

Q1

2019

QES

QUARTERLY ECONOMIC SURVEY



Herefordshire
& Worcestershire
Chamber of Commerce



Worcestershire
Local Enterprise Partnership

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FOREWORD



Sharon Smith
Chief Executive
Herefordshire &
Worcestershire
Chamber of Commerce

The latest Quarterly Economic Survey (QES) suggests that UK growth has almost ground to a halt in the first quarter for 2019. Despite demonstrating impressive resilience during the second half of 2018, the findings from this report demonstrate that persistent political and economic uncertainty has forced businesses to slam on the breaks.

The key indicators of business growth measured in this report have demonstrated rapid rates of decline over the past three months since the final quarter of 2018. The rapid rate of change demonstrated by the data in this report is symptomatic of the current volatility and uncertainty businesses face, as they struggle to prepare for the seemingly never ending range of possible scenarios. It is frustrating to see key indicators returning to 2012/2013 levels associated with the economic recovery from the financial crisis.

Business confidence in profitability and turnover deteriorated sharply in this quarter. Capital expenditure has dropped to its lowest level locally since 2012. Exchange rates, remaining competitive and corporation tax were identified as the most significant areas of concern by businesses this quarter.

It has been an incredibly challenging few months for businesses across the two counties. When comparing the local figures to more national trends however, it is reassuring to see that Herefordshire and Worcestershire are fairing better than the national picture in areas such as cash flow. The figures presented in this report are no doubt cause for concern, but it remains reassuring that the two counties and the West Midlands as a whole, continue to demonstrate a significant level of resilience.

Government should not be surprised that this report has demonstrated some of the weakest figures in nearly a decade. Without providing answers to the practical questions which affect day to day operations, businesses will continue to be forced to hold off on investment and recruitment, to the detriment of growth. It is vital that the voice of business is prioritised over the coming months and during the next phase of negotiations.

In the midst of all the political noise surrounding Brexit, it is easy to lose sight of some of the most fundamental domestic issues which continue to impact the day-to-day operations of business. It is important that Brexit negotiations do not eclipse other equally pressing issues including the national skills shortage. That is why we have given this report an additional focus, which investigates the prevalence of ageing workforces across the local labour market and the extent of preparation for this pressing demographic change. To ensure there is a constant supply of appropriately skilled people entering the workforce both now and in the future, it is crucial that we continue to examine the current labour market and initiate change, where necessary, to allow businesses to continue to thrive and grow.



Judy Chadwick
Skills and Investment
Group Manager and
Worcestershire LEP
Skills Lead

The Quarterly Economic Survey (QES) has repeatedly highlighted the difficulties businesses face when attempting to recruit appropriately skilled workers. This quarter the QES has been designed to delve further into this challenge and produce insights into the impact of an ageing workforce in Herefordshire and Worcestershire.

Interestingly, this report demonstrates that businesses employ 1 in 4 people over the age of 50, which is an indicator used to classify an ageing workforce. The report also highlights that 10% of all businesses employ a workforce which consists of 91-100% of people aged 50 or over. While this reliance upon an ageing workforce goes some distance to strengthening productivity in our economy and plugging the skills gap in the short term, businesses must ensure they have the skills and long term stability they need for sustainable growth.

Perhaps most worryingly, this report highlights how companies in Herefordshire and Worcestershire need to be much more aware of the potential business impact of sustaining an ageing workforce. As much as 11% of businesses from all sectors are completely unaware of the potential impact of an ageing workforce.

As we all know, British businesses are currently operating within the confines of an uncertain political landscape and it has never been more important for local companies to maximise productivity with the workforce available to them. Worcestershire's Careers and Enterprise Company is therefore proud to be working with local businesses, education and government to 'Create our Future Workforce'.

This is achieved by supporting succession planning within businesses by; improving young people's awareness of the Herefordshire and Worcestershire labour markets, ensuring skills from new entrants match the demand of business, developing high quality apprenticeships for young people, and enabling younger generations to thrive in their development towards becoming the highly skilled experts of the future.

For more information on the work that is being done locally to 'Create our Future Workforce' or to get involved please do email cec@worcestershire.gov.uk



METHODOLOGY



During quarter 1 2019 (Q1 2019), 663 businesses in Herefordshire and Worcestershire responded to the Quarterly Economic Survey (QES). Data collection took place during the period between 18 February 2019 and 11 March 2019.



In this document some of the QES results are presented as balance figures. Balance figures show the difference between the increase and decrease. If the figure is a plus, it indicates expansion of activity, if the figure is a minus it indicates contraction of activity against the previous quarter.

BUSINESS SECTOR CLASSIFICATION

Throughout the document we use business sectors to make comparisons between how sectors are performing this quarter. We have combined these sectors into two industries as follows:



Manufacturing

Main business activity includes manufacturing of goods (including electronic or information technology goods) and production of raw materials, agriculture, fishing, mining or utilities.



Service industries

Main business activity provides a service to businesses as well as final consumers (including construction, retail/wholesaling, professional services, and marketing).



DATA COLLECTION PERIOD

Quarter 1 2019 (Q1 2019)

Refers to the data collection period from 18 February 2019 to 11 March 2019.

Quarter 4 2018 (Q4 2018)

Refers to the data collection period from 6 November 2018 to 27 November 2018.

EXECUTIVE SUMMARY: KEY FINDINGS



UK and Overseas Market

The number of manufacturing businesses reporting a decrease in UK sales almost doubled compared to Q4 2018

The number of manufacturing businesses who reported increases in domestic advanced orders contract by 17% this quarter

1 in 5 businesses in the service sector reported that they have seen a decrease in domestic advanced orders



42%

63%



Investment

The balance of firms increasing capital investment is at +9%, its lowest level since 2012



Business Confidence

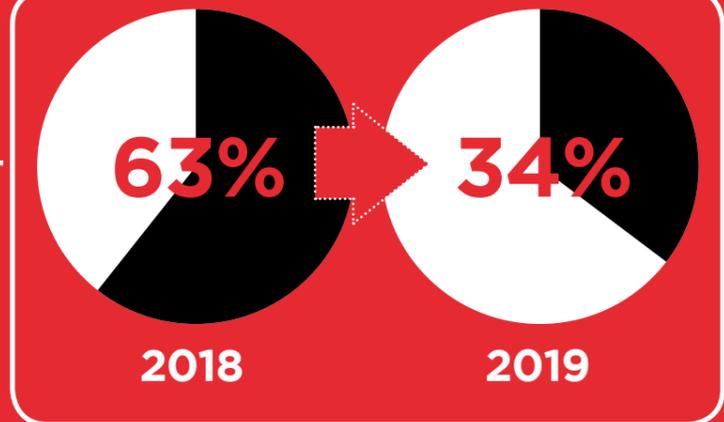
Cash flow is at its lowest level since 2013

The balance of firms reporting improved profitability has halved this quarter compared to the last quarter

At the start of 2018 the balance of businesses reporting improved turnover was at +63%. During Q1 2019 that figure dropped to +34%



2019 Q1



Employment

The balance of firms reporting an expansion of their workforce decreased to its lowest level since 2013

Businesses continue to struggle to recruit across the board for skilled staff. 42% of service sector and 63% of manufacturing sector experienced difficulties when attempting to recruit



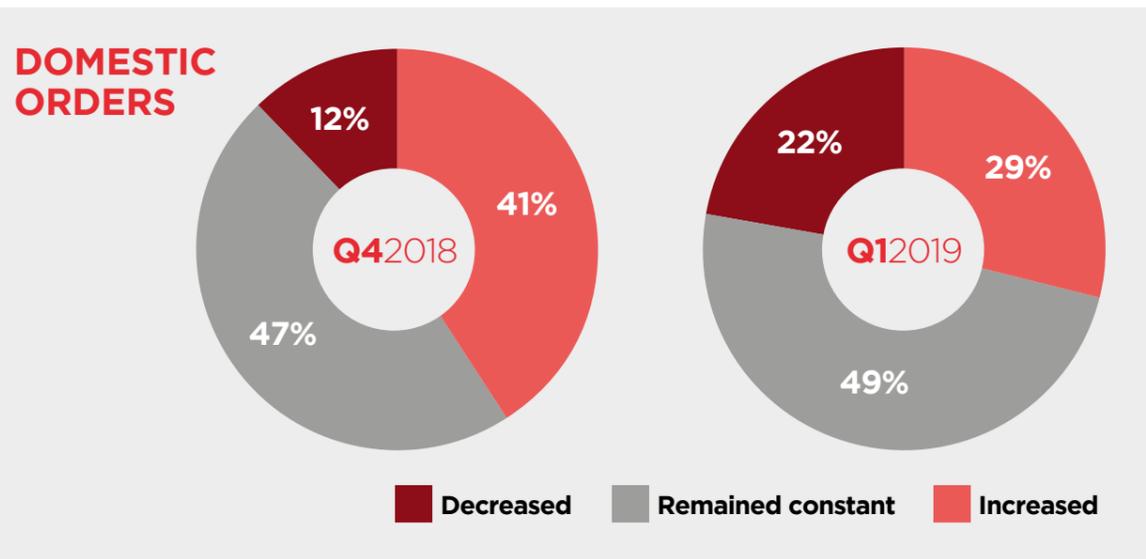
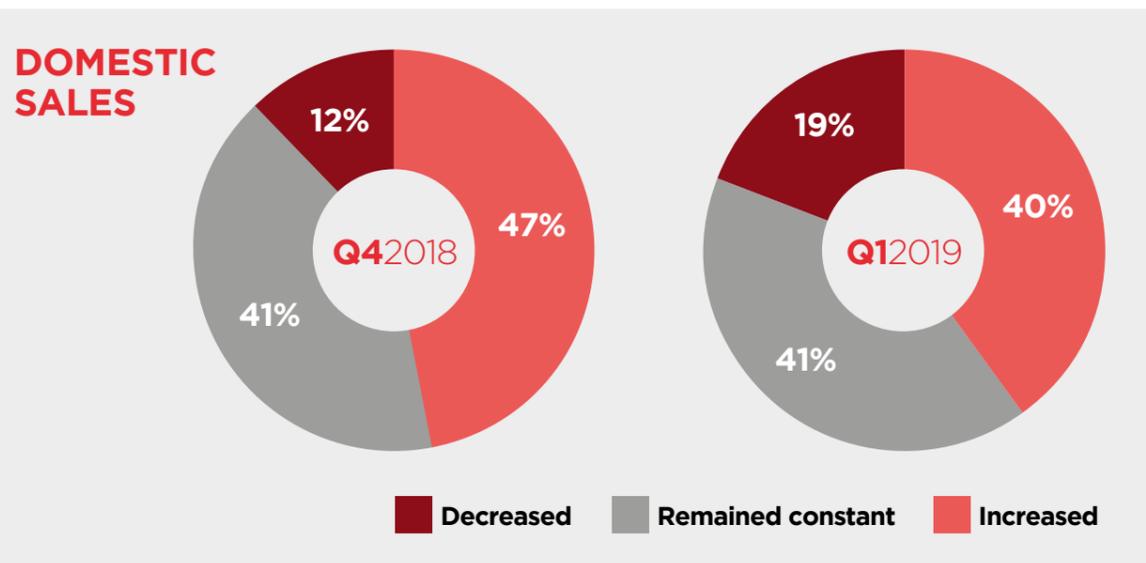
Business Concerns

Exchange rates were identified as the most significant factor of concern for the third quarter in a row

DOMESTIC SALES AND ORDERS



Overall businesses within Herefordshire and Worcestershire saw a decrease in domestic activity compared to Quarter 4 in 2018. When comparing this quarter to the last, the number of businesses which saw an increase in domestic activity has reduced by 7% for sales and 12% for advanced orders. More businesses reported decreased sales and advanced orders in the domestic market during Q1 2019 than during Q4 2018. There was an 11% decrease in the number of businesses who reported that domestic orders increased this quarter. The last time this figure contracted this quickly over a three month period was during 2009.



SERVICE SECTOR

In the previous quarter, only 14% of service sector businesses reported a decrease in advanced orders. In contrast, this quarter 21% of businesses reported decreases in advanced orders.



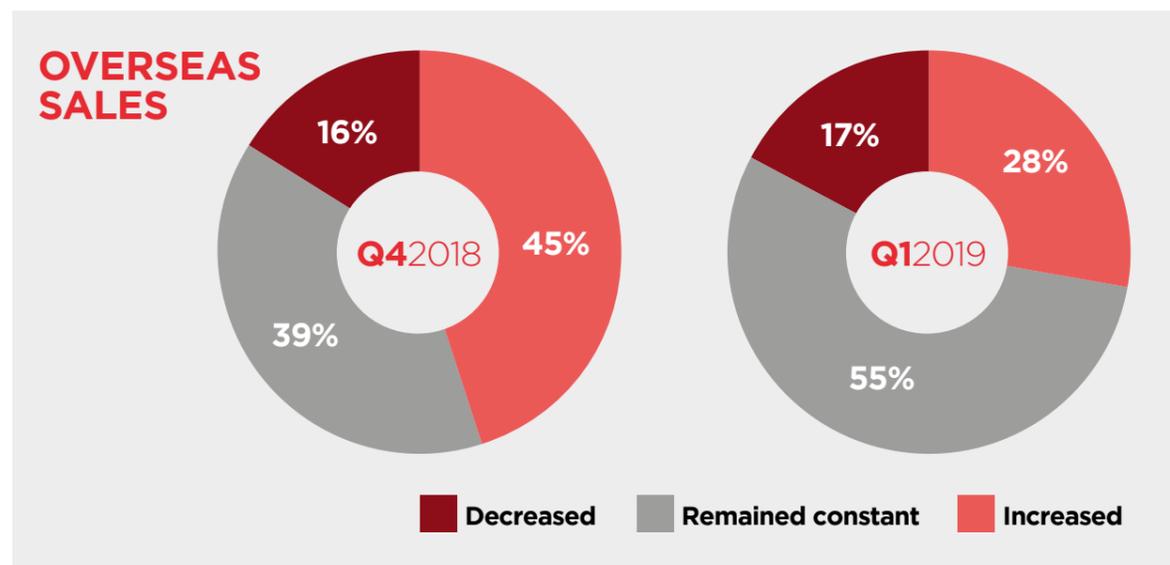
MANUFACTURING SECTOR

The number of businesses in the manufacturing sector reporting increased domestic sales dropped by 17% from 49% in Q4 2018 to 32% in Q1 2019. Just over half of manufacturing businesses reported that domestic orders remained constant this quarter and there was also a rise in the number of firms who reported their advanced orders had decreased (16% in Quarter 4 2018, to 25% in Quarter 1 2019).

OVERSEAS SALES AND ORDERS



Locally, overseas activity slowed down this quarter with more businesses reporting that sales and advanced orders have remained constant or decreased. Approximately less than one third of businesses reported increased overseas sales this quarter, a 17% reduction compared to Q4 2018 (45%).



The overall net balance of businesses reporting an increase in advanced overseas orders reduced by more than half from 29% during Q4 2018 to 11% in Q1 2019. This is the lowest net balance figure since 2012. The last time the net balance of firms reporting an increase in overseas advanced orders contracted at this rapid rate was during Q4 of 2009.

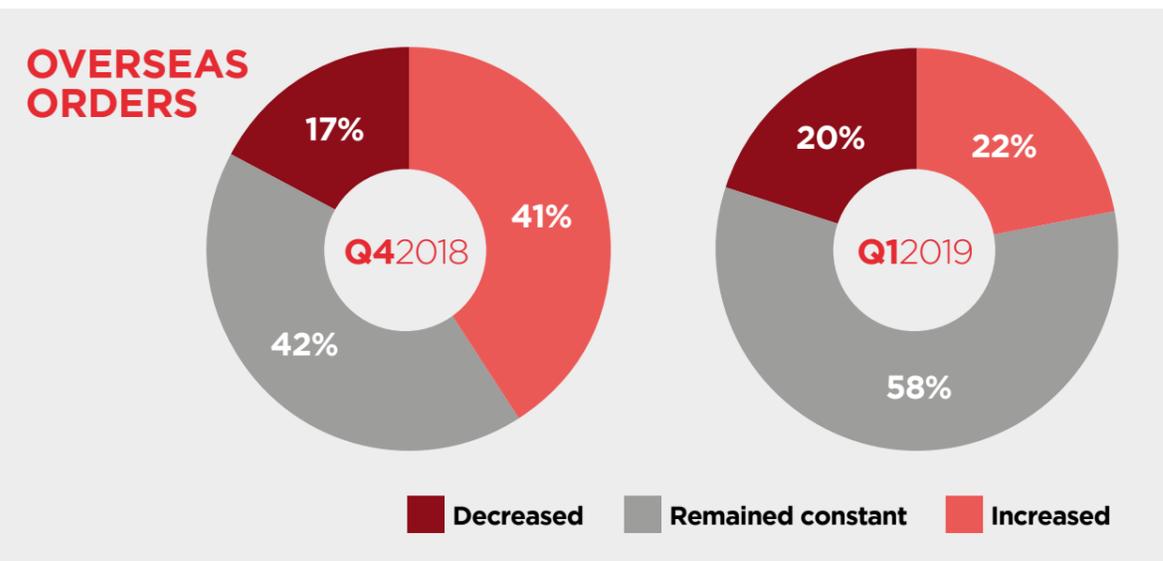
The number of businesses reporting an increase in overseas orders almost halved from Q4 2018 (41%) to Q1 2019 (22%). The number of businesses reporting that overseas orders are decreasing has risen marginally. Overseas orders are neither expanding nor contracting demonstrated by the fact that the majority of businesses reporting that overseas orders have remained the same.

BALANCE OF FIRMS REPORTING AN INCREASE IN OVERSEAS ORDERS

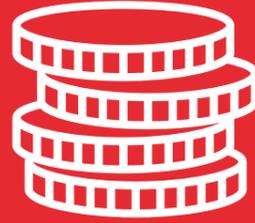


WHAT IS NET BALANCE?

Balance figures show the difference between the number of businesses reporting an increase and decrease. If the figure is a plus, it indicates an expansion of activity, if the figure is a minus it indicates a contraction of activity against the previous quarter.



INVESTMENT



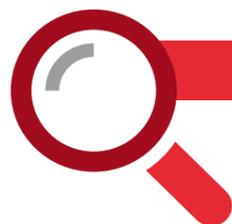
Capital investment continues to fall for the fourth quarter in a row, dropping to its lowest level since 2013. The net balance of businesses increasing capital investment (+9%) has halved since Q4 2018 and fallen to its lowest level since 2013.

BALANCE OF FIRMS INCREASING CAPITAL INVESTMENT



Similar to capital investment, the number of businesses investing in training has decreased this quarter. Capital investment is now at its lowest level since 2013, having declined for the second quarter in a row.

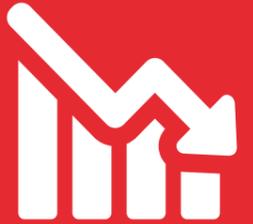
INVESTMENT IN TRAINING



POLICY INSIGHT

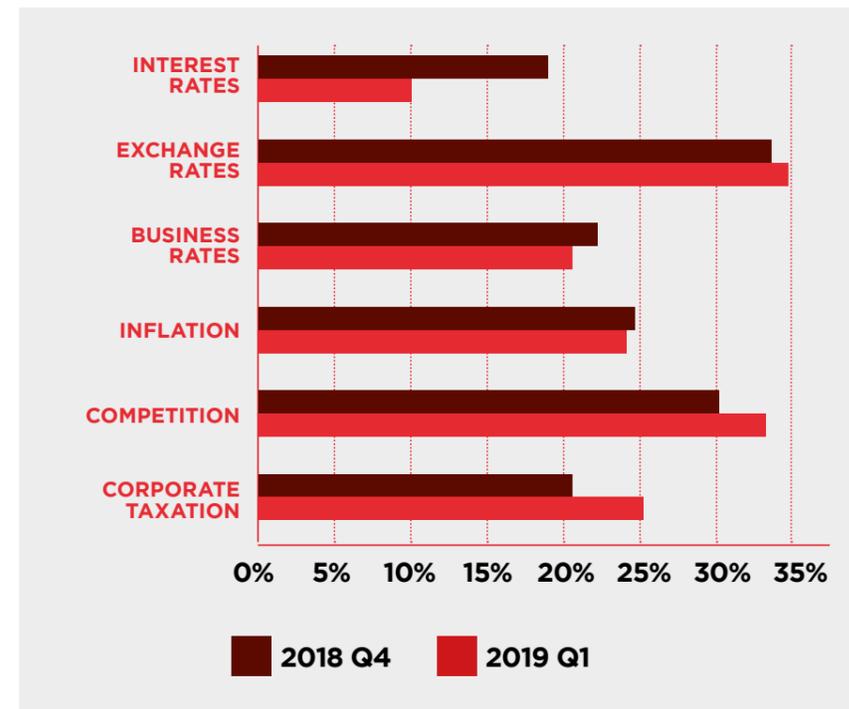
The number of businesses investing in their staff decreased by 8% in the manufacturing sector and by 6% in the service sector this quarter.

BUSINESS CONCERNS



Businesses continue to report that they expect the costs of doing business to rise in the next three months. 44% of businesses reported that they expect prices to rise over the next three months, with over half (55%) reporting that the cause of this is due to raw material prices.

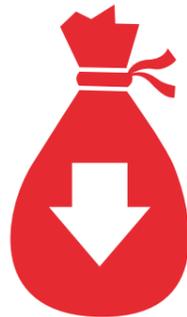
The deterioration in cash flow leaves firms more vulnerable to external shocks, including disruptions to their supply chain. In Q1 2019 the number of firms identifying exchange rates, competition and corporate taxation as concerns for their business has increased compared to the previous quarter. Concerns regarding interest rates, business rates and inflation have subsided for this quarter. Unsurprisingly, when given the chance to comment on other factors of concern, the majority identified Brexit and the uncertainty associated with current negotiations as a significant factor.



BUSINESS CONFIDENCE



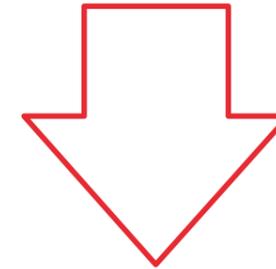
There has been a significant drop (20%) in the net balance of businesses reporting an increase in turnover in Q1 2019. This is the fastest rate of contraction over the course of one quarter since 2008. Overall the net balance of businesses who reported that their turnover had improve this quarter has almost halved compared to 12 months ago.



There has been a significant drop (20%) in the net balance of businesses reporting an increase in turnover in Q1 2019

The net balance of businesses reporting that their turnover has improved for Q1 has almost halved over a period of one year. The net balance of businesses reporting that their turnover has improved over the past three months has contracted by 20%. Since Q3 2018, this is the fastest rate of contraction over the course of one quarter since the period between Q3 and Q4 2008.

BALANCE OF FIRMS REPORTING IMPROVED TURNOVER



The last time business confidence in profitability was this low was in 2012

BALANCE OF FIRMS REPORTING IMPROVED CASHFLOW

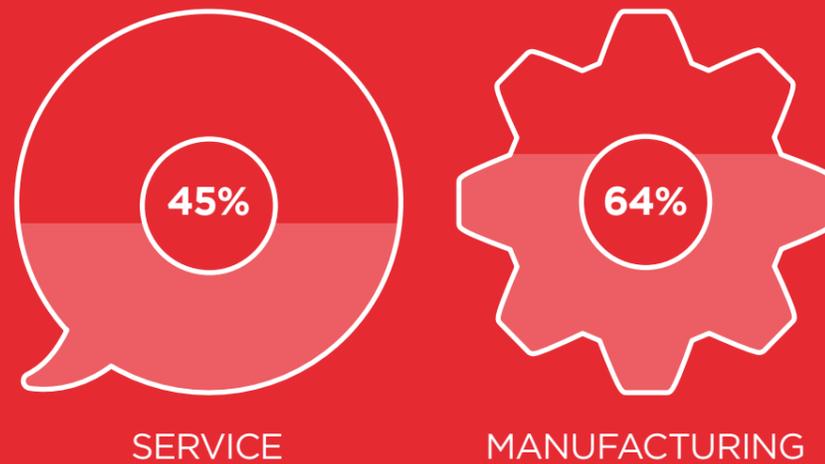


In Q1 2019, the net balance of firms reporting improved cash flow fell to +5%, the lowest figure since Q4 2012. Nationally, cash flow fell into negative territory (net balance of -1%) for both the manufacturing and service sector this quarter. On a local level, businesses have faired slightly better. The number of businesses in the two counties that reported improved cash flow has not fallen into negative territory since 2012.

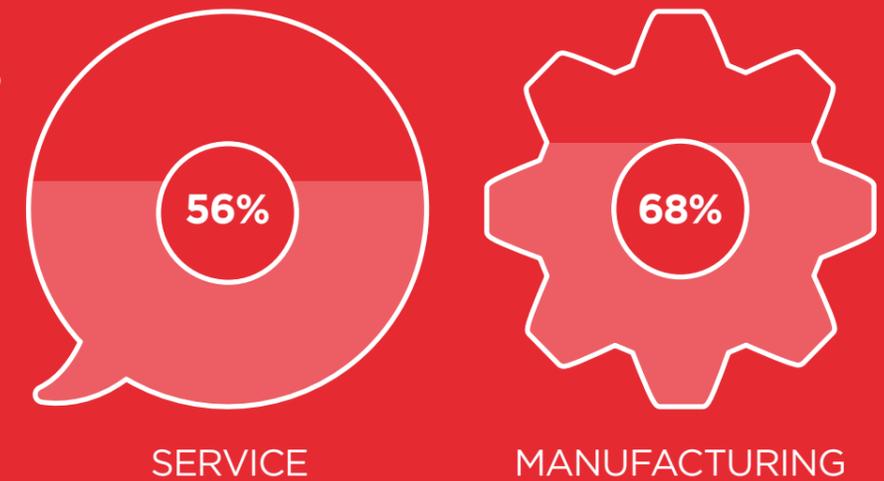
The number of businesses that reported worsened profitability has almost doubled in the last three months. This is the largest percentage of businesses that have reported worsened profitability since 2012. Not only is this a stark change to Q4 2018, it is also the fastest rate of change over a three month period since 2008. The last time the number of businesses reporting decreased profitability increased this quickly was 2008. The last time business confidence in profitability was this low was in 2012.

EMPLOYMENT

PERCENTAGE OF BUSINESSES ATTEMPTING TO RECRUIT

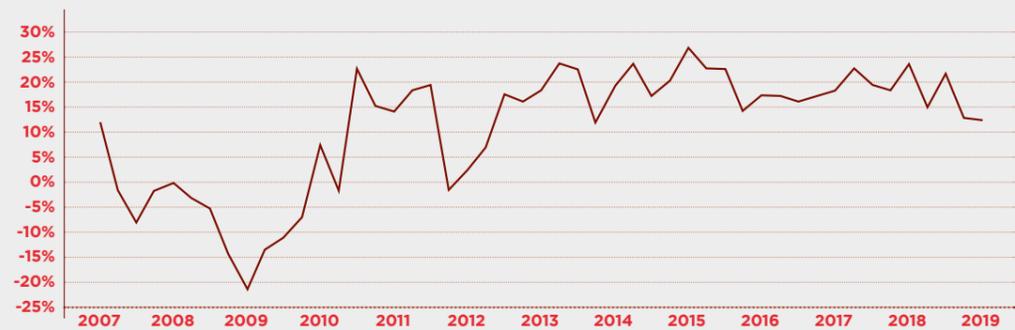


PERCENTAGE OF BUSINESSES EXPERIENCING DIFFICULTIES DURING RECRUITMENT



As expected during a period of significant political and economic uncertainty, there has been almost no change in the number of businesses reporting that their workforce has expanded. The majority of businesses across all sectors (67%) believe that there will be no change to their workforce over the next three months.

BALANCE OF FIRMS REPORTING AN EXPANSION OF WORKFORCE



67%

no change to their workforce over the next three months

THE PERCENTAGE OF BUSINESSES THAT ATTEMPTED TO RECRUIT FOR SPECIFIC TYPES OF CONTRACTS IN RELATION TO BUSINESS SECTOR

Contract Type	Service	Manufacturing
Full time	78%	84%
Part time	36%	16%
Temporary	15%	18%
Permanent	32%	25%
Apprenticeships	18%	9%

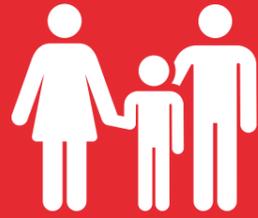
64% of businesses in the manufacturing sector attempted to recruit during Q1 2019 and of those 68% experienced difficulties during recruitment. There has also been a significant decrease in the number of businesses in the manufacturing sector recruiting apprentices, which dropped from 17% (Q4 2018) to 9% (Q1 2019). This is a clear sign that businesses are beginning to reduce their investment in training. Less than half (45%) of businesses in the service industry attempted to recruit this quarter and of those that did, 56% experienced difficulties.

THE PERCENTAGE OF BUSINESSES THAT ATTEMPTED TO RECRUIT FOR SPECIFIC ROLES IN RELATION TO BUSINESS SECTOR

Vacancy by role type	Service	Manufacturing
Skilled manual/Technical	42%	63%
Professional/Managerial	36%	34%
Clerical	19%	8%
Semi/Unskilled	31%	31%
Apprenticeships	12%	8%

Whilst businesses do not appear to be expanding their workforce, those are attempting to maintain current organisational structures are facing significant difficulties. This is unsurprising given that the context of the current UK labour market.

AGEING WORKFORCE

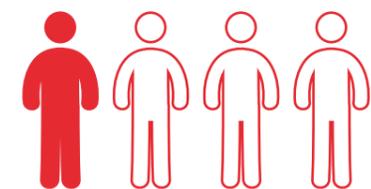


In addition to the data we collect in our standardised Quarterly Economic Survey, this quarter we also focused on the national skills shortage and specifically the impact of the ageing workforce for business. Businesses were asked a number of additional questions to establish the extent of the ageing work force in Worcestershire, employer awareness of the notion of an ageing workforce and their preparation for this labour market demographic change.

Demographic Change and the Labour Market

As life expectancies in the UK increase, people will face longer periods of retirement with proportionally less pension provision, unless they stay economically active for longer. Over the next decade, the changing age profile of the workforce will be the most significant development in the UK labour market, as a third of workers will be aged over 50 by 2020 (ONS, Labour market projections 2006-2020). As a result, the proportion of older workers in the labour force is increasing.

The advent of an ageing workforce presents both challenges and opportunities for the UK labour supply and employers. Employers will need to review skill transfer policies, recruitment strategies, working practices, job design and cultural attitudes to ensure they are prepared for the impact of an ageing workforce. The number of people living in Worcestershire aged 50+ has increased by 38% over the last 20 years and over a third of those aged 16-64 in the county are now 50+ (Fuller Working Lives, 2019). Approaches to address the ageing workforce phenomena will need to range from policies to facilitate senior staff remaining in work, to policies to ensure skill transfer from longstanding to new staff and the attraction and retention of younger people in the Worcestershire labour market.



1 in 4 Worcestershire businesses report that 50% or more of their workforce are aged over the age of 50.

Introduction

The aim of this research was to establish the proportion of businesses whose workforce is comprised of employees from the 50 and over demographic. The research also sought to establish the extent to which businesses were preparing for an ageing workforce and what actions they are undertaking to mitigate potential impacts. The research consisted of a short online survey. The research suggests that a significant proportion (50%) of the businesses in Worcestershire employ a workforce where more than half the employees are over 50. While awareness of the ageing workforce phenomena is relatively high among the Worcestershire business community, less than one third of businesses who are aware of an ageing workforce have implemented policies to mitigate its impact. The findings suggest that whilst businesses are familiar with the term ageing workforce, 20% have not taken any action to address it and the majority of those have not done so because they feel it does not apply to their business. A greater proportion of businesses in the manufacturing sector have an ageing workforce and a larger proportion of these businesses are taking steps to address the impact of an ageing workforce than in the service sector.

Sample

The study population consisted of businesses that operate in Worcestershire. The inclusion criteria required businesses to be based in Worcestershire and to employ more than one employee. Data was collected for three weeks and received a total of 445 responses. For the purposes of this data collection sole traders were excluded from the sample. The results below are based on responses from 445 businesses based in Worcestershire, of which 29% operate in the manufacturing sector and 68% operate in the service sector. 3% of respondents answered 'other' when asked to identify the sector in which they work.



444
BUSINESSES



29%
MANUFACTURING



68%
SERVICE SECTOR

RESULTS



31% of businesses in Worcestershire indicated that they had either never heard of the term 'ageing workforce' or they only knew a few details.

50% of Worcestershire businesses claimed to be both aware of the ageing workforce and taking proactive steps to address this phenomenon.

Of those firms...



Only 27% have already implemented specific policies and management practices OR agreed on a plan to change policies and management practices.



34% of those who stated they were taking action to address the ageing workforce, were in the very early stages of preparation. This 34% have either just started to examine internal policies or are in the process of making proposals for change.



29% stated that they had carried out work to examine internal workforce demographics and determined that no changes were currently necessary.



The remaining 19% stated that they were aware of the ageing workforce but were not currently taking action.

Of these, 65% stated that they had examined their workforce and determined that no changes in their policies and practices are necessary.

Of these 35% said that they had not prepared at all.

SECTOR BREAKDOWN



Service Sector



In Worcestershire, over a third of service sector businesses reported that 50% or more of their workforce is aged over 50.



34% of service sector firms either have no knowledge of the impact of an ageing workforce or only know a few details about it.



46% reported that they were aware and were either preparing or taking action to address the impact of an ageing workforce.



Manufacturing Sector



For manufacturing businesses within Worcestershire, a quarter reported that 50% of their workforce was aged over 50.



23% of manufacturing firms reported that they had never heard or only knew a few details about the impact of an ageing workforce.



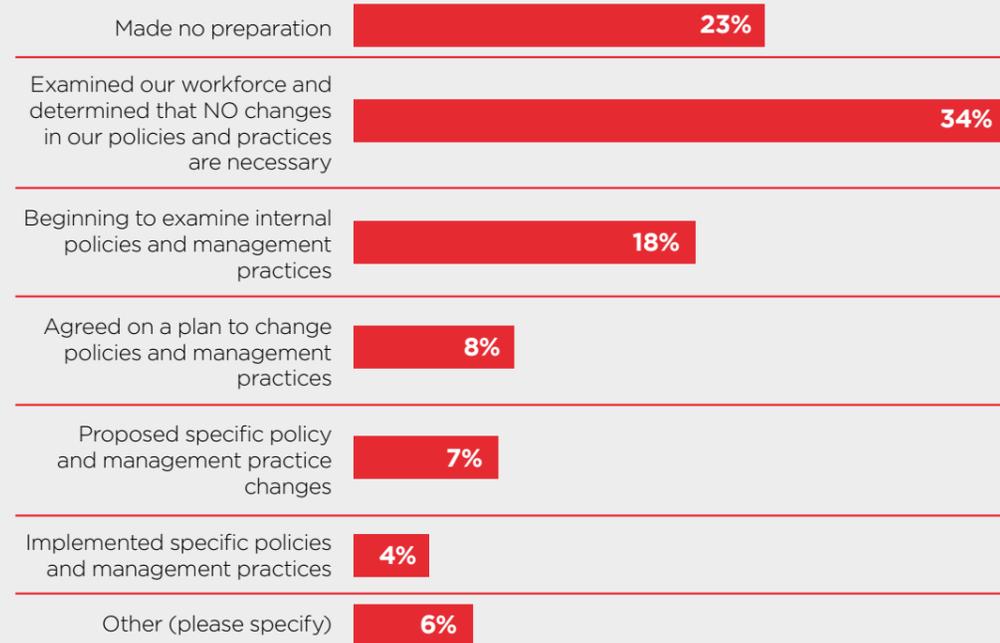
59% reported they are aware and were either preparing or taking action.

Conclusions

1 in 4 businesses employ a workforce which is dominated by employees over the age of 50. Indicators suggest that this trend is only likely to increase in the coming years as our current workforce continues to age. Current projections from the Office of National Statistics suggest that the proportion of the working age population aged 50 and over will increase to 1 in 3 by 2022. Operating in the context of a national skill shortage and a tight labour market will only exacerbate the challenges associated with an ageing workforce. In the short term employers will need to adjust their policies and procedures to ensure their business is catering for senior workers and reducing the impact of practical, cultural, and organisational barriers to staying in work. It is crucial that employers also immediately initiate policies which will ensure the skills of the older demographic are not lost upon retirement but are retained and passed on to new employees. In the long term, businesses will need to conduct succession planning to ensure leadership and business-critical positions can be filled in the future. Not only will businesses need to ensure they nurture internal talent and ensure the transfer of skills, they will need to engage with education facilities to ensure young people leaving education have the appropriate skills to meet the business needs of the labour market.

The UK has one of the highest rates of employment in developed nations and is simultaneously entering a period of demographic change which will see the age structure of the UK population change to a significant extent. Ensuring the future workforce is equipped with the appropriate skills for employment will be fundamental to maintaining business growth and productivity. Employers must engage with education and play a proactive role in the formation of the future workforce. To ensure a smooth transition it is vital that businesses start planning well in advance in order to harness senior workers expertise. Businesses need to initiate a plan to allow senior workers to pass on their skills and expertise, to ensure their skills do not leave an organisation when they retire.

HOW BUSINESSES ARE PREPARING FOR AN AGEING WORKFORCE



CHAMBER POLICY CONTACTS



CASSIE BRAY
Director of Business Engagement



POPPY BRAMFORD
Policy Manager



DAISIE REES-EVANS
Policy Executive

UPCOMING QES DATA COLLECTION



Monday 20 May -
Monday 10 June 2019



Monday 26 August -
Monday 16 September 2019



Monday 4 November -
Monday 25 November 2019

FUTURE POLICY EVENTS

ANNUAL BANK OF ENGLAND BREAKFAST
Friday 20 September 2019

CHAMBER BUSINESS EXPO
Thursday 10 October 2019

HEREFORDSHIRE & WORCESTERSHIRE CHAMBER OF COMMERCE BUSINESS MANIFESTO LAUNCH 2020
Friday 20 March 2020

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