



West Midlands

Quarterly Economic Snapshot Q2 2021

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



Henrietta Brealey

Chief Executive
Greater Birmingham
Chambers of Commerce

Comment on Business Confidence

It is encouraging to see rising confidence amongst local businesses with 62% of firms expecting their profitability to increase over the next 12 months. Q2 saw the re-opening of large swathes of the UK economy with a further easing of national restrictions in both April and May (alongside the vaccine rollout) increasing business optimism for the year ahead. However, price pressures remain a cause for concern with 44% of firms expecting their prices to increase over the next 3 months which could hinder businesses ability to grow and recover from the impact of the pandemic.

Despite the lifting of coronavirus restrictions on the 19 July, many firms are still facing financial hardship and will require additional support from government as they look to get their operations off the ground after nearly 16 months of forced closure. The pandemic has not impacted all businesses equally and some firms now find themselves burdened with substantial debts for the first time. The government must take this into careful consideration as they look to wind down existing support schemes over the coming months, otherwise they risk undoing the good work that has been done to support businesses over the past year.

Whilst we hope that there will be no need for restrictions to be re-imposed in the future, it is imperative that the government helps to shore up business confidence by offering reassurance that the appropriate level of financial support will be provided if the need arises.

Comment on Export Trends

Whilst there are many reasons to be optimistic as the world emerges from pandemic lockdowns with businesses starting to return to full operations and a number predicting positive outlooks for the remainder of 2021; we know that trading conditions, particularly for our region's export businesses, remains challenging.

As these businesses settle into a post-pandemic and post-Brexit rhythm, issues such as the availability of raw commodities to the manufacturing pipeline, price hikes, transportation backlogs, steel quotas and the inability to readily travel abroad to win new business and service existing contracts are factors local firms are flagging as real-time challenges. Working to overcome these barriers which limit productivity and growth remain a priority for the Chambers in order to ensure that regional businesses are able to compete in the global marketplace.



Corin Crane

Chief Executive
Black Country
Chamber of Commerce

Comment on Recruitment Confidence

It is extremely promising to see an increase in business confidence not just in the services sector and the high street, but in the manufacturing industry too.

This is an indication of a widespread feeling of positivity in local businesses generally as we reap the benefits of the slow return to normality thanks to the relaxation of Covid-19 restrictions and as businesses come to terms with the finer details of post-Brexit trade.

What we can see as a result of this is an intensified belief in both the consumer market in the local area, with people heading into town centres and shopping parks to spend lockdown savings, alongside the confidence to look global and open up new avenues of overseas trade.

There will no doubt be a number of fresh challenges that businesses will have to contend with over the coming months, as all of these fluctuations will start to have a material impact on the way local companies do businesses.

That being said, to know that we are one of several regions seeing an increase in confidence within the manufacturing industry is extremely satisfying, and serves as a timely reminder of the spirit that made the West Midlands crucial to the economy of mid-century Britain.

If we add rising employment figures to the general increase in business confidence and investment, we may be on the verge of a very exciting time for the region.



Sean Rose

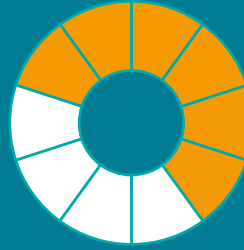
Head of Policy
Coventry and Warwickshire
Chamber of Commerce

Key Statistics

Recruitment Difficulties (QES Data)

56%

of manufacturers in the region faced recruitment difficulties – an increase of 19% compared to Q1 2021



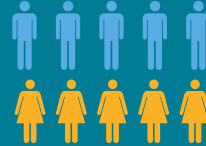
Of all firms surveyed,

57%

faced recruitment difficulties in Q2 – an increase of 18% compared to Q2 2021.

57%

of service firms in the region faced recruitment difficulties – a 17% increase compared to Q1 2021



Official Statistics for Employment Trends (West Midlands/UK)

- For the period February 2021-April 2021, the employment rate in the West Midlands was 74.2%, having increased by 0.3% since the previous quarter (November 2020 –January 2021).
- Across the UK, the employment rate rose by 0.2% to 75.2%, unemployment decreased by 0.3% to 4.7% and the inactivity rate remained the same on 21%.
- Average earnings, excluding bonuses, grew by 5.6% in the three months to April (2021)

Export Trends (QES Data)

A Balance Score of:

48

for businesses in both sectors combined recorded for Export Sales (a four point increase compared to Q1 2021).



30%

of manufacturers across the West Midlands reported an increase in their overseas sales compared to 22% of service firms.

24%

of all companies across the region expected their international output to go up over the next 3 months. 46% of firms expected their overseas orders to stay the same for Q3 whereas 31% of all businesses expected them to fall in the upcoming months.

This was based on:

▲ 25%

of firms reported an increase in export sales for Q2

(a 5% increase from Q1 2021)

= 45%

of firms reported constancy in export sales for Q2

(a 2% fall from Q4 2021)

▼ 30%

of firms reported a decrease in export sales for Q2

(a 3% fall from Q1 2021)

Official Export Statistics (West Midlands/UK)

- In the year to March 2021, the West Midlands Regional trade in goods exports was worth £23.8bn; a decrease of 23% compared with the same time period last year, while the UK levels decreased by 16% totalling £257.6bn.
- West Midlands imports decreased by 14% with the same time period in 2020 totalling £29.9bn

Key Statistics

Business Resilience (QES Data)

A Balance Score of:

71

for businesses in both sectors combined recorded for price pressures (an increase of five points compared to Q1 2021).



39%

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



This was based on:

▲ 44%

expecting the price of their goods and services to increase over the next three months

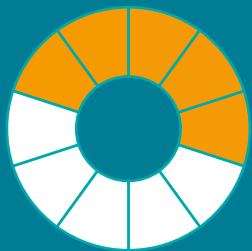
= 53%

expecting the price of their goods and services to remain the same over the next three months

▼ 3%

expecting the price of their goods and services to fall over the next three months

Only 2% of firms in the Black Country expected to reduce their prices over the next 3 months, compared to 2% of firms in Greater Birmingham and 11% of businesses in Coventry & Warwickshire



The overall balance score for cash flow projections was

52

22%

of manufacturers across the region expect their cash flow levels to fall compared to 29% of service firms.



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

GBCC: 30%
Black Country: 18%
C&W: 11%

This was based on:

31% expect their cash flow projections to improve
42% expect cash flow levels to stay the same
27% expect cash flow to worsen (a 12% decrease compared to the previous quarter)

Business Investment (QES Data)

Across the region as a whole

25%

of businesses reported that investment plans for capital expenditure had been revised upwards, 55% responded that investment in capex had remained the same and 20% had lowered their plans for investing in equipment.

25%

of service companies across the region increased their capex spend, 54% maintained consistency in their spend and 20% reduced it

Regionally, the largest proportion of manufacturers recording a drop in capex investment levels were based in the Black Country (19%), compared to 16% based in Coventry and Warwickshire and 16% in Greater Birmingham.

Key Statistics

Price Pressures and Investment Levels (UK Trends)

- The Consumer Prices Index including owner occupiers' housing costs (CIPH) rose by 2.1% in the 12 months to May 2021, up from 1.6% to April. The largest upward contributions to the change in the CPIH 12-month inflation rate between April and May 2021 came from rising prices for clothing, motor fuel, recreational goods (particularly games and recording media) and meals and drinks consumed out
- 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 fell by 10.7% in Quarter 1 (January to March) 2021. This is 17.3% lower than the pre-pandemic level in Quarter 4 (October to December) 2019.

Business Confidence (QES Data)

A Balance Score of:

74

for businesses in both sectors combined was recorded for profitability projections (a increase of eight points compared to Q1 2021).



This was based on:

▲ **62%**

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

= **23%**

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

▼ **15%**

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

The overall balance score for turnover projections increased by 10 points compared to the previous quarter. A score of 81 was based on 72% of the total number of companies surveyed expecting their turnover to go up whilst only 10% envisaged a decrease in turnover levels.

Business Confidence (UK Trends)

- The West Midlands recorded GDP growth of 16.8% in Q3 2020 –whilst growth for England as a whole was 17.2%.
- The West Midlands showed the largest annual fall in GDP in Q3 2020 when compared with the same quarter a year earlier, at negative 11.3%.
- 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

Once again, it is promising to see the increase in business confidence in the last quarter which assures me that as businesses we are all once again on the path to recovery as life slowly returns to normal and a majority of businesses are able to operate at somewhere near full capacity.

With the vaccine rollout continuing at a remarkable speed and the easing of restrictions, it is no surprise that the Economic Outlook for the West Midlands is increasingly more positive with businesses being able to proceed now with less restrictions and an increasing workforce, fulfilling the advanced orders they received in previous quarters.

The upturn in the forward indicators points to a summer economic rebound and the economy returning to pre pandemic levels towards the end of 2021, as was predicted this time last year.

It is positive to see that both investment and cash flow have increased for both manufacturing and service sectors, which will hopefully help businesses to prepare for the future and potential bumps in the road, as the government support for businesses winds down.

What needs to filter through from the increased confidence is an improvement in business trading results and growth. As we can see from the survey, domestic manufacturing sales is down five points from the Q1 results, which should provide a word of warning as manufacturers are seeing the price of raw materials rocketing and availability of materials falling, impacting on future confidence and economic performance.

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, 694 businesses across the West Midlands completed the Quarterly Economic Survey with 79% of them operating in the services sector and 21% 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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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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