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ECONOMIC SURVEY

QUARTER 4
2021

IN ASSOCIATION WITH

Durham University Business School

North East England Chamber of Commerce

FOREWORD

The Chamber's latest economic survey results show that our businesses largely ended 2021 in a far better position than they started it. While domestic indicators have fallen back slightly from the third quarter, they remain in positive territory; indicating growth.

However, as we identified last quarter, the headline figures are undermined by some serious concerns on the horizon for our businesses. Export performance is worryingly flat, with firms identifying supply chain issues, increased costs and the continued trade disruption due to Brexit as the leading causes of this. This quarter also brings more worrying data on businesses' cashflow.

There is, rightly, a lot of discussion in the media about an impending 'cost of living crisis'. We must not lose sight of the fact that we are also facing a 'cost of doing business' crisis. Inflation and energy prices top our members' list of concerns, with over 80% of respondents more worried about these two issues than they were three months ago.

When you add in the continuing concerns regarding staff shortages and a tight labour market, it is not hard to see why businesses may be starting 2022 in a cautious mood. In the short term, business performance looks reasonably strong (especially after such a difficult couple of years) but it will not take long for challenges such as inflation to erode this performance. Policy makers must take heed of the warnings this survey provides.

Lesley Moody MBE
Chamber President

OVERVIEW

The picture displayed by the latest Chamber Quarterly Economic Survey for the North East is broadly in line with the latest national economic indicators. Business and economic activity is higher than one year ago reflecting the reduced impact of the pandemic and lock down. This is most apparent across the service sector. In contrast, whilst stronger than last year, there was some fall off in UK Sales from the previous quarter for the manufacturing sector.

Rapidly spiralling energy costs and price rises due to supply chain disruptions, reflecting worldwide raw material shortages as economic activity picks up again, are reflected in the concerns expressed by respondents about the main factors affecting their businesses. These factors are likely to continue to be critical over the next few months. Concerns about rising interest rates are also reflected in the survey – though with real wages being squeezed there is little evidence to suggest such a policy response by the Bank of England would effectively address these externally-driven inflationary pressures.

Following on from COP 26, the need to understand and respond to the challenges of managing business sustainably will continue to be a major governance issue. This will be the theme picked up by Professor Carol Adams at the Quarterly Economic Briefing. Carol is an internationally recognised researcher in corporate accounting and reporting and its role in the relationships between business, society and the environment.

Peter Allen
Associate Professor of Strategic Management
Durham University Business School

KEY INDICATORS

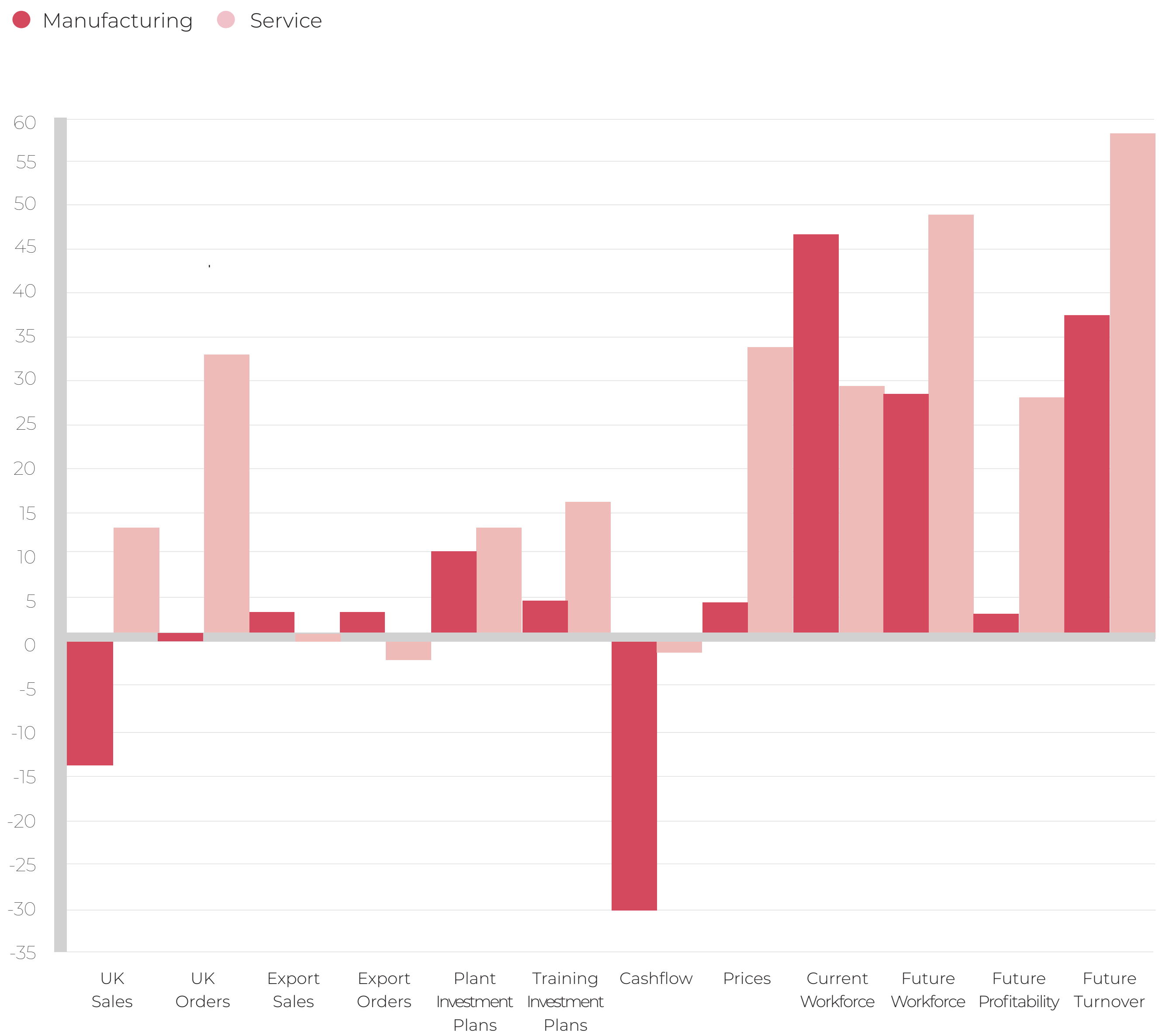
	BALANCE (ALL COMPANIES)	CHANGE ON LAST QUARTER	CHANGE ON LAST YEAR	MANUFACTURING	SERVICE
UK sales	19.3	-8.1 ▼	42.2 ▲	-14.3	33.7
UK orders	22.0	-6.8 ▼	43.4 ▲	0.0	32.9
Export sales	1.3	1.3 ▲	15.7 ▲	3.3	0.0
Export orders	0.0	-2.9 ▼	16.9 ▲	3.4	-2.1
Plant investment plans	12.6	0.0 ▼	31.9 ▲	10.0	13.9
Training investment plans	12.4	-2.6 ▼	29.8 ▲	4.8	15.8
Cashflow	-9.2	0.8 ▲	15.9 ▲	-30.0	-1.0
Prices	25.5	2.4 ▲	40.4 ▲	4.7	34.0
Current workforce	34.7	-0.3 ▼	37.8 ▲	46.5	29.8
Future workforce	38.8	-3.1 ▼	30.5 ▲	28.6	42.9
Future	19.2	-10.1 ▼	33.3 ▲	2.3	26.2
Future turnover	53.3	2.5 ▲	56.3 ▲	37.2	59.8

The Economic Survey is carried out by the North East England Chamber of Commerce. This survey conducted during September - November 2021 is based on responses from 170 businesses.

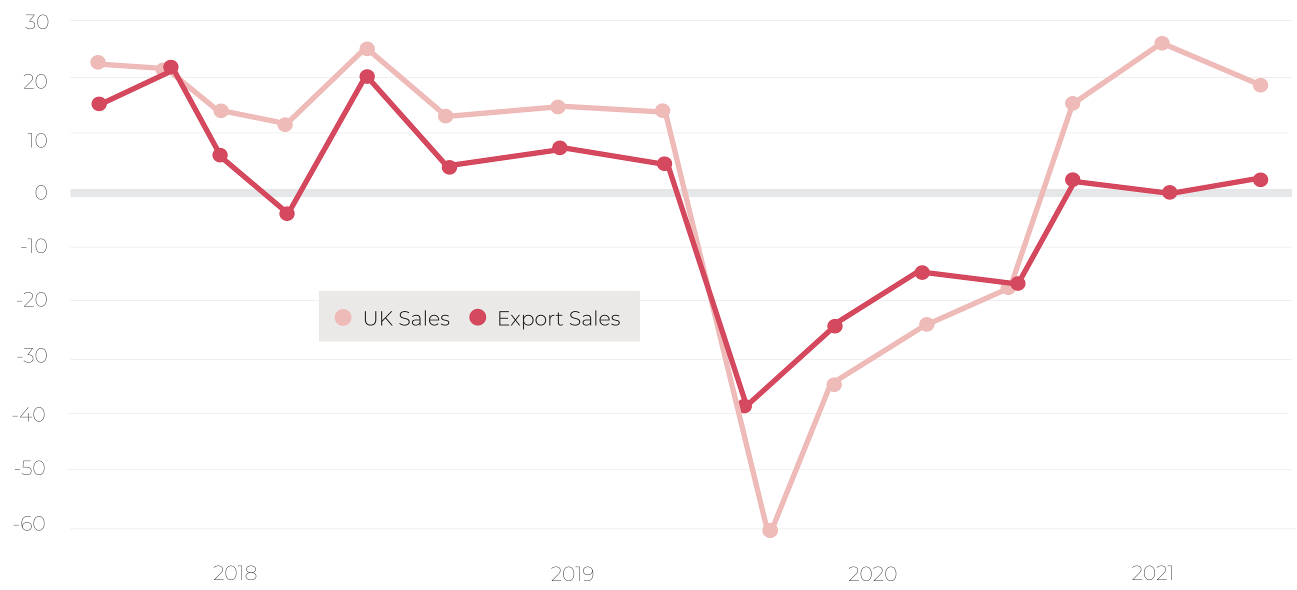
It is worth noting that the number of businesses providing responses in the All Companies analysis is not necessarily equal to the sum of those providing responses for the two broad sectors, as not all respondents provide details of the industry in which they operate. Where data analysis involves more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

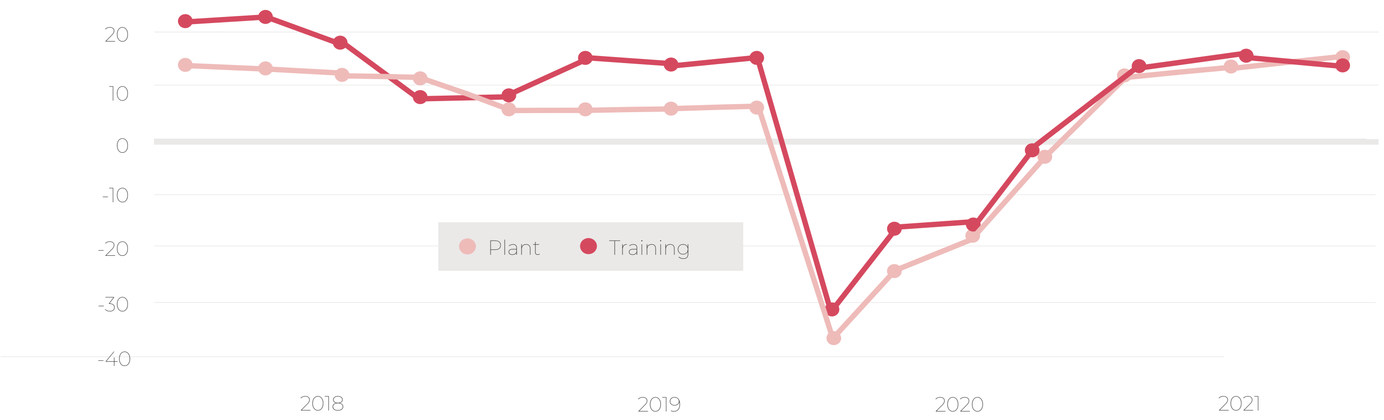
KEY INDICATORS



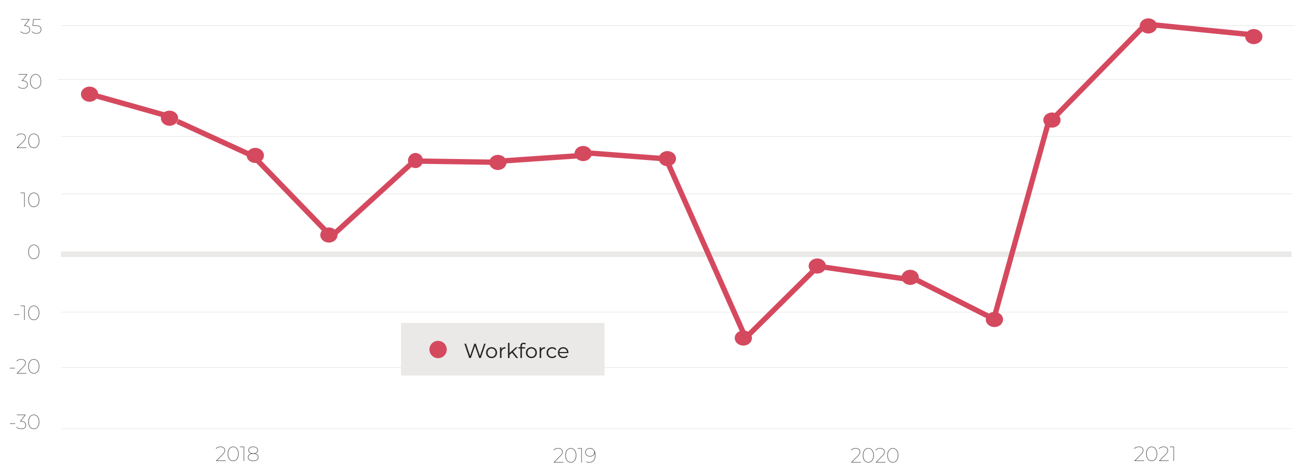
FIVE YEAR TREND - SALES



FIVE YEAR TREND - INVESTMENT



FIVE YEAR TREND - WORKFORCE



Overall levels of business activity are substantially higher than 12 months ago.

Capacity

- The proportion of businesses operating at full capacity (52.7%), is above levels recorded last quarter (44.6%) and Q4 2020 (30.8%).

Recruitment

- 59.7% of respondents attempted to recruit full-time staff in Q4, representing a slight increase on levels recorded last quarter (58%) and a substantial jump from this period last year (38.3%).
- A smaller proportion attempted to recruit part-time staff (36.6%), down slightly on last quarter (37.4%) but well above the level recorded last year (14.9%).
- Slightly fewer businesses attempted to recruit permanent staff this quarter (53%), representing a decrease on figures recorded last quarter (53.3%) but an increase on last year (34.1%).
- More businesses attempted to recruit temporary staff (29.6%) than last quarter (26.6%) and last year (20.6%)
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Price pressures

- Price pressures arising from pay settlements (30.7%) were up on last quarter (22.6%) and above the values recorded last year (18.9%).
- The proportion of members facing price pressures from raw materials (55.8%) increased on the levels recorded last quarter (46.5%) and the same period last year (32.8%).
- Price pressures as a result of finance costs (26.3%) were down slightly on the figures last quarter (27%), and up on Q4 2021 (23.6%).
- 66.2% of businesses experienced price pressures arising from other overheads, representing an increase on last quarter (52.5%) and last year (38.5%).

Key factors

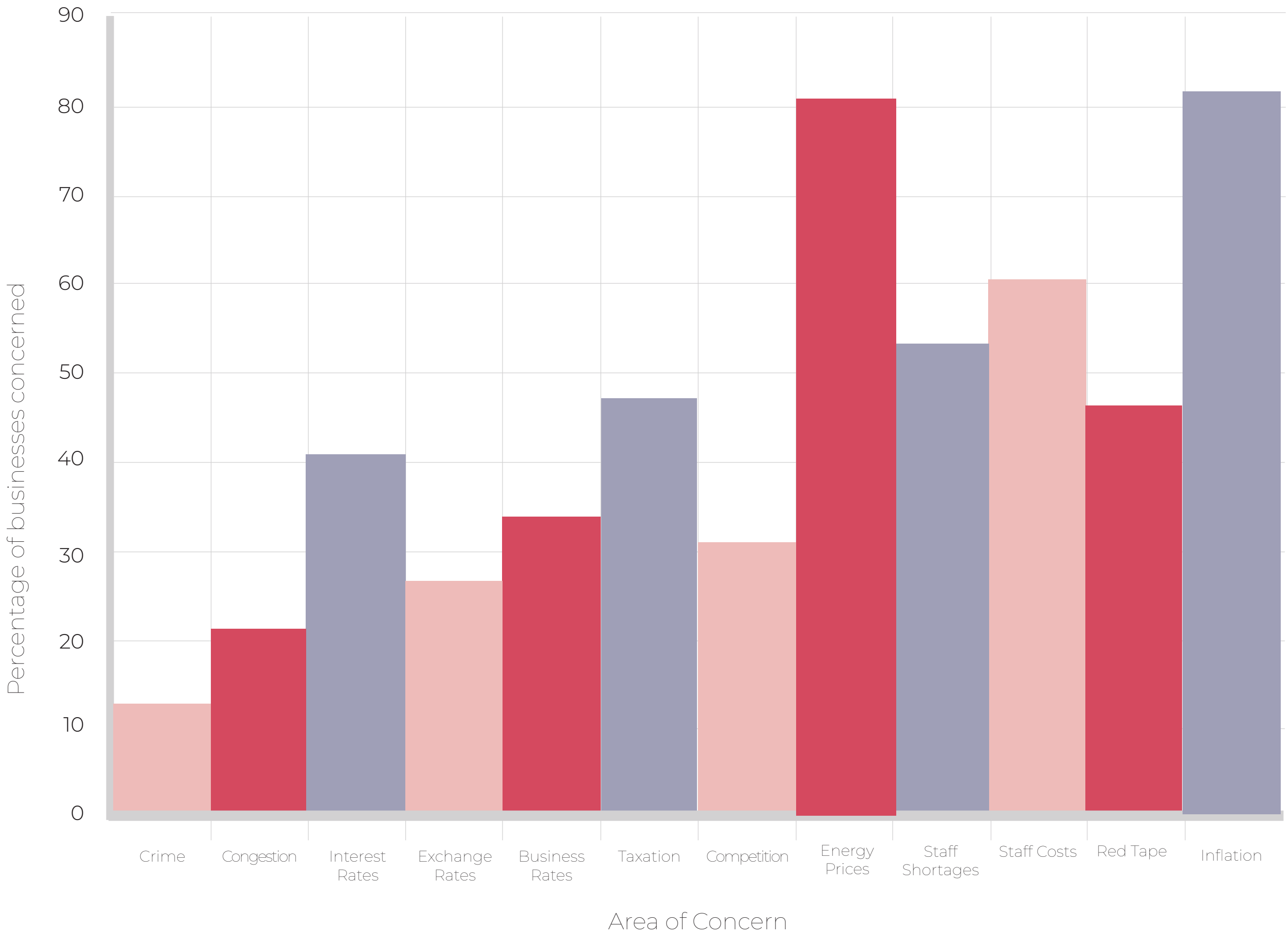
- The most commonly cited factors surrounding businesses success related to a general improvement in economic conditions leading to increased consumer and business demands.
- Factors relating to diversification and investment were also frequently mentioned, with businesses seeking new markets and improving processes to increase productivity and profitability.
- Businesses also continue to cite the importance of a loyal, high quality workforce who have continued to deliver despite enormous challenges.

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.
- Wage pressures and other cost increases.
- Global supply chain issues and shortages of key raw materials.
- Freight costs and issues within the logistics industry.

Concerns over inflation and energy prices are at their highest levels since the financial crisis of 2008.



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 Q4 2021 survey were: energy prices, up 30.6 percentage points, inflation (+22.3 percentage points) and interest rates (+15 percentage points). The indicators which were considered to be less of a concern were competition, down by 6.8 percentage points, crime (-5.9 percentage points) and staff shortages (-4.9 percentage points).

North East England
Chamber of Commerce

0300 303 6322 your@neechamber.co.uk www.neechamber.co.uk @neechamber