Greater Birmingham Chambers of Commerce

BIRMINGHAM CITY University

Quarterly Business Report

Q3 | 2021

Connect. Support. Grow.

Henrietta Brealey

Chief Executive
Greater Birmingham Chambers of Commerce

Surveying for our latest Quarterly Business Report took place after the majority of Covid-19 related restrictions had been lifted across the country and it's great to see positive sentiment coursing through the veins of the Greater Birmingham business community. In particular, domestic demand has risen to a level not seen since the end of 2018. Export sales, investment in capital expenditure and recruitment activity all mirror the levels we saw prior to the outbreak of the pandemic. Turnover and profitability projections have also continued their upward trajectory as businesses look ahead to the next twelve months.

Nevertheless, persistent challenges remain as businesses attempt to adapt to an evolving landscape. Issues related to cash flow remain stubbornly high and price pressures are the largest on record for the last 24 years. In addition, a greater number of businesses are facing difficulties in attempting to add to their headcount; all of which is unsurprising given the supply and labour shortages we've seen exacerbated by the so called 'pingdemic' and post Brexit headwinds. The Prime Minister was right to urge caution as he announced details of the Government's Winter Plan and the restrictions that businesses could potentially face if capacity is constrained across the NHS over winter. As a Chamber, we will continue to offer support and guidance to local firms in relation to the latest measures and lobby on their behalf to ensure the voice of business is at the heart of regional and national decision making.

Professor Julian Beer

Deputy Vice-Chancellor
Birmingham City University

The latest quarterly survey indicates a continued journey to economic recovery, coinciding with the lifting of remaining limits on social contact, and the removal of limits and social distancing requirements across all settings, which were in place at the time of the last survey. Business confidence in improved turnover and profitability has continued to climb across manufacturing and services to a high not seen since Q4 2018. Over half of respondents reported that domestic sales or custom increased over the last quarter, whilst a similar proportion indicated that their forward order book for UK custom had grown.

However, downsides remain, with the percentage of firms who have experienced recruitment difficulties over the last quarter at its highest level since Q1 2019, driving upward pressure on wages. Whilst almost six in ten business respondents (57%) are attempting to recruit, 62% had encountered difficulties in finding the right staff – a figure that rises to 72% in manufacturing. Disruption to supply chains also continued, with a majority of manufacturing businesses expecting prices to increase over the next three months, largely driven by the cost of raw materials.

About the Quarterly Business Report

The Greater Birmingham Chambers of Commerce's Quarterly Business Report offers an up to date snapshot of the performance of the Greater Birmingham business community. It is the most comprehensive regular report of its kind in the city-region. Underpinning our report is data gathered from quarterly surveys on key indicators such as sales, exports, investment intentions, Brexit and the workforce. The Greater Birmingham Quarterly Business Report launched in 2016, succeeding the previous Quarterly Economic Survey Report.

The Chambers survey businesses across the Greater Birmingham Chambers area which includes Birmingham, Solihull, Sutton Coldfield, Lichfield & Tamworth, Cannock Chase and Burton-on-Trent. 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 figure over 50 is indicative of growth; a figure under 50 represents contraction.

DOMESTIC DEMAND

The domestic demand balance climbed for the third consecutive quarter to a figure of 70 – the largest number on record since the end of 2018

Across the board, 52% of businesses reported an increase in UK sales and 13% recorded a fall in domestic activity (down from the 17% listed in Q2) which meant the overall balance score went up by two points. The service sector balance score also rose by two points to 70, much of this was down to a minor uplift in the number of service firms reporting higher UK sales (up from 52% to 53% in Q3) and a reduction in the percentage of businesses reporting a drop in national activity (down from 17% to 14% in the current quarter). In a similar vein, the manufacturing balance score for domestic sales went up by five points to 72 – the highest total recorded since Q1 2017. This was mainly attributed to an increase in the percentage of manufacturers maintaining constancy in their domestic output (up from 34% in the last quarter to 46% in Q3) whilst we also saw a concurrent fall in the number of manufacturers reported lower domestic sales (down from 16% to 6% in Q3).

The balance score for domestic orders also went up by two points to 69 as 50% reported an increase in advanced UK orders (up from the 49% in Q2) and 13% reported a fall in the same category (down from 17% in the previous quarter). The results mirror developments we have seen at the national level. The easing of Covid-19 restrictions in England on July 19th contributed to GDP growing by 0.1% between June 2021 and July 2021; however, economic output remains 2.1% below the levels recorded prior to the onset of the pandemic. Nevertheless, the sharp slowdown in economic growth illustrates the problems that firms are still facing with labour and supply shortages. Although the Bank of England expects GDP to reach its pre-coronavirus levels by the end of the year, the energy crisis which has engulfed Europe is a sharp reminder of the obstacles we are likely to face on the path to economic recovery.

DOMESTIC SALES		
Balance ▲ 2 Points		
▲ 52%	= 35%	▼ 13%

DOMESTIC ORDERS		
Balance ▲ 2 Points		
▲ 50%	= 37%	▼ 13%

PRICE PRESSURES & EXTERNAL FACTORS

CASH FLOW		
Balance ▲ 0 Points		
▲ 29%	= 45%	▼ 27%

EXTERNAL FACTORS	
INFLATION	22%
BUSINESS RATES	12%
INTEREST RATES	9%
COMPETITION	24%
EXCHANGE RATES	9%
TAXATION	24%

The price index balance score rose by five points to 71- the highest figure on record since we started collating digital data in 1997

Only once before has the price index balance score reached 70 or above – at the start of 2017 in the aftermath of the EU referendum. In the current quarter, 41% of businesses expect their prices to go up over the next three months – the largest percentage we've seen since the start of 2017. For the first time in the history of the report, the percentage of businesses that planned to lower their prices over the following quarter was zero which underlines the severity of the situation that many businesses find themselves in. In terms of the reasons cited as to why firms are under pressure to raise prices, 33% mentioned the cost of raw material prices (a 3% drop compared to Q2) and 17% mentioned finance costs (a 3% increase compared to Q2). 14% referred to pay settlements (the same percentage as Q2) which is not surprising given the upward pressures created by recruitment challenges. Nationally, the annual pay growth for total pay was 8.3% and regular pay was 6.8% in May to July 2021.

For the second consecutive quarter, the cashflow balance score remained at 52 with 29% of business reporting that cash flow had improved over the last three months (compared to 31% in Q1); however, this was offset by 27% of firms suffering from a weakened cash flow position (compared to 29% in the last quarter) which led to stability in the balance score. In addition, 54% of business are operating at full capacity – a uplift of 4% from Q2 and the largest figure on record since the end of 2018. With the Government announcing in September that from April 2022 to April 2023, National Insurance contributions will increase by 1.25%, it was perhaps no surprise to see 24% of businesses expressing concerns in relation to corporate taxation (the largest percentage reported since Q1 2016). Likewise, for the third consecutive quarter, we saw an increase in the number of firms referring to inflation as more of a concern in comparison to three months ago (22%). Nationally, the CPI index rose by 3.2% in the 12 months to August 2021 – up from 2.0% in July. The reading is once again above the Bank of England's target of 2% and it remains to be seen whether this is a transitory occurrence amid rising energy prices and the relaxation of national restrictions.

EXPORT DEMAND

Export demand continued its upward trajectory as local businesses grapple with global supply chain issues

Across the two sectors combined, it was pleasing to see an increase in the number of firms reporting growth in international sales, which went up from 32% to 35%. By contrast, the percentage of firms that saw a drop in overseas sales went down by 6% to 17% which meant the balance score went up to 59 – the highest on record since Q3 2019. Export demand amongst manufacturers also saw a minor uplift. The balance score rose by a single point as a greater number of manufacturers saw their non-UK sales remain constant in Q3 (up from 31% to 35%). The number of manufacturers that saw their export sales fall this quarter also went down from 25% to 22% which led to a total balance score of 61. The rise in export demand was much more noticeable in the services industry as 31% saw an uplift in export sales (an increase of 3% compared to the last quarter) and 14% noted a decline in overseas sales (down from the 22% recorded previously) which meant the balance score climbed by six points to 59.

Advanced export orders also seemed in rude health as the balance score went up to by 10 points to 65 – a level not witnessed since the start of 2017. This was mainly down the fact that we saw a sharp rise in the percentage of firms across the board that saw their export orders go up this quarter (44% in Q3 compared to 32% in Q2). Nationally, the ONS revealed that the total export of goods (excluding precious metals) fell by £0.3bn (1.0%) in July, mainly as a result of a £0.9bn fall (which equates to 6.5%) in exports to the European Union, whilst exports to non-EU countries increased by £0.7bn. Despite the well documented issues which businesses have experienced in attempting to adapt to the post Brexit trading landscape, it's pleasing to see that exports to non-EU markets have risen. For those businesses looking to expand their presence overseas, the GBCC International Team provide dedicated support covering both export and import strategies and offer services across documentation, overseas contacts and translation services – full details can be found here.

EXPORT SALES

Balance
▲ 5 Points

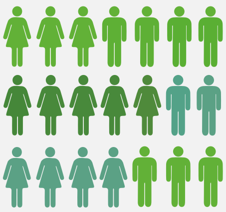
▲	=	▼
35%	48%	17%

EXPORT ORDERS

Balance
▲ 6 Points

▲	=	▼
44%	41%	14%

WORKFORCE & RECRUITMENT



WORKFORCE

Balance
▲ 6 Points

▲	=	▼
32%	58%	14%

57%

OF FIRMS ATTEMPTED TO RECRUIT

OF WHICH

62%

FACED RECRUITMENT DIFFICULTIES

Hiring activity continued to pick up over the summer, however, the difficulties that businesses face in attempting to recruit remain apparent

The workforce balance score for businesses in both the services and manufacturing industry increased by 6 points to 61 in the current quarter, which is the largest score recorded since the end of 2019. We saw a clear fall in the percentage of firms that were reducing their headcount this quarter (down from 22% in Q2 to 14% in Q3); coupled with a largescale increase in the percentage of firms that maintained hiring levels this quarter (up from 46% to 58% in Q3). 57% of businesses across the region attempted to recruit this quarter (a 4% increase compared to Q2) and of those, 62% faced difficulties during the process – an increase of 9% compared to the last quarter and the highest percentage on file since Q1 2019.

Nationally, the UK employment rate was estimated at 75.2% - 0.5% percentage points higher than the previous quarter (February to April 2021), but 1.3% lower than prior to the outbreak of the pandemic (December 2019 to February 2020). The number of job vacancies across the country was 1,034,000 in June to August 2021 – the first time vacancies had risen over one million since records began and now 249,000 above its pre-coronavirus pandemic level (January to March 2020 level). From a regional perspective, the West Midlands Employment Rate was estimated at 74.2% from May to July 2021 – a 1.0% increase compared to February to April 2021.

BUSINESS INVESTMENT & BUSINESS CONFIDENCE

Investment in training and capital expenditure continued their upward climb as business confidence remains firm heading into 2022

For the first time since Q3 2019, the capex balance score went up by three points to a figure of 56 in the current quarter. 27% of businesses had increased their capex spend over the last 3 months (compared to 25% in Q2) and 15% reported a drop in capex investment (down from the 15% recorded in the last quarter). Likewise, the training balance score went up by two points to 59 (the largest number on file since Q1 2020). Again, much of this was down to the fact that 33% registered an increase in training investment (up from 31% in Q2) which led to a rise in the balance score.

The turnover balance score also increased by seven points to 81. This was mainly attributed to the fact that 67% of businesses expect their profits to go up over the next 12 months – the largest percentage on record since the end of 2018 and an increase of seven percent compared to the last quarter. Likewise, the profitability balance score went up by a single point to 75 – also the largest number registered since the end of 2018. In total, 61% of businesses forecasted an increase in profit levels over the next 12 months (compared to 60% in the last quarter), whereas only 11% expect their profitability margin to narrow over the same time period (down from the 13% listed in Q2).

CAPEX

Balance ▲ 3 Points

▲	=	▼
27%	58%	15%

TURNOVER

Balance ▲ 7 Points

▲	=	▼
67%	26%	6%

Raj Kandola

Head of Policy
Greater Birmingham Chambers of Commerce

Chamber Comment

Labour and supply shortages continue to threaten a sustained economic recovery

Q1 2020	Q2 2020	Q3 2020	Q4 2020	Q1 2021	Q2 2021	Q3 2021
56%	44%	26%	35%	39%	53%	62%

Table A: Percentage of local businesses facing recruitment difficulties Q1 2020 to Q3 2021

As national restrictions continue to ease, the UK economy remains on track to bounce back as the release of pent-up consumer demand should help to power a surge in economic activity throughout the rest of the year. Nevertheless, as data from our latest Quarterly Business Report underlines, staff shortages, rising prices and supply chain disruption are likely to have a knock on impact any projected recovery. In particular, if labour and supply shortages remain prolonged, this will have a noticeable impact on activity and the capacity for firms to meet customer demand.

The table above tracks the percentage of firms that have attempted to hire and faced challenges doing so throughout the pandemic. The percentage of firms that faced recruitment issues fell sharply during the pandemic (from 56% in Q1 2020 to 26% in Q3 2020). This was potentially linked to the number of redundancies that businesses made during this period and the fact that businesses had a larger talent pool of candidates to choose from. Nevertheless, that figure has continued to climb since Q3 2020 and the level in Q3 2021 exceeded the pre-pandemic figure (62% in the current quarter compared to 56% in Q1 2020).

In this context, it is vital the Government formulates a clear strategy which will safeguard a longer-term economic recovery. In particular, we support the British Chambers of Commerce in calling on the Government to create a more flexible immigration system which can help to tackle labour shortages, alongside training and direct support for furloughed workers that are returning to the job market.

About GBCC

The Greater Birmingham Chambers of Commerce (GBCC) is a membership-led, business support organisation that has acted as the voice of local businesses since 1813. Today, we continue to connect, support and grow local businesses.

We are one of the largest Chambers in the country, with over 3,000 member companies covering six geographic areas across the region (Birmingham, Burton, Chase, Lichfield and Tamworth, Solihull and Sutton Coldfield) and four themed divisions (Asian Business Chamber of Commerce, Future Faces, the Transatlantic Chamber of Commerce and the Commonwealth Chamber of Commerce).

Members range from young professionals to SMEs and large, high profile organisations, including 40 Chamber Patrons comprising companies such as Mondelez International, Jaguar Land Rover and The NEC Group.

About Birmingham City University

Birmingham City University is a dynamic, business-engaged institution. As a substantial employer with over 2,000 staff and through the provision of graduate talent, research and knowledge transfer, we contribute around £180 million to Birmingham's gross domestic product (GDP).

The university works with in excess of 5,000 businesses, regionally, nationally and internationally, with our courses informed by Industry Advisory Boards, where information about business needs are reviewed and skills challenges are discussed. In 2015 we launched Advantage, the business growth service from Birmingham City University enabling organisations and individuals to get connected with knowledge, skills and money in business, innovation and enterprise.

We have extensive sector linkages providing detailed intelligence and input into future innovation, driving thinking around smart specialisation, the creative economy, advanced manufacturing and health-related life sciences. Through our work with partners such as the GBS LEP, WMCA, Science City, and Creative City Partnership, we take a lead on cross innovation, design and climate change. Innovation is at the core of our work. Working in partnership is at the core of our approach to business.

Join the Conversation

Join the conversation by following at @grbhamchambers and using #GBCCQBR

Greater Birmingham
Chambers
of Commerce

Quarterly Business Report

If you have any further questions on the report please contact Raj Kandola on 0121 274 3264 or r.kandola@birmingham-chamber.com
For more information go to www.birmingham-chamber.com

Join the conversation by following @grbhamchambers and using #GBCCQBR

Pictured (Front): Victoria Law Courts, Birmingham City Centre