



**NORTH WEST
QUARTERLY ECONOMIC SURVEY
Quarter 4 2009**

Full Report

Findings from the fourth quarter of 2009 economic survey of the North West.

This quarter 1,084 firms from across the North West completed the survey.

The following North West Chambers contributed to this report:

Greater Manchester, East Cheshire, Cumbria, Macclesfield, Liverpool, Lancaster, Cheshire, East Lancashire, Warrington, South Cheshire, North & Western Lancashire, St Helen's.

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

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

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1. Report Summary

1.1 Manufacturing

- **UK order bookings and sales improve**
- **Upturn in export sales and bookings**
- **Investment plans for plant & equipment increasing**
- **Confidence in improved turnover and profitability show significant increases**
- **Concerns have further increased over raw material prices**

The improvement in the business environment for North West manufacturers continued during the final quarter, following the trend of the two previous quarters. Indeed in some areas the quarter 4 net balances are the best for well over a year. Although fragile, overall there are positive signs for the North West economy in the coming year.

The UK sales balance for manufacturers moved from -16% in Q3 to 0% in December and is the best since mid 2008, while UK orders showed a significant improvement moving from -22% to 5%. Export orders and sales also showed positive movement, with orders improving from -13% to 10% and sales moving from -14% to 7%.

On recruitment, during the last three months the number of businesses reporting net job losses has reduced, though there has been an increase in recruitment for part time and temporary positions.

Cash flow continues to be a concern for manufacturers, although the position has eased slightly from -18% in Q3 to a net balance of -16% in Q4. This is improved from -32% at the end of Q2. However there has been positive movement in plans for investment in plant and machinery from -1% to 7%.

Building on the more positive position, manufacturing confidence also continued to improve moving from 28% to 41% for turnover and 8% to 23% for profitability.

Raw material prices remain the main concern for manufacturing businesses in terms of price pressures, whilst the external factors exchange rates and competition also remain of concern.

1.2 Services

- **Overseas sales improve and orders are flat**
- **A slight upturn in UK sales**
- **Optimism in new job creation**
- **More investment in training**
- **Overall business confidence remains steady and positive**
- **Concerns over business rates remain and other overheads exerting pressure on prices**

The results for the North West service sector, although showing some improvement, are not as strong as for manufacturing businesses. UK sales show a net balance of 2% compared to -3% in the previous quarter. Although still relatively low this is the most positive picture since mid 2008. UK orders also showed a slowdown in the rate of decline, moving from -12% to -5%.

Overseas sales showed a major upturn from -11% in Q3 to 8%, whilst export orders remained flat this quarter, moving from -12% in Q3 to 0%. Again, although fragile this was the best balance since early 2008.

Recruitment over the past three months has improved with 34% of employers trying to recruit, while the forecast over the next three months is for recruitment to improve from a net balance of 0% to 7%

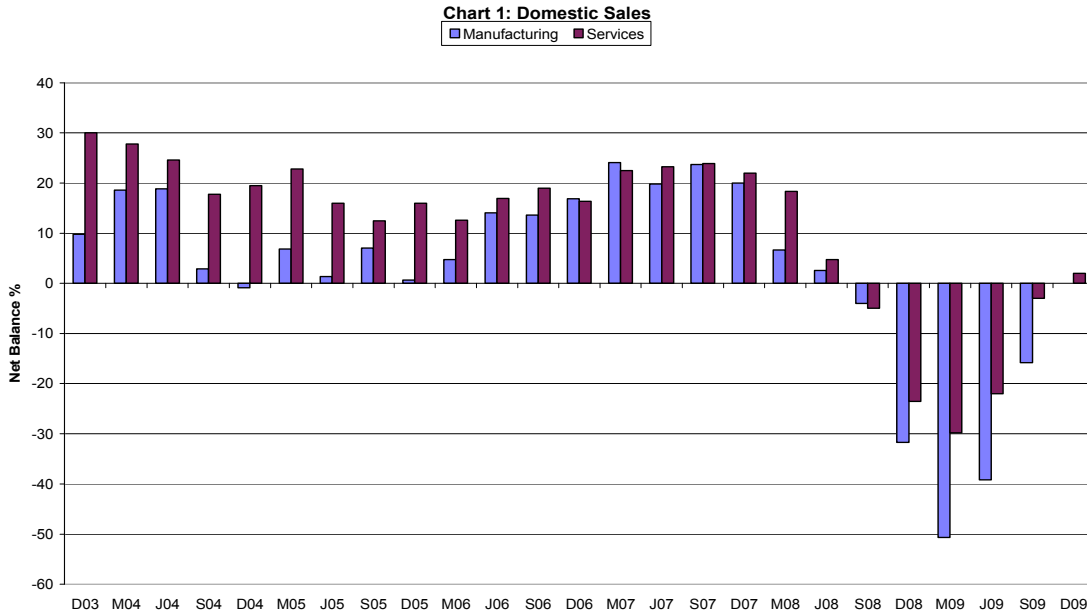
Cash flow and investment plans continue to be a concern, although showing some improvement from -21% to -18% for cash flow and -8% to -5% for investment in plant and equipment. However on a positive note investment in training has seen a further improvement moving from 2% to 9% this quarter.

Nevertheless confidence for the next year remains positive for both turnover (31%) and profitability (16%). However price pressures remain with raw material costs and other overheads being the most prominent, whilst external pressures from competition and business rates are of most concern to service businesses.

2. Results Detail

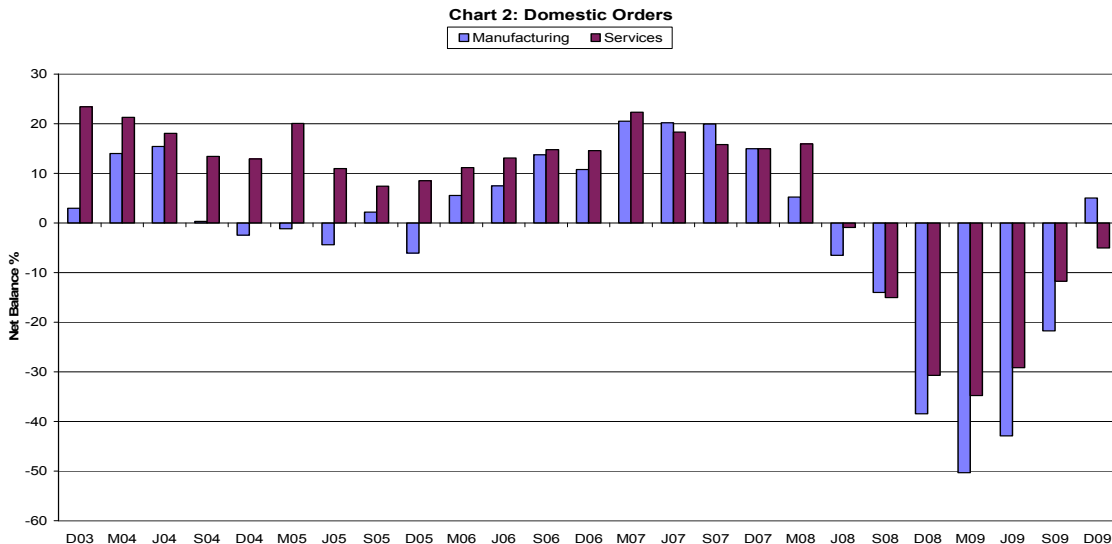
2.1 UK Sales & Orders

“Continued improvement for both manufacturing and services”



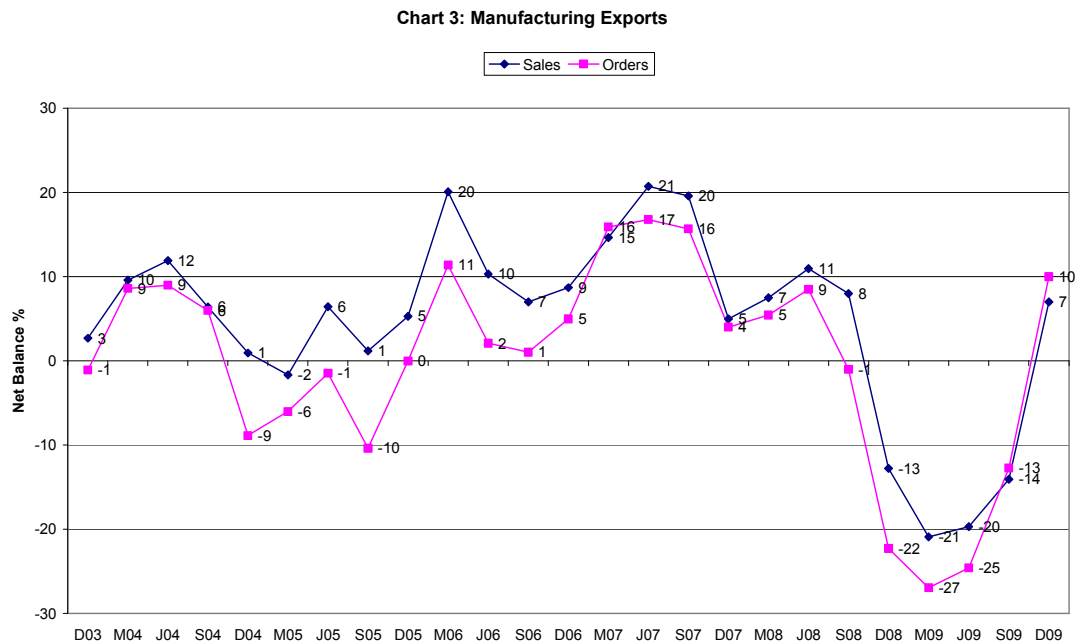
The UK sales situation for the region’s manufacturers showed a significant improvement over the previous quarter, moving from a net balance of -16% to 0% and having been -32% a year ago. UK manufacturing orders have also seen an upturn this quarter and show a net balance of 5% compared to -22% in Q3, following a three quarter trend.

The service sector also showed an upturn in UK sales moving from -3% to 2% net balance, having been -24% at the end of 2008. Although not as positive as manufacturing, domestic orders for services showed a slowdown in the rate of decline, moving from -12% to a -5% net balance.



2.2 Exports

“A significant upturn in manufacturing exports”

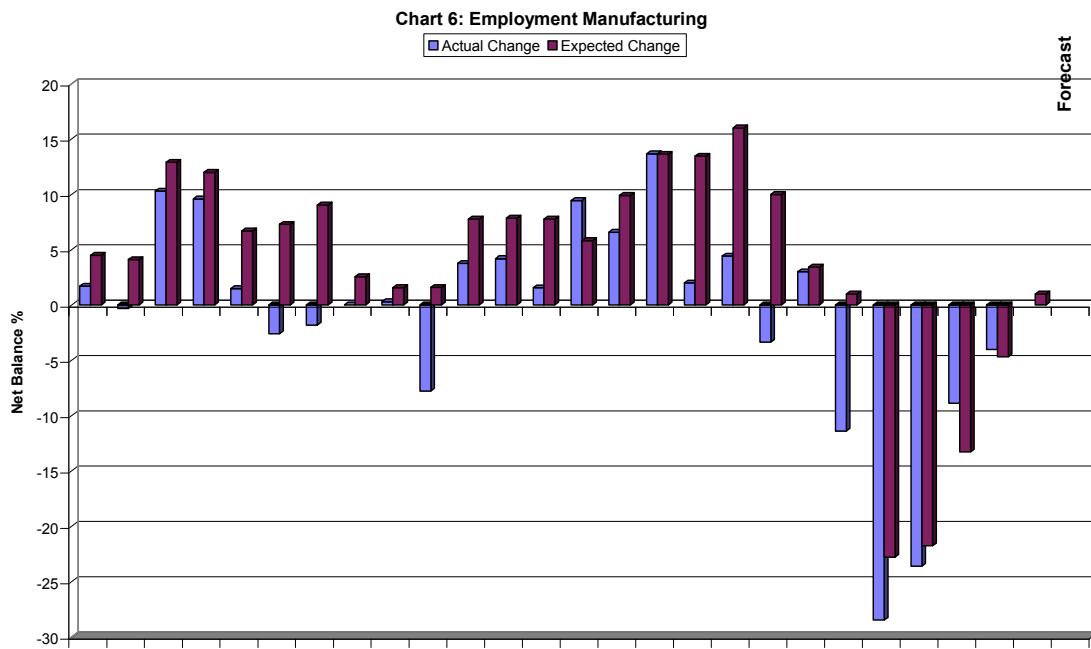


Quarter 4 produced the best result for 2 years for export orders, and quarter 3 2008 for sales. The net balance for quarter 4 showed an improvement from -14% to 7% for sales and from -13% to 10% net balance on export orders.

Service sales also report improvements in exports this quarter with net balances up from -11% to 8% net balance, whilst overseas orders now stand at 0% up from -12% in quarter 3.

2.3 Employment in Manufacturing

“An encouraging upturn in employment expectations”

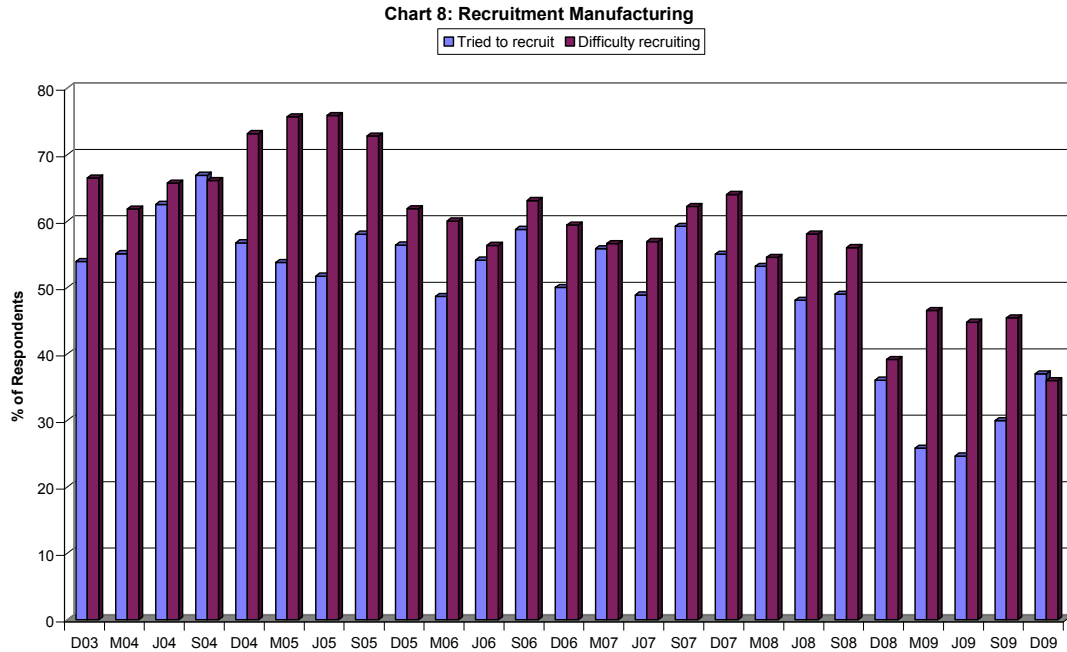


Although still showing a negative balance, the number of firms reporting actual employment declines has eased from -9% to -4%, which was better than forecast. Looking

forward to quarter 1 2010 net job creation in manufacturing is anticipated with a positive net balance for the first time in over a year.

2.4 Recruitment in Manufacturing

“Further growth in businesses trying to recruit”



Quarter 4 showed a continuing increase in the number of companies trying to recruit, moving to 37% from 30% in quarter 3. Although companies were still reporting difficulty in recruiting suitable staff this had reduced from 45% in quarter 3 to 36% in the last quarter. However the number of part time jobs increased from 12% to 23% with the number of full time jobs being recruited dropping from 88% to 77%.

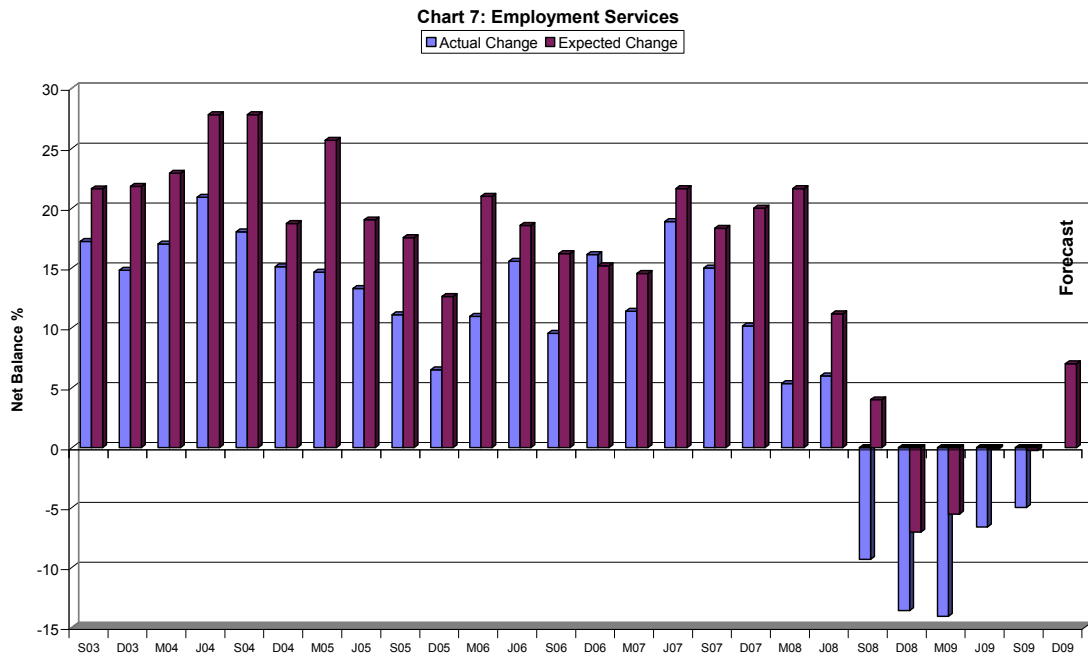
The quarter also showed an increase in the number of temporary employees

up to 53% from 48% at the expense of permanent recruitment, emphasising that confidence is still somewhat fragile.

The most difficult positions to fill remain skilled manual, although this has only moved slightly in the quarter from 26% to 27%. Manufacturing employers also noted reduced difficulty in recruiting professional / managerial staff which dropped from 26% to 12%.

2.5 Employment in Services

“Employment improves but still does not meet expectations”

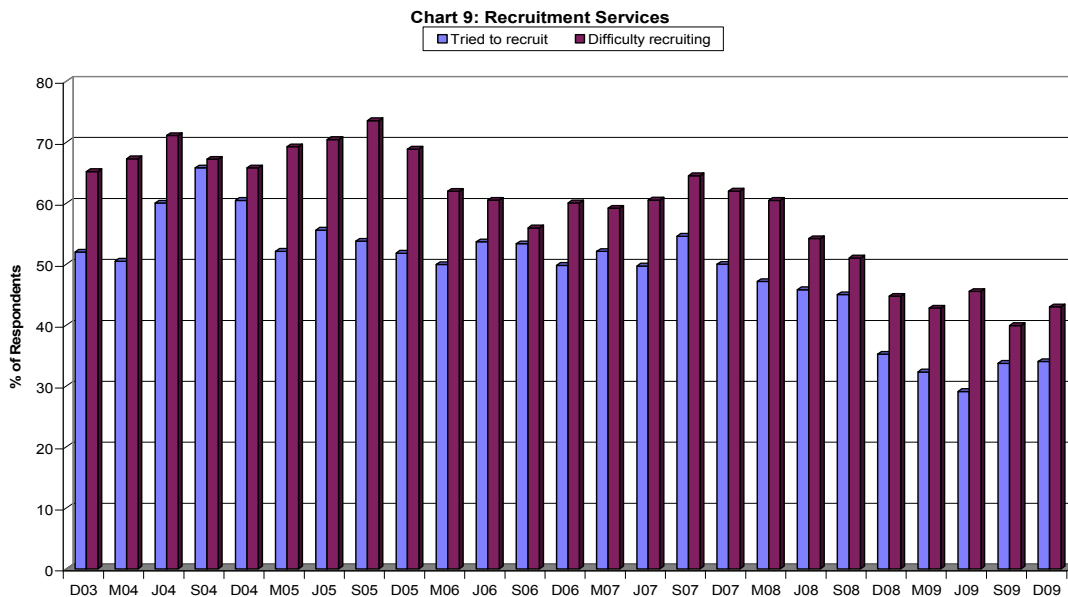


As with manufacturing firms, fewer service firms report net job losses. The balance easing from -7% to -5%, worse than originally predicted as firms had expected employment to be flat in Q3.

However on a positive note the forecast for recruitment in quarter 1 of 2010 is for a significant upturn with a net balance of 7%.

2.6 Recruitment in Services

“Recruitment position remains unchanged”

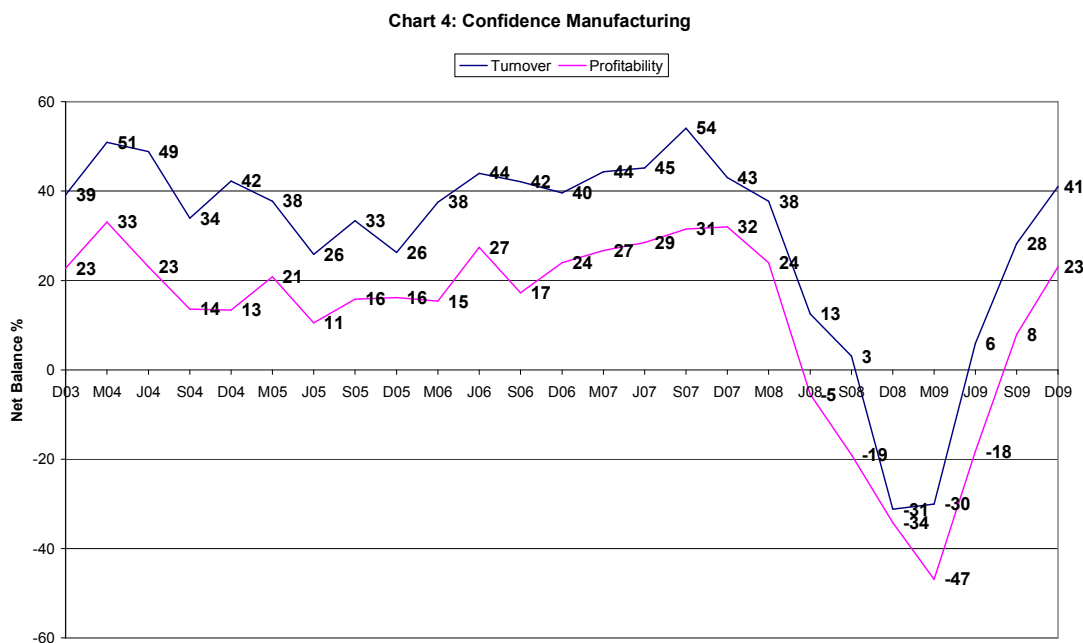


In the service sector the number of companies trying to recruit remained unchanged at 34%. Of these positions, 39% were part time and 61% full time, compared to 37% and 63% respectively last quarter. 44% were temporary jobs (up 10 percentage points) and 56% permanent jobs (down 10

percentage points). Members reported continuing difficulties recruiting all categories of staff this quarter with skilled manual and clerical staff being the hardest to recruit. This is followed by professional / managerial staff up from 16% to 20%, whilst the easiest was in un and semi-skilled manual categories at 15%. This has increased from 10% in quarter 3.

2.7 Confidence in Manufacturing

“Confidence improves further”

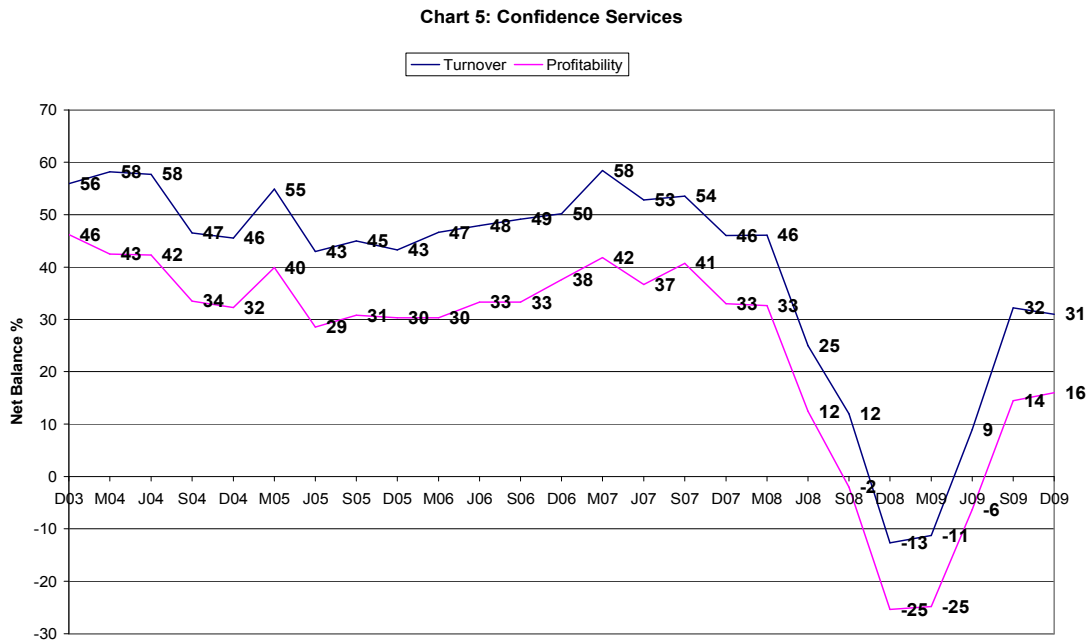


A continued improvement in confidence is being seen across both measures in manufacturing, with turnover at 41%, up from 28% and the best result since the end of 2007.

Confidence in profitability improved from 8% to 23%, again the best since March 2008, and follows a three quarter trend.

2.8 Confidence in Services

“Confidence holding up”



Unfortunately confidence in turnover has tapered slightly since quarter 3, moving from 32% to 31%. Nevertheless this is still the highest for

18 months. However confidence in profitability has improved slightly from 14% to 16% net balance, again the highest since the end of March 2008.

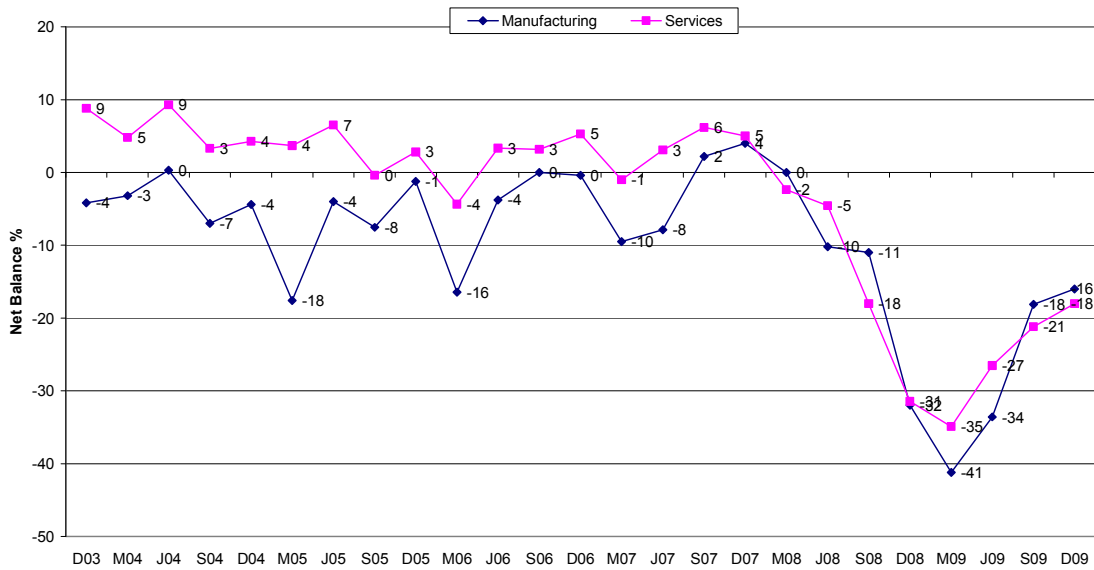
2.9 Cash Flow

“Cash flow pressure continues to ease”

Cash flow pressures has continued to ease for both manufacturing (from -18% to -16% net balance) and services (-21% to -18% net balance).

Although the concerns of businesses over cash flow remain evident this is the best position for over a year.

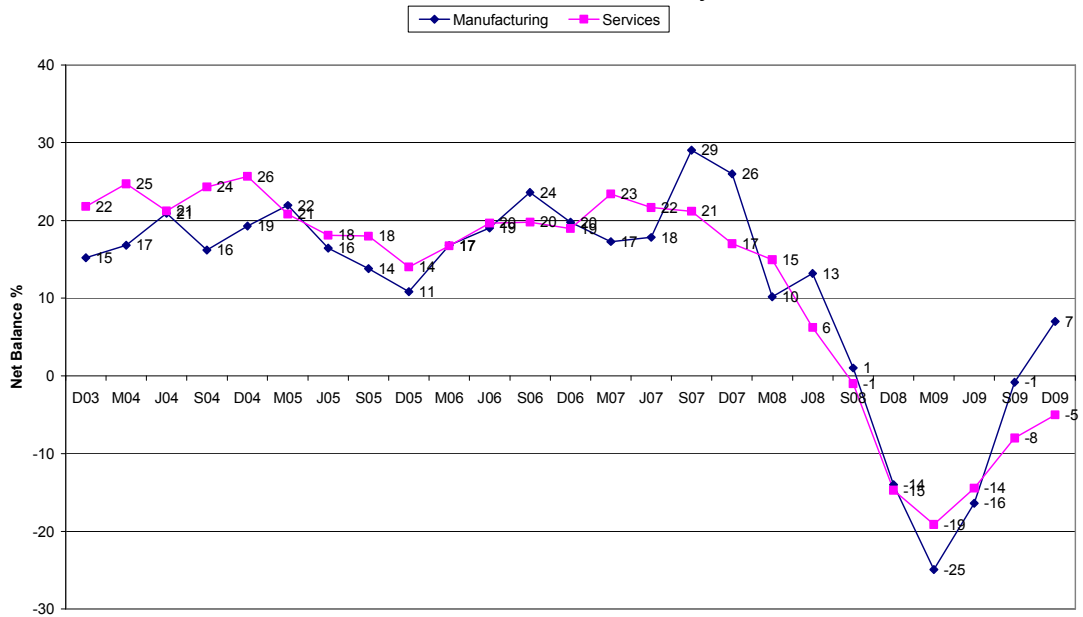
Chart 10: Cashflow



2.10 Investment in Plant & Machinery

“Investments plans improve”

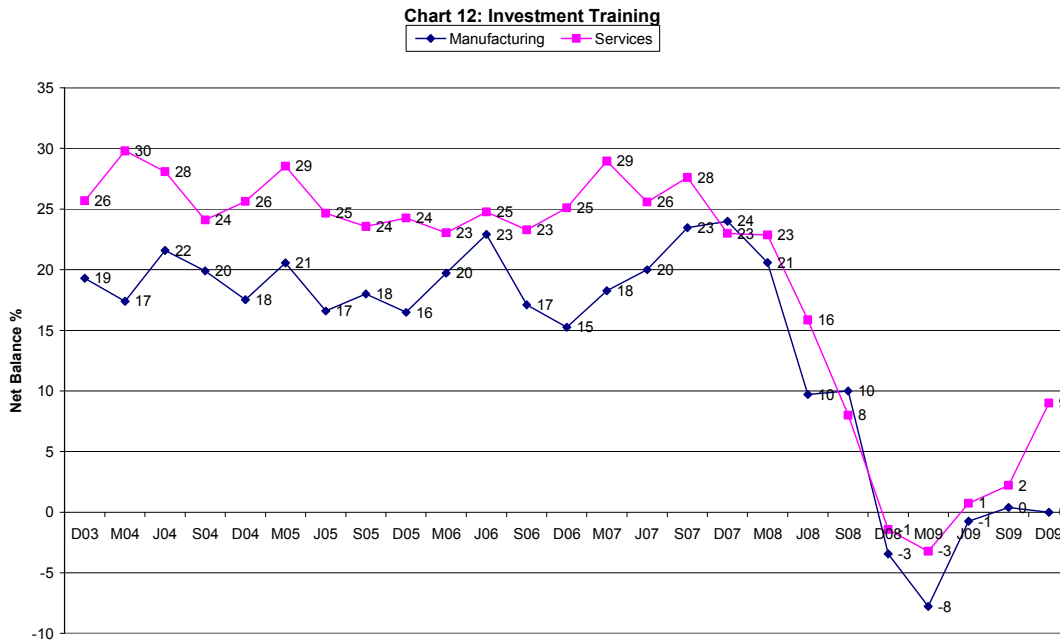
Chart 11: Investment Plant & Machinery



Investment plans for plant and machinery now show some improvement, with a more positive outlook in manufacturing. In manufacturing the net balance of 7% compares to -1% in quarter 3 and has resulted in a positive balance for the first time since quarter 3 2008. Services however have seen an easing of the slowdown in investment

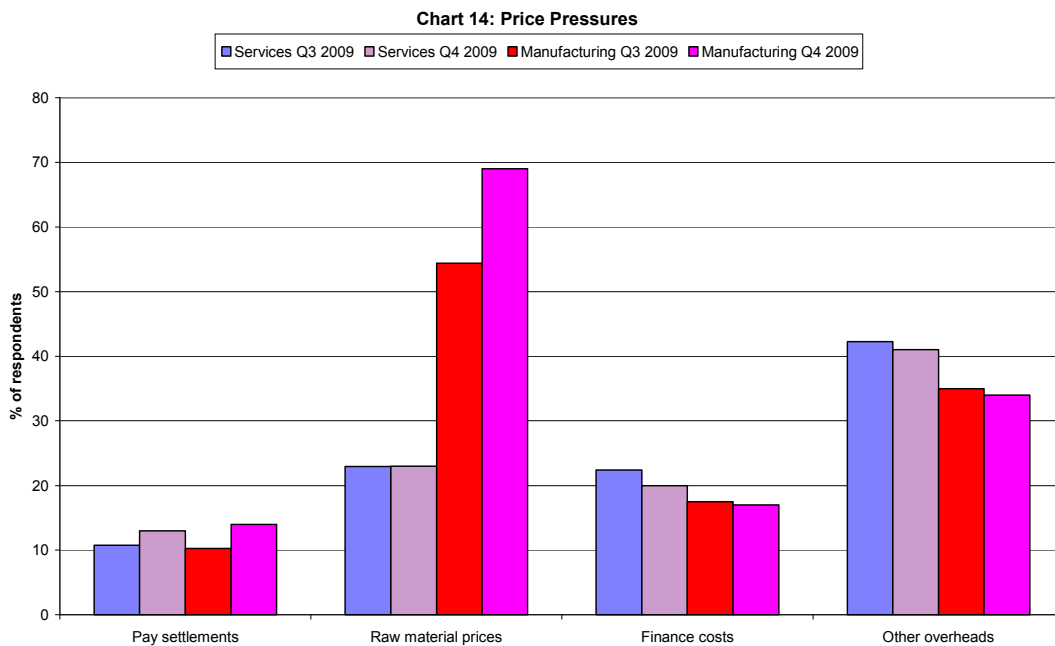
in plant and machinery, the net balance moving to -5% from -8%.

Manufacturers continue to remain reluctant to boost investment in training where the net balance of 0% remains unchanged. There has however been a marked improvement in services with a 9% net balance, the highest level in over a year.



2.11 Price Pressures

“Some price pressures reducing though concern over raw material costs”



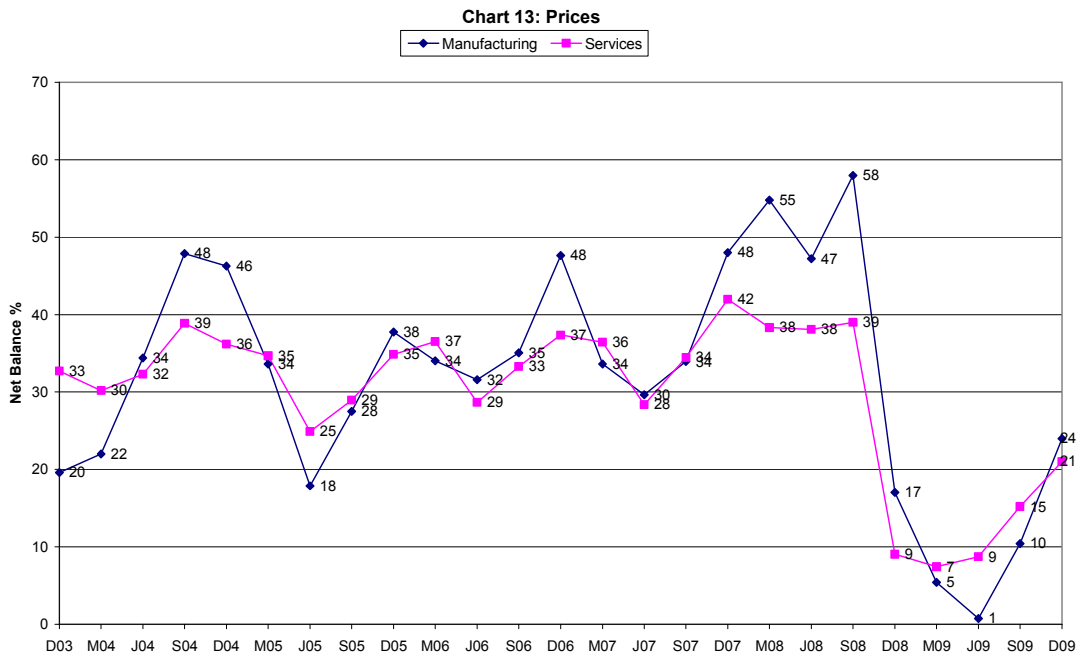
For manufacturing businesses the cost of raw materials remains of significant concern, with 69% of respondents citing this as an issue, up from 54% last quarter. Finance price pressure remains stable for manufacturers and pressure from other overheads fell from 35% to 34%. An increasing worry for manufacturers is pressure on pay settlements up to 14% from 10% in quarter 3.

For services other overheads remains the greatest concern at 41%. Raw material prices are the second highest, although remaining stable at 23%. For services the pressure on pay settlements remains lowest at 13%, though as with manufacturing there has been a slight increase since Q3.

2.12 Prices

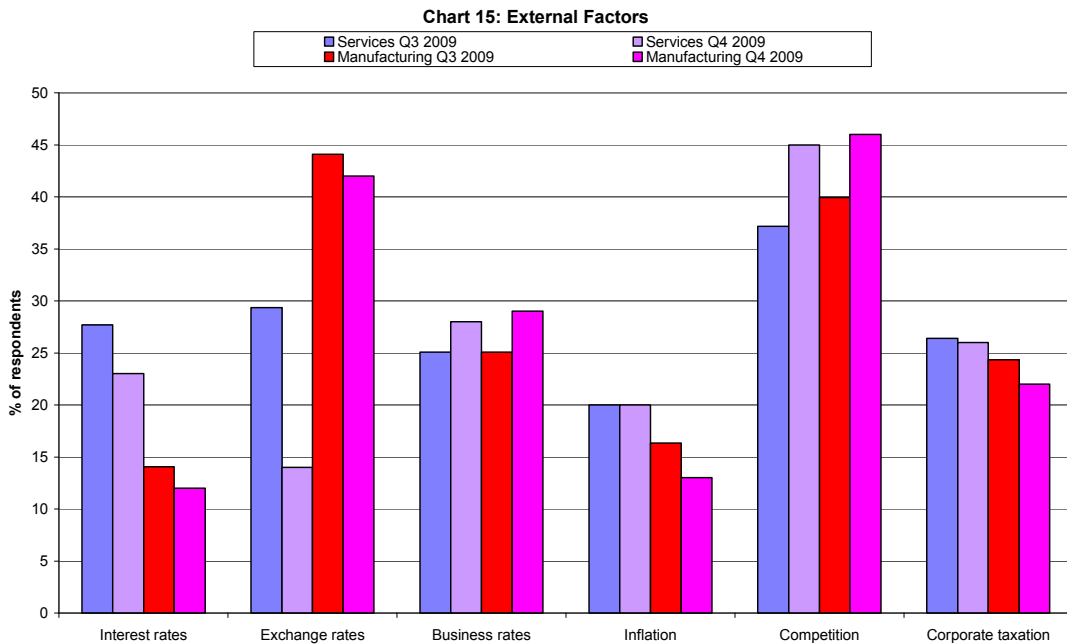
The intention to increase prices has increased for both manufacturing and services, with manufacturing moving

from 10% to 24% net balance and from 15% to 21% for services.



2.13 External Factors

“Competition remains a worry”



The threat of competition is a growing concern for both manufacturers and services, rising from 40% to 46% for manufacturing and from 37% to 45% for services.

Although slightly better this quarter exchange rates remain a major concern for manufacturers at over 42%. There has however been a

significant reduction in the net balance for services on exchange rates, dropping 29% to 14%.

The threat of interest rates are reducing as a concern for both manufacturers and services, whilst interest rates and corporate taxation have reduced as external threats to both sectors.

		Manufacturing				Services			
		Q1 09	Q2 09	Q3 09	Q4 09	Q1 09	Q2 09	Q3 09	Q4 09
Deliveries And Orders		%	%	%	%	%	%	%	%
Sales/custom/bookings have...	Rise	12	15	22	32	17	21	29	30
	Same	26	30	40	36	36	36	39	42
	Fall	63	55	38	32	47	43	32	28
	net	-51	-39	-16	0	-30	-22	-3	2
Orders/advance custom/bookings have...	Rise	12	14	19	34	16	17	22	26
	Same	25	29	40	37	33	37	44	43
	Fall	63	57	41	29	51	46	34	31
	net	-50	-43	-22	5	-35	-29	-12	-5
Overseas sales/custom/bookings have...	Rise	22	22	22	29	20	17	20	27
	same	34	36	41	48	46	45	49	55
	fall	43	42	37	22	35	38	31	19
	net	-21	-20	-14	7	-15	-21	-11	8
Overseas orders/ advance custom/bookings have..	rise	21	20	24	31	18	14	18	24
	same	32	35	40	48	44	45	52	53
	fall	48	45	36	21	38	41	30	24
	net	-27	-25	-13	10	-20	-27	-12	0
Labour									
Over the past 3 months, has your workforce:	increased	10	13	15	19	13	11	15	14
	Remained constant	51	51	61	59	61	64	63	67
	reduced	39	36	24	23	26	25	22	19
	net	-28	-24	-9	-4	-14	-14	-7	-5
Over the next 3 months, do you expect your workforce to:	increase	9	10	14	16	14	15	14	19
	remain constant	61	68	68	69	67	70	72	70
	decrease	30	23	18	15	19	15	14	12
	net	-22	-13	-5	1	-6	0	0	7
Have you attempted to recruit staff over the past 3 months?	yes	26	25	30	37	32	29	34	34
	no	74	75	70	63	68	71	66	66
If yes, were they for: (please tick all that apply)	part-time jobs?	14	21	12	23	36	40	37	39
	full-time jobs?	86	79	88	77	64	60	63	61
	temporary jobs?	41	42	48	53	38	35	34	44
	permanent jobs?	59	58	53	47	62	65	66	56
Did you experience any difficulties finding suitable staff?	yes	47	45	45	36	43	46	40	43
	no	55	79	66	72	72	73	72	64
If yes, for which of the following categories of employee:									
	skilled manual	33	28	26	27	14	15	17	21
	professional/managerial	15	22	26	12	21	22	16	20
	clerical	13	15	17	13	20	22	18	21
	un and semi-skilled manual	10	6	8	15	12	20	10	15
Cashflow									
During the last three months has your cashflow:	improved	10	14	18	21	11	14	18	18
	same	40	38	45	42	43	46	43	46
	worse	51	48	37	37	46	40	39	36
	net	-41	-34	-18	-16	-35	-27	-21	-18

Investment									
For plant/machinery/equipment?	revised upwards	9	15	21	23	11	11	14	14
	unchanged	58	55	57	60	59	63	64	68
	revised downwards	33	31	22	16	30	26	22	19
	net	-25	-16	-1	7	-19	-14	-8	-5
For training?	revised upwards	16	19	17	12	17	17	17	21
	unchanged	60	61	66	75	62	67	68	67
	revised downwards	24	20	17	12	20	16	15	12
	net	-8	-1	0	0	-3	1	2	9
Confidence (For Next 12 Months)									
Do you believe that over the next 12 months turnover will:	improve	23	40	50	55	30	39	50	51
	Remain the same	23	26	29	31	29	31	33	30
	worsen	53	34	21	14	41	30	17	20
	net	-30	6	28	41	-11	9	32	31
Profitability will:	improve	16	28	39	47	24	32	41	42
	Remain the same	21	25	30	29	28	29	32	32
	worsen	63	47	31	24	49	39	27	26
	net	-47	-18	8	23	-25	-6	14	16
Production									
At the present time the percentage of firms working	at full capacity is	18	18	21	18	26	24	25	27
	at less than full capacity	82	82	79	83	74	76	75	73
Prices/Costs									
Over the next 3 months, do you expect the price of your goods /services	increase	27	20	22	32	24	23	25	31
	remain the same	51	60	67	59	59	63	65	59
	decrease	22	20	11	8	17	14	10	10
	net	5	1	10	24	7	9	15	21
Is your business currently suffering pressures to raise its prices from any of the following? (tick all that apply)	pay settlements	14	9	10	14	12	13	11	13
	raw material prices	61	57	54	69	27	25	23	23
	finance costs	21	21	17	17	18	22	22	20
	other overheads	43	41	35	34	37	44	42	41
External Factors									
your business than three months ago. (tick all that apply)	interest rates	15	12	14	12	21	23	28	23
	exchange rates	54	49	44	42	20	28	29	14
	business rates	31	28	25	29	28	25	25	28
	inflation	10	18	16	13	16	21	20	20
	competition	38	39	40	46	40	41	37	45
	corporate taxation	28	28	24	22	24	28	26	26
Number of respondent companies*		300	275	263	246	977	776	845	838
Number of employees		14822	35710	26185	13604	37266	214880	36721	59849