Q2 2020

COVID-19 ECONOMIC REPORT

Focusing on the impact of Covid-19 on employment

Herefordshire & Worcestershire Chamber of Commerce

INSPIRING WORCESTERSHIRE
CREATING OUR FUTURE WORKFORCE

Worcestershire Local Enterprise Partnership

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Sharon Smith
Chief Executive
Herefordshire & Worcestershire
Chamber of Commerce

Herefordshire & Worcestershire Chamber of Commerce, in partnership with the Worcestershire Local Enterprise Partnership, have released the results of the latest quarterly economic report, outlining the impact of Coronavirus on businesses during May and June 2020.

This report captures the impact of Coronavirus on businesses in Herefordshire and Worcestershire between Monday 18 May 2020 and Monday 8 June 2020. This data is the latest and most up-to-date publicly available report providing insights into the two counties' business environment.

The outbreak of Coronavirus has led to a crisis which has been characterised by an unprecedented suspension of economic activity in the UK. It will come as no surprise to see that this report suggests that the impact on businesses in the two counties is unparalleled by any previous data. The extent and pace of damage to local businesses has been far more rapid than during the global financial crisis. The data in this report shows that the impact has manifested into a much sharper shock.

The government are estimated to have borrowed £62.1 billion in April 2020, the highest borrowing in any month since records began in January 1993, to fund the unprecedented packages of support offered to businesses during the Covid-19 pandemic (ONS, Public sector finances, UK: April 2020). For many businesses this support has been an invaluable lifeline.

Yet, even where schemes have worked well, it doesn't mask just how difficult this quarter has been for businesses. 74% of businesses that filled in this quarter's QES experienced fewer UK sales than last quarter. At the height of the 2007/08 financial crisis that figure was 55%. Confidence and plans to increase investment have reached their lowest on record. 59% of businesses expect their turnover to decrease over the next 12 months, compared to 50% at the peak of the financial crisis. In the most concerning statistic from the report, a third of businesses expect to reduce their workforce in the next 3 months. Such figures only reinforce forecasts from the Office for Budgetary Responsibility, which expect the unemployment rate to peak at a level between 9.7% and 13.2%.

The next three months will be absolutely critical for businesses. Demand will need to resume, facilitated by social distancing, to ensure the UK economy can recover relatively swiftly from this economic shock. The impact of this crisis is likely to vary dramatically across different sectors. Some have already seen a bounce back in demand and a "V shaped" recovery in their sales and order books. Others remain in flux due to supply chain disruption and wider structural scarring to their sector. The true extent of the damage will not be known for some months. What is clear at this stage, however, is that it is unlikely that the speed of recovery will mirror the pace of decline for the hardest hit sectors. The support provided by government during the next 6 months will be critical to ensuring that businesses can weather this storm.

As lockdown is eased, businesses are trying to reopen safely whilst remaining commercially viable, all the while conforming to social distancing rules. The Chancellor's Summer Statement saw some welcome announcements regarding investment in skills and schemes to boost a green recovery, but the Coronavirus Job Retention Scheme Bonus seems unlikely to prevent many businesses from needing to make redundancies if demand does not pick up.

The biggest challenge for businesses moving forward will be maintaining cash flow in a subdued economy. The easing of lockdown measures will need to do more than simply open businesses; consumers will need to have the confidence to go out and spend. Without a dramatic increase in demand and cash flow, the risk to the labour market will be significant.

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

Over the last few years the Worcestershire Local Enterprise Partnership's (LEP) Skills Strategy has been focused on workforce planning. Worcestershire has already surpassed the national predicted trend, which states that 1 in 3 employees in the workforce will be over 50 by 2022, having already met this level in 2019. In certain sectors, this disproportionality is even more pronounced, with the manufacturing sector and the public service sector reporting that almost 1 in 2 staff are over the age of 50.

Acknowledging the ageing workforce of many of our employers, the challenge has been understanding how we work to lessen our skills gap. It is crucial that we understand the skills needs of our employers and educate our young people in the careers we will need in the future. To achieve this we have been working with our employer base to raise the profile of their organisations and the industries within our county. This long-term strategy has included influencing the provision offered in county, working with our educational establishments and being supported by our fantastic Worcestershire employers to raise that awareness.

This survey has been taken in a time of national crisis during the advent of Coronavirus. But it is also a time for reflection for our employers to think about their ability to respond through their workforces. Every business in the country had to fundamentally understand the dynamics within their workforce in terms of both health and age, as well as their organisations readiness to pick up their business and work from another location. This knowledge will support the recovery of our county and support the longer-term economic planning of our employers and their workforce succession.

There is no doubt that this will be a challenge moving forward, balancing the need to recover with the need to plan for the long-term surety of our workforces. It is evident from the responses in this report that many of our businesses will change their business practices in terms of people. The data shows that our employers will be looking at reviewing employment contracts, providing greater flexibility, and considering the impact of digital skills on their workplace, both from a user perspective and more widely as a tool to generate business from a nonphysical location. The data shows a positive trend in building resilience and understanding the impact of digital skills on our business in these times. Businesses are clearly looking to the future and understanding the need to recruit more young people in our workforces.

We welcome the recent government announcements in the Summer Statement. It is good to see that the Government recognises the need to support our employers to make these positive changes at this time. These incentives support our employers to take on the workforce we need in the future, whilst recognising the challenge of the short term business recovery goal and financial pressures. We hope that our employers will take full advantage of these incentive packages to take young people through the Kickstart, Traineeship and Apprenticeship programmes, offering them real opportunity but also supporting workforce resilience in future.

Worcestershire LEP is committed to supporting our employers to create their future workforce but also to support the upskilling and development of the current workforce, helping to build the county's resilience and support its economy now and in the future.

METHODOLOGY

During Quarter 2 (Q2) 2020, 441 businesses in Herefordshire and Worcestershire responded to the Quarterly Economic Survey (QES). Data collection took place between Monday 18 May 2020 and Monday 8 June 2020. Any reference to Quarter 1 (Q1) 2020 refers to the data collection period from Monday 17 February 2020 and Monday 9 March 2020.

This data collection period started after the government introduced their first steps towards easing lockdown. On Sunday 10 May the Prime Minister stated that those unable to work from home to return to work if safe to do so. On Monday 11 May the Government released a series of guidelines to help business make their workplaces safe. On Monday 25 May the Prime Minister announced that non-essential retail shops would be expected to reopen on 15 June if they were Covid-19 Secure.

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:

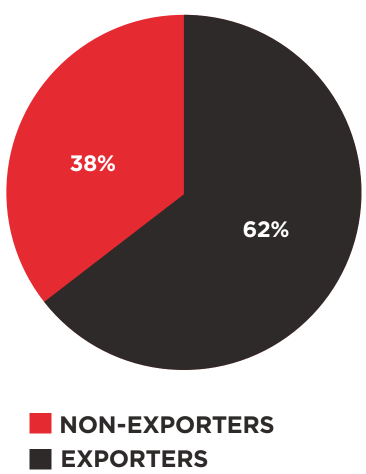
Main business activity includes manufacturing of goods (including electronic or information technology goods) and production of raw materials, construction, agriculture, fishing, mining or utilities.

SERVICE SECTOR:

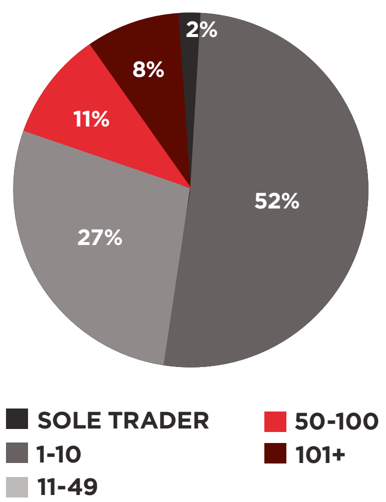
Main business activity provides a service to businesses as well as final consumers (including retail/wholesaling, professional services and marketing).

SAMPLE SUMMARY:

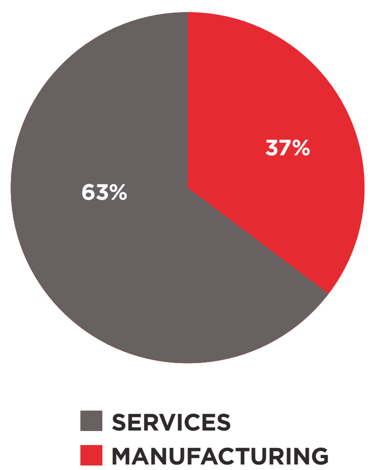
Responses by Exporter



Responses by Business Size



Responses by Sector



EXECUTIVE SUMMARY: KEY FINDINGS

DOMESTIC & OVERSEAS MARKET

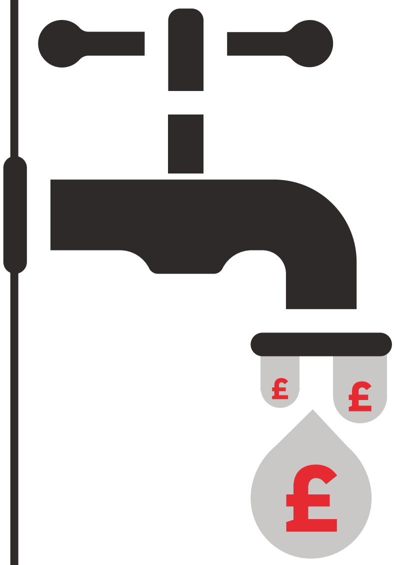
74% of businesses experienced fewer UK sales this quarter. By comparison, during the worst part of the 2007/8 financial crisis, 55% of businesses experienced fewer UK sales.

20

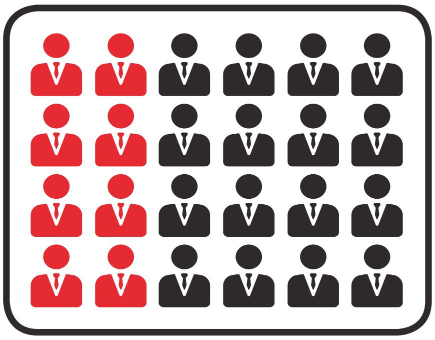
It is the third time overseas sales and orders have moved into negative territory since the global financial crisis. This means that more businesses are reporting decreased sales and orders in the overseas market than those reporting an increase.

The percentage of businesses experiencing increased overseas sales decreased dramatically from -1% (Q1 2020) to -55% (Q2 2020).

CASH FLOW



The percentage of businesses reporting increased cash flow decreased significantly this quarter from 10% (Q1 2020) to -51% (Q2 2020).



WORKFORCE

31% of businesses expect their workforce to decrease over the next 3 months. This is the largest percentage since Q4 2008 when 38% of businesses expected a decrease.

20

Only 20% of businesses were operating at full capacity this quarter

TURNOVER

59% of businesses expect their turnover to decrease over the next 12 months, compared to 50% at the height of the 2007/8 financial crisis.

MANUFACTURING

Compared to last quarter, manufacturing companies were 5 times more likely to expect their turnover to worsen over the next 12 months.

BUSINESS PERSPECTIVE

IN THEIR OWN WORDS:

As a sole trader in my first year in business, not one single bit of government assistance to self-employed businesses applied to me. My income stream was taken away and I have been left with Universal Credit. I cannot see how on earth my business is expected to survive, having invested my finances and 11 months of hard work into getting it off the ground. I am aware that there will be hundreds of thousands of small start-up businesses in the same boat as me nationally.

• Sole trader

As a business heavily reliant on weddings, events and tourists to the Cotswolds, my business has been severely impacted. As there is no guidance on weddings and events, will there be additional support for this sector? Also, as my husband and I are directors of our own companies our income has been severely impacted, are there any plans to further support company directors who pay themselves in dividends? It feels like we've been missed out in the government's support.

• Services business employing 1-10 people

As a small family business in the hospitality sector, our bookings have been wiped out and planning ahead is currently based on guesswork. Money is available to borrow but repayment is based on uncertainty and the unknown which feels very risky.

• Hospitality business employing 1-10 people

Although the business grant was useful, it only equated to a third of expenses. Should a second wave occur, and lockdown restrictions put back in place we would need to finance cashflow through an emergency loan.

• Consumer services business employing 1-10 people

We applied for CBILS funding the first day it was available. We have been forced to employ accountants to prepare cash flows and projections. The conclusion is we are a very viable and profitable business. No offer of funding has yet been received, whatsoever. We feel utterly abandoned and ignored.

• Consumer services business employing 101-249 people

We are very concerned that there is no help for us in the distribution sector - our customers, who are in the restaurant and fast food sector are receiving grant aid, reduced business rates etc. but whilst our business is directly linked to the circumstances faced by our customers we are not eligible for assistance.

• Distribution business employing 1-10 people

Most of my business is overseas and with the travel ban/two weeks quarantine on return this impacts significantly on my ability to work within my Middle East market. My UK business has suffered and we will not take on apprentices now until probably 2021. Again, if I travel then I can't do the work I need to do in the UK as I will be quarantined. All in all, 2020 looks bleak and we hope to survive to fight in 2021.

• Manufacturing business employing 1-10 people

The quicker furlough allows people to come back 'part-time', the quicker I will be able to get staff back into the workplace. I am however very grateful for the furlough scheme, it has made a huge difference allowing us to keep staff through this crisis. Thank you Chancellor!

• Manufacturing business employing 1-10 people

A no-deal Brexit together with Covid-19 will decimate the car industry and its supply chain, it is suicidal and a government pursuing this as its strategy means it has no interest in manufacturing.

• Manufacturing business employing 1-10 people

Now we can see the longer-term effects of Covid-19, we are less confident in our business surviving in its current form. It will survive, but it will have to adapt and evolve.

• Professional services business employing 1-10 people

I think the government need to announce a stimulus package and invest heavily into UK infrastructure to boost the economy and get people feeling confident again.

• Professional services business employing 1-10 people

COVID-19 AND EMPLOYMENT

Only 20% of local businesses attempted to recruit staff this quarter, compared to 49% last quarter (Q1 2020).

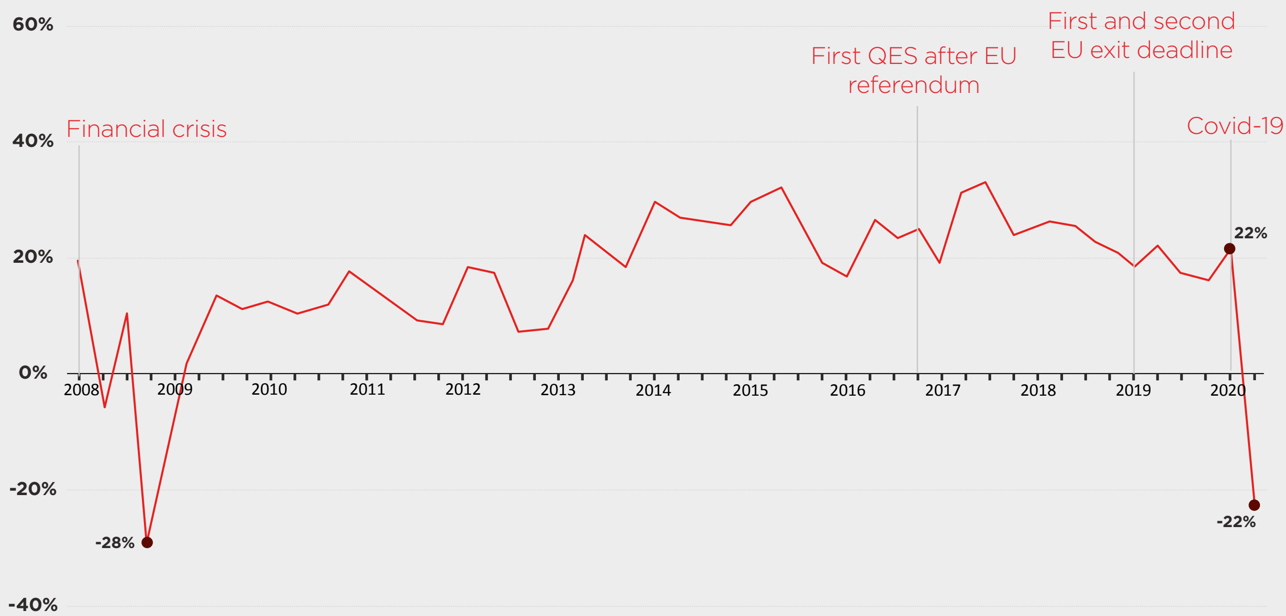
In the short-term, the introduction of the Job Retention Scheme and subsequent extension until October has proved a lifeline for businesses both locally and nationally. According to our weekly Coronavirus Impact Survey, 51% of local businesses made use of the Job Retention Scheme between March 20 and June 9.

Despite the introduction of one of the most generous wage subsidy schemes and government interventions in peacetime history, 31% of businesses still expect their workforce to decrease next quarter. This figure is 7% lower than during the worst part of the 2007/8 financial crisis. Although, it should be noted that during the financial crisis a wage subsidy scheme did not exist.

The UK employment rate in the three months to March 2020 was estimated at a joint-record high of 76.6% (ONS, Labour Market Overview, UK: May 2020). However, between March and April unemployment benefit claims rose by 69% to reach 2.1 million, the highest since July 1996. There were an estimated 476,000 vacancies in the UK in March to May 2020, 342,000 fewer than the previous quarter and 365,000 fewer than a year earlier. This is the largest quarterly decrease since the current data time series started in 2001 (ONS, Vacancies, June 2020).

The global pandemic has also had wider implications for how people work. Mandatory working from home has forced businesses into new ways of working. This shift to home working has produced challenges internally within businesses and demanded innovative ways of communicating with external clients. Remote access, going paperless and maintaining staff morale over digital platforms as opposed to face-to-face meetings, have become central challenges for businesses in the last three months. Some have discovered gaps in the IT skills of their workforce, whereas others may wonder if the costs associated with an office space are needed anymore. A move towards a more flexible way of working was rising prior to Covid-19. There is no doubt that this shift change has been accelerated under the current circumstances and will be part of the legacy of the impact of Coronavirus on business.

OVER THE NEXT 3 MONTHS, DO YOU EXPECT YOUR WORKFORCE TO INCREASE, REMAIN CONSTANT OR DECREASE?



MANUFACTURING SECTOR INSIGHT:

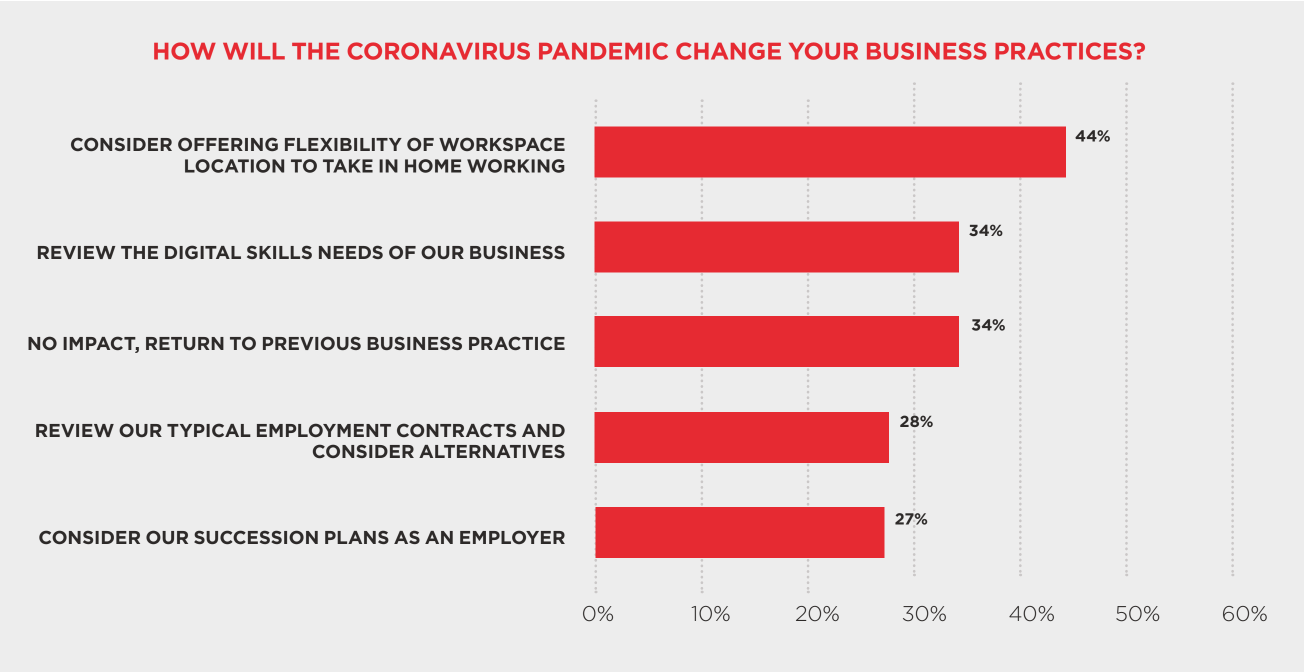
This quarter only 24% of manufacturers attempted to recruit staff, down from 60% last quarter (Q1 2020). 36% of manufacturers are expecting their workforce to reduce within the next three months, compared to only 10% last quarter (Q1 2020).

SERVICE SECTOR INSIGHT:

Only 18% of service companies attempted to recruit staff this quarter, down from 43% last quarter (Q1 2020). 31% of service companies are expecting their workforce to reduce within the next three months, up from only 7% last quarter (Q1 2020).

COVID-19 AND EMPLOYMENT

THE IMPACT OF CORONAVIRUS ON BUSINESS PRACTICES



Most businesses (66%) are likely to review their business practices after the Coronavirus pandemic in at least one way. Just over a third (34%) have stated there will be no impact and they will return to previous business practice.

CHRIS WALKLETT, TAX PARTNER, BISHOP FLEMING

"Over the past few years we had made significant investment into our IT infrastructure with an eye on flexible and remote working. When the Prime Minister announced lockdown, we had over 370 people mobilised to work from home within 24 hours. Since then, we have enhanced this capability and are now running a fully decentralised IT support function across the business.

We have focussed heavily on internal communications sending out daily blogs and updates together with a Coronavirus knowledge hub on our intranet that collates all the information around how we have adapted our business and importantly how our clients have adapted theirs.

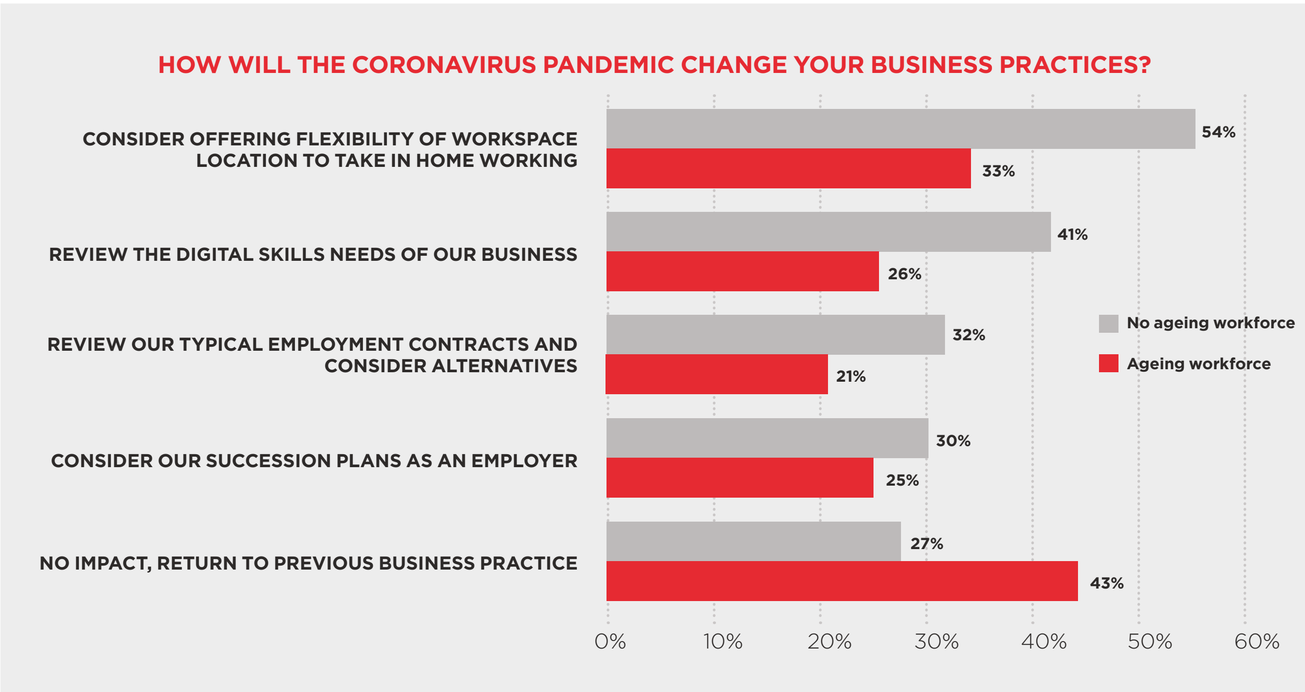
We were conscious of the impact of remote working on mental health and well-being so have encouraged WhatsApp groups, quizzes, virtual socialising, yoga, sporting and fundraising challenges to provide the sense of community and well-being that is felt in the office. We have also deployed Tictrac as a part of our mental health first aiding programme.

We launched internal and external webinars as a means of connecting with our people and clients to replace traditional event activities. This has been incredibly successfully with 300 people attending our first Covid-19 support seminar.

In truth, the challenge of getting people back into the office is going to be harder than lockdown and we want to make sure that we take all the positives from the lock down experience into the future. We launched our Back:Better programme that will bring together our plans to return to business - but not a new normal - rather a 'better' normal, ensuring that Bishop Fleming remains at the forefront of client service and employee engagement."

AGEING WORKFORCE ANALYSIS

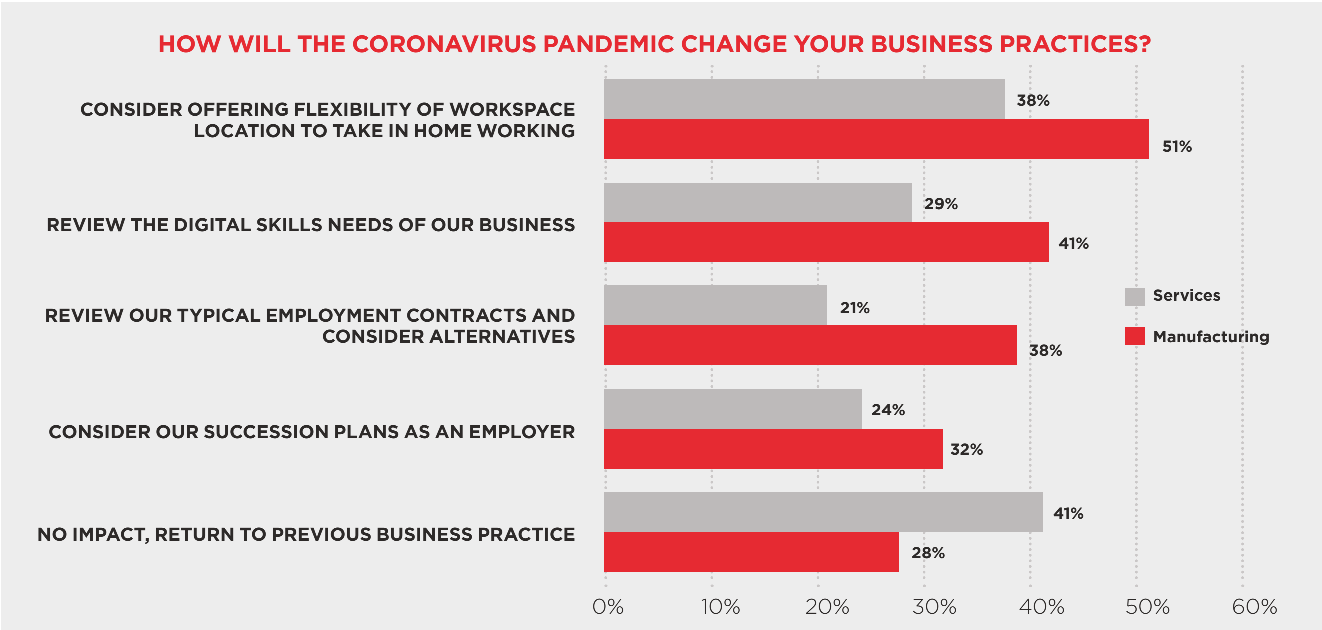
For the purposes of this report an ageing workforce is defined as a business where more than 50% of the workforce are aged over 50. 44% of the sample had an ageing workforce.



Businesses with an ageing workforce are more likely to return to their pre-Coronavirus business practices. 43% plan to return to their previous practices compared to 27% of those without an ageing workforce.

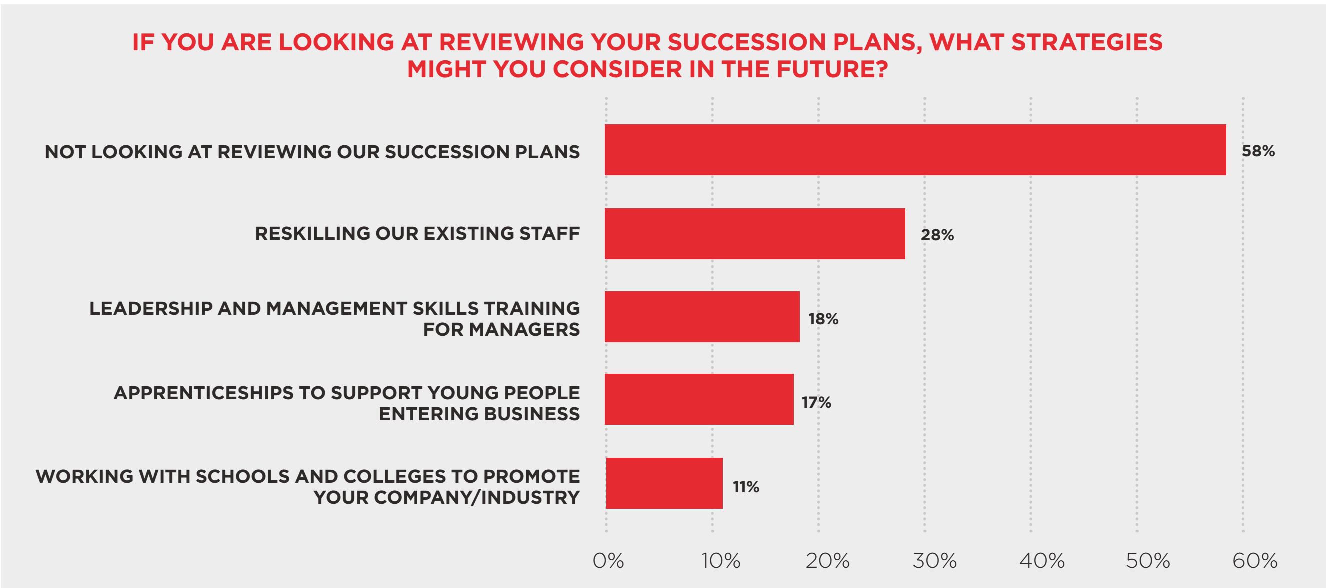
COVID-19 AND EMPLOYMENT

SECTOR ANALYSIS



Overall, services companies are less likely to review their current business practices. 41% are planning to return to previous business practice compared to 28% of manufacturers. This difference may be because services companies are more likely to have had flexible working in their businesses before Covid-19 and are more likely to have been able to move their work to a working from home model.

WORKFORCE SUCCESSION PLANNING

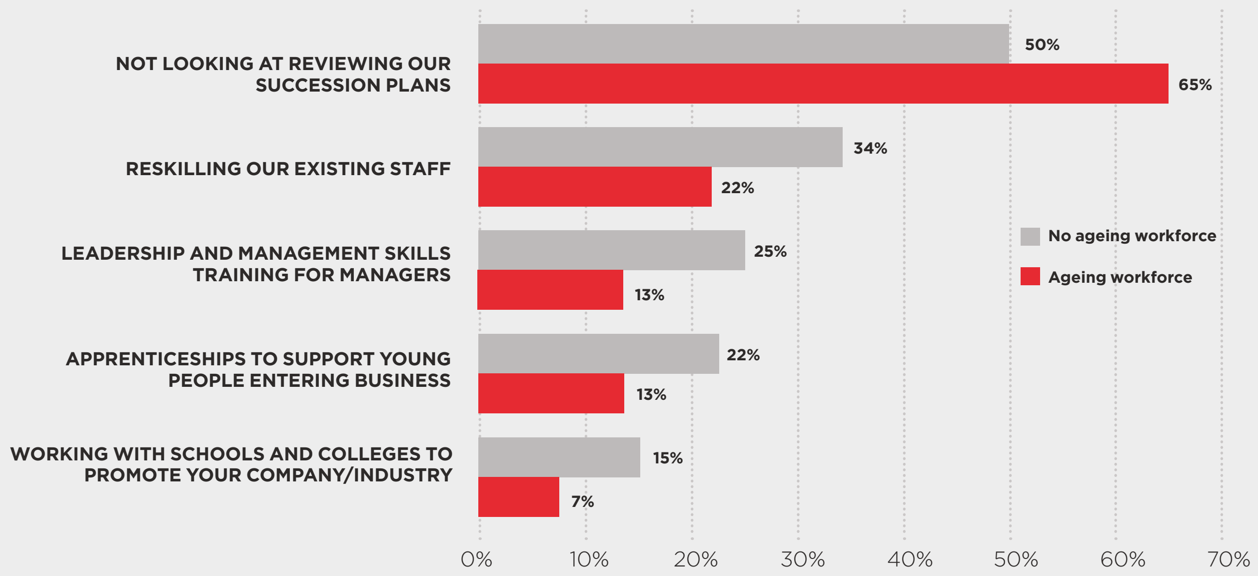


Most businesses (58%) are not looking to review their succession plans. Of the remaining 42%, reskilling the existing workforce is the top priority with 28% of businesses planning to implement this initiative.

AGEING WORKFORCE ANALYSIS

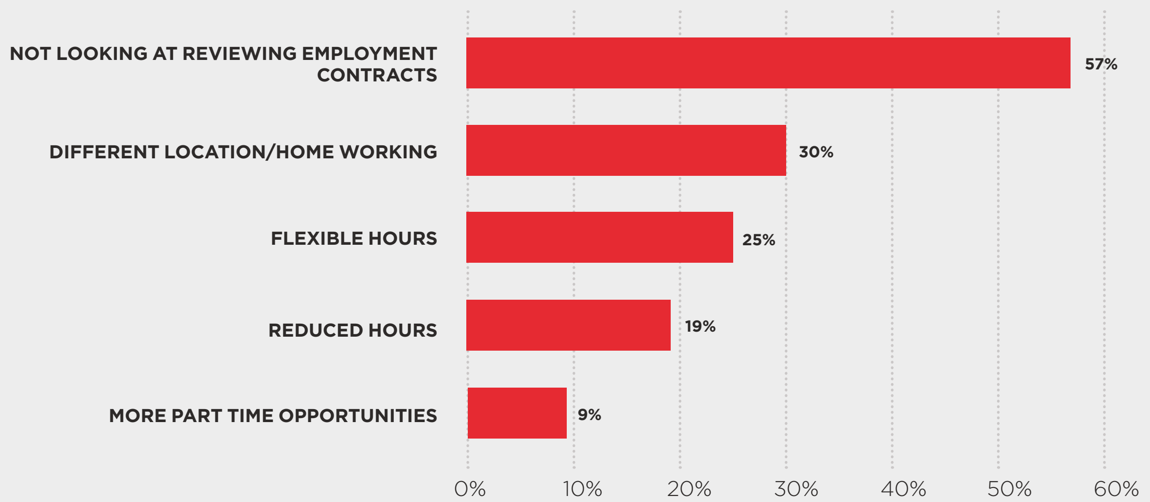
Interestingly, those who are in greater need of reviewing their succession plans because they have an ageing workforce, are less likely to do so. 35% of businesses with an ageing workforce are planning to review succession plans compared to 50% of those without an ageing workforce.

IF YOU ARE LOOKING AT REVIEWING YOUR SUCCESSION PLANS, WHAT STRATEGIES MIGHT YOU CONSIDER IN THE FUTURE?



EMPLOYMENT CONTRACTS

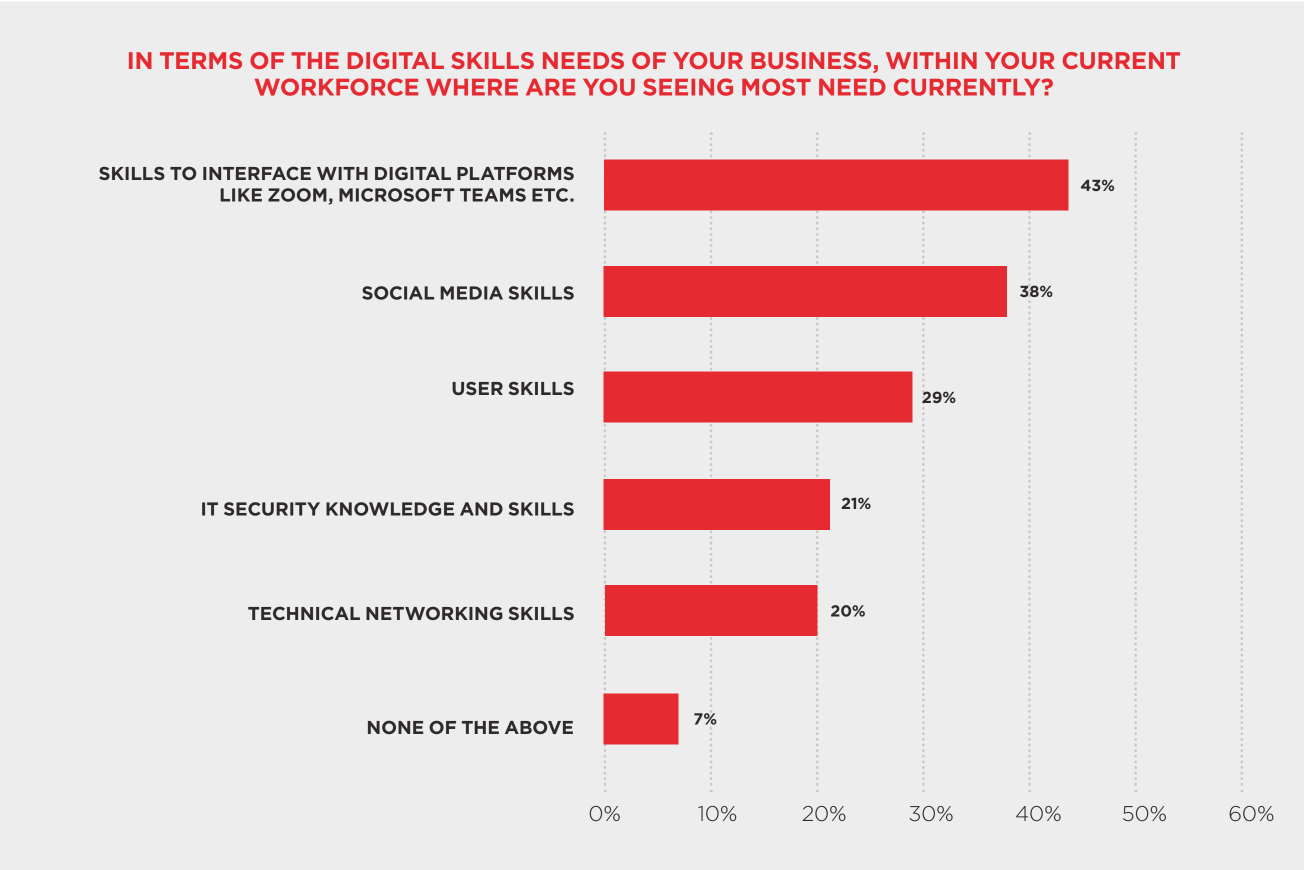
IF YOU ARE LOOKING AT REVIEWING EMPLOYMENT CONTRACTS, WHAT STRATEGIES MIGHT YOU CONSIDER IN THE FUTURE?



Most businesses (57%) are not looking to review their employment contracts going forward. Nearly a third of businesses (30%) are considering introducing home working.

COVID-19 AND EMPLOYMENT

DEMAND FOR DIGITAL SKILLS



Businesses have been forced to operate virtually and the most in demand skills have been related to digital platforms, such as Zoom and Microsoft Teams, and social media.

Surprisingly, the demographics of a workforce was not a key factor in determining the IT needs of a business. Those with an ageing workforce had similar digital skills needs to those with no ageing workforce. The only exception was that younger workforces placed more value on technical networking skills (25% compared to 15%).

The skills needed by manufacturers and services companies are also similar. However, services companies require more social media skills (43% compared to 30%) whereas manufacturers require more general user skills (38% compared to 24%).

DANIEL WALTON, MANAGING DIRECTOR, OLPRO

“Despite the obvious challenges that every business has had to face this year, we’ve seen a 55% increase in sales, a 36% increase in website views and a 62% increase in total orders. A large reason for this increase is the way that we’ve prioritised improving our online presence and increasing our digital marketing spend. This has enabled us to grow our domestic and international sales.

Last year we sold our products to over 26 different countries, and this year we’ve launched a number of new international domains and marketing channels that will enable us to export to many more new markets. We’ve also invested heavily in PPC advertisement which is having a hugely positive impact while customers and wider society spend more of their time online, whether it’s due to commitments to working from home or free time caused by furloughed jobs.

Our online presence has been a major factor in why we’ve been able to grow our turnover and export sales every year since the business was established 9 years ago. It’s also why we expect that trend to continue even after a global pandemic in 2020.”

OLPRO create outdoor camping equipment and have seen a substantial increase in orders due to their online offering and demand for staycations.

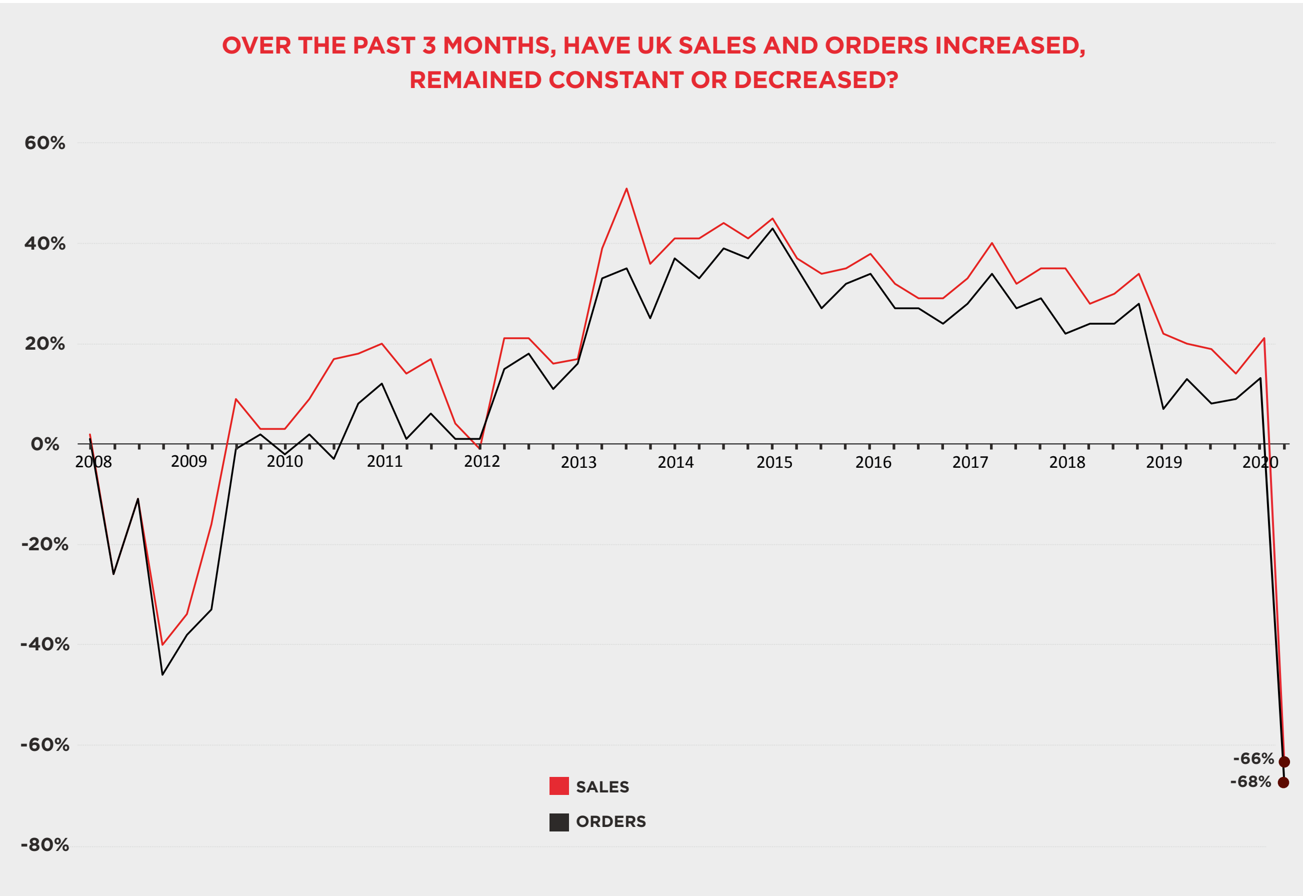
UK MARKET

As expected, the countrywide lockdown has inevitably led to a substantial decrease in UK sales. The percentage of businesses reporting increased sales dropped to an all-time low of -66%, compared to -40% at the worst part of the 2007/08 financial crisis.

Some businesses have been forced to close, with the Hospitality, Tourism, and Entertainment industries being hardest hit and unable to make any sales at all.

Retail businesses selling directly to consumers, especially those that operate from physical premises, have seen substantially lower sales since lockdown began. The volume of retail sales in April 2020 fell by a record 18.1%, following the significant monthly fall of 5.2% in March 2020 (ONS, Retail Sales, Great Britain: April 2020). Retailers who trade online have fared better. Online sales as a proportion of all retailing reached a record high of 30.7% in April 2020, exceeding the original record reported last month of 22.4% (ONS, Retail Sales, Great Britain: April 2020).

A smaller proportion of businesses, approximately 11% according to our recent Coronavirus Impact Survey, have reported growth during this period. This minority is dominated by food producers or those who have diversified their manufacturing capabilities to supply into the health sector and meet the demand created by the public health response to Covid-19.



MANUFACTURING SECTOR INSIGHT:

The percentage of manufacturing businesses reporting increased UK sales dropped dramatically from 19% (Q1 2020) to -74% (Q2 2020). 78% experienced fewer sales compared to just 4% who experienced an increase.

SERVICE SECTOR INSIGHT:

The percentage of service companies reporting increased UK sales also dropped, from 22% (Q1 2020) to -66% (Q2 2020). 74% experienced fewer sales compared to 8% who experienced an increase.

OVERSEAS MARKET

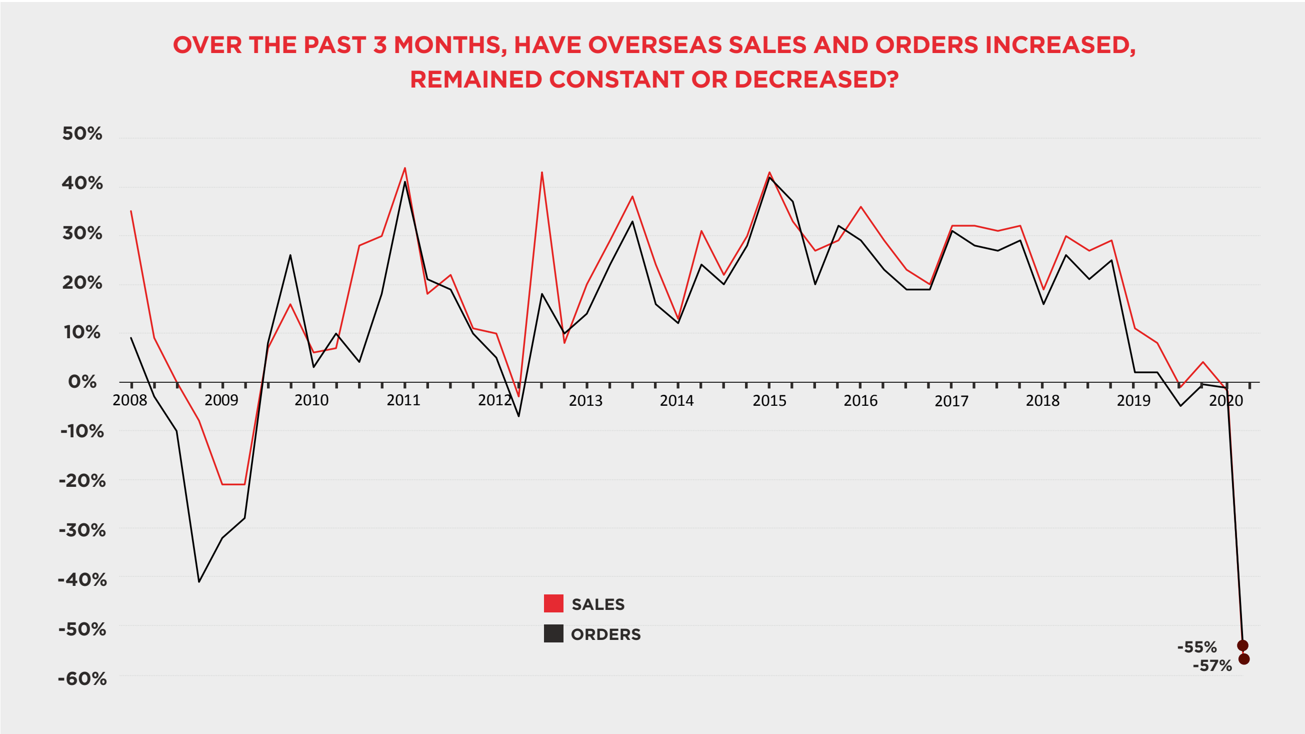
SALES AND ORDERS IN THE OVERSEAS MARKET

A similar decline in sales has been reported in overseas markets, as was demonstrated in the UK market. The escalation of the Coronavirus outbreak has been truly global, causing lockdowns in multiple countries as well as increased border restrictions. 76% of businesses reported a decrease in overseas sales this quarter.

The data in this report echoes the results of the ONS Business Impact of Coronavirus survey which stated that between April 20 and May 3, 72% of businesses who responded reported lower exports than normal. Challenges associated with imports and exports included Covid-19 related transport restrictions, increased transportation costs and changes to overseas border restrictions.

Global supply ground to a halt as businesses were instructed to close their doors to prevent the spread of the virus. Increasingly 'globalised' supply chains have experienced challenges as businesses have been unable to source key materials and have been forced to make changes to their existing supply chain.

With Brexit negotiations still underway and the end of the transition period approaching, it is difficult for businesses to plan for the future of overseas trade even as lockdowns ease and markets reopen.



MANUFACTURING SECTOR INSIGHT:

71% of manufacturing businesses reported a decrease in overseas sales compared with just 5% who reported an increase. Overall, the percentage of manufacturers experiencing increased sales has fallen from 1% (Q1 2020) to -66% (Q2 2020).

SERVICE SECTOR INSIGHT:

For the fourth quarter in a row, more services companies have experienced a decrease in overseas sales than an increase. The percentage dropped dramatically this quarter from -8% (Q1 2020) to -51% (Q2 2020).

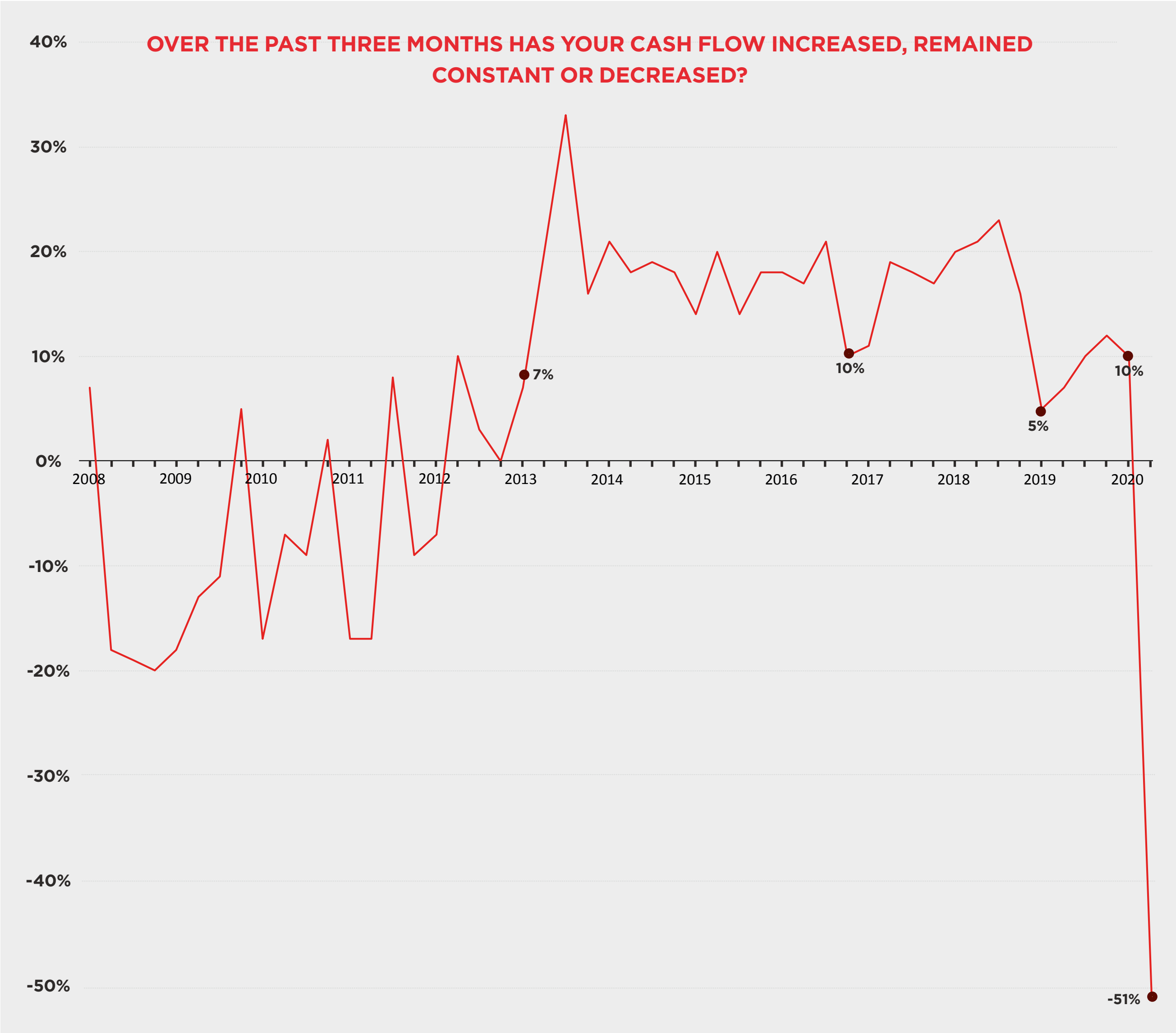
CASH FLOW

Cash flow has declined at an unprecedented rate, demonstrating the fastest quarterly drop since our records began in 1999. There has been a 61% decrease in the number of businesses reporting improved cash flow, surpassing the previous low of 58% in Q1 2007.

This echoes the results of the ONS Business Impact of Coronavirus Survey. Between 4 May and 17 May 42% of businesses who responded to the ONS Business Impact of Coronavirus Survey reported having less than 6 months cash reserves, with a further 4% having no reserves at all.

The government's response to the escalation of the Coronavirus outbreak has seen an unprecedented package of financial support released for business. The government is estimated to have borrowed £62.1 billion in April 2020, the highest borrowing in any month since records began in January 1993, to fund a series of grants and schemes (ONS, Public sector finances, UK: April 2020).

For many the support has proved immensely beneficial. Overall, the Retail, Hospitality and Leisure Grant Fund and Small Business Grants Fund have been well received and promptly paid. The introduction of the Bounce Back Loan Scheme was welcome after businesses faced barriers and delays applying for the Coronavirus Business Interruption Loan Scheme (CBILS). The announcement that the self-employed would be eligible for a second grant via the Self-Employment Income Support Scheme was also welcomed. However, not everyone has benefited from the same level of support and even those who have received support continue to struggle with their cash flow. Businesses that rent their premises and company directors who pay themselves in dividends have fallen through the gaps in support.



MANUFACTURING SECTOR INSIGHT:

The percentage of manufacturing companies reporting an increase in cash flow has decreased significantly from 9% (Q1 2020) to -53% (Q2 2020).

SERVICE SECTOR INSIGHT:

The percentage of service companies reporting an increase in cash flow has decreased significantly from 10% (Q1 2020) to -58% (Q2 2020).

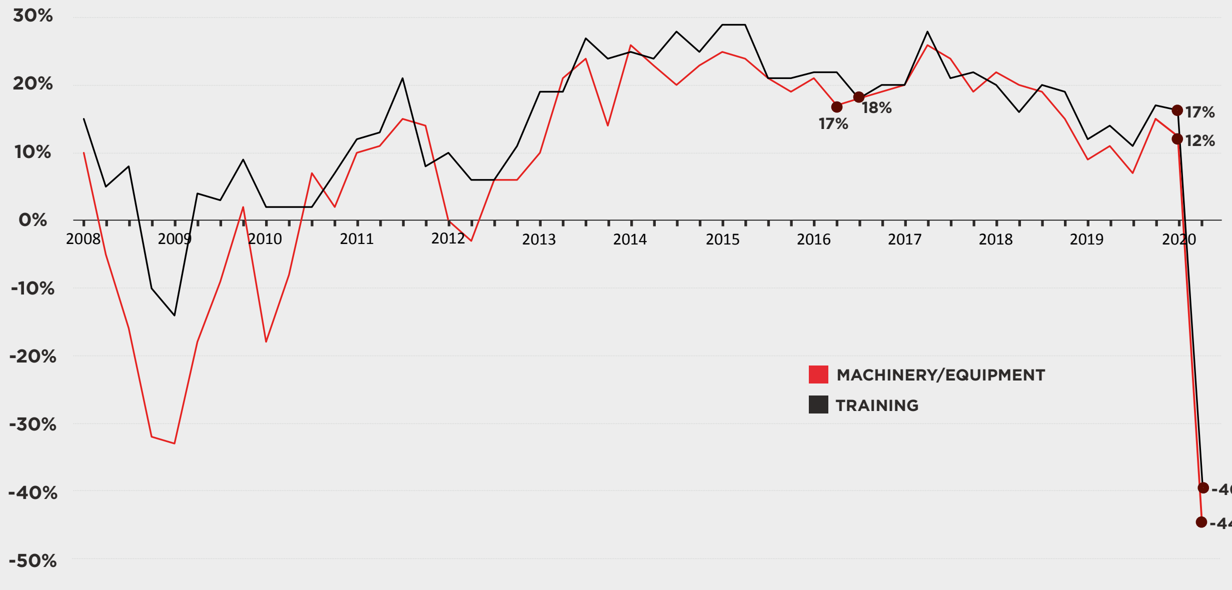
INVESTMENT

The appetite to increase capital expenditure and business investment declines when uncertainty is rife. Unsurprisingly, given the current circumstances in which businesses are operating, in addition to the uncertainty concerning terms of trade post transition period, planned investment is at an all-time low. Investment in machinery and equipment has decreased from 12% last quarter (Q1 2020) to -44% this quarter. Investment in training has decreased from 17% (Q1 2020) to -40% (Q2 2020).

The oscillating investment trajectory of the past two years has been somewhat subdued, as Brexit deadlines and extensions have damaged investment intentions. The escalation of the Coronavirus has completely decimated investment intentions, demonstrated by the rapid downward trajectory this quarter. The investment intentions recorded this quarter are at their lowest level since data collection began in 1999.

The 2007/08 financial crisis saw the same trend occur. The percentage of businesses looking to increase investment in equipment fell to -33% and in training dropped to -14%. Although investment intentions decreased to a similar level during the global financial crisis, the speed of descent was much more gradual, occurring over a period of 3 quarters. The rapid pace at which the Coronavirus has impacted business is demonstrated by this indicator and the sharp decline reported in just three months.

OVER THE PAST 3 MONTHS, HAVE INVESTMENT PLANS FOR MACHINERY/EQUIPMENT/TRAINING INCREASED, REMAINED CONSTANT OR DECREASED?



MANUFACTURING SECTOR INSIGHT:

The percentage of manufacturing companies looking to increase investment in machinery and equipment has decreased from 20% (Q1 2020) to -47% (Q2 2020). Similarly, for investment in training the percentage has decreased from 19% (Q1 2020) to -46% (Q2 2020).

SERVICE SECTOR INSIGHT:

The percentage of services companies planning to increase investment in equipment has decreased from 11% (Q1 2020) to -44% (Q2 2020). Similarly, for investment in training the percentage has decreased from 17% (Q1 2020) to -39% (Q2 2020).

BUSINESS CONFIDENCE

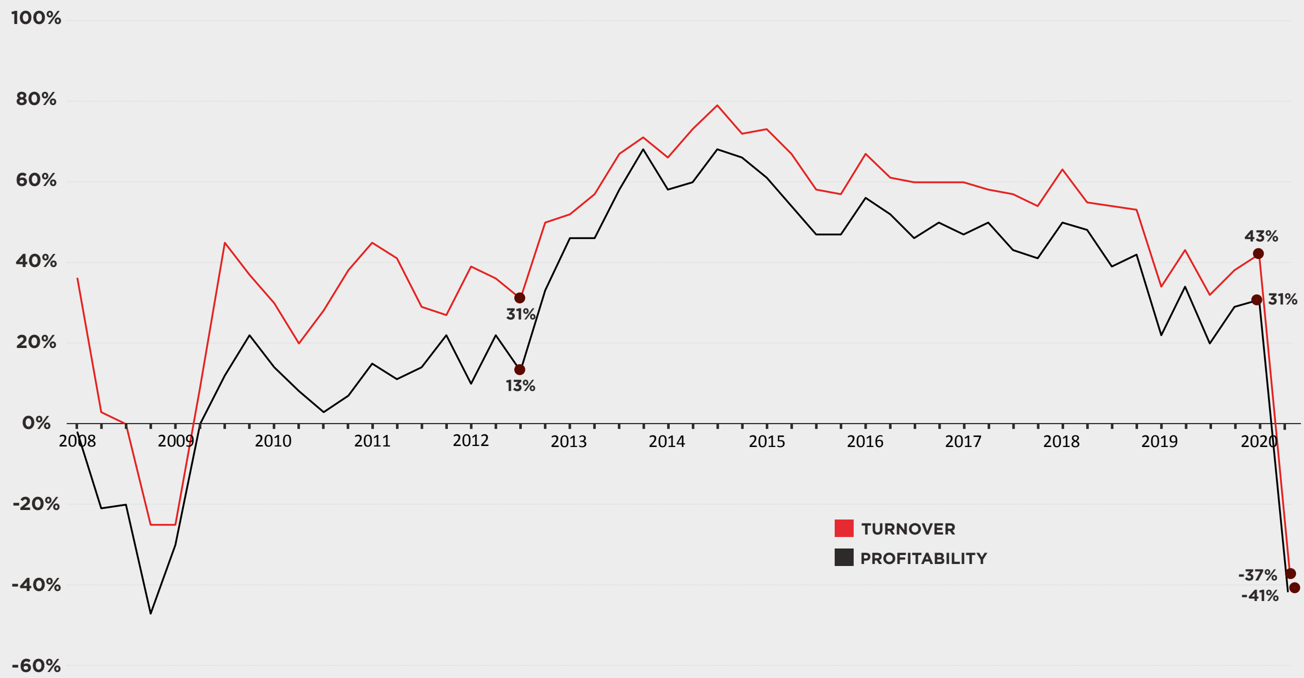
Business confidence has plummeted at an unprecedented pace to some of the lowest levels on record.

Overall, the percentage of businesses expecting their turnover to increase over the next 12 months has decreased from 43% (Q1 2020) to -37% (Q2 2020). The previous low was -25% in Q4 2008, during the height of the financial crisis. The percentage of those expecting their profitability to increase has also decreased from 31% (Q1 2020) to -41% (Q2 2020). This is the second lowest after -47% was recorded in Q4 2008.

The most recent figures for UK GDP appear to explain business concerns and plummeting business confidence. UK GDP fell by 2.0% between January and March 2020, the largest quarterly fall since the final three months of 2008, during the financial crisis (ONS GDP First Quarterly Estimate, UK: January to March 2020). In April alone, GDP is estimated to have fallen by 20.4% following a fall of 5.8% in March (ONS, GDP monthly estimate, UK: April 2020).

The Bank of England Monetary Policy Committee have published an illustrative scenario in which UK GDP falls by 14% in 2020 as a whole (Bank of England, Monetary Policy Report, May 2020).

OVER THE NEXT 12 MONTHS, DO YOU BELIEVE YOUR TURNOVER AND PROFITABILITY WILL INCREASE, REMAIN THE SAME OR WORSEN?



MANUFACTURING SECTOR INSIGHT:

Compared to last quarter, manufacturing companies were 5 times more likely to expect their turnover to worsen over the next 12 months.

SERVICE SECTOR INSIGHT:

Compared to last quarter, service sector companies were 4 times more likely to expect their turnover to worsen over the next 12 months. They were also 3 times more likely than last quarter to expect their profitability to worsen.

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2020 QUARTERLY ECONOMIC SURVEY DATES

Q3 2020

Fieldwork: 26 August to 16 September

Publication: TBC - late October 2020

Q4 2020

Fieldwork: 2 November to 23 November

Publication: TBC - mid January 2021

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