



Third Quarter 2008 - Quarterly Economic Survey

Executive Summary

- Overall, the outlook this quarter for both manufacturers and service firms is gloomy. Many of the key indicators have seen further decreases, and in some case negative growth has been noted.
- UK sales and orders for both sectors have weakened further this quarter, showing negative growth for domestic sales and orders.. Exports and advance sales overseas have also decreased for both services and manufacturing.
- Confidence has deteriorated further, both in terms of profitability and turnover. Net balances for confidence in profitability for both manufacturing and services now at -19% and -2% respectively. Confidence in turnover has also declined.
- Actual employment growth amongst manufacturers has increased by 6 percentage points to 3% and has also increased for services with a balance of 6%, however, the forecast for both sectors for next quarter is for actual employment to fall.
- There have been fluctuations in recruitment this quarter, although changes have been minimal. It is not specified, however whether recruitment is based on companies employing new people or simply filling vacant positions.
- Manufacturers have reported a downward adjustment to investment plans in plant and machinery with a balance of 1% this quarter and services are also reporting a fall with a net balance of -1%. Investment in training for manufacturers has remained stable at 10%, however, services reported a deterioration by 8 percentage points. The balance for services now stands at 8%. It has to be noted that both net balances remain positive and firms continue to invest.
- Pressure from raw material prices and other overheads were high for both manufacturers and services, While manufacturers report decreasing price pressures, services still experience increased pressure.
- Inflation is causing the greatest concern for all North West businesses with 67% (up 5 percentage points) of manufacturers and 61% of services (up 4 percentage points) citing this as a major issue.

This quarter 1,196 firms from across the North West completed the survey.

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

Congleton, Warrington, Lancaster, South Cheshire, Macclesfield, East Lancashire, North & Western Lancashire, Cumbria, Liverpool, Chester Ellesmere Port & North Wales, St Helens 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 fourth consecutive quarter, and the net balance now stands at -4% from 3% last quarter. Domestic sales for the service industry have also fallen by 10 percentage points to -5% .

Amongst manufacturers, UK orders net balance has dropped again from -6% to -14% . The figure for services has decreased to an even greater extent from -1% to -15% net balance.

Chart 1: Domestic Sales

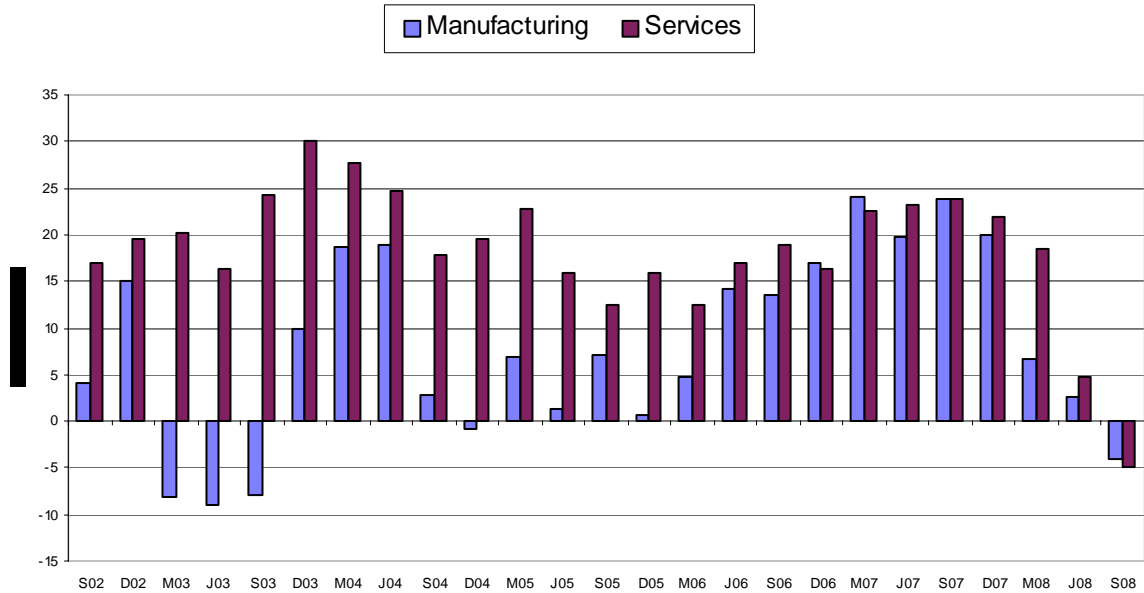
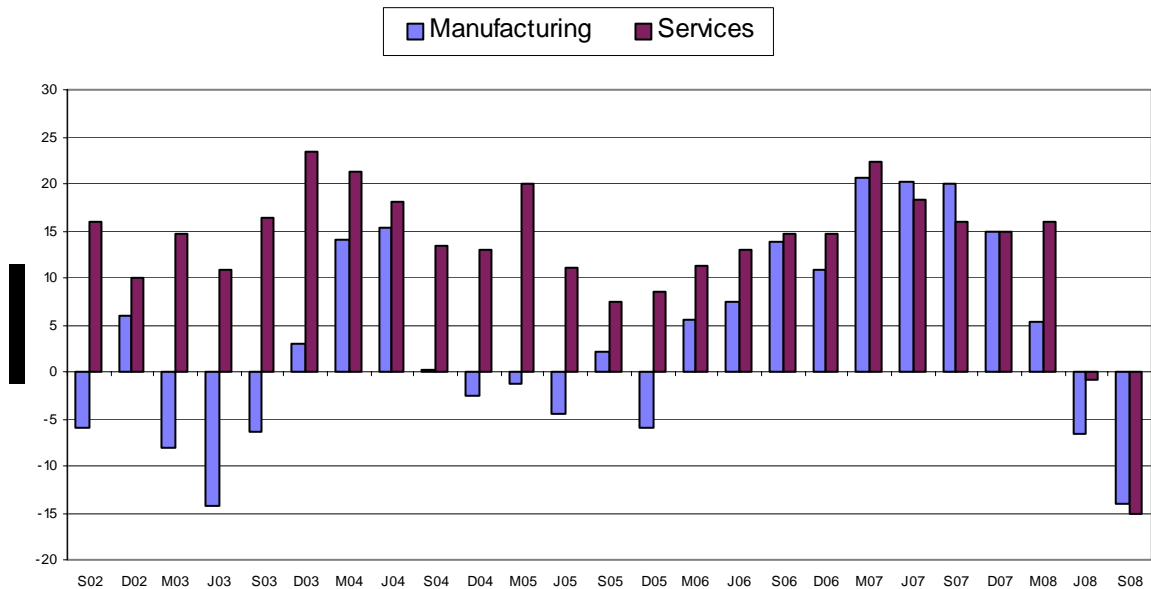


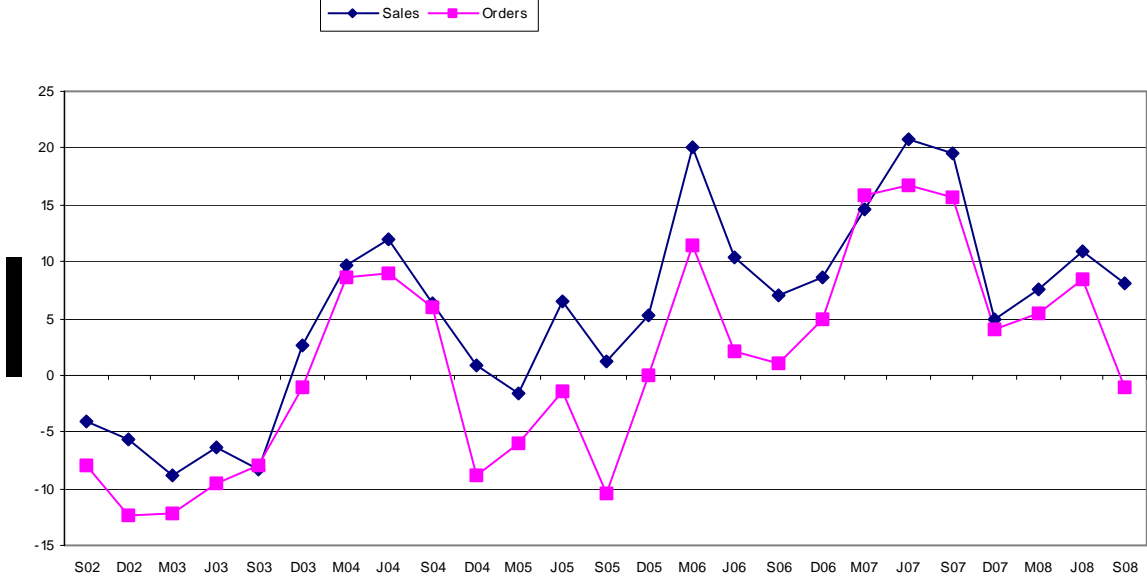
Chart 2: Domestic Orders



Manufacturing exports have decreased for overseas sales decreasing 3 percentage points to 8% net balance this quarter. Growth in export orders have also fallen from 9% to -1% net balance.

In the overseas market for the service sector, there has been an increase of 3 percentage points for sales and bookings so the balance now stands at 7% . However, overseas orders have fallen to -2% , but this is only a one percentage point drop from last quarter.

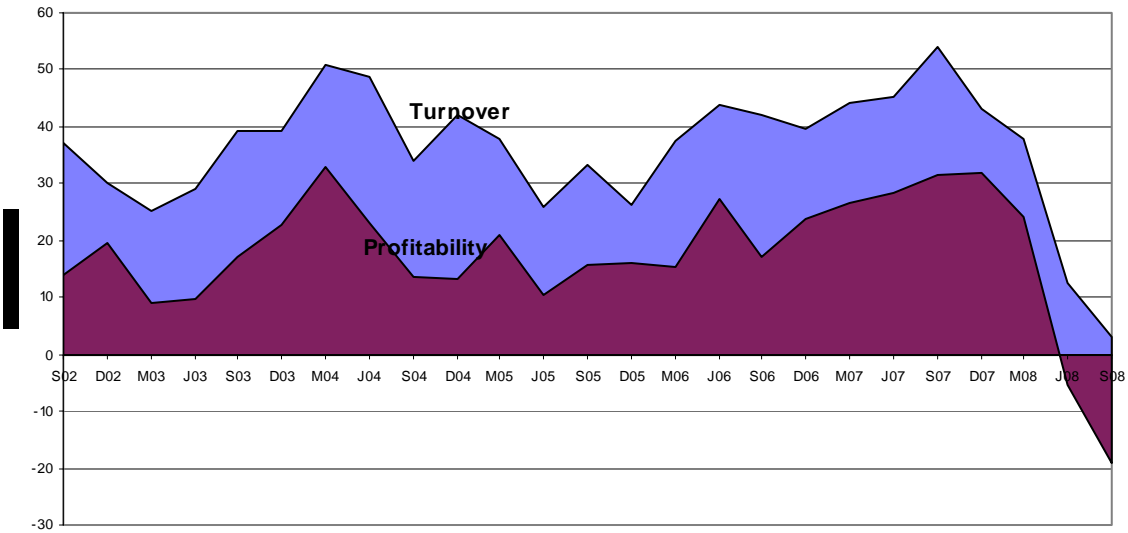
Chart 3: Manufacturing Exports



Confidence

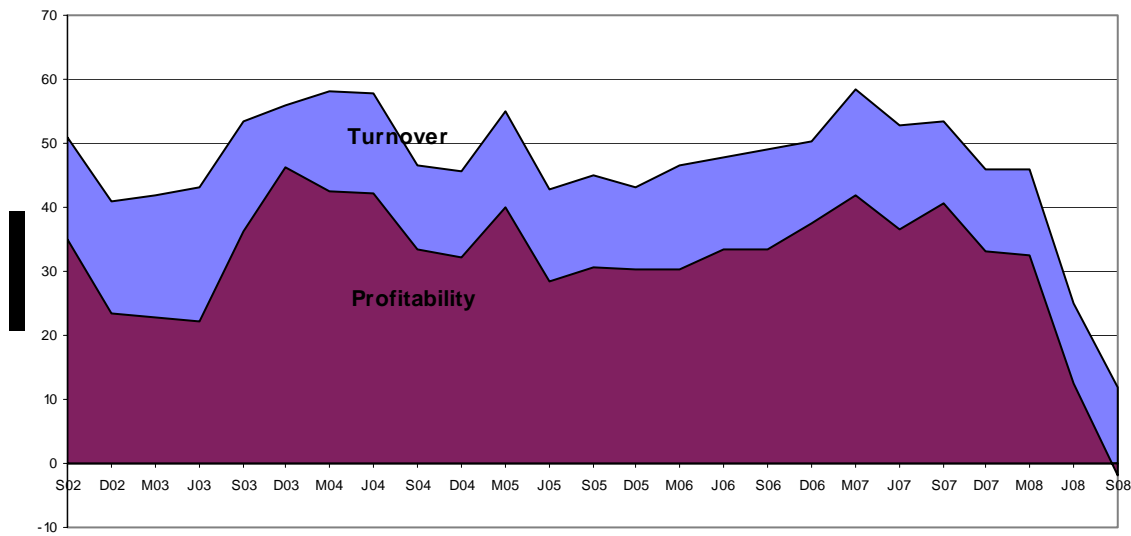
- Confidence has worsened noticeably this quarter within the manufacturing industry, especially confidence in profitability with is now at -19% net balance from -5% last quarter. Confidence in turnover has also decreased from 13% to 3%.

Chart 4: Confidence Manufacturing



Confidence amongst the service sector fares slightly better with confidence in turnover now at a positive 12%. Confidence in profitability has fallen to -2% which is the first negative result on record dating back to 1995.

Chart 5: Confidence Services

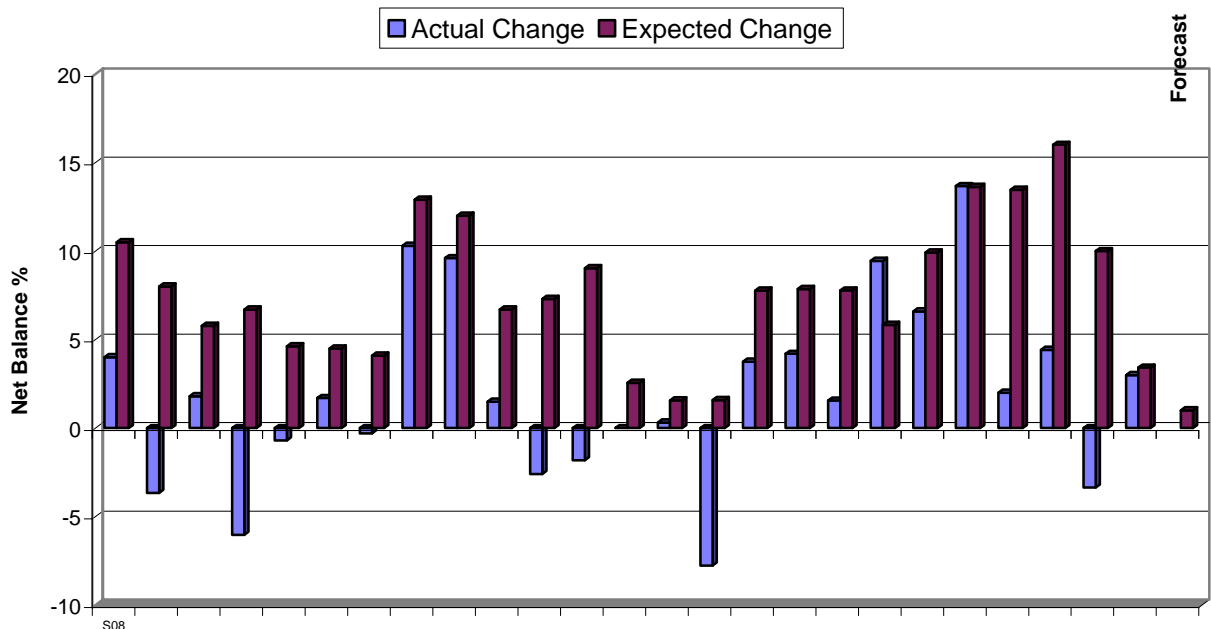


The Labour Market

Employment

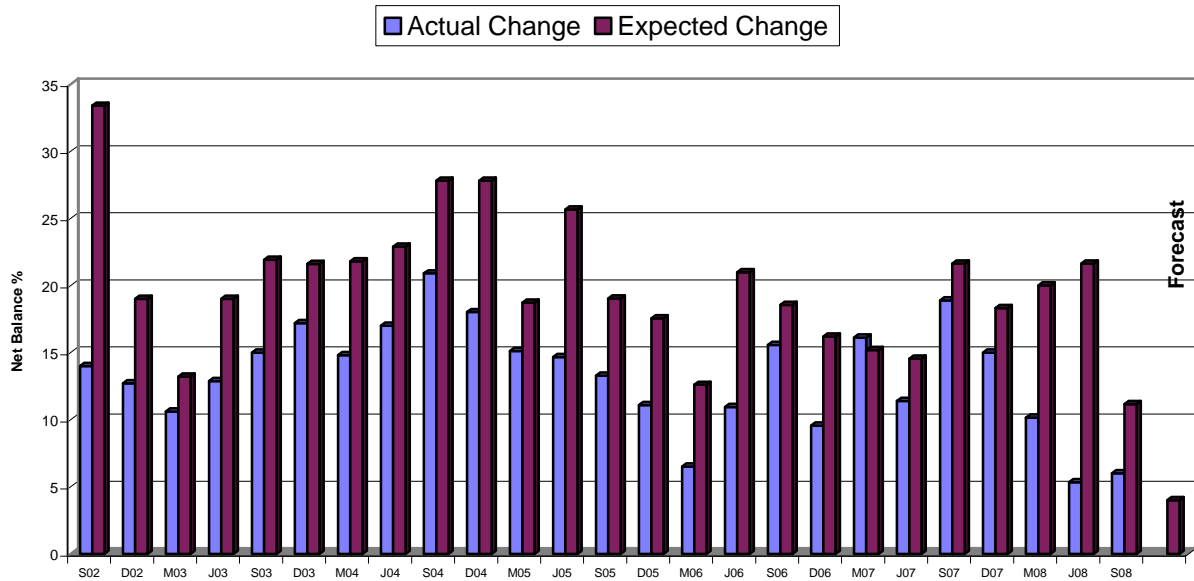
Actual employment growth amongst manufacturers has increased from -3% to 3% net balance this quarter. This employment growth level was also reported in quarter 1 of 2005. A positive indicator, and good recovery from last quarter. Expectation levels for the next 3 months have fallen from 3% to 1% net balance, indicating positive growth, however lower expectations in light of current economic conditions.

Chart 6: Employment Manufacturing



For service firms, the net balance of businesses reporting an increase in actual employment growth has increased from 5% to 6% net balance. Following the trend of manufacturing, expectations for the next 3 months have fallen from 11% to 4% net balance.

Chart 7: Employment Services



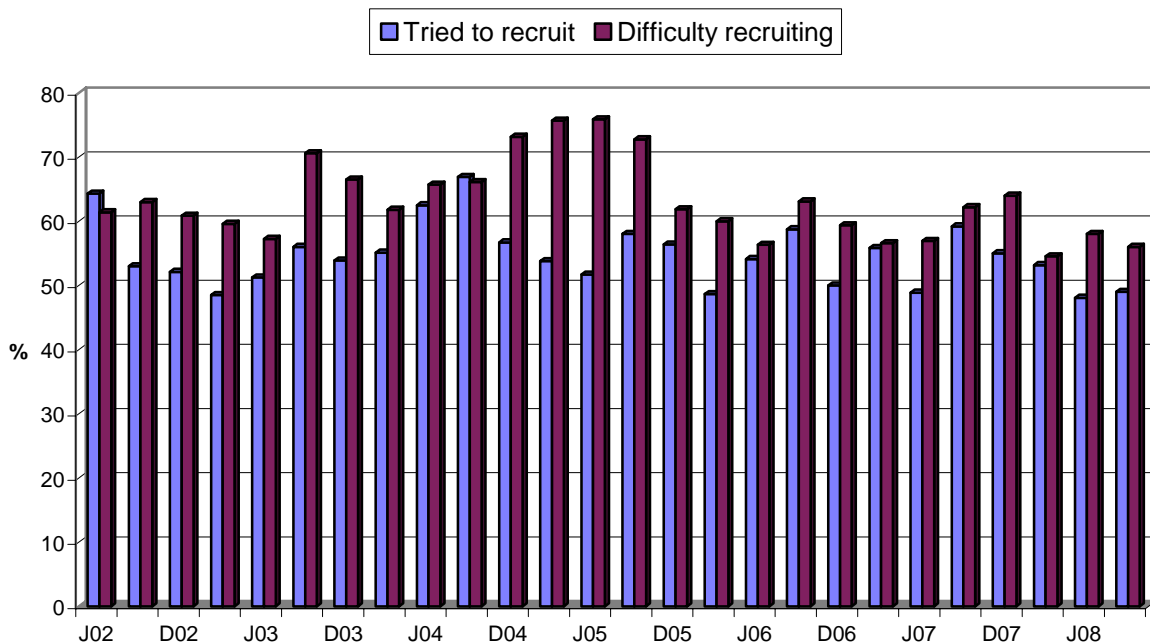
Recruitment

At to 49% there has been a small increase in manufacturers attempting to recruit new employees this quarter.

Recruitment for part time increased slightly this quarter from 11% to 12, full time jobs were recruited for by 71% of respondents, compared to 69% last quarter. 16% of manufacturers who responded recruited staff for temporary jobs and 33% for permanent jobs, compared to 21% and 49% respectively in the previous quarter.

56% of respondents reported difficulties in recruiting this quarter, a 2 percentage point decrease from last quarter. It was reported easier to find suitable staff for un- and semi-skilled manual work (a one percentage point decrease to 10%). It was also easier for manufacturers to recruit clerical staff down from 16% to 15%. However it was harder to find staff for all other categories including skilled manual up 5 percentage points to 43%, and professional / managerial staff up 2 percentage points to 20%.

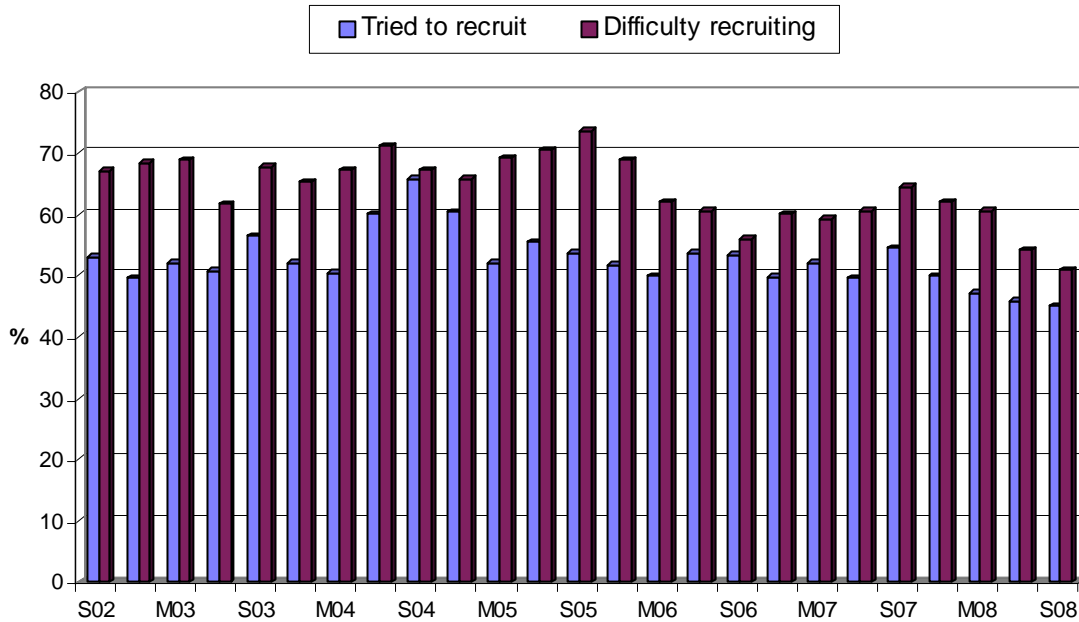
Chart 8: Recruitment Manufacturing



In the service sector 45% of firms have tried to recruit over the past 3 months, a decrease of 1 percentage point. Of these 38% looked for part time, and 22% for temporary staff. Both percentages have remained stable compared to the last quarter. There has been slightly less recruitment of full time jobs now at 70% from 72% last quarter. There has also been a 4 percentage point decrease in the recruitment of people for permanent jobs.

Skilled manual recruitment has fallen to 22% from 23%. Also decreasing is recruitment of professional / managerial staff from 24% to 18%. Conversely un and semi-skilled manual recruitment has increased from 13% to 16%, and clerical staff has markedly increased from 20% to 36%.

Chart 9: Recruitment Services

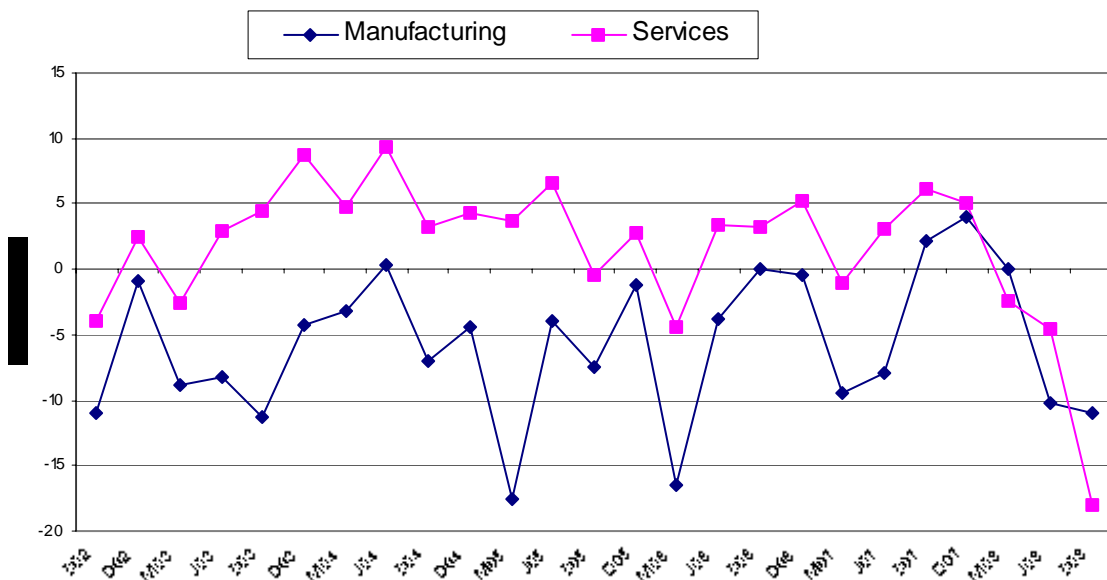


Cashflow

Cashflow conditions have severely worsened amongst services with a 13% fall from last quarter's -5%.

North West manufacturers have also been hit by worsening cashflow conditions however with a balance of -11%, this is a one percentage point fall from quarter 2. This is by no means the lowest level reported. The net balance this quarter is actually at the same level as this quarter in 2003.

Chart 10: Cashflow



Investment Plans

For manufacturing, investment plans for plant and machinery has decreased from 13% to 1% net balance. Investment in training has remained stable at 10%, indicating that manufactures continue to invest in people.

Investment in plant and machinery among service sector firms decreased by 7 percentage points to -1% net balance. Service firms continue to invest in training with a net balance of 8% from 16%

Chart 11: Investment Plant & Machinery

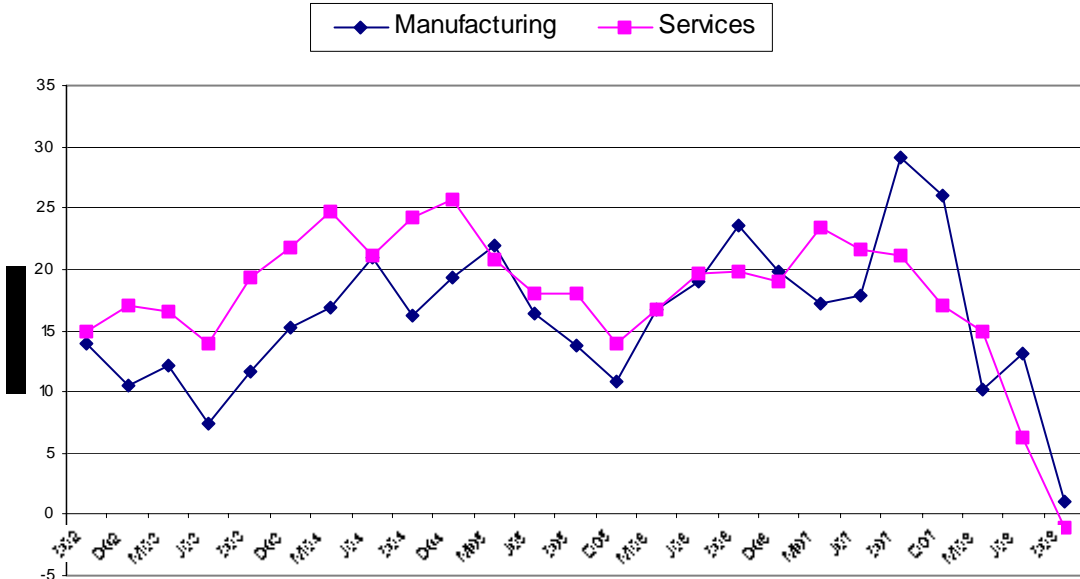
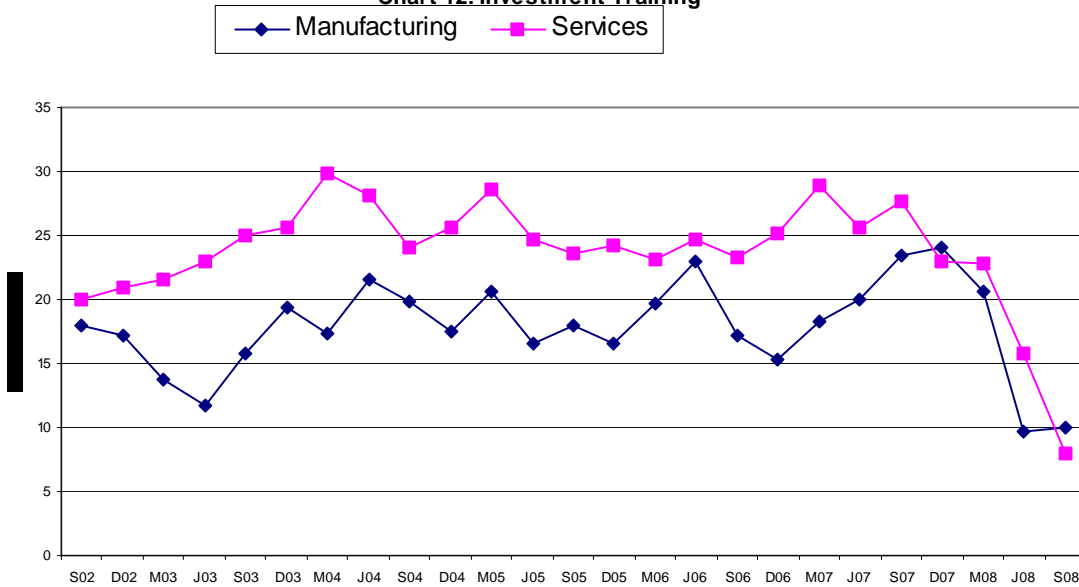


Chart 12: Investment Training



Prices/Costs

58 % of manufacturing firms expect the price of goods / services to increase over the next 3 months, up from 47% last quarter. Manufacturers are subject to increasing pressure to pay settlements, finance costs and other overheads. Pressure from raw material prices has fallen from 83% to 78%.

Goods / services to increase over the next 3 months, up one percentage point from 38% in quarter 2. Pressure to pay settlements for services has increased but only by one percentage point, as has pressure from other overheads. 18% and 51% of respondents have listed these respectively. Pressure from raw material price increases is up from 33% to 36% , however this increase is minimal. Other pressures such as finance costs have decreased.

Chart 13: Prices

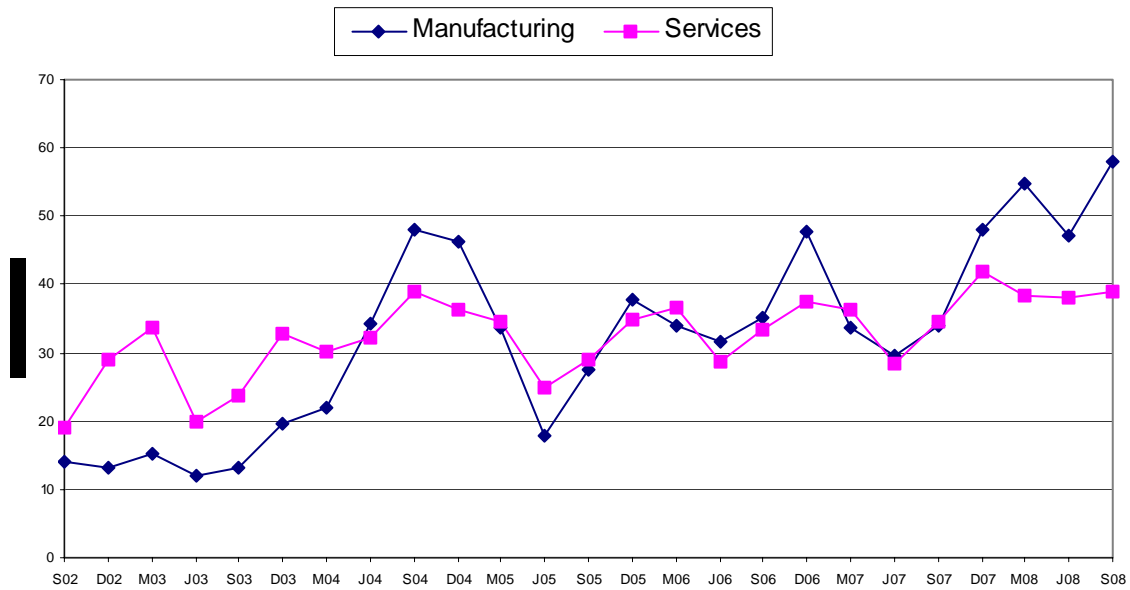
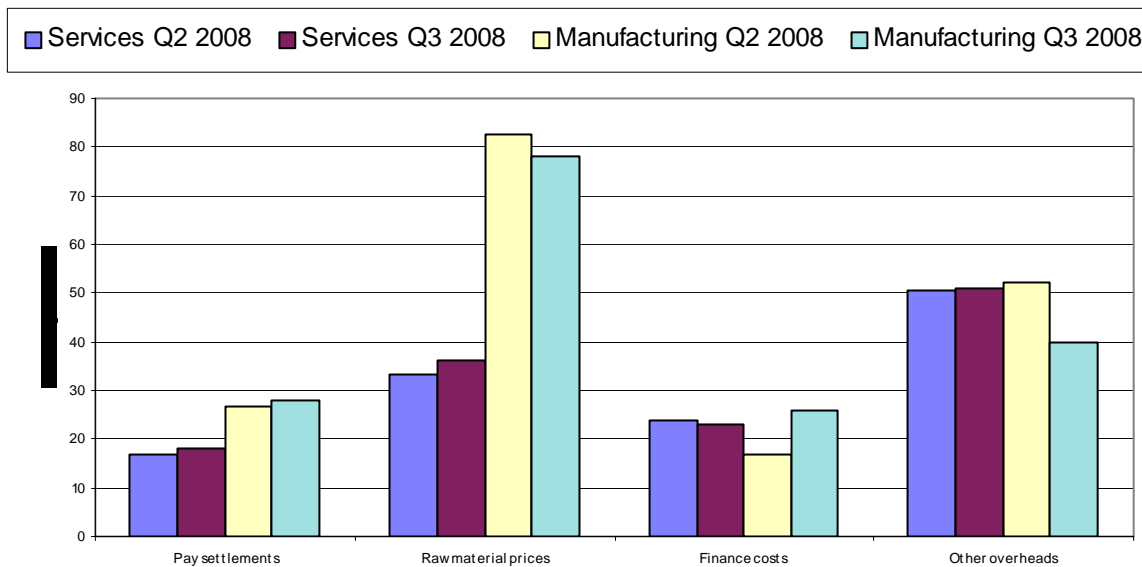


Chart 14: Price Pressures

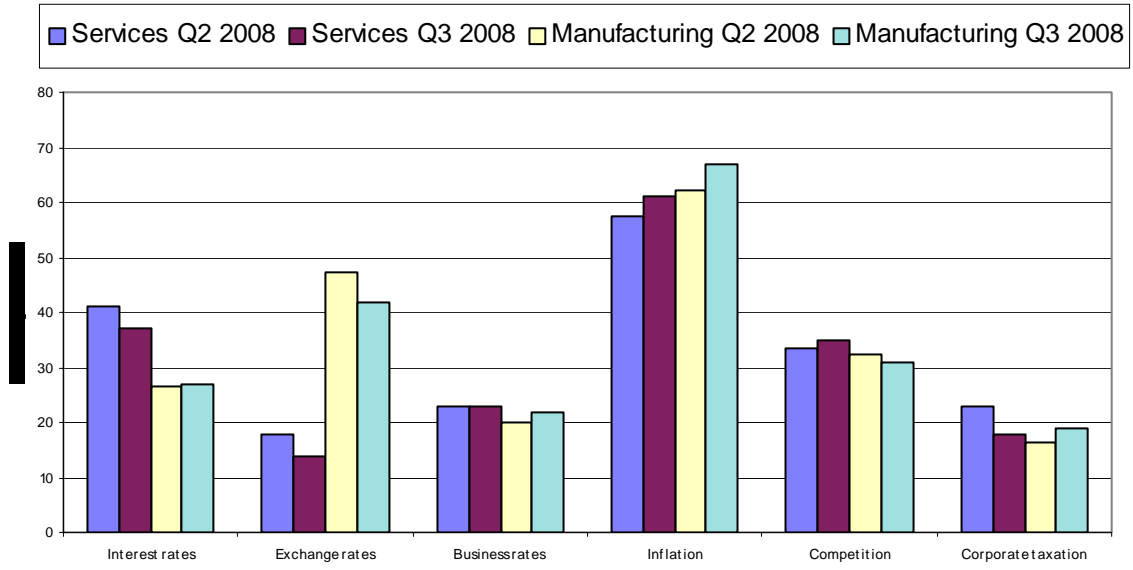


External Factors

Amongst manufacturers inflation is causing the greatest concern at 67%. The next cause for concern is exchange rates at 42% (however this has decreased by 5 percentage points from last quarter). Competition has also fallen from 32% to 31%, and concern over interest rates remains stable at 27%.

Inflation is also the main concern for services up 4 percentage points to 61%. The highest recorded since records began in 2003. Exchange rates are causing the least cause for concern at 14% (down from 18% last quarter). Interest rate concern has also decreased by 4 percentage points now at 37%. Concerns over competition now stands at 35%.

Chart 15: External Factors



		Manufacturing				Services			
		Q4 07	Q1 08	Q2 08	Q3 08	Q4 07	Q1 08	Q2 08	Q3 08
		%	%	%	%	%	%	%	%
Deliveries And Orders									
Sales/custom/bookings have...	rise	41	33	32	30	42	39	32	28
	same	38	41	39	36	39	41	41	39
	fall	-21	-26	-29	34	-20	-20	-27	-33
	net	20	7	3	-4	22	18	5	-5
Orders/advance custom/bookings have..	rise	38	31	26	25	36	35	27	22
	same	38	43	42	37	43	47	45	41
	fall	-23	-26	-32	-39	-21	-19	-28	37
	net	15	5	-6	-14	15	16	-1	-15
Overseas sales/custom/bookings have...	rise	28	29	32	34	28	36	25	31
	same	48	49	47	39	55	47	55	45
	fall	-23	-22	-21	-26	-17	-17	-20	-24
	net	5	7	11	8	11	19	4	7
Overseas orders/ advance custom/bookings have..	rise	29	28	32	29	26	28	20	23
	same	46	50	45	41	55	56	59	52
	fall	-25	-22	-23	-30	-19	-17	-21	-25
	net	4	5	9	-1	7	11	-1	-2
Labour									
Over the past 3 months, has your workforce:									
	increased	24	23	19	26	27	22	19	22
	remained same	53	59	58	51	61	66	66	62
	reduced	-22	-18	-23	23	-12	-12	-14	-16
	net	2	4	-3	3	15	10	5	6
Over the next 3 months, do you expect your workforce to:									
	increase	24	20	21	17	26	28	21	19
	remain constant	68	69	62	66	68	66	69	66
	decrease	-8	-10	-17	-16	-6	-6	-10	-15
	net	16	10	3	1	20	22	11	4
Have you attempted to recruit staff over the 3 months?									
	yes	55	53	48	49	50	47	46	45
	no	45	47	52	51	50	53	54	55
If yes, were they for:									
	part-time jobs?	16	13	11	12	32	33	38	38
	full-time jobs?	83	76	69	71	71	72	72	70
	temporary jobs?	21	22	21	16	19	17	21	22
	permanent jobs?	48	41	49	33	48	38	43	39
Did you experience any difficulties finding suitable staff?									
	yes	64	55	58	56	62	60	54	51
	no	40	45	46	51	52	47	53	59
If yes, for which of the following categories of employee:									
	skilled manual	40	36	38	43	28	23	23	22
	professional/managerial	23	17	18	20	21	20	24	18
	clerical	16	15	16	15	20	19	20	36
	un and semi-skilled	18	17	11	10	17	20	13	16
Cashflow									
During the last 3 months has your cashflow:									
	improved	30	28	20	22	28	25	25	19
	same	44	44	49	45	49	47	46	44
	worse	-26	-28	-31	-33	-23	-28	-29	-37
	net	4	0	-10	-11	5	-2	-5	-18
Investment									
For plant/machinery/equipment?									
	revised upwards	33	27	27	21	26	25	22	18
	unchanged	59	56	60	59	65	65	63	64
	revised downwards	-7	-17	-14	-20	-9	-10	-15	-19
	net	26	10	13	1	17	15	6	-1
For training?									
	revised upwards	28	26	20	21	29	30	26	22
	unchanged	68	68	69	68	66	64	64	64
	revised downwards	-4	-6	-11	-11	-6	-7	-10	-14
	net	24	21	10	10	23	23	16	8
Confidence (For Next 12 Months)									
Do you believe that over the next 12 months:									
Turnover will									
	improve	56	54	41	38	59	59	48	41
	remain the same	31	29	30	27	28	28	29	30
	worsen	-13	-16	-29	-35	-13	-13	-23	-29
	net	43	38	13	3	46	46	25	12
Profitability will									
	improve	50	47	34	29	51	50	43	36
	remain the same	33	30	27	24	31	32	27	26
	worsen	-18	-23	-39	-48	-18	-18	-30	-38
	net	32	24	-5	-19	33	33	12	-2
Production									
At the present time the percentage of firms working at full capacity is									
	at less than full capacity	31	28	32	30	39	37	33	33
		69	72	68	70	61	63	67	67
Prices/Costs									
Over the next 3 months, do you expect the price of your goods /services to									
	increase	54	60	54	61	45	42	43	44
	remain the same	41	36	40	36	52	55	53	51

	decrease	-6	-5	-6	3	-3	-3	-5	-5
	net	48	55	47	58	42	38	38	39
Is your business currently suffering pressures to raise its prices from any of the following? (tick all that apply)	pay settlements	22	26	27	28	19	20	17	18
	raw material prices	77	80	83	78	31	30	33	36
	finance costs	19	20	17	26	19	18	24	23
	other overheads	42	48	52	40	45	47	50	51
External Factors									
your business than three months ago. (tick all that apply)	interest rates	33	24	27	27	43	34	41	37
	exchange rates	35	40	47	42	11	15	18	14
	business rates	25	24	20	22	22	23	23	23
	inflation	35	43	62	67	31	39	57	61
	competition	38	35	32	31	38	42	33	35
	corporate taxation	22	22	16	19	27	25	23	18
Number of respondent companies		260	275	237	278	762	796	711	918
Number of employees		28239	22233	21262	23943	35123	37852	76850	141531