

QUARTERLY BRIEFING Q4. 20 8

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QUARTERLY BRIEFING Q4. 2018

From these latest results, and from comparing them with Q4 2017 and Q1 2018, we conclude that we approach 2019 in better shape and in a more confident mood than which we entered 2018. All things considering, sales and orders both here and overseas are okay but could be better.

Inflationary pressures have weakened as the year has gone on, and at the same time business confidence has just kept on improving. This is positive as we enter another year which is beset with more economic uncertainty than the last and is bound to be as just, if not more challenging.

Looking back, 2018 was set to be the crunch year for sorting out Brexit and solidifying the terms of future trading relationships, providing businesses (and the general public) with some degree of certainty. For many, many reasons this has not happened, and we enter the final two months of the negotiation period neither further on in the process, or wiser as to what Brexit actually means.

Suffice to say that 2019 has to be the year that major developments happen one way or another, and they will be sooner rather than later. Despite this uncertainty, latest independent forecasts point towards 1.4% growth for the UK economy during 2019 (similar to 2018) with the rate of inflation forecast to hit the Bank of England's target rate of 2%. We should note at this stage however, that the latest indicators are that the UK economy has slowed during the final quarter of 2018. The latest estimates for the 3 month period ending November put growth at 0.3% compared to 0.6% in the 3 month period ending September.

Clearly, Christmas is likely to have a positive effect on retail performance (and the Services sector - though we will return to this later) and may serve to bring growth in Q4 higher but this will only serve to paper over some of the underlying cracks starting to show elsewhere in the economy, with Manufacturing contracting by 0.3% over the 3 month period ending November.

SALES AND ORDERS DROP BUT REMAIN POSITIVE

The balance of responses for UK sales has fallen again this quarter (though only slightly), but the underlying figures for 'improvement' and 'business as usual' remain strong.

UK GDP GROWTH

(Change in GDP compared to previous quarter)

Source: Office for National Statistics









And this does not appear to be an issue isolated to the UK economy. Across the Channel, the Eurozone showed a marked slowdown in growth in its Quarter 3 figures with concerns that the recovery on that side of the Channel was not as strong as first thought.

Industrial production in the Euro Area in November fell by 1.7% compared to October, and by 3.3% compared to the same time last year. Again, this picture could obviously change with end of year figures but the December release of the Purchasing Managers Index (PMI) for Eurozone manufacturing hints at a continuation of this slowdown. Looking further afield, then China too is reporting very sharp falls in both exports and imports, something which has come as a surprise as many commentators expected both to rise. Exports from China fell 4.4%

in December, their steepest fall for two years, whilst imports fell by 7.6% during the same period. This is a big deal when the world's second largest economy reports these kinds of figures and the effects are felt globally. These latest figures also mean that China's trade surplus (the gap between the value of its exports and imports) has widened. This has the potential to add yet more fuel to the trade war fire between China and the United States, and again, when tariffs are imposed on trade between these two economies then everyone knows about it (and not just

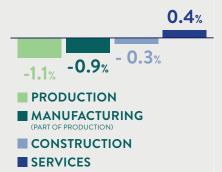
via President Trump's twitter feed). The two global brands of Apple and Jaguar have also both recently announced slowdowns in demand linked to the Chinese market so the effects are already real. At the moment it looks like that, economically speaking, our national focus on the impacts of Brexit means that we may have missed some of the early warning signs about global growth and demand which currently point towards a cyclical slowdown in the global economy.

OVERSEAS SALES DROP BUT ORDERS IMPROVE FURNISHED FOR THE RESEAS SALES DROP BUT OF THE PROPERTY OF THE PROPERTY

This quarter sees a fall in overseas sales activity but it remains positive and still represents an improvement on what we have seen throughout the previous 12 months. At the same time, overseas orders have also shown further improvement.

UK SECTORAL
GROWTH (Q4
2018 ESTIMATE
- % 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. 379 Jan 2019



We mentioned earlier the impact of Christmas on retail figures and at the start of 2019 it will be interesting to see what the big High Street names report in terms of performance over the festive period.

As mentioned in previous briefings, the High Street is under considerable pressure from online alternatives. Marks & Spencer has already announced branch closures that affect the

Greater Lincolnshire area, HMV is once again in administration, and Debenhams is also reportedly struggling. Ultimately, whilst the transfer of sales from the High Street to online generally

does not affect the overall national economic numbers, it does have an impact locally on jobs and wages and as such we will be keeping abreast of developments.

BUSINESS CONFIDENCE KEEPS IMPROVING

THIS QUARTER MAKES IT
FOUR IN A ROW IN TERMS
OF FURTHER INCREASES
IN CONFIDENCE LEVELS
AROUND PROFITABILITY
AND TURNOVER, WITH
THEIR RESPECTIVE
BALANCE OF RESPONSES
BEING THE HIGHEST WE
HAVE ON RECORD ——

INFLATION

Source: Office for National Statistics

CONSUMER PRICES INDEX (CPI)



PRODUCER PRICES



2017 2018

12 month annual rate (%)	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
INPUT PRODUCER PRICE INDICES	5.6	4.4	3.9	4.5	5.6	9.6	10.3	10.3	9.9	10.7	10.3	5.3	3.7
OUTPUT PRODUCER PRICE INDICES	3.1	2.8	2.6	2.5	2.5	3.0	3.3	3.1	3.0	3.1	3.3	3.0	2.5



BANK OF ENGLAND INTEREST RATE

0.75%

EXCHANGE RATES



JAN-18

\$1.42 €1.14

DEC-18

\$1.28 €1.11

JAN-19

\$1.32 €1.15

Source: x-rates.com

PRESSURE ON PRICES REMAINS LOW WHILST CASHFLOW IMPROVES

The balance of businesses expecting to increase prices of their goods/services over the next three months has risen but only slightly this quarter, but more importantly remains relatively low compared to figures reported throughout the last year. After last quarter's drop, the position on cashflow has improved with only 10 per cent of respondents reporting a worsening position over the quarter, the lowest figure reported for some years.



HOUSEHOLD SPENDING

Source: Office for National Statistics



RECRUITMENT ACTIVITY WHILST FUTURE INTENTIONS STAY STRONG

Recruitment activity this quarter is back up (no doubt fuelled by some sectors taking on additional short-term staff in the run up to Christmas), whilst the balance of responses for future workforce expectations has pretty much held.

EMPLOYMENT RATE (AGED 16-64)

Source: Annual Population Survey, Office for National Statistics

OCT 17 - SEP 18

GREATER LINCOLNSHIRE

UK



74.8%



75.0%

UNEMPLOYMENT RATE (AGED 16-64)

Source: Annual Population Survey, Office for National Statistics

OCT 17 - SEP 18

GREATER LINCOLNSHIRE



5.3%



UK

4.3%



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