Greater Manchester
Chamber of Commerce

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Greater Manchester Quarterly Economic Survey

QES Q3 2021 Results

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Supported by
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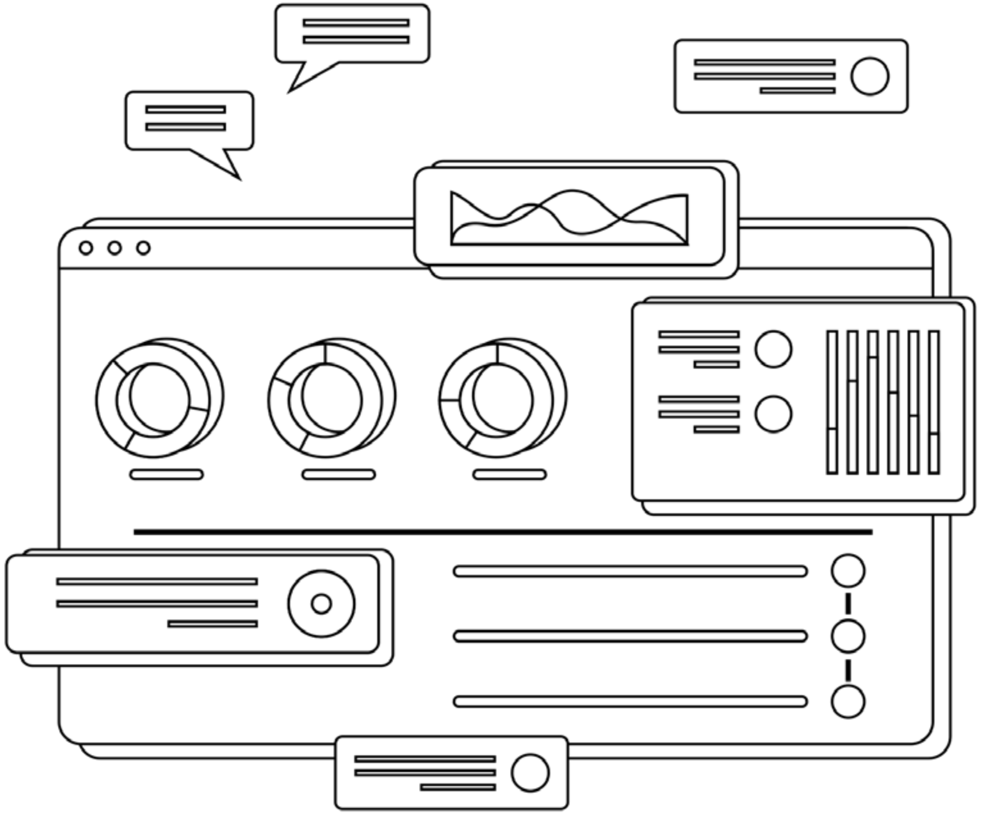
Quarterly Economic Survey

Greater Manchester Chamber of Commerce's Quarterly Economic Survey (QES) is part of UK's largest and most reliable business confidence survey carried out by the Chamber of Commerce network. The QES is the first to be published in each quarter and is used by key policy makers including the Bank of England and HM Treasury to determine economic decision-making. The QES is a reliable survey that accurately predicted the recessions of the 1990s and late 2000s and can even disprove some early releases of national statistics.

The survey covers key economic measures such as domestic demand, overseas demand, changes to workforce, cash flow and external pressures affecting business performance. GM Chamber develops the Greater Manchester Index™, a composite indicator based on selected QES measures.

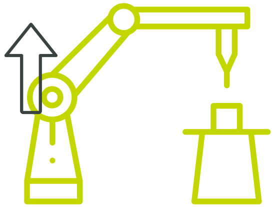


QES Q3 2021: Key Findings

With strong growth in Q3, the Greater Manchester Index™ increased by 1.5 points to 31.9 in Q3. The manufacturing and services grew with increases in both domestic and overseas sales. The construction sector, which had a strong Q2, has reported a slight decrease in output in Q3. Overall, the results indicate that there is optimism about business prospects with recruitment activity improving in this quarter. Relative to Q3 2020, the latest results show improvement in all QES measures. Improvement in demand has led to increases capacity utilisation amongst Greater Manchester's (GM) businesses although cash positions have not recovered in equal measure as customer demand. The opening up of hospitality and leisure, saw a significant increase in trade but the consumer demand led growth appears to be softening.

The key findings of the QES included:

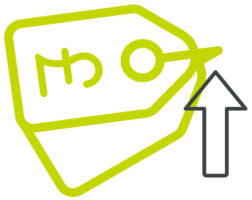
Domestic demand has increased in manufacturing and services, but the construction sector has reported a slight decline.



The domestic sales balance for manufacturing of +34 is the highest it has been in over five years.

Both manufacturing and services businesses report improved export sales.

Brexit related difficulties remain with a significant proportion of internationally active businesses reporting continued challenges in moving good and services.



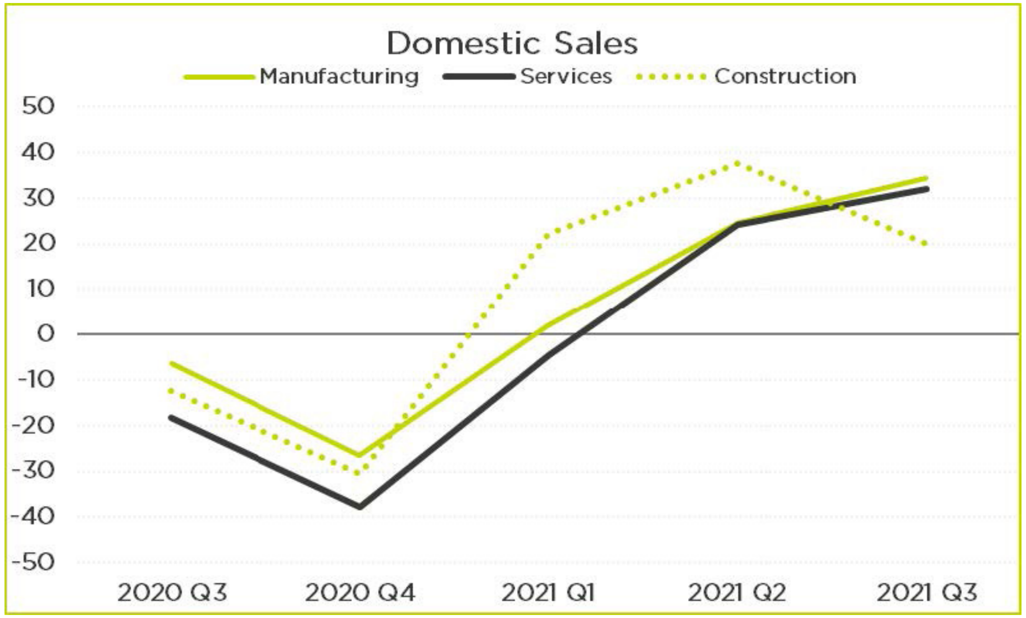
A third of GM businesses expect to increase prices to meet higher input prices.

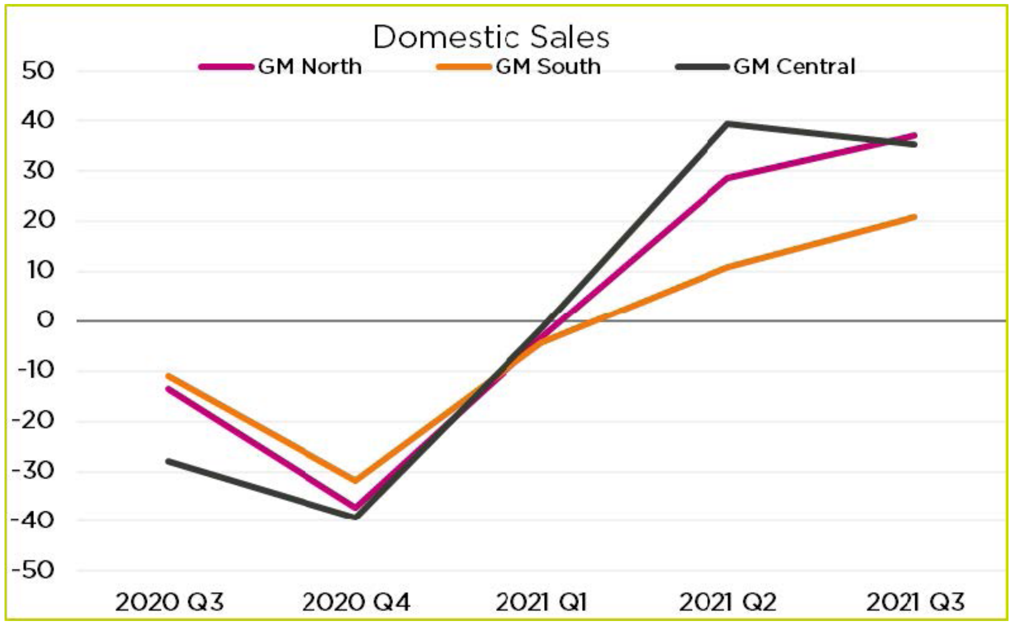
Prospects for employment have improved further.

A shortage of skilled labour to meet changing business requirements post-pandemic is contributing to recruitment difficulties.

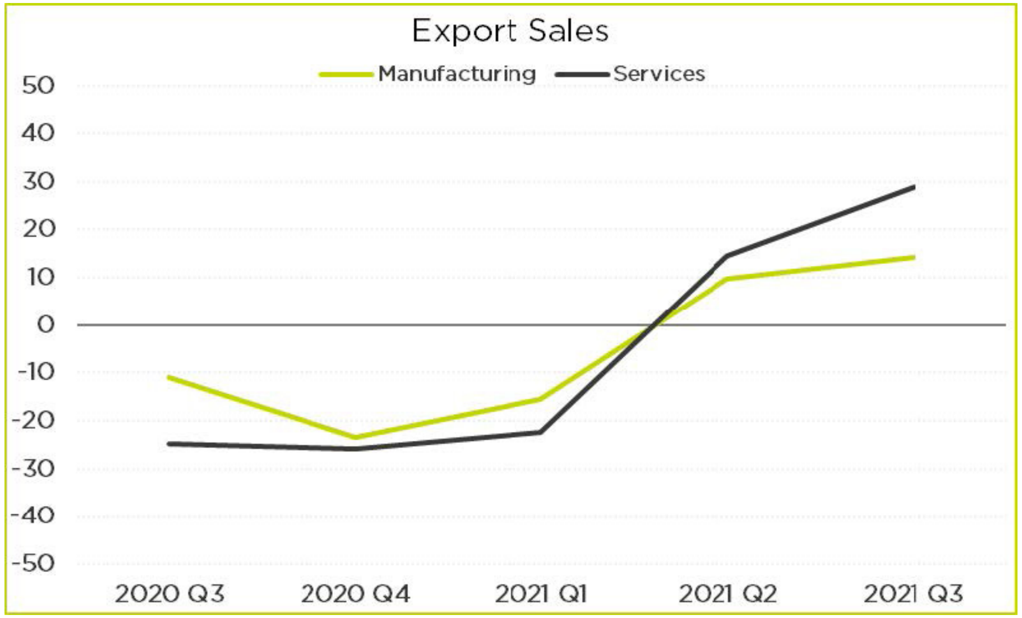
Customer Demand

Led by increases in services and manufacturing, domestic demand has improved overall. On quarterly sales, manufacturing and services businesses have shown an improvement, with balances above 30 for the first time since the pandemic. Data published by the ONS shows that the indices of production and services have both improved substantially compared to Q1 2021. Manufacturing is the best performing with a balance of +34, the highest it has been in over five years. Increased trade and consumer spending earlier in the quarter boosted the domestic sales balance for services to+31. Advance orders for manufacturing remain at the same level it was in Q2 but the corresponding value for the services sector improved 5 points to +29. Across the board, customer demand levels show an improvement in this quarter.
The decline in construction output matches the national picture: ONS data shows that construction output fell by 1.6% in volume terms in July 2021, but this is on the back of a very strong Q2.





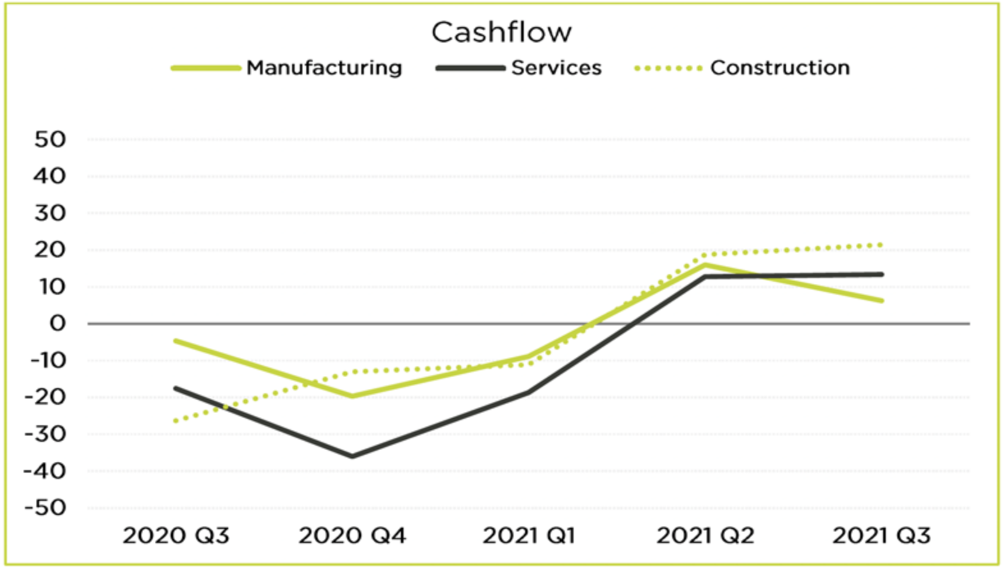
Looking at domestic demand through a geographical lens reveals some interesting trends and possible further confirmation for a consumer demand led growth. In Q1 and Q2, GM Central1was the best performing in line with the reopening of retail and hospitality. The large concentration of retail and hospitality in Manchester boosted economic activity. Once pent up demand is served and accumulated savings spent, there is not sufficient scope for a sustained increase in consumer spending. In Q3, GM Central has had a slight dip but the other two sub-regions have grown. For all of this year, GM North has performed better than GM South. That trend continues in this quarter.

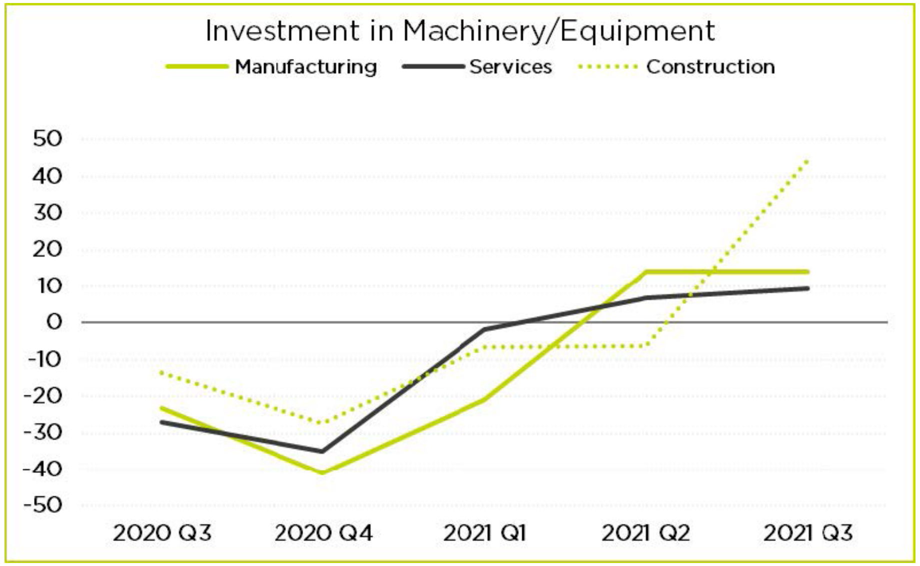


Export sales have improved in this quarter. It may be a sign that businesses are pursuing international trade opportunities, and in the case of EU exports, adapting to the new requirements under the EU UK TCA. From a sectoral point of view, the good news is that service exports appear to have recovered strongly from +15 in Q2 to +29 in Q3. The export sales balance for manufacturing is now at +15.

Cashflow Positions

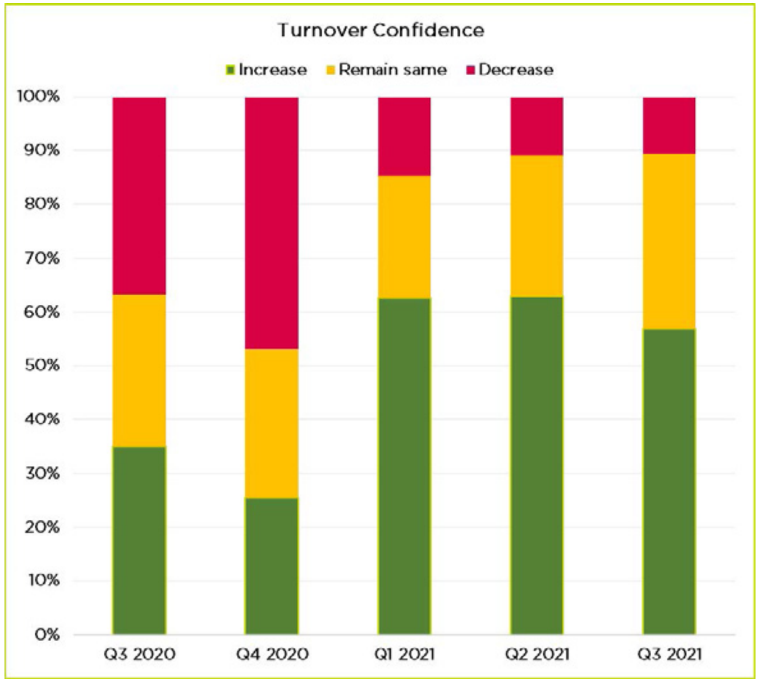
The cashflow position within difference sectors shows a contrasting picture. The strong growth in manufacturing has not resulted in a corresponding increase but services and construction have both recorded quarterly increases. Many manufacturing businesses have reported that the increase in raw material prices and supply chain difficulties have led to cash “lock in” causing a reduction in working capital. However, the balance for cashflow is remains positive for all three sectors. Cash positions relate to capacity utilisation, which in turn affects business confidence and the propensity to invest in expanding capacity. Capacity utilisation has gone up marginally, but business investment is lagging behind. Investment in plant and machinery remains muted in manufacturing and services. However, construction businesses have reported an increase.

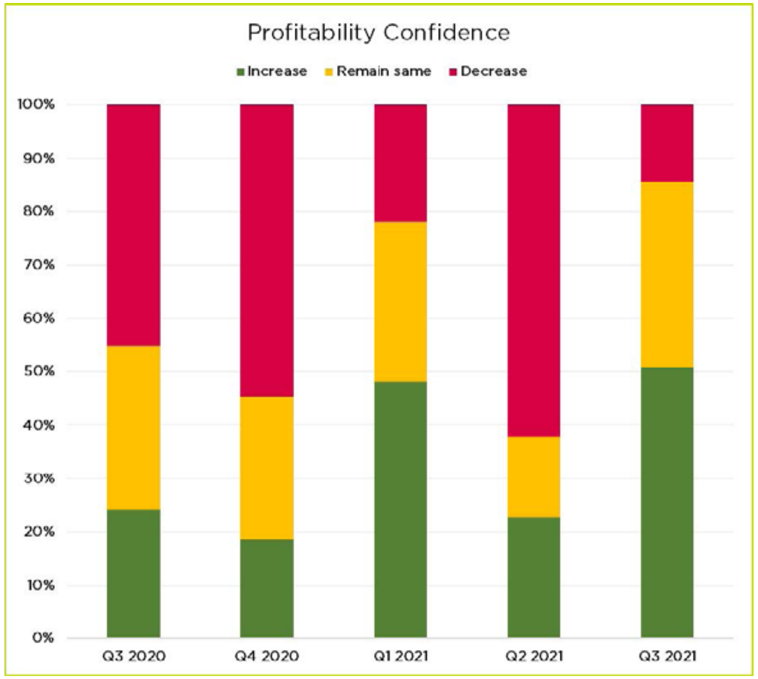




Business Confidence

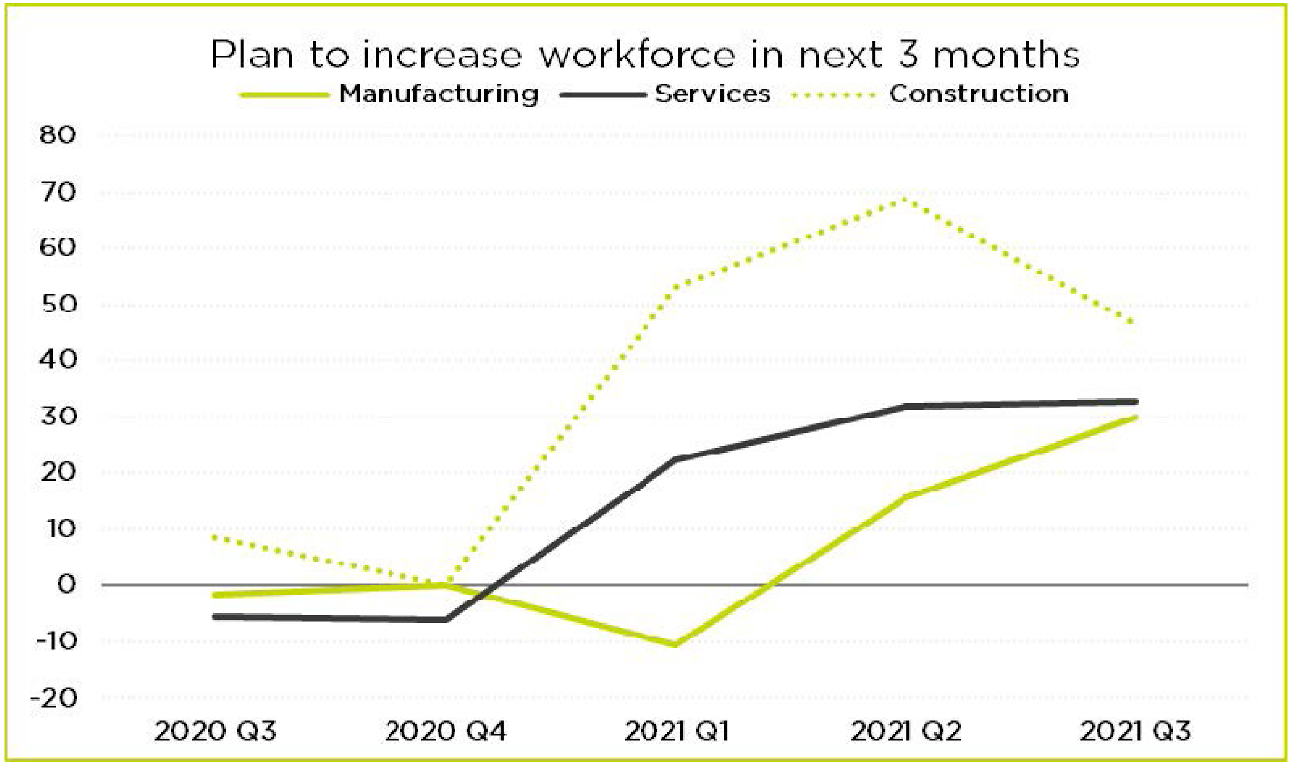
On business confidence, the latest results reveal a turnaround from the previous quarter. Turnover confidence, which measures optimism about being able to maintain turnover and sales revenue has declined with 57% of respondents reporting an increase–a drop of 5 percentage points from Q2. In contrast, profitability confidence, which measures the ability of businesses in being able to maintain margins, has improved. Over half of the respondents have reported that they are optimistic about profit margins. Despite this increase of 28 percentage points, other QES measures indicate that businesses are facing higher operational costs as they bring staff back from furlough and acquire stock. Price pressures are now a serious concern for businesses. Over a third of GM businesses expect to have to increase prices to meet higher operational costs.





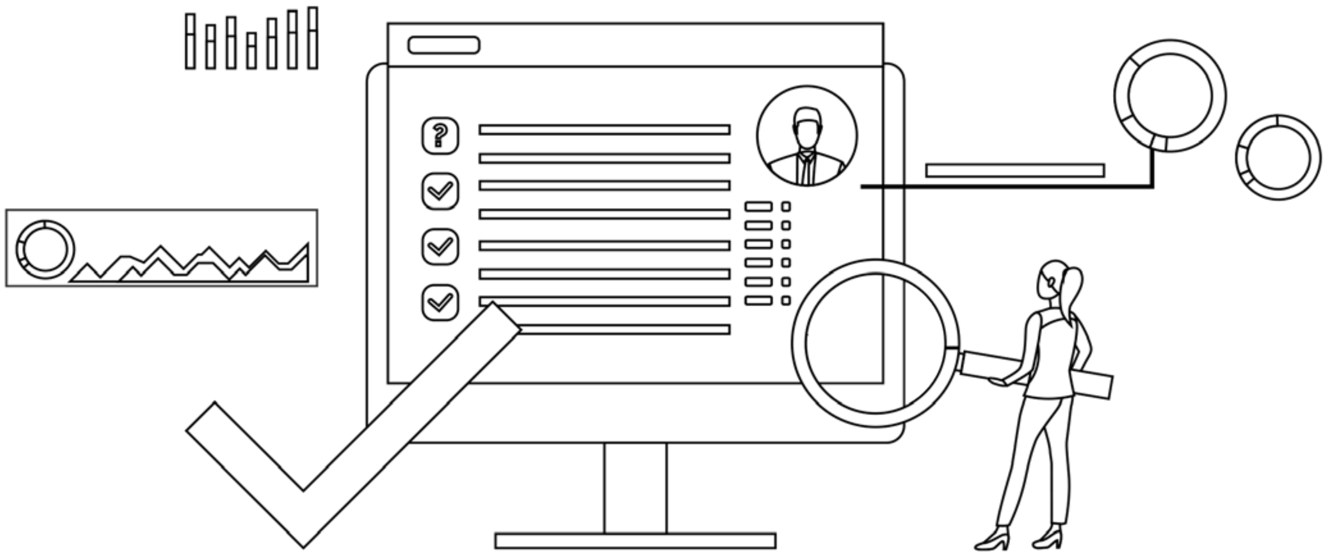
Employment

The latest results show an upturn in recruitment intentions with quarterly workforce additions in both services and manufacturing. Businesses in these two sectors also expect to add to their workforce in the coming quarter. With 68,000 workers in GM continuing to remain in furlough, planned additions to the workforce would be a positive development because it may mean that more furloughed workers are in the process of being brought into work. In total, nearly 60%of survey respondents attempted to recruit more staff in the quarter. At the same time, recruitment difficulties have gone up.



Recovery Prospects

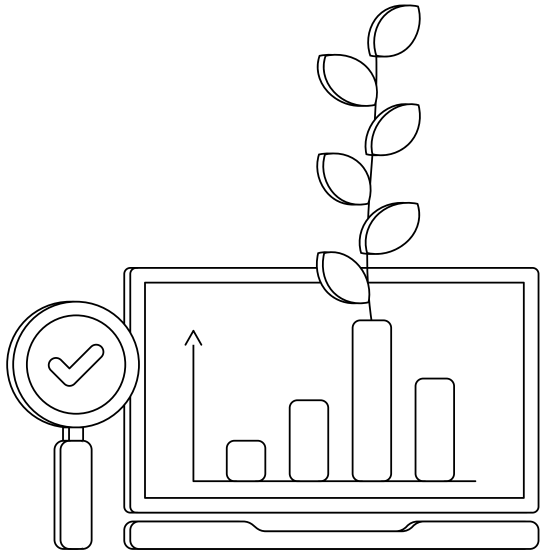
Robust consumer demand led to services sector growth and in Q1 and Q2. However, retail sales have recorded reductions in July and August. At the same time, business investment has not increased substantially. Consequently, the UK's economic recovery could slow down as staff shortages and supply chain disruption partly limit the gains from the lifting of restrictions in July. After the Coronavirus Job Retention Scheme closes at the end of this month, not all furloughed workers are likely to return to work, which could increase unemployment. We expect customer demand to be sustained in Q4 2021, but further improvement is likely to be gradual because some businesses are still struggling with poor working capital levels and hence unable to make further investment. Based on the results of this quarter's Economic Survey, it is unlikely that the GM economy will experience a rapid recovery to pre-pandemic levels before the end of 2022.



Focus On: Net Zero

Supported by q·Energy

This quarter's survey was supported by Q Energy with a series of specific questions around net-zero. There is currently an increased global focus on carbon neutrality and green growth due to the COP26 climate summit taking place in November. The results were somewhat surprising: only 45% of the respondents were aware of the UK's net zero ambitions. In making the transition to net zero, businesses face barriers such as the lack of specific information on carbon measurement and reporting and the high upfront cost for low carbon solutions and services. However, 60% of businesses cite that they find it important to achieve environmental and sustainable development objectives.



Vijay Natarajan, Co-founder and COO at Q Energy said:
"We are pleased to support this quarter's survey, however, with results showing that 49% of businesses cite lack of information around net zero, measurement and carbon reporting, there is still a long way to go before businesses can start to make clear actions to reduce their carbon footprint."

To support businesses Q Energy have launched a free tool to help businesses calculate their carbon footprint from their energy and business travel, and work out annual carbon reduction targets to achieve Net Zero. More details at:

https://netzero.qenergy.ai/

Methodology

Where measures are reported as balances, they represent the percentage difference between the number of positive and negatives responses for that question.

The first quarter's Economic Survey was conducted between 16th August - 16th September and captured the views of 483 businesses.