NORTH WEST
QUARTERLY ECONOMIC SURVEY
Quarter 2 2009

Full Report

Findings from the second quarter of 2009 economic survey of the North West.

This quarter 1,051 firms from across the North West completed the survey.

The following North West Chamber's contributed to this report:

Congleton, Lancaster, South Cheshire, Macclesfield, East Lancashire, Warrington, North & Western Lancashire, Cumbria, Liverpool, Knowsley, Sefton, Halton, Wirral, St Helens, Altrincham & Sale and Greater Manchester.

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 Holly Keogh on 0161 237 4106 or emai holly.keogh@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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1. Report Summary

1.1 Manufacturing

Manufacturers' key indicators have improved during the last quarter, but economic conditions continue to be very challenging. Net balances for UK sales improved from –51% net balance to –39%. UK orders moved from –50% to –43% net balance this quarter. The results for exporting manufacturers improved only marginally from –21% to –20% net balance for sales and –27% to –25% for orders.

In line with news of a possible end of the slowdown, business confidence has improved markedly to +6% (-30% in quarter one) for turnover and –18% (-47% in quarter one) for profitability, .

The biggest price pressure for manufacturers remains raw material prices, but only 57% of manufacturers report feeling this pressure, compared to 83% a year ago. This is followed by other overheads, which was reported by 41% of respondents. Pressure from pay settlements remains of the lowest concern. Finance costs remain an issue for 21% of respondents.

Only 20% of manufacturers expect their prices to increase over the next three months, compared to 54% a year ago. Cash flow has started to improve again, but remains firmly negative at –34% net balance, compared to –41% in the first quarter.

Net balances for investment in training and plant and machinery have recovered from last quarter and now stand at –1% and –16% net balance respectively.

The percentage of manufacturers working at full capacity has further decreased to only 18%, compared to 32% a year ago.

Manufacturing businesses have also continued to reduce staff, with a net balance of –24% reporting falling staff numbers, slightly improved from last quarter. A net balance of -13% of manufacturers still expect the size of their workforce to shrink over the next three months, compared to –22% in the last quarter. Again, fewer firms are reporting difficulty in recruiting staff.

Concern over inflation has increased, compared to last quarter and is now cited by 18% of respondents, compared to 62% a year ago. Along with interest rates it is shown as the lowest area of concern. The main problem area to manufactures remain exchange rates, cited by 49% of respondents (down from 54% in the first quarter). This is followed by competition.

1.2 Services

Service sector performance within the UK has improved during the last quarter, while exports deteriorated. UK sales improved and now show a net balance of –22% (compared to –30% in quarter one). UK orders have also started to improve as have cash flow conditions., which moved from –35% net balance to –27%.

Exports, however, have deteriorated further and now stand at –21% net balance for sales and –27% for orders, compared to –15% and –20% respectively in the last quarter.

Confidence has returned back to a positive net balance with 9% for turnover and improved from –25% to –6% for profitability. Both, investment for plant and machinery as well as investment in training have improved compared to last quarter and now stand at a net balance of –14% and +1% net balance respectively.

The percentage of businesses working at full capacity continued to fall to 24% from 33% a year ago.

Price pressure due to increased raw material prices remained stable and the highest driver of price pressure remains other overheads, which is cited by 44% of respondents. Pressure from pay settlements is of least concern, which reflects the manufacturing sector.

Service businesses continued to reduce their workforce but fewer firms expect further reductions over the next three months. Net balances stand at –14% for current and 0% for expected future staff reductions.

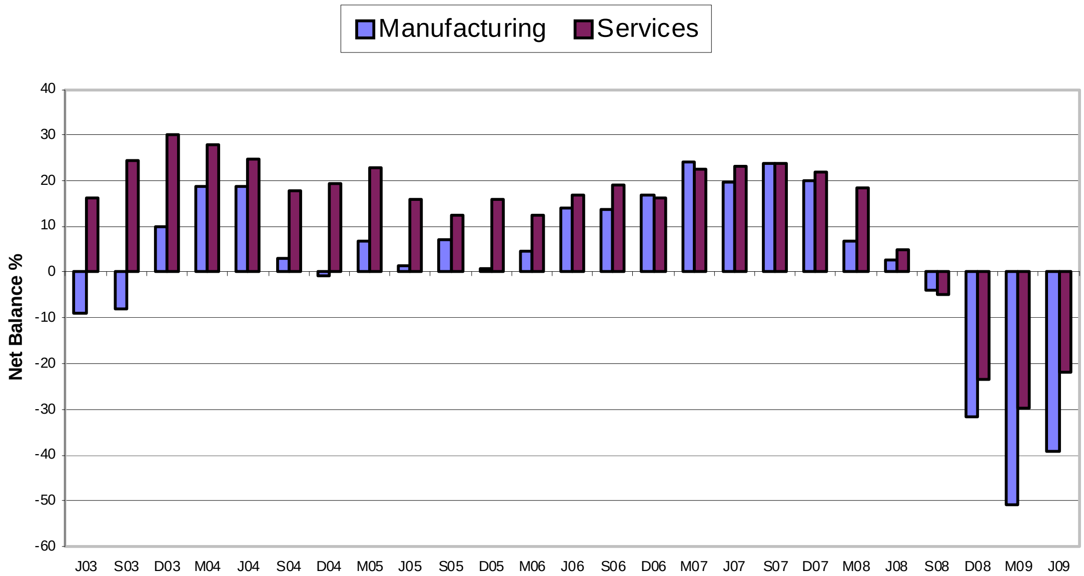
Competition remains the main area of concern for service businesses and is listed by 41% of service providers. This is followed at quite a distance by exchange rates, business rates, corporate tax and interest rates. Inflation remains of least concern to the service sector.

2. Results Detail

2.1 UK Sales & Orders

"Manufacturing and services pick up"

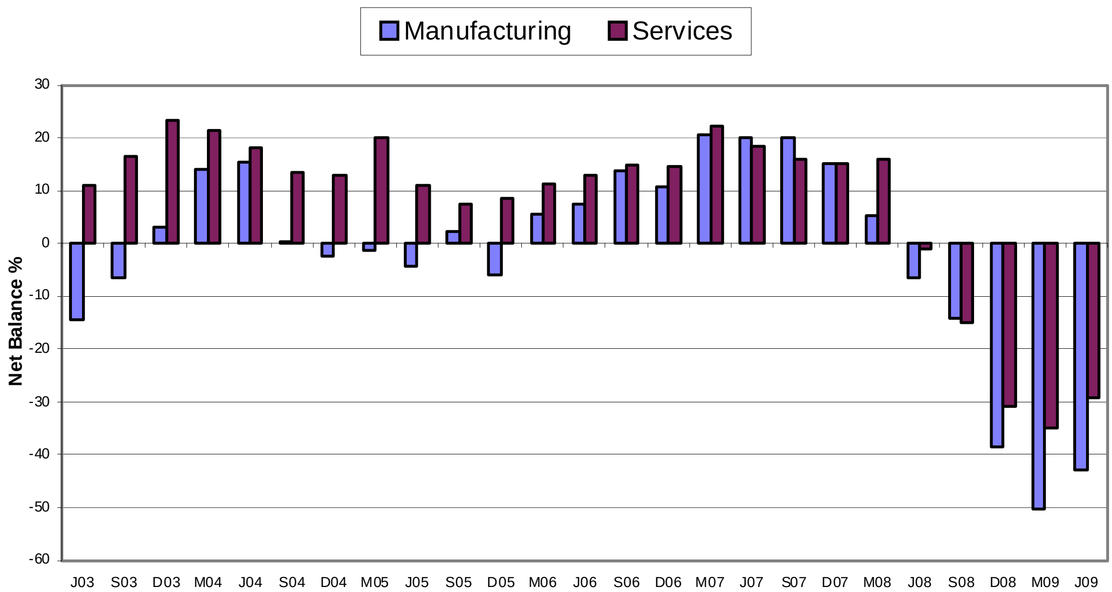
Chart 1: Domestic Sales



For manufacturers UK sales have increased following 18 months of falling indicators. The net balance now stands at –39% up from –51% last quarter. UK orders for manufacturers have also increased to –43% net balance, up 7 percentage points.

The service sector is also improving this quarter with UK sales increasing from –30% to –22% net balance. UK orders have also increased to -29% net balance from –35% three months ago.

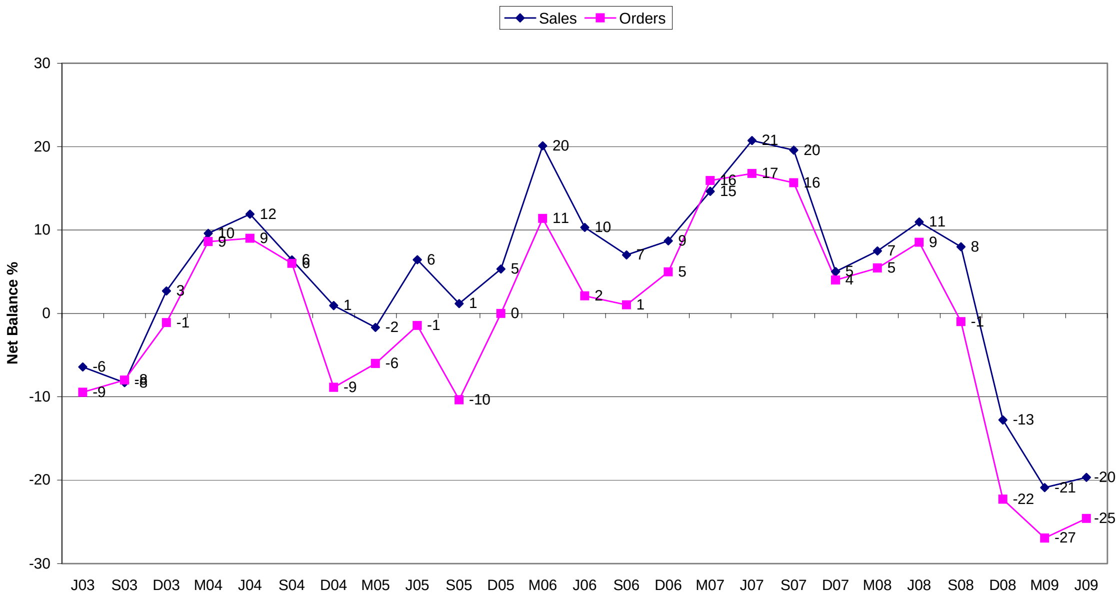
Chart 2: Domestic Orders



2.2 Exports

"Overseas sales for manufacturers increase slightly"

Chart 3: Manufacturing Exports

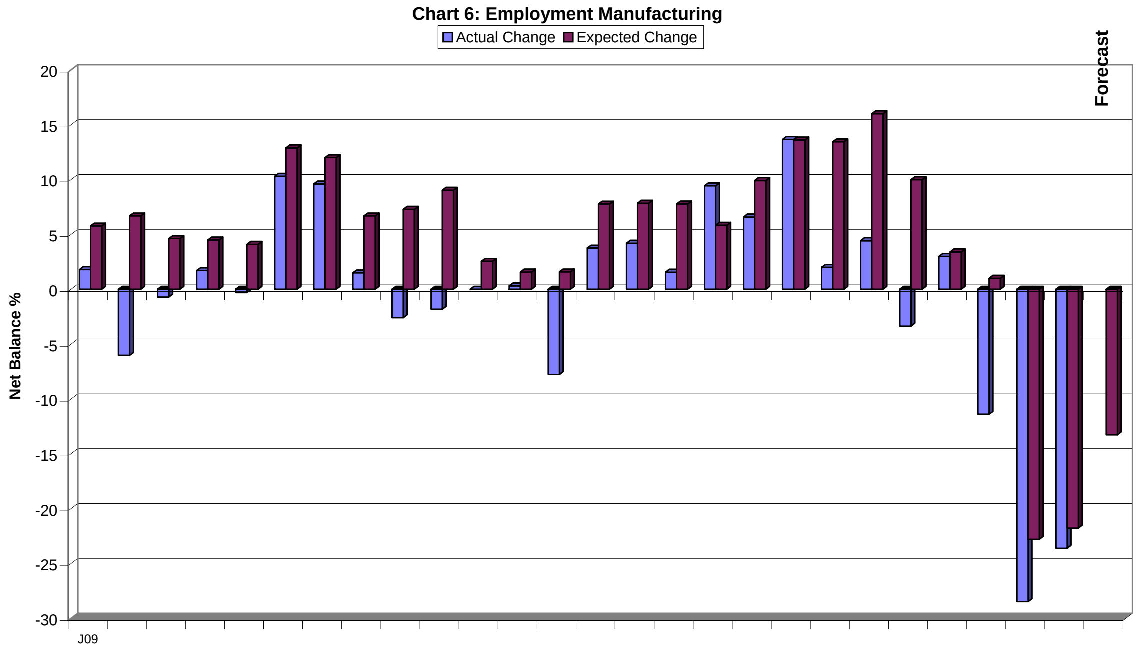


Exporting manufacturers have negative net balances of –20% and –25% for sales and orders respectively. This is a one percentage point improvement for sales and a two percentage point increase for orders.

Services, however, report further falls in exports with net balances for sales at –21% from –15% last quarter. Overseas orders now stand at –27% net balance, down 7 percentage points.

2.3 Employment in Manufacturing

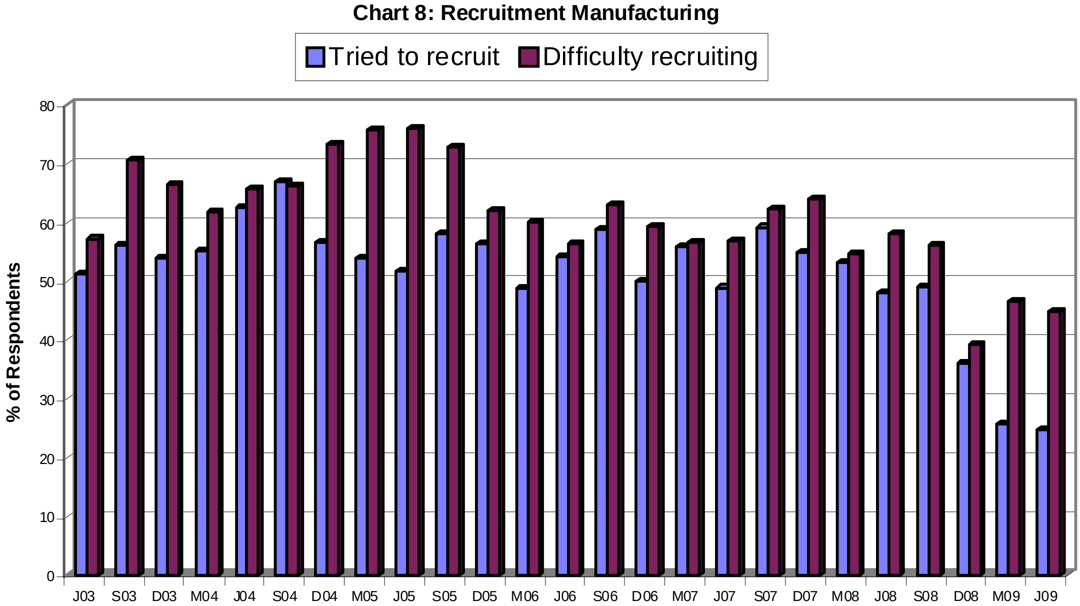
"Employment shows signs of improvement"



For manufacturing firms the net balance of businesses reporting an increase in actual employment growth has improved from -28% to –24%. The forecast for next quarter is more optimistic with expectations for employment at –13%.

2.4 Recruitment in Manufacturing

"Fewer manufacturers recruiting"



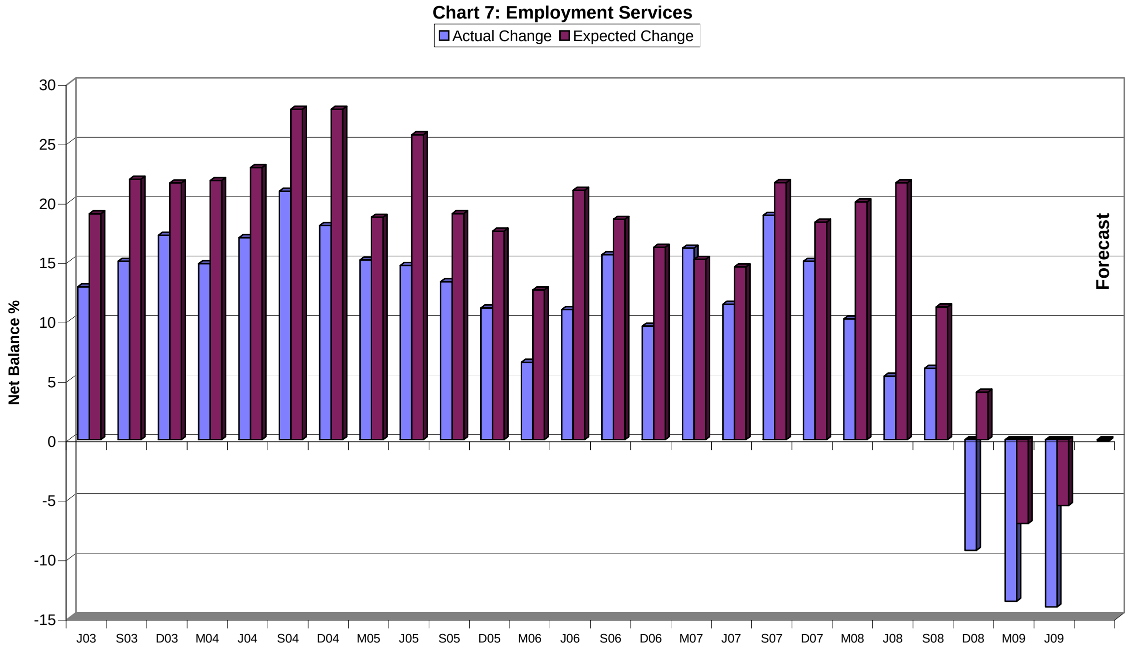
The proportion of manufacturers attempting to recruit staff over the last three months has fallen slightly from 26% to 25%. 45% of respondents reported difficulty in recruiting staff down from 47% last quarter.

Recruitment of temporary and permanent jobs remains fairly stable this quarter at 42% and 58% respectively. There has been an increase in recruitment of part time jobs, up 7 percentage points to 21%.

Fewer manufacturers have reported difficulty in finding suitable staff. The most difficult positions to fill remain skilled manuals, which are listed by 28% of respondents, compared to 38% a year ago. Manufacturers have found it harder to recruit professional / managerial employees, up to 22% from 15%. Difficulty in finding suitable un- and semi-skilled manual labour was reported by 6% of respondents this quarter, compared to 10% in quarter one.

2.5 Employment in Services

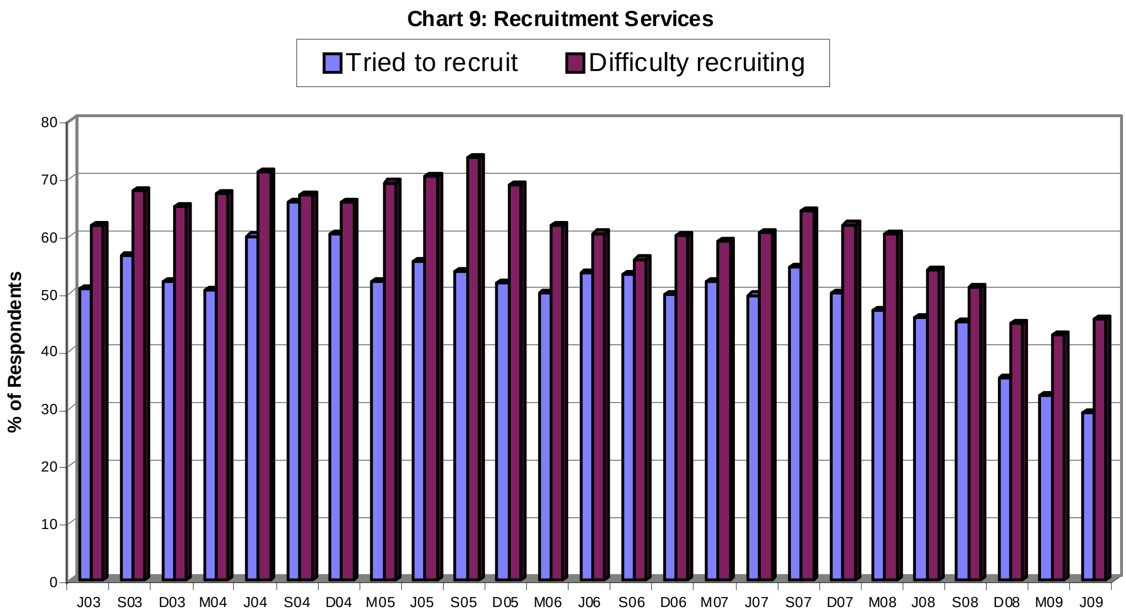
"No change to employment"



For service firms, the net balance of businesses reporting an increase in actual employment growth remains the same as last quarter at –14% net balance. Predictions for next quarter for workforce levels are at 0%.

2.6 Recruitment in Services

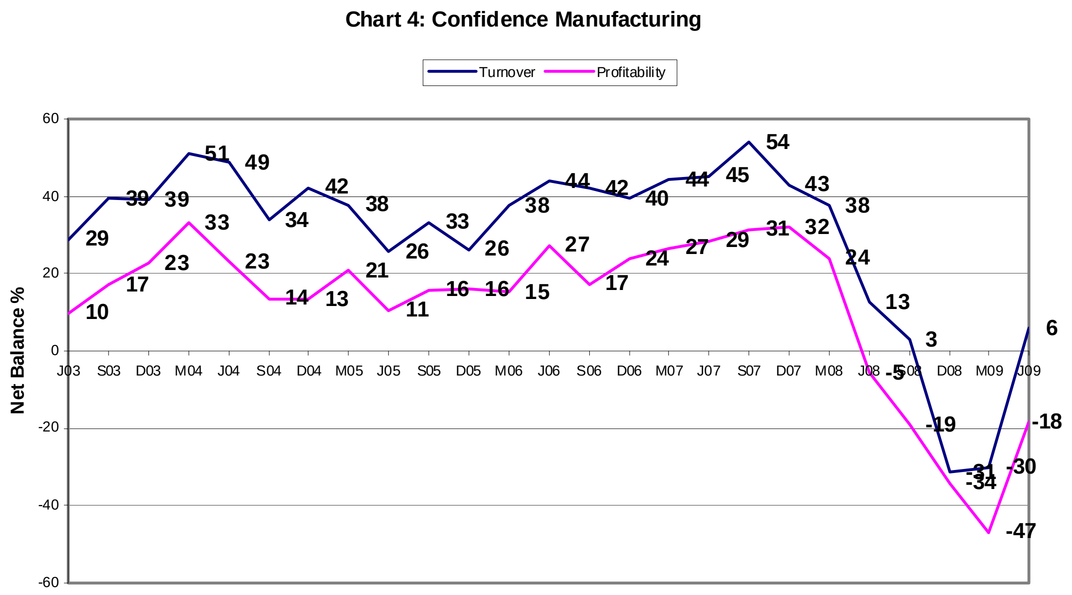
"Decreases in recruitment for services"



In the service sector 29% of respondents have attempted to recruit this quarter, a decrease of 3 percentage points. Of these positions, 40% were part time and 60% full time, compared to 36% and 64% respectively last quarter. 35% were temporary jobs (down 3 percentage points) and 65% permanent jobs (up 3 percentage points). It has been harder to recruit all categories of employees this quarter with un- and semi-skilled manual labour seeing the largest percentage point increase of 8 percentage points to 20%. The hardest to recruit this quarter were clerical and professional / managerial roles, cited by 22% of respondents. The easiest to recruit was skilled manual labour at 15%.

2.7 Confidence in Manufacturing

"Confidence improves"



Optimism in the manufacturing sector over turnover has increased from –30% last quarter to a positive 6% net balance this quarter.

Confidence in profitability amongst manufacturers has also increased from –47% to –18% net balance.

2.8 Confidence in Services

"Services also confident"

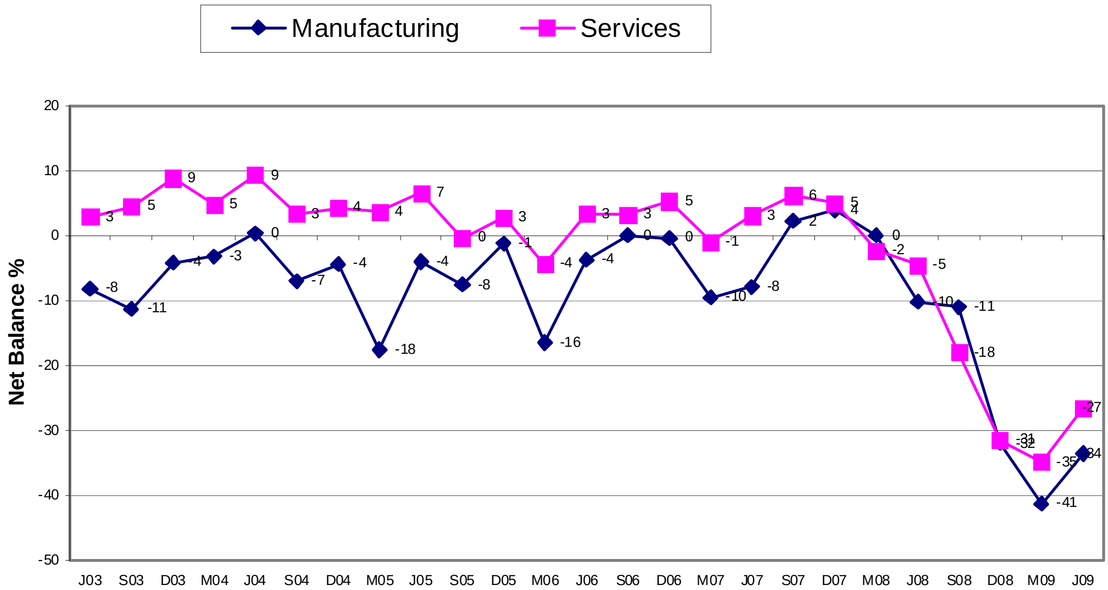
The net balance of service companies expecting an increase in turnover has also increased this quarter by 20 percentage points to 9% net balance. Confidence in profitability has also increased to –6% net balance from –25% in quarter one.

2.9 Cash Flow

"Cash flow pressure easing"

For both sectors, the number of companies experiencing worsening cash flow is decreasing. For services it is –27% net balance, compared to –35% last quarter, and for manufacturers the net balance now stands at –34% from –41% in the first 3 months of this year.

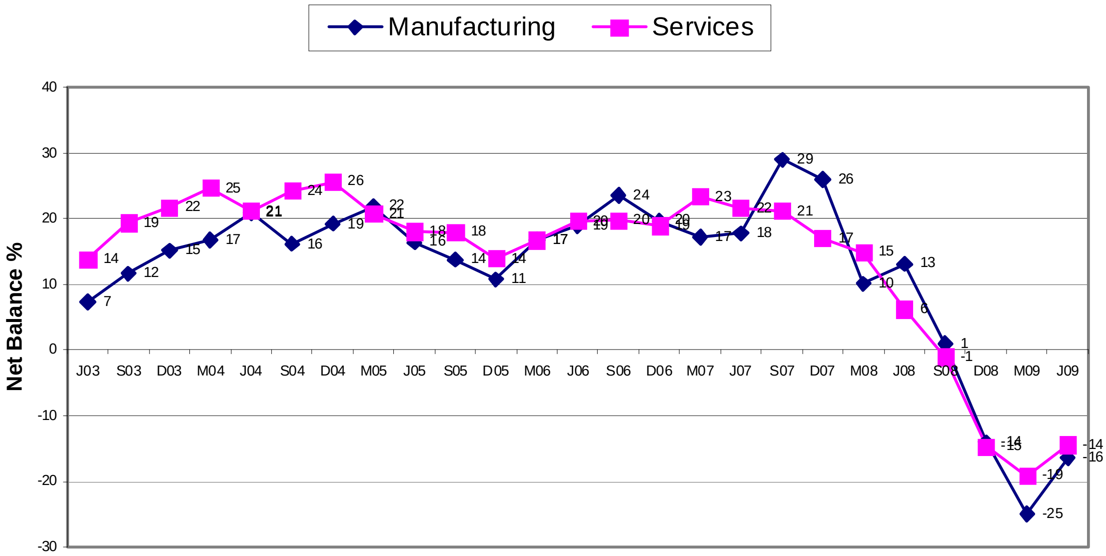
Chart 10: Cashflow



2.10 Investment in Plant & Machinery

"Investments plans on the up"

Chart 11: Investment Plant & Machinery



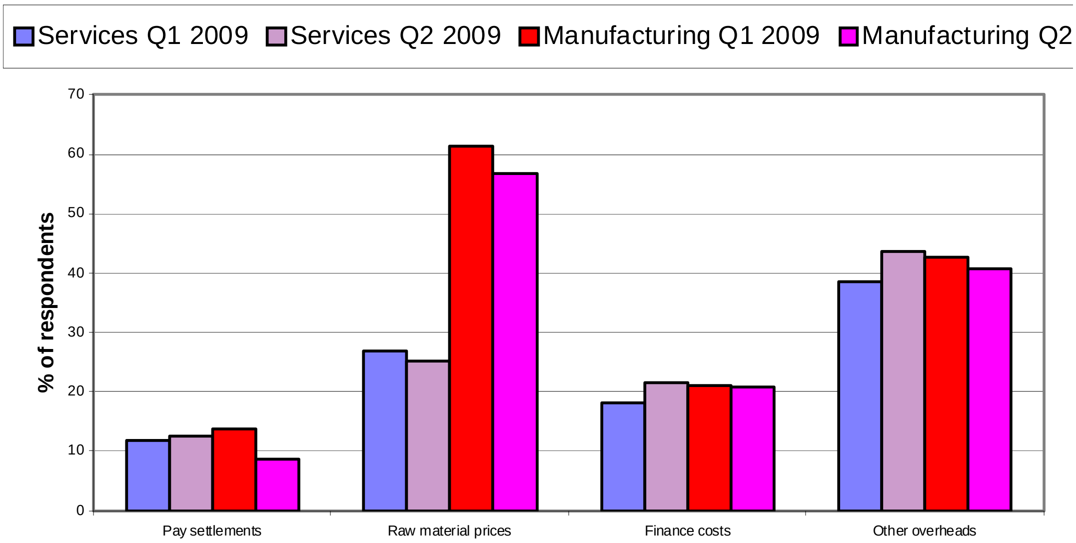
For manufacturing, an increasing number of companies have revised their investment plans for plant and machinery upwards. The net balance has gone from –25% to –16% net balance, which is a substantial increase.

Services have also followed this trend; with a net balance of –14%, which is an increase of 5 percentage points.
An increasing number of respondents also state investment in training is beginning to increase this quarter with a 7 percentage point increase for manufacturers to –1% net balance and from –3% to 1% net balance for services.

2.11 Price Pressures

"Price pressures remain fairly stable"

Chart 14: Price Pressures



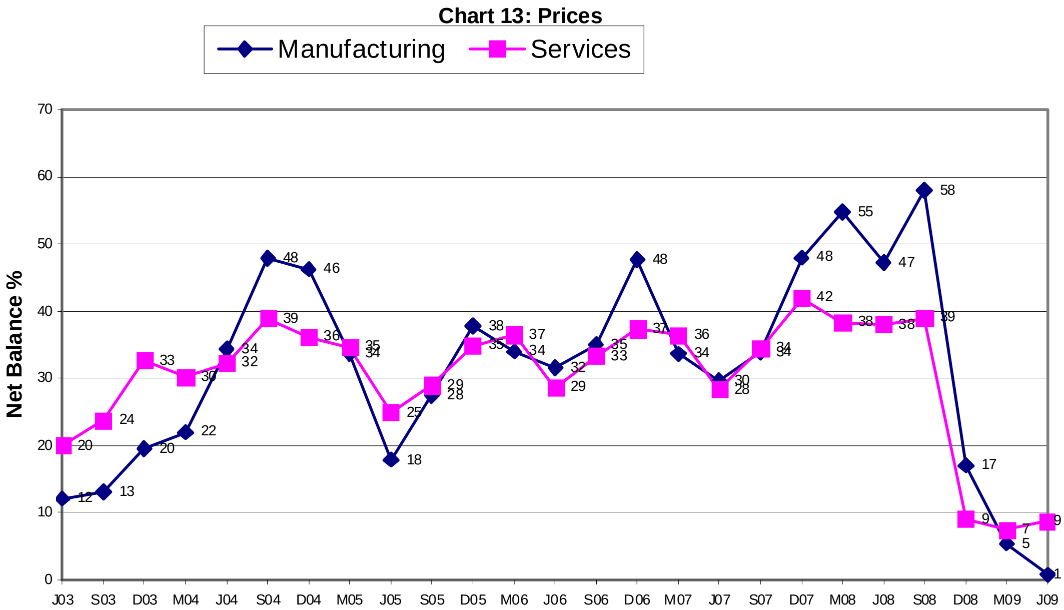
The biggest price pressure remains raw materials for manufacturers. 57% of respondents reported this as a pressure, although this is a decrease of 4 percentage points from last quarter. The second highest price pressure for manufacturers is due to other overheads although this has decreased from 43% to 41%. The least cause for concern was pressure from pay settlements at 9% down 5 percentage points.

For services, other overheads remain the greatest price pressure at 44%, up from 38% in quarter one. Raw material prices for services is the second highest pressure at 25%, a decrease of 2 percentage points. Pressure from pay settlements remains the lowest pressure for both sectors, but is higher for services at 13%.

2.12 Prices

Over the next 3 months a net balance of only 1% of manufacturers expect the prices of their goods to increase; this is down from 5% last quarter.

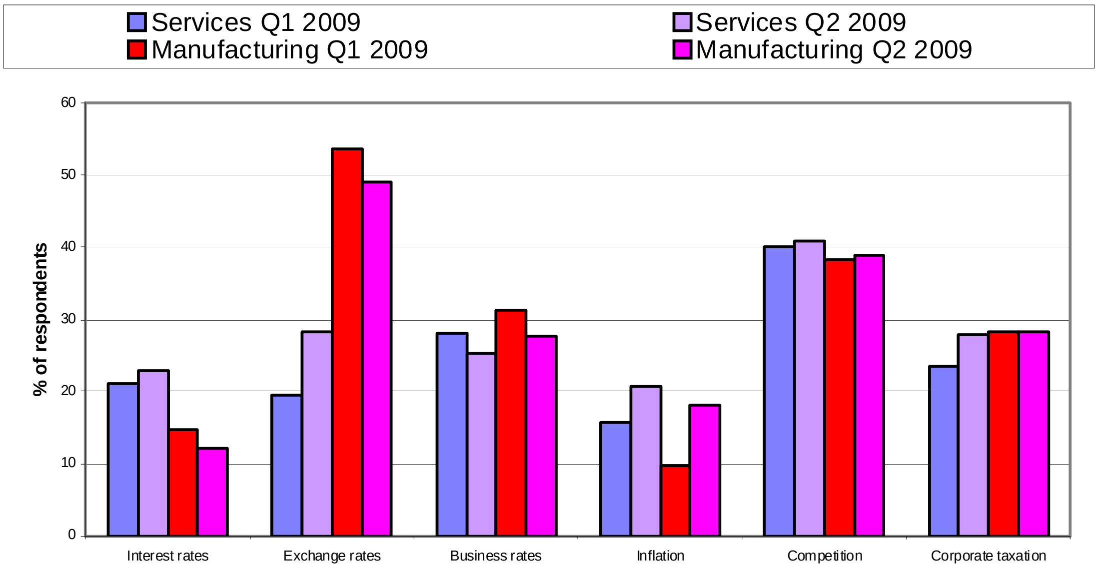
A net balance of 9% of service respondents expect the price of their goods / services to increase, up by 2 percentage points to the same level as December 2008.



2.13 External Factors

"Competition remains an increasing worry "

Chart 15: External Factors



The main concern for manufacturers this quarter is exchange rates at 49%, down from 54% three months ago. A decreasing area of concern for manufacturers is business rates with a 3 percentage point decrease to 28%. Of least concern to manufacturers is inflation, however, this has increased this quarter from 10% to 18%.

A big concern for both manufacturers and services this quarter is competition with 39% of manufacturers citing this as more of a concern, and competition is the greatest anxiety for services at 41%.

For services, concern about business rates is down from 28% to 25%. An increasing worry for services are concerns over exchange rates and corporate taxation both at 28%. Inflation has become an increasing concern for services up from 16% to 21%, however, this is of least concern to services.

		Manufacturing				Services			
		Q3 08	Q4 08	Q1 09	Q2 09	Q3 08	Q4 08	Q1 09	Q2 09
Deliveries And Orders		%	%	%	%	%	%	%	%
Sales/custom/bookings have...	Rise	30	20	12	15	28	19	17	21
	Same	36	29	26	30	39	39	36	36
	Fall	34	51	63	55	-33	42	47	43
	net	**-4**	**-32**	**-51**	**-39**	**-5**	**-24**	**-30**	**-22**
Orders/advance custom/bookings have…	Rise	25	17	12	14	22	16	16	17
	Same	37	27	25	29	41	37	33	37
	Fall	-39	56	63	57	37	47	51	46
	net	-14	-38	-50	-43	-15	-31	-35	-29
Overseas sales/custom/bookings have...	Rise	34	25	22	22	31	14	20	17
	same	39	37	34	36	45	53	46	45
	fall	-26	38	43	42	-24	33	35	38
	net	**8**	**-13**	**-21**	**-20**	**7**	**-18**	**-15**	**-21**
Overseas orders/ advance custom/bookings have..	rise	29	19	21	20	23	14	18	14
	same	41	39	32	35	52	53	44	45
	fall	-30	42	48	45	-25	33	38	41
	net	**-1**	**-22**	**-27**	**-25**	**-2**	**-18**	**-20**	**-27**
Labour									
Over the past 3 months, has your workforce:	increased	26	15	10	13	22	15	13	11
	Remained constant	51	59	51	51	62	61	61	64
	reduced	23	26	39	36	-16	24	26	25
	net	**3**	**-11**	**-28**	**-24**	**6**	**-9**	**-14**	**-14**
Over the next 3 months, do you expect your workforce to:	increase	17	8	9	10	19	12	14	15
	remain constant	66	62	61	68	66	70	67	70
	decrease	-16	31	30	23	-15	19	19	15
	net	**1**	**-23**	**-22**	**-13**	**4**	**-7**	**-6**	**0**
Have you attempted to recruit staff over the past 3 months?	yes	49	36	26	25	45	35	32	29
	no	51	64	74	75	55	65	68	71
If yes, were they for: (please tick all that apply)	part-time jobs?	13	15	14	21	35	31	36	40
	full-time jobs?	87	85	86	79	65	69	64	60
	temporary jobs?	100	30	41	42	36	37	38	35
	permanent jobs?	0	70	59	58	64	63	62	65
Did you experience any difficulties finding suitable staff?	yes	56	39	47	45	51	45	43	46
	no	51	34	55	79	59	70	72	73
If yes, for which of the following categories of employee:									
	skilled manual	43	44	33	28	22	23	14	15
	professional/managerial	20	26	15	22	18	20	21	22
	clerical	15	10	13	15	36	20	20	22
	un and semi-skilled manual	10	9	10	6	16	12	12	20
Cashflow									
During the last three months has your cashflow:	improved	22	13	10	14	19	13	11	14
	same	45	42	40	38	44	43	43	46
	worse	-33	45	51	48	-37	44	46	40
	net	**-11**	**-32**	**-41**	**-34**	**-18**	**-31**	**-35**	**-27**

Investment									
For plant/machinery/equipment ?	revised upwards	21	15	9	15	18	13	11	11
	unchanged	59	56	58	55	64	59	59	63
	revised downwards	-20	29	33	31	-19	28	30	26
	net	**1**	**-14**	**-25**	**-16**	**-1**	**-15**	**-19**	**-14**
For training ?	revised upwards	21	16	16	19	22	17	17	17
	unchanged	68	64	60	61	64	65	62	67
	revised downwards	-11	20	24	20	-14	18	20	16
	net	**10**	**-3**	**-8**	**-1**	**8**	**-1**	**-3**	**1**
Confidence (For Next 12 Months)									
Do you believe that over the next 12 months turnover will:	improve	38	23	23	40	41	30	30	39
	Remain the same	27	23	23	26	30	27	29	31
	worsen	-35	54	53	34	-29	43	41	30
	net	**3**	**-31**	**-30**	**6**	**12**	**-13**	**-11**	**9**
Profitability will	improve	29	22	16	28	36	26	24	32
	Remain the same	24	22	21	25	26	23	28	29
	worsen	-48	56	63	47	-38	51	49	39
	net	**-19**	**-34**	**-47**	**-18**	**-2**	**-25**	**-25**	**-6**
Production									
At the present time the percentage of firms working									
	at full capacity is	30	22	18	18	33	29	26	24
	at less than full capacity	70	78	82	82	67	71	74	76
Prices/Costs									
Over the next 3 months, do you expect the price of your goods /services	increase	61	36	27	20	44	27	24	23
	remain the same	36	46	51	60	51	55	59	63
	decrease	3	19	22	20	-5	18	17	14
	net	**58**	**17**	**5**	**1**	**39**	**9**	**7**	**9**
Is your business currently suffering pressures to raise its									
prices from any of the following?	pay settlements	28	22	14	9	18	10	12	13
(tick all that apply)	raw material prices	78	73	61	57	36	24	27	25
	finance costs	26	22	21	21	23	22	18	22
	other overheads	40	51	43	41	51	40	37	44
External Factors									
your business than three months ago.	interest rates	27	26	15	12	37	27	21	23
(tick all that apply)	exchange rates	42	55	54	49	14	19	20	28
	business rates	22	28	31	28	23	24	28	25
	inflation	67	30	10	18	61	29	16	21
	competition	31	33	38	39	35	41	40	41
	corporate taxation	19	29	28	28	18	23	24	28
Number of respondent companies*		278	275	300	275	918	1050	977	776
Number of employees		23943	14239	14822	35710	141531	48401	37266	214880