December 2020

Q4 Survey Report

Business West Q4 Quarterly Economic Survey Report

by Business West

THE SECOND NATIONAL LOCKDOWN HAS NEGATIVELY IMPACTED 60% OF BUSINESSES

Business West's last survey of 2020 lays bare the challenges a second national lockdown and the upcoming end of the transition period with the European Union represent to business health in the South West.

497 businesses of all shapes and sizes completed the survey, between the 5th and the 27th of November. Most respondents are small, over half (282) report a turnover under £500,000. The majority of respondents (77%) are limited companies and 48% of the total export their goods or services overseas. Geographically, half are located in the 'West of England' area around the cities of Bristol and Bath, with significant minorities from Wiltshire including Swindon and Gloucestershire.

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/West of England and Swindon Initiatives. Business West run the Quarterly Economic Survey as part of being an accredited member of the British Chamber of Commerce, and whose response rate is consistently amongst the highest in the UK. The results give 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.

EXECUTIVE SUMMARY

Overall the results for this quarter present a weak business outlook and rounds off a uniquely challenging year for the business community. The second lockdown has deepened the declining confidence of businesses in the economy and in their economic performance – which had seemed to timidly recover for some sectors over the summer months. The coronavirus restrictions, gaps in the government support measures, weak demand and the general economic uncertainty present an extremely difficult environment for businesses to operate and prosper.

The results of this survey confirm a worrying deterioration of the business health, with businesses continuing to cut their investment and expenditure nine months into the pandemic. Firms continue to suffer from declining cash flows and some are worryingly ill prepared to face the changes Brexit will bring. On the positive side, the labour market seems to have remained relatively stable, but given the support provided by the Coronavirus Job Retention Scheme ('furlough') this is, perhaps, not surprising. The employment landscape may change after the end of the scheme, now extended until March 2021.

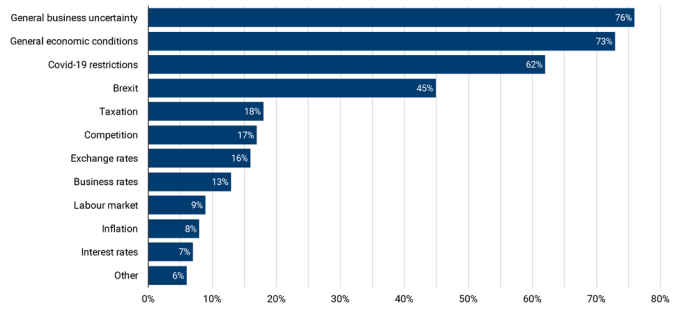
It is clear that businesses in all areas of our region's economy have less financial scope to bounce back - even those operating in sectors that are less directly affected by the covid-19

restrictions compared to more exposed sectors such as events, hospitality or tourism. Local, regional and national government must work together to mitigate the negative impact that uncertainty and restrictions have on business resilience and viability.

Overall, the economic expectations of the UK economy for the next 12 months are negative for a majority (60%) of businesses, only 15% report being confident. These numbers are in line with the expectations published last quarter. Twice as many businesses had a negative outlook for the general UK economy in Q4 2020 compared to Q4 2019. In common with a long-running trend, businesses were more confident about their own business prospects than they were of the overall economy, by 22%.

When asked about the main factors behind their outlook, the two major concerns were general economic conditions and general business uncertainty – a continuation from previous quarters and also this time last year. The other main sources of concern for the business community are covid-19 restrictions and Brexit, which worry 62% and 45% of the respondents respectively. Brexit has been a consistent major factor of concern over recent years.

Which factors are more of a concern to your business than they were 3 months ago?



CORONAVIRUS

The second national lockdown has had a negative or significantly negative impact for 60% of businesses. Even though only 14% have had to close down their premises under national restrictions, the grant available to those businesses has covered less than a quarter of their overheads for 54% – which lays bare the cost to businesses who are unable to trade normally for this period. Such miserly support is not sustainable.

"£1334 of govt grants will never cover any businesses fixed costs for 1 week let alone a month..... The grant covers maybe 10% of my fixed costs!"

- Pub landlord, Gloucestershire

For the 53 self-employed respondents eligible for the Self Employment Income Support Scheme, 57% expect the financial aid received will cover less than 25% of their business costs.

By far the most used government support scheme, furlough, was utilised by a smaller proportion of businesses in Q4 compared to previous reports earlier on in the scheme's existence, with 39% using it in October. 37% of businesses surveyed intended to re-furlough staff under the scheme during the second national lockdown.

Uncertainty and last minute policy changes have had a significant impact on employers in the region and caused issues with workforce planning. Originally the furlough scheme was due to end on 31 October to be replaced with the less generous Job Support Scheme ('JSS'), and 12% of employers made redundancies on this basis. The announcement on 30 October extending the furlough scheme, whilst welcome, came too late for 279 full-time equivalent roles in respondent businesses which were made

redundant anticipating the end of the scheme.

"It's a disgrace that people have been made redundant based on following the government guidance that was subsequently reversed. For companies they've made choices they didn't have to which can't now be reversed"

- Bath & NE Somerset based media business

The second lockdown also affected negatively the businesses' performance expectations for November compared to August. Half of the respondents expect a decline in turnover, profitability, demand and financial reserves – the latter is especially worrying since it illustrates that businesses cannot operate below costs for much longer. The borrowing capacity expectations remains stable for more than a third of businesses.

With Bath & North East Somerset, Gloucestershire and Wiltshire including Swindon leaving national lockdown in Tier 2 the restrictions for some businesses will impede their recovery in the key pre-Christmas period. The Bristol area has been allocated to the highest Tier 3 where hospitality and leisure based businesses are not able to re-open their premises under government restrictions. Getting enough grant support to compensate for lost trade throughout the restrictions period will be vital to ensuring they are able to endure through to the Spring when a vaccine and track, trace and isolate is fully functioning.

BREXIT

The end of 2020 marks the date of the UK's departure from the EU single market and customs union, and the end of the Brexit 'transition period'. Brexit is expected to impact 41% of the businesses surveyed, and a further 32% aren't sure whether their business will be impacted.

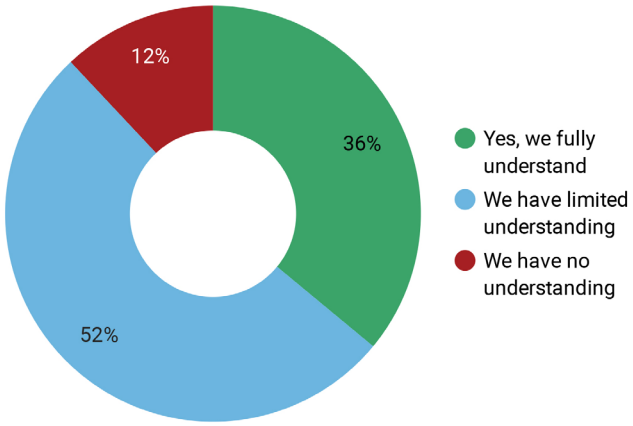
Taking the 349 businesses who will definitely be impacted or are unsure whether they will be impacted, only 36% have a complete understanding of the consequences that Brexit will have on their operations. An alarming 12% reported not having any understanding of them.

Whether or not a business fully understands the impacts Brexit will have on their operations, we separately asked how ready these businesses are for 1 January 2021. Again, excluding businesses who were sure Brexit would not impact their operations, only 31% were completely ready and a quarter reported that they wouldn't be ready in time. There is a concerning minority of businesses in our region who could face a shock due to the new trading terms that Brexit will bring in the new year.

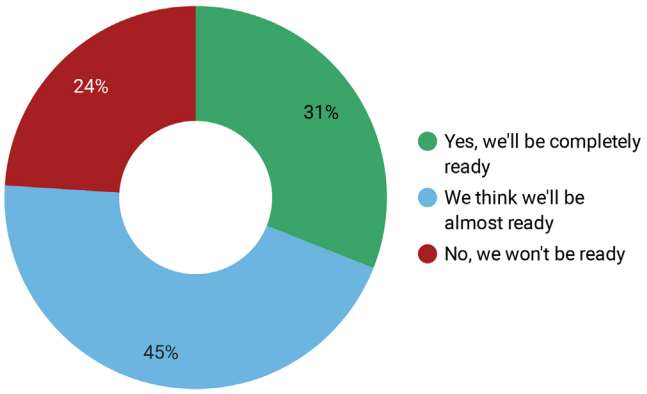
"[I] can't think about implications yet as too busy with everything else. In addition, it's hard to allocate resource until you understand the impact and we won't know that until we know what the deal will be"

- Wiltshire based IT company

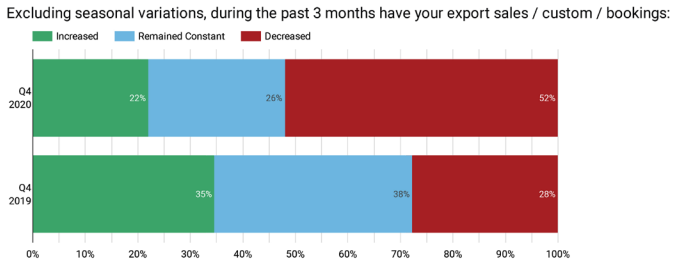
Do you understand all the steps your business needs to take to prepare for Brexit?



Do you think your business will be ready for Brexit by 1 January 2021?

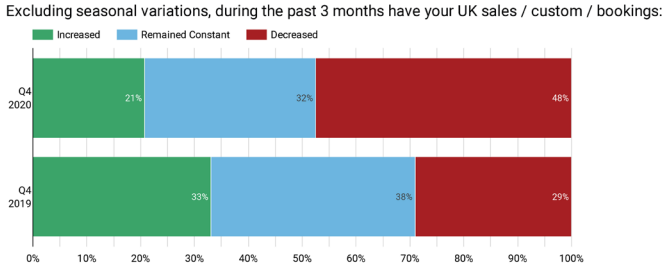


The reason the impacts of Brexit loom large is that Europe is by far the most significant export market for businesses trading overseas, half of the respondents. 91% of exporters send goods to European customers. The second largest export market is North America with 55% of businesses exporting their products there. In Q4 2020, half of businesses that sell abroad experienced a decrease in export sales. The number of exporters that have reported an increase in their international sales has risen by only 1 percentage point from the third quarter to 20% – this represents quite a steep drop from the last quarter of 2019 when 28% reported an increase.



BUSINESS HEALTH

On the full range of business health measures the last quarter represented a contraction in demand and resilience - 47% of the business surveyed have experienced a decrease in domestic sales over the last 3 months. Looking at the sales evolution, 21% of businesses have seen their domestic sales increase; that is slightly below Q3 and 12 percentage points below last year's number.

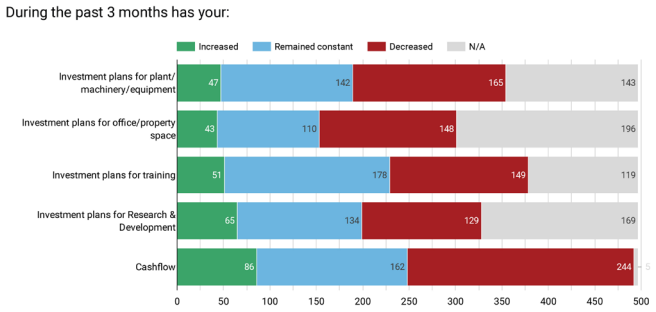


Even though 24% of businesses reported a decrease in their workforce the last 3 months, the number of businesses intending to hire new employees has experienced an 8 percentage points increase, from 25% in the third quarter to 33%. However, only 16% of the total have actually employed new staff over the last 3 months. A majority (60%) expect to maintain the current workforce capacity over the next few months.

These numbers are not far from last year's results, in the fourth quarter of 2019 40% of businesses tried to recruit new staff and just 18% actually hired. For businesses looking to recruit new staff in 2020, they are more likely to be able to find the right calibre of staff – 63% vs 30% last year, even if delays in onboarding continue to frustrate the proportions actually starting in their new roles within the quarter. This indicates a larger pool of skilled and senior candidates looking for professional opportunities.

Regarding business investment, approximately a third of businesses reduced their investments

in each of the following areas: machinery, R&D, staff training and commercial property during the last 3 months. A similar percentage, 30%, expect to decrease their investment plans for the last quarter. These contractions represent further cuts to those which have taken place already in 2020, a decrease in the competitiveness of the overall economy, and the capacity to bounce back in the long term.



Having endured a torrid time throughout most of 2020, almost half of the businesses have suffered a (further) decline in their cash flow levels and a consequent increase in indebtedness. Turnover and profitability prospects have continued to fall this quarter, unevenly depending on economic sector. Almost 40% of businesses expect an increase in their turnover over the next 12 months, whereas 35% expect a decline. In terms of profitability, 32% expect an improvement, compared to 41% who predict a fall. The larger decline in profitability is linked to inelastic cost structures that businesses are coping with, which will slow down the eventual economic recovery.

Businesses that have positive prospects for the next months are more confident about their performance over the next year. Logically, the retail, tourism, and food and drink sectors report weaker performances and poorer expectations. Nevertheless, the general sentiment is still quite pessimistic even when looking at the expectations excluding the aforementioned sectors.

Respondents are more optimistic about their own business performance, 37% are confident about their business performance over the next year. Nevertheless, that is 8 percentage points below the third quarter of 2020 and 18 percentage points less than the last quarter of 2019, which confirms an overall deterioration of the business confidence during 2020.

CONCLUSIONS

The results of the Quarterly Economic Survey for the last quarter of 2020 reflect the challenges and difficulties that businesses have faced during this year. The unprecedented epidemiological situation has forced businesses to adjust, decrease and, in some cases, stop their operations. This has caused deep and concerning disruptions to the business community. The available government support mechanisms – which have sometimes been poorly coordinated and communicated, such as the latest extension of the Furlough scheme – have not been enough to replace the normal business activity.

Even though there are some sectors that have seen an increase of revenues during the pandemic, overall, both domestic and international sales have continued to decrease this last quarter for a majority of businesses.

The business community has made great efforts to survive unexpected circumstances that have dominated this year. However, the results indicate that the economic and financial margin for businesses to continue and bounce back gets narrower as time goes on and uncertainty remains. There is a dire need for economic certainty and clearly communicated medium to long-term policy strategies that allow businesses to operate while complying with all the safety measures, as well as extended substantial financial support mechanisms for those sectors who continue to face restrictions.

Key Economic Indicators Q4 2020 - Change on Quarter (Q3 2020) Change on Year (Q4 2019)

	Q4 2020	Change on Quarter (Q3 2020)	Change on Year (Q4 2019)
UK sales	**21%**	-1%	-12%
UK orders	**17%**	-2%	-10%
Export sales	**22%**	2%	-13%
Export orders	**20%**	1%	-8%
Current workforce	**16%**	4%	-2%
Future workforce	**14%**	-7%	-9%
Business confidence	**37%**	-8%	-18%