



**NORTH WEST
QUARTERLY ECONOMIC SURVEY
Quarter 4 2010**

Full Report

Findings from the Chambers of Commerce North West's first Quarterly Economic Survey of 2010 (Q4)

About this Quarter's Survey

The survey collection period for the Q4 2010 survey was from 15th November to 8th December. This quarter 1,415 firms from across the North West completed the survey, employing 281,341 people.

- From the manufacturing sector, 411 businesses employing 98,561 people responded to the survey;
- From the service sector, 1,004 businesses employing 182,780 people responded to the survey.

The following North West Chambers contributed to this report:

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

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 Sana Nabi on 0161 237 4045 or email sana.nabi@gmchamber.co.uk.

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

Contents

Section	Page
Report Summary - Manufacturing	4
Report Summary - Services	5
UK Sales and Orders	6
Export Sales and Orders	7
Employment and Recruitment in Manufacturing	8
Employment and Recruitment in Services	9
Business Confidence	10
Investment Intentions	11
Cashflow and Prices	12
Price Pressures in Manufacturing	13
External Factors in Manufacturing	13
Price Pressures in Services	14
External Factors in Services	14
Recent Quarter Results - Manufacturing	15
Recent Quarter Results - Services	16

Report Summary - Manufacturing

- **A third consecutive quarter of growth for the region's manufacturers**
- **Export demand continues to grow**
- **Job creation weakens over the quarter, but remains positive and there are positive intentions for the New Year**
- **Cashflow difficulties ease and investment plans are positive**
- **Confidence falls back for the second quarter**

Although all balances for sales and orders across the manufacturing sector weakened this quarter there have now been three quarters of positive growth in the domestic market and five quarters of growth in exports. This continues to be encouraging, demonstrating that the sector is continuing to compete, despite the global slowdown in demand. This slowdown in demand is not unexpected, though our broad measure of manufacturing includes the construction sector. The construction sector in the region continues to be in the grip of the recession despite national figures indicating strong growth nationally, and we believe manufacturers themselves are seeing much stronger demand, investment and job creation as this report suggests.

Domestic sales and orders for manufacturers across the North West have weakened slightly this quarter, each measure dropping 2% to +13% and +3% respectively. Likewise there has been a slowdown in the growth of export sales and orders, down 4% and 6% to +20% and +11% respectively. The slowdown appears to reflect the performance of construction firms.

Private sector job creation continues this quarter (+7%), though at the weaker pace that had been anticipated during last quarter's survey. Intentions for the coming quarter have also weakened to +4%, down 2% from Q3. The pace of job creation in the private sector is slowing in response to the anticipated weakening in demand as a result of the public sector job losses. On the back of weaker job creation, and the likely release of seasonal workers, the number of Jobseeker's Allowance claimants is likely to increase in the New Year.

Over the quarter cashflow difficulties marginally eased to -7%. This continues to impact on investment intentions, with balances showing slightly lower intentions for the coming twelve months at +3% and +7% for plant & machinery and training respectively. Confidence for turnover is down 3% at +28%, though profitability fell to +5% as manufacturing faces raw material price pressures and is looking to increase prices in the New Year.

The recovery remains on track in terms of manufacturing, though these results mask the challenges still being faced by the construction sector. A strong performance from manufacturers themselves should help to mitigate some of the job losses in the public sector and play an important part in rebalancing the North West's economy.

Report Summary - Services

- **Domestic demand for services continues to see growth this quarter, though orders remain in negative territory**
- **Growth picks up for exports sales**
- **Employment balance remains positive; job creation likely to be flat**
- **Cashflow remains a difficulty, but investment plans are increasing**
- **Confidence remains positive, though falls again slightly on the previous quarter**

The North West's service sector has now seen three consecutive quarters of positive growth in the domestic market with export sales also strengthening. This is positive news given that many businesses in this sector of the economy have already seen cuts to demand from public sector bodies ahead of October's Comprehensive Spending Review. What these figures demonstrate is that our prediction of a weak recovery remains valid and the Bank of England should maintain an expansionary stance at this time, maintaining a low interest rate to avoid distressing household spending and businesses, as further austerity measures will weaken domestic demand from the start of the New Year.

Domestic orders and sales fell 2% to +7% and -5% respectively. The order measure has now been negative since Q1 2008, demonstrating that customers are delaying decisions at present. Export sales strengthened slightly by 3% to +11%, though orders saw stable growth at +3%.

Recruitment over the quarter continued to strengthen ever so slightly, up 2% at +5%, the fourth consecutive quarter's positive balance. Intentions to recruit remain stronger at +7%, though this seems unlikely to be strong enough to prevent an increase in the claimant count in the early New Year.

Cashflow remains negative, though steady at -10%. This is disappointing and probably prevented firms strengthening their intentions to invest. Plans for investment in plant & machinery remain positive, though weak, slightly up at +3%. Investment in training looks set to fall back, though again positive at +4%.

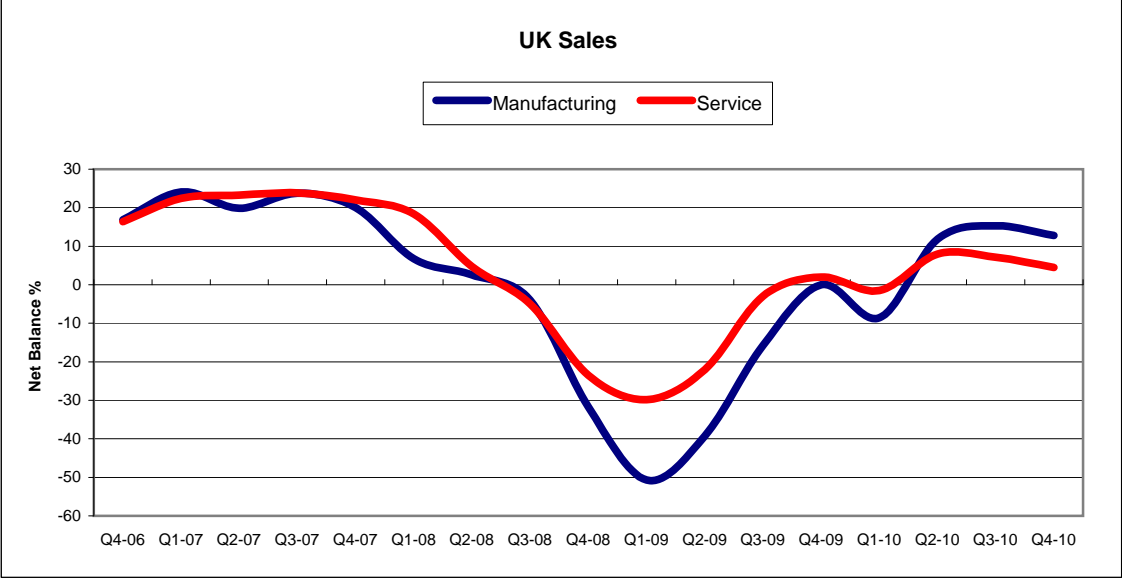
Despite the difficulties faced by the economy and demand, confidence across the service sector remains positive, falling back only slightly by 3% on each measure to +24% and +10% for turnover and profitability respectively.

With no clear indication of price pressures or an increase in those operating at capacity, the rise in the balance of firms intending to increase prices to +33%, the highest balance since Q3 2008, would seem to suggest that service sector firms are set to pass on the VAT increase in January.

Overall we are encouraged by these results and feel that the region's economy will be able to deal with the challenges of 2011 without re-entering recession if the policy response remains supportive of the private sector.

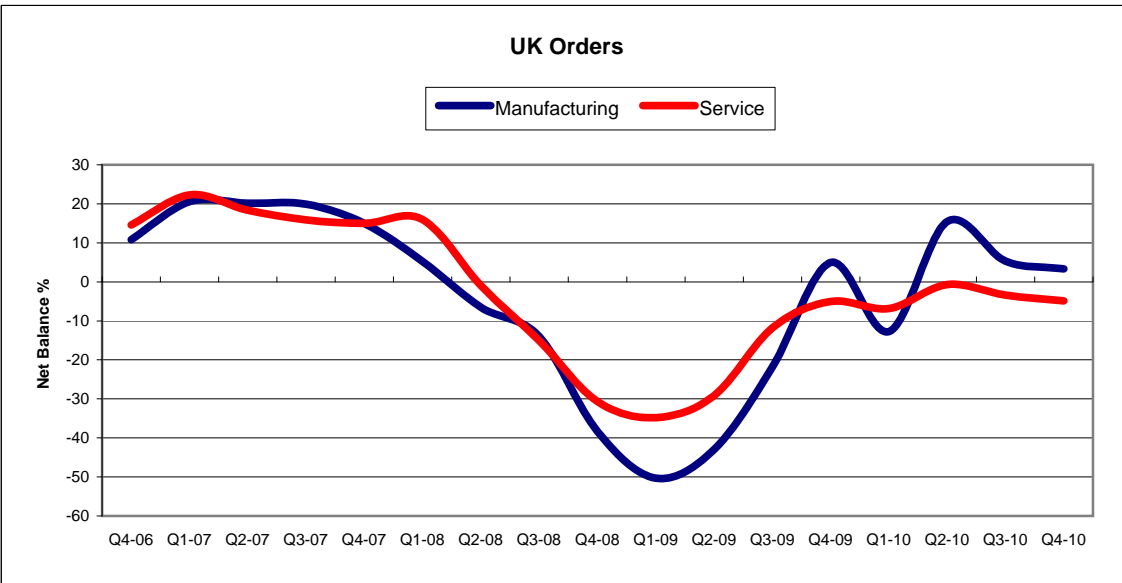
UK Sales and Orders

"Domestic sales weaken, but maintain growth"



The Manufacturing sector's domestic sales growth was maintained this quarter, decreasing slightly to +13% from last quarter's +15%. Domestic orders in the sector have slowed down slightly to +3%, however orders still remain positive compared to -13% in Q1 at the start of this year.

The domestic market for the service sector continues to grow, though it fell back further by 2 points this quarter to +5%. Similarly, it is a concern that the service sector is not seeing stronger growth in orders and it has failed to improve from last quarter's -3% and now stands at -5%.



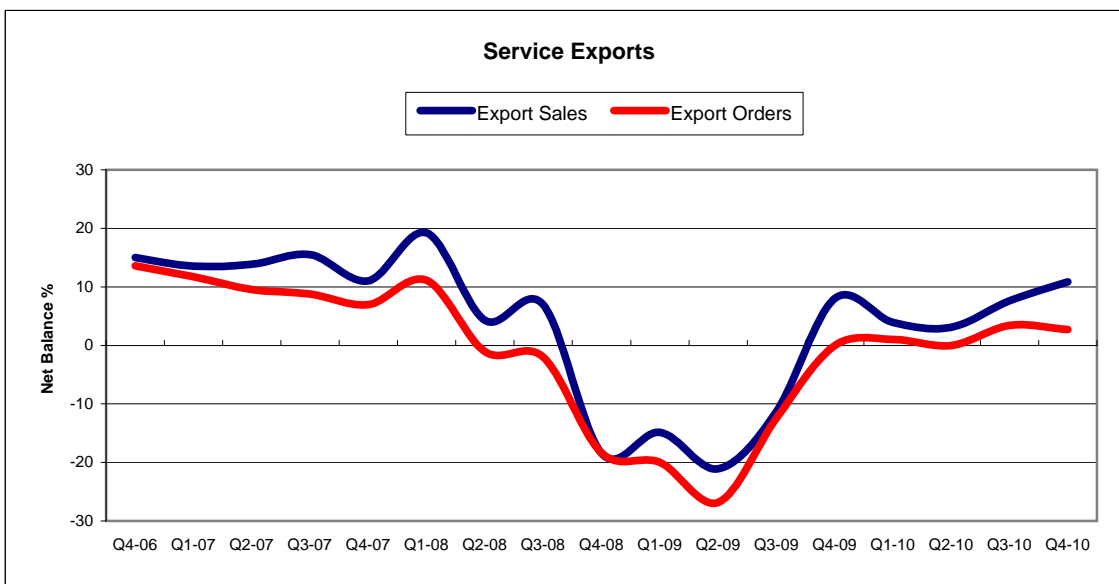
Export Sales and Orders

"Manufacturing exports continue growth and service exports close to two year high"



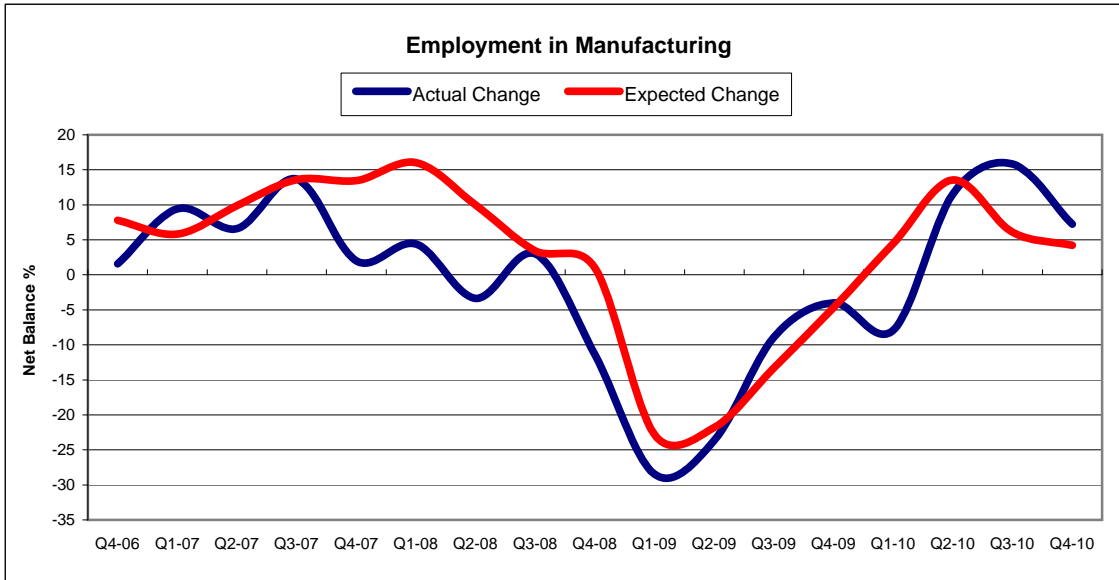
Manufacturing export sales are still looking healthy though they have decreased by 4 points from last quarter to +20%. The growth in orders has also continued, though it has faltered a little down to +11%. Although manufacturing exporters in the region are still seeing growth, the trend this quarter suggests demand is slowing down.

The service sector has seen a steady increase in export sales, with the balance climbing 3% to +11% this quarter, the highest balance since Q1 2008. Export orders have remained stable and growth continues at the same balance of +3%, as in Q3.



Employment and Recruitment in Manufacturing

"Employment continues to rise, meeting last quarter's expectations"

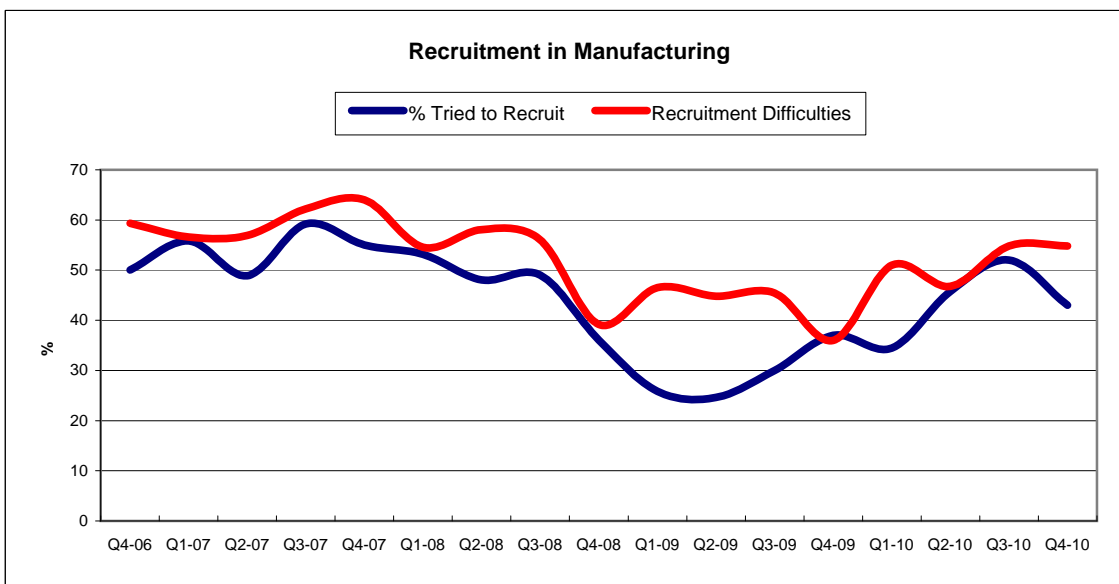


Employment in the manufacturing industry has significantly weakened from last quarters +16% to +7%. Whilst this remains positive, it is a concern that although also still positive, expectations for job creation at +4% in the coming quarter are slowing at a time when they need to accelerate.

The proportion of manufacturing firms attempting to recruit has dipped 9 points to 43% and those experiencing

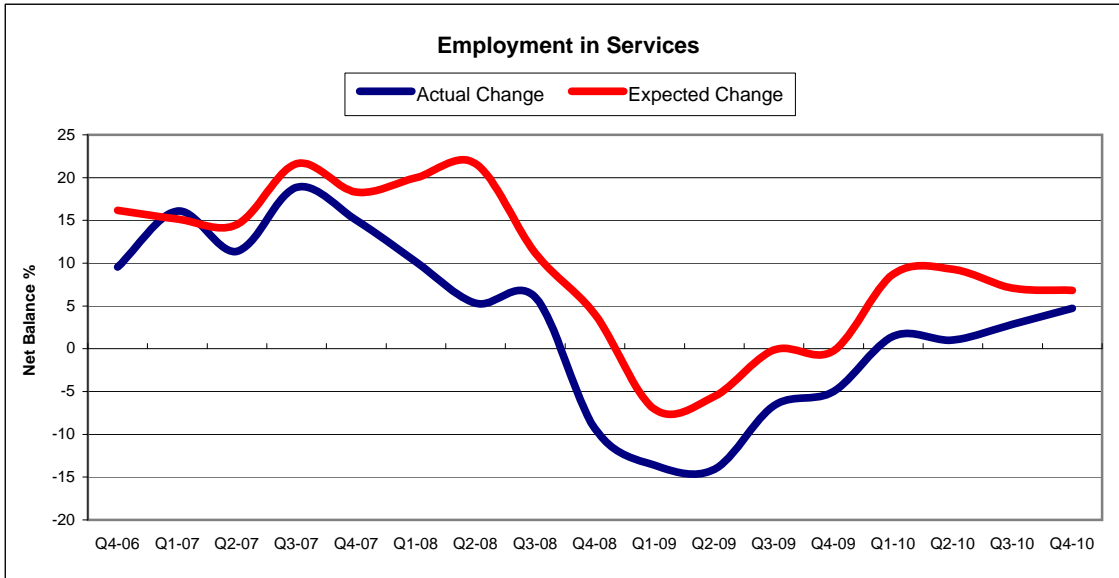
difficulties in recruiting has remained the same as last quarter at 55%.

Of the jobs available within the sector, demand for part-time and temporary workers has increased whilst demand for full-time and permanent employees has decreased, following last quarter's trend. Skilled roles remain the most difficult to fill. This has increased by 7 points.



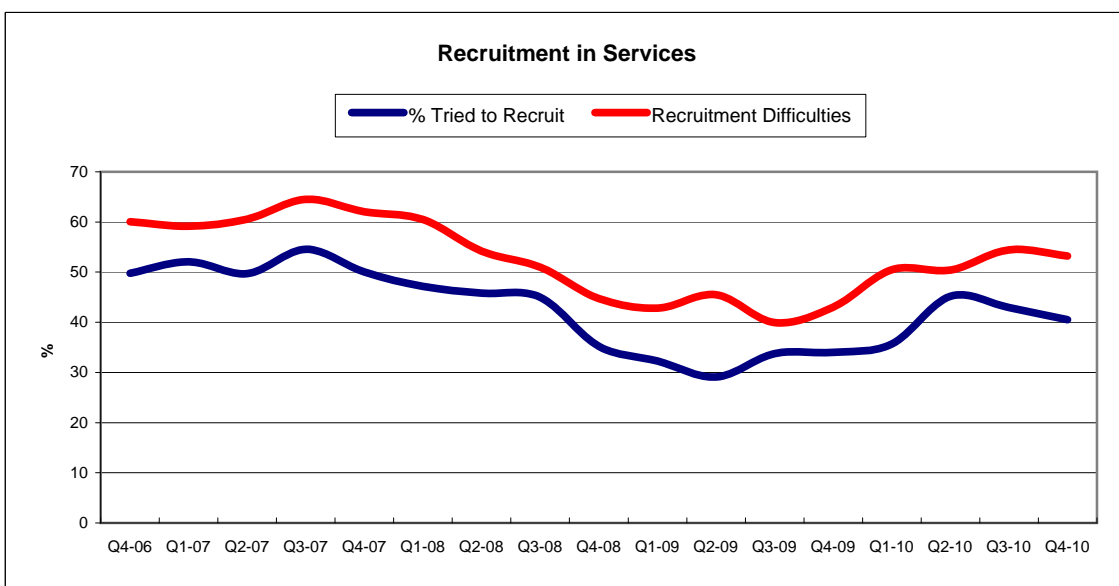
Employment and Recruitment in Services

"Job creation in the service sector remains positive this quarter - small and medium sized firms are creating most jobs"



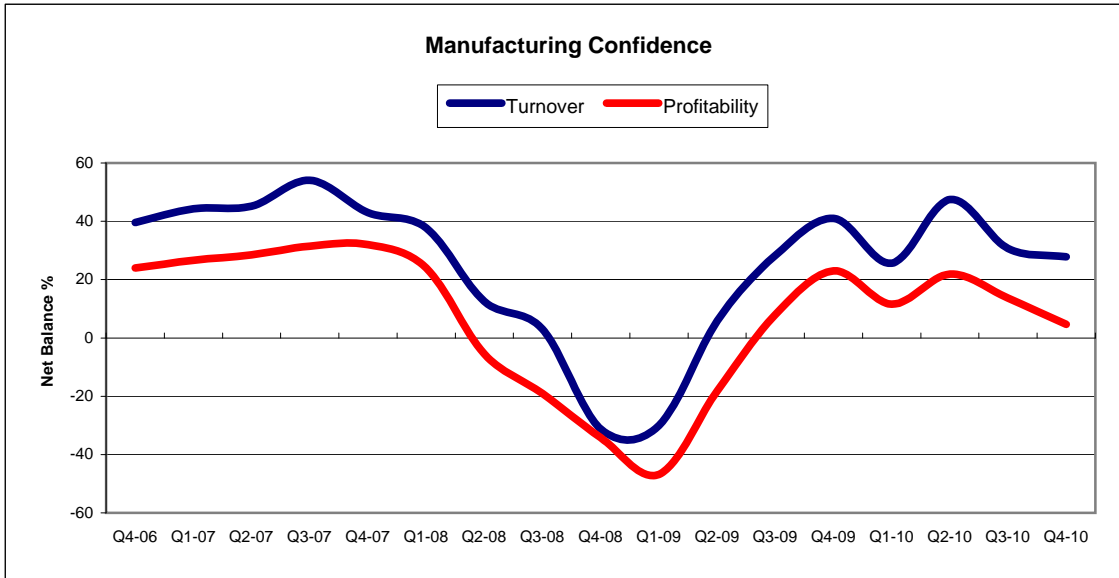
Another subdued quarter for job creation in the North West's service sector, although employment balances remain positive at +5%, up 2% on Q3 and the highest since Q3 2008. This is encouraging as service sector businesses are already seeing the impact of the public sector cuts. Expectations for job creation remain the same as last quarter's +7%.

The number of businesses reporting that they have attempted to recruit fell slightly from 43% to 41%. There was also a rise in the number of part-time and temporary roles sort. This may reflect demand for seasonal workers. There was a slight decrease the proportion of businesses experiencing recruitment difficulties, down to 53%. Clerical positions remain the hardest to find suitable candidates.



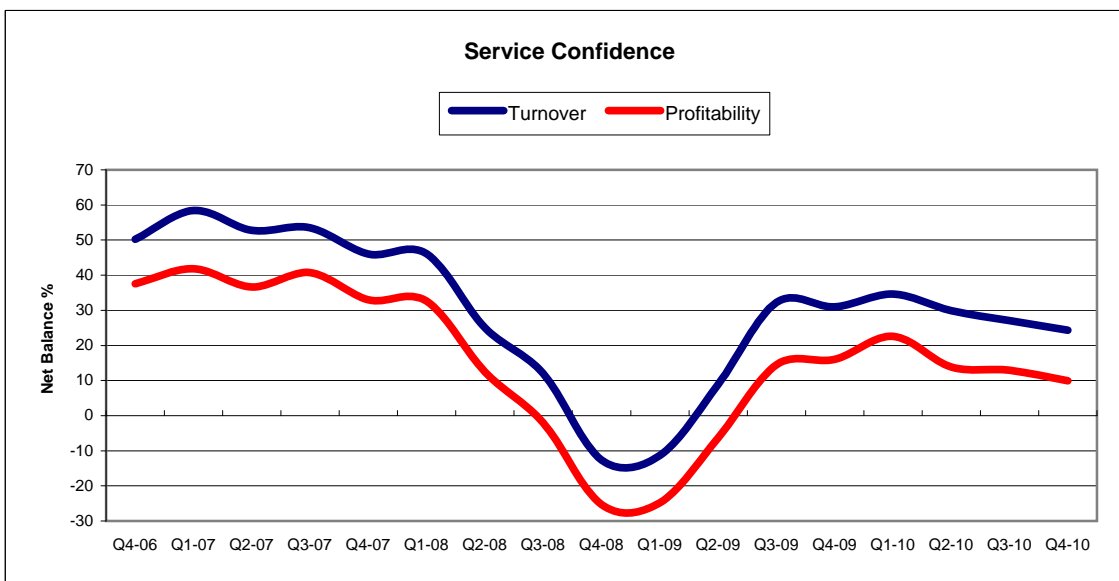
Business Confidence

"Confidence falls slightly, though outlook for manufacturing profits is most down"



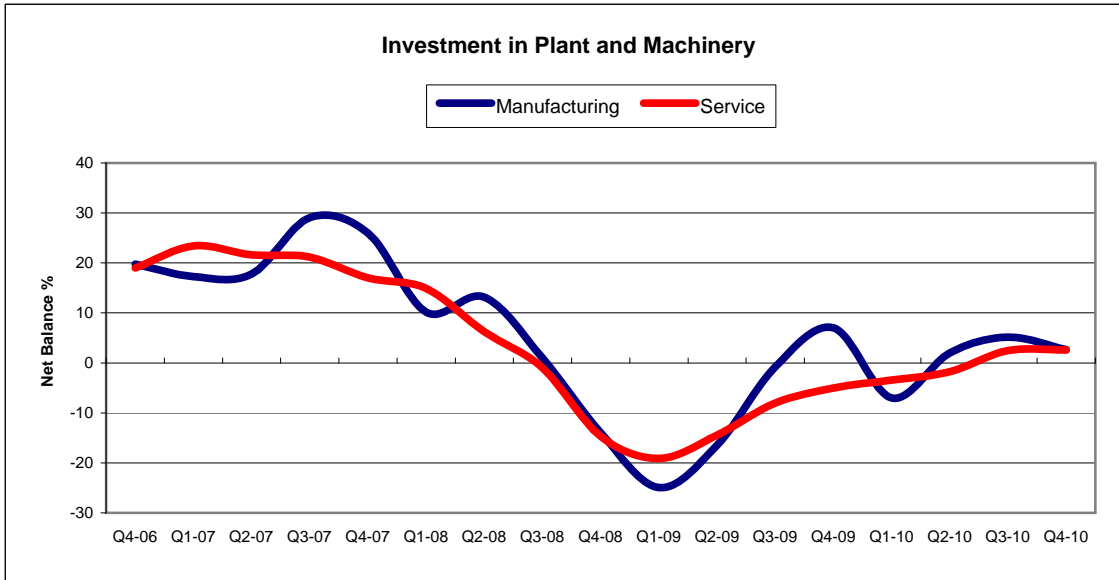
Manufacturers' confidence this quarter has fallen on both measures. Turnover has fallen slightly to +28% however confidence in profitability has significantly slowed down to +5% from +14% last quarter, the lowest it has been since Q3 2009. This data reflects the decline in domestic sales and export orders. That said the balances remain positive reflecting cautious optimism.

The service sector has seen confidence fall once again this quarter, with both measures dropping by 3 points to +24 and +10 for turnover and profitability respectively. In spite of the slow pace of the recovery these balances are holding up well.



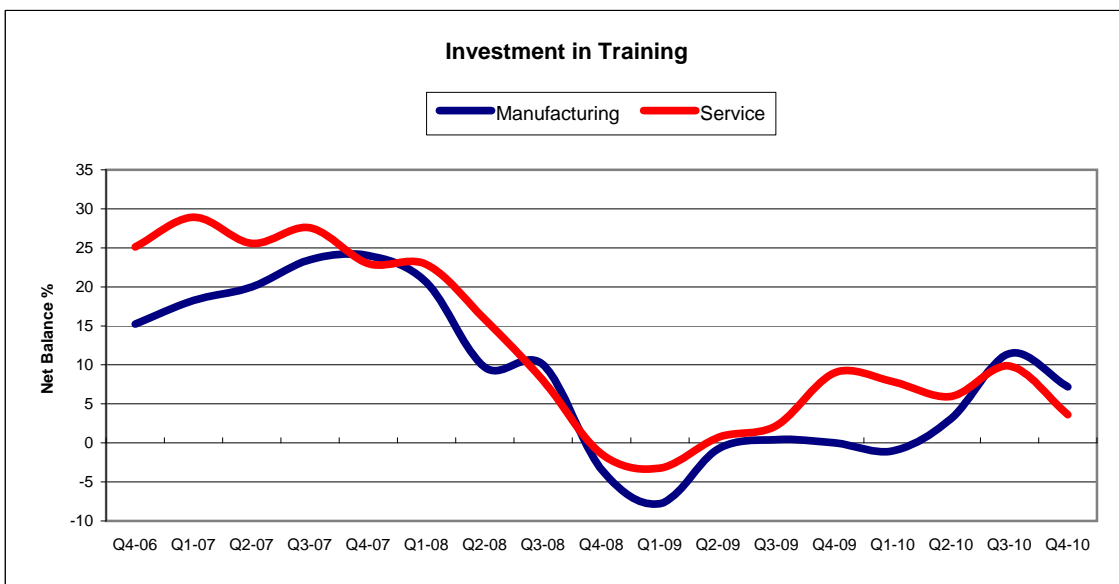
Investment Intentions

"Future investment plans remain positive, but weaken ahead of a challenging year"



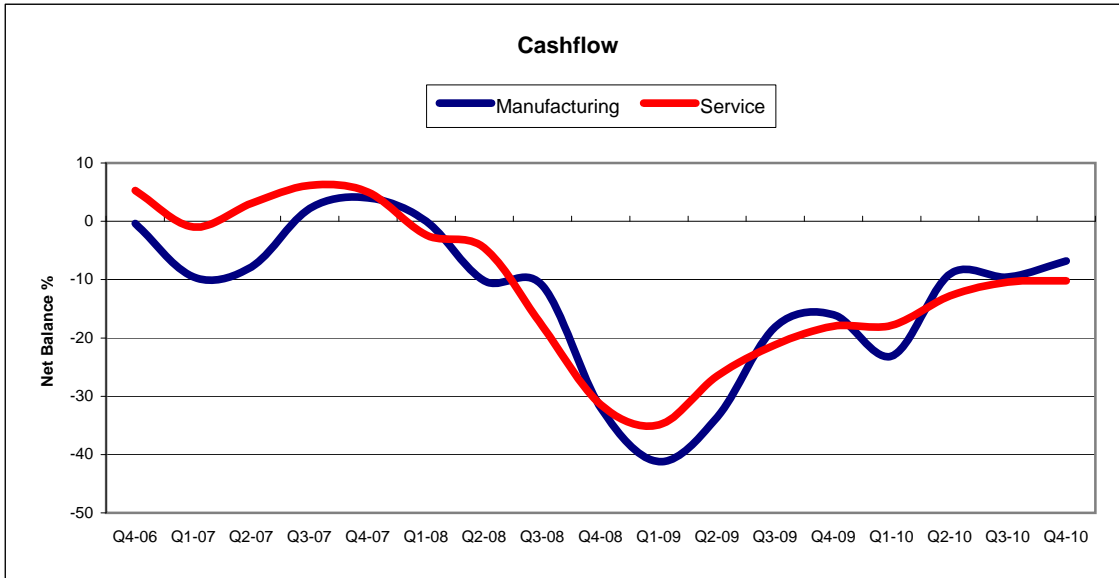
Manufacturers' plans for investment have decreased on both measures this quarter, though they still remain positive, as these have been now for three quarters. These balances are now +3% for investment in plant and machinery and +7% for training. Whilst this is weak it is hoped that this investment remains positive in the coming quarters next year, as this investment is vital to help businesses to grow.

Investment plans for plant and machinery by service sector businesses in the region still remain positive and have increased by 1 point to +3%, the highest it has been since Q2 2008. The net balance for training investment has slowed down to +4% from +10% in the previous quarter.



Cashflow and Prices

"Cashflow difficulties remain"

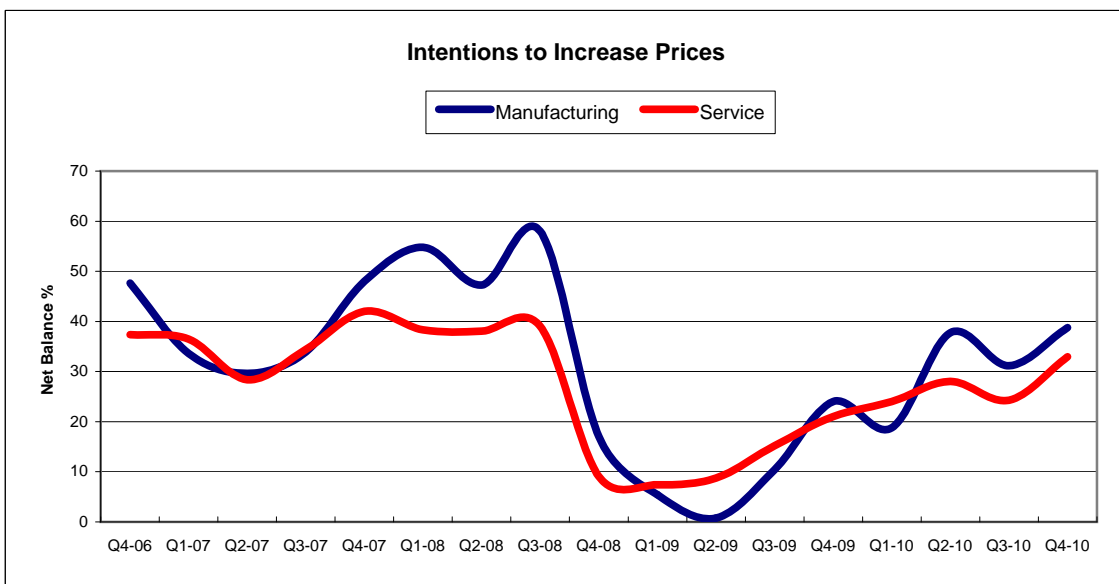


Cashflow this quarter still remains in negative territory. Access to finance is likely to be the main problem for businesses in both sectors, though businesses are increasing their plans for investment.

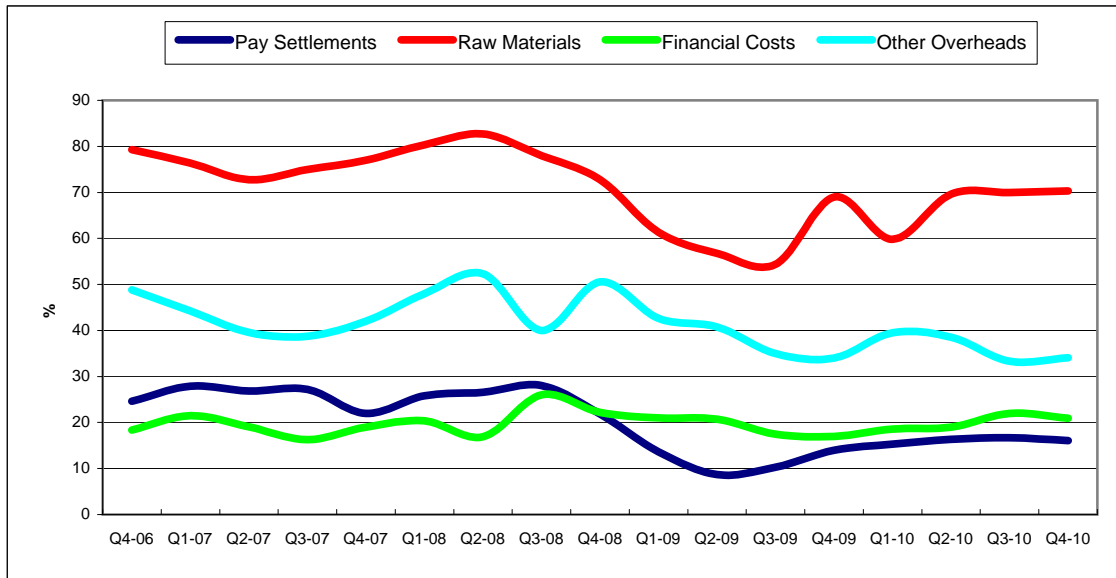
Cashflow for the service sector remains depressed and still stands at -10%. For the manufacturing sector, the balance has slightly improved but still remains in negative territory (-7%)

The number of manufacturing companies operating at full capacity is steadily increasing and stands at +31%, the highest since Q2 2008. Intentions to increase prices have also strengthened by 8% to a balance of +39%.

The balance of businesses in the service sector operating at full capacity has decreased by 1% from last quarter to +30%, though intentions to increase prices have accelerated to +33%.

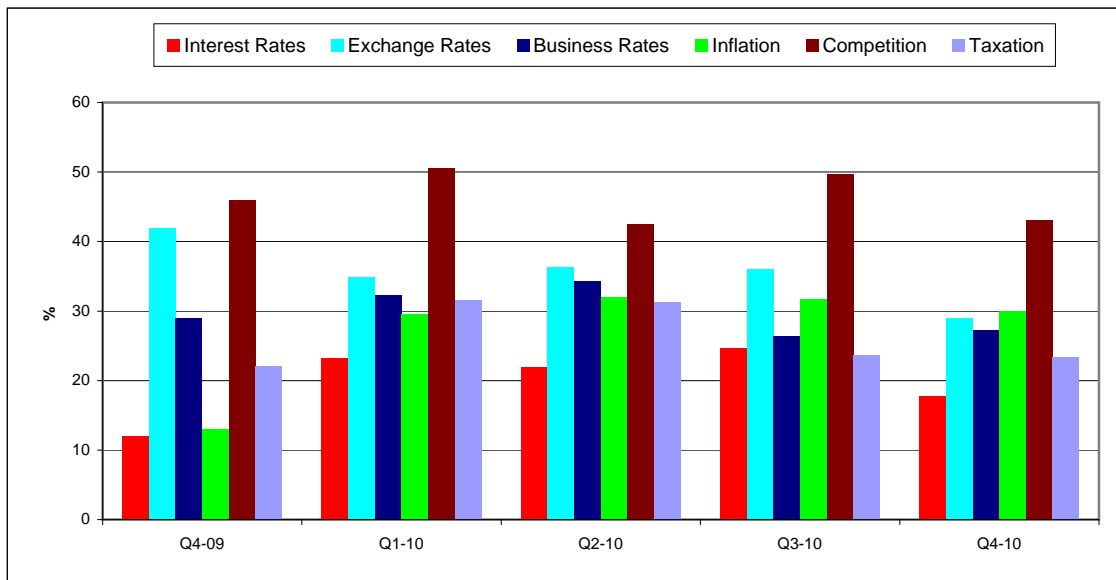


Price Pressures in Manufacturing



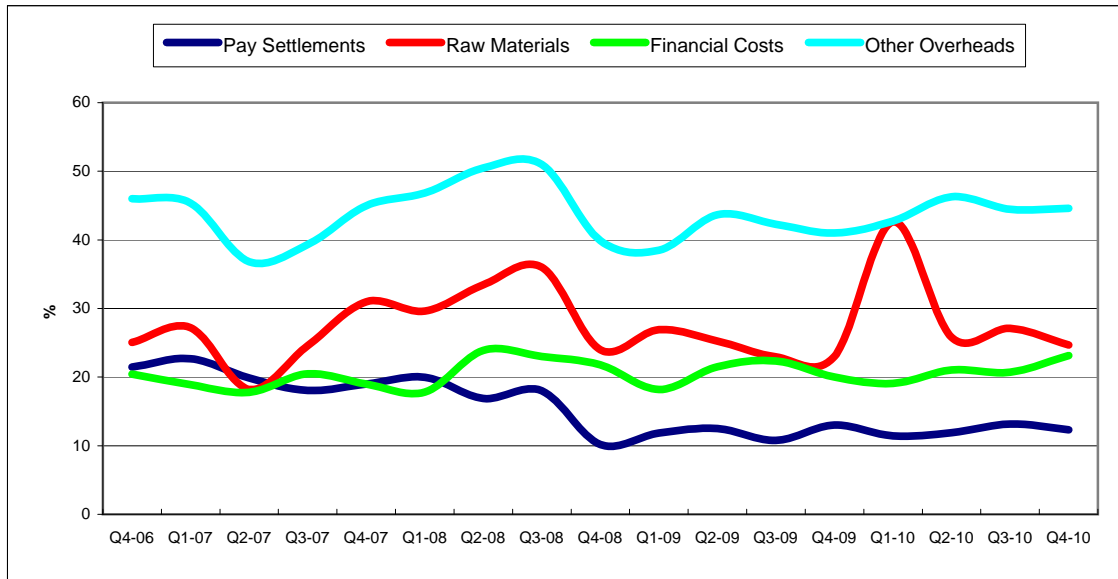
Concerns regarding the cost of raw materials within the manufacturing sector continue to dominate, remaining at 70% of respondents for the third quarter running. Whilst a weak pound favours our exporters, this causes price pressures on imports of raw materials. Price pressures from pay settlements and financial costs decreased by 1%, financial and other overheads saw a 1% increase.

External Factors in Manufacturing



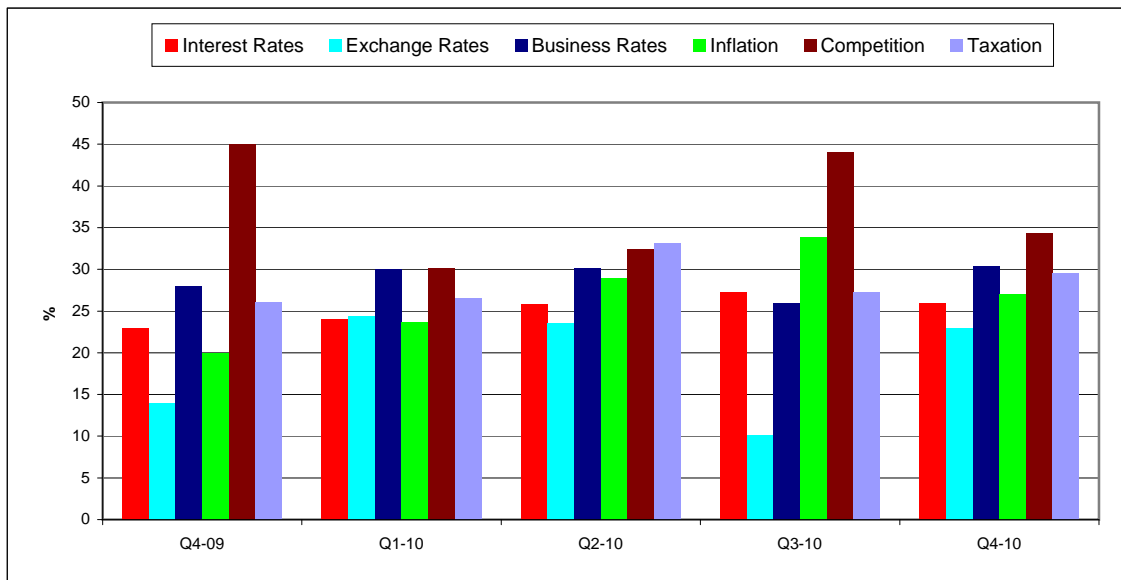
For manufacturing businesses, the main concern continues to be competition; however this has decreased from last quarter by 7%. Concerns over exchange rates decreased to 29%. Inflation concerns decreased to 30%. Business rates concerns saw an increase by 1 point to 27% and corporation tax concerns fell further to 23%. Interest rates decreased by 7% to 18%, with manufacturing businesses possibly being reassured that the Bank of England will maintain an expansionary stance to aid the recovery.

Price Pressures in Services



Once again other overheads continue to be of greatest concern to businesses in the service sector and its balance has increased this quarter by 1%. Concerns over pay settlements have decreased by 1 point to 12% and both price pressures for raw materials and financial costs have changed by 2 points. Concerns over raw materials have decreased to 25% whereas concerns over financial costs have increased to 23%.

External Factors in Services



Concerns over exchange rates in the service sector dramatically accelerated this quarter to 23%, possibly reflecting an increase in export market activity, and concerns over competition have decreased 10% to 34%. Competition still remains as the biggest concern for this sector however. Interest rates and inflation concerns decreased 26% and 27% respectively. Corporate tax and business rates both rose and stand at 30%.

Recent Quarter Results - Manufacturing

	Q1-10	Q2-10	Q3-10	Q4-10
<i>Deliveries And Orders</i>				
UK sales	-9	12	15	13
UK orders	-13	15	5	3
Export sales	6	21	24	20
Export orders	3	20	17	11
<i>Labour</i>				
Employment in the last quarter	-8	12	16	7
Employment expectations for next quarter	4	14	6	4
% Tried to recruit staff	34	46	52	43
If yes, were they for:				
% Part-time jobs	18	13	17	20
% Full-time jobs	82	87	83	80
% Temporary jobs	52	40	42	44
% Permanent jobs	48	60	58	56
% Recruitment difficulties	51	47	55	55
If yes, were they for:				
% Skilled manual/technical	37	35	29	36
% Professional/managerial	18	15	14	14
% Clerical	17	9	18	20
% Semi/unskilled	16	17	16	16
<i>Cashflow</i>				
	-23	-9	-10	-7
<i>Investment Plans</i>				
Investment plant & machinery	-7	2	5	3
Investment training	-1	3	11	7
<i>Confidence (For Next 12 Months)</i>				
Turnover	26	47	31	28
Profitability	12	22	14	5
<i>Production</i>				
% At full capacity	23	24	25	31
<i>Prices/Costs</i>				
Balance of firms expecting to increase prices	19	38	31	39
Is your business currently suffering pressures to raise its prices from any of the following?				
% Pay settlements	15	16	17	16
% Raw material prices	60	70	70	70
% Finance costs	19	19	22	21
% Other overheads	40	39	33	34
<i>External Factors</i>				
Affecting your business than three months ago.				
interest rates	23	22	25	18
exchange rates	35	36	36	29
business rates	32	34	26	27
inflation	30	32	32	30
competition	50	42	50	43
corporate taxation	32	31	24	23
<i>Number of respondent companies</i>				
Number of respondent companies	301	306	300	411
Number of employees	21176	21765	20445	98561

Recent Quarter Results - Service

	Q1-10	Q2-10	Q3-10	Q4-10
Deliveries And Orders				
UK sales	-1	8	7	5
UK orders	-7	-1	-3	-5
Export sales	4	3	8	11
Export orders	1	0	3	3
Labour				
Employment in the last quarter	1	1	3	5
Employment expectations for next quarter	9	9	7	7
% Tried to recruit staff	36	45	43	41
If yes, were they for:				
% Part-time jobs	36	39	31	36
% Full-time jobs	64	61	69	64
% Temporary jobs	42	38	33	37
% Permanent jobs	58	62	67	63
% Recruitment difficulties	50	50	54	53
If yes, were they for:				
% Skilled manual/technical	20	15	18	20
% Professional/managerial	19	19	19	21
% Clerical	21	20	23	25
% Semi/unskilled	21	17	14	15
Cashflow				
	-18	-13	-10	-10
Investment Plans				
Investment plant & machinery	-3	-2	2	3
Investment training	8	6	10	4
Confidence (For Next 12 Months)				
Turnover	35	30	27	24
Profitability	23	14	13	10
Production				
% At full capacity	29	30	31	30
Prices/Costs				
Balance of firms expecting to increase prices	24	28	24	33
Is your business currently suffering pressures to raise its prices from any of the following?				
% Pay settlements	11	12	13	12
% Raw material prices	43	26	27	25
% Finance costs	19	21	21	23
% Other overheads	43	46	44	45
External Factors				
Affecting your business than three months ago.				
interest rates	24	26	27	26
exchange rates	24	24	10	23
business rates	30	30	26	30
inflation	24	29	34	27
competition	30	32	44	34
corporate taxation	27	33	27	30
Number of respondent companies				
Number of respondent companies	849	899	767	1004
Number of employees	99847	251328	200544	182780