

ECONOMIC

QUARTER 3
2021

SURVEY



North East England
Chamber of Commerce

IN ASSOCIATION WITH



Durham
University
Business School

FOREWORD

Following last quarter's positive survey results it brings me huge pleasure to be able to say that our businesses have, on the whole, continued that performance over the last three months. While the rate of improvement has slowed, the continued lifting of restrictions over the summer provided a much needed boost to our economy after such a torrid 18 months.

However, the headline figures mask some serious issues affecting our businesses. Disruption to supply chains is affecting all parts of our economy, from manufacturers struggling to obtain materials to retailers running out of products. The causes of this are myriad, but Brexit, staff shortages, ongoing Covid isolation rules and global logistics issues are all contributing factors.

All of these things are not only hampering business recovery and growth, but are also leading to a big spike in worries over inflation. Businesses are trying to recruit in a tightening labour market and are reporting large increases in salary levels. This is all unsustainable and may require swift action from policy makers to prevent business costs spiralling out of control.

If we can avoid this scenario, then there is plenty in these results to give me confidence in our businesses' ability to recover. The appetite for growth is there, and while the pandemic caused so much harm it also spurred on a great deal of innovation. We must hope that inflation is fleeting, and that we can get on with the job of building a stronger regional economy.

Lesley Moody MBE
Chamber President





OVERVIEW

The latest Chamber Survey shows good evidence of the recovery in economic activity continuing as the region emerges from the worst impacts of the pandemic and lockdown. Most of the key indicators report company perceptions improving compared to both the previous quarter and the same time last year.

Alongside this, concerns raised in the national media over recent weeks on energy costs, labour shortages, wage rises, taxation increases and inflation are identified as concerns for the region's businesses looking forward. All these factors are likely to impact upon future profitability – again reflected in the Survey.

Export sales and orders do not show the same degree of improvement as domestic activity. This may in part reflect the ongoing post-Brexit transition in trading relationships and the challenges this creates for organisations. Research around these challenges will be highlighted by Professor Xinming He of Durham University Business School.

He will discuss a recent study using the U.K. Community Innovation Survey (2010–2016) data to uncover the short- and long-term implications of the impact of exploitation and exploration on export sales growth. The implications of these results for future internationalization strategies for the region's companies will be discussed.

Peter Allen
Associate Dean - Engagement & Impact
& Associate Professor of Strategic Management
Durham University Business School

KEY INDICATORS

	BALANCE (ALL COMPANIES)	CHANGE ON LAST QUARTER	CHANGE ON LAST YEAR	MANUFACTURING	SERVICE
UK sales	27.4	11.2 ▼	64.6 ▼	30.0	26.4
UK orders	28.8	12.5 ▼	6.1 ▼	33.3	27.2
Export sales	0.0	-1.3 ▼	24.6 ▼	11.5	-6.7
Export orders	2.9	1.6 ▼	28.9 ▼	24.0	-8.9
Plant investment plans	12.6	1.2 ▼	36.9 ▼	21.4	9.3
Training investment plans	15.0	1.5 ▼	33.3 ▼	3.4	19.0
Cashflow	-10.0	-5.5 ▼	18.9 ▼	-10.0	-10.0
Prices	23.1	1.4 ▼	41.9 ▲	36.7	18.7
Current workforce	35.0	12.9 ▼	35.5 ▲	56.7	27.8
Future workforce	41.9	1.2 ▼	31.3 ▼	41.4	42.0
Future	29.3	-4.8 ▼	31.8 ▼	23.3	31.4
Future turnover	50.8	0.1 ▼	48.8 ▼	43.3	53.3

The Economic Survey is carried out by the North East England Chamber of Commerce. This survey conducted during June - August 2021 is based on responses from 132 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.

KEY INDICATORS

● Manufacturing ● Service



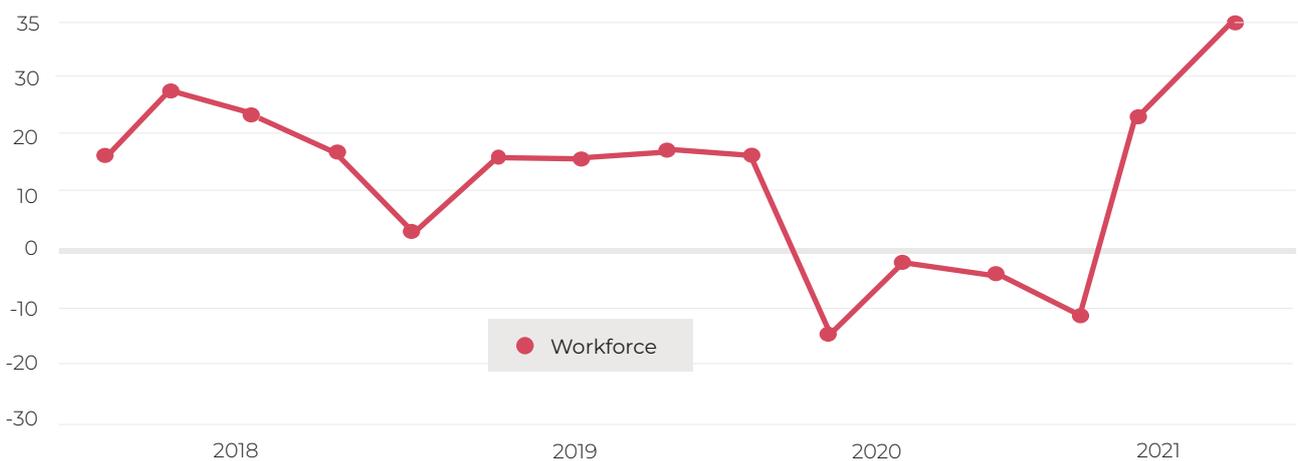
FIVE YEAR TREND - SALES



FIVE YEAR TREND - INVESTMENT



FIVE YEAR TREND - WORKFORCE



Recruitment has continued to pick up, although this is tempered by severe skills shortages.

Capacity

- The proportion of businesses operating at full capacity (44.6%), is above levels recorded last quarter (42.8.8%) and Q3 2020 (27.3%).

Recruitment

- 58% of respondents attempted to recruit full-time staff in Q3, representing a slight increase on levels recorded last quarter (56.8%) and a sizeable jump from this period last year (27.3%).
- A smaller proportion attempted to recruit part-time staff (37.4%), up on last quarter (31.7%) and well above the level recorded last year (16.7%).
- More businesses attempted to recruit permanent staff this quarter (53.3%), representing an increase on figures recorded last quarter (52.8%) and last year (23.5%).
- More businesses attempted to recruit temporary staff (26.6%) than last quarter (25.2%) and last year (19.2%)

Price pressures

- Price pressures arising from pay settlements (22.6%) were up on last quarter (20.5%) and above the values recorded last year (14.5%).
- The proportion of members facing price pressures from raw materials (46.5%) increased on the levels recorded last quarter (41.6%) and the same period last year (28.1%).
- Price pressures as a result of financial costs (27%) were up on the figures last quarter (22%), and on Q3 2020 (22.2%).
- 52.5% of businesses experienced price pressures arising from other overheads, representing a slight decrease on last quarter (53.4%) but above last year (39.8%).

Key factors

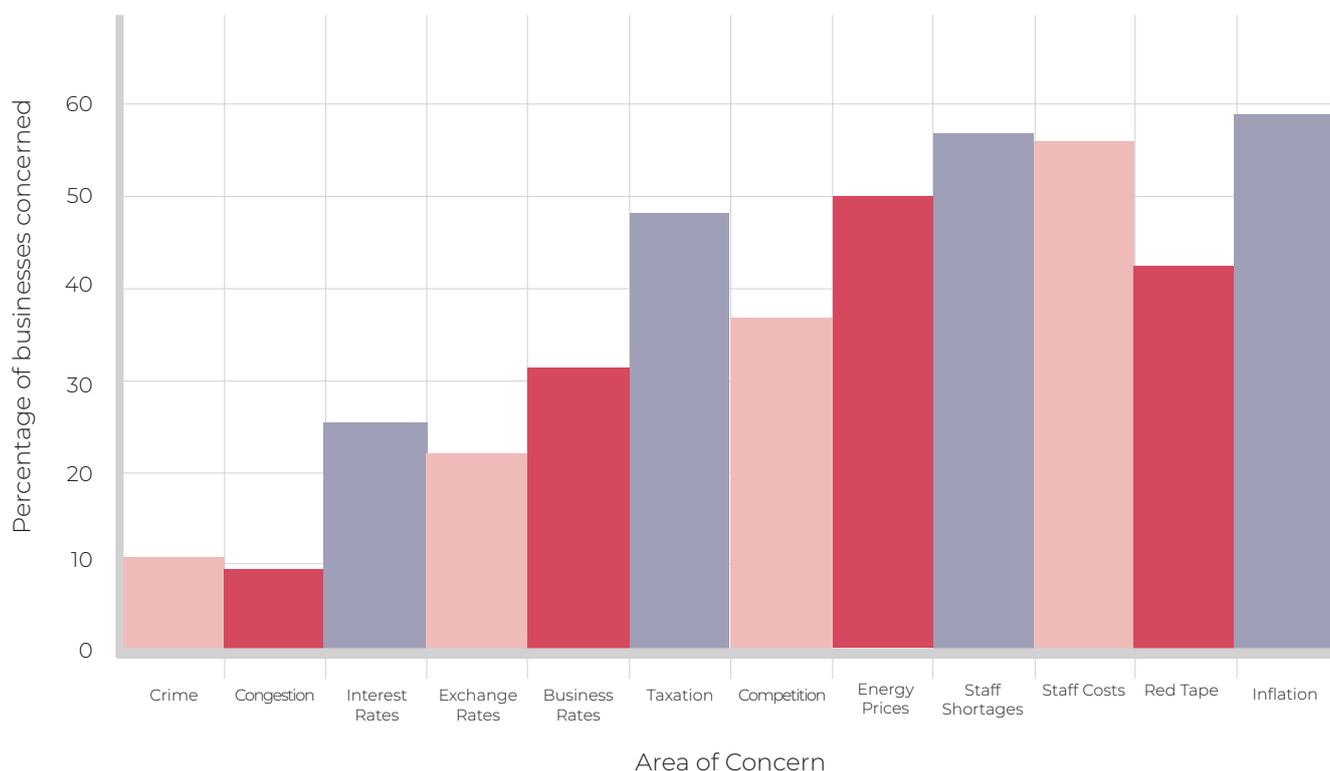
- The most commonly cited factors surrounding businesses success related to innovation and the ability of businesses to adapt in order to survive the impacts of the pandemic. Particular successes included investment in digital technology and skills.
- Factors relating to brand quality and existing customer relationships were also common. Businesses regularly cited the benefits of having a niche product and of sticking close to their customers during lean times, which are now being reaped as growth returns.
- Factors associated with the lifting of restrictions and reopening of the economy also featured heavily, with a sense that business is returning to normal alongside improved consumer demand.
- Businesses also continue to cite the benefits of various Government support schemes such as loans, rates holidays and the Job Retention Scheme.

Barriers

The main barriers to business success this quarter were considered to be:

- Staff shortages, both in relation to Covid and a tightening in the labour market.
- The continued impact of Brexit and adaptation to new trading rules.
- Global supply chain issues and shortages of key raw materials.
- Freight costs and issues within the logistics industry.

Inflation is now businesses' top concern, driven by cost pressures across the board.



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 Q2 2021 survey were: Inflation, up 9.3 percentage points, Staff shortages (+13.4 percentage points), Energy prices (+9.5 percentage points) and staff costs (+9.0 percentage points). The indicators which were considered to be less of a concern included: congestion, down by 5.1 percentage points, competition (-1.8 percentage points) and red tape (-7.1 percentage points).



North East England
Chamber of Commerce

0300 303 6322

your@neechamber.co.uk

www.neechamber.co.uk

[@neechamber](https://www.instagram.com/neechamber)