

INTRODUCTION

The Q3 QES results are alarming. Virtually all the key national balances have worsened, and many are in negative territory. Coming after worrying Q2 results, the Q3 results point to the UK being in a recession. All the Q3 domestic balances, sales as well as orders, have moved deeper into negative territory, for both manufacturing and services. All firm sizes, in both sectors, show negative Q3 balances, a very disturbing and unusual situation. The collapse in confidence is a very troubling development. All the confidence balances, turnover as well as profitability, fell to record lows in Q3, for both manufacturing and services. The export situation is mixed, but trends are disappointing overall. Manufacturing export balances plummeted in Q3. Service export balances rose slightly, but remain relatively weak. Investment balances in plant and machinery moved into negative territory for both sectors. Cashflow balances remain negative. Overall, the Q3 results point to a worsening economic outlook and rising unemployment.

DOMESTIC MARKET

The manufacturing sector's balance for home sales fell 10 points in Q3, to -13%, lowest since Q1 1999. The net balance for manufacturers' home orders dropped 12 points in Q3, to -17%, lowest since Q4 1998.

The service sector's domestic balances recorded alarming declines in Q3, to levels not seen since the recession of the early-1990s. The net balance for home sales declined 5 points, to -7%, lowest equal since Q3 1991. The net balance for home orders dropped 6 points, to -13%, lowest since Q2 1991.

EXPORT MARKET

The manufacturing sector's export performance weakened sharply in Q3. The export sales balance dropped 25 points to +3%, weakest since Q3 2003. The export orders balance plunged 26 points to -4%, lowest since Q4 2001. The service sector's export balances improved slightly in Q3, in contrast to the manufacturing decline. The export sales balance rose 4 points to +13%. The balance for export orders rose 3 points to +9%. Both service export balances remained low by historical standards.

EMPLOYMENT

The employment balances weakened in Q3. The manufacturing employment balance fell 3 points to 0%, lowest since Q3 2003. The employment expectations balance plunged 10 point, to -11%, lowest equal since Q4 1992. In the service sector, the employment balance fell 5 point to +2%, lowest equal since Q2 1993. The employment expectations balance declined 5 points to +3%, lowest equal since Q1 1993.

INVESTMENT

The Q3 balance of manufacturing firms planning to increase investment in plant & machinery dropped 6 points to -4%, lowest since Q4 2001 and worryingly weak. Intentions to invest in training fell 3 points to +8%, lowest since Q3 2003. In services, the balance

of firms planning to increase investment in plant & machinery fell 7 points to -2%, lowest since Q3 1992. Intentions to invest in training plunged 10 point to +4%, a record low since Q2 1997, the earliest period for which figures are available.

BUSINESS CONFIDENCE

The confidence balances fell sharply in Q3. The manufacturing sector's turnover confidence balance plummeted 28 points to +4%. Profitability confidence plunged 16 points to -11%. The service sector's turnover confidence balance dropped 7 points to +10%. Profitability confidence plunged 13 points to -12%. All the Q3 confidence balances, for both manufacturing and services, were at record lows since Q1 1989, the earliest period for which figures are available.

CAPACITY UTILISATION AND CASHFLOW

The Q3 balance of manufacturing firms operating at full capacity fell 3 points, to +37%. In services, +39% of firms worked at full capacity, up 1 point. Both cashflow balances are very weak in Q3, and both remain in negative territory: manufacturing rose 4 points to -11%; services fell 4 points, to -14%, a record low since Q1 1992, the earliest period for which figures are available.

PRICES

The balance of manufacturing firms reporting pressure to raise prices fell 3 points in Q3, to +42%. In services, the balance of firms expecting to increase fell 3 points to +38%. Both balances remain at high levels by historical standards.

ECONOMIC CLIMATE

The Q3 QES results are exceptionally bad and follow worrying results in Q2. The Q3 results support the view that a UK recession has started already, and the outlook is getting worse. The domestic economy is under immense pressure. All the domestic balances are in negative territory for all firm sizes, in both manufacturing and services. The collapse in all the confidence balances to record lows, across both sectors, is a particularly disturbing and ominous development. The mounting global banking crisis reinforces our view that immediate threats to growth are more critical than dangers of higher inflation. Without forceful and urgent corrective action, there is a serious danger that the recession would deepen and cause huge damage. The MPC must cut interest rates without delay, starting in October. Credible arrangements must be put in place for dealing promptly with any financial institution that may experience problems. The smooth flow of finance to businesses must be sustained. Any thought of early tax increases must be quashed. While a moderate recession is very probably unavoidable, the possibility of a deeper recession can be mitigated if the correct policies are adopted.