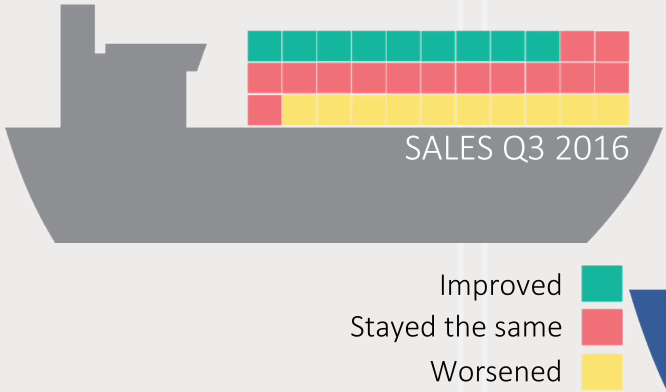
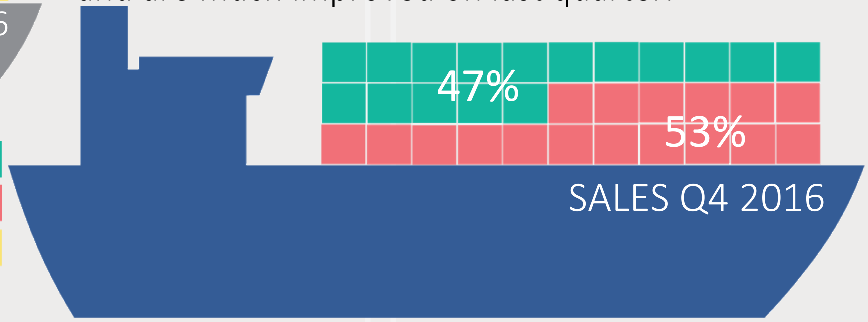
GREATER LINCOLNSHIRE LEP

QUARTERLY BRIEFING Q4 2016



Export sales and orders recover

and are much improved on last quarter.



Domestic sales and orders improve,

manufacturing businesses are however finding conditions tougher at home than abroad.

Business confidence holds heading into 2017 improve

though the prospects of inflation mean that expected increases in turnover are considered less likely by businesses to translate into increased profitability.

Pressure on prices

with nearly one in four businesses now stating this as a concern, up from around one in eight last quarter. The main reasons given for this pressure to increase prices were 'Other overheads' (40 per cent) and 'Raw material prices' (38 per cent).

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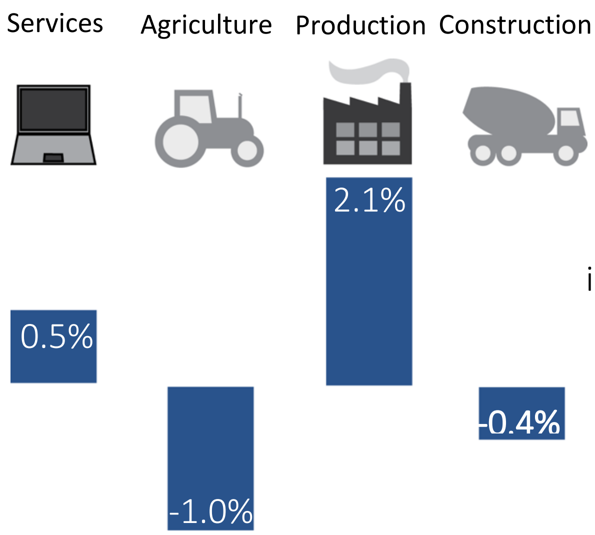
UK Sectoral Growth

Q2 2016, % change on previous quarter

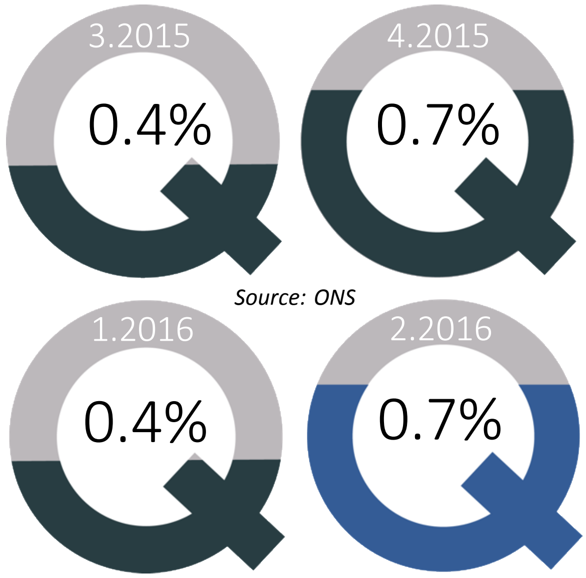


All four components of production increased resulting in overall positive growth in total production across the economy

Source: ONS

UK GDP Growth

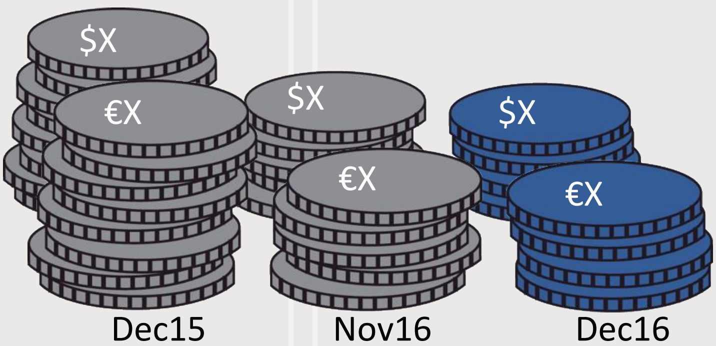
Change in GDP compared to previous quarter



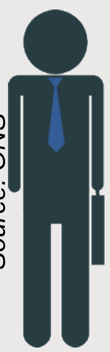
Source: ONS

£1
equals

Source: XE.com



Inflation
increases
in Mar16



Source: ONS

Greater Lincolnshire's employment rate at **X%,** and **JSA claimant** rate at **Y%,**

Growth in household spending in Q3 2016, compared with Q2

This final set of QES results for 2016 paint a positive but pensive end to the year with Lincolnshire businesses appearing, in the main, robust and ready for 2017.

This final quarter of 2016 has seen a marked improvement in conditions for exporters with both manufacturing and services enjoying the upturn.

Domestic sales and orders have continued to steadily improve though manufacturing businesses are finding the going much harder at home than abroad.

Two recent releases of data help to portray the contrasting conditions that the manufacturing sector currently finds itself in. The headline figure from the Markit/CIPS UK Manufacturing Purchasing Managers Index (PMI) hit 56.1 in December 2016, up from 53.6 in November (a figure above 50 indicates growth whilst a figure below 50 signifies contraction). This was the PMIs highest point for nearly three years and points to the relatively weaker pound assisting with improving export levels. However, official data on the sector from the Office for National Statistics showed that in the three months to October 2016 the sector contracted overall.

Despite this slightly muddled picture for manufacturers, business confidence levels have improved across the board, and intentions for recruitment and investment in the future remain steady.

What is concerning businesses as we head into 2017 are the inflationary pressures they are currently under with nearly one in four businesses now stating this as a concern, up from around one in eight last quarter.

Digging into this issue a bit deeper we find that the proportion of businesses expecting to increase the prices of their goods/services over the next three months rose from 30 per cent to 38 per cent. No businesses reported this quarter that they expect their prices to decrease.

The main reasons given locally for this pressure to increase prices were overwhelmingly ‘Other overheads’ (40 per cent) and ‘Raw material prices’ (38 per cent). Nationally, a recent Bank of England survey found that costs paid for materials and imports rose at the fastest pace in around five years in the fourth quarter of 2016. Furthermore, input prices in general rose by 12.9 per year in the year to November 2016.

Until now producers have been reluctant to pass these price increases on to the consumer but this can only be maintained for so long. However, price increases are coming, and after an unexpected dip in the Consumer Price Inflation (CPI) in October, the rate rose again in November, up to 1.2 per cent. The rate is now at its highest since October 2014, when it was 1.3 per cent. As a reminder of the price pressures producers are under, the Producer Price Inflation (PPI) rate has continued to rise and now stands at 2.3 per cent.

Consumers on the other hand have continued to shop regardless with the latest figures from the Office for National Statistics showing that consumer spending has continued its strong showing since the start of 2016. Household spending in Quarter 3 grew by 0.7 per cent on the previous quarter, and there is every indication that Quarter 4 figures will be just as good, if not stronger when taking into account Christmas spending.

The concern is that this consumer confidence could fall away in 2017 as we see businesses shift price increases onto retail prices, hitting consumer confidence and essentially cutting spending power with spending ultimately reined in. As a result, growth in the services sector (three quarters of the total economy), which is being driven by consumer spending, could slow. By how much remains to be seen.

Counter balancing this is the fact that real wages are currently growing faster than inflation so all things being equal this consumer confidence could continue. However, we are already starting to see the effects of inflation on the local business outlook for 2017 as, whilst increases in turnover are expected, they are not necessarily expected to translate into increased profit levels.

Overall, businesses appear bullish about their prospects in 2017 but we cannot ignore that the pressure on businesses to raise prices on their goods and services is increasing, and that inflation and its overall effects on the economy is a growing concern.

This quarterly briefing was written and produced by Codename Consulting Ltd on behalf of the Lincolnshire County Council Economy and Environment Research Team for the Greater Lincolnshire Local Enterprise Partnership (GLLEP).

The GLLEP evidence base on the Lincolnshire Research Observatory is the key source of analysis and intelligence for the GLLEP.

www.research-lincs.org.uk/lep-home.aspx

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