Greater Manchester
Quarterly Economic Survey
Q4 2013

Greater Manchester
Chamber of Commerce
Connect. Communicate. Create.

OVERVIEW Dr John Ashcroft *Chief Economist*

The QES Composite Leading Indicator ® surges to new high.

The QES Composite Leading Indicator ® surged still higher in the latest survey suggesting strong growth in the final quarter of between 2.5% and 3.0%. The index measured 33.6 from 28.3 in the third quarter, higher than the peak levels recorded in 2007. As a result of this, we remain confident about our forecast for GDP growth in the year of 2.0% rising to around 2.5% next year. The outlook for orders and deliveries was once again much higher in the quarter in both the service sector and in the manufacturing sector. Growth was positive in both the UK and export markets but particularly strong in domestic orders and deliveries.

In the December meeting of the Monetary Policy Committee, the MPC commented on the robust domestic recovery. The GDP figures had confirmed the rapid pick up in growth in the third quarter of the year. The latest data from the **The QES Composite Leading Indicator ®** suggests the robust recovery gathered pace into the final quarter of the year. In other news, NIESR have already indicated a strong rate of growth into November with their GDP tracker suggesting GDP growth of over 2.5% in the month. Our own monthly tracker is consistent with the strong growth indicated in the QES survey and in the NIESR data.

In the service sector businesses are more optimistic about turnover, cash flow and profits but in the manufacturing sector fortunes seem to have flatlined somewhat, which is surprising. Good news for the Chancellor as both sectors expect to be paying more in corporation tax. The government borrowing figures are set for a significant reduction this year.

Jobs Data

The QES employment tracker ® moved higher in the quarter to 50.0 from the 47.4 reported last quarter. This is higher than the 48.4 level recorded in the third quarter of 2007 and the highest since the index was established in 2005.
In the service sector, more firms were looking to take on staff. In contrast employment prospects in the manufacturing sector were more muted. Fewer businesses were expecting to recruit although the increased demand for skilled manual and clerical workers was particularly marked. In general the recovery is expected to lead to a smaller increase in manufacturing employment as productivity gains follow from the increase in output.

Inflation

The QES inflation tracker ® moved higher in the quarter. The tracker index moved higher at 28.6 from 24.2 last quarter. This remains the 30 point averaged last year and the 40 point averaged in 2011. The latest ONS data for November, confirmed inflation CPI basis fell to 2.1% as manufacturing output prices were less than 1%. Manufacturing costs actually fell in the month by around 1% as world commodity prices, especially oil and metals remain subdued.

And what of Investment?

As the order books increase and the demand horizon is more promising, investment plans are brought back to the board room. The number of firms planning to invest in plant and machinery increased again in the final quarter of 2013.

The number of firms expecting to increase the levels of investment in plant and machinery increased in both the service sector and the manufacturing sector. The balance of service sector firms planning to invest increased to 14 up from 10 last quarter and an average 20 pre-recession. In the manufacturing sector the balance of firms planning to invest increased to 19, up from 15 and an average 20 pre-2008.

Once again, the number of firms expecting to increase the levels of investment in workforce training also increased with a particular marked increase in training plans in the service sector.

So what are we worried about?

Pay, interest rates and exchange rates appeared to be of concern in the service sector. Interest rates were also a concern in the manufacturing sector. Pay settlements are beginning to feature as a policy problem. We expect this to continue as the annual pay rounds near. According to the latest ONS data, earnings in the three months to October were less than 1% for the economy as a whole. Private sector earnings increased by almost 1.5%.

With inflation at 2.1%, this would still mean negative real earnings growth for many households but the gap is narrowing. We still think the pay round will become much tougher for businesses, against a backdrop of increasing order books and certain labour constraints. Pay and settlements will become once again a policy issue for the MPC by the end of 2014.

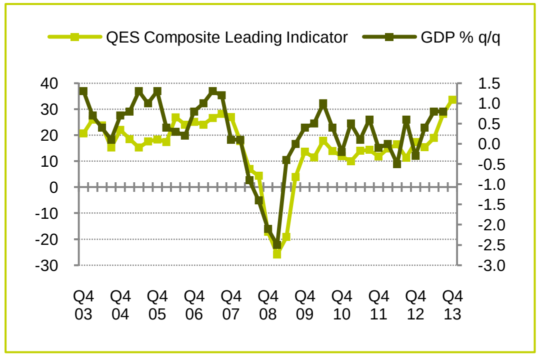
Interest Rates and Monetary Policy

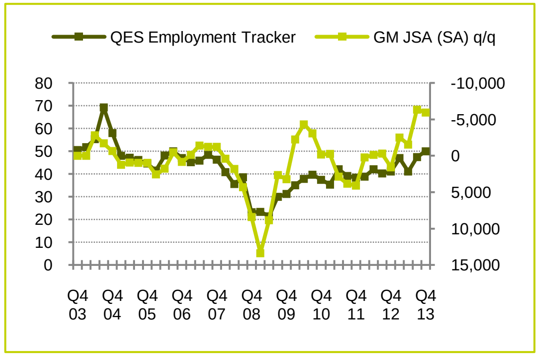
So what of concerns about interest rates? Base rate fears edged higher in both the manufacturing and service sectors. Forward guidance and labour trends now suggests, UK base rates will remain on hold until the middle of 2015. In the US, the Fed announced the beginning of tapering in January next year. Expectations are for US rates to have hit 0.75% by the end of 2015 and we think the UK will be in line with Uncle Sam at that stage in the interest rate cycle.

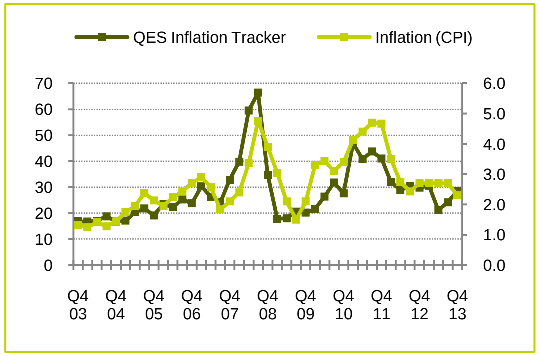
Summary

In summary the GM Chamber of Commerce QES for Q4 suggests the outlook for the UK economy remains robust with growth in output and jobs towards the end of the year and into 2014. Growth up, unemployment down, inflation down, borrowing down, we even expect strong growth in investment next year. Only the trade figures will continue to disappoint as the UK grows faster than major European trading partners and rebalancing remains elusive.

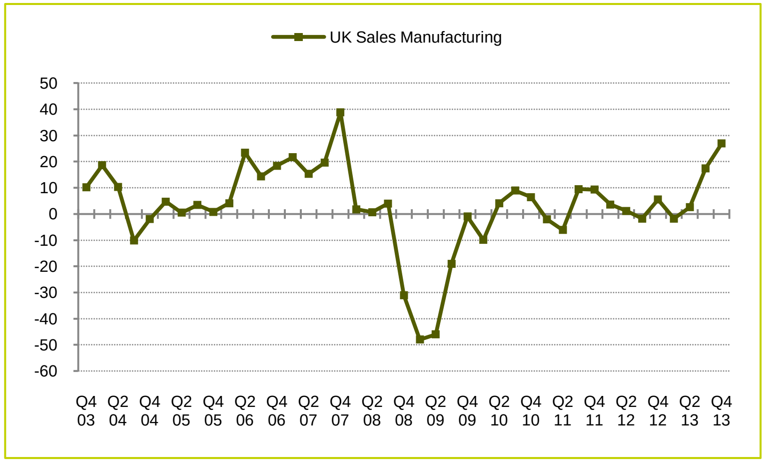
Enjoy the recovery. It has been a long time coming but **The QES Composite Leading Indicator ®** suggests it is here and will be sustained for some time yet.



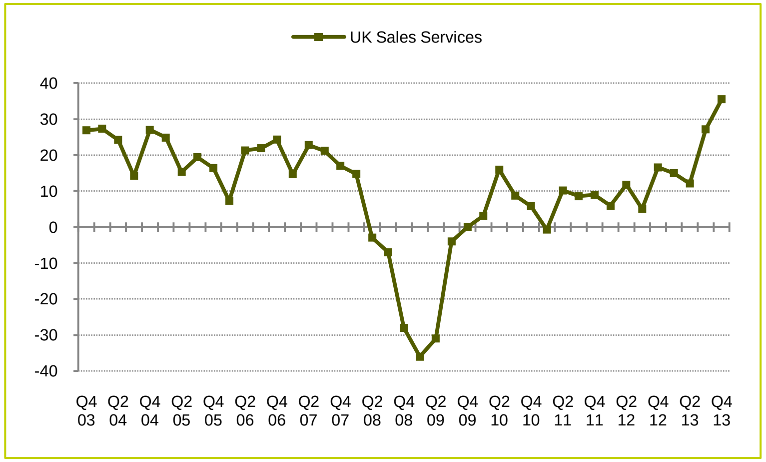




DOMESTIC DEMAND *Last quarter's strong recovery …*

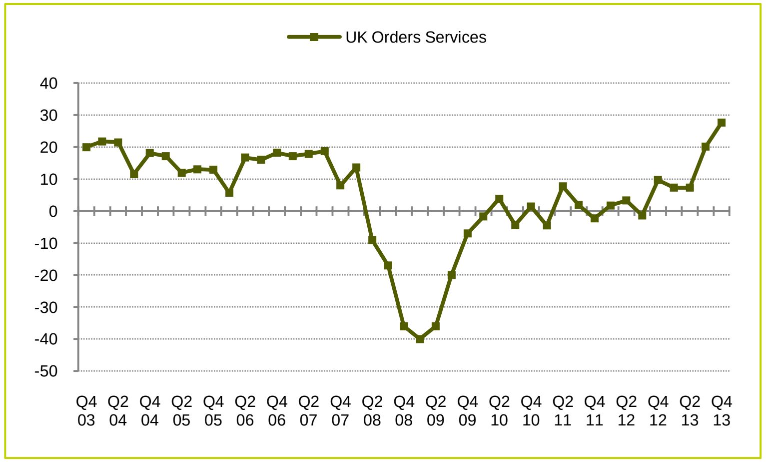


Last month's solid growth in the manufacturing sector has, as expected, strengthened further in the last quarter of 2013 and is therefore again at a post-recession high. In output terms, the sector is still somewhat below its pre-crisis peak though we expect the position to improve through 2014.



The service sector domestic sales balance now stands at a record high, exceeding pre-recession average levels. With this sector's share of the Greater Manchester economy at 80%, the success of this sector is vital to underpin the future growth of the region.

After nearly two years of shrinking order books, the manufacturing sector's future plans improved significantly last quarter and have seen a further rise this quarter. Future output for this sector looks more secure.



Increasing in line with current deliveries, the service sector's orders for the coming quarter have also improved and stand a record high. The continued economic recovery forecast for 2014 and beyond will be driven by this sector.

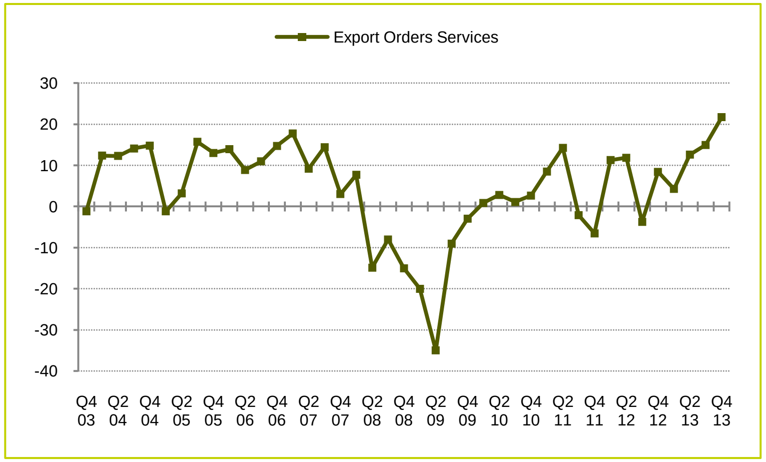
… more firmly embedded by year-end

INTERNATIONAL DEMAND *Strong growth in exports …*

The fourth consecutive quarter of growth in manufacturing sector exports this quarter pushes this index to an all-time high in Q4 2013.

A strong rebound from last quarter's position lifts the service sector exports measure to a near-record level, up 17 points on Q3 2013.

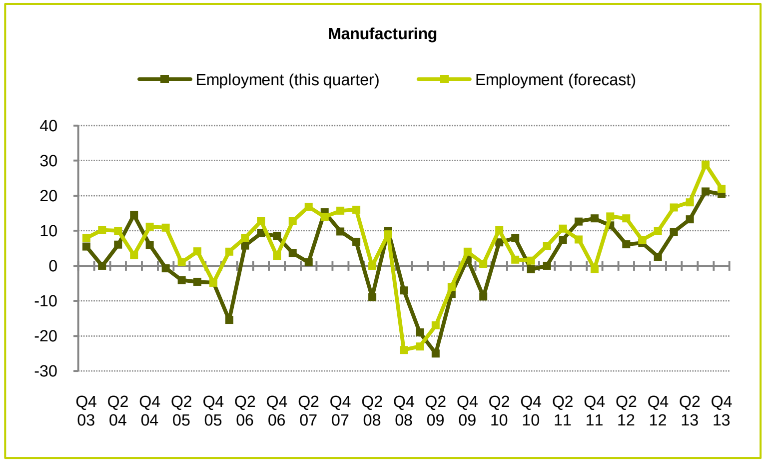
Future orders for early 2014 are strong with the Q1 order book index also at an all-time high.



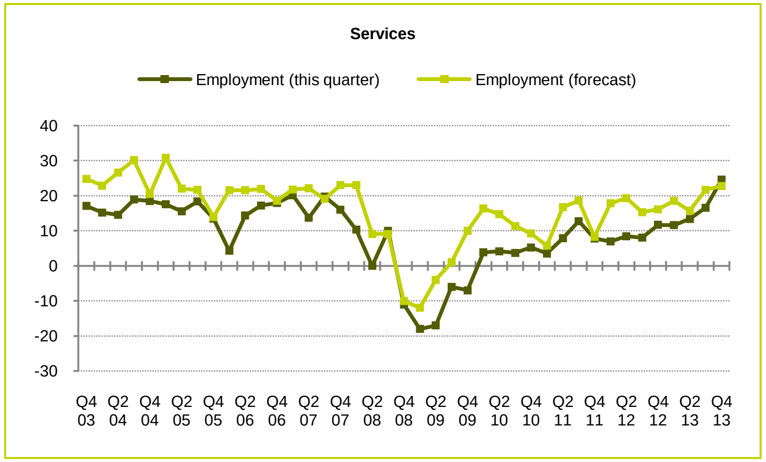
Another record broken with the service sector's international order book at a new high.

… suggests global trade improving

LABOUR MARKET *Growth in recruitment continues …*

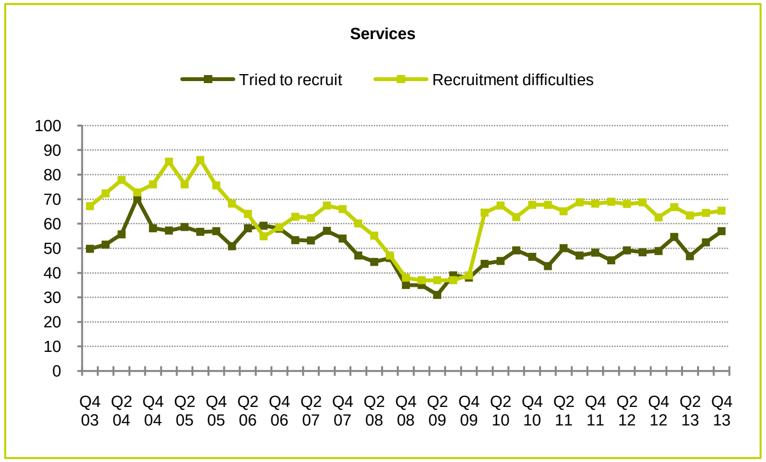


The rate of growth of employment in manufacturing remains broadly level this quarter, just off the record high of Q3. Expectations for recruitment next quarter remain strong, though lower than the previous quarter.



Service sector employment growth this quarter exceeded the sector's own expectations from Q3 and now stands at a record high. The sector expects this rate of growth to continue into the first quarter of 2014.

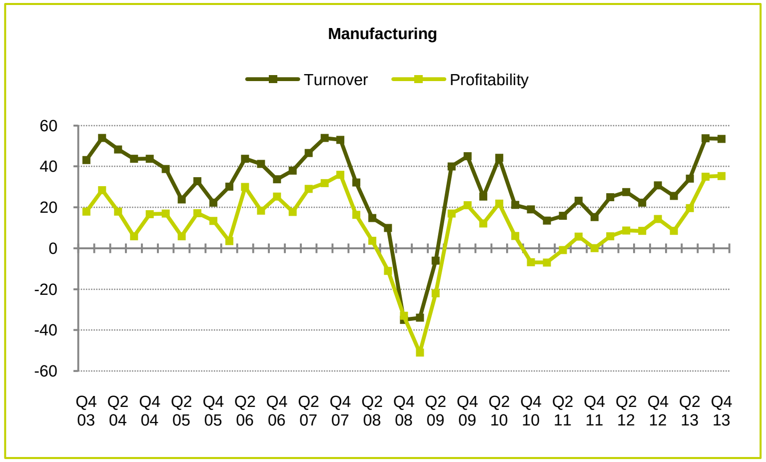
Over half of manufacturing firms are recruiting but more than seven in ten are finding it difficult to fill positions with the right people, an elevated level that we've seen since just after the recession.



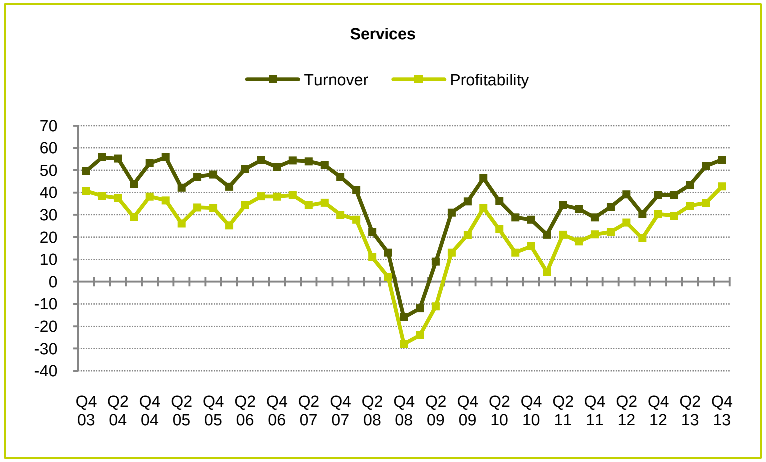
The second half of 2013 has seen the percentage of service sector companies recruiting continue to increase and, whilst difficulties remain, they have eased marginally from their recent high across 2011-12.

… placing unemployment on downward path

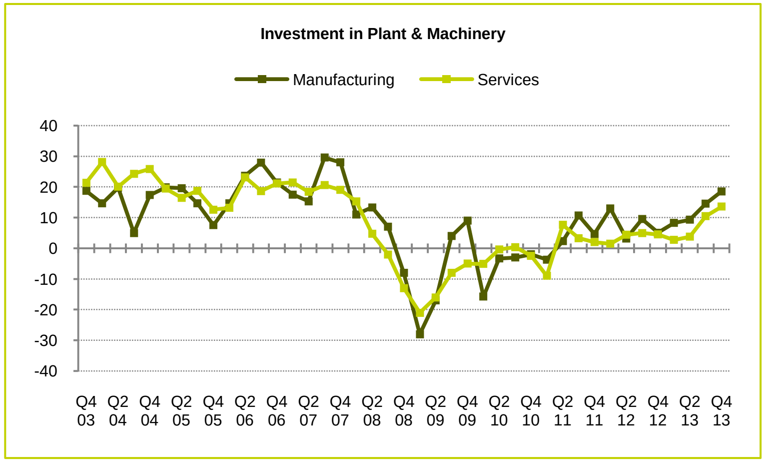
CONFIDENCE & INVESTMENT *Confidence is strong ...*



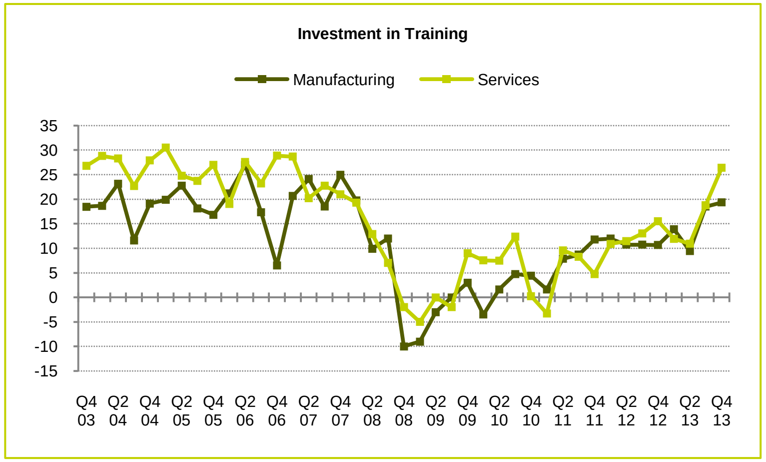
Confidence in the manufacturing sector leapt in Q3 and has held level this quarter. Improved conditions for the construction sector have been the strong driver here.



Service sector confidence has risen further and is now at its highest for nearly nine years.



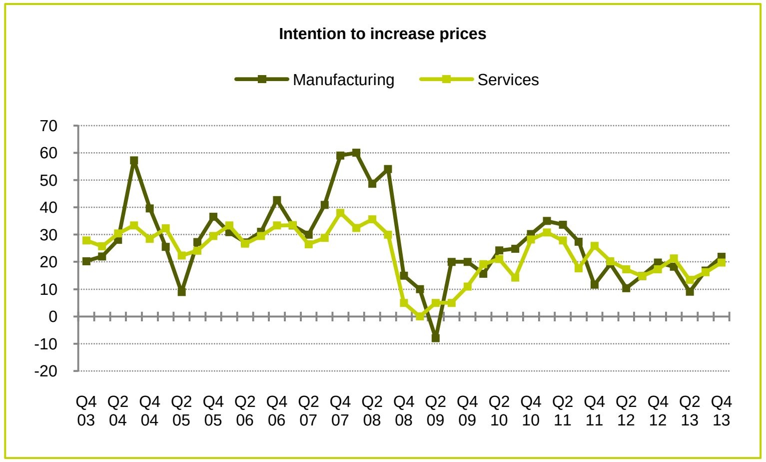
As expected, the increase in confidence across 2013 is steadily feeding through into increased capital investment. With the stability of increased demand this is likely to continue and improve throughout 2014.



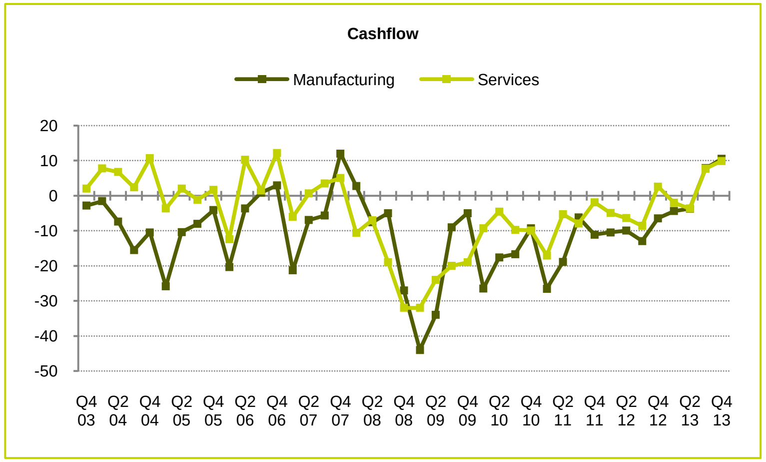
A larger share of companies are now increasing their spend on staff training with a sharp increase from the service sector. Difficulties in obtaining staff alongside increased demand are likely to be driving the increase.

... which in turn drives investment higher

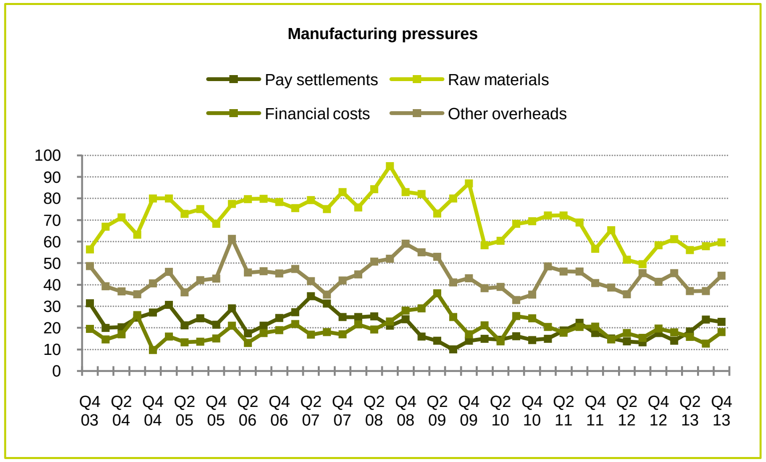
COSTS & PRICES *Inflationary pressures remain subdued …*



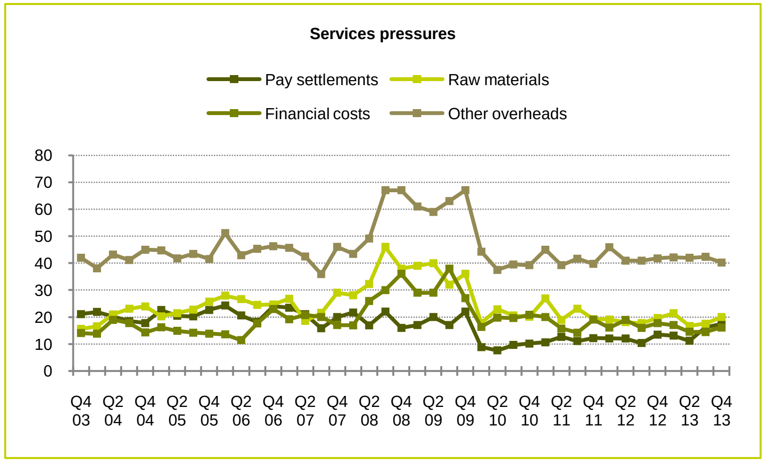
Broad inflationary pressures remain benign and, whilst both sectors show a rise in intentions, this will be as much about rebuilding margins as a demand-led inflationary rise.



This quarter is only the second since the recession that both sectors are recording a net positive balance for cashflow.



Cost pressures for the manufacturing sector have been broadly stable over the past year, with little signs of concern mounting in any area.



Service sector cost pressures, too, are steady, though the measure for pay settlements has increase for the second quarter, supporting the notion that the sector is recruiting heavily and finding it difficult to secure personnel.

… improving cash positions. Pay rises soon?

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BACKGROUND & METHODOLOGY

Greater Manchester Chamber of Commerce is the largest Chamber of Commerce in the United Kingdom, providing business support services to members who collectively employ 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. Serving 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 11 November to Wednesday 4 December inclusive. A total of 623 businesses, together employing 76,161 people responded to the survey.

This report has been researched, written and compiled by Dr John Ashcroft, Chief Economist, and Christian Spence, Head of Business Intelligence. 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. The broad manufacturing definition includes the agriculture, energy and water, construction and manufacturing sectors.

Copies of this and previous reports can be downloaded from the Chamber's website at www.gmchamber.co.uk/qes with wider economic analysis from GM Chamber at www.gmchambereconomics.com.

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