



West Midlands

Quarterly Economic Snapshot

Q4 2020

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



Paul Faulkner

Chief Executive
Greater Birmingham
Chambers of Commerce

Comment on Recruitment Trends

It is unsurprising to see that the number of firms reporting recruitment difficulties has only slightly increased from the record low score recorded in the previous quarter. With more and more people out of work this year as a result of the pandemic, the current jobs market contrasts sharply with this point last year (Q4 2019) when the labour market was far tighter with 49% of firms struggling to recruit compared to only 27% this quarter.

In the short term, it is expected that the market will remain favourable to employers with the government's furlough scheme set to end in April, which is likely to lead to further jobs losses and an increasingly competitive labour market. However, there are some challenges on the horizon, particularly for employers heavily reliant on workers from the EU, with freedom of movement between the UK and the EU now at an end and a new UK points based immigration system taking its place.

With this in mind, it is essential that businesses invest in upskilling their existing workforce and look at new ways of attracting talent to their organisation. I would encourage local businesses to get involved with the Chamber's Growth Through People campaign, which is taking place in March and aims to help firms boost their productivity through improved leadership and people management skills. The campaign includes four weeks of free events culminating in a digital conference on Tuesday 30th March – full details can be found on our website.



Corin Crane

Chief Executive
Black Country
Chamber of Commerce

Comment on Business Confidence

The quarter once again saw businesses tackling the challenges presented by COVID-19 resulting from depressed trading conditions, confidence and moving swiftly to respond to lockdowns and new restrictions. We also saw continuing uncertainty around what the future trading relationship with the EU would look like.

Confidence, skills and productivity remain a high priority for businesses with many projecting either flat growth or a downturn in these areas. As we enter an economic downturn the likes of which the country hasn't experienced for three centuries, it is encouraging to see that more than a quarter of businesses in the Black Country expected to see an increase in domestic sales, orders, turnover and profit. Whilst pricing pressure and cash flow concerns are high, there appears to be a growing ability in recruiting the right people to the right roles.

The next few months, as we go into 2021, will remain challenging times for many businesses and sectors and we will very much continue to champion the needs of members and the regional business community to ensure that they get access to the help and measures needed.



Louise Bennett

Chief Executive
Coventry and Warwickshire
Chamber of Commerce

Comment on Export Trends

Exporters had to suffer a perfect storm of the Coronavirus crisis added to all of the uncertainty around Brexit so it comes as no surprise that the final QES of 2020 showed that overseas trade was far from the level we need it to be it.

This region is, traditionally, a strong exporter and we have to get back to that as quickly as possible and business should use the support available to them to pursue their existing markets but also look to new ones.

Companies across the region are still getting to grips with the new trade deal with the EU and we'll only know in the weeks and months ahead just how big an effect leaving the EU will have and how easy it will be for businesses to trade under the new arrangements.

International trade will play a major part in our plans to grow the economy after the Covid-19 crisis and it is therefore vital that businesses are given opportunities to look at new markets to ensure we can trade our way out of the crisis.

Key Statistics

Recruitment Difficulties (QES Data)

33%

of manufacturers in the region faced recruitment difficulties – a fall of 23% compared to Q4 2019

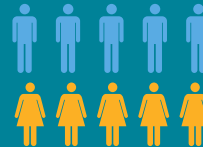


Of all firms surveyed,

27%

faced recruitment difficulties in Q4 – a fall of 1% compared to Q3 2020.

25%



of service firms in the region faced recruitment difficulties – a 22% fall compared to Q4 2019. This was most evident for service sector businesses operating in:

Official Statistics for Employment Trends (West Midlands/UK)

- For the period August-October 2020, the employment rate in the West Midlands was 75%, having increased by 0.6% since the previous quarter (May 2020-July 2020).
- Across the UK, the employment rate decreased by 0.5% to 75.2%, unemployment increased by 0.7% to 4.9% and inactivity remained the same at 20.8%.
- Average earnings, excluding bonuses, grew by 2.8% per year in the three months to October(2020)

Export Trends (QES Data)

A Balance Score of:

43

for businesses in both sectors combined recorded for Export Sales (a five point increase compared to Q3 2020).

This was based on:



▲ 17%

of firms reported an increase in export sales for Q4

(a 4% increase from Q3 2020)

= 51%

of firms reported constancy in export sales for Q4

(a 1% increase from Q3 2020)

▼ 33%

of firms reported a decrease in export sales for Q4

(A 4% fall from Q3 2020)

29%

of manufacturers across the West Midlands reported an increase in their overseas sales compared to 10% of service firms.

19%

of all companies across the region expected their international output to go up over the next 3 months. 47% of firms expected their overseas orders to stay the same for Q1 whereas 34% of all businesses expected them to fall in the upcoming months.

Official Export Statistics (West Midlands/UK)

- In the year to September 2020, the West Midlands Regional trade in goods exports was worth £25.5bn; a decrease of 20% compared with the same time period last year, while the UK levels decreased by 14% totalling £299.3bn.
- 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 22% with the same time period in 2019 totalling £29.6bn

Key Statistics

Business Resilience (QES Data)

A Balance Score of:

60 for businesses in both sectors combined recorded for price pressures (a 4 point increase compared to Q3 2020).

This was based on:



23%

of service firms expect the prices of their goods and services to increase over the next three months, compared to 37% of manufacturers



▲ 26%

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

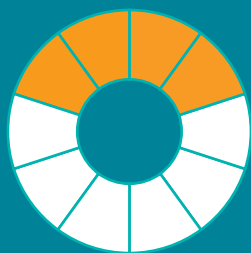
= 67%

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

▼ 7%

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

Only 5% of firms in the Black Country expected to reduce their prices over the next 3 months, compared to 7% of firms in Greater Birmingham and 14% of businesses in Coventry & Warwickshire



The overall balance score for cash flow projections was

39

This was based on:

22% expect their cash flow projections to improve
34% expect cash flow levels to stay the same
44% expect cash flow to worsen (a 3% decrease compared to the previous quarter)

39%

of manufacturers across the region expect their cash flow levels to fall compared to 45% of service firms.

The largest proportion of manufacturers reporting a fall in cash flow projections are based in:



Black Country: ■■■■ 42%
GBCC: ■■■■ 40%
C&W: ■■■ 27%

Business Investment (QES Data)

Across the region as a whole

14%

of businesses reported that investment plans for capital expenditure had been revised upwards, 47% responded that investment in capex had remained the same and 39% had lowered their plans for investing in equipment.

14%

of service companies across the region increased their capex spend, 46% maintained consistency in their spend and 40% reduced it.

Regionally, the largest proportion of manufacturers recording a drop in capex investment levels were based in Coventry and Warwickshire(40%), compared to 34% based in Greater Birmingham and 24% in the Black Country.

Key Statistics

Price Pressures and Investment Levels (UK Trends)

- The Consumer Prices Index including owner occupiers' housing costs (CIPH) 12 month inflation rate was 0.6% in November 2020, down from 0.9% the previous month. The largest downward contributions to the change in the CPIH 12-month inflation rate between October and November 2020 came from falling prices for clothing, food and non-alcoholic beverages
- Across the UK, median weekly earnings for full-time employees reached £586 in April 2020, an increase of 0.1% over a twelve month period
- Business investment increased by 9.4%, in volume terms, between Quarter 2 (Apr to June) 2020 and Quarter 3 (July to September) 2020

Business Confidence (QES Data)

A Balance Score of:

52

for businesses in both sectors combined was recorded for profitability projections (an increase of three points compared to Q3 2020).



- From a regional perspective, the highest proportion of firms expecting a fall in their profits were based in Greater Birmingham (40%) whereas the largest proportion of firms expecting their profits to increase were based in Coventry & Warwickshire (47%)

This was based on:

▲ 39%

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

= 25%

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

▼ 37%

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

- The overall balance score for turnover projections remained the same as the previous quarter. 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.

Business Confidence (UK Trends)

- The West Midlands recorded negative GDP growth of 3.5% in Q1 2020 –whilst growth for the UK as a whole was -2.5%
- UK GDP grew by 3.3% in the three months to October 2020 following three consecutive quarterly increases.

Business Commentary



Steve Harcourt
Director
Prime Accountants Group

As the toughest year many businesses have ever had to face came to an end, it was clear that the imminent announcement of the vaccine rollout had a positive impact on the outlook held by business leaders, however this was before the new, more infectious strain emerged. Assuming the vaccine is effective against this new strain and the spread is reduced by the third lockdown we have entered, we should remain hopeful that this positive outlook will become reality, as we head towards normality, or what will be the new normal.

With the Brexit deadline approaching during Q4 and a light at the end of the tunnel in regards to COVID-19, we can see that a majority of respondents to the survey predicted business to improve in the next 12 months, and in the short term, 93% of businesses expected their sales to rise, or remain the same. With only 7% predicting decreases prior to the third lockdown, we can hope that despite the new challenges, the outlook remains promising for the majority. Export sales for many were expected to stay consistent or increase, with a third predicting a decrease, a figure that was to be expected whilst uncertainty surrounding the Brexit deal continued throughout Q4.

As we head into 2021 with a Brexit deal finally in place and hope that the destruction caused by COVID-19 will begin to be repaired for those who were fortunate enough to continue in business, we can only hope that this year will eventually return to pre Covid levels in the economy. However, a few hurdles still remain at present; the impact of the third lockdown, the end to the furlough scheme and other Government support schemes being phased out. With a resilient local economy being more optimistic than the national average, there is a real sense of pent up demand to be realised and progress to be made in Coventry & Warwickshire.

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, 583 businesses across the West Midlands completed the Quarterly Economic Survey with 81% of them operating in the services sector and 19% 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.

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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](https://www.instagram.com/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

E: website@blackcountrychamber.co.uk

T: [@BCCCmembers](https://www.instagram.com/BCCCmembers)



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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