heart of the south west
local enterprise partnership

Quarterly Business Bulletin

Summer 2020

BCCSW
British Chambers of Commerce
SOUTH WEST

CBI

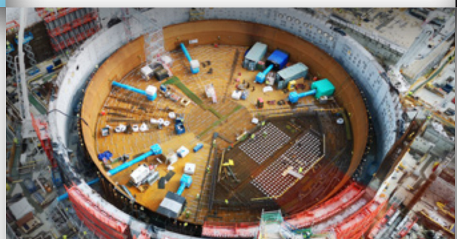
fsb
Experts in Business

ICAEW
SOUTH
WEST

IoD Inspiring business

MANUFACTURING
barometer

NFU



SWMAS

Executive Summary

David Ralph
HotSW LEP Chief Executive

Welcome to the Summer Bulletin providing a roundup of the key data and intelligence from the last three months, a time in which we have begun to move from the initial acute crisis stage of the pandemic and into something which is perhaps a little less fast moving but where the economic and employment consequences are increasingly being felt by businesses and individuals. I do hope you and your families and friends have managed to stay well over this time.

The data now emerging and set out in this Bulletin provides ample evidence on the drastic scale of the economic impact through the spring and we are now seeing levels of actual and planned redundancies beginning to rise. As ever, there is feverish debate on the trajectory of that future economic impact and in this Bulletin we share an analysis for the Heart of the SW area, prepared by Oxford Economics which looks at local authority areas across the peninsula. Key points include:

- the baseline forecast anticipates an 8% contraction in the south west as a whole in 2020, accompanied by 112,900 job losses and a spike in the unemployment rate at 4.5% in 2020. A bounce-back is expected in 2021, with 7% GVA growth
- through 2020-25, south west growth is forecast to average 1% per year (national average 1.3% per year), with jobs growing by 0.3% a year. The economy in 2025 is projected to be 1.9% lower than the pre-Coronavirus forecast
- the cause is an industry mix with a higher proportion of sectors hard hit by lockdown measures. Accommodation & food, as well as manufacturing, are over-represented in the South West when contrasted to the national average, whilst sectors more resilient to lockdown restrictions due to work from home capability, such as professional services, are under-represented
- this is mirrored again more locally. At Heart of the SW level the immediate loss of GVA and jobs is significant and recovery will take longer than nationally. There is a clear spatial side to this; all the local authority areas show a lower average annual growth rate than for the UK as a whole whilst Torbay in particular is projected to have a recovery much slower again and South Somerset is similarly affected in terms of negligible jobs growth forecast up to 2025. Devon shows the strongest overall recovery though this is skewed significantly by a stronger projection for the Exeter economy. In contrast areas such as Mid and West Devon are expected to see hardly any jobs growth before 2025
- The quickest part of the recovery is expected to be concentrated in higher-skilled occupations such as business and public service professionals, which typically have a lower presence in Heart of the SW than the UK as a whole. Some places such as Exeter and Taunton do have higher levels of digital and professional roles than the rest of the region and so are likely to benefit earliest in terms of jobs recovery as a result. There are also opportunities for much of the region in terms of greater working and workplace flexibility enabling a potentially greater spread of opportunities available to some people more widely across the region.

Heart of the SW has a higher proportion of sectors hardest hit by lockdown measures and predicted to recover slower than elsewhere

The Growth Hub has continued to be a central part of the LEP's response signposting businesses to support and advice and more recently directly delivering schemes such as the Kickstart grants which were heavily over-subscribed. In this edition we also share feedback on social enterprises and whilst many have shared the same issues and opportunities as other businesses, there is a clear message that many social enterprises have fallen between the gaps in the various support schemes.

As ever, throughout the enormous challenges there are beacons of opportunity;

- The growth in visitors through the summer months does not seem to have resulted in a big increase in C-19 cases locally and although the season started late, many businesses have benefitted from the high levels of people holidaying in the UK along with key schemes such as Eat Out to Help Out
- Many businesses have reviewed or are reviewing their cost base, often with remote working a key part of this. This is likely to result in transformational change for many businesses, sectors and places, opening new opportunities though also new areas of uncertainty; the future shape of town and city centres certainly falls into the this
- Continued and accelerating growth of digital trading and a good proportion of businesses launching new products and services
- The acceleration of change means management and leadership skills will be even more important.

Many businesses have reviewed or are reviewing their cost base, often with remote working a key part of this. This is likely to result in transformational change for many

As we move into the tail end of 2020, the prospects of a second wave seem to be growing and the ending of furlough support and the Coronavirus Business Interruption Loan Scheme (CBILS) and Bounce Back Loan Scheme (BBLS) means there will inevitably be a continued rise in unemployment and a potential risk of lending conditions tightening. It remains to be seen whether there will be some form of replacement of any of these schemes, potentially modelled on similar support in countries such as France or Germany. The air of uncertainty is of course compounded by the undecided terms of our future relationship with the EU.

The future is going to be challenging but our structural opportunities remain especially around clean energy, high tech engineering and digital

Politically, Government is targeting a November comprehensive spending review and with that in mind this period is an opportunity to again set out the powerful proposition our area offers. We also await details of Government's proposed changes to local government and local economic growth. The future is going to be challenging but our structural opportunities remain especially around clean energy, high tech engineering and digital and there is significant potential to deliver on the levelling-up agenda through building an economy around clean and inclusive growth. We will be working hard on this in the coming months.

Once again I would like to offer strong thanks from the LEP to all those in our partner organisations who have helped us bring this bulletin together and who represent over 25,000 businesses across our patch.

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'.

ONS, GDP first quarterly estimate, UK: April to June 2020 & GDP monthly estimate, UK: June

https://www.ons.gov.uk/economy/grossdomesticproductgdp/bulletins/gdpfirstquarterlyestimateuk/latest

https://www.ons.gov.uk/economy/grossdomesticproductgdp/bulletins/gdpmonthlyestimateuk/june2020

On the 12th of August the ONS released GDP figures for Q2 (April to June), capturing the extent of economic contraction resulting from 'lockdown' measures and other social restrictions. UK GDP is estimated to have fallen by a record 20.4%, marking the second consecutive quarterly decline after a 2.2% contraction in Q1. This placed the UK within a 'technical recession'. The ONS have, however, stressed that these figures are subject to a higher degree of uncertainty than usual, primarily due to challenges in collecting data and reliance on past forecast extrapolations (Coronavirus and the effects on UK GDP). With these caveats in mind, the key headlines were:

- UK GDP contracted by 20.4% in Q2, the largest fall since quarterly records began in 1955. There have been record quarterly falls across services, production and construction output, which have been particularly prevalent in those industries most exposed to lockdown restrictions.
- Cumulative GDP contraction in the first half of 2020 fell 22.1%, a steeper decline than fellow G7 economies Italy and Germany, which contracted at 17.1% and 11.9% respectively
- Latest figures for June show some rebound, however, with GDP increasing by 8.7% on the month
- In services, substantial falls in GDP were recorded in accommodation & food (-86,7%), wholesale & retail (-20%) and health & social work (-27.2%)
- Manufacturing output fell by 20.2% in Q2, most notably in the manufacture of transport equipment (-49.15) following widespread factory shutdowns during that period
- Construction output fell by 35% in Q2, with private new housing declining by 51.2%.

UK GDP contracted by 20.4% in Q2, the largest fall since quarterly records began in 1955

[1] https://www.thersa.org/discover/publications-and-articles/reports/local-areas-coronavirus-employment

Labour Market Overview, UK: ONS August 2020

https://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/employmentandemployeetypes/bulletins/uklabourmarket/latest#claimant-count-experimental-statistics

Data source reporting periods and count dates for the Labour Market Overview vary slightly depending on the metrics reported. Labour Force Survey (LFS) data were gathered from the 30th March to the 28th June, whilst vacancies data were captured from the 7th of May to the 3rd of July.

- The estimated employment rate for this period remained largely steady on the previous quarter, standing at 76.4%, with the unemployment rate also remaining largely unchanged on the quarter at 3.9%
- The fact that the unemployment rate has held up seems counter-intuitive given the anticipated impacts on the labour market. However, in addition to the positive impact of Government employment support schemes, it is thought largely to be result of the way in which un/employment is officially measured. To be counted as unemployed one needs to be out of work and actively seeking it, otherwise you are considered economically inactive. Indeed, the figure of those who are economically inactive but who still self-report wanting a job increased by a record 218,00 on the quarter, suggesting people may be out of work and want a job but are not currently seeking it. Known as the 'discouraged worker effect' this phenomenon is common in downturns or recessions (Resolution Foundation). In addition, those who are temporarily away from work and not being paid, a group numbering 300,000 in June, suggests a sizeable group that may soon need to look for work unless they are able to return to their job
- Claimant count experimental statistics, which cover claims for Job Seekers Allowance (JSA) as well as claimants falling under the 'searching for work' conditionality of Universal Credit (UC), saw a substantial increase since March of 116.8%, or 1.4 million claimants. However, claimant count data must be interpreted with caution as 1) UC is a relatively new system that is still being rolled out and there are more people eligible for this than was the case previously under JSA exclusively, and 2) There was an easement of usual 'search for work' conditionalities in response to the COVID-19 crisis.
- May to July saw 274,000 fewer job vacancies than in the previous quarter. This will have contributed to the 'discouraged worker effect' outlined above. More encouragingly, May to July vacancies were 10% higher than the record low in April to June, an increase mainly driven by small businesses.

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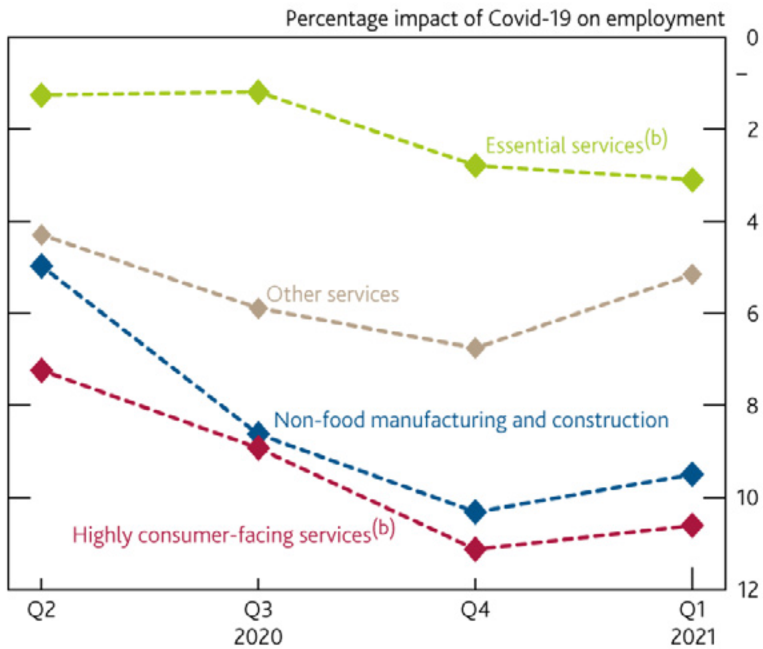
Bank of England, Monetary Policy Report and Financial Stability Report – August 2020

https://www.bankofengland.co.uk/report/2020/monetary-policy-report-financial-stability-report-august-2020

The Bank of England's monetary policy report and financial stability reports, both published on the 6th of August, highlight challenging conditions for the economy throughout 2020. The Bank's base rate was maintained at 0.1%, with a quantitative easing programme worth £300bn being maintained to reduce borrowing costs for households and businesses. The BoE has forecast UK GDP to be 5% lower at the end of the year than at the same time in 2019. In its central projection, the Bank does not envisage GDP exceeding its 2019 Q4 level until the end of 2021, in part reflecting persistently weaker supply capacity. Encouragingly, payments data suggests that household consumption in July was less than 10% below its level at the start of the year, indicating that the extent of consumption reduction has not been as significant as previously predicted.

In regard to labour market forecasting, unemployment is expected to spike at 7.5% by the end of 2020, with the unwinding of government support schemes such as the CJRS (furlough scheme) unlikely to coincide with increased hiring activity in the near-term due to continued uncertainty. In addition, the Bank's report highlights that firms in highly consumer-facing sectors, in addition to manufacturing and construction expect to reduce their employment materially in Q3 and Q4. Importantly, evidence from past recessions indicate that the unemployment rate has historically continued to rise and then remained elevated before continuing to fall, with unemployment not dropping until a more stable economic environment is reached.

Businesses' expected impact of Covid-19 on employment, by type of industry



Source: Bank of England Monetary Policy Report

In its central projection, the Bank does not envisage GDP exceeding its 2019 Q4 level until the end of 2021

Bank of England Agents Summary of Business Conditions – 2020 Q2

https://www.bankofengland.co.uk/agents-summary/2020/2020-q2

The Bank of England's (BoE) 'agents summary of business conditions' summarising intelligence gathered by the Bank's agents between mid-May and mid-June highlighted general falls in demand and output across industries, in addition to decreases in investment and increased demand for credit. Key findings included:

- **Spending on consumer services and non-food goods were significantly weaker than a year ago, however sales of homeware, furniture, computing and audio-visual equipment were strong**
- **Contacts expect concerns around the wider economic outlook & social distancing measures may weigh on overall demand for several months.**
- **Manufacturing output continues to be significantly weaker than a year ago, though there has been a modest improvement in recent weeks as companies reopen. Social distancing & weak demand is likely to constrain output for several months**
- **Construction sites are reopening in some parts of the UK, but output is still significantly lower than a year ago due to weak private sector demand. The outlook for commercial work over the next two years appears bleak, with enquiries and orders collapsing. Housebuilding is resuming slowly however, with public sector projects also holding up**
- **Demand for credit is high and expected to increase as companies start to reopen over the coming months**
- **Housing market activity is gradually resuming in England, and there are early signs of demand returning for some commercial real estate properties, but the outlook for both markets remains highly uncertain**
- **Companies have mostly cancelled or postponed non-essential investment to preserve cash buffers, and many are uncertain when or whether investment plans will be reinstated.**

SWMAS, national manufacturing barometer Q1 2020-21

https://www.swmas.co.uk/sites/default/files/Q1%202020%20Manufacturing%20Barometer%20National%20Report.pdf

This survey, covering Q1 2020 (April, May June) collected responses from SME manufacturing businesses between 1st and 10th of July 2020. While key indicators remain in 'negative territory', manufacturers are slightly more optimistic about their prospects over the short and medium term when contrasted to the last edition of the barometer. Key metrics included:

- **76% of respondents reported reduced sales in the past six months, with 48% of respondents anticipating reductions in sales turnover in the next six months**
- **74% of respondents reported reduced profits in the past six months, with 48% of respondents anticipating reductions in profits in the following six months**
- **44% of respondents reported a reduction in staffing numbers in the past six months, with 36% predicting staff numbers to fall in the coming 6 months**
- **80% of respondents had made use of the government's furlough scheme, with a further 26% making redundancies. 23% of respondents had engaged in up-skilling existing staff, with 15% recruiting new staff.**

ICAEW - UK Overview

ICAEW's report published on the 22nd May 2020 focused on the near-term prospects for the economy, the risks to recovery and the fiscal consequences of COVID-19. Working with Oxford Economics, ICAEW forecasts a GDP contraction of 8.3% nationally in 2020, although this downturn is expected to be short-lived given significant government intervention and retention of funds by the private sector, bolstered by low inflation, which is anticipated to boost household spending power.

This optimistic forecast is tempered by reasons for caution involving consumer behaviour post-lockdown, the restoration of business and customer relationships as the economy moves into the recovery phase, in addition to the potential of a further lockdown in the event of a second wave of the virus.

ICAEW - Differences between sectors

https://www.icaew.com/technical/economy/economic-insight/coronavirus-uk-economic-outlook-differences-across-sectors

The ICAEW in a further release on the 22nd of May highlighted that the overall contraction in GDP in 2020 will be highly unevenly distributed across sectors and industries. Large output losses have been registered in accommodation & food services, as well as in arts, entertainment and recreation, primarily due to the enforced shutdown restrictions hampering the ability for businesses to remain open. In addition, the manufacturing sector has also struggled considerably, either from weak demand, shortages of components and raw materials or both, with the production of motor vehicles and parts particularly struggling. By contrast, food and drink manufacturing will probably only witness a small decline in 2020 overall, with demand for food and drink products to be consumed in the household relatively resilient. Human health & social services also predicted to see sustained growth in the medium-term, with the needs of an ageing population pre-pandemic already highlighting this trend.

Food and drink manufacturing will probably only witness a small decline in 2020 overall, with demand for food and drink products to be consumed in the household relatively resilient

British Chambers of Commerce, Quarterly Economic Survey Q2 2020

https://www.britishchambers.org.uk/news/2020/07/bcc-quarterly-economic-survey-q2-2020-chancellor-must-set-out-roadmap-to-recovery-as-uk-economy-endures-historic-setback

Published on the 1st of July, the British Chambers of Commerce's Quarterly Economic Survey (QES) demonstrated that national economic conditions deteriorated at an unprecedented rate, with eleven of the fourteen key service indicators, including sales, orders and cashflow, falling to their lowest level in the 31-year history of the survey.

Key findings from the **services** sector included:

- The balance of firms reporting increased domestic sales fell to -64% in Q2 2020, down sharply from +16% in Q1
- The balance of firms reporting improved cashflow fell from +3% to -56%
- The balance of firms looking to increase investment in training fell sharply 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%.

In **manufacturing**, similar rates of reduced activity were recorded across key metrics highlighting the extent of the challenge facing the sector, including:

- 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 improved cashflow fell from -6% to -47%
- 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%.

British Chambers of Commerce, Quarterly Recruitment Outlook, Q2 2020

https://www.brchamber.co.uk/bcc-quarterly-recruitment-outlook-q2-2020

The BCC's report on Q2 recruitment conditions attempts to highlight the impact of COVID-19 on the labour market, across sector, company size and region. The report highlights the underlying volatility in the labour market, with businesses attempting to recruit falling to 25%, the lowest level on record. Of the firms that did attempt to recruit, 65% faced recruitment difficulties. These difficulties were particularly pronounced in the recruitment of professional and managerial roles (48%) and skilled manual and technical roles (44%). Regarding recruitment by sector, 71% of construction firms reported difficulties in recruitment, 59% in transport and distribution and 56% in retail & wholesale, highlighting the multi-sectoral impacts of difficulties in the labour market. For company size, micro businesses experienced the biggest difficulties in recruiting staff (66%) closely followed by SME's (65%), with large businesses facing the least, yet still significant, recruitment challenges (60%).

Federation of Small Business, 'New Horizons Report'

https://www.fsb.org.uk/resource-report/new-horizons.html

Published in May, the FSB's 'new horizons' report laid out the extent to which small businesses have been impacted by the COVID-19 pandemic, with most smaller firms suffering a decline in revenue, and government support schemes proving to be a vital lifeline. Importantly, many small firms have diversified, increasing digital engagement, as well producing new services and products. Key findings from this report included:

Digital engagement

- 16% of businesses developed a new online presence or built upon an existing presence
- 24% of all small businesses adopted or increased their use of digital technologies to enable working from home.

New Services/Products

- 10% of all small businesses diversified into producing new services, 6% diversified into producing new products/goods, and 9% started making deliveries direct to customers.

Business Practices

- 14% of all small businesses made structural changes that allowed them to keep trading while respecting social distancing
- 30% of businesses reported alterations to business practices to enable working from home.

Management Skills

- 51% of small businesses reported that leadership and management skills are most important for the future growth of their business, 34% for product or service innovation and 22% for organisational innovation
- 53% of small businesses invested in or introduced improvements to working practices and processes, 49% into technology or machinery and 41% into staff training and development over the last year.

51% of small businesses reported that leadership and management skills are most important for the future growth of their business

Sources: ONS and Bank calculations.

Coronavirus Economic Impact Scenarios for South West Councils, Oxford Economics – August 2020

Oxford Economics were commissioned to produce a set of dedicated reports on the economic impact of COVID-19 on behalf of South West Councils, covering the South West (SW) region as a whole, as well as individual top-tier authorities, including the HotSW area authorities of Somerset, Devon, Plymouth and Torbay. The reports set out a baseline scenario, in addition to 'downside' and 'upside' scenarios, covering impacts on economic output (GVA) and employment based on sectoral breakdowns.

Whilst much uncertainty remains, the **baseline forecast** anticipates an 8% contraction in SW regional GVA in 2020, accompanied by 112,900 job losses and a spike in the unemployment rate at 4.5% in 2020. A bounce-back is expected in 2021, with 7% GVA growth, accompanied by a rise of 67,500 jobs and unemployment falling to 3.8%. Over the period 2020-25, South West GVA growth is forecast to average 1% per year (compared to a national average of 1.3%), with jobs growing by 0.3% a year. GVA in 2025 is projected to be 1.9% lower than the pre-Coronavirus forecast.

The report highlights that the wider region and Heart of the South West's industrial composition is characterised by a preponderance of sectors that have been hard hit by lockdown measures. Accommodation & food, as well as manufacturing, are over-represented in the South West when contrasted to the national average, whilst sectors more resilient to lockdown restrictions due to work from home capability, such as professional services, are under-represented.

The upside scenario is slightly more optimistic than the baseline scenario, with considerably more risks towards the downside. In the more pessimistic downside scenario premised on the event of the extension of lockdown restrictions in the event of a second COVID-19 wave, the South West's GVA would contract by 13% in 2020, accompanied by 140,000 job losses. Further job losses would be anticipated in 2021, pushing up regional unemployment to 7.4%, with large job cuts also in manufacturing, accommodation & food and wholesale and retail. Such a downturn would lead to pre-pandemic GVA levels not recovering until 2027, although unemployment would stay above 2019 levels well into the following decade. The upside scenario, premised on the early discovery of a vaccine, or other reasons for the substantial easing of lockdown restrictions, forecasts a 10% rise in GVA in 2021 and jobs by 3% - most importantly the key differentiation under the upside scenario is the shorter time taken to recover.

For the HotSW area under the baseline scenario the immediate loss of GVA and jobs is significant and recovery for the whole area will take longer than nationally

For the HotSW area under the baseline scenario the immediate loss of GVA and jobs is significant and recovery for the whole area will take longer than nationally with all of the constituent parts showing a lower average annual growth rate than the 1.3% for the UK. Torbay in particular has been hit hard and its recovery will also be much slower than nationally under all scenarios. In Devon, which shows the best overall recovery of the constituent parts of HotSW, both Covid-19 impact and the County's recovery are skewed significantly by a more buoyant Exeter economy, with other constituent Districts performing poorly, especially Mid and West Devon, which are expected to see hardly any jobs growth before 2025. South Somerset is similarly affected in terms of negligible jobs growth forecast up to 2025.

Baseline Scenario	Loss of GVA	Job Loss	Average	Predicted	Predicted Job numbers recovery by
Devon	7.60%	16,400	1.20%	2022	2023
Plymouth	8.20%	4,500	0.70%	2022	2022
Somerset	8.00%	4,500	1.00%	2022	2022
Torbay	9.70%	2,600	0.60%	2022	2023

Local recovery and vulnerability

Oxford Economics have developed an index based on three themes to identify vulnerable places. It has three themes - Economic diversity/ industrial structure, business structure, and digital connectivity -all of which point to an area's economic resilience to Covid and overall recovery potential. The Heart of the South West tends to be more vulnerable than elsewhere in Great Britain – with 12 out of its 14 District and Unitary areas having a score of over 100, and with 8 out of 14 areas, among the top-25% most vulnerable—the highest of any region. Areas such as Mid Devon (5th) and (West Devon 12th) are among most vulnerable nationally. The most vulnerable areas nationally according to the index are Eden (North West), Pembrokeshire (Wales) and Staffordshire Moorlands (West Midlands).

The Heart of the South West tends to be more vulnerable than elsewhere in Great Britain

Local authority area	Index (average=100)	Quartile
Devon:	-	-
East Devon	125	Top 25%
Exeter	55	Bottom 25%
Mid Devon	149	Top 25%
North Devon	137	Top 25%
South Hams	114	50% to 75%
Teignbridge	106	50% to 75%
Torridge	127	Top 25%
West Devon	140	Top 25%
Plymouth	90	25% to 50%
Somerset:	-	-
Mendip	129	Top 25%
Sedgemoor	137	Top 25%
Somerset West & Taunton	112	50% to 75%
South Somerset	125	Top 25%
Torbay	106	50% to 75%

Moving forward through 2020-25, growth is expected to be concentrated in higher-skilled occupations such as business and public service professionals many of which are located outside of the region in locations such as Cambridge, London and the Thames Valley. Within HotSW some locations such as Exeter and Taunton have higher levels of digital and professional roles than the rest of the region and are likely to benefit most in terms of jobs recovery as a result, with some opportunity also highlighted for much of the region in terms of greater working and workplace flexibility enabling a potentially greater spread of opportunities available to some people more widely across the region

Through 2020-25, growth is expected to be concentrated in higher-skilled occupations such as business and public service professionals

ICAEW - Differences between regions, regional scorecards

https://www.icaew.com/technical/economy/economic-insight/coronavirus-uk-economic-outlook-differences-across-regions

https://www.icaew.com/-/media/corporate/files/technical/economy/economic-insight/coronavirus-uk-economic-outlook/coronavirus-uk-economic-outlook---regional-scorecards.ashx?la=en

The ICAEW's regional analysis produced on the 22nd of May in conjunction with Oxford Economics has highlighted the potential for existing regional patterns of growth and inequality to remain largely unperturbed by the COVID-19 aftershock. Differences in sectoral performance when amalgamated with regional variations in underlying business composition are highlighted as a primary reason for differences in expected regional performance. Regions such as the South West, with a high reliance on tourism and hospitality, in addition to manufacturing, are expected to perform poorly when contrasted to regions dominated by business and digital services. Additional variables expected to temper regional resilience include overall numbers of self-employed workers, as well as the concentration of small and micro businesses who are likely to have less of a financial buffer.

Premised on these variables, the ICAEW forecasts output and employment to fall slightly more than the UK average in 2020. Despite a predicted strong rebound, employment in 2021 is still forecast to be slightly lower than it was in 2019, at 2.99m compared to 3.04m.

NatWest, Southwest Purchasing Managers' Index (PMI)

https://media.natwestbusinesshub.com/ZmoRJ2riT6GHBP7gNvJZ

Published on the 13th of July, the NatWest PMI measures a variety of business sentiment through the gathering of survey responses in the second half of each month from South West service and manufacturing businesses.

The report indicated a fifth successive monthly drop in new orders received by South West private sector firms, with this drop sharper than the national average, indicating COVID-19 and subsequent disruption is weighing on client demand. In contrast, business confidence reached a four-month high, with businesses widely anticipating that activity can recover as the economy moves into a recovery phase. This business confidence was juxtaposed with reports that export conditions had worsened slightly, however this deterioration was the slowest for four months.

Employment continues to fall across South West private sector firms, with a combination of redundancies and workers on furlough creating downward pressure on overall workforce numbers. Prices of input costs were also reported to have risen, with some panellists reporting purchases of PPE equipment had driven an upturn in private sector expenses. This increase in input costs has been coupled to an increase in prices charged by South West firms at the end of Q2, marking the first upturn in four months.

The potential for existing regional patterns of growth and inequality remain largely unperturbed by the COVID-19 aftershock

FSB, SBI South West Data

Early small business index data provided by the FSB for the South West indicates that 45.45% of businesses have seen a 'significant reduction' in confidence as a result of COVID-19, with a further 33.88% reporting 'some reduction' in confidence as a result of the pandemic. Despite this overall reduction in underlying business confidence, some signs of optimism were evident, with 30.2% of businesses reporting they expected their business performance to 'slightly improve' over the next 3 months, and an additional 14.89% of respondents expecting their performance to be 'much improved'. In addition, a substantial number of respondents (59.92%) reported that they expected their staffing numbers to stay the same, although this still leaves a significant minority of businesses (20.66%) expecting staff numbers to decrease, highlighting the continued uncertainty surrounding the regional labour market.

SWMAS, South West Manufacturing Barometer

https://www.swmas.co.uk/knowledge/south-west-2020-q1

SWMAS' Barometer for Q1 highlights a slightly more optimistic picture than the previous edition of the Barometer, with a degree of increased optimism around expected future profits, turnover and investment. Crucially however, and in-line with the national barometer, key metrics remain in the negative, demonstrating the manufacturing sector is still cautious about the overall outlook for the sector moving through the rest of 2020. Key metrics highlighted in the barometer included:

Sales & Profits

- 70% of respondents reported a reduced sales turnover over the past six months, with 42% expecting sales turnover to decrease in the next 6 months
- 72% of respondents saw a decrease in profit over the last six months, with 41% expecting profits to fall in the next six months.

Employment

- 36% of respondents reported a reduction in staff numbers over the past six months, with 32% expecting staff numbers to decrease in the next six months.

COVID-19

- 30% respondents described their business as 'surviving' whilst 28% reported being in a 'recovering' state
- 80% of respondents had made use of the furlough scheme, whilst 18% had made redundancies
- Encouragingly, 83% of respondents reported enough clarity had been provided to implement safe social distancing at work.

British Chambers of Commerce Quarterly Economic Survey (QES) – Q2 2020

Somerset Chamber of Commerce reported that almost a third of Somerset respondents to the QES are expecting to make redundancies in the next three months, whilst half expect turnover to worsen in the next year, with 75% having no plans to recruit staff. In addition, 70% of companies in Somerset's response reported a drop in UK sales and advanced orders over the last three months, with a further 65% of firms reporting a drop in cashflow.

By contrast, 60% of businesses expected their workforce to remain the same in the next three months, 25% reported unchanged cashflow, and 20% reporting intentions to upscale their companies in the coming months.

Devon & Plymouth Chamber of Commerce reported similar trends, but stressed that whilst in general terms the QES data appears pessimistic, members are increasingly reporting positive recovery stories, including on-shoring of supply chains, realignment of business strategies, manufacturing own supplies and products rather than importing from abroad, as well as recruiting new talent.

Almost a third of Somerset respondents to the QES are expecting to make redundancies in the next three months, whilst half expect turnover to worsen in the next year

HotSW Enhance Social Enterprise Network - Aug 2020

The Enhance Social Enterprise Network is a catalyst for the development of social enterprises across the south west, bringing social enterprises together create a healthy ecosystem for them to flourish. There are five social enterprise networks in the HOTSW area:

- ESSENCE (Exeter)
- Devon Communities Together/Devon Rural Social Enterprise Network (Rural Devon)
- Plymouth Social Enterprise Network (Plymouth)
- Smart Communities (Somerset)
- Local Spark /Torbay Social Enterprise Network (Torbay).

The network is funded by the European Regional Development Fund as part of the European Structural and investment funds growth programme 2014 -2020 and some feedback from across the area is set out below.

Exeter

Many social enterprises in Exeter have fallen through the cracks between government support packages:

- Some are buildings based with most of the associated costs but are tenants and therefore do not pay business rates and cannot access the automatic related grant
- Some operate delivery through freelance staff on project-based contracts therefore there is no option to furlough.

Service-based members are finding an increase in demand. There is a mix of cases where this is and isn't matched with an ability to access an increase in funding to deliver, with the latter necessitating the need for an increase in voluntary/unpaid work hours.

Some service-based organisations have been able to move their delivery online through platforms such as Zoom, e.g. training, support and therapeutic services.

Some members have ceased delivery/trading altogether. In some cases, this has provided a welcome period of reflection and a chance to reassess business model in response to what may be a recurring situation. In other cases, members have been unclear whether they are going to be able to survive the lockdown period (with no ability to trade and no access to financial support) which has caused an enormous amount of stress and anxiety and heightened fundraising activity.

In most cases, there has been an increase in innovation, and some incredible agility in finding and implementing survival strategies for the organisation and adapted delivery models for the beneficiaries.

Plymouth

Impact of Coronavirus/Covid-19 is very mixed. Plymouth has many service based social enterprises so many have pivoted to online delivery models relatively well and smoothly. Public facing social enterprises are starting to re-open though it's too early to tell what the longer-term impact will be on these.

Very few social enterprises received any of the government support for businesses other than the furlough support.

Smaller social enterprises are particularly at risk due to lack of reserves/ infrastructure however these also may access more grant funding which will help them be a bit more resilient. No notification of social enterprises that have closed completely/permanently so far.

Policy suggestions:

To help build back better and deliver inclusive/green economy social enterprises are saying they need:

- **Access to specialist business advice (e.g. around governance, digital skills, social impact and social finance)**
- **Access to finance – better mix of loans and grants and better interest rates on longer-term patient capital**
- **Access to public sector markets (better use of the Social Value Act).**

Torbay

The impact of COVID19 on social enterprises across Torbay continues to be very mixed. All are still dealing with the lack of certainty and changing government guidelines. Most have needed to make huge changes as they take their services online. For some this has opened up wider geographical opportunities, but it has also restricted what they can deliver locally.

Despite the range of funding available, some have still not been able to access any financial support.

For some the need for their services has grown exponentially and this has brought its own stresses. There has been strong evidence of flexibility and creativity in their response to this ongoing situation. There are no notifications that any social enterprises have needed to close so far.

Existing social entrepreneurs have needed additional support – mainly around how to respond and adapt. There has been a 300% increase in requests for help from both individuals and groups of people wanting to set up either social enterprises or co-operatives to meet needs which they have identified. These range from a Zero Waste food shop to an equine supported therapy centre.

Rural Devon

The majority of social enterprises in the Health, Social Care and Well-being sector have had difficulty in reaching out to clients, especially for businesses whose main trading activity relies on physical interaction (e.g. care). Such businesses are exploring new business delivery models on how to provide services with less physical interaction.

The closure of community spaces during the lockdown had a major detrimental impact on business activities. Many social enterprises use community buildings to deliver their activities and thus they were unable to deliver core parts of their work. As community buildings are reopening, some social enterprises have reported concerns about overall health and safety of using public spaces. Additionally, social enterprises are often seeing increased hire rates of some community buildings, due to increased Covid-19 compliance costs.

Many businesses have reported difficulty in accessing grants, due to strict eligibility criteria and most grants being only Covid-19 focused. Consequently, some businesses have had to halt business activities exacerbating their financial difficulties.

Overall, social enterprises report concerns about a reduction in their visibility to consumers. Particularly in cases where the business has a lack of technical know-how and skills in using digital platforms, especially social media.

Policy suggestions

- **Grants systems need to be made simpler and more responsive to social enterprise/ small business needs**
- **More flexible eligibility requirements and support services to provide better access to funding opportunities, especially for small businesses**
- **Support in exploring further accessibility options to avoid exclusion**
- **Increased digital technical, marketing and overall communications support and upskilling opportunities, to improve communication and reach to clients.**

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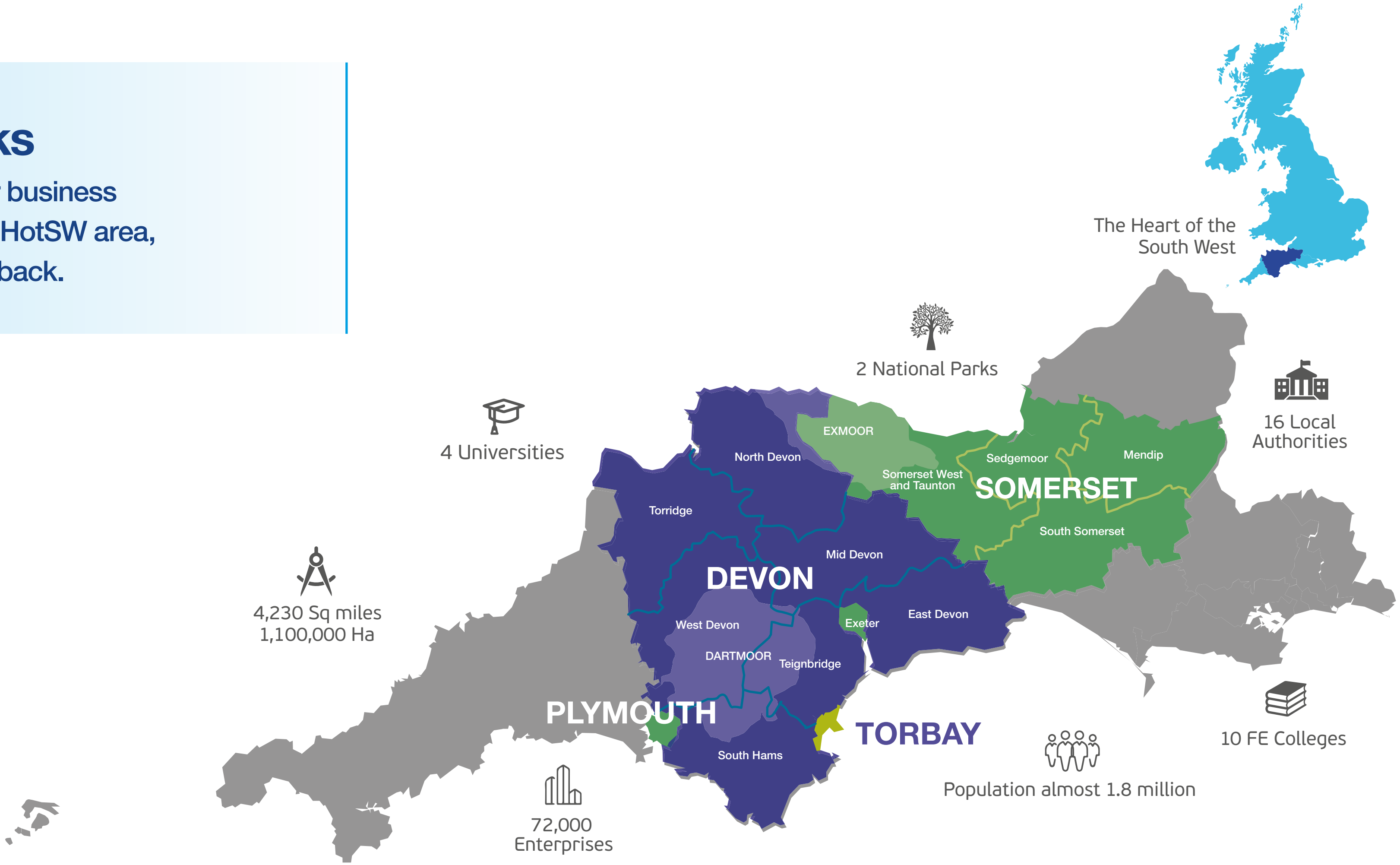
The Heart of the South West

With thanks

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



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