (despite a small decrease). In fact no businesses responding to the survey reported that they expect their workforce to decrease over the next three months. In addition to this we have also observed an increase in those businesses stating that they expect to increase investment in training.

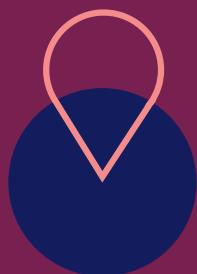


## EMPLOYMENT RATE (AGED 16-64)

Source: Annual Population Survey,  
Office for National Statistics

JUL 17 - JUN 18

GREATER  
LINCOLNSHIRE



74.7%

UK



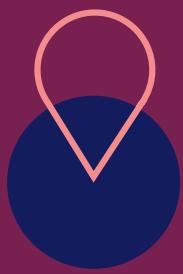
74.9%

## UNEMPLOYMENT RATE (AGED 16-64)

Source: Annual Population Survey,  
Office for National Statistics

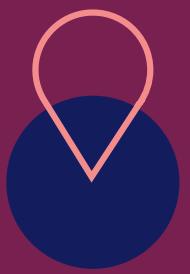
JUL 17 - JUN 18

GREATER  
LINCOLNSHIRE



4.1%

UK



4.3%



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