



West Midlands

Quarterly Economic Snapshot Q2 2020

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



Paul Faulkner

*Chief Executive
Greater Birmingham
Chambers of Commerce*

Comment on Business Confidence

It will come as no surprise to you that business confidence has nosedived dramatically this quarter with over half of the firms surveyed expecting their turnover and profitability to fall over the next 12 months. To put this in perspective, the number of firms expecting their turnover and profitability to decrease over the next year has risen by 41% and 39% respectively on this time last year.

Whilst the level of government support for businesses to date has been unprecedented, there are still too many businesses that have fallen through the cracks. Moving forward we would like to see sector specific support for the hardest hit industries that are yet to re-open and enhanced needs tested grant funding for local businesses that currently fall outside of government support schemes. To really help jump start the economy and bring about a sustainable recovery, it is also vital that the government secures a comprehensive free trade agreement with the EU and invests in business support programmes to end the perennial uncertainty and give business the confidence to adapt to any forthcoming changes.

Here at the Chamber we will continue to support businesses throughout this difficult period and keep them informed over the weeks and months ahead. I would encourage local businesses to visit our website to keep abreast of the latest developments and for further advice, guidance and best practice on returning to the workplace.



Corin Crane

*Chief Executive
Black Country
Chamber of Commerce*

Comment on Recruitment Trends

COVID-19 is having a substantial impact on all aspects of our lives. The immediate focus and ongoing priority is, inevitably, and correctly, on public health however there is a rapidly growing concern around the impact of the pandemic on employment.

Recruitment trends and changing labour market data is one of the key indices of any economy. In times of boom we see high levels of recruitment and in times of bust we see a period of uncertainty.

The impact of COVID-19 on the labour market is yet to be felt in our region with the current government support schemes in place pressing 'pause', and while those reporting recruitment difficulties are down (50% manufacturers surveyed down by 6% from Q4 2019 and 43% of service firms surveyed down by 4% from Q4 2019) this could be masking a larger issue that those jobs they were struggling to recruit for simply do not exist anymore.

The dual imperative of our time, for both government and businesses, is safeguarding lives and livelihoods. As we move into the next phase of the crisis, it is important that both public- and private-sector leaders in the West Midlands pay heed to the potentially rapid divergence in the fortunes of different groups of people.



Louise Bennett

*Chief Executive
Coventry and Warwickshire
Chamber of Commerce*

Comment on Export Trends

The survey results are not surprising when it comes to export sales but they are, of course, very concerning. The Coronavirus crisis has impacted the economy in a myriad of ways - not just domestically but right across the globe. Supply chains and consumption have been hit all over the world and that has clearly had a massive impact on companies across our patch and their ability to export. As we begin the process of restarting and rebuilding our economy, we have to look to the world as well as at home when we are looking to grow our businesses. Exports are vital.

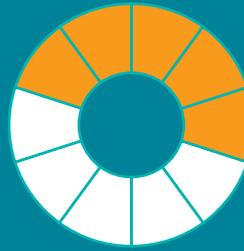
The pandemic has hit at a point when the UK is also negotiating its future trading relationship with the EU and beginning talks with other economies around the world with regards to trade deals. Most businesses across the region will be hoping that we can reach a positive agreement with the EU so that trading with our nearest neighbours remains as easy as possible. However, we'd urge firms to prepare now rather than wait to see what the outcome of the talks is going to be. And, as we move forward, firms are going to need even greater help in opening up new markets overseas if we are going to trade our way out of this recession.

Key Statistics

Recruitment Difficulties (QES Data)

50%

of manufacturers in the region faced recruitment difficulties – a fall of 6% compared to Q4 2019

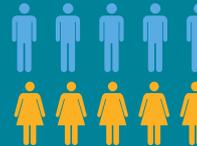


Of all firms surveyed,

44%

faced recruitment difficulties in Q2 – a fall of 5% compared to Q4 2019.

43%



of service firms in the region faced recruitment difficulties – a 4% fall compared to Q4 2019

This was most evident for service sector businesses operating in:

GBCC: **52%**

C&W: **44%**

Black Country: **42%**

Official Statistics for Employment Trends (West Midlands/UK)

- For the period February-April 2020, the employment rate in the West Midlands was 74.5 %, having decreased by 0.7% since the previous quarter (November 2019-January 2020)
- Across the UK, employment fell slightly by 0.1% to 76.4%, unemployment remained largely unchanged at 3.9% and inactivity increased by 0.1% to 20.5%
- Average earnings, excluding bonuses, grew by 1.7% per year in the three months to April (2020)

Export Trends (QES Data)

A Balance Score of:

24

for businesses in both sectors combined recorded for Export Sales (a thirty point fall compared to Q4 2019).



This was based on:

▲ 8%

of firms reported an increase in export sales for Q2

(a 16% fall from Q4 2019)

= 32%

of firms reported constancy in export sales for Q2

(a 27% fall from Q4 2019)

▼ 60%

of firms reported a decrease in export sales for Q2

(The highest figure on record since reporting began in Q1 2018)

8%

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

9%

of all companies across the region expected their international output to go up over the next 3 months. 30% of firms expected their overseas orders to stay the same for Q2 whereas 61% of all businesses expected them to fall in the upcoming months.

For the third consecutive quarter, the highest proportion of manufacturers reporting a fall in their export business came from Greater Birmingham (68%) whereas the Black Country had the highest percentage of manufacturing firms reporting constancy in their volume of international business (44%).

Official Export Statistics (West Midlands/UK)

- In the year to March 2020, the West Midlands Regional trade in goods exports was worth £30.6bn; a decrease of 6.1% compared with the same time period last year, while the UK levels decreased by 2.2% totalling £336.6bn
- The West Midlands is the largest export region in the UK outside of the South East and London (accounting for 9.1% of all UK exports)
- In the year to March 2020, West Midlands imports decreased by 10.3% with the same time period in 2018 and reached £34.4bn

Key Statistics

Business Resilience (QES Data)

A Balance Score of:

53 for businesses in both sectors combined recorded for price pressures (a drop of 15 points compared to Q4 2019).

This was based on:



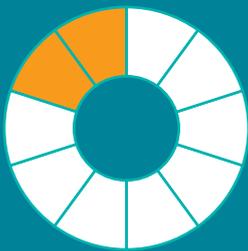
18%

of service firms expect the prices of their goods and services to increase over

the next three months, compared to 23% of manufacturers



Firms in the Black Country were under the greatest pressure to raise their prices (20%) compared to 19% of firms in Coventry & Warwickshire and 19% of businesses in Greater Birmingham



The overall balance score for cash flow projections was

24

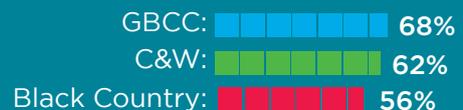
This was based on:

11% expect their cash flow projections to improve
26% expect cash flow levels to stay the same
63% expect cash flow to worsen (a 47% increase compared to Q4 2019)

65%

of manufacturers across the region expect their cash flow levels to fall compared to 62% of service firms.

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



Business Investment (QES Data)

Across the region as a whole

9%

of businesses reported that investment plans for capital expenditure had been revised upwards, 36% responded that investment in capex had remained the same and 55% had lowered their plans for investing in equipment.

9%

of service companies across the region increased their capex spend, 37% maintained consistency in their spend and 54% reduced it.

Regionally, the largest proportion of manufacturers recording a drop in capex investment levels were based in the Black Country (72%), compared to 58% based in Greater Birmingham and 48% in Coventry & Warwickshire.

Key Statistics

Price Pressures and Investment Levels (UK Trends)

- The Consumer Prices Index including owner occupiers' housing costs (CIPH) 12 month inflation rate was 0.7% in May 2020, down from 0.9% the previous month. The largest downward contributions to the change in the CIPH 12-month inflation rate between April and May 2020 came from motor fuels and a variety of recreational and cultural goods
- 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 0.5% between Quarter 3 (July to Sept) 2019 and Quarter 4 (Oct to Dec) 2019, following three consecutive quarters of positive growth

Business Confidence (QES Data)

A Balance Score of:

38 for businesses in both sectors combined was recorded for profitability projections (a decrease of thirty-three points compared to Q4 2019).



- From a regional perspective, the highest proportion of firms expecting a fall in their profits were based in Coventry & Warwickshire (58%) whereas the largest proportion of firms expecting their profitability to remain the same were based in Greater Birmingham (22%)
- The overall balance score for turnover projections fell by thirty-four points for firms operating across the region as a whole. A score of 40 was based on 31% of the total number of companies surveyed expecting their turnover to go up whilst only 53% envisaged a decrease in turnover levels.

This was based on:

▲ **28%**

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

= **20%**

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

▼ **52%**

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 1.6% in Q2 2019 – significantly below the UK average growth of -0.2%
- UK GDP fell by 10.4% in the three months to April 2020 which is the biggest fall the UK has ever seen

Business Commentary



Steve Harcourt
Director
Prime Accountants Group

“It is an extremely challenging time for all the businesses in our region, however we are proud to be partnered with Coventry and Warwickshire Chamber of Commerce in order to gather this vital information on how companies are managing, adapting and diversifying in the current crisis. Not many businesses are immune to the impact of Coronavirus, and this is seen in the results of the latest West Midlands Quarterly Economic Snapshot.

The results of the survey show an immediate adverse impact on the cash flow of businesses in the region; and a pessimistic outlook over the coming months as most businesses strive to return to working at full capacity. The Government lifting some restrictions on businesses will help stimulate the local economy, as we see employees return to work from a position of furlough. However, there is still the need for sector specific support from central government; as the likes of the entertainment & leisure sectors and some of the hospitality businesses struggle to pay bills with no income coming from trade for the foreseeable future. I would also add that we must support the key workers and businesses that have helped keep the country going through this crisis, suppliers to the NHS & Delivery Companies/ Contractors must not be penalised with red tape and Government must look at the flexibility needed in the workforce of the future.”

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, 1085 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.

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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



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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