



West Midlands

Quarterly Economic Snapshot Q1 2021

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



Henrietta Brealey

Chief Executive
Greater Birmingham
Chambers of Commerce

Comment on Export Trends

The first quarter of 2021 represented one of the most difficult periods for British exporters in recent history with firms having to get to grips with the new rules and regulations following the UK's departure from the European Union. Brexit has resulted in more red tape for businesses with many firms experiencing shortages and delays during the past three months which has pushed up the cost of exporting to the EU.

Despite this upheaval, it is encouraging to see that the number of companies overall reporting an increase in exports rose from 17% in Q4 2020 to 20% in Q1 2021. However, the outlook for manufacturers' in particular remains challenging with the number of firms expecting their export orders to increase over the next three months falling to 23% compared to 33% the previous quarter.

Whilst some short-term disruption is to be expected, it is clear that some of the issues facing businesses cannot be attributed to just teething problems and will have a permanent impact on trade. Whilst the £20m SME Brexit support fund is a start, we would call upon the government to increase the amount of funding available under the scheme and take a more long-term approach to supporting businesses in adjusting to the new trading arrangements with the EU.



Corin Crane

Chief Executive
Black Country
Chamber of Commerce

Comment on Recruitment Trends

The start of 2021 was always set to be a challenging one for the West Midlands business community with the uncertainty around Brexit and the potential for a no deal transition already delaying many investment decisions. Furthermore, the fact that many areas of our economy remained closed or severely impacted due to ongoing COVID-19 restrictions not only continued to dominate the agenda but meant that the traditional new period of people looking for a new start and new challenges with the advent of a new year failed to manifest itself. These factors combined to exacerbate longstanding skills shortages with nearly 40% of business around the region experiencing difficulties in recruiting to key posts.

2020 has been a transformative year for many with customer expectations and demands changing, an increased shift in remote working and the need for businesses to be more visibly in step with the priorities of their workforce. As the real transition period for Brexit has only just begun with the introduction of the UK and EU Trade and Co-operation Agreement, and the gradual opening up of the economy following the vaccine roll out and end of lockdown measures, those longstanding skills shortages will begin to move back up the agenda and the Chambers will continue to shine a spotlight on this area and keep up pressure on policymakers whilst helping our members to respond to shifting priorities of potential employees to ensure that they remain attractive and exciting places for individuals to join and contribute to their mutual success.



Sean Rose

Head of Policy
Coventry and Warwickshire
Chamber of Commerce

Comment on Business Confidence

When you take into consideration that the first three months of 2021 saw our leisure, hospitality and events sector still closed along with non-essential retail, as well as the fact that the new trading relationship with the EU was just kicking in, these results paint a reasonably positive mood among our businesses.

There is no question that the past 12 months have bitten hard but through a combination of government help, excellent local and regional support and businesses' own resilience, firms are looking forward to getting back to doing what they do best.

That said, it's going to take several months to really understand how our economy is going to recover and some of the confidence will have been brought on by the rapid roll out of the vaccine and the fact businesses are looking forward to trading again.

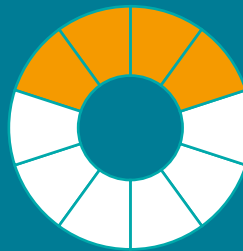
That's why our QES surveys are going to be vitally important in the year ahead to make sure we have our finger on the economic pulse, but we can certainly draw confidence from our survey of 2021 without being complacent.

Key Statistics

Recruitment Difficulties (QES Data)

37%

of manufacturers in the region faced recruitment difficulties – an increase of 4% compared to Q4 2020



Of all firms surveyed,

39%

faced recruitment difficulties in Q1 - an increase of 12% compared to Q4 2020.

40%

of service firms in the region faced recruitment difficulties – a 15% increase compared to Q4 2020



Official Statistics for Employment Trends (West Midlands/UK)

- For the period November 2020-January 2021, the employment rate in the West Midlands was 73.9%, having fallen by 1.1% since the previous quarter (August 2020 -October 2020).
- Across the UK, the employment rate fell by 0.3% to 75%, unemployment increased by 0.1% to 5% and inactivity increased by 0.2% to 20.8%.
- Average earnings, excluding bonuses, grew by 4.2% per year in the three months to January (2021)

Export Trends (QES Data)

A Balance Score of:

44

for businesses in both sectors combined recorded for Export Sales (a one point increase compared to Q4 2020).



28%

of manufacturers across the West Midlands reported an increase in their overseas sales compared to 16% of service firms.

17%

of all companies across the region expected their international output to go up over the next 3 months. 53% of firms expected their overseas orders to stay the same for Q2 whereas 31% of all businesses expected them to fall in the upcoming months.

This was based on:

▲ 20%

of firms reported an increase in export sales for Q1

(a 3% fall from Q4 2020)

= 47%

of firms reported constancy in export sales for Q1

(a 4% fall from Q4 2020)

▼ 33%

of firms reported a decrease in export sales for Q1

(no change from Q4 2020)

Official Export Statistics (West Midlands/UK)

- In the year to December 2020, the West Midlands Regional trade in goods exports was worth £24.5bn; a decrease of 23% compared with the same time period last year, while the UK levels decreased by 16% totalling £263.5bn.
- West Midlands imports decreased by 19% with the same time period in 2019 totalling £29.6bn

Key Statistics

Business Resilience (QES Data)

A Balance Score of:

66

for businesses in both sectors combined recorded for price pressures (an increase of 6 points compared to Q4 2020).



32%

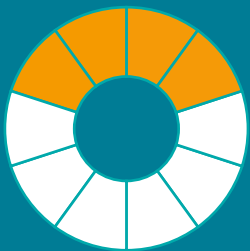
of service firms expect the prices of their goods and services to increase over the next three months, compared to 47% of manufacturers



This was based on:



Only 3% of firms in the Black Country expected to reduce their prices over the next 3 months, compared to 3% of firms in Greater Birmingham and 6% of businesses in Coventry & Warwickshire



The overall balance score for cash flow projections was

43

This was based on:

23% expect their cash flow projections to improve
39% expect cash flow levels to stay the same
39% expect cash flow to worsen (a 5% decrease compared to the previous quarter)

34%

of manufacturers across the region expect their cash flow levels to fall compared to 40% 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

20%

of businesses reported that investment plans for capital expenditure had been revised upwards, 48% responded that investment in capex had remained the same and 32% had lowered their plans for investing in equipment.

19%

of service companies across the region increased their capex spend, 48% maintained consistency in their spend and 33% reduced it

Regionally, the largest proportion of manufacturers recording a drop in capex investment levels were based in Coventry and Warwickshire (32%), compared to 30% based in Greater Birmingham and 14% in the Black Country.

Key Statistics

Price Pressures and Investment Levels (UK Trends)

- The Consumer Prices Index including owner occupiers' housing costs (CIPH) rose by 0.7% in the 12 months to February 2021, down from 0.9% to January. The largest downward contributions to the change in the CPIH 12-month inflation rate between January and February 2021 came from falling prices for clothing, second hand cars and games, toys and hobbies.
- 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 5.9%, in volume terms, between Quarter 3 (July to September) 2020 and Quarter 4 (October to December) 2020

Business Confidence (QES Data)

A Balance Score of:

66

for businesses in both sectors combined was recorded for profitability projections (a increase of fourteen points compared to Q4 2020).



- From a regional perspective, the highest proportion of firms expecting a fall in their profits were based in Greater Birmingham (26%) whereas the largest proportion of firms expecting their profits to increase were based in the Black Country (62%)
- The overall balance score for turnover projections increased by 18 points compared to the previous quarter. A score of 71 was based on 62% of the total number of companies surveyed expecting their turnover to go up whilst only 20% envisaged a decrease in turnover levels.

This was based on:

▲ 54%

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

=24%

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

▼ 22%

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

Business Confidence (UK Trends)

- The West Midlands recorded negative GDP growth of 21% in Q2 2020 –whilst growth for England as a whole was -19 %
- UK GDP contracted by 9.9% during 2020, representing the largest annual fall in GDP on record.

Business Commentary



Steve Harcourt
Director
Prime Accountants Group

The start of 2021 began with the third, and potentially the toughest, lockdown the country had endured yet. Non-essential businesses were once again forced to close as we stayed home to save the NHS and allow time for the vaccine rollout to continue. With this fortunately running as expected an end to restrictions are now in sight, many businesses are now able to reopen in the second quarter which I am sure will be a welcomed step as these businesses attempt to make up for lost time. A positive outlook appears to be one held by business leaders across Coventry and Warwickshire, after the local service sector business confidence index soared this quarter with more than 75% predicting an increase or to maintain their profit levels within the next quarter, which is likely as life starts looking that bit more normal.

With a clear path now laid out by the Government and proposed dates so far going ahead as planned, it comes as no surprise that local services have seen a surge in orders, as everyone prepares for normal life to return once more. These orders are providing businesses with the positive boost they need, after a year of uncertainty and we can hope that the number of sales, and in turn profit, will also follow suit and rise as businesses come back to full capacity. We should now all continue to do our bit and support local businesses where possible.

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, 683 businesses across the West Midlands completed the Quarterly Economic Survey with 78% of them operating in the services sector and 22% 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



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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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T: @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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