



**NORTH WEST
QUARTERLY ECONOMIC SURVEY
Quarter 1 2010**

Full Report

Findings from the Chambers of Commerce North West's first Quarterly Economic Survey of 2010 (Q1)

This quarter 1,150 firms from across the North West completed the survey.

The following North West Chambers contributed to this report:

Greater Manchester, East Cheshire, Cumbria, Macclesfield, Liverpool, Lancaster, West Cheshire & North Wales, East Lancashire, Warrington, South Cheshire, North & Western Lancashire, St Helen's.

This report was produced by Greater Manchester Chamber on behalf of Chambers of Commerce North West. If you have any queries about the production of the report please contact Anna Purdue on 0161 237 4106 or email anna.purdue@gmchamber.co.uk

NB: Net balance figures, referred to throughout this report, are determined by subtracting the percentage of companies reporting decreases in a factor from the percentage of companies reporting increases.

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Report Summary - Manufacturing

- **The domestic market contracts in the North West for manufacturers**
- **Export markets continue with a second successive quarter of growth**
- **Employment continues to fall, but intentions to recruit move positive**
- **Cashflow difficulties persist and investment plans decline**
- **Confidence falls despite more businesses operating at full capacity**

North West manufacturers have seen a disappointing quarter after the encouraging signs of the Q4 2009 survey. These results highlight the fragility of the recovery and the importance of supporting an export led recovery.

The domestic market across the North West failed to register positive growth for the seventh successive quarter despite order books being positive for the first time since Q1 2008 in the last quarter. The sales balance deteriorated to -9% and orders suffered a downturn from +5% to -13%. Export balances continued to show growth, with sales remaining steady at +6% (down 1% on Q4 2009) and orders slowing somewhat to +3% from +10%.

More manufacturers continued to report job losses than those creating jobs, and the situation was worse than Q4 2009 at -8%, though there are positive intentions to recruit across the sector in the coming quarter for the first time since Q4 2008. There was a slight decline in the proportion of firms trying to recruit and of those a greater proportion had difficulties with recruitment than in the previous quarter. The key skill these businesses had difficulty recruiting for was skilled manual/technical positions.

Cashflow difficulties persist within the manufacturing sector and it is a concern that investment intentions for plant & machinery have been revised down this quarter, now -7%. Investment intentions for training remain stagnant and are almost flat at -1%, though there have been no positive intentions to increase investment in training since Q3 2008.

Given the performance of manufacturing indicated by this quarter's survey it is unsurprising to find that confidence in turnover and profitability has fallen back from the levels of Q4 2009; they now stand at +26% and +12%, down from +41% and +23% for turnover and profitability respectively.

Report Summary - Services

- **The domestic market for services fell back after a single quarter of weak growth**
- **Growth in exports remain very weak**
- **Employment balance moves positive for the first time since Q1 2008**
- **Cashflow remains a difficulty, though investment plans are steady**
- **Confidence continues to rise and both measures are now the highest since Q1 2008**

The improvement in the markets for the service sector across the North West seen in the Q4 2009 survey stalled in Q1 2010, though job creation and prospects have improved. Businesses are increasingly optimistic though we look to the next survey for evidence a sustained recovery can be achieved.

Domestic sales contracted once again after a single quarter of weak growth in Q4, from +2% to -1%. UK orders also contracted further to -7%. Export sales and orders have continued to grow, although the growth in sales has slowed to a balance of +4%, down from +8%.

Recruitment over the quarter has been positive, with more firms recruiting than shedding jobs, though this balance remains weak at +1%, and intentions to recruit over the coming months are now +9%. These balances are now the best since Q3 2008 and there has been a slight increase in the proportion of businesses recruiting for full-time permanent positions, showing a confidence in the future direction of the recovery.

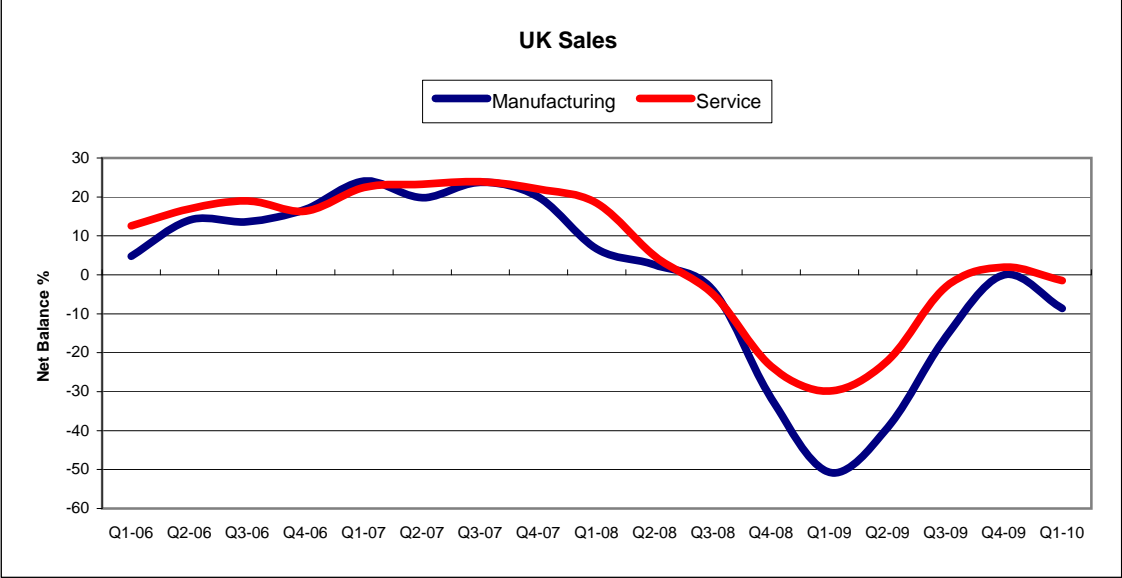
Though cashflow remains difficult for service businesses, at -18%, the same as reported in Q4 2009, there are still positive intentions to invest in training over the coming year and fewer firms have made cuts to their investment intentions in plant & machinery; now at +8% and -3% respectively.

Confidence across the region's service sector is buoyant and for turnover and profitability the balances are now +35% and +23% respectively. These are two year highs, at levels not seen since Q1 2008.

Inflationary pressures are beginning to emerge from the sector with +24% expecting to increase prices, particularly under pressure due to raw material prices. Service sector businesses are also reporting that exchange rates are an external factor acting on the business.

UK Sales and Orders

"Domestic markets in the North West have suffered a setback"

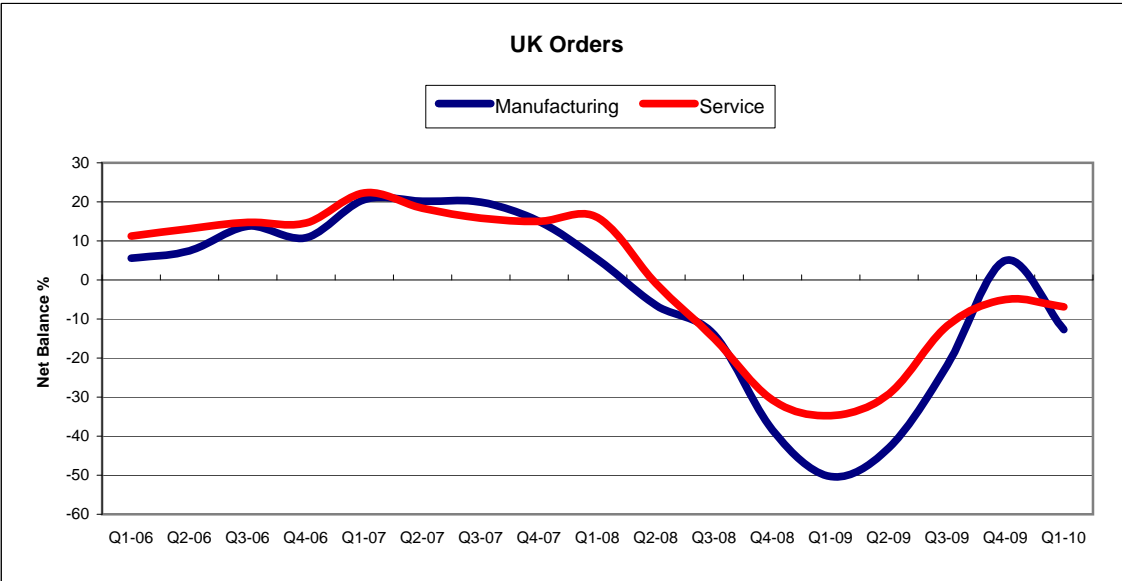


UK sales within the manufacturing industry have suffered a setback this quarter, with figures down on the last quarter of 2009 from 0% to -9%.

Whilst the services have also seen a decline in home sales for the quarter, it is to a lesser degree, with a fall of 3 percentage points from +2% to -1%.

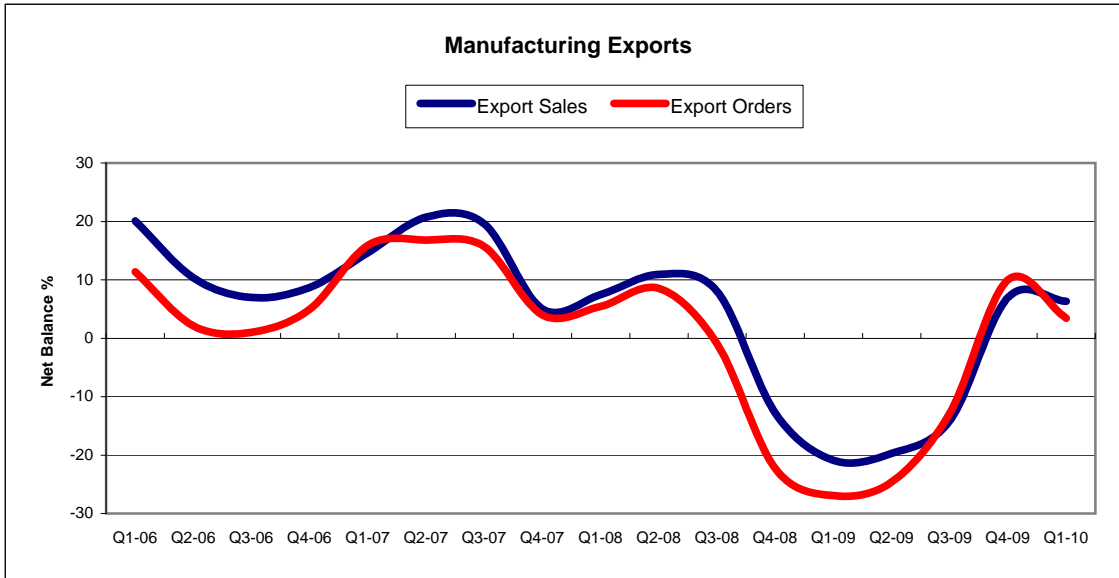
Manufacturers in the North West have experienced a significant downturn in orders for the first quarter of 2010; net balances have decreased from +5% in Q4 2009 to -13% for the current quarter.

UK orders for service businesses have declined slightly over the quarter from -5% to -7%. However, the position is still favourable in comparison to figures of the same quarter in 2009.



Export Sales and Orders

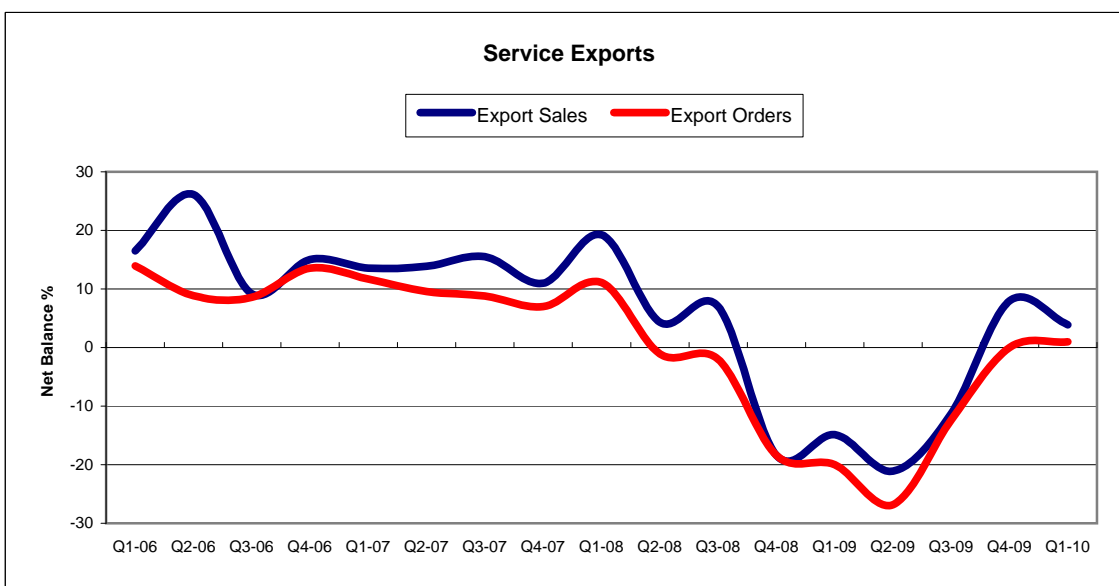
"Export growth continues, but at a slower rate during Q1"



The first quarter of 2010 has shown steady growth in export sales for the manufacturing industry, the balance now +6%, down 1% on the previous quarter. The extent of growth in the first quarter of 2010 for export orders dipped from a modest balance of +10% for quarter 4 of 2009 to a weaker +3% for this quarter.

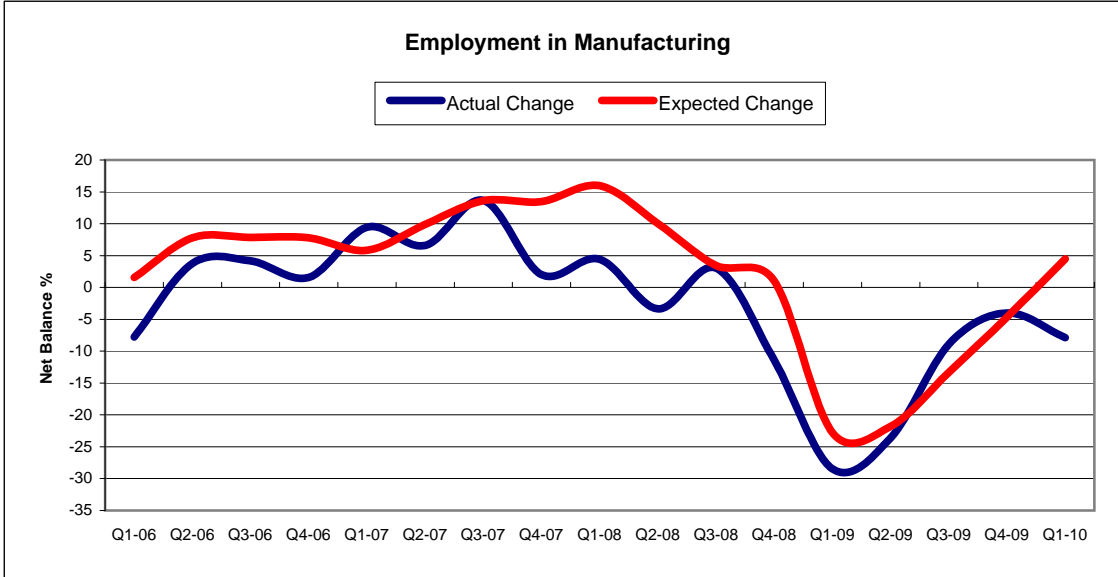
Export sales for services saw a weakening in growth between the last quarter of 2009 and the present quarter, with figures reducing from +8% to +4%.

The situation for export orders continued to improve into this quarter, with figures showing positive growth for the first time in since Quarter 1 of 2008, though only just at +1%.



Employment and Recruitment in Manufacturing

"Job losses continue but there are positive intentions for job creation ahead"

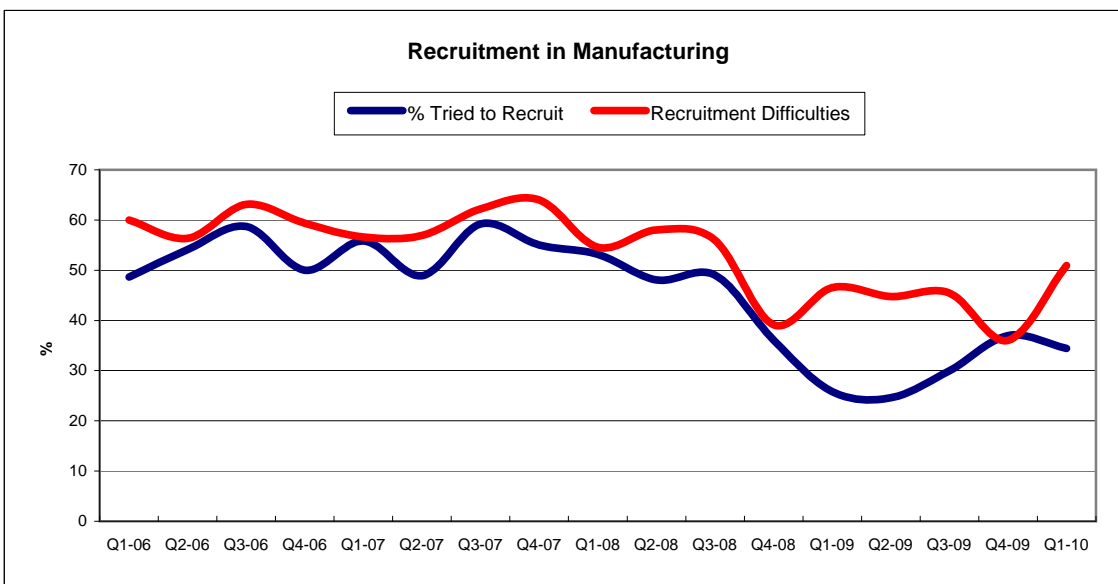


The balance of firms reporting net job losses since the previous quarter has declined further than expected from -4% to -8%. However, forecasts have indicated that there will be a significant recovery, with employment intentions reported by a greater number of firms, the balance increasing to +4% for the second quarter of the year.

attempting to recruit throughout the North West has dropped slightly since the last QES to 34%. In spite of this, the figure is still higher than those released at the same time last year.

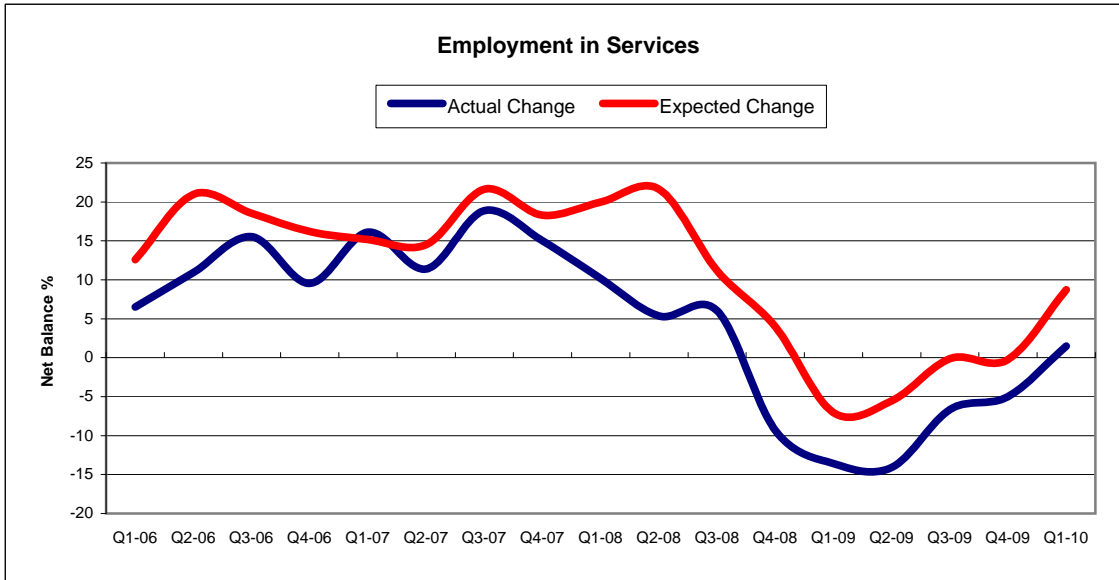
The proportion of manufacturers

The promising decrease in the number of those companies experiencing difficulties recruiting seen in the previous quarter has been short-lived, with the figure climbing from 36% to 51%.



Employment and Recruitment in Services

"Job creation in the services sector is picking up"

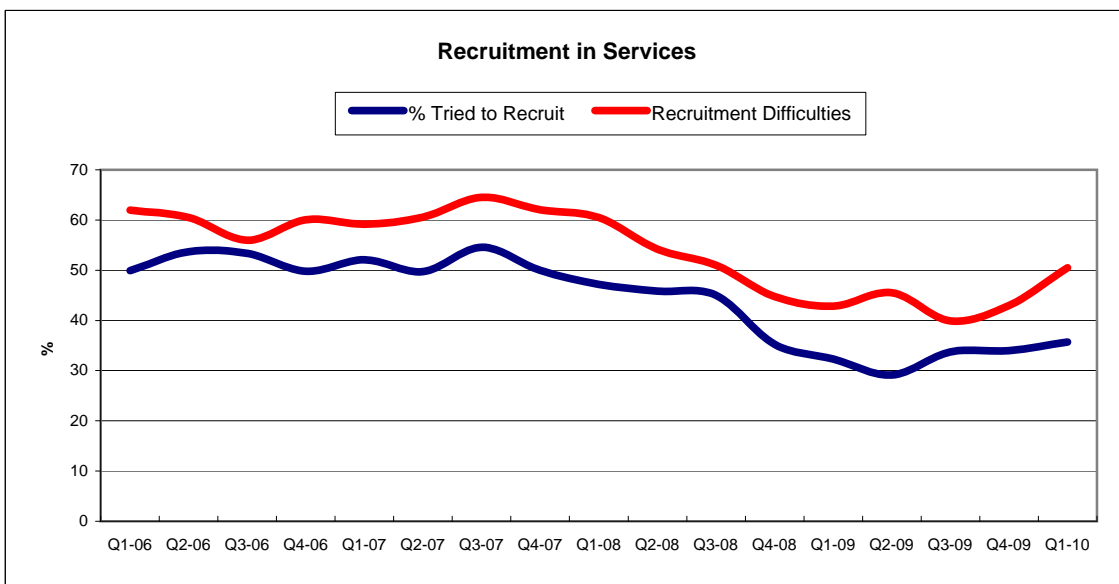


Within the service sector, employment exceeded expectations and expanded for the first time since mid-2008, up 6 percentage points from last quarter to +1%. Forecasts predict that this figure will rise to a balance of +9% over the next quarter.

According to the figures from this quarter, an increasing amount of businesses in the service sector are recruiting, with the

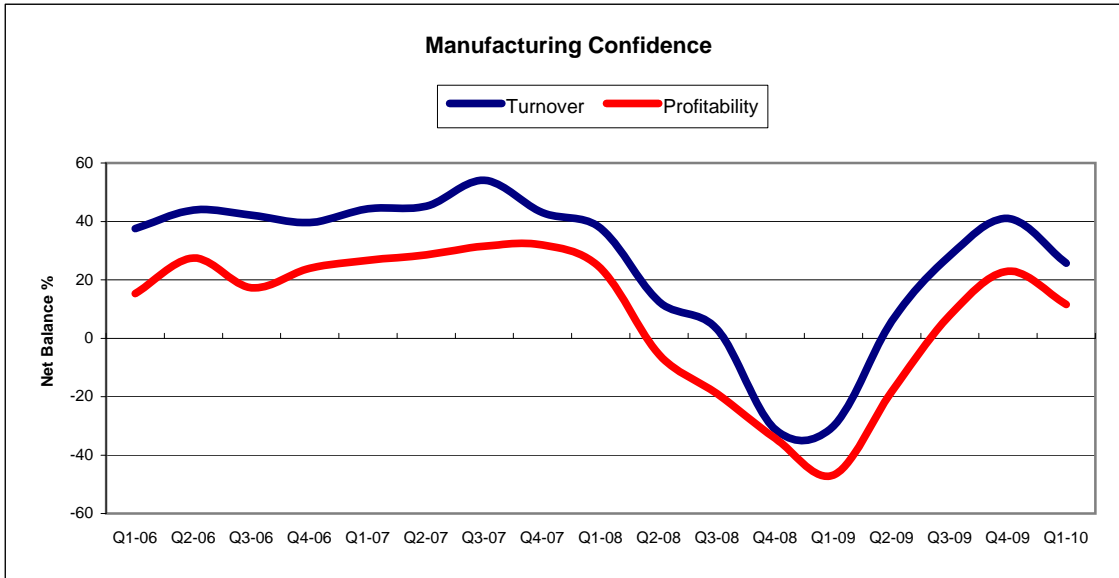
percentage of companies attempting to employ staff rising for the first time in 6 months, 34% to 36%.

Half of the service companies which attempted to recruit during the first quarter of 2010 encountered some difficulties, an increase on the 43% observed in Quarter 4 of 2009.



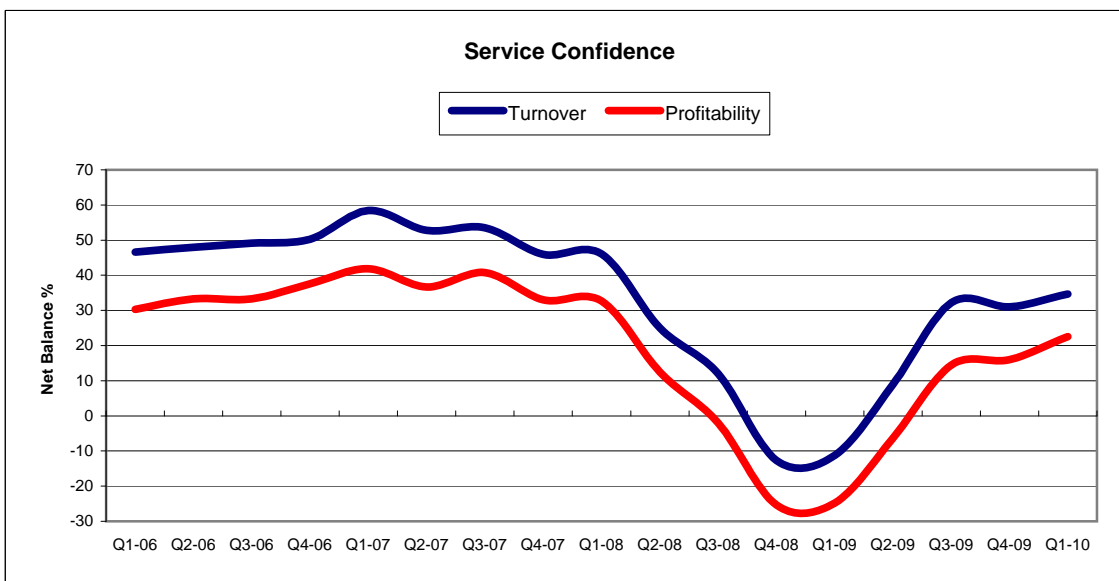
Business Confidence

"Business confidence is still positive though there was a setback for manufacturers"



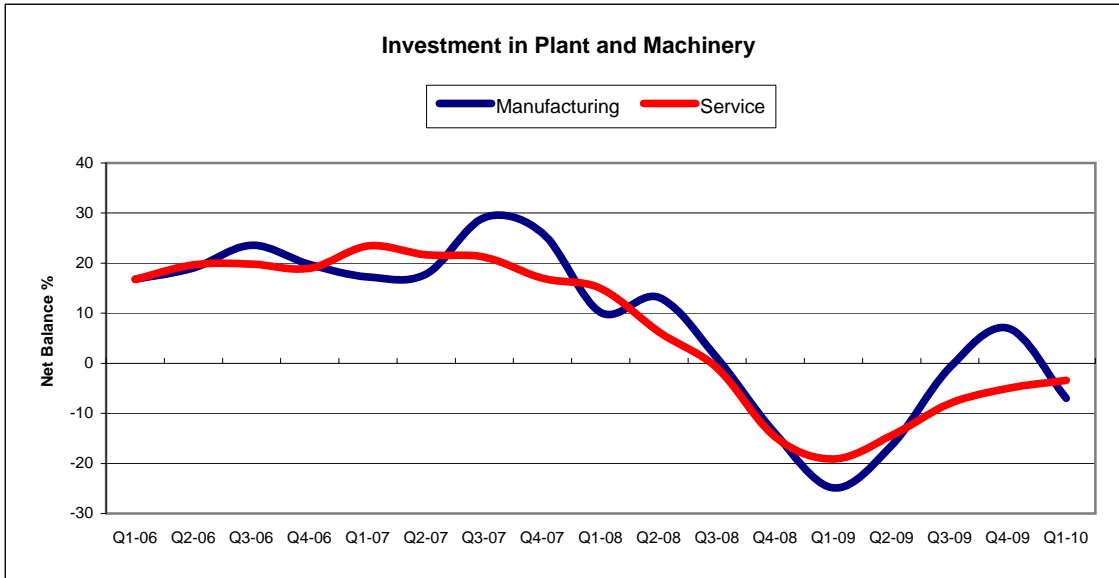
Unsurprisingly given the sales and orders figures for manufacturing, confidence amongst these businesses has fallen this quarter. Confidence in turnover potential fell from a 2 year high of +41% to +26%. Profitability confidence fell by almost half from +23% in the last quarter of 2009 to +12% in the current quarter.

Businesses in the service sector are becoming increasingly confident in both areas. Turnover confidence grew from +31% to +35%, whilst profitability strengthened a further 6% on last quarter to +23%.



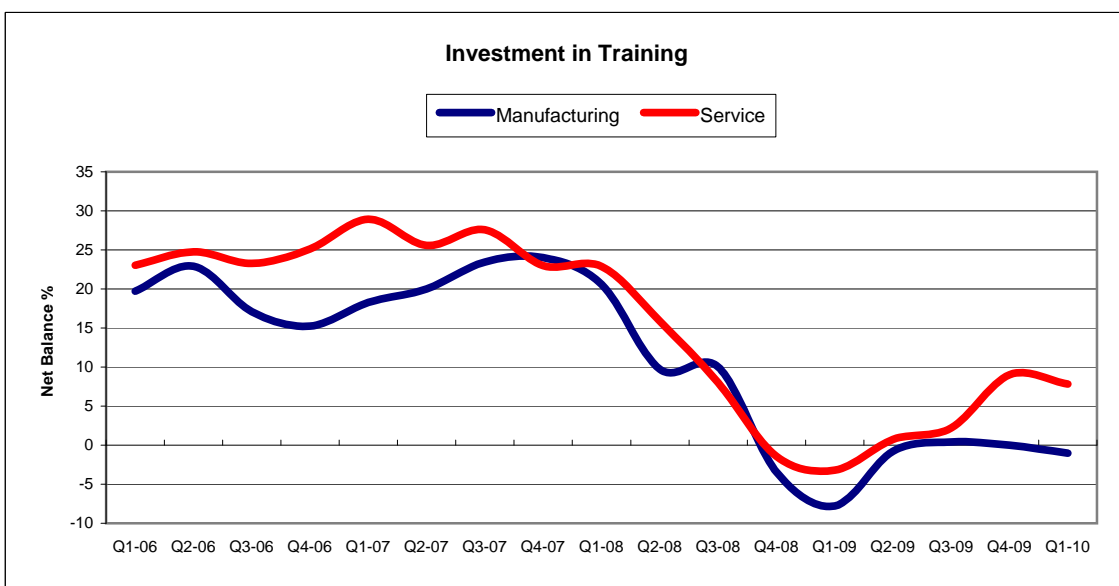
Investment Intentions

"Investment intentions are falling"



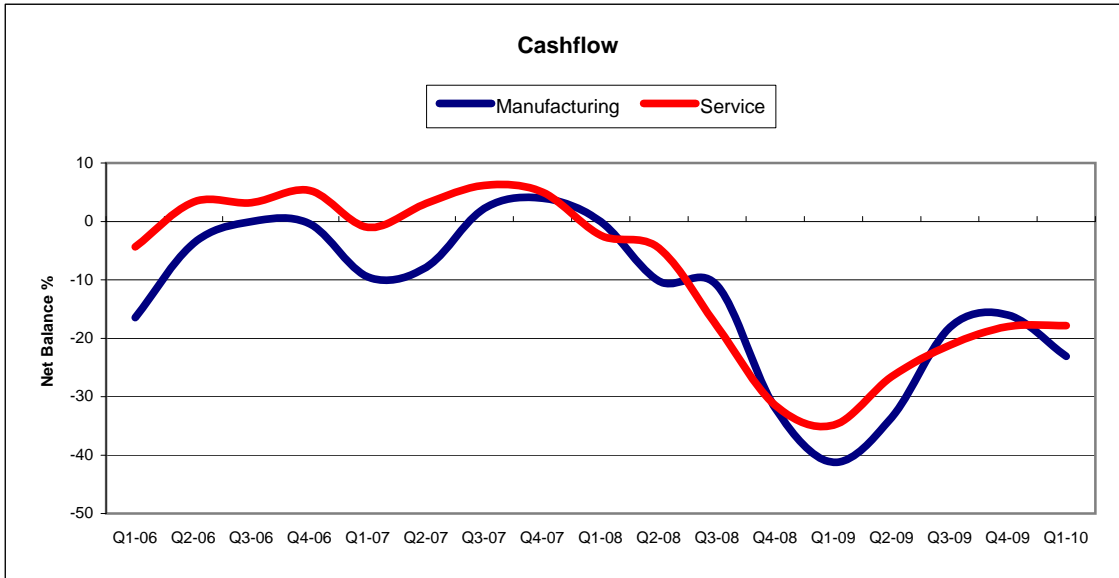
The steady improvement over the past year in terms of intentions to invest in plant and machinery by manufacturers has suffered a downturn, with figures for the North West deteriorating from a balance of +7% to -7%. Investment in training by manufacturers has also shifted downwards from a stagnant position to -1%.

For the first QES of 2010, investment in plant and machinery by service businesses partially improved, with a balance of only -3% now intending to reduce investment. Service businesses continued to display positive growth in training investment, however it dipped 1% on last quarter to +8%.



Cashflow and Prices

"Cashflow difficulties persist and further increase for manufacturers"

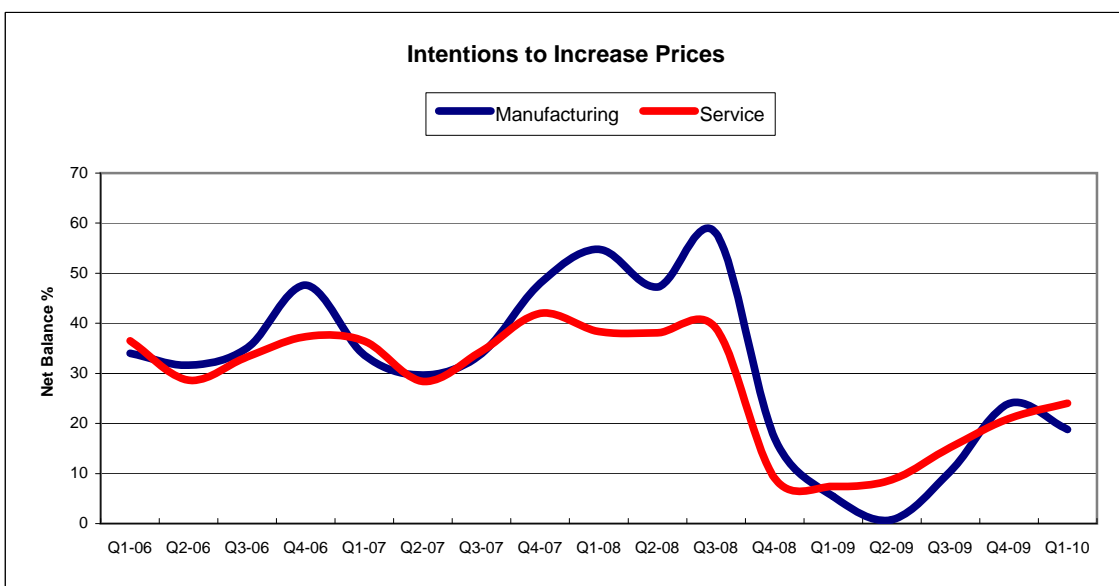


The balance of manufacturers facing cashflow difficulties has increased on last quarter, with the figure falling from -16% to -23%.

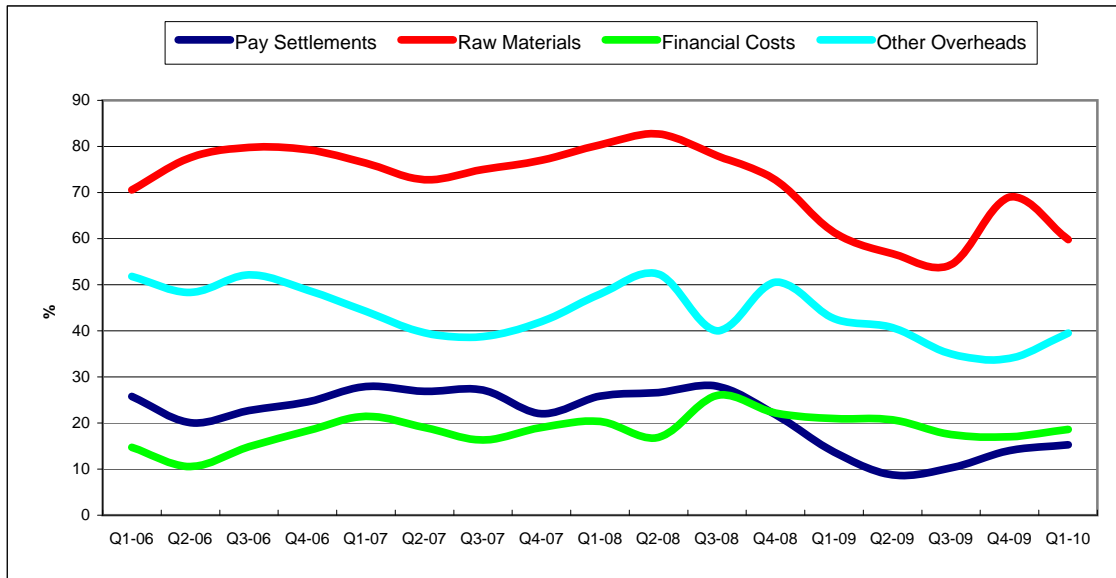
Although the number of businesses within the service sector with cashflow problems remains a negative balance, the actual figure is unchanged, stabilising at -18% for the second consecutive quarter.

In this quarter, the balance of manufacturing companies' intent on increasing their prices has dipped from +24% in the final quarter of 2009 to +19%, easing inflation pressures from this sector.

However, services have showed continued intent on raising their prices, with the number of firms adopting this objective expanding from +21% to +24%.

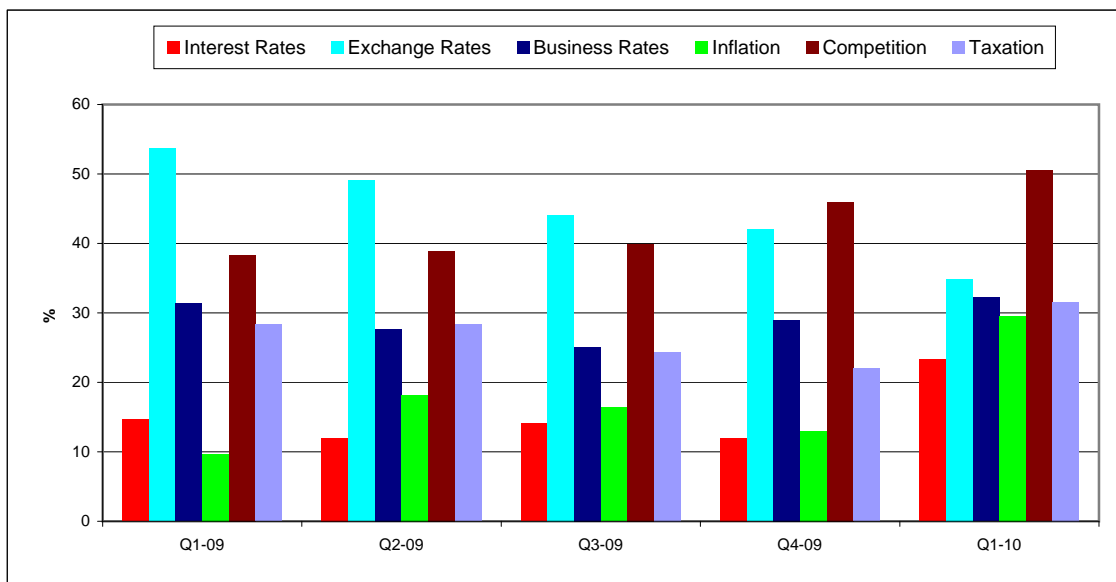


Price Pressures in Manufacturing



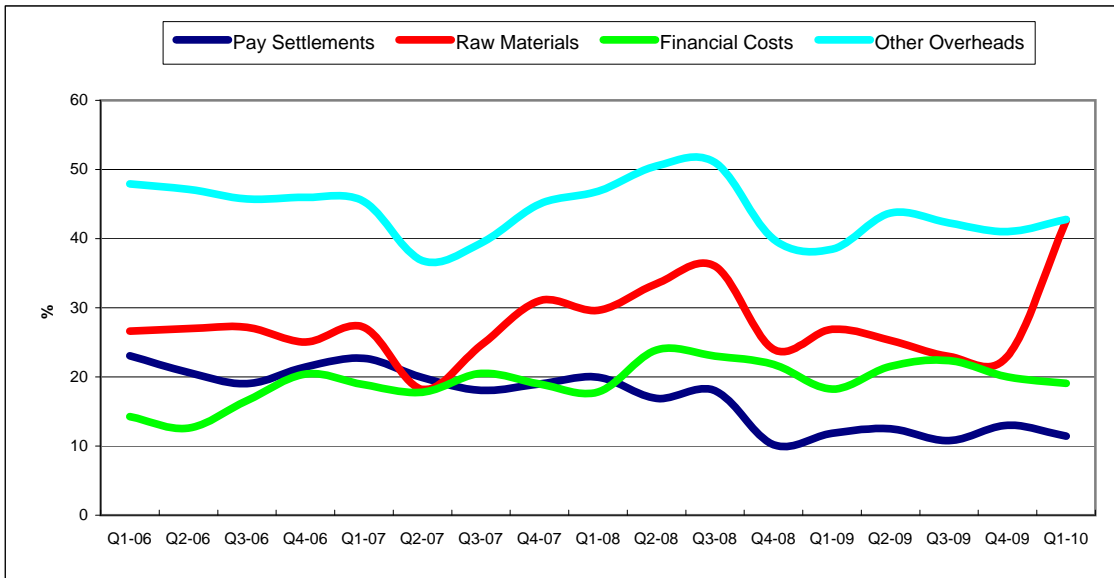
Whilst businesses are feeling less pressure to increase prices due to the costs of raw materials this quarter (from 69% to 60%), it still remains their biggest priority. Manufacturers have become more aware of other overheads, with figures up on the previous quarter 34% to 40%. Both financial costs and pay settlements are increasing contributors to price pressures (from 17% to 19% and 14% to 15% respectively).

External Factors in Manufacturing



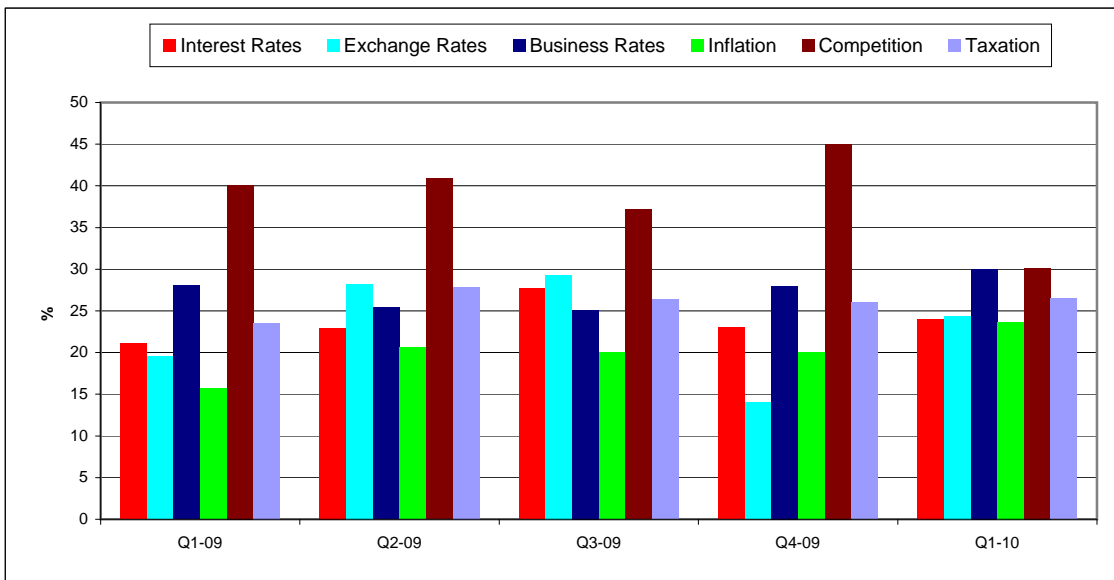
Competition remains the greatest pressure for manufacturers, with figures up from 46% in Q4. Concern over exchange rates decreased for the quarter but remain high at 35%. Business rates and corporate tax concerned manufacturing business owners on an equal scale, both figures rising from the earlier quarter from 29% to 32% and 22% to 32% respectively. Interest rates are of least concern for the fourth consecutive quarter, but the figure has risen sharply from 12% to 23%.

Price Pressures in Services



Pressures within the service sector have escalated for raw materials prices, almost doubling from the previous quarter 23% to 43%. This brings raw material cost worries in line with concerns relating to other overheads, which has moved from 41% to 43% since the last QES. Financial costs remains relatively constant at 19%. Pay settlements remain the sector's lowest concern, falling from 13% to 11%.

External Factors in Services



In the service sector respondents are more concerned about each of the external factors listed than they were 3 months ago, with the exception of competition which has diminished by a third from 45% to 30%. However this is still one of the most prominent concerns alongside business rates, which has risen 2% since the last QES to 30%.

Recent Quarter Results - Manufacturing

	Q2-09	Q3-09	Q4-09	Q1-10
<i>Deliveries And Orders</i>				
UK sales	-39	-16	0	-9
UK orders	-43	-22	5	-13
Export sales	-20	-14	7	6
Export orders	-25	-13	10	3
<i>Labour</i>				
Employment in the last quarter	-24	-9	-4	-8
Employment expectations for next quarter	-22	-13	-5	4
% Tried to recruit staff	25	30	37	34
If yes, were they for:				
% Part-time jobs	21	12	23	18
% Full-time jobs	79	88	77	82
% Temporary jobs	42	48	53	52
% Permanent jobs	58	53	47	48
% Recruitment difficulties	45	45	36	51
If yes, were they for:				
% Skilled manual/technical	28	26	27	37
% Professional/managerial	22	26	12	18
% Clerical	15	17	13	17
% Semi/unskilled	6	8	15	16
<i>Cashflow</i>				
	-34	-18	-16	-23
<i>Investment Plans</i>				
Investment plant & machinery	-16	-1	7	-7
Investment training	-1	0	0	-1
<i>Confidence (For Next 12 Months)</i>				
Turnover	6	28	41	26
Profitability	-18	8	23	12
<i>Production</i>				
% At full capacity	18	21	18	23
<i>Prices/Costs</i>				
Balance of firms expecting to increase prices	1	10	24	19
Is your business currently suffering pressures to raise its prices from any of the following?				
% Pay settlements	9	10	14	15
% Raw material prices	57	54	69	60
% Finance costs	21	17	17	19
% Other overheads	41	35	34	40
<i>External Factors</i>				
Affecting your business than three months ago.				
interest rates	12	14	12	23
exchange rates	49	44	42	35
business rates	28	25	29	32
inflation	18	16	13	30
competition	39	40	46	50
corporate taxation	28	24	22	32
<i>Number of respondent companies</i>				
Number of respondent companies	275	263	246	301
Number of employees	35710	26185	13604	21176

Recent Quarter Results - Service

	Q2-09	Q3-09	Q4-09	Q1-10
Deliveries And Orders				
UK sales	-22	-3	2	-1
UK orders	-29	-12	-5	-7
Export sales	-21	-11	8	4
Export orders	-27	-12	0	1
Labour				
Employment in the last quarter	-14	-7	-5	1
Employment expectations for next quarter	-6	0	0	9
% Tried to recruit staff	29	34	34	36
If yes, were they for:				
% Part-time jobs	40	37	39	36
% Full-time jobs	60	63	61	64
% Temporary jobs	35	34	44	42
% Permanent jobs	65	66	56	58
% Recruitment difficulties	46	40	43	50
If yes, were they for:				
% Skilled manual/technical	15	17	21	20
% Professional/managerial	22	16	20	19
% Clerical	22	18	21	21
% Semi/unskilled	20	10	15	21
Cashflow				
	-27	-21	-18	-18
Investment Plans				
Investment plant & machinery	-14	-8	-5	-3
Investment training	1	2	9	8
Confidence (For Next 12 Months)				
Turnover	9	32	31	35
Profitability	-6	14	16	23
Production				
% At full capacity	24	25	27	29
Prices/Costs				
Balance of firms expecting to increase prices	9	15	21	24
Is your business currently suffering pressures to raise its prices from any of the following?				
% Pay settlements	13	11	13	11
% Raw material prices	25	23	23	43
% Finance costs	22	22	20	19
% Other overheads	44	42	41	43
External Factors				
Affecting your business than three months ago.				
interest rates	23	28	23	24
exchange rates	28	29	14	24
business rates	25	25	28	30
inflation	21	20	20	24
competition	41	37	45	30
corporate taxation	28	26	26	27
Number of respondent companies				
	776	845	838	849
Number of employees				
	214880	36721	59849	99847