



Second Quarter 2008 - Quarterly Economic Survey

Executive Summary

- Overall, the outlook for manufacturing and service firms is disappointing this quarter. Many of the key indicators have seen decreases and in some case negative growth has been noted.
- UK sales and orders for both sectors have been poor this quarter, and in the case of manufacturers negative growth has been reported. However manufacturing exports and advance sales overseas have increased which is encouraging. Service firms are not doing as well for sales and custom bookings outside of the UK, but the net balance remains positive. Cashflow conditions for both sectors are poor.
- Confidence has taken a further knock this quarter in terms of profitability and turnover. 21 percentage point decreases have been noted for confidence in turnover amongst services and has fallen from 38% to 13% net balance for manufacturers.
- No expectations have been met in terms of employment and actual reported employment levels are very low; -3% for manufacturers and 5% net balance for services, indicating that manufacturers have started to reduce their workforce.
- Recruitment figures have fallen for both sectors but only slightly.
- Manufacturers have reported a 3 percentage point positive adjustment to investment in plant and machinery whereas services have adjusted their investment plans downwards. Investment in training for both sectors has fallen and the net balances now stand at 10% and 16% for manufacturers and services respectively. It has to be noted that both net balances remain positive and firms continue to invest.
- Both sectors also noted an increasing price pressure from other overheads and raw material costs. Unsurprisingly service providers feel considerably less price pressure due to increased raw material prices than manufacturers, but pressure from other overheads is at similar levels.
- Inflation is causing the greatest concern for all North West businesses with net balances of 57% (up 18 percentage points) for manufacturing and 63% net balance for services.

This quarter 948 firms from across the North West completed the survey.

Contributing to this survey were 11 Chambers in the North West: -

Congleton, Warrington, Lancaster, South Cheshire, Macclesfield, East Lancashire, North & Western Lancashire, Cumbria, Liverpool, Chester Ellesmere Port & North Wales, 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 email holly.keogh@gmchamber.co.uk

Sales & Orders

- For the manufacturing sector, domestic sales have decreased for the third consecutive quarter, but the net balance still remains positive. Last quarter's 7% is now 3% net balance. Domestic sales for the service industry have also fallen by 13 percentage points to a net balance of 5%
- Amongst manufacturers, the UK orders net balance has dropped again from 5% to -6%. The figure for services has decreased to an even larger extent from 16% to -1% net balance.
- Manufacturing exports have increased, with the net balance for overseas sales increasing 4 percentage points to 11% net balance this quarter. Growth in export orders has also increased by 4 percentage points to a net balance of 9%.
- In the overseas market for the service sector, there has been a decrease of 15 percentage points for sales and bookings so the net balance now stands at 4%. Following this decreasing trend, overseas orders to a negative net balance of -1% from 11% last quarter.

Chart 1: Domestic Sales

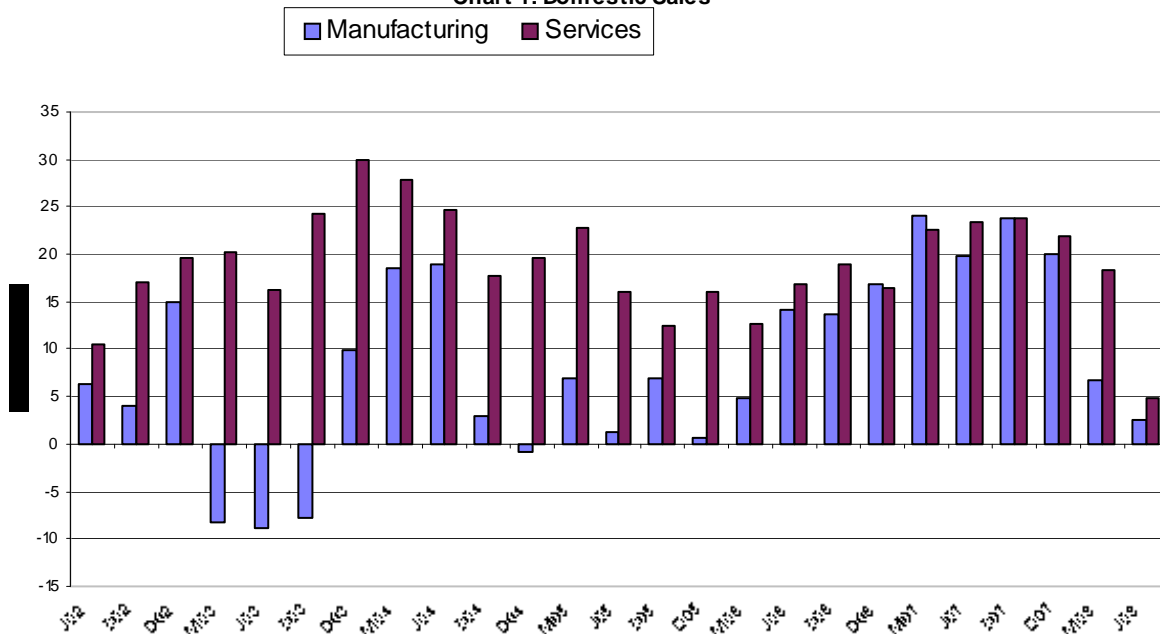
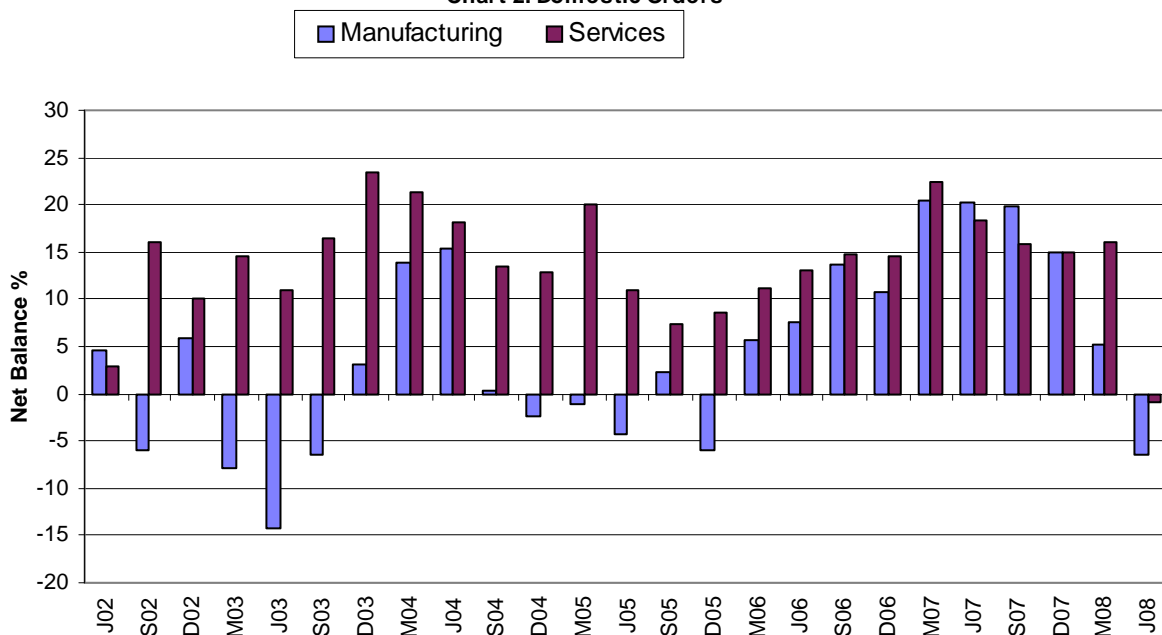
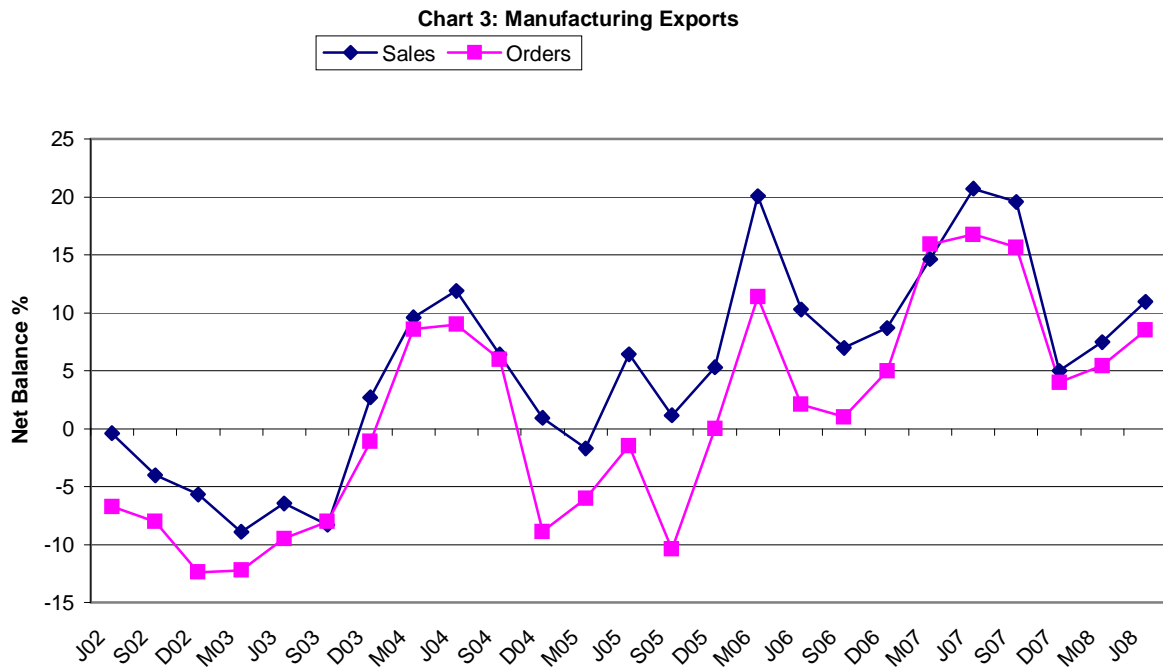


Chart 2: Domestic Orders





Confidence

- Confidence has worsened noticeably this quarter within the manufacturing industry in terms of both profitability and turnover. The net balance of firms reporting confidence in profitability has fallen dramatically from 24% net balance to -5% net balance. Confidence in turnover has also decreased from 38% to 13%. This reflects how the current economic conditions are having a huge psychological impact.
- Amongst service providers, the net balance of firms predicting a rise in turnover decreased but still remained high. The net balance now stands at 25%, a decrease of 21 percentage points. Confidence in profitability also decreased by 21 percentage points from 33% to 12% net balance.

Chart 4: Confidence Manufacturing

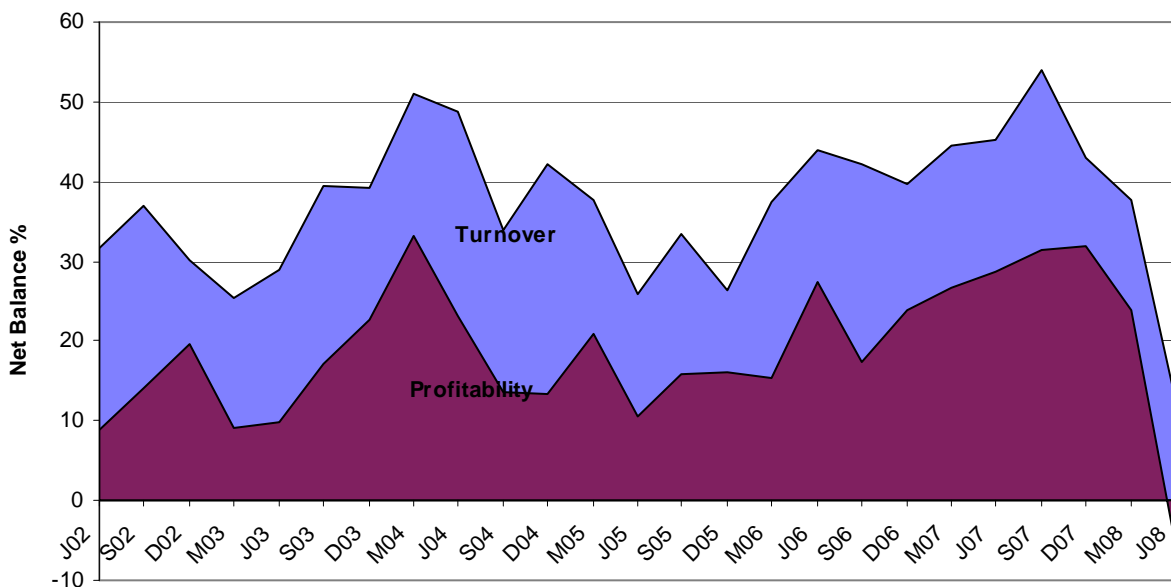
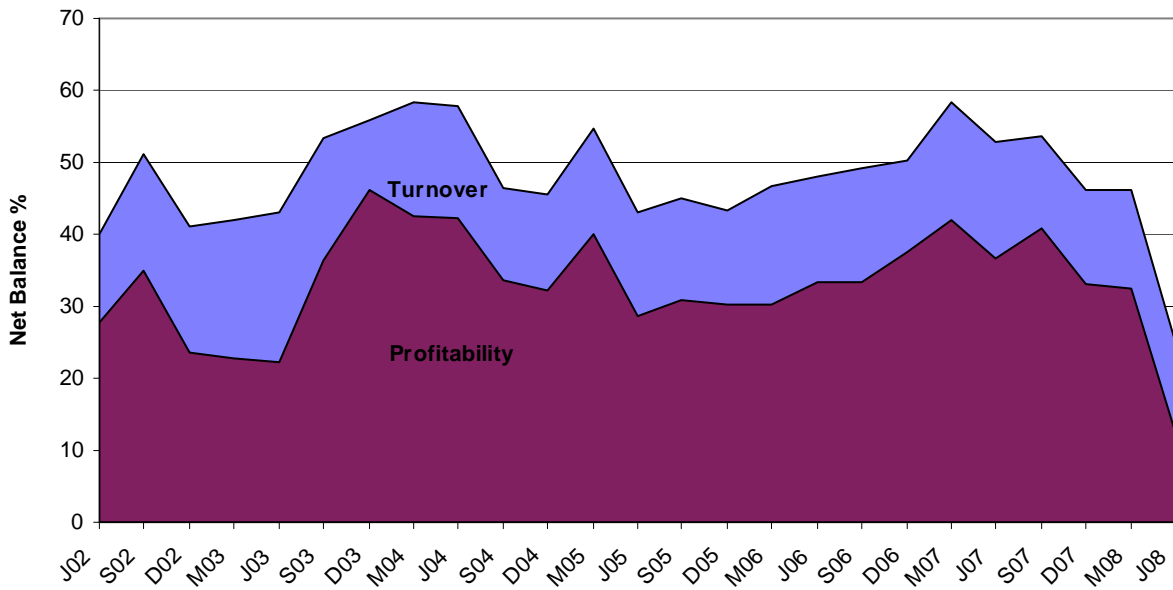


Chart 5: Confidence Services



The Labour Market

Employment

- Actual employment growth amongst manufacturers has decreased from 4% to -3% net balance this quarter. This employment growth level was also reported in quarter 1 of 2005. Expectation levels for the next 3 months have fallen from 10% to just 3% net balance, indicating growth expectations being lowered in light of current economic conditions.
- For service firms, the net balance of businesses reporting an increase in actual employment growth has decreased by a further 5 percentage points this quarter to 5% net balance. Expectation levels have also drastically decreased from 22% to 11% net balance.

Chart 6: Employment Manufacturing

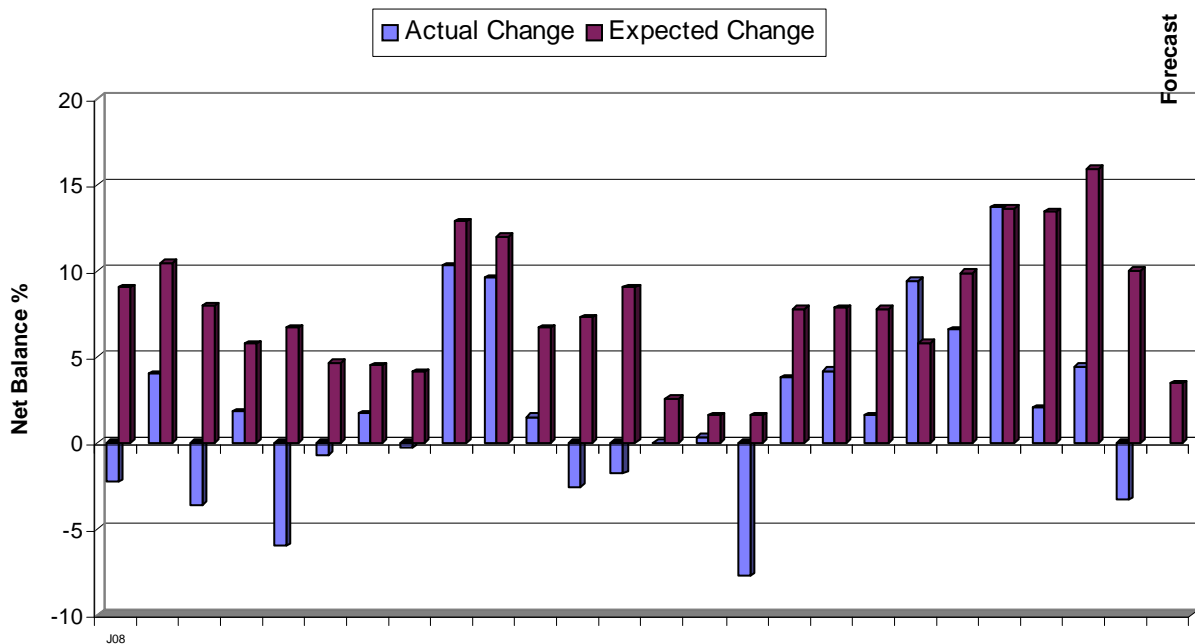
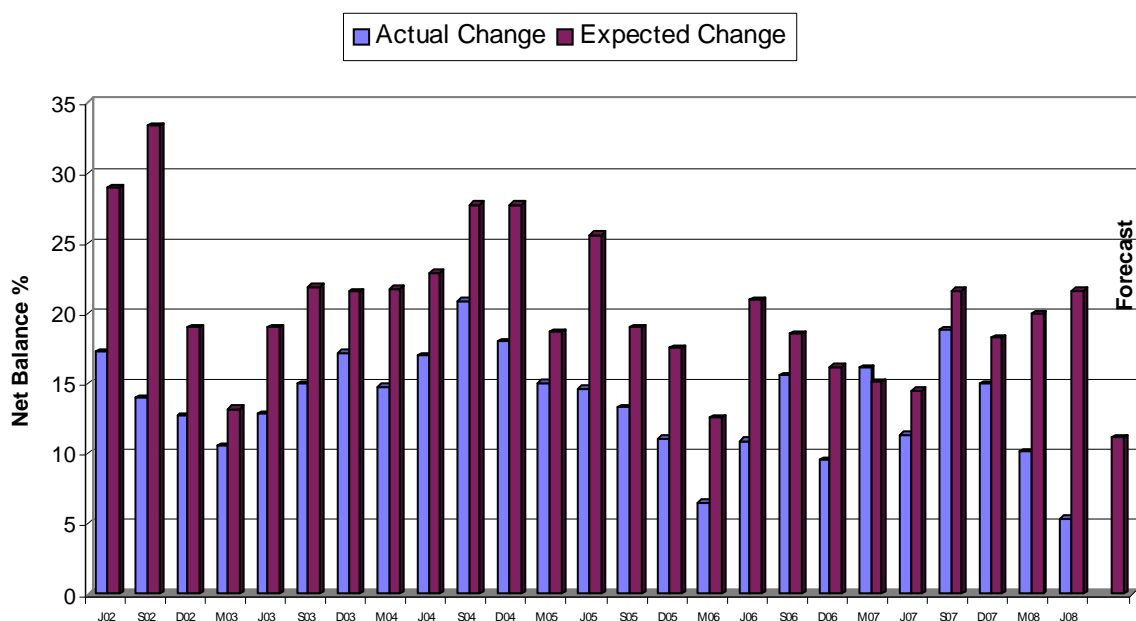


Chart 7: Employment Services



Recruitment

- There have been fewer manufacturers attempting to recruit new employees this quarter with a decrease of 5 percentage point to 48% net balance. However this is still a high figure for recruitment.
- Of the workers these firms attempted to recruit, 87% were full time (up 2 percentage points from last quarter). There was also an increase of manufacturers recruiting staff for permanent jobs up 7 percentage points to 71% net balance. There has been less recruitment of part time and temporary jobs over the last 3 months with net balances of 13% and 29% respectively.
- However amongst manufacturers 58% of respondents reported difficulties in recruiting this quarter, a 3 percentage point increase from last quarter. It was reported easier to find suitable staff for un and semi-skilled manual work (a noticeable 6 percentage point decrease to 11%), however it was harder to find staff for all other categories. Skilled manual staff went up to 38% net balance from 36% and both professional/managerial and clerical staff increased by a single percentage point and now have net balances of 18% and 16% respectively.
- In the service sector 46% of firms have tried to recruit over the past 3 months, a small decrease of only 1 percentage point. Of these positions 34% were part time, and 33% net balance were temporary. Both of these have increased from the last quarter. There has been less recruitment of full time jobs now at 66% from 69% last quarter. There has also been a 2 percentage point decrease in the recruitment of people for permanent jobs.
- Skilled manual recruitment has remained stable at 23% net balance. Professional / managerial staff and clerical staff recruitment has increased by 4 percentage points and 1 percentage point to 24% and 20% net balance respectively. Un and semi-skilled manual has fallen from 20% to 13% net balance.

Chart 8: Recruitment Manufacturing

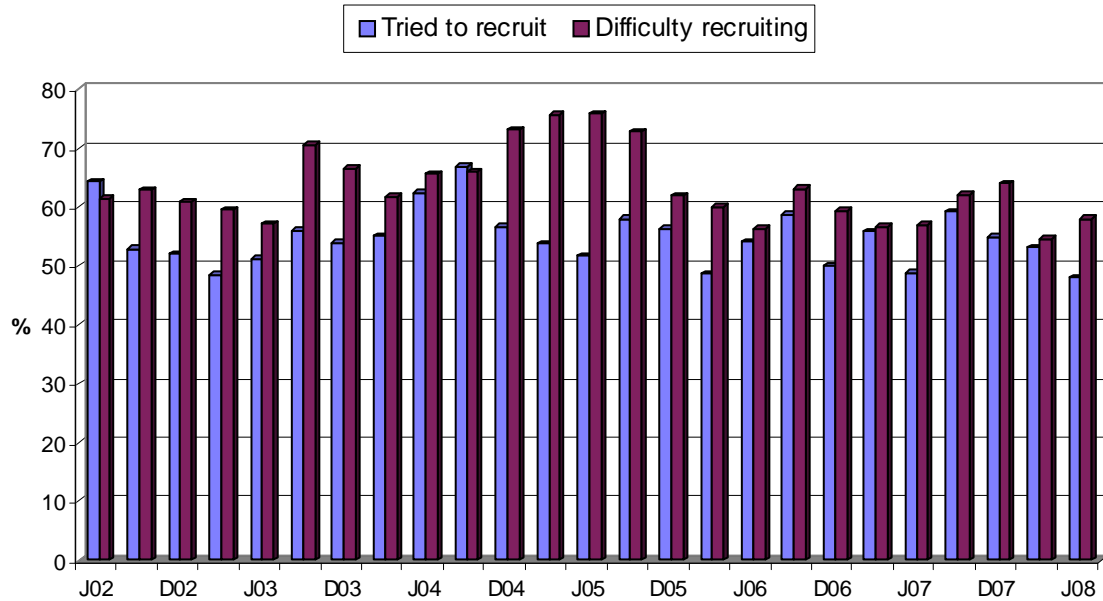
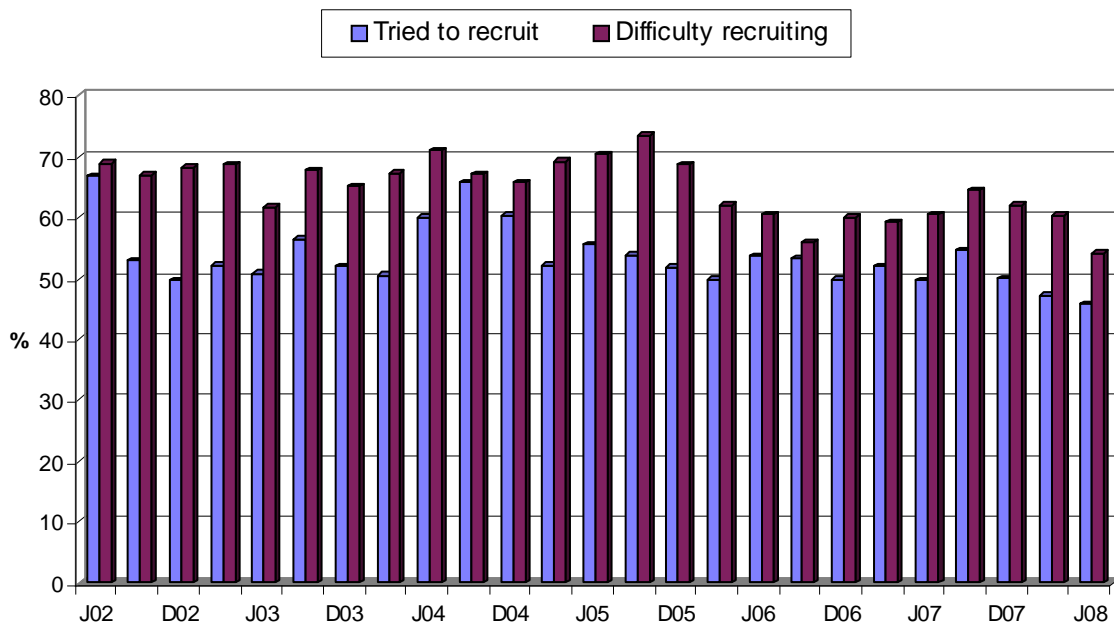


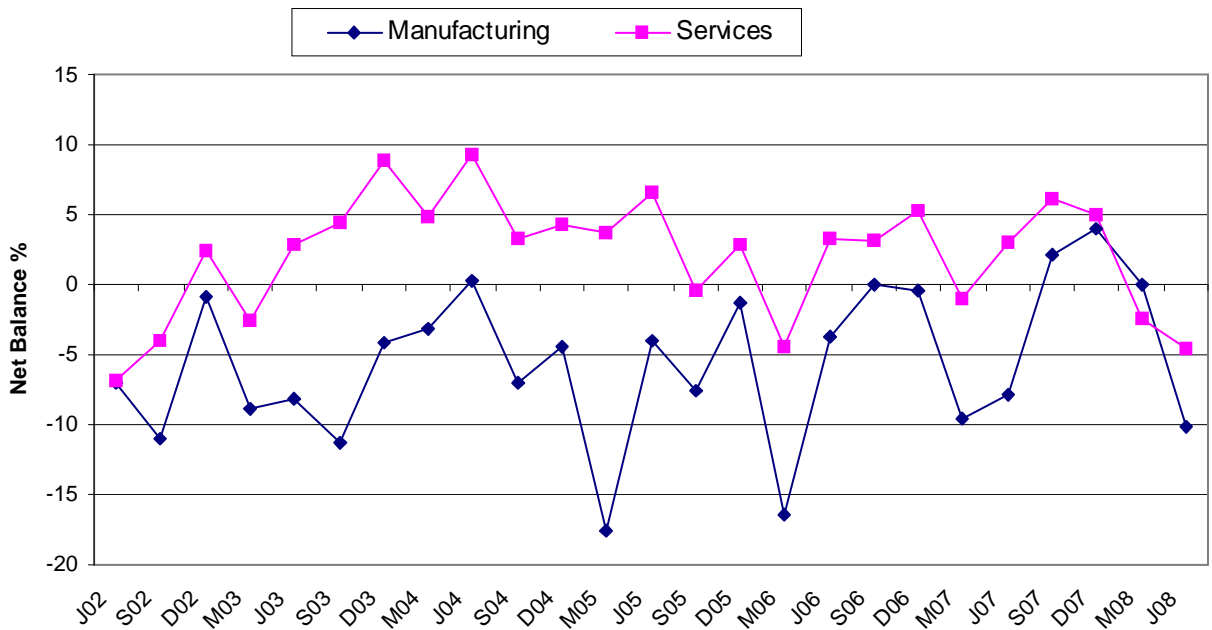
Chart 9: Recruitment Services



Cashflow

- Cashflow conditions have worsened among manufacturers and service firms however manufacturers have fared the worse with a net balance of -10% a decrease of 10 percentage points. Cashflow has decreased by 3 percentage point to a -5% net balance.
- North West manufacturers have been hit the hardest this quarter as the cash flow conditions have worsened considerably over the past 3 months reflecting cashflow conditions in March 2007. Looking at the graph for manufacturers the pattern from March 2006 to March 2007 seems to be repeating itself.

Chart 10: Cashflow



Investment Plans

- For manufacturing, investment levels in plant and machinery has increased marginally from last quarter from 10% to 13% net balance. Conversely investment in training has taken a dive from 21% to 10% net balance which is a considerable decrease of 11 percentage points.
- Investment in plant and machinery among service sector firms decreased by 9 percentage points to 6% net balance and service firms are also investing less in training where a smaller decrease of 7 percentage points has been reported. The net balance therefore stands at 16% which is higher than the figure reported for manufacturers.

Chart 11: Investment Plant & Machinery

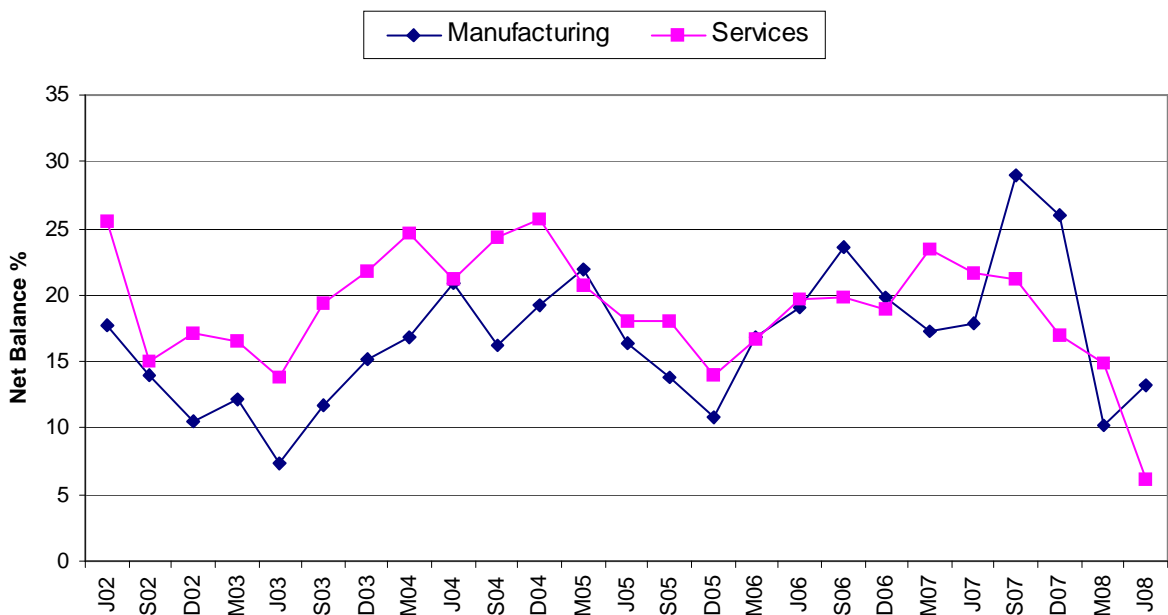
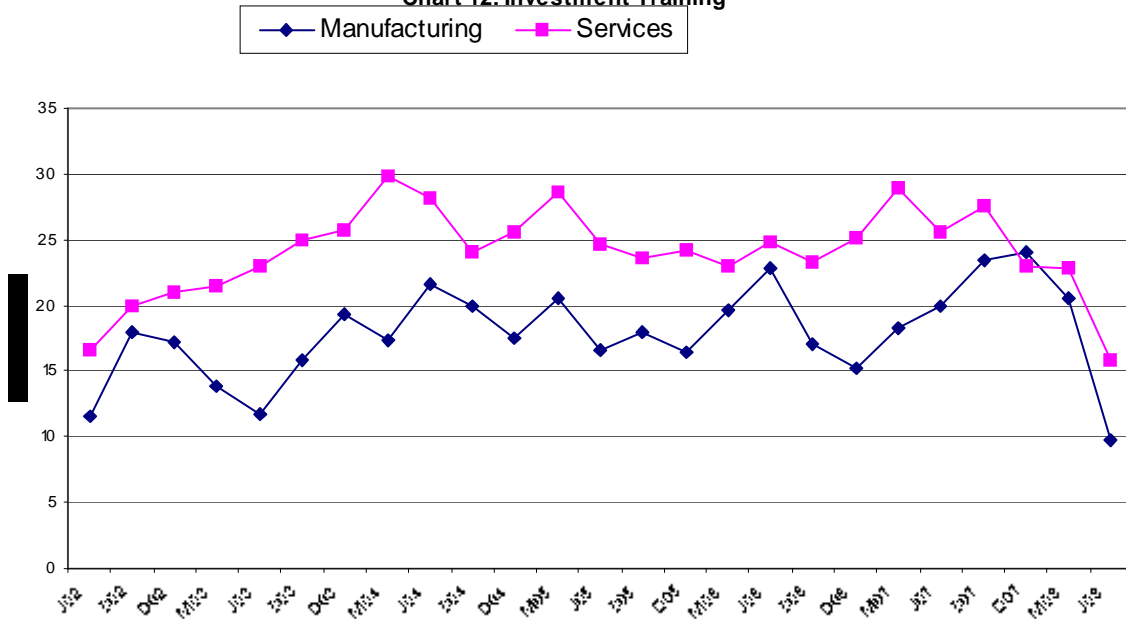


Chart 12: Investment Training



Prices/Costs

- Manufacturing firms expect the price of goods / services to increase over the next 3 months with a net balance of 47% from 55% last quarter. This indicates that manufacturers are becoming less confident to be able to pass on their increasing production costs. Manufacturers are subject to increasing pressure to pay settlements, raw material prices and other overheads. The only pressure which has decreased is finance costs – down 3 percentage points to 17% net balance. Of all these pressures raw material prices remains manufacturers top concern at 83% net balance.
- Services expect the prices of goods / services to increase at 38% net balance, stable from last quarter. For services, pressure to pay settlements has actually decreased by 3 percentage points to 17% net balance. All other pressure have increased – raw material process up 3 percentage points to 33% net balance, finance costs from 18% to 24% net balance and finally other overheads up by 3 percentage points to 50% net balance.

Chart 13: Prices

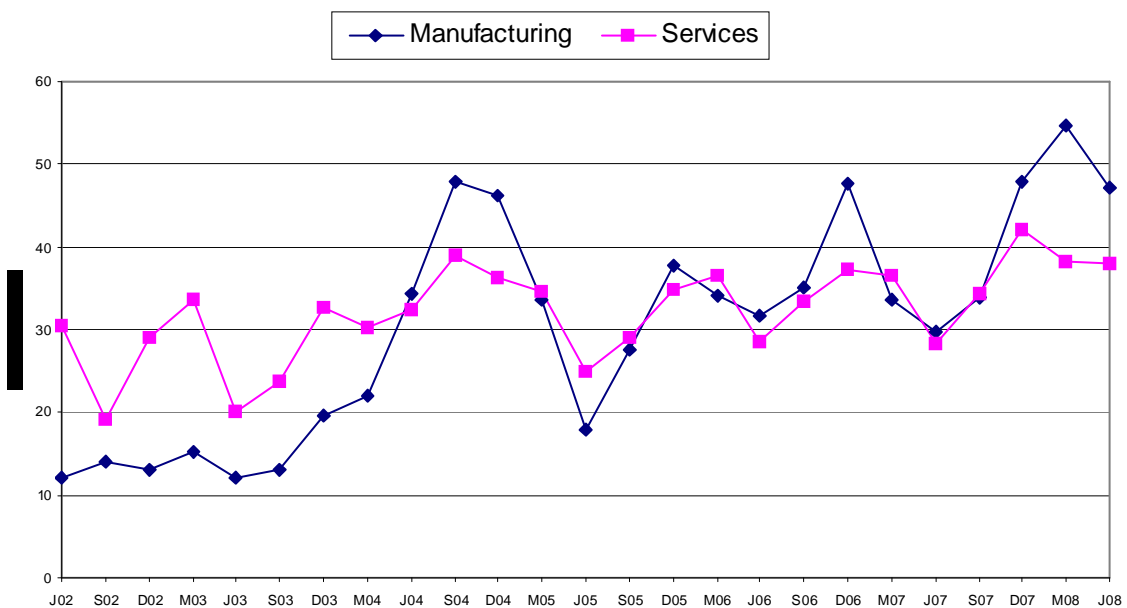
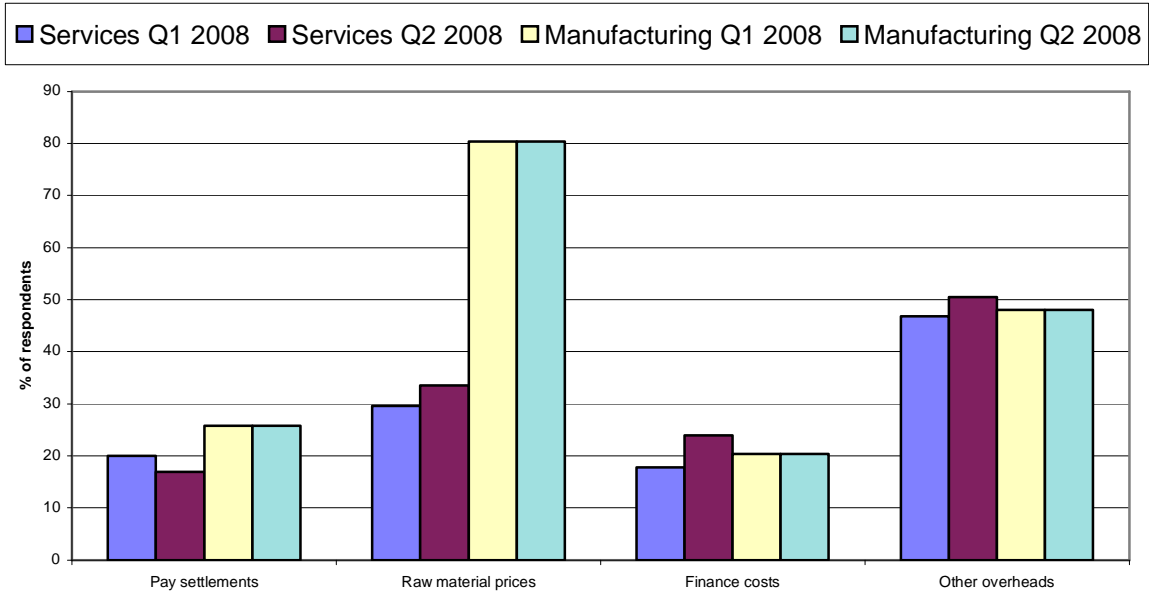


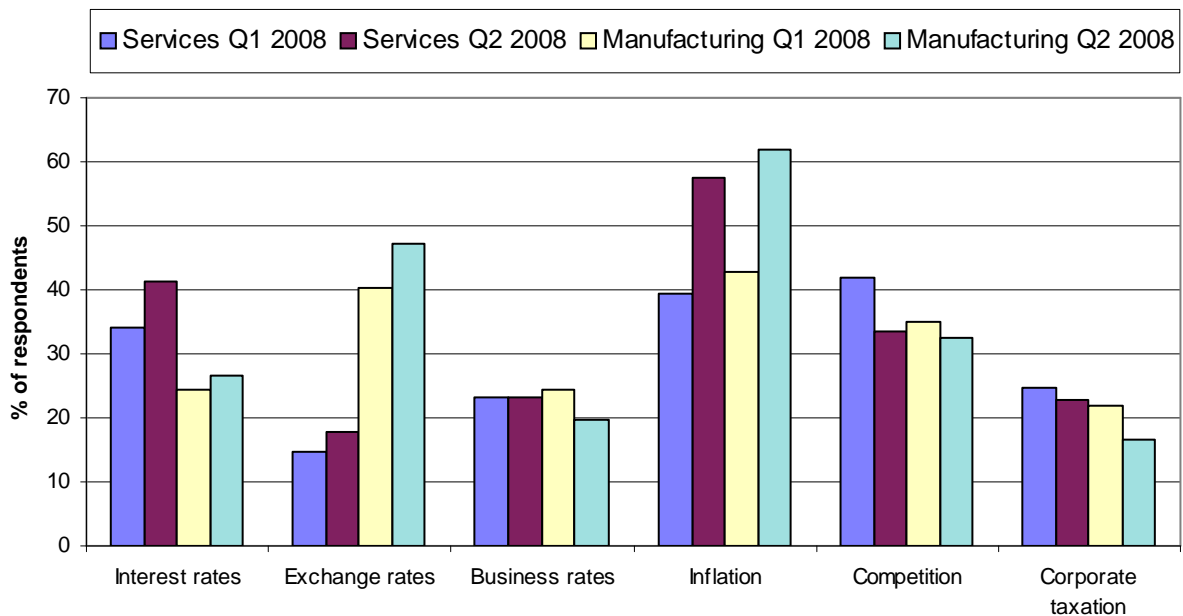
Chart 14: Price Pressures



External Factors

- Amongst manufacturers inflation is causing the greatest concern at 57% net balance, up 18 percentage points from last quarter which is a considerable jump. The next cause for concern is interest rates at 41% net balance followed by competition at 33% net balance however this concern has dampened from last quarter, where it was at 42%. Causing the least concern for manufacturers is exchange rates at 18%, although this is still a 3 percentage point increase. Finally business rates remain a stable concern at 23% net balance.
- Service firms also report inflation as the top concern at present with the figure at 63% - the highest recorded since records began. Corporate taxation is causing the least cause for concern at 16% (down from 22% last quarter). Interest rate concern has increased by 3 percentage points now at 27% net balance. Exchange rate concern has also increased from 40% to 47% net balance. However concerns over competition for services has decreased by 3 percentage points from 35% last quarter to 32% this quarter.

Chart 15: External Factors



		Manufacturing				Services			
		Q3 07	Q4 07	Q1 08	Q2 08	Q3 07	Q4 07	Q1 08	Q2 08
Deliveries And Orders		%	%	%	%	%	%	%	%
Sales/custom/bookings have...	rise	42	41	33	32	42	42	39	32
	same	39	38	41	39	41	39	41	41
	fall	-19	-21	-26	-29	-18	-20	-20	-27
	net	24	20	7	3	24	22	18	5
Orders/advance custom/bookings have..	rise	39	38	31	26	33	36	35	27
	same	41	38	43	42	49	43	47	45
	fall	-20	-23	-26	-32	-18	-21	-19	-28
	net	20	15	5	-6	16	15	16	-1
Overseas sales/custom/bookings have...	rise	38	28	29	32	29	28	36	25
	same	44	48	49	47	57	55	47	55
	fall	-18	-23	-22	-21	-14	-17	-17	-20
	net	20	5	7	11	16	11	19	4
Overseas orders/ advance custom/bookings have..	rise	35	29	28	32	26	26	28	20
	same	45	46	50	45	56	55	56	59
	fall	-19	-25	-22	-23	-18	-19	-17	-21
	net	16	4	5	9	9	7	11	-1
Labour									
Over the past 3 months, has your workforce:									
	increased	29	24	23	19	29	27	22	19
	remained same	55	53	59	58	61	61	66	66
	reduced	-15	-22	-18	-23	-10	-12	-12	-14
	net	14	2	4	-3	19	15	10	5
Over the next 3 months, do you expect your workforce to:									
	increase	23	24	20	21	26	26	28	21
	remain constant	68	68	69	62	66	68	66	69
	decrease	-9	-8	-10	-17	-8	-6	-6	-10
	net	13	16	10	3	18	20	22	11
Have you attempted to recruit staff over the 3 months?	yes	59	55	53	48	55	50	47	46
	no	41	45	47	52	45	50	53	54
If yes, were they for:	part-time jobs?	14	16	15	13	30	31	31	34
	full-time jobs?	86	84	85	87	70	69	69	66
	temporary jobs?	34	30	36	29	26	28	31	33
	permanent jobs?	66	70	64	71	74	72	69	67
	Did you experience any difficulties finding suitable staff?	yes	62	64	55	58	64	62	60
	no	40	40	45	46	39	52	47	53
If yes, for which of the following categories of employee:									
	skilled manual	40	40	36	38	24	28	23	23
	professional/managerial	16	23	17	18	22	21	20	24
	clerical	16	16	15	16	25	20	19	20
	un and semi-skilled	21	18	17	11	16	17	20	13
Cashflow									
During the last 3 months has your cashflow:									
	improved	26	30	28	20	28	28	25	25
	same	49	44	44	49	51	49	47	46
	worse	-24	-26	-28	-31	-21	-23	-28	-29
	net	2	4	0	-10	6	5	-2	-5
Investment									
For plant/machinery/equipment?									
	revised upwards	37	33	27	27	28	26	25	22
	unchanged	54	59	56	60	66	65	65	63
	revised downwards	-8	-7	-17	-14	-7	-9	-10	-15
	net	29	26	10	13	21	17	15	6
For training?									
	revised upwards	30	28	26	20	32	29	30	26
	unchanged	64	68	68	69	64	66	64	64
	revised downwards	-6	-4	-6	-11	-4	-6	-7	-10
	net	23	24	21	10	28	23	23	16
Confidence (For Next 12 Months)									
Do you believe that over the next 12 months:									
Turnover will	improve	64	56	54	41	62	59	59	48
	remain the same	26	31	29	30	29	28	28	29
	worsen	-10	-13	-16	-29	-9	-13	-13	-23
	net	54	43	38	13	54	46	46	25
Profitability will	improve	51	50	47	34	54	51	50	43
	remain the same	30	33	30	27	32	31	32	27
	worsen	-19	-18	-23	-39	-14	-18	-18	-30
	net	31	32	24	-5	41	33	33	12
Production									
At the present time the percentage of firms working									

	at full capacity is	37	31	28	32	41	39	37	33
	at less than full capacity	63	69	72	68	59	61	63	67
Prices/Costs									
Over the next 3 months, do you expect the price of your goods /services to									
	increase	39	54	60	54	37	45	42	43
	remain the same	56	41	36	40	60	52	55	53
	decrease	-5	-6	-5	-6	-3	-3	-3	-5
	net	34	48	55	47	34	42	38	38
Is your business currently suffering pressures to raise its prices from any of the following? (tick all that apply)									
	pay settlements	27	22	26	27	18	19	20	17
	raw material prices	75	77	80	83	25	31	30	33
	finance costs	16	19	20	17	20	19	18	24
	other overheads	39	42	48	52	39	45	47	50
External Factors									
your business than three months ago. (tick all that apply)									
	interest rates	41	33	24	27	45	43	34	41
	exchange rates	32	35	40	47	9	11	15	18
	business rates	20	25	24	20	23	22	23	23
	inflation	29	35	43	62	24	31	39	57
	competition	43	38	35	32	41	38	42	33
	corporate taxation	19	22	22	16	22	27	25	23
Number of respondent companies		276	260	275	237	854	762	796	711
Number of employees		30563	28239	22233	21262	43333	35123	37852	76850