

# QUARTERLY BRIEFING Q4. 2017

- > **DOMESTIC SALES AND ORDERS  
DIP BUT REMAIN POSITIVE**
- > **OVERSEAS SALES STAGNATE WITH  
ORDERS CONTRACTING**
- > **BUSINESSES RETAIN CONFIDENCE  
LEVELS AS WE MOVE INTO 2018**
- > **PRESSURE ON PRICES EASES  
SLIGHTLY**
- > **JUMP IN RECRUITMENT ACTIVITY  
WITH FUTURE INTENTIONS TO  
RECRUIT STRONG**

# QUARTERLY BRIEFING Q4. 2017

On the face of it, the latest Q4 results from the QES provide a slightly disappointing end to 2017, particularly in light of Q3's strong performance. However, there are still many positives that can be drawn from these results with strong performance in UK sales and orders maintained, stable investment plans, and continued confidence around recruitment and business performance into 2018.

If 2017 was anything to go by, then the only thing we can predict about 2018 is that it will be unpredictable, certainly politically, which will inevitably mean a certain amount of economic uncertainty. Trade talks with the European Union

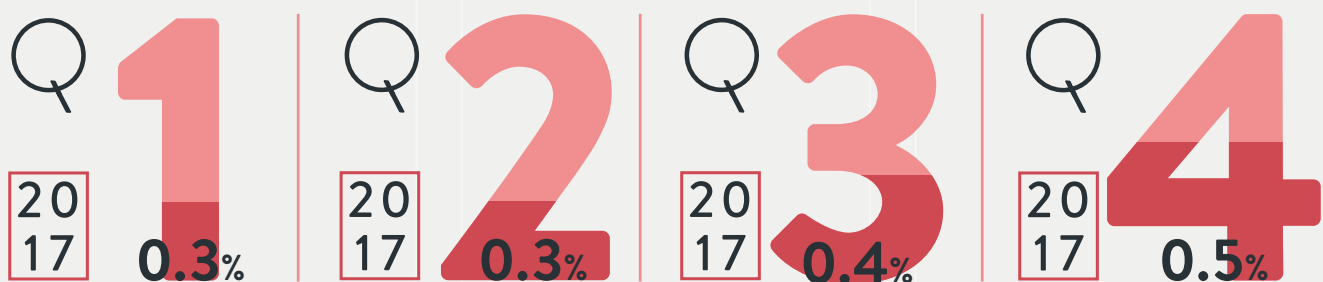
are set to start in earnest and these will likely dominate headlines throughout the year. At the global level, then many are optimistic for economic prospects throughout the year with all the main economies (America, China, India, and the

EU) set to experience surges in growth. Yet there is still an undercurrent of uncertainty, even at this level, with concerns around the cessation of monetary programs which have kept some economies afloat post the financial crash, historically low global interest rates which can only go up, and the potential for growth factors to push up inflation further.

## UK GDP GROWTH

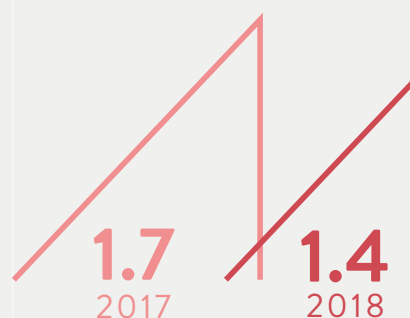
(Change in GDP compared to previous quarter)

Source: Office for National Statistics



## UK ECONOMIC GROWTH (GDP) FORECAST

Source: HM Treasury, Forecasts for the UK Economy: a comparison of independent forecasts, No. 368 January 2018



As we now move into 2018, it gives us a chance to look back at the survey results from throughout 2017 and consider how the Services and Manufacturing elements of the economy fared.

Businesses operating in the 'Service' sector make up the majority of respondents to the survey, in line with what we would expect given that Services makes up around three quarters of economic activity nationally. So, whilst at the local economy level we can see positive performance across many of the indicators we report against, if we go below this then we can see that Service sector businesses generally had a good start to the year but performance has dropped away over time. The opposite of this can be seen

for Manufacturing businesses, meaning that Manufacturing enters 2018 on a high. This is also backed by national level findings from the most recent EEF survey which reported on Manufacturing businesses being positive with regards to their prospects in the year ahead (though tempered by the fact that they are also reporting a positive balance of manufacturing businesses agreeing with the statement that 'There are more risks than opportunities for my company in the year ahead'). Turning our attention back to Services, the

Office for National Statistics (ONS) has recently reported that in the three months to October 2017, services output increased by 1.3% compared with the three months ending October 2016, which on the face of it sounds strong but is actually at its lowest since the three months ending October 2013. This is a concern both nationally and locally, given the size and importance of the sector when it comes to economic growth, and is something that we will be monitoring closely throughout 2018.

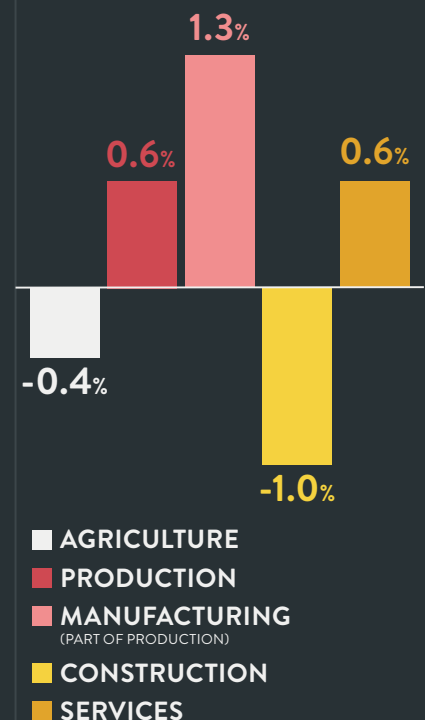
# DOMESTIC SALES AND ORDERS DIP BUT REMAIN POSITIVE

After five quarters of growth in a row, this quarter sees the balance for UK sales fall back slightly. Advanced sales and orders have also contracted this quarter but retain strong positions.



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

Source: Office for National Statistics



# OVERSEAS SALES STAGNATE WITH ORDERS CONTRACTING

Overseas sales levels are unchanged with no signs of growth, whilst overseas orders have contracted further this quarter, with both Services and Manufacturing driving this development.



## EXCHANGE RATES

£1 =

DEC 16	\$1.23	€1.17
NOV 17	\$1.35	€1.13
DEC 17	\$1.39	€1.14

Source: x-rates.com

# JUMP IN RECRUITMENT ACTIVITY WITH FUTURE INTENTIONS TO RECRUIT STRONG

with both Services and Manufacturing elements of the economy increasing their workforces.



## EMPLOYMENT RATE (AGED 16-64)

Source: Annual Population Survey, Office for National Statistics

OCT 16 - SEP 17

GREATER LINCOLNSHIRE

UK



73.7%



74.4%

## UNEMPLOYMENT RATE (AGED 16-64)

Source: Annual Population Survey, Office for National Statistics

OCT 16 - SEP 17

GREATER LINCOLNSHIRE

UK



4.6%



4.6%

The financial markets were right to indicate a high probability of an interest rate rise when the Bank of England's Monetary Policy Committee (MPC) met on the 2nd November 2017, with the base rate increased from 0.25 per cent to 0.5 per cent, the first increase in 10 years and a return to the level it was at prior to the vote to leave the EU.

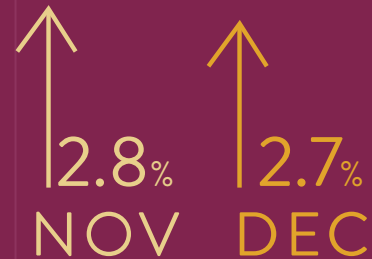
For a while now the rate of inflation has been well above that of the Bank of England's target (2 per cent) and clearly the MPC felt now was the right time to act, which in itself means that their confidence in the ability of the economy to handle an interest rate rise has improved. Since that point, the Consumer Price Index has fallen further, from 2.8 per cent to 2.7 per cent, but the pressure on producers to raise prices remains with the Producer Price Index increasing back up, from 3.1 per cent to 3.3 per cent, over the same period. However, and despite the Bank of England's expectation

to raise interest rates at least twice over the next three years, they do have concerns regarding personal debt levels and the ability of consumers to service these debts at higher rates of interest. The Bank of England's own research has shown that it is those with the highest debt to income ratios that are less likely to consider the impacts of future interest rate rises. This is a particular cause for concern, especially if we consider that the number of county court judgments (CCJs) against consumers in England hit a record high in 2016, with numbers increasing every year since 2011.

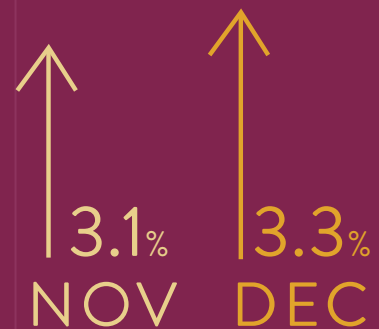
## INFLATION

Source: Office for National Statistics

### CONSUMER PRICE INDEX (CPI)



### PRODUCER PRICE INDEX (PPI)



# PRESSURE ON PRICES EASES SLIGHTLY

The balance of businesses expecting to increase prices of their goods/services over the next three months has fallen from +38 to +32 this quarter, which follows falls in both Consumer and Producer Price Inflation rates during the quarter (though we note that the Producer Price Index subsequently rose from 3.1% to 3.3% in December).



	2016	2017											
	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
<b>Input Prices</b>	16.6	19.9	19.3	16.8	15.3	12.1	9.9	6.4	8.2	8.3	5.0	7.3	4.9
<b>Output Prices</b>	2.9	3.6	3.7	3.7	3.6	3.6	3.3	3.3	3.4	3.3	2.9	3.1	3.3

Bank of England  
interest rate

0.50%

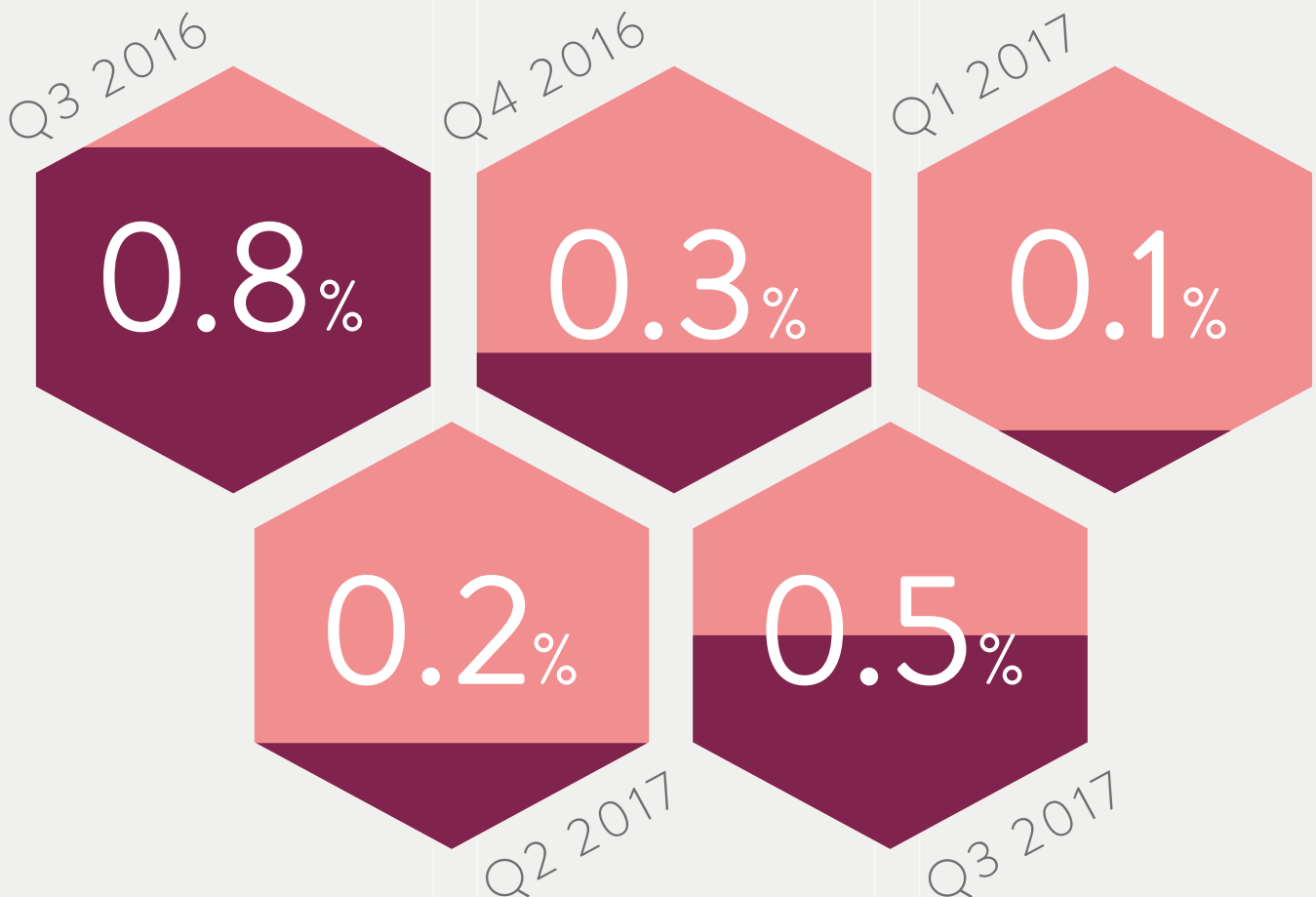
## BUSINESSES RETAIN CONFIDENCE LEVELS AS WE MOVE INTO 2018

Despite what looks like a challenging end to 2017, businesses have retained last quarters levels of confidence. In fact, and heading into 2018, business confidence is actually up slightly on last quarter with balances for future profitability and turnover both increasing.



### HOUSEHOLD SPENDING

Source: Office for National Statistics







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