



QUARTERLY ECONOMIC SURVEY

Q1 / 2021

EXECUTIVE SUMMARY

Business West run the Quarterly Economic Survey as an accredited member of the British Chamber of Commerce. 553 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.

This has been a testing start to the year for businesses in our region, the third national lockdown and the start of the new trading relationship with the European Union have constrained business operations across all fronts, but especially all important cashflow levels which are the lowest in the last three years.



SOURCES OF BORROWING

Interestingly, the government backed Bounce Back Loan is the most popular external source of finance for 2021, which many businesses have taken out as a safety blanket against ongoing business uncertainty. This is followed by more expensive sources such as credit cards and overdrafts, especially used by smaller businesses and the self-employed. There is a potentially large finance crunch coming for small businesses. With repayments starting on the Government backed loans and the level of (often high cost) debt from financial institutions and others, the burden of this debt is expected to act as a drag on business recovery.

The situation is exacerbated by the closure of the original Government backed schemes, especially the Bounce Back Loan at the end of March, and the tighter Recovery Loan Scheme offering only an 80% guarantee having replaced them from 1 April.



FINANCIAL CAPACITY

A significant proportion of businesses are in a much weaker financial position compared to a year ago, with 40% reporting a higher indebtedness, and a similar proportion (44%) have low cash reserves, rising to a half for small businesses with annual turnover below £500,000.



BUSINESS CONFIDENCE

Confidence in the prospects of the UK economy and in those of their business are both up compared to the end of 2020, perhaps due to the vaccination programme and the roadmap for business reopenings over the coming months. Overall, manufacturing and larger companies have reported more confidence and better results in contrast to service and smaller businesses, which have been more affected by the crisis and are less positive about the future.

'A year on from lockdown and having left the European Union, businesses have endured unprecedented challenges and change. This report shows the impacts, especially on business finances for our region's firms as they seek to recover.'

Matt Griffith, Director of Policy, Business West

CURRENT ISSUES

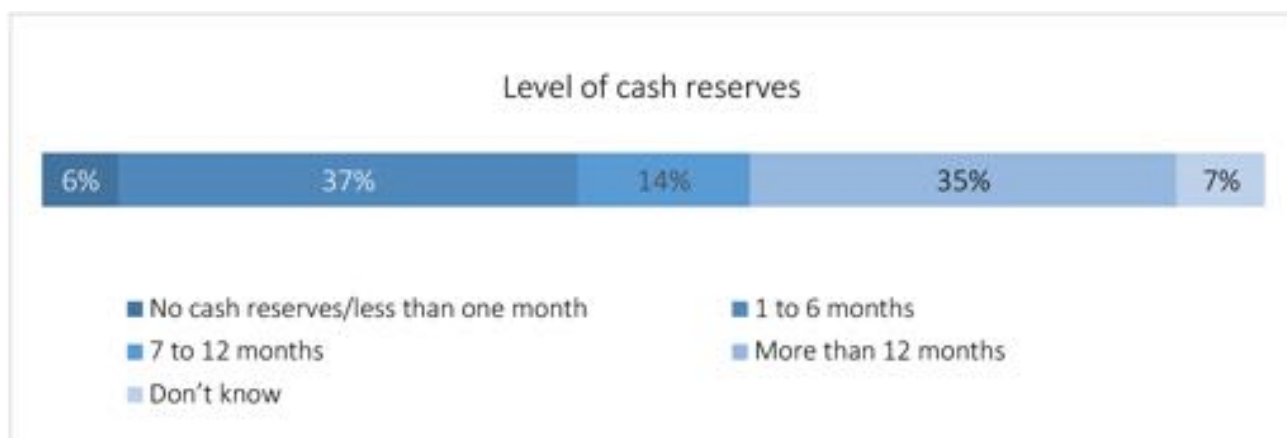
COVID-19

The third lockdown has harmed businesses performance overall; over half of respondents report that their turnover, profitability and cash flow have been negatively impacted as a result of it. The percentage of businesses impacted in the retail, tourism, food and drink, and consumer services industries is even worse (over 60%).

Almost 40% of employers expressed that school closures had negatively impacted their staff availability for work.

'I am currently in £30,000 debt with SEISS grants of only £2500 that covered about 1.5% of my usual turnover. I hope that we will get something eventually'

James Goddard, The Zoots band, Swindon



FINANCE CAPACITY AND DEBT



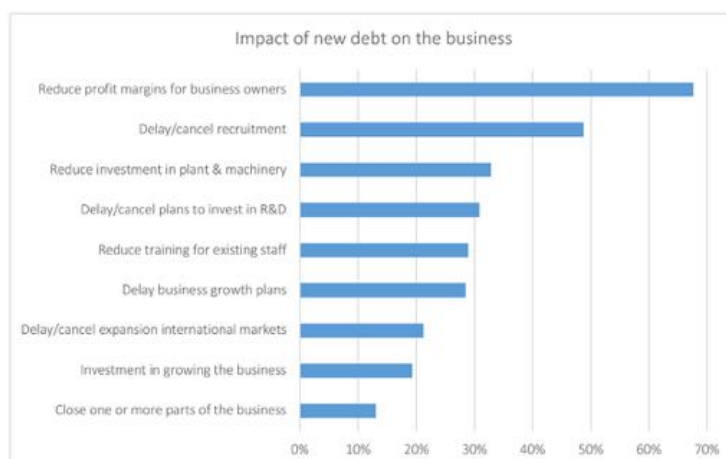
17% of respondents confirmed that their finance availability has deteriorated over the last 3 months, reaching 25% for businesses in the retail, tourism, food and drinks, and consumer services sectors. Taking these results into account, it was surprising that less than a third of businesses identified finance costs as a source of concern for their business going forward.



Almost 40% of businesses have enough cash reserves to continue operations for only 1 to 6 months without resorting to further borrowing, and worryingly, 6% of respondents admitted not having any cash reserves. Smaller businesses painted an even tighter situation, 42% reported having enough cash reserves to cover the next 1 to 6 months and 9% had no cash reserves.



Nearly 40% of respondents have increased their business debt since the start of the pandemic last March 2020; of this group, 41% have seen a less than 50% rise in their level of debt and 28% have seen an increase of more than 100%.



Respondents were asked to select all the options that applied to their situation.

The most common source of finance used or planned for by businesses so far in 2021 are the Government backed Bounce Back Loans (BBL) at 27%. Bank overdrafts and credit cards taken on is surprisingly high, at 22% and 18% respectively, considering how expensive these sources of borrowing are. They also are more popular than the Coronavirus Business Interruption Loan Scheme ('CBILS'), which only 16% of respondents chose. The percentage of businesses borrowing money from family and friends is also quite significant, at 11%. Credit Cards are particularly used by self-employed businesses, 40% selected them as one of their sources of finance, suggesting they were unable to secure cheaper alternatives.

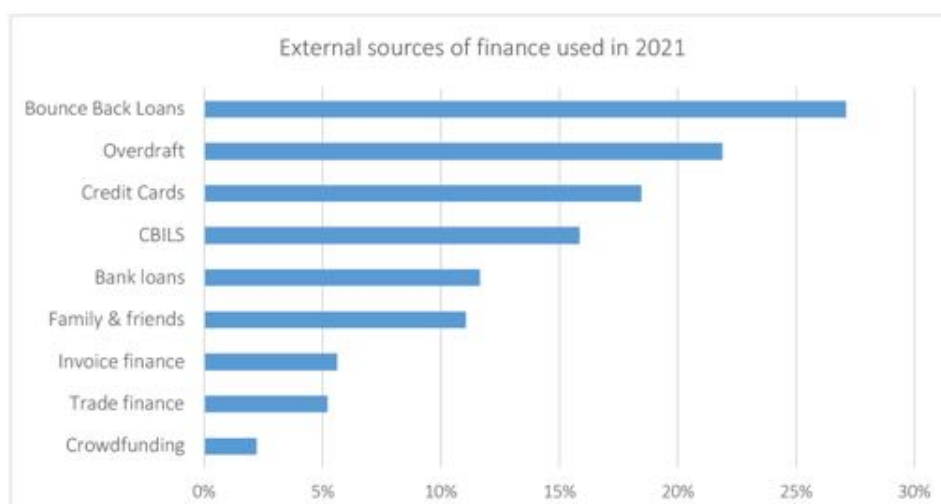
Looking closer at BBL and CBILS uptake, 40% businesses that have received or applied for these loans do not have firm plans on when they will spend them, compared to the 28% that have already

spent them. The most common reason behind the decision of not to spend the BBL or CBILS loan is uncertainty, and the belief that businesses might need it in the future if the economic situation worsens.

The common uses given to the government backed funds are split between those spending them to cover ongoing business costs, such as paying suppliers and taxes; and those that intend to use them as an investment to expand their business.

'Have held out as long as possible but I will need a safety net to be able to re-open. I was hoping to not have to use it and pay it back but that will now not happen'

Richard Gould, 365 Linen Hire, Salisbury



BUSINESS ENVIRONMENT

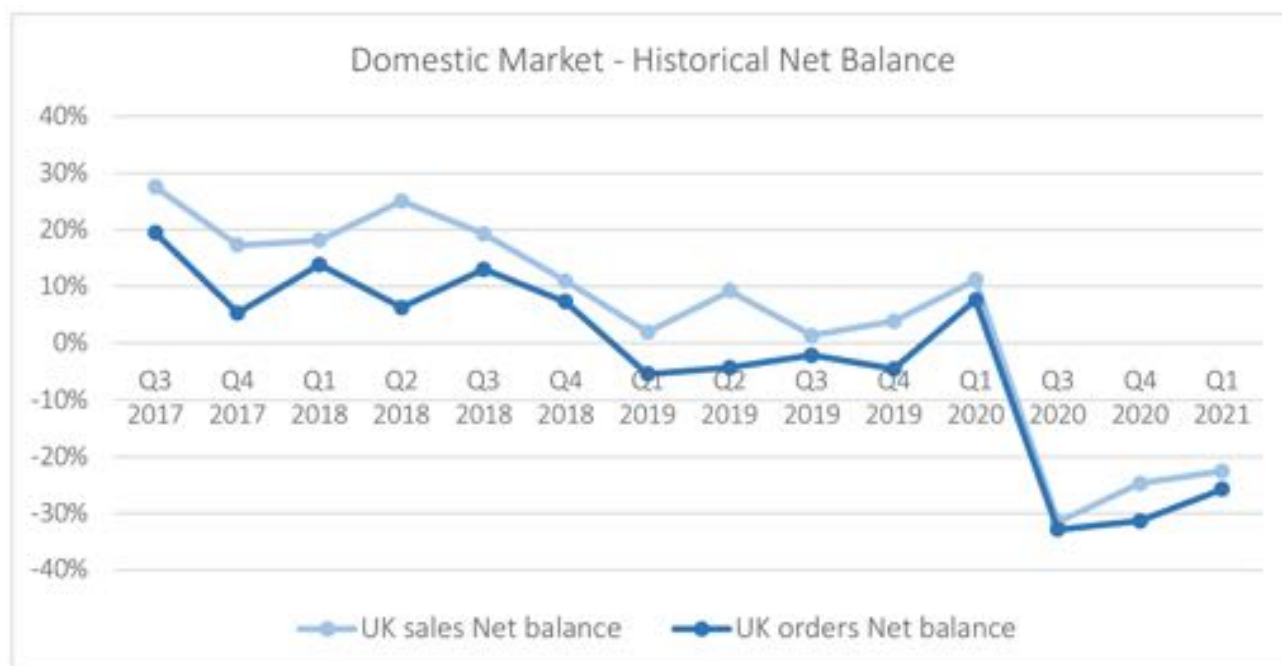
DOMESTIC MARKET



Domestic sales continue to be in negative territory but marginally less so than compared to Q4 2020. More than 40% of businesses report a decrease in UK sales and orders, for both services and the manufacturing sectors. Only half of this number, 20% of businesses, have seen their domestic sales increase this quarter.

Looking forward, we worry about small businesses and the self-employed's access to suitable finance during the recovery period. In April, the Bounce Back Loan scheme ends, and the CBILs scheme

is replaced by the successor Recovery Loan Scheme via commercial banks which is only government guaranteed for 80% of the lending. Our findings highlight a looming "finance gap" for smaller firms, given the particular finance needs of smaller businesses, who appear to find it harder to access the CBILs bank loans. The overhang of debt and repayments on existing borrowing, including more expensive traditional finance such as overdrafts and credit cards, risks acting as a significant fiscal drag to businesses as demand returns.



Limited response sample in Q2 2018

BUSINESS ENVIRONMENT

INTERNATIONAL MARKET



International sales and orders have fallen a further 8% this quarter compared to the end of 2020 and are very strongly negative. Since nearly 90% of exporters sell to Europe, some of this decline can be attributed to the start of the new trading relationship between the UK and the EU, under the Trade and Cooperation Agreement (TCA). This contrasts with domestic sales and orders which have slightly improved compared to Q4 2020.

Worryingly, about half of exporting business believe that the trade with the European Union will decrease with the TCA, which will not be made up by trade with the rest of the world – since only 11% of respondents believe this will increase.

Over half of the exporters have been impacted by the TCA and a quarter more report that it is too early to tell the impact that this agreement will have on their operations.

Even businesses who do not export themselves have been caught up in the fallout from the new arrangements - 15% report impacts to their operations such as shipment and freight delays and additional red tape or administrative burden.



"N/A" responses excluded from the calculation of net balance

Limited response sample in Q2 2018

BUSINESS ENVIRONMENT

WORKFORCE AND EMPLOYMENT



The business workforce remained constant this first quarter for almost 60% of businesses. The Coronavirus Job Retention (Furlough) Scheme has successfully protected the UK job market through the crisis, but it remains to be seen how employers will respond once it starts to be phased out.

32% of businesses reported intention to recruit but only 11% actually increased their workforce during this quarter.

72% of respondents expect that their workforce will remain stable during the next 3 months.

'Reduction in business by over 70% and no quick return to where we were before Covid-19, we had 14 people before, now we have 11 and we will reduce quickly after the Furlough if business levels do not jump.'

John Jolly, Magic Touch Promotions Ltd, Swindon

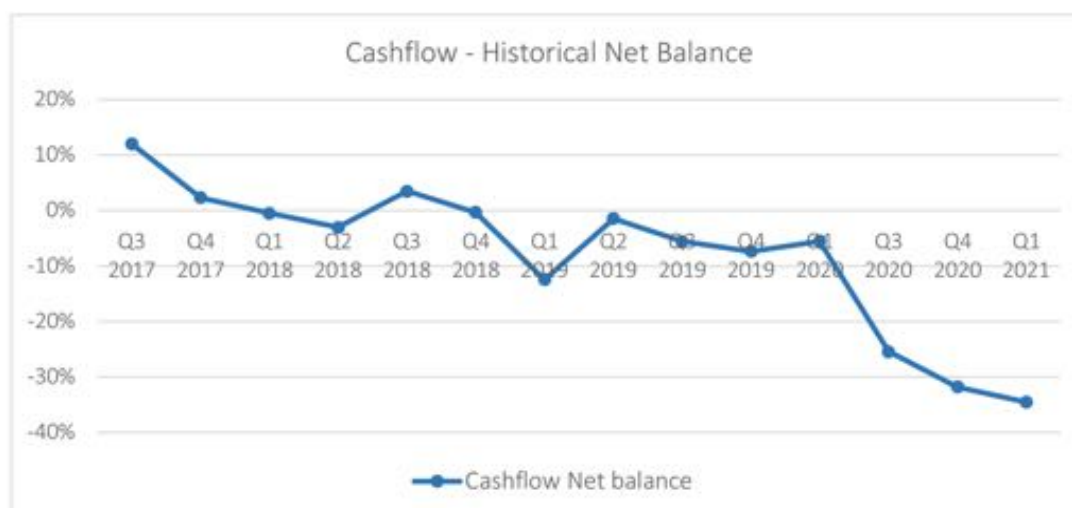
BUSINESS ENVIRONMENT

CASHFLOW



Almost half of participants reported a further deterioration in business cashflow, taking this to the lowest point in at least the last 3 years, with responses consistent across services and manufacturing sectors.

Manufacturers are slightly more positive than the service businesses regarding the turnover and profitability expectations for the next 12 months. 57% of manufacturing businesses expect turnover to improve, 7 percentage points higher than respondents in the service sector, and 43% expect profitability to improve, 3 percentage points more than in the service sector.



BUSINESS ENVIRONMENT

BUSINESS CONFIDENCE



INVESTMENT

In line with the other indicators, the investment levels across all categories, plant and equipment, property space, and R&D, are poor. A majority of businesses confirmed a decrease in their planned investment this first quarter. Overall, only investment in training has held up, with 46% of relevant businesses reporting that they made no changes in their training plans.

Following the Budget announcement of the “super deduction” capital allowance for plant and machinery investment over the next 2 years, we will monitor closely whether this changes businesses’ plans.

SOURCES OF CONCERN

The main worries for businesses this first months of 2021 have been the general business uncertainty and general economic conditions, according to over 60% of respondents. Half of businesses also selected Covid-19 restrictions, and about 40% signalled the

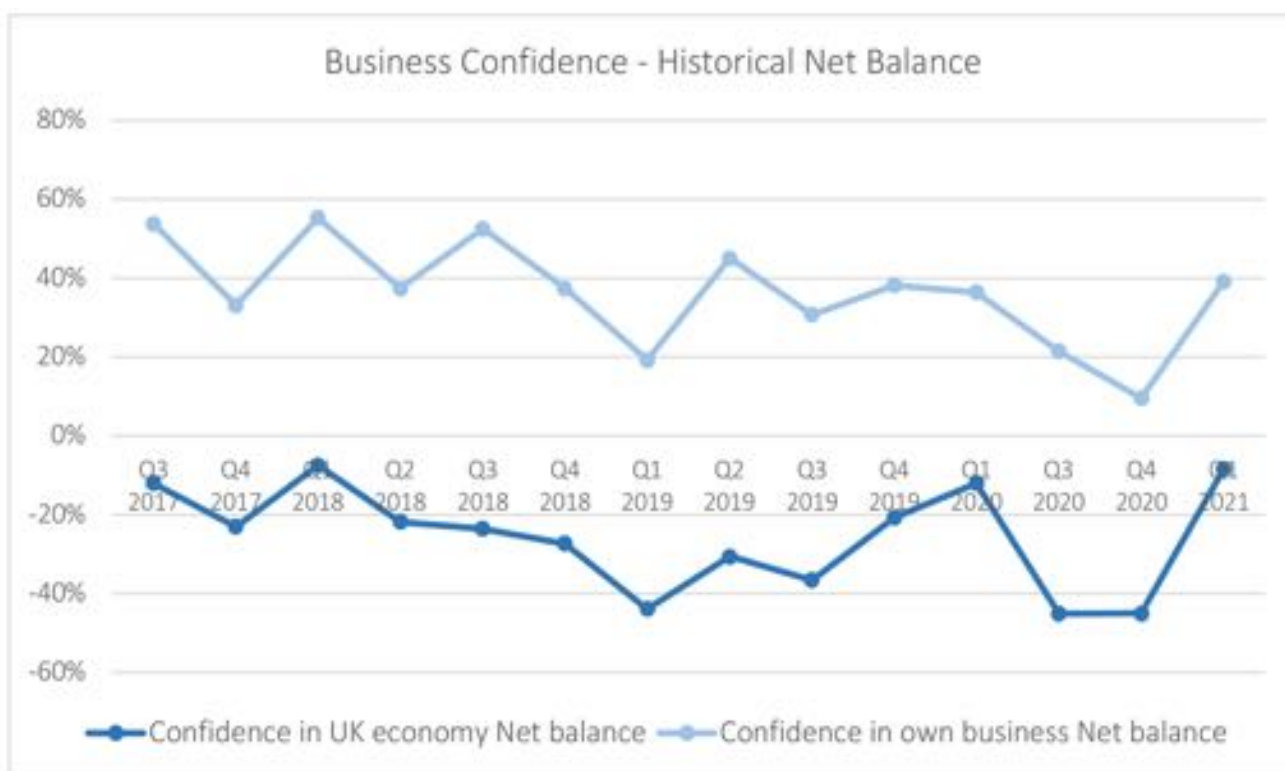
new trading relationship with the European Union as a source of concern. Lastly, taxation was concerning for more than a third of the respondents.

Interestingly, for manufacturing businesses the trading relationship with the European Union was a greater concern than the Covid-19 restrictions.

CONFIDENCE FOR THE NEXT 12 MONTHS

Keeping with the trend, confidence about the UK economy is markedly lower than the confidence each business has in its own prospects (positive confidence being 32% vs 50% respectively, and negative sentiment being 40% vs 16%). The service sector and small businesses report markedly less confidence in both categories than manufacturers and larger businesses.

Nevertheless, these results illustrate a significant improvement on the general expectations compared to Q4 2020.





METHODOLOGY









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. 553 businesses completed the survey between the 15th February and the 5th March. Most respondents are small with over half (292) reporting annual turnover under £500,000. The majority of respondents (81%) are limited companies and 58% are exporters. Geographically, half are located in the 'West of England' area around the cities of Bristol and Bath, over 20% are from the wider South West region and significant minorities from Wiltshire including Swindon, and Gloucestershire.

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 didn't 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: Q1 2021		
	SERVICES	MANUFACTURING	OVERALL
 UK SALES	-23.4%	-20.9%	-22.7% ↓
 UK ORDERS	-25.2%	-26.5%	-25.6% ↓
 EXPORT SALES	-38.5%	-26.1%	-35.9% ↓
 EXPORT ORDERS	-41.0%	-33.6%	-38.2% ↓
 CURRENT WORKFORCE	-10.0%	-2.4%	-7.8% ↓
 FUTURE WORKFORCE	6.5%	17.6%	9.7% ↑
 BUSINESS CONFIDENCE	37.6%	42.4%	39.1% ↑
 CONFIDENCE UK ECONOMY	-8.3%	-6.2%	-7.7% ↓



01275 373 373 | info@businesswest.co.uk
www.businesswest.co.uk

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