East Midlands Chamber
Derbyshire Nottinghamshire Leicestershire

Quarterly Economic Survey

Results Q2 2020

The following report uses data taken from the Quarterly Economic Survey carried out by East Midlands Chamber (Derbyshire, Nottinghamshire, Leicestershire) in the second quarter (Q2) of 2020. This regular survey asks businesses a series of questions on key economic indicators. The Q2 survey fieldwork ran from 18 May to 8 June 2020.

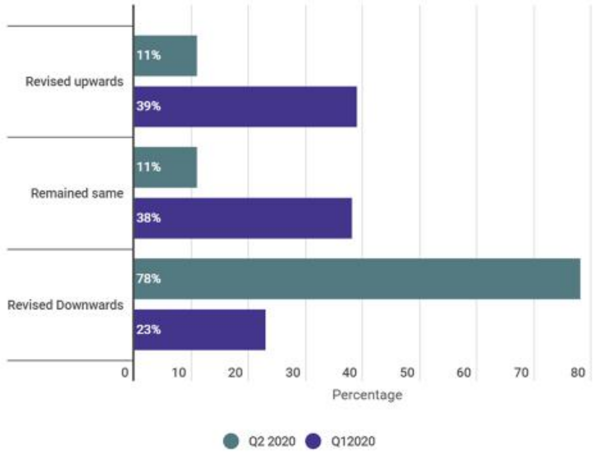
There were 444 responses to the survey, 39% operating in a broadly manufacturing background, and 61% from a broadly service background. Of the respondents, 45% had fewer than ten employees, 33% had 11-49 employees, 14% had 50-249 employees and 8% had more than 250 employees.

Sales and Orders – UK markets

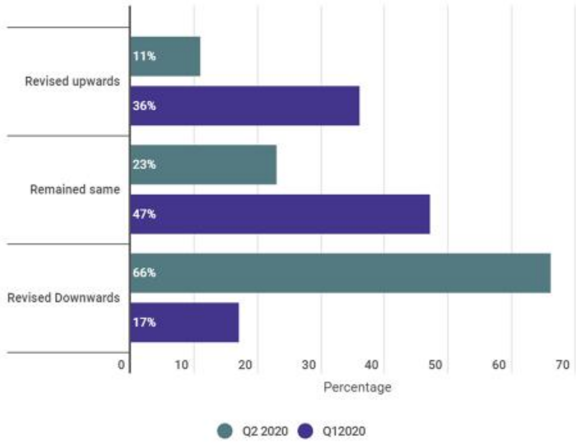
Quarter-on-quarter performance in UK markets saw a massive decline in activity – both for sales and orders. A net -67% saw sales fall over the past three-month period and a net -55% saw advanced orders likewise decline.

Manufacturers performed better than service sector businesses, where the net fall in sales activity was -74% (compared to -50% for manufacturers) and -59% in advanced orders (compared to -43%). This relative resilience could reflect longer lead-in times for manufacturing activity or a forced 'onshoring' of some activity due to restricted access to other marketplaces.

Businesses involved in UK markets - Over the past 3 months, sales/custom/bookings have:



Businesses involved in UK markets - In the coming 3 months, sales/custom/bookings are expected to:

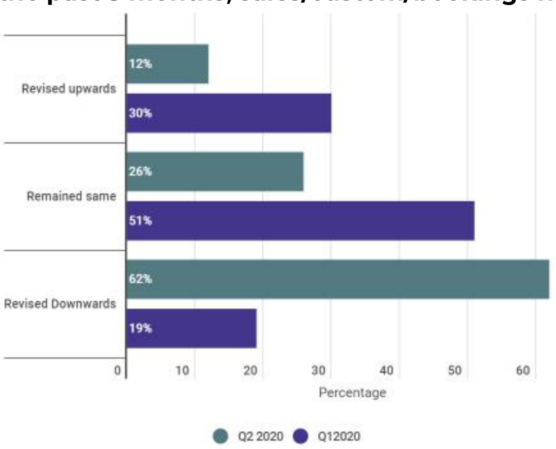


Performance in UK markets	Past 3 months (sales) %		Coming 3 months (orders) %	
	Q2 2020	Q1 2020	Q2 2020	Q1 2020
Increased	11	39	11	36
Remained constant	11	38	23	47
Decreased	78	23	66	17

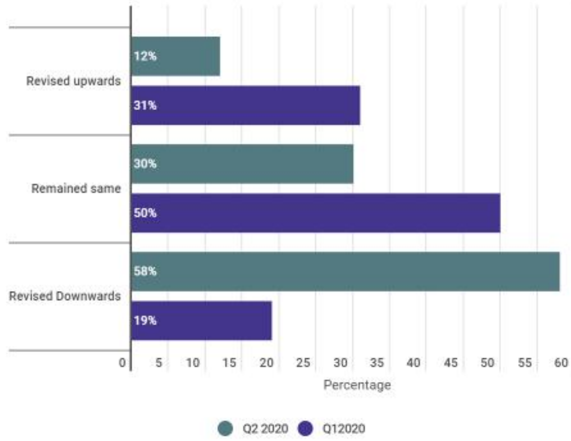
Sales and Orders – Overseas markets

Overseas activity was hit similarly hard during Q2, albeit not quite at the same levels as domestic activity. Net -50% saw sales activity fall in overseas markets and net -46% saw orders fall. Again, service-sector businesses saw slightly greater falls than manufacturers, but quarter-on-quarter both were down significantly, regardless of sector.

Businesses involved in Overseas markets - Over the past 3 months, sales/custom/bookings have:



Businesses involved in Oversease markets - In the coming 3 months, sales/custom/bookings are expected to:

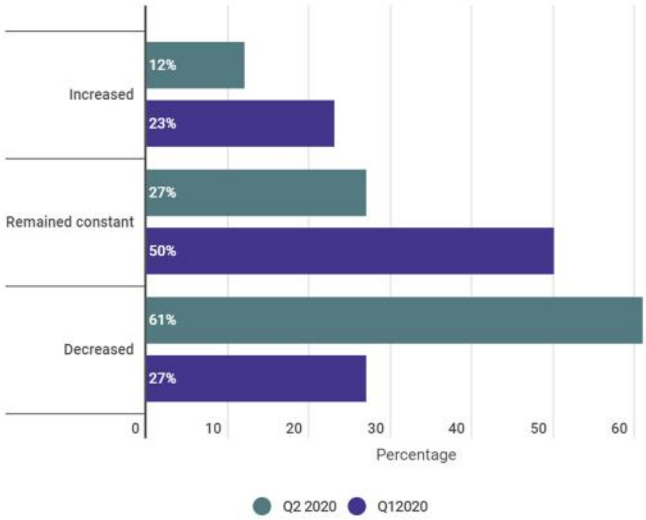


Sales and Orders – Overseas markets by sector

Sectoral Performance in overseas markets	Past 3 months (sales) %		Coming 3 months (orders) %	
	Manufacture	Service	Manufacture	Service
Increased	13	10	13	11
Remained constant	26	24	32	25
Decreased	61	65	55	64

Cashflow

Over the past 3 months Cashflow has;



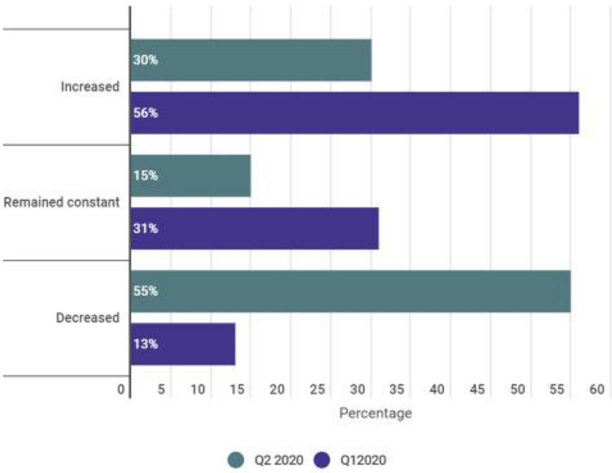
Cashflow was been a major concern for businesses over the past quarter and Government responded by making various loan and grant schemes available. Despite this, a net -49% saw cashflow fall in the second quarter (compared to a net -4% in the first quarter).

Positive cashflow is an integral part of a healthy operating business and the six in 10 that saw this decrease in the second quarter will be hoping for a swift recovery and an improvement in their access to cash over the remainder of the year.

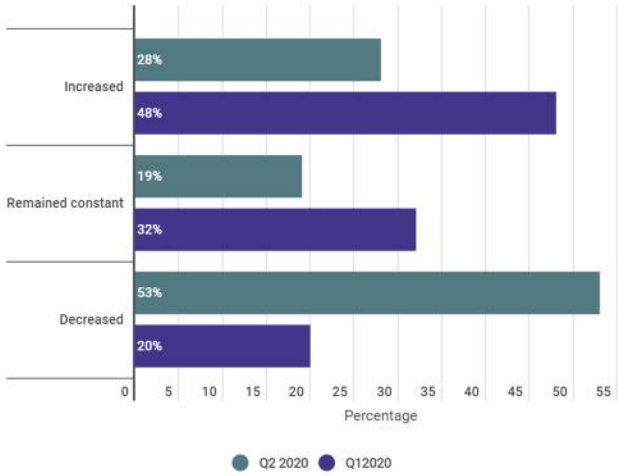
Turnover and profitability

Falls in activity levels saw a corresponding fall in confidence levels for the coming 12 months, with a net -25% anticipating decreases in turnover and a net -25% anticipating decreases in profitability. This compared to +43% and +28% respectively in Q1, demonstrating significant swings to the negative. There was little difference across sectors.

Confidence in anticipated Turnover;



Confidence in anticipated Profitability;



Sectoral Confidence	Anticipated turnover %		Anticipated profitability %	
	Manufacture	Service	Manufacture	Service
Increased	31	30	24	30
Remained constant	15	15	16	20
Decreased	54	55	60	50

Investment intentions

The slowdown and drop in confidence for future turnover and profitability saw many businesses scaling back their intentions to invest – both in plant/machinery/equipment, and in training activity.

A net -27% reduced capital investment plans (compared to net +16% increasing these in Q1) and a net -21% reduced training plans (compared to +19% in Q1). Manufacturers were more likely to be reducing capital investment plans than businesses in the service sector, with 49% of total manufacturer respondents revising these down.

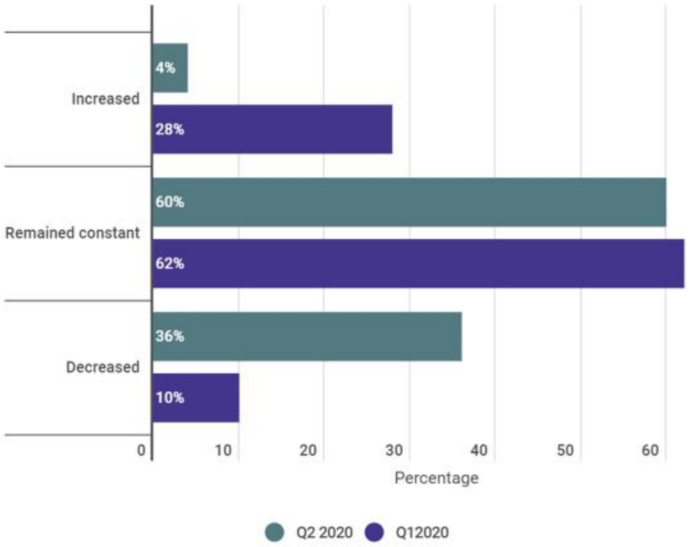
Intentions to invest		
Investment types	Q2 2020 %	Q1 2020 %
Plant/machinery/equipment	Increased - 13	Increased - 26
	Remained constant - 47	Remained constant - 64
	Decreased - 40	Decreased - 10
Training	Increased - 12	Increased - 27
	Remained constant - 55	Remained constant - 65
	Decreased - 33	Decreased - 8

Labour force changes

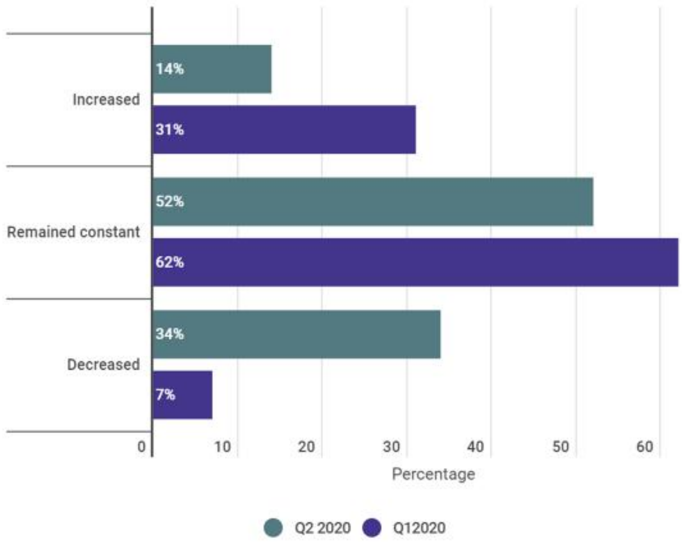
Linked to a drop in activity levels, there were also reductions in the workforce across respondents. 36% reduced their headcount in the quarter with only 4% increasing their workforce numbers.

The Government's Coronavirus Job Retention Scheme (furlough scheme) has supported many businesses to retain employees over the past quarter, however, with that starting to phase out in Q3 a further 34% anticipate further reductions in the coming three months.

Over the past 3 months your Labour force has;



Plans for Labour force over the coming 3 months;



Longer-term prospects

The Q2 survey asked some additional questions around recovery and longer-term plans for businesses – both for the end of 2020 and the end of 2021.

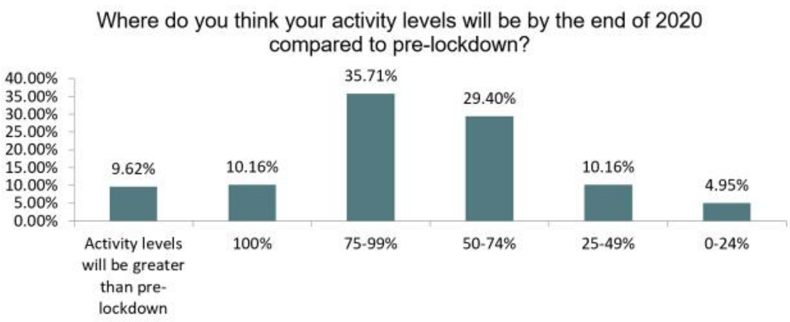
20% of businesses anticipate returning to either 100% or more of the activity levels they were at before lockdown by the end of this year, with 45% expecting to be at these levels by the end of 2021.

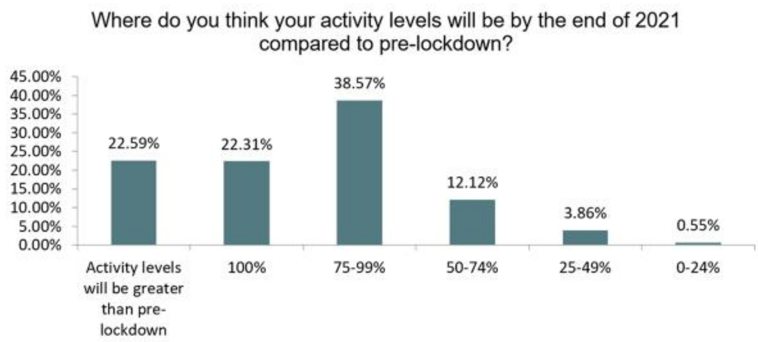
However, 55% don't expect to have returned to the same levels of activity within the next 18 months. When asked how they might respond to any drop in profitability as a result of this, 69% said they would either permanently or temporarily reduce their headcount, 31% said they would consider introducing short-time working and 26% look to reduce salary levels.

36% said they would actively look to invest in activity that would help to diversify their offer to access new markets and 25% said they would invest further in staff training to improve efficiencies.

These results demonstrate that businesses are readying themselves to take significant actions if needed to protect the future success of their operations in the face of any pro-longed downturn in activity.

Longer term prospects - post lockdown





Labour force changes

If you think you will see a decrease in activity levels, how might you respond to any associated downturn in profitability?

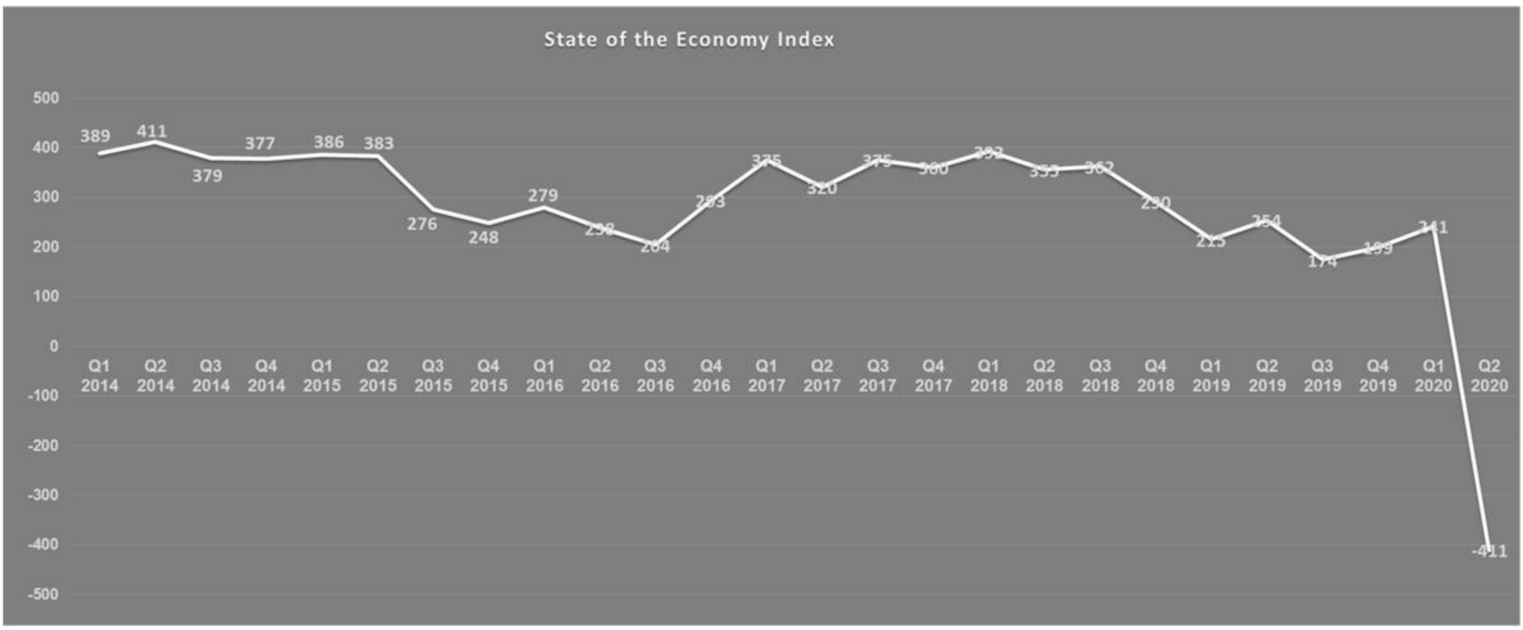
Permanently reduce staff headcount	39%
Temporarily reduce staff headcount	30%
Implement short-time working	31%
Reduce salaries	26%
Reduce fixed asset costs (e.g. move towards remote working)	27%
Relocate business to smaller premises	10%
Absorb reduction in current reserves	29%
Seek temporary funding to fill the gap	26%
Close business	10%
Invest in innovation in new products/services to diversify offer	36%
Invest in staff training to improve efficiencies	25%

State of the economy

The State of the Economy Index (SEI) is a figure produced by combining the net figures across the various indicators that demonstrate activity or sentiment.

While the figure will hide variations in individual responses, it indicates the general direction-of-travel for the economy and the change quarter-on-quarter. It allows consideration of a broader picture of trends over a longer period.

The updated SEI shows a drop in the Index to a negative figure that is the mirror opposite of the highest peak it has seen since 2014. This is the first time the SEI has been in negative territory and, as the results are a factor in comparing changes quarter-for-quarter, illustrates an unprecedented and sudden change in operating circumstances greater than any other external factor seen since these figures started being recorded. It demonstrates how sudden the shift has been and in future quarters will demonstrate the speed of the recovery.



Chamber commentary – the economic impact and longer-term implications of responding to a pandemic

The speed at which the economy shut down because of the UK's – and the global – response to the coronavirus pandemic was unprecedented. Whole swathes of the business community either ceased or dramatically reduced activity, with some yet to get back underway.

While there are some sectors and businesses that have seen growth in the past few months – for example, some food manufacturing or IT support and provision – for the majority of businesses this period has been one of uncertainty and waiting for further signs as to how and when the economy may unlock and any further health implications of this.

It has also been a period that has challenged lots of businesses to look closer at how they operate. While for some the switch to remote working could, for practical reasons, be only partial, other organisations have been able to successfully embrace a new way of working.

For those that have needed to go back into the workplace, social distancing requirements have resulted in some being forced to seek further efficiencies in how they work. At the same time, other businesses have successfully shifted wholly or partially to an online service as a means of continuing activity during the lockdown.

The extent to which lessons learned from this period will be carried forward as the economy recovers will, in part, depend on customer expectations and behaviours, as well as businesses conducting their own cost-benefit analysis of areas such as fixed costs and overheads, not to mention employee wellbeing and safety. Taken together it would not be a surprise if one longer-term result of the pandemic is a growth in business productivity, a nut that many Governments over a long period have looked to crack.

In addition to looking at operating models, many businesses are looking again at their supply-chains and customer bases. Some have been spurred to look at more local suppliers – something that might also support resilience in the face of any further Brexit disruption – and others are looking to diversify their customer bases and markets. For example, the upfront costs of developing new overseas markets have arguably been reduced through the embracing of virtual meetings using the various platforms that everyone has become accustomed to in recent times.

There are undoubtedly some long-developing trends that have been sped-up by the pandemic and things will likely not return to exactly as they were before – such as the growing importance of digital and online in retail and the positive impact of a growing low-carbon economy in the East Midlands. There has also been significant disruption to some sectors where the model is not fundamentally broken and with the right support, businesses will recover – for example, large parts of the travel and tourism industry.

There is still a way to go before the economy can fully recover, and there will be many hard stories at both an organisational and individual level over the summer and beyond.

Regardless of a business's individual experience of the past three months, in conversation with members, many see opportunities to grow and succeed outside of this current period, perhaps taking a different approach to how they do this. To help them in this, continuing to support businesses to innovate, diversify, and think differently must become a central tenet of the Government's policy response as we come out of the pandemic.

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