



North East England  
Chamber of Commerce

# Economic Survey

Quarter 1, 2020

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## Key indicators

INDICATOR	BALANCE (ALL COMPANIES)	CHANGE ON LAST QUARTER	CHANGE ON LAST YEAR	MANUFACTURING	SERVICE	NELEP AREA	TEES VALLEY
UK sales	13.6	-0.6 ▼	1.5 ▲	-17.1	19.6	12.8	21.4
UK orders	9.7	1.1 ▲	-2.7 ▼	-14.3	14.9	10.2	10.0
Export sales	4.6	7.1 ▲	1.7 ▲	24.2	-2.0	10.9	-8.8
Export orders	3.1	3.9 ▲	1.1 ▲	21.9	-3.0	7.6	-5.9
Plant investment plans	6.1	7.8 ▲	-0.6 ▼	0.0	7.6	8.0	6.1
Training investment plans	16.2	8.0 ▲	1.7 ▲	-5.6	20.7	18.9	10.5
Cashflow	-0.5	9.7 ▲	-2.1 ▼	-17.1	2.7	-1.4%	5.0
Prices	12.6	3.4 ▲	0.6 ▲	16.7	11.8	11.1	16.9
Current workforce	16.2	1.1 ▲	1.4 ▲	13.9	16.7	19.9	11.5
Future workforce	34.4	12.4 ▲	1.9 ▲	25.0	36.2	26.8	38.2
Future profitability	33.9	1.3 ▲	0.1 ▲	20.0	36.6	33.3	45.7
Future turnover	45.5	0.5 ▲	1.7 ▲	27.8	54.1	53.8	54.3

## Economic Survey Q1 2020 foreword

This is undoubtedly the most difficult foreword to our survey results that I, or I suspect any of my predecessors, have had to write.

This survey was conducted during February this year. Coronavirus was something most of us were aware of and many of our businesses were starting to see the effects it was having on economies and supply chains in China and beyond. Yet few of us could have predicted how swift and profound an impact the pandemic would have on our businesses and our daily lives.

Of course, the preservation of lives is the single biggest challenge facing the country right now and I want to pay tribute to those who are on the front line in the fight against Covid-19 - To those medical professionals who include my daughter, son and daughter -in-law who all work on that NHS front line in hospitals and pharmacies.

I also want to thank all those businesses in our region and beyond who have answered calls for assistance finding innovative ways of helping, be it by delivering Covid-19 virus testing instead of drug and alcohol testing, changing manufacturing output to produce components and ventilators to changing products in distilleries to make hand sanitiser instead of a favourite tippie.

These survey results show that the North East economy appeared to be turning a corner following a disappointing end to 2019. With some stability returning to the political arena, firms were feeling more confident about the future. Just a few weeks later, North East businesses are undergoing rapid transformation to their way of working, facing severe falls in demand or even fighting for survival.

Every day I hear new stories of businesses struggling to stay afloat. - their stories, determination and commitment are so impressive. Yet among these I also hear tales of remarkable resilience and ingenuity and its stories like these that give me hope that once this crisis has passed, the North East has the potential to recover, grow and succeed.

**Lesley Moody MBE**  
North East England Chamber of Commerce President

## Economic Survey Q1 2020 overview – Durham University Business School

The world in which most respondents completed this survey is clearly very different to the one we now inhabit. Despite Covid-19 being on the horizon, few could foresee the impact it would have in just a few weeks. Yet, what has also been heartening is the way in which organisations are responding.

Almost overnight, Durham University became a virtual organisation, with most staff working from home. However, our work as a research-led university continues – teaching is now online, with many of our students now studying from their homes across the world. Similarly, our academics are using their knowledge to support the national and international response to this global health and economic challenge.

Durham University Business School has been part of the economic structure of our region for more than 50 years and we are keen to continue to support the region's businesses, whether large or small during these challenging times. We have already produced articles and reports exploring a number of key issues such as:

- Covid-19 and supply chains in the UK: impact and mitigation
- Why did we panic buy and what can businesses do to address such phenomena?
- The potential impact of Covid-19 on small businesses
- Will remote working become the new normal?
- How will Covid-19 affect productivity in the UK?

We also stand ready to work with you and your organisation through access to the expertise and research of our staff and students, as well as the resources available across the wider University. Our growing work around Covid-19 is available at <https://www.dur.ac.uk/business/impact/covid-19/>. This portal also includes one-stop contact details to get in touch if we can support your business in any way.

**The Quarterly Economic Survey is carried out by ERS Ltd on behalf of North East England Chamber of Commerce. This survey conducted during December 2019 - February 2020 is based on responses from 248 businesses.**

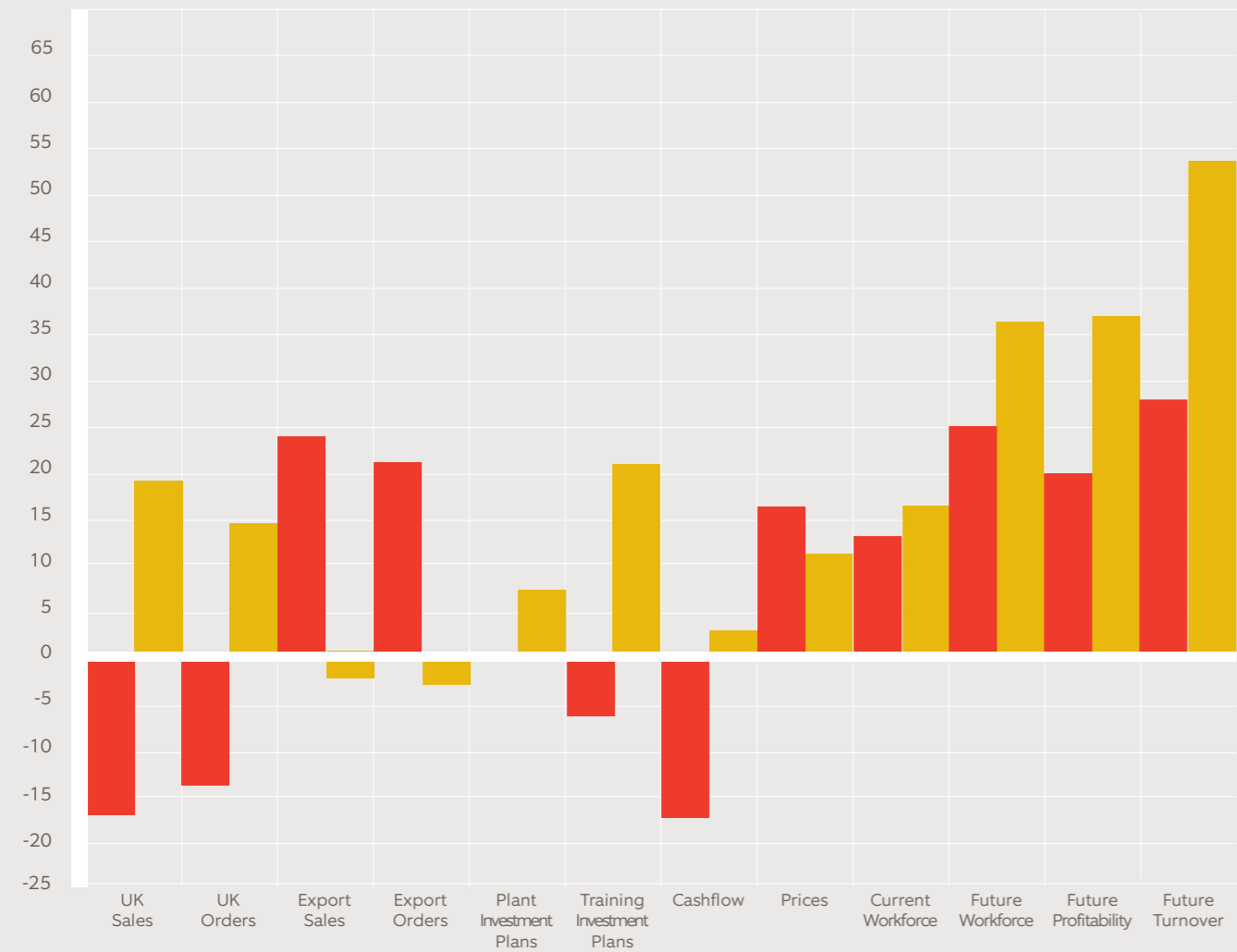
It is worth noting that the number of businesses providing responses in the All Companies analysis is not necessarily equal to the sum of those providing responses for the two broad sectors, as not all respondents provide details of the industry in which they operate. Where data analysis involves more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

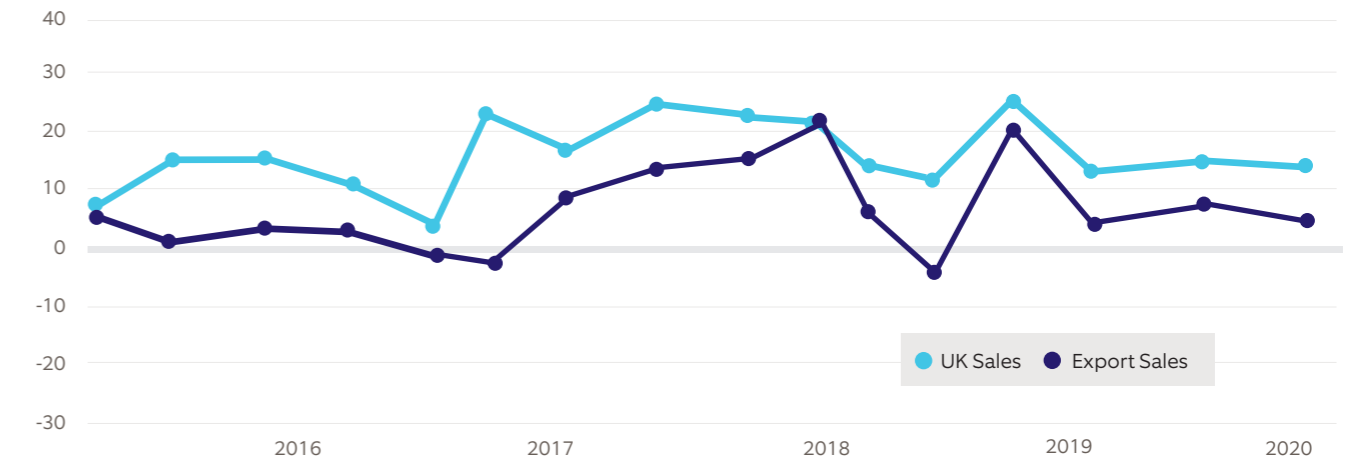
Most of the questions in the survey ask whether companies have experienced an increase, decrease or no change in respect of a given performance indicator, such as UK Sales.

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.

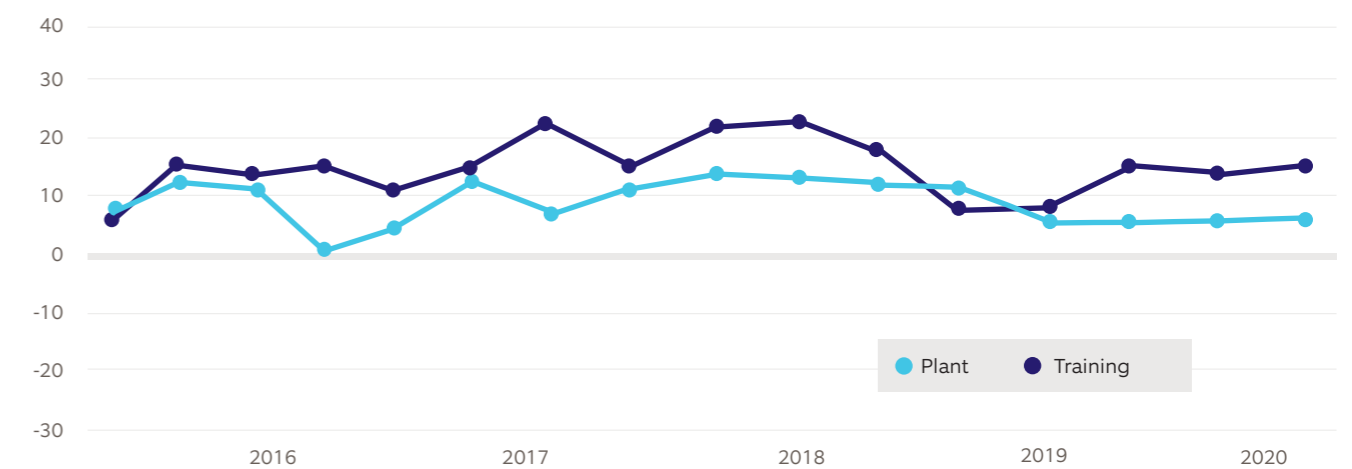
● Manufacturing ● Service



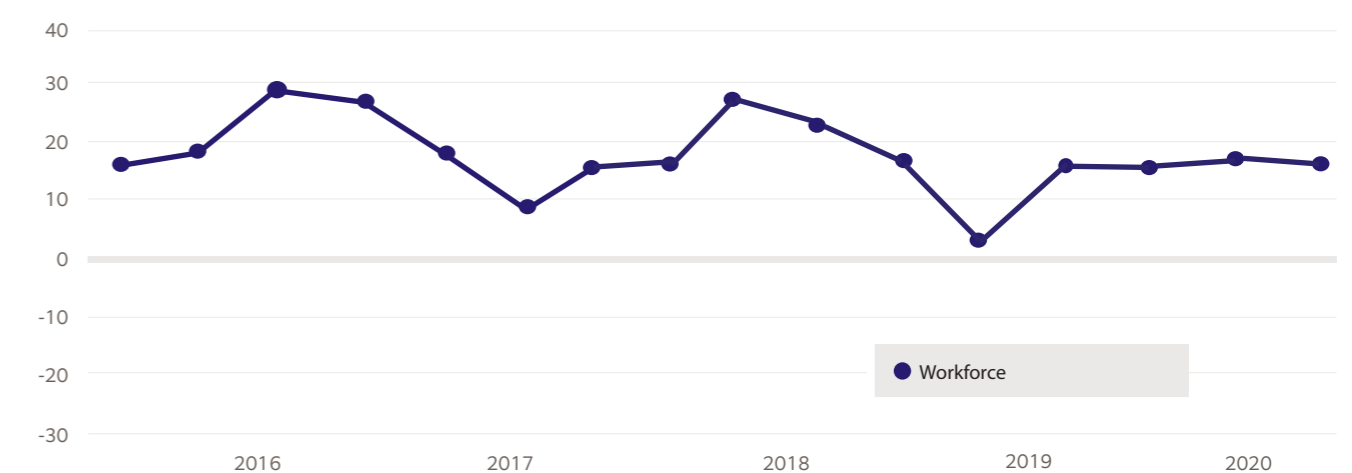
**Five Year Trend - Sales**



**Five Year Trend - Investment**



**Five Year Trend - Workforce**



## The impact of the Coronavirus pandemic was yet to be felt at the time of the survey, with Brexit concerns still a top issue for businesses.

### Capacity

The proportion of businesses operating at full capacity (30.2%), is below levels recorded both last quarter (31.3%) and Q1 2019 (37.9%).

### Recruitment

- Over half of respondents attempted to recruit full-time staff (59.5%), representing an increase on levels recorded both last quarter (53.5%) and Q1 last year (51.1%).
- Over a third of businesses attempted to recruit part-time staff (33.7%), a marginal increase on last quarter (33.5%) and the level recorded last year (30.6%).
- More businesses attempted to recruit permanent staff this quarter (52.4%), representing an increase on figures recorded both last quarter (44.9%) and Q1 last year (48.6%).
- Over a quarter (26.3%) of business attempted to recruit temporary staff, increasing on levels recorded last quarter (21.7%) and Q1 2019 (24.6%).

### Price pressures

- Price pressures arising from pay settlements (21.8%) were up marginally on last quarter (20.2%) and the values recorded last year (20.8%).
- The proportion of members facing price pressures from raw materials (32.6%) increased on the levels recorded last quarter (25.6%) and the same period last year (23.2%).
- Price pressures as a result of financial costs (24.3%) were up on the figures last quarter (20.5%), and Q1 2019 (17.9%).
- 47.6% of businesses experienced price pressures arising from other overheads, representing a slight decrease on last quarter (49.3%) but an increase on the value last year (38.4%).

### Key factors

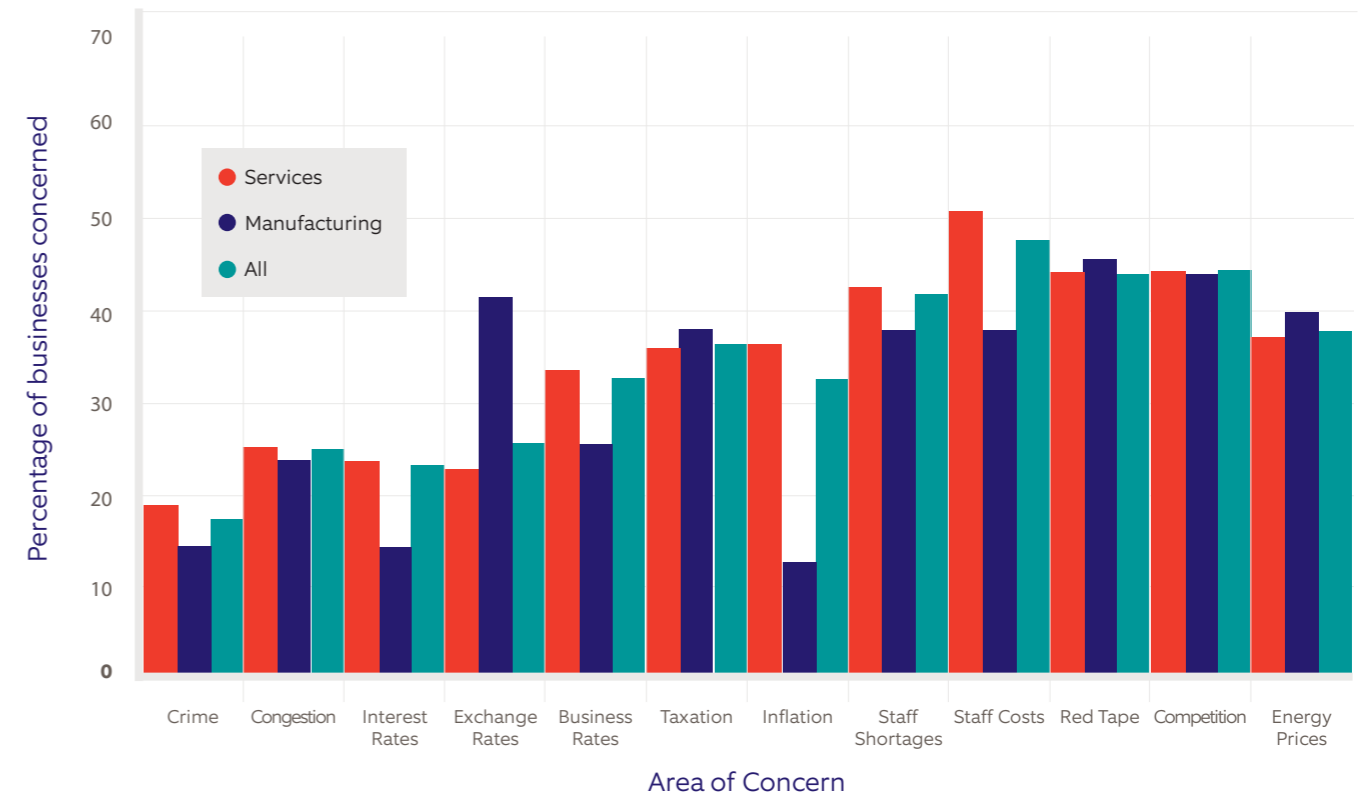
- The most commonly cited factors surrounding businesses success related to business strategy. Successes included: digital transformation, increased innovation, general growth and internationalisation, increased marketing efforts, strategic investment and adopting a positive and proactive business culture.
- Factors relating to reputation were also common, with responses including: Brand awareness, repeat business from existing customers, reputation for product/service quality and word of mouth referrals from customers leading to an expansion in customer base.
- Factors associated with staff were also commonly reported, which included: Driven workforce staff, hardworking and talented staff, as well as staff being committed to the success of the business.
- Factors linked with business' product/service offer were also commonly mentioned, this included: niche product offering, improving offer via innovation and expanding existing product range.

### Barriers

The main barriers to business success were considered to be:

- The global Coronavirus crisis was mentioned by a number of businesses this quarter, with concerns including the impact on supply chains, cash flow and staffing.
- Brexit-related concerns continued to be mentioned and were 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.
- Competition continued to be a common area of concern for businesses this quarter, responses included: Price competition, local competition, as well as competition stemming from online trade.
- Issues related to staffing and recruitment were also expressed as concerns, which included: difficulties recruiting suitably skilled staff, staff retention, and difficulties in developing and upskilling existing workforce.
- Difficulties were also attributed to economic conditions, which included: economic downturn, unfavourable exchange rates, and austerity measures.

## Staff costs and red tape were among the biggest headaches for businesses at the start of the year.



### Perceptions

Perception scores reflect whether issues affecting members and their business activity are of greater concern now compared to last quarter. Seven out of the twelve indicators were considered to be of greater concern this quarter. The indicators which experienced increased concern included; Red Tape (44.8%), up 8.3 percentage points on last quarter, congestion (+7.8 percentage points), staff shortages (+6.7 percentage points) and interest rates (+5.9 percentage points). The indicators which were considered to be less of a concern included; exchange rates (25.7%), down by 6.5 percentage points, competition (44.7%) down 3.4 percentage points and staff costs (-0.8 percentage points).

Manufacturing businesses expressed greater concern than service businesses across four indicators, including: Exchange rates, a concern for 41.2% manufacturing businesses compared to just 22.2% service businesses (+19.0 percentage points), energy prices (+2.3), taxation (+2.2), and red tape (+0.8). The greatest differences in concern expressed by service-based businesses compared to manufacturing businesses included: Inflation (+24.4 percentage points), staff costs (+12.1), interest rates (+9.4), and business rates (+7.9)