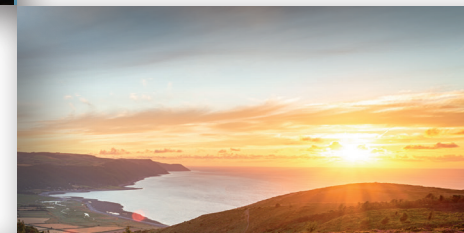




# Quarterly Business Bulletin

## Autumn 2021



# Executive Summary



**David Ralph**  
HotSW LEP Chief Executive

Hello and welcome to our Autumn Business Bulletin which offers a digest of intelligence from national and local partners specifically reflecting the Heart of the South West.

I wrote last time about a sense of cautious optimism over the future and it's incredible how the tone has changed in the last few months. We have rapidly moved from tentative signs of a recovery into some significant issues constraining growth. Overall, the rebound from the pandemic has been much faster than expected with unemployment and bankruptcies far lower than previous recessions. The furlough scheme has clearly played a major part and evidence is suggesting that the vast majority of people coming off furlough are successfully finding work; for example, in Plymouth just 0.3% of those leaving furlough are going onto universal credit. Other Government interventions such as bouncebank loan schemes and emergency grants have also been important but we will need to be watchful as these 'taps' come to an end.

Some businesses are thriving and a buoyant summer has seen significant levels of growth although the economy remains smaller than it was prior to the pandemic. However the rise in energy costs is becoming a critical issue and there are severe labour shortages being experienced across almost every sector; HGV drivers have been in the news but for this area recruitment has been challenging almost everywhere, with more roles than available people. Health and social care, tourism, logistics and construction are most pressured and we are seeing new issues emerging such as early retirements due to COVID, those previously in self-employment moving out of the labour market, individuals moving to higher paid roles leaving gaps, and competition from the other areas such as the south east thanks to the increase in remote and hybrid working.

This has resulted in many businesses being forced to close at least some of the time due to a simple lack of labour to meet demand and I worry this could make the area less attractive as an investment/operating location. In many respects therefore, the local picture has returned to a pre-pandemic position – one of the tightest labour markets in the UK and yet with lower levels of productivity than other parts of the country.

The LEP fully supports the drive to a higher productivity, higher wage economy – but it must deliver to all our communities and there are two fundamental challenges. Firstly, creating the conditions for that productivity growth; this includes development of new skills, infrastructure investment to enable businesses to raise innovation, supporting businesses in digital connectivity and utilisation, supporting business start-ups and growth etc. But these things take time, as well as investment so the second challenge is in managing the immediate blockages/labour shortages. There is in my view an increasing risk that the current situation leads to higher costs and wage inflation with no increase in productivity, leading to less competitive businesses and the benefits of wage increases being eroded. Perhaps a little provocatively I would add that other European countries seem to be able to manage a more open labour market and achieve lower regional inequality and higher productivity - restricting the supply of labour is not the solution.

**We have rapidly moved from tentative signs of a recovery into some significant issues constraining growth**

Therefore, the Comprehensive Spending Review is an opportunity for Government to set a framework for the higher productivity economy but it is firms and business - not Government - that deliver growth and prosperity. Reducing the costs to business and delivering the freedoms and flexibilities for business to deliver new and better products and services, particularly in the low carbon green agenda, must be core. The CSR is due at the end of October and the LEP and HotSW Joint Committee submitted a comprehensive bid setting out the immediate investment priorities for our area – a copy of the letter can be seen at [210902-HotSW-Comprehensive-Spending-Review-Asks.pdf \(heartofswlep.co.uk\)](#). Much of this is also about Government unfreezing deferred decisions – for example delivery of the Nuclear sector deal; the high value ATI programme at Leonardo; certification of autonomous marine at Plymouth; decisions over future Community Renewal Fund and Levelling Up Fund applications etc.

**The LEP fully supports the drive to a higher productivity, higher wage economy – it's been our priority for years but there are two fundamental challenges. Firstly in creating the conditions for that productivity growth, secondly in managing the blockages and labour shortages in the meantime**

Outside the CSR, the recent Cabinet reshuffle means Ministers are still considering the detail of what some policies, such as levelling up and the future of local growth may mean. A white paper is expected on this in the next few weeks.

**Business will create the new jobs, new economy and higher productivity this area needs and that Government wants to see, so business must be at the table to shape how this is done**

Finally it would be remiss of me not to mention LEP review, announced by Government in March and originally intended to conclude by the summer. It's now expected that the levelling up white paper will set the direction for the future of LEPs and over the last few months we have engaged extensively through MPs and the LEP Network to feed into this. The fundamental proposition is that business will create the new jobs, new economy and higher productivity this area needs and that Government wants to see, so business must be at the table to shape how this is done. Whether on science and innovation, providing business support and access to finance, delivering transformational opportunities through working with business, LEPs have an established track record in delivering this and therefore should continue to be appropriately supported to do so.

I'd like to once again thank all those in our partner organisations who have helped us bring this bulletin together. These partners represent over 25,000 businesses across our patch and your contribution is very much appreciated.

## 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 quarterly national accounts, UK: January to March 2021; GDP first quarterly estimate, UK: April-June; GDP monthly estimate, UK: June 2021**

[GDP quarterly national accounts, UK - Office for National Statistics \(ons.gov.uk\)](https://ons.gov.uk/gdp/quarterly-national-accounts)

[GDP first quarterly estimate, UK - Office for National Statistics \(ons.gov.uk\)](https://ons.gov.uk/gdp/first-quarterly-estimate)

[GDP monthly estimate, UK - Office for National Statistics \(ons.gov.uk\)](https://ons.gov.uk/gdp/monthly-estimate)

- UK GDP is estimated to have increased by 4.8% in Q2 of 2021 (April to June), following a 1.6% drop in Q1. The level of GDP in the UK is now 4.4% below where it was before the pandemic (Q4 Oct-Dec 2019).
- Services output increased by 5.7% in Q2 2021, and is now 3.5% below pre-pandemic levels. The wholesale and retail trade, and accommodation and food service activities industries provided the largest contributions to this growth in output, increasing by 12.8% and 87.8% respectively in Q2 2021. This was primarily due to the re-opening of indoor hospitality and non-essential retail. Additionally, education output increased by 19.4% in Q2, as schools re-opened and in-school attendance rates grew.
- Production output increased by 0.5% in Q2, and remains 3.3% below its pre-pandemic level. This rise was mainly due to the increase in manufacturing over the quarter, which grew by 1.8%.



- Construction output similarly increased in Q2, growing by 3.3%. Output has now nearly recovered to pre-pandemic levels. Some businesses reported difficulties sourcing raw materials over the quarter which limited output, however the low base of construction output reported in Q1 2021 resulted in an overall rise in output.

### **ONS – Labour Market Overview, UK: September 2021; Employment in the UK: September 2021**

[Labour market overview, UK - Office for National Statistics \(ons.gov.uk\)](https://ons.gov.uk/labour-market-overview)

[Employment in the UK - Office for National Statistics \(ons.gov.uk\)](https://ons.gov.uk/employment-in-the-uk)

- The employment rate from May to July 2021 increased by 0.5 percentage points from the previous quarter to 75.2%. The unemployment rate decreased by 0.3 percentage points to 4.6%. This is 0.6 percentage points higher than pre-pandemic levels.
- Latest figures show 94,000 redundancies were made during Q2 2021, representing 3.4 redundancies per thousand employees, similar to pre-pandemic levels and a decrease of 15,000 redundancies on the previous quarter.
- These figures are reinforced by 'pay as you earn real time information' for August 2020, which indicated a 3.0% rise in the number of payrolled employees compared to the same period last year, an increase of 836,000 employees. Compared to July 2021, 241,000 more people were in payrolled employment in August 2021.



## ONS – Vacancies and jobs in the UK: September 2021

[Vacancies and jobs in the UK - Office for National Statistics \(ons.gov.uk\)](https://ons.gov.uk)

- For June to August 2021, there were an estimated 1,034,000 job vacancies, a record high, and the first time vacancies have exceeded 1 million since records began in 2001. This is an increase of 269,300 vacancies (or 35.2%) on the previous quarter, with all industries seeing increased vacancies.
- ‘Other service’ activities, which comprises companies providing services not provided for elsewhere in the classification system such as equipment and machinery repairing and personal care services, saw the fastest rate of growth, with vacancies increasing by 93.3% (or 12,500 vacancies), followed by transport and storage, which grew by 76.3% (or 20,300 vacancies).
- Within accommodation and food services, labour demand increased rapidly whilst staff availability reduced, with staff leaving the industry to seek employment elsewhere. The accommodation and food services industry reported the highest ratio of vacancies to employee jobs, at 5.9:100.
- Estimates of workforce jobs were drawn from different sources, with surveys results relating to a reference date of 11th June 2021 combined with results from the Labour Force Survey, covering the period from early May 2021 to late July 2021.
- It is estimated that there were 34.8 million occupied jobs in the economy in the UK in June 2021, an increase of 293,000 jobs from March 2021, and the highest level since June 2020. However the total number of occupied jobs is still 856,000 below pre-pandemic levels.
- The accommodation and food services industry saw the largest number of job losses compared to other industries with 178,000, followed by the wholesale, retail and motor vehicles with 170,000 losses, and manufacturing with 138,000 losses.

## Bank of England – Monetary Policy Report August 2021

[Monetary Policy Report - August 2021 | Bank of England](https://www.bankofengland.co.uk/monetary-policy-report-august-2021)

- The latest Monetary Policy Report, published on 5th August 2021, outlined the updated projections for activity and inflation. These assume that the impact of the pandemic on the UK economy will continue to diminish over time, despite the (at that time) current spread of the Delta variant.
- UK GDP is anticipated to have risen in Q2 of 2021 by 5%, representing slightly stronger growth than predicted in the Bank’s May report (4.25%), albeit with GDP remaining 4% below pre-pandemic levels. GDP is projected to continue to recover throughout the remainder of 2021, growing by around 3% in Q3, and reaching its pre-pandemic level in Q4.
- The unemployment rate has declined steadily from the peak of 5.2% in Q4 of 2020, and was calculated at 4.8% in the three months to May 2021. This is lower than the prediction set out in the May report, which expected the unemployment to rise to 5.2% in Q2.

## Bank of England – Agents’ summary of business conditions 2021 Q2

[Agents’ summary of business conditions – 2021 Q1 | Bank of England](https://www.bankofengland.co.uk/agents-summary-of-business-conditions-2021-q1)

- The Bank of England’s (BoE) most recent ‘Agents’ summary of business conditions’ report summarises intelligence gathered by the Bank’s Agents between mid-April and early June. The report stated that economic activity had recovered since the early stages of the pandemic in 2020.

- **Consumer Demand:** A strong growth in retail sales was reported following the re-opening of non-essential shops. Clothing sales rose, and car dealerships saw increased demand. However, consumer demand overall remains below pre-pandemic levels. Domestic holiday bookings, on the other hand, were above pre-pandemic levels.
- **Manufacturing:** Output levels increased to close to pre-pandemic levels in many sectors. Output among food and beverage producers increased ahead of the reopening of the hospitality sector, whilst high demand for construction materials saw increased output for the mining and quarrying industries. Supply bottlenecks did constrain production in several sectors, most notably the automotive sector. Demand from the EU for UK goods reportedly returned, and Brexit-related issues which previously impacted on exports were starting to subside.
- **Construction:** Output increased sharply from earlier in the year, mostly due to increased housebuilding and public infrastructure projects. However, concerns were reported that material shortages could limit output.
- **Corporate finance:** Credit demand among small companies was reported to have been subdued, reflecting the pickup in economic activity for many companies recently. Credit availability showed signs of improving slightly, although it remained tight for those sectors most affected by the pandemic.
- **Investment:** Investment intentions continued to improve, partly due to companies catching up on investment or reinstating projects that had been put on hold during the pandemic.
- **Employment & pay:** Recruitment intentions improved as the economy continued to recover. Large-scale redundancy concerns in the hospitality and leisure sectors lessened, due to the lifting of social distancing measures. Job losses were still anticipated in some sectors, including travel, aviation and retail.

## SWMAS, National Manufacturing Barometer Q1 2021/22

### [National Manufacturing Barometer Report \(Q1 2021\) | SWMAS](#)

- The Q1 Barometer, covering April, May and June 2021, is based on responses from SME manufacturing businesses across the UK in July 2021.
- 42% of respondents revealed they were trading at higher levels than pre-pandemic, compared to just 37% saying this last quarter. However, 45% of respondents reported that trade still had not returned to pre-pandemic levels.
- Sales turnover had increased for 49% of respondents over the past six months, and 65% of respondents expected sales turnover to increase over the next six months.
- Profits had decreased for 40% of respondents and increased for 34% over the past six months. 46% of respondents anticipated profits to increase over the next six months, whilst 23% expected profits to decrease.
- 35% of respondents reported increased staff numbers over the past six months and 38% saw no change to staff numbers, whilst 27% reported a decrease. 51% of respondents expected staff numbers to increase over the next six months, with 43% anticipating no staff number changes, and only 6% expecting staff numbers to decrease.
- Supply chain price increases have caused problems for the majority of respondents (96%), with the main factors cited being the availability of raw materials, transportation costs and a lack of capacity to meet demand. These supply chain issues have the potential to constrain growth prospects for the manufacturing industry in the UK.

## ICAEW, UK Business Confidence Monitor, National Q3 2021

[UK Business Confidence Monitor: National | ICAEW](#)

- The latest ICAEW Business Confidence Monitor (BCM) used data gathered between 19th April and 16th July 2021. It revealed that overall business confidence is at a record high, boosted by strong sales expectations, however, issues with staff turnover, skill availability and transport are becoming increasingly evident.
- As the economy grows, input costs and selling prices are anticipated to rise, although it is not expected that these will increase more rapidly than they were pre-pandemic.
- Businesses plan to raise investment, especially in research and development, and capital equipment, as spare capacity has fallen sharply, and a rise in profits is anticipated. Increased investment is expected to expand capacity and avert supply shortages and inflationary pressures.
- Transport and Storage companies expect a particularly strong improvement in sales, as do other industries, including retail and wholesale and IT and communications industries.

**Spare capacity has fallen sharply, and a rise in profits is anticipated**

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## British Chambers of Commerce, Quarterly Economic Survey Q2 2021

[BCC QES summary report Q2 2021\(final\).pdf \(britishchambers.org.uk\)](#)

The British Chambers of Commerce's Quarterly Economic Survey (QES) for Q2 is based on data gathered from UK businesses between 17th May and 10th June 2021. More firms reported improved domestic sales and business confidence, suggesting a summer economic rebound. Vaccine roll-out and the easing of public health restrictions supported a revival of activity over the last quarter, however this may reduce later in the year with the ending of government support schemes.

### Key findings from the services sector included:

- 20% of firms reported increased domestic sales in Q2, up from -18% in Q1 2021.
- -7% of firms reported increased export sales in Q2 2021, an increase from -26% reported in Q1.
- The percentage of firms reporting increased investment in training stood at 12%, an improvement from -6% in Q1 2021.
- The percentage of firms reporting improved cash flow stood at 5%, up from -26% in Q1 2021.
- 49% of firms expressed confidence that turnover will increase in the next 12 months, a large increase from 24% in Q1 2021.

## British Chambers of Commerce – Quarterly Recruitment Outlook, Q2 2021

[Quarterly Recruitment Outlook \(britishchambers.org.uk\)](https://britishchambers.org.uk)

- The number of firms attempting to recruit in Q2 rose to 52% from 40% in Q1. Even sectors which were harder hit during the pandemic, including hotels and catering saw rises in recruitment.
- The production and manufacturing sector, and the construction sector had the highest proportion of firms attempting to recruit, at 64% and 63% respectively, up from 50% and 54% respectively in Q1.
- Of those firms attempting to recruit, the percentage facing difficulties rose steeply in Q2 to 70%, an increase from 63% in Q1. The construction sector had the highest proportion of firms reporting difficulties (82%), followed by hotels and catering at 76%.
- 38% of firms reported that they expected their workforce in the upcoming 3 months, whilst 5% expected their workforce to decrease. The sector with the highest proportion of firms expecting workforce growth (51%) was the construction industry, up from 34% in Q1 2021.



## Labour market in the regions of the UK: September 2021

[Labour market in the regions of the UK - Office for National Statistics](#)

- The South West reported the lowest unemployment rate estimate in the UK from May to July 2021 at 3.3%, compared to the national average of 4.6%. Both regionally and nationally unemployment fell by 0.3 percentage points on the previous quarter.
- The estimated employment rate in the South West between May and July 2021 was 77.7%, 1.1 percentage points higher than the previous quarter, and 2.5 percentage points higher than the national average of 75.2%.
- Estimates for August 2021 state there were 2,439,133 payrolled employees in the South West, an increase from 2,419,580 employees reported in July (+0.81%).
- The economic inactivity rate was estimated to be 19.6% between May and July 2021, 0.1 percentage points lower than the February to April rate, and lower than the national average of 21.1%.

## FSB, South West Quarterly Small Business Index, Q2 2021

The South West Small Business Index (SWSBI) published in August 2021 shows how confidence levels amongst small businesses appears to be returning, with the South West outperforming the rest of the UK in terms of business confidence.

- **Business Confidence:** Business confidence in the South West has fallen to 29% in Q2 2021, a decrease from the 39% recorded in Q1 2021. Despite this fall, confidence still remains positive, likely due to the relaxation of public health restrictions.

- **Business Conditions:** The overall net balance for profit over the last 3 months reported by South West businesses in Q2 was positive (net 9%). The outlook for future profit is also positive in the region, with 44% of small businesses expecting a growth in profits over the next 3 months.
- **Employment:** In Q2, employment for South West small businesses was net positive (5%), and this is set to increase into the next quarter. Over the next quarter, the intention is for 24% of small businesses to increase staff numbers. 57% of small businesses in the South West increased their average salary awarded across the business over the last 12 months, and a further 66% expected to see salary increases over the coming year.
- **Growth and Investment:** 52% of small businesses across the region in Q2 2021 expected to see increases in turnover and sales over the coming 12 months. Intentions for investment amongst these businesses slightly decreased in Q2 compared to Q1, with 28% expecting to increase investment over the coming 3 months.

## SWMAS, South West Manufacturing Barometer, Q1 2021/2022

[South West Manufacturing Barometer Report \(Q1 2021\) | SWMAS](#)

This survey, covering Q1 2021 (April, May and June 2021) collected responses in July 2021 from SME manufacturing businesses in the South West. The recent experiences and future predictions revealed in this report were overall optimistic, showing a heightened confidence from many firms.

- **Turnover & Profits:** 7% of businesses reported an increase in sales turnover over the six months preceding this survey, whereas 69% of businesses expected their sales turnover to improve in the coming six months. In comparison, 38% of businesses reported an increase in profits over the past six months, and 50% expected to see profits increase in the coming six months.

- **Capital Investment:** 48% of businesses reported an increase in capital investment over the past six months, compared to only 10% of businesses which reported a reduction in capital investment. 53% of businesses expected capital investment to increase over the next six months, although this figure has reduced from the previous quarter, when 60% expected an increase over the next six months.
- **Employment:** 40% of respondents reported an increase in staff numbers over the past six months, whilst 52% of businesses expected to see staff numbers increase over the coming six months.
- **Barriers to growth:** 56% of regional businesses cited recruitment challenges as a significant factor hindering growth, up 7% when compared with the national report. The price of raw materials and delays in shipping to and from Europe were reported as key issues for almost all businesses, causing price changes within supply chains and difficulties with planning and preparation.

## NatWest, South West Purchasing Managers' Index (PMI), September 2021

[NatWest | PMI survey: South West \(natwestbusinesshub.com\)](https://natwestbusinesshub.com)

The NatWest PMI reports business sentiments from surveys carried out in the second half of each month, from manufacturing and service businesses.

The headline NatWest South West Business Activity Index, a seasonally adjusted index measuring monthly changes in manufacturing and service sectors output, fell from 62.2 in July 2021 to 54.7 in August 2021, indicating an upturn in output. Firms reported an increase of new work in August, attributed to the easing of restrictions and increased tourism in the South West.

Staffing levels continued to increase throughout August, and the rate of job creation increased for the fifth month in a row. The rate of expansion of payroll numbers in the South West was the second fastest recorded in the UK in August, after London. Operating expenses continued to rise through August for South West private sector businesses, and the rate of inflation continued rapidly, despite easing slightly since July.

## Regional Chambers of Commerce Perspectives

The British Chambers of Commerce (BCC) Quarterly Economic Survey (QES) is the largest independent business survey in the UK and a significant economic indicator. The accredited Chamber network run the survey in their local regions, feeding the results back to the British Chambers of Commerce to create a national picture by engaging with local business.

The results of the most recent QES (quarter three 2021) showed confidence returning to the South West business community albeit with some immediate and future challenges to be faced. Whilst 67% of respondents were confident that turnover would improve over the next three months, just 56% of those felt that profitability would improve suggesting an increase in business running costs. There were also significant concerns over inflation with 53% of companies recording it as a larger concern than in the previous three months and the same amount recording an expectation that prices would increase over the same period.

A strong demand for staff was also recorded with 56% of businesses attempting to recruit. Of concern was that over 65% of those struggled to recruit, further highlighting the skills shortages and tight labour market across the region.

## ICAEW Business Confidence Monitor (BCM): South West, Q3 2021

[South West](#) | [ICAEW](#)

The Business Confidence Index increased considerably this quarter, rising to the highest level ever recorded in the South West. The high vaccine uptake and the relaxing of COVID-19 restrictions over the past few months are likely to be the main factors contributing to this confidence.

Domestic sales and exports rose slightly by 0.2% and 0.6% respectively over the past year. Despite challenging conditions for businesses during the pandemic, economic activity has picked up, and sales have largely returned to pre-pandemic levels. Businesses in the South West have reported the highest projection for export growth across the UK at 5.3%.

In Q3 2021, 25% of businesses cite staff turnover and 19% cite the availability of non-management skills as growing challenges, likely reflecting the hesitancy of some workers to re-enter the work force. 44% of businesses cite regulatory requirements as a significant challenge, likely due to both COVID-induced restrictions and difficulties adjusting to new UK-EU regulatory frameworks. 29% of businesses saw transport issues as a significant challenge, including shortages in HGV drivers, which has slowed down delivery rates. Transport disruptions are also the probable cause of input price inflation, whereby input costs have increased by 1.5% over the past year. Companies have reported they plan to combat future inflation issues with an increase in selling prices in the coming year, following the restrictions on price rises throughout the pandemic.

Despite challenging conditions for businesses during the pandemic, economic activity has picked up, and sales have largely returned to pre-pandemic levels

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## With thanks

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

