

First quarter 2007 - Quarterly Economic Survey

Executive Summary

- Overall, the first quarter has been a relatively positive period for Chamber members across the North West. For manufacturers, both the overseas and the UK market have shown substantial improvement in sales and orders. For services, the percentage net balance of firms reporting an increase in both sales and orders has risen, within the UK market. Unfortunately the same cannot be said of the overseas market where sales and orders have dropped. There has been a very positive change in employment levels industry-wide, though the expected change in employment levels is down. There are more firms attempting to recruit yet there has been less reported trouble recruiting. Stability in business confidence among service firms has continued, with levels improving slightly. The picture for manufacturing is similar, with there being a more notable rise in both turnover and profitability confidence. There are now fewer firms predicting an increase in prices over the coming months. The only real disappointment for manufacturers was the considerable drop in the net balance of firms reporting improved cashflow, and also the drop in percentage net balance of manufacturers increasing their investment levels in plant and machinery equipment.
- For domestic sales, the manufacturing sector has recorded an increased net percentage balance of 24%, whilst orders have risen by ten percentage points to 21% net balance. For the service sector sales have risen by six percentage points to 2% net balance, whilst orders have risen by seven percentage points to 22% net balance.
- North West manufacturing exports have again improved this quarter, the last two quarters countering the poor performance recorded in the middle of 2006. The net balance for overseas sales rose six percentage points to 15% net balance this quarter. Export orders also increased, by 11% to 16% net balance.
- For manufacturing, confidence that the next 12 months will bring improved turnover has increased, along with confidence over increased profitability. The net balance for turnover rose four percentage points to 44% while profitability increased three percentage points to 27% net balance. In the service sector confidence levels improved on the performance of the last quarter, for turnover by eight percentage point to 58%, whilst for profitability by four percentage points to 42% net balance.
- For service firms, the net balance of firms reporting actual employment growth has risen by six percentage points to 16% net balance. The net balance for manufacturers also improved, by seven percentage points to 9% net balance. The outlook for predicted employment levels is more negative, with fewer firms industry-wide predicting an increase in employment levels.
- Cashflow conditions have considerably worsened industry-wide this quarter. For manufacturers there was a dramatic drop to a net balance of -10%. For service firms the net balance decreased by six percentage points to -1%.
- The net balance of manufacturing firms reporting an increase in investment in plant & machinery has again decreased, this time by three percentage points to 17. The net balance of firms reporting an increase in investment in training has increased by three percentage points to 18%. Investment in training among service sector firms has increased by four percentage points to a net balance of 29%, whilst for investment in plant & machinery, by four percentage points to 23%.
- The number of firms expecting prices to rise has dropped industry-wide, especially for manufacturers. They reported a substantial decrease, dropping fourteen percentage points to 34% net balance.
- Industry-wide, competition remains the number one concern among respondents this quarter. The second biggest concern was over interest rates, still very high after the rising concerns of last quarter. Chamber members appear very fearful that interest rates will once again be raised by the Monetary Policy Committee of the Bank of England. The most notable increase in percentage of respondents citing it as a concern was the issue of exchange rates. Among manufacturers there was an 8% increase. For the whole of industry there was no considerable change in the level of concern over the other external factors.

This quarter 943 firms from across the North West completed the survey.

Contributing to this survey were 11 Chambers in the North West: -
Congleton, Cumbria, East Lancashire, Greater Manchester, Lancaster, Liverpool, St. Helens, Macclesfield, North & West Lancs, South Cheshire, and Warrington.

This quarter's 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 Dr John Risk on 0161 237 4250 or john.risk@gmchamber.co.uk or Adam Howell on 0161 237 4106 or adam.howell@gmchamber.co.uk

Sales & Orders

- For the manufacturing sector, this quarter has seen domestic sales improve noticeably, building upon last quarter's 17% net balance to 24% net balance this quarter. UK manufacturers recorded a good year in sales for 2006, and this consistent growth has continued into the start of 2007 with the highest net balance recorded for some considerable time. North West service firms' performance has also improved considerably on last quarter's performance, rising six percentage points to 22% net balance, the highest net balance for two years.
- Similar performance has been noted for UK orders industry-wide, with manufacturers' net balance rising ten percentage points to 21% and service firms net balance rising seven per cent to 22% net balance.
- Manufacturing exports have again improved this quarter, the net balance for overseas sales rose six percentage points to 15% net balance this quarter. Growth in export orders has also risen, by nine percentage point to a net balance of 16%.
- In the overseas market for the service sector, there has been a slight decrease in the net balance for both sales and orders, falling one and two percentage points respectively. For orders the net balance dropped to 12% and to 14% for sales. With the exception of UK service firms performance overseas, this has been a positive quarter for exports.

Chart 1: Domestic Sales

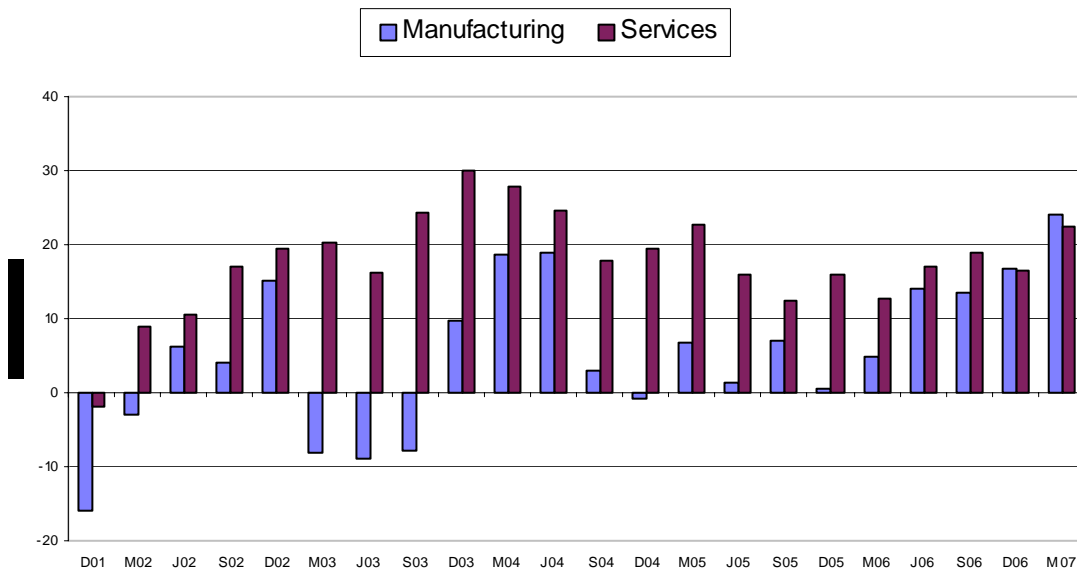


Chart 2: Domestic Orders

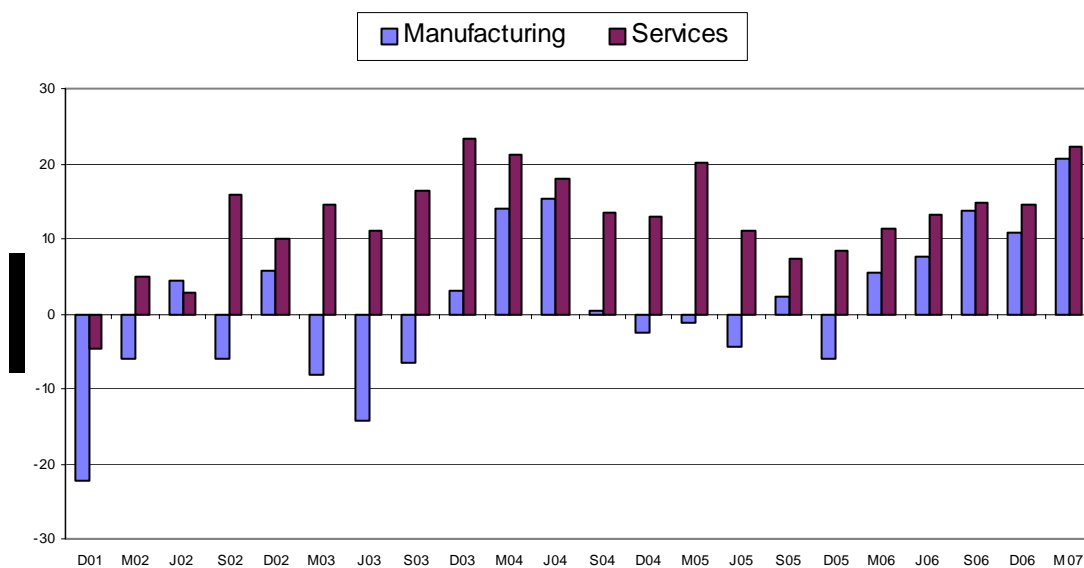
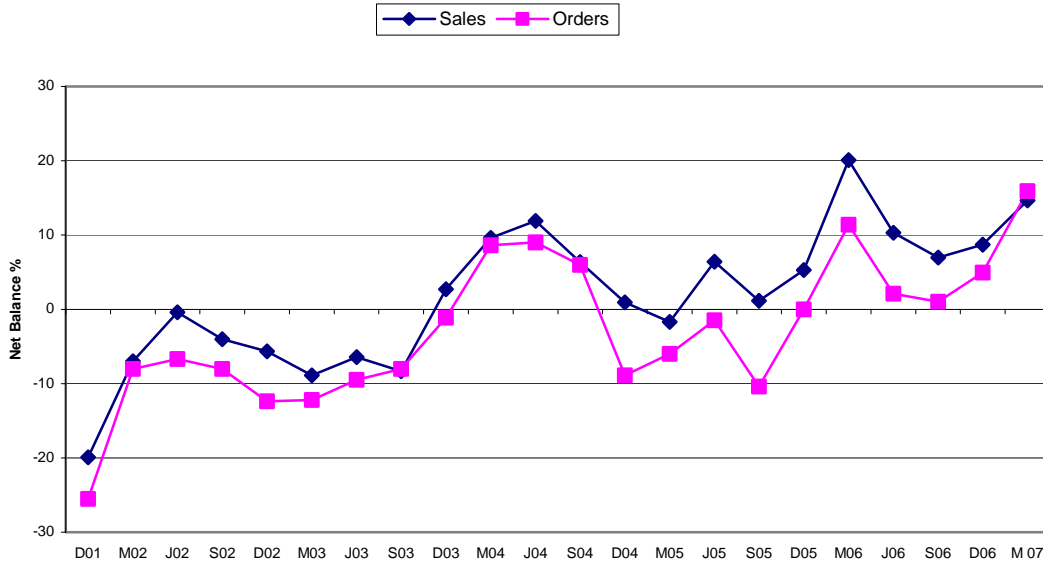


Chart 3: Manufacturing Exports



Confidence

- Confidence has risen slightly this quarter for both manufacturing and service firms, improving somewhat on the previous quarter's performance. The net balance of manufacturing firms expecting an increase in turnover over the coming 12 months has risen by four percentage points, to 44%. For profitability the net balance has risen by three percentage points to 27%.
- Amongst service providers, the net balance of firms predicting a rise in profitability has increased from 38% to 42%, whilst for turnover there was an eight percentage point rise to 58% net balance. Confidence among service firms has continued to improve steadily for over twelve months now, whilst for manufacturing recent performance has been more erratic.

Chart 4: Confidence Manufacturing

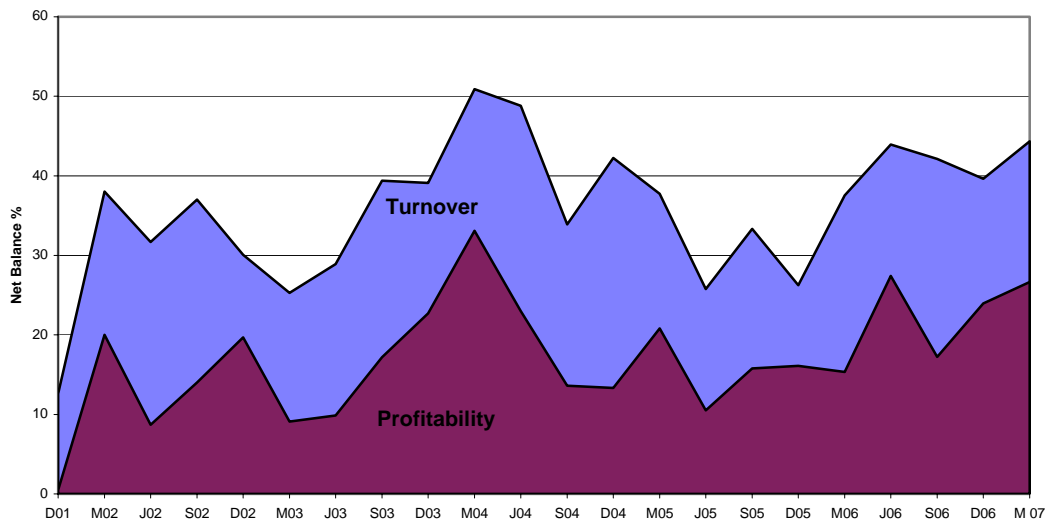
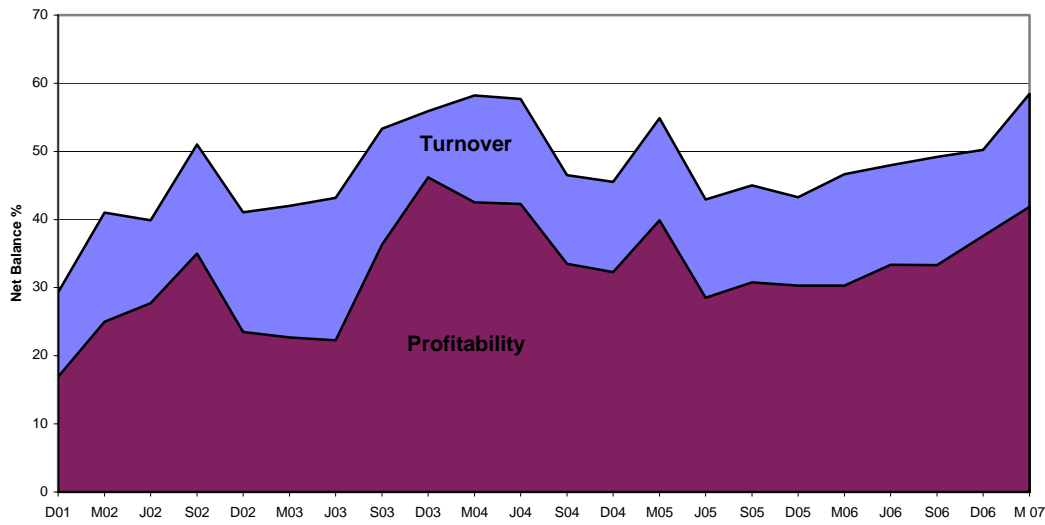


Chart 5: Confidence Services



The Labour Market

Employment

- Actual employment growth amongst manufacturers has risen to 9% net balance, the highest net balance for two and a half years. Expectation levels have risen by four percentage points to 10% net balance expecting their workforce to increase over the coming three months, again this is the most positive response for two and a half years.
- For service firms, the net balance of businesses reporting an increase in actual employment growth has also increased, by six percentage points to 16% net balance. For the last eight quarters there has only been one instance of an increase in the net balance of expected employment growth among service firms, the second quarter of 2006. This quarter the net balance remained static at 15%.
- Industry-wide, more businesses have reported an increase in employment levels, though for service firms there is less expectation of raised employment levels in the coming months.

Chart 6: Employment Manufacturing

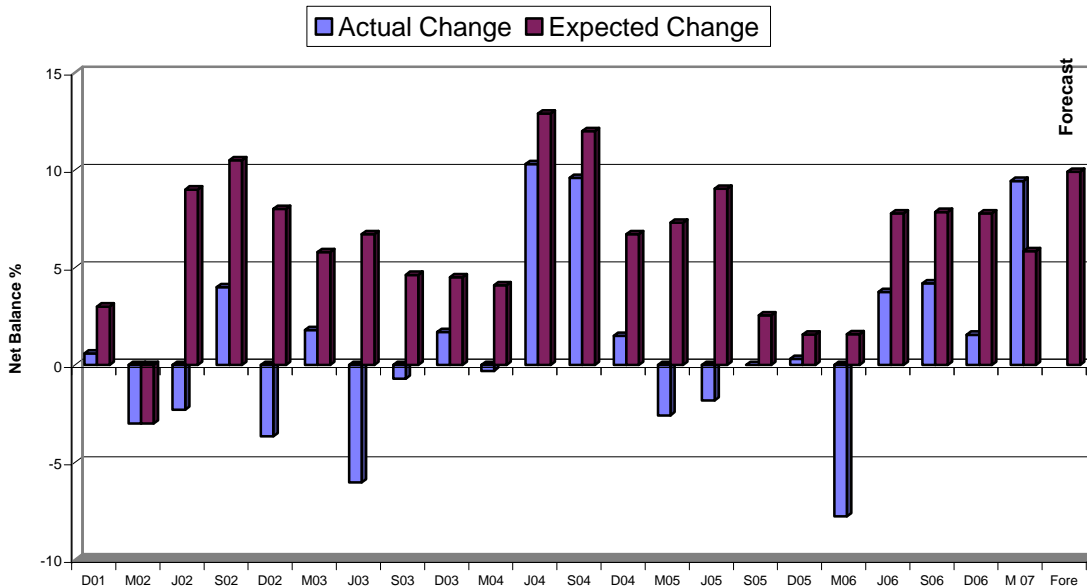
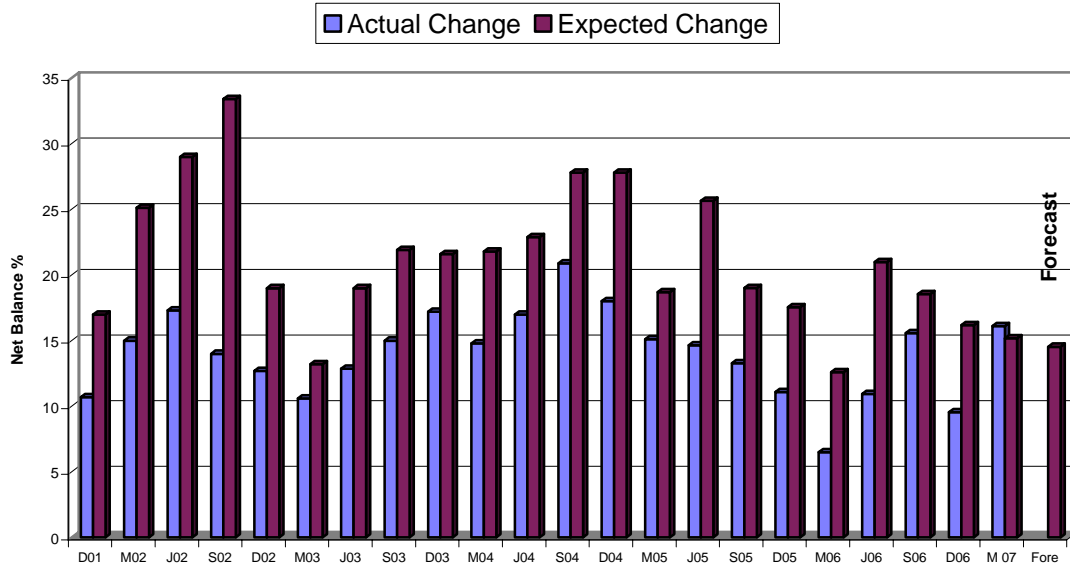


Chart 7: Employment Services



Recruitment

- 56% of manufacturing firms attempted to recruit over the past three months, up six percentage points on last quarter and the biggest percentage since the end of 2005.
- Of the workers these firms attempted to recruit, 30% were temporary staff (unchanged from last quarter). The percentage of firms who attempted to fill permanent positions was also unchanged at 70%.
- Last quarter there had been a fall in the number of manufacturing firms experiencing difficulties in recruiting suitable staff, this quarter the same thing occurred. There has been only one instance of more businesses reporting an increase in difficulty recruiting in the last 21 months. This quarter 57% of respondents reported difficulties, down 2% from last quarter. Skilled manual continues to be the most difficult position to recruit for manufacturers, though there was a decrease in the percentage of respondents struggling to fill this position, to 34%. The most notable rise was for professional/managerial positions, increasing seven per cent to 23%.
- In the service sector more firms have attempted to recruit over the past three months, with the percentage rising by two percentage points to 52%. Of this attempted recruitment, service firms have sought to fill mainly full time and permanent positions, rising two and three per cent to 69% and 72% respectively.
- The percentage of service firms having problems recruiting suitable staff has decreased slightly this quarter, to 59% from 60% last quarter.

Chart 8: Recruitment Manufacturing

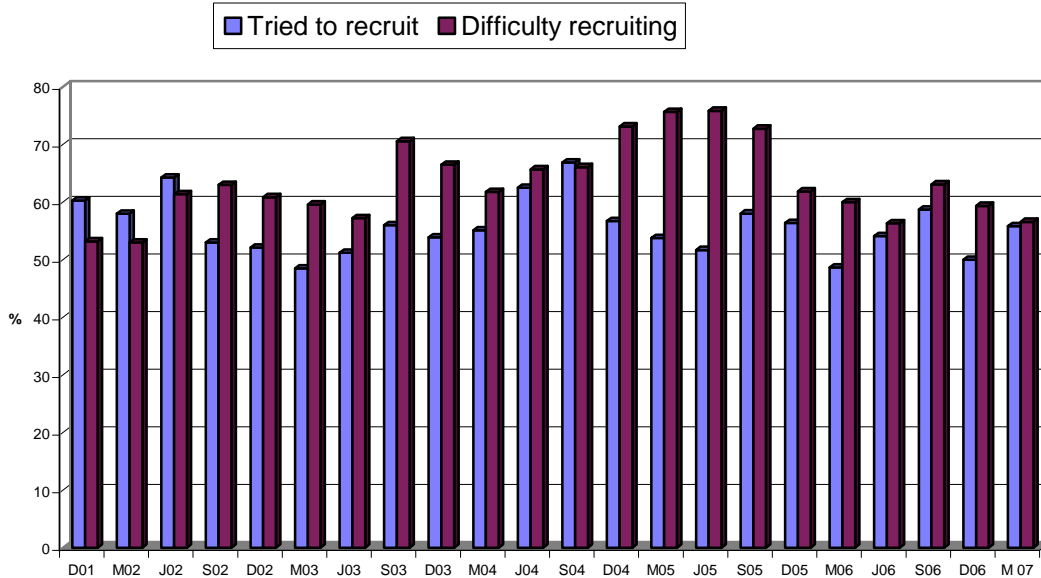
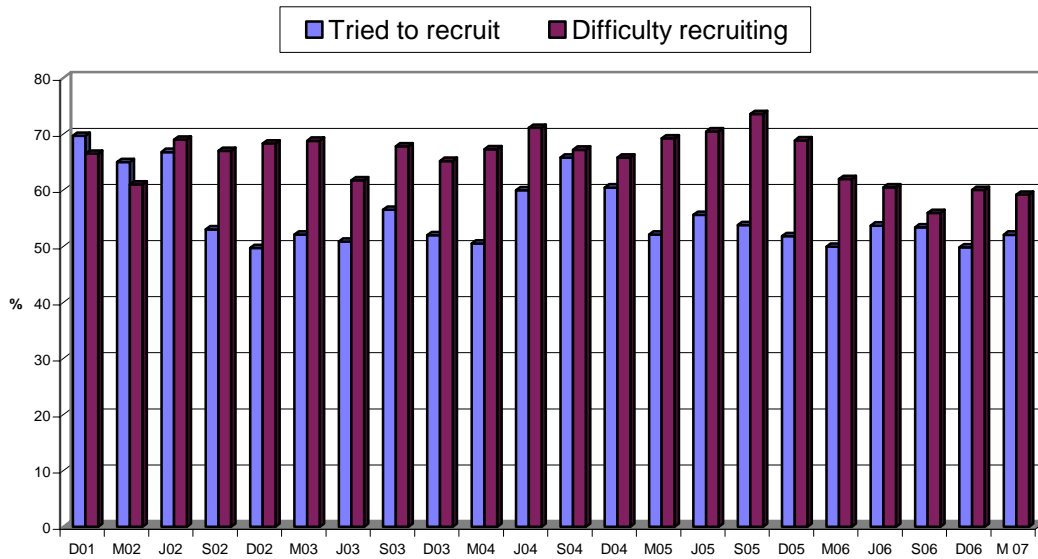


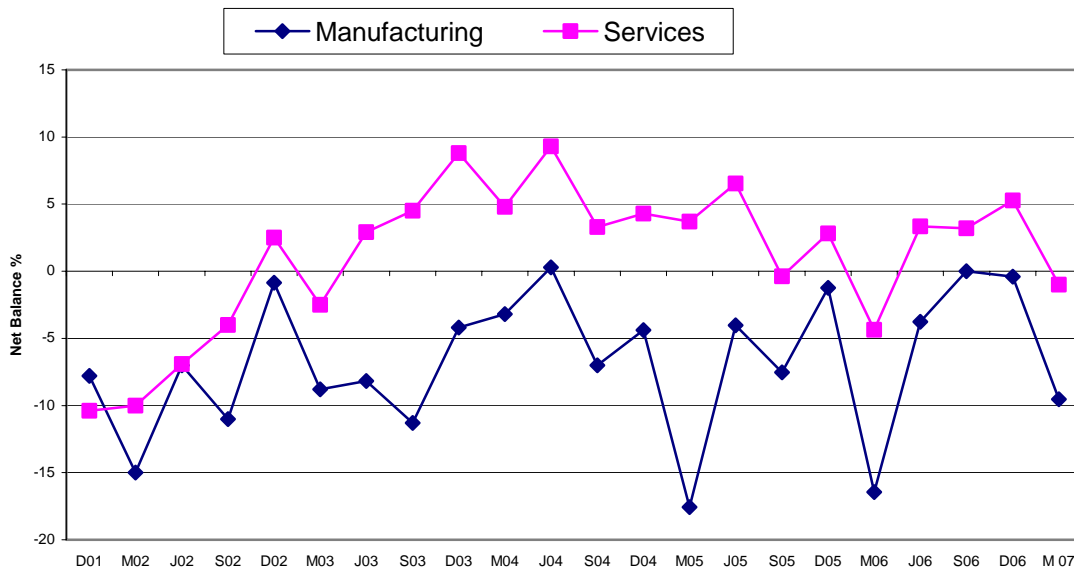
Chart 9: Recruitment Services



Cashflow

- Cashflow conditions have worsened considerably industry-wide this quarter. For service firms, the fall in net balance of six percentage points to -1% represents the first drop in over a year.
- For manufacturers the net balance also dropped but by a much more considerable margin, again falling into negative net balance after the previous two quarters had hinted at an improvement in cashflow conditions for the North West's manufacturers. The net balance dropped by ten percentage points to -10%, the worst result for a year.

Chart 10: Cashflow



Investment Plans

- It is disappointing to see that once again there are fewer manufacturers raising investment levels in plant machinery this quarter. This is the only negative result in what was an otherwise improved performance industry wide for investment levels generally. There have been increases in the net balance of firms increasing in all forms of investment across industry this quarter.
- The net balance of manufacturing firms reporting an increase in investment in plant & machinery has again dropped, by three percentage points to 17% this quarter, while the net balance of firms reporting an increase in investment in training has risen three percentage points to 18%.

- Investment in training among service sector firms increased by four percentage points to a net balance of 29%. The net balance reporting an increase in investment in plant & machinery rose 4% to 23% net balance this quarter, all in all the start of 2007 has hinted at a commitment from service firms to greater investment than over the previous 18 months or more.

Chart 11: Investment Plant & Machinery

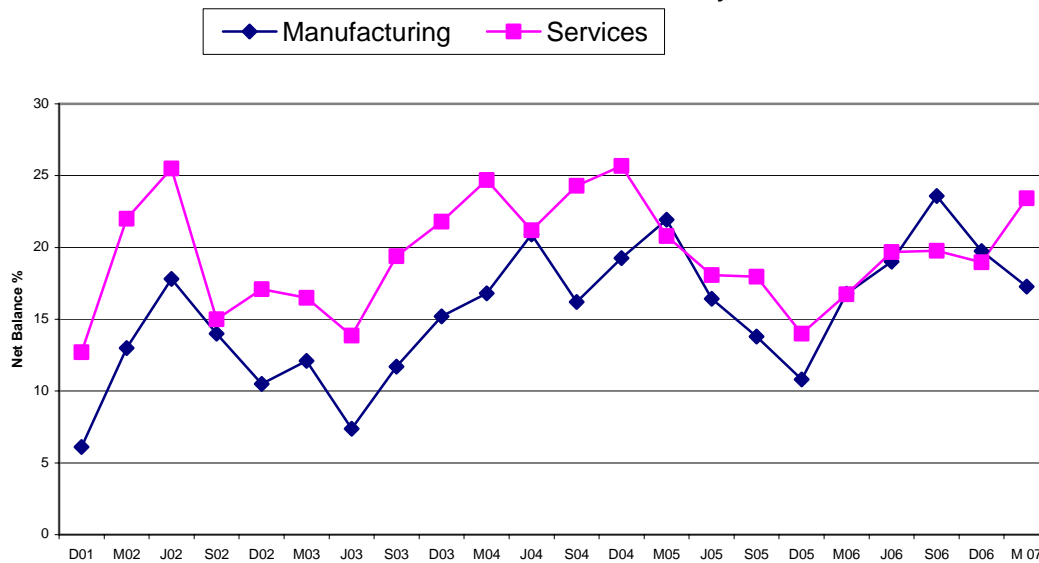
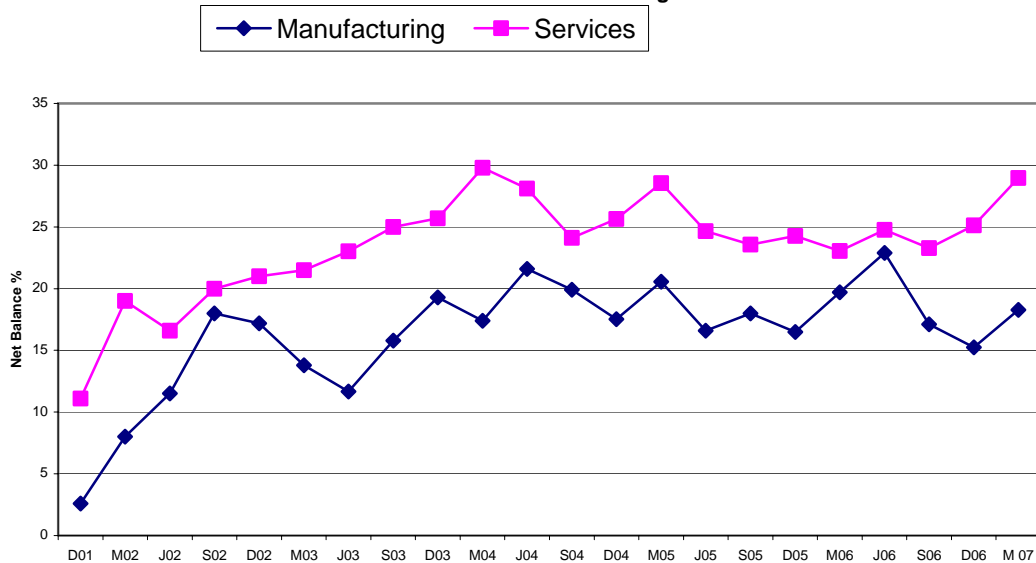


Chart 12: Investment Training



Prices/Costs

- The net balance of firms expecting prices to increase has once fallen across industry this quarter, after the previous quarters reported successive rises. For service firms, a net balance of 36% expect prices to increase over the coming three months, down one percentage point from 37% last quarter. A smaller percentage net balance of manufacturers are expecting their prices to rise, with net balance falling considerably, by 14 percentage points to 34% this quarter.
- Manufacturing firms have reported a slight increase in the pressure to raise prices from pay settlements and finance costs once again. The cost of raw materials is still comfortably the biggest pressure impacting on their prices, though the percentage has fallen from 79% to 76%. Increases in the number of firms experiencing pressure to raise prices has been from pay settlements (28%, up from 25%) and finance costs (21%, up from 18%). Other overhead pressures have dropped, to 44% from 49% last quarter. This quarter has since a continuation of the previous quarter's results in this regard, with percentages rising and falling for the respective categories in the same manner as for the fourth quarter 2006.
- In the service sector pressure to raise prices from pay settlements has risen two percentage points to 23%, and from raw material prices by two percentage points to 27%. For other overheads the

percentage dropped one percentage point to 45%. Similarly for finance costs there was a one percentage point drop, to 19% net balance.

Chart 13: Prices

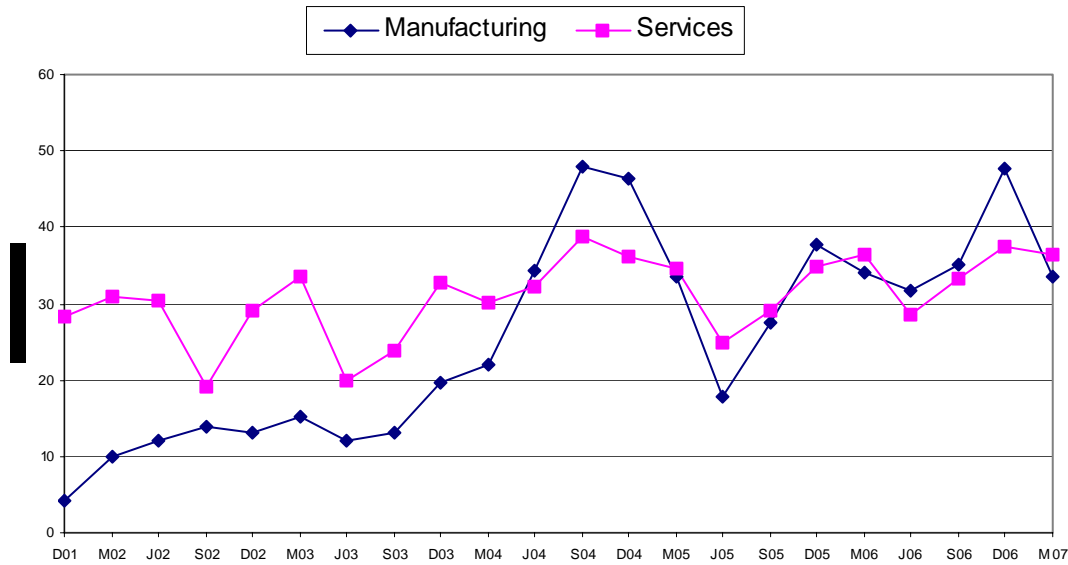
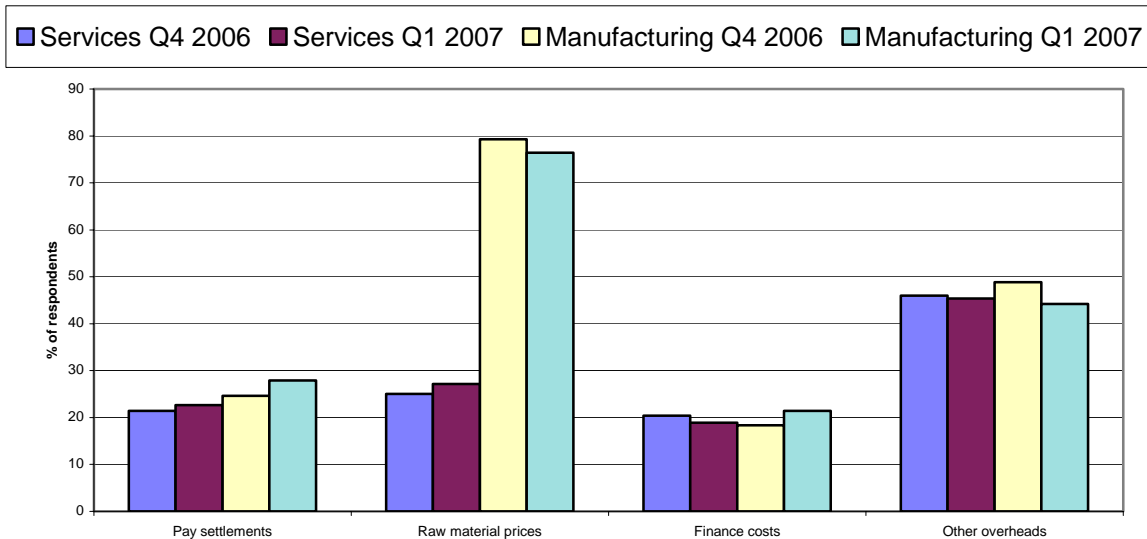


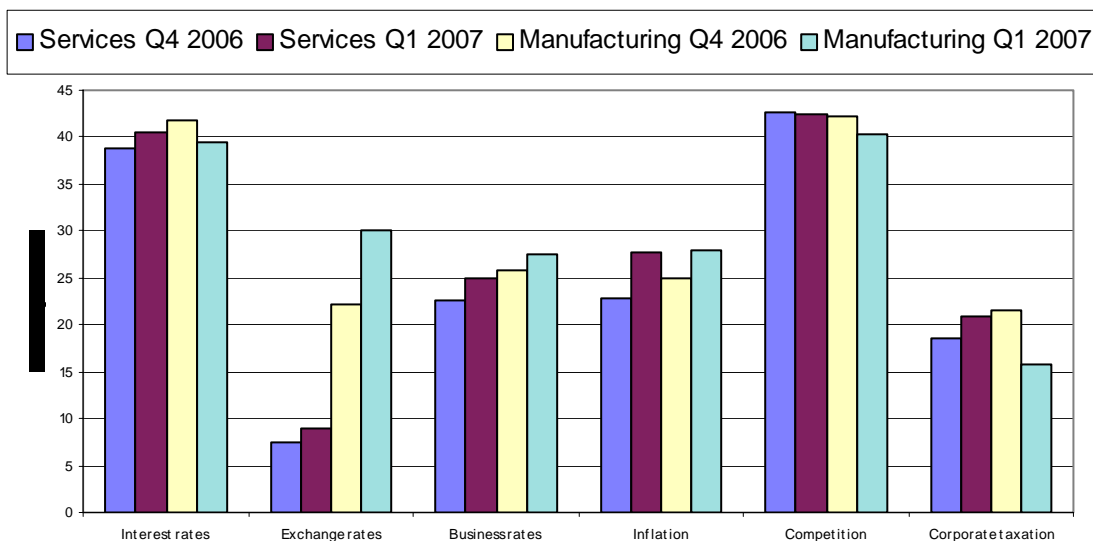
Chart 14: Price Pressures



External Factors

- As in previous quarters, competition remains the number one concern among respondents this quarter. However, industry-wide there has been considerable increase in the percentage of businesses concerned over interest rates of late. The huge increase witnessed last quarter, whilst not replicated, has not faltered either, with interest rates remaining a big concern for respondents. Concern over competition has fallen slightly for both manufacturing and service firms.
- Concern over interest rates has fallen by three percentage points to 39% among manufacturers, and has risen by two percentage points to 41% among service firms. Businesses remain concerned over potential future action by the Monetary Policy Committee of the Bank of England, particularly another interest rate rise.
- Concern over inflation has risen noticeably this quarter, countering the considerable drop in percentage of respondents citing it as a concern last quarter. Amongst service firms the percentage of respondents showing concern increased by five percentage points to 28% this quarter. For manufacturers there was a three percentage point increase to 28%. With the exception of competition there was a rise in concern over all external factors amongst services. For manufacturing firms the most noticeable rise was over exchange rates, by eight percentage points to 30%. These concerns might impact on exports, though the improvement in overseas sales and orders suggests this claim may be without foundation.

Chart 15: External Factors



	Manufacturing				Services			
	Q2 06	Q3 06	Q4 06	Q1 07	Q2 06	Q3 06	Q4 06	Q1 07
Deliveries And Orders	%	%	%	%	%	%	%	%
Sales/custom/bookings have...								
rise	37	35	38	42	37	40	38	41
same	39	43	41	40	43	39	40	40
fall	-23	-22	-21	-18	-20	-21	-22	-19
net	14	14	17	24	17	19	16	22
Orders/advance custom/bookings have..								
rise	35	34	35	39	32	35	35	38
same	38	46	41	42	48	44	45	47
fall	-27	-20	-24	-19	-19	-21	-20	-15
net	7	14	11	21	13	15	15	22
Overseas sales/custom/bookings have...								
rise	32	31	30	34	41	28	32	33
same	46	45	48	46	44	53	51	47
fall	-22	-24	-22	-20	-15	-19	-17	-20
net	10	7	9	15	26	9	15	14
Overseas orders/ advance custom/bookings have..								
rise	27	26	28	34	28	27	29	33
same	49	43	50	47	52	55	55	46
fall	-25	-25	-23	-18	-20	-18	-16	-21
net	2	1	5	16	9	9	14	12
Labour								
Over the past 3 months, has your workforce:								
increased	19	26	23	24	25	27	23	26
remained same	65	53	55	61	62	62	64	65
reduced	-16	-21	-22	-15	-14	-11	-13	-9
net	4	4	2	9	11	16	10	16
Over the next 3 months, do you expect your workforce to:								
increase	21	20	19	21	26	25	24	18
remain constant	66	67	68	68	66	67	67	78
decrease	-13	-12	-13	-11	-8	-9	-9	-4
net	8	8	6	10	19	16	15	15
Have you attempted to recruit staff over the 3 months?								
yes	54	59	50	54	54	53	50	52
no	46	41	50	46	46	47	50	48
If yes, were they for:								
part-time jobs?	14	17	16	13	28	32	33	31
full-time jobs?	86	83	84	87	72	68	67	69
temporary jobs?	34	35	30	30	27	31	31	28
permanent jobs?	66	65	70	70	73	69	69	72
Did you experience any difficulties finding suitable staff?								
yes	56	63	59	57	61	56	60	59
no	44	38	46	43	40	46	43	44
If yes, for which of the following categories of employee:								
skilled manual	36	36	38	34	20	22	24	21
professional/managerial	19	17	16	23	24	28	23	24
clerical	16	15	13	10	19	15	23	25
un and semi-skilled	15	18	18	22	17	17	20	15

Cashflow										
During the last 3 months has your cashflow:		improved	22	24	26	24	26	26	28	25
		same	52	53	47	43	52	51	50	49
		worse	-26	-24	-27	-33	-22	-23	-22	-26
		net	-4	0	0	-10	3	3	5	-1
Investment										
Over the past 3 months, what changes have you made to your investment										
For plant/machinery/equipment?		revised upwards	30	34	30	25	28	28	26	28
		unchanged	58	55	59	68	64	63	67	66
		revised downwards	-11	-11	-10	-7	-8	-9	-7	-5
		net	19	24	20	17	20	20	19	23
For training?		revised upwards	30	25	23	23	30	29	30	34
		unchanged	63	66	70	72	64	66	65	61
		revised downwards	-7	-8	-8	-5	-6	-5	-5	-5
		net	23	17	15	18	25	23	25	29
Confidence (For Next 12 Months)										
Do you believe that over the next 12 months:										
Turnover will		improve	57	56	53	57	60	62	61	67
		remain the same	30	31	33	31	28	26	29	24
		worsen	-13	-14	-14	-12	-12	-13	-10	-9
		net	44	42	40	44	48	49	50	58
Profitability will		improve	49	44	43	45	50	51	52	57
		remain the same	30	29	37	36	33	30	34	29
		worsen	-21	-27	-19	-19	-17	-18	-14	-15
		net	27	17	24	27	33	33	38	42
Production										
At the present time the percentage of firms working										
		at full capacity is	30	34	28	29	38	38	39	35
		at less than full capacity	70	66	72	71	62	62	61	65
Prices/Costs										
Over the next 3 months, do you expect the price of your										
goods /services to		increase	37	40	52	38	33	36	41	39
		remain the same	57	54	44	58	62	61	56	58
		decrease	-6	-5	-4	-4	-5	-3	-3	-3
		net	32	35	48	34	29	33	37	36
Is your business currently suffering pressures to raise its										
prices from any of the following?		pay settlements	20	23	25	28	21	19	21	23
(tick all that apply)		raw material prices	78	80	79	76	27	27	25	27
		finance costs	11	15	18	21	13	17	20	19
		other overheads	48	52	49	44	47	46	46	45
External Factors										
Please indicate which of these following factors are more of a concern to										
your business than three months ago.		interest rates	23	29	42	39	19	30	39	41
(tick all that apply)		exchange rates	23	24	22	30	9	8	7	9
		business rates	18	22	26	27	24	20	23	25
		inflation	20	35	25	28	21	25	23	28
		competition	47	42	42	40	44	41	43	43
		corporate taxation	16	19	21	16	21	18	19	21
Number of respondent companies			294	282	256	233	819	868	774	710
Number of employees			23929	28113	22443	21169	38494	6640	37867	33044