



**Chambers of Commerce
North West**

**NORTH WEST
QUARTERLY ECONOMIC SURVEY
Quarter 3 2009**

Full Report

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

This quarter 1,108 firms from across the North West completed the survey.

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

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

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 email 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, however economic conditions remain fragile. Net balances for UK sales improved from -39% to -16% net balance. UK orders moved from -43% to -22% net balance this quarter. The results for exporting manufacturers improved from -20% to -14% net balance for sales and -25% to -13% for orders.

In line with news of a possible end of the slowdown, business confidence has improved markedly to 28% (6% in quarter two) for turnover and 8% (-18% in quarter two) for profitability.

The biggest price pressure for manufacturers remains raw material prices, but only 54% of manufacturers report feeling this pressure, compared to 83% a year ago. This is followed by other overheads, which was reported by 35% of respondents. Pressure to pay settlements remains of the lowest concern. Finance cost pressure eases this quarter down from 21% to 17%.

Only 10% of manufacturers expect their prices to increase over the next three months. Cash flow has started to

improve again, but remains negative at -18% net balance, compared to -34% in the second quarter.

Net balances for investment in training and plant and machinery have recovered from last quarter and now stand at 0% and -1% net balance respectively.

The percentage of manufacturers working at full capacity has increased to 21% from 18% last quarter.

A net balance of -9% of manufacturers report reduced staff levels over the past 3 months compared to -24% last quarter, which is a strong improvement. A net balance of -5% of manufacturers expect the size of their workforce to shrink over the next three months, compared to -13% in the last quarter. The same percentage of respondents, 45% report difficulty in recruiting staff.

Concern over inflation has decreased, compared to last quarter and is now cited by 16% of respondents, compared to 62% a year ago. Along with interest rates it is shown as one of the lowest areas of concern. The main problem area to manufactures remains exchange rates, cited by 44% of respondents (down from 49% in the second quarter). This is followed by competition.

1.2 Services

Service sector performance within the UK has improved during the last quarter. UK sales have increased and now show a net balance of -3% (compared to -22% in quarter two). UK orders have also improved as have cash flow conditions, which moved from -27% to 12% net balance.

Exports have also improved and now stand at -11% net balance for sales and -12% for orders, compared to -21% and -27% respectively in the last quarter.

Confidence has a net balance of 32% for turnover and has improved from -6% to 14% for profitability. Both investment in plant and machinery as well as investment in training has improved compared to last quarter and now stand at -8% and 2% net balance respectively.

The percentage of businesses working at full capacity now stands at 25%, up one percent from last quarter.

Price pressure due to increased raw material prices remained fairly stable and the highest driver of price pressure remains other overheads, which is cited by 42% of respondents. Pressure to pay settlements is of least concern, which also reflects the manufacturing sector.

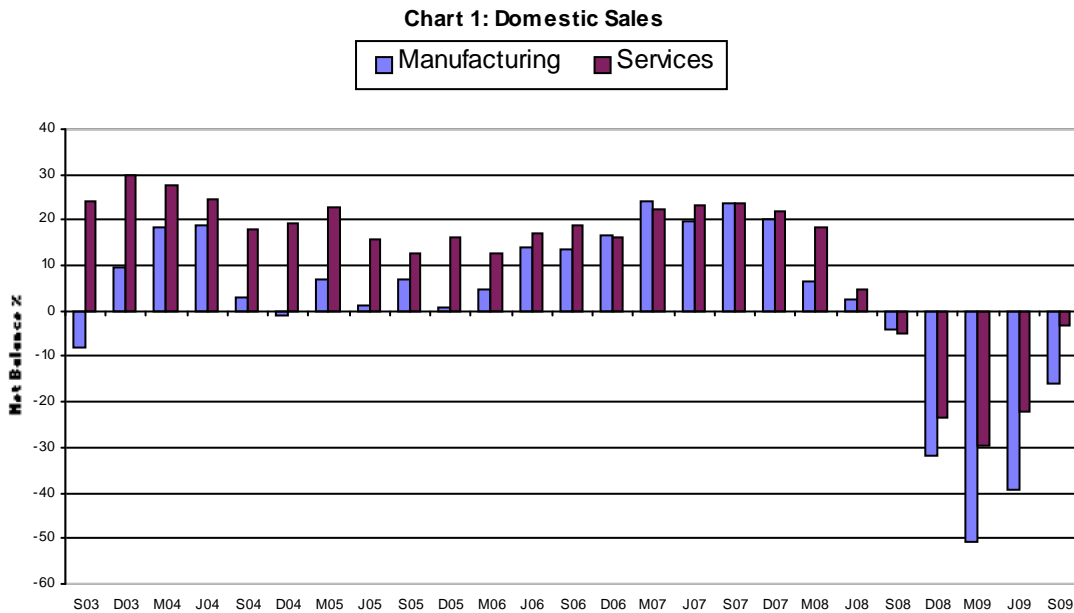
Fewer service businesses reduced their workforce and expectations for the next 3 months remains as last quarter. Net balances stand at -7% for current and 0% for expected future staff reductions.

Competition remains the main area of concern for service businesses and is listed by 37% of service providers. This is followed at quite a distance by exchange rates, interest rates, corporate tax and business rates. Inflation remains of least concern to the service sector at 20%.

2. Results Detail

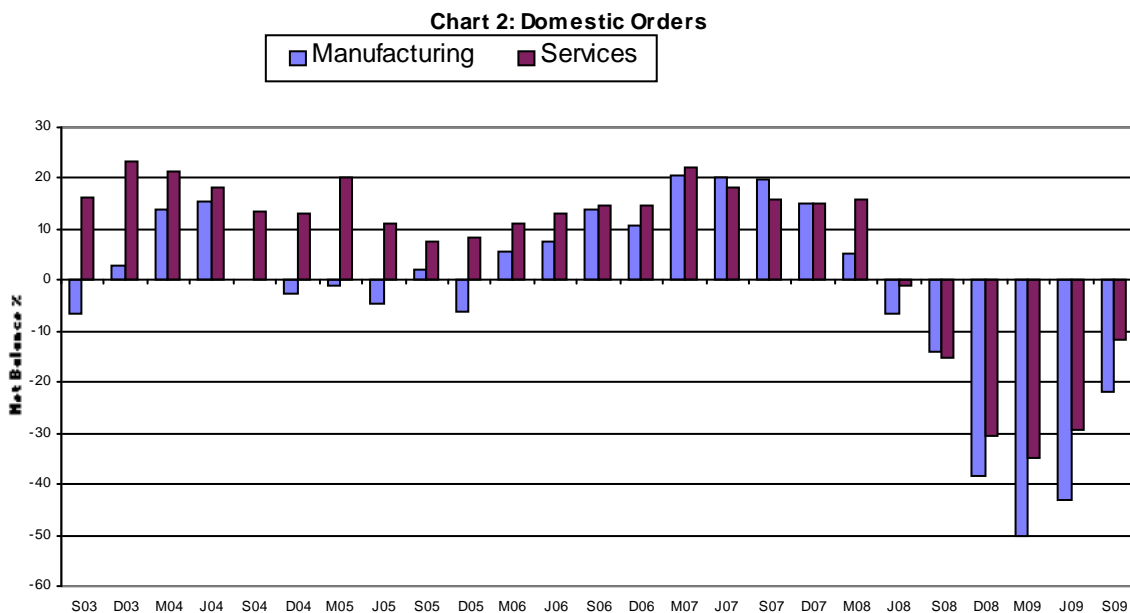
2.1 UK Sales & Orders

“Manufacturing and services pick up”



For manufacturers UK sales have improved again this quarter. The net balance now stands at -16% up from -39% last quarter. UK orders for manufacturers have also increased to -22% net balance, up 21 percentage points.

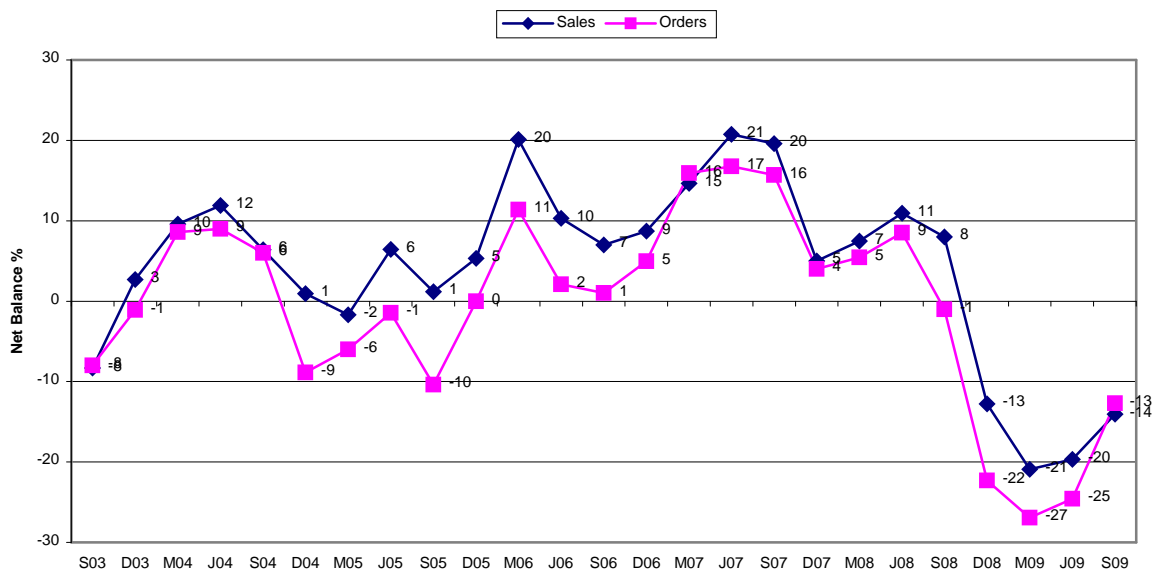
The service sector is also improving this quarter with UK sales increasing from -22% to -3% net balance. UK orders have also increased to -12% net balance from -29% three months ago.



2.2 Exports

“Overseas orders and sales improve”

Chart 3: Manufacturing Exports

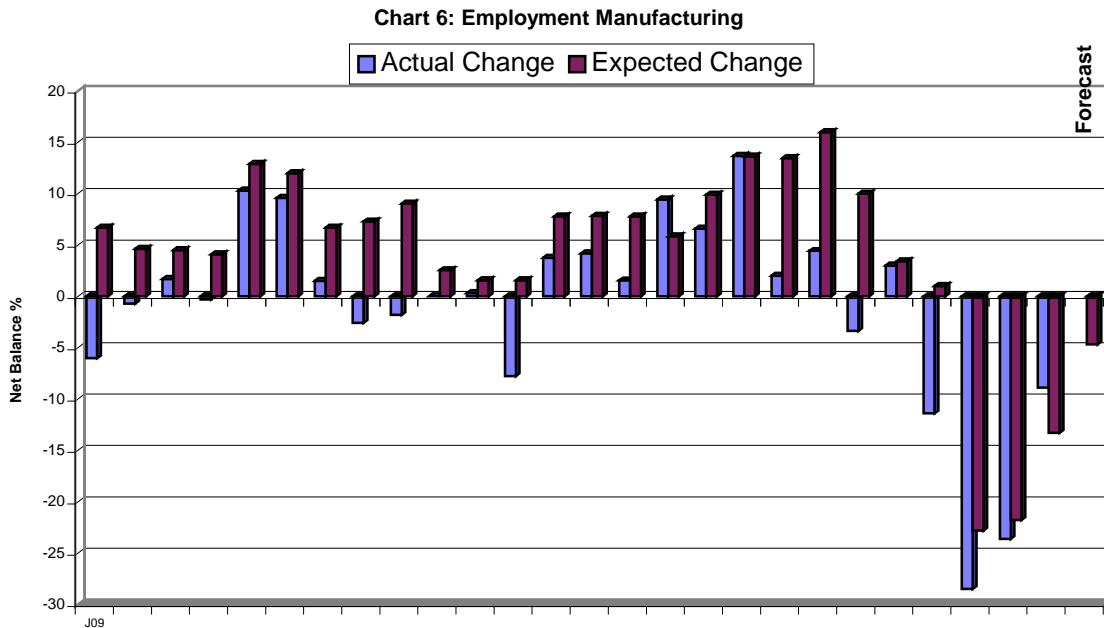


Exporting manufacturers have negative net balances of -14% and -13% for sales and orders respectively. This however is a 6 percentage point improvement for sales and a 12 percentage point increase for orders.

Services also report improvements in exports this quarter with net balances for sales up 10 percentage points to -11%. Overseas orders now stand at -12% net balance, up by 15 percentage points.

2.3 Employment in Manufacturing

“Employment shows further signs of improvement”

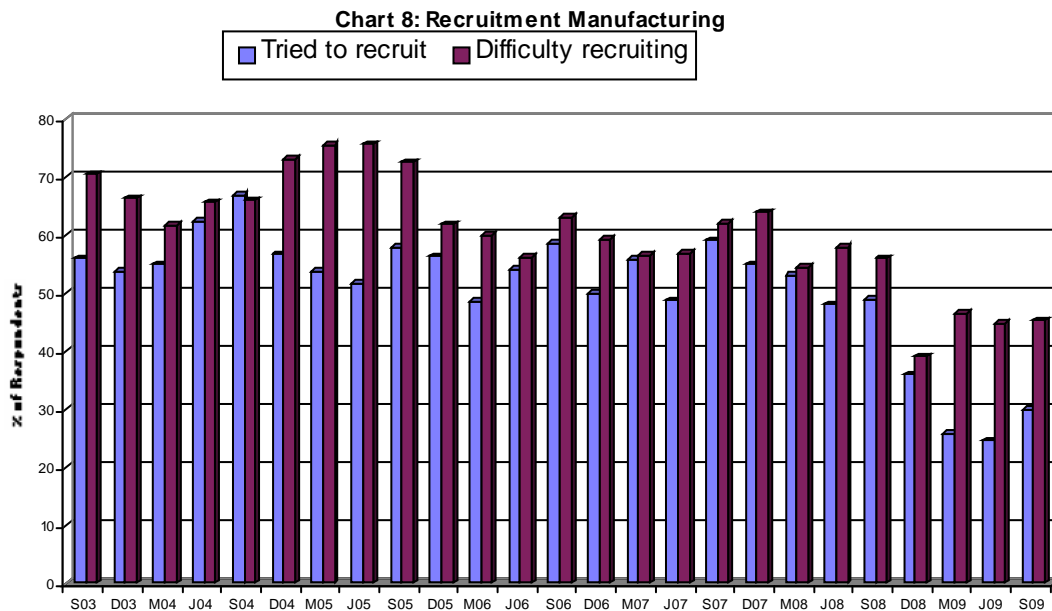


For manufacturing firms the net balance of businesses reporting an increase in actual employment growth has improved from -24% to -9%. The

forecast for next quarter is more optimistic with expectations for employment at -5%.

2.4 Recruitment in Manufacturing

“More manufacturers recruiting”



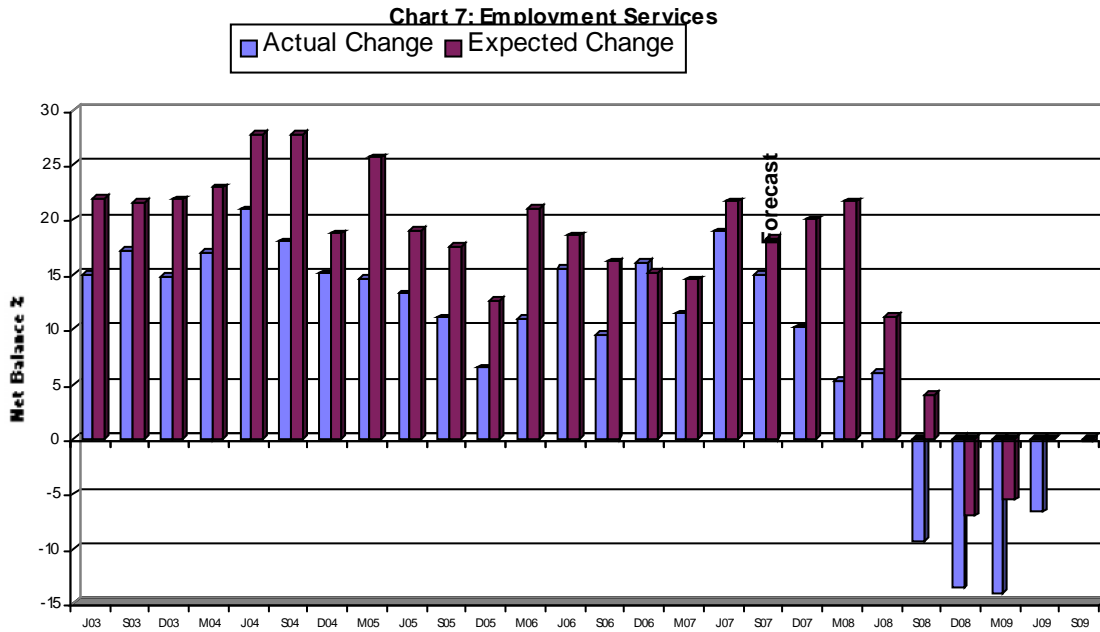
The proportion of manufacturers attempting to recruit staff over the last three months has increased from 25% to 30%. 45% of respondents reported difficulty in recruiting staff which matched last quarters result.

Recruitment of temporary and permanent jobs remains fairly stable this quarter at 48% and 53% respectively. There has been a decrease in recruitment of part time jobs, down from 21% to 12%.

The most difficult positions to fill remain skilled manual, which are listed by 26% of respondents. Manufacturers have found it harder to recruit professional / managerial employees, up to 26% from 22%. Difficulty in finding suitable un- and semi-skilled manual labour was reported by 8% of respondents this quarter, compared to 6% in quarter two.

2.5 Employment in Services

“Employment improves but still does not meet expectations”

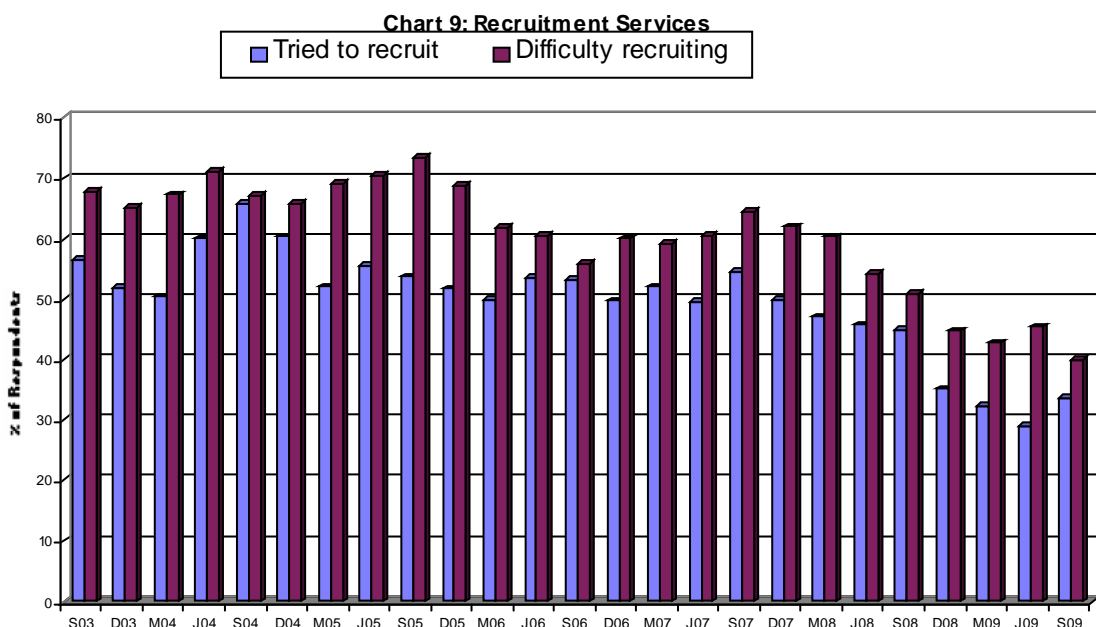


For service firms, the net balance of businesses reporting an increase in actual employment growth has improved and now stands at -7% net

balance, up from -14%. Predictions for next quarter for workforce levels are again at 0%.

2.6 Recruitment in Services

“Increases in recruitment for services”



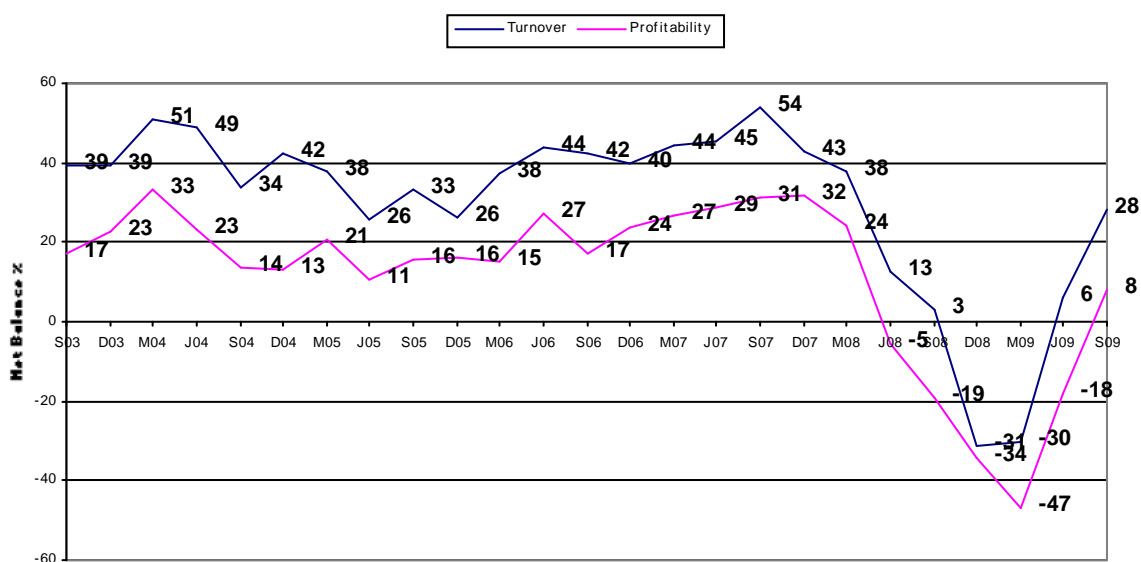
In the service sector 34% of respondents have attempted to recruit this quarter, an increase of 5 percentage points. Of these positions, 37% were part time and 63% full time, compared to 40% and 60% respectively last quarter. 34% were temporary jobs (down 1 percentage point) and 66% permanent jobs (up 1

percentage point). Skilled manual staff was the only category which became harder to recruit this quarter up by 2 percentage points to 17%. Professional / managerial fell from 22% to 16% and clerical fell from 22% to 18%. The greatest decrease was 10 percentage points in the un and semi-skilled manual category.

2.7 Confidence in Manufacturing

“Confidence improves further”

Chart 4: Confidence Manufacturing



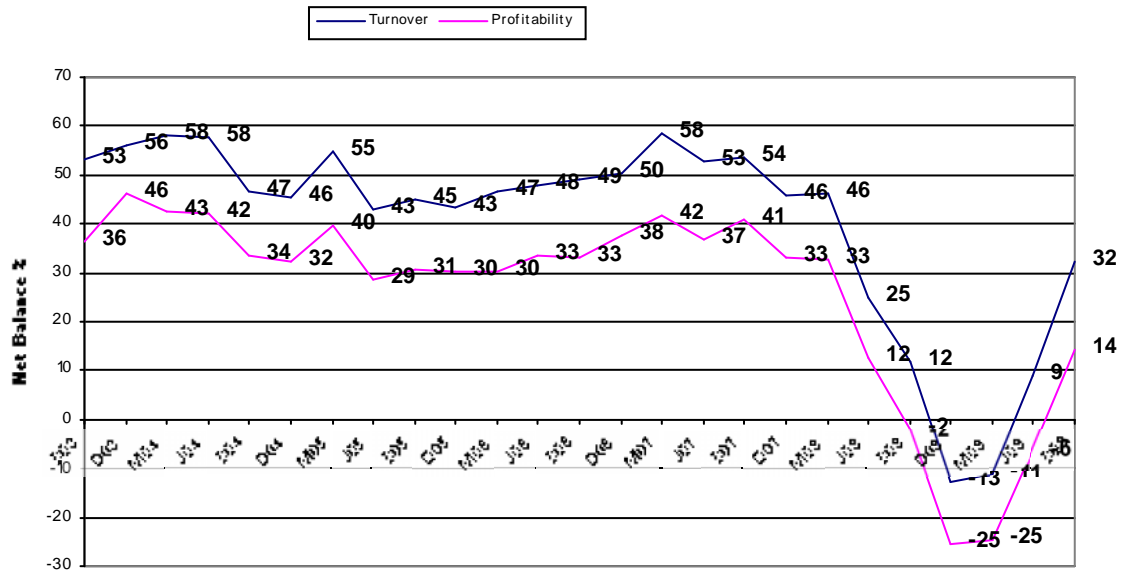
Optimism in the manufacturing sector over turnover has increased from 6% last quarter to 28% net balance this quarter.

Confidence in profitability amongst manufacturers has also increased from -18% to 8% net balance. All net balances are now in positive figures indicating cautious optimism.

2.8 Confidence in Services

“Services also confident”

Chart 5: Confidence Services



The net balance of service companies expecting an increase in turnover has also increased this quarter by 23 percentage points to 32% net balance.

Confidence in profitability has also increased to 14% net balance from – 6% in quarter two.

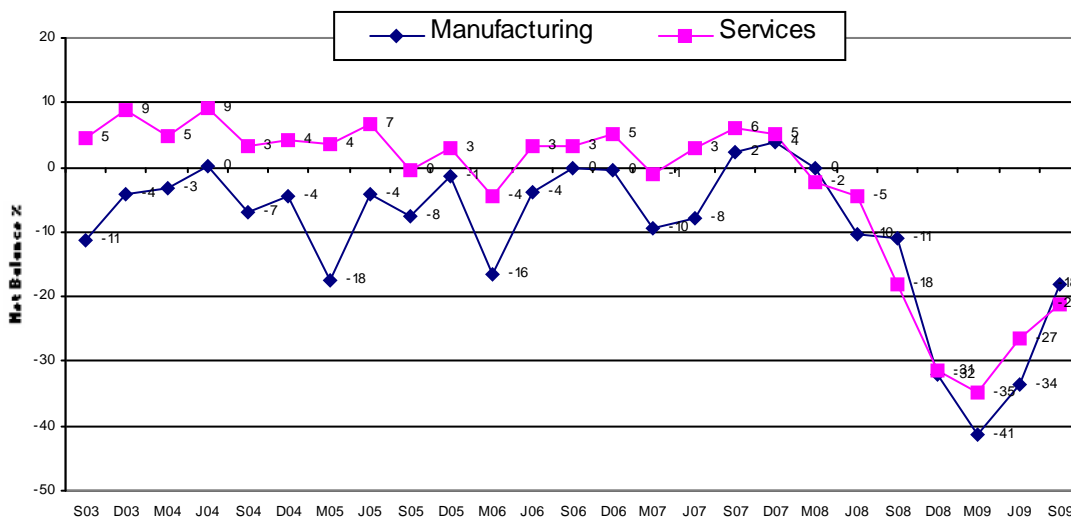
2.9 Cash Flow

“Cash flow pressure continues to ease”

For both sectors, the number of companies experiencing worsening cash flow is decreasing. For services it is –21% net balance, compared to –

27% last quarter, and for manufacturers the net balance now stands at –18% from –34% 3 months ago.

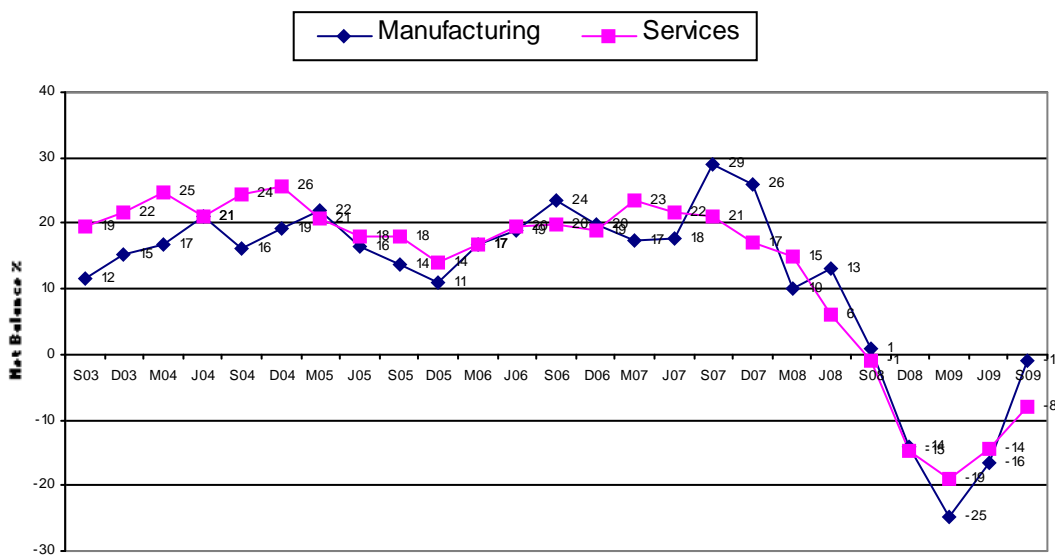
Chart 10: Cashflow



2.10 Investment in Plant & Machinery

“Investments plans improving slowly”

Chart 11: Investment Plant & Machinery

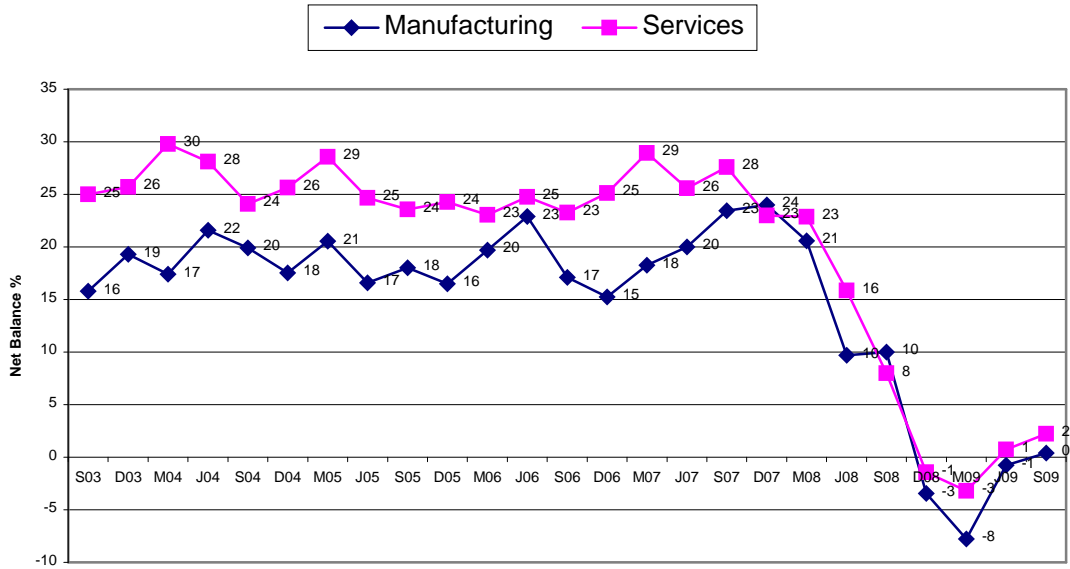


For manufacturing, an increasing number of companies have revised their investment plans for plant and machinery upwards. The net balance has gone from -16% to -1% net balance.

Services have also followed this trend; with a net balance of -8%, which is an increase of 6 percentage points.

A small number of respondents also state investment in training also beginning to increase this quarter with a 1 percentage point increase for manufacturers to 0% net balance and from 1% to 2% net balance for services.

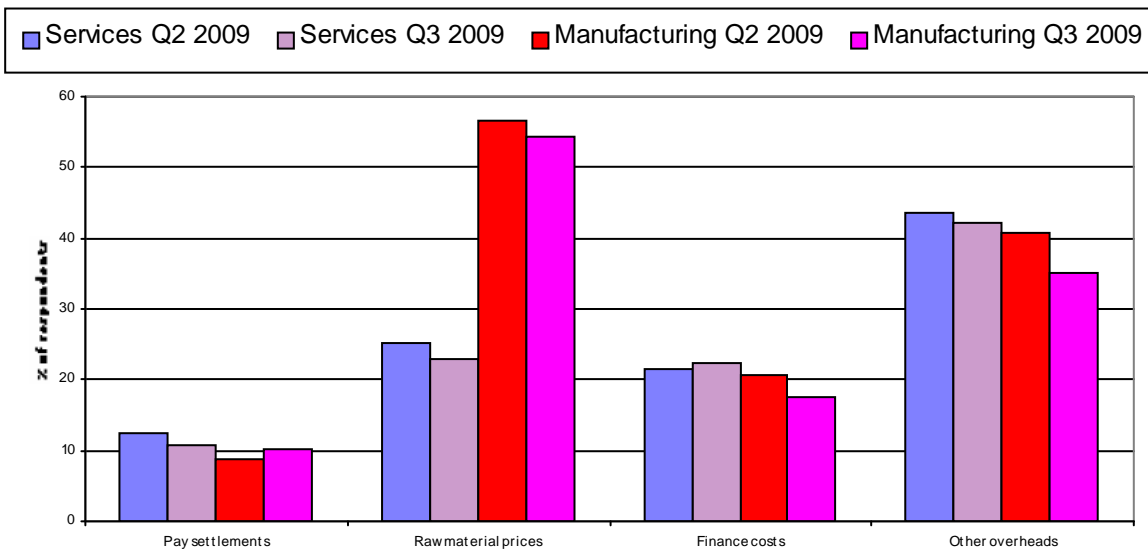
Chart 12: Investment Training



2.11 Price Pressures

“Finance cost pressure eases for manufacturers”

Chart 14: Price Pressures



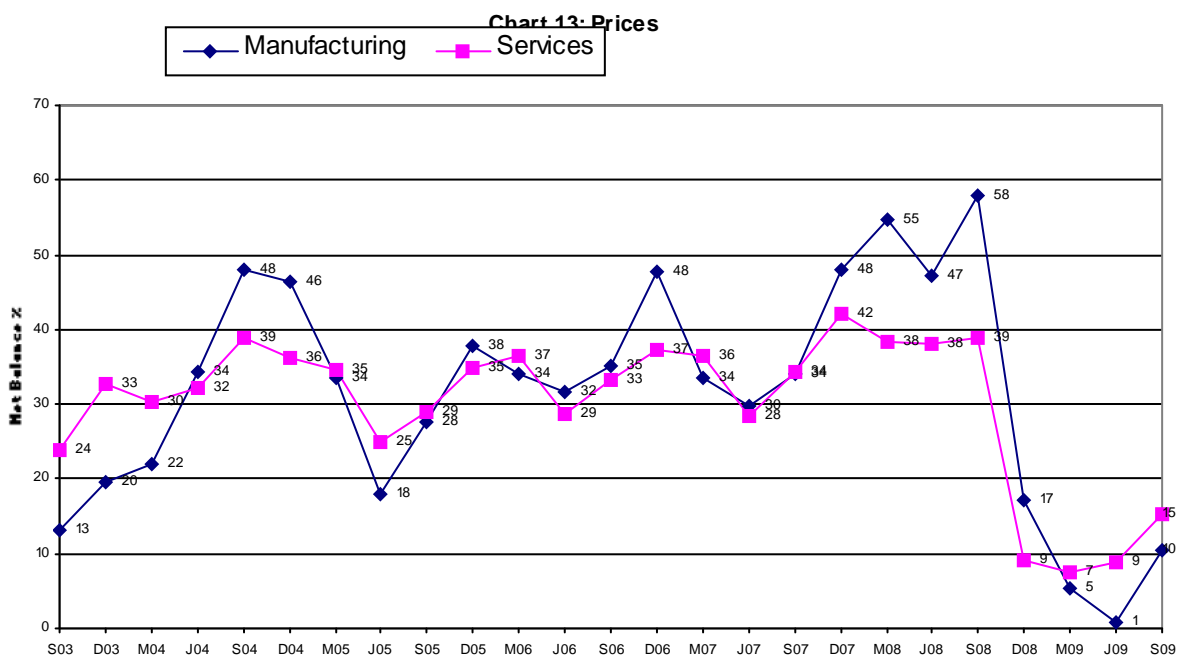
The biggest price pressure remains raw materials for manufacturers. 54% of respondents reported this as a pressure, although this is a decrease of 3 percentage points from last quarter. The second highest price pressure for manufacturers is due to other overheads although this has decreased from 41% to 35%. The least cause for concern was pressure to pay settlements at 10% up 1 percentage point. A big decrease in pressure for manufacturers is finance costs down from 21% to 17%.

For services, other overheads remain the greatest price pressure at 42%, down from 44% in quarter two. Raw material prices for services is the second highest pressure at 23%, a decrease of 2 percentage points. Pressure to pay settlements remains the lowest pressure for both sectors, but is higher for services at 11%. Finance cost pressure for services has remained stable at 22%.

2.12 Prices

Over the next 3 months a net balance of 10% of manufacturers expect the prices of their goods to increase; this is up from 1% net balance last quarter.

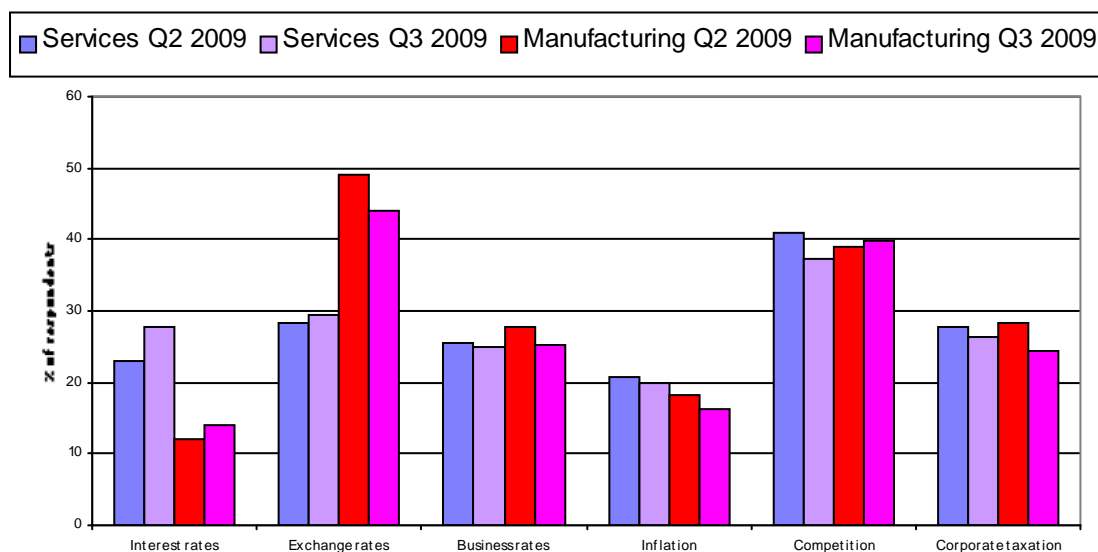
A net balance of 15% of service respondents expect the price of their goods / services to increase, up by 6 percentage points.



2.13 External Factors

“Competition remains a worry ”

Chart 15: External Factors



The main concern for manufacturers this quarter is exchange rates at 44%, down from 49% three months ago. A decreasing area of concern for manufacturers is business rates with a 3 percentage point decrease to 25%. Of least concern to manufacturers this quarter is interest rates at 14%, however this has increased from 12% last quarter.

A big concern for both manufacturers and services this quarter is competition with 40% of manufacturers

citing this as a concern, and competition is the greatest anxiety for services at 37%.

For services, concern about business rates remain unchanged at 25%. An increasing worry for services are concerns over exchange rates up from 28% to 29%. Concern over inflation amongst services has dampened slightly at 20% this quarter compared to 21% 3 months ago. Inflation is of least concern to services.

| | | Manufacturing | | | | Services | | | |
|---|----------------------------|---------------|-------|-------|-------|----------|-------|-------|-------|
| | | Q4 08 | Q1 09 | Q2 09 | Q3 09 | Q4 08 | Q1 09 | Q2 09 | Q3 09 |
| Deliveries And Orders | | % | % | % | % | % | % | % | % |
| Sales/custom/bookings have... | Rise | 20 | 12 | 15 | 22 | 19 | 17 | 21 | 29 |
| | Same | 29 | 26 | 30 | 40 | 39 | 36 | 36 | 39 |
| | Fall | 51 | 63 | 55 | 38 | 42 | 47 | 43 | 32 |
| | net | -32 | -51 | -39 | -16 | -24 | -30 | -22 | -3 |
| Orders/advance custom/bookings have... | Rise | 17 | 12 | 14 | 19 | 16 | 16 | 17 | 22 |
| | Same | 27 | 25 | 29 | 40 | 37 | 33 | 37 | 44 |
| | Fall | 56 | 63 | 57 | 41 | 47 | 51 | 46 | 34 |
| | net | -38 | -50 | -43 | -22 | -31 | -35 | -29 | -12 |
| Overseas sales/custom/bookings have... | Rise | 25 | 22 | 22 | 22 | 14 | 20 | 17 | 20 |
| | same | 37 | 34 | 36 | 41 | 53 | 46 | 45 | 49 |
| | fall | 38 | 43 | 42 | 37 | 33 | 35 | 38 | 31 |
| | net | -13 | -21 | -20 | -14 | -18 | -15 | -21 | -11 |
| Overseas orders/ advance custom/bookings have.. | rise | 19 | 21 | 20 | 24 | 14 | 18 | 14 | 18 |
| | same | 39 | 32 | 35 | 40 | 53 | 44 | 45 | 52 |
| | fall | 42 | 48 | 45 | 36 | 33 | 38 | 41 | 30 |
| | net | -22 | -27 | -25 | -13 | -18 | -20 | -27 | -12 |
| Labour | | | | | | | | | |
| Over the past 3 months, has your workforce: | increased | 15 | 10 | 13 | 15 | 15 | 13 | 11 | 15 |
| | Remained constant | 59 | 51 | 51 | 61 | 61 | 61 | 64 | 63 |
| | reduced | 26 | 39 | 36 | 24 | 24 | 26 | 25 | 22 |
| | net | -11 | -28 | -24 | -9 | -9 | -14 | -14 | -7 |
| Over the next 3 months, do you expect your workforce to: | increase | 8 | 9 | 10 | 14 | 12 | 14 | 15 | 14 |
| | remain constant | 62 | 61 | 68 | 68 | 70 | 67 | 70 | 72 |
| | decrease | 31 | 30 | 23 | 18 | 19 | 19 | 15 | 14 |
| | net | -23 | -22 | -13 | -5 | -7 | -6 | 0 | 0 |
| Have you attempted to recruit staff over the past 3 months? | yes | 36 | 26 | 25 | 30 | 35 | 32 | 29 | 34 |
| | no | 64 | 74 | 75 | 70 | 65 | 68 | 71 | 66 |
| If yes, were they for: (please tick all that apply) | part-time jobs? | 15 | 14 | 21 | 12 | 31 | 36 | 40 | 37 |
| | full-time jobs? | 85 | 86 | 79 | 88 | 69 | 64 | 60 | 63 |
| | temporary jobs? | 30 | 41 | 42 | 48 | 37 | 38 | 35 | 34 |
| | permanent jobs? | 70 | 59 | 58 | 53 | 63 | 62 | 65 | 66 |
| Did you experience any difficulties finding suitable staff? | yes | 39 | 47 | 45 | 45 | 45 | 43 | 46 | 40 |
| | no | 34 | 55 | 79 | 66 | 70 | 72 | 73 | 72 |
| If yes, for which of the following categories of employee: | | | | | | | | | |
| | skilled manual | 44 | 33 | 28 | 26 | 23 | 14 | 15 | 17 |
| | professional/managerial | 26 | 15 | 22 | 26 | 20 | 21 | 22 | 16 |
| | clerical | 10 | 13 | 15 | 17 | 20 | 20 | 22 | 18 |
| | un and semi-skilled manual | 9 | 10 | 6 | 8 | 12 | 12 | 20 | 10 |
| Cashflow | | | | | | | | | |
| During the last three months has your cashflow: | improved | 13 | 10 | 14 | 18 | 13 | 11 | 14 | 18 |
| | same | 42 | 40 | 38 | 45 | 43 | 43 | 46 | 43 |
| | worse | 45 | 51 | 48 | 37 | 44 | 46 | 40 | 39 |
| | net | -32 | -41 | -34 | -18 | -31 | -35 | -27 | -12 |

| Investment | | | | | | | | | |
|---|----------------------------|------------|------------|------------|-----------|------------|------------|------------|-----------|
| For plant/machinery/equipment ? | revised upwards | 15 | 9 | 15 | 21 | 13 | 11 | 11 | 14 |
| | unchanged | 56 | 58 | 55 | 57 | 59 | 59 | 63 | 64 |
| | revised downwards | 29 | 33 | 31 | 22 | 28 | 30 | 26 | 22 |
| | net | -14 | -25 | -16 | -1 | -15 | -19 | -14 | -8 |
| For training ? | revised upwards | 16 | 16 | 19 | 17 | 17 | 17 | 17 | 17 |
| | unchanged | 64 | 60 | 61 | 66 | 65 | 62 | 67 | 68 |
| | revised downwards | 20 | 24 | 20 | 17 | 18 | 20 | 16 | 15 |
| | net | -3 | -8 | -1 | 0 | -1 | -3 | 1 | 2 |
| Confidence (For Next 12 Months) | | | | | | | | | |
| Do you believe that over the next 12 months turnover will: | improve | 23 | 23 | 40 | 50 | 30 | 30 | 39 | 50 |
| | Remain the same | 23 | 23 | 26 | 29 | 27 | 29 | 31 | 33 |
| | worsen | 54 | 53 | 34 | 21 | 43 | 41 | 30 | 17 |
| | net | -31 | -30 | 6 | 28 | -13 | -11 | 9 | 32 |
| Profitability will | improve | 22 | 16 | 28 | 39 | 26 | 24 | 32 | 41 |
| | Remain the same | 22 | 21 | 25 | 30 | 23 | 28 | 29 | 32 |
| | worsen | 56 | 63 | 47 | 31 | 51 | 49 | 39 | 27 |
| | net | -34 | -47 | -18 | 8 | -25 | -25 | -6 | 14 |
| Production | | | | | | | | | |
| At the present time the percentage of firms working | | | | | | | | | |
| | at full capacity is | 22 | 18 | 18 | 21 | 29 | 26 | 24 | 25 |
| | at less than full capacity | 78 | 82 | 82 | 79 | 71 | 74 | 76 | 75 |
| Prices/Costs | | | | | | | | | |
| Over the next 3 months, do you expect the price of your goods /services | increase | 36 | 27 | 20 | 22 | 27 | 24 | 23 | 25 |
| | remain the same | 46 | 51 | 60 | 67 | 55 | 59 | 63 | 65 |
| | decrease | 19 | 22 | 20 | 11 | 18 | 17 | 14 | 10 |
| | net | 17 | 5 | 1 | 10 | 9 | 7 | 9 | 15 |
| Is your business currently suffering pressures to raise its prices from any of the following? (tick all that apply) | pay settlements | 22 | 14 | 9 | 10 | 10 | 12 | 13 | 11 |
| | raw material prices | 73 | 61 | 57 | 54 | 24 | 27 | 25 | 23 |
| | finance costs | 22 | 21 | 21 | 17 | 22 | 18 | 22 | 22 |
| | other overheads | 51 | 43 | 41 | 35 | 40 | 37 | 44 | 42 |
| External Factors | | | | | | | | | |
| your business than three months ago. (tick all that apply) | interest rates | 26 | 15 | 12 | 14 | 27 | 21 | 23 | 28 |
| | exchange rates | 55 | 54 | 49 | 44 | 19 | 20 | 28 | 29 |
| | business rates | 28 | 31 | 28 | 25 | 24 | 28 | 25 | 25 |
| | inflation | 30 | 10 | 18 | 16 | 29 | 16 | 21 | 20 |
| | competition | 33 | 38 | 39 | 40 | 41 | 40 | 41 | 37 |
| | corporate taxation | 29 | 28 | 28 | 24 | 23 | 24 | 28 | 26 |
| Number of respondent companies* | | 275 | 300 | 275 | 263 | 1050 | 977 | 776 | 845 |
| Number of employees | | 14239 | 14822 | 35710 | 26185 | 48401 | 37266 | 214880 | 36721 |