

Q1 2020

ACCESS TO FINANCE

QUARTERLY ECONOMIC REPORT



Herefordshire
& Worcestershire
Chamber of Commerce



Bishop Fleming

Accountancy · Advisory · Tax · Private Wealth

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Sharon Smith
Chief Executive

Herefordshire & Worcestershire
Chamber of Commerce

The evidence base for this report was gathered during a data collection period which commenced on Monday 17 February 2020 and closed on Monday 9 March 2020. The data demonstrates the state of local economy on the eve of the escalation of the coronavirus outbreak. This data remains the latest and most up-to-date publicly available before insight into the two counties' business environment, at the time of writing.

Business finds itself in unprecedented times on a global scale. For two and a half years the political rhetoric and economic indicators have been dominated by the EU Exit negotiations. Deadlines for EU Exit were followed by repeated extensions to the negotiation period, to agree the terms of exit. With a majority in the House of Commons secured during the General Election in December 2019, and the date the UK left the EU passing in January 2020, anecdotal evidence from businesses suggested that Quarter 1 (Q1) 2020 was going to be characterised by a significant lift in orders, sales and business investment. Businesses were supposed to be able to breathe a sigh of relief, with 11 months to prepare for the new regulatory arrangement with the EU, the formulation of which would take place during the transition period, due to end in December 2020.

Now businesses face challenges which extend beyond European boundaries and are truly global in nature. The advent of Coronavirus presents obstacles for the movement of people and threatens to initiate a global economic slowdown which transcends sovereign lines. Due to the period of data collection, this report captures the

beginning of the Coronavirus outbreak when the UK remained in the containment stage. It is likely that the true impact of the cross-national issue will be felt in the coming weeks and will be demonstrated by the economic information produced in the next data collection period during Quarter 2. This report captures a snapshot of the economy prior to the crisis phase of the Coronavirus.

The results of this report paint a mixed picture that only a nuanced approach can unpick. At the start of Q1 businesses investment and confidence stabilised, as a result of the assumption of a majority in the House of Commons. This upwards trajectory has now been offset by the COVID-19 crisis. Indicators suggest the economy remains stagnated, deprived of the much-needed relief from the relentless political uncertainty of 2019. The weak outputs of 2019 have been extended; poor cash flow and low export sales and orders dominate the Q1 economic picture. The collision of two opposing forces are captured in this report; as the reduction of political uncertainty pushed up business confidence, the arrival of the Coronavirus during the final week of data collection hampered cash flow and export. It is the overlap of these two opposing forces which have created the tensions in this report.

At the time of writing, government has introduced an unprecedented package of financial support to keep the national economy above water. The Quarterly Economic Survey is not only the largest private business sector survey in the country, but it is also the most frequent. Yet we find ourselves operating in such volatile circumstances that even this report, completed just a matter of weeks ago, may not reflect the current situation businesses now find themselves in. The report remains, however, the most up to date information available on the impact of the Coronavirus. Government would do well to inform the future decisions they make regarding business support and the provision of finance based on impacts of Coronavirus on the economy, which is demonstrated in this report. Although the current levels of government intervention are unprecedented, they do not go far enough to address the huge challenges businesses of all sizes and sectors will face as this crisis becomes more protracted.

Herefordshire & Worcestershire Chamber of Commerce has supported businesses for almost 200 years and will continue to work tirelessly to ensure businesses are directed to the information they need to navigate the challenges ahead.



Charles Davey
Partner
Bishop Fleming

When we issued this survey, the hope was to be able to draw conclusions about the two counties' funding needs and how these were being catered for in the post-Brexit environment. The data taken in this survey is before the full impact of COVID-19 and the decisive move by Westminster to lock down the country and the economy, but more on that below.

The data returned provides interesting statistics that are both relevant in a normal economy and this new business environment. At the time of the survey, 78% of respondents were not looking to raise finance. Importantly of the 22% that were looking to raise finance, over 90% sought finance to effect growth in their business supporting that prior expectation that the economy would grow and bounce post Brexit. We certainly felt those green shoots and the wider data in the survey continued to support this with confidence increasing for the second quarter in a row.

As part of this research, we were also keen to understand the incidence of management information and it is pleasing to see that 76% of respondents prepare regular management information; a crucial tool and discipline in good business management and planning. We didn't define management information and its use in the survey, but those businesses that both prepare and then share their business performance often benefit from better employee engagement and therefore productivity.

At the time of writing, the UK is braced for COVID-19 and operating under lock down restrictions with many businesses operating under a new rhythm and sadly some remaining closed. The UK Government has launched an unprecedented set of support measures to the UK economy and I wonder if the 78% non-borrower statistic would reverse if we ran the survey now?

The Coronavirus Business Interruption Loan Scheme (CBILS) had a rocky start with the banking market racing to deploy a brand-new

scheme under huge pressure but it appears the scheme has settled and proposals are passing through the system.

This significant and rapid economic shock presented numerous challenges and for many this included finance. With the majority of businesses looking to borrow against an uncertain future and, indeed, many not having any prior (borrowing) relationship with their bank, the market needed to step up and deliver that funding need. Our survey data suggested that 60% of respondents would only approach their current bank for finance; whilst admirable loyalty, the banking market has shown it was not geared up to support the overwhelming initial demand and so the alternative lenders must surely be stepping in to fill the gap.

What is currently unclear is how many businesses have actually sought debt now or have just taken the more immediate solutions of repayment holidays, furloughing staff and tax deferrals. These key measures have provided cash headroom to the business and could well be enough to see many through the immediate crisis without the need to borrow.

However, the funding challenge will likely hasten as the market returns. Bad debt risk, slow payers, the need to restock and pay staff coupled with catching up on deferred payments of rent and tax could create a working capital and cash crisis for many and this is the point at which funding could be required. Whilst many businesses are fighting hard to contain the immediate challenges of COVID-19, this future issue is one that could derail many businesses.

Businesses need to have a plan with solid financials to support the expected return to trade. This plan can be used to identify any funding needs early, ensuring that corrective action can be taken. Importantly it will provide the discipline and rigor needed to shape and monitor a business as it returns to trade. With all the clients that we are working with at the moment, we make sure that detailed operational and financial planning is pushing well into the latter part of this year. A bit 'finger in the air', but history has proved that planning for and expecting the worst case provides best preparation.

All of this leaves me to think what further support will be required. Could there be a CBILS v2 with the much needed 100% guarantee or maybe an extension to the deferment schemes into 2022 or beyond?

Whatever happens, all businesses need to be prepared, ready and able to take the opportunities that will no doubt present on the other side.

METHODOLOGY

During Quarter 1 (Q1) 2020, 603 businesses in Herefordshire and Worcestershire responded to the Quarterly Economic Survey (QES). Data collection took place between Monday 17 February 2020 and Monday 9 March 2020. Any reference to Quarter 4 (Q4) 2019 refers to the data collection period from Monday 4 November 2019 and Monday 25 November 2019.

As this data collection closed on Monday 9 March 2020, the data does not capture the impact of the decision taken on Wednesday 11 March by the World Health Organisation to declare COVID-19 a pandemic. This report was formulated prior to the government's request on Monday 16 March for people in the UK to work from home where possible. The impact of the government decision to close pubs, restaurants, gyms and social venues on Friday 20 March cannot be ascertained from this report.

In this document some of the QES results are presented as balance figures. Balance figures show the difference between the increase and decrease in activity. 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.

BUSINESS SECTOR CLASSIFICATION

Throughout the document business sectors are used to make comparisons of activity. The sectors are defined below.

MANUFACTURING SECTOR:

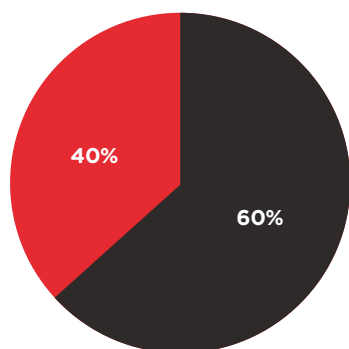
Main business activity includes manufacturing of goods (including electronic or information technology goods) and production of raw materials, construction, agriculture, fishing, mining or utilities.

SERVICE SECTOR:

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

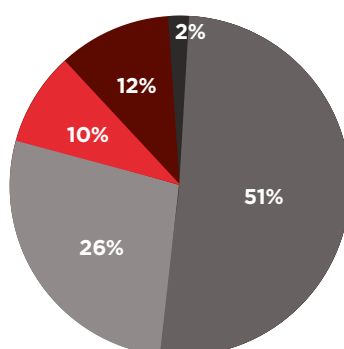
SAMPLE SUMMARY:

Responses by Exporting Companies



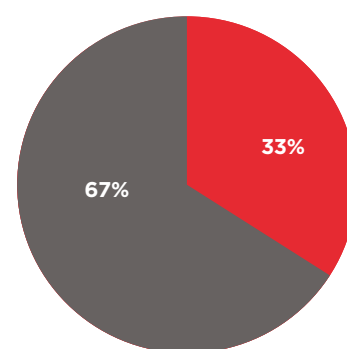
■ EXPORTERS
■ NON-EXPORTERS

Responses by Business Size



■ SOLE TRADER
■ 1-10
■ 11-49

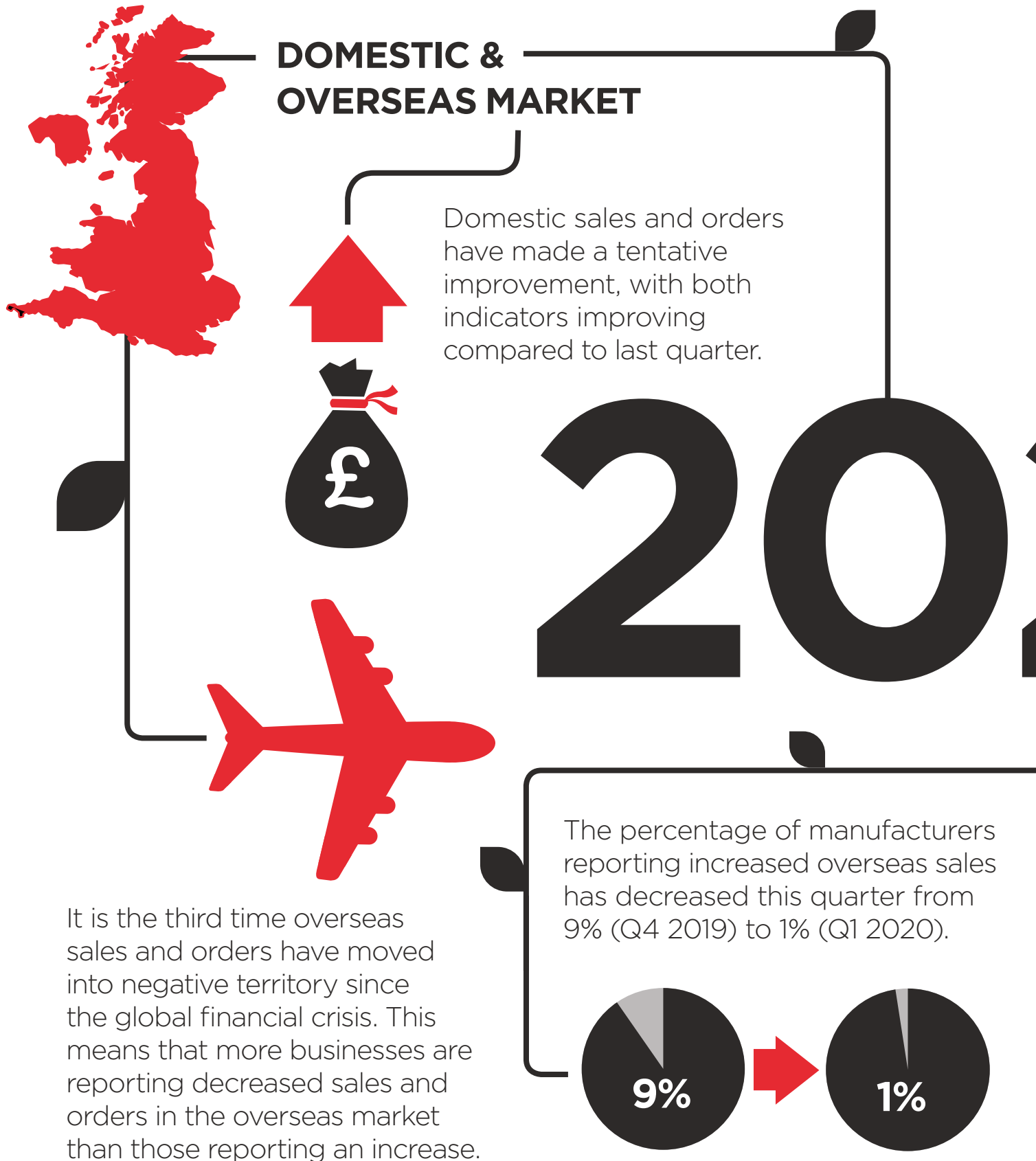
Responses by Sector



■ SERVICES
■ MANUFACTURING

EXECUTIVE SUMMARY:

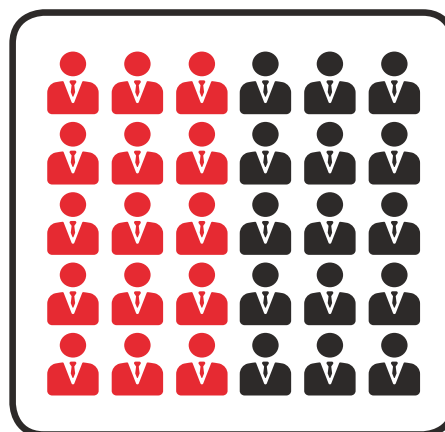
KEY FINDINGS



20

CASH FLOW

Cash flow remains critically low by historic standards.

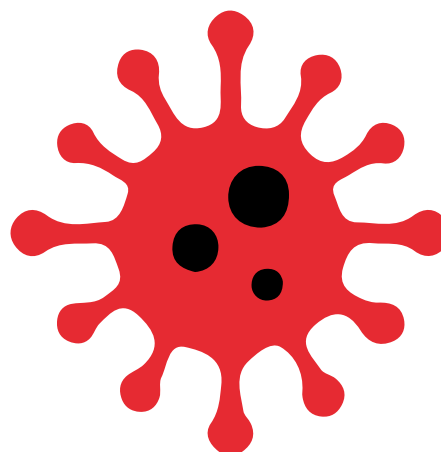


RECRUITMENT

49% of the business community attempted to recruit this quarter. Of those recruiting staff, 57% of businesses experienced difficulties during this process.

COVID-19

7% of the sample specifically identified the Coronavirus as a concern for their business.



BUSINESS PERSPECTIVE

IN THEIR OWN WORDS:



80% of our supply chain is based in Italy. Coronavirus has already had an impact, with one factory in Italy closing for 2 weeks. We are very concerned about the next 1-2 quarters in terms of delays to orders, spare part availability and exchange rate fluctuations.

- Retailer employing 1-10 people

Coronavirus has had a very damaging effect on our business due to the inability to source key products elsewhere... productivity has dropped.

- Manufacturer employing 1-10 people

My business premises and business have been wiped out by flooding. We need joined up, imaginative planning from central government to provide resilience for the region.

- Tourism business employing 1-10 people

There are continuously increasing rules and regulations coming in to place that are making it harder for smaller businesses to remain sustainable. It is difficult for a one-man band to understand and keep up to date with things such as new policies and procedures, payroll etc.

- Distribution company employing 1-10 people



44 businesses, representing 7% of the sample, mentioned concerns around Coronavirus. Typical comments cited issues with the supply chain and increased component and freight costs.



Brexit is a concern, with over 50% of sales into the EU, if there is no trade deal by December 2020 and World Trade Organisation rules are applied, the company could move out of the UK into the EU.

- Manufacturer employing 11-49 people

Weather and flood-related hassles of road closures is having a negative impact...the extended wet conditions are a reminder of the true costs of not addressing climate change and that surely must be at the forefront of business and government decision making from now on.

- Manufacturer employing 11-49 people

Businesses from within the UK and EU have seen significant downturn since Brexit. We are working hard to replace this with business from other continents; we really emphasise the importance of getting a trade Deal with Europe, we respect the vote for Brexit but not without a Trade Deal enabling us to move goods seamlessly around Europe without tariffs.

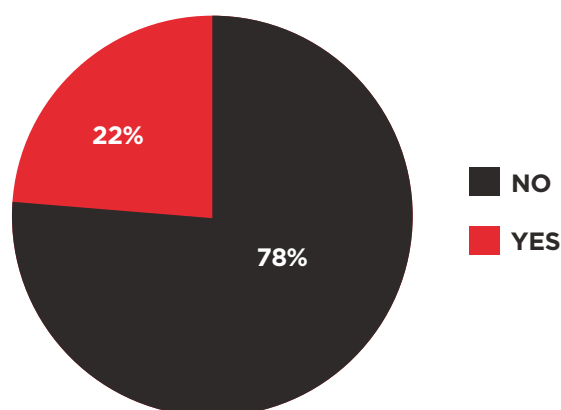
- Manufacturer employing 50-100 people



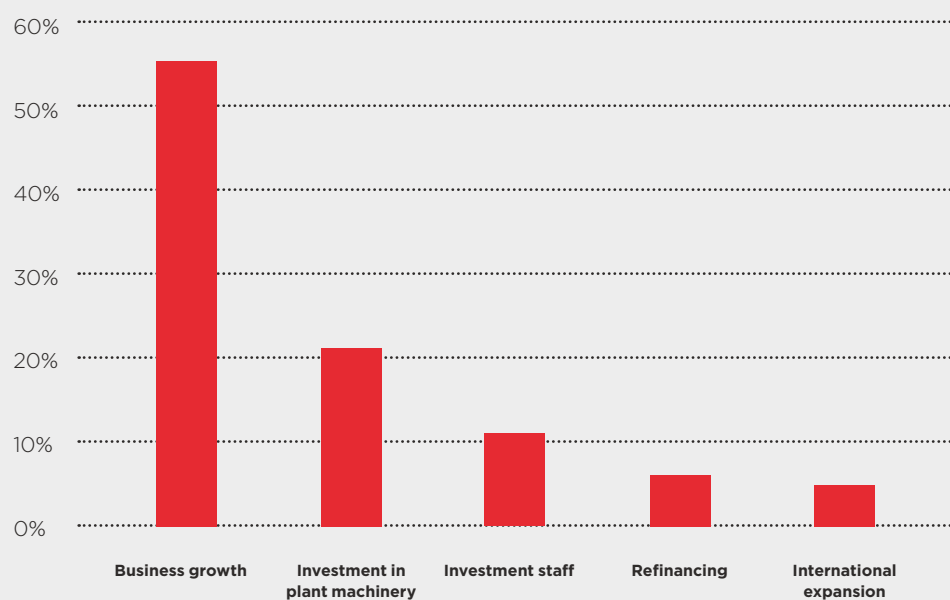
32 businesses, 5% of the sample, cited Brexit as a concern with continued uncertainty and unknown tariffs making it difficult for businesses to plan. Last quarter 82 businesses, representing 13% of the sample, cited Brexit as a concern for their business.

ACCESS TO FINANCE

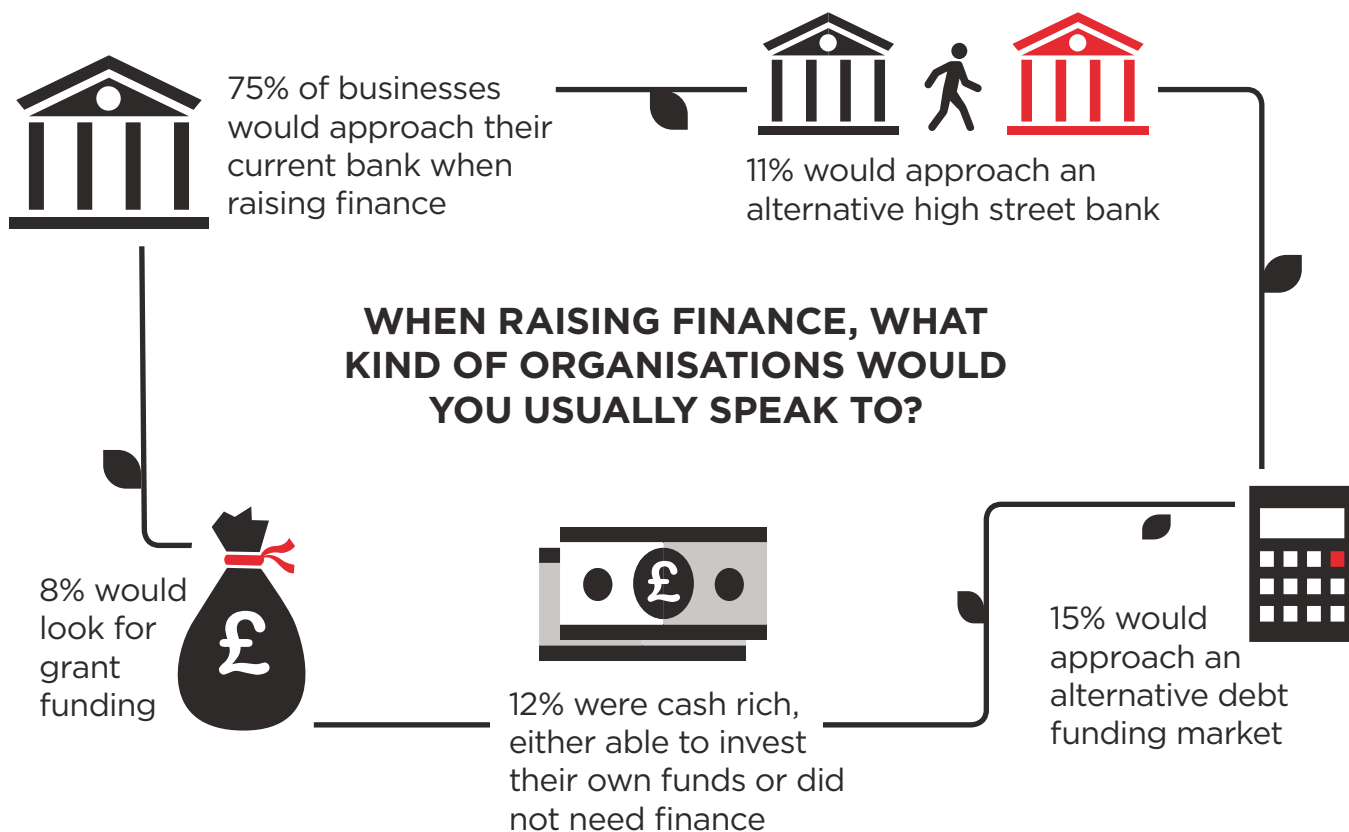
**ARE YOU CURRENTLY LOOKING TO RAISE FINANCE?
IF YES, WHAT IS THE MAIN ACTIVITY YOU ARE LOOKING TO FUND?**



IF YOU ARE LOOKING TO RAISE FINANCE, WHAT ARE YOU LOOKING TO FUND?



	Sole Trader	1-10	11-49	50-100	101-249	250+
No, not currently looking to raise finance	90%	76%	78%	83%	75%	84%
Yes, are looking to raise finance	10%	24%	22%	17%	25%	16%



55% of companies would only approach their current bank when raising finance. A further 5% would only approach their current bank or other traditional high street bank. Therefore, 60% would not consider speaking to anyone outside of the traditional banking sector.

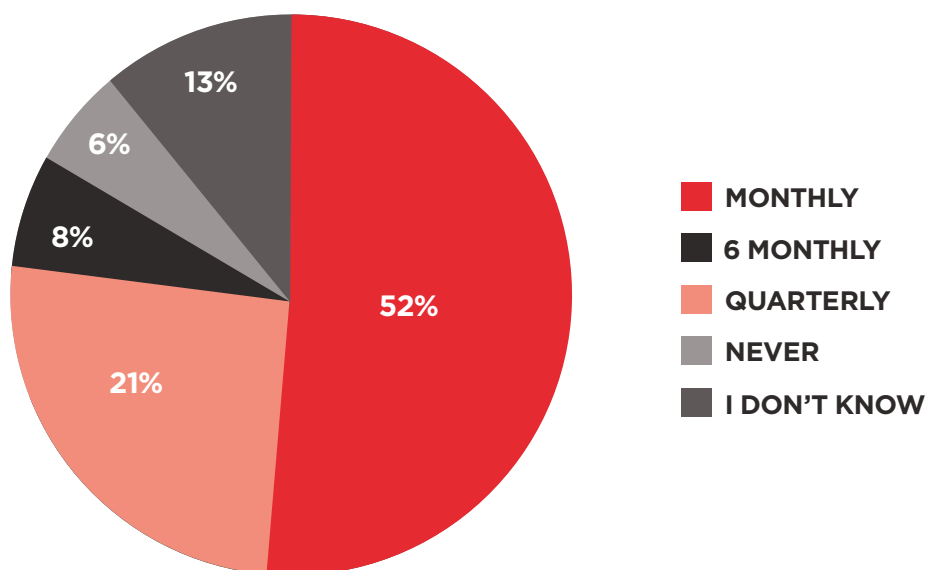
Businesses in their start-up phase were more likely to look for grants to support their growth. Businesses employing more than 250 people were three times as likely to be cash rich and not need finance from external organisations. Businesses with over 250 employees were also much less likely than any other business size to approach their current bank.

With the exception of sole traders, as business size increases, equity investment becomes a more commonly used method of raising finance.

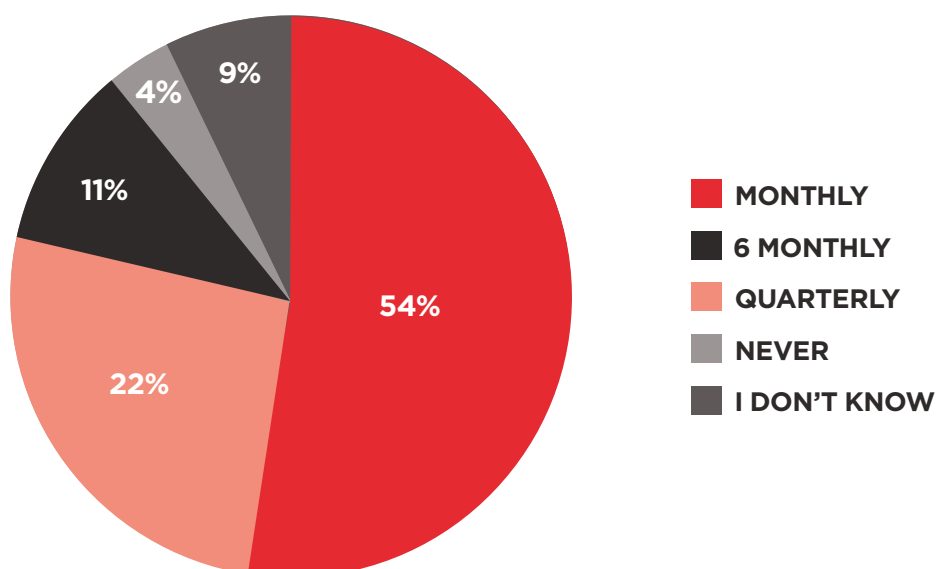
	Sole Trader	1-10	11-49	50-100	101-249	250+
Current bank	71%	74%	79%	80%	88%	55%
Other traditional high street bank	43%	9%	11%	14%	20%	9%
Alternative debt funding market	14%	16%	15%	10%	8%	15%
Equity investment	29%	6%	5%	8%	8%	12%
Cash rich	0%	10%	9%	10%	12%	36%
Grants	14%	11%	5%	6%	0%	6%

ACCESS TO FINANCE

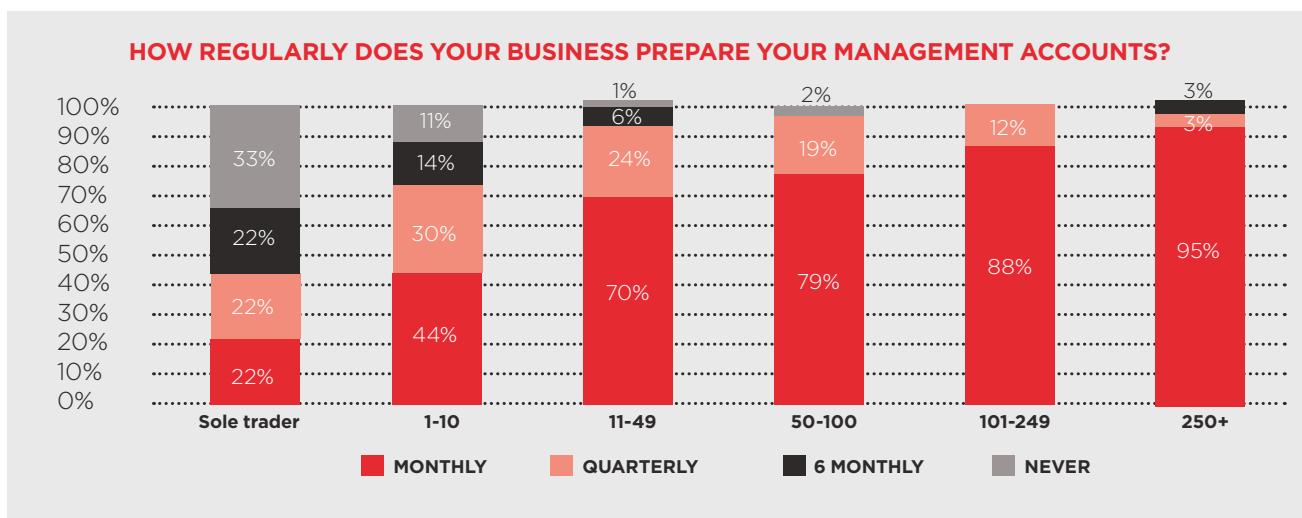
HOW REGULARLY DOES YOUR BUSINESS PREPARE YOUR MANAGEMENT ACCOUNTS?



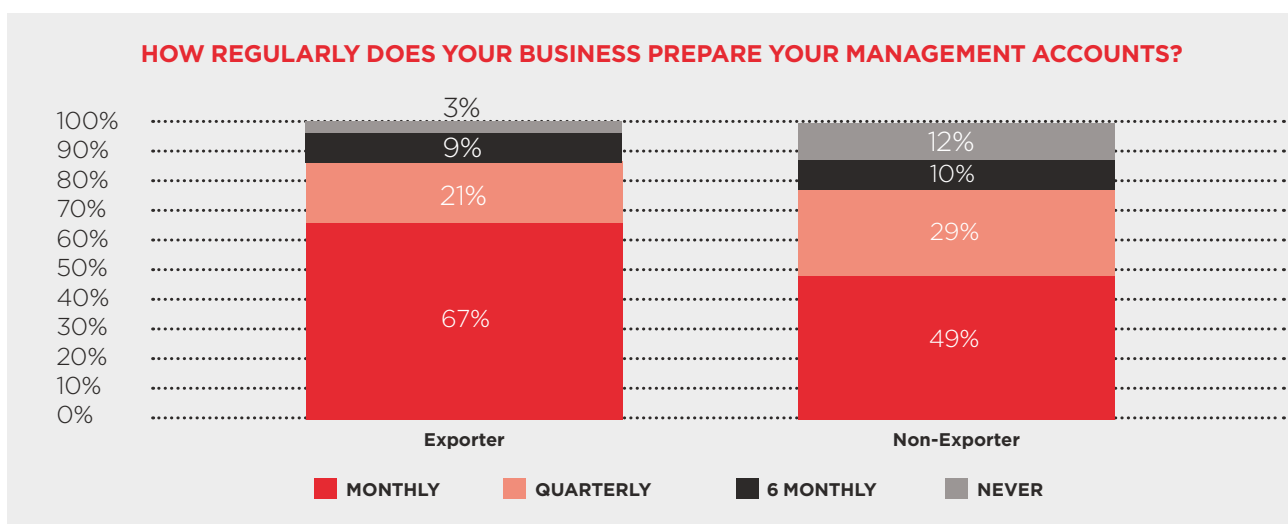
The pie chart below demonstrates how regularly businesses looking to raise finance are preparing their management accounts. Of the 22% of businesses who were looking to raise finance, 15% either prepared management accounts every 6 months or never prepare management accounts.



As companies grew larger, they were more likely to produce their management accounts monthly.



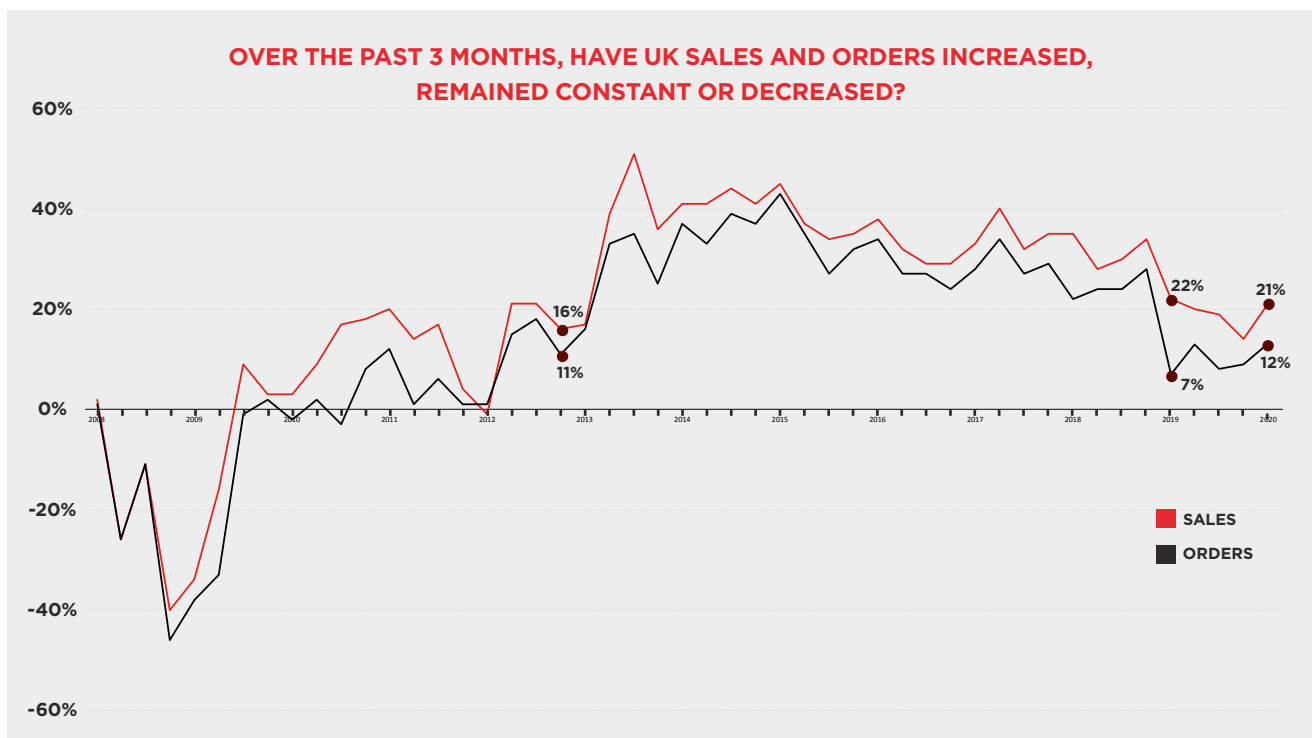
On the whole, exporters were much more likely to prepare their management accounts than their non-exporting counterparts. Only 3% of exporters reported that they never prepare their management accounts compared to 12% of non-exporters (fourfold increase). Exporters were also more likely to prepare their management accounts monthly (67%), compared to non-exporters (49%). Exporting status may not be the primary variable influencing this discrepancy; exporters in this sample were more likely to be larger businesses and as the data demonstrates, larger businesses were more likely to prepare their management accounts monthly (14% of the exporters in the sample had over 100 employees compared to 9% of non-exporter).



UK MARKET

The results from Quarter 1 (Q1) 2020 demonstrate that domestic sales and orders have made a tentative improvement, with both indicators improving compared to last quarter (Q4 2019). The proportion of businesses reporting improved domestic sales has exceeded 20% for the first time since Q1 2019. Although indicators in the domestic market did not reach the levels reported in 2018, the tentative upward trajectory is positive.

The domestic market sales are at a similar level to this time last year, while orders are marginally higher. The fact that these indicators are at a similar level to this time last year will not reassure businesses, given that this time last year we were approaching the first EU exit deadline of the 29 March.



MANUFACTURING SECTOR INSIGHT:

The percentage of manufacturing companies reporting an increase in domestic sales has increased by 22%, from -3% (Q4 2019) to 19% (Q1 2020). This is higher than any percentage reported in 2019 but remains below the average for 2018 (27%). The balance for domestic orders has moved into positive territory (11%) after being negative for all of 2019.

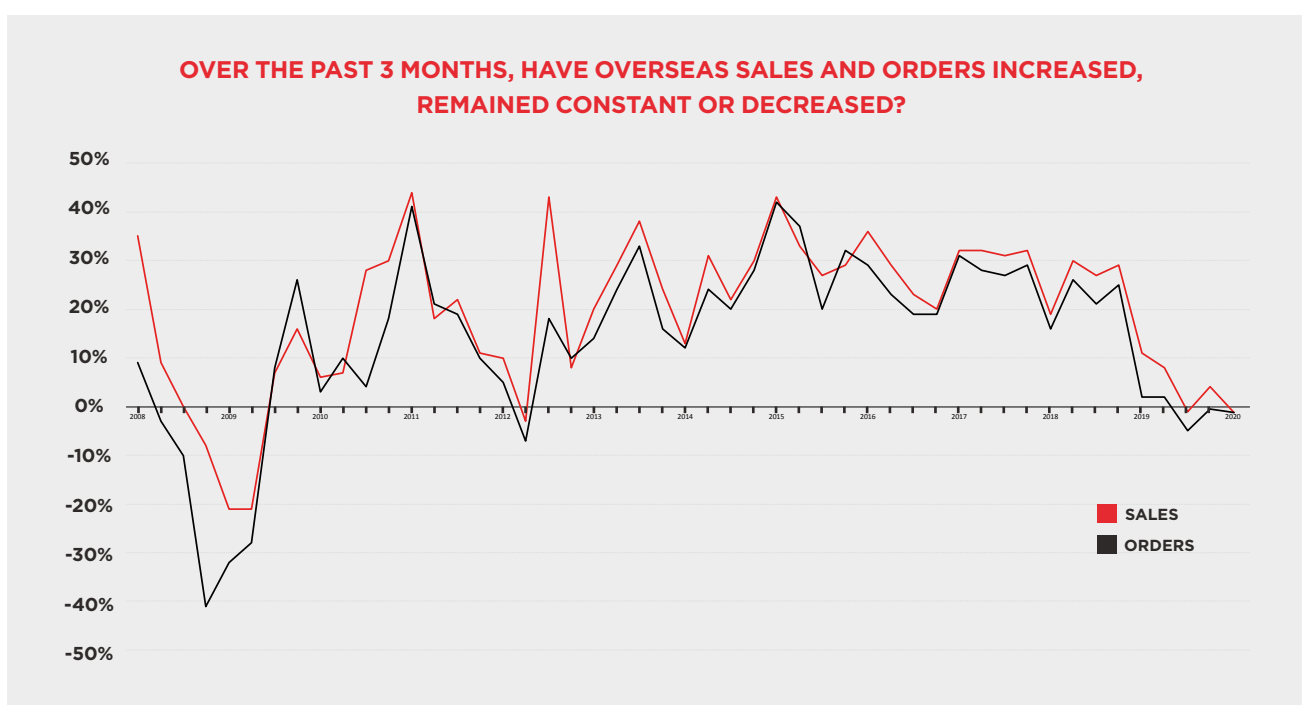
SERVICE SECTOR INSIGHT:

The percentage of service companies reporting an increase in domestic sales has decreased slightly this quarter from 25% (Q4 2019) to 22% (Q1 2020). Similarly, domestic orders have decreased slightly from 17% (Q4 2019) to 13% (Q1 2020).

OVERSEAS MARKET

SALES AND ORDERS IN THE OVERSEAS MARKET

Both sales and orders in the overseas market have moved into negative territory. This means that more businesses are reporting decreased sales and orders in the overseas market than those reporting an increase. This is the third time since the global financial crisis that overseas sales and orders have both been in negative territory.



MANUFACTURING SECTOR INSIGHT:

After a marginal increase last quarter, the percentage of manufacturers reporting increased overseas sales has decreased this quarter from 9% (Q4 2019) to 1% (Q1 2020). There was slightly better news for overseas orders, which have increased for the first time in six quarters. The percentage (1%), however, is far below the average for 2018 (28%).

SERVICE SECTOR INSIGHT:

The percentage of service sector companies reporting increased overseas sales has remained negative for the third quarter in a row, falling from -4% (Q4 2019) to -6% (Q1 2020). Overseas orders have also remained negative for the third quarter in a row, falling from -3% (Q4 2019) to -8% (Q1 2020).

EMPLOYMENT & RECRUITMENT

49% of the business community attempted to recruit this quarter. Approximately half of those were recruiting for new roles and the remaining half were replacing existing roles. Of those recruiting staff, 57% of businesses experienced difficulties during this process.

The percentage of businesses who expect their workforce to increase over the next 3 months has jumped from 1 fifth (Q4 2019) to a third since last quarter (Q1 2020). The data did not suggest that businesses were looking to shrink their workforce, but this may be symptomatic of the period during which data collection took place (survey closed on Monday 9th March 2020).

Following the government's immigration announcements, some businesses expressed concern about the future availability of workers:

“The government’s new policy on immigration will make it even more difficult to recruit cleaners to my business. There are not enough “economically inactive” British people who are available to work.”

Consumer services business employing 50-100 people

“The recent government announcement signalling the intent to refuse/restrict dramatically entry to the UK for temporary harvest workers will result in the closure of this business.”

Agri-food business employing 50-100 people

“The government’s newly announced ban on low skilled migrant labour has the potential of massively disrupting our business.”

Manufacturer employing 50-100 people

MANUFACTURING SECTOR INSIGHT:

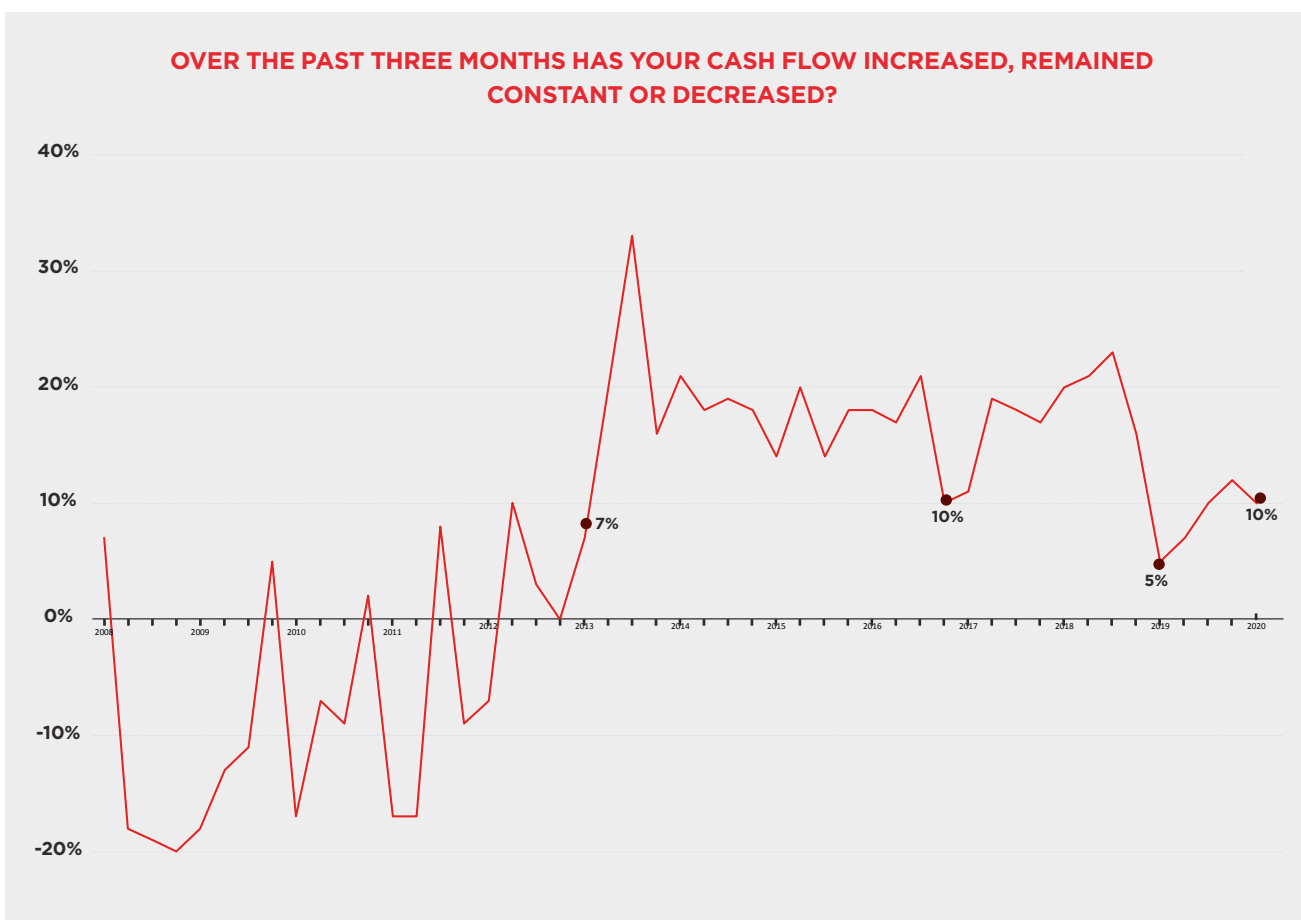
The percentage of manufacturers who have increased their workforce over the last three months has more than doubled since last quarter, from 6% (Q4 2019) to 15% (Q1 2020). The percentage of manufacturers expecting their workforce to increase over the next three months has more than trebled, from 8% (Q4 2019) to 27% (Q1 2020). Manufacturing companies continue to struggle when recruiting staff, with 60% of those who attempted to recruit reporting difficulties. 64% of manufacturers are struggling to recruit for skilled manual and technical roles. The data did not suggest that businesses were looking to shrink their workforce, but this may be symptomatic of the period during which data collection took place (survey closed on Monday 9th March 2020).

SERVICE SECTOR INSIGHT:

The percentage of service sector companies who have increased their workforce over the last three months has risen from 12% (Q4 2019) to 15% (Q1 2020). The percentage of service sector companies expecting their workforce to increase over the next three months has risen from 15% (Q4 2019) to 20% (Q1 2020).

CASH FLOW

Cash flow has increased and surpassed the critically low levels reported in Q1 2019 and Q2 2019. By historic standards, however, it remains low. It is likely that cash flow will become an issue of particular pertinence in the next QES report given the significant challenges businesses now face in regard to the advent of the Coronavirus.



MANUFACTURING SECTOR INSIGHT:

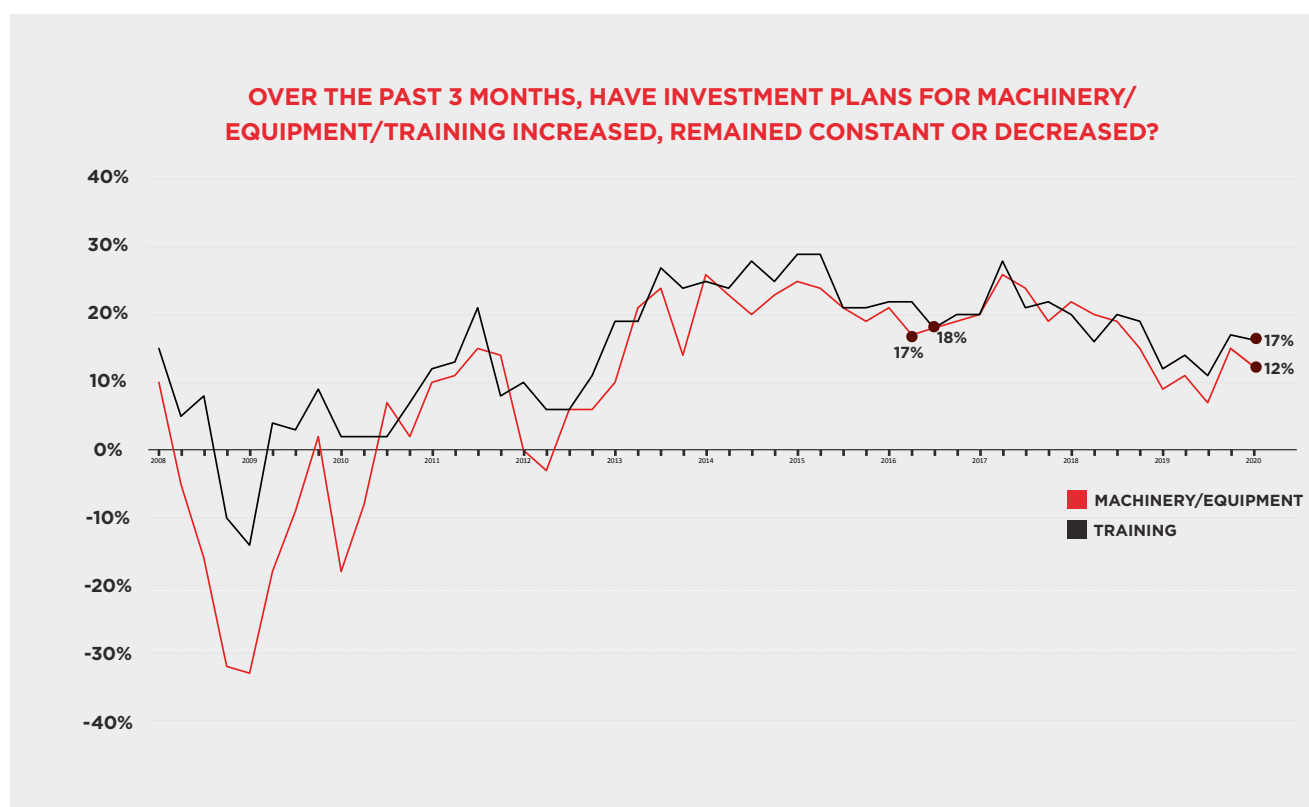
The percentage of manufacturing companies reporting improved cashflow has decreased slightly this quarter, from 11% (Q4 2019) to 9% (Q1 2020).

SERVICE SECTOR INSIGHT:

The percentage of service sector companies reporting improved cashflow has also decreased slightly this quarter, from 13% (Q4 2019) to 10% (Q1 2020).

INVESTMENT

Investment in training has stabilised, demonstrating little change on last quarter. Investment in machinery and equipment has demonstrated less consistency, struggling to maintain the increases demonstrated during the last two quarters.



MANUFACTURING SECTOR INSIGHT:

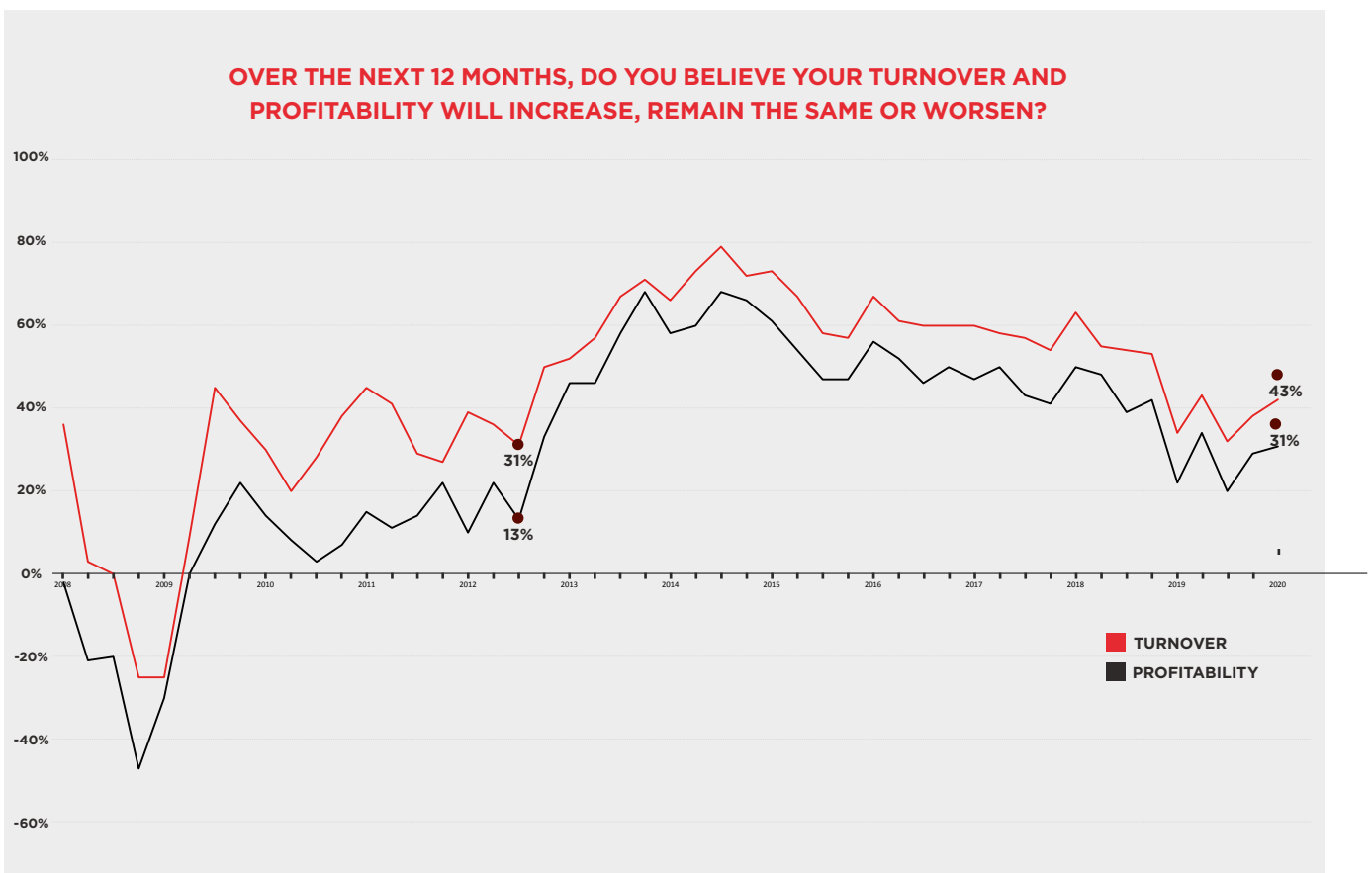
The percentage of manufacturers planning to increase investment in machinery and equipment has increased from 17% (Q4 2019) to 20% (Q1 2020). The percentage has almost recovered to the average reported in 2018, 22%. There has also been an increase in the percentage of manufacturers planning to increase training investment, from 16% (Q4 2019) to 19% (Q1 2020).

SERVICE SECTOR INSIGHT:

The percentage of service sector companies planning to increase investment in machinery and equipment has remained unchanged since last quarter, at 11%. The balance has also remained unchanged for training investment, at 17%.

BUSINESS CONFIDENCE

Despite the onset of Coronavirus, business confidence has increased. It is extremely likely that this figure no longer reflects current business sentiment and it is anticipated that the results for Q2 2020 will demonstrate a significant drop in confidence.



MANUFACTURING SECTOR INSIGHT:

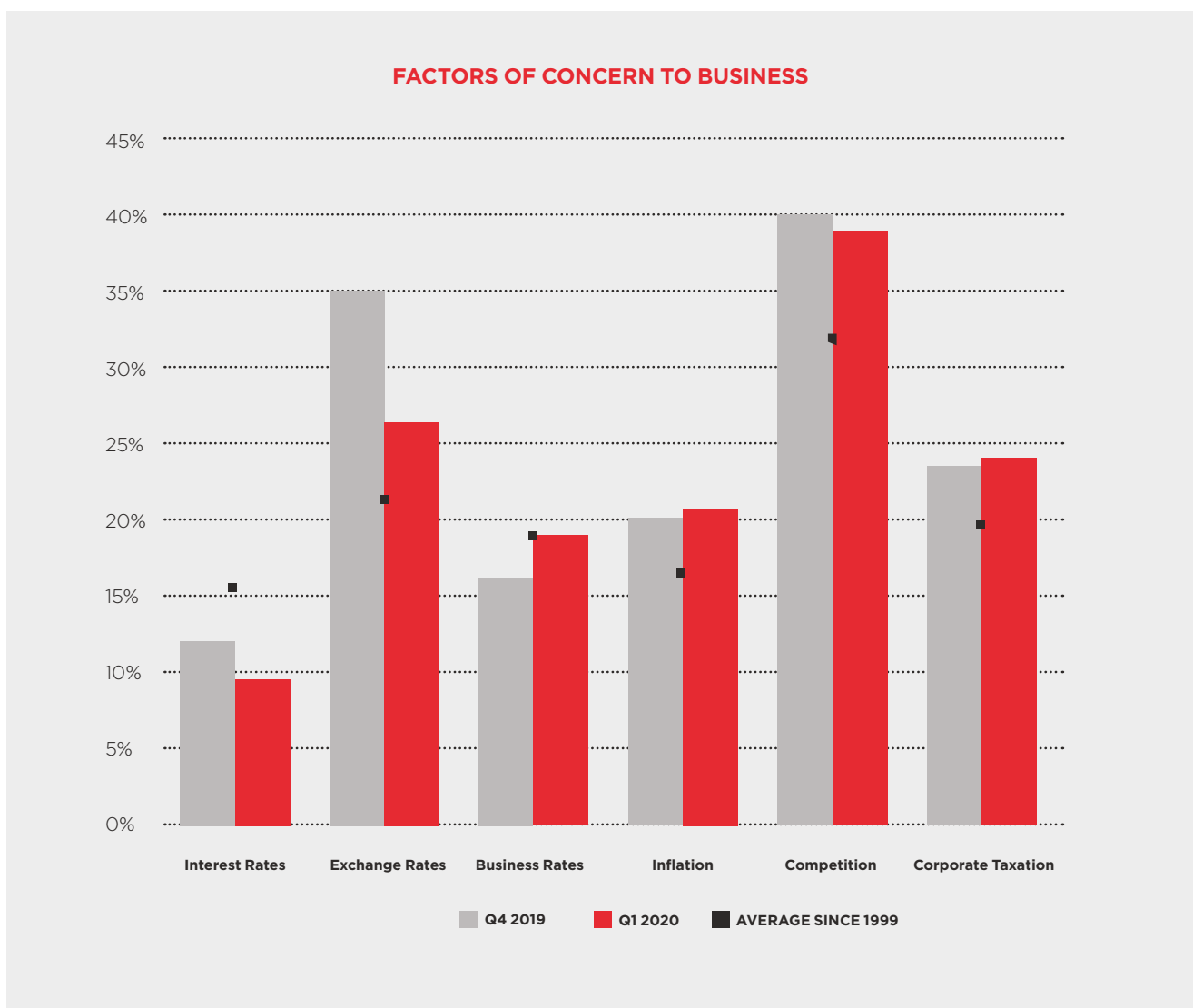
The percentage of manufacturers who expect their turnover to increase over the next twelve months has increased from 30% (Q4 2019) to 45% (Q1 2020). Confidence in profitability has also increased from 15% (Q4 2019) to 26% (Q1 2020). However, both percentages remain below the 2018 average which was 56% for turnover and 40% for profitability.

SERVICE SECTOR INSIGHT:

The percentage of service sector companies who expect their turnover and profitability to increase over the next twelve months has decreased marginally by 3% respectively.

BUSINESS CONCERNS

Far fewer businesses are concerned about exchange rates in Q1 2020 with 26% citing it as a concern, compared to an average of 35% for 2019. This may be symptomatic of relative stability produced from a delayed possibility of a no deal exit from the EU.



CONTACTS

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Affairs Executive

2020 QUARTERLY ECONOMIC SURVEY DATES

Q2 2020

Fieldwork: 18 May to 8 June

Publication: TBC - mid July 2020

Q4 2020

Fieldwork: 2 November to 23 November

Publication: TBC - mid January 2021

Q3 2020

Fieldwork: 26 August to 16 September

Publication: TBC - late October 2020

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