Greater Birmingham Chambers of Commerce

BIRMINGHAM CITY University

Quarterly Business Report

Q2 | 2021

Connect. Support. Grow.

Henrietta Brealey

Chief Executive
Greater Birmingham Chambers of Commerce

As the rollout of the vaccine continued at pace and national restrictions began to ease over the last three months, positive sentiment is coursing through the veins of many businesses in Greater Birmingham. The optimism is reflected in the results of our latest survey with domestic demand soaring to a level not seen since the onset of the pandemic, a steady climb in international sales and an upturn in recruitment levels. It was also pleasing to see that both turnover and profitability projections continued to rise this quarter. Business investment in training and capital investment also continued to tick upwards, with both returning to positive territory for the first time in over a year. Nevertheless, the number of firms under pressure to raise their prices remains alarmingly high, which in turn has exacerbated concerns around the impact of inflation on their output.

Despite the expression of optimism, the PM's recent decision to delay lifting the last set of nationwide restrictions and Birmingham's designation as an area in need of enhanced support is a stark reminder of the challenges that remain on the horizon as we bid to return to normality. As a business community, we all have a role to play in stemming the flow of the virus and we are urging businesses to encourage their staff to continue bi-weekly testing where possible, to allow staff to take time off for vaccine appointments and ensuring strict Covid-19 guidelines are adhered to in the workplace. As always, we will continue to lobby both local and national stakeholders to support those businesses (and those within their supply chains) that have been forced to remain closed throughout the duration of the crisis. One of those stakeholders is the West Midlands Mayor Andy Street and we congratulate him on his recent re-election. The GBCC has worked closely with the Mayor in ensuring the views of businesses at the heart of the WMCA's policy agenda and we will continue to do so in order to drive growth and prosperity in Greater Birmingham and beyond.

Professor Julian Beer

Deputy Vice-Chancellor
Birmingham City University

Figures across the board have staged a dramatic recovery over the past 6 months and are now back to (or possibly very slightly above) "normal" levels. The general implication is that the Greater Birmingham economy has more-or-less returned to pre-pandemic norms, although there are important caveats. There are certain sectors where a full recovery simply isn't possible until they are permitted to operate at capacity. Secondly, official figures could somewhat lag the survey results due, in part, to the way in which public sector output is measured. Nevertheless, these figures point a very welcome picture of business resilience.

Recovery is visible in both the manufacturing and service sectors with domestic sales performing similarly in both, although manufacturers' report significantly greater export demand than the service sector (which is to be expected given restrictions on international travel). Around half of services respondents and two-thirds of manufacturers have engaged in recruitment this quarter, suggesting a significant labour market recovery. Further recovery in the third quarter can be anticipated given increasing consumer confidence and a further loosening of domestic restrictions. Major downside risks predominantly relate to policy – the withdrawal of fiscal and monetary stimuli needs to be handled with considerable care – and international shortages and price increases.

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 went up by 21 points to a figure of 68 – the highest score on record since Q4 2018

In total, 52% of businesses in both the manufacturing and services sector recorded an increase in domestic sales – the highest percentage recorded since the end of 2018. 31% saw their UK sales remain constant compared to the previous quarter and 17% reported a fall (down from the 40% listed in Q1 2021) which lead to the notable rise in the balance score. This trend was reflected in both the manufacturing and services sector. The manufacturing balance for domestic demand went up by 23 points to 67 – 50% reported an increase in UK sales (up from the 27% reported in Q1) and 16% reported a drop in domestic revenue, down from the 39% recorded in Q1. UK demand within the services sector also experienced a welcome boost with 52% of service firms noting an increase in domestic sales (up from 35% in the previous quarter) and only 17% recording a decrease in UK business over the last three months. All of which meant the service sector balance score also went up by 20 points to a figure of 68.

Looking ahead to the next three months, the domestic order balance score followed a similar upward trajectory; in total 49% of businesses expect their UK orders to increase (up from the figure of 34% in Q1). The percentage of businesses forecasting a drop off in domestic orders went down from 36% in Q1 to 16% which meant the balance score in the current quarter went up by 17 points to a figure of 67 – the highest on record since the summer of 2019. Much of this positive sentiment was reflected at the national level. UK GDP was estimated to have grown by 2.3% in April 2021 – the fastest monthly growth since July 2020 but output is still 3.7% smaller than prior to the onset of the pandemic . This also points to the fact the UK remains on track for a robust recovery in Q2 especially as national restrictions have continued to ease over the previous three months and more school children have returned to onsite lessons.

DOMESTIC SALES

Balance
▲ 21 Points

▲	=	▼
52%	31%	17%

DOMESTIC ORDERS

Balance
▲ 17 Points

▲	=	▼
49%	36%	16%

PRICE PRESSURES & EXTERNAL FACTORS

CASH FLOW

Balance
▲ 11 Points

▲	=	▼
31%	41%	29%

EXTERNAL FACTORS	
INFLATION	21%
BUSINESS RATES	17%
INTEREST RATES	7%
COMPETITION	31%
EXCHANGE RATES	10%
TAXATION	18%

The price index balance score remains at a worryingly high figure of 66 as concerns around inflation are becoming more apparent for Greater Birmingham businesses

In total, 66% of businesses in the two sectors combined expected the price of their goods and services to remain the same this quarter (an increase of 4% in Q2); this was offset by a minor decrease in the number of firms expecting their prices to go up (down from 35% to 33%) and to go down over the next three months (down from 3% to 2%) – all of which meant the balance score remained at 66 for the second consecutive quarter. 36% cited raw material prices as the primary factor behind the prospect of raising prices – the second consecutive quarter this figure has risen and the highest on record since Q4 2012. It was pleasing to see a reduction in the percentage of firms citing finance costs as a key driver behind price rises falling this quarter (down from 17% to 14%). In addition, 14% cited pay settlements as an important consideration in relation to price pressures (a minor increase of 1% compared to Q1) and perhaps reflective of national trends as the ONS revealed that average pay was growing at an annual rate of 4.4% in February to April 2021.

Perhaps linked to a reduction in finance costs, it was very pleasing to see the cash flow balance score emerge from negative territory. 31% of firms in the two sectors combined said their cash flow had improved in comparison to three months ago (the highest percentage on file since Q4 2018 and an increase of 9% compared to Q2) which was the main factor behind an 11 point uplift in the balance score to a figure of 52. Nevertheless, it remains to be seen whether this positive sentiment stretches into Q3 as the proposed reduction in the Government's financial contribution to the furlough scheme starts in July and is likely to have a detrimental impact on the bottom line of a number of businesses across the country. For the second quarter running, we saw an increase in the percentage of firms voicing concerns around the impact of inflation on their output (an increase of 8% to 21%). Nationally, it was no surprise to see that the CPI jumped to 2.1% for April – an increase of 0.5% in comparison to March.

EXPORT DEMAND

The export sales balance score emerged from negative territory for the first time since the start of 2020

32% of firms across the board noted an uplift in non-UK sales this quarter (an increase of 2% compared to Q1). In addition, 44% of businesses saw their overseas sales remain stable this quarter (up from the 38% listed in Q1) and 23% reported a fall in export sales (a 9% decrease in relation to Q1); all of which meant the balance score went up from 49 to 54 in Q2. The manufacturing balance score also recorded a healthy seven point increase to a figure of 60 – much of this was down to the fact that we saw a greater percentage of manufacturers reporting an increase in overseas sales compared to Q1 (up from 37% to 44% in the current quarter). Not since Q1 2020 had the export sales balance score for service firms been positioned in positive territory and it was also pleasing to see this particular figure rise by six points to 53. In this instance, 22% of service sector businesses experienced a drop in non UK sales (down from the 33% recorded in Q1) and 50% saw their export sales remain constant (up from 41% in the last quarter) which lead to an overall increase in the balance score.

32% of businesses in the two sectors combined reported an increase in overseas orders – a 9% increase in comparison to the start of the year. Coupled with the fact that 22% reported a decline in export orders (down from the 31% listed in Q1), this lead to a nine point upturn in the balance score – a figure of 55 is the highest on record since the end of 2019. Official statistics from the ONS revealed that the total exports of goods from the UK fell by 0.6% month on month in April 2021, following two consecutive months of growth. This was predominantly driven by a 2.9% month on month fall in exports to non-EU countries and partially offset by a 2.3% increase in exports the EU. For those businesses that have been impacted by any Brexit related trade disruption, the GBCC is continuing to partner with the WMCA in order to offer advice on the steps that businesses can take to adapt their trading strategy and overcome potential issues– full details can be found on our website.

EXPORT SALES

Balance
▲ 5 Points

▲	=	▼
32%	44%	23%

EXPORT ORDERS

Balance
▲ 9 Points

▲	=	▼
32%	46%	22%

WORKFORCE & RECRUITMENT

The workforce balance continued its upward trajectory for the second consecutive quarter but recruitment difficulties became more pronounced for businesses across the region

WORKFORCE

Balance
▲ 4 Points

▲	=	▼
32%	46%	22%

53%

OF FIRMS ATTEMPTED TO RECRUIT

OF WHICH

53%

FACED RECRUITMENT DIFFICULTIES

Although we saw a slight increase in the percentage of firms that reduced the size of their workforce (up from 19% to 22%) this was counterbalanced by a noticeable rise in the percentage of firms that added to their headcount over the last three months (up from 21% to 32%) across the two sectors combined – this lead to a four point uplift in the balance score to a figure of 55. There was also a prominent rise in the number of businesses that attempted to recruit staff this quarter (up from 21% to 32% in Q2) and of those, 53% faced difficulties in finding the appropriate member of staff for their business – the highest figure on record since the start of 2020 and prior to the onset of the pandemic. In addition, for the second consecutive quarter we also saw a greater number of businesses struggling to hire candidates with the right technical background (up from 25% to 32% - the highest percentage recorded since the end of 2018).

A similar picture emerged both nationally and across the wider region. The number of job vacancies across the UK in March to May 2021 was 758,000 and only 27,000 below pre-pandemic levels. In addition, employment rose by 0.2% to 75.2% and unemployment fell by 0.3% to 4.7%. From a regional perspective, the West Midlands employment rate was 74.2% having risen by 0.3% since November 2020 to January 2021 – in addition, the unemployment rate fell by 0.3% to 5.7%. It's pleasing to see regional bodies such as the WMCA have placed job creation at the heart of their economic recovery plans. In particular, the WMCA have put forward a £614m investment package which they hope will harness clean technology and create 51,700 green jobs in the region. We will be discussing this plan and what it means for businesses across the region as part of our upcoming Sustainable Business Series – a campaign which will explore how firms can embark on their net zero transition whilst contributing to wider regional objectives around job growth and driving an economic recovery – full details can be found on our website.

BUSINESS INVESTMENT & BUSINESS CONFIDENCE

Investment in capex and training returned to positive territory for the first time since the start of the crisis as turnover and profitability projections continue to offer encouragement

A quarter of businesses across the board allocated greater funding for capital expenditure in comparison to three months ago (an increase of 8% compared to the last quarter). In addition, we saw a notable fall in the percentage of firms that were planning on spending less on capex investment (down from 35% to 21% in the current quarter) which meant the balance score shot up by 12 points to a figure of 53. The balance score for training investment also saw a notable rise as 31% of businesses planned to invest more in training their staff in comparison to last quarter (an increase of 7% in relation to Q1) and 17% of firms revised their allocation of training spend downwards (down from 28% in the last quarter); all of which led to the balance score going up by 9 points to a figure of 57. It remains to be seen whether these trends are sustained over the coming months and the extent to which Government policies such as the Super Deduction Tax and Help to Grow have played a prominent part in this revival.

Perhaps linked to a reduction in cost pressures and an increase in levels of cash flow, it was pleasing to see the profitability balance score climb 13 points to a figure of 74 – the highest on record since the end of 2019. Much of this was down the fact that 60% of businesses expect their profits to go up over the next 12 months (an increase of 11% compared to Q1) and only 13% expect their profits to fall in the same time period (in comparison to a figure of 26% in the last quarter). Likewise, the turnover balance score also went up by a seven points to a figure of 74 – a level we became accustomed to prior to the onset of the pandemic. 13% projected a fall in turnover over the course of the next 12 months (11% lower than Q1) and 27% expect their profits to remain stable during the same time (up from 18% in Q1) which led to a welcome rise in the overall balance score for both sectors combined.

CAPEX		
Balance ▲ 12 Points		
▲ 25%	= 55%	▼ 21%

TURNOVER		
Balance ▲ 7 Points		
▲ 71%	= 19%	▼ 10%

Raj Kandola

Head of Policy
Greater Birmingham Chambers of Commerce

Chamber Comment

The Bank of England will need to closely monitor inflationary pressure as national restrictions ease

As restrictions ease and we begin to see an end in sight to the pandemic, inflationary pressures are starting to build. For example, the ONS revealed that manufacturers in the UK raised their prices by 4.6% year on year in May 2021, up from the 4% recorded in April. The Producer Price Inflation Report tracks prices at the factory gate and also revealed that input costs had risen by 10.7% - the highest on record since September 2011. This development has mainly been driven by an increase in metal prices and crude oil costs. Clearly if businesses are raising prices, this could lead to higher prices on the high street if retailers are passing the price rises on to their customers.

The data from the Quarterly Business Report seems to reflect this occurrence at the local level with 61% of manufacturers expecting to increase their prices over the next three months – the largest percentage on file since the start of 2017. Consequently it was no surprise to see a large scale uplift in the number of businesses voicing concerns around the impact on inflation. A figure of 21% was recorded – only twice has this figure been higher in the last 10 years, once in Q3 2020 when the Eat Out to Help Out Scheme had a distortive impact on prices and Q3 2011 which is likely to correlate to the high input costs referred to above.

As national restrictions continue to ease over the coming months, it's clear the Bank of England will need to keep open mind on the direction of monetary policy to ensure any adverse inflationary pressure doesn't erode the hard earned spending power of consumers across the country. From a fiscal point of view, it also underlines the importance of organisations such as the Chamber holding the Government to account on taking steps to alleviate the crippling cost pressures that many businesses are facing right now in relation to rates and other forms of business taxation.

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 with over 25,000 students from just under 100 countries. As a substantial employer with over 2,500 staff and through the provision of graduate talent, research and knowledge transfer, we contribute in excess of £286 million to Birmingham's gross domestic product (GDP) supporting 4,810 jobs in the city.

BCU's 'University for Birmingham' mission reflects its role as an anchor institution in Birmingham and the wider West Midlands, but also as a civic university. The University has active engagement with in excess of 2,500 businesses, with over 1,400 formally assisted to start, grow or innovate since 2017/18 through our business support programmes. Our long-term sponsorship of the Quarterly Business Survey – now heading into its fifth year - exemplifies our commitment to work with and support our city and region.

The University has extensive sector linkages providing detailed intelligence and input into future innovation, driving thinking around 5G, smart specialisation, the creative economy, advanced manufacturing and health-related life sciences. Courses at BCU are informed by Industry Advisory Boards, where information about business needs are reviewed and skills challenges are discussed. Innovation is at the core of our work. Working in partnership is at the core of our approach to business.

In 2020 we relaunched BCU Advantage, the business growth service from Birmingham City University which connects regional businesses to the knowledge, skills, facilities and funding needed to achieve success. To find out more visit bcuadvantage.co.uk/ @BCUAdvantage

Join the Conversation

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 Raj Kandola on 0121 274 3264 or r.kandola@birmingham-chamber.com.

For more information go to www.greaterbirminghamchambers.com

Pictured (Front): Hilton Hotel at St George's Park, Burton upon Trent