



**NORTH WEST
QUARTERLY ECONOMIC SURVEY
Quarter 2 2010**

Full Report

Findings from the Chambers of Commerce North West's first Quarterly Economic Survey of 2010 (Q2)

About this Quarter's Survey

The survey collection period for the Q2 2010 survey was from 24th May to 16th June. This quarter 1,205 firms from across the North West completed the survey, employing 273,093 people.

- From the manufacturing sector, 306 businesses employing 21,765 people responded to the survey;
- From the service sector, 899 businesses employing 251,328 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, 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 Anna Purdue on 0161 237 4106 or email anna.purdue@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

- **The domestic market for manufacturers has seen a sharp turnaround**
- **Export demand accelerates with a third quarter of growth**
- **Strong job creation and intentions to recruit in the coming months**
- **Despite cashflow difficulties investment plans move positive**
- **Confidence grows after last quarter's dip**

This is an encouraging set of results for manufacturing with many balances returning to pre-recession levels. North West manufacturers saw a sharp upturn in the domestic market and exports have strengthened considerably, reversing the disappointing outcomes reported last quarter. For manufacturers these results show that demand is increasing and the recovery is well underway, supported by positive job creation. However there are concerns over a lack of investment and some intentions to increase prices that may add to inflationary pressures. The impact of public sector spending cuts and the VAT increase in the New Year of 2011 will no doubt impact on the sector's performance moving forward, but at present the outlook from these figures is positive and gives some encouragement for the future.

The upturn in domestic sales for manufacturers across the North West ended a run of seven successive quarters without growth and orders also saw a significant upturn. Domestic sales and orders now stand at +12% and +15% respectively, both the highest level since Q4 2007. Export balances also strengthened considerably to +21% for sales, the highest since Q2 2007 and orders are now +20%, which is the highest measure recorded since Q4 1996.

Really encouraging news from a demand and consumer confidence perspective is the positive job creation in manufacturing over the last quarter, the first time since Q1 2008 and at +12% is the highest balance since Q3 2007. Employment creation exceeded last quarter's expectations and expectations for the coming quarter are at +14%, the highest since Q1 2008, with many more firms reporting that they are attempting to recruit (up to 46% from 34% in Q1).

Cashflow difficulties persist within the manufacturing sector (-9%), though despite this investment intentions across both measures have moved positive for plant & machinery (+2%) and training (+3%). These measures have not been positive since Q3 2008, but remain weak.

The sales and orders performance of manufacturing in this quarter's survey are probably the key factor behind the rise in confidence measures looking forward. Confidence in turnover and profitability has risen to +47% and +22% respectively, however there has been a strong rise in intentions to raise prices, +19% to +38%. This is primarily caused by the increasing cost of raw materials. For those imported materials there may be some easing of inflation with the recent appreciation of Sterling.

Report Summary - Services

- **The domestic market for services shows the best performance in the North West since Q1 2008**
- **Growth continues for exports sales, but remains very weak**
- **Employment remains positive but falls short of expectations**
- **Cashflow remains a difficulty**
- **Confidence continues to be buoyant but suffers a slight fall on the previous quarter's**

The service sector across the North West is not showing the strength of growth seen in the manufacturing sector and is struggling to shake off the effects of the recession. The sector is at risk if things do not improve before the Government's deficit reduction policies take effect. The impending public sector spending cuts, upon which the North West relies heavily, and VAT increases will impact on consumption of goods and services in this sector of the economy.

It is positive that the sector has seen a welcome return to growth for domestic orders after faltering last quarter. At +8% domestic sales are now at the highest level since Q1 2008. Orders however remain in negative territory at -1%, though this is also the best balance since the measure was last positive (+16%) in Q1 2008. Export sales growth has declined for the second successive quarter and is now a very weak +3%. Export orders are flat at zero.

Recruitment over the quarter was slightly positive (+1%), but this is disappointing as last quarter's expectations had been stronger. Intentions for the coming quarter remain at +9%. There has been an increase in the number of firms trying to recruit, +45% up from +36%.

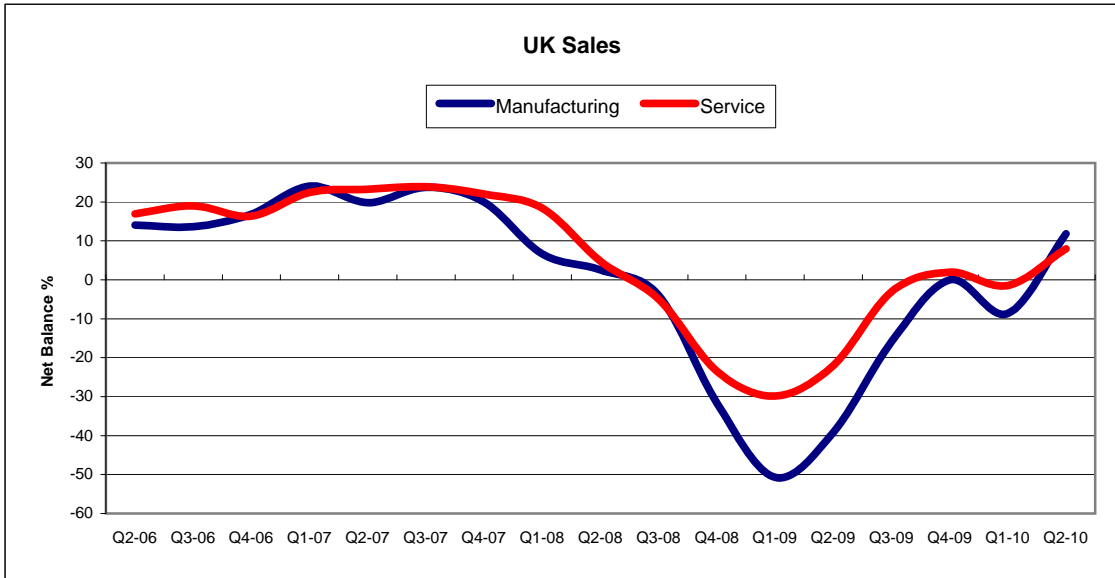
As with manufacturing cashflow remains negative at -13%, so access to finance remains a problem. Investment intentions in plant & machinery remain negative at -2%, though investment in training remains positive at +6%, slightly down on Q1.

Confidence across the region's service sector remains buoyant, though has dipped slightly on both measures to +30% and +14% for turnover and profitability respectively. These are two year highs, at levels not seen since Q1 2008.

Inflationary pressures continue to rise in the sector to +28%, up from +24% and now the highest since Q3 2008, though last quarter's raw material price pressure declined after seeing a sharp rise in Q1. Service sector businesses have reported that corporate taxation will increasingly become an external factor of concern over the quarter. The Coalition Government's decision to decrease corporation tax rates, especially the small companies' rate (now small profits' rate) may have alleviated these concerns however, since the survey closed.

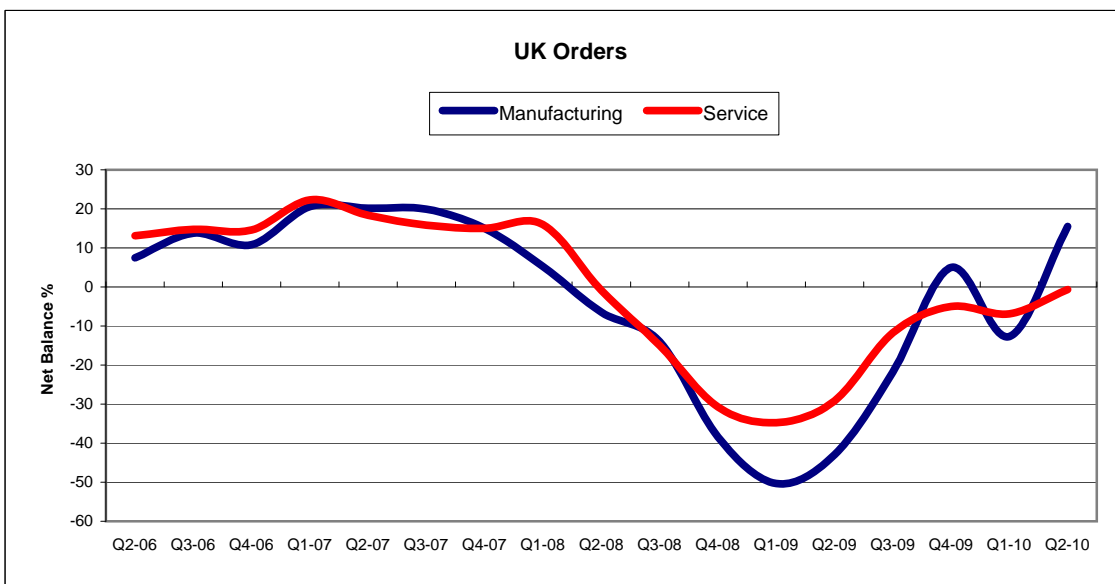
UK Sales and Orders

"Domestic markets in the North West return to growth"



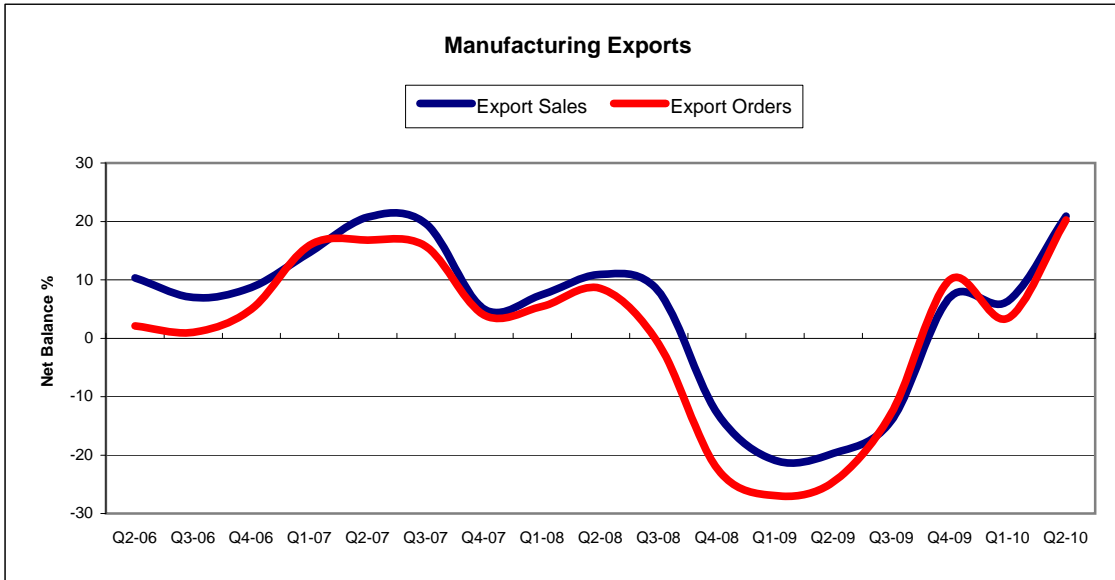
This quarter saw a considerable upturn in the domestic market for the region's manufacturing sector. There was significant growth in UK sales, with a net balance of +12%, the highest since Q4 2007. UK orders also recovered strongly following the contraction observed in last quarter's results, as the net balance increased from -13% to a buoyant +15%, again the highest balance since Q4 2007.

The domestic market for the service sector has not seen the significant upturn witnessed in manufacturing, but has seen growth with a net balance of +8%, the highest balance since Q1 2008. Likewise, though still negative, the domestic orders balance stands at -1%, the highest balance since Q1 2008, the last time this measure was positive.



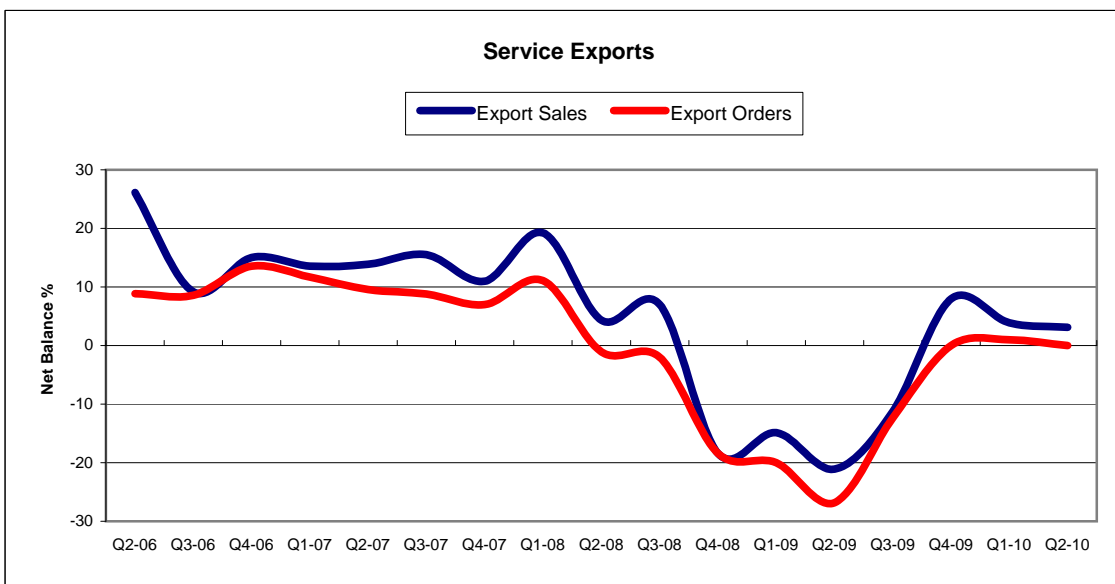
Export Sales and Orders

"Export growth continues and accelerates for manufacturing"



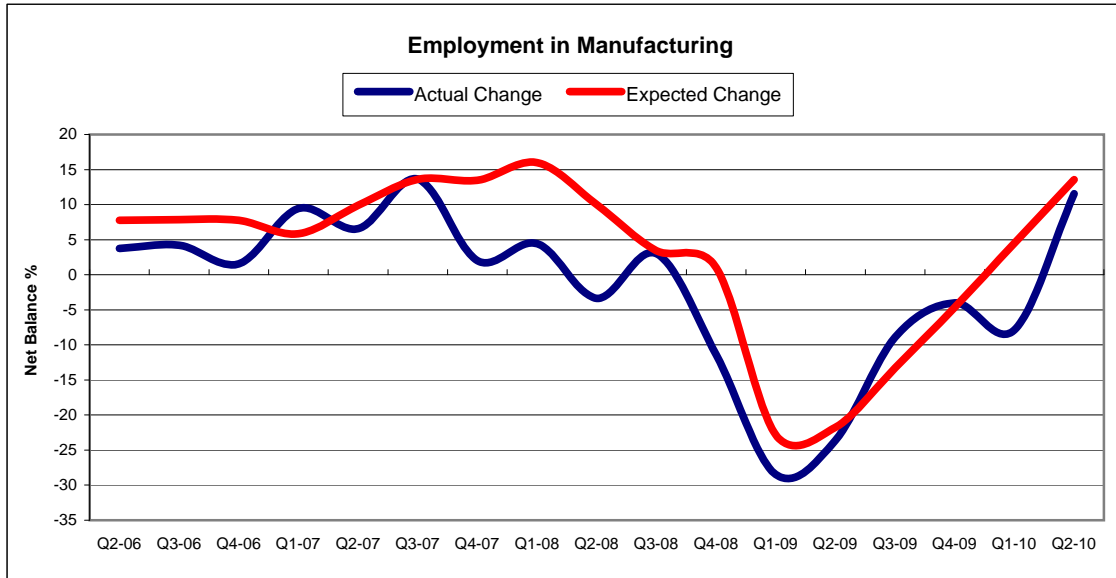
For manufacturers, export sales and orders have accelerated this quarter. The sales balance (+21%) is now the highest since Q2 2007, but the real surprise is the measure for orders. At +20% the export orders balance for the region's manufacturing industry is at a level not seen since Q4 1996.

In contrast to manufacturing export sales in the service sector continue to experience weak growth for the second consecutive quarter, down from +4% to +3%. Export orders have now stalled and have been almost flat for three quarters.



Employment and Recruitment in Manufacturing

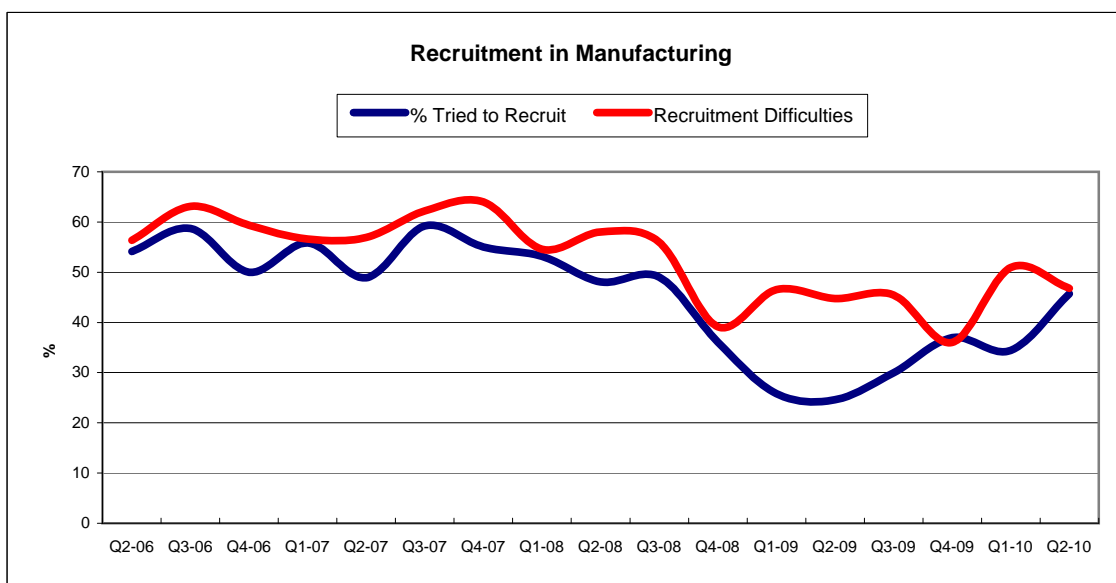
"A positive balance for job creation for first time since Q4 2007"



Employment in the manufacturing industry exceeded the previous quarter's expectations and recorded a net balance of +12%, the highest balance since Q3 2007 and the first positive growth in employment since Q3 2008. It is also encouraging that expectations are high with a balance of +14% this quarter, the highest since Q1 2008.

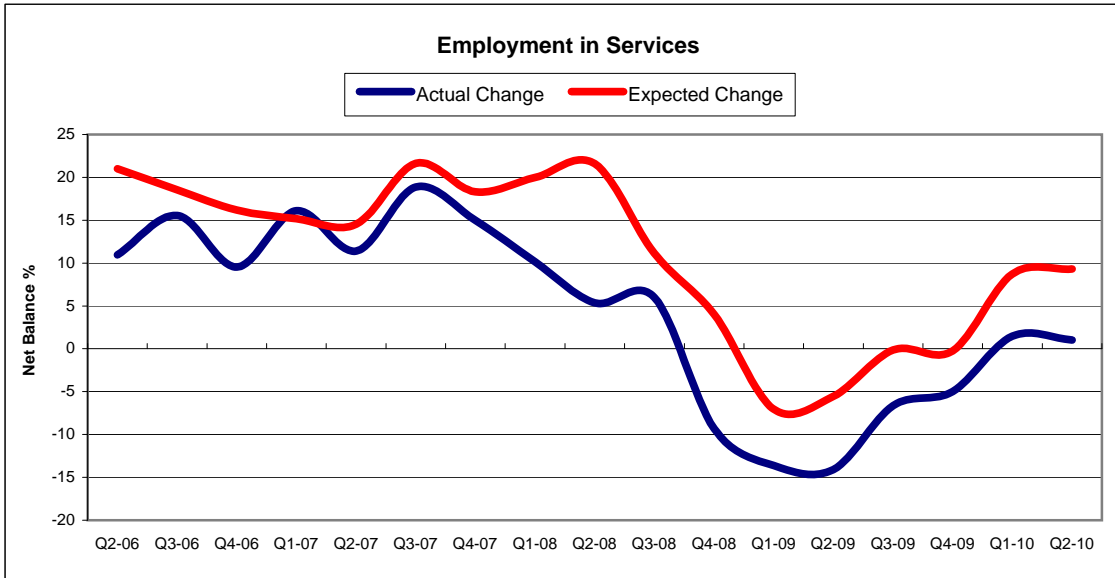
attempting to recruit has also increased to 46%. Of the jobs available within the industry, full time and permanent roles dominate; the proportion recruiting full time positions rising to 87%. Businesses are also experiencing less difficulties finding suitable candidates to fill the roles except semi and un-skilled, which increased by 1% to 17%. Businesses still have most difficulty recruiting for professional and managerial positions.

The proportion of manufacturing firms



Employment and Recruitment in Services

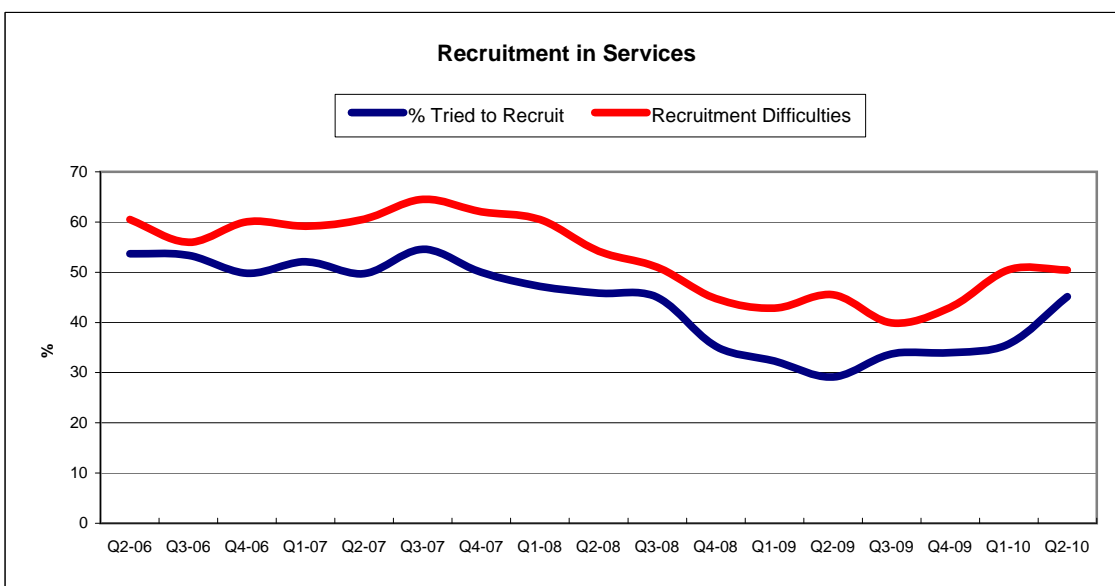
"Job creation in the services sector remains weak despite strong intentions"



This quarter has been disappointing in terms of employment opportunities within the North West's service sector. Employment balances have fallen short of last quarter's expectations for job creation, still almost flat at +1%. Expectations for the coming quarter remain higher at +9%.

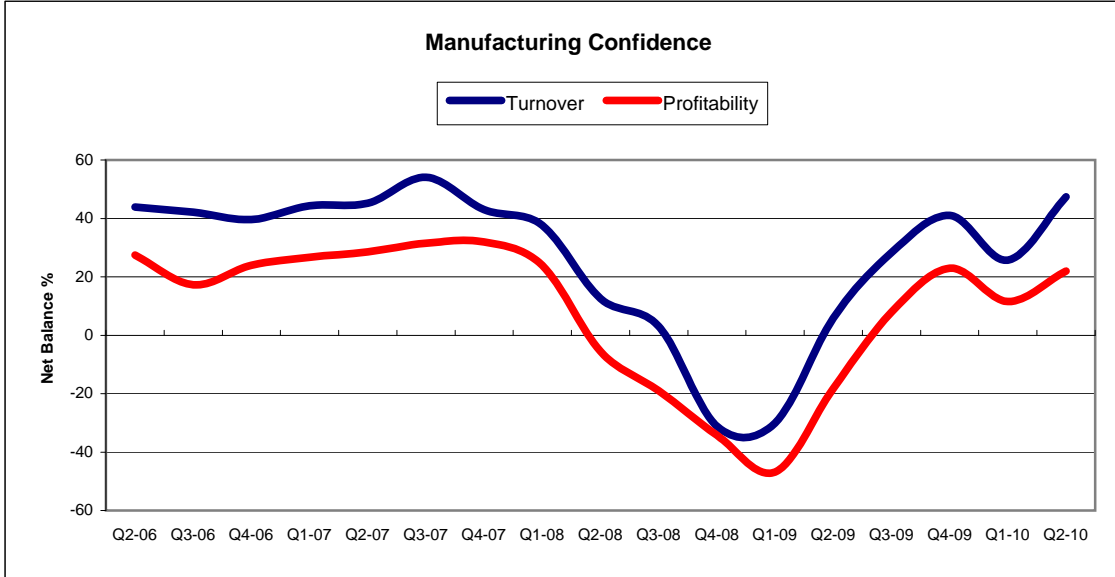
they have attempted to recruit accelerated from 36% to 45%, with the amount of part-time and permanent roles increasing. There has been no change in the proportion of businesses experiencing recruitment difficulties (50%). However, it has become easier to recruit for skilled manual, clerical and semi and un-skilled positions.

The proportion of firms reporting that



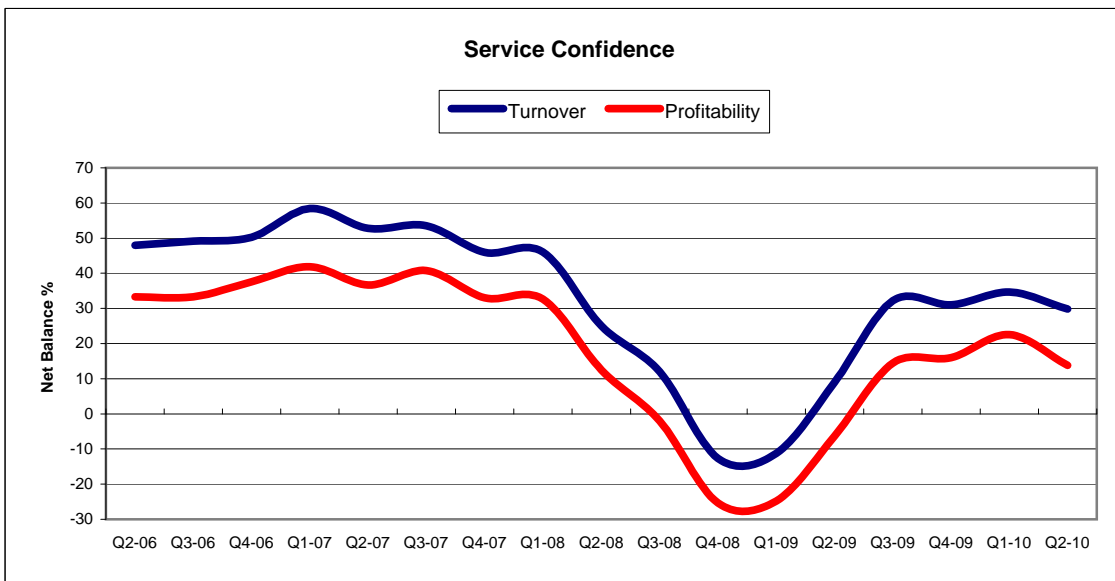
Business Confidence

"Manufacturers' confidence has picked up, though it is fallen back in services"



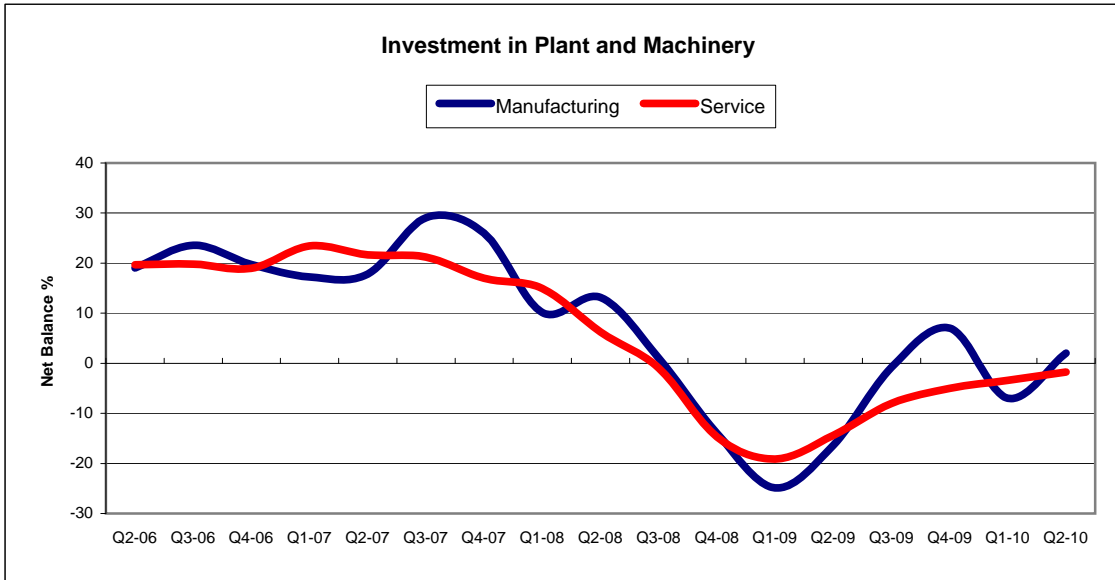
This quarter has seen confidence in future turnover expectations rise to +47% across manufacturing; not unexpected given the strong set of results for both domestic and foreign trade. Profitability confidence is also up on Q1, rising from +12% to +22%.

Given the lack of strong growth in the service sector, confidence has understandably suffered a decline across both measures. Whilst the results are still an improvement on confidence levels during the recession, turnover and profitability measures have dipped to +30% and +14% respectively.



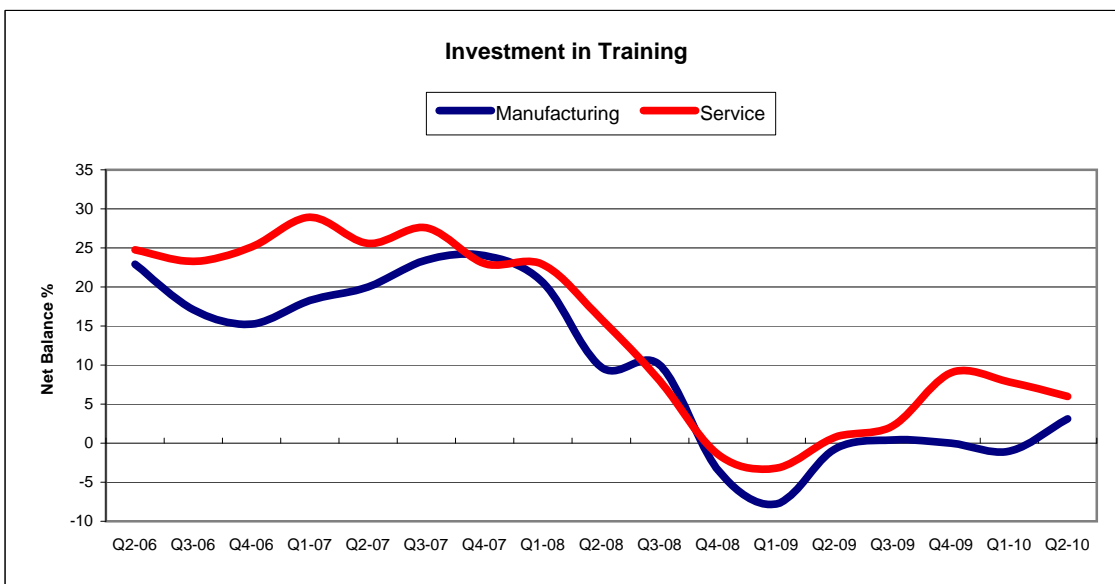
Investment Intentions

"Investment intentions remain weak"



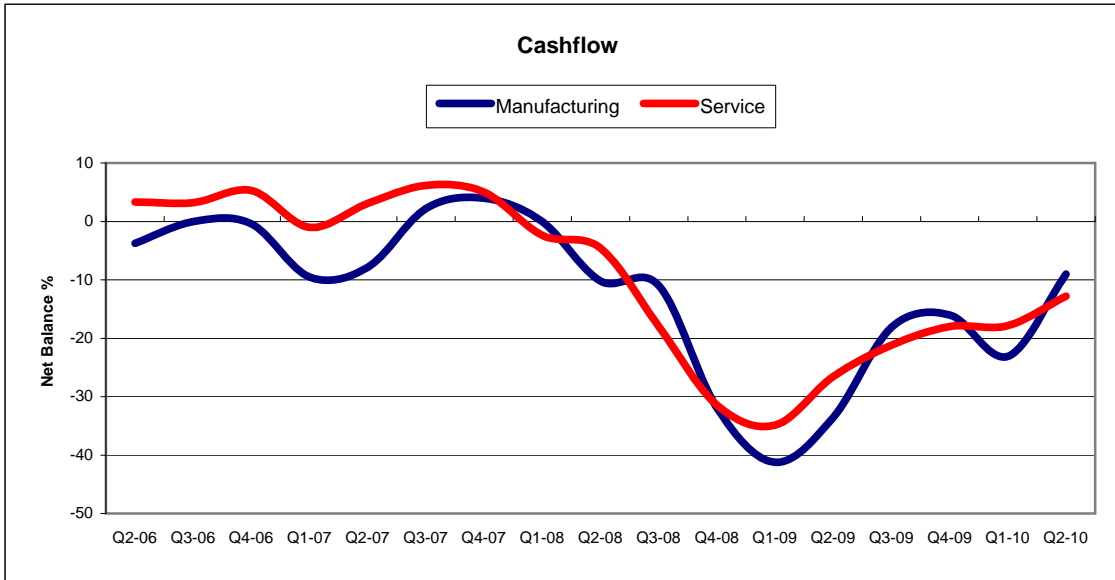
Despite the positivity surrounding the manufacturing sector's progress this quarter, it is unsurprising that there was an upturn in plans to invest in plant and machinery, the net balance shifting upwards from -7% to +2%. Likewise, there is more planned investment for training purposes (-1% to +3%). However the concern is that this level of investment is very weak.

This quarter saw a downturn in investment plans for plant and machinery within the service sector, with the net balance at -2%. Training investment remains positive but has slipped slightly to +6% from +8% in the previous quarter, further highlighting the diminished confidence of the sector compared to the previous quarter.



Cashflow and Prices

"Cashflow difficulties persist but appear to be easing across the board"

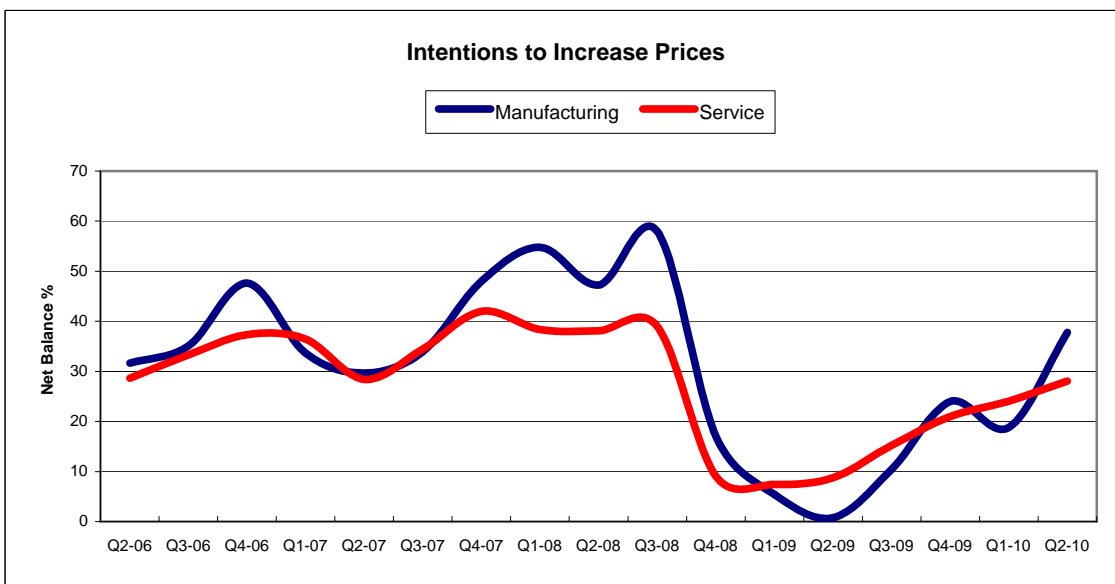


Whilst cashflow is still expected to decrease for all sectors, the extent of the problem appears to be easing from the levels seen at the beginning of 2009. Access to finance could well be the cause of the weak investment intentions at present.

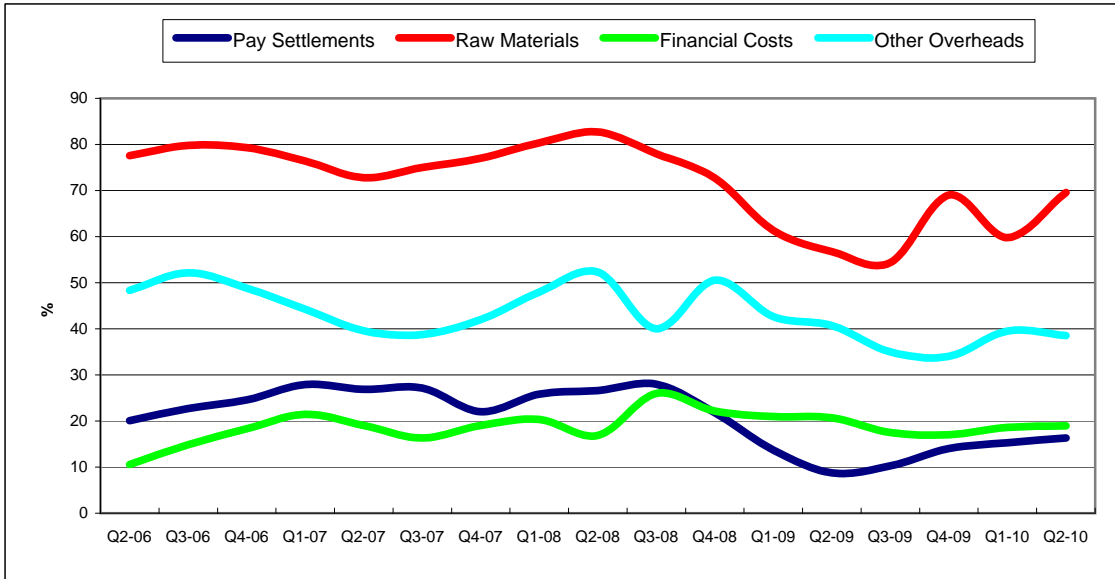
For manufacturer's the cashflow balance is now -9% and in services -13%.

A slightly higher number of manufacturing companies are now operating at full capacity (24%) and intentions to increase prices have accelerated to +38%, primarily as a result of raw material prices.

Across the service sector there has also been an increase in the number of firms intending to increase prices, up to +28%. These inflationary pressures are a concern.

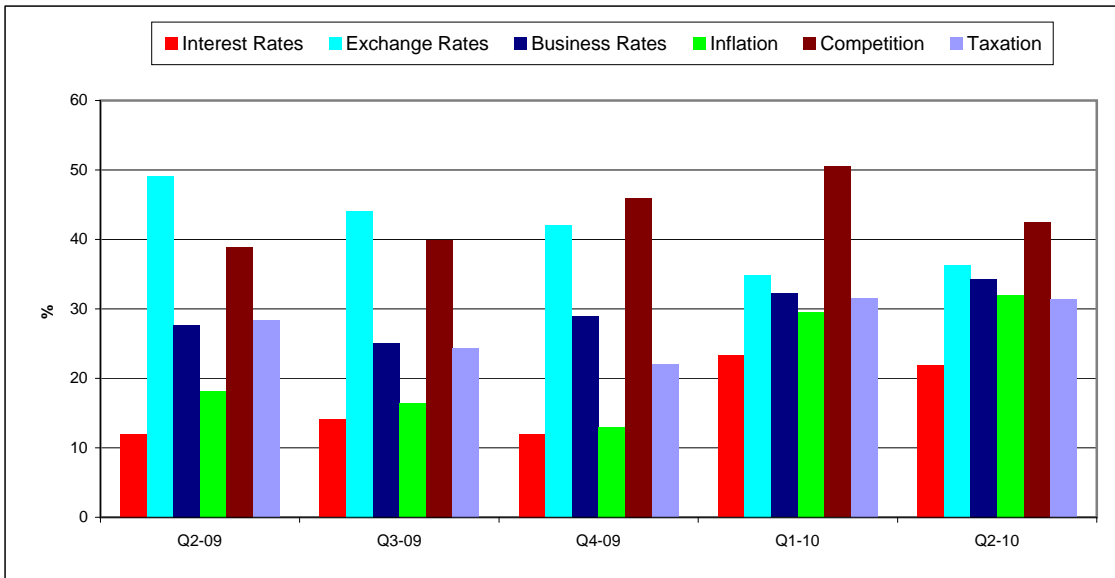


Price Pressures in Manufacturing



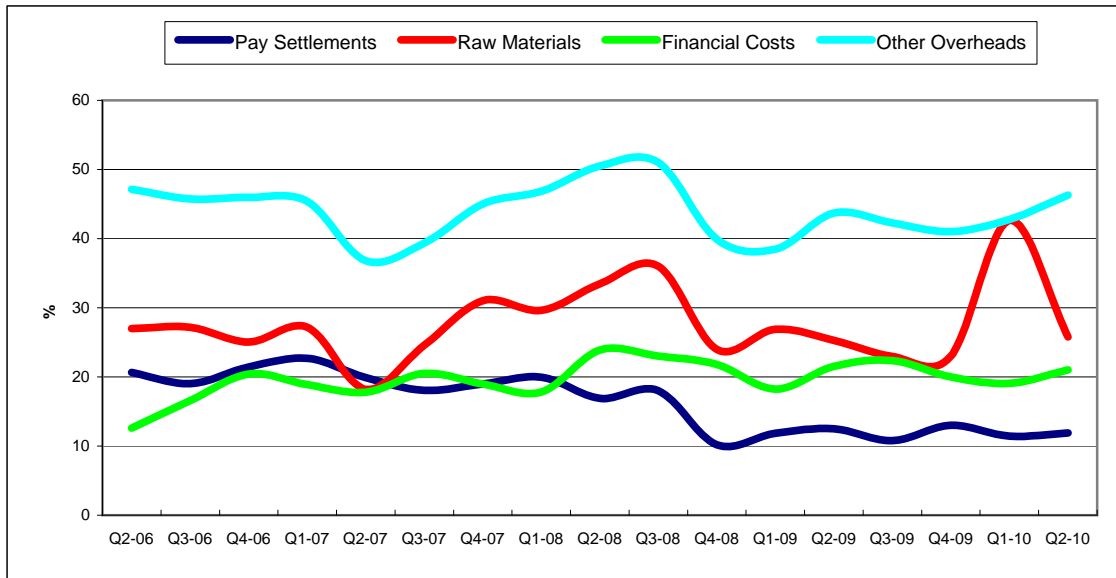
Concerns regarding the cost of Raw Materials within the Manufacturing sector continue to dominate, increasing from 60% to 70% of respondents. All other price pressures have remained relatively constant, fluctuating by 1% either way. Notably, concerns on the impact of financial costs remain unchanged.

External Factors in Manufacturing



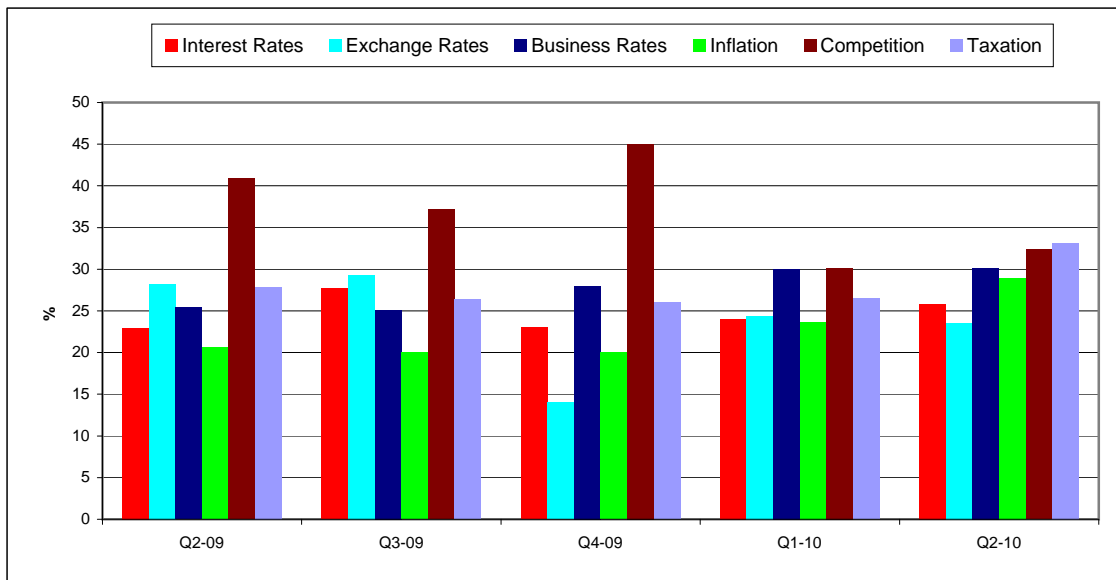
For manufacturing businesses, the main concern continues to be competition, however worries are easing, reducing from 50% in quarter 1 to 42%. Concerns over exchange rates, business rates, inflation and taxation have remained fairly stable since last quarter, whilst interest rates are of least concern to businesses in the manufacturing sector at 22%.

Price Pressures in Services



There has been very little movement in the main factors which affect pricing in the service sector for this quarter, apart from a welcoming reduction in concerns regarding raw material costs. Following the 43% peak last quarter, levels have returned to 26%. Other overheads continue to be of greatest concern, increasing from 43 to 46%, whilst concerns over pay settlements and financial costs remain relatively constant at 12% and 21% respectively.

External Factors in Services



Each external factor is of relatively equal standing in the concerns of the service sector, with very little change on last quarter's figures. The biggest changes lie in concerns over inflation and taxation, which has escalated from 24% to 29% and 27% to 33% correspondingly. Exchange and business rate worries have remained constant over the past two quarters, whilst interest rates and competition are having an increasing impact on service sector businesses, with figures rising to 26% and 32% for Q2 2010.

Recent Quarter Results - Manufacturing

	Q3-09	Q4-09	Q1-10	Q2-10
Deliveries And Orders				
UK sales	-16	0	-9	12
UK orders	-22	5	-13	15
Export sales	-14	7	6	21
Export orders	-13	10	3	20

Labour				
Employment in the last quarter	-9	-4	-8	12
Employment expectations for next quarter	-13	-5	4	14
% Tried to recruit staff	30	37	34	46
If yes, were they for:				
% Part-time jobs	12	23	18	13
% Full-time jobs	88	77	82	87
% Temporary jobs	48	53	52	40
% Permanent jobs	53	47	48	60
% Recruitment difficulties	45	36	51	47
If yes, were they for:				
% Skilled manual/technical	26	27	37	35
% Professional/managerial	26	12	18	15
% Clerical	17	13	17	9
% Semi/unskilled	8	15	16	17

Cashflow	-18	-16	-23	-9
-----------------	-----	-----	-----	----

Investment Plans				
Investment plant & machinery	-1	7	-7	2
Investment training	0	0	-1	3

Confidence (For Next 12 Months)				
Turnover	28	41	26	47
Profitability	8	23	12	22

Production				
% At full capacity	21	18	23	24

Prices/Costs					
Balance of firms expecting to increase prices	10	24	19	38	
Is your business currently					
suffering pressures to raise its	% Pay settlements	10	14	15	16
prices from any of the following?	% Raw material prices	54	69	60	70
	% Finance costs	17	17	19	19
	% Other overheads	35	34	40	39

External Factors					
Affecting your business than					
three months ago.	interest rates	14	12	23	22
	exchange rates	44	42	35	36
	business rates	25	29	32	34
	inflation	16	13	30	32
	competition	40	46	50	42
	corporate taxation	24	22	32	31

Number of respondent companies	263	246	301	306
Number of employees	26185	13604	21176	21765

Recent Quarter Results - Service

	Q3-09	Q4-09	Q1-10	Q2-10
Deliveries And Orders				
UK sales	-3	2	-1	8
UK orders	-12	-5	-7	-1
Export sales	-11	8	4	3
Export orders	-12	0	1	0
Labour				
Employment in the last quarter	-7	-5	1	1
Employment expectations for next quarter	0	0	9	9
% Tried to recruit staff	34	34	36	45
If yes, were they for:				
% Part-time jobs	37	39	36	39
% Full-time jobs	63	61	64	61
% Temporary jobs	34	44	42	38
% Permanent jobs	66	56	58	62
% Recruitment difficulties	40	43	50	50
If yes, were they for:				
% Skilled manual/technical	17	21	20	15
% Professional/managerial	16	20	19	19
% Clerical	18	21	21	20
% Semi/unskilled	10	15	21	17
Cashflow				
	-21	-18	-18	-13
Investment Plans				
Investment plant & machinery	-8	-5	-3	-2
Investment training	2	9	8	6
Confidence (For Next 12 Months)				
Turnover	32	31	35	30
Profitability	14	16	23	14
Production				
% At full capacity	25	27	29	30
Prices/Costs				
Balance of firms expecting to increase prices	15	21	24	28
Is your business currently				
suffering pressures to raise its				
prices from any of the following?				
% Pay settlements	11	13	11	12
% Raw material prices	23	23	43	26
% Finance costs	22	20	19	21
% Other overheads	42	41	43	46
External Factors				
Affecting your business than				
three months ago.				
interest rates	28	23	24	26
exchange rates	29	14	24	24
business rates	25	28	30	30
inflation	20	20	24	29
competition	37	45	30	32
corporate taxation	26	26	27	33
Number of respondent companies	845	838	849	899
Number of employees	36721	59849	99847	251328