Greater Manchester

Quarterly Economic Survey

Q4 2017

Greater Manchester Chamber of Commerce

Connect. Communicate. Create.

ECONOMIC OVERVIEW Christian Spence *Head of Research & Policy*

Greater Manchester Chamber of Commerce's **Manchester Index™** eased slightly in the final quarter of 2017, though it confirms that growth in Greater Manchester in 2017 is likely to be higher than in 2016, though remaining slower than that seen during the post-recession recovery of 2014 and 2015. However, the latest data suggests that the rate of employment and recruitment growth may slow during 2018.

The latest data from our influential Quarterly Economic Survey (QES) shows a small softening in the performance of Greater Manchester businesses at the end of 2017. Whilst this is caused by slightly lower growth in the manufacturing sector than expected, as well as lower profitability expectations and fewer firms operating at capacity, most measures in the survey are relatively stable. This has led to the **Manchester Index™** falling in Q4 2017 from 30.3 in the previous quarter to 27.7.

Domestic Demand

The manufacturing sector has reported a small easing in its sales in the domestic market though remains healthy and around levels not seen since 2014. Both construction and services hold steady on the previous quarter, though the growth rates for both these sectors are softer than heights reached after the economic recovery.

Looking into the first quarter of 2018, order books are stable for all sectors, and at levels similar to the end of the 2017. This continues the story of manufacturing improving over the past year or so against construction and services slowing, though still expanding. However, the growth from manufacturing, making up only around 10% of the GM economy, cannot outweigh the drag that will come from slower growth in the other 90%.

International Trade

The depreciation of Sterling after the referendum, despite a more recent strengthening, continues to support an improved export position for all sectors, though manufacturing has received the strongest boost. However, companies report that, whilst the currency movement has supported sales overseas, it is not all positive. The weaker pound has had a large impact on the prices of raw materials and components imported from overseas, and this continues to create challenges for many businesses.

Order books for early 2018 remain stable except for the construction sector which reports that volumes may be contracting for the first time in 18 months. We are clear that there is no evidence that a UK devaluation has, or will, provide a positive impact to UK trade overall. UK exports have been supported by this and strong global growth, but our imports have kept pace. The UK's trade and current account deficits remain large, meaning the negative impacts of a weaker currency outweigh the positives.

Labour Market

Overall the labour market continues to perform well with employment levels growing, albeit with a marked slowdown in the rate of growth in the construction sector. Expectations for hiring in the first three months of 2018 have moved down, again with construction more marked than other sectors, but levels remain around their recent trends.

With unemployment remaining low (4.3% nationally in the latest data, 5.5% in GM for the year to June) and with net migration falling (though still large by historic levels), challenges in recruiting remain large. Though levels of attempted recruitment are lower than last quarter, they remain strong but eight out of ten companies reported difficulties in filling vacancies: skilled and semi-skilled manual and managerial/professional vacancies are the hardest to successfully fill.

Inflation & Prices

The UK's CPI inflation rate ticked up to 3.1% in November, catching most analysts by surprise. The expectation is that this is now the peak, and the rate will fall over the coming year. GM companies report an increase in their expectations of their own prices over the coming year, however, as import prices continue to increase ahead of overall inflation. Pay expectations have risen slightly, though remain low compared to the unemployment rate.

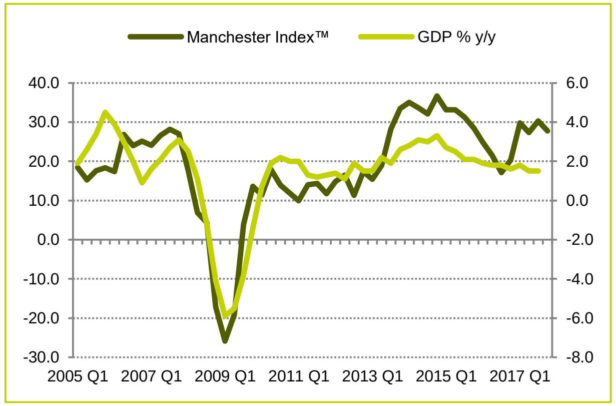
Economic Forecasts

With the first round of negotiations between the UK and the EU27 now completed, talks now move to transition arrangements and future relationships. It is most likely that the transition will last for around two years and be identical to the current position, albeit without the UK having representation at the European Council or in the European Parliament. This reduces some of the short-term concerns, but does, at this stage, little more than kick a can two years further down the road.

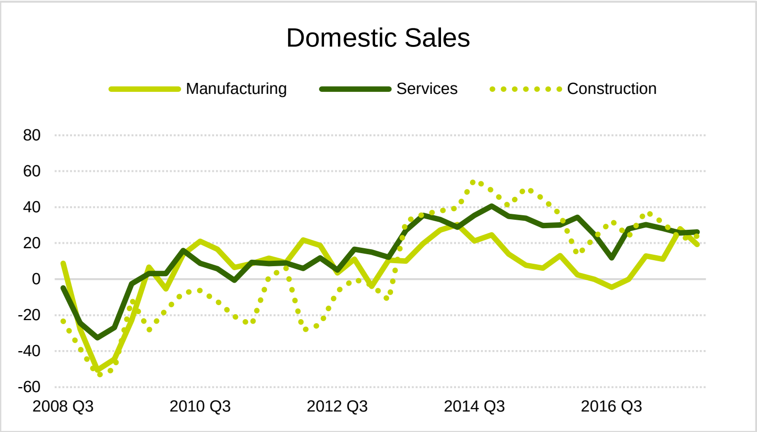
Our judgements on future growth rates continue to be most heavily influenced by expectations of future business investment levels and the extent to which inflation will continue to outpace pay settlements, reducing household incomes and softening consumer demand.

The update to the **Manchester Index™** suggests growth in Greater Manchester in this quarter of around 3.5% per cent per year, though with rates of growth of the both the service and construction sectors slowing, we believe that risks remain weighted to the downside for the coming years. The outturn for growth in Greater Manchester in 2017 is likely to be around 3%-3.25%, around twice the rate of growth for the UK overall.

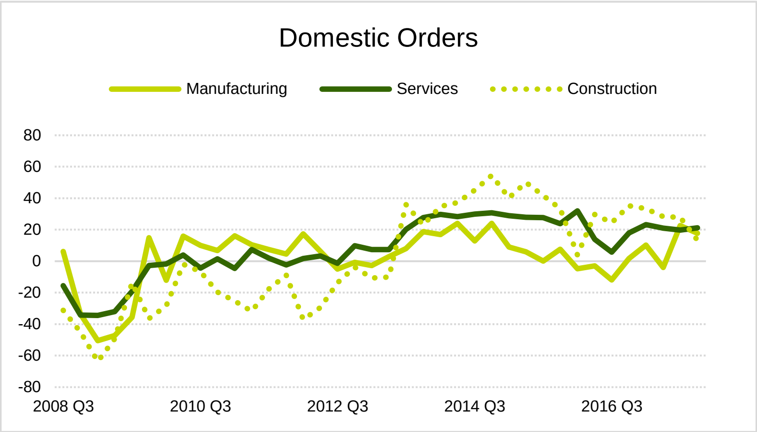
The latest data from the Greater Manchester Chamber of Commerce Quarterly Economic Survey and the **Manchester Index™** leads us to revise our forecast for UK growth in 2017 down from 1.6% to 1.5% and to downgrade our expectations for 2018 from 1.2% to 1.1%, increasing to 1.3% in 2019. In Greater Manchester, our forecast for growth here is unchanged for 2017 at 3%-3.25%, slowing to 2.5% in 2018.



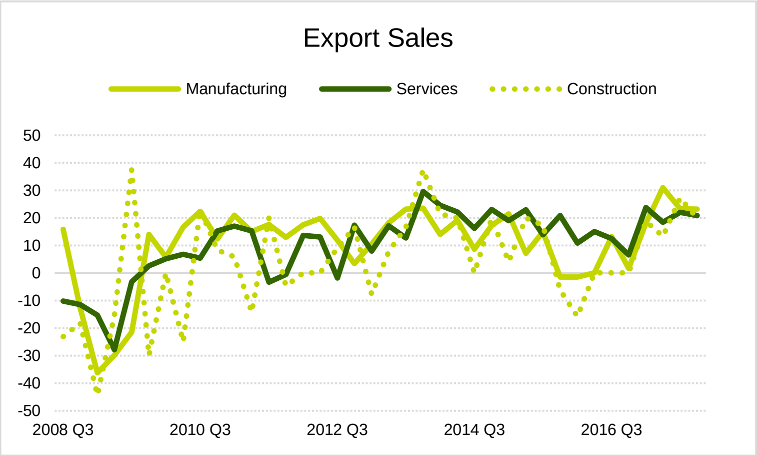
DEMAND *All sectors show steady growth …*



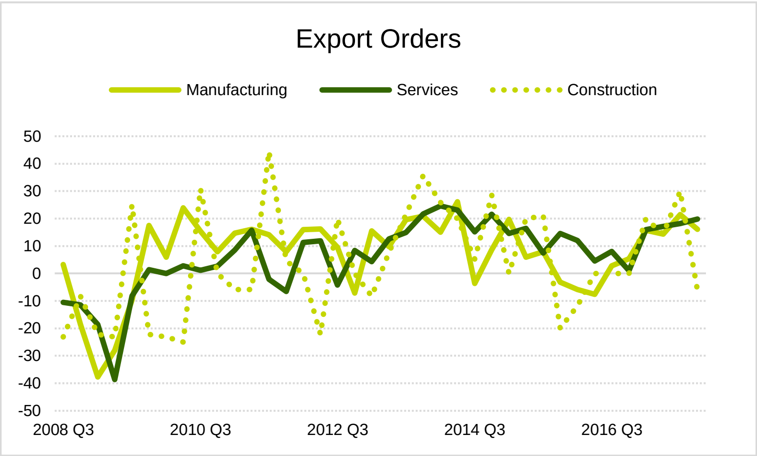
GM companies selling into the UK market see levels holding broadly steady on last quarter, with manufacturing seeing stronger sales compared to the recent past, and construction and services demand slowing.



Order books for the start of 2018 look healthy, with manufacturing again having made improvements over the past year and both services and construction below their recent highs.



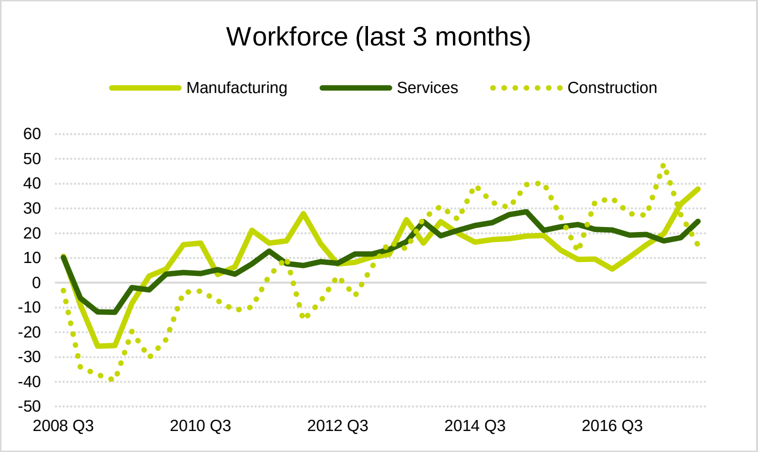
Export sales continue to be supported by a weak Sterling and stronger global, and particularly Eurozone, demand.



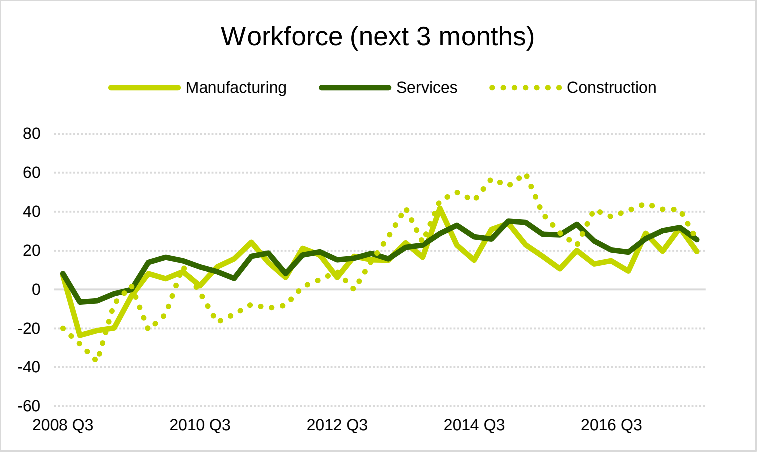
Overseas sales for the first three months of 2018 look robust for manufacturing and services, though construction reports its first expected decrease in orders in 18 months.

… with manufacturing more positive

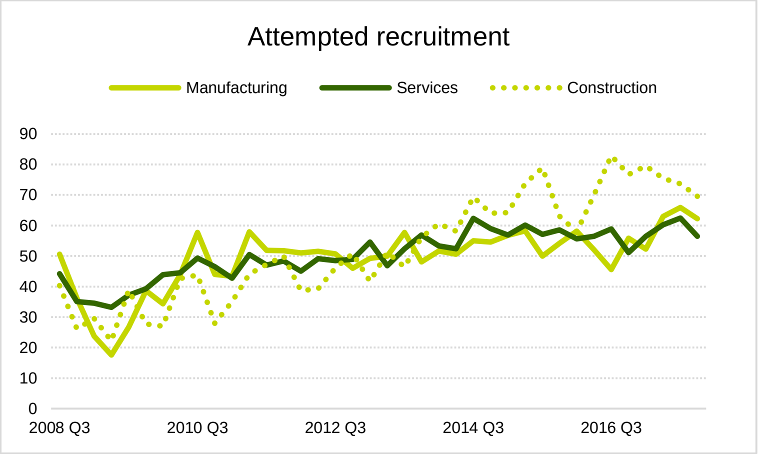
LABOUR MARKET *Employment growth continues, but may soften …*



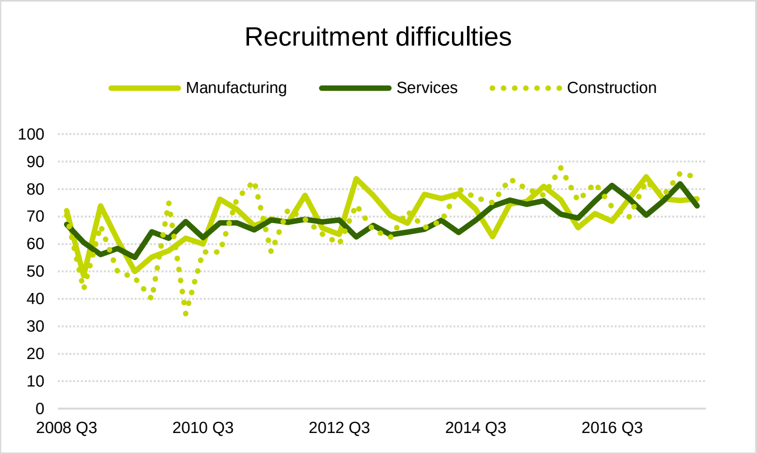
Employment levels continue to expand, with manufacturing the most rapid, and construction showing a slow down in the growth of new employees.



Expectations for future employment growth continue into 2018, though the rate is slower for all sectors.



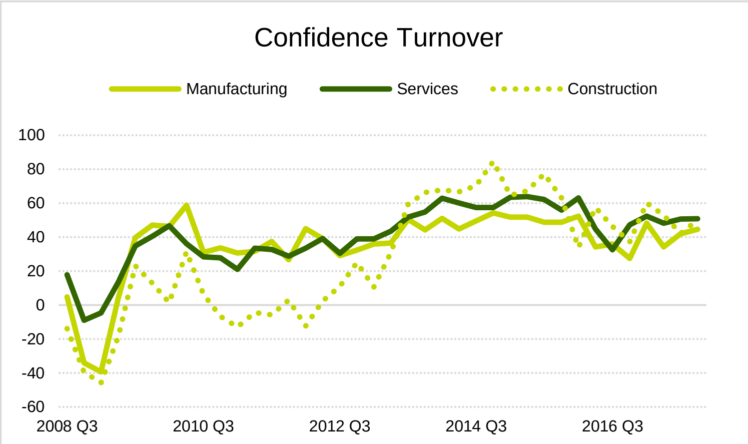
Recruitment levels remain high compared with the post-recession trend …



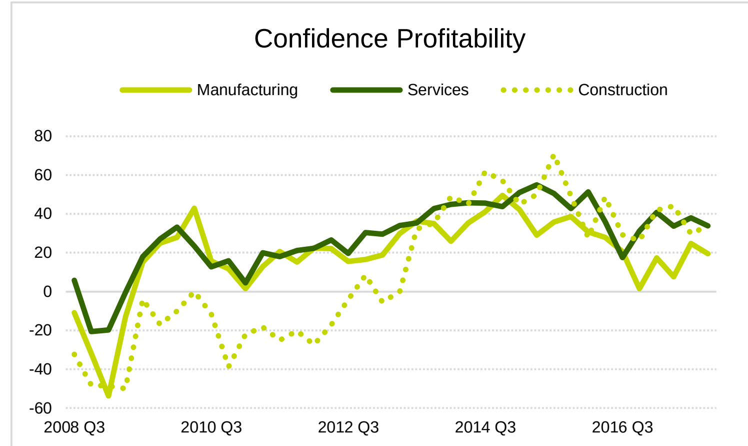
… but around 80% of companies continue to report difficulties in filling jobs.

… and recruitment difficulties remain high

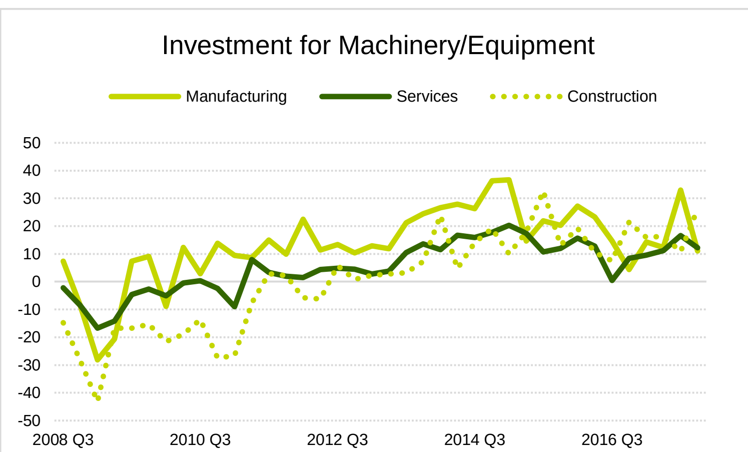
CONFIDENCE & INVESTMENT *Confidence remains level …*



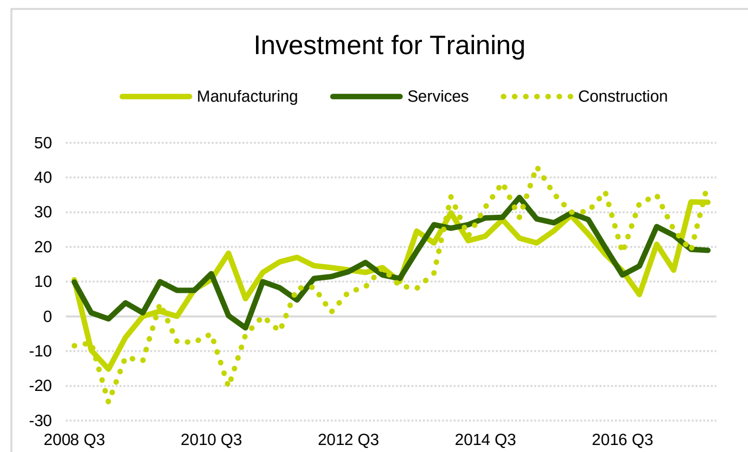
Confidence in future sales levels remains around current trend levels in all sectors.



Profitability expectations also remain healthy, though the manufacturing sector is finding currency moves more challenging.



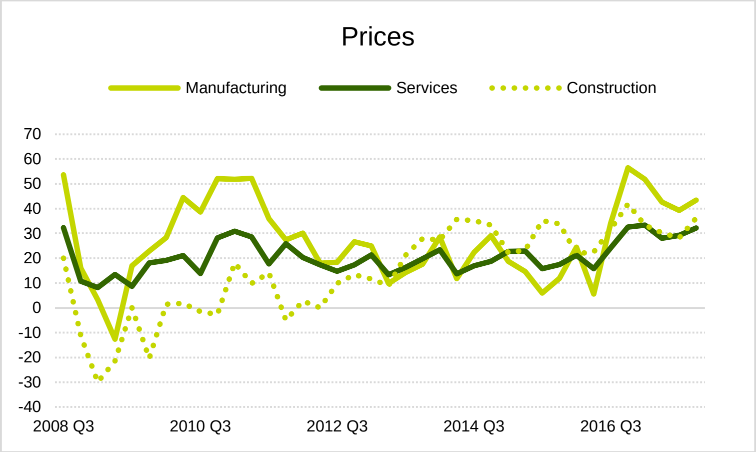
Overall, capital investment levels remain around their post-recession average across the three major sectors.



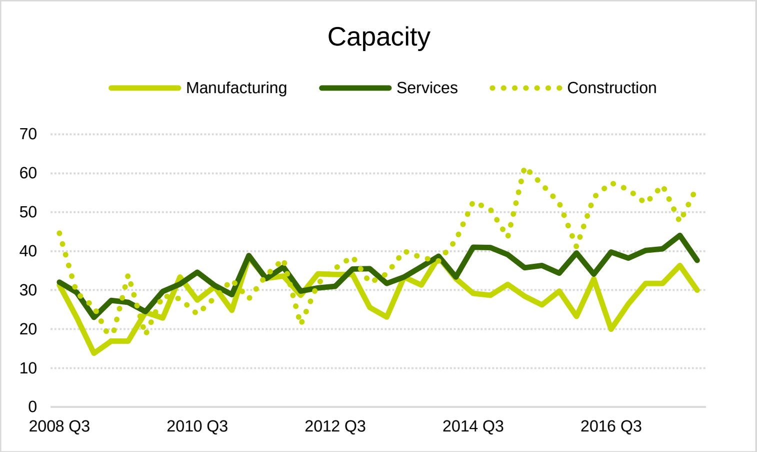
The tight labour market, low unemployment, and recruitment difficulties are causing services and construction companies to invest more in their staff.

… and investment growth is positive

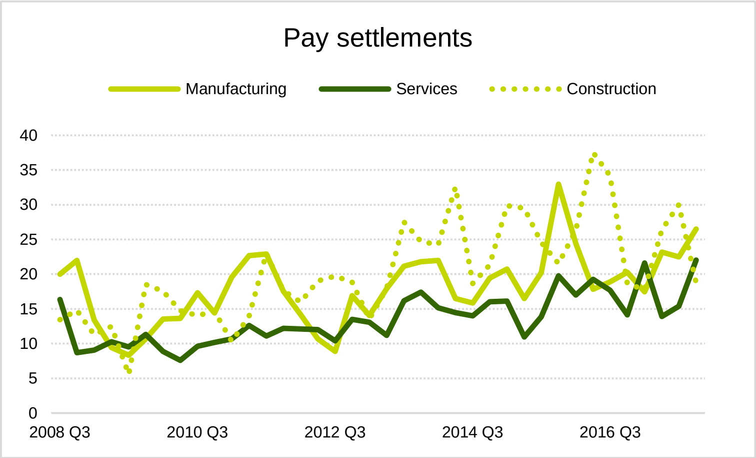
COSTS & PRICES *Inflationary signs remain visible…*



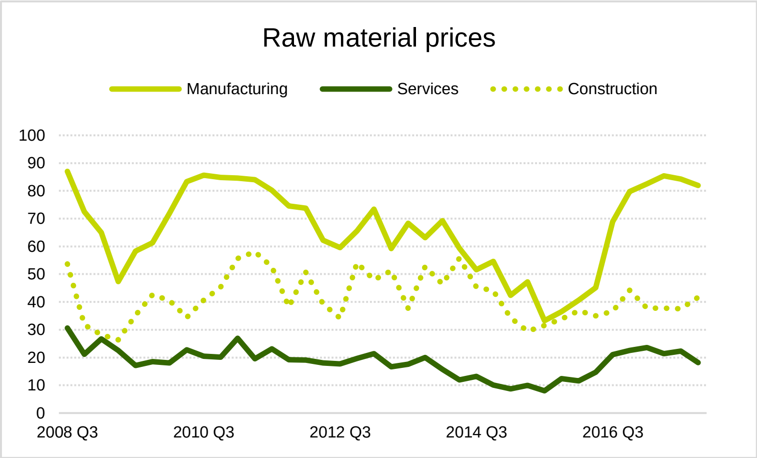
Inflation expectations remain elevated overall as import inflation keeps a pressure on businesses' costs.



The share of companies reporting themselves operating at full capacity is down slightly on the quarter, except for the construction industry.



Pay settlements remain low compared to both inflation and the unemployment rate, though the level is increasing in manufacturing and services.



The worst of the imported inflation is now probably behind us, but it remains elevated and will mean that overall inflation falls back slowly.

… but the worst may be over, even if pay settlements start to rise

BACKGROUND & METHODOLOGY

Greater Manchester Chamber of Commerce is the largest Chamber of Commerce in the United Kingdom, providing business support services to over 4,800 members who collectively employ over 400,000 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. 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 6 November to Wednesday 29 November 2017 inclusive. A total of 368 businesses, together employing 32,912 people responded to the survey.

This report has been researched, written and compiled by Christian Spence, Head of Research & Policy. If you require any further information about the production or detail of this report, please contact Christian on (0161) 393 4334 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/chamber-research/quarterly-economic-survey with wider economic analysis from GM Chamber at www.gmchamber.co.uk/chamber-research.

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