

# Q4

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

Welcome to this final economic report for 2020 and what has been the most challenging year for business and the economy in peace time. As I reflect on 2020 I can't sum it up any better than an interview I gave to the BBC in June where I said, "We are battered, bruised, but wiser after lockdown." The COVID crisis has tested our business community to the limit and sadly we have seen many jobs lost and industries hollowed out across our region. Our city centres have seen significant downturn in footfall and our High Streets are unlikely to return back as we knew them before the crisis. It is also likely that the skills we need in the future may not be those which we relied upon in the past as reduced headcounts and remote working have changed things, maybe forever. Yet despite all of this I remain optimistic that our economy will recover and that many businesses have learned much from the crisis. I have seen at first hand the spirit of collaboration between our civic and business leaders as we came together, setting aside rivalries, in order to create recovery plans which would help businesses survive; to develop strategies that rethink the need for an environmentally sustainable future; and which place great emphasis on people and places. Clearly we are not out of the woods with regards to COVID, but the development and roll out of a vaccine will bring some comfort to many.

We must also not forget that, at the time of writing, there remains a number of unanswered questions relating to future trading relations with regards the ending of the EU transition period. It is hoped that by the time you read this report we will have secured a free trade deal with our largest and closest market that ensures trade with the EU remains as frictionless as it can be given we will no longer be in the customs union and single market.

Fieldwork for this quarter's survey commenced in the same week that the government imposed the second national lockdown, I am therefore incredibly grateful for all of those businesses who were able to take the time to complete the survey.

Once again I would like to thank the Leeds City Region Enterprise Partnership and the West Yorkshire Combined Authority for their continued support of this survey. Now into its eighth year, it is a partnership the Chamber values immensely, allowing us to continue our intelligence gathering at scale and in turn ensuring regional policy makers are kept informed and updated with the very latest economic outlook, challenges and opportunities.



**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](mailto:representation@wnychamber.co.uk)

The final quarter of 2020 saw some improvements for businesses across our region, although this was not universal and there remains some significant sectoral imbalances. Not unsurprisingly the nature of restrictions have been especially damaging for the leisure, hospitality, accommodation and catering sectors and this is reflected in this quarter's results. Manufacturers along with professional services, especially regulatory, compliance and essential B2B services, however reported improvements in domestic sales in greater numbers than in the last two quarters, with net balance figures turning positive. Similarly firms reported that headcounts were more likely to have fallen than increase in the last quarter but that this was likely to improve in the next quarter for B2B services companies and manufacturers. For manufacturers, increased sales and the need to hire may be explained by orders being brought forward to get ahead of any likely future trade tariffs with the EU, likewise there is some indication that companies are looking to UK suppliers in order to avoid getting caught up in the global supply chain disruption and a significant reduction in container ship capacity caused by the crisis which is ultimately leading to increasing costs. There appears to be evidence of stockpiling although with challenging cash reserves for many this may be limited. Disruption to global supply chains is also mentioned by many and has seen costs rise considerably, with many expecting to pass this on. Questions remain about how long this manufacturing bounce back will continue but certainly there is now a degree of confidence which we have not seen through the course of 2020.



**Roger Marsh OBE DL**  
**Chair**

Leeds City Region  
 Enterprise Partnership  
 and NP11

As this year draws to a close, we reflect upon one of the most difficult years businesses in this country have ever faced. The COVID-19 pandemic has impacted businesses in a way none of us could have ever imagined, added to that the uncertainties of Brexit arrangements which have provided additional challenges.

In the final quarter of 2020, there are signs of improvement in manufacturing where increasing sales have driven the sector back into growth territory for the first time since last year. While economic activity still remains low, in both export and domestic activity, there are signs of recovery with both foreign and UK sales improving significantly from Q3.

It is positive to see business confidence rise from the previous quarter alongside business investment which has returned to growth. Capital investment has grown in both the manufacturing and service sectors, however this positivity does contrast with the employment outlook with many businesses reporting a reduction in headcount.

The Leeds City Region Enterprise Panel and West Yorkshire Combined Authority have been working, alongside our partners, to support businesses throughout the pandemic with a suite of grant funding and rates relief packages available. We are continuing to press Government for additional funding to support economic recovery in our region, detailed in the West Yorkshire Economic Recovery Plan which we published earlier this year. In addition, we are also looking at how we can use the funding unlocked through our landmark devolution deal to help our region emerge from the pandemic as strongly as possible.

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](mailto:businesssupport@the-lep.com) or by using the online business support enquiry form. 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](mailto:business.growth@the-lep.com).

## METHODOLOGY

This quarter there were 419 respondents of business owner / senior manager / director / partner status. 50% of the sample was actively trading internationally. Businesses were surveyed by telephone or by online questionnaire between the periods 2nd to the 23rd November 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



## EXECUTIVE SUMMARY

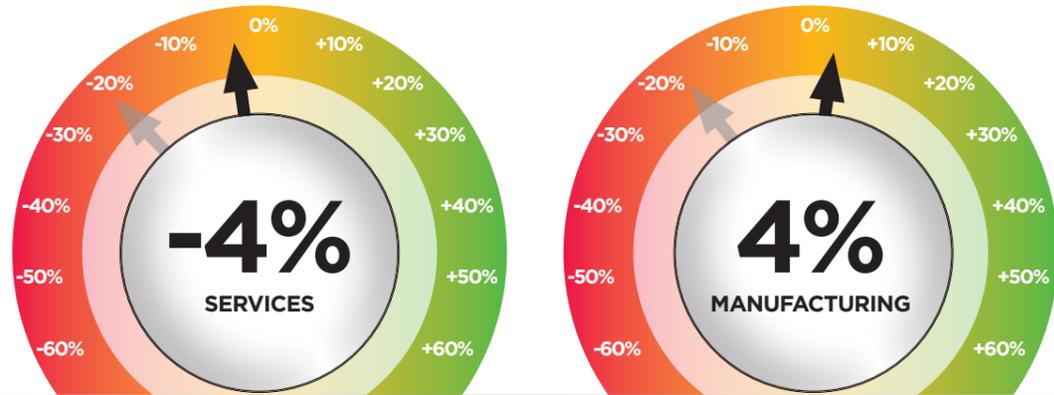
**DOMESTIC SALES AND ORDERS** – Manufacturing sales rose in the last quarter back into growth territory with more companies reporting increase than decreases for the first since 2019. Sales for B2B services also grew to +7% but overall the sector net balance remains negative with consumer services including accommodation, leisure and hospitality all reporting declining sales, not unsurprisingly.

**EXPORT SALES AND ORDERS** – Export sales also improved in the last quarter and may in part be down to customers bringing forward orders for products or services ahead of EU transition period ending on December 31st. Overseas markets in the Far East and China are also improving but concerns over increased shipping costs and capacity being raised by businesses.

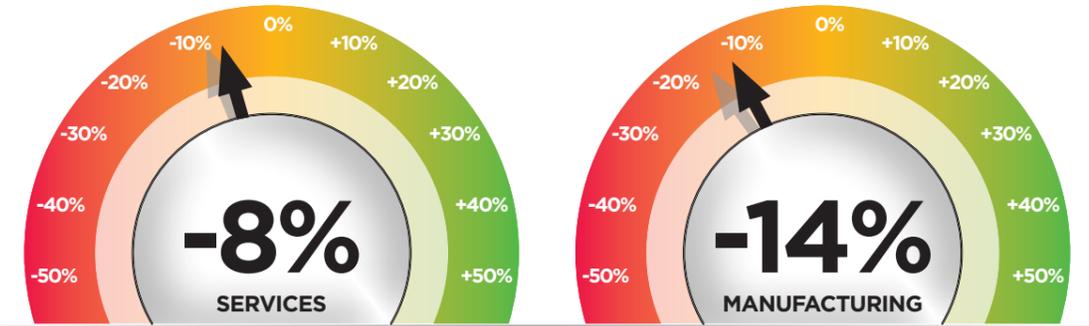
**EMPLOYMENT** – Last quarter saw net balance negative across all sectors, however the outlook for next quarter looks a little more promising as companies report expectations of increasing headcounts.

**INVESTMENT** – Manufacturing investment improved during Q4 and although still some way off pre-crisis levels is back into positive territory. In part this maybe also link back to the end of the EU transition period as companies look to get projects completed ahead of any new border controls.

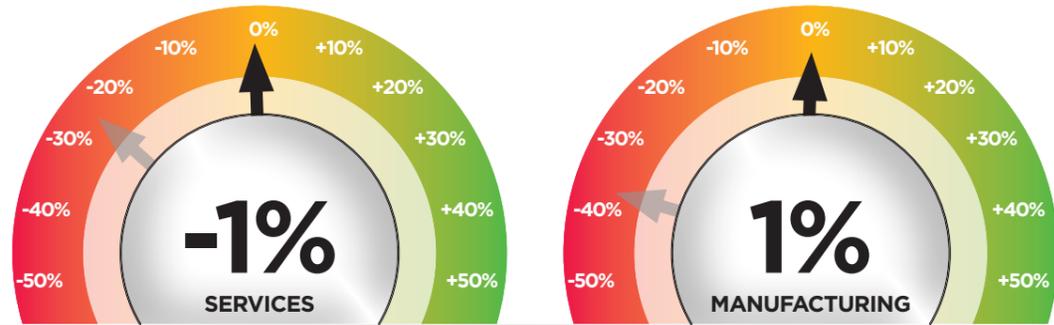
**BUSINESS CONFIDENCE** – Manufacturers reported a big increase in both turnover and profitability expectations in the last quarter with both measures at levels last seen in 2018 and 2019 respectively. Rising costs for manufactures are anticipated and many companies reported that they expect to pass these on to customers rather than take a hit to already challenging cash reserves. Service sector confidence overall also bounced back to pre-crisis levels although there are degrees of variation as you would expect depending on which part of the economy businesses serve.



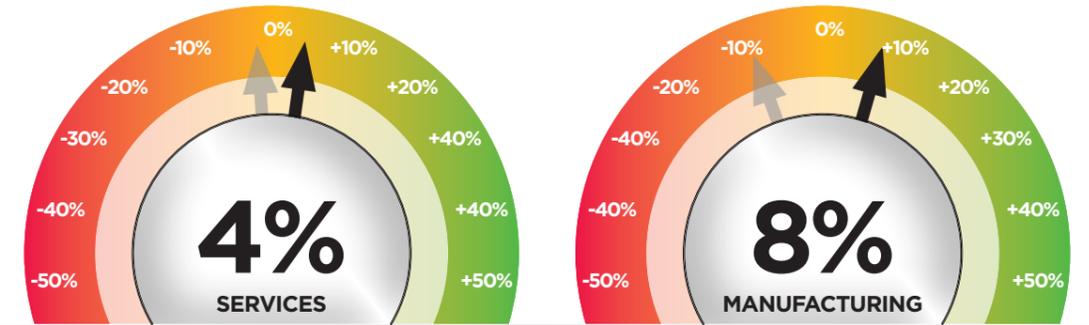
UK SALES



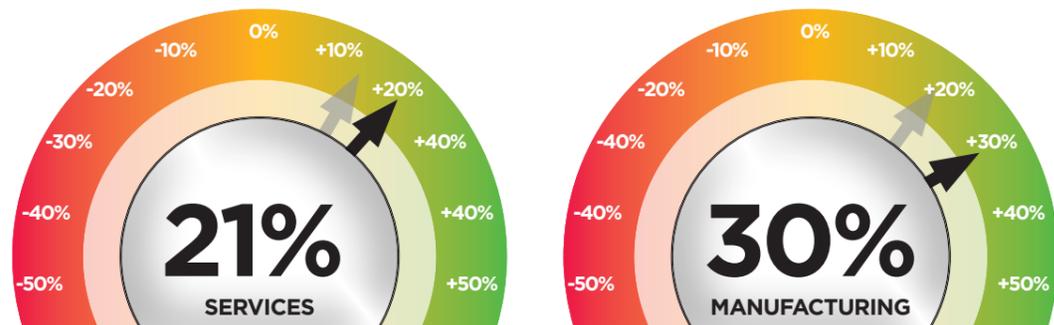
WORKFORCE LAST QUARTER



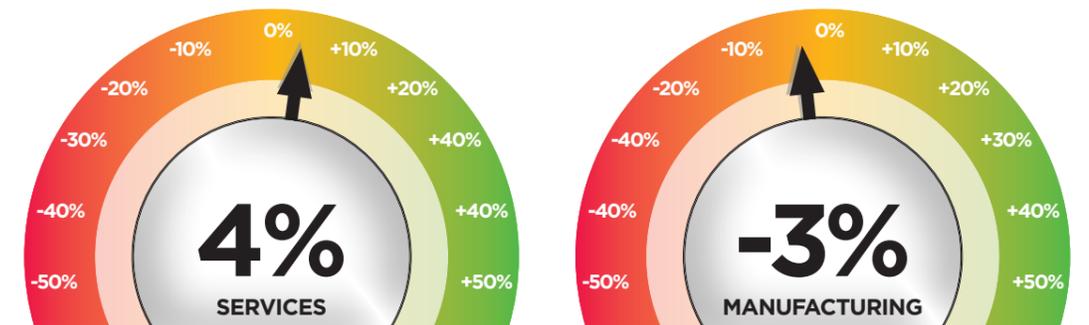
OVERSEAS SALES



INVESTMENT - CAPITAL



CONFIDENCE



INVESTMENT - TRAINING



**Manufacturing and professional services firms reported improvements in economic activity over the last quarter. Ongoing restrictions continue to hamper the majority of consumer facing business services. We now need to see a clear exit strategy from government.**

**Mark Goldstone, Head of Policy  
West & North Yorkshire Chamber**



## 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.

# 12 UK SALES



MANUFACTURING SALES **4%**



**-4%** SERVICES SALES

# OVERSEAS SALES 13



MANUFACTURING EXPORTS **-1%**

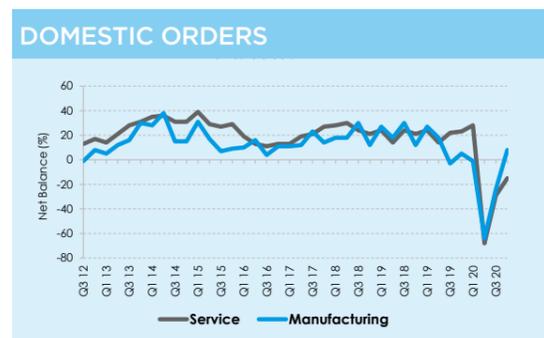
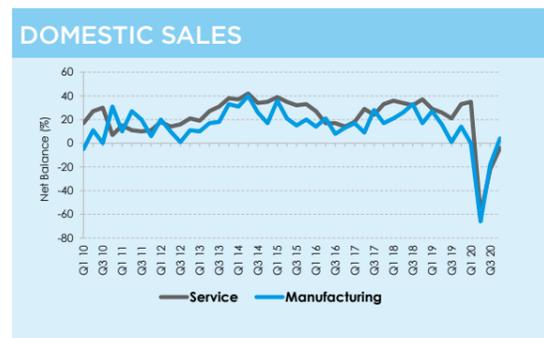


**-1%** SERVICES EXPORTS

## DOMESTIC SALES AND ORDERS

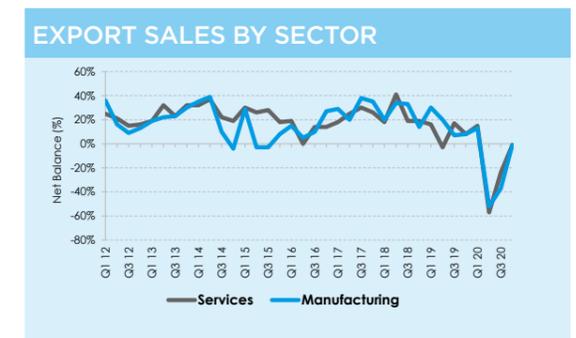
Following 12 months of negative net balances (i.e. more companies reporting declining sales than increasing sales) manufacturers reported improvements in domestic sales in the last quarter, and whilst the net balance reported was +4% we are at last back in positive territory. The services sector followed similar patterns although the accommodation, leisure and hospitality sectors continue to struggle and kept the net balance below zero. Net balance for the service sector as a whole was -4% but this drops to -18% for consumer services and +7% for B2B services companies

Forward orders look more promising for manufacturers with net balance also turning positive for the first time in a year. The pace of decline in domestic orders appears to be slowing for the service sector.



## OVERSEAS SALES AND ORDERS

The last quarter saw the decline in foreign sales almost stop following the trend seen in Q3 across both services and manufacturing. Recovery in some global markets and a need to move goods and deliver services into the EU ahead of any likely customs borders or trade restrictions in 2021 may explain this.

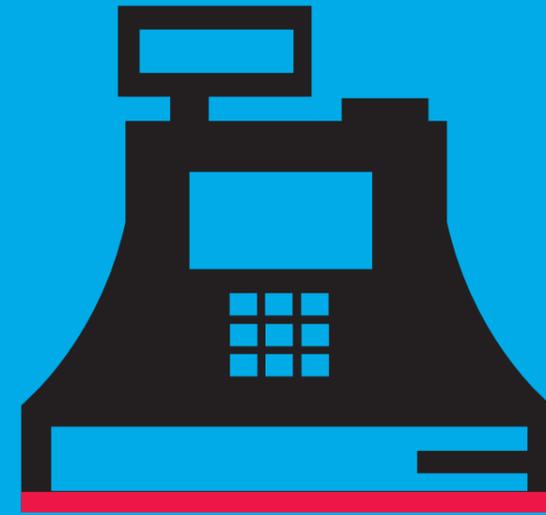




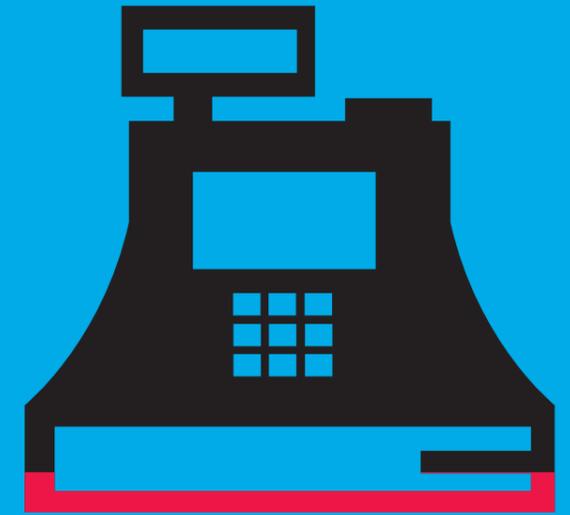
MANUFACTURING WORKFORCE **-14%**



**-8%** SERVICES WORKFORCE



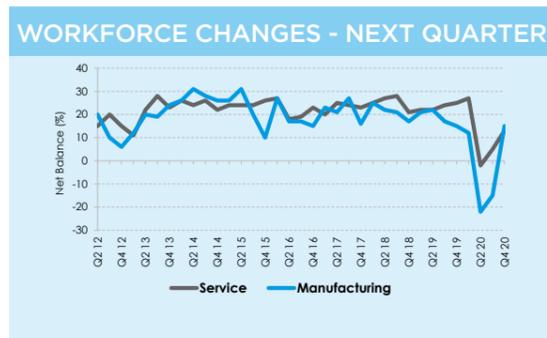
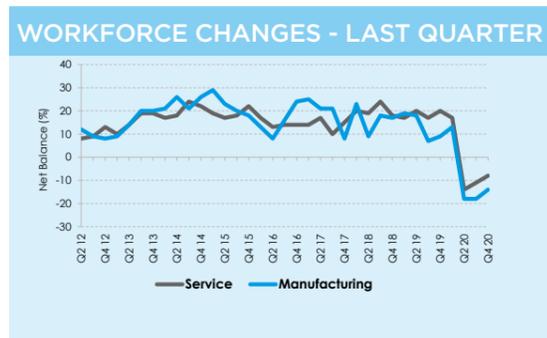
MANUFACTURING **-4%**



**-8%** SERVICES

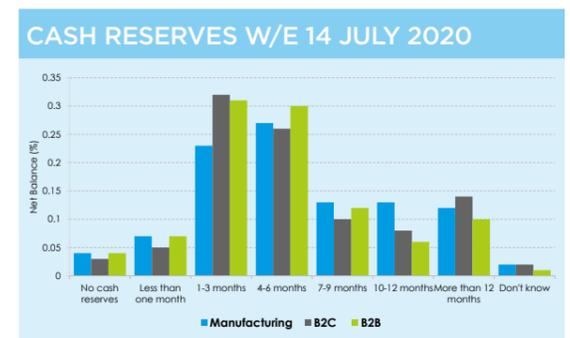
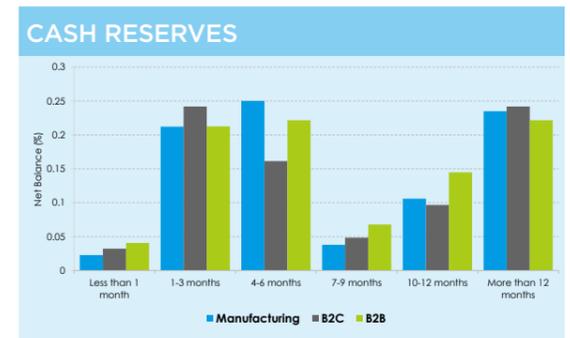
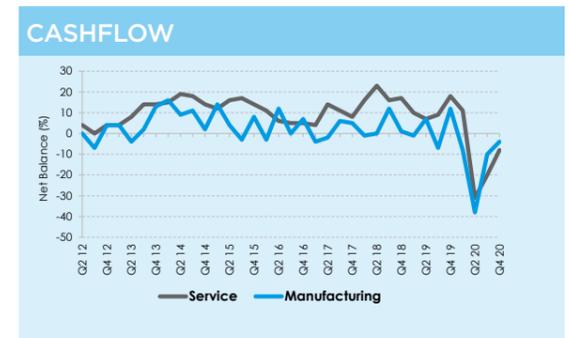
EMPLOYMENT

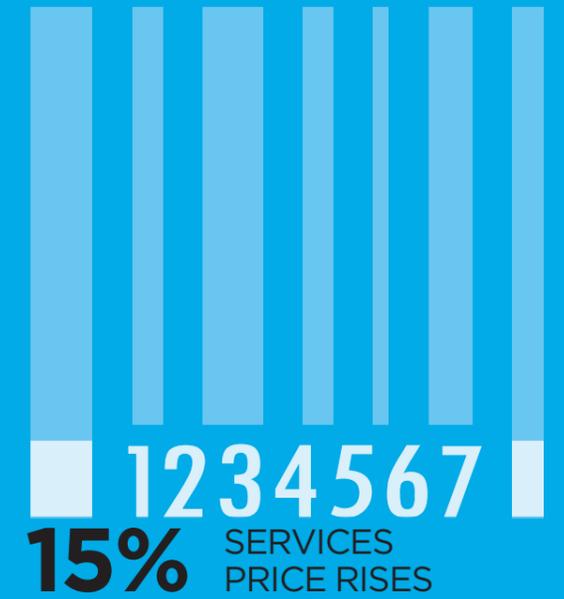
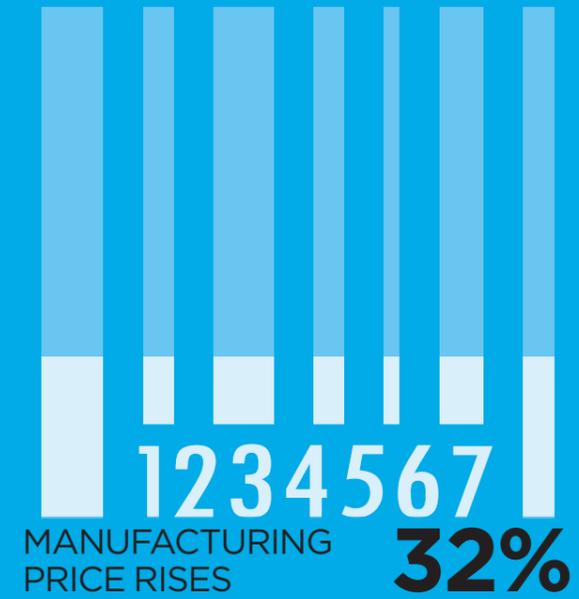
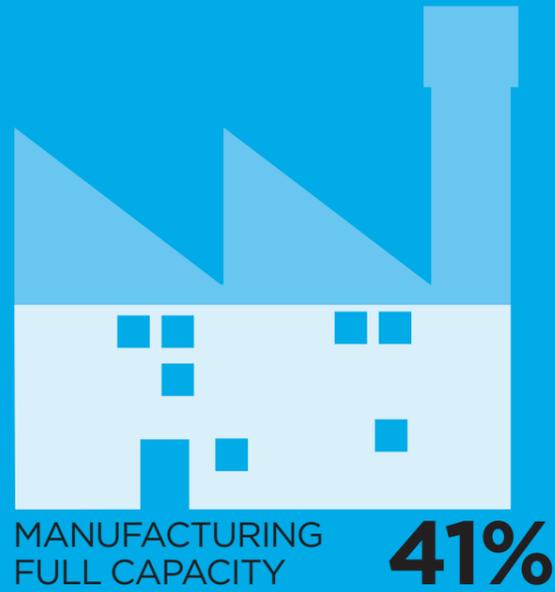
Employment in the last quarter remained negative meaning more companies were reducing headcount than increasing, however the forecast for next quarter sees a return to growth once more with companies appearing to be making preparations to recruit.



CASHFLOW

Cash reserves remain under pressure for many however these appear to have improved since we conducted research into this back in the summer, with the number of companies reporting more than 12 months reserves having doubled since week ending 14th July.

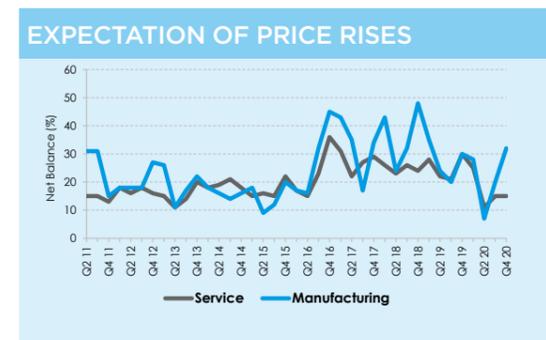
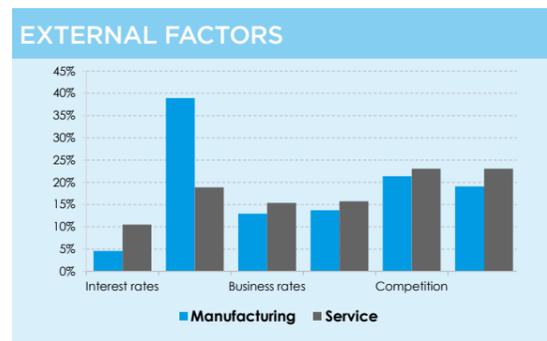
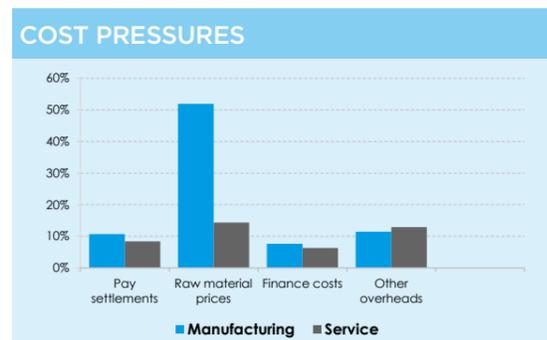




COST PRESSURES, EXTERNAL FACTORS

Manufacturers report increasing shipping costs due to lack of capacity in both air and sea freight. Global supply chain disruption caused by the lockdown has impacted the movement of freight quite significantly, leading to container ships being out of sync so that demand far outstrips supply. Add to this large reductions in the availability of air freight capacity as commercial passenger flights were grounded and we have the perfect storm. Companies have reported increases in the order of 500 to 600% in the cost of shipping; even the price of pallets has increased.

As we prepare for the end of the Brexit Transition Period, companies are stockpiling ahead of any future trade barriers which will be imposed. In addition the Government has prioritised the import of personal protective equipment (PPE) which is taking up port and haulage capacity.

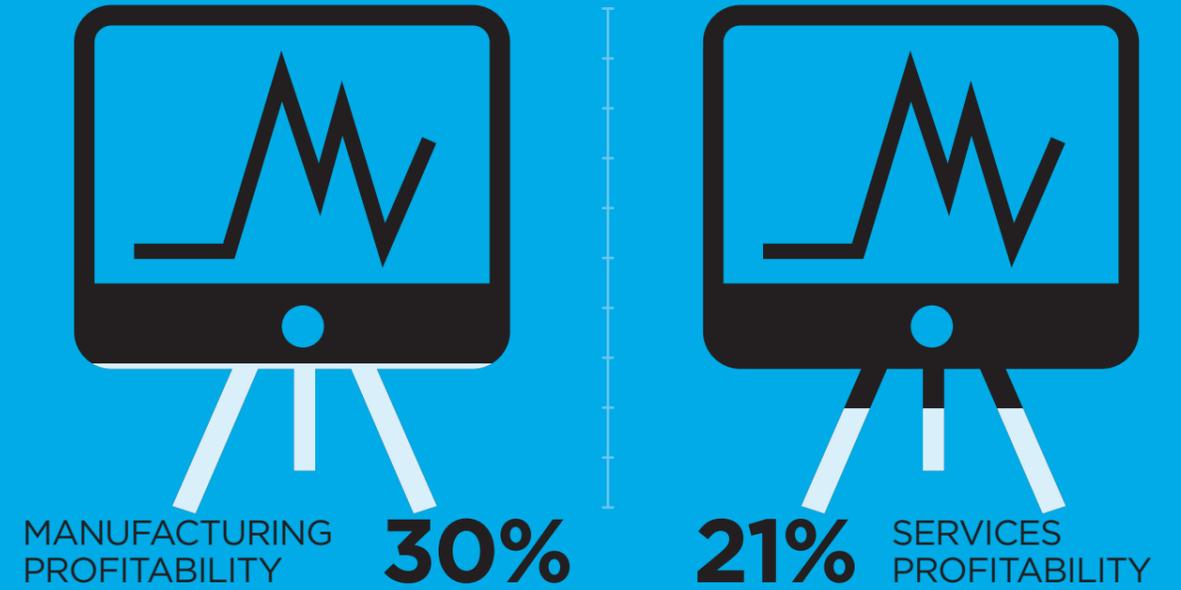


EXPECTATION OF PRICE RISES

With cash reserves stretched manufacturers are most likely to pass additional costs on through increasing prices as we report net balance at its highest point since Q4 2018 as we prepared for original EU departure date in March 2019.

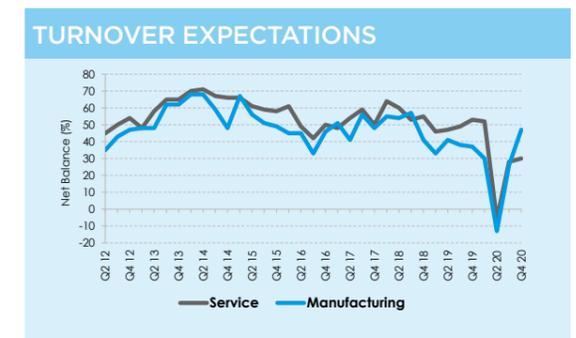
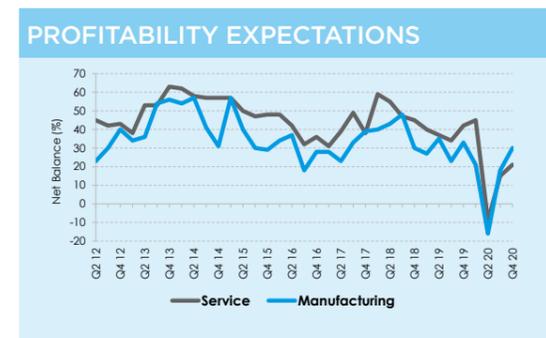
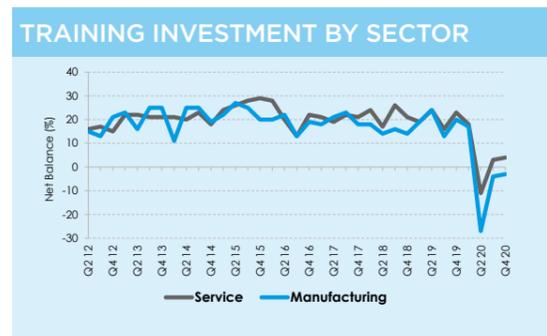
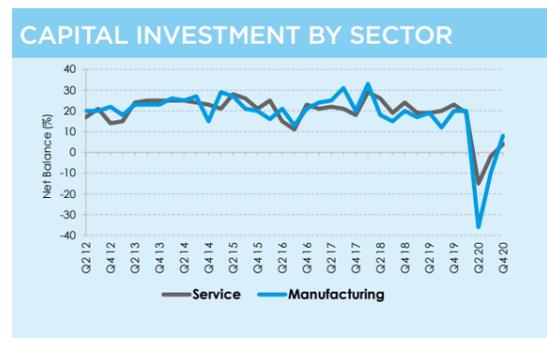
CAPACITY

	FULL CAPACITY	BELOW CAPACITY
Service	41%	59%
Manufacturing	41%	59%



INVESTMENT

Investment intentions improved in the last quarter and may in part be down to restocking and related investment to cope with increasing demand. For manufacturers there could be an element of bringing forward plans in order to avoid any disruption ahead of the end of the EU transition period.



INDUSTRY COMMENT:

“Business confidence is much improved for the year ahead. The majority of our operations are supported by technological advancement trends, propensity for data storage, communication and execution, alongside the rise of remote working and e-commerce. The announcement of developed vaccinations have helped, and we look forward to furthering advancements and clarity on Brexit and the UK/EU relationship in a post-Brexit world. The sooner the government can help clarify this position, the sooner British industry can continue to help ourselves.”

**Richard Burcher**  
 Manager, Global Strategy & Business Development - HVAC  
 Modine Manufacturing Company | Airedale International Air Conditioning Ltd

BUSINESS CONFIDENCE

Business confidence this quarter has moved back into positive territory as companies see a brighter 2021, although with the twin threats of COVID and Brexit it would be hard to think of a more challenging year than the one we have just experienced. Many businesses have told the Chamber that they now see more opportunities as their customers plan for the future. There remains a lot of pent up demand and, immediate challenges notwithstanding, companies appear to be working to longer planning horizons than just next week or next month.



**Adam Marshall**  
**Director General**

British Chambers of Commerce

### **BUSINESS CONDITIONS REMAIN WEAK AND SHOW NO SIGNS OF IMPROVEMENT FOR VAST MAJORITY OF FIRMS**

The British Chambers of Commerce's Quarterly Economic Survey found that business conditions remained weak in the fourth quarter as the second lockdown squeezed activity.

The bellwether survey of 6,203 firms, who employ nearly a million people across the UK, revealed that there was no fundamental improvement in the key indicators in Q4 and they remain well below pre-crisis levels. 95% of respondents were SMEs.

#### **KEY FINDINGS:**

- Following the sharpest decline in the history of the QES in Q2 2020, all the key indicators in Q4 remained substantially worse than pre-pandemic levels
- 79% of hotels and catering firms reported a decrease in domestic sales in Q4, worsening from 66% in Q3
- Cash flow, a key indicator of business health, continued to deteriorate for 43% of firms overall. For hotels and catering firms, 77% report a decrease.

### **BUSINESS CONDITIONS**

Overall, indicators remained weak in Q4, with only moderate improvement compared to Q3 and still well below the pre-Covid 19 trend.

- Nearly half of firms (43%) reported decreases in domestic sales, broadly unchanged from 46% in Q3
- 26% of firms reported an increase in domestic sales. 30% reported no change
- 45% of firms reported a decrease in domestic orders, while 33% report no change, and 22% report an increase
- 38% of firms reported decreases in export sales, down slightly from 45% in Q3 but still substantially worse than pre-pandemic levels, where only around 20% of firms reported a decrease
- Nearly a quarter (22%) of firms reported increases in export sales, up from 16% in Q3

Business to consumer (B2C) firms saw the largest falls in domestic sales in the quarter. Over three quarters (79%) of respondents in the hospitality and catering sectors reported decreases, compared to 66% in Q3 and is moving back toward Q2 levels (94%), underlining the impact that lockdowns and forced closures have had on demand.

However, the survey revealed that sectors which have continued their operations through the pandemic, and/or shifted their operating models to remote working, also have a higher proportion of firms reporting decreased sales. For instance, 53% of transport and distribution firms, and 44% of marketing/media firms reported decreases in sales, well above pre-pandemic levels of 29% and 23% reporting decreases in Q1 2020, respectively.

In the manufacturing sector, the balance of firms reporting increased domestic sales increased to -9% in Q4 2020, up from -15% in Q3 2020. The balance of firms reporting increased export sales increased to -8% from -26% in Q3

In the services sector generally, the balance of firms reporting increased domestic sales increased to -24% in Q4 2020, up from -25% in Q3. The balance of firms reporting increased export sales increased to -22% in Q4 from -31% in Q3

As a percentage balance, the manufacturing sector is seeing a faster rate of improvement in domestic and export sales, though both sectors' indicators remain in 'negative territory', meaning that more firms have reported a decrease in sales than an increase.

### **CASH FLOW**

Cash flow, a key indicator of business health, continued to deteriorate for more than four-in-ten firms. In Q4, 21% of firms reported an improvement in cash flow, 36% reported no change and 43% reported a deterioration. Levels are broadly unchanged from Q3 which saw some improvement on historic lows in Q2.

In line with indicators from Q2 and Q3, micro firms were more likely to report worsening cash flow, with 51% of these firms reporting a deterioration, compared to 27% reporting a decrease in Q1 2020.

In the services sector the balance of firms reporting improved cashflow increased to -28% from -30% in Q3. After the lowest levels on record in Q2 and Q3, this balance is still lower than any other since Q4 2008.

In the manufacturing sector, the balance of firms reporting improved cashflow increased to -15% from -18% in Q3.

### **INVESTMENT AND CONFIDENCE**

Over a third of firms (35%) continue to report decreased investment in plant, machinery and equipment, highlighting longer-term concerns for the economy as many businesses pause investment plans or revise them down. This is unchanged from Q3 and follows Q2, which had the largest proportion of firms revising down investment in the history of the QES dataset.

Nearly half (48%) expected no change in plant, machinery and equipment investment, up slightly from 46% in Q3. Just 17% of firms plan to invest, unchanged from Q3 and remaining historically low.



**Suren Thiru**  
**Head of Economics**

British Chambers of Commerce

40% of firms said they expected their turnover to increase over the next 12 months, while a third (34%) still expected it to decrease. Nearly a quarter (25%) expected that it would stay the same.

In the services sector, the balance of firms looking to increase investment in training remains at -17% in Q4, unchanged on Q3. The balance of firms confident that turnover will improve over the next year decreased slightly to -3% from in +1% in Q3.

In the manufacturing sector, the balance of firms looking to increase investment in training increased to -10% in Q4 from -19% in Q3. The balance of firms confident that turnover will improve over the next year increased to +12% in Q4 up from +7% in Q3.

**ONGOING UNCERTAINTY**

Despite seeing some improvements in some indicators in the previous quarter, business conditions remain close to the historic lows of Q2.

The survey fieldwork took place during the second lockdowns in England and Northern Ireland, and amid tougher restrictions in Scotland and Wales. Continued uncertainty

around further lockdowns and restrictions, as well as the many unanswered questions on Brexit, have caused businesses considerable distress, with some saying they are worried about the long-term viability of their business.

Smaller firms and independent retailers report the most pessimistic sentiment, many stating that changes in restrictions, and the introduction of the second lockdown exacerbated cash-flow problems and left them with redundant stock. A wholesaler in Kent reported: 'We were recovering well from the lockdown until this last month, which has been catastrophic as we had bought for Christmas sales, which were then halted, but the invoices still needed paying.'

Some businesses not forced to close by the lockdown and restrictions are also feeling the effects of the cash-flow crisis further up the supply chain, with marketing budgets slashed or diverted to Covid-related activity. One creative agency commented: '2020 has been a dire year for any marketing, creative agency. Clients have taken back budgets to cover Covid and PPE signage, other new clients had to close doors and reduce

marketing spend. Only a few see the need to promote or market their business to consumers and attract new sales.'

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

"These results indicate that economic activity was strikingly downbeat in the final quarter of 2020 as the re-introduction of tighter coronavirus restrictions weighed heavily on the key drivers of growth.

"The services sector endured a particularly difficult quarter, with consumer-facing businesses most severely exposed to the renewed restrictions. Although manufacturing firms had a moderately better end to 2020, this is more likely to reflect a temporary boost from Brexit stockpiling rather than evidence of a recovery in the sector. The persistent weakness in investment intentions is a particular concern, as it limits the UK's productivity and growth potential.

"Though the vaccine rollout provides real optimism, a new national lockdown means that a significant double-dip recession in the first quarter of this year is looking increasingly likely."

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

"Our findings demonstrate that businesses across the UK face a difficult and uncertain year ahead in 2021. The announcement of another major lockdown across all four nations of the UK will compound the gloom for many.

"As we start 2021, governments across the UK should be pulling out all the stops to ensure support for businesses is commensurate with the restrictions in place. Both the pandemic and government restrictions continue to hit firms hard, and many are grappling with a difficult period of adjustment to new trading conditions following the end of the Brexit transition period.

"The current drip-feed approach to business support measures is too short term and leaves businesses unable to plan. Ministers must set out, now, what additional steps they will take to underpin business cash flow and help viable firms preserve livelihoods until a full reopening of the economy is possible. They should be boosting confidence by extending tax holidays and key support schemes that are due to expire over the coming weeks.

"As we look to the future, our findings demonstrate that big investment incentives are also needed. Prosperity and success depend on businesses, both domestic and international, having the confidence to invest here in the UK for the long term.

"For business, the pandemic doesn't end simply because vaccines are starting to be delivered. Brexit isn't 'done', either. The sooner the Prime Minister and his colleagues set out a coherent economic plan and longer-term support to help businesses to restart, rebuild, and renew, the better.

"2021 cannot be a year where Britain dithers while others do."

# Q4

## 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.

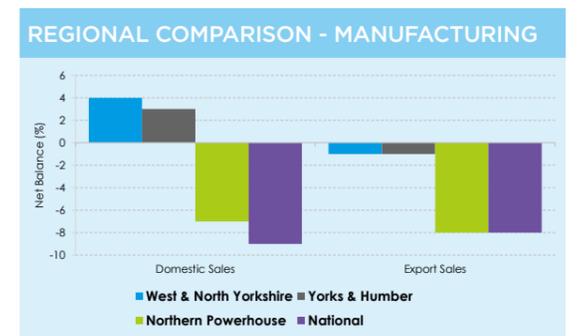
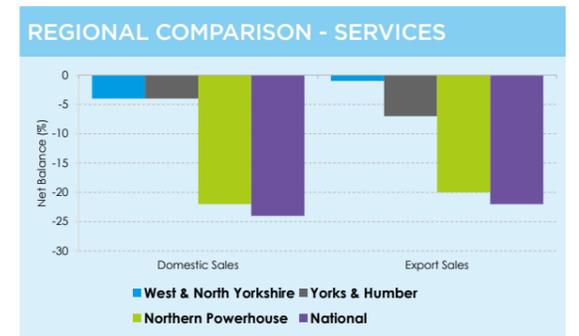
The QES is the first economic indicator of the quarter, published in advance of official figures and other private surveys, and it consistently mirrors trends in official data. For this reason, the survey is closely watched by policy-makers such as the Treasury, the Bank of England, the Office for Budget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

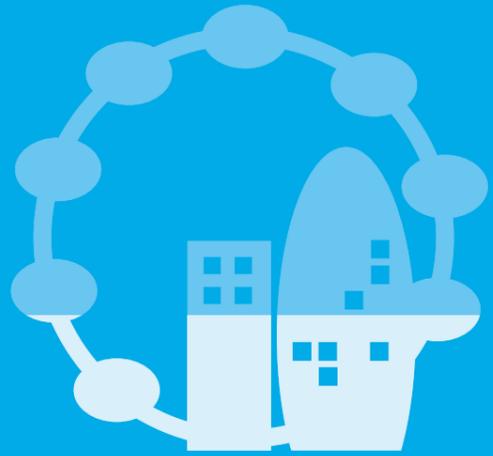


YORKSHIRE SERVICE SECTOR CONFIDENCE **45%**

### REGIONAL COMPARISONS

Businesses across our region appear to be faring better than their counterparts across the UK and across the rest of the north. Given most of the North West was in the highest tier of restrictions prior to the national lockdown, which began in the same week as fieldwork for this survey, and that the North East is the region likely to be impacted the most in the event of a no-deal Brexit, this may go some way to explaining the data for the North.





**27%** NATIONAL SERVICE SECTOR CONFIDENCE

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Chair of the Board

CHIEF EXECUTIVE



**Sandy Needham**  
WEST AND NORTH YORKSHIRE CHAMBER  
Chief Executive

PRESIDENTS



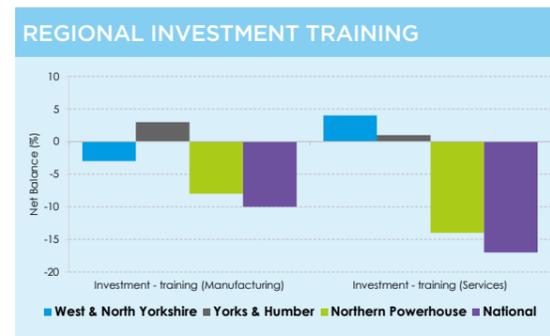
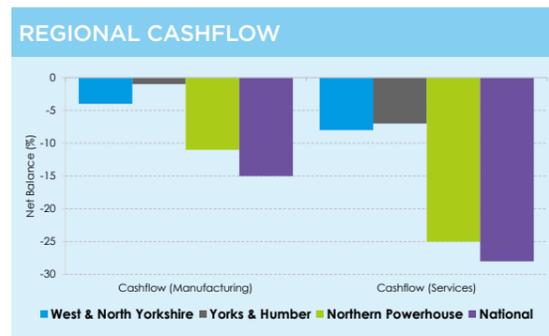
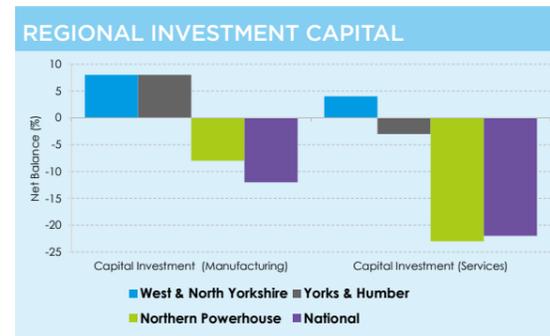
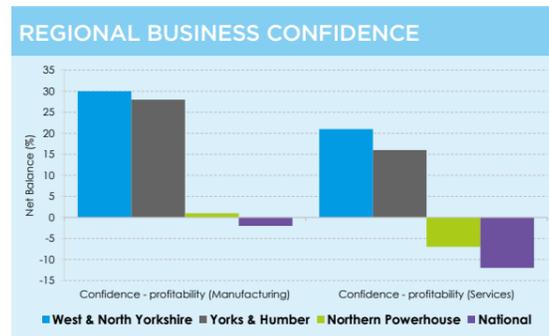
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**Andrew Digwood**  
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INNOVATION WAY  
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## CONTACT US

**T** 08455 240 240

**E** [info@wnychamber.co.uk](mailto:info@wnychamber.co.uk)

**W** [www.wnychamber.co.uk](http://www.wnychamber.co.uk)

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