heart of the south west
local enterprise partnership

Quarterly Business Bulletin

Autumn 2019

BCC SW British Chambers of Commerce SOUTH WEST

CBI

fsb Experts in Business

ICAEW SOUTH WEST

IoD Inspiring business

MANUFACTURING barometer

NFU

SWMAS

An Economy & Nation in Waiting - Executive Summary

What the local business community have been telling us

David Ralph
HotSW LEP Chief Executive

A new year and a new Government; in some ways, the new Government means all is changed but nothing is changed and a period of political stability is to be welcomed. With change comes opportunity and we have immediately started to make the case for the investment that Heart of the South West businesses need to thrive - see a letter and prospectus sent to the Prime Minister here https://heartofswlep.co.uk/news/heart-of-the-south-west-joint-committee-letter-to-the-prime-minister-and-secretaries-of-state/. We will be following this up with Ministers, MPs and officials in the run up to the March Budget and beyond, as it is important that our area can compete against the inevitable focus there will be on the Midlands and the North.

Alongside that however, trading conditions for businesses continue to be extremely challenging, and that is reflected in the feedback in this edition of the Bulletin. Whilst investment from Government is part of a solution, the Heart of the South West Growth Hub continues to signpost businesses to the wide range of advice and support that is available.

Once again, I am extremely grateful to our partner organisations who have helped us bring this information together and who represent over 25,000 businesses across our patch. This analysis includes a snapshot of some of the key business surveys from across our area, and on the next page you will find a summary of the feedback from the wider business community about what their key issues are at this time.

This Bulletin also provides a comprehensive summary of business sentiment from across the Heart of the South West, as well as showing the national context. I hope it will be useful in supporting businesses and local and national policy makers to make informed decisions that reflect the challenges and opportunities ahead. **However, please remember that what follows is based on information gathered before the results of the General Election or December's Brexit Parliamentary vote were known and when there was still significant uncertainty.**

Nationally

The ICAEW Business Confidence Monitor (BCM) shows that

> **"business confidence has hit a decade-low as Brexit uncertainty, political instability and slow economic growth take their toll… While companies report faster domestic sales growth, exports are expanding at a slower pace than a year ago."**

At a global level "the economy has continued to slow, reflecting in part the broad effects of the trade war between the United States and China. In Hong Kong, rising political tensions have contributed to the sharpest fall in economic activity since the global financial crisis."
(BoE's 2019 annual cyclical scenario stress test)

The British Chamber of Commerce national survey (BCC QES) summarises the quarter by saying that "A faltering service sector together with listless manufacturing activity points to a downbeat outturn for UK GDP growth in the fourth quarter of 2019." While the manufacturing sector appear to be "experiencing one of the toughest periods recorded during the 10 years of the Manufacturing Barometer."

On a positive point, businesses are expecting conditions to improve in the year ahead. And as we look forward and knowing what we know now - a government with a majority and concrete steps being taken towards leaving the EU - there is an 'air' amongst the business community of having more certainty to help with business planning (regardless of which way they voted personally).

If you would like to compare this Bulletin with the previous one (the pilot and our first one), then please follow this link https://heartofswlep.co.uk/doing-business-in-our-area/

Heart of the South West

Businesses in the area are slightly less pessimistic than the UK, although the various local business indices have now been significantly low in their confidence ratings for the last six quarters.

- Finding the right people and with the right skills for the job, is still the top concern for many local businesses. This has been a long standing issue, but the problem is becoming particularly intense and across most sectors.
- Small businesses continue to put investment plans on hold. "In the South West only 29% are planning to increase investment this quarter (compared to 26% nationally) - the lowest proportion in five years. Over one in ten (14%) in the region are planning to actively decrease investment." (FSB's SBI Q3).
- However, many in the Social Enterprise Sector are planning for growth (with over 50% and one third for continuity, according to the Plymouth Social Enterprise Network). With social enterprises and community businesses in the Creative/leisure; Education/training; and Health/social care sectors, more likely to be aiming for growth.
- Digital stresses; including poor broadband and mobile connections, are being felt more acutely and various surveys have been undertaken to gauge the effect on the business community e.g. Somerset Chamber of Commerce; and the FSB. Although this is reported by the FSB as being a vital national issue, it is also hampering local businesses.
- Late payment and crime related issues are being raised in some business forums - as starting to become problems again.
- Whilst the South West and UK manufacturing trends are broadly consistent (some of the worst for a while), business confidence amongst Devon and Somerset manufacturers appears to be more positive, as is their adoption of robotics.
- In the farming sector there are still significant concerns about the future of Agricultural policy in the UK; our relationship with the EU; access to labour and the future of FTA's with countries around the world.
- Research recently commissioned by the LEP shows there are numerous challenges across the area in developing land for employment which is hampering business growth. The full report will be available on our website soon.

In the short term, the picture is still increasingly challenging for the area and also for the wider South West. Thus, the LEP wants to further increase our engagement with the wider business community and other agencies; as well as with our neighbouring LEPs, so that we can get the best that we can for the area and the region. For the LEP, this continues to underline the importance of continued investment in growing productivity in our area through better transport connections, better broadband connections, better levels of skills, better levels of entrepreneurship, innovation and exports.

Climate Change resilience and Clean Growth will become even more key for our area and are featured in our letter to the new Prime Minster. This is a joint letter from the Chair of the LEP and the Chair of the Joint Committee (our local councils) and summarises our proposition from the Heart of the South West. The proposals set out a plan for transforming our productivity levels and for raising prosperity to create long-term sustainable growth. You can see the letter and our proposition here
https://heartofswlep.co.uk/news/heart-of-the-south-west-joint-committee-letter-to-the-prime-minister-and-secretaries-of-state/

Feedback from the wider HotSW Business Community

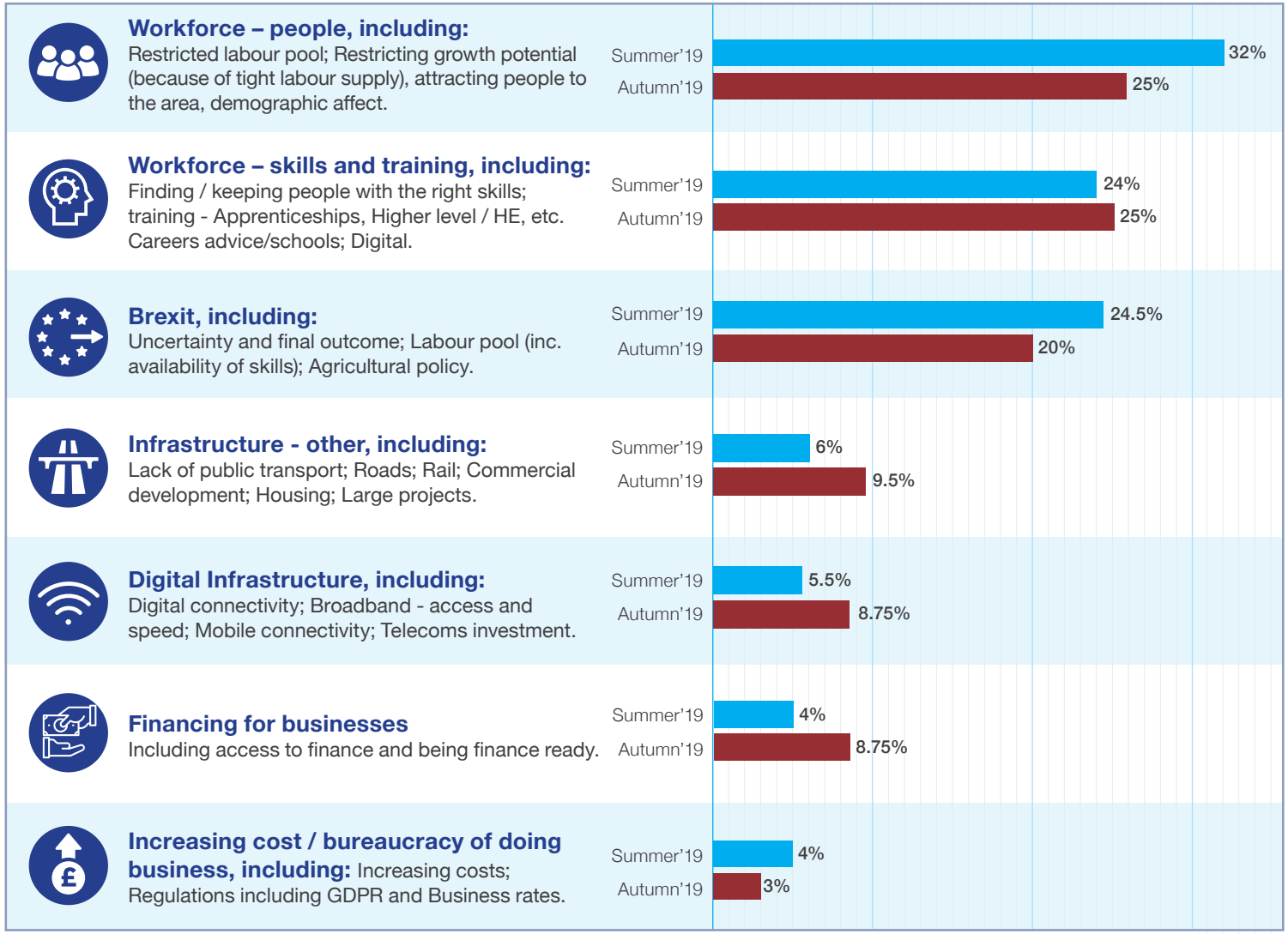
Summary - What are the top issues?

Each quarter the LEP asks the wider business community to tell us what issues are important to them - at that moment in time. Since starting this information gathering in 2018, the following seven themes have developed and the graph below shows the difference in ranking between this quarter and the previous one.

As you can see, the top priorities have remained roughly the same (for the last year or so) and with the only change being a slight shift in the ordering. As would be expected, businesses report that the challenges are being compounded by the uncertainty over leaving the EU.

If you would like to be included in this research and provide your feedback, please contact Heidi Coombe the LEP's Partnerships Manager at Heidi.Coombe@heartofswlep.co.uk

Graph Showing The Ranking (In Percentages) Of The Seven Main Issues Affecting HotSW Businesses - Comparing The Present Quarter With The Previous One.



Summaries and extracts from key reports

NB We have used the most recent data available at the time of the production of this Bulletin and thus, some reports refer to different 'quarters'.

The Office for National Statistics (ONS)

GDP First Quarterly Estimate, UK: July to September 2019 https://www.ons.gov.uk/economy/grossdomesticproductgdp/bulletins/gdpfirstquarterlyestimateuk/julytoseptember2019

ONS Labour Market Overview: November 2019 https://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/employmentandemployeetypes/bulletins/uklabourmarket/november2019

UK GDP increased by 0.3% in Q3 2019, following a decline of 0.2% in the previous quarter of the year. Though slightly lower, this aligns with expectations for growth in this quarter by both the Bank of England and the National Institute of Economic and Social Research.

When compared with the same quarter a year ago, UK GDP increased by just 1.0%. This is the slowest rate of quarter-on-year growth seen since Q1 2010, suggesting a slowing of underlying momentum.

In previous quarters of the year GDP has been volatile, most notably in production (+1.1% in Q1, -1.8% in Q2), thought to be the effects of bringing forward manufacturing activity ahead of the original planned exit date from the EU. In Q3 manufacturing was flat, as was production. The CBI Industrial Trends Survey points to above adequate stock levels, uncertainty and a global slowdown in manufacturing, whilst the British Chamber of Commerce's Quarterly Economic Survey Q3 2019 similarly highlights weakening global demand and disrupted supply chains.

Services output increased by 0.4%, following its weakest figure in three years in the previous quarter.

This still represents subdued growth and appears congruent with a lack of business optimism in the service sector, attributed to political uncertainty (see CBI Services Sector Survey).

Stronger gains were seen in human health and social work activities and financial and insurance activities, whilst other industries, notably accommodation and food services, saw declines. Construction output increased by 0.6% following a poor previous quarter. Wholesale, retail and motor trades increased by 0.3%, following an increase of 0.1% in Q2.

In Q3 2019 the UK employment rate was estimated at 76.0%, having levelled off after reaching a record high of 76.1% in Q1. The unemployment rate was estimated at 3.8%, having also levelled off, albeit from a continual decline since late 2013. The rate of pay growth has trended upwards since March to May 2017, reaching 3.9% in May to July 2019, the highest nominal pay growth rate since 2008. However, in July to September 2019, growth dropped to 3.6% for both total pay and regular pay. When adjusted for inflation, pay for employees (including bonuses) has grown by 1.8% on the year.

Bank of England (BoE)

BoE Monetary Policy Report: November 2019: https://www.bankofengland.co.uk/monetary-policy-report/2019/november-2019

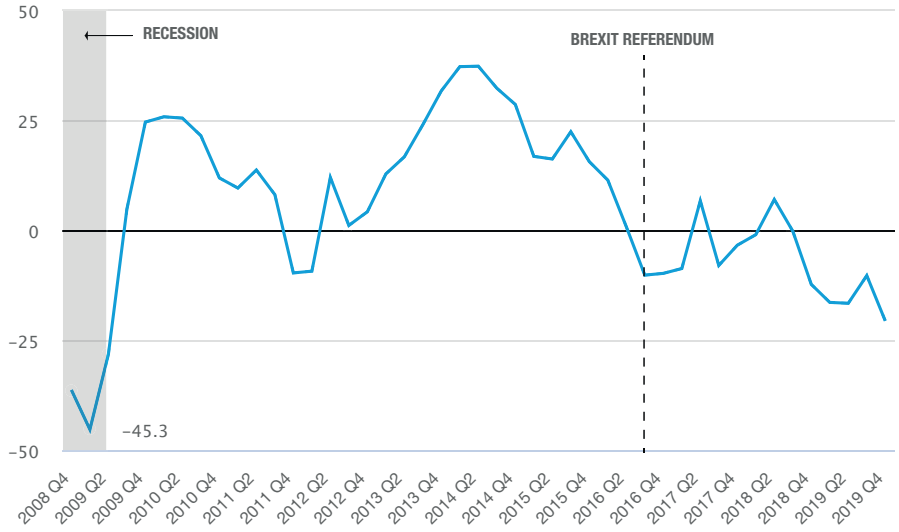
Interest rates remain at 0.75% as UK inflation has fallen back to just below the Bank's 2.0% target. UK economic growth has slowed overall and been volatile through 2019. The BoE expects growth to be roughly half that in 2018. There is an expectation of global economic growth and a commensurate increase in demand for the goods and services the UK sells abroad. Coupled with greater certainty regarding Brexit, specifically the decreased likelihood of a 'no-deal Brexit', this could result in better prospects for UK growth and a requirement for a moderate increase in interest rates (Please note: This BoE Monetary Policy Report preceded the December 12th General Election. Increased certainty regarding Brexit was attributed at this stage to the UK and EU's Withdrawal Agreement and Political Declaration as well as a flexible extension of Article 50). However, if global growth fails to stabilise or if Brexit uncertainties remain entrenched, rates may need to be lowered.

CPI inflation is projected to decline in the near term, largely due to the impact of lower regulated energy and utility prices, as well as the fall in sterling oil prices over the past year. However, this is expected to be temporary, as with unemployment remaining low and wage growth remaining strong, domestic inflationary pressures are projected to rise.

ICAEW Business Confidence Monitor - Q4 2019 (Winter)

UK Report: https://www.icaew.com/-/media/corporate/files/technical/economy/business-confidence-monitor/2019/icaew-bcm-report-q4-2019-revised.ashx
SW Report: https://icaew-sitecore-cd-as.azurewebsites.net/technical/economy/economic-insight/business-confidence-monitor-regional/south-west

UK business confidence in Q4 2019 was at its lowest level for a decade; the Confidence Index stood at -20.6, which compares with a high point in Q2 2014 of 37.3. The Index has been trending downwards over the past five years, reaching now the lowest level since the start of 2009, likely reflecting continued political uncertainty on the national stage.



Source: ICAEW Business Confidence Monitor, Q4 2019

Compared to the last 12 months

The trends suggest that GDP growth in Q4 is expected to be muted. Depressed confidence is both cause and consequence of slow sales growth, with exports looking particularly weak. Companies continue to carry high levels of stock caused by uncertainty. Slower profits growth reflects slower sales and limited selling price increases. And expectations for the year ahead have been weakening. Weak productivity is another reason for slow profits growth. Weak sales and profit growth feeds through to investment growth, with plans for the year ahead particularly low. This applies to both capital expenditure and Research & Development (R&D).

Moreover, companies continue to restrict employment growth. This may, in part, reflect a gradual downward trend in the number of companies for which skill shortages are a growing business challenge.

SWMAS Manufacturing Barometer - (Autumn) 2019

UK Report: https://www.swmas.co.uk/knowledge/national-2019-q2
SW Report: https://www.swmas.co.uk/knowledge/south-west-2019-q2

With the challenges of a downturn still evident and, at the time of writing, both Brexit and a potential change in government giving cause for ongoing uncertainty, the Manufacturing Barometer shows how manufacturers are planning operations for a potentially very different world.

The July-Sep quarter of 2019 has seen the South West (and national) manufacturing sector to be experiencing one of the toughest periods recorded during the 10 years of the Manufacturing Barometer – on most measures, business confidence has seen a bigger hit than during the 2008 -09 recession. More SME manufacturers have experienced a reduction in sales, profits, and recruitment than ever seen before. This is most remarkable in manufacturing profits where 45% of businesses experienced a reduction (44% nationally). This means an incredible 14% more manufacturers are dealing with fewer profits (compared with 10% more nationally).

Supporting the evidence that this is the worst performing quarter for nearly a decade, 35% of respondents said their sales figures have dropped in the last six months (37% UK-wide), and more than ever, nearly 30% (v. UK 25%), reported an active reduction in their staff numbers (driven by talent shortages and the effect of uncertainty on growth plans).

There is slightly better news in investment performance, both nationally and regionally. Reflecting intentions previously expressed in the Manufacturing Barometer, 40% of UK SME manufacturers tell us they have increased their investment in machinery and premises (41% UK-wide).

Looking ahead, although approximately a fifth of manufacturers note 'survival' or 'getting through Brexit' as an aspiration, over a fifth (a quarter nationally) talk about growth and around a third (a fifth nationally) reference investment whether in machinery and premises or people, automation, new products, and establishing new markets

Significantly, however, for the first time less than half (40% SW, 44% UK) of SME manufacturers are expecting sales to increase. On top of that, nearly one third (v. 25% nationally) believe they will see a decrease in sales.

The picture is similar in profits where never before have we observed so many manufacturers experiencing a drop in the last 6 months (45%, v. 44% UK-wide), and so few expecting an increase in the next 6 months (32% v. 35% nationally). This shows a worse position for SW manufacturers in terms of both sales, and profits, though slightly better in terms of capital investment and recruitment – where nearly one fifth regionally and nationally expect to reduce their capital expenditure, and nearly one sixth (a fifth nationally) are to actively cut staff numbers.

FSB Small Business Index - (Autumn) 2019-20

https://www.fsb.org.uk/resource-library.html?q=small+business+index

After a first quarter in which economic growth had been boosted by stockpiling ahead of a potential no-deal Brexit, the economy contracted in Q2 (July-Sep). In many cases, businesses that brought activity forward to earlier in the year in case of disruption to their supply chains now had excess stock and cut production in the second quarter. While Q1 saw quarter-on-quarter growth of 0.5%, this fell to -0.2% in Q2. Indeed, output in the manufacturing sector reversed all the gains made in first quarter after suffering a 2.3% decline. More recent data suggests that, after the volatility of the first half of the year, the economy has continued to lose momentum. The ONS' July estimate puts total gross value added across all sectors of the economy at 0.3%, raising hopes that the UK might not fall into a second consecutive quarter of decline, thereby marking a technical recession. More timely survey data, however, signals weakness across much of the economy.

Planning for a potential no-deal Brexit has therefore distracted some firms from growing, and the level of business investment fell in Q2 2019, leaving Q1 as the only quarter of business investment growth since the end of 2017. Notably, new construction orders were down by 13.3% quarter-on-quarter in Q2, to stand at their lowest level since Q1 2013.

The change in sentiment likely reflects ongoing uncertainty regarding Brexit and a slowdown in the global economy.

Following increased output as the result of stockpiling in the first quarter of this year, unwinding of stockpiles and an underlying slowdown in the economy have combined to produce a weaker outlook for the coming quarter, in line with SBI results.

FSB Broadband and Mobile Connectivity Report - October 2019:

https://www.fsb.org.uk/resource-report/lost-connection-how-poor-broadband-and-mobile-connectivity-hinders-small-firms.html

A recent FSB report, 'Lost Connection: How Poor Broadband and Mobile Connectivity Hinders Small Firms', reveals that the UK lags significantly behind most EU countries on full fibre coverage, relying on an ageing copper network to provide the final connection to premises.

The report finds that 30% of small businesses receive download speeds of less than 10 Mbps, rising to 39% in rural areas and 33% of small business say their broadband is insufficient for current needs, rising to 40% when thinking about future needs. And poor connectivity is having impacts on businesses, with 26% reporting to have lost business or sales as a result, and 31% saying that it is a barrier to the growth of their business. Mobile connectivity is also moving into its next generational iteration, 5G, the benefits of which need to be shared across the whole of the UK so that businesses can use their smartphones and devices with confidence.

The findings, show that 41 per cent of SMEs in the South West are struggling with broadband speeds that are insufficient for their current business needs and almost half say their broadband is not good enough for their future needs.

British Chambers of Commerce Quarterly Economic Survey (QES) - Q4 2019)

https://www.somerset-chamber.co.uk/wp-content/uploads/QES-report-Q4-2019.pdf
https://www.devonchamber.co.uk/qes/

The latest national Quarterly Economic Survey by the British Chambers of Commerce points to "a UK economy sagging under the weight of relentless uncertainty, another looming Brexit deadline, and deteriorating global economic conditions amid heightened trade tensions".

"The results indicate that the UK economy limped through the final quarter of 2019. The fourth quarter was characterised by a broad-based slowdown in the dominant services sector with all key indicators weakening in the quarter, amid sluggish household expenditure and crippling cost pressures. Despite some improvements, indicators in the manufacturing sector remain very weak by historic standards, and with indicators for domestic and export orders continuing to contract, the near-term outlook for the sector remains challenging. A faltering service sector, together with listless manufacturing activity, points to a downbeat out-turn for UK GDP growth in the fourth quarter of 2019." (Suren Thiru, Head of Economics, British Chambers of Commerce)

In Q4 2019, the balance of manufacturers reporting increased export orders remained in negative territory, standing at -3%, unchanged from Q3 2019. This is the first time the indicator has remained negative for two consecutive quarters since 2009. In the services sector, the balance stood at 0%, down from +1% in Q3 2019. The South West region had seen the lowest balance (-5%), following the East of England (-13%) and the South East (-8%). The North West, Wales, the West Midlands, and London have all seen positive balances.

Summaries and extracts from key reports

ICAEW Business Confidence Monitor - Q4 2019 (Winter)

UK Report: https://www.icaew.com/-/media/corporate/files/technical/economy/business-confidence-monitor/2019/icaew-bcm-report-q4-2019-revised.ashx
SW Report: https://icaew-sitecore-cd-as.azurewebsites.net/technical/economy/economic-insight/business-confidence-monitor-regional/south-west

The Business Confidence Index for the South West remains negative in Q4 2019 (-14.4 in Q4 2019, meaning that companies in the region are slightly less pessimistic than the UK as a whole). Nonetheless, the index has now been significantly below zero in each of the last six quarters.

While companies report faster domestic sales growth, exports are expanding at a slower pace than a year ago. Business are also facing several challenges, particularly in terms of staff turnover and late payments. Investment spending also remains muted.

Sales performance in the South West has been somewhat mixed over the past 12 months. On the positive side, domestic sales are up by 4.0% in Q4 2019 year-on-year, compared to 3.0% a year earlier. However, this is being offset for many companies by notably weaker exports performance. Indeed, exports are rising by only 2.3% this quarter, following an expansion of 3.7% in Q4 2018.

With input price inflation stagnant from a year ago, profits growth has been in line with performance a year ago, standing at 2.6% annual growth.

With mixed sales performance, rising challenges and depressed confidence, investment rates are notably subdued among businesses in the region. The pace of capital investment growth has been on a steady downwards trend in recent quarters and is now at 1.5% (compared to +1.9% nationally). Weaker still is spending on Research & Development (R&D), which is up by just 0.9% (v. 2.1% nationally), the slowest rate of growth in the region since Q2 2012.

Businesses in the region face several challenges. Staff turnover is a growing concern for 28% of companies, up from 19% last year. Late payments are also a more pressing issue for 21% of companies, up from a year ago and above the UK national average.

Prospects for the next 12 months are, however, expected to improve. Companies anticipate similar performance in domestic sales growth (4.1%) to the past 12 months. However, exports growth is forecast to accelerate to 3.7%, and the projected improvements in exports look set to help bolster profits growth by 3.5% in the year to Q4 2020. Businesses also plan to slightly increase the pace of capital investment and R&D budget growth.

IHS Markit Economics/ NatWest Purchasing Managers' Index (PMI) - November 2019

https://cdn10.contentlive.co.uk/ebf91892bf4c4806bd70a90884c60d7a:static/pdf/articles/6276__south_west_november_pmi.pdf?versionId=s4ub748YsOigd3HbZ445qnx68bLblRL.

Latest NatWest PMI® data signalled a further deterioration in business conditions across the South West during November. New orders fell at the quickest rate for over ten years, leading to a further reduction in output. As a result, outstanding workloads declined at a sharper rate. However, business confidence picked up, with firms expecting activity to rebound in the months ahead if political and economic uncertainty subsides, which in turn supported a modest increase in staff numbers. The headline South West Business Activity Index - a seasonally adjusted index that measures the combined output of the region's manufacturing and service sectors - registered 48.0 in November, down slightly from 48.2 in October. The figure highlighted the ninth successive monthly fall in business activity across the region. Though moderate, the decline was quicker than seen across the UK as a whole. Sector data indicated that output contracted across both the manufacturing and service sectors across the region.

The sustained fall in business activity was underpinned by a further decline in new orders. Furthermore, sales fell at a solid and accelerated pace that was the steepest since early 2009. According to panel members, uncertainty around the election and Brexit had led clients to delay or cancel orders. Notably, the reduction was among the fastest seen of all 12 monitored UK regions.

Lower intakes of new orders enabled firms to work through their outstanding business. Notably, the rate of backlog depletion was the steepest recorded since February 2013. At the same time, hopes that business activity will improve over the coming months led to an increase in staff numbers for the second month in a row. That said, the rate of payroll growth remained modest.

South West private sector firms signalled a further easing in inflationary pressures during November. The rate of input cost inflation was the weakest recorded since June 2016, albeit still sharp overall. Concurrently, output charges rose only modestly, with a number of firms suggesting that efforts to remain competitive had hindered their ability to fully pass on higher cost burdens to clients.

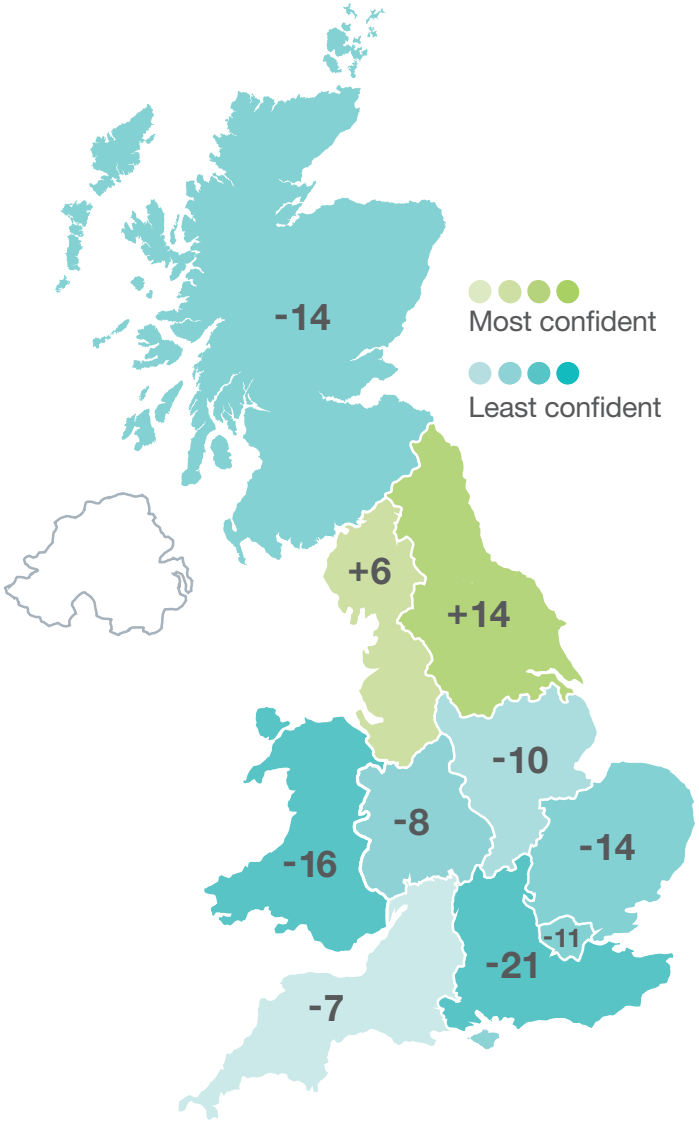
Although conditions remained challenging in November, firms were optimistic that output would increase over the next year. Notably, the degree of positive sentiment improved to a 21-month high. However, growth forecasts were largely contingent on demand conditions recovering after the election, as well as reduced uncertainty surrounding Brexit.

FSB Small Business Index - (Autumn) 2019-20 with the Devon & Somerset areas

https://www.fsb.org.uk/resource-library.html?q=small+business+index

In the South West of the country, FSB's SBI confidence measure for Q3 2019 stands at -7, down from -4 in the last quarter. Nationally, confidence is at -8.1, down more than six points compared to the same period last year. This marks a fifth consecutive negative reading – a first in the index's history.

More than a third of South West small firms expecting performance to worsen, as calls for Brexit deal and ambitious Budget stepped up. Small firms are calling on the Government to secure a Brexit deal and come forward with radical policy interventions to arrest a dogged lack of confidence among business owners as new Federation of Small Businesses (FSB) research shows rising costs and uncertainty increasingly taking their toll.



Source: FSB Small Business Index, Q3 2019

Small Business Confidence by Region

Almost three quarters (70%) of South West business owners surveyed do not expect their performance to improve over the coming three months. Over a third (38%) in the region expect their performance to worsen. Nationally, 44 per cent think their performance will worsen – this figure is at a five-year high.

Small business owners continue to put investment plans on hold. In the South West only one quarter (29%) are planning to increase investment this quarter. Nationally, the figure stands at one in four (26%) – the lowest proportion in five years. Over one in ten (14%) in the region are planning to actively decrease investment.

Those that do business internationally have been particularly hard-hit by uncertainty. Fewer than one in four (24%) report an increase in exports over the past three months, the lowest proportion in five years. Meanwhile, fewer than one in seven (13%) small employers are planning to take on additional staff in the next three months, the lowest proportion since Q4 2017.

The overwhelming majority (93%) of small firms say operating costs are either stable or rising – two thirds (67%) say costs have risen over the past 12 months. The most frequently cited main causes of this increase are the availability of labour, flagged by 40% of firms, as well as inputs (31%), utilities (29%), fuel (24%) and regulation (23%).

British Chambers of Commerce Quarterly Economic Survey (QES) - Q4 2019

With examples from Devon & Plymouth Chamber
https://www.devonchamber.co.uk/qes/

Within Devon, Q4 2019 saw sales to UK sales over the past 3 months increase for 35% of respondents and decrease for 28% of them; UK advance bookings have decreased for 32%, and increased for only 25% of respondents. Export sales to overseas markets have decreased for 33%, with advance orders decreasing for 40% of respondents; no businesses have reported an increase over this period.

Over the past 3 months, the labour force has increased for 34% of Devon respondents and decreased for 12% of them; the next 3 months are expected to see further declines for 5% of Devon businesses, and an increase for 31% of them. 58% of respondents have attempted to recruit over the past 3 months (73% of which were recruiting for full-time jobs, and 36% for permanent jobs). Of these recruiters, more than half experienced difficulties finding suitable staff, predominantly in skilled manual / technical roles (57% of recruiters) and professional/ managerial roles (43%). It is also important to note that 72% of Devon businesses were reportedly operating at below capacity in Q4 2019.

In line with national trends, investment and cash flows across Devon businesses have deteriorated in Q4 2019. 32% of Devon respondents reported a worsening in their cash flow (whilst only 26% reported an improvement), and 26% v. 19% reported decreased capital investment as opposed to increases. Prospects for Devon businesses over the next 12 months are expected to improve, however: 51% of respondents expect turnover to increase (20% to decrease), and 40% expect profitability to improve (23% to decline).

CBI South West

Businesses in the South West have continued to feel the Brexit indecision depressing demand in the economy, with many still holding back on strategic investment. As we head into a new Parliamentary session, CBI members also continue to call on all stakeholders in the region to work together to help shape the big strategic challenges facing both society and the economy, and ensure the South West receives its fair share of funding. Ensuring the region has infrastructure - both physical and digital - that works for all is essential to support businesses as we head into the 2020s, and make it the decade of delivery.

Top 3 issues for members in the South West:

1. **Brexit**
2. **Transport Infrastructure**
3. **Ensuring the region has the right skills for the right jobs**

SWMAS Manufacturing Barometer - (Autumn) 2019

UK Report: https://www.swmas.co.uk/knowledge/national-2019-q2
SW Report: https://www.swmas.co.uk/knowledge/south-west-2019-q2

Whilst the South West and UK trends are broadly consistent, business confidence amongst Devon and Somerset manufacturers appears to be more positive. Sales turnover amongst HotSW manufacturers increased in the past 6 months for 51% of respondents v. 42% SW-wide, and decreased for 27% of HotSW v. 37% of SW respondents. The expectation for the next 6 months is that sales turnover will increase for 39% of HotSW respondents (v. 40% SW) and decrease for 20% (v. 25% SW). Moreover, 33% of HotSW manufacturers (v. 30% SW-wide) reported an increase in profits over the past 6 months, whilst 39% reported a drop (v. 45% SW), with the expectation that the next 6 months profits will increase for 29% of HotSW respondents (v. 32% SW) and decrease for 18% of them (v. 23% SW). Capital investment is expected to increase for 48% of respondents (v. 38% SW) and decrease for 22% of them (v. 17% SW), a deteriorating prospect from the past 6 months' performance. The change in staff numbers is also slightly less severe in HotSW than the wider region and nationally, with 32% expecting a rise in recruitment (v. SW 33%) and 10% a reduction (v. 14% regionally).

As manufacturers find increasing difficulty in recruiting, investing and increasing sales, robots provide an opportunity to address their challenges. However, nationally, only 16% of SME manufacturers currently use robots – though higher (at 24%) in Devon & Somerset.

The survey finds that the biggest barriers to robot adoption for SME manufacturers is the fact that low volume, variable or difficult to handle products make robots unviable. In Devon & Somerset, by far and away the biggest barrier to adopting robots for those not planning to use, or not sure if they will use, robots was 'inflexibility of robots when it comes to coping with product variation'. Moreover, 36% of SME manufacturers in Devon & Somerset lack awareness of whether their competitors use robots, raising questions around possible and available robotic solutions.

In conclusion, HotSW has a comparatively better performance on the adoption of robots, despite the perceived barriers. SME manufacturers, however, need to look at how their competitors are using robots. At the same time, robot suppliers need to look at SME manufacturers' concerns. A failure to develop and communicate cost effective solutions for the large group of SME manufacturers who make low volume or difficult to handle products will hold back the adoption of robots. In parallel, SME manufacturers will require tailored advice and support to help them plan and integrate robots into their businesses.

IoD South West

The IoD had a particular focus around Brexit in the last quarter and based on the needs of their members, put together a national campaign to provide UK businesses with the support they would need in the event of a 'no-deal' Brexit. This major recent policy activity was to disseminate practical support and guidance to business leaders and prepare them for all eventualities of the UK's exit from the EU, including without a deal. The purpose of this work was to offer information, support and easy to access answers to Directors via the IoD's Brexit hub and includes topics like - Jargon Buster and Brexit Checklist, 5 essential steps for boards to prepare for a no deal Brexit and a Chatbot providing 24/7 support.

And it is reassuring that irrespective of politics, most IoD members they speak to remain busy getting on with running and building their businesses across the region.

NFU 'State of the Farming Economy' with the Devon and Somerset branches

Farmgate prices for feed wheat, deadweight sheep, and deadweight cattle have seen a declining trend in the short term (3 months), medium term (12 months) and longer term (24 months). Farmgate prices for wheat have seen a declining trend due to a strong harvest this year with an exportable surplus at a time when we had a short potential export window before the UK was set to leave the EU. There has also been a decline in the decline in deadweight sheep prices, part of the reason may be due to EU retailers avoiding signing long term contracts with UK exporters to avoid paying tariffs in the event of a no deal.

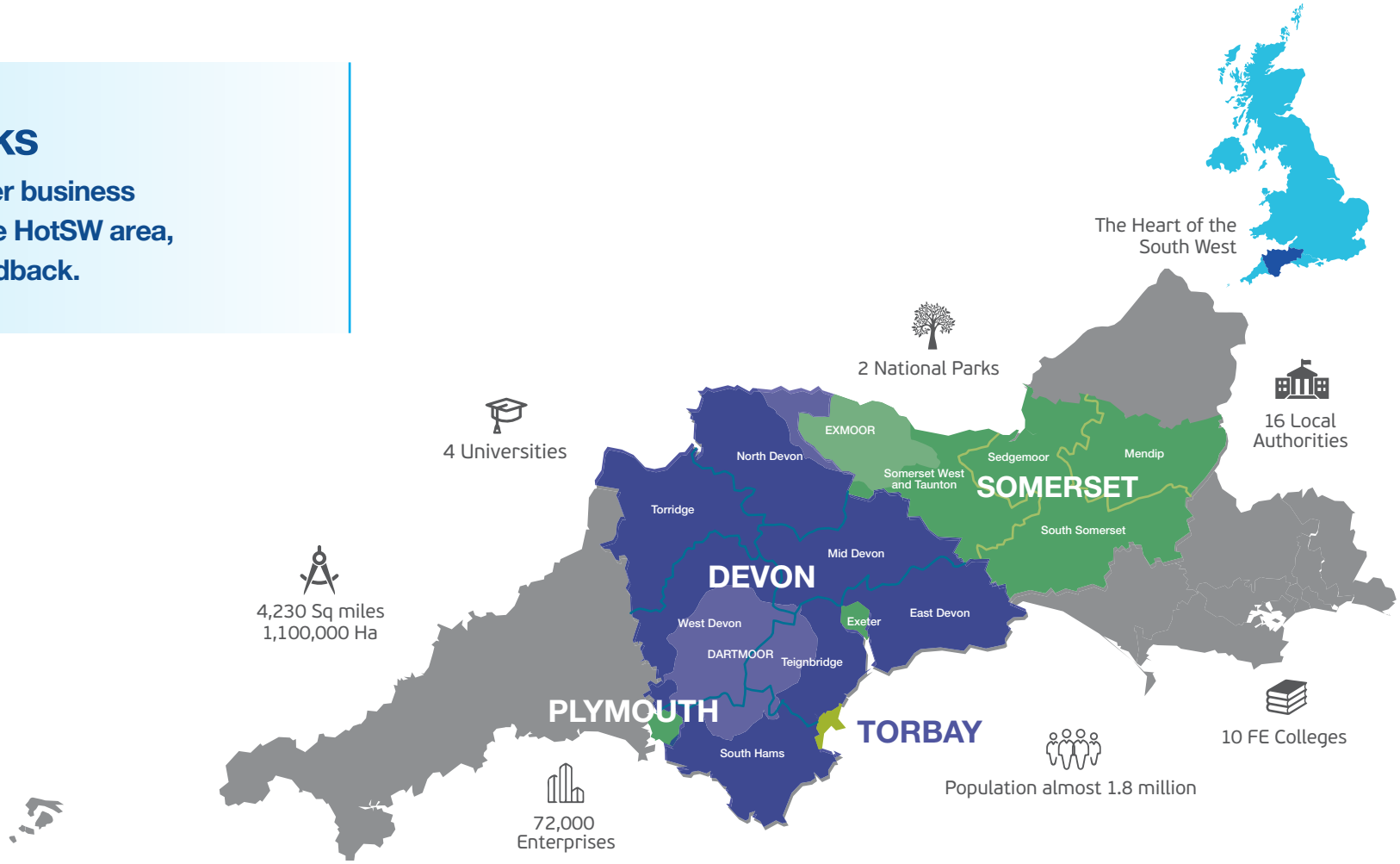
Although, exports to the EU have remained quite strong helped by the value of the pound and good lamb numbers. Evidence also suggests that stock was being brought forward to market before October 31st (farmers looking to get stock off farm a little quicker than usual, due to Brexit deadline). Deadweight cattle prices have also seen a consistent decreasing trend over the three different periods partly due to an oversupply in the market, the largest decline was observed over the past two years at 13.1%. Over the longer term milk prices have also seen a slight decline.

Significant concerns remain about the future of Agricultural policy in the UK; our relationship with the EU; access to labour and the future of FTA's with countries around the world.

The Heart of the South West

With thanks

again to the wider business community in the HotSW area, for providing feedback.



£35 BILLION ECONOMY
as big as Birmingham or Liverpool