Greater Manchester

Quarterly Economic Survey

Q3 2016

Greater Manchester Chamber of Commerce

Connect. Communicate. Create.

OVERVIEW Christian Spence *Head of Research & Policy*

The Manchester Index™ moved lower in the third quarter of 2016 as the services sector weakens and manufacturing moves into negative territory. The index is supported by a healthy construction sector, and there is evidence of an improved exports position.

The latest data from the influential Greater Manchester Chamber of Commerce Quarterly Economic Survey (QES) shows continued but weaker growth in the third quarter of 2016. The Manchester Index™ eased back to 17.1 from 21.6 in the second quarter with manufacturing businesses reporting a contraction in growth for the first time since Q1 2013. The service sector reports a further slow down, but continues to expand, again leaving only the construction sector looking solidly confident in this quarter.

This slow down in the Manchester Index™ indicates that the Greater Manchester economy is now expanding at around two per cent, a similar pace to the UK overall. Whilst construction continues to show good growth and, to a lesser extent, services, overall Greater Manchester's growth has around halved since its peak in 2014 and 2015. This slowdown is happening across the UK.

British Chambers of Commerce has revised down its economic forecast in with growth for 2016 now expected at 1.8% (was 2.2%), 2017 is now expected at 1.0% (was 2.3%) and 1.8% in 2018 (was 2.4%). Since the EU Referendum in June, forecasts of immediate recession have been proved wrong, most likely caused by the delayed serving of Article 50, a swift establishment of new members of government and perhaps by the policy changes at the Bank of England. Forecasts for 2017 are universally weak, though most expect the UK to avoid recession. The success of this is likely to be determined by the clarity government can provide on its exit strategy and its preferred future relationship with the EU.

Domestic economy splits by sector

The growth of sales in the service sector has slowed down sharply over the past two quarters with consumer-facing services looking softer than in Q2 where the slowdown was primarily driven by business services. The broad manufacturing measure (which includes construction) is nearly flat on the quarter, masking both the first contraction in manufacturing for over three years and a positive rise in output for construction firms.

International demand supported by weaker Sterling

One of the more positive signs for manufacturers is a strong rebound in international sales, likely driven by the weaker Sterling making UK prices more attractive; construction has also seen a positive move. Service sector exports appear not to have benefitted from the currency moves, but remain around their average levels for the post-recession period.

Employment growing but with challenges

Employment levels continue to remain positive across all sectors, though manufacturing's rate of growth has been slowing over the past year. For both the services and construction sectors, growth remains close to record highs.

Recruitment levels overall continue to show all sectors attempting to recruit, with a very strong level in construction this quarter, and a softer position for the manufacturing sector. The challenges of recruiting remains difficult and the chance of successfully filling vacancies remains low.

With unemployment both locally and nationally at pre-recession levels, the supply of labour is already constrained with, as yet, no clear policy on EU nationals either working here now or in the future.

Confidence softens

Confidence has softened over the past quarter, with the service sector falling sharply over the past six months. Construction continues to see optimism for the coming year whilst manufacturers are more cautious and report a softening to around 2011 levels.

Investment in people falls

The three major sectors all report weaker levels of investment growth than last quarter, in both capital plant and in people. Plant and machinery investment levels remains close to their post-recession averages, but the levels of investment in people are close to three-year lows.

With labour markets at their tightest post-recession and recruitment difficulties high, the development and upskilling of staff internally is likely to be a major areas of skills growth over the coming years, for which a weaker investment level will not be helpful.

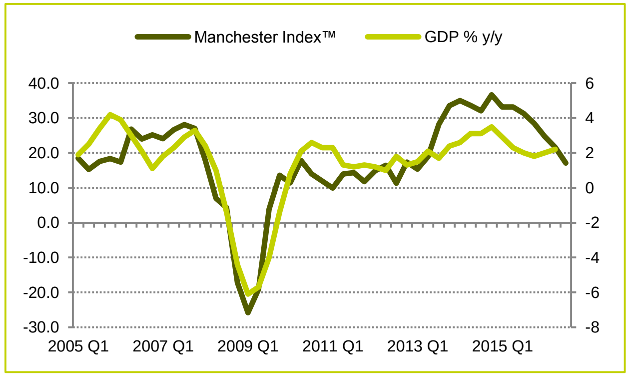
Inflation outlook likely to pick up

The price and inflationary environment overall remains weak, though there are a couple of areas where this is changing. Raw materials prices for the manufacturing sector have increased sharply this quarter, in line with the weakening of Sterling. This will feed through into consumer prices over the coming year. Pay increases remain high for the construction sector, in line with strong growth and decreased spare capacity. It is of note that all sectors cite exchange rates as being of notably higher concern than in the previous quarter.

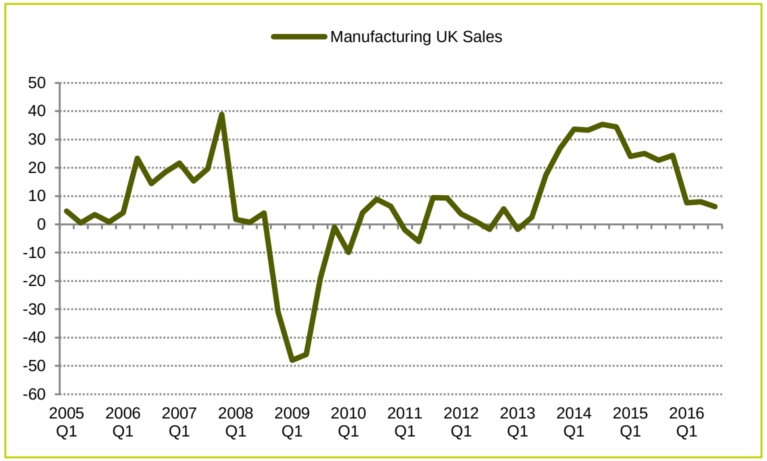
Conclusion

Overall, the data points to a further softening in the economic picture in Greater Manchester. The manufacturing sector remains weak with a contraction in UK markets, though the international picture is buoyed by a weak Sterling. Services, though growing, are doing so at a slower rate than the past few years, and construction is performing well, though has skills and capacity problems.

The next two years, and beyond, will be uncertain, and growth next year is likely to be materially weaker. The challenge is now on government to show a clear way forward in its plans to leave the EU and provide as much clarity to business as possible.



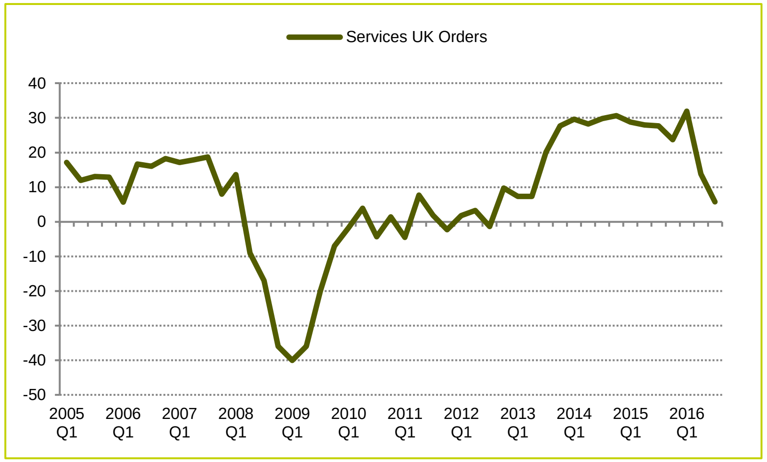
DOMESTIC DEMAND *Manufacturing contracts for UK sales …*



The broad manufacturing sector sees UK demand almost flat against the previous quarter, but the underlying data shows construction has further bounced back from Q2 data whilst manufacturing shows the first contraction in over three years.

Service sector demand shows a second quarter of sharply weakening growth with all parts of the service sector affected. Growth is now close to levels seen in 2011 and 2012.

Another weak quarter of data for order books; again, the weakest data is for core manufacturing, with the third consecutive quarter of contraction whilst the construction sector is more positive.



The data for service sectors points to a continued weakness expected into the last quarter of 2016 with a risk of growth slowing yet further before the year end.

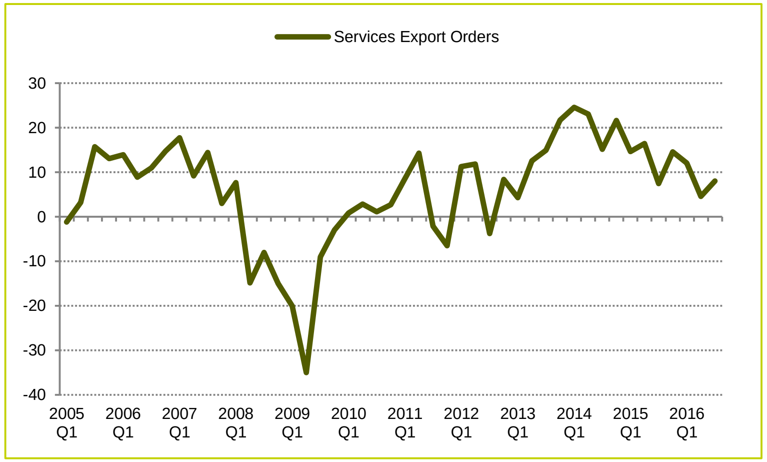
... and services growth markedly softening

INTERNATIONAL DEMAND *Manufacturing exports up …*

International sales for manufacturing and construction are much more positive this quarter, likely driven by the weakening of Sterling.

A slight slow down in service sector exports this quarter. These balances are down some way from recent highs, though comparable with its longer-term average.

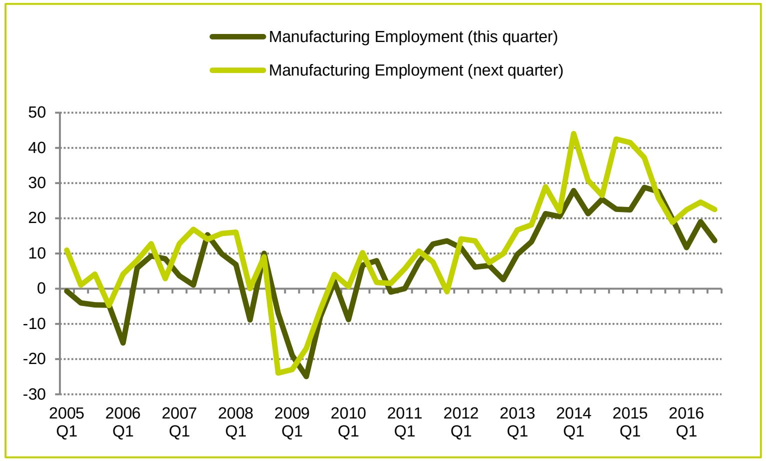
Order books for manufacturing have also improved for the international market, suggesting that weaker Sterling will continue to have positive effects for the sector into the final quarter of 2016.



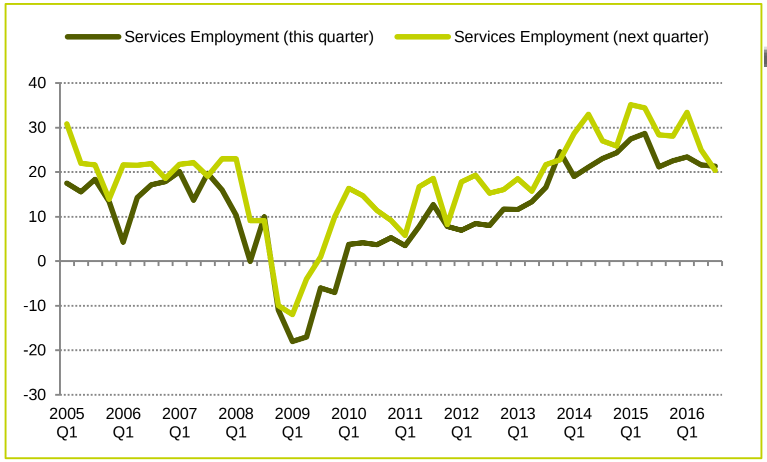
A small improvement in overseas order books for the service sector this quarter means we expect a more positive outcome in Q4 for service sector sales.

... likely supported by weaker Sterling rates

LABOUR MARKET *Employment growth continues …*

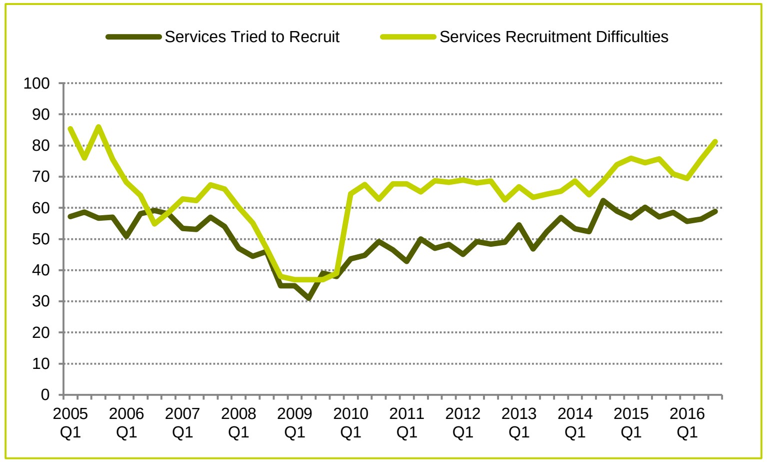


Employment growth continues in this sector overall, though growth is much stronger for the construction sector than for manufacturing, whose rate has been slowing for around a year.



Net employment growth in the services sector continues at strong levels with expectations for this to continue into the final quarter.

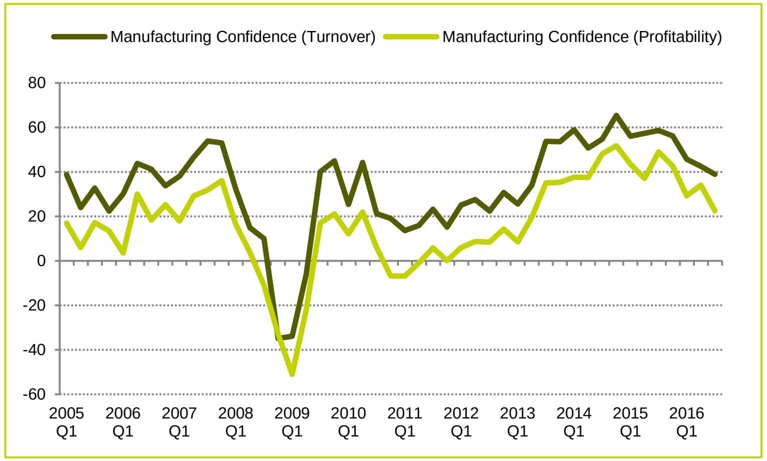
A slight slow-down in recruitment levels masks a strong growth in the construction sector and a weakening in manufacturing, but the level remains healthy despite continued difficulties in filling vacancies.



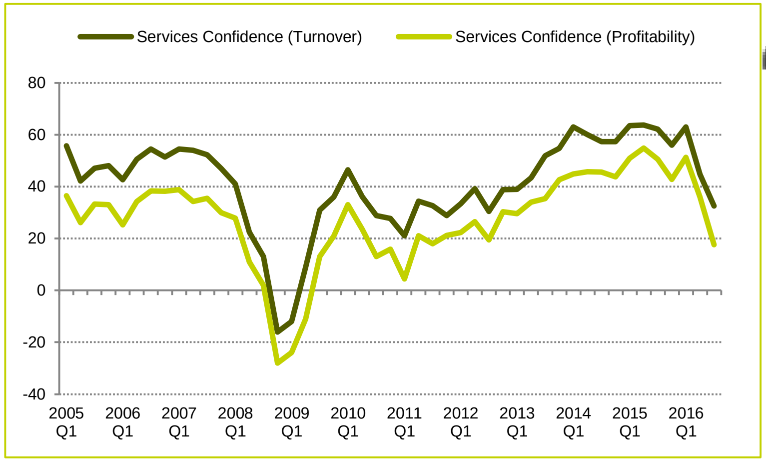
Service sector recruitment levels are holding steady but there is a noticeable rise in difficulties filling vacancies, now at their highest since 2005.

... but recruitment difficulties remain high

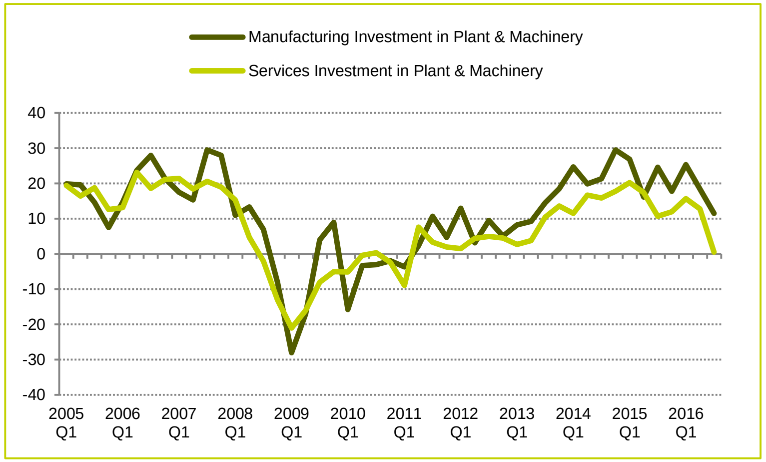
CONFIDENCE & INVESTMENT *Confidence softer …*



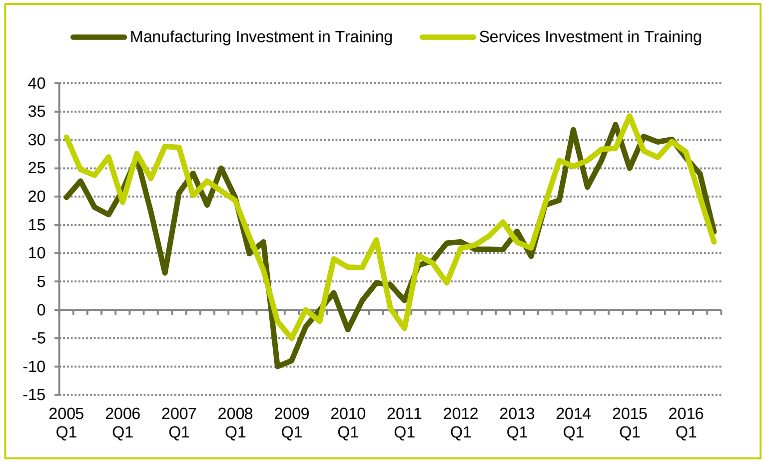
Confidence levels ease back further from their record highs at the end of 2014 but remain consistent with longer-term averages. Again, construction appears more bullish than manufacturing, but the manufacturing data is more positive than might be expected from the UK sales data.



Service sector confidence has further softened and now sits below its pre-recession average for the first time since 2011. It appears that the EU referendum result has caused greater lack of confidence in the service sector than any other.



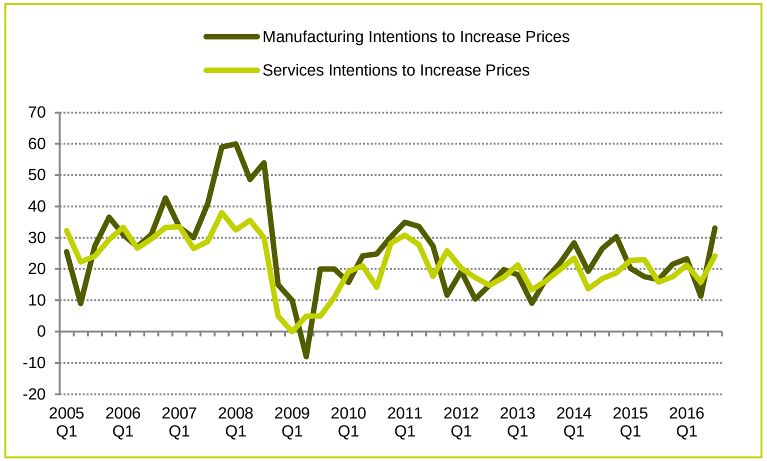
Capital investment levels have eased back for all sectors, with services close to flat this quarter, likely caused by weaker confidence and slowing sales.



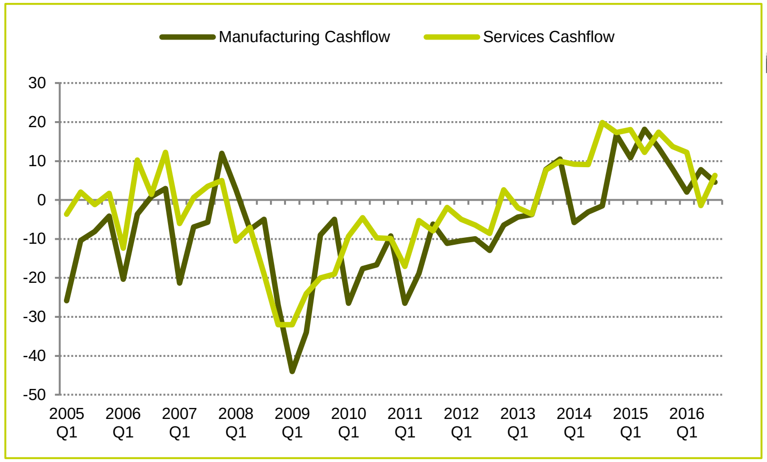
A surprisingly sharp fall in investment in training in all sectors raises concerns about the future ability of companies to grow in a tight labour market.

… and investment levels lower

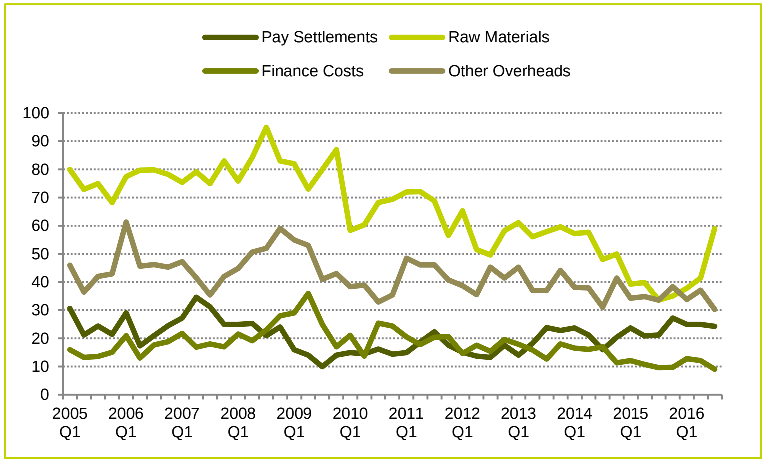
COSTS & PRICES *Inflationary concerns remain low …*



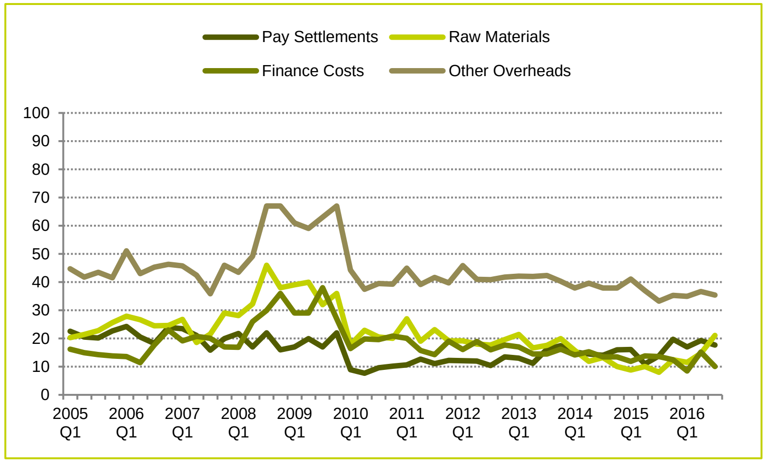
Inflationary pressures generally remain weak but have moved upwards sharply in the latest data. Much of this may be accounted for by currency shifts.



Cashflow balances continue to look healthy, though slightly softer than over the past year or two. By historical comparison, they remain strong.



The clear change in this quarter’s data is the cost of raw materials for the manufacturing (and to a lesser extent, construction) sector. The depreciation in Sterling is already feeding through into input prices. Pay settlements have moved up sharply for the construction sector.



The service sector, though impacted less by cross-border input prices also reports an increase in this area, though other indicators remain benign.

... though input prices are rising caused by weaker Sterling

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 22 August to Wednesday 14 September 2016 inclusive. A total of 341 businesses, together employing 50,429 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/qes with wider economic analysis from GM Chamber at www.gmchamber.co.uk/research.

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