



North East England
Chamber of Commerce

Economic Survey

Quarter 4, 2020

In association with



Durham
University
Business School

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Key indicators

INDICATOR	BALANCE (ALL COMPANIES)	CHANGE ON LAST QUARTER	CHANGE ON LAST YEAR	MANUFACTURING	SERVICE
UK sales	-22.9	14.3 ▼	-37.1 ▲	-12.9	-27.8
UK orders	-14.4	10.2 ▼	-11.9 ▲	-19.6	-10.4
Export sales	-21.4	17.8 ▲	-30.0 ▼	-14.5	-25.0
Export orders	-16.9	9.1 ▼	-16.1 ▲	-20.0	-14.7
Plant investment plans	-19.3	5.0 ▼	-17.5 ▲	-12.9	-23.1
Training investment plans	-3.1	-2.6 ▼	-18.2 ▲	0.0	-4.7
Cashflow	-17.4	0.9 ▼	-25.6 ▲	-17.2	-17.5
Prices	-14.1	-11.6 ▼	-46.7 ▼	-18.5	-11.8
Current workforce	-3.0	-5.0 ▼	-48.0 ▼	0.0	-4.5
Future workforce	-14.9	3.9 ▼	-24.2 ▼	-10.9	-16.8
Future profitability	8.3	-2.3 ▼	-13.7 ▲	3.2	10.9
Future turnover	-25.1	3.8 ▼	-15.0 ▲	-16.1	-29.5

Economic Survey Q4 2020 foreword

Typically, the start of a new year is a time for optimism, fresh starts and resolutions. After the year we've all just had I think all of those things are very much needed.

However, we must be realistic about the challenges our economy still faces. These survey results show that even though business conditions continued to improve during the final quarter of last year, things are still very tough for many firms across our region.

Covid, Brexit and the general economic climate have conspired to keep sales, orders and cashflow firmly in negative territory. Despite improvements over the latter half of the year, by historical standards our survey scores are still incredibly low.

Just over a year on from the general election, this is the backdrop against which we assess the Government's progress on 'levelling up'. Of course, it is fair to say that the pandemic has been an unprecedented and unexpected economic and social challenge.

However, with vaccinations underway and hope of a return to normality during 2021, it is right to challenge politicians about what they intend to do to support recovery in our region. We have been very clear: the impact of this crisis has not been felt evenly across the country and has fallen harder on regions like ours and the communities within them.

These results are a stark reminder of how much work is needed to get our economy back on its feet. Yet the improvements we see are also testament to the resilience of our businesses; who have been doing everything they can to survive and grow in the face of exceptional circumstances. Let us all hope that 2021 provides the rewards and recognition they deserve.

Lesley Moody MBE
North East England Chamber of Commerce President

Economic Survey Q4 2020 overview – Durham University Business School

The range and extent of challenges faced by businesses across the North East during 2020 have probably exceeded those faced by many over the last forty years.

In a region with a strong export orientation, uncertainties around Brexit were the main issue at the start of the year and have now re-emerged as a concern as the year closes. At the time of writing, it is still not clear whether we shall have a Free Trade Agreement with the EU from 1 January 2021 or whether we shall need to revert to WTO Trade Terms, with implications for export pricing and import costs alongside supply chain disruptions.

Since March, the major issue has been COVID-19 restrictions affecting business operations, particularly within the hospitality sector and its supply chain. Whilst there is some optimism that the roll-out of the vaccination programme will have an impact beyond Easter 2021, most of the region will remain in Tier 3 restrictions until at least the New Year.

The increased prominence of the Black Lives Matter campaign, in response to events in the USA and elsewhere, has also elevated equalities, diversity and inclusion (EDI) issues up the boardroom agenda. At the QES Briefing on 7 January 2020, Professor Jackie Ford will highlight the key findings of a four-year study into EDI issues within a major British retailer. In addition, Dr Janey Zhang will present insights into the impact of COVID-19 on issues of managerial control and the building of employee trust.

The Economic Survey is carried out by the North East England Chamber of Commerce. This survey conducted during September - November 2020 is based on responses from 216 businesses.

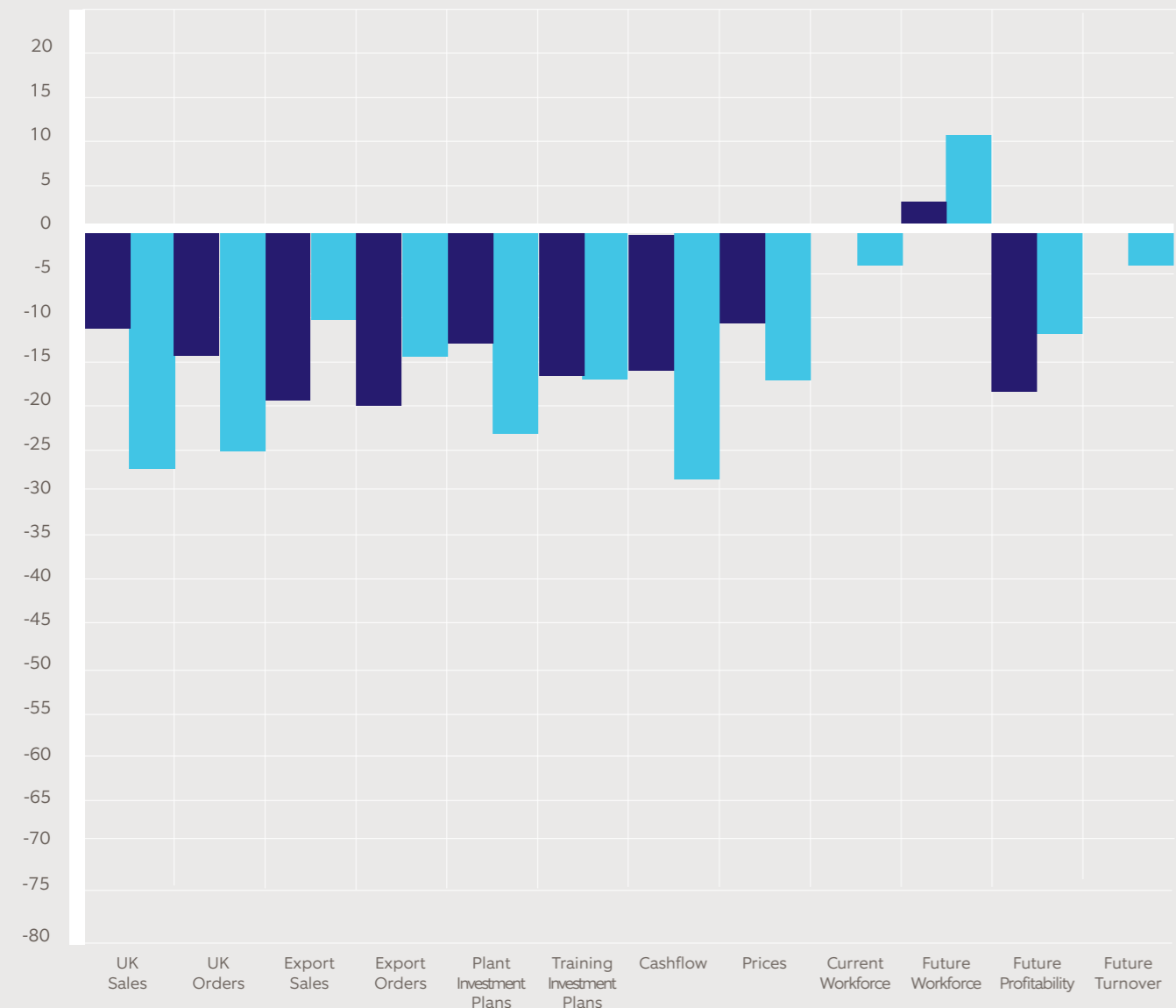
It is worth noting that the number of businesses providing responses in the All Companies analysis is not necessarily equal to the sum of those providing responses for the two broad sectors, as not all respondents provide details of the industry in which they operate. Where data analysis involves more 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

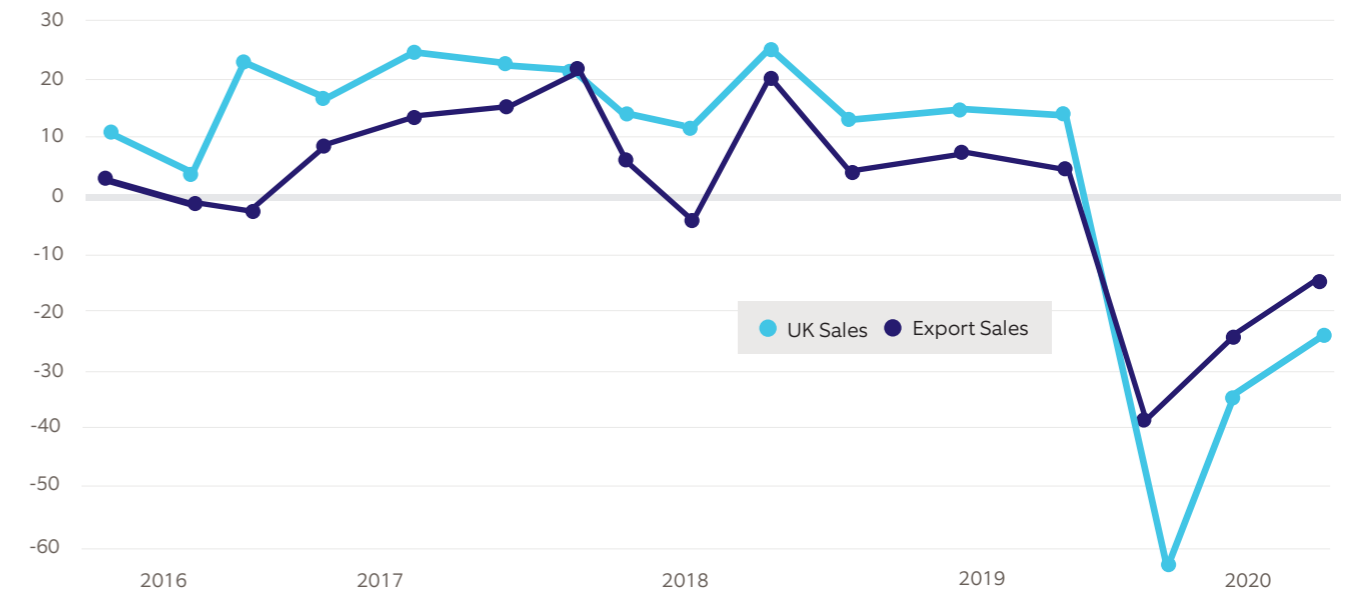
Most of the questions in the survey ask whether companies have experienced an increase, decrease or no change in respect of a given performance indicator, such as UK Sales.

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.

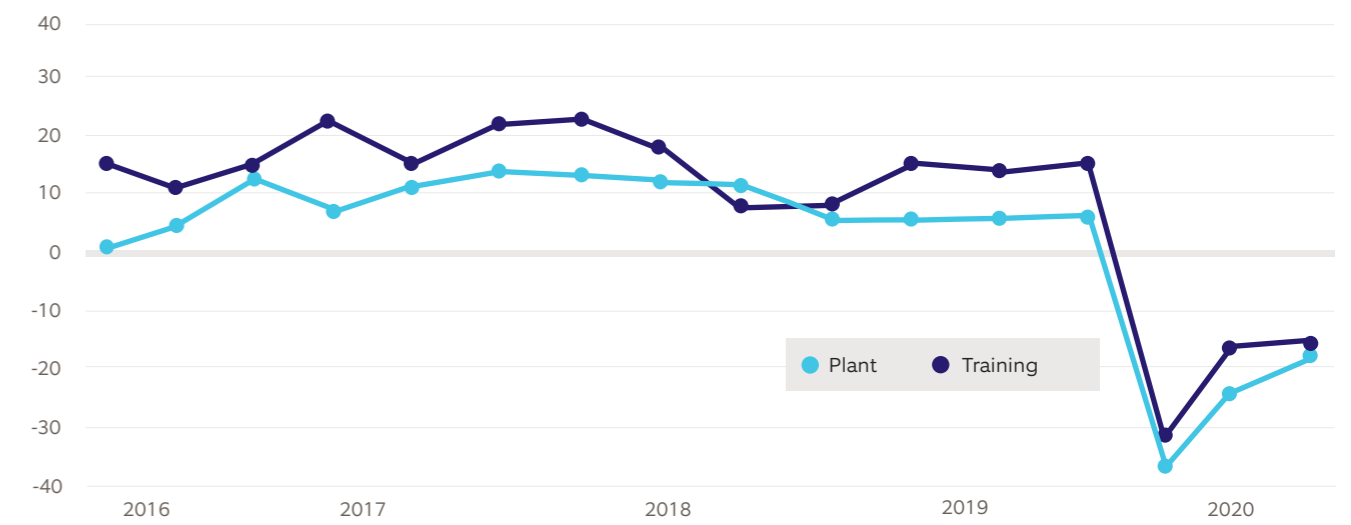
● Manufacturing ● Service



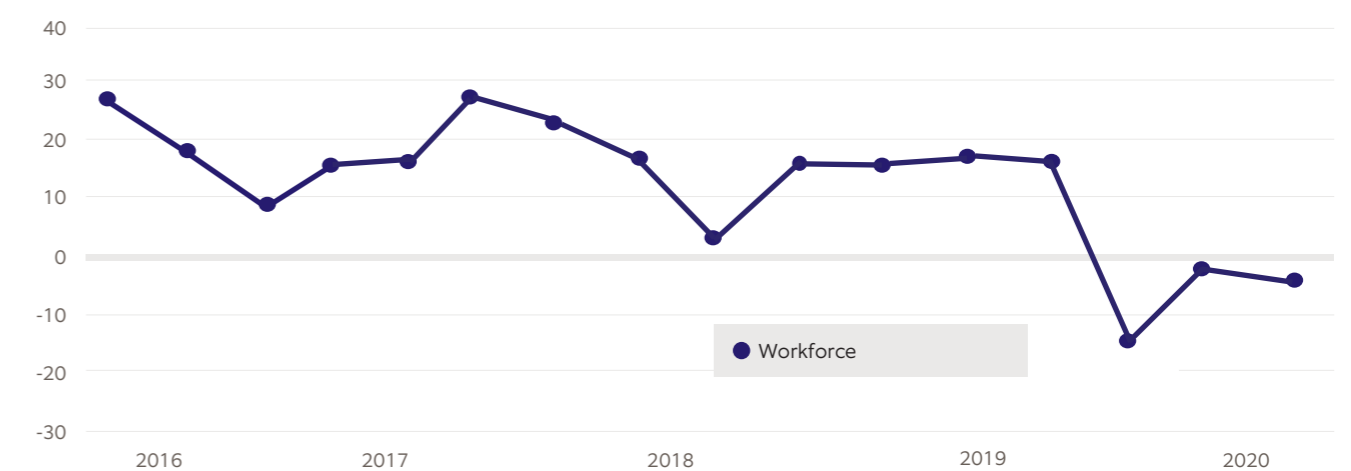
Five Year Trend - Sales



Five Year Trend - Investment



Five Year Trend - Workforce



While business conditions continue to improve from the lows seen in the second quarter, overall confidence remains subdued, while the rate of improvement has slowed.

Capacity

The proportion of businesses operating at full capacity (30.8%), is above levels recorded last quarter (27.3%) but below Q4 2019 (31.3%).

Recruitment

- Over one-third of respondents attempted to recruit full-time staff (38.3%), representing an increase on levels recorded last quarter (31.0%) but still below Q3 last year (53.5%).
- A much smaller proportion attempted to recruit part-time staff (14.9%), down on last quarter (16.7%) and far below the level recorded last year (33.5%).
- More businesses attempted to recruit permanent staff this quarter (34.1%), representing an increase on figures recorded last quarter (23.5%) but still down on number recorded last year (44.9%).
- More businesses attempted to recruit temporary staff (20.6%) than last quarter (19.2%), and slightly fewer than Q4 2019 (21.7%).

Price pressures

- Price pressures arising from pay settlements (18.9%) were up on last quarter (14.5%) but below the values recorded last year (20.2%).
- The proportion of members facing price pressures from raw materials (32.8%) increased on the levels recorded last quarter (28.1%) and the same period last year (25.6%).
- Price pressures as a result of financial costs (23.6%) were up on the figures last quarter (22.2%), and Q4 2019 (20.5%).
- 38.5% of businesses experienced price pressures arising from other overheads, representing a decrease on last quarter (39.8%) and on the value last year (49.3%).

Key factors

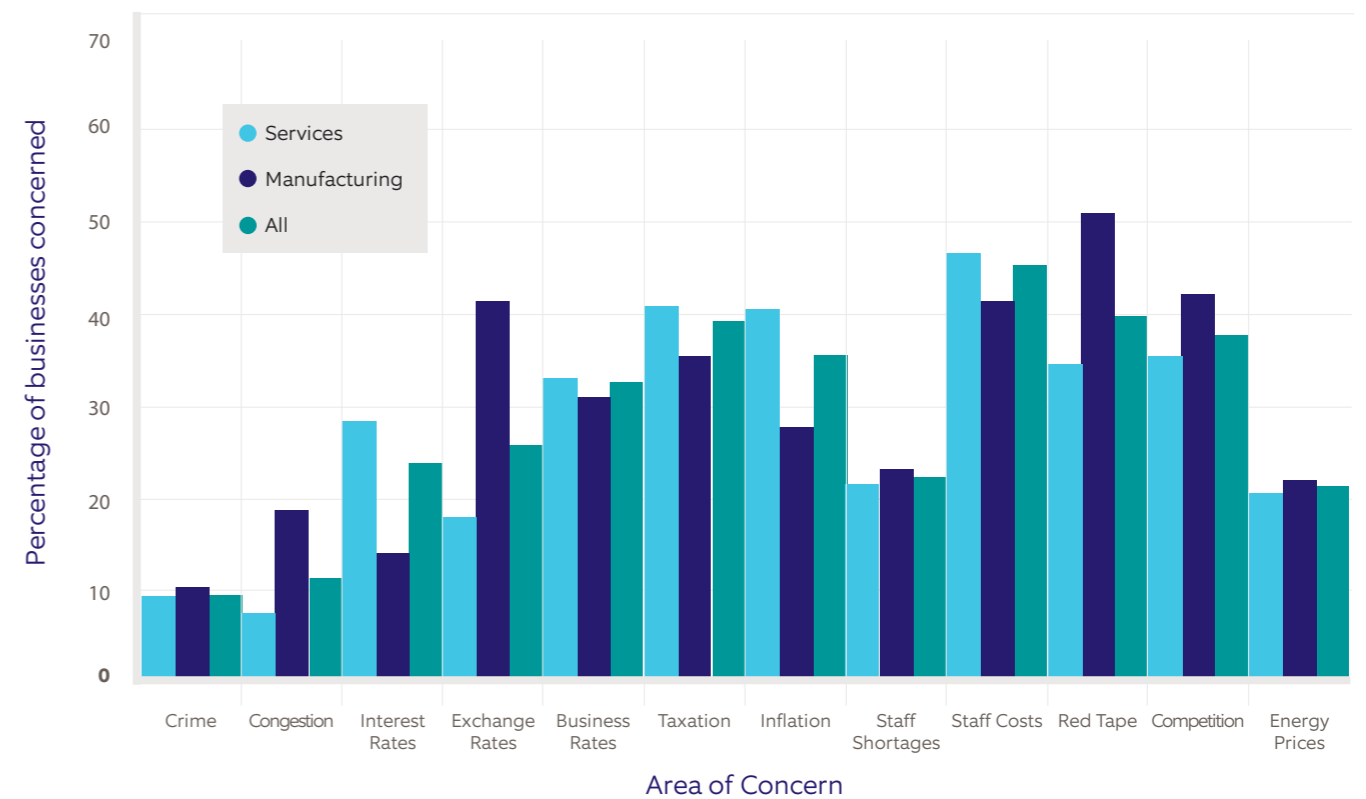
- The most commonly cited factors surrounding businesses success related to the ability to adapt to challenging circumstances. Successes included: increasing usage of online technologies, finding new ways of supporting clients and bringing forward innovations.
- Factors relating to customer loyalty and 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 on demand and business operations.
- An increased level of uncertainty around Brexit was expressed in terms of: Concerns surrounding the type of deal secured with the EU, impacts on business with EU-based customers and the potential paperwork and barriers which may result as well as Brexit related delays.
- Continued uncertainty due to changing restrictions on trade, especially in leisure/hospitality/travel.
- Lack of support from banks and other finance providers.
- Low levels of consumer confidence and spending.

Clear sectoral differences exist when comparing businesses' concerns. Continued restrictions on the service sector present an immediate threat, while Brexit poses a long-term challenge for exporters.



Perceptions

Perception scores are also calculated as a percentage balance and show to what extent issues affecting members and their business activity are of greater concern now compared to last quarter. Overall, staff costs are the biggest rising concern, with taxation also seeing a marked increase; both of which are clearly tied to the national economic picture. There are some significant sectoral differences in the data, with manufacturers more worried about red tape and competition; perhaps a reflection of growing concerns around Brexit.

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