North East England
Chamber of Commerce

Economic Survey

Quarter 1, 2021

In association with

Durham University
Business School

Grow your influence

Key indicators

INDICATOR	BALANCE (ALL COMPANIES)	CHANGE ON LAST QUARTER	CHANGE ON LAST YEAR	MANUFACTURING	SERVICE
UK sales	-18.2	4.7 ▼	-31.8 ▲	-24.6	-15.3
UK orders	-20.7	0.7 ▼	-30.4 ▼	-18.5	-21.7
Export sales	-17.9	-3.5 ▼	-22.5 ▲	-17.3	-18.2
Export orders	-20.9	-4.0 ▼	-24.0 ▼	-19.2	-21.8
Plant investment plans	-2.7	16.6 ▲	-8.8 ▲	1.5	-5.0
Training investment plans	0.5	17.9 ▼	-15.7 ▲	-1.5	1.5
Cashflow	-18.8	6.3 ▲	-18.3 ▲	-19.4	-18.5
Prices	-5.5	9.4 ▲	-18.1 ▲	-9.0	-4.0
Current workforce	-11.1	-8.0 ▼	-27.3 ▲	20.9	6.7
Future workforce	23.4	15.1 ▲	-11.0 ▲	17.9	25.9
Future profitability	20.8	34.9 ▲	-13.1 ▲	15.2	23.3
Future turnover	33.2	36.2 ▲	-12.3 ▼	23.9	37.3

Economic Survey Q1 2021 foreword

As I write this we are approaching the anniversary of the first national lockdown. It has been a year unlike any other for our region and its businesses.

The human cost of the pandemic should never be forgotten. The past 12 months have taken a terrible toll on families across the North East. We must therefore pay tribute to those across the health service and beyond who have done so much to fight Covid and to prevent this cost from being far higher.

These survey results give us the first picture of what the past year has done to our businesses. From the initial, catastrophic economic shock we saw in the second quarter through months of uncertainty and ever-changing restrictions, firms in the North East have been through a lot.

The data from the start of the year shows that overall confidence, while still very low, is improving. Yet this masks enormous disparities between those sectors that have been able to return to something akin to normality and those who remain under the tightest restrictions. It will be a long time before we can fully assess the long term damage to our economy.

With hundreds of thousands of people receiving the vaccine every day, we can now look forward with some optimism. These results show that businesses foresee a much better year ahead than the one they've just endured. However, factors beyond Covid also hinder our firms, as the impact of Brexit on our export performance shows.

We must not allow this positivity to hide the challenge that now faces us. 'Levelling up' has become more important than ever. Our region has been hit hard and must be supported to recover and become more resilient.

Lesley Moody MBE
North East England Chamber of Commerce President

Economic Survey Q1 2021 overview – Durham University Business School

One year after the first Covid lockdown and so much has happened to the business community around the region, both as a result of the pandemic and other factors, including Brexit and equality and diversity issues.

This can be seen in the latest Economic Survey figures, with the disruption to trade following Brexit clearly showing on export activity, in line with national trade figures. We will need to wait on the next survey to see whether this impact is temporary as companies readjust to the new trading rules or something more structural.

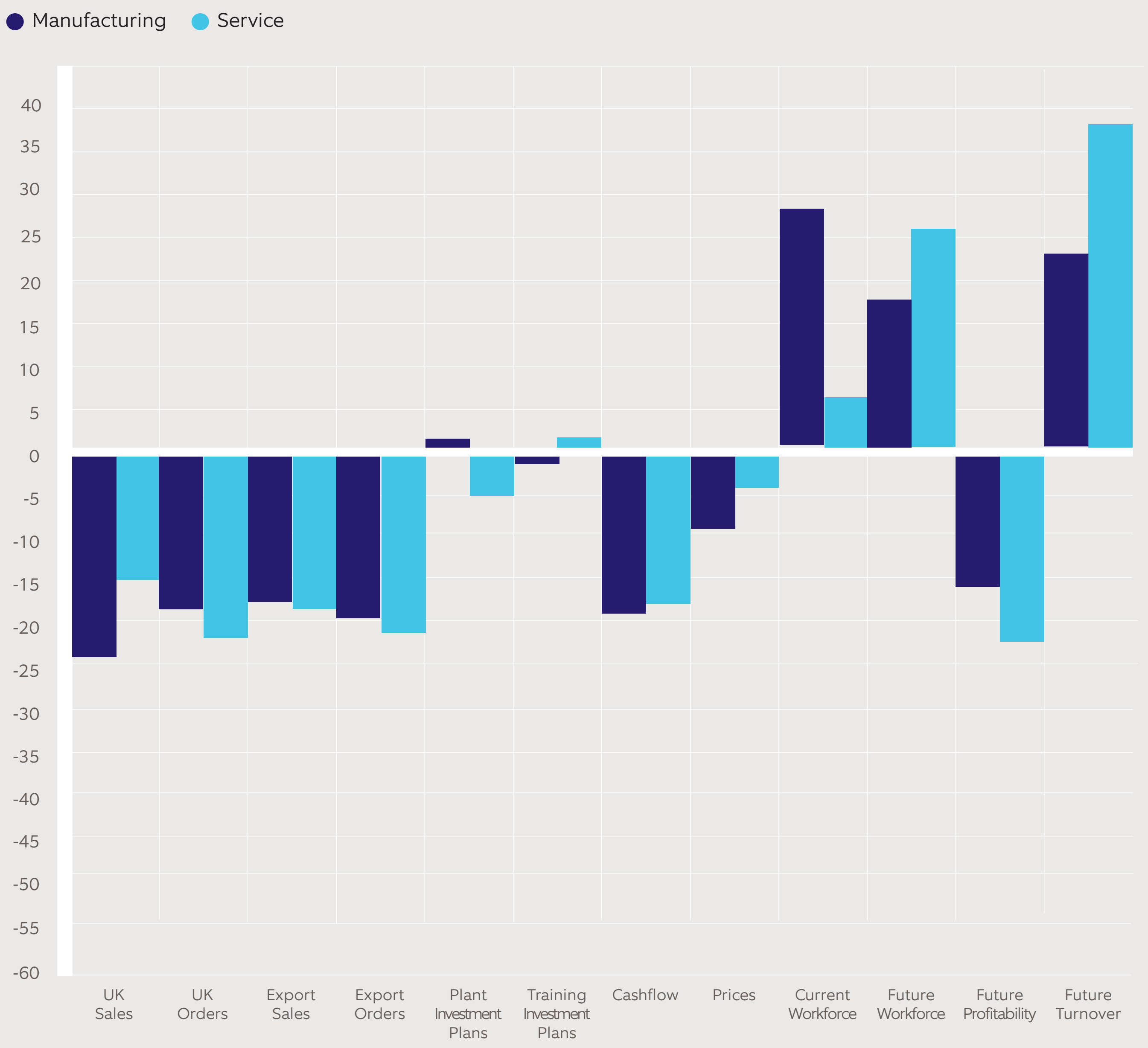
The increased awareness of issues around equalities and diversity, both within wider society and within businesses, is in many ways welcome, but this has implications on the agenda for action for most organisations. As we hopefully emerge from the worst of the pandemic, there is an opportunity to reflect on what we have learnt and to discuss the future of the workplace and the implications for how we achieve greater equality and diversity across teams in order to create the conditions for better businesses in the future. Dr Mariann Hardey from Durham University Business School will join the QES Briefing to share her research and reflections on these issues.

The Economic Survey is carried out by the North East England Chamber of Commerce. This survey conducted during December 2020 - February 2021 is based on responses from 243 businesses.

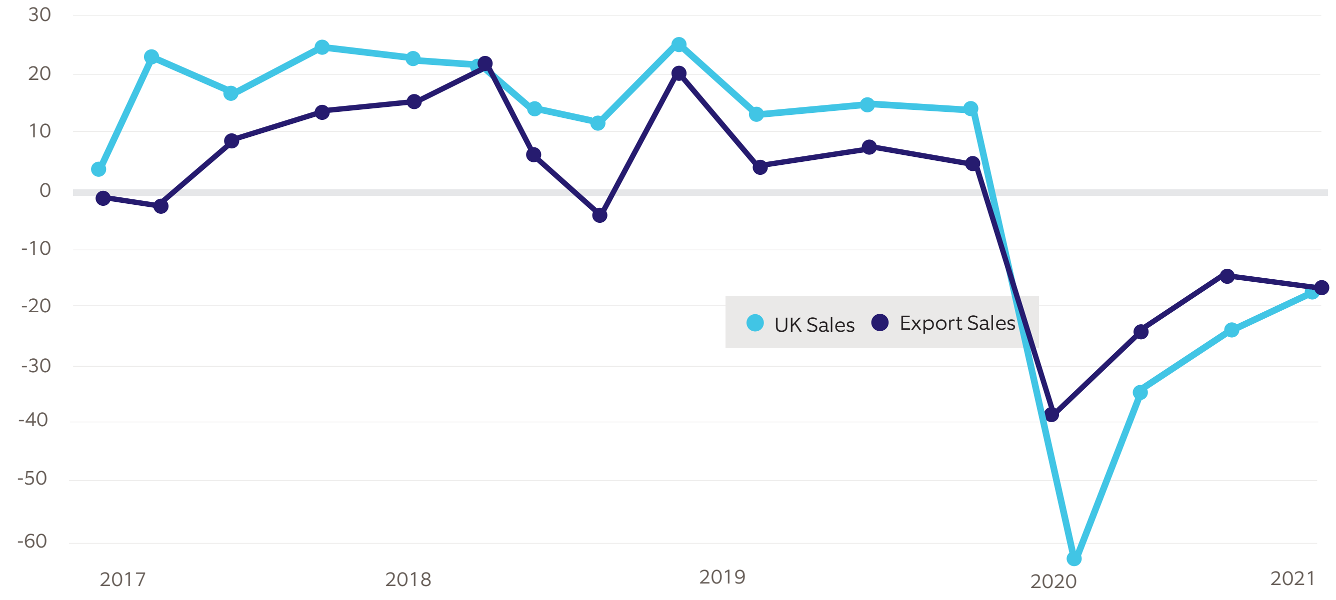
It is worth noting that the number of businesses providing responses in the All Companies analysis is not necessarily equal to the sum of those providing responses for the two broad sectors, as not all respondents provide details of the industry in which they operate. Where data analysis involves more than two variables, and where three or less companies have provided information, data has been withdrawn from the survey in order to protect the anonymity of companies, and to provide accurate analysis.

Methodology
Most of the questions in the survey ask whether companies have experienced an increase, decrease or no change in respect of a given performance indicator, such as UK Sales.

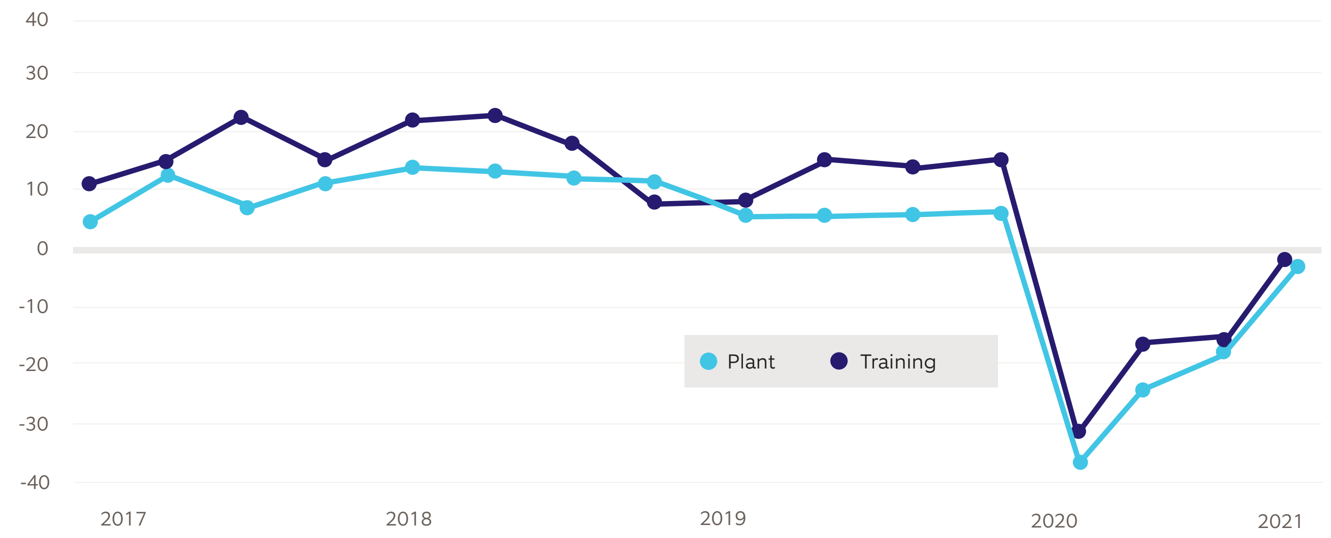
The balances are calculated as the percentage of respondents reporting an increase (e.g. in UK Sales) minus the percentage reporting a decrease. A positive balance indicates growth in respect of a particular indicator, whilst a negative balance reflects contraction. This methodology is standard practice in surveys of this type.



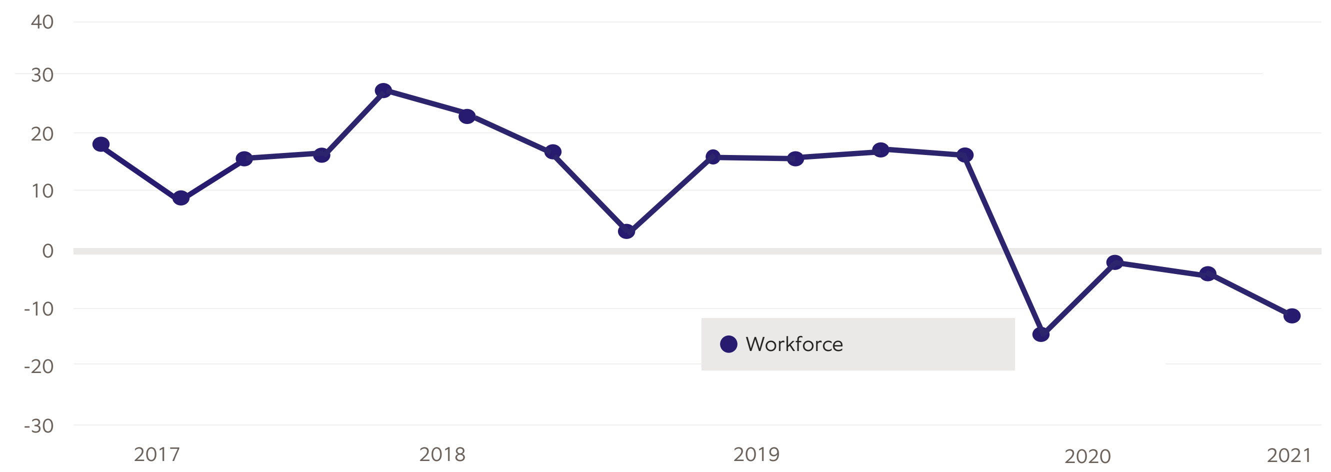
Five Year Trend - Sales



Five Year Trend - Investment



Five Year Trend - Workforce



Overall business confidence continued to improve in the first three months of 2021, but conditions remain tough for many. Brexit has also had a clear impact on export performance.

Capacity
The proportion of businesses operating at full capacity (33.3%), is above levels recorded last quarter (30.8%) and Q1 2020 (30.2%).

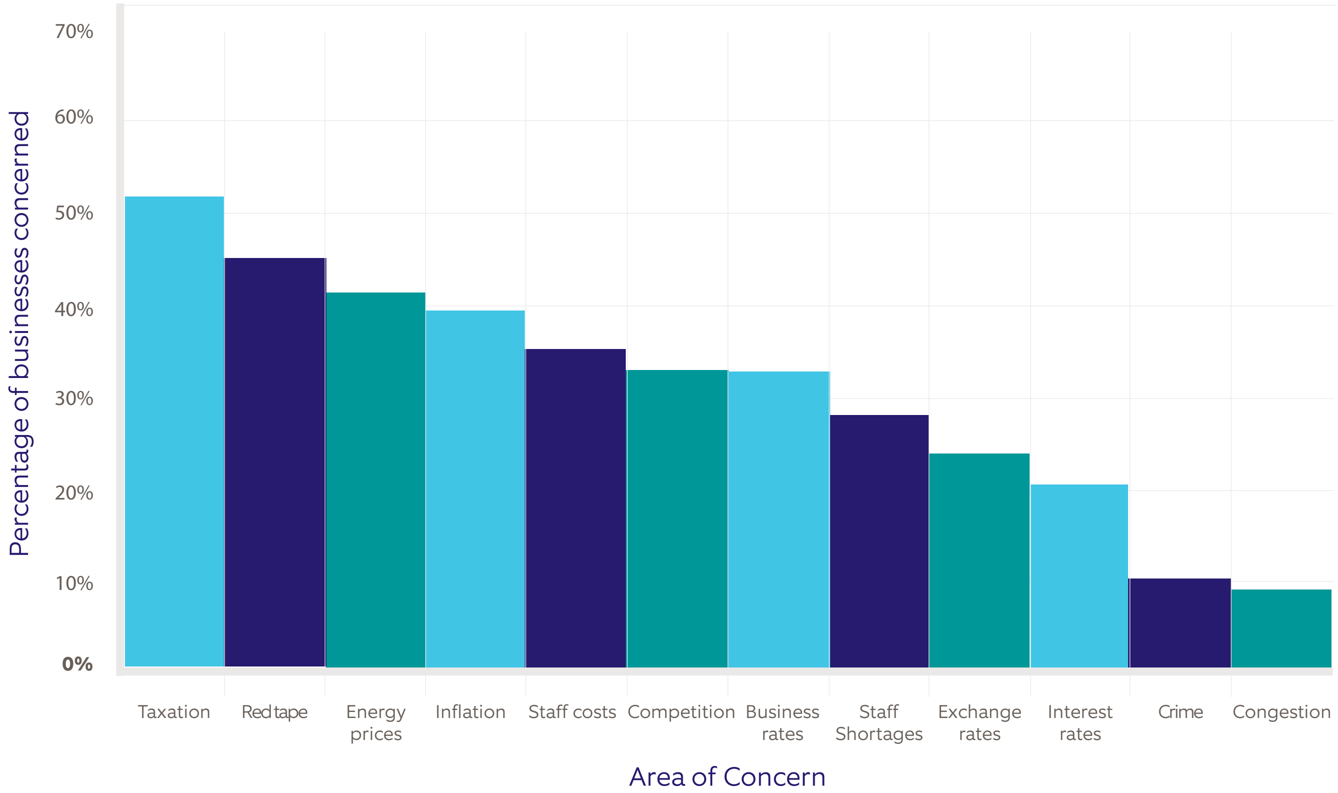
Recruitment
- Over one-third of respondents attempted to recruit full-time staff (46.7%), representing an increase on levels recorded last quarter (38.3%) but still below Q1 last year (52.4%).
- A much smaller proportion attempted to recruit part-time staff (21.8%), up on last quarter (14.9%) but below the level recorded last year (33.7%).
- More businesses attempted to recruit permanent staff this quarter (40.5%), representing an increase on figures recorded last quarter (38.3%) but still down on number recorded last year (52.4%).
- More businesses attempted to recruit temporary staff (22.7%) than last quarter (20.6%), but fewer than Q1 2020 (26.3%).

Price pressures
- Price pressures arising from pay settlements (15.5%) were down on last quarter (18.9%) and below the values recorded last year (21.8%).
- The proportion of members facing price pressures from raw materials (38.6%) increased on the levels recorded last quarter (32.8%) and the same period last year (24.3%).
- Price pressures as a result of financial costs (24%) were up slightly on the figures last quarter (23.6%), and down slightly on Q1 2021 (24.3%).
- 48.3% of businesses experienced price pressures arising from other overheads, representing an increase on last quarter (38.5%) and on the value last year (47.6%).

Key factors
- The most commonly cited factors surrounding businesses success related to the ability to adapt to challenging circumstances. Successes included: increasing usage of online technologies, finding new ways of supporting clients and bringing forward innovations.
- Factors relating to customer loyalty and existing relationships were also common. Businesses praised customers who had stuck with them during difficult times and who had been responsive to new ways of product and service delivery.
- Factors associated with staff were also commonly reported, which included: a willingness to work in different ways, dedication, as well as staff being committed to ensuring the survival of the business.
- Businesses also reported the benefits of various Government support schemes such as loans, rates holidays and the Job Retention Scheme.

Barriers
The main barriers to business success were considered to be:
- The ongoing impact of Covid-19, in particular the current lockdown restrictions.
- The impact of Brexit and the disruption to trade, as well as the need to adapt to new rules, all of which have severely dampened demand for exports and increased costs.
- Disruption to supply chains caused by both the pandemic and Brexit.
- Lack of confidence among customers (both public and business)
- Financial difficulties caused by a lack of demand and inabilities to secure new funding at acceptable rates.

As Government plans to repair public finances, taxation has risen to the top of businesses' concerns, while fears over energy price rises have also grown dramatically.



Perceptions
Perception scores reflect whether issues affecting members and their business activity are of greater concern now compared to last quarter. The scores above represent the proportion of respondents who indicated they were more concerned about these issues. The indicators which experienced increased concern compared to the Q4 2020 survey were: Taxation, up 12 percentage points, Red tape (+7 percentage points), Energy prices (+10.5 percentage points) and staff shortages (+5.8 percentage points). The indicators which were considered to be less of a concern included: competition, down by 5.2 percentage points, Congestion (-1.4 percentage points) and staff costs (-9.6 percentage points).

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