

QUARTERLY BRIEFING Q3. 2017

- > **STRONG DOMESTIC SALES
HOLD WITH ORDER LEVELS
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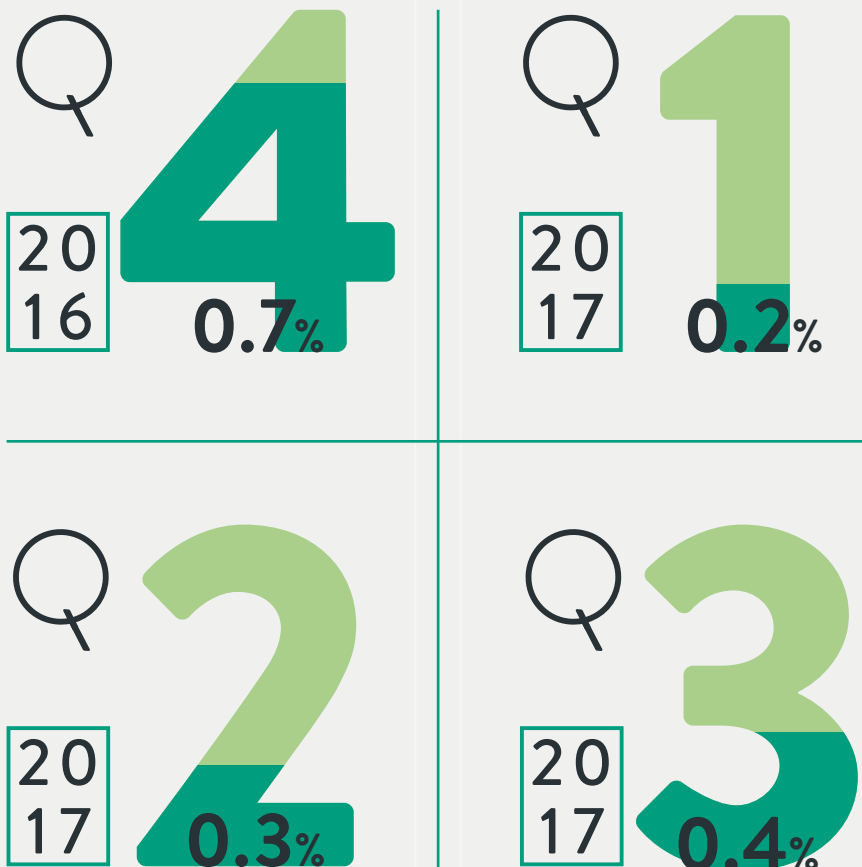
QUARTERLY BRIEFING Q3. 2017

This is the first local data gathered on business conditions since the surprise general election result and it presents a picture of relative cautious stability.

We could argue that as the results from last quarter fell right at the end of the voting period and, given that businesses (and markets, and consumers) have now had time to reflect on what it means for the future, these latest results therefore present a more measured view on current and forecast conditions. As such, sales levels both in the UK and abroad have held (driven by manufacturing performance as opposed to services), and confidence levels have improved markedly on the previous quarter. So, any kneejerk reaction is over and businesses appear to be settling down as UK economic uncertainty looks to last for a while longer at least.

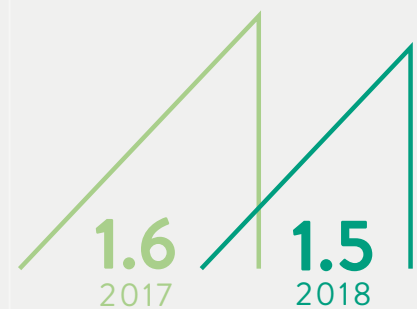
UK GDP Growth (Change in GDP compared to previous quarter)

Source: Office for National Statistics



UK Economic Growth (GDP) Forecast

Source: HM Treasury, Forecasts for the UK Economy: a comparison of independent forecasts, No. 365 October 2017



Perhaps the surprise finding from this latest set of Quarterly Economic Survey results is the turnaround in performance that Manufacturing has enjoyed.

Many of the positive signs seen in the local data have been driven by Manufacturing, with Services very much taking a back seat. This pattern of performance is echoed in the most recent release of the UK GDP estimate. The preliminary estimate from the Office for National Statistics puts UK economic growth for Quarter 3 at 0.4 per cent. This is a somewhat unexpected improvement on last quarter (0.3 per cent) but it remains below long term trends for growth, and lags behind many if not all of its contemporaries. Nationally, then Manufacturing is the surprise performer (echoing local survey results), returning to growth after a particularly weak Quarter 2. Construction continues to struggle for the second quarter in a row with output contracting again, though it is worth bearing in mind that the industry remains above its pre-downturn peak. Services continues to show growth but it is yet even more sluggish this quarter at 0.4 per cent.

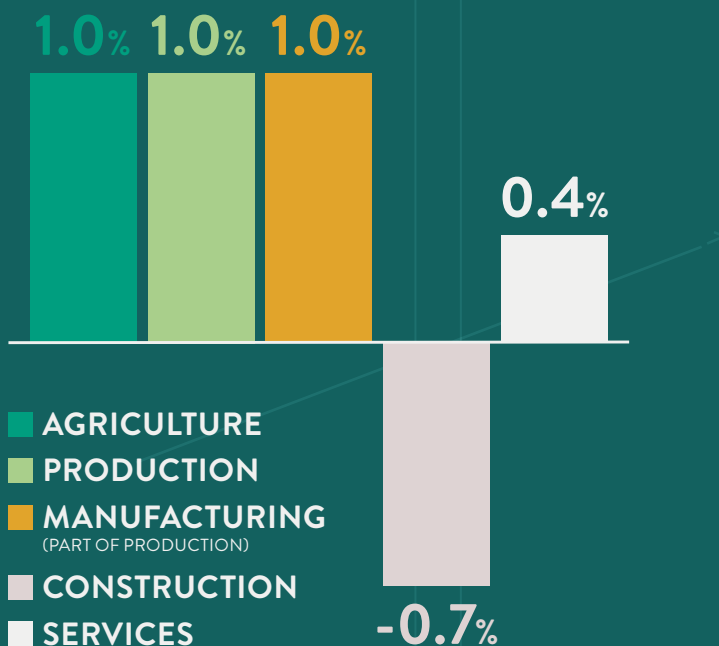
BUSINESS CONFIDENCE RETURNS

After last quarter's hit to confidence levels then this quarter sees a return to levels we have been reporting for the last year or so. Balances for future profitability and turnover have both increased, from -5 to +8, and +11 to +30 respectively.



UK Sectoral Growth (Q3 2017 - % change on previous quarter)

Source: Office for National Statistics



EXPORT SALES AND ORDERS MAINTAIN LEVELS

Overseas sales have improved (from +10 to +13) with orders remaining largely unchanged. In both cases positive performance has again been driven by Manufacturing signifying overseas sales growth.



Exchange Rates

Source: x-rates.com

£1 =

SEP 16
\$1.30 €1.16
AUG 17
\$1.29 €1.08
SEP 17
\$1.34 €1.13

RECRUITMENT LEVELS FALL AS EXPECTED BUT STILL POSITIVE

With future workforce expectations positive but still low compared to past trends.



Employment rate (aged 16-64)

Source: Annual Population Survey, Office for National Statistics

JUL 16 - JUN 17

GREATER LINCOLNSHIRE

UK



73.3%



74.2%

Unemployment rate (aged 16-64)

Source: Annual Population Survey, Office for National Statistics

JUL 16 - JUN 17

GREATER LINCOLNSHIRE

UK



4.6%



4.7%

The spectre of price rises most certainly remains with the Consumer Prices Index (CPI) increasing again between August and September, from 2.9 per cent to 3.0 per cent (the highest it has been since April 2012).

The Producer Price Index did fall over the same period, from 3.4 to 3.3 per cent, but it remains historically high and remains the key concern for local businesses looking ahead. If we too look ahead then the albeit slight improvement in economic growth this quarter

will join current inflation figures in increasing the pressures on the Bank of England to raise interest rates sooner rather than later. In fact, on the day of release of the latest GDP figures, financial markets were indicating an 84 per cent probability in an interest rate

rise when the Bank of England's Monetary Policy Committee next meets on the 2nd November.

Interest rates were raised to 0.5% on 2nd November, after the time of writing.

NO FURTHER LET UP IN PRICE PRESSURES

The balance of businesses expecting to increase prices of their goods/services over the next three months has remained at +38 this quarter. This is not surprising given that both Consumer and Producer Price Inflation rates increased just as businesses were completing the survey.



Inflation

Source: Office for National Statistics

CONSUMER PRICE INDEX (CPI)



PRODUCER PRICE INDEX (PPI)



	2016				2017								
	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep
Input Prices	7.6	12.4	13.5	16.6	19.9	19.3	16.8	15.3	12.1	9.9	6.3	8.4	8.4
Output Prices	1.2	2.1	2.4	2.9	3.6	3.7	3.7	3.6	3.6	3.3	3.2	3.4	3.3

Bank of England
interest rate

0.5%

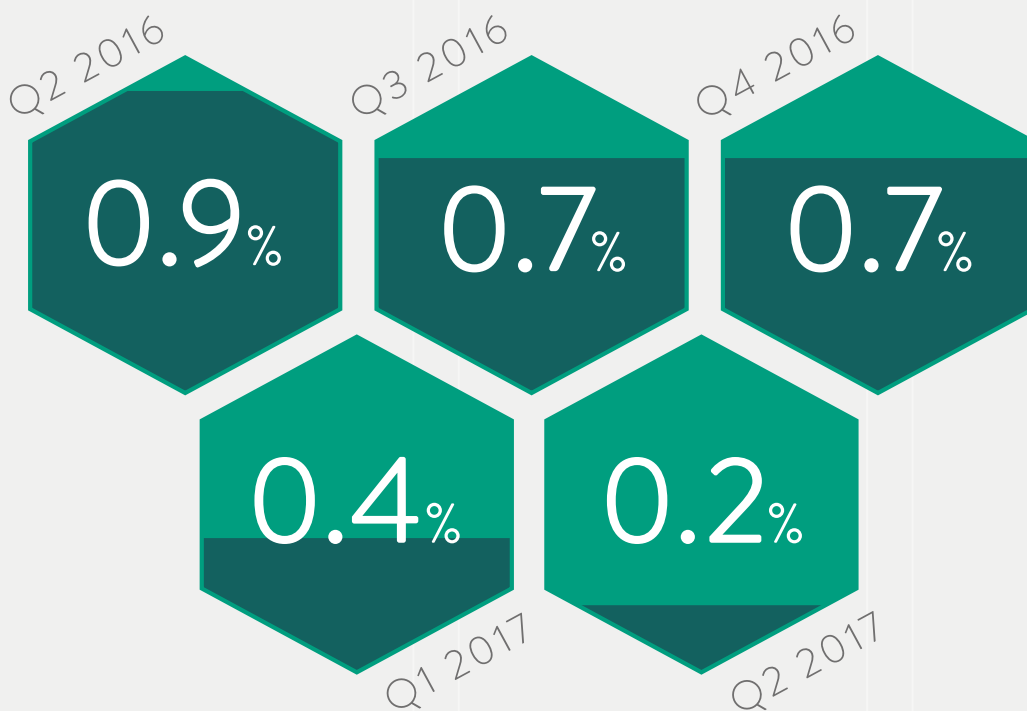
STRONG DOMESTIC SALES HOLD WITH ORDER LEVELS IMPROVING

The balance for UK sales has increased only slightly this quarter (this being the fifth quarter in a row to see growth) but retain a strong position. Advanced sales and orders have been significantly boosted with Manufacturing performance playing a sizeable role in this.



Household spending

Source: Office for National Statistics





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