



North East England  
Chamber of Commerce

# Economic Survey

Quarter 2, 2020

# Grow your influence

## Key indicators

INDICATOR	BALANCE (ALL COMPANIES)	CHANGE ON LAST QUARTER	CHANGE ON LAST YEAR	MANUFACTURING	SERVICE	NELEP AREA	TEES VALLEY
UK sales	-61.2	-74.8 ▼	-74.6 ▼	-54.0	-63.0	-60.2	-63.8
UK orders	-62.3	-72.0 ▼	-77.1 ▼	-52.4	-64.9	-60.2	-66.7
Export sales	-39.7	-44.3 ▼	-48.1 ▼	-33.9	-42.2	-34.2	-58.8
Export orders	-39.9	-42.9 ▼	-46.6 ▼	-36.8	-41.2	-35.0	-55.9
Plant investment plans	-36.3	-42.4 ▼	-43.1 ▼	-36.5	-36.3	-33.5	-38.8
Training investment plans	-30.8	-47.0 ▼	-44.5 ▼	-54.8	-24.8	-30.5	-24.1
Cashflow	-48.2	-47.7 ▼	-49.1 ▼	-29.7	-52.7	-45.8	-53.6
Prices	-7.9	-20.5 ▼	-21.1 ▼	1.6	-10.1	-6.8	-10.2
Current workforce	-12.3	-28.6 ▼	-30.3 ▼	-8.1	-13.3	-11.2	-13.3
Future workforce	-6.9	-41.3 ▼	-33.3 ▼	-12.3	-5.6	-6.8	-5.0
Future profitability	-36.1	-70.1 ▼	-76.1 ▼	-40.6	-35.1	-35.0	-37.7
Future turnover	-32.0	-77.4 ▼	-77.5 ▼	-26.2	-33.3	-32.4	-29.5

## Economic Survey Q2 2020 foreword

This is the first survey that truly captures the impact the Covid-19 crisis has had on businesses and the results are as negative as we had feared.

The virus, lockdown and looming recession have driven business confidence through the floor, with key indicators for sales and cashflow falling far beyond the record lows we saw during the financial crash in 2009. What these results demonstrate more than anything is the speed with which this crisis has engulfed our economy. Official statistics are starting to confirm this as well as the scale of the downturn. While our survey shows workforce scores falling less dramatically, these are being supported by the Government's Job Retention Scheme. While the country looks to an exit from lockdown, for businesses across our region this is just the start of a long and difficult road to recovery. For some time to come margins will be tight, resilience will be weak and consumer confidence will be low.

We recognise the enormous efforts that have been made to provide financial support and prevent job losses. But Government must now maintain those efforts and provide the urgent, targeted support that is needed to help our businesses return to stability and then growth as quickly as possible. As a region we entered this crisis with above average levels of unemployment and economic inequality. We know that downturns are more pronounced in regions such as ours and fall disproportionately on those with the least capacity to withstand them.

We must therefore see a recovery built on principles of fairness, community, sustainability, and opportunity. The Chamber is ready to play a leading role in this; not just in campaigning for support but also in bringing our business community together to help one another, learn best practice and share new opportunities. It will be tough, but together we can build a stronger North East economy.

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

## Economic Survey Q2 2020 overview – Durham University Business School

The latest Survey highlights the stark impacts of the COVID-19 crisis and lockdown on economic activity across the region since March 2020. Company responses on all key indicators, including sales, capacity utilisation, prices, recruitment, investment plans, cashflow and future profitability all show marked downturns in current activity and future expectations.

The latest national economic statistics reinforce the picture painted by the Survey, with April's fall in UK GDP of -20.4% being the largest monthly fall on record, and the fall in GDP in the three months to April 2020 being more than during any recent crisis. The service sector contracted by 1/5th as non-essential shopping, leisure, hospitality, accommodation and aviation sectors all came to a virtual stop. Meanwhile, interruption to international supply chains, the need to protect workers and factory shutdowns/reduced hours led to falls in manufacturing output.

With the Government now lifting many lockdown restrictions, mirroring similar moves in other countries, some economic activity is likely to start to pick up across many sectors. However, the medium-term outlook, particularly upon consumer demand, remains very uncertain – with fears about job security and future prospects likely to see many households looking to be cautious. The crisis has also amplified and accelerated existing trends – as highlighted by the latest news about closures on the region's high streets.

**Peter Allen** is Associate Dean for External Engagement and Impact at Durham University Business School. Much of his work focuses on innovation and new business development, from start-ups, through SMEs, to major global companies.

## The Quarterly Economic Survey is carried out by ERS Ltd on behalf of North East England Chamber of Commerce. This survey conducted during March - May 2020 is based on responses from 370 businesses.

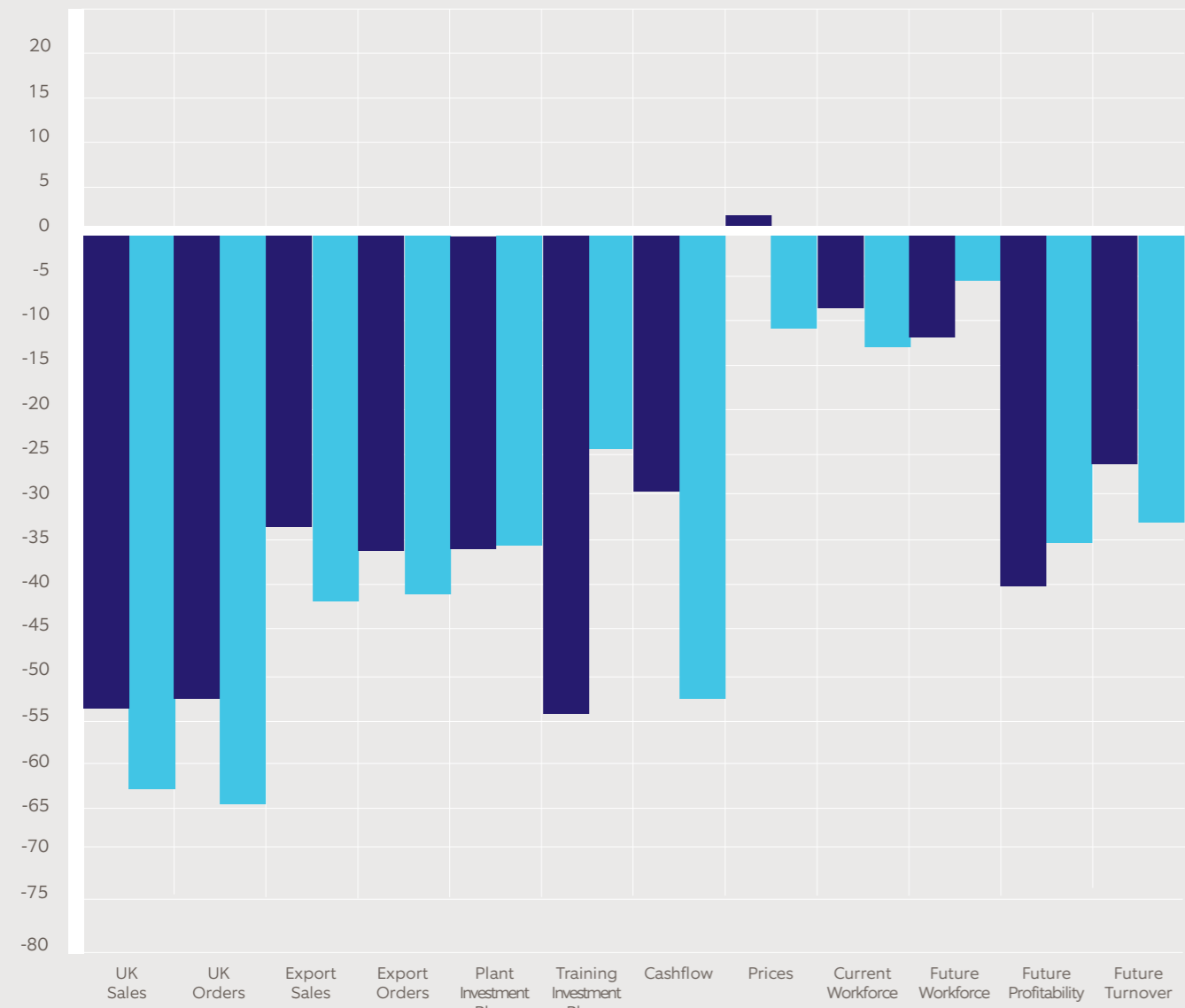
It is worth noting that the number of businesses providing responses in the All Companies analysis is not necessarily equal to the sum of those providing responses for the two broad sectors, as not all respondents provide details of the industry in which they operate. Where data analysis involves more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

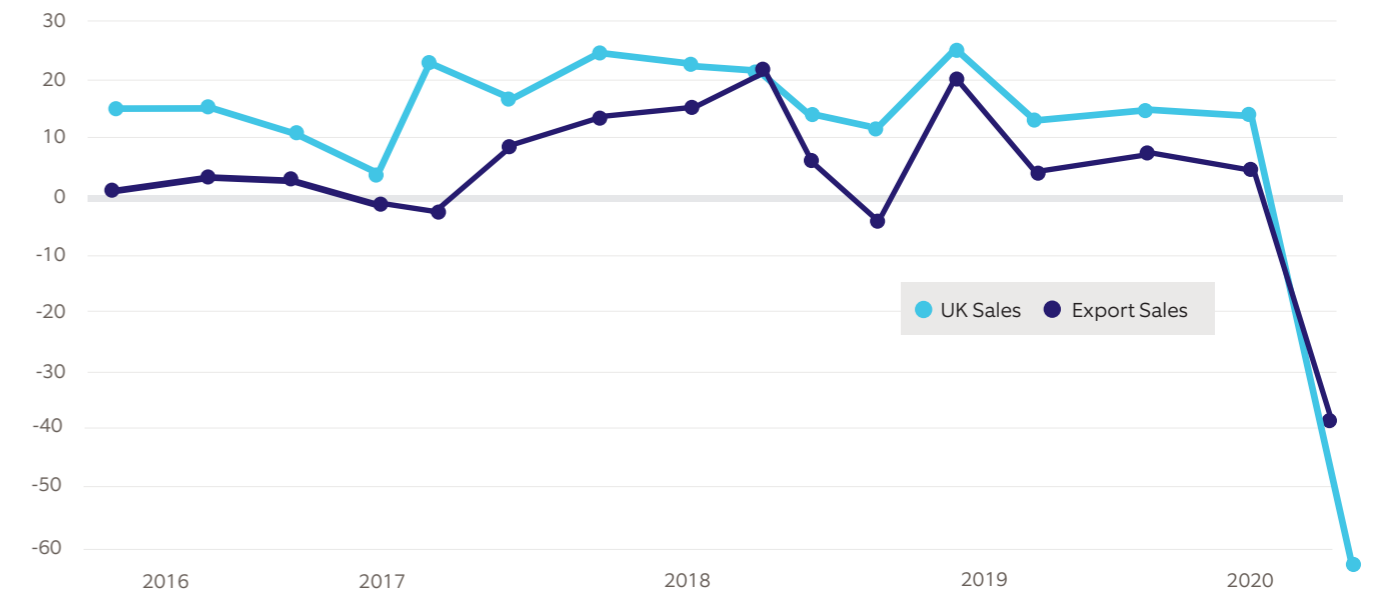
Most of the questions in the survey ask whether companies have experienced an increase, decrease or no change in respect of a given performance indicator, such as UK Sales.

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.

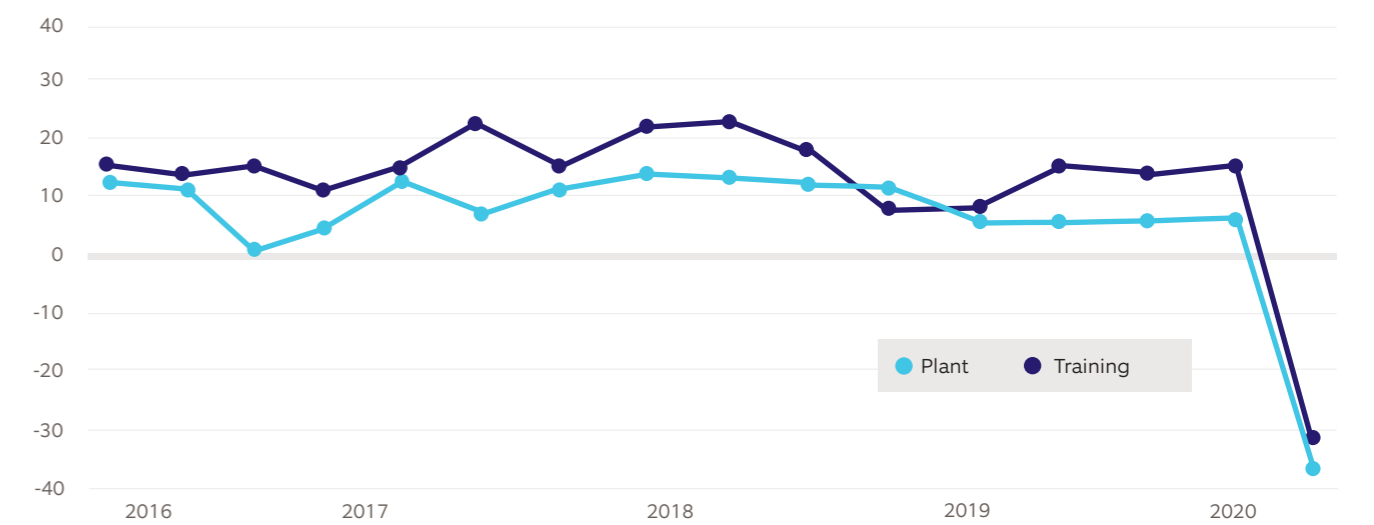
● Manufacturing ● Service



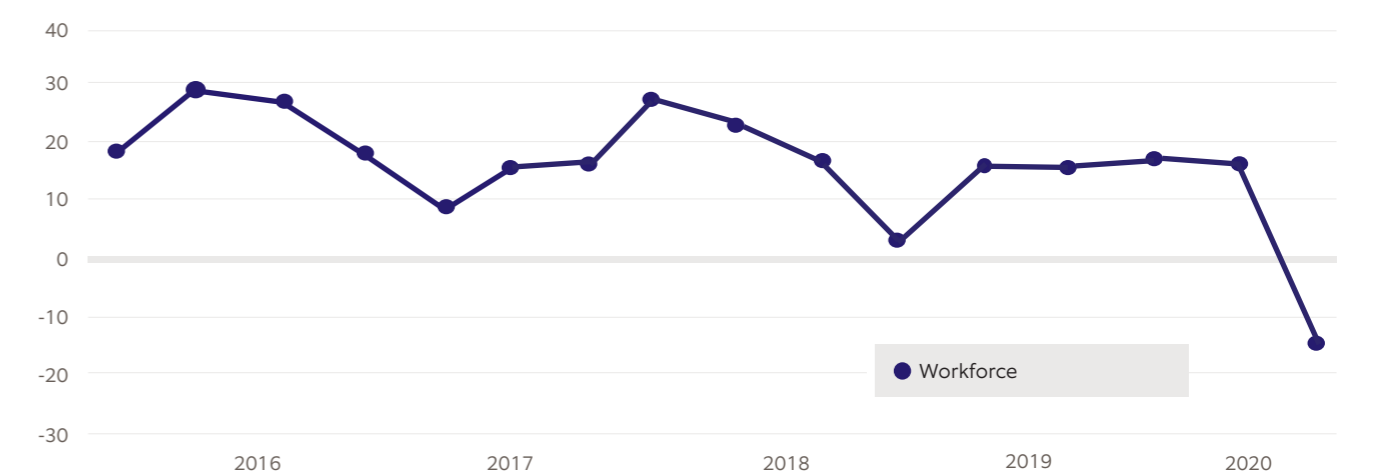
## Five Year Trend - Sales



## Five Year Trend - Investment



## Five Year Trend - Workforce



## The Coronavirus pandemic and lockdown placed the regional economy in the deep freeze; rapidly changing businesses' outlook and perceptions.

### Capacity

The proportion of businesses operating at full capacity (23.0%), is below levels recorded both last quarter (30.2%) and Q2 2019 (37.1%).

### Recruitment

- Fewer than a quarter of respondents attempted to recruit full-time staff (22.1%), representing a large decrease on levels recorded both last quarter (59.5%) and Q2 last year (49.3%).
- The proportion of businesses attempting to recruit part-time staff (10.4%), a decrease on both last quarter (33.7%) and the level recorded last year (28.4%).
- Fewer than a fifth of businesses attempted to recruit permanent staff this quarter (19.4%), representing a large decrease on figures recorded both last quarter (52.4%) and Q2 last year (42.0%).
- The proportion of businesses attempting to recruit temporary staff was 11.2%, decreasing on levels recorded last quarter (26.3%) and Q2 2019 (23.1%).

### Price pressures

- Price pressures arising from pay settlements (13.2%) were down on last quarter (21.8%) and the values recorded last year (17.3%).
- The proportion of members facing price pressures from raw materials (22.0%) down on the levels recorded last quarter (32.0%) and the same period last year (23.7%).
- Price pressures as a result of financial costs (20.9%) were down marginally on the figures last quarter (24.3%), and Q2 2019 (22.6%).
- The proportion of businesses experiencing price pressures arising from other overheads was 34.5%, representing a decrease on last quarter (47.6%) and on the value last year (35.9%).

### Key factors

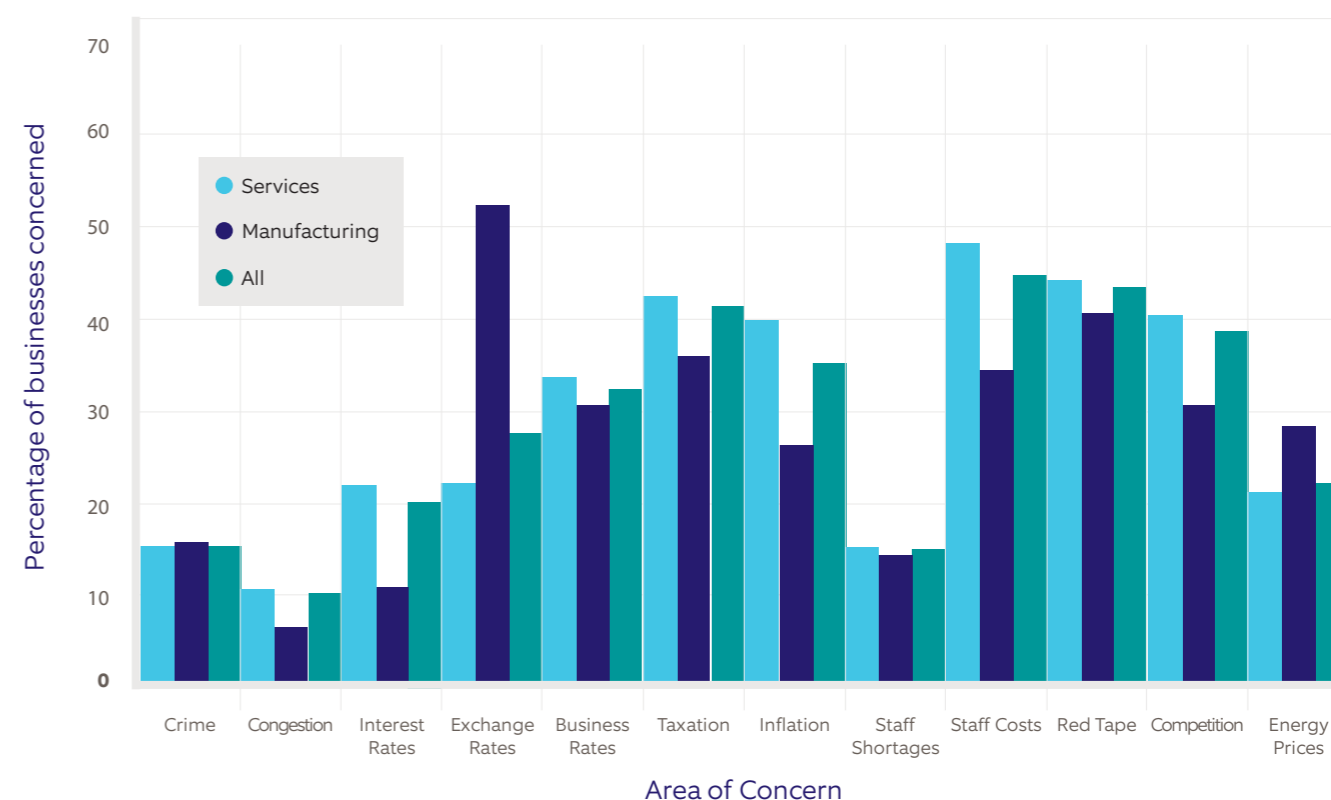
- The most commonly cited factors surrounding businesses success related to business strategy. Successes included: adopting digital technologies and processes, adapting the business model in light of Covid-19, improving efficiencies, increased innovation, greater marketing efforts and adopting a proactive approach.
- Government support in the form of bounce back loans, tax deferment and the job retention scheme were cited as supporting businesses through the current Covid-19 crisis, without the support a number of respondents indicated that they would likely collapse.
- Factors relating to reputation were also common, with responses including: Brand recognition, client relationships and loyalty leading to repeat business, as well as reputation in terms of quality supporting sales.
- Factors associated with staff were also commonly reported, which included: Flexibility of the workforce, hardworking staff keeping on top of workload whilst other employees are on furlough, as well as furloughed staff upskilling and remaining committed which will support the business down the line.
- Factors linked with business' product/service offer were also commonly mentioned, this included: offering an essential service, niche product offering, and expanding product/service offer in line with demand.

### Barriers

The main barriers to business success were considered to be:

- The global Coronavirus crisis was by far the most frequently mentioned barrier expressed by businesses this quarter, with concerns including: businesses having to cease trading due to lockdown restrictions, cashflow impacts, staff shortages due to requiring furlough, uncertainties surrounding government guidance, business interruption and delays to ongoing projects.
- Market-related issues were also considered to be of great concern this quarter, largely linked with the ongoing covid-19 crisis. Such barriers included: reduced demand, lack of customer and consumer spending, reduced new business opportunities, uncertainties around the recovery period and restricted trading opportunities.
- Barriers relating to capacity were also frequently mentioned by businesses this quarter, primarily: Cashflow, capacity relating to social distancing measures, availability of raw materials, and workforce availability due to health issues, furlough and lockdown restrictions.
- Difficulties were also attributed to economic conditions, which included: current economic climate, economic uncertainties, unfavourable exchange rates, and concerns surrounding economic downturn and recession.

## Lockdown and the economic downturn are reflected in the list of business concerns, with worries about congestion and staff shortages falling sharply.



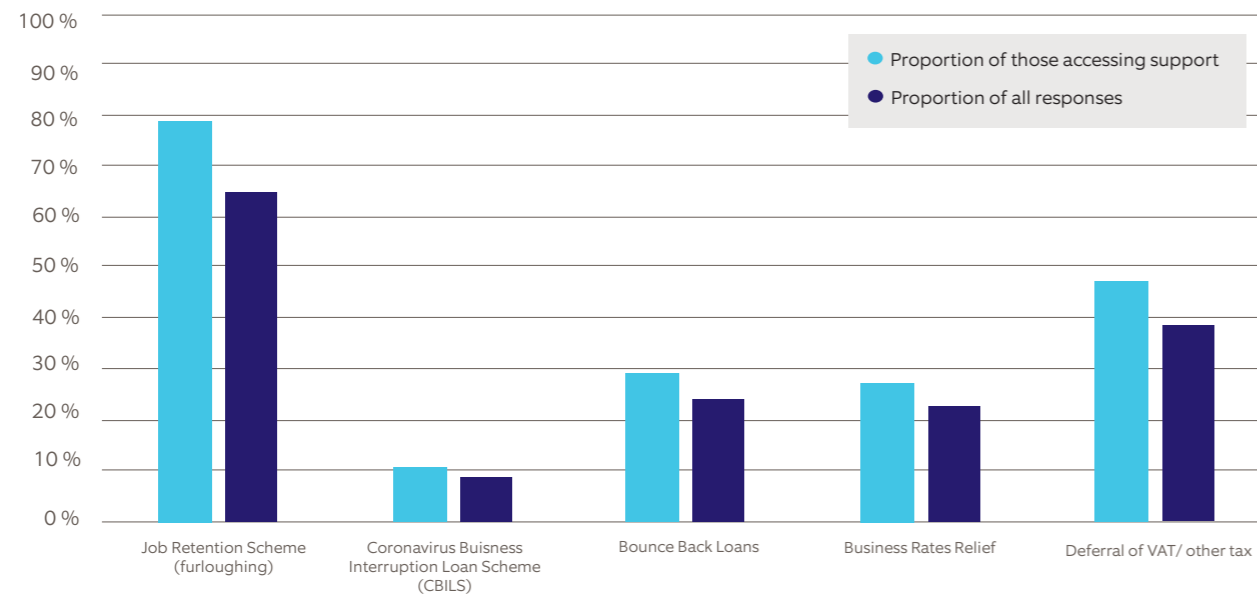
### Perceptions

Perception scores reflect whether issues affecting members and their business activity are of greater concern now compared to last quarter. Four out of the twelve indicators were considered to be of greater concern this quarter. The indicators which experienced increased concern included; Taxation (41.8%), up 5.3 percentage points on last quarter, inflation (+5.2 percentage points), exchange rates (+2.9 percentage points) and business rates (+1.9 percentage points). The indicators which were considered to be less of a concern included; staff shortages (15.8%), down by 25.5 percentage points, congestion (10.1%) down 15.4 percentage points and energy costs (-15.3 percentage points).

Manufacturing businesses expressed greater concern than service businesses across three indicators, including: Exchange rates, a concern for 52.5% manufacturing businesses compared to just 22.6% service businesses (+29.8 percentage points), energy prices (+6.9), and crime (+0.6). The greatest differences in concern expressed by service-based businesses compared to manufacturing businesses included: staff costs (+13.0), inflation (+12.0) interest rates (+10.4), and competition (+10.1).

## Additional question analysis

In total, 317 businesses provided responses to the additional question which aimed to uncover uptake in government coronavirus economic support for businesses. Of these, 56 businesses indicated that they had not taken up any business support, whilst 261 had accessed at least one scheme.



Scheme	Count	Proportion of those accessing support	Proportion of all responses
Job Retention Scheme (furloughing)	206	78.9%	65.0%
Coronavirus Business Interruption Loan Scheme (CBILS)	27	10.3%	8.5%
Bounce Back Loans	76	29.1%	24.0%
Business Rates Relief	72	27.6%	22.7%
Deferral of VAT / other tax	123	47.1%	38.8%
Small Business Grants Fund (SBGF) / Retail, Hospitality and Leisure Grant Fund (RHLGF)	46	17.6%	14.5%
Self-Employment Income Support Scheme	17	6.5%	5.4%

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