Greater Birmingham Chambers of Commerce

BIRMINGHAM CITY University

Quarterly Business Report

Q4 | 2021

Connect. Support. Grow.

Henrietta Brealey

Chief Executive
Greater Birmingham Chambers of Commerce

The latest data from our Quarterly Business Report reveals an upturn in domestic and international activity as we head towards the end of another extraordinary year, with a record number of domestic sales and an increase in export sales to a level that we haven't seen since early 2019. However, this is offset by the highest increase in price pressures on record, as well as a stark rise in recruitment difficulties experienced by local businesses. The reported growth in investment in training will be essential to begin to close some of the skills gaps that are being reported locally, regionally and at a national level.

Profitability and turnover projections are also continuing their upward trajectory which is contributing to a building sense of business confidence. It's a sentiment that's been often expressed as the Chamber has started to revisit in-person events and we look forward to hosting our Annual Dinner in March, to which over a thousand businesses are expected to attend. Nevertheless, with the emergence of the Omicron variant, we understand that a sense of uncertainty will continue to pervade business thinking in the coming months. That's why, as a Chamber, we will continue to play our part in keeping business moving - including sharing news on the latest Government regulations or working with both local and national stakeholders to ensure the needs of business are central to their plans.

Professor Julian Beer

Deputy Vice-Chancellor
Birmingham City University

Whilst there is something of the familiar about Q4 2021, with a new Coronavirus variant discovered, and measures introduced to slow its spread creating uncertainty, the latest data provides grounds for optimism. A majority of business respondents, for example, continued to report either stability or growth in the UK market (89%) and export market (85%) in terms of their sales, custom or bookings over the quarter.

Further, a majority of respondents (83%) also reported that their forward orders had remained either constant or had increased. Businesses also ended the calendar year with a good degree of buoyancy – investment intentions in equipment, and training, for example, had either increased or remained unchanged for over 4 in 5 of those surveyed, whilst confidence in turnover and profitability remained strong.

Looking forward, however, it is clear that the business environment in the New Year will not be without challenge. A third of survey respondents highlighted inflation as being of greater concern than three months ago, likely reflecting the increase in the cost of raw materials, higher fuel costs and strong wage demands. In terms of the labour force, whilst three in five (60%) reported an active recruitment of staff; 76% had experienced difficulties in doing so over the last three months – the highest level since the financial crisis of 2007.

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 Chamber surveys businesses across the Greater Birmingham 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. Note that figures may not always total exactly due to rounding differences.

DOMESTIC DEMAND

The domestic demand balance score continues to improve, with a figure of 72 – the largest on file since digital records began in 1997.

54% of firms reported an increase in UK sales, which contributed to a balance score increase of two points compared to Q3. This can be attributed to a strong improvement in the services sector, where 57% of firms saw an increase (compared to 53% in Q3) and a balance score increase of four points to 74. In contrast, manufacturers experienced a substantial fall from last quarter- seven balance points down from 72 to 65. This is due to a nine percent increase in the number of firms reporting a drop in domestic activity.

The balance score for domestic orders remained unchanged this quarter at 69. The manufacturing industry has experienced a growth in orders, with 47% reporting an increase. This has boosted the manufacturing balance score by two points to 68. Services, on the other hand, have seen their balance score fall from 70 to 68. This is due to a smaller proportion of firms reporting an increase in orders - 49% in Q4 compared to 52% in Q3.

This continued growth mirrors figures from the Office for National Statistics, which indicates that the UK's GDP grew by 0.6% in September 2021 (still 0.6% below pre-pandemic levels). The services sector was the main contributor to growth during this time (+0.7%), while the manufacturing industry experienced volatility in output. Manufacturing across the UK saw only a small decrease in production output (-0.1%), but there were particularly hard-hit sub-sectors that are prominent in Greater Birmingham, such as the manufacture of motor vehicles (-8.2% nationally) and the sale and repair of motor vehicles (-13.3% nationally).

DOMESTIC SALES

Balance
▲ 2 Points

▲	=	▼
54%	35%	11%

DOMESTIC ORDERS

Balance
- 0 Points

▲	=	▼
49%	39%	12%

PRICE PRESSURES & EXTERNAL FACTORS

CASH FLOW

Balance
▲ 5 Points

▲	=	▼
35%	44%	21%

EXTERNAL FACTORS

INFLATION	33%
BUSINESS RATES	11%
INTEREST RATES	12%
COMPETITION	16%
EXCHANGE RATES	8%
TAXATION	19%

The price index balance score continued to rise by 4 points to 75, surpassing last quarter as the highest on record.

This quarter, 50% of firms reported that they expect their prices to increase over the next three months- nine percentage points larger than last quarter. However, 2% of firms anticipated lowering their costs in Q4, compared to 0% last quarter. Manufacturers appear to be experiencing this more than service firms, with a price index balance score of 89- made up of 77% who felt prices would increase and 23% expecting them to remain the same. This balance score is the highest we have seen since we started splitting data by sector in 2013. This is unsurprising when you dig further into where these price pressures are: across both sectors, raw materials were considered the key area in which price rises were anticipated (35%, which rises to 55% for manufacturing alone).

Cashflow improved across both sectors in Q4, with a balance score increase of five points compared to last quarter to 57. 35% of businesses reported that cashflow had improved over the last three months, which is a great improvement on the 15% who said the same in Q4 of 2020. Services saw the biggest improvement in balance score this quarter, up seven points from 53 to 60, though manufacturing wasn't far behind with a six-point increase from 43 to 49. While this balance score is just below 50 (the indicator of growth), this figure is positive compared to 2020 and earlier this year.

The key external pressure expressed by businesses this quarter was inflation, with 33% of respondents conveying concern. This proportion is the same as in Q3 of 2020 (when the Government's 'Eat Out to Help Out' scheme distorted prices) and the joint highest on record. To put this in context, at a national level the Consumer Prices Index rose by 4.2% in the 12 months to October 2021- up from 3.1% in September. This quarter, price increases were most pronounced for energy, food and new and used vehicles. This is further reflected in data from the additional QBR questions this quarter, where 80% of firms reported an anticipated increase in energy prices, of which 76% felt this would have a negative impact.

EXPORT DEMAND

Export sales have continued to increase this quarter, but orders have fallen as we approach the end of the year.

We've seen a rise in the number of firms seeing an increase in overseas sales between Q3 (35%) and Q4 (37%), for a balance score of 61. This is two points higher than last quarter and 14 points higher than Q4 2020. Manufacturers have seen an improved balance score for international sales, up three points from 61 to 64. This is because the number of firms reporting a decrease has fallen from 22% to 13%, while the amount reporting constancy has risen to 46%. The service sector, however, has seen a one-point decrease in balance score from last quarter (now 58).

Advance export orders have fallen across the board, with the overall balance score across the sectors falling by five points from 65 to 60. Only 36% of respondents reported an increase of advance orders this quarter, which fell to 33% for service firms. Manufacturing companies fared better, with 46% reporting an increase.

ONS data reveals that the total export of goods (excluding precious metals) increased by £0.5 billion (1.9%) in September 2021, which was driven by an 5.7% increase in exports from EU countries. Exports from non-EU countries fell by 1.9% (£0.3 billion). Given the current context, the release of the Government's new export strategy could not have been more timely. The 12-point plan focuses on how businesses can expand their overseas reach, although we would urge the Government to further clarify the specific steps firms need to take to maximise their full potential. Details on the strategy can be accessed here.

EXPORT SALES

Balance
▲ 2 Points

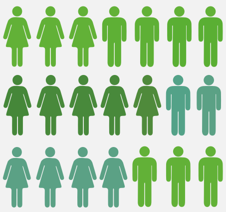
▲	=	▼
37%	48%	15%

EXPORT ORDERS

Balance
▼ 5 Points

▲	=	▼
36%	47%	17%

WORKFORCE & RECRUITMENT



WORKFORCE

Balance
▲ 3 Points

▲	=	▼
36%	55%	10%

60%

OF FIRMS ATTEMPTED TO RECRUIT

OF WHICH

76%

FACED RECRUITMENT DIFFICULTIES

Hiring activity continued to increase this quarter, but the proportion of businesses experiencing recruitment difficulties is the highest in over a decade.

The balance score for the workforce is currently 64, which is an increase of three points compared to Q3, and a 20-point improvement compared to Q4 of 2020. Only 10% of firms reported a drop in their workforce numbers this quarter, while 36% saw an increase. In terms of the next three months, firms who responded to the survey anticipated this to improve further, with 48% suggesting that they will grow headcount over the same time period.

Despite these promising figures above, issues related to recruitment activity have become more prominent this quarter. Of the 60% of firms who reported they had attempted recruiting in Q4, 76% experienced recruitment difficulties. This level of difficulty has not been seen since Q3 of 2007, when the UK economy was on the verge of being railroaded by the global financial crisis. The most cited reasons for this were: candidates didn't have the adequate skills/qualifications that the role required (30%) and that there were insufficient levels of experience in the candidate pool (25%). This reflects wider issues and official data around skills and labour shortages: ONS data suggests that there are around 38,000 fewer EU-born citizens working in the UK in Q3 of 2021 compared to Q3 2020. While this doesn't account for all unfilled vacancies, it is indicative that post-Brexit headwinds are still having an impact on national hiring.

National data estimates the UK employment rate to be 75.3% as of November 2021- 0.4% higher than the previous quarter and 1.1% lower than pre-pandemic rates. The number of job vacancies continued to rise to a new record of 1.17million in August to October 2021, with 15 out of 18 industry sectors showing record highs. Growth Through People, the GBCC's annual campaign that helps local firms improve leadership and people management skills, is returning in Spring 2022. The campaign will provide valuable advice on areas of importance in workforce and recruitment such as responsible leadership, accessing talent, and rebuilding resilience- further information is available here.

Investment in training and capital expenditure has grown for the second quarter in a row, although there is variation across sectors.

Both the capex and training investment balance scores have improved again since Q3, with capex rising by one balance point to 57 and training rising to 61- an increase of two points. For both areas of investment, this is due to fewer firms reporting a decrease and more reporting their investments remained constant. Manufacturing has seen a decrease in capex investment (the balance score dropping from 63 to 58) while services have seen an improvement (balance score rising from 54 to 57). In contrast, for investment in training there has been an increase for manufacturers- increasing from a score of 52 to 60- while services remained on a score of 60 from Q3.

Estimated turnover has continued to increase this quarter to 82, up one point from last quarter and up 31 points from Q4 of 2020. This is due to 71% of respondents reporting that they expect an increase in this area over the next 12 months. Services were more confident than manufacturing firms in this respect, with 72% of the former expecting an increase in this area compared to 67% of manufacturers. In terms of the national picture, 28% of businesses surveyed by ONS reported a decrease in turnover in November 2021, while only 7% reported an increase.

We've seen a fall in profitability expectations in Q4 for those surveyed, down three points from last quarter to 72. This is due to a 3% increase in those expecting profitability to fall in the next twelve months, while the number expecting an increase fell by four percentage points to 57%. From a sector perspective, manufacturing fell from a balance score of 72 last quarter to 68 this quarter, while services only fell by one point to 74.

CAPEX

Balance
▲1 Point

▲	=	▼
26%	62%	12%

TURNOVER

Balance
▲1 Point

▲	=	▼
71%	22%	8%

Raj Kandola

Head of Policy
Greater Birmingham Chambers of Commerce

Chamber Comment

Q1 2020	Q2 2020	Q3 2020	Q4 2020	Q1 2021	Q2 2021	Q3 2021	Q4 2021
65	53	57	58	66	66	71	75

Table A: Price index balance scores from Q1 2020 to Q4 2021

It's been really positive to see the forecast from Q3's QBR data come to fruition, with both UK and overseas sales continuing to improve quarter on quarter. Unfortunately, this isn't without its challenges, with local firms suffering from huge pressure to raise their prices. The table above shows the balance score for price pressures from the start of 2020 to the current quarter. From this, we can see that pressures dropped between Q2-Q4 of 2020 as a raft of Covid-related restrictions were introduced nationally. However, pressures are rising again now that businesses are attempting to recover from reduced operations and the effects of Brexit are starting to be felt by businesses across Greater Birmingham.

This pressure for firms to increase prices is also having an impact on other areas at the forefront of businesses' minds this quarter- namely inflation, which was a concern for one third of firms surveyed. Both Brexit and the pandemic have a hand in this, with supply shortages and high demand for certain goods pushing up prices. With cost of living rising and labour shortages affecting the delivery of goods both domestically and overseas, it is important that the Government takes action to alleviate these price pressures. It has already started to do so, with steps taken to address the shortage of HGV drivers by introducing temporary visas and reducing VAT for hospitality firms for a short time. Despite this, it is clear from this report that the issues are far more deep-seated and that temporary measures will not necessarily solve these problems.

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 2,500 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 35 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.

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

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Quarterly Business Report

If you have any further questions on the report, please contact Beth Clewes on 0121 274 3265 or b.clewes@birmingham-chamber.com For more information, go to www.birmingham-chamber.com

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Pictured (Front): The Library of Birmingham, Birmingham City Centre