

QUARTERLY BRIEFING Q2. 2021

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QUARTERLY BRIEFING Q2. 2021

Improvements can be seen domestically but overseas markets are not in great shape, with price pressures really starting to build. These are the latest findings from the second Lincolnshire Quarterly Economic Survey of 2021 which ran from the 18th May to the 8th June.

The further easing of lockdown restrictions since Q1, and subsequent increases in economic activity, are reflected in most indicators with many that were negative (denoting contraction) last quarter having now moved into positive territory (signifying growth). For some this is the first time we have seen positive activity balances since Q1 2020.

As you would perhaps expect, the most significant improvements this quarter can be seen in UK market activity with both indicators for sales and orders moving from negative to positive balances. Indicators for job appointments and future recruitment intentions have also followed suit, and we can also see positive developments in other local labour market indicators. Latest claimant count figures (an experimental series that counts the number of people claiming Jobseeker's Allowance plus those who claim Universal Credit and are required to seek work and be available for work) show that the number of people claiming across Greater Lincolnshire in May 2021 has decreased by 5.6% compared to the previous month. Subsequently, the claimant count as a proportion of residents aged 16-64 across Greater Lincolnshire has fallen by 0.3 percentage points to 5.3%, well below the UK rate of 6.0%. Latest vacancy data for June also shows a monthly 14% increase, whilst overall vacancy numbers are up 209% compared to this time last year (though we need to be mindful of the base effects of Covid and lockdown throughout most of 2020).

ACTIVITY LEVELS IMPROVE AND NOW POSITIVE

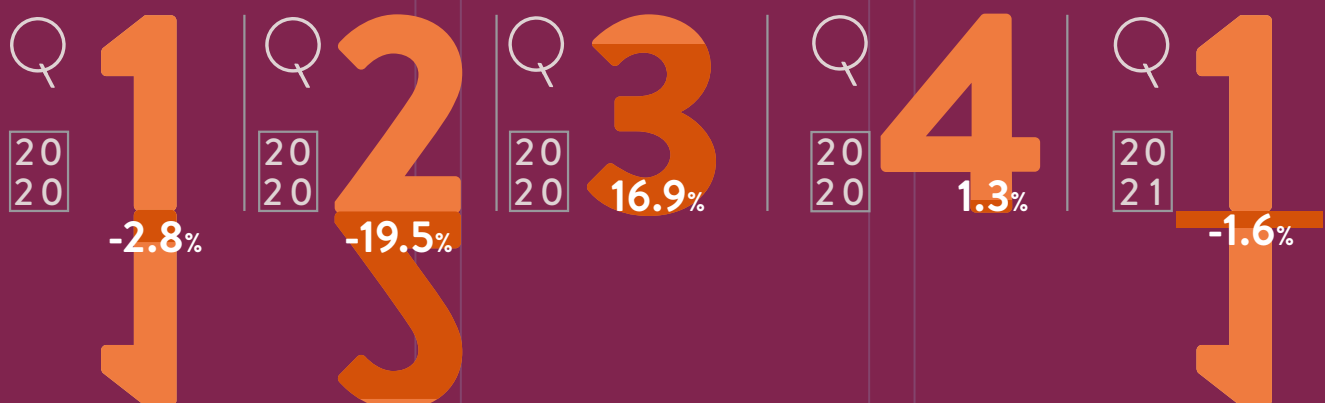
This quarter sees the balance of responses for UK sales finally move into positive territory for the first time since Q1 2020, shifting from -9 to +19. It is also a similar shift for advanced sales and bookings with the balance of responses improving from -11 to +16. Beneath these top-level results, then these improvements in activity levels this quarter have somewhat surprisingly been driven in the main by responses from Manufacturing. Whilst Services businesses have seen improved levels of activity around sales (moving the balance from negative to 0), the balance of responses for orders remained at -17.



UK GDP GROWTH

(Change in GDP compared to previous quarter)

Source: Office for National Statistics



One notable area of exception to this quarter's positive outlook is that of overseas markets where both balances for sales and orders have moved back further into negative territory despite last quarter's improvements.

It is not clear at this stage what may have driven this change in fortunes for exporting but these findings do tie in with the latest Lincolnshire Chamber of Commerce export documentation figures. They show that numbers of documents issued during May and June were at their lowest point at this time of year in the last four years.

Lurking in the background for some time now is the threat of inflation. After last quarter's record high, this quarter sees a drop in the balance of businesses expecting to increase prices of their goods/services over the next three months from +59 to +47, but it remains historically high. These pressures are pretty much exclusively being driven by raw material prices and other overheads with inflation now the second biggest concern for businesses, behind that of 'competition'.

This overall sense of pressure building is reflected in the latest headline rate of input prices (to production) for May and June which were 10.4% and 9.1% respectively. The figure for May in particular is the highest the rate has been since September 2011, but the drop in June, coupled with the slight fall in output prices by 0.1 percentage points to 4.3%, does suggest some easing on the horizon.

OVERSEAS SALES & ORDERS ACTIVITY LEVELS WORSEN

Despite the improvements in the UK market, the balance of responses for overseas sales remains negative this quarter and has actually worsened, moving from -30 to -47. Similarly, the balance of responses for overseas orders remains negative and has moved from -24 to -38. Again, as with the UK market, these declines in activity in overseas markets has solely been driven by results from Services businesses.

PRICE PRESSURES REMAINS HIGH

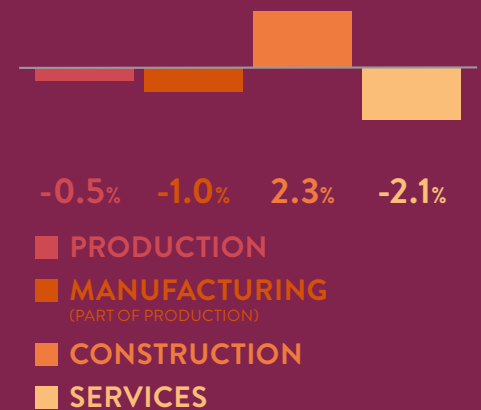
After last quarter's record high, this quarter sees a drop in the balance of businesses expecting to increase prices of their goods/services over the next three months from +59 to +47, but it remains historically high. These pressures are pretty much exclusively being driven by raw material prices and other overheads. Inflation is now the second biggest concern for businesses, behind that of 'competition'.



UK SECTORAL GROWTH

Q4 2020 % CHANGE ON PREVIOUS QUARTER

Source: Office for National Statistics



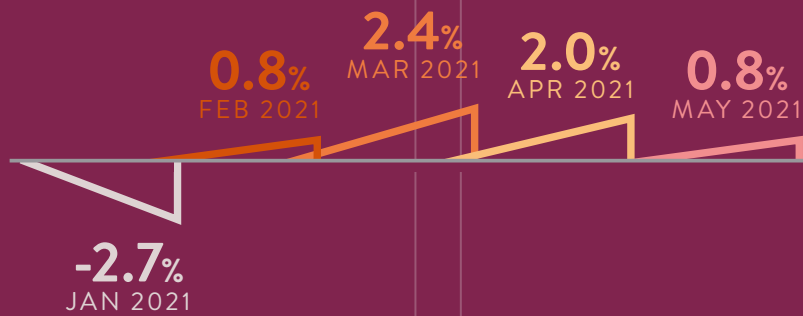
MAY 2021 % CHANGE ON PREVIOUS MONTH

Source: Office for National Statistics



UK GDP MONTHLY ESTIMATE

Source: Office for National Statistics



This will take time to feed into retail prices with the latest Consumer Prices Index (CPI) figures showing that it rose further above the Bank of England's target rate of 2% to 2.5%, up from 2.1% in May.

Despite this, and no doubt wary of placing a drag on the economic recovery, the recent meeting of the Bank of England's monetary policy committee held the interest rate at 0.1% with notes from the meeting stating that inflation is likely to hit 3% in the short term and then fall.

Given this overall mixed picture then it is perhaps not surprising to see that confidence levels have dropped since the previous quarter but importantly remain high and comparable to levels last seen in Q1 2020 just prior to the first lockdown.

UK ECONOMIC GROWTH (GDP) FORECAST

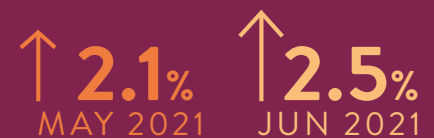
Source: HM Treasury, Forecasts for the UK Economy: a comparison of independent forecasts, No. 407 June 2021



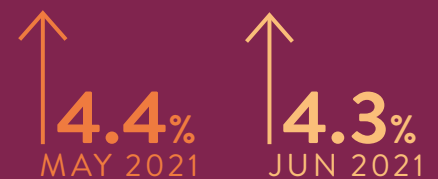
INFLATION

Source: Office for National Statistics

CONSUMER PRICES INDEX (CPI)



PRODUCER PRICES INDEX (PPI)



	2020							2021					
	JUN	JUL	AUG	SEP	OCT	NOV	DEC	JAN	FEB	MAR	APR	MAY	JUN
12 MONTH ANNUAL RATE (%)													
INPUT PRODUCER PRICE INDICES	-2.9	-2.8	-3.0	-2.2	-1.1	-0.3	0.8	1.9	3.3	6.2	9.6	10.4	9.1
OUTPUT PRODUCER PRICE INDICES	-1.7	-1.7	-1.7	-1.7	-1.4	-0.6	-0.3	0.2	1.1	1.9	3.5	4.4	4.3

EXCHANGE RATES

Source: x-rates.com



JUN 20	MAY 21	JUN 21
\$1.24	\$1.42	\$1.38
€1.10	€1.16	€1.16

BANK OF ENGLAND INTEREST RATE

0.1%



CONFIDENCE LEVELS DROP BUT REMAIN HIGH

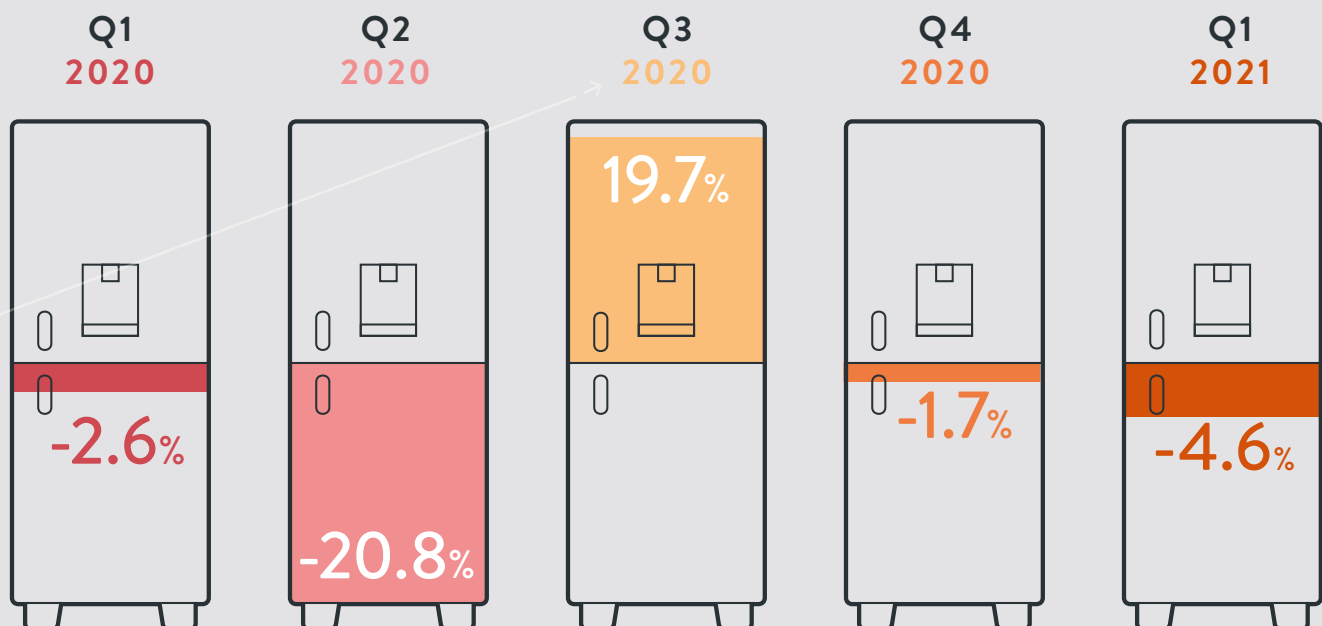
After last quarter's surge in confidence levels then it is perhaps no surprise to see some relative calm return to these two indicators. As such, the balance of responses for future profitability has moved from +30 to +13, whilst the balance of responses for future turnover has moved from +52 to +41. These levels are akin to what we saw in Q1 2020 just prior to the first lockdown. At a sector level then results for Manufacturing are particularly high and build on the upwards trend we have seen over the previous two quarters. Services however is a very different story with large drops in confidence levels across both indicators. The balance of responses for turnover has moved from +59 to +6, whilst for profitability the balance has actually moved back into negative territory, from +41 to -17.



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>



RECRUITMENT ACTIVITY RETURNS TO POSITIVITY FOR FIRST TIME SINCE Q1 2020

In line with the UK market indicators, the balance of responses for recruitment over the past three months has shifted back into positive territory for the first time since Q1 2020, moving from -2 to +19. Future recruitment plans have retained their gains from last quarter and have slightly improved, moving from +20 to +22. This maintaining of the balance for future recruitment activity this quarter suggests that we can expect to see actual recruitment levels maintained in the next quarter.



EMPLOYMENT RATE (AGED 16-64)

Source: Annual Population Survey,
Office for National Statistics

JAN 20 - DEC 20



71.8%
GREATER
LINCOLNSHIRE
INC. RUTLAND

75.3%
UK

UNEMPLOYMENT RATE (AGED 16-64)

Source: Annual Population Survey,
Office for National Statistics

JAN 20 - DEC 20



5.8%
GREATER
LINCOLNSHIRE
INC. RUTLAND

4.6%
UK



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