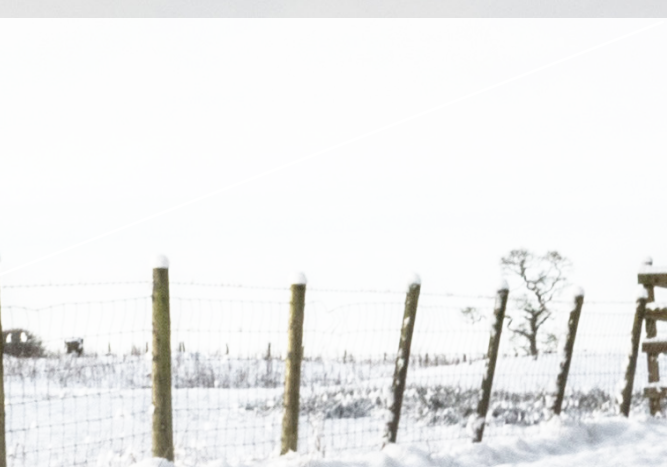


QUARTERLY BRIEFING Q1. 2018



- > **HIGH LEVELS OF BUSINESS CONFIDENCE RETAINED INTO 2018**
- > **DOMESTIC SALES DIP BUT REMAIN POSITIVE WITH ORDERS ACTIVITY INCREASING**
- > **INCREASED PRESSURE ON PRICES RETURNS WITH BUSINESSES WARNING AGAIN ABOUT RAW MATERIAL PRICES**
- > **OVERSEAS SALES DIP FURTHER BUT ORDERS INCREASE**
- > **RECRUITMENT ACTIVITY FALLS BUT FUTURE PLANS STAY STRONG**

QUARTERLY BRIEFING Q1. 2018

Q1 was a chilly one for most in the UK with the arrival of the 'Beast from the East' creating difficult conditions for many. The impact of the weather on supply chains, and sectors such as retail, travel, and construction, had many economists and commentators predicting 0.2% GDP growth in the first three months of 2018, half that seen in the final quarter of 2017.

Well, the preliminary estimate for Q1 2018 growth from the Office for National Statistics (ONS) gives a slightly bleaker picture with 0.1% growth in GDP on the previous quarter. Construction contracted by 3.3% whilst services output

growth was halved to 0.3%. Interestingly, whilst ONS do recognise the impact of snow on construction and retail sales, in their view "the effects were generally small, with very little impact observed in other areas of the economy". Any

impact on retail, particularly the high street element, comes at a difficult time for that element of the sector, with rises in business rates and employment costs, not to mention the ever present and growing internet-based competitors. 2018 has already seen some high-profile casualties with both Maplin and Toys R Us collapsing, as well as several restaurant chains also running into trouble. With all this in mind, consumer facing businesses and retailers are likely to face challenging conditions throughout 2018.

HIGH LEVELS OF BUSINESS CONFIDENCE RETAINED INTO 2018

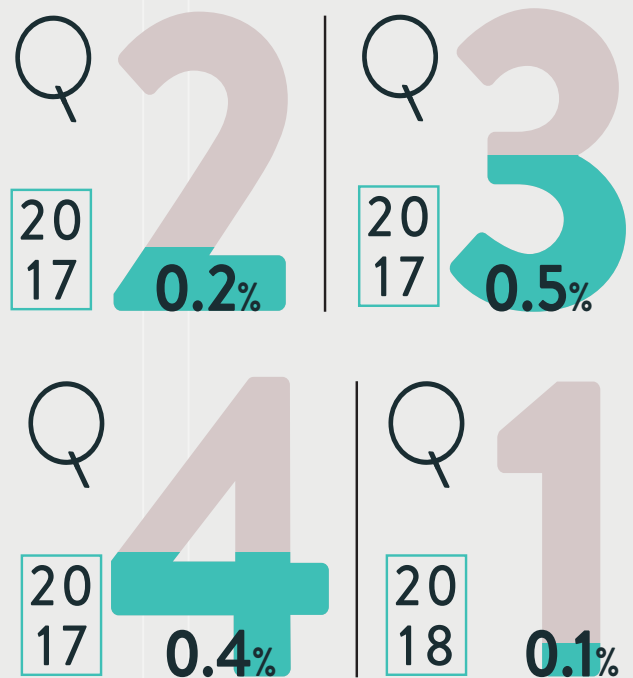
Confidence levels have remained strong this quarter with the balance of responses for future profitability increasing slightly, whilst turnover fell back slightly but from a high position.



UK GDP GROWTH

(Change in GDP compared to previous quarter)

Source: Office for National Statistics

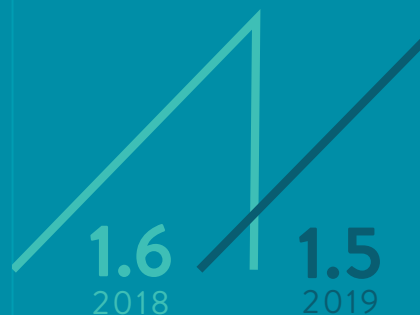


With these challenging conditions in mind, looking at the latest independent forecasts for the economy compiled by HM Treasury suggests that economic growth during 2018 and 2019 will be sluggish, and continue on the downward trend experienced since 2016.

These rates of growth will also likely be lower than many of the UK's G7 and European counterparts. The Office for Budget Responsibility (OBR) agree with this trend but are a little less optimistic for the year ahead with a forecast growth figure of 1.5% (2018) and slowing a little more in 2019. Looking further ahead, the OBR expect the growth rate to pick up modestly between 2020 and 2022.

UK ECONOMIC GROWTH (GDP) FORECAST

Source: HM Treasury, Forecasts for the UK Economy: a comparison of independent forecasts, No. 370 April 2018



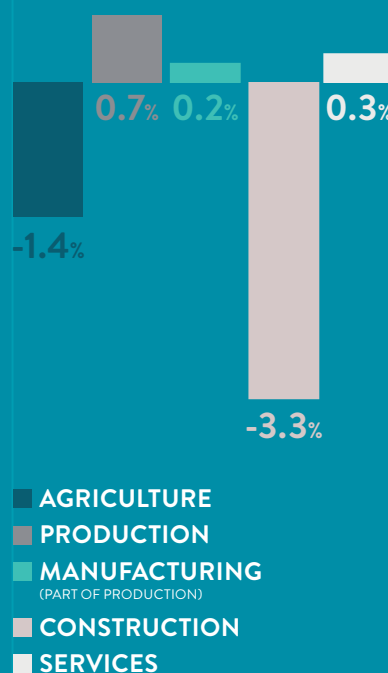
DOMESTIC SALES DIP FURTHER BUT REMAIN POSITIVE WITH ORDERS ACTIVITY INCREASING

The balance of responses for UK sales has fallen further this quarter but crucially remains positive, and in contrast to last quarter's performance, the balance of responses for advanced sales and bookings has increased to a very healthy position.



UK SECTORAL GROWTH (Q4 2017 - % CHANGE ON PREVIOUS QUARTER)

Source: Office for National Statistics



Returning to the HM Treasury's round up of independent forecasts, this time to consider the rate of inflation, then the Q4 2018 Consumer Price Indices (CPI) is forecast to be 2.4%, falling further during 2019 to 2.2% in Q4.

It is worth bearing in mind that these are averages of all the independent forecasts produced by city forecasters (e.g. Barclays, JP Morgan etc.) and non-city forecasters (CBI, British Chambers of Commerce etc.). As such, the CPI forecasts for 2018 range from as high as 3.0% to as low as 1.7%. Similarly, the 2019 forecasts for CPI range from a high of 3.5% to a low of 1.5%. So, who to believe? Well, if we take the OBR's view then the CPI reached its local peak in November 2017 at 3.1%. Then, as part of their latest Economic and Fiscal Outlook (March 2018), which formed part of the Spring Budget speech, they

have factored in that as we move throughout the year, the effects of last year's sterling-driven rise in import prices will be less prominent in the yearly calculation (and eventually removed). In their view, this will bring inflation down to around 2% relatively quickly and that it will remain close to that level. Latest statistics for CPI bear this out with March 2018 figures showing a drop from 2.5% to 2.3%. What is interesting to note is that part of this forecast fall in the rate of inflation is based on expected sharper falls in oil prices. Since the Chancellor of the Exchequer gave his Spring Budget speech on the 13th

March, the price of crude oil increased to around the end of March and has subsequently fallen during April but still remains much higher than it was a year ago. However, during this period the Producer Price Indices fell from 2.6% to 2.4% which suggests either a smaller impact from increased oil prices than expected, or a delayed response. Either way, a falling inflation rate which is getting close to the Bank of England's target of 2% does put pressure on the Bank to raise interest rates again, but this is unlikely given weak retail and spending, and the latest set of GDP growth figures.

INCREASED PRESSURE ON PRICES RETURNS WITH BUSINESSES WARNING AGAIN ABOUT RAW MATERIAL PRICES

After falling for the first time in a year last quarter, the balance of businesses expecting to increase prices of their goods/services over the next three months increased this quarter. 'Other overheads' has moved into second place of those factors cited by businesses as putting pressure on them to raise prices, with 'Raw material prices' once again being cited as the key reason.



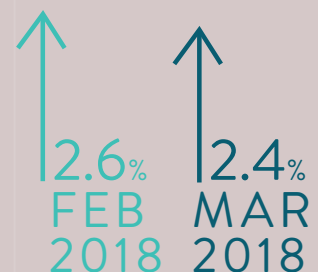
INFLATION

Source: Office for National Statistics

CONSUMER PRICES INDEX (CPI)



PRODUCER PRICES INDEX (PPI)



	2017							2018					
12 month annual rate (%)	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar
INPUT PRODUCER PRICE INDICES	16.8	15.3	12.1	9.9	6.4	8.2	8.3	5.0	7.7	5.6	4.2	3.8	4.2
OUTPUT PRODUCER PRICE INDICES	3.7	3.6	3.6	3.3	3.3	3.4	3.3	2.9	3.1	3.3	2.8	2.6	2.4

OVERSEAS SALES DIP FURTHER BUT ORDERS INCREASE

Overseas sales levels are again unchanged this quarter with no signs of growth, however overseas orders have grown but only to the point where last quarters negative balance has now reached zero i.e. as many businesses are reporting declines as growth.



EXCHANGE RATES

£1 =

MAR-17

\$1.25 €1.17

FEB-18

\$1.38 €1.13

MAR-18

\$1.40 €1.14

Source: x-rates.com



BANK OF ENGLAND
INTEREST RATE

0.50%

HOUSEHOLD SPENDING % CHANGE
ON PREVIOUS QUARTER

Source: Office for National Statistics



RECRUITMENT ACTIVITY FALLS BUT FUTURE PLANS STAY STRONG

After last quarters surge in recruitment activity this quarter sees a drop but the balance remains positive and strong. Furthermore, no businesses responding to the survey stated that they had decreased their workforce during the last quarter. This good news continues with the balance of responses for future workforce expectations increasing on last quarters, and again, no businesses responding to the survey stated that they expected their workforce to decrease over the next three months.



EMPLOYMENT RATE (AGED 16-64)

Source: Annual Population Survey,
Office for National Statistics

JAN 17 - DEC 17

GREATER
LINCOLNSHIRE



74.2%

UK



74.7%

UNEMPLOYMENT RATE (AGED 16-64)

Source: Annual Population Survey,
Office for National Statistics

JAN 17 - DEC 17

GREATER
LINCOLNSHIRE



4.8%

UK



4.5%



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