Greater Manchester Chamber of Commerce

Greater Manchester Chamber's

Quarterly Economic Survey 3

Full Report & Economic Brief
Quarter 3 - 2012

www.gmchamber.co.uk

Chief Executive's Foreword

A summer of sport and expectation has come to an end. It seems such a long time ago since the summer started with football's European Championship. Seemingly every clash was preceded by an in depth commentary of the relative debt position of the competing nations, a sobering reminder of the challenges facing Europe beyond the football pitch. However the UK had much to celebrate as the summer's sporting feast concluded with the success of Team GB at the Olympics and Paralympics.

The economy however is very much the focus of our attention, and much has been written about the positive and negative impacts of the summer's sporting events, though it is the Euro zone and global slowdown that continues to weigh most heavily on performance. We have always been clear that Greater Manchester's economy is not immune to the external challenges and believed that more needed to be done to support the domestic economy at this time. This is needed to support our longer term competitive position, stimulate business growth and address issues of worklessness. Businesses in Greater Manchester have once again supported our Quarterly Economic Survey to tell us what is really happening in the economy. Over 800 businesses have responded to the survey this quarter and with that information we are already putting forward the case to set the right conditions for your business to thrive and grow. It is crucial however that we complete the loop and feed back to you the results, and we do that first through this quarterly report. Along with our regular commentary on national data releases, this report gives you the intelligence to help improve strategic decision making in your business.

The Chamber has accurately tracked the challenges of the last two years as Greater Manchester slowly emerged from the recession and the impact of the 2010 Emergency Budget on public sector employment and demand. Whilst encouraged by recent quarters' results, this quarter we see the current uncertainty and weak demand weighing on business confidence, indicating there will be no immediate return to strong growth. What we must do is nurture confidence and create an environment that encourages business investment. On this latter point, a senior regional banker recently told me that business deposits had grown by a remarkable 40%. This is reflected across all sizes of companies as business lacks the confidence to invest and prefers to save its money for a rainy day.

National government must play its part and our view at the Greater Manchester Chamber is that more QE is not the most effective remedy - we must focus on aggressive deregulation, infrastructure spending, ensuring the Funding for Lending Scheme is successful and we must do everything in our power to help current exporters to broaden their markets and non-exporters to put their toes in the water. The business environment in Greater Manchester does remain more attractive than many other regions because of the inherent strength of the city region economy, the country's second most intensive area of economic activity.

Government appears to be serious in its intention to let our most powerful cities have a much greater say on how it spends money on key local issues such as economic development, skills and infrastructure. Greater Manchester has led the way on this debate and it is good for business if increasingly we decide locally how we invest in the success of our businesses and the growth of the local economy.

Contents

04 Economic Overview

This quarter's results are disappointing, but not a surprise, and as we have been warning for some time the region remains exposed to public sector spending cuts, the weakness of consumer demand caused by the inflationary squeeze on households and has been dependent on export demand to grind out growth. That export demand has been one of the key factors behind the recent increase in employment across our area and business confidence.

In the current slow growth environment it is somewhat inevitable that from time to time there will be setbacks. Although there were encouraging signs in the Q2 results, providing some cause for optimism, there were also signs of weakness. These signs have turned to reality. The summer has been mixed, with many businesses reporting that things have been ticking along. The reality is that economic activity has been somewhat slow. Europe took its summer holiday on the back of a flat growth environment and global growth has continued to ease. A generally weak domestic picture has also suffered a setback as a consequence of the overseas malaise, with official data for North West exports indicating a sharp deterioration in Q2 (down 19.4%,£1.332bn), having a knock on effect on domestic demand.

Inflation has eased back from the highs of September 2011 on both key measures, CPI and RPI. At the time of writing the CPI measure stands at 2.5%, still above the Bank of England's target of 2%, and higher than typical wage increases, therefore households remain squeezed. The extent of the squeeze on households is much less than it has been over the last twelve months and coupled with an improvement in the number of people in employment consumer demand has been improving over the last few months. However, inflation is unlikely to fall much further as there have been increases in fuel and food prices that have yet to be reflected in the inflation figures. The Bank of England's latest Monetary Policy Committee minutes also show that the Bank now expects inflation will not fall to the extent predicted in their August Inflation Report. We felt another round of Quantitative Easing was unnecessary, and we were right. There was no risk of inflation falling below 2% for too long and in any case this would have supported the economy by boosting consumer demand.

Although retail sales have been volatile in recent months the trend has been upward and there has been an increase in car registrations. There was a minor setback in August, and retailers responding to our survey on balance reported falling demand. The longer term trend in retail sales shifting from in store to online will continue so pressure on high street retailers remains. This is unlikely to abate and local authorities will need to put in place more realistic plans to scale back the size of retail offering in many centres in the years to come; allocating more use to commercial, leisure and residential use. The economy is evolving and we must recognise that there is a process of creative destruction underway. The retail sector is evolving and as a consequence opportunities are arising for new online, wholesale and distribution businesses.

Demand in the region has remained weak, though our view is that in recent quarters we have been outperforming the national picture. The region's economy looks to be stalling and the recent increases in the number of people in employment appears to have come to a halt. The North West has been one of the better performing regions of late for job creation, second only to London in recent months, however the latest labour market statistics show the number of people employed in the North West to be steady on a month by month comparison of the quarterly estimates at 3.179m. Growth has been driven by export demand whilst the domestic picture has been mixed. The service sector has seen weak growth and our broad manufacturing measure has been held back by the woes of the construction sector despite a positive performance by manufacturers. Improvements in employment reflect increasing numbers of part time and self-employed workers. Employment improvements have supported the slow recovery of the service sector, and although the construction sector has seen a slight pick up this quarter demand remains poor and this is now spilling over into other sectors.

Though the Government rightly aims to rebalance the economy towards exports the situation in the Euro zone remains unresolved, as it has done since the onset of the crisis, and therefore more needed to be done to support the domestic economy to protect it against the risks and at the same time improve the longer term

competitiveness of the UK. We also highlighted the possibility of fiscal consolidation in the United States twelve months ago which may also bear down on demand. Our argument to protect against the risks has been regional infrastructure investment supported by the Bank of England; however it instead chose to give the regions inflation. At a time when commodity prices were falling the Bank could have served the need to build for the future and done so when market forces were in its favour to deliver greater value for money. The window of opportunity is now closing yet the Government has announced another infrastructure plan when immediate action was required. Given that Government is exceeding its spending targets it would seem now that the only real solution is to extend the debt reduction timetable and reallocate spending to support immediate infrastructure investment. This would be the lower risk alternative to making deeper public sector spending cuts or increasing taxes that could harm the economy and may prompt the ratings agencies to lower the country's credit rating, leading to an increase in borrowing costs.

At the risk of beginning to sound like a stuck record, urgently needed infrastructure investment to enhance connectivity in the North West would help to improve demand by boosting employment and getting construction firms back to work, with the longer term prospect that the regions would help existing businesses compete globally and attract foreign direct investment. The housing market faces a lack of demand along with unrealistic pricing on the supply side; house building alone is not going to resolve the issues in the housing market.

Access to finance is not only a challenge for households but continues to be an issue facing businesses. There are tensions for our financial institutions and further regulatory requirements, such as the Financial Services Authority's slotting proposals, will further constrain credit in the years ahead. Demand conditions are also likely to be bearing on lending decisions and risk profiles. The Government and Bank of England are supporting measures to encourage lending and we await confirmation of whether the Funding for Lending Scheme has been more successful than previous initiatives, but again we are concerned about demand, with some financial institutions reporting a jump in deposits being made by firms, including many smaller businesses, as they hold cash to establish a stronger position for investment later. There is certainly a lack of competition and differentiation between the current UK banks; however we are not wholly convinced that the Government establishing a Business Bank is the right solution.

Excessive regulation will also stifle competition. Competition is required, but the problems facing businesses will not be solved by a Business Bank and it will not provide a solution to the debt/equity problem. Part of the solution must be the recapitalisation of firms using equity rather than debt and we cannot go on making comparisons to pre-recession trends in lending or consumption. Pre-crisis growth was an illusion caused by easy credit.

The changing focus for UK growth has been towards exports and there were signs of progress at achieving this aim in 2011. This has suffered a setback as our main trading partner Europe has slowed as a consequence of the fiscal consolidation in debt laden countries, unemployment rises and firms become uncertain about the future. Second guessing how the situation in Europe will develop is almost impossible due to the political nature of the decisions that will decide the future of the Euro zone. What is clear is that a disorderly break-up would have severe consequences and is in no country's interest either in Europe or around the globe, therefore it is likely that this will be avoided. The slowdown in exports impacting on the North West of late has been a consequence of both the Euro zone and the wider global economic slowdown. Moves are afoot in emerging nations to stimulate growth by easing monetary policy, and the Euro zone will slowly address its difficulties, so we expect that over the next two years there will be a return to stronger exports.

It is disappointing to see that the local economy has seen something of a setback, however there were signs of weakness in Q2's results and the recovery is not yet secure. We have continually warned that our fate was subject to the external economic environment. At present the global economy is still experiencing the aftershocks of the financial crisis as fiscal consolidation and debt reduction impacts on western economies' demand, subsequently impacting on emerging markets such as China.

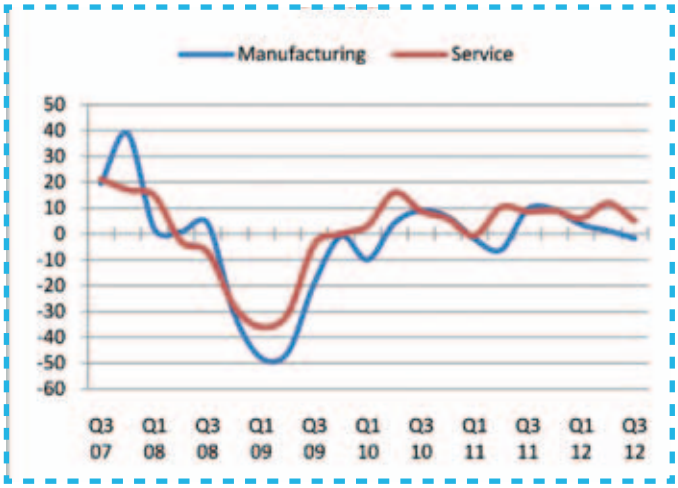
Whilst Government and the Bank of England have put in place a number of policies for the longer term stability of the UK economy, they have failed to get to grips with the current lack of demand that threatens to have a permanent economic cost to the country in terms of lost output. Infrastructure investment to address current market failures and invest in the future competitive position of the UK in a global marketplace must be delivered without further delay. Q

06 Domestic Demand

The continued low-growth environment that we have seen since the initial recovery and the emergency budget of June 2010 remains with us this quarter. Domestic demand is still subdued caused primarily by a lower confidence in the service sector, particularly around issues in the Euro zone. The manufacturing sector, having defied gravity for much of the past two years, has seen its UK demand measures weaken.

Infrastructure and other capital projects in London and the South East have continued apace since the emergency budget but the regions have been starved of capital. Almost all of the fiscal measures implemented since then, such as Project Merlin, Credit Easing and Funding for Lending, assume that there is latent demand for credit in an already debt-burdened economy. This is misguided and Government must wake up to the reality before the economy suffers a permanent loss of output.

UK Sales



Construction & Manufacturing Sales

Manufacturing enters contraction

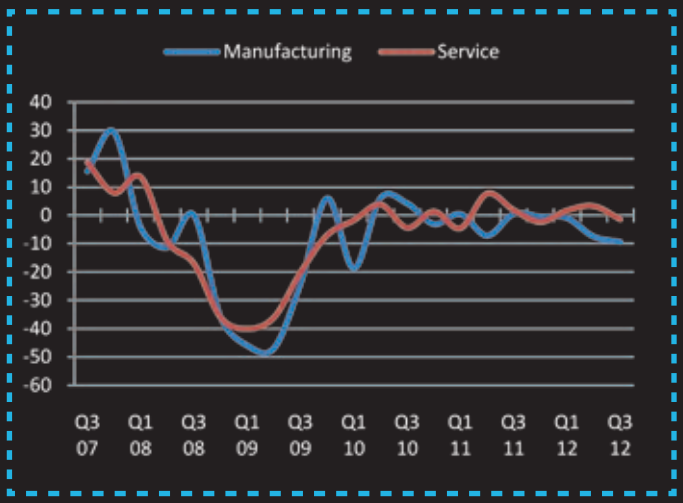
UK manufacturing demand levels have weakened for the fourth consecutive quarter and this indicator now suggests that the broad sector has entered contraction. The broad sector's measure now stands at -2%, its lowest since the first quarter of 2011. As manufacturing has generally been outperforming the service sector recently, shrinking UK sales are a concern.

Driven by a 15-point drop in the domestic demand measure for narrow manufacturing which now stands at +4%, the lowest on record since we started reporting it in Q2 2010, the overall results for the sector are supported by a large improvement in the construction sector's results. Recent quarters have been weak as a result of the poor performance of construction firms in Greater Manchester and whilst this sector remains challenged, it has this quarter posted its strongest results since Q4 2011. The balance of GM companies reporting increased construction demand has risen 18 points to -7%.

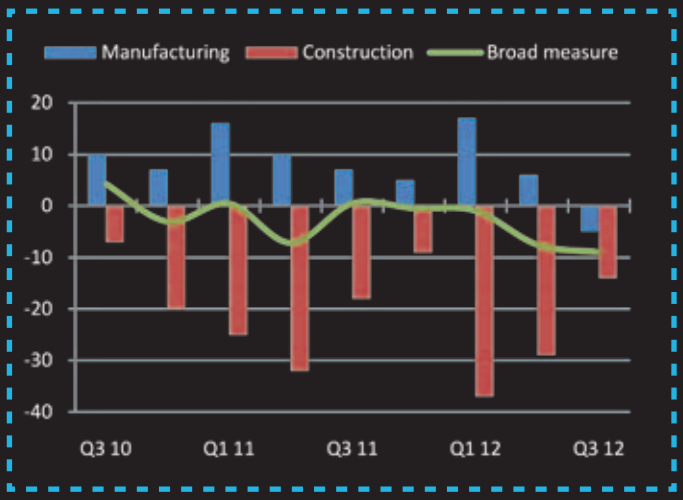
Order books suggest weaker fourth quarter

The forward looking measure of domestic orders remains broadly level to last quarter's position at -9%, but this is the fifth consecutive quarter of this index indicating manufacturers' order books are stagnating at best. Construction companies have reported an improvement in their sector this quarter, posting a 15-point rise, though this measure too remains in negative territory at -14%. This more positive news for the sector hides the weakening in the narrow manufacturing data of a fall of 11 points to -5%. This measure has not been negative since before we started the series in Q2 2010.

UK Orders



Construction & Manufacturing Orders



Service sector weakens

While remaining at a level consistent with weak growth, the service sector has indicated an easing of domestic demand this quarter, erasing the gains made in the second quarter of this year. Now at its lowest level for 18 months, the UK sales balance stands at +5%, down seven points. The sector has had a particularly difficult quarter with uncertainty reappearing in the Euro zone, distortions to normal activity with the Olympics and poor weather damaging activity on the high street, so it is unsurprising that the data has weakened.

Service sector order books indicate a contraction this quarter with the next quarter indicator moving down four points to -1%, its lowest level since this quarter of last year. This measure has been weak (below +10%) for over four years, and this is the second quarter in the past year which has showed a negative result.

Economy requires demand stimulation

All of the above reinforces our previous calls for government to develop a clear strategy to reinforce domestic demand. Government has failed to heed the warnings the Chamber has been giving for over a year that, without significant investment to kick-start demand in the region, the economy of Greater Manchester and the wider North West will remain vulnerable to external shocks. Q

08 International Trade & Exports

The concerted effort of the government and many business organisations to encourage the seeking of new international markets continues. As already discussed, with low and vulnerable domestic demand, businesses seeking continued growth must now look to emerging markets. Our traditional trading partners within Europe are also troubled by low-growth environments and even the United States, though stronger than many European nations, is far from out of the woods yet.

Emerging markets (which must be acknowledged as extending far beyond the BRIC analogy) have seen their growth weaken in the face of falling demand from Western economies, though economically they are in a more secure position. In addition, these countries typically have higher interest rates that offer significant room for easing of their own monetary policy stances, thereby increasing the likelihood of stronger and steadier growth in the near- and medium-term.

Export Sales

Export Orders

Manufacturing exports retain growth

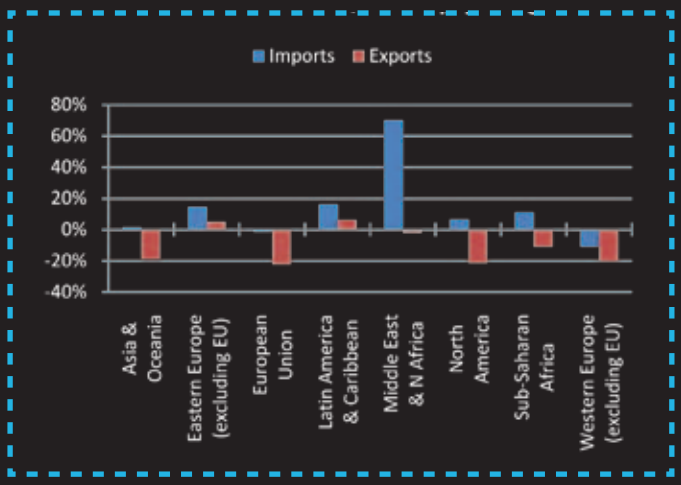
The manufacturing sector traditionally performs better in international markets, making it less volatile in response to weakening domestic demand and fluctuating global pressures. With our broad manufacturing measure equivalent to around 20% of UK GDP but 50% of UK exports, its success abroad is reflected in the vitality of the sector here.

Whilst manufacturing sector sales to international markets in the third quarter of this year have eased back four points, this quarter's figure of +14% shows moderate growth and remains around its average of the past two years. The few construction firms that are reporting export demand are seeing some overseas growth opportunities. Looking forward to quarter four, the order book similarly has weakened slightly to +12%, a fall of just one point on the previous quarter and, as for sales, lies close to its post-recession average.

Service sector spooked by Euro troubles

The service sector data tells a different story. This quarter has seen sharp falls in both the sales (Q3) and orders (Q4) measures for service industries with both indicators indicating a small contraction. While the sector has had an unusual quarter with respect to the Olympics affecting demand, this sudden drop has parallels with the data for the same quarter last year. It appears that further uncertainty within Europe and the Euro zone about the management of the debt crisis and any possible exit from the currency union has again caused contracting sales measures as this sector is disproportionately affected by confidence hits such as this. With the exception of this similar drop in these two measures in Q3 2011, service sector export indicators have not been this low since 2009.

NW Trade in Goods Q2 2012 Y/Y change



North West exports disappoint

Regional export statistics released by HM Revenue and Customs showed that exports of goods from the North West fell sharply in the second quarter of 2012 as a result of falling European and global demand. The figures reveal that North West goods exports fell from £6.858bn to £5.526bn, the lowest level since the second quarter of 2009.

Whilst this was driven by a particularly large fall from the chemicals sector, exports from other sectors also fell. Imports were also up from many of the geographic areas and only Eastern Europe and Latin America saw increases in the value of exports.

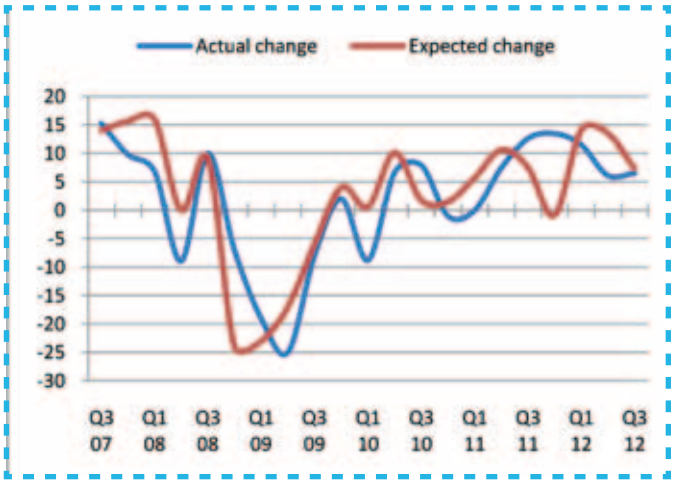
Whilst we shouldn't place too much weight on only one quarter's data, a further weakening of exports would be a major concern given their importance to the recent growth in employment and confidence in the region.

10 Labour Market

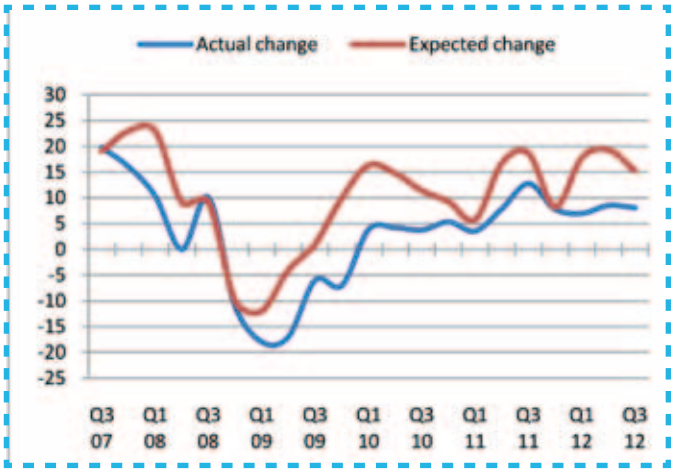
Since the recession of 2008 the labour market has performed more strongly than expected: employment numbers have failed to succumb to the influence of falling GDP levels. Total output of the UK economy is around 4% below its peak of 2008, yet employment levels are now only 12,000 lower than their height. There has been a large move from full-time to part-time working and self-employment levels are at an all-time high. Whilst employment levels are high, it is hard to avoid the fact that the UK has seen productivity levels fall sharply since the recession.

The private sector has created approximately two jobs for each one lost in the public sector which has broadly kept unemployment levels lower than forecast but, taking into account the issues above, there is a possibility that this recovery is a false one. Large volumes of lower-paid part-time work and self-employment with low demand cannot act as a substitute for a true recovery based on investment in people and skills in more productive industries.

Employment in Manufacturing



Employment in Services



Manufacturing jobs feel the pressure

The broad manufacturing sector has indicated a small one-point rise in its indicator for employment during the last quarter, but, similar to UK demand measures, this is driven by improvements reported within the construction sector. Narrow manufacturing underperformed its own expectations for job levels by ten points and has seen an eight-point fall quarter-on-quarter on employment levels. Expectations for Q4 stand at +6%, down 12 points from last quarter, which suggest a risk that net recruitment in this sector may stop in the coming months.

Construction builds foundations

Construction firms have indicated a small increase in the number of jobs in the past quarter, outperforming its predictions from Q2. With the measure standing 10 points higher at +3% there may be some positive news, particularly as expectations for next quarter indicate faster expansion at +9%. These figures should, however, be set in context with a weak domestic order book that suggests contraction, so this troubled sector is likely to be some way from a full recovery.

Service sector remains overoptimistic

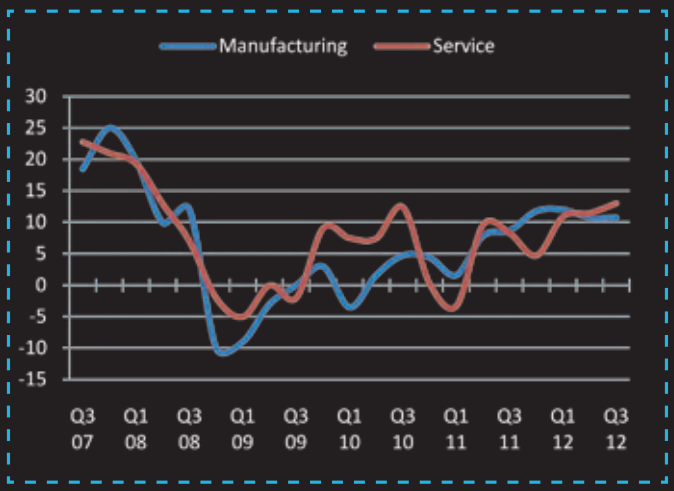
The service sector's employment measure held steady this quarter with the balance of firms reporting their workforce increasing in Q3 staying at +8% but failing to achieve last quarter's expectations of +19%. Predictions for Q4 have eased to +15%, suggesting that, even allowing for overconfidence, there remains low but steady growth in the sector.

Recruitment levels hold steady

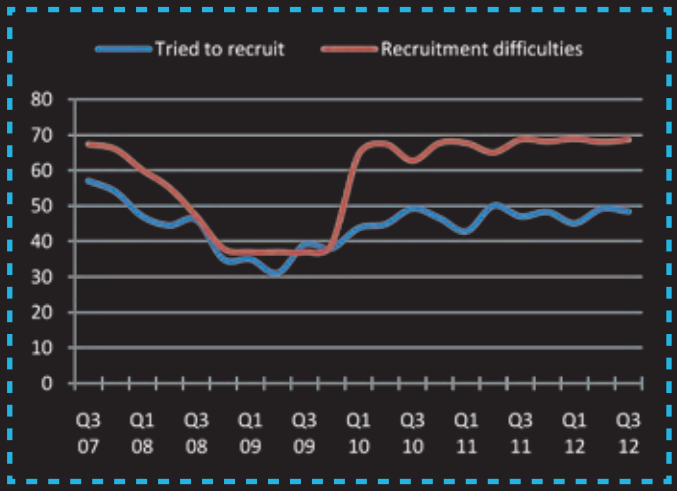
The balance of businesses who attempted to recruit staff in the past quarter is broadly unchanged with any movements within two-points, though within the data there is a seven-point rise in the measure for construction companies, lifting to +46%. Narrow manufacturing has seen a swing away from full-time to part-time recruitment in the previous quarter, and the broader index shows permanent jobs keeping ahead of temporary placements.

Recruitment in Manufacturing

Investment in Training



Recruitment in Services



The level of businesses in the service sector experiencing difficulty recruiting is only one point higher this quarter at +69%, a level which is broadly unchanged since its sudden rise in 2010. There was a six-point fall in the measure for skilled manual recruitment difficulties with other categories relatively steady.

In the manufacturing sector, the wider level of difficulties is also up one-point on the quarter, leaving the measure 10-points below its recent peak. The only sizeable change in the detail is difficulties for semi- and un-skilled placements has eased five points to +13% driven by narrow manufacturing, and constructors noting clerical positions harder to fill whilst skilled manual and technical positions rather easier.

Personnel training continues

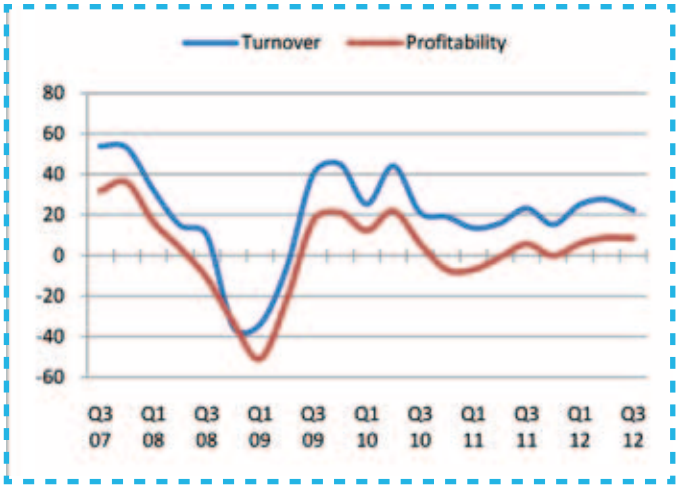
Investment in workforce training remains high, staying level for the manufacturing sector at +11% (though within this construction has risen six points) and nudging up two points to +13% for the service sector, its highest level since Q2 2008.

12 Confidence & Investment

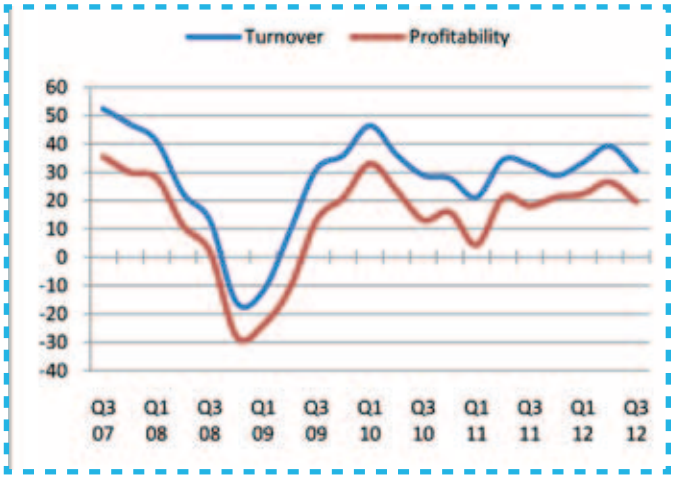
Last quarter we highlighted the general steady improvement in confidence measures across all sectors of the GM economy since their most recent low in early-2011. We also raised concerns that, whilst improved, the overall levels remained weak and were vulnerable to constricted demand in the UK and wider global performance. This quarter all of the confidence measures have retreated to some degree, likely driven by renewed concerns over domestic and European economic indicators.

Uncertainty in the recovery of the domestic economy, highlighted so clearly in the last two quarters' official GDP statistics, continues to cause companies to hoard cash and be fearful of investment against perceived low future demand. We see once again, however, that those businesses which invest in exploring overseas markets exhibit stronger confidence in their finances and grow their workforces more quickly.

Manufacturing Confidence



Services Confidence



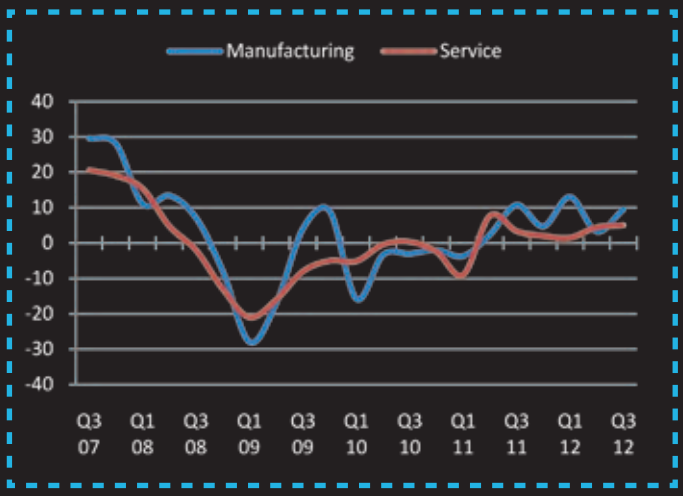
Lower demand weakens confidence

Turnover and profitability for the two primary sectors have eased this quarter, though the service sector has seen a larger fall. As seen earlier, fears over contracting export conditions could be impacting on service sector confidence and the effects of those weak international demand indicators are all too apparent in the sector's financial expectation levels: turnover and profitability measures are down nine and eight points respectively.

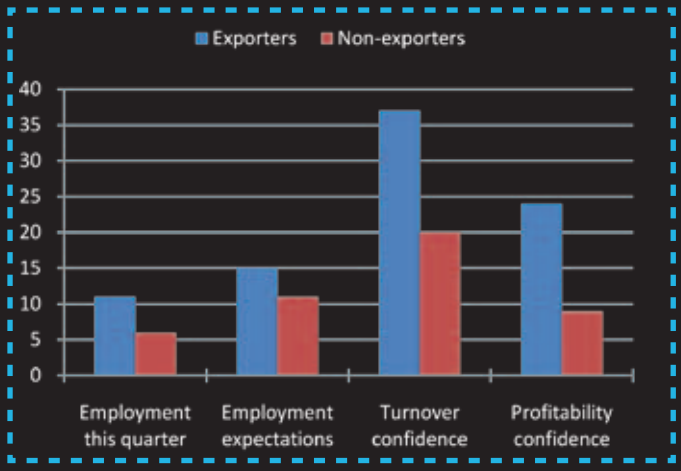
Manufacturing turnover expectations have fallen back five points this quarter to +22%. Profitability indicators have held up (down only one point) suggesting that firms feel that they are able to protect their margins. In line with the demand measures, these levels are driven by the construction sector (turnover up nine to +11%, profitability up 13 points to -4%). Narrow manufacturing has seen a sharp fall in both measures: turnover is down ten points to +29% and profitability down seven points to +15% but both remain in positive territory.

We have concerns that, having seen confidence across all sectors gradually increase since its recent lows at the end of 2010 and early 2011, businesses may be beginning to lose faith in the government's plan for economic recovery. We have already seen that recruitment has, on the whole, remained positive but firms cannot be expected to maintain relatively high staffing levels whilst waiting for the economy to begin to recover more firmly. It is for this reason that we continue to call upon government to make large-scale infrastructure investments quickly to the regions to help drive confidence and future investment by all businesses.

Investment in Plant & Machinery



Comparison exporters/non-exporters



Capital investment improves but remains low

We expressed concern that the Government's lowering of the Annual Investment Allowance in April would cause distortions in the capital investment levels of companies across both Q1 and Q2 of this year. The rise of seven points this quarter in the manufacturing plant and machinery measure was almost entirely driven by the construction industry's increasing investment at +6% after two consecutive quarters at -6%. The rest of the manufacturing sector rose two points on this measure to +13%. The service sector's capital investment levels are more muted this quarter, recording only a one-point rise to +5%, but this is a five-quarter high.

Exporters continue to outperform

Around 40% of businesses responding to this quarter's survey are active exporters. Whilst this is biased, as you would expect, to manufacturing businesses, they are well distributed across the geographic areas and by business size. Comparisons of these businesses against those who don't export show some clear differences in their relative performance on some key measures.

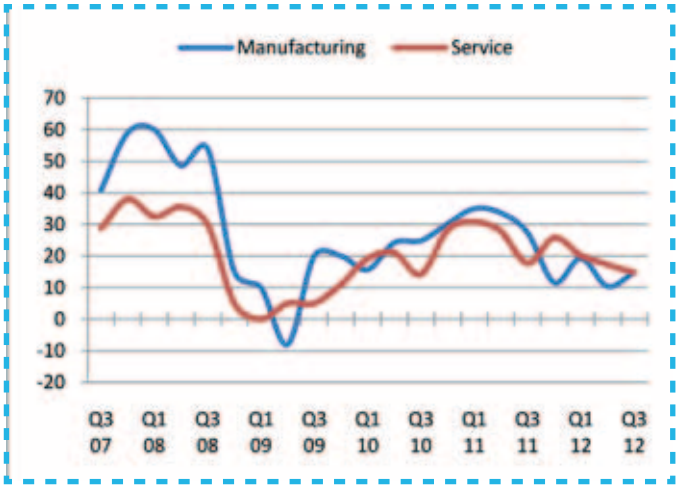
It shows that exporting businesses are around twice as likely to have recruited additional members of their workforce in the past quarter than wholly-UK driven businesses, and that exporters' confidence levels for turnover and profitability for the coming year are significantly higher than for those non-exporting businesses in GM. Q

14 Costs & Prices

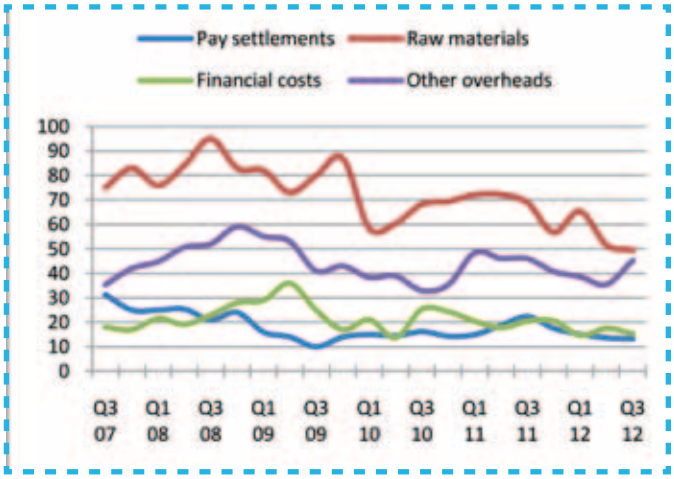
The Chamber has repeatedly warned the Bank of England that inflation would prove rather sticker than it was forecasting and both CPI and RPI levels have not fallen at the speed that the Bank initially predicted. Pressure from a weaker pound, high fuel and energy prices and the impact of quantitative easing has kept inflation measures elevated whilst employment demand levels in the wider economy have kept a firm weight on wage prices; in turn this has helped businesses struggling with sales but kept significant pressure on households and their ability to contribute to growth through high street spending.

Debt continues to be repaid, particularly at a household level and this desire to deleverage and rebuild safety margins in both corporate and personal budgets will continue to reduce household spending levels leading to constrained growth in retail sales. Whilst this is helping to keep the pressure off the inflation indices, we believe that inflation will not fall significantly below the 2% target and the Bank should not try to drive inflation through more quantitative easing.

Intentions to Increase Prices



Price Pressures in Manufacturing



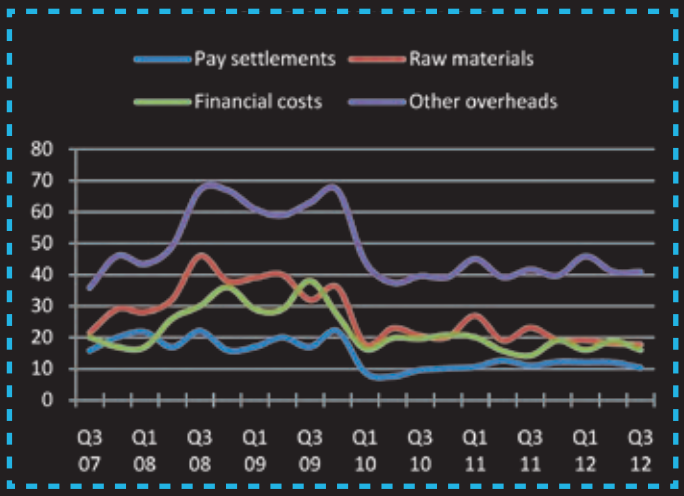
Inflationary pressures remain weak

Raw material prices worldwide remain low because of constrained global demand which has helped in lowering input prices to UK production businesses, particularly as the pound weakened post-recession. Despite this, broad manufacturing firms have seen a sharp lift in their 'other overheads' measure this quarter which has led to the sector's output price intentions over the coming year rising five points to +15%; this shadows a rise in the number of firms saying they are operating at capacity.

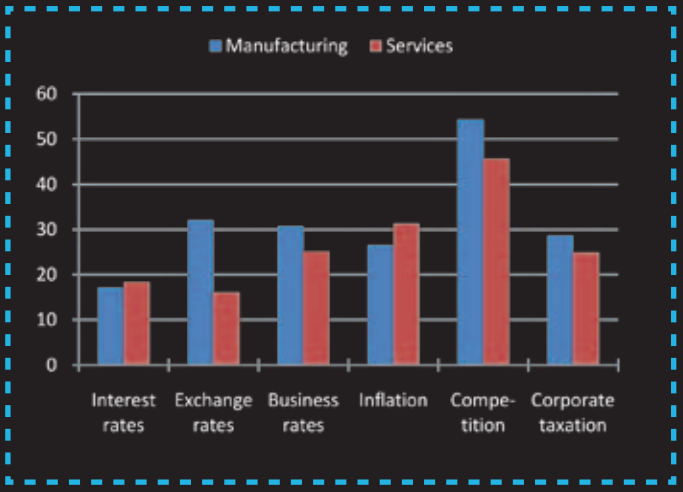
The breakdown shows that this is all driven by the construction sector and follows from its improved position this quarter which may be driving its improved recruitment intentions for the rest of the year. Despite many headlines to the contrary it is good to note that the cost of finance measure for manufacturers has eased three points to +15%.

The service sector's expectations for output prices have eased for the third consecutive quarter, with reduced finance costs and lower wage pressure being the main drivers. Concerns over interest rates and competition have also eased for the service sector this quarter though there has been an increase in concerns around exchange rates. This is paralleled in the manufacturing sector which has seen a particularly large rise in this measure, up nine points to +32%. Manufacturing businesses continue to see competition as a major worry, with margins being lowered to help to win work.

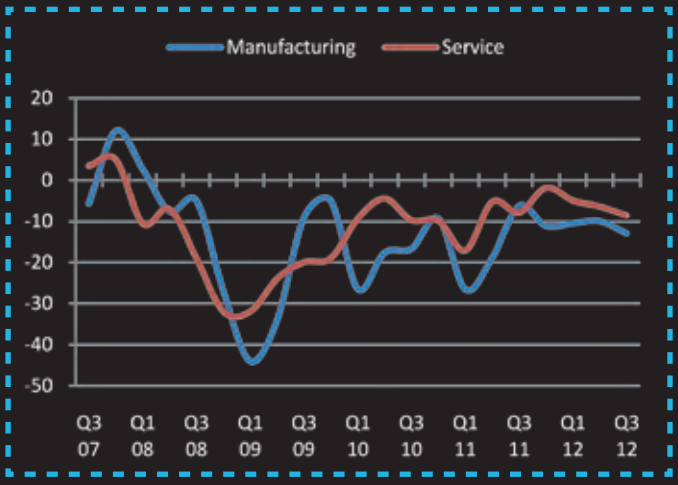
Price Pressures in Services



External Factors



Cashflow



Cashflow situation deteriorates

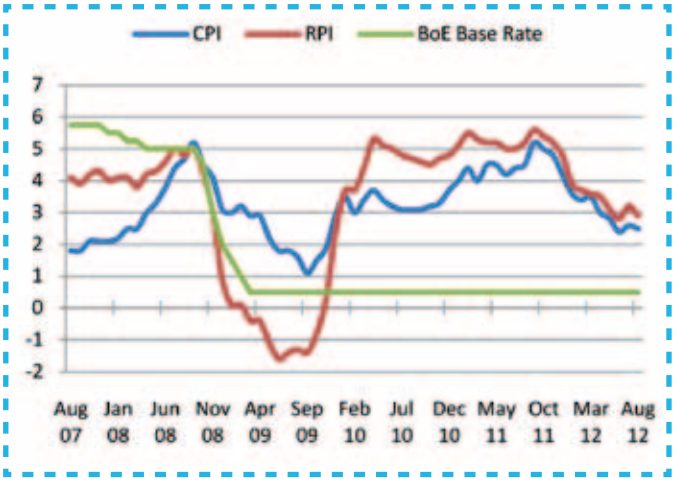
The service sector has seen its cashflow balance weaken for the third consecutive quarter from its recent post-recession high in the fourth quarter of 2011. Falling back a further three points to -9% this measure is now at its lowest since Q1 2011. The manufacturing sector has also seen a weakening this quarter, falling back three points to -13%. Again, the breakdown shows a weakening in narrow manufacturing's position, dropping nine points to -4% whilst construction's decline is less severe at -22%, up 14 points from last quarter.

As finance from the banks remains restricted, particularly for more flexible forms of lending such as overdrafts, businesses are forced to rely on their own capital reserves and cash accounts to manage their day-to-day transactions.

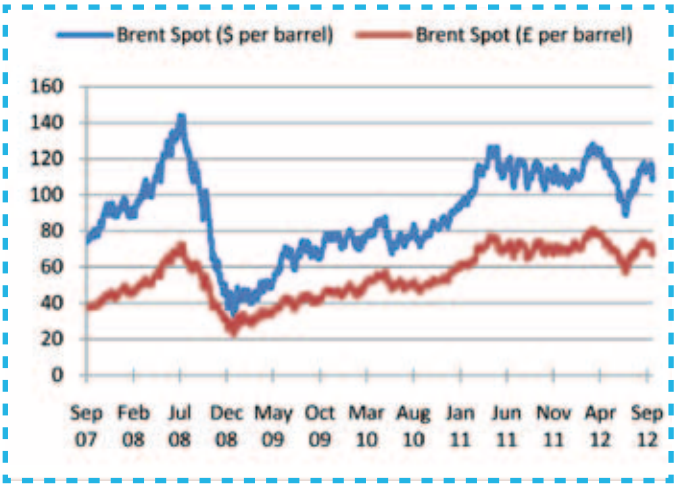
16 Official Data & Commodity Prices

S&P Goldman Sachs Commodity Index

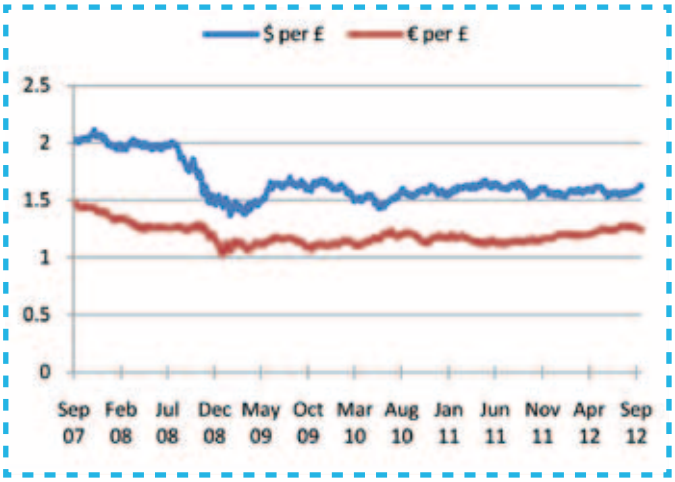
Inflation & Bank Rate



Oil Prices



Sterling Exchange Rates



Background & Methodology

Greater Manchester Chamber of Commerce is the largest Chamber of Commerce in the United Kingdom, providing business support services to 5,000 members who collectively employ 350,000 people, around one-third of Greater Manchester's workforce.

Recognised as a leader in its field, Greater Manchester Chamber's reputation in government circles has grown locally and nationally. At the heart of the area of greatest economic intensity outside London and the South East, the Chamber is the primary body for business support, policy, representation and networking.

The aim of the Chamber is to support businesses and to help create the best climate for the region to prosper. This is achieved by ensuring that those taking decisions on key issues such as transport, taxation and business regulation hear the voice of our members. The representation of our members' views is central to the work of the policy team at the Chamber; these views are gathered in a range of ways including our local councils, policy committees, sector councils, the main Chamber council, focus groups, meetings with politicians, consultations and, of course, this Quarterly Economic Survey (QES).

Forming part of the British Chambers of Commerce's national survey, Greater Manchester is the single largest contributor to this important body of evidence. As the principal national business survey, and the first to be published in each quarter, its results are closely watched by both HM Treasury and the Bank of England's Monetary Policy Committee. Having been the first survey to call the last two recessions, the data revealed by it is timely, accurate and invaluable for anyone wishing to understand the subtle shifts in the economic climate for businesses in Greater Manchester and beyond.

The collection period for this survey was Monday 20 August to Wednesday 12 September inclusive. A total of 821 businesses, together employing 142,853 people responded to the survey. This report has been researched, written and compiled by Dr Brian Sloan, Chief Economist, and Christian Spence, Research Manager. Greater Manchester Chamber of Commerce would like to thank pro.manchester for its members' contributions to this survey's dataset.

If you require any further information about the production or detail of this report, please contact Christian on (0161) 237 4045 or email christian.spence@gmchamber.co.uk.

Net balance figures referred to throughout this report are determined by subtracting the percentage of businesses reporting a decrease in a factor from the percentage of businesses reporting an increase.

Copies of this and previous reports can be freely downloaded from the Chamber's website at www.gmchamber.co.uk/qes. Q

Action for Business

Chris Fletcher, the Chamber's Director of Policy & Communications, explains the key role that the QES plays in forming the Chamber's policy and representation: Action For Business.

Yet again the high number of responses to the QES has enabled us to put together the most accurate picture of the business environment for Greater Manchester. Worryingly it does seem that more local businesses are now in the doldrums than we have seen before. However speaking with business owners there isn't an overwhelming feeling of pessimism, more a sense of frustration that any incentives and intervention by government and others is yet to have any tangible effect. Three and a half years and £375bn of QE later, it is little wonder many are saying this just isn't working.

National government is increasingly obsessed with growth but continues to ignore reality. Recent headline grabbing legislative changes around making it easier for businesses to fire staff as a mechanism to create jobs seem to have completely missed the point. Job creation depends on growth and demand. Without either the issue of being able to hire and fire easily becomes redundant itself.

September saw the expected and predicted cabinet reshuffle with some big name casualties, most notably Justine Greening as Secretary of State for Transport. Only time will tell if this is more than a cosmetic exercise and whether there will be a change in policy to go with the new faces in Whitehall. This seems, at this stage, highly unlikely.

As I stated last quarter the challenge is about growth. We must become ruthless in our efforts to do everything we can to break down the barriers that are holding business back.

Now more than ever we need to hear the voice of business through our QES and through our new Action For Business Forums that are being held in each area and are now part of your membership. It can be a hard slog to make change but we must remain focussed on our core message around taking action for business.

Below you will find details of priority issues that we have been working on as part of our Action For Business work. This is focussed on our Infrastructure and Planning theme as this has been an area of high activity over the last few weeks and is one area that we have identified as being crucial to get right in order to kick-start long term sustainable growth.

Let us know what you think through our LinkedIn group, Twitter or Facebook or e-mail me at chris.fletcher@gmchamber.co.uk. To find out more about our Action For Business work make sure you catch up via the Chamber magazine 53Degrees.

A full list of all our Action For Business work can be found at the back of the QES report.

Action For Business - Infrastructure & Planning

Rail - rail issues have once again dominated transport issues. The quarter started with confirmation of the final piece of the funding jigsaw for Northern Hub with £330m allocated to deliver the last infrastructure projects within the scheme. After a long and sometimes tortuous process this is a great victory for the Chamber and its members as we have resolutely supported the project throughout the last nine years. A full report on the work we have done on this campaign can be found in September's 53 Degrees.

The long awaited announcement of the successful bidder for the West Coast Mainline franchise was made in September when surprisingly, in some people's view, First won the bid over Virgin. There was an immediate storm of high visibility national protest which has resulted in the bid being subject to a judicial review. The Chamber has made the point that, irrespective of whoever runs the franchise, there must be no deterioration in service. So far we have escaped the trials and tribulations that flawed franchise contracts and deals have had in other parts of the country. We need to continue to avoid this.

Aviation - the long running issue of sorting out a cohesive aviation strategy for the UK has come to the fore in the last few months prompted, again, on discussions based around capacity issues in the South East. Despite there being ongoing reviews taking place, the government has decided to set up yet another review to investigate this issue. The reality is there is excess capacity at regional airports which consistently seems to be ignored by national policy makers who get sidetracked by the arguments around South East expansion.

The Chamber has set about writing a transport manifesto that reflects all elements of transport that impact on business. An outline letter has been sent to Patrick McLoughlin MP, the new Transport Secretary, which contains an invitation to meet at the earliest opportunity.

Planning - following the adoption of the National Planning Policy Framework yet another round of changes to local planning rules has been set in train following announcements about easing restrictions on home extensions and conservatories. This has caused another round of confusion and delays with planners which have had a knock on effect with developers. Initial feedback is that these announcements will have limited impact with many businesses pointing out that unless funding restrictions are eased to complement the above relaxations then demand will still remain low, thus negating any potential benefits.

CALL FOR EVIDENCE - AUTUMN STATEMENT

The Chamber is drafting its letter to the Chancellor ahead of the Autumn Statement in December. We would like to hear from you about what needs to be in the statement. There is an increasing frustration within business that too much tinkering around the edges is being done and not enough to get at the root of the problem. How can the Chancellor deliver bold measures that instil confidence and deliver tangible benefits?
Contact brian.sloan@gmchamber.co.uk or take part in our LinkedIn group discussion.

Recent Quarter Results - Manufacturing

Deliveries & Orders		Q4-11	Q1-12	Q2-12	Q3-12
UK sales		9	4	1	-2
UK orders		0	-1	-8	-9
Export sales		11	16	18	14
Export orders		9	15	13	12
Labour					
Employment in the last quarter		14	12	6	7
Employment expectations for next quarter		-1	14	14	7
% Tried to recruit staff		51	48	47	49
If yes, were they for:	% Part-time jobs	14	11	13	13
	% Full-time jobs	75	82	82	79
	% Temporary jobs	28	20	22	27
	% Permanent jobs	32	40	38	46
% Recruitment difficulties		69	74	63	64
If yes, were they for:	% Skilled manual/ technical	39	52	48	48
	% Professional/ managerial	9	11	10	10
	% Clerical	33	38	29	31
	% Semi/unskilled	11	18	18	13
Cash flow		-11	-10	-10	-13
Investment Plans					
Investment plant & machinery		5	13	3	10
Investment training		12	12	11	11
Confidence (For Next 12 Months)					
Turnover		15	25	27	22
Profitability		0	6	9	8
Production					
% At full capacity		35	25	33	35
Prices / Costs					
Balance of firms expecting to increase prices		12	19	10	15
Is your business currently suffering	% Pay settlements	18	15	14	13
pressures to raise its prices from	% Raw material prices	57	65	52	50
any of the following?	% Finance costs	21	15	18	15
	% Other overheads	41	39	36	45
External Factors					
Affecting your business more than	Interest rates	21	15	20	17
than three months ago.	Exchange rates	28	25	23	32
	Business rates	30	32	31	31
	Inflation	43	34	30	26
	Competition	50	54	50	54
	Corporate taxation	29	31	32	29
Number of respondent companies		228	225	256	234
Number of employees		23,855	44,603	30,015	73088

Recent Quarter Results - Services

Deliveries & Orders		**Q4-11**	**Q1-12**	**Q2-12**	**Q3-12**
UK sales		9	6	12	5
UK orders		-2	2	3	-1
Export sales		0	14	13	-2
Export orders		-7	11	12	-4
Labour					
Employment in the last quarter		8	7	8	8
Employment expectations for next quarter		8	18	19	15
% Tried to recruit staff		48	45	49	48
If yes, were they for:	% Part-time jobs	29	29	31	30
	% Full-time jobs	71	74	77	72
	% Temporary jobs	22	20	20	24
	% Permanent jobs	33	41	41	39
% Recruitment difficulties		68	69	68	69
If yes, were they for:	% Skilled manual/ technical	21	22	23	17
	% Professional/ managerial	26	23	25	23
	% Clerical	33	35	34	36
	% Semi/unskilled	16	14	14	15
Cash flow		-2	-5	-6	-9
Investment Plans					
Investment plant & machinery		2	1	4	5
Investment training		5	11	11	13
Confidence (For Next 12 Months)					
Turnover		29	33	39	30
Profitability		21	22	27	19
Production					
% At full capacity		36	30	31	31
Prices / Costs					
Balance of firms expecting to increase prices		26	20	17	15
Is your business currently suffering	% Pay settlements	12	12	12	10
pressures to raise its prices from	% Raw material prices	19	19	18	18
any of the following?	% Finance costs	19	16	19	16
	% Other overheads	40	46	41	41
External Factors					
Affecting your business more	Interest rates	20	21	20	18
than three months ago.	Exchange rates	16	13	13	16
	Business rates	26	28	25	25
	Inflation	40	32	29	31
	Competition	43	48	48	46
	Corporate taxation	24	27	25	25
Number of respondent companies		599	586	598	587
Number of employees		125,453	92,333	306,429	69,765

Appendix 1 - Manufacturing Sector Split Q3 2012

Deliveries & Orders		Broader Measure	Manufacturers Only	Constructors Only
UK sales		-2	4	-7
UK orders		-9	-5	-14
Export sales		14	12	9
Export orders		12	10	20
Labour				
Employment in the last quarter		7	8	3
Employment expectations for next quarter		7	6	9
% Tried to recruit staff		49	51	46
If yes, were they for:	% Part-time jobs	13	14	9
	% Full-time jobs	79	77	83
	% Temporary jobs	27	27	29
	% Permanent jobs	46	47	43
% Recruitment difficulties		64	64	60
If yes, were they for:	% Skilled manual/ technical	48	51	43
	% Professional/ managerial	10	5	17
	% Clerical	31	22	46
	% Semi/unskilled	13	14	14
Cash flow		-13	-4	-22
Investment Plans				
Investment plant & machinery		10	13	6
Investment training		11	13	7
Confidence (For Next 12 Months)				
Turnover		22	29	11
Profitability		8	15	-4
Production				
% At full capacity		35	34	36
Prices / Costs				
Balance of firms expecting to increase prices		15	18	10
Is your business currently suffering	% Pay settlements	13	9	20
pressures to raise its prices from	% Raw material prices	50	60	34
any of the following?	% Finance costs	15	12	18
	% Other overheads	45	43	51
External Factors				
Affecting your business more	Interest rates	17	13	25
than three months ago.	Exchange rates	32	49	3
	Business rates	31	32	29
	Inflation	26	25	28
	Competition	54	48	67
	Corporate taxation	29	29	28
Number of respondent companies		234	146	76
Number of employees		73088	10764	61124

Appendix 2 - Manufacturing Sector Split Q2 2012

Deliveries & Orders		**Broader Measure**	**Manufacturers Only**	**Constructors Only**
UK sales		1	19	-25
UK orders		-8	6	-29
Export sales		18	20	0
Export orders		13	16	-22
Labour				
Employment in the last quarter		6	16	-7
Employment expectations for next quarter		14	18	5
% Tried to recruit staff		47	52	39
If yes, were they for:	% Part-time jobs	13	9	12
	% Full-time jobs	82	85	79
	% Temporary jobs	22	20	30
	% Permanent jobs	38	35	39
% Recruitment difficulties		63	66	64
If yes, were they for:	% Skilled manual/ technical	48	46	55
	% Professional/ managerial	10	10	12
	% Clerical	29	28	33
	% Semi/unskilled	18	22	12
Cash flow		-10	5	-36
Investment Plans				
Investment plant & machinery		3	11	-6
Investment training		11	14	1
Confidence (For Next 12 Months)				
Turnover		27	39	2
Profitability		9	22	-17
Production				
% At full capacity		33	34	32
Prices / Costs				
Balance of firms expecting to increase prices		10	18	0
Is your business currently suffering	% Pay settlements	14	11	19
pressures to raise its prices from	% Raw material prices	52	62	39
any of the following?	% Finance costs	18	14	25
	% Other overheads	36	30	46
External Factors				
Affecting your business more	Interest rates	20	14	31
than three months ago.	Exchange rates	23	36	2
	Business rates	31	33	27
	Inflation	30	28	33
	Competition	50	45	58
	Corporate taxation	32	31	35
Number of respondent companies		256	159	84
Number of employees		30,015	23,582	5,999

Action for business

Action for B

POLICY AREA	Infrastructure & Planning	Finance & Taxation
TO PROMOTE GROWTH	Businesses of all sizes need reliable connectivity in relation to transport, the internet and people.	Businesses need access to competitive finance and a transparent and simplified taxation system.
YOU ASKED FOR....	• The delivery of transport schemes essential to the business community • A more effective and business friendly planning system • Superfast, open access digital infrastructure	• A simplified, competitive and cost-effective tax system that promotes growth • Easier access to affordable finance and better use of scarce public funds
ACTION TAKEN	Final £330m funding agreed re Northern Hub project. Article outlining the Chamber's role in this in September's 53 Degrees. Transport Forum held to agree on outline of future Chamber Transport manifesto. Letter sent to new Transport Secretary outlining the key concerns of Chamber members and identifying future activity required to deliver an effective transport policy for business. Press Release in response to West Coast mainline franchise decision. Monitor and responded to changes in planning regulations following NPPF and government announcements in September around housing. Work continuing to maximise the impact of the funding for the development of Broadband Infrastructure.	821 businesses responded to Q3 QES. Launched call for input ahead of Chancellor's Autumn Statement - due 5th December. Group discussion launched on Chamber's LinkedIn page. Wrote to Chancellor of the Exchequer representing members' views on the consultation for the General Anti-Avoidance Regulation Collected evidence and data around the impact of the Olympics for business, which formed the basis of a number of national media interviews. Press Release on impact of Sunday Trading extended hours
FUTURE ACTION	Input to Transport Select Committee Aviation review. High Speed Rail - Phase 2 route announcement due in Autumn which will outline the route north of Birmingham. Develop work in producing the Chamber Transport manifesto	Produce a pre statement for the Autumn Statement due 5th December Continue to gather evidence of effective mechanisms to fund growth. Monitor extra cost burdens to business such as vehicle insurance.

usiness Plan

Greater Manchester Chamber of Commerce

BUSINESS IS GOOD FOR BRITAIN

Skills & Employment	Trade & Innovation	Resource Efficiency & Carbon Reduction
Businesses need a ready supply of skilled and committed people at all levels.	Businesses need to have the support, capability and skills to expand into new domestic and international markets.	Resource Efficiency and Carbon Reduction Businesses need to harness efficiency gains from best practice and take up the new opportunities presented by the emerging low carbon market.
• The removal of legislative and financial barriers to recruitment • A skills and workforce development strategy to cope with current and future demands • Better careers guidance for young people to make them ready for work	• The promotion of international trade opportunities and appropriate support mechanisms • Incentives for investment and help to transfer innovation into commercial opportunities • Effective business support and policies so that all businesses can grow	• Informed and accessible advice and support on eco-innovation and resource efficiency • Fair pricing, transparency and flexibility in the energy market • Help Greater Manchester be a leading low-carbon area with renewable energy production and commercial spin-off opportunities
Following on from the Employment & Skills Committee Task Group on education engagement the Stockport PEEBS website is now live, enabling businesses and education to coordinate activity. Submitted a GIF (Growth Innovation Fund) bid and an EOS (Employer Ownership of Skills) bid, so that funding can be routed directly to employers, in particular the SMEs in Greater Manchester. Continued monitoring of HMRC Real Time Information ahead of the introduction of this service.	Eurozone event held highlighting that businesses should continue to trade with confidence in Europe. Work started on developing a Chamber stance on intelligent procurement to help more business access trading opportunities. Letter sent outlining key proposals to Francis Maude MP, Minister of State for Cabinet Office. Ongoing series of UKTI events around Greater Manchester looking to give practical advice to businesses to help develop overseas trade. Press Release in response to Oldham Council prompt payment scheme. Meeting with Jeremy Pocklington Director of Growth at HMT to discuss business issues.	Continue monitoring the Green Deal and its impact on business in Greater Manchester. BCC had 3500 responses nationally to Energy Survey. Three papers to be produced highlighting Affordability, Certainty and Security. Support given to 178 firms across Greater Manchester identifying £4.8m savings; creation of 12 new jobs; safeguarded 111 and generated £13.3m of new or safeguarded sales.
We will respond to the results of the GIF & EOS bids. Continue working on delivering Education Engagement activity within the local areas to boost connection between business and local schools and colleges.	Continue to focus on the positive links around companies exporting and the positive benefit this has on performance. Develop the key areas identified in the first stage of work around Intelligent Procurement.	Continue to monitor government announcements on the next stage of development for Green Deal.

Call us 0845 602 9469

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Visit us www.gmchamber.co.uk

Read our blog
www.gmchamberblog.co.uk

Read 53 Degrees magazine:
www.53degreesmagazine.co.uk

Greater Manchester Chamber of Commerce

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BUSINESS IS GOOD FOR BRITAIN

Greater Manchester Chamber of Commerce would like to thank Marketing Manchester and associated photographers for kindly supplying the images used in this brochure.

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