

## Fourth Quarter 2008 - Quarterly Economic Survey

### Executive Summary

- Overall, the outlook this quarter for both manufacturers and service firms is disappointing as the downturn continues. Many of the key indicators have seen further decreases.
- UK sales and orders for both sectors have been poor this quarter. An increasing number of businesses also report decreasing exports and advance sales overseas this quarter for both services and manufacturing.
- Confidence has taken a further knock this quarter in terms of profitability and turnover. Net balances for confidence in profitability for both manufacturing and services now at -34% and -25% respectively. Confidence in turnover has also declined but less severely.
- The number of employers, both manufacturers and service providers, reporting falling numbers of staff has increased as well. Net balances have fallen to -11% and -9% respectively. Results indicate that this trend will continue over the coming months.
- Fewer respondents have recruited staff this quarter, the share of recruiting companies has dropped from 49% to 36% for manufacturers and 45% to 35% for services. It is not specified, however, whether recruitment activity is based on companies generating new jobs or simply filling vacant positions.
- A higher number of manufacturers have reported a downward adjustment to investment plans in plant and machinery with a net balance of -14% this quarter and services are also reporting a fall with a net balance of -15%. Investment in training for manufacturers has fallen to -3% and for services a -1% net balance is reported which is a 9 percentage point decrease.
- 73% of manufacturers still report pressures due to raw material prices, a slight decrease from 78% in the third quarter. Reported pressures from other overheads remain high for both manufacturing and services.
- Three month ago over 60% of businesses reported concern about inflation. This has now dropped to 30% for manufacturers and 29% for services. Exchange rates, on the other hand, have been listed by 55% of manufacturers (compared to 42% in the third quarter of 2008). Competition remains the main area of concern for services.

This quarter 1,325 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, 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](mailto:holly.keogh@gmchamber.co.uk)

## Sales & Orders

- For the manufacturing sector, domestic sales have decreased for the fifth consecutive quarter, and the net balance now stands at -32% from -4% last quarter. Domestic sales for the service industry have also fallen by 19 percentage points to -24%.
- Amongst manufacturers, UK orders net balance has dropped again from -14% to -38%. The figure for services has also decreased from -15% to -31% net balance.
- Manufacturing exports for overseas sales have decreased 21 percentage points to -13% net balance this quarter. Growth in export orders have also fallen from 21 percentage points to -22%.
- In the overseas market for the service sector sales and bookings now stand at -18% from a positive 7%. Overseas orders are also at the same level -18% with a smaller decrease of 16 percentage points from last quarter.

Chart 1: Domestic Sales

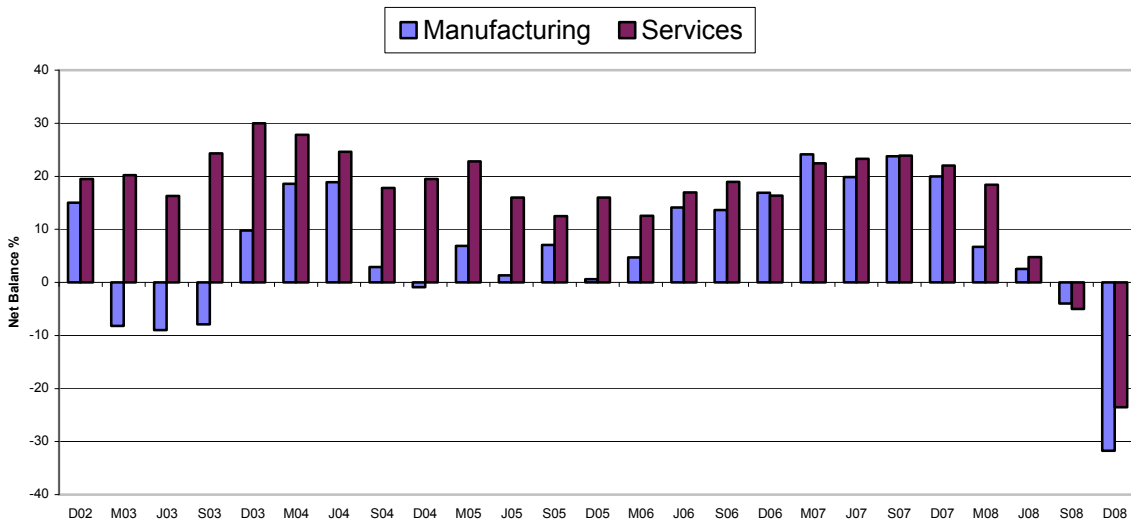
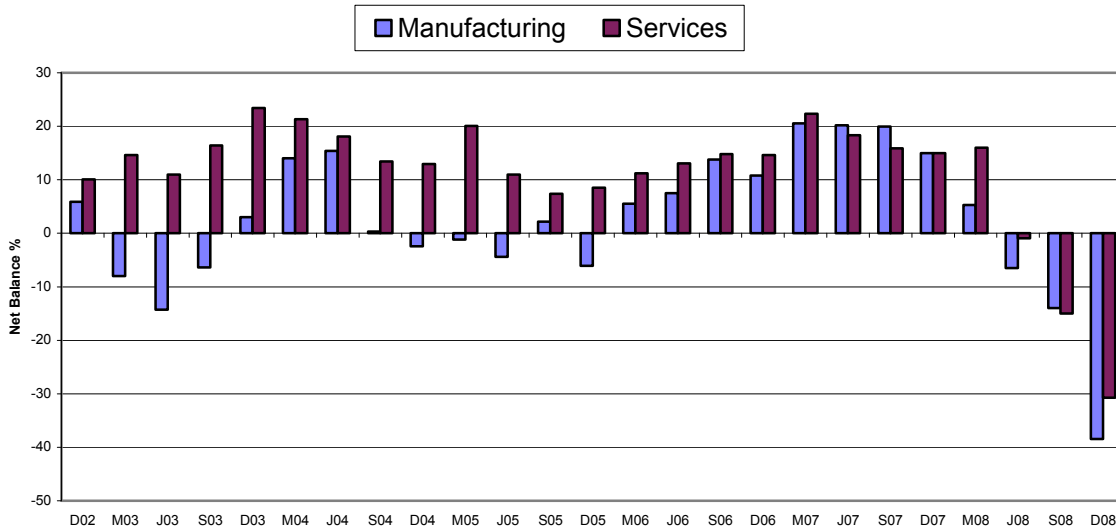


Chart 2: Domestic Orders



**Chart 3: Manufacturing Exports**



**Confidence**

Confidence has sharply declined this quarter within the manufacturing industry, especially confidence in profitability with is now at -34% net balance from -19% last quarter. Confidence in turnover has also decreased from a positive 3% to -31%.

- Confidence amongst the service sector is slightly better with confidence in turnover at -13% and confidence in profitability at -25% down 23 percentage points.

**Chart 4: Confidence Manufacturing**

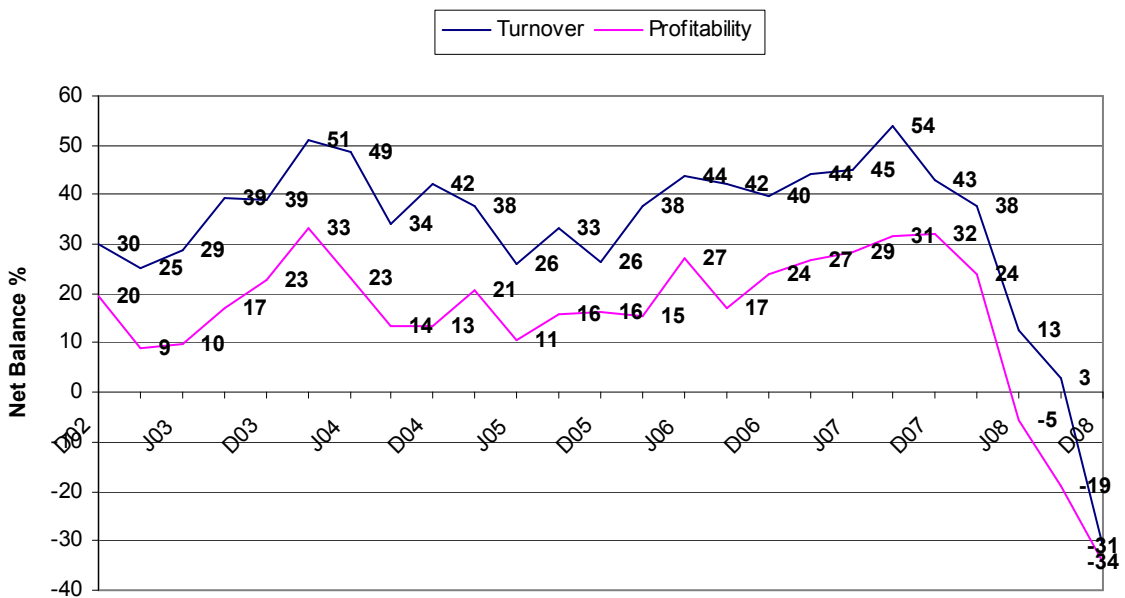
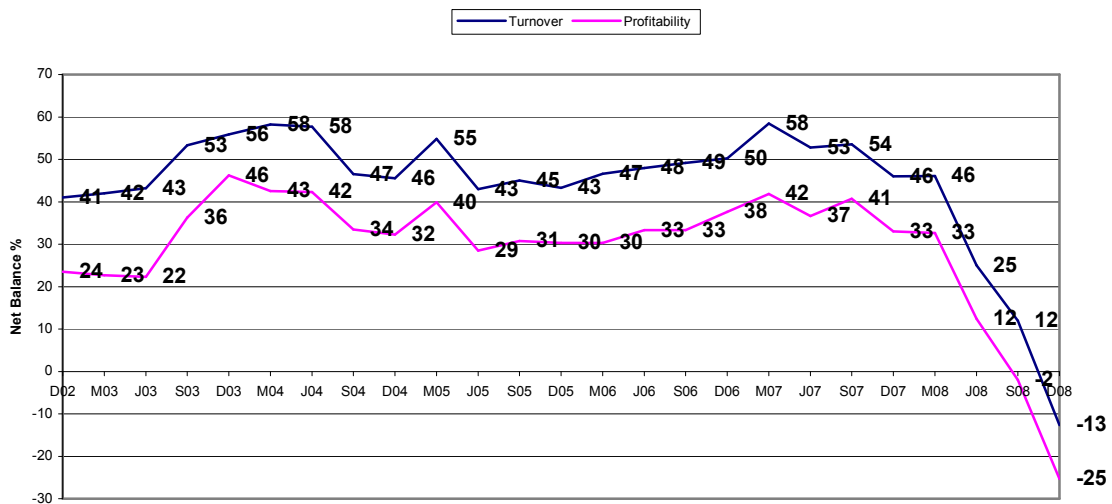


Chart 5: Confidence Services

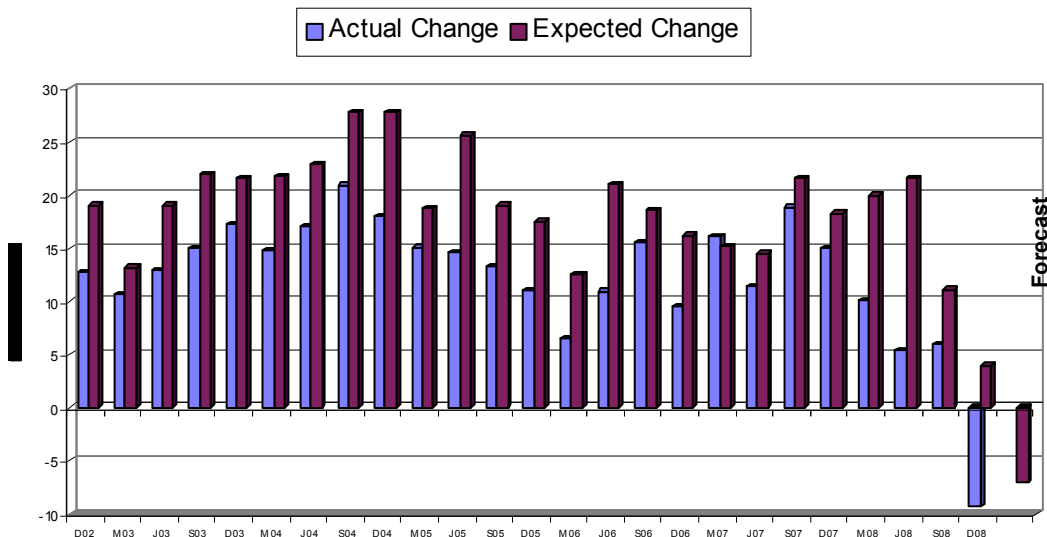


## The Labour Market

### Employment

- An increasing number of manufacturers has reported falling staff numbers with a net balance decrease from 3% to -11% this quarter. Expectation levels for the next 3 months have drastically fallen from 1% to -23%, indicating a continuously falling trend.
- For service firms, the net balance of businesses reporting an increase in actual employment growth has also decreased, now showing a net balance of -9% compared to 6% in the last quarter. Following the trend of manufacturing, expectations for the next 3 months have fallen from 4% to -7% as well.

Chart 7: Employment Services



### Recruitment

- There has been a decrease in manufacturers attempting to recruit new employees this quarter, with the net balance falling by 13 percentage points to 36%.

- Recruitment of part time and full time jobs remains fairly stable this quarter at 15% and 85% respectively. Recruitment of temporary jobs has fallen noticeably from 100% to only 30%. Conversely 70% of companies reported recruitment for permanent jobs.
- Only 39% of respondents reported difficulties in recruiting this quarter, a 17 percentage point decrease from last quarter, which suggests there are more people looking for work hence employers are finding it easier to recruit and have more choice when it comes to filling a vacancy. It was reported easier to find suitable staff for un and semi-skilled manual work (a one percentage point decrease to 9%). It was also easier for manufacturers to recruit clerical staff, only 10% of respondents reported problems, down from 15%. However businesses found it harder to find staff for all other categories including skilled manual up one percentage point to 44%, and professional / managerial staff up 6 percentage points to 26%.
- In the service sector 35% of firms have tried to recruit over the past three months, a decrease of 10 percentage points. Of these positions 31% were part time, and 69% full time, both of which have remained fairly stable. There has been less recruitment of permanent jobs falling one percentage point to 63%. The number of service companies looking for temporary staff is up one percentage point at 37%.
- Skilled manual recruitment has increased to 23% from 22%. Also increasing is recruitment of professional / managerial staff from 18% to 20%. Conversely un and semi-skilled manual recruitment has decreased from 16% to 12%, and clerical staff has markedly decreased from 36% to 20% .

Chart 8: Recruitment Manufacturing

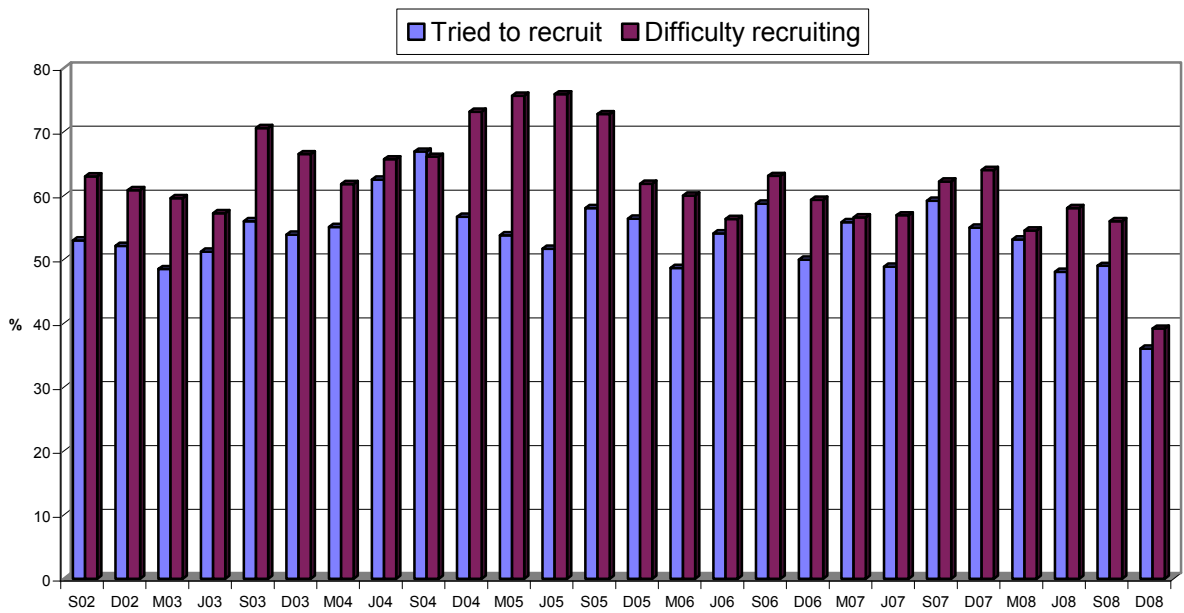


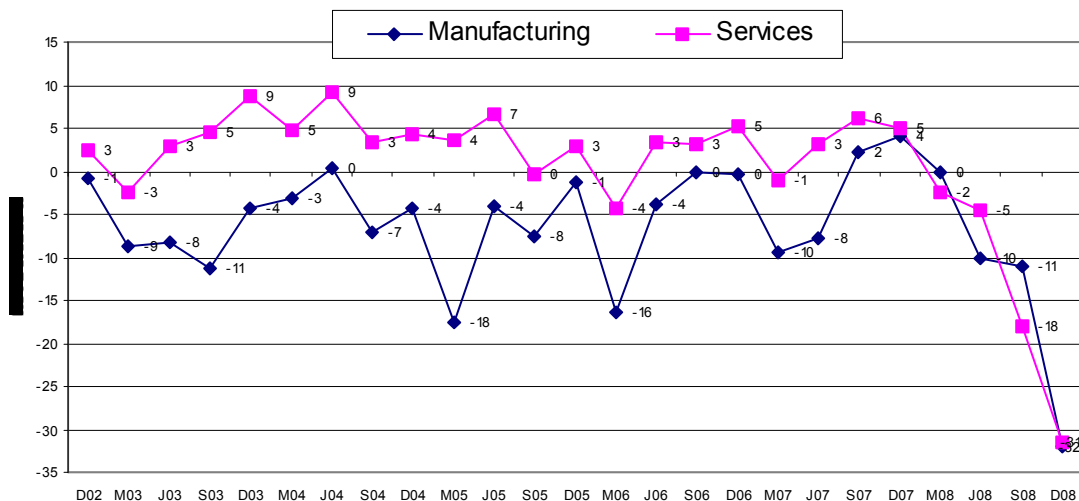
Chart 9: Recruitment Services



Cash flow

- Cash flow conditions have deteriorated markedly for services with a 13 percentage point fall from last quarter's -18%.
- An increasing number of North West manufacturers reported worsening cash flow situations as well. The net balance now stands at -32%, which is a 21 percentage point decrease from last quarter.

Chart 10: Cashflow



Investment Plans

- For manufacturing, an increasing number of companies has revised their investment plans for in plant and machinery downwards. The net balance has decreased from a positive 1% to -14%. The net

balance for investment in training has also slipped into the negative falling 13 percentage points to – 3%.

- Net balance for investment in plant and machinery among service sector firms decreased by 14 percentage points to -15%. Investment in training for service firms has also fallen to –1% from 8% last quarter.

Chart 11: Investment Plant & Machinery

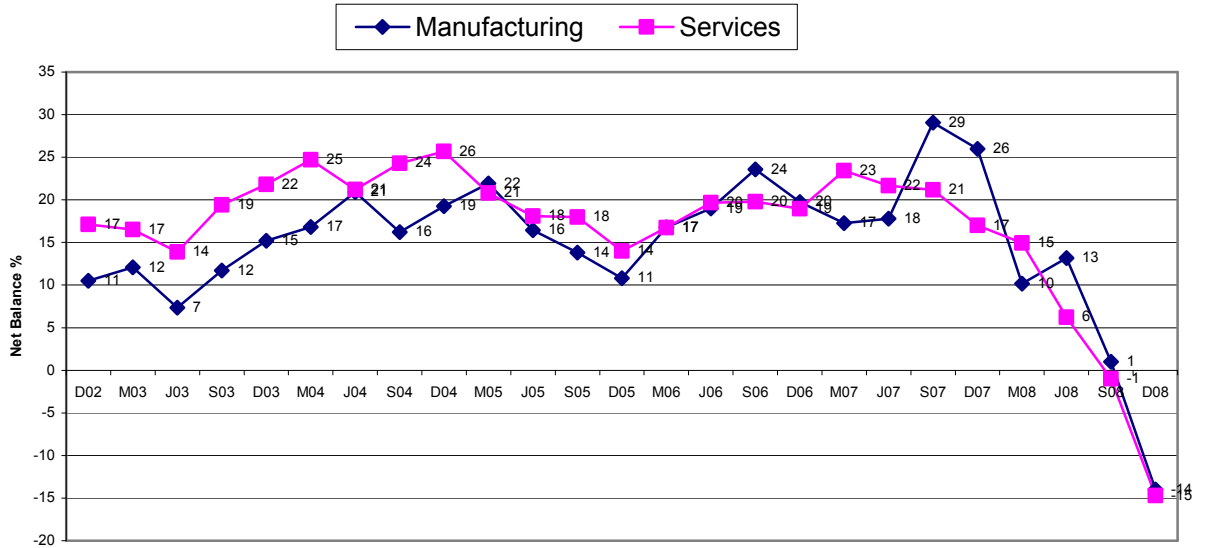
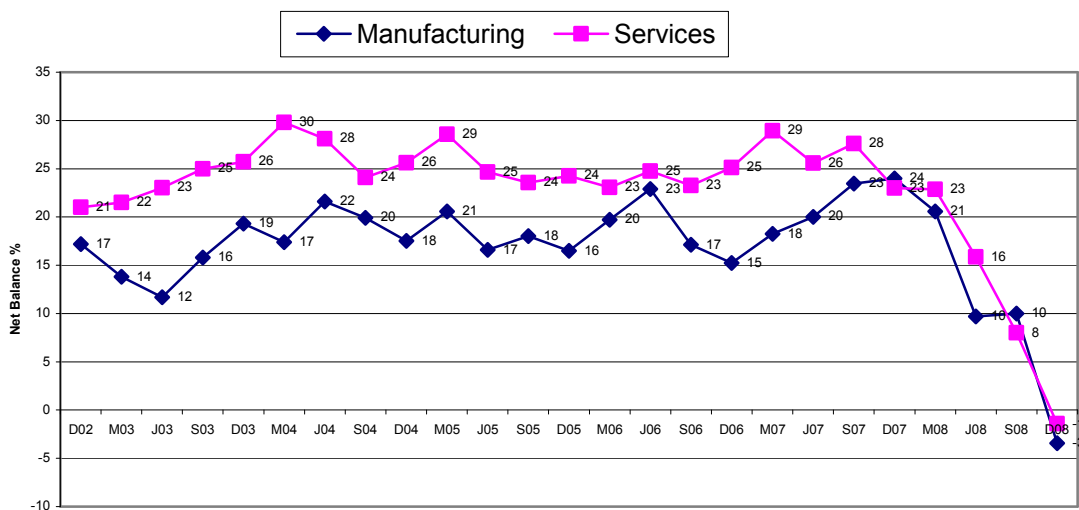


Chart 12: Investment Training



## Prices/Costs

- Over the next 3 months only 17% of manufacturers expect the prices of their goods to increase – this is down from 58% last quarter.
- Only 9% of service companies expect the price of their goods / services to increase, down 30 percentage points.
- Amongst manufacturers raw material prices continue to cause the greatest concern at 73%, although this is down from 78% last quarter. The next cause for concern is other overheads at

51% up 11 percentage points from the third quarter. Causing the least concern to manufacturers is finance costs and pressure to pay settlements, both listed by 22% of respondents.

- For services, all price pressures have decreased this quarter. Raw material prices pressure has fallen the most by 12 percentage points to 24%. This is followed by an 11 percentage point decrease from other overheads, and pressure to pay settlements is now at 10% from 18% three months ago. Pressure from financial costs has decreased the least from 23% to 22%.

Chart 13: Prices

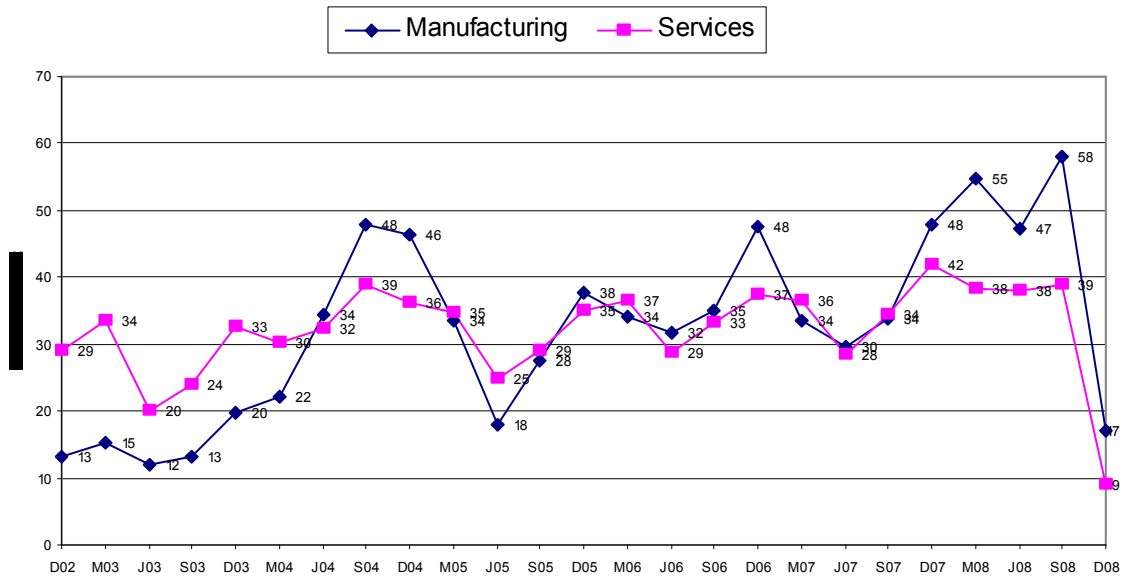
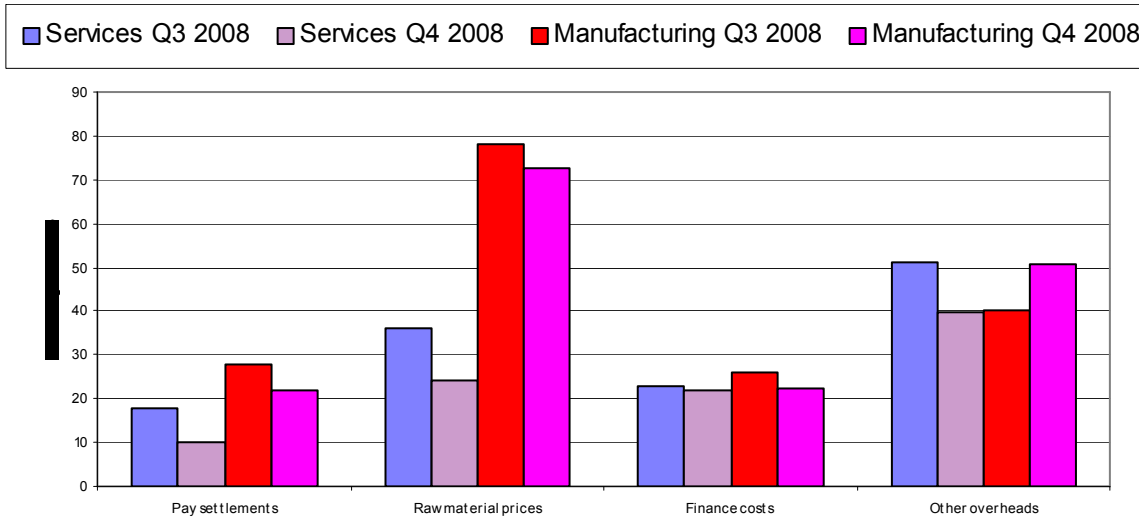


Chart 14: Price Pressures

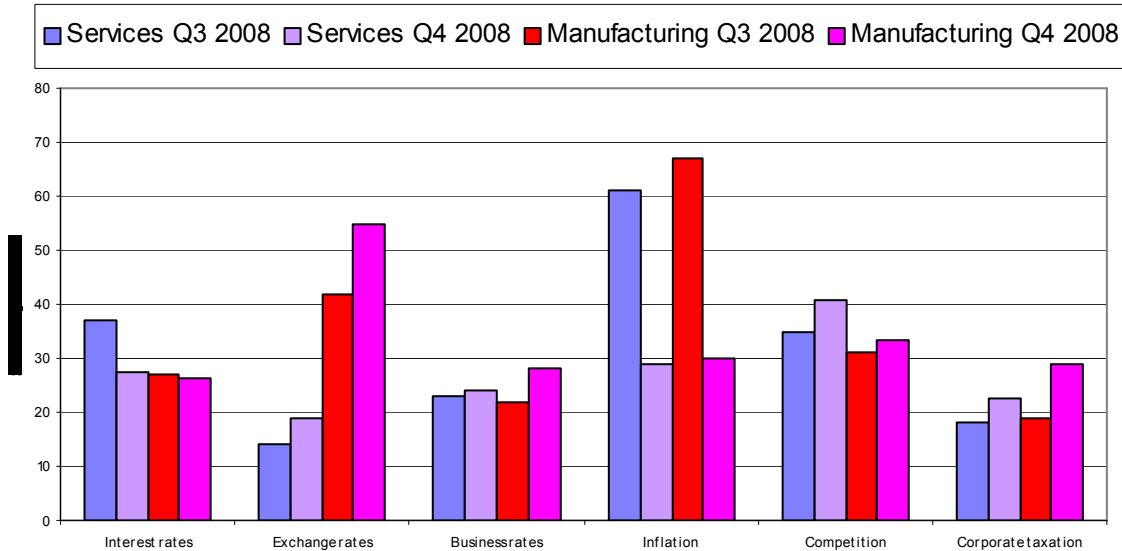


## External Factors

- The main concern for manufacturers this quarter is exchange rates and this has increased from 43% to 55%. Conversely this is of least concern to services at 19%. Another factor of concern for manufacturing businesses is competition at 33% up 2 percentage points. This is followed by inflation at 30% which has drastically decreased from 67% last quarter. Causing the least concern is interest rates at 26% down from 27%.

- For services, competition is the greatest concern with 41% of respondents citing this as a major factor this quarter. This has increased by 6 percentage points. Remaining fairly stable are concerns over exchange rates and business rates at 19% and 24% respectively. Again a noticeable decrease comes from concern over inflation with only 29% from 61% three months ago.

Chart 15: External Factors



		Manufacturing				Services			
		Q1 08	Q2 08	Q3 08	Q4 08	Q1 08	Q2 08	Q3 08	Q4 08
<b>Deliveries And Orders</b>		%	%	%	%	%	%	%	%
Sales/custom/bookings have...	rise	33	32	30	20	39	32	28	19
	same	41	39	36	29	41	41	39	39
	fall	-26	-29	34	51	-20	-27	-33	42
	<b>net</b>	<b>7</b>	<b>3</b>	<b>-4</b>	<b>-32</b>	<b>18</b>	<b>5</b>	<b>-5</b>	<b>-24</b>
Orders/advance custom/bookings have..	rise	31	26	25	17	35	27	22	16
	same	43	42	37	27	47	45	41	37
	fall	-26	-32	-39	56	-19	-28	37	47
	<b>net</b>	<b>5</b>	<b>-6</b>	<b>-14</b>	<b>-38</b>	<b>16</b>	<b>-1</b>	<b>-15</b>	<b>-31</b>
Overseas sales/custom/bookings have...	rise	29	32	34	25	36	25	31	14
	same	49	47	39	37	47	55	45	53
	fall	-22	-21	-26	38	-17	-20	-24	33
	<b>net</b>	<b>7</b>	<b>11</b>	<b>8</b>	<b>-13</b>	<b>19</b>	<b>4</b>	<b>7</b>	<b>-18</b>
Overseas orders/ advance custom/bookings have..	rise	28	32	29	19	28	20	23	14
	same	50	45	41	39	56	59	52	53
	fall	-22	-23	-30	42	-17	-21	-25	33
	<b>net</b>	<b>5</b>	<b>9</b>	<b>-1</b>	<b>-22</b>	<b>11</b>	<b>-1</b>	<b>-2</b>	<b>-18</b>
<b>Labour</b>									
Over the past 3 months, has your workforce:									
	increased	23	19	26	15	22	19	22	15
	remained same	59	58	51	59	66	66	62	61
	reduced	-18	-23	23	26	-12	-14	-16	24
	<b>net</b>	<b>4</b>	<b>-3</b>	<b>3</b>	<b>-11</b>	<b>10</b>	<b>5</b>	<b>6</b>	<b>-9</b>
Over the next 3 months, do you expect your workforce to:									
	increase	20	21	17	8	28	21	19	12
	remain constant	69	62	66	62	66	69	66	70
	decrease	-10	-17	-16	31	-6	-10	-15	19
	<b>net</b>	<b>10</b>	<b>3</b>	<b>1</b>	<b>-23</b>	<b>22</b>	<b>11</b>	<b>4</b>	<b>-7</b>
Have you attempted to recruit staff over the 3 months?									
	yes	53	48	49	36	47	46	45	35
	no	47	52	51	64	53	54	55	65
If yes, were they for:									
	part-time jobs?	15	13	13	15	31	34	35	31
	full-time jobs?	85	87	87	85	69	66	65	69
	temporary jobs?	36	29	100	30	31	33	36	37
	permanent jobs?	64	71	0	70	69	67	64	63
Did you experience any difficulties finding Suitable staff?									
	yes	55	58	56	39	60	54	51	45
	no	45	46	51	34	47	53	59	70

If yes, for which of the following categories of employee:									
	skilled manual	36	38	43	44	23	23	22	23
	professional/managerial	17	18	20	26	20	24	18	20
	clerical	15	16	15	10	19	20	36	20
	un and semi-skilled	17	11	10	9	20	13	16	12
<b>Cashflow</b>									
During the last 3 months has your cashflow:	improved	28	20	22	13	25	25	19	13
	same	44	49	45	42	47	46	44	43
	worse	-28	-31	-33	45	-28	-29	-37	44
	<b>net</b>	<b>0</b>	<b>-10</b>	<b>-11</b>	<b>-32</b>	<b>-2</b>	<b>-5</b>	<b>-18</b>	<b>-31</b>
<b>Investment</b>									
For plant/machinery/equipment?	revised upwards	27	27	21	15	25	22	18	13
	unchanged	56	60	59	56	65	63	64	59
	revised downwards	-17	-14	-20	29	-10	-15	-19	28
	<b>net</b>	<b>10</b>	<b>13</b>	<b>1</b>	<b>-14</b>	<b>15</b>	<b>6</b>	<b>-1</b>	<b>-15</b>
For training?	revised upwards	26	20	21	16	30	26	22	17
	unchanged	68	69	68	64	64	64	64	65
	revised downwards	-6	-11	-11	20	-7	-10	-14	18
	<b>net</b>	<b>21</b>	<b>10</b>	<b>10</b>	<b>-3</b>	<b>23</b>	<b>16</b>	<b>8</b>	<b>-1</b>
<b>Confidence (For Next 12 Months)</b>									
Do you believe that over the next 12 months:									
Turnover will	improve	54	41	38	23	59	48	41	30
	remain the same	29	30	27	23	28	29	30	27
	worsen	-16	-29	-35	54	-13	-23	-29	43
	<b>net</b>	<b>38</b>	<b>13</b>	<b>3</b>	<b>-31</b>	<b>46</b>	<b>25</b>	<b>12</b>	<b>-13</b>
Profitability will	improve	47	34	29	22	50	43	36	26
	remain the same	30	27	24	22	32	27	26	23
	worsen	-23	-39	-48	56	-18	-30	-38	51
	<b>net</b>	<b>24</b>	<b>-5</b>	<b>-19</b>	<b>-34</b>	<b>33</b>	<b>12</b>	<b>-2</b>	<b>-25</b>
<b>Production</b>									
At the present time the percentage of firms working									
	at full capacity is	28	32	30	22	37	33	33	29
	at less than full capacity	72	68	70	78	63	67	67	71
<b>Prices/Costs</b>									
Over the next 3 months, do you expect the price of your goods /services to									
	increase	60	54	61	36	42	43	44	27
	remain the same	36	40	36	46	55	53	51	55
	decrease	-5	-6	3	19	-3	-5	-5	18
	<b>net</b>	<b>55</b>	<b>47</b>	<b>58</b>	<b>17</b>	<b>38</b>	<b>38</b>	<b>39</b>	<b>9</b>
Is your business currently suffering pressures to raise its prices from any of the following? (tick all that apply )									
	pay settlements	26	27	28	22	20	17	18	10
	raw material prices	80	83	78	73	30	33	36	24
	finance costs	20	17	26	22	18	24	23	22
	other overheads	48	52	40	51	47	50	51	40
<b>External Factors</b>									
your business than three months ago. (tick all that apply)									
	interest rates	24	27	27	26	34	41	37	27
	exchange rates	40	47	42	55	15	18	14	19
	business rates	24	20	22	28	23	23	23	24
	inflation	43	62	67	30	39	57	61	29
	competition	35	32	31	33	42	33	35	41
	corporate taxation	22	16	19	29	25	23	18	23
Number of respondent companies		275	237	278	275	796	711	918	1050
Number of employees		22233	21262	23943	14239	37852	76850	141531	48401