

Q3 2021

QUARTERLY ECONOMIC REPORT



CONTENTS

FOREWORD	3
METHODOLOGY	5
EXECUTIVE SUMMARY: KEY FINDINGS	6-7
BUSINESS PERSPECTIVE: IN THEIR OWN WORDS	8-9
BUSINESS INVESTMENT	10-11
CAPITAL INVESTMENT	12-13
BUSINESS OBJECTIVE	14-15
UK MARKET	16-17
OVERSEAS MARKET	18-19
CASH FLOW	20-21
INVESTMENT	22-23
EMPLOYMENT & RECRUITMENT	24-25
BUSINESS CONFIDENCE	26
CHAMBER POLICY CONTACTS	27



Sharon Smith
Chief Executive
Herefordshire & Worcestershire
Chamber of Commerce

Herefordshire & Worcestershire Chamber of Commerce has released the results of the latest Quarterly Economic survey, outlining business performance between August and October 2021. Data collection was conducted from Monday 23 August to Monday 13 September.

The UK Market has seen sales marginally increase from the previous quarter. In quarter 3 2021 49% of businesses experienced increased sales, compared to 48% in quarter 2 2021. This increase in sales is largely due to general increased activity within the market which has seen businesses being able to trade independently without any government restrictions, further leading the UK economic recovery. The UK market continues to grow and recover from the economic shocks of Covid-19; however, businesses are currently facing many challenges particularly around labour shortages and supply chains, which has impacted industries such as manufacturing, transport and logistics.

The overseas market has seen a decline in sales from the previous quarter. In quarter 3 2021, 13% of firms experienced an increase compared to 37% in quarter 2 2021. The decline in overseas sales is due to a range of factors such as increased shipping costs, which has seen prices increase by 1000% in some cases as firms are struggling to keep up with prices which is affecting imports and exports. Nevertheless, whilst there are many challenges related to international trade, the Department for International Trade have secured a number of free trade agreements, including with Japan. They are also currently in discussion with US, Australia and New Zealand, to create new opportunities for UK businesses to enter new markets and help UK firms expand.

33% of businesses have experienced a decrease in cash flow this quarter, compared to 39% from the previous quarter. The decline in cashflow is due to several factors such as withdrawal of government economic support packages including the Job Retention Scheme, which supported over 9.6 million people over the last 18 months. Whilst firms are trying to recover from the last 18 months, anecdotal evidence from our latest Chamber business intelligence reports suggest some firms are unable to access capital from large financial institutions due to increased regulation and red tape.

Investment plans for machinery and training have fallen from the previous quarter from 31% quarter 2 2021 to 26% quarter 3 2021. Factors which have impacted investment by firms are the concerns around interest rates and the cost of borrowing to fund investment opportunities. Attracting investment across Herefordshire and Worcestershire remains one of top priorities for the Chamber. Investment in training and skills is pivotal in helping to secure long term success across both regions and help develops the local economy.

51% of businesses have attempted to recruit in quarter 3, the same percentage as in quarter 2. Half of businesses reported they would try and recruit over the next three months, indicating the employment market across Herefordshire and Worcestershire remains robust, despite businesses facing extreme labour shortages caused by events such as Brexit and Covid-19. The Quarterly Economic Survey reports 86% of firms tried to recruit for full time roles. However, 31% of businesses have struggled to recruit for roles such as skilled manual and technical roles, which suggest the local labour market is in short supply. Although, it has been well documented there are labour shortages across many other sectors including agriculture, transport, logistics, manufacturing and engineering.

Business confidence in turnover has decreased from the previous quarter. 70% of businesses expect their turnover over the next 12 months to increase, compared to 72% last quarter. Factors which have contributed to this decrease are the continued challenges around imports and exports to EU states, supply chain, logistical challenges, labour shortages and uncertainty around Covid-19. All of these factors explain the 2% drop in confidence in turnover as businesses remain cautious following the last 18 months.

Throughout 2021 and beyond, the Chamber will continue to support local businesses across the two counties as we continue our economic recovery. We aim to help Members through lobbying, supporting job creation and helping to address economic and business challenges.



Charles Davey
Partner
Bishop Fleming



It is my pleasure to pen the foreword to this quarter's QES report. A quarter where we have really seen the effects of the move to working and living more normally, supported by the vaccine roll out reaching so many of the adult population albeit tempered by the economic impact of a rapid restart following the past 18 months.

Overall, with 70% of respondents forecasting growth in their business over the next 12 months and 33% experiencing an improvement to their cashflow, there is much to feel positive about.

As we have seen in the past, it is not unusual for a rapidly growing economy to experience resource shortages and challenges. And this will filter down and often be amplified at a company level. Experiencing growth in revenues (which is output led) at a time when input costs are increasing rapidly, resources are constrained and supply chains are stretched, will require strong leadership and planning to carefully navigate a sustainable course through the coming months.

It is therefore pleasing to see that so many respondents have updated their business planning to reflect the post-COVID environment; however, it is also concerning that 19% of respondents do not even have a business plan.

With 77% wanting to grow their business, a business plan is a vital tool to structure and monitor that growth. It identifies where sustainable growth will be found and how it should be managed (minimum profit targets, diversification or stick to the core etc). A good business plan can be used as a means to test decisions during the growth phase, especially when resources remain tight.

I am concerned that some 21% of businesses, nearly a quarter of all respondents, are still in survival mode following the pandemic; and with the removal of most of the government support I assume that things will remain tough.

Planning at this point can often be overshadowed by the day to day, but I have found that early intervention in the survival plan can make huge differences to the outcomes. Cost reduction plans, business model changes and tight management of working capital (including dealing with those perennial slow debtors) are often tough decisions for a business to make but are essential and need to be actioned with pace.

At a time of growth and real evidence of resource shortages, it is somewhat surprising that only 50% of respondents are planning capital investment in the next 18 months, with 44% planning no expenditure at all. Renewing technology and investing in automation can be critical to maximising opportunities, mitigating the impact of tight resources and reducing cost. And with the 130% super deduction providing the most beneficial tax environment for investment, the time feels right to make those investments into business.

As I reflect on this QES I do feel very positive for businesses in the two counties and hope that businesses can continue this positive trajectory over the coming years ahead.

METHODOLOGY

During quarter 3 (Q3) 2021, 400 businesses in Herefordshire and Worcestershire responded to the Quarterly Economic Survey. Data collection took place between Monday 23 August 2021 and Monday 13 September 2021. Any reference to quarter 2 (Q2) 2021 refers to the data collection period from Monday 17 May 2021 to Monday 7 June 2021. 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

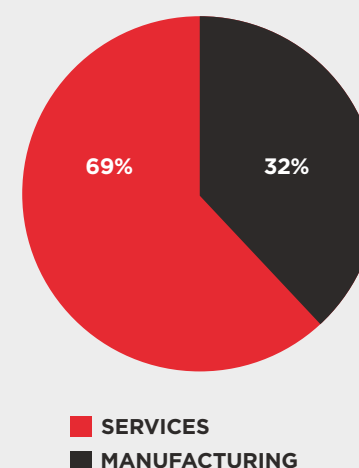
Main business activity includes manufacturing of goods (including electronic or information technology goods) and production of raw materials, construction, agriculture, fishing, mining or utilities.

Service Sector

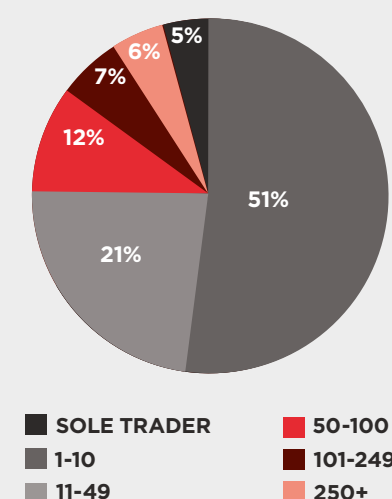
Main business activity provides a service to businesses as well as final consumers (including retail/wholesaling, professional services and marketing).

SAMPLE SUMMARY

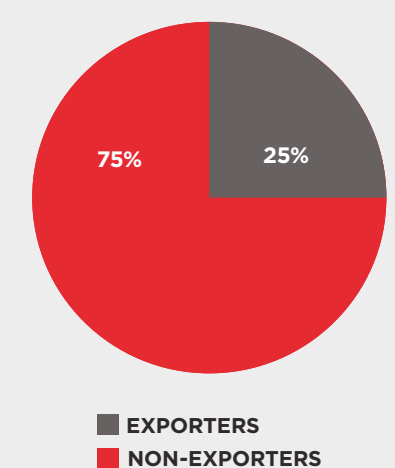
Responses by Sector



Responses by Business Size

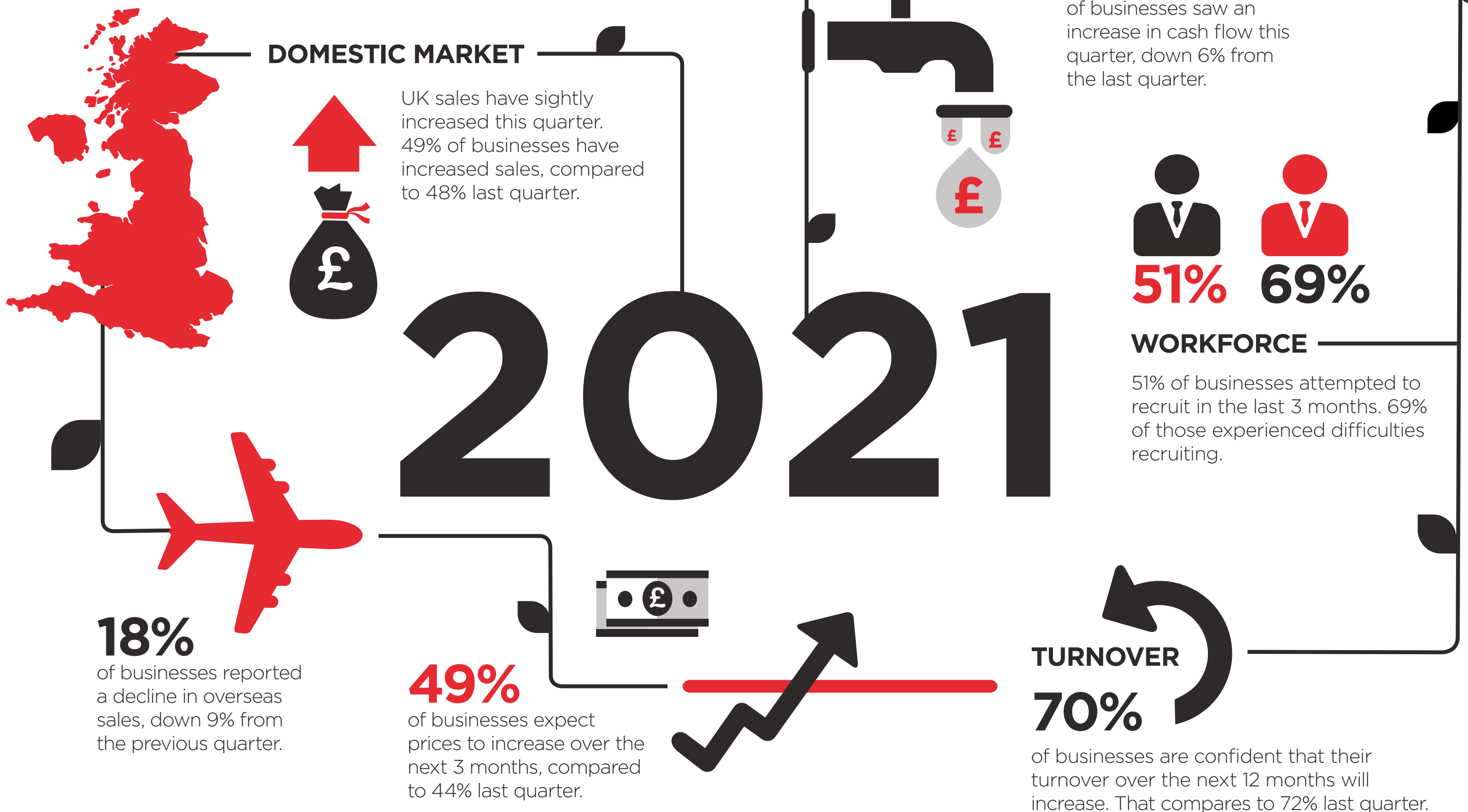


Responses by Exporter



EXECUTIVE SUMMARY:

KEY FINDINGS



BUSINESS PERSPECTIVE

IN THEIR OWN WORDS:

“

There is an increasing construction inflation of key components and delays/restrictions in availability. These could impact us negatively over the coming months.

- Professional services employing 1-5 people

I am deeply concerned about the skills shortage and ultimately the increase in drivers wages, the lack of raw materials getting to manufacturing and food to shops, the impact of delays on stress in the workplace and the impact on inflation, not to mention the behavioural consequences of full employment in a sector.

- Transport & logistics employing 50-100 people

Brexit and transport logistics continue to be increasingly challenging. Uncertainty over how to deal with goods in and out of EU and NI (where our main factory is located) are still unclear and continue to change which makes planning for the medium term impossible. Costs could be significant and phasing in changes takes months, so we need plenty of time to plan this when/if rules become clear. We have already incurred costs that may prove unnecessary so, for now, we are in a 'wait and see' planning phase which is obviously not good for the development of the business.

- Manufacturing employing 1-5 people

We are not importing nearly as much from the EU as pre-Brexit, due to the added costs as a result of Brexit.

- Retail & wholesale employing 1-5 people

”

“

Staff recruitment is the single biggest problem for the business.

- Manufacturing employing 50-100 people

Our export market is flailing, the costs to our partners in the EU have increased 50% and they are struggling to sell our product at the increased prices.

- Manufacturing employing 1-5 people

Reaction times from government and local authorities remain slow as most are still working from home and access to these departments is difficult.

- Manufacturing employing 11-49 people

The lack of suitable candidates coming forward has worsened. Lack of personal skills.

- Manufacturing employing 50-100 people

The combination of Covid and Brexit has set back our business by about 4 years. With all support removed, we have no option but to keep putting our own money into the company whilst cashflow recovers.

- Manufacturing employing 1-5 people

The change in working arrangements due to Covid has provided for new opportunities.

- Professional service employing 1-5 people

”

BUSINESS INVESTMENT

During this Quarterly Economic Survey, we asked a series of questions regarding how businesses intend to plan for future growth.

Businesses have experienced significant challenges over the past 18 months, with Brexit and Covid-19. However, businesses are now looking at new ways to grow their business, either through capital investment or to enter new markets.

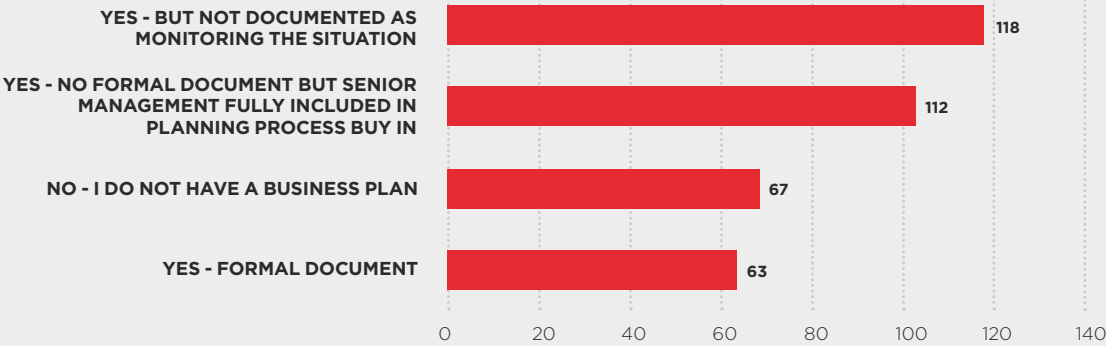
Data collected within our Quarterly Economic Survey found 19% of businesses do not currently have a business plan, however 18% of business have a formal document.

Business plans are significant in helping a firm to understand their objectives and what strategy they will undertake to help meet these objectives through a series of actions set out in the plan.

33% of businesses advised they have a business plan which is not documented. Having a detailed and written business plan will help senior management and colleagues understand the short, medium and long term goals of the business. Furthermore, with a formal document business will be able to reference back to the document which will help the company track their objectives.

The data in this section is based on 360 survey responses from businesses interested in business investment and planning.

HAVE YOU UPDATED YOUR BUSINESS PLAN AS A RESULT OF THE POST COVID WORKING ENVIRONMENT?

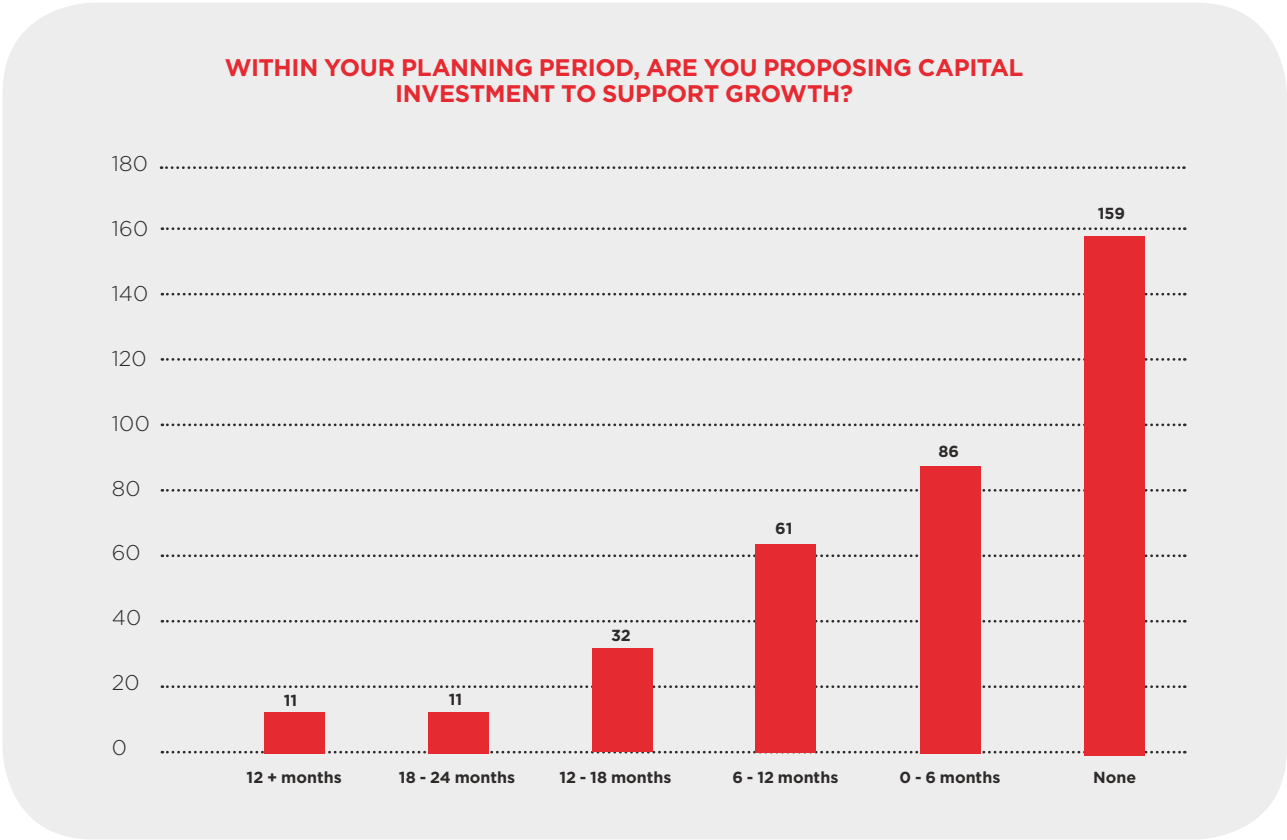


CAPITAL INVESTMENT

Businesses during the QES data collection period were asked about capital investment and their planning period.

The graph shows that out of 360 businesses, 159 advised they have no intention to acquire capital investment to support future growth. According to the Office for National Statistics, business investment grew by 2.4% in Q2, which is still 15.3% below the pre-Covid pandemic level in Q4 2019. (Business investment in the UK - Office for National Statistics, 2021).

Despite business investment growing over the last quarter, businesses remain cautious and therefore are taking a long term approach to investing in training, machinery and equipment.



Comments from businesses:

“My business plan is not directly affected by Covid as home/remote working has always been available. However, my customers are needing my services more than ever to help save money.”

“The last three months is a very small snapshot of what has been happening for a good 18 months now.”

“We are moving into the infrastructure sector of the business and hoping to get some support with marketing and raising the profile of the business.”

“The combination of Covid and Brexit has set back our business by about 4 years. With all support removed, we have no option but to keep putting our own money into the company whilst cashflow recovers.”

“We want to grow our business, be recognised locally, support other businesses with mental health and collaborate where opportunities arise.”



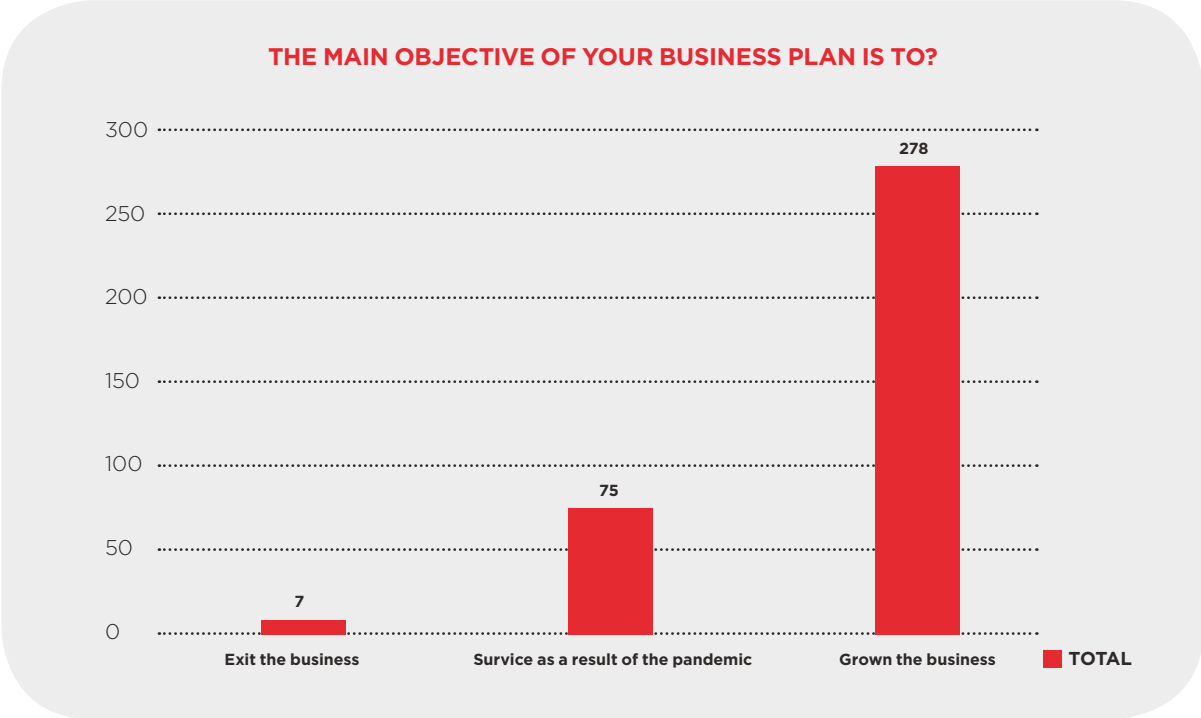
BUSINESS OBJECTIVE

During data collection, businesses were asked what the main objectives of their business plan were.

Out of 360 businesses which answered the question, 77% of firms have advised they would like to grow their business. Business confidence this quarter has decreased from the previous quarter, due to challenges around supply chains, transport and labour shortages. All of these factors are impacting businesses being able to develop and grow.

21% of firms have advised the main objective of their business plan was to ensure they survived throughout the pandemic. No doubt businesses over the last 18 months have faced many challenges with Covid-19 and Brexit, however firms are now looking to make their business sustainable but planning for future growth.

Only 2% of businesses are looking to exit the industry, primary reasons for businesses looking to leave are reduced income and reduced customer footfall which has affected many businesses across Herefordshire and Worcestershire.



UK MARKET

The UK Market has seen sales increase from the previous quarter, for example in quarter 3 2021, 49% of businesses experienced increased sales, compared to 48% in quarter 2 2021. This increase in sales is due to increased activity within the market which has seen businesses being able to trade independently without any government restrictions, which is leading the UK economic recovery. 32% of businesses advised sales had remained constant and 12% reported a decline in sales. Orders within the UK market have declined from the previous quarter, from 48% in quarter 2 2021 to 46% in quarter 3 2021, which suggests businesses are still facing new challenges with labour and supply chain issues. 26% of businesses reported no change and 11% reported a decline in orders.

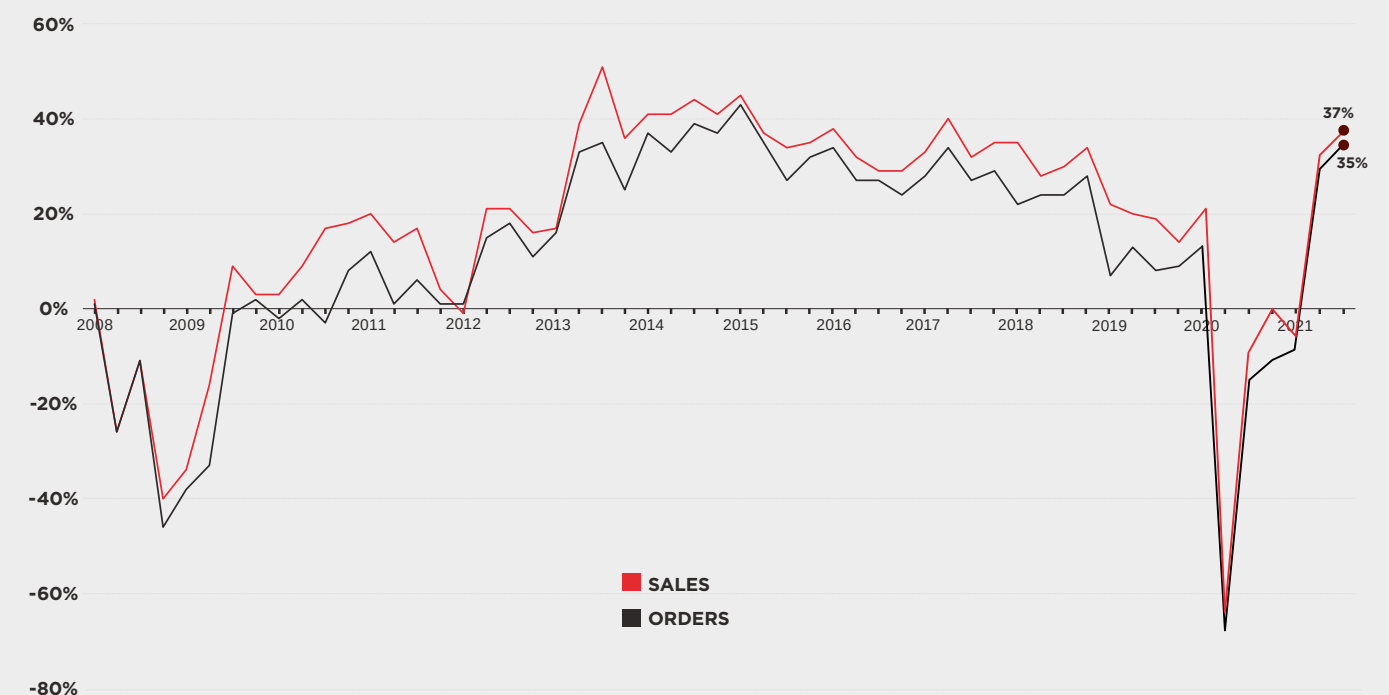
The latest figures released by the Office for National Statistics saw Gross Domestic Product (GDP) grow by 0.1% in July 2021 and remain 2.1% below its pre-pandemic level. The slight increase in GDP was due to increased productivity and activity within the manufacturing and services sector. (GDP monthly estimate, UK - Office for National Statistics, 2021).

The UK market continues to grow and recover from the economic shocks of Covid-19; however, businesses are currently facing many challenges particularly around labour shortages and supply chains, which has impacted industries such as manufacturing, transports and logistics. According to the Bank of England, they predict inflation could hit 4% by the end of the year. Governor Andrew Bailey advised the two factors which are currently increasing inflation are the increased demand for goods globally, which is pushing up prices particularly in metals and oils as well as the shortages of particular raw materials and shortage of chip supplies which is affecting supply for technology and automotive firms.

Evidence from the Chamber Business Intelligence Survey has shown that overall, 15% of businesses across Herefordshire and Worcestershire are facing a skills shortage which is impacting industries such as agriculture, manufacturing and hospitality. As a Chamber in partnership with the British Chambers of Commerce, we regularly engage with local, regional and national government to highlight business challenges through roundtable meetings to help find practical solutions including shaping and influencing government policy to help benefit businesses across the two counties.



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



OVERSEAS MARKET

The overseas market has seen a decline in sales when compared to the previous quarter. For example, in quarter 3 2021, 13% of firms experienced an increase this quarter compared to 37% in quarter 2 2021. The decline in overseas sales is due to a range of factors such as increased shipping costs, which has seen prices increase by 1000% in some cases as firms are struggling to keep up with prices, leading to issues with imports and exports. Furthermore, the challenges around labour shortages from Eastern European countries has seen industries such as agriculture, hospitality and manufacturing witness a huge reduction in staff retention, which has caused significant gaps within these sectors and difficulties recruiting candidates within a testing labour market.

Nevertheless, whilst there are many challenges related to international trade, the Department for International Trade have secured a number of Free Trade agreements, including with Japan, and are currently in discussion with US, Australia and New Zealand, particularly to create new opportunities for UK businesses to enter new markets and help UK firms expand.

According to the Office for National Statistics, total exports of goods, excluding precious metals, fell by £0.3 billion (1.0%) in July 2021 because of a £0.9 billion (6.5%) fall in exports to the EU. (UK trade - Office for National Statistics, 2021). Factors which have contributed to falling exports to EU countries include increased rules of origin, which has meant UK firms are unable to meet certain origin requirements, delaying orders being shipped to certain EU countries.

Evidence from the Chamber's business impact survey found that 15% of businesses have advised they are still trying to get used to the new trading rules around importing and exporting. Businesses continue to face challenges around getting the correct paperwork for parts of their product in order to export into markets abroad. As a result of this, many businesses have decided against exporting into EU countries and therefore are looking at using the newly agreed Free Trade agreements to enter new markets.

The overseas market continues to be impacted with supply chain challenges, labour shortages and restrictions in international travel. All three factors continue to impact import, export and goods flowing between nation states. However, the Chamber and BCC remain committed with working with local, regional and national government to ensure UK businesses are able to trade with EU and Non-EU states to help improve the global economy.



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



CASH FLOW

33% of businesses have experienced a decrease in cash flow this quarter, compared to 39% from the previous quarter. The decline in cashflow is due to several factors such as withdrawal of government economic support packages inducing the Job Retention Scheme, which supported over 9.6 million people over the last 18 months, as well as loan repayments becoming due. Employers under the scheme were able to furlough workers and save costs, whilst being closed because of government restrictions. However, 49% of firms have advised cash flow has remained constant, due to demand for services which has helped firms recover from the last 6 months. Although 18% of firms have advised they have seen a decline in cash flow from the previous quarter, factors include local outbreaks of Covid-19 cases which have affected operations, restrictions in international travel and reduced government support.

According to the Office for National statistics at the end of July 2021, 50% of businesses reported to have less than 6 months cash reserves, (Insights of the Business Impact of Coronavirus (COVID-19) Survey - Office for National Statistics, 2021). Whilst firms are trying to recover from the last 18 months, evidence from our latest Chamber business intelligence reports suggest firms are unable to access capital from large financial institutions due to increased regulation and red tape. Chancellor of the Exchequer Rishi Sunak will be setting out how the government plans to increase spending within key industries to help level up the country and increase plans for consumer spending in the Autumn Budget 2021.

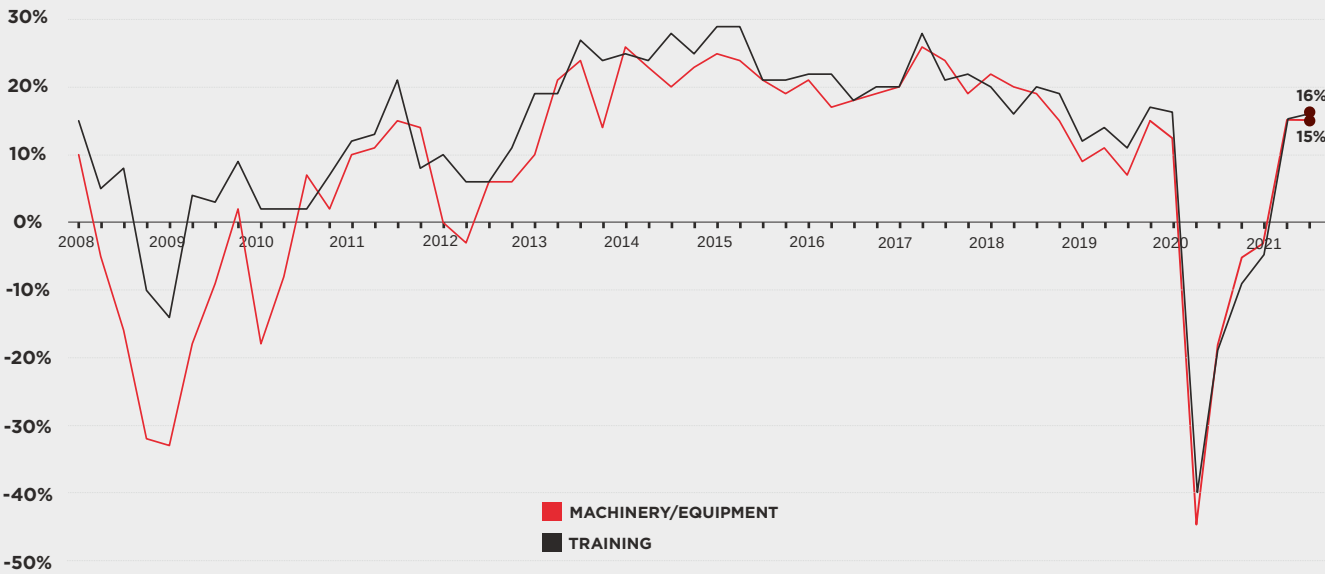


INVESTMENT

Investment plans for machinery and training have fallen from the previous quarter from 31% quarter 2 2021 to 26% quarter 3 2021. Factors which have impacted investment by firms are the concerns around interest rates and the cost of borrowing to fund investment opportunities. Businesses are concerned if interest rates were to rise, this would then lead to less investment in machinery and training. Furthermore, local firms remain committed to invest more locally to help improve the local economy. However, 63% of businesses advised investment remains unchanged due to uncertainty around Brexit and Covid-19. The last 18 months have no doubt affected business confidence and evidence from the Chamber business intelligence surveys suggest firms do not want to commit to investment plans if there is another national lockdown, which would impact business confidence and slow down economic growth.

Attracting investment across Herefordshire and Worcestershire remains one of top priorities for the Herefordshire & Worcestershire Chamber of Commerce. Investment in training and skills is pivotal in helping to secure long term investment across both regions and helping develop the local economy. There are currently a number of investment opportunities for SME's and large businesses to invest in key sites such as the Malvern Hills Science Park, Worcester Six and Shell store in Herefordshire. 11% of firms have advised they have revised their investment plans down this quarter due to challenges around cash flow, this remains the lowest in the last 18 months.

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



EMPLOYMENT & RECRUITMENT

51% of businesses have attempted to recruit in quarter 3, which is the same amount as in quarter 2. Half of businesses reported they would try and recruit over the next three months, this indicates the employment market across Herefordshire and Worcestershire remains robust, despite businesses facing extreme labour shortages caused by events such as Brexit and Covid-19. The Quarterly Economic Survey reports 86% of firms tried to recruit for full time roles.

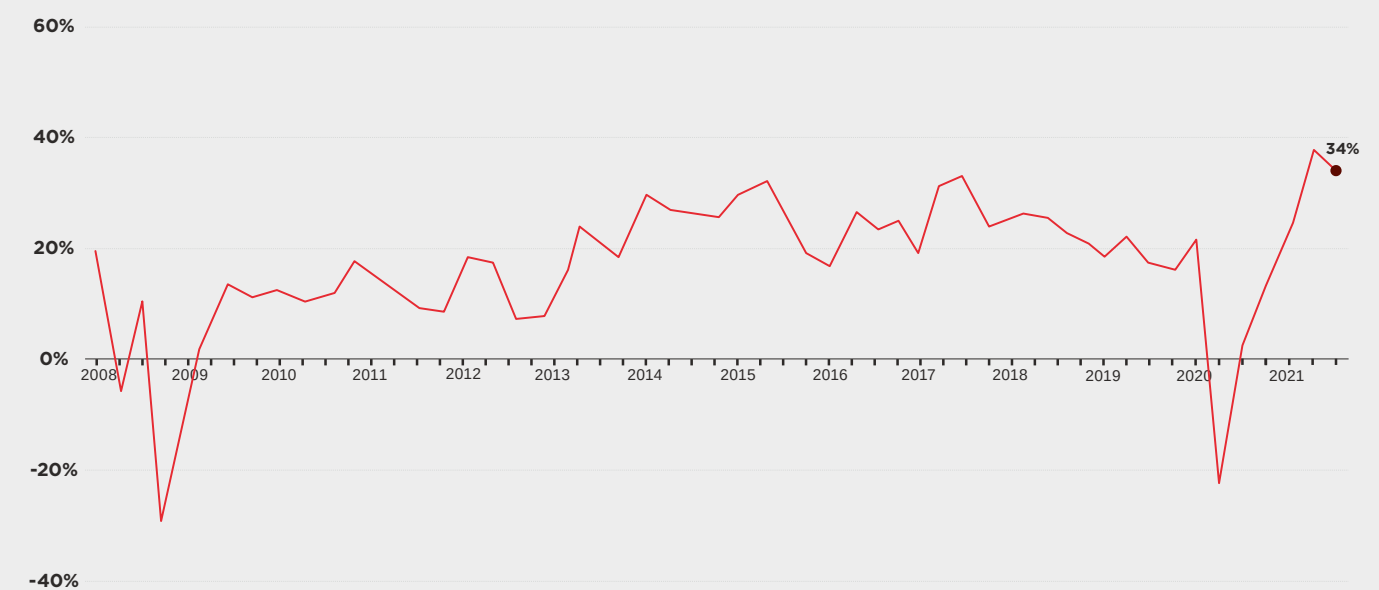
However, 31% of businesses have struggled to recruit for roles such as skilled manual and technical roles, which suggests the local labour market is in short supply. However, it has been well documented there are labour shortages across many sectors including agriculture, transport, logistics, manufacturing and engineering.

According to the Office for National Statistics, the number of payroll employees increased from the previous quarter, up 241,000 to 29.1 million in August 2021, returning to pre-Covid (February 2020) levels. As the Job Retention Scheme closes at the end of September 2021, many employees have returned to work, which will help boost the UK economy and increase productivity across a range of sectors including professional services. (Labour market overview, UK - Office for National Statistics, 2021).

Unemployment across Worcestershire is currently 4.7%, while Herefordshire is 3.5%. Whilst these figures are below the national unemployment level, businesses are still facing many challenges around recruiting and staff retention. Evidence from the Chamber business intelligence survey suggests rival firms are offering greater flexible working policies and greater salaries, which is leading employees moving firms. (Nomis - Official Labour Market Statistics, 2021).



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

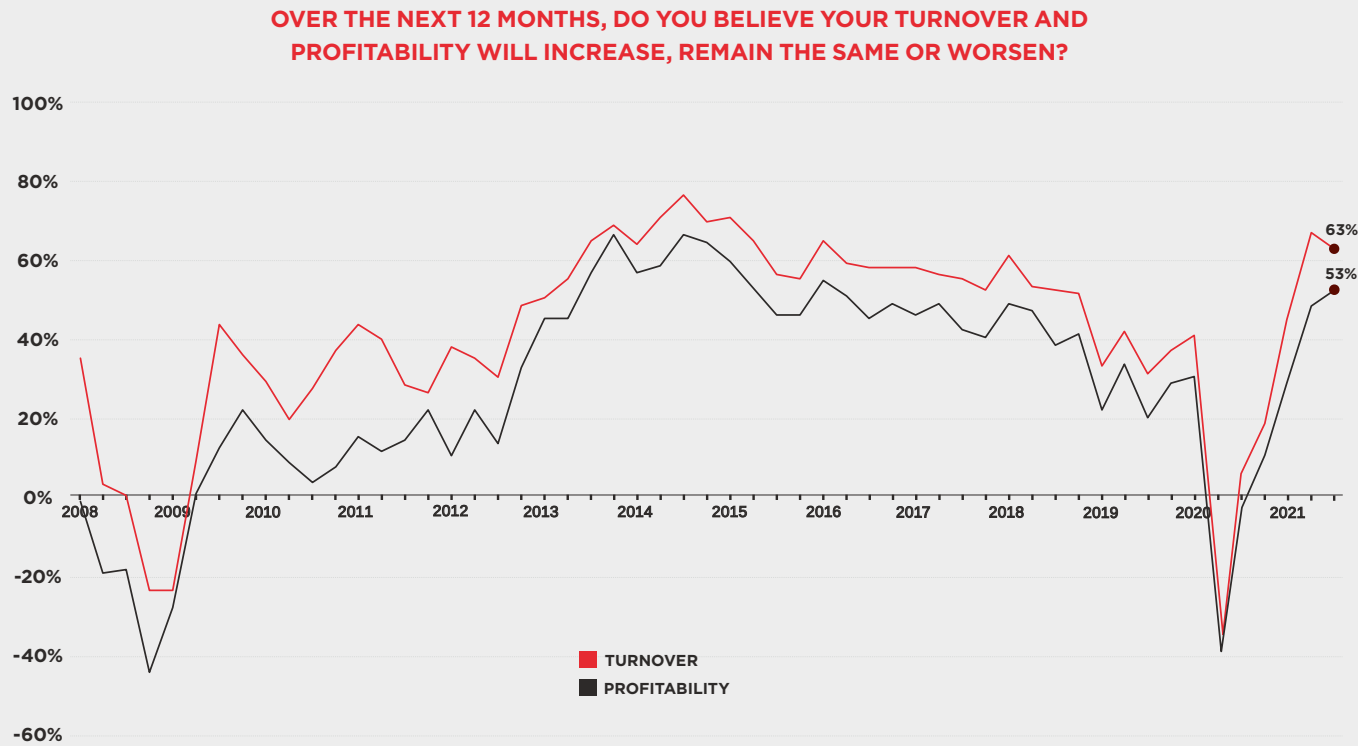


BUSINESS CONFIDENCE

Business confidence in turnover has decreased from the previous quarter. 70% of businesses expect their turnover over the next 12 months to increase, compared to 72% last quarter. Factors which have contributed to the decrease is continued challenges around imports and exports to EU states, supply chain, logistical challenges, labour shortages and uncertainty around Covid-19. All of these factors explain the 2% drop in confidence in turnover as businesses remain cautious following the last 18 months.

However, business confidence in profitability has improved from the last quarter, from 60% in quarter 2 2021 to 65% in quarter 3 2021. The increase in consumer spending over the last quarter has seen businesses within the hospitality, tourism and retail sectors experience significant footfall of customers returning to establishments in efforts to increase revenue and profit.

According to the Office for National statistics as of August 2021, 30% of businesses reported a decrease in turnover. (Business insights and impact on the UK economy - Office for National Statistics, 2021). Firms stated additional paperwork, change in transportation costs and customs duties/levies as primary reasons for the drop in business turnover.



Factors of concern for businesses in the next quarter are increased interest rates, exchange rates, business rates, inflation, competition and increase in corporate taxation. The Autumn budget in October will be significant to many UK firms as it will indicate how the Chancellor will pledge to invest in key industries and help increase business and consumer confidence.

Evidence from the Chamber's business intelligence survey has found many businesses remain optimistic regarding growing turnover and profitability, however many firms are concerned with supply chain challenges and increased shipping costs, which is reducing profit margins for exporters and impacting turnover as firms adjust their business model to incorporate increase in costs.

CHAMBER POLICY CONTACTS



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2021 QUARTERLY ECONOMIC SURVEY DATES

Q4 2021

Fieldwork: 1 November to 22 November

Publication: TBC – mid January

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