Q2

2020

QUARTERLY ECONOMIC REPORT

West & North Yorkshire Chamber of Commerce
British Chambers of Commerce Accredited

IN PARTNERSHIP WITH

Leeds City Region Enterprise Partnership
Working in partnership with the
West Yorkshire Combined Authority

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Nick Garthwaite
Chair

West & North Yorkshire
Chamber of Commerce

Without resorting to the standard current clichés, I really want to thank all those businesses who gave time to complete this quarter's survey. Whilst the numbers make for grim reading this will likely be the most significant quarterly economic survey in three decades as policy makers look to the results in helping to guide recovery plans.

The last three months have without question been the most challenging in peace time with rule books torn up and rewritten. The machine of government has listened to the business voice throughout the crisis with the Chamber network across the UK feeding in directly to policy interventions, which have undoubtedly helped reshape them were necessary and make ministers aware of fresh challenges as they emerge.

Lastly, throughout the crisis we have learned just how agile and innovative regional businesses have been in helping direct and repurpose their activities in order to support our NHS and the wider health care ecosystem, the Chamber would like to thank all of them. As we enter the recovery phase, no doubt we will lose good businesses who, through no fault of their own, have been unable to survive, this is cause for sadness. However, this crisis presents an opportunity to rethink how government works, it will present opportunities to rebuild and renew our regional economies and help create new opportunities for business and communities. As a Chamber we will continue to push government to deliver on its Levelling Up agenda, working with stakeholders to ensure that we fix decades of regional imbalances in government investment in order to boost productivity. Despite the gloom I am confident that we will get through this and look forward to seeing friends and colleagues once again in the real world away from Zoom.

Once again I would like to thank the Leeds City Region Enterprise Partnership and West Yorkshire Combined Authority for their ongoing support in producing this quarterly report.

Mark Goldstone
Head of Policy and Representation

West & North Yorkshire Chamber of Commerce

As always your views are important so please do get in touch with comments or issues at representation@wnychamber.co.uk

They say a picture paints a thousand words and the graphs throughout this report most certainly do just that. The regional economy has experienced a sudden and shuddering halt the like of which we have not seen in peace time, with all sectors reporting falling sales, investment and business confidence. In this quarter's report we have brought in data gathered through the crisis from our weekly business tracker which provides more detail to the story behind the numbers as things unfolded.

BUSINESS PREPARATIONS FOR REOPENING

We asked in the survey about company plans to reopen once the government announced an easing of lockdown. It is heartening to hear that businesses are taking a 'safety first' approach to reopening with nearly three quarters planning to have measures in place for the safe movement of customers and the general public for at least the next 3 to 12 months. Social distancing also features very strongly in our survey, with 41% expecting this to be part of their working patterns for at least the next 6 months with an additional 43% expecting to keep this going for up to 12 months. As we enter the recovery phase it is vital that businesses continue to follow official guidance and ensure that safe working practices are in place; in the meantime rebuilding public confidence and ensuring the health and safety of customers and their staff will remain the top priority for businesses

Roger Marsh OBE
Chair

Leeds City Region Enterprise Partnership and NP11

For more information on the business support available across Leeds City Region, including Barnsley, Bradford, Calderdale, Craven, Harrogate, Kirklees, Leeds, Selby, Wakefield or York, contact 0114 448 1818 or business.growth@the-lep.com.

The stark economic impact of the COVID-19 crisis on businesses and people of our region is all too evident in this quarter's economic survey. Both export and domestic activity have taken a sharp downturn and many businesses are reporting increased risk as they look to rebuild their customer base after months of little to no activity.

As lockdown restrictions begin to ease, we are beginning to see some signs that business activity is resuming, but the road to economic recovery will be long and challenging.

The LEP and the Combined Authority are committed to supporting the region's economy with a package of measures to help protect as many jobs and businesses as possible, including capital grants for businesses, skills support and training for those who have been furloughed or lost their job as a result of the crisis, or mentoring and peer-to-peer support from other business people. The LEP has already provided direct support to over 3,000 companies through the LEP's business support service, as well as capital grants, webinars and mentoring support for affected firms.

Businesses can access support through the LEP's Business Support Service by calling the helpline on 0113 348 1818, by emailing businesssupport@the-lep.com or by using the online business support enquiry form.

As we look to recover from the pandemic, it will be more important than ever that we focus on rebuilding an even more resilient, sustainable and inclusive economy that enables everyone to prosper and enjoy a decent quality of life.

METHODOLOGY

This quarter there were 369 respondents of business owner / senior manager / director / partner status. 49% of the sample was actively trading internationally. Businesses were surveyed by telephone or by online questionnaire between the periods 18th May to the 8th June 2020.

Net balance figures referred to throughout this report and represented in the graphs are determined by subtracting the percentage of companies reporting decreases in a factor from the percentage of companies reporting increases.

The Chambers that conducted the survey are:

West and North Yorkshire Chamber of Commerce.

Mid-Yorkshire Chamber of Commerce.

The remit of the above Chambers does not extend to Barnsley and therefore findings reflect the position in most but not all of the Leeds City Region economy.

BUSINESS SIZE CLASSIFICATION

Throughout the document we refer to the European standard definition of company size as follows:

MICRO-BUSINESSES

0 – 9 employees

SMALL BUSINESS

10 – 49 employees

MEDIUM BUSINESS

50 – 249 employees

LARGE BUSINESS

250+ employees

Q2

EXECUTIVE SUMMARY

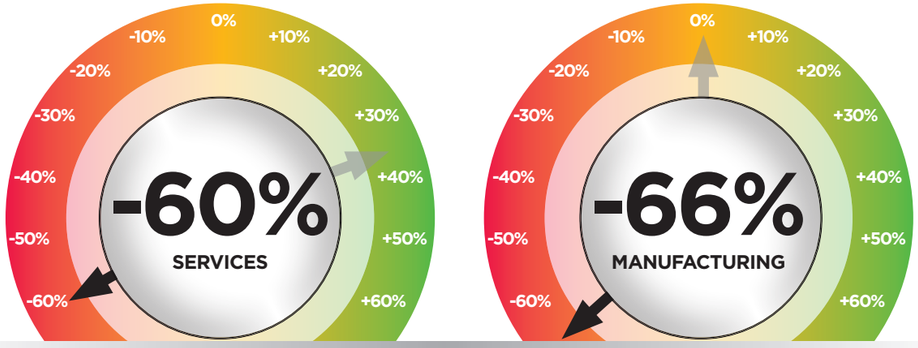
DOMESTIC SALES AND ORDERS – Net balance fell by 66points for manufacturers and 95 points for the service sector. Within the services sub=sectors, it is business to consumer companies such as hospitality, training and venues which are hardest hit whereas information technology and communications showed the least impact.

EXPORT SALES AND ORDERS – Net balance fell 72 points and 65 points for services and manufacturing respectively.

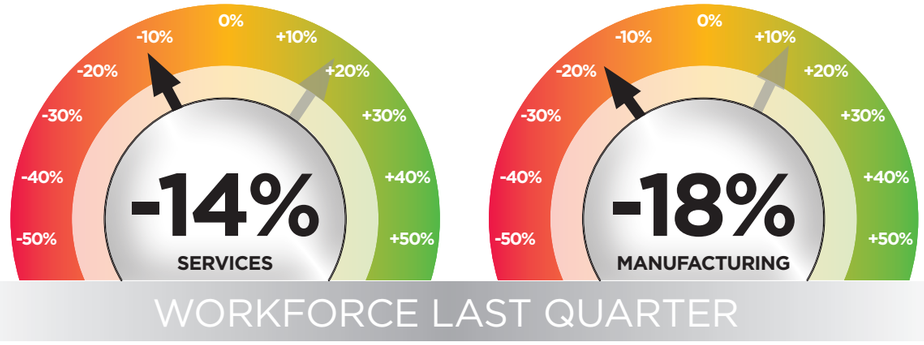
EMPLOYMENT – Whilst the number of companies reporting headcount increases was less than those reporting decreases, three quarters of businesses reported no change on the previous quarter. Companies had already indicated prior to this survey that many were furloughing staff.

INVESTMENT – Investment in both training and capital equipment fell in the last quarter as companies seek to hold on to cash reserves. Ongoing uncertainty will likely delay any future investment in the short term without government stimulus to get the economy moving again.

BUSINESS CONFIDENCE – Business confidence, not unsurprisingly, fell to its lowest point since late 2008 and early 2009 across all sectors.

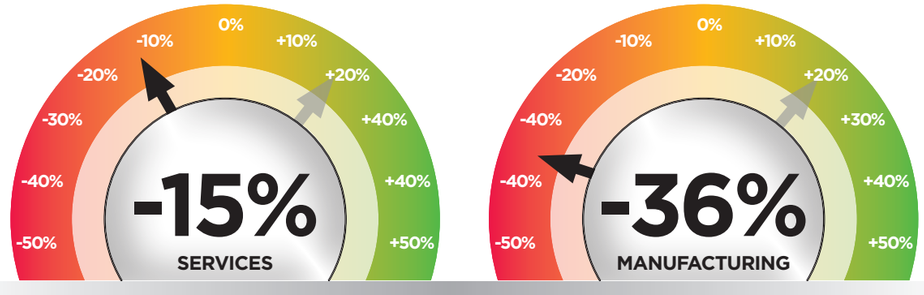


UK SALES

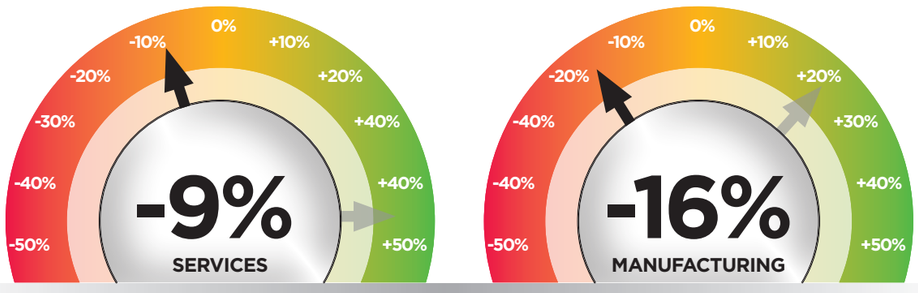


WORKFORCE LAST QUARTER

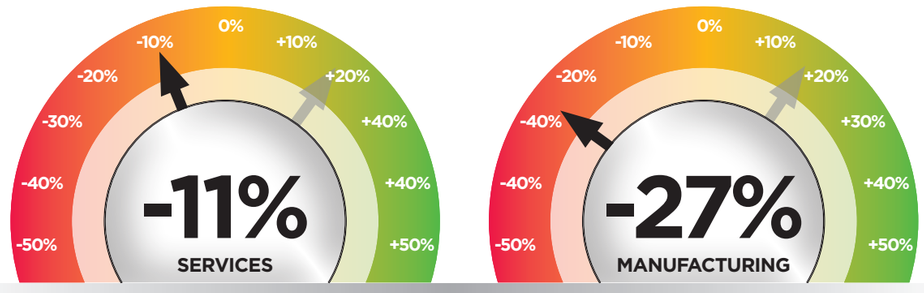
OVERSEAS SALES



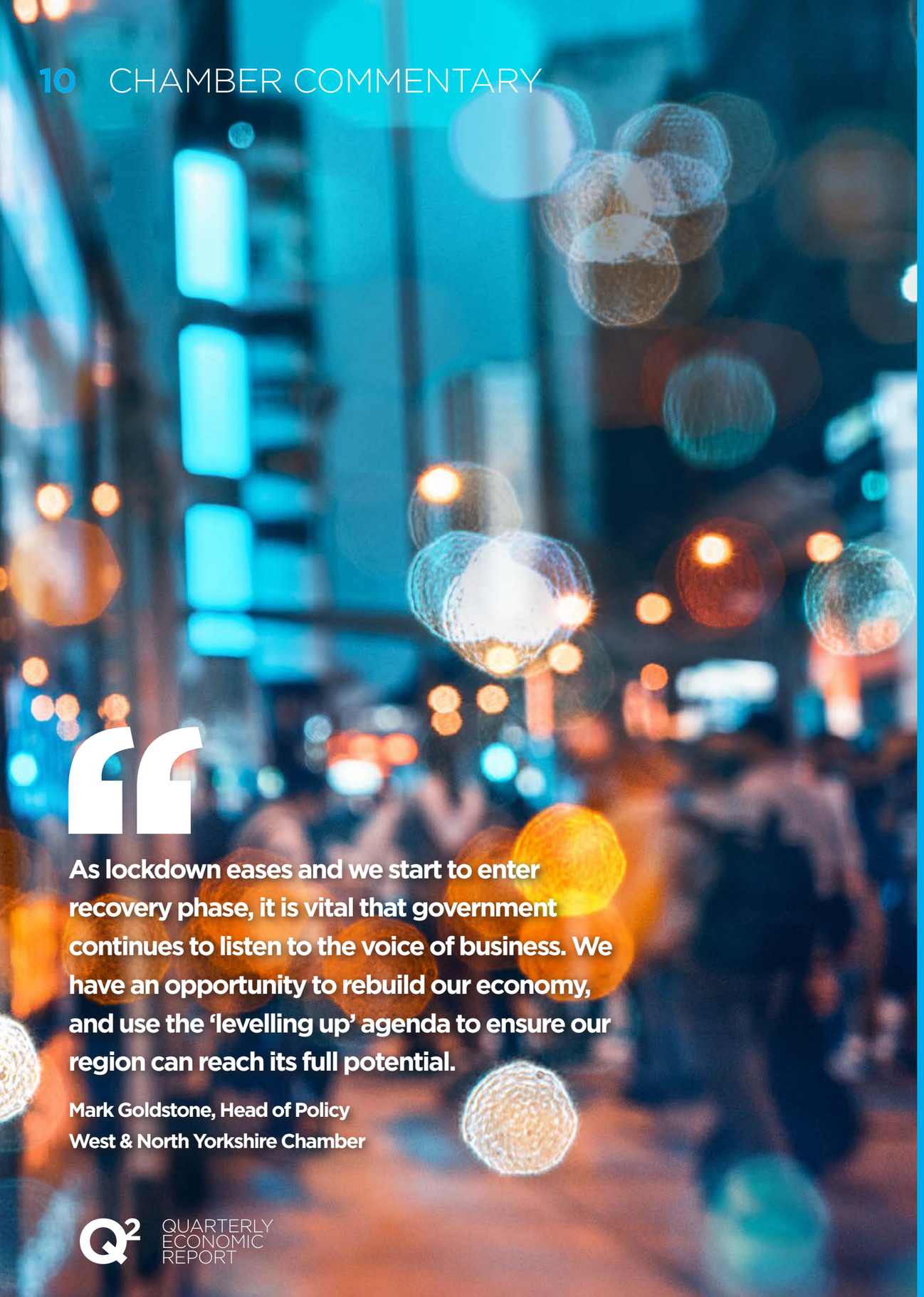
INVESTMENT - CAPITAL



CONFIDENCE



INVESTMENT - TRAINING



As lockdown eases and we start to enter recovery phase, it is vital that government continues to listen to the voice of business. We have an opportunity to rebuild our economy, and use the 'levelling up' agenda to ensure our region can reach its full potential.

Mark Goldstone, Head of Policy
West & North Yorkshire Chamber

Q2

PERFORMANCE

The service sector accounts for around 80% of businesses in West & North Yorkshire and contributes significantly to employment and the economy. The sector has significant clusters including professional & financial services, banking, legal and digital & creative across the region. Retail and tourism also play a leading role in parts of our region. This survey includes results from a cross-section of sub-sectors.

Manufacturing (including construction) represents approximately 19% of the companies in the West & North Yorkshire region. Manufacturing is still a major employer in our region with over 140,000 people employed here. Analysis of sub-sectors shows that the region has above-average representation in more advanced sectors such as chemicals and chemical production, medical technology, electrical equipment and machinery. Survey results include responses from all major sub-sectors. The sample used in this survey includes a high proportion of manufacturing exporters.

MANUFACTURING SALES **-66%**

-60% SERVICES SALES

MANUFACTURING EXPORTS **-57%**

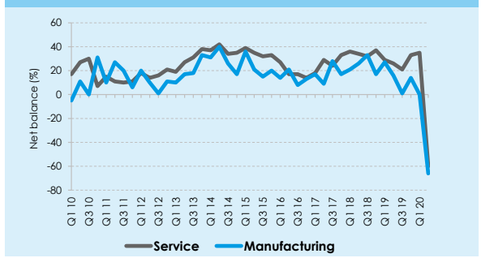
-52% SERVICES EXPORTS

DOMESTIC SALES AND ORDERS

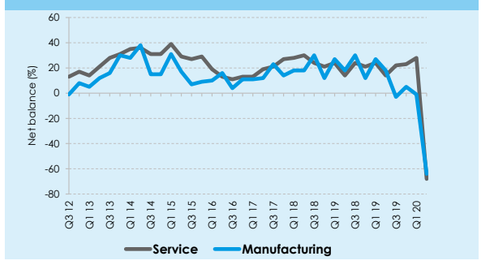
This quarter's results are unprecedented and exceed the previous 30 year low which we saw in Q4 2008. Services net balance, which had been moving upwards following December's general election result and the collapse of the Brexit roadblock, dropped 95 points to -60%, at the low point of the recession of 2008 this only ever reached -26%. This shows just how different the two economic events really are with both supply and demand side challenges this time round.

Manufacturers were already seeing the early impacts of coronavirus supply chain disruption in Q1, whilst having to deal with geo-political tensions and a slowing international economy. This quarter's net balance of -66% also exceeds the low point of Q4 2008 when it stood at -57%.

DOMESTIC SALES



DOMESTIC ORDERS



OVERSEAS SALES AND ORDERS

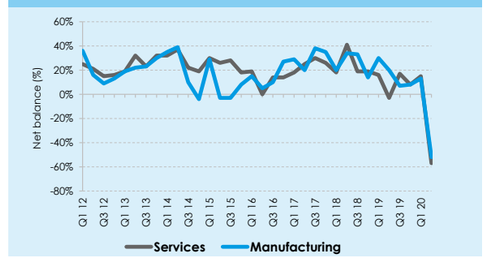
Exporters reported similar falls in sales as markets closed and lockdowns were introduced around the world with drops in net balance of 72 and 65 points respectively for services and manufacturing. Forward orders saw similar catastrophic drops.

INDUSTRY COMMENT:

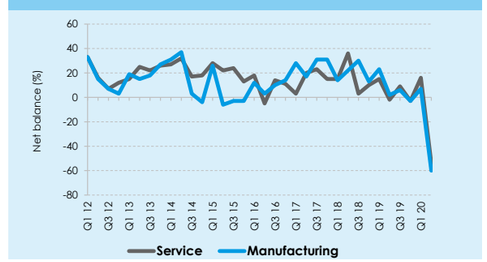
"Food manufacturers I know are very busy with turnover up on pre-lockdown figures. Brewers have furloughed some staff and have switched production to almost entirely small pack (can & bottle) and are offering deliveries and off-sales."

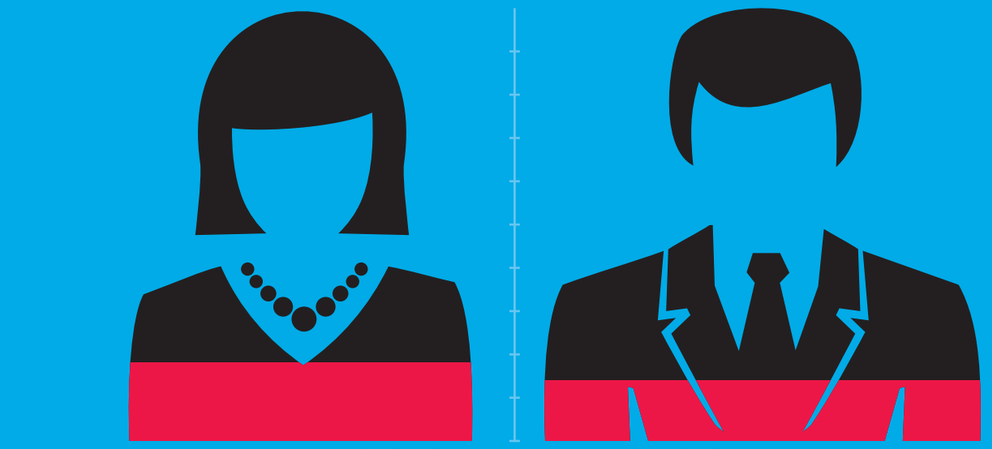
Matthew Grant
Audit and Accounts Partner
Garbutt & Elliott

EXPORT SALES BY SECTOR



EXPORT ORDERS





EMPLOYMENT

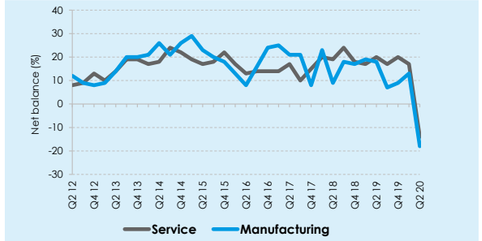
Although net balances turned negative for the first time since 2008/09 the majority of businesses reported 'remain constant' in their survey responses. Given the Chamber's weekly COVID19 tracker has consistently indicated that many businesses had put large volumes of staff on furlough this would indicate that, for the time being at least, companies are looking to retain workers in preparation for recovery.

How the government deals with the easing of lockdown and the tapering of the furlough scheme could have a profound effect on employment rates. Given that the number of companies reporting recruitment activities in the last quarter was extremely low, then for the short term we may see unemployment rising across our region.

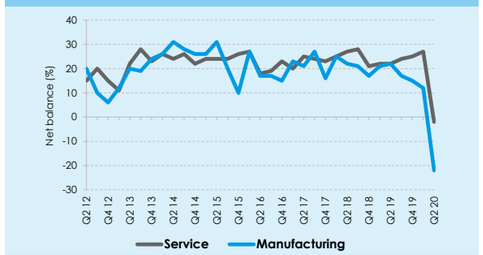
RECRUITMENT BY INDUSTRY SECTOR

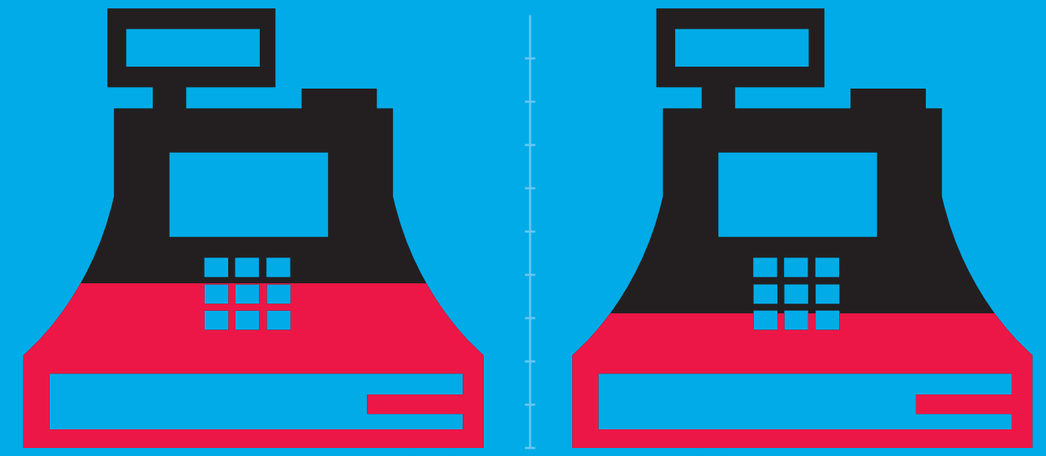
The number of companies reporting any kind of recruitment activity was so low this quarter that the data provided does not represent a reliable sample for the purposes of this quarter's report.

WORKFORCE CHANGES - LAST QUARTER



WORKFORCE CHANGES - NEXT QUARTER





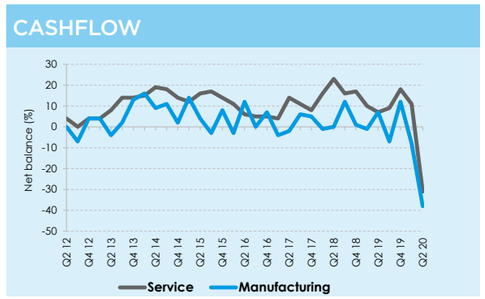
CASHFLOW

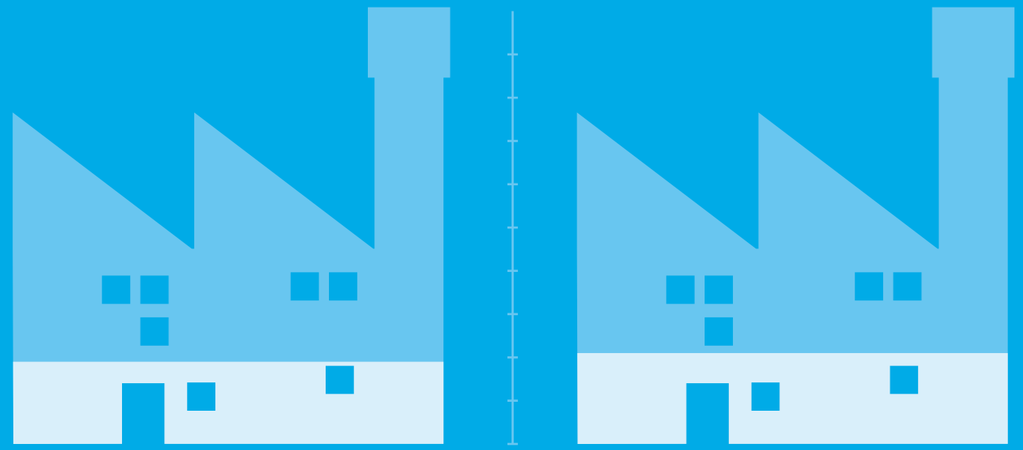
Since the end of March the Chamber network has been tracking the cashflow challenges faced by companies. The number of companies reporting less than three months cash reserves was a stark warning to government that many may not survive. This quarter it does not come as a surprise to report the steepest drop in net balance in the survey's 30 year history.

The introduction of financial support including the Coronavirus Job Retention Scheme (CJRS or furlough scheme), the Coronavirus Business Interruption Loan Scheme (CBILS) and later the Bounce Back Loan Scheme (BBLS) has undoubtedly helped many get through the crisis but now we are preparing for recovery, cash flow will be critical.

Our tracker highlighted the variations between business sectors with B2C businesses more likely to be facing cash flow challenges given they were most impacted by lockdown and many have not been able to transition to an online business model. B2b service sectors have largely been able to adjust for remote working and manufacturers have been able to operate with a mix of remote working and onsite social distancing.

CASHFLOW





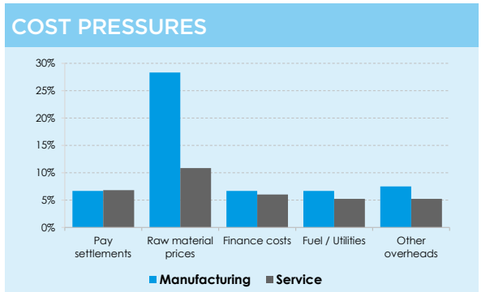
COST PRESSURES, EXTERNAL FACTORS

Manufacturing concerns over raw material prices remains top of the list this quarter however the number of companies reporting this as an issue has fallen to its lowest level in a decade, symptomatic of the fall in demand for raw materials around the world and even their availability in some cases.

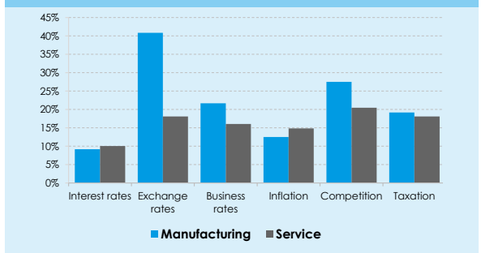
CAPACITY

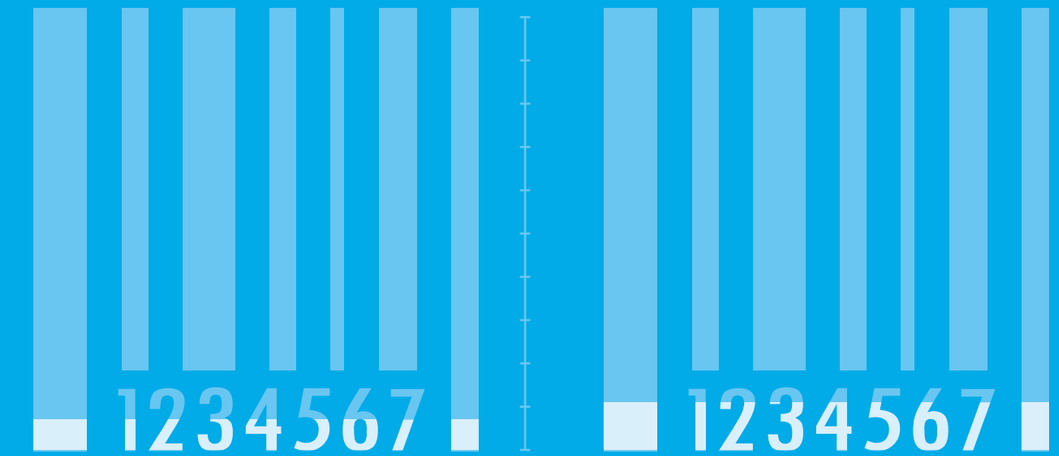
	FULL CAPACITY	BELOW CAPACITY
Service	21%	79%
Manufacturing	18%	82%

COST PRESSURES

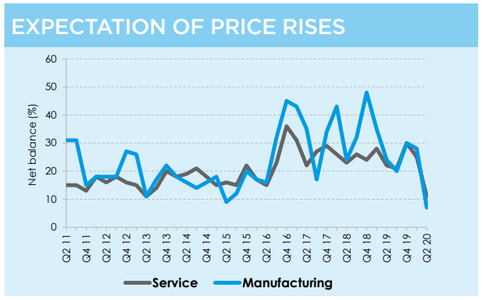


EXTERNAL FACTORS

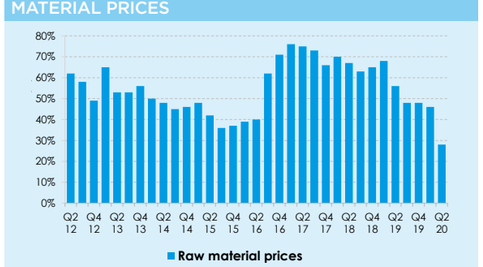




EXPECTATION OF PRICE RISES



MANUFACTURERS CONCERNS OVER RAW MATERIAL PRICES



PRICES

Following the UK's steady recovery from the 2008 crash and the drawn out EU crisis and recovery, sterling appreciated against global currencies easing concerns over import costs. The EU referendum in 2016 and the subsequent currency depreciation led to significant increase in the number of companies raising raw material prices as a concern. Failure to leave the EU caused another peak in early 2019 also.

Given the crash in demand it was highly unlikely that we would see companies looking to increase prices in the last quarter.

MANUFACTURING CAPITAL INVESTMENT **-36%**

-15% SERVICES CAPITAL INVESTMENT

MANUFACTURING PROFITABILITY **-16%**

-9% SERVICES PROFITABILITY

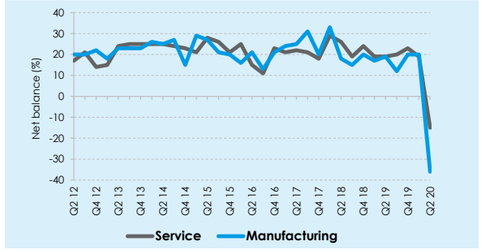
INVESTMENT

The Chamber's weekly COVID19 tracker has been saying since late March that many companies were struggling with cash reserves and so it is no surprise that investment intentions have been shelved for many businesses.

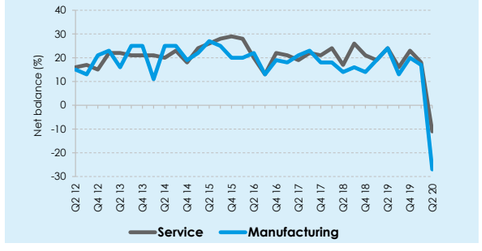
TRAINING INVESTMENT

It is a very similar story for training investment with companies looking to hold on to cash as they attempt to weather the economic storm.

CAPITAL INVESTMENT BY SECTOR



TRAINING INVESTMENT BY SECTOR

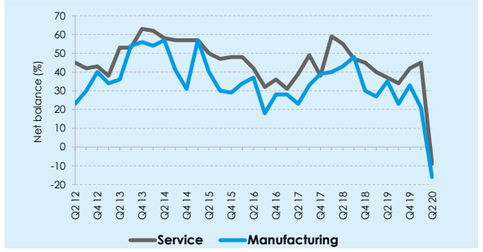


INDUSTRY COMMENT

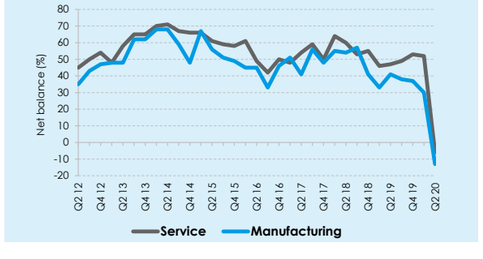
"Sales have been affected but some sectors continue to hold up and even increase output, most notably the food manufacturing sector."

Stephen Wright
Managing Director
Thorite

PROFITABILITY EXPECTATIONS

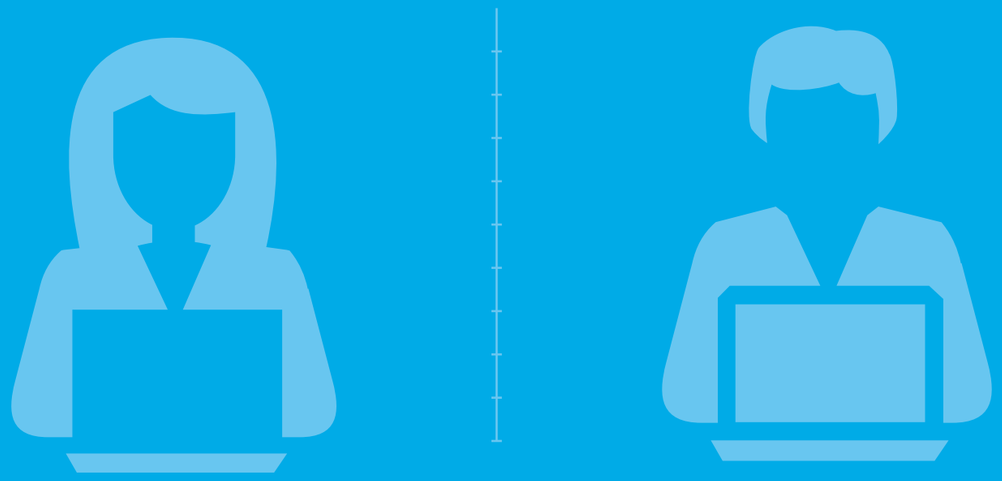


TURNOVER EXPECTATIONS



BUSINESS CONFIDENCE

Business confidence has taken a knock in the last quarter, with levels of cash reserves along with uncertainty for recovery proving to be a challenge.

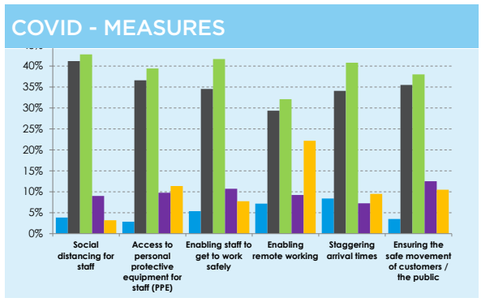


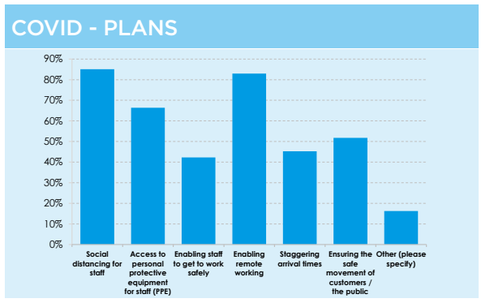
PREPARATIONS FOR REOPENING

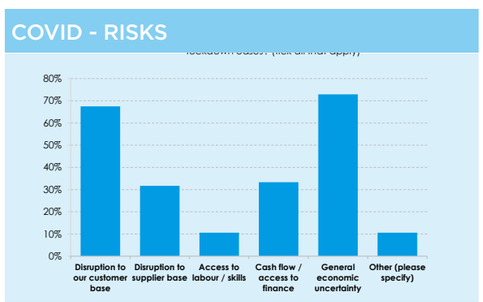
This quarter we asked a number of questions to identify how companies were preparing to reopen following lockdown, feedback from which has been fed into local authority and local enterprise partnership plans.

Social distancing and remote working are being introduced by the majority of companies, these look likely to be in place for at least the next 12 months. Employers are also looking to make the safety of their staff and customers a high priority over the next 12 months also.

Not unsurprisingly, the general economic uncertainty surrounding the regional, national and international economy is the single biggest factor posing a risk to businesses. This is followed closely by disruption to customer base with over 2/3's of businesses citing this. Disruption to supplier base is also a concern with 32% of businesses overall saying this is an issue but this rises to 50% within the manufacturing and construction sectors.







Q2 QUARTERLY ECONOMIC REPORT

Chamber International

moneycorp

Global Specialists in currency exchange & international payments

Chamber International, the international services division of West & North Yorkshire Chamber of Commerce, has partnered with foreign exchange and payment solutions experts, Moneycorp, to offer members special terms and access to very good foreign exchange rates.

Moneycorp has been a market leader in the fast-moving world of foreign exchange for more than 35 years, which allowed them to establish a client base of over 10,000 corporate clients, and maintain a strong reputation with a 5.1 security rating from Dun and Bradstreet, while being fully regulated by the Financial Conduct Authority in the UK.

Exclusive Benefits:

- Preferential exchange rates – often up to 2% better than bank rates
- Dedicated account manager and expert market guidance
- Funds safeguarded in segregated client bank accounts
- Easy to use, fast online platform 24/7 or can deal via the phone
- Multiple currency hold accounts when you open your Moneycorp account
- FX products tailored to your needs
- Free transfers - no fees or added charges on a single payment off the back of an FX deal

To access this exclusive offer visit: www.chamber-international.com

The British Chambers of Commerce has called for "swift, substantial and immediate action" to bolster the economy, as its Quarterly Economic Survey (QES) - the UK's largest independent survey of business sentiment and a leading indicator of UK GDP growth - found that UK economic conditions deteriorated at an unprecedented rate in the second quarter of 2020.

KEY FINDINGS:

- Eleven of the 14 key service sector QES indicators fall to their lowest level in the survey's 31-year history
- The percentage balance of firms reporting increased domestic and export sales is now substantially lower than the worst quarter of the 2008-09 recession
- Indicators for longer-term business performance drop to record lows as BCC sets out measures needed to begin UK's economic recovery

The results of the bellwether survey of 7,700 firms, employing over 580,000 people across the UK, illustrates the full impact of the coronavirus pandemic on the UK economy in the second quarter of 2020.

HISTORIC SETBACK

The service sector saw eleven of the 14 key indicators, including sales, orders and cashflow, drop to their lowest levels on record.

- The balance of service firms reporting increased domestic sales dropped a record 80 points from Q1 2020 and is now 28 points lower than the worst quarter during the 2008-09 recession
- The balance of service firms reporting increased export sales dropped a record 55 points (to –55%) and is now 42 points lower than the worst quarter during 2008-09 downturn
- The balance of service firms confident that turnover will improve over the next year decreased from +38% in Q1 to -36% in Q2

Business-to-consumer (B2C) service sector firms such as retail, leisure and hospitality, were consistently more likely to report decreases across key indicators than business-to-business (B2B) service sector firms.

In the manufacturing sector, nine of the 14 key indicators measuring activity in the sector dropped to its lowest level on record.

- The balance of manufacturing firms reporting improved domestic sales was 62 points lower than in Q1. For the export sales balance, it is 55 points lower
- The balance of manufacturing firms that are confident turnover will improve over the next year decreased from +34% in Q1 to –31% in Q2

LOOKING AHEAD

Hopes of a swift economic recovery could be dashed, as forward-looking indicators – orders and investment intentions - dropped to record lows for both services firms and manufacturers. Business confidence dropped to its lowest level on record among services firms and declined to its lowest level since Q1 2009 for manufacturers.

Cashflow – a key indicator of business' health – is at its lowest level, with two thirds of respondents reporting worsening cashflow.

With the economic impact of coronavirus laid bare in this survey, the leading business group has set out the measures firms need from the Chancellor's economic statement due later this month, including:

- Supporting jobs through substantial reductions in Employer National Insurance Contributions
- Supporting cash flow through wider business rate reliefs and extended loan and grant schemes
- Supporting young people through wage subsidies for apprenticeships and work experience
- Supporting investment in productivity, people and carbon reduction through major incentives
- Stimulating demand, e.g. via targeted 'restart vouchers' for all UK households or a temporary VAT cut; and
- Streamlining regulatory processes to make life easier for businesses without compromising safety or the environment.

SUREN THIRU, HEAD OF ECONOMICS AT THE BRITISH CHAMBERS OF COMMERCE (BCC), SAID:

"Our latest survey highlights the extraordinary contraction in UK economic activity in the second quarter as the coronavirus closed large parts of the economy. The vast majority of indicators dropped to historic lows, with declines far exceeding those seen at the height of the global financial crisis.

"The services sector suffered particularly badly, with consumer-facing firms most acutely exposed to economic headwinds from the pandemic. The manufacturing sector had a dismal three months, with collapsing demand and major disruption to supply chains weighing on the sector. The unprecedented slump in business cashflow is a key concern as it severely hampers business activity and staff retention.

"With lockdown restrictions steadily easing, the second quarter is likely to prove to be the low point for the UK economy. However, the collapse in forward looking indicators of activity suggests that unless action is taken, the prospect of a swift and sustained recovery may prove too optimistic."

RESPONDING TO THE FINDINGS, DIRECTOR GENERAL OF THE BRITISH CHAMBERS OF COMMERCE DR ADAM MARSHALL SAID:

"Our results demonstrate the need for swift and substantial action. The Government has one chance to jump-start the economy and business confidence over the coming weeks – and they must take it.

"Business communities across the UK want to see a clearer, bolder roadmap to recovery that helps them restart, rebuild and renew. The UK cannot meander its way back to success in this era of uncertainty. The only way to re-kindle business and consumer confidence is to demonstrate an absolute and unshakeable focus on boosting the economy over the coming months."

KEY FINDINGS IN THE Q2 2020 SURVEY:

SERVICES SECTOR:

- The balance of firms reporting increased domestic sales fell to -64% in Q2 2020, down from +16% in Q1.
- The balance of firms reporting increased export sales dropped from 0% in Q1 to -55% in Q2.
- The balance of firms reporting improved cashflow fell from +3% to -56%
- The balance of firms expecting their prices to increase has fallen from +28% in Q1 to +5% in Q2
- The balance of firms looking to increase investment in plant and machinery fell to -41%, the lowest level on record
- The balance of firms looking to increase investment in training fell from +15% in Q1 to -32% in Q2
- The balance of firms confident that turnover will improve over the next year decreased from +38% to -36%.

MANUFACTURING SECTOR:

- The balance of firms reporting increased domestic sales fell to -59% in Q2 2020, down sharply from +3% in Q1.
- The balance of firms reporting increased export sales fell from +3% in Q1 to -52% in Q2.
- The balance of firms reporting improved cashflow fell from -6% to -47%
- The balance of firms expecting their prices to increase has fallen from +33 in Q1 to +12% in Q2
- The balance of firms looking to increase investment in plant and machinery fell to -42%, the lowest level on record
- The balance of firms looking to increase investment in training fell sharply from +16% to -38%
- The balance of firms confident that turnover will improve over the next year decreased from +34% to -31%

Q2

REGIONAL & NATIONAL COMPARISONS

The British Chambers of Commerce Quarterly Economic Survey (QES) is the largest and most representative independent business survey of its kind in the UK. Each quarter over 6,000 businesses complete the QES, making it the largest business survey in the UK.

The QES is the first economic indicator of the quarter, published in advance of official figures and other private surveys, and it consistently mirrors trends in official data. For this reason, the survey is closely watched by policy-makers such as the Treasury, the Bank of England, the Office for Budget Responsibility, the EU Commission and the International Monetary Fund.

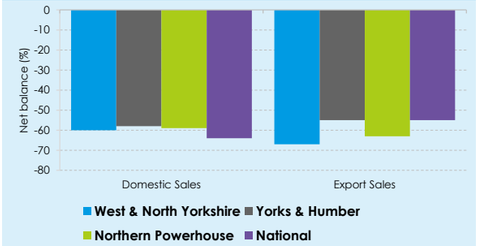
YORKSHIRE SERVICE SECTOR CONFIDENCE **45%**

REGIONAL COMPARISONS

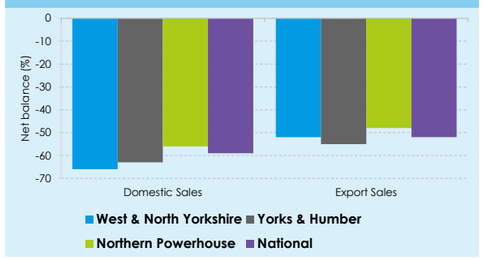
Across the UK sales both home and abroad took a major hit within all sectors over the last quarter.

Despite our region reporting similar catastrophic sales figures, the data in Yorkshire for investment, cashflow and expectations of increasing profits, whilst all in negative territory, look a little less gloomy than elsewhere

REGIONAL COMPARISON - SERVICES

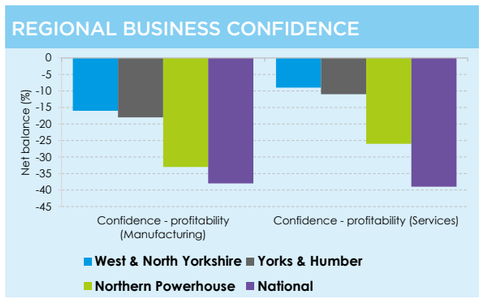


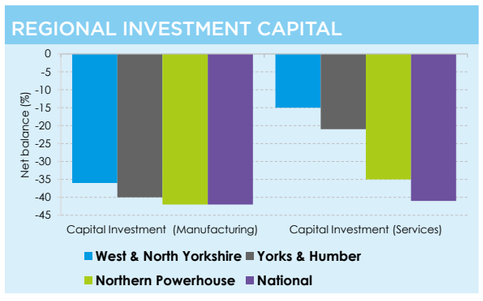
REGIONAL COMPARISON - MANUFACTURING

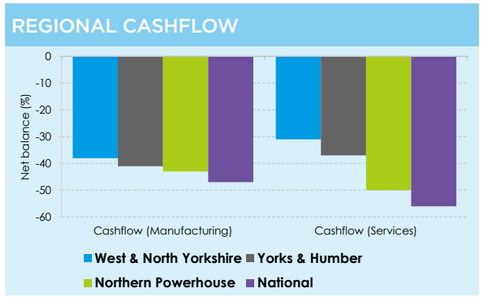


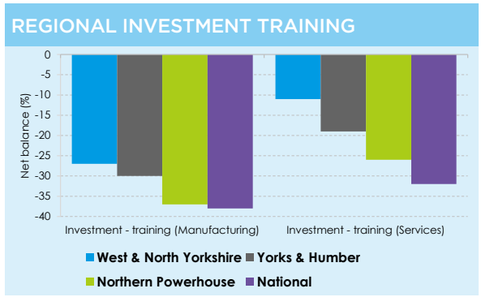
NATIONAL & REGIONAL COMPARISONS

27% NATIONAL SERVICE SECTOR CONFIDENCE









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