

ECONOMIC

QUARTER 2
2021

SURVEY



North East England
Chamber of Commerce

IN ASSOCIATION WITH



Durham
University
Business School

FOREWORD

For the first time in well over a year we are able to present a set of survey results that show a significant improvement in business performance and confidence. The continued easing of restrictions and the successful implementation of the vaccine programme has allowed more businesses to return to something akin to normality and gives us hope for the future.

But there is a danger of these results painting a false picture of the state of our economy. Many firms, especially those in sectors such as hospitality, travel and culture, are still subject to restrictions that severely hamper their ability to trade after an incredibly difficult year. They must be supported to ensure the long term viability of such a crucial part of our economic and social landscape.

The return to growth also brings its own challenges. Despite rising levels of confidence, the survey also shows that business concerns on a number of vital issues are rising fast. Inflation has become the primary concern, with more than half of our members saying they are more worried about it now that they were three months previously. This is being driven by a number of factors, chiefly raw material costs and staff shortages. While these may prove to be temporary, the Government and the Bank of England must keep a close eye on the risks of price rises choking off a recovery.

The headline figures presented in this report are a reflection of the continued resilience, ingenuity and determination of our business community to succeed no matter what is thrown their way. While many obstacles remain, we must ensure these qualities are capitalised on in order to build a sustainable, long term recovery.

Lesley Moody MBE
Chamber President





OVERVIEW

The Chamber's Economic Survey continues to reflect the emergence of many businesses across the region from the main impacts of lockdown. However, there is still further to go before we return to more normal trading patterns. The pace of the recovery is also likely to vary depending upon the sector. For example, travel and tourism is still affected by the uncertainties caused by continuing domestic and international COVID restrictions.

Whilst the pandemic will continue to be a major factor affecting consumer confidence and business operations, other issues are also rising in prominence on the agenda for many businesses. The UN Climate Change Conference (COP26) takes place in Glasgow in early November. Whilst most managers have a general awareness of sustainability issues, knowing how to embed sustainability into the organisation can be a challenge. At the business briefing, Dr Helen Goworek, from Durham University Business School, will explore the steps that businesses can take to embed both environmental and social sustainability within their operations and business practices. She will draw on her industrial research and a government-funded study to illustrate the practical action that can be taken.

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	16.2	34.4 ▲	77.4 ▲	19.4	14.9
UK orders	16.3	37.0 ▲	78.6 ▲	22.2	13.8
Export sales	1.3	19.2 ▲	41.0 ▲	15.6	-8.5
Export orders	1.3	22.2 ▲	41.2 ▲	15.6	-8.3
Plant investment plans	11.4	14.1 ▼	47.7 ▲	5.7	13.9
Training investment plans	13.5	13.0 ▼	44.3 ▲	14.3	13.2
Cashflow	-4.5	14.3 ▲	43.7 ▲	-5.6	-4.1
Prices	21.7	27.2 ▲	29.6 ▲	25.6	20.2
Current workforce	22.1	33.2 ▲	34.4 ▲	34.2	17.3
Future workforce	40.7	17.3 ▲	47.6 ▲	44.7	39.2
Future	34.1	13.3 ▼	70.2 ▲	21.1	39.4
Future turnover	50.7	17.5 ▼	82.7 ▲	39.5	55.1

The Economic Survey is carried out by the North East England Chamber of Commerce. This survey conducted during March - May 2021 is based on responses from 142 businesses.

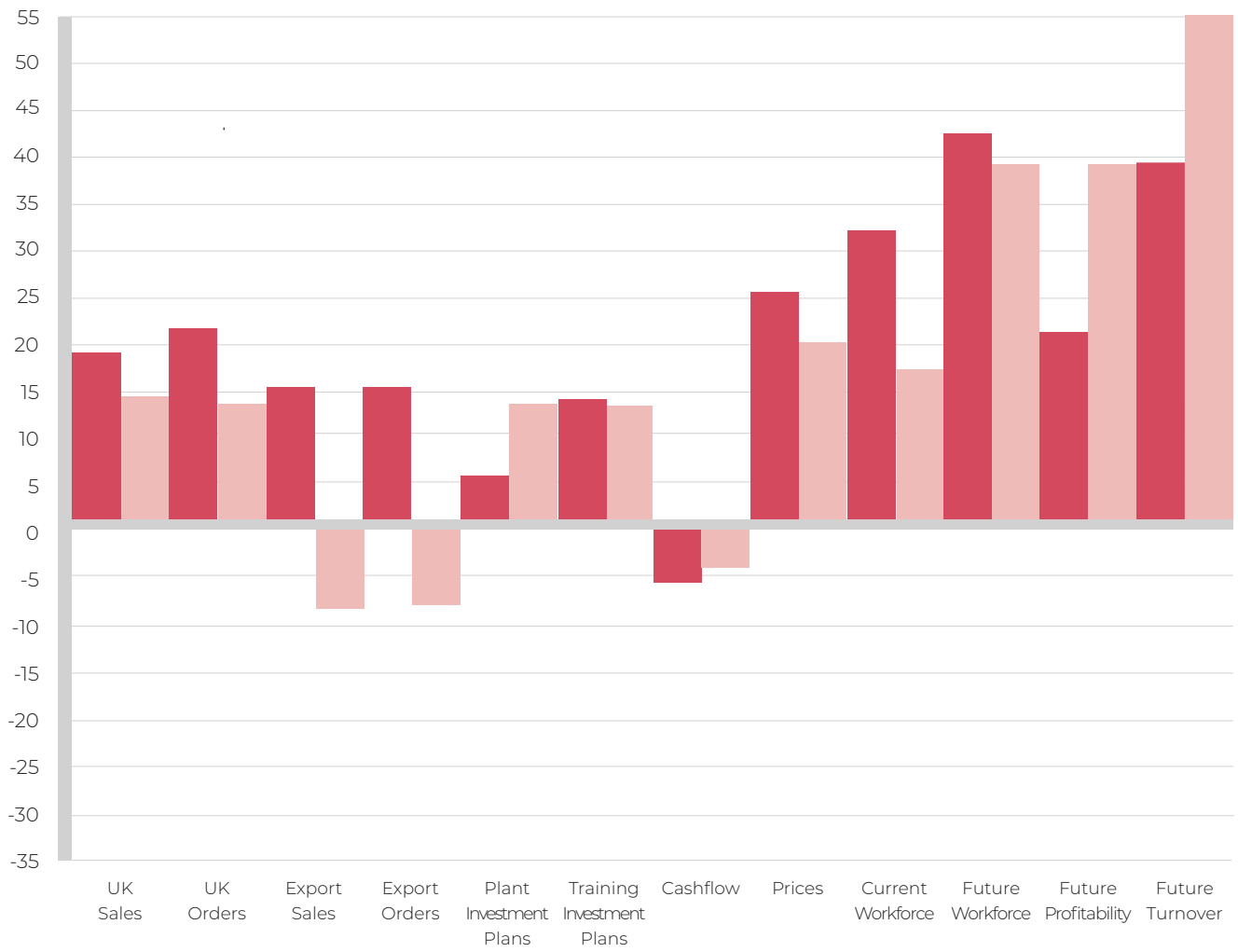
It is worth noting that the number of businesses providing responses in the All Companies analysis is not necessarily equal to the sum of those providing responses for the two broad sectors, as not all respondents provide details of the industry in which they operate. Where data analysis involves more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

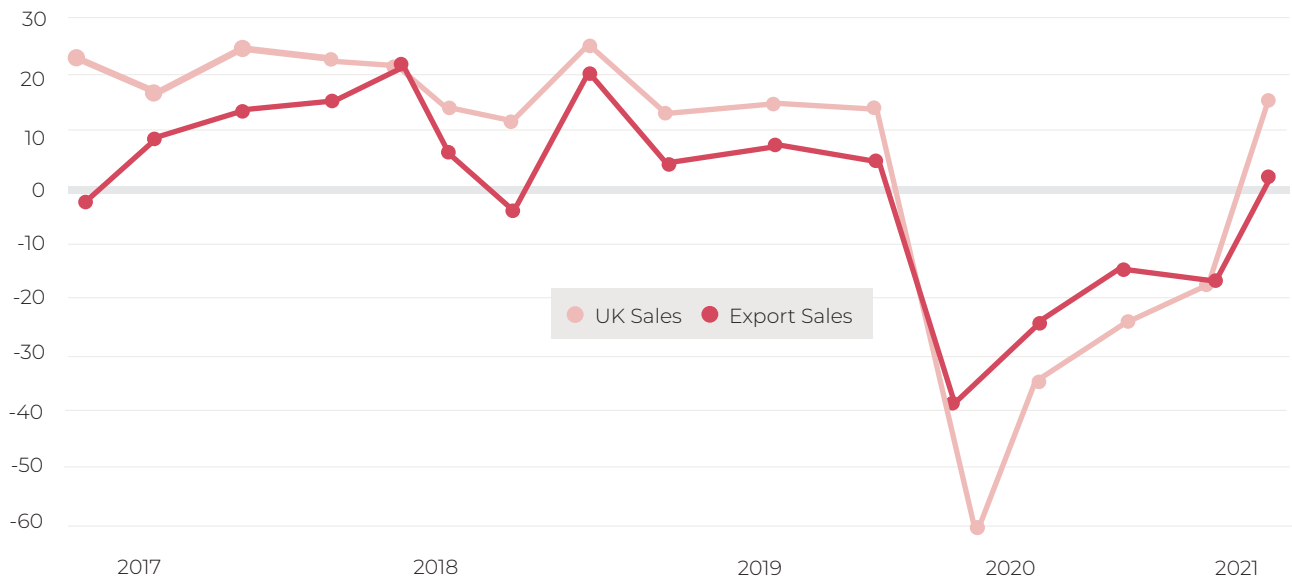
Most of the questions in the survey ask whether companies have experienced an increase, decrease or no change in respect of a given performance indicator, such as UK Sales. The balances are calculated as the percentage of respondents reporting an increase (e.g. in UK Sales) minus the percentage reporting 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

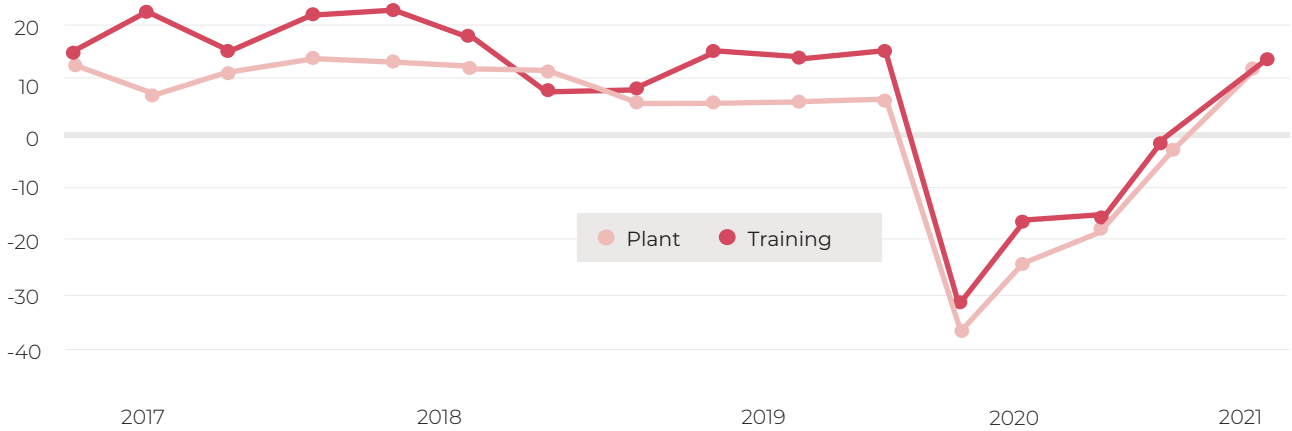
● Manufacturing ● Service



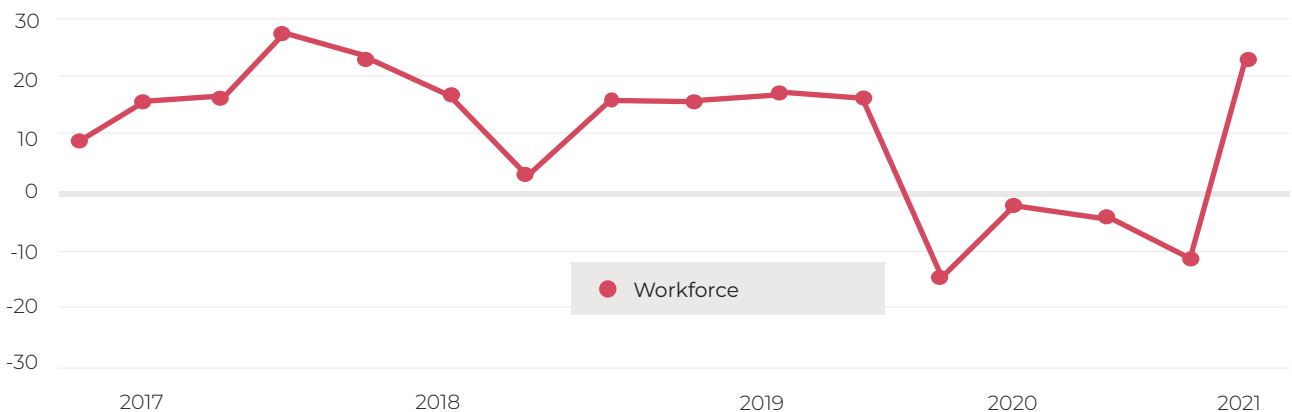
FIVE YEAR TREND - SALES



FIVE YEAR TREND - INVESTMENT



FIVE YEAR TREND - WORKFORCE



This quarter has seen a big increase in recruitment activity as businesses continue their recovery from the pandemic.

Capacity

- The proportion of businesses operating at full capacity (42.8%), is above levels recorded last quarter (33.3%) and Q2 2020 (23%).

Recruitment

- Over half of respondents attempted to recruit full-time staff (56.8%), representing an increase on levels recorded last quarter (46.7%) and well above Q2 last year (22.1%).
- A much smaller proportion attempted to recruit part-time staff (31.7%), up on last quarter (21.8%) and the level recorded last year (22.1%).
- More businesses attempted to recruit permanent staff this quarter (52.8%), representing an increase on figures recorded last quarter (40.5%) and much higher than the number recorded last year (19.4%).
- Slightly more businesses attempted to recruit temporary staff (25.2%) than last quarter (22.7%) and in Q2 2020 (11.2%).

Price pressures

- Price pressures arising from pay settlements (20.5%) were up on last quarter (15.5%) and the values recorded last year (13.2%).
- The proportion of members facing price pressures from raw materials (41.6%) increased on the levels recorded last quarter (38.6%) and the same period last year (22%).
- Price pressures as a result of financial costs (22%) were down slightly on the figures last quarter (24%), and up slightly on Q2 2020 (20.9%).
- 53.4% of businesses experienced price pressures arising from other overheads, representing an increase on last quarter (48.3%) and on the value last year (34.5%).

Key factors

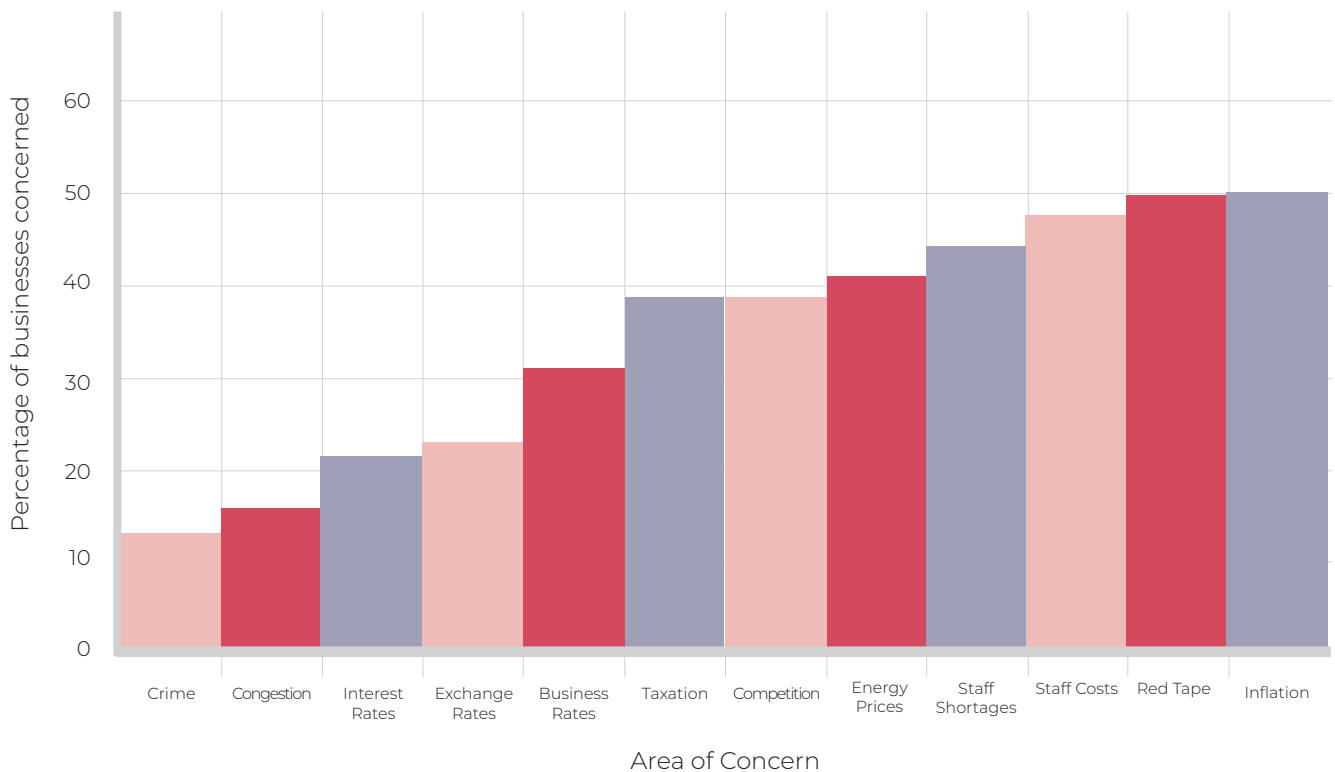
- The most commonly cited factors surrounding businesses success related to a general resurgence of confidence in the economy and the planned lifting of restrictions.
- Factors relating to customer loyalty and existing relationships were also common. Businesses praised customers who had stuck with them 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 continued to report 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:

- The damage done to cashflow and balance sheets by the pandemic
- The continued impact of Brexit and the disruption to trade
- Disruption to supply chains caused by both the pandemic and Brexit.
- Lack of confidence among customers (both public and business)
- Poor weather early in the survey period dampening consumer spending.

There has been a dramatic rise in the level of business concern over inflation, which has been driven by a number of factors.



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 Q1 2021 survey included: Inflation, up 11.3 percentage points, staff costs (+12.4 percentage points), congestion (+6.9 percentage points) and staff shortages (+15.8 percentage points). The indicators which were considered to be less of a concern included: business rates, down by 1.5 percentage points, exchange rates (-1.9 percentage points) and energy prices (-1.1 percentage points).