



QUARTERLY ECONOMIC SURVEY

Q2 / 2021

EXECUTIVE SUMMARY

Business West is the largest business group in the South West representing and advocating for commerce in our region. Business West is the combined Chambers of Commerce for Bristol, Bath, Gloucestershire and Wiltshire, as well as the Bristol and West of England, and Swindon Initiatives.

Business West run the Quarterly Economic Survey as an accredited member of the British Chamber of Commerce. 429 businesses completed the survey giving Business West unparalleled insight into the trends and experience of business health for our region – we thank all respondents for their time in completing the survey.

The results of the survey present an optimistic economic outlook for the first time since the start of the pandemic, the vaccination rollout and the easing of the restrictions are starting to provide a new sense of normality allowing businesses to operate. Nevertheless, our business community continues to face a diverse set of complex challenges that must be identified and addressed in order to guarantee the recovery of our economy.

'The results this second quarter of the year confirm the start of the awaited economic recovery, nationally and in our region. As the majority of business indicators return to positive territory and business confidence peaks, our business community faces a new set of challenges that must be addressed to create a growth enabling environment.'

Matt Griffith, Director of Policy, Business West



BUSINESS CONFIDENCE

Business confidence is at the highest level since, at least, 2017. Almost half of the respondents are confident or very confident of the prospects of the UK economy for the next 12 months and (68%) are feeling confident or very confident in their own business potential over the same period.



CLIMATE CHANGE

70% of businesses consider climate change an issue. Nearly half of the respondents plan to take action to reduce their carbon emissions or environmental impacts in the next 12 months. Climate action in business is largely driven by the business owners' values and client expectations.



PRICES

31% of all businesses and 40% of manufacturers have increased their prices, which is almost 10 points higher than last quarter. Respondents are experiencing inflationary pressures from the soaring cost of raw materials and general import costs.



EMPLOYMENT

45% of respondents have tried to recruit staff over the last 3 months, a 13 point increase from last quarter. The proportion of businesses experiencing difficulties finding suitable staff has increased 17 points quarter on quarter; reaching 62% of the businesses looking to recruit during Q2 2021.



SALES

For the first time since last year (Q1 2020), net domestic sales are positive. 42% of businesses have seen their domestic sales increase quarter on quarter. In contrast, the UK export performance has improved but more modestly.

CURRENT ISSUES

COVID-19 REOPENING



Only 35% of respondents have experienced an increase in sales, orders or bookings since the reopening of the economy (12 April or 17 May) in accordance with the Government's roadmap. Many businesses were able to continue operating during the lockdown and have been unaffected by the reopening. Businesses also mention the lack of international travel as a factor that continues to impact.

A quarter of respondents have experienced challenges to get ready for the reopening, such as ensuring adequate staffing, adapting premises to Covid-19 guidelines, increases in their cost base – buying in cleaning products or other consumables, or the ban on international travel, impacting demand.

The proportion of businesses operating at full capacity has climbed from recent lows in 2020 and the first quarter of 2021 of around a third, reaching nearly half (45%) by the second quarter of 2021 – this indicates that many businesses are seeing an improvement in trading conditions. There is more 'slack' within the services sector – 58% report they are operating below capacity, compared to 49% for manufacturers.

Since the end of the QES fieldwork period but prior to publication of this report the Government announced a four week delay in the final lifting of restrictions, due to take place on 21 June. The impact of this announcement on business sentiment has therefore not been analysed.

CLIMATE CHANGE



70% of businesses consider climate change an issue. Of these respondents recognising the issue 45% have implemented plans and processes to reduce their carbon emissions or other environmental impacts, and a further 31% are taking action albeit at a smaller scale than what they think they could achieve.

Climate action is largely driven by the business owners' values (78%) and client expectations (57%). Other common motivators are staff expectations (38%), technological innovation (35%) and new business opportunities (34%) – respondents could pick all options that applied to their businesses.

The most common barrier that constrain businesses' taking climate action are short term cashflow issues (30%) – businesses' finance capacity has been impaired during the pandemic. Other common factors quoted were competing priorities (26%), lack of knowledge (25%), and changing policies and regulations (24%).

'The solution lies in our engineers finding better solutions to our climate challenges, and our commercial and financial decision makers broadening their decision making criteria beyond the traditional cost benefit analysis, and taking into account sustainability, prosperity, and climate impact.'

Andrew Page, Apache iX

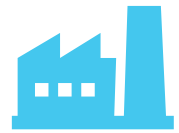
Looking into the future, almost half of the respondents plan to take action to reduce their carbon emissions or environmental impacts in the next 12 months. The most common actions mentioned are reducing business and staff commuting travel, renovating their fleets to electric vehicles, and using clean sources of power such as solar in their business premises.

'We are working on building a solar and battery array to take us off-grid.'

Craig Stoddart, The Wave

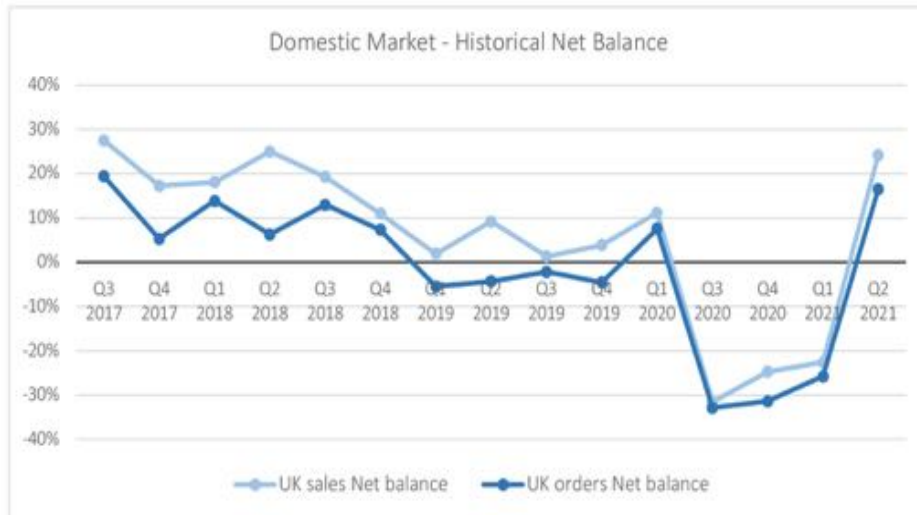
BUSINESS ENVIRONMENT

DOMESTIC MARKET



42% and 34% of respondents have increased their domestic sales and orders respectively during the past 3 months. This is the first time since Q1 2020 that net domestic sales numbers are positive, indicating the economic recovery is finally established assuming Covid-19 remains under control.

Nevertheless, there are still close to a fifth of businesses that have suffered a decrease in UK sales and orders this quarter. Part of our business community is struggling and still needs support.



INTERNATIONAL MARKET



The international market results this second quarter are modest, albeit better than the past year and recovering from their recent low in Q1 2021. Over 35% of exporters report a decrease in international sales and orders, and for another 35% their export sales remained constant.

The overall international performance has been impacted by a notable proportion of the services sector reporting a decrease in export sales and orders. Over 40% of services businesses experienced a decrease in international sales and orders versus less than a third of the manufacturers.



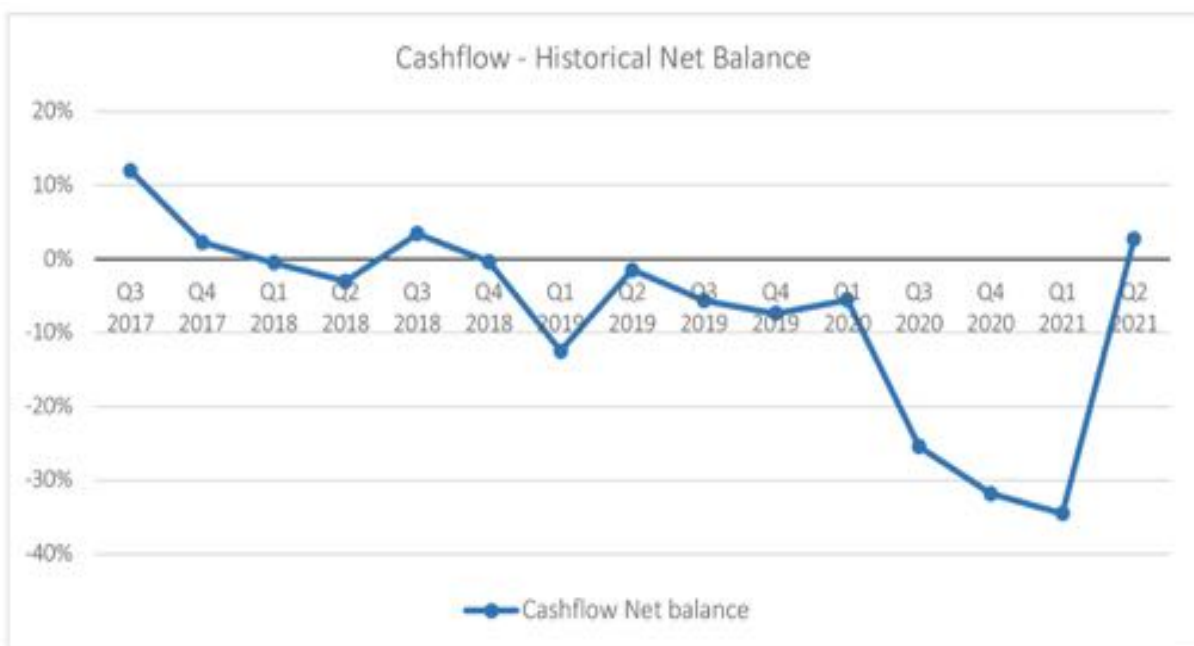
BUSINESS ENVIRONMENT

CASHFLOW



Over the last 3 months, cashflow levels have remained constant for close to 40% of the survey respondents, there is an almost even split between a third of businesses detailing an increase and another third admitting a decrease. These numbers are a remarkable improvement from last quarter's results, which were a 3 year low, and indicate stabilisation and potential recovery of business activity, which should continue to improve if the environment remains favourable.

64% of businesses expect their turnover to increase over the next 12 months – that is 12 points more than in the previous quarter. Only 12% expect their turnover to worsen. Profitability expectations also present a positive outlook with nearly half of businesses expecting it to improve versus 18% expecting it to worsen.



FINANCE AND INVESTMENT



Investment plans across all categories – for office space, equipment and machinery, training, and research and development – have not changed during the past 3 months for the majority of respondents. Over a fifth of businesses have increased their equipment and machinery investment plans.

A third of businesses expect their investment levels to increase over the next 3 months. Nevertheless, this improvement seems to be unrelated to the "Super Deduction" on qualifying plant and machinery announced by the Chancellor in the March Budget. A significant majority of businesses (78%) admit that the measure has not had an impact on their investment plans. Only 6% of businesses overall – 10% for manufacturers – have accelerated their investment plans to qualify for the Super Deduction and another 5% – 8% for manufacturers – have changed their plans and will invest in additional qualifying plant and machinery to benefit.

BUSINESS ENVIRONMENT

WORKFORCE AND EMPLOYMENT



45% of respondents have tried to recruit staff over the last 3 months mainly to fill full-time (76%) and permanent (52%) positions – this represents a 13 point growth in recruitment intention from last quarter. 24% confirm having increased their workforce during this same period, and only 10% report that their workforce has decreased.

Interestingly, the intention to recruit has been driven by manufacturing businesses, 53% of manufacturers have tried to recruit, compared to the 41% that has done so in the service sectors. The differences could be explained by the furlough scheme, used by more service based businesses, where employers are bringing back former colleagues that have been on the scheme, rather than needing to recruit and train new staff.

‘The lack of skilled people wanting to or being able to work in the UK from abroad is a source of concern for us.’

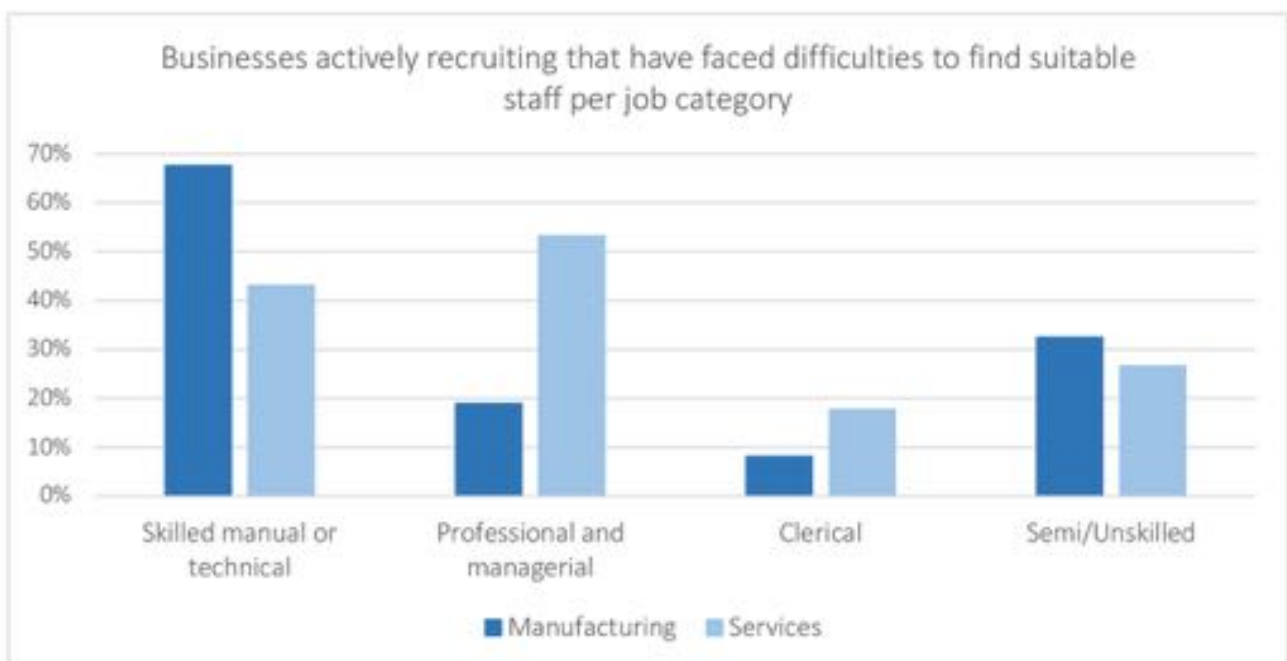
Jim Roach, ARV Solutions

‘We have retained all staff although workforce has been underutilised for the past 12 months - with occasional intense periods of pressure to meet deadlines. We will bring all furloughed staff back in and meet work demand as it increases.’

Angela Osborne, Aaron Evans Architects

The proportion of businesses experiencing difficulties finding suitable staff has increased 17 points quarter on quarter; 62% of the businesses looking to recruit have faced difficulties, particularly to find suitable skilled manual (50%) and professional (43%) candidates. A larger proportion of service businesses (66%) have encountered difficulties to find suitable staff when looking to recruit, compared to 54% of manufacturers.

A third of businesses expect to recruit during the next quarter.



BUSINESS CONFIDENCE

SOURCES OF CONCERN



General business uncertainty (50%) and the general economic conditions (46%) remain the two main sources of concern in the second quarter of 2021; these are followed by the trading relationship with the EU (33%) and the Covid-19 restrictions (32%) as other issues that worry businesses in our region.

For manufacturing businesses, the trading relationship with the EU (41%) is a greater concern than the Covid-19 restrictions (23%). They also highlight exchange rates as a worrying issue.

The proportion of businesses concerned by Covid-19 related restrictions has diminished since the start of 2021. As we emerge from the crisis other factors such as inflation and the labour market – both selected as sources of concern for over a fifth of the respondents – are expected to increase.

PRICES

31% of businesses have increased their prices during this quarter, almost 10 points higher than last quarter. This trend has been driven by an even higher proportion (40%) of manufacturers who have put their prices up this past quarter. Respondents report inflationary pressures from the soaring cost of raw materials and general rising import costs. This is largely attributed to global supply chain constraints struggling to keep up with the demand, although new customs regulations for imports due to Brexit aggravate the situation.

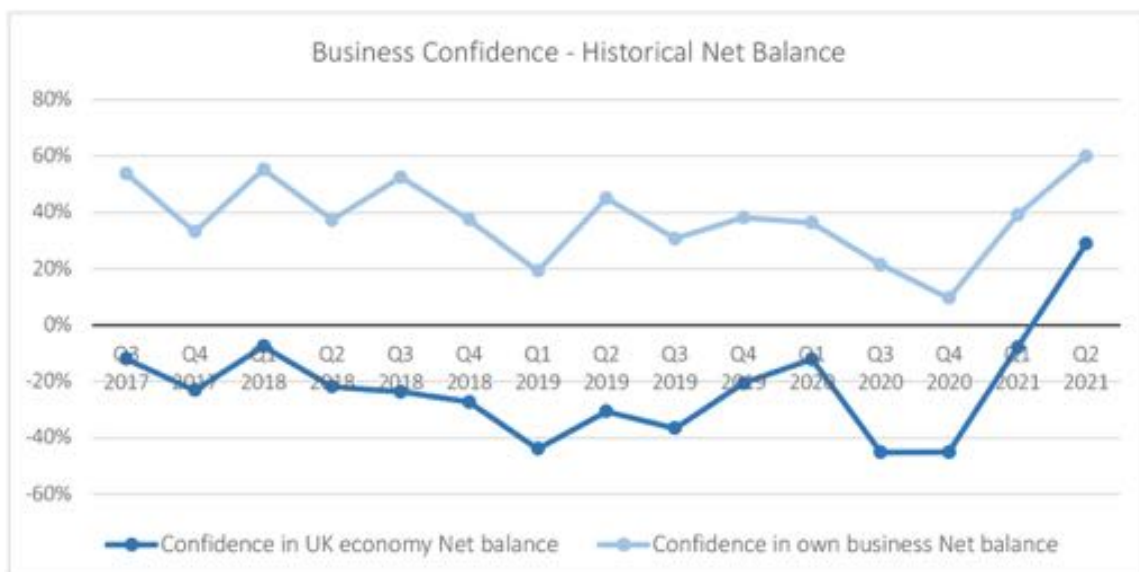
35% of businesses expect to increase their prices in the next 3 months. Half of manufacturers plan to increase their prices compared to nearly a third of service businesses.



CONFIDENCE FOR THE NEXT 12 MONTHS

Business confidence is at the highest level since, at least, 2017, it is the first time in over 3 years that business confidence in the UK economy has been in positive territory. Nearly half of the respondents are confident or very confident of the prospects of the UK economy for the next 12 months versus 19% that have negative or very negative feelings about it.

When asked about the prospects for their own business performance for the next 12 months, a large majority (68%) were feeling confident or very confident, compared to the 8% that were negative or very negative. Service sectors businesses were marginally more positive about the future than manufacturers.





METHODOLOGY

429 businesses completed the survey between the 17th May and the 9th June. Most respondents are small with over half (225) reporting annual turnover under £500,000. The majority of respondents (81%) are limited companies and 56% are exporters. Geographically, almost half are located in the 'West of England' area around the cities of Bristol and Bath, significant minorities from Wiltshire including Swindon, and Gloucestershire, and over 20% are from the wider South West region.









Our respondents are significantly more likely to be exporters than the general UK business community, only 2.6% of UK businesses exported in 2020.

Manufacturing: Manufacturing sector businesses comprise the following categories: Advanced engineering, aerospace and defence; Construction and development; Manufacture of electronic or information technology goods; Manufacture of other goods; Micro-electronics; and Rural economy and agriculture.

Services: Service sector businesses comprise the following categories: Consumer services (e.g. cleaning, decorating, plumbing, repairs, private leisure/education/health); Creative; Food and drink; Low carbon industries; Marketing and media; Other services; Professional services (e.g. finance, consultancy, legal, IT support, recruitment); Public or voluntary sector services; Retail; Social enterprise; Tourism; and Transport and distribution.

Net balance: Net balance figures in this report and represented in the graphs are calculated by subtracting the percentage of respondents reporting decreases in a factor from the percentage of respondents reporting increases.

During the peak of the economic fallout from covid-19 last year we did not run the QES in the standard form, hence the historical net balance time series misses out the Q2 2020 data-point.

RESULTS AT A GLANCE	THIS QUARTER: Q2 2021			
	SERVICES	MANUFACTURING	OVERALL	
 UK SALES	23%	27%	24%	↑
 UK ORDERS	17%	15%	17%	↑
 EXPORT SALES	-13%	8%	-5%	↓
 EXPORT ORDERS	-16%	1%	-9%	↓
 CURRENT WORKFORCE	14%	16%	14%	↑
 FUTURE WORKFORCE	28%	26%	27%	↑
 BUSINESS CONFIDENCE	60%	58%	60%	↑
 CONFIDENCE UK ECONOMY	33%	25%	29%	↑



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