

INTRODUCTION

All the critical national balances remained in negative territory in Q1, for both manufacturing and services. However, the Q1 results also reveal a clear divergence between a further disturbing deterioration in manufacturing, and an improvement in services (even though the sector is still in decline). The manufacturing sector's balances worsened further in Q1, and fell to record lows in almost all critical areas. The only exception is an improvement in manufacturing employment expectation; but the balance is deeply negative, and very weak by historical standards. In contrast, the service sector's balances, though still negative, recorded a Q1 improvement in most key areas. Despite this, the overall exports position of the service sector is broadly unchanged, and export sales as well as orders remain in negative territory. The UK economy is still facing very serious threats, and there is a clear need for corrective action.

DOMESTIC MARKET

The manufacturing sector's balances worsened very sharply in Q1. The net balance for home sales dropped 17 points, to -55%. The balance for manufacturers' home orders fell 4 points, to -52%. Both Q1 domestic manufacturing balances are at the lowest since records are available in Q1 1989.

The service sector's domestic balances improved in Q1, but still remain in negative territory. The net balance for home sales moved up 8 points, to -23%. The net balance for service home orders rose 7 points, to -29%. The Q1 service balances are not as weak as those within manufacturing.

EXPORT MARKET

The manufacturing sector's export sales balance dropped 15 points in Q1 to -27%, the weakest results since Q3 1998.

The manufacturing export orders balance declined 9 points to -28%, also the lowest since Q3 1998. The service sector's export sales balance fell 2 points in Q1, to -11%, the lowest since the series began in Q1 1989. The net balance for service export orders improved 3 points in Q1, to -10%, which still very weak by historical standards.

EMPLOYMENT

The manufacturing sector's employment balance dropped 19 points in Q1, to -36%, once again the lowest since records are available in Q1 1989. The manufacturing employment expectations balance improved 6 points, to -35%, but is still very weak by historical standards.

The service sector's employment balance rose 4 points to -18%. The service employment expectations balance improved 12 points to -12%. Both Q1 service employment balances are still very weak in the context of the series history.

INVESTMENT

The Q1 balance of manufacturing firms planning to increase investment in plant and machinery dropped 16 points to -38%. Manufacturers' intentions to invest in training fell 13 points to -19%. Both manufacturing investment balances fell to their lowest levels since records are available.

In services, the balance of firms planning to increase investment in plant and machinery improved 6 points to -21%.

Service intentions to invest in training rose 5 points to -5%. Despite the increases, both Q1 service investment balances are still very weak by historical standards.

BUSINESS CONFIDENCE

The manufacturing sector's Q1 confidence balances fell to new record lows. The turnover confidence balance fell 6 points to -38%. Manufacturers' profitability confidence dropped 9 points to -48%.

The service sector's confidence balances improved, but remained negative. Turnover confidence rose 11 points to -12%. Service profitability confidence rose 11 points to -23%.

CAPACITY UTILISATION AND CASHFLOW

The Q1 percentage of manufacturing firms operating at full capacity fell 9 points, to 20%. In services, 38% of firms worked at full capacity, up 2 points. The manufacturing cashflow balance fell 4 points in Q1, to -32%, lowest level since records are available.

Services cashflow improved 6 points, to -26%, and is still very weak by historical standards.

Prices

Pressures to raise prices fell further in Q1. The balance of manufacturing firms reporting pressure to raise prices fell 7 points, to -7%.

In services, the balance of firms expecting to increase prices fell 1 point in Q1, to +3%.

ECONOMIC CLIMATE

The Q1 QES results confirm that the UK recession is still very serious, and is likely to continue for some time. The results highlight a very worrying deterioration in manufacturing, with falls to record lows in almost all critical balances. In contrast, the service sector's balances, though still distinctly negative, recorded an improvement in most key areas. The pace of decline in services is moderating. However, these hopeful signs will fizzle out and will not generate a sustained recovery without further urgent corrective measures that support and nurture wealth-creating businesses.

The authorities must act forcefully on a broad front to alleviate the recession and help rebalance the economy towards exports and investment. Quantitative easing must be pursued aggressively. In spite of the difficult fiscal position, targeted and selected measures are still needed in the Budget, with a credible plan for drastically cutting back the deficit. Painful spending cuts will be needed in the medium-term. In the face of rising unemployment, it is vital to slash the regulatory burden. Avoiding a further damage to our manufacturing skills base must be a national priority.