

## INTRODUCTION

The Q4 2009 results show improvements in most key national balances, particularly for manufacturing. Progress, however, has been generally weaker than in Q3 and, overall, the results are disappointing. Nevertheless, there are positive features, notably strong increases in the manufacturing balances for exports and employment.

The Q4 results support the view that the economy is on the brink of leaving recession, but they do not provide conclusive evidence of recovery. Confidence balances mostly increased, suggesting that businesses are resilient, but there was a worrying fall in manufacturers' profitability confidence.

Some key balances are still negative in both sectors. In manufacturing, home orders, employment expectations, and investment in plant & machinery are in negative territory. The service sector, performing worse than manufacturing, showed balances were negative for home sales and orders, employment, cashflow, and investment in plant and machinery.

## DOMESTIC MARKET

The Q4 domestic national balances were disappointing. While there was some improvement, the domestic balances are weak by historical standards, and most remain in negative territory. The manufacturing balance for home sales improved 13 points in Q4, to +3%, the highest level since Q1 2008. The balance for manufacturers' home orders rose 4 points, to -5%, the equal highest level since Q1 2008. The service sector balance for home sales fell 1 point in Q4, to -2%. The service balance for home orders rose 3 points, to -7%, the equal highest level since Q1 2008.

## EXPORT MARKET

The export position strengthened in Q4, particularly for manufacturing. Service balances rose very slightly and remain weak. The manufacturing export sales balance rose 20 points, to +20%, the strongest result since Q2 2008. The export orders balance for the sector improved 21 points, to +17%, also the strongest since Q2 2008. The service export sales balance rose 2 points in Q4, to +8%, the highest since Q3 2008; the service export orders balance rose 1 point, to +4%, also the best level since Q3 2008.

## EMPLOYMENT

The manufacturing employment balance improved 22 points, to +3%, the equal strongest level since Q1 2008. Manufacturing employment expectations rose 4 points, to -1%, also the strongest since Q1 2008. The service employment balance rose 3 points, to -3%, the highest level since Q3 2008. Employment expectations fell 1 point, to +4%.

## INVESTMENT

All the investment balances improved in Q4, but some remain negative. The balance of manufacturing firms planning to increase investment in plant and machinery rose 16 points to -2%, the strongest result since Q2 2008. Manufacturers' intentions to invest in

training rose 11 points to +7%, the highest recorded since Q3 2008. The balance of service firms planning to raise investment in plant & machinery improved 6 points, to -3%, the strongest level since Q3 2008. Intentions to invest in training rose 5 points, to +11%, the highest recorded result since Q2 2008.

## BUSINESS CONFIDENCE

The Q4 confidence balances saw a mixed picture for manufacturing and positive signs for services, but are all still relatively weak compared with pre-recession levels. The manufacturing turnover confidence balance rose 2 points, to +38%, the highest level since Q1 2008. Manufacturers' profitability confidence fell 4 points, to +17%. The service sector's turnover confidence balance improved 10 points, to +30%, the strongest recorded result since Q1 2008. Service profitability confidence rose 4 points to +13%, also the strongest since Q1 2008.

## CAPACITY UTILISATION AND CASHFLOW

Q4 capacity utilisation remains below pre-recession levels. The percentage of manufacturing firms operating at full capacity was up 5 points, at 32%, the highest proportion since Q3 2008. In services, 34% of firms worked at full capacity, unchanged since the last quarter. Q4 cashflow balances remain weak by historical standards. The manufacturing cashflow balance improved 11 points, to +1%, the strongest recorded result since Q4 2007. Services cashflow worsened 3 points, to -11%.

## PRICES

Pressures to raise prices strengthened in Q4, but remain relatively weak. The balance of manufacturing firms reporting pressure to increase prices rose 10 points, to +10%. In the service sector, the balance of firms expecting to raise prices increased 3 points, to +18%.

## ECONOMIC CLIMATE

With improvements in most key national balances, the Q4 results support the view that we are on the brink of leaving recession. However, with some critical balances still in negative territory, the UK economy is struggling to enter recovery. All the domestic balances are disappointingly feeble. Negative balances for investment in plant and machinery highlight the risks to Britain's productive potential if sharp falls in business capital spending are not reversed. The results reveal disturbing weaknesses facing the service sector; these must be remedied to enable the UK to attain a sustainable recovery. The urgent need to improve business access to bank finance is confirmed by the Q4 cashflow balances, which are barely positive for manufacturing and have moved deeper into negative territory for services. As the UK embarks on the huge task of repairing its public finances, further supportive measures are needed to enable businesses to sustain recovery and avert a dangerous relapse. The welcome improvement in export balances, particularly for manufacturing, must be nurtured in order to strengthen Britain's position in world trade.