Risks and rewards of turmoil in the eurozone

A deal has been done to bail out Greece and prevent further problems in the eurozone. But what does the debt crisis mean to firms in Greater Manchester. Adam Jupp reports

CHANCELLOR George Osborne described it as an 'important and positive development'. French president Nicholas Sarkozy went one step further, calling it 'extremely momentous', while Christine Lagarde, head of the International Monetary Fund, said it was 'game-changing'.

The European debt deal saw 109bn euros pledged to bail out Greece and a series of measures introduced to prevent future financial crises across the continent.

But many commentators say the rescue package is little more than a sticking plaster, and there are fears that further eurozone turmoil is just around the corner.

And with that in mind, what is the impact on businesses here in Greater Manchester?

"The euro area, which grew to 17 countries this year – with others queuing to join – is Greater Manchester's largest export market, and the part of the world we are still most connected to – so if they sneeze, we catch a cold," says Baron Frankal, director of economic strategy at Manchester think tank New Economy.

Latest figures from UK Trade & Investment reveal seven of the top 10 export markets for north west companies are based in the EU, though the list does not include Greece.

That accounts for 47% of all exports out of the region, with a further 2.5% going to non-EU European states.

Amid squeezed public finances and government austerity measures in the UK, firms of all sizes are relying on sending goods and services overseas for growth

But if the problems faced by the likes of Greece, Portugal and Ireland spread to the rest of the continent, orders could slow, hitting exporters in the region.

"The problem is both micro, for example French customers could stop buying our goods, and macro, in that if there's another global economic meltdown, we'll be in the eye of the storm like everyone else," says Frankal.

"It wasn't clear to many people in 2007 why they should worry about the money markets drying up – until the recession of 2008.

"The risks of global economic turbulence leading to another great recession are still low, but they are not now negligible."

He adds: "There's not much we can do about it all here in Manchester, but it will affect us deeply if the legs of a very tentative UK recovery are cut away."

Manufacturers' alliance the EEF says firms in the region have yet to feel the full impact of the euro crisis, with many insisting on up-front payments to safeguard orders.

However, members have reported frustration at public sector bodies on the continent expressing an interest in placing orders but having their hands tied by budget cuts.

Elsewhere, currency fluctuations due to the uncertainties in the eurozone have affected the price of raw materials, particularly metal. Many firms says they have struggled to pass on higher commodity prices to customers for fear of losing business, hitting profit margins by as much as 40%. The debt deal struck late last Thursday prevented Greece from going bust and possibly triggering a global recession leading to the break-up of the eurozone.

'The euro area is Greater Manchester's largest export market and the part of the world we are still most connected to – so if they sneeze, we catch a cold'

To cope with the wider insecurity sweeping through the continent, EU leaders came up with the idea of shaking up the European Financial Stability Facility, which has already bailed out Greece once, as well as Ireland and Portugal.

It will now have the power to act in advance of a crisis, rather than responding to one, and it can also lend directly to banks which run out of capital, rather than to governments. But one thing Europe's leaders couldn't agree on was where the money for the 440m-euro EFSF would come from.

That means the fund would struggle to deal with the threat of contagion to other, less stable states, such as Italy and Spain.

RBS estimates at least 2trillion euro would be needed to prop up their economies, which would force the EU's juggernauts – France and Germany – to put their hands in their pockets, sending their debt-to-output rations sky-high.

With these two nations second and third on the list of north west export markets, this would have a clear impact on businesses in the region. But some commentators are keen to stress it is not all doom and gloom.

■ Top, Baron Frankal says if the eurozone sneezes, Manchester catches a cold. Above, Greek Prime Minister George Papandreou, European Council President Herman Van Rompuy and European Commission President Jose Manuel Barroso

"When countries run out of money, it can have a pretty direct impact because export markets tend to dry up," says Dr Thomas Kirchmaier, of the Manchester Business School.

"So, the question then is how drastically will economic activity drop but the issue is so nation-specific and so sector-specific.

"It all depends on the nature of the businesses in Greater Manchester and who they export to. If you take pharmaceuticals as the example, there will be constant demand for these products.

"However, if you are company producing luxury items, that could stop almost immediately if spending in Europe becomes affected.

"And you always have to look on the bright side. Germany is a big export market for the UK and it is booming.

"At the same time, all the turmoil in Europe keeps the euro down, which means countries like Germany are importing more.

"So, if you are a company in the supply chain for the automotive industry, it is positive. There are many businesses in the UK and Greater Manchester that supply to the German automotive industry and they are doing really well. So, it is possible to over-paint the gloom."

What all analysts are agreed on is the need for firms in Greater Manchester not to put their eggs in one basket.

And that means finding ways to export to emerging markets, such as Brazil, India and China. UKTI data shows north west exports to Brazil were up 62% in 2010, India 43% and China 28%. But there is still work to do.

"We need to uncouple Manchester's trade flows from our traditional and weakening markets and hitch our wagons instead to the global growth markets of now and the future," says Frankal.

Dr Brian Sloan, of the Greater Manchester Chamber of Commerce adds: "The message to businesses in the region is they should look towards other world markets and to organisations like UKTI for advice on how to break into them. There is a market out there for Greater Manchester products and we have to explore the opportunities."

UKTI north west director Clive Drinkwater points out that despite being the world's sixth biggest economy, we are only the 14th biggest exporter to China.

"These are the kind of markets where there is going to be real growth and real opportunities for north west businesses," he says.