



GOVERNMENT OFFICE
FOR THE NORTH WEST

Northwest Regional Economic Report

December 2007 to February 2008

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The North West economy weakened in the fourth quarter and the outlook became less positive. Despite very noticeable concerns about the prospect of poorer than previously expected GVA growth in 2008, the manufacturing sector has continued to bolster the NW's overall picture. There is no suggestion of growth becoming negative in any sector during 2008, and certainly not for the two consecutive months needed to meet the Bank of England definition of a 'recession'.

The NW is now the largest region in England for manufacturing. The aerospace industry is notably buoyant, both on the defence and commercial side. CBI stated that the credit crunch has had a low impact on its members, although there are uncertainties for the future. Overall the opinion of the GONW Economic Forum on 11 February was that the impact on NW businesses was limited so far, other than at a personal level.

The ICAEW Business Confidence Monitor report of 12th December showed the Northwest moving from most confident in Q3 to the least confident region in Q4. The reasons cited were mainly the housing slowdown and the economic consequences of the 'credit squeeze'. This result was echoed by the results of the Bank of Scotland Small Business Confidence Index, which showed that confidence among small businesses in the North West had fallen from 48 in Q2 to 40 in Q4 (where 100 is defined as completely optimistic). The Q1 2008 ICAEW report showed the NW returning to near the UK average. NW forecasts for turnover and profit growth are both ahead of the forecasts for the UK as a whole for the next 12 months.

There has been a large increase in NW businesses declaring profit warnings, up 67% in Q4 2007 compared with the same quarter in 2006. 1 in 5 companies attributed this to the 'credit crunch'.

Other sectors are not reporting the same extremes of change. Notably eef members, who were specifically asked the question in their Q4 survey, are not feeling the effects of the credit crunch. Experian figures showed that the NW actually experienced a 9.9% decrease in business failures in 2007 compared with 2006, and a 11.9% decrease in Q4 2007 compared with the same quarter in the previous year. The CBI Industrial Trends survey showed that manufacturers were holding their ground despite pessimistic expectations about rising input costs.

The eef latest report for Q4 2007 showed strong figures overall, which were understandably down on a very strong Q3 performance. Indications are that that the figures will remain roughly the same in Q1 2008. UK orders and exports were still positive on balance and pressure on margins was down 1% for UK and 8% for export business. There is some positive expectation looking forward, especially with a 0.75% decrease in interest rates widely anticipated. Export growth has been attributed to a reasonably favourable exchange rate into the big Euro markets and strong performance into India and China.

Investment intentions are positive for the 16th quarter running. Although these are relatively small projects the positive trend is being sustained.

According to British Retail Consortium figures, sales have been relatively weak over the Christmas period. There was a surprise upsurge in January sales, particularly on-line, which was better than the year before. This was partly due to price cuts and early indications suggest weakening retail sales on the back of increasing prices. Customer confidence may be weakening.

Despite a very slow decrease in house prices in most areas, there are reports of increased demand from some estate agents. This needs to be treated with caution as viewing activity has increased recently following home information pack changes bedding in. It is too early to say if this reported increased "demand" will lead to house price increases. Buyers may be delaying purchase given the prospect of further interest cuts and assumed better mortgage deals. These deals may take some time to materialise as lenders have become much more prudent recently.

The Q4 Chambers of Commerce/NWDA Quarterly Economic Survey reported a less marked drop in orders in the service sector than elsewhere. In manufacturing a slight rise in profitability confidence has been counterbalanced by a sizeable drop in turnover confidence, but this is down from the highest level in over 10 years. Generally across the sectors employment levels have dropped but forecast levels are looking more positive.

UKTI reported that the New Zealand Government is subsidising local companies to export to distant international markets such as the UK, making some imported products, such as agricultural fencing, from New Zealand cheaper than from the UK. The oil & gas and nuclear sectors are buoyant but problems still continue with companies trading with the USA and Canada due to the dollar/sterling exchange rate. There are more enquiries from clients about outsourcing piece parts from lower cost producing areas such as China, India and Eastern Europe.

Many small and medium enterprises (SMEs) across all sectors are unable to invest enough in new plant and machinery to help improve production capacity and efficiency. Profit margins are still under pressure due to increased material prices, especially metals and plastics, with high diesel prices increasing distribution costs. There is a great concern within industry at the proposed increase in corporation tax for SMEs from 10% to 18%.

Some companies have enjoyed the condition of the weaker dollar by reaping monetary benefits, in particular those who are engaged in supplying into the US pharmaceutical industry. The US trend for shutting down manufacture and putting in pilot plants has led to an increase in demand for custom synthesis, outsourcing of intermediates and associated long-term supply contracts, which UK companies are beginning to benefit from.

ef members have reported a shortage of supply in metals. However prices have levelled out over the past year. The NW region is not very active in the manufacture of composites, even though carbon fibre is now replacing titanium and aluminium in aerospace and other manufacture.

The February NW Forecasting Panel meeting at NWDA broke future growth down into its components of: demographic change; workforce participation; and productivity. There were grounds for optimism about the NW region's ability to perform better than in the past. However the improvement was modest and the region would continue to grow slower than the England average. Discussion about where the NW might seek to carve out a niche that would give it a comparative advantage in the long run, such as renewable energy and nuclear, proved inconclusive. The Panel may consider a future meeting about the role that migrant workers might play in addressing some of the regions demographic and skills issues. Multi Area Agreements (MAAs) could play an important part in closing the gaps in the knowledge economy needed to increase GVA growth beyond current projections. The new NW Regional Innovation Policy may also help identify areas where appropriate investment could yield

results. The NW Universities are raising their game in developing better partnerships with the private sector.

There has been encouraging news from the Aerospace sector, notably with the award of more orders to BAE for the F-35 Lightning and for Airbus. There remains concern over the Tata takeover of the Jaguar and Land Rover marques (to be confirmed shortly) from the supply chain across Greater Merseyside.

Energy costs are becoming more important, especially for those businesses which are major users (chemicals and pharmaceuticals, heavy industry). Businesses situated in old buildings, such as mills, are greatly affected by energy cost rises as it is difficult for them to use investment in improving energy efficiency to reduce input costs. Some larger users, such as Ineos Chlor, are considering their own on-site production from renewable sources.

More than one third of northern businesses have taken no steps to improve their energy efficiency in the last 6 months and about half do not measure their energy efficiency at all. Some 83% support reduced emissions but lack the time and money to invest in improvements. Of those who did take action, 60% have reduced their energy bills. A survey by the Manufacturing Institute in Manchester has highlighted that becoming more competitive and complying with new 'Green' legislation are expected to become the priorities over the next 3 years. Currently reducing production costs while input costs are rising (34%), improving sales & marketing (12.6%), and tackling skills shortages (11.9%), were the main concerns. The current main concern, if not addressed via improved efficiency and productivity, could lead to higher prices.

Migrant Workers are increasingly being employed in more highly skilled jobs and are having a positive impact in closing skills gaps, notably the contribution of Polish and Czech workers within heavy manufacturing. The GONW Economic Forum in February noted that some large NW employers are looking to recruit large numbers of migrant workers at a time. The impact of this, in terms of settlement patterns and the impact on communities, which are often the more deprived areas, needs to be managed by partners across the related travel to work areas. Previous discussions on migrant workers have also noted the importance of ensuring equal treatment for all members of local communities when considering support.

For further information please contact:

Paul Pinnington
Senior Manager
Economic and Regional Issues Team
Government Office for the North West
Cunard Building
Liverpool
L3 1QB

paul.pinnington@gonw.gsi.gov.uk
telephone: 0151 224 6354