Greater Birmingham Chambers of Commerce

Black Country Chamber of Commerce

Coventry & Warwickshire Chamber of Commerce
The Ultimate Business Network

West Midlands

Quarterly Economic Snapshot Q3 2021

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

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Henrietta Brealey

Chief Executive
Greater Birmingham
Chambers of Commerce

Comment on Recruitment Trends

Local business confidence continued to improve this quarter, but rising recruitment difficulties remain a potential drag on growth. Data collected this period shows an increase in balance scores across all areas compared to Q3 2020 and many of these now indicate growth, which wasn't the case last year. We are also seeing from the national data that employment rates are on the rise in the West Midlands compared to last year, with projections as of October 2021 suggesting that this will increase further in Quarter 4.

Despite the promising figures outlined above there is still disruption within the labour market caused by the pandemic and Brexit, and we've seen an increase of 5% in the number of businesses experiencing recruitment difficulties during the reporting period. This has hit the manufacturing sector particularly hard. Wider data also suggests that the continuing supply-chain issues, labour and skills shortages in both services and manufacturing have also been a major factor affecting recruitment in the region in Q3.

In summary, while there remain challenges ahead across the emerging energy crisis and ongoing fallout from COVID-19, these results are promising. We hope to see this confidence continue to build through Q4 and provide a springboard for an economic recovery as we head into next year.

Corin Crane

Chief Executive
Black Country
Chamber of Commerce

Comment on Business Confidence

Overall, business investment increased during the quarter, but remains below pre-pandemic levels. This quarter has demonstrated that the COVID-19 recovery and an altered trading landscape in a post-Brexit world remain, at best, a mixed picture for businesses throughout the region.

Whilst over a quarter of businesses have plans to increase capital expenditure, well over half are saying they have no plans to revise their investment decisions, with 16% lowering plans to purchase new equipment. Similarly, with nearly 60% of businesses hoping to see increases in profits during the next 12 months, there remain nearly 30% who are projecting no growth in profits and a further 14% anticipating a decline in profits. With an increasingly sharp focus on businesses plans for getting to net-zero and developing their green credentials, capacity to invest in updated processes, equipment and infrastructure will be essential.

With a regional decrease in GDP recorded, investment decisions are being held back due to a range of factors escalating the cost of doing business including international freight, a rapid increase in energy prices, raw material costs rising, supply chain pressures, and recruitment challenges.

Sean Rose

Head of Policy
Coventry and Warwickshire
Chamber of Commerce

Comment on Export Trends

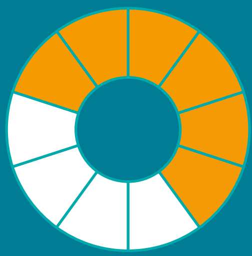
There are many issues affecting businesses across the region – from supply chain through to recruitment. Exports are a key to economic growth and success, particularly at a time when we are looking to bounce back from the recession brought about by the Covid-19 crisis. Our survey shows that overseas sales for the service sector are on the rise, which is positive news.

"But there has been a very concerning dip in the outlook for manufacturing exporters in our region in the latest QES. This is down to a range of factors including Brexit and the ongoing issues around increasing costs and the issues in supply chain. It's something that must be addressed to give confidence to our manufacturers looking to export.

As the most recent GDP figures showed, the economy is growing but it is still significantly short of pre-pandemic levels. It's vitally important that decision-makers look at how businesses are feeling,
understand the issues they are facing and look to find solutions that allow the economy to come back stronger from Covid in the months and years ahead.

Key Statistics

Recruitment Difficulties (QES Data)



Of all firms surveyed,

62%

faced recruitment difficulties in Q2 - an increase of 5% compared to Q2 2021.

68%

of manufacturers in the region faced recruitment difficulties – an increase of 12% compared to Q2 2021 and the highest reported since Q1 2019

60%

of service firms in the region faced recruitment difficulties – a 3% increase compared to Q2 2021

Official Statistics for Employment Trends (West Midlands/UK)

- For the period June 2021-August 2021, the employment rate in the West Midlands was 74.6%, having increased by 0.6% since the previous quarter (March 2021 –May 2021).
- Across the UK, the employment rate rose by 0.5% to 75.3%, unemployment decreased by 0.4% to 4.5% and the inactivity rate decreased by 0.2% to 2.1%.
- Around 6% of businesses were taking part in the Coronavirus Job Retention Scheme (Furlough) as of 31st July 2021. This was higher for manufacturing (9%) and higher still in some areas of the service industry such as accommodation and food services (15%).

Export Trends (QES Data)

A Balance Score of:

49 for businesses in both sectors combined recorded for Export Sales (a one point increase compared to Q2 2021).

32% of manufacturers across the West Midlands reported an **increase** in their overseas sales compared to 23% of service firms.

28% of all companies across the region expected their international output to go up over the next 3 months. 45% of firms expected their overseas orders to stay the same for Q4 whereas 27% of all businesses expected them to fall in the upcoming months.

This was based on:

▲ 27%

of firms reported an increase in export sales for Q3

(a 1% increase from Q2 2021)

= 43%

of firms reported constancy in export sales for Q3

(a 1% fall from Q2 2021)

▼ 30%

of firms reported a decrease in export sales for Q3

(no change from Q2 2021)

Official Trade Statistics (West Midlands/UK)

- The West Midlands Regional trade in goods exports was worth £26.2bn in Q2; a decrease of 4.9% (equivalent to £1.3bn) compared with the same time period last year, while the UK levels decreased by 3.5%, totalling £301.9bn.
- West Midlands imports increased by 4.4% compared to the same time period in 2020 totalling £32.9bn

Key Statistics

Business Resilience (QES Data)

A Balance Score of:

73 for businesses in both sectors combined recorded for price pressures (an increase of five points compared to Q2 2021).

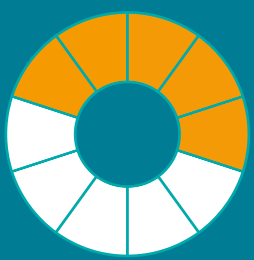
This was based on:

▲46%	= 53%	▼2%
expecting the price of their goods and services to increase over the next three months	expecting the price of their goods and services to remain the same over the next three months	expecting the price of their goods and services to fall over the next three months

41%

of service firms expect the prices of their goods and services to increase over the next three months, compared to 61% of manufacturers

4% of firms in Coventry and Warwickshire expected to reduce their prices over the next 3 months, compared to 1% of businesses in Greater Birmingham and no firms in the Black Country.



The overall balance score for cash flow projections was

52

This was based on:
29% expect their cash flow projections to improve
46% expect cash flow levels to stay the same
25% expect cash flow to worsen (a 2% decrease compared to the previous quarter)

25%

of both manufacturers and services firms across the region expect their cash flow levels to fall

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

Black Country: **35%**
GBCC: **29%**
C&W: **23%**

Business Investment (QES Data)

Across the region as a whole

26% of businesses reported that investment plans for capital expenditure had been revised upwards, 58% responded that investment in capex had remained the same and 16% had lowered their plans for investing in equipment

26% of service companies across the region increased their capex spend, 59% maintained consistency in their spend and 15% reduced it

Regionally, the largest proportion of manufacturers recording a drop in capex investment levels were based in Coventry and Warwickshire (25%), compared to 19% in the Black Country and 12% in Greater Birmingham.

Key Statistics

Price Pressures and Investment Levels (UK Trends)

- The Consumer Prices Index including owner occupiers' housing costs (CIPH) rose by 2.5% in the 12 months to June 2021, up from 2.1% to May. The largest upward contributions to the change in the CPIH 12-month inflation rate between May and June 2021 came from rising prices for food, second-hand cars, clothing and footwear, eating and drinking out and motor fuel.
- Business investment grew by 4.5% in Quarter 2 (April to June) 2021. This is 12.8% lower than the pre-pandemic level in Quarter 4 (October to December) 2019.

Business Confidence (QES Data)

A Balance Score of:

72 for businesses in both sectors combined was recorded for profitability projections (a decrease of two points compared to Q2 2021).

This was based on:

▲58% of all firms expecting their profits to increase in the next 12 months

=28% of all firms expecting their profits to stay the same in the next 12 months

▼14% of all firms expecting their profits to fall in the next 12 months

The overall balance score for turnover projections decreased by two points compared to the previous quarter. A score of 79 was based on 67% of the total number of companies surveyed expecting their turnover to go up whilst 9% envisaged a decrease in turnover levels.

Business Confidence (UK Trends)

- The West Midlands recorded a GDP decrease of 0.3% in Q4 2020 –whilst growth for England as a whole was 1.2%.
- UK gross domestic product (GDP) is estimated to have increased by 4.8% in Quarter 2 (April to June) 2021, following the easing of coronavirus (COVID-19) restrictions and is now 4.4% below its pre-pandemic level.

Business Commentary

Steve Harcourt
Director
Prime Accountants Group

"The overall economic outlook in Q3 has fallen from the levels of Q2, however it is important to point out that both the service & manufacturing sectors in Coventry & Warwickshire remain above the 50 point index marker, indicating optimism within the local economy for the next 12 months. It really is a tale of two sectors in Q3 with a drop off and slowing in demand for manufacturing, while the service sector which makes up around 80% of the economy, is seeing improvement nearly all the way across the board.

"With overseas and domestic sales, employment and investment/cash flow all increasing; suggesting the region is getting back to work as remaining restrictions are lifted, and returning to near capacity in this sector.

"Manufacturing businesses across the region are highlighting key areas of concern as we move through this period of recovery, supply of product, supply of labour and price demands on both of these components. Recruitment difficulties are being reported across all sectors of the economy, which has its origins in leaving the EU and then the pandemic putting a halt to training and apprenticeship progression in most businesses; leaving local businesses with a shortage of skilled people to recruit from. Speaking to clients in manufacturing we are hearing of large raw material price rises, for example, sheet metal prices at twice the level per tonne than 2 years ago. It is unsustainable for a business not to pass these rising costs on during Q4 and on into 2022.

Coventry & Warwickshire is still trending above the UK average when considering general business confidence, which historically has always been the case as we see solutions to challenges, innovation and opportunities throughout our economy."

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, 508 businesses across the West Midlands completed the Quarterly Economic Survey with 77% of them operating in the services sector and 23% 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. Note that figures may not always total exactly due to rounding differences.

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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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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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