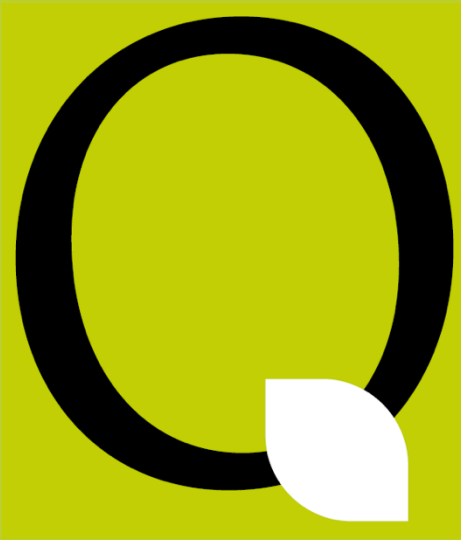


# Greater Manchester Quarterly Economic Survey

Q1 2014



Greater Manchester  
Chamber of Commerce  
Connect. Communicate. Create.

# OVERVIEW

Dr John Ashcroft *Chief Economist*

**Greater Manchester Chamber of Commerce - where economics means business. The “Manchester Index ®” suggests growth up 3% in the first quarter of 2014.**

**Results from the Greater Manchester Chamber of Commerce Quarterly Economic Survey confirm strong growth in Greater Manchester and the UK continued into the first quarter of 2014.**

**The GM QES Composite Leading Indicator ®** surged still higher in the latest survey suggesting strong growth in the first quarter of 2014 of 3%. The index measured 35.1 in the first quarter from 33.6 in the final quarter of 2013, higher than the peak levels recorded in 2007.

In the February Inflation Report, the Bank of England forecast strong growth of 3.5% in the first quarter of the year. The latest information from the NIESR GDP tracker suggests growth in January and February a little more subdued averaging 2.9% over the first two months. Given the latest reading from the **Manchester Index ®**, we estimate growth in the first quarter of the year to be around 3% in Greater Manchester and the UK.

For the year as a whole, we are upgrading our forecast for GDP growth this year to 2.9% moderating slightly to 2.7% in 2015.

The outlook for home orders and deliveries was once again much higher in the quarter in both the service sector and in the manufacturing sector. Export deliveries and order books weakened slightly in the manufacturing sector but order books improved in the service sector.

## **Good news on jobs - the QES employment tracker ® higher**

The good news on employment prospects continued with recruitment intentions over the next three months increasing significantly. Confidence in turnover and profits surged higher in both the manufacturing and services sectors supporting the payroll expansion plans.

The QES employment tracker ® moved higher as a result with the tracker index rising to 51.2 from 50.0 in the prior quarter, the highest since records began.

## **Good news on inflation - the QES inflation tracker ® moved lower**

The QES inflation tracker ® moved higher in the quarter: the tracker index increased from 20.2 to 24.1. This would appear to be at odds with the latest inflation trends. The ONS data for February confirmed inflation CPI basis fell to 1.7% as manufacturing output prices were less than 1%. Manufacturing costs fell in the month as world commodity prices, especially oil and metals, remain subdued. For the moment, businesses appear unconcerned by both the prospects for pay settlements and inflation.

## **So what of capacity and investment?**

Capacity utilisation is up in line with the levels recorded in the pre-recession phase. As a result, investment plans, particularly in the manufacturing sector, increased significantly almost to the highs of 2007.

## **So what are we worried about?**

So what are we worried about? Remarkably little would be the overall assessment. Manufacturers are slightly more concerned about the prospects for interest rates and business rates, service sector businesses less so.

Exchange rates appear to be of little concern to businesses despite the rise in Sterling and the slight down turn in export prospects.

So what of interest rates? In the USA, Federal Reserve Chair Janet Yellen has indicated tapering will be extinguished by October and rate rises in the USA may follow within six months, possibly by April 2015.

In the UK, the Bank of England MPC has given clear and forward guidance. Base rates are unlikely to increase until the first half of 2015 and thereafter increasing moderately, rising to around 2% by 2017.

The jobs market continues to improve in the UK. If current rates of growth continue, the labour market may tighten significantly within the next twelve months, placing greater pressure on labour rates and payroll. For the moment, businesses are confident about turnover, profits, ready to commit to jobs and capacity expansion.

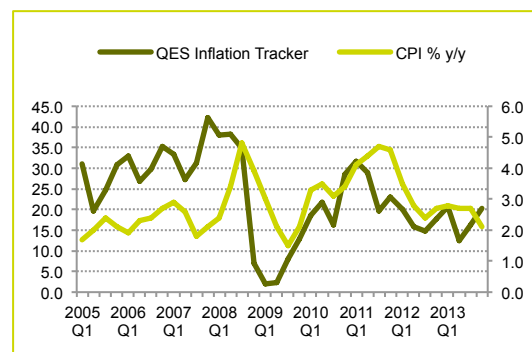
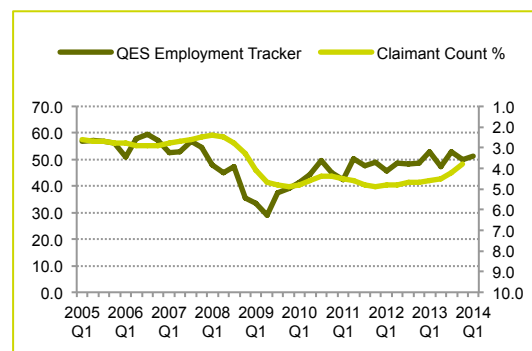
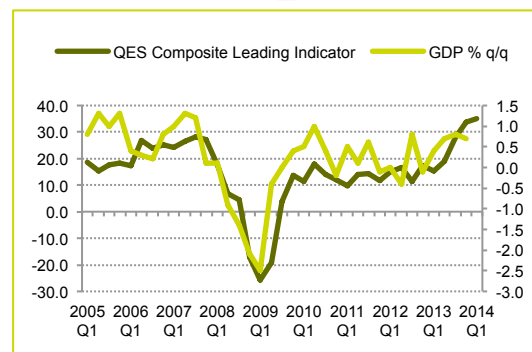
## **Summary**

In summary the GM Chamber of Commerce QES for the first quarter suggests the outlook for the UK economy remains robust with growth in output and jobs continuing into the first quarter and for the rest of the year. Despite the apparent increase in capacity utilisation, we do not envisage limitations to growth to materialise in the foreseeable future. We continue to be unimpressed by concerns about capacity, output gaps and lost productivity.

Given the strength of the **Manchester Index ®** we are upgrading our forecast for GDP growth this year to 2.9% moderating slightly to 2.7% in 2015.

Growth up, unemployment down, inflation down, borrowing down: we expect the strong growth in investment to materialise later in the year. Only the trade figures will continue to disappoint as the UK grows faster than major European trading partners and rebalancing remains elusive.

As we said, in the last review, continue to enjoy the recovery. It has been a long time coming. The **Manchester Index ®** alias **The QES Composite Leading Indicator ®** suggests it is here and will be sustained for some time yet.

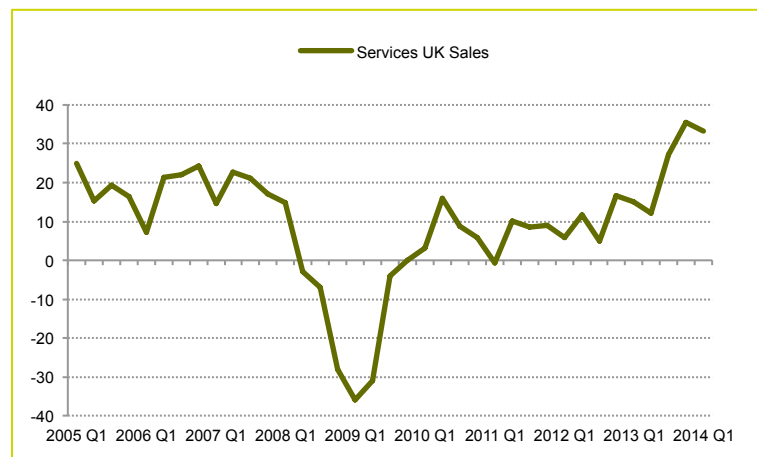


# DOMESTIC DEMAND

*The recovery continues apace ...*



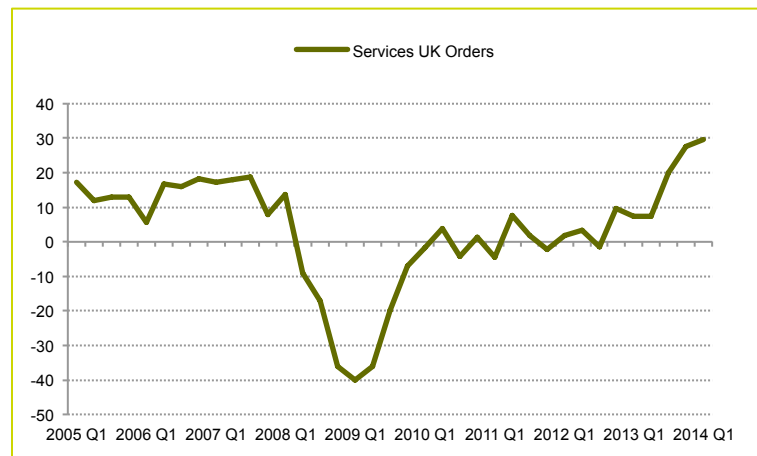
A further improvement in manufacturing output to UK suppliers lifts the balance to another post-recession high. We expect a solid performance from this sector as the year continues.



Easing back slightly from last quarter's all-time high, the service sector continues to perform strongly with little cause for concern.



The second half of 2013 was a game-changer for manufacturing. Order books have strengthened still further in the first quarter of 2014 suggesting steady growth for the coming quarter.



Another record high for the service sector order measure, indicating continued and increased growth for the second quarter.

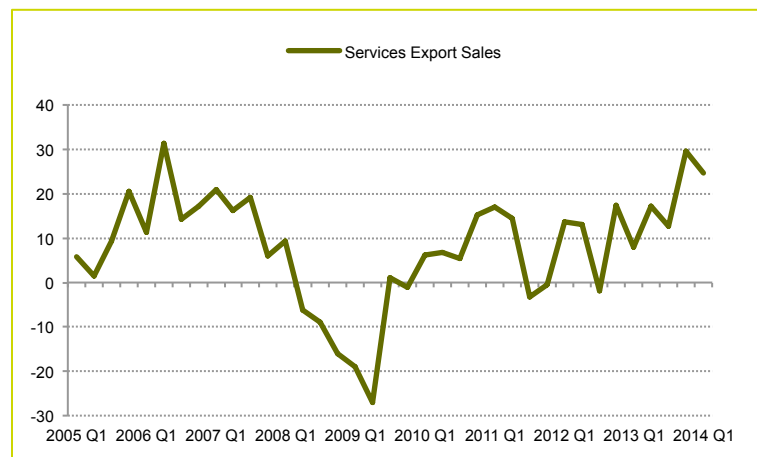
*... with little sign of improvement slowing down*

# INTERNATIONAL DEMAND

*Export growth eases ...*



UK exports function directly as a multiple of global trade. World trade levels are recovering but remain volatile, though we don't see the small weakening this quarter as a concern. As the UK is growing quicker than its trade partners it will be difficult to significantly increase exports in the current climate.



The service sector is a strong exporter with a significant positive trade balance. The UK's relative performance compared to its key markets may act as a barrier to further trade growth though the balance remains strong.



Slightly off last quarter's record high, the order books for manufacturers overseas remain positive, indicating positive numbers for next quarter's sales balance.



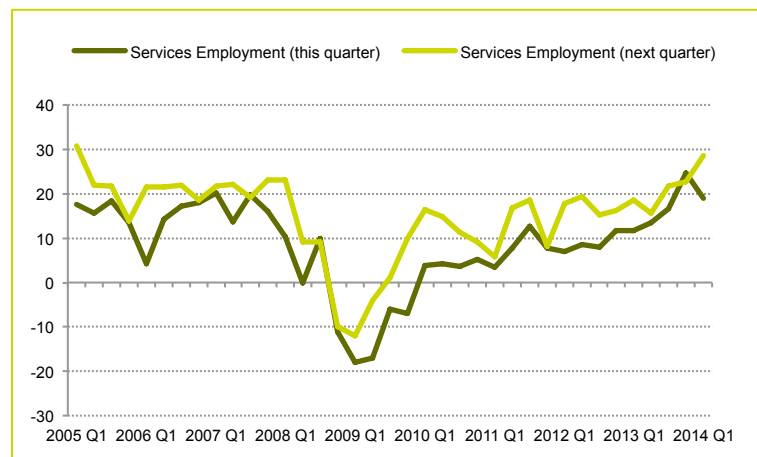
A further strengthening to another all-time high, exports from the UK service sector look set to expand further as the year progresses.

**... but trends are positive with order books strong**

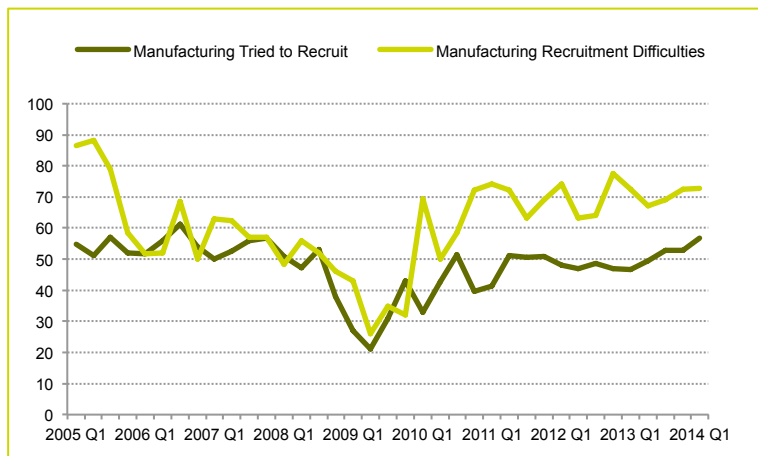
# LABOUR MARKET *Overall recruitment remains strong ...*



Strong increases in employment in manufacturing correlate well with the rapid turnaround in demand for this sector over the past nine months. Pressures in the labour market are bound to tighten further in light of this data.



Service sector employment failed to achieve its own estimations for this quarter but the indication of more hiring into Q2 suggests the sector will recruit further to meet growing demand.



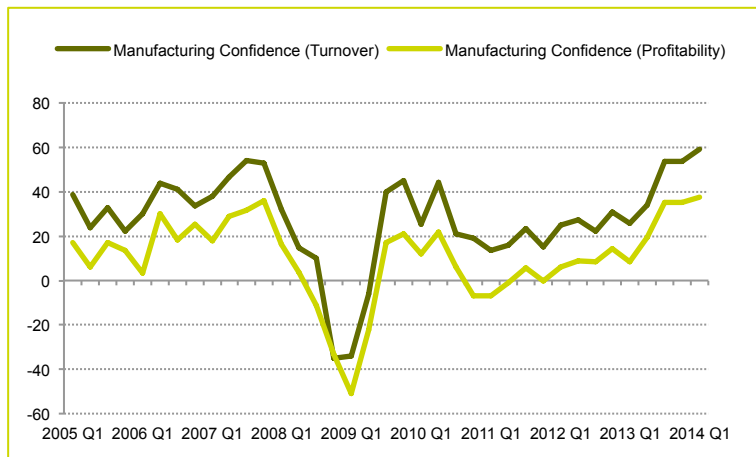
A further increase in the percentage of manufacturing companies recruiting was expected with current growth and the difficulties in filling those vacancies is also increasing. This is likely to lead to further wage price pressures in the coming months.



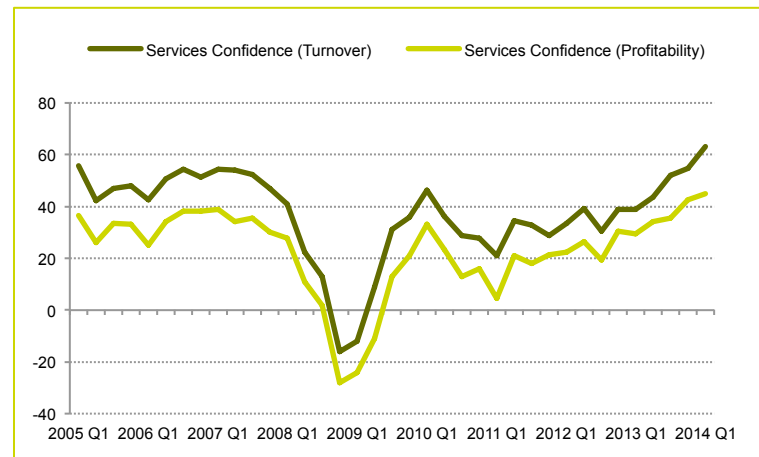
Over half of service sector businesses continued to recruit this quarter with difficulties in hiring nudging up slightly. With increased demand, we expect to see unemployment continue to fall strongly over the year.

**... with indications of quicker rates of hiring to come**

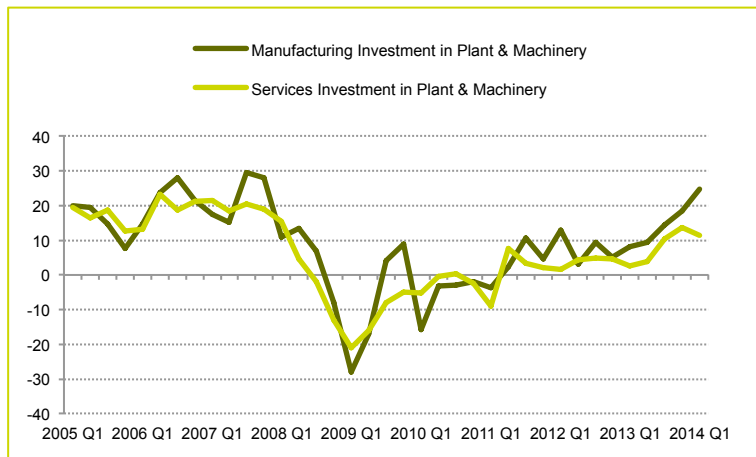
# CONFIDENCE & INVESTMENT *Higher confidence ...*



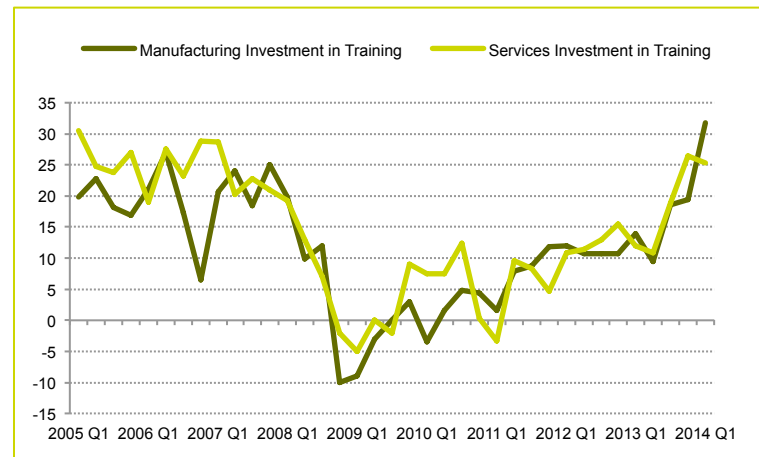
Confidence continues to increase with high levels of expectations for profitability and turnover for the coming twelve months.



Service sector confidence is also improving further with strong prospects for increased sales over the next year.



As we always said, capital investment in productive capacity would not return until after a number of quarters of improved sales prospects. With growth returning and the future looking bright, that investment is now happening apace.

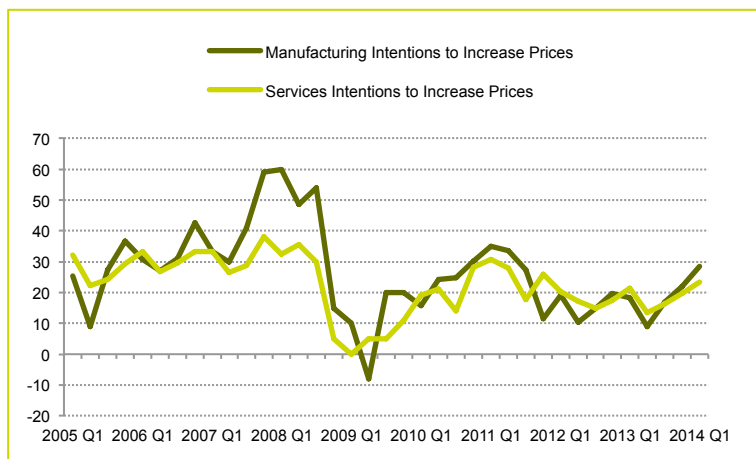


The pressure in the labour market, particularly for skilled labour in the manufacturing sector, is driving investment in human capital and skills much higher.

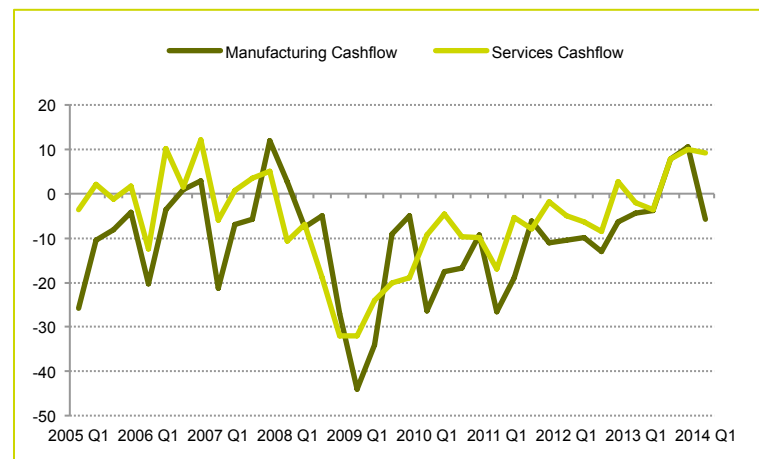


*... sees continued improvements in investment levels*

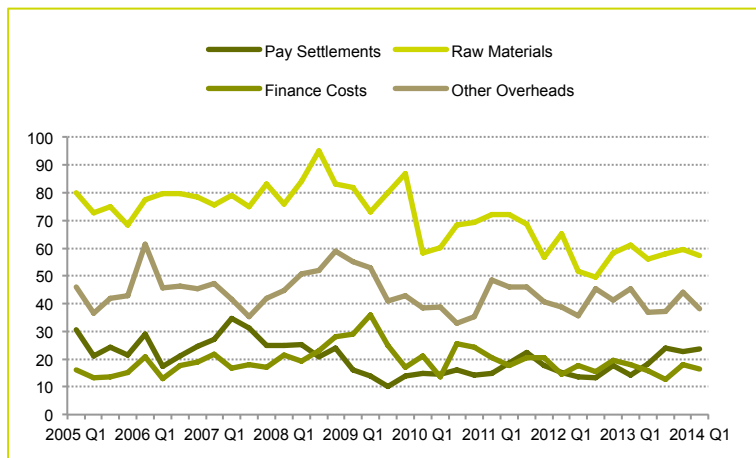
# COSTS & PRICES *Inflationary currently remains weak ...*



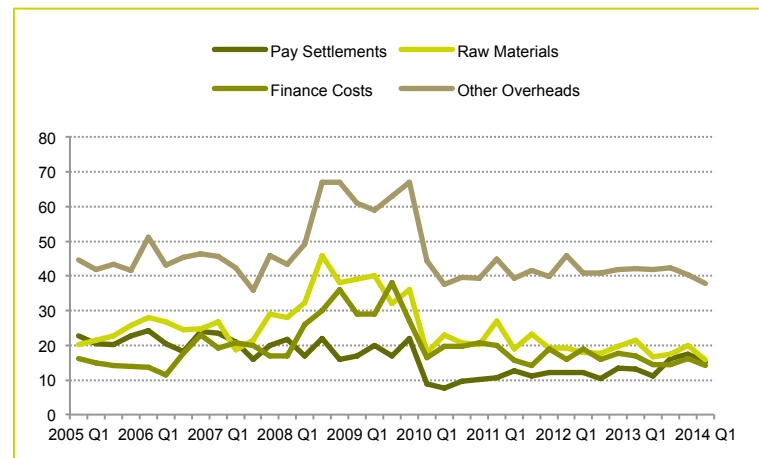
Inflationary pressures remain benign with commodities, particularly oil and fuel, likely to remain weak over the coming months. Increased intentions here may be sign of companies seeking to rebuild margins further.



The cashflow balance for the service sector has held up this quarter, but a sharp downturn for manufacturing may be due to capital being used to improve capacity and rebuild stocks.



Cost pressures remain steady for manufacturing with raw materials holding steady. We expect labour market pressures to start to feed through into pay settlements over the coming quarter.



Pressures look weak from the service sector this quarter with all four indices easing back. The outlook remains good for the near term though we caution that pay rises are more than likely to strengthen this year.

*... though price increases may be coming*

# 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 one of the single largest contributors 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 24 February to Wednesday 19 March 2014 inclusive. A total of 511 businesses, together employing 128,364 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](mailto: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](http://www.gmchamber.co.uk/qes) with wider economic analysis from GM Chamber at [www.gmchambereconomics.com](http://www.gmchambereconomics.com).

