

# Q4 2020



## ECONOMIC IMPACT REPORT



Herefordshire  
& Worcestershire  
Chamber of Commerce





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**Sharon Smith**  
Chief Executive

Herefordshire & Worcestershire  
Chamber of Commerce

**Herefordshire & Worcestershire Chamber of Commerce has released the results of the latest Quarterly Economic Indicator, outlining business performance between August and October 2020. Data collection was conducted between Monday 2 November and Monday 23 November.**

This quarter UK sales have continued to improve, although at a much slower rate than the dramatic increase recorded last quarter. They've increased by 9% this quarter compared to a 57% increase last quarter. Overseas sales continue to struggle and remain negative for the fourth quarter in a row, meaning more businesses have experienced fewer overseas sales compared to the previous quarter.

As many feared, a second national lockdown was introduced on November 5, further compounding the struggles experienced by the tourism and hospitality sector. Non-essential retailers have also been prevented from trading in the run up to Christmas, one of their most important opportunities to trade. Therefore, it was welcome news that shops, gyms and personal care businesses would be able to reopen on December 2, no matter what tier the business is located in.

Reduced sales have continued to have an adverse effect on business cash flow. For the third quarter in a row, more businesses have experienced a reduction in their cash flow than those experiencing an improvement. While

government schemes, including loans and grants, helped many businesses survive the early stages of the pandemic, the challenges have persisted for longer than expected. The extension of the Job Retention Scheme, Self-Employment Income Support Scheme and loan schemes will help but it remains to be seen whether that will be enough to sustain businesses through a difficult winter.

2021 is looking a lot more positive thanks to the much-anticipated announcement of multiple Covid-19 vaccines. Although they will take time to roll out, businesses have clearly taken some confidence from the news. Confidence in yearly turnover has quadrupled since last quarter to 19%, up from 5% in Q3 and employment intentions have also risen. 22% of businesses expect their workforce to increase over the next 3 months, compared to an average of 25% since the Economic Survey began in 1999.

However, confidence has not yet returned to pre-Covid levels partly due to the EU Exit negotiations which have continued to cause considerable uncertainty. At time of writing, no trade agreement had been reached between the UK and the EU. This quarter the number of businesses expressing their frustration at the situation grew because of an inability to plan effectively while key questions remained unanswered. With less than a month to go until the end of the transition period, clarity must be provided soon. Although even that may be too late to prevent considerable disruption after January 1.

While confidence remains low so does investment. Although investment intentions have improved since last quarter, the percentages remain negative, meaning more businesses have revised their investment plans down over the last three months.

The UK economy will only be able to recover once there is more certainty. Although a tiered approach is clearly preferable to a national lockdown it still places significant challenges on businesses who have already had to deal with crippling restrictions for most of 2020. While Herefordshire and Worcestershire will begin the tiered approach in Tier 2, we hope that through hard work we will be able to move down to Tier 1 soon. And hopefully vaccines will be rolled out in early 2021 bringing some much-needed relief.

Throughout 2021 and beyond the Chamber will continue to support local businesses as they recover and grow, creating jobs and positively contributing to society and the economy.

## METHODOLOGY

During Quarter 4 (Q4) 2020, 502 businesses in Herefordshire and Worcestershire responded to the Quarterly Economic Indicator. Data collection took place between Monday 2 November 2020 and Monday 23 November 2020. Any reference to Quarter 3 (Q3) 2020 refers to the data collection period from Monday 24 August 2020 to Monday 14 September 2020.

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:

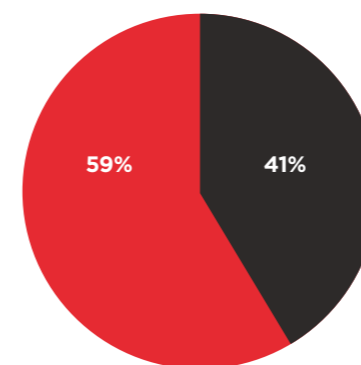
Main business activity includes manufacturing of goods (including electronic or information technology goods) and production of raw materials, construction, agriculture, fishing, mining or utilities.

### SERVICE SECTOR:

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

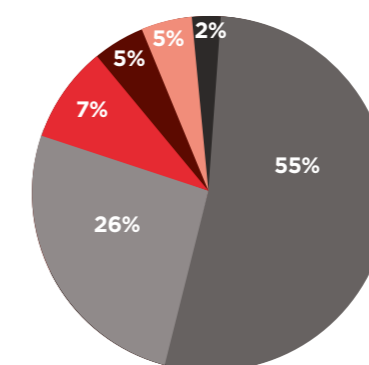
## SAMPLE SUMMARY:

Responses by Exporter



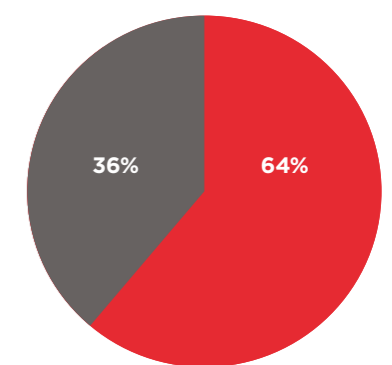
■ NON-EXPORTERS  
■ EXPORTERS

Responses by Business Size



■ SOLE TRADER  
■ 1-10  
■ 11-49  
■ 50-100  
■ 101-249  
■ 250+

Responses by Sector



■ SERVICES  
■ MANUFACTURING



# EXECUTIVE SUMMARY: KEY FINDINGS



## DOMESTIC & OVERSEAS MARKET



UK sales have continued to improve this quarter although at a slower rate than last quarter. They've increased by 9% this quarter compared to a 57% increase last quarter.



For the fourth quarter in a row, overseas sales are negative. This means most businesses have experienced fewer overseas sales compared to last quarter.



# 2020

## CASH FLOW

For the third quarter in a row, more businesses have experienced a reduction in their cash flow than those experiencing an improvement.



## WORKFORCE

22% of businesses expect their workforce to increase over the next 3 months. This compares to an average of 25% since the Economic Survey began in 1999.

## TURNOVER

Confidence in yearly turnover has quadrupled since last quarter to 19%, up from 5% in Q3.



# BUSINESS PERSPECTIVE

## IN THEIR OWN WORDS:

**Following the lockdown our retail partners have been incredibly busy, which has reflected on the performance of our business and future planning which is significantly more positive than initially thought.**

- Sole trader

**I think there is a huge and understandable effort to maintain existing businesses via furlough, some of which are no longer viable, however, the lack of funding to support new or emerging businesses leaves me and other entrepreneurs who have started from scratch in 2020 rather stranded. The government will come to rely on people like me to drive growth so in time more should be done to promote new business and make it easier to access grant funding.**

- Professional services company employing 1-10 people

**EU Exit will kill all of our European work with increased costs of Carnets, new regulations etc. Covid-19 will kill the rest as the event sector was the first to close and will be the last to return and, to date, we've had very little support.**

- Events company employing 1-10 people

**I'm really grateful for the government Self-Employment Income Support Scheme which has been provided - as a sole trader sitting at the bottom of the supply chain, it has been invaluable.**

- Sole trader

**We have been very fortunate to experience steady growth during this pandemic.**

- Manufacturing company employing 101-249 people

**A complete lack of government planning and constant policy changes including EU Exit and Covid-19 is costing UK businesses millions and is stifling any opportunity for growth.**

- Transport and logistics company employing 11-49 people

**The whole approach of government to the question of EU Exit has been shambolic. Organised by people with no practical knowledge of the challenges involved.**

- Manufacturer employing 1-10 people

**Our business is split 80% overseas, 20% UK. We've had a strong performance in 2020 which would normally give us confidence that we could continue to grow sales during 2021, particularly having now broken into the American market. However, the uncertainty about how trading with EU will turn out has meant we expect to just maintain sales next year while the bumps in the EU relationship road get ironed out.**

- Manufacturing company employing 11-49 people

**We have been lucky not to have furloughed any staff, but the uncertainty around Covid-19 is causing long term harm and restricting growth.**

- Professional services company employing 50-100 people

# UK MARKET

UK sales have increased again this quarter although the full impact of the one-month lockdown won't be understood until next quarter. The rate of growth has slowed since last quarter, with a 9% increase in sales compared to a 57% increase last quarter. Whilst orders have remained negative at -11%, there has been a 5% increase on the previous quarter where orders were at -16%.

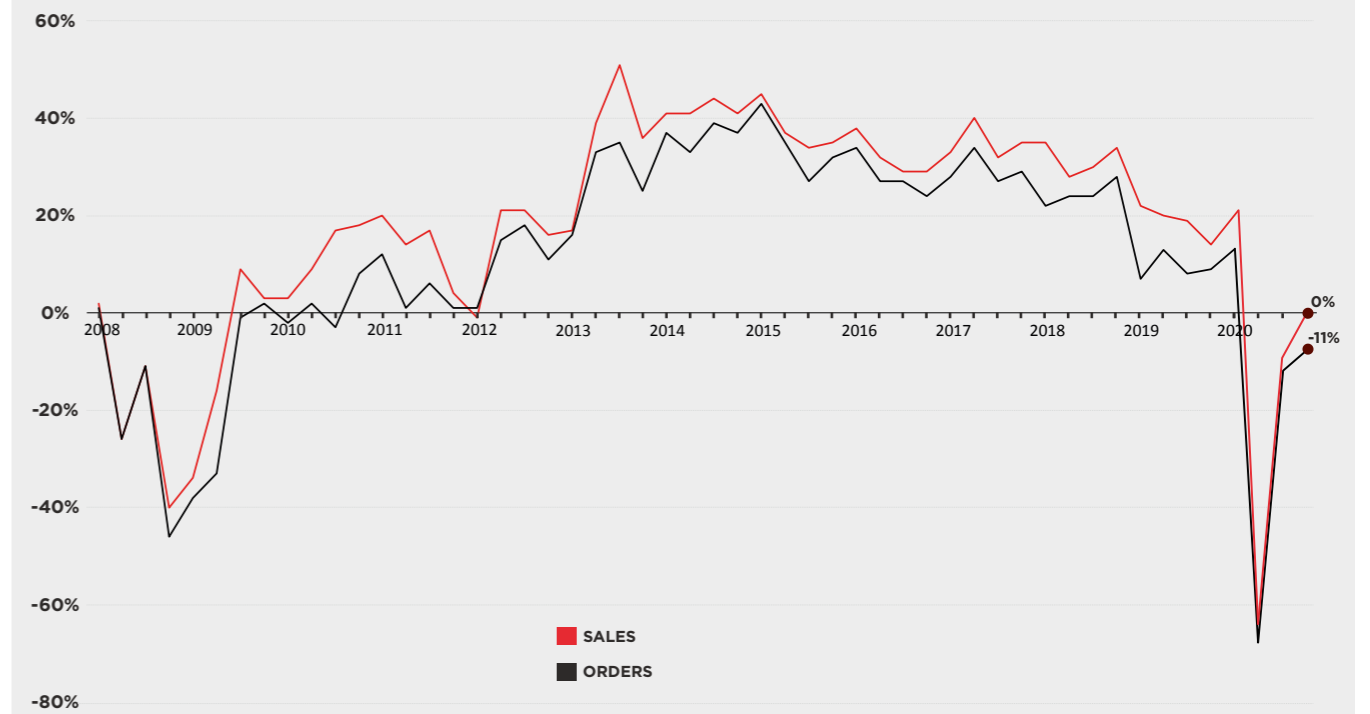
The latest figures released by the Office for National Statistics (ONS) have seen GDP grow by 1.1% in September 2020, the fifth consecutive monthly increase. However, GDP remains 8.2% below the February 2020 level ([GDP monthly estimate, UK: September 2020, Office for National Statistics](#)).

The recovery for the UK market is very much dependent on allowing business to continue trading throughout the pandemic (as long as they are operating in a Covid-secure way). Retail sales volumes increased by 1.2% in October 2020 compared with September 2020 which is the sixth consecutive monthly increase, and an increase of 6.7% when compared with February 2020. However, they may decrease in November because of the second lockdown where non-essential retail was forced to shut ([Retail sales, Great Britain: October 2020, Office for National Statistics](#)).

Anecdotal evidence from the Chamber's conversations with local businesses has shown that businesses are struggling to maintain sales and trade while rules are continually changed, and restrictions are re-introduced. Significant uncertainty in the market means businesses are experiencing fluctuating sales and are unable to plan as effectively.



**OVER THE PAST 3 MONTHS, HAVE UK SALES AND ORDERS INCREASED, REMAINED CONSTANT OR DECREASED?**



## MANUFACTURING SECTOR INSIGHT:

The percentage of manufacturers reporting increased UK sales has risen again this quarter from -6% (Q3 2020) to 10% (Q4 2020). It is a welcome bounce back from the dramatic low of -74% recorded in Q2 2020.

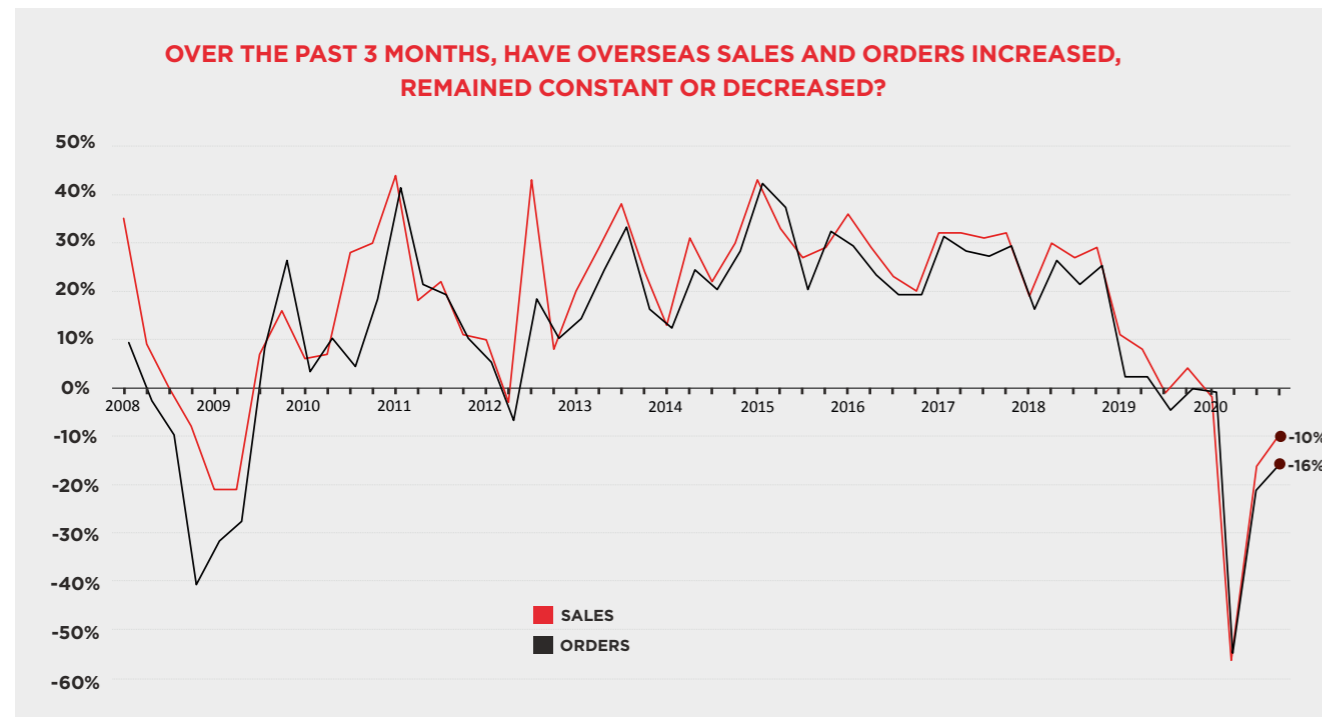
## SERVICE SECTOR INSIGHT:

The percentage of services companies reporting increased UK sales has also risen from -11% (Q3 2020) to 3% (Q4 2020). However, UK orders for services companies have dipped slightly from -3% (Q3 2020) to -10% (Q4 2020).

# OVERSEAS MARKET

For the fourth quarter in a row, overseas sales are negative. This means most businesses have experienced fewer overseas sales compared to last quarter. However, there has been a slight increase since the previous quarter. In Q3, overseas sales were recorded at -17% while in Q4 they have risen to -10%. Overseas orders have increased at roughly the same rate, up from -21% in Q3 to -16% in Q4.

At time of writing, no trade agreement between the UK and the EU had been finalised. The uncertainty has left businesses unable to plan effectively, with many worried about a possible increase in trade tariffs and added complications when importing and exporting. Clarity must be provided as soon as possible. However, even if an agreement is reached it may be too late to prevent considerable disruption after January 1.



## MANUFACTURING SECTOR INSIGHT:

Overseas sales for manufacturers have improved again this quarter. They have risen from -11% (Q3 2020) to 4% (Q4 2020). Overseas orders have also improved but remain negative at -3%. This means that more manufacturers experienced a reduction in orders this quarter than those experiencing an increase.

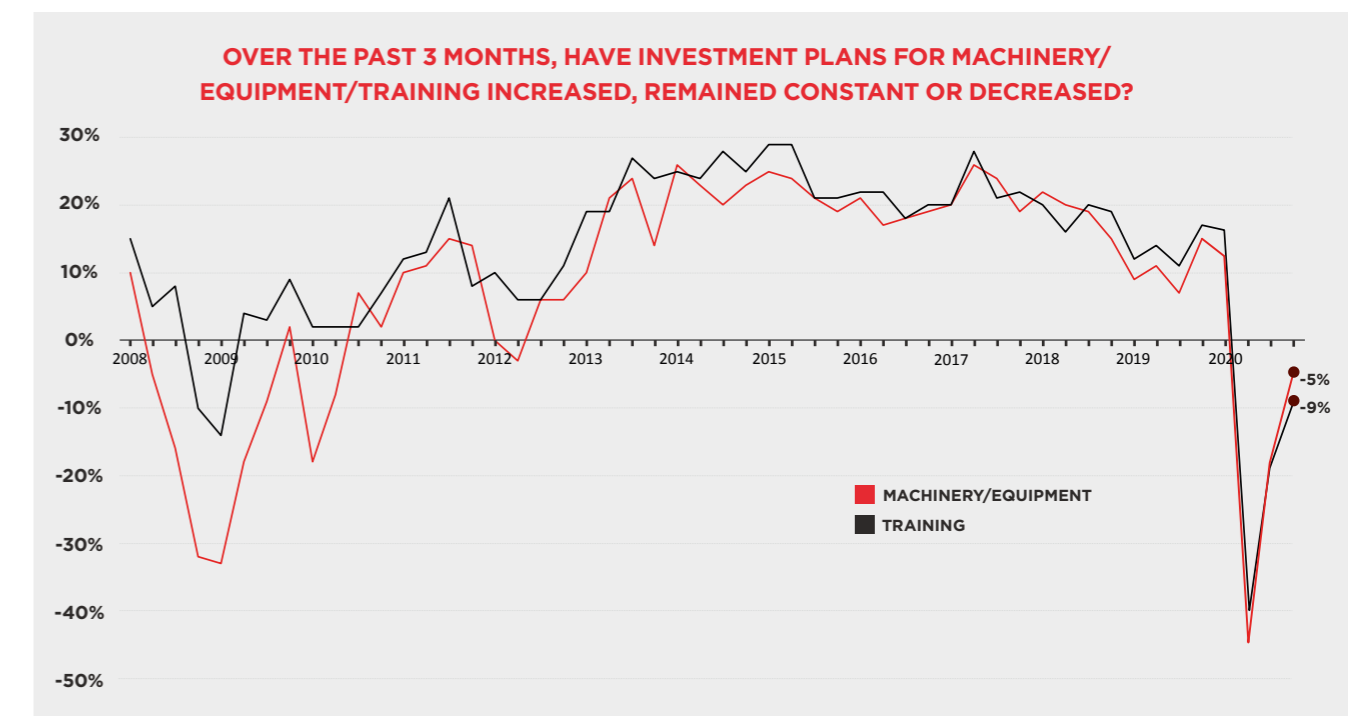
## SERVICE SECTOR INSIGHT:

Overseas sales for services companies have also improved but only slightly. They have risen from -21% (Q3 2020) to -16% (Q4 2020). Overseas orders have remained the same as last quarter at -22%.

# INVESTMENT

The Covid-19 pandemic has largely suppressed any investment plans, with businesses focusing on survival. Investment is up on the previous quarter, which is a welcome improvement, but it remains well below pre-Covid investment levels in February. Q3 saw investment in machinery and equipment at -19%, which has risen to -5% in Q4.

Data was collected for this report in November when trade negotiations between the UK and the EU were still ongoing. Due to the uncertainty of the future trading relationship and economic challenges introduced by Covid-19 many investment plans have stalled. In the most recent ONS Business Investment results, released at the end of September, business investment fell by 26.5%, in volume terms, between Quarter 1 and Quarter 2 2020 ([Business investment in the UK: April to June 2020 revised results, ONS](#)). This data shows business confidence to invest remains chronically low, with many firms having to continuously monitor expenditure during a time of crisis rather than being able to invest.



## MANUFACTURING SECTOR INSIGHT:

For the first time since the start of the pandemic, more manufacturers have increased their machinery and equipment investment than those who have decreased investment. The percentage has increased from -21% (Q3 2020) to 3% (Q4 2020).

## SERVICE SECTOR INSIGHT:

For the third quarter in a row more services companies have decreased their investment plans than those who have increased investment plans. For training investment, the percentage has increased from -11% (Q3 2020) to -5% (Q4 2020) but remains negative.



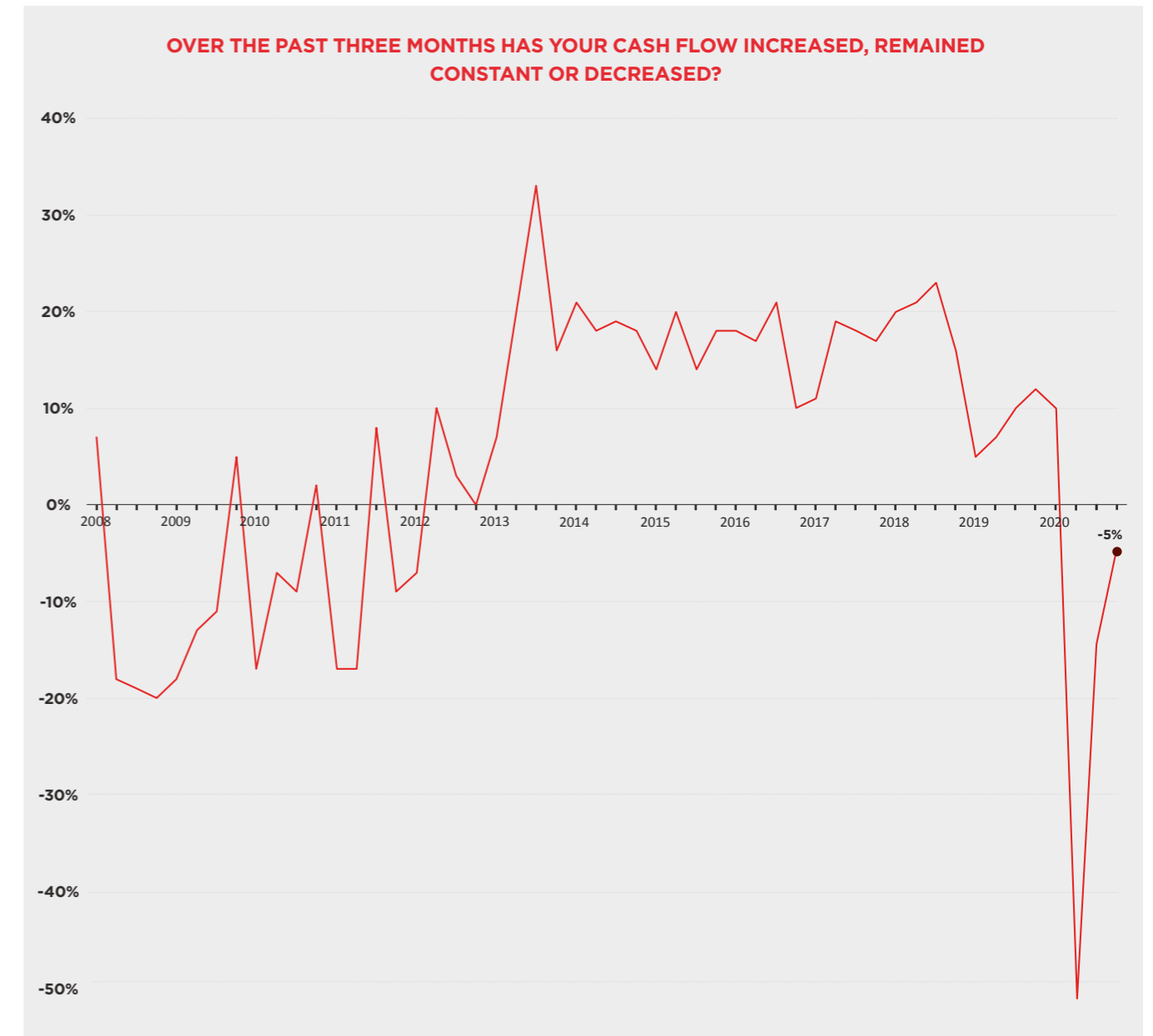
# CASH FLOW

For the third quarter in a row, more businesses have experienced a reduction in their cash flow than those experiencing an increase, although there has been an improvement. In Q3, the percentage stood at -14%, however in Q4 the percentage has increased to -5%.

The results of the latest ONS Business Impact of Coronavirus Survey revealed that 14% of UK businesses said they had low or no confidence that their business would survive the next three months. That percentage rose to 34% of accommodation and food service businesses ([Coronavirus and the latest indicators for the UK economy and society: 19 November 2020 - Office for National Statistics](#)).

The government schemes, including loans and grants, helped many businesses survive the early stages of the pandemic. However, the challenges have persisted for longer than expected and the second national lockdown has meant some businesses have been forced to close, with some fearing they may never open again. With the virus still present and restrictions still being faced, some businesses have not yet seen an increase in trade and are using up any cash reserves they may have.

The Bank of England reported that UK companies could face an aggregate cash-flow deficit of around £140 billion from Q2 2020 to Q1 2021. This figure would have risen to £190 billion if the Job Retention Scheme had not been introduced ([How will the Covid-19 shock affect the cash flows of UK companies?, Bank of England, 2020](#)).



## MANUFACTURING SECTOR INSIGHT:

The percentage of manufacturers reporting an increase in cash flow has increased slightly from -7% (Q3 2020) to -3% (Q4 2020).

## SERVICE SECTOR INSIGHT:

The percentage of services companies reporting an increase in cash flow has increased dramatically from -19% (Q3 2020) to -2% (Q4 2020).



# EMPLOYMENT & RECRUITMENT

The employment market over the next 3 months is looking a lot more positive. 22% of local businesses expect their workforce to increase over the next 3 months compared to an average of 25% since the Economic Survey began in 1999.

That is a welcome improvement but, unfortunately, the Covid-19 pandemic has already had a significant negative impact. Data released by the ONS revealed that in the three months to September 2020, national redundancies reached a record high of 314,000; an increase of 181,000 on the quarter ([Labour market overview, UK: November 2020, Office for National Statistics](#)).

The Job Retention Scheme has now been extended until March 2021 making it difficult to get an accurate picture of the unemployment rate in the UK. Preliminary figures show that the number of employments furloughed continued to reduce during September to 2.4 million by 30 September ([Coronavirus Job Retention Scheme statistics: November 2020](#)).

Anecdotal evidence from the Chamber's weekly Coronavirus Impact Survey has shown businesses experiencing reduced trade and sales have found it significantly more difficult to retain staff. However, the government implementation of the Job Retention Scheme has prevented many job losses, although there will be a significant cost to the taxpayer for years to come.

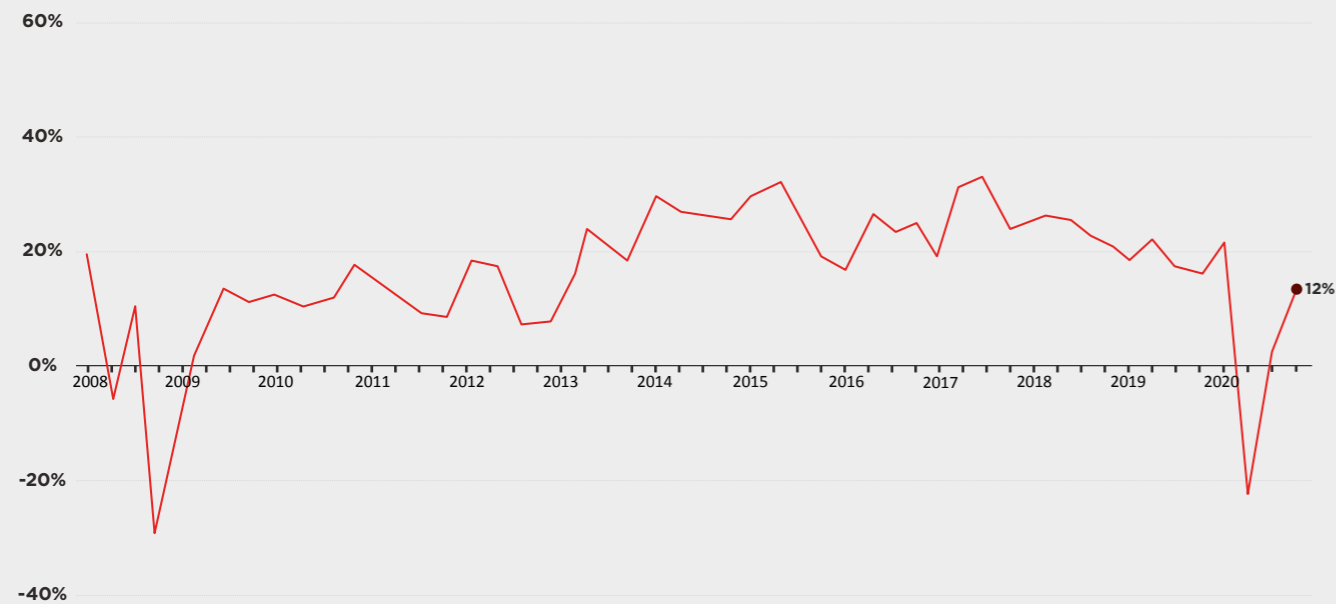
## MANUFACTURING SECTOR INSIGHT:

For the first time since the start of the pandemic, more manufacturers have increased their workforce (23%) than those who have decreased their workforce (21%). In the next three months, 27% of manufacturers expect their workforce to increase and just 10% expect a decrease.

## SERVICE SECTOR INSIGHT:

Similarly, for the service sector, more companies have increased their workforce (19%) than those who have decreased their workforce (16%) for the first time since the start of the pandemic. In the next three months, 21% of services companies expect their workforce to increase and just 7% expect a decrease.

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



# BUSINESS CONFIDENCE

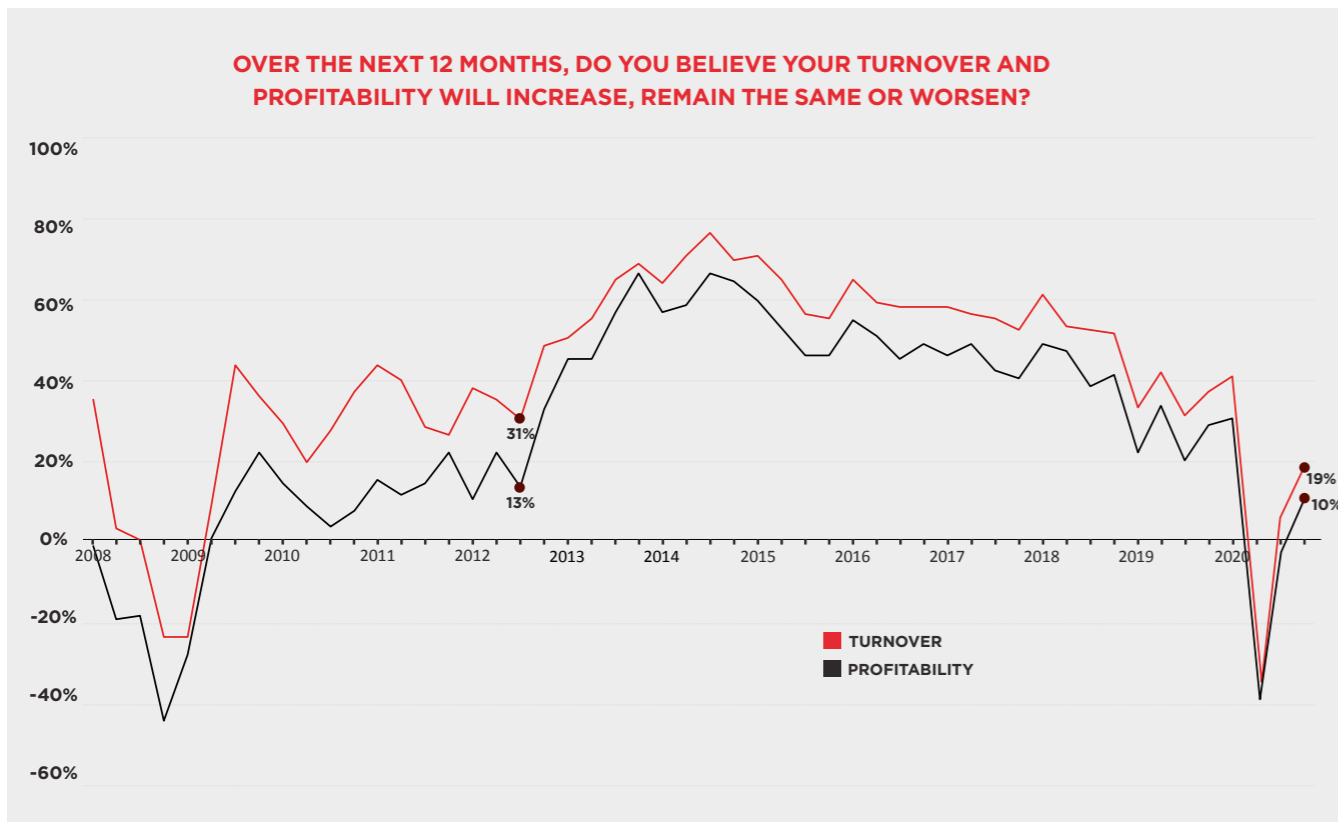
Business confidence in turnover has increased from the previous quarter to 19%, a 14% increase. Confidence in profitability has also increased from -3% in Q3 to 10% in Q4.

Recent news about Covid-19 vaccines is likely to have improved business confidence with everyone looking forward to a more positive 2021.

However, confidence hasn't yet recovered to pre-Covid levels. The introduction of a second national lockdown, to be followed by tiered restrictions, continues to have a dampening effect on the economy. According to the Chamber's weekly Coronavirus Impact Survey, 25% of businesses have reported a significant decrease in trade and sales due to the second national lockdown. And some businesses have been prevented from trading in the run up to Christmas, one of their most important opportunities to trade.

Confidence in turnover remains particularly low among tourism and hospitality businesses with 47% predicting worsening turnover over the next 12 months compared to 37% expecting an increase and 16% expecting no change.

EU Exit uncertainty has also taken its toll. As we saw in the Business Perspective section earlier in this report there was increasing frustration with the situation. Businesses have been unable to plan adequately while key questions remained unanswered. And there were concerns about possible trade tariffs, increased costs and whether EU sales will be sustained in the new year.



## MANUFACTURING SECTOR INSIGHT:

Manufacturer confidence in turnover has more than doubled this quarter from 10% (Q3 2020) to 25% (Q4 2020). Confidence in turnover has also increased from -1% (Q3 2020) to 14% (Q4 2020).

## SERVICE SECTOR INSIGHT:

Service sector confidence in turnover has also increased dramatically from 1% (Q3 2020) to 19% (Q4 2020). Confidence in turnover has also increased from -6% (Q3 2020) to 9% (Q4 2020).

## CHAMBER POLICY CONTACTS



**ARJUN HEIR**  
Policy Executive



**LISA TITSHALL**  
Policy Executive

## 2021 QUARTERLY ECONOMIC SURVEY DATES

### Q1 2020

Fieldwork: 15 February to 8 March  
Publication: TBC - mid April

### Q2 2020

Fieldwork: 17 May to 7 June  
Publication: TBC - mid July

### Q3 2020

Fieldwork: 23 August to 13 September  
Publication: TBC - mid October

### Q4 2020

Fieldwork: 1 November to 22 November  
Publication: TBC - mid January



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