



Greater Birmingham
Chambers
of Commerce



BIRMINGHAM CITY
University

Quarterly Business Report



Q2 | 2022



Connect. Support. Grow.



Henrietta Brealey

**Chief Executive
Greater Birmingham
Chambers of Commerce**

The results from the latest Quarterly Business Report offer a timely reminder of the underlying resilience of the local business community as we look forward to hosting the biggest sporting spectacle this city has ever witnessed: the Birmingham 2022 Commonwealth Games. In particular, sentiment on domestic activity for firms across the region remains strong. This quarter also showed welcome improvements on sentiment on export activity too – a testament to the ability of Greater Birmingham businesses to navigate the continued fallout from the Covid-19 pandemic and the UK's formal departure from the European Union. It was also promising to see high proportions of businesses expecting their profits and turnover to increase over the coming twelve months in spite of the well documented challenges businesses are grappling with on a daily basis.

The impact of soaring levels of inflation, exacerbated by the conflict in Ukraine and the global energy crisis, has also been reflected in this quarter's results. The price index balance score reached a record high as a growing number of businesses face pressure to raise their prices. Likewise, a record percentage of businesses expressed concerns in relation to the impact of inflation on their business. Persistent issues around accessing talent also remain apparent as a record proportion of businesses faced recruitment difficulties. Within this context, the importance of projects and events such as High Speed 2 and the Birmingham 2022 Commonwealth Games becomes even more apparent given the opportunities they present to upskill local talent across the region. As a Chamber, we will be working closely with businesses to ensure they are primed to maximise the opportunities that these once in a generation projects will bring.



Professor Julian Beer

**Deputy Vice-Chancellor
Birmingham City University**

The Q2 survey results indicate a general decline in confidence and growth across the regional business base. Over the past 3 months, for example, just 30% of businesses reported growth in their labour force compared with 40% in the preceding quarter. This ends a longstanding trend of quarterly increases in workforce growth since Q2 2020. Further, 12% of businesses identified that their workforce had decreased since the last survey.

Unsurprisingly, inflation was the external factor that businesses were most concerned about – this was cited by 41% of respondents, compared with 33% in Q1. Aligned with this, 56% of respondents expected the price of goods/services to increase – the highest level since the QBR survey began. This is likely exacerbated by the impact of the crisis in Ukraine which has led to increases in global commodity prices.

In terms of recruitment, the proportion of firms attempting to recruit fell by 5 percentage points since the last survey. Further, at 76% difficulties in recruitment were at their joint highest level since the financial crisis of 2007. Reflecting previous trends, recruitment difficulties across both services and manufacturing were most pronounced in terms of professional and managerial, and skilled manual/technical occupations.

Looking forward, levels of business confidence across the next 12 months had decreased when compared with the previous two quarters – just 59% of firms were confident that their turnover would improve (66% in Q1), whilst 49% were confident that profitability would improve (55% in Q1). This fall in confidence was particularly evident amongst manufacturing sector respondents with just 53% of businesses confident that their turnover would improve – a drop of 22 percentage points over three months.

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

Domestic activity remains very healthy despite a four point drop in the balance score to a figure of 68.

Data from both the manufacturing and service sector revealed a drop in the balance score for domestic sales this quarter compared to Q1. While manufacturing has seen a drop of eight points due to a smaller proportion of firms reporting an increase in sales (44% compared to 58% last quarter), service firms have seen a three-point drop (49% reporting an increase compared to 54% in Q1).

Domestic orders also fell across both sectors, with a combined balance score of 65 (six points lower than Q1 2022), dropping by 12 points for the manufacturing sector (to 63) and four points for service firms (to 66).

This fall is reflected in the national figures, with the Office for National Statistics reporting that Gross Domestic Product (GDP) fell by 0.3% in April 2022. Services fell by 0.3%, mainly attributed to a fall in human health activities by 7.6% due to a reduction in Covid-19 Test and Trace activity. Production fell by 0.6% and construction by 0.4%, making this the first time that all main sectors have contributed negatively to a monthly GDP growth estimate since January 2021. The Bank of England has also released its predictions for Q2 GDP growth over the next three years. Their Monetary Policy Report, published in May 2022, released estimates of 3.2%, 0.0%, 0.2% and 0.7% for Q2 2022-25 respectively.



DOMESTIC SALES

Balance
▼ 4 Points

▲
48%

=
39%

▼
13%

DOMESTIC ORDERS

Balance
▼ 6 Points

▲
42%

=
46%

▼
12%

PRICE PRESSURES & EXTERNAL FACTORS



The price index balance score increased by four points in Q2 to 78, replacing Q4 2021 as the highest on record.

56% of firms reported that they expect the price of their goods or services to increase over the next three months, a 6% increase on the previous quarter and the largest figure since digital records began in 1997. The most prominent source of these price increases is labour costs (with 32% of respondents facing this), utilities (28%) and fuel (23%). For manufacturing firms, raw materials were their main source of concern, with 29% citing this factor.

Inflation continued to be a key source of concern for businesses across the Greater Birmingham geography, with 41% of firms reporting they were more concerned about this than they were three months ago. This figure is the highest on record.

The cashflow balance score increased by two points in Q2 to 56. This is due to a 4% increase in the number of firms reporting constancy (to 46%) and a 3% drop in the proportion reporting a decrease (to 49%).

According to the Office for National Statistics, the UK Consumer Prices Index rose by 9% in the 12 months to April 2022, up from 7% in March. The largest upward contributions to this included housing and household services, restaurants and hotels, and recreation and culture. With monetary policy continuing to tighten, and the Bank of England warning of a potential recession, fiscal intervention is urgently needed to address the 'cost of doing business' crisis, help firms continue their post-pandemic recovery, and stimulate the country's economy.

CASH FLOW

Balance
▲ 2 Points

▲
31%

=
49%

▼
20%

EXTERNAL FACTORS

INFLATION

41%

BUSINESS
RATES

9%

INTEREST
RATES

16%

COMPETITION

13%

EXCHANGE
RATES

7%

TAXATION

14%

EXPORT DEMAND

The export sales balance score has improved for manufacturers this quarter by 10 points to 58, but service firms have experienced a decrease of one point to 64.

The export balance score has increased overall across the two sectors combined, with an uplift of two points from the last quarter to a figure of 61. Manufacturers fared better in Q2 than they did the previous quarter, up 10 points with a score of 58. This is due to an increase in the number of businesses reporting an increase in export sales, from 20% in Q1 to 31% in Q2. Service firm activity remained broadly consistent, although the balance score fell by one point to 64.

For export orders in Q2, the balance score has decreased by a single point compared to Q1 to 61. The biggest decrease in score this quarter was experienced by manufacturers, with a drop of 20 points compared to Q1 to 55. This may be due to an increase in the number of manufacturers completing the survey compared to the previous quarter.

The increase seen in exports over the last three months is reflected in the most recent UK trade data from the Office for National Statistics, with total exports of goods, excluding precious metals, increasing by £2.2 billion (7.4%) in April 2022 compared with March 2022. Total imports, excluding precious metals, increased by £0.4 billion (0.7%) during the same period. GBCC's Global Trade Conference is set to take place in September 2022, and will offer businesses the opportunity to build relationships with and grow their network across international markets.



EXPORT SALES

Balance
▲ 2 Points

▲ 34%	= 53%	▼ 12%
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EXPORT ORDERS

Balance
▼ 1 Point

▲ 37%	= 47%	▼ 16%
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WORKFORCE & RECRUITMENT



WORKFORCE

Balance
▼ 7 Points

▲ 30%	= 57%	▼ 12%
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76% of firms reported experiencing recruitment difficulties this quarter, the joint highest figure since Q3 2007 and the same as Q4 2021.

While the percentage of firms attempting to recruit fell by 5% to 60%, the proportion of those experiencing difficulties recruiting increased by 7%. The categories of employee that businesses reported finding most difficult to recruit into were professional/managerial (39% - an increase of 7% compared to Q1) and skilled manual/technical (26% - a decrease of 1%).

This is reflected in workforce figures; only 59% of firms reported that they are currently operating at full capacity and 12% of organisations experienced a decrease in their workforce over the past three months. There's also been a fall in balance score of workforce expectations in the next three months, with the balance score falling by five points to 69, although this is still an indicator of growth.

60%

OF FIRMS ATTEMPTED
TO RECRUIT

OF WHICH

76%

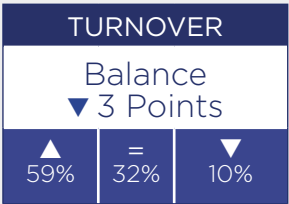
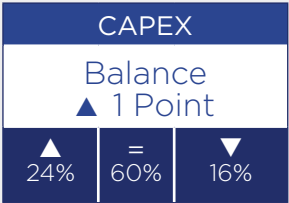
FACED RECRUITMENT
DIFFICULTIES

The Office for National Statistics reports that the West Midlands employment rate increased by 0.2% in the period of February to April 2022 to 75.9% - on a par with the rest of England and above the UK average. Average total pay has also grown by 6.8% and regular pay by 4.2%. In real terms (adjusted for inflation), growth in total pay was 0.4%, although regular pay fell on the year by 2.2%.

The balance scores for turnover and profitability fell this quarter, but optimism remains strong for local businesses.

59% of firms reported an estimated increase in turnover and 49% an increase in profitability over the next 12 months, contributing to a balance score of 75 and 65 respectively. Manufacturers experienced the largest drop in the balance score in both areas, with the turnover balance score falling 14 points to 72 and the profitability balance score falling 22 points to 54. This is likely due to an increase in the number of manufacturers completing this survey this quarter compared to Q1.

Investment in capital expenditure has increased by one point to a balance score of 54, with 24% of firms reporting an increase compared to 22% in Q1. Investment in training across the two sectors has fallen by three points to 58, with the decrease in the balance score being more prominent in manufacturing firms (falling by seven points compared to Q1 to a value of 55). This figure is due to a drop in the proportion of firms reporting increase investment in this area (from 44% in Q1 to 22%).



Raj Kandola
Head of Policy and Strategic Relationships
Greater Birmingham Chambers of Commerce

above the levels experienced prior to the Brexit transition period ending and reflective of growth. This is largely mirrored in the national data as well, with the West Midlands being cited by the Institute of Export and International Trade as the only region in the UK showing growth in revenues (of 0.1%) for Q1 2022.

Despite these developments, anecdotal evidence gathered from local businesses reveals that Brexit-related challenges persist, particularly with relation to additional cost pressures, complex bureaucracy and border delays. In light of this, Chambers of Commerce across the region are continuing to offer support and guidance across areas such as border controls, supply chain disruption and trading with EU nations as businesses continue to adapt to the conditions of the UK-EU Trade and Cooperation Agreement. Full details can be found on our website.

Chamber Comment

Q3 2019	Q4 2019	Q1 2020	Q2 2020	Q3 2020	Q4 2020	Q1 2021	Q2 2021	Q3 2021	Q4 2021	Q1 2022	Q1 2022
58	56	52	26	41	47	49	54	59	61	59	61

Table: Export sales balance scores from Q3 2019 to Q2 2022

The table above shows that, after a severe drop in overseas sales in Q2 2020 (which coincided with the start of the pandemic) the export balance score has steadily climbed over the past two years. It is promising to see the figures from Q3 2021 onwards staying largely consistent and, perhaps more importantly, showing a growth sentiment that is largely in line with pre-Brexit balance score averages.

While export orders this quarter have seen a slight fall in the balance score, the figures are still above the levels experienced prior to the Brexit transition period ending and reflective of growth. This is largely mirrored in the national data as well, with the West Midlands being cited by the Institute of Export and International Trade as the only region in the UK showing growth in revenues (of 0.1%) for Q1 2022.

About GBCC

The Greater Birmingham Chambers of Commerce 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 38 Chamber Patrons comprising companies such as RSM, HS2 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 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



Quarterly Business Report

If you have any further questions on the report, please contact Beth Clewes on 0121 274 3248 or b.clewes@birmingham-chamber.com. For more information, go to www.birmingham-chamber.com

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