



West Midlands

Quarterly Economic Snapshot Q3 2020

Analysis of West Midlands Combined Authority area business sentiment and economic trends



Paul Faulkner

*Chief Executive
Greater Birmingham
Chambers of Commerce*

Comment on Export Trends

It was pleasing to see a slight rise in the number of firms reporting an increase in overseas sales compared to the last quarter, which was a record low, with only 8% of firms reporting an increase in export sales in Q2. However, while we are starting to see signs of a recovery, export levels across the region remain significantly down on the figures reported before the crisis with more than a third of businesses (37%) experiencing a fall in overseas sales compared to 17% in Q4 of 2019. The picture remains similar for export orders which have also picked up slightly since the last quarter and goes to show that the recovery remains fragile.

For firms trading internationally, the spectre of Brexit looms on the horizon with less than three months to go now, until the end of the transition period. To help businesses prepare, the GBCC has teamed up with the West Midlands Combined Authority, the Coventry & Warwickshire Chamber of Commerce and the Black Country Chamber of Commerce to scale up existing support. We are offering fully funded places on a choice of 24 high quality international trade focused training courses and businesses can find out more by visiting the Brexit section of our website.

Comment on Business Confidence



Corin Crane

*Chief Executive
Black Country
Chamber of Commerce*

Business confidence has taken a dip over the last few months, with the impact of COVID-19 and the potential for a messy and disorderly exit from the European Union, many firms are facing an uncertain future. Just 38% of firm responding to the survey are expecting their profits to increase over the next year and what is more alarming is that 40% of firms are expecting their profits to fall over the next 12 months. The impact of COVID-19 and the closing of the economy has been the final straw for many firms who struggled to turn a profit. On the other hand turnover is expected to increase with 43% of the total companies surveyed showing increased levels of confidence.

The West Midlands region recorded negative GDP growth of 0.6% over 2018 and 2019 and while the declines in indicators of activity slowed as the UK economy gradually reopened, they remain well short of pre-pandemic levels with little sign of a swift 'V'-shaped recovery. The government's Winter Economy Plan may provide a short-term boost to business confidence in the region however more needs to be done to support and bolster the confidence across business communities based here.

Comment on Recruitment Trends



Louise Bennett

*Chief Executive
Coventry and Warwickshire
Chamber of Commerce*

Employment in the region appears to have stabilised but, of course, the Government's furlough scheme is still working at full force. It will be in the coming weeks, as that support comes to an end, when we really find out just how high the unemployment figure might reach. This was the time when we hoped that more and more elements of the economy would be beginning to reopen but, due to the latest round of restrictions, we are seeing more difficult decisions being taken by business.

It does, therefore, make sense that it has eased recruitment difficulties for those businesses that are looking to take on new staff because there should be a bigger pool of talent to recruit from. However, the fact that there are still issues around getting skilled staff in both the service and manufacturing sectors shows there is still a really need to invest in training and skills, particularly in certain areas of our economy.

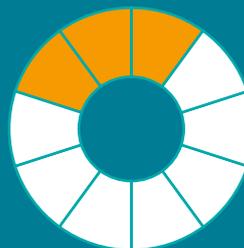
The Government's latest round of business support announcements did focus heavily on skills - including the Lifetime Skills Guarantee - and the results of the survey prove that this will continue to be an issue for firms long after the Covid-19

Key Statistics

Recruitment Difficulties (QES Data)

33%

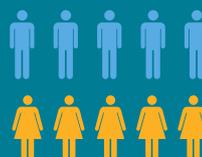
of manufacturers in the region faced recruitment difficulties – a fall of 15% compared to Q2 2020



Of all firms surveyed,

26%

faced recruitment difficulties in Q3 – a fall of 18% compared to Q2 2020.



25%

of service firms in the region faced recruitment difficulties – a 18% fall compared to Q2 2020

Official Statistics for Employment Trends (West Midlands/UK)

- For the period May - July 2020, the employment rate in the West Midlands was 75.2 %, having increased by 0.7% since the previous quarter (February 2020 - April 2020)
- Across the UK, employment increased slightly by 0.1% to 76.5%, unemployment increased by 0.2% to 4.1% and inactivity decreased by 0.3% to 20.2%
- Average earnings, excluding bonuses, grew by 0.2% per year in the three months to July (2020)

Export Trends (QES Data)

A Balance Score of:

38

for businesses in both sectors combined recorded for Export Sales (a fourteen point increase compared to Q2 2020).



This was based on:

▲ 13%

of firms reported an increase in export sales for Q3

(a 5% increase from Q2 2020)

= 50%

of firms reported constancy in export sales for Q3

(a 18% increase from Q2 2020)

▼ 37%

of firms reported a decrease in export sales for Q3

(a 22% fall from Q2 2020)

22%

of manufacturers across the West Midlands reported an **increase** in their **overseas sales** compared to 9% of service firms.

15%

of all companies across the region expected their international output to go up over the next 3 months. 50% of firms expected their overseas orders to stay the same for Q3 whereas 39% of all businesses expected them to fall in the upcoming months.

Official Export Statistics (West Midlands/UK)

- In the year to June 2020, the West Midlands Regional trade in goods exports was worth £27.5bn; a decrease of 14% compared with the same time period last year, while the UK levels decreased by 9% totalling £314.2bn
- The West Midlands is the largest export region in the UK outside of the South East and London (accounting for 8.8% of all UK exports)
- West Midlands imports decreased by 18% with the same time period in 2019 totalling £31.3bn

Key Statistics

Business Resilience (QES Data)

A Balance Score of:

56 for businesses in both sectors combined recorded for price pressures (an increase of 3 points compared to Q2 2020).



21%

of service firms expect the prices of their goods and services to increase over the next three months, compared to 25% of manufacturers



This was based on:

▲ **21%**

expecting the price of their goods and services to increase over the next three months

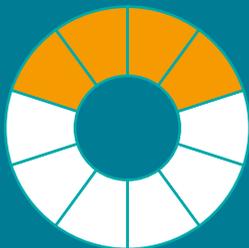
= **70%**

expecting the price of their goods and services to remain the same over the next three months

▼ **8%**

expecting the price of their goods and services to decrease over the next three months. (a 5% decrease compared to Q2 2020)

Firms involved in transport and distribution were under the greatest pressure to raise their prices (40%) followed by 33% of construction firms and 32% of businesses providing consumer services.



The overall balance score for cash flow projections was

37

This was based on:

20% expect their cash flow projections to improve
33% expect cash flow levels to stay the same
47% expect cash flow to worsen (a 16% decrease compared to Q2 2020)

36%

of manufacturers across the region expect their cash flow levels to fall compared to 49% of service firms.



Business Investment (QES Data)

Across the region as a whole

15%

of businesses reported that investment plans for capital expenditure had been revised upwards, 43% responded that investment in capex had remained the same and 42% had lowered their plans for investing in equipment.

14%

of service companies across the region increased their capex spend, 43% maintained consistency in their spend and 43% reduced it.

Key Statistics

Price Pressures and Investment Levels (UK Trends)

- The Consumer Prices Index including owner occupiers' housing costs (CPIH) 12 month inflation rate was 0.5% in August 2020, down from 1.1% the previous month. The largest downward contributions to the change in the CPIH 12-month inflation rate between July and August 2020 came from falling prices in restaurants and cafes due to the Eat Out to Help Out Scheme
- Across the UK, median weekly earnings for full-time employees reached £585 in April 2019, an increase of almost 3% over a twelve month period
- Business investment fell by 26.5%, in volume terms, between Quarter 1 (Jan to Mar) 2020 and Quarter 2 (Apr to June) 2020.

Business Confidence (QES Data)

A Balance Score of:

49 for businesses in both sectors combined was recorded for profitability projections (an increase of eleven points compared to Q2 2020).



- From a sector perspective, the highest proportion of firms expecting a fall in their profits were based in the tourism and hospitality industry (74%).
- The overall balance score for turnover projections increased by thirteen points for firms operating across the region as a whole. A score of 53 was based on 43% of the total number of companies surveyed expecting their turnover to go up whilst only 37% envisaged a decrease in turnover levels.

This was based on:

▲ **38%**

of all firms expecting their profits to increase in the next 12 months

= **22%**

of all firms expecting their profits to stay the same in the next 12 months

▼ **40%**

of all firms expecting their profits to fall in the next 12 months

Business Confidence (UK Trends)

- Between 2018 Q2 and 2019 Q2 the West Midlands recorded negative GDP growth of 0.6%, whilst growth for the UK as a whole was + 1.4%
- The West Midlands recorded negative GDP growth of 0.6% in Q4 2019 - below the UK average growth of 0%
- UK GDP fell by 7.6% in the three months to July 2020 following two consecutive quarterly falls.

Business Commentary



Steve Harcourt
Director
Prime Accountants Group

“The UK was officially in a recession following two consecutive quarters of negative growth in 2020 Q1 and Q2. The overall effect of COVID-19 on the UK economy resulted in around a quarter of GDP in 2020 Q2 being erased.

Economic indicators within the QES Q3 point to a recovery, buoyed by the release in business and economic activity, partly supported by pent-up consumer demand and growing confidence from the drop-off in COVID-19 cases. This, combined with the additional economic policies announced in July (e.g. Eat Out to Help Out, the temporary cut in VAT for the hospitality and leisure sector), helped boost spending. Although, the ongoing Government support is going to lead to a budget deficit and ultimately some long term fiscal tightening will be needed after the full recovery from this crisis.

There is still significant uncertainty over the pace and path of the recovery, especially in light of the growing number of cases which have led to another round of limited national restrictions, as well as the behaviour of the virus in the winter, degree of economic scarring and the outcome of the UK-EU trade negotiations. This is shown in the QES results for the region, as the overall economic outlook in the short term is still pessimistic, both in the Service and Manufacturing sectors.”

About the West Midlands Quarterly Economic Snapshot

The West Midlands Quarterly Economic Snapshot offers an up to date picture of the performance of the business community in the West Midlands Combined Authority area. It is the most comprehensive regular report of its kind in the region. The findings of the snapshot are informed by official statistics for national and West Midlands region geographies sourced from bodies such as IHS/Markit CIPs and the Office of National Statistics along with WMCA area data gathered from quarterly economic surveys which are conducted by The Greater Birmingham Chambers of Commerce, Black Country Chamber of Commerce and Coventry and Warwickshire Chamber of Commerce.

The quarterly economic surveys consist of information gathered from local businesses on key indicators such as sales, exports, recruitment plans and turnover projections. In total, 539 businesses across the West Midlands completed the Quarterly Economic Survey with 84% of them operating in the services sector and 16% operating in the manufacturing sector. Percentage balance figures are determined according to business responses to the indicators: an increase (multiplied by 1), remain constant (multiplied by 0.5), decrease (multiplied by 0). A score of over 50 is indicative of a growth sentiment.

Official Quarterly Economic Snapshot Sponsors



Birmingham City University

Official sponsor of Greater Birmingham Chambers of Commerce Quarterly Business Report



Prime Accountants Group

Official sponsor of Coventry & Warwickshire Chamber of Commerce Quarterly Economic Survey

About the Chambers

Greater Birmingham Chambers of Commerce

The Greater Birmingham Chambers of Commerce (GBCC) is here to connect, support and grow local businesses. Accredited by the British Chambers, we have acted as the voice of local businesses since 1813.

W: www.greaterbirminghamchambers.com

E: policy@birmingham-chamber.com

T: @grbhamchambers



Black Country Chamber of Commerce

Black Country Chamber of Commerce is a membership organisation that provides support to businesses throughout Dudley, Sandwell, Walsall and Wolverhampton. Black Country Chamber provide help, advice and a range of services.

W: www.blackcountrychamber.co.uk

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Coventry & Warwickshire Chamber of Commerce

The Coventry & Warwickshire Chamber of Commerce is a business membership organisation with five branches across the region - Rugby, Coventry, Mid, North and South Warwickshire.

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