

Greater Manchester Quarterly Economic Survey

Q2 2020 Survey Report

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Greater Manchester Chamber of Commerce's Quarterly Economic Survey (QES) results, including the GM Index, is the first set of local economic data to be released every quarter. For over 30 years, the QES results have provided a forward view of what is happening in Greater Manchester (GM) and captured the concerns of GM's business leaders.

The QES results for Q2 2020 shows how normal business activities have been disrupted since late March. The COVID-19 pandemic and the lockdown imposed to prevent the spread of the virus caused an unprecedented collapse in business activity across all sectors. In terms of the abrupt and huge impact it had on the economy, the pandemic has caused an economic crisis like no other.

The key message from this quarter's QES is unsurprising: almost every economic measure has had a significant shift downward. However, the QES results combined with the data that we gathered through our COVID-19 tracker, the GM Business Monitor (BM), paint a detailed picture of how the GM economy has changed in the last three months and have various pointers for policy making both at the local and national levels.

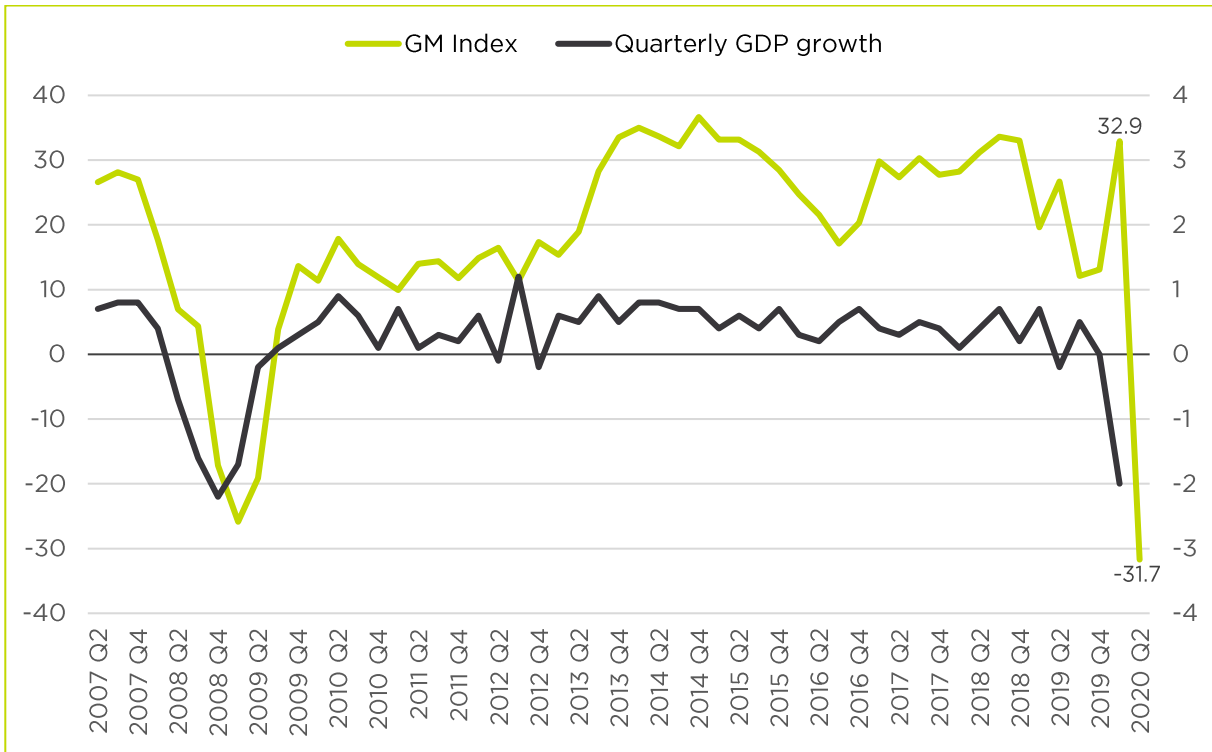
Greater Manchester Index

The GM Index is the single most important indicator of the health of the GM Economy. It is a composite indicator drawn from seven different QES measures.

The GM Index for Q2 is -31.7, its lowest value ever and a substantial reduction from Q1. In Q1 2020, the GM Index was at a healthy 32.9. With clarity on Brexit and infrastructure spending commitments around, business sentiment improved, and activity levels were picking up. Fieldwork for Q1 was done between mid-February and early March, so the results may not reflect the full impact of COVID-19. B2C sectors suffered the most during lockdown with unprecedented reductions in hospitality and retail.

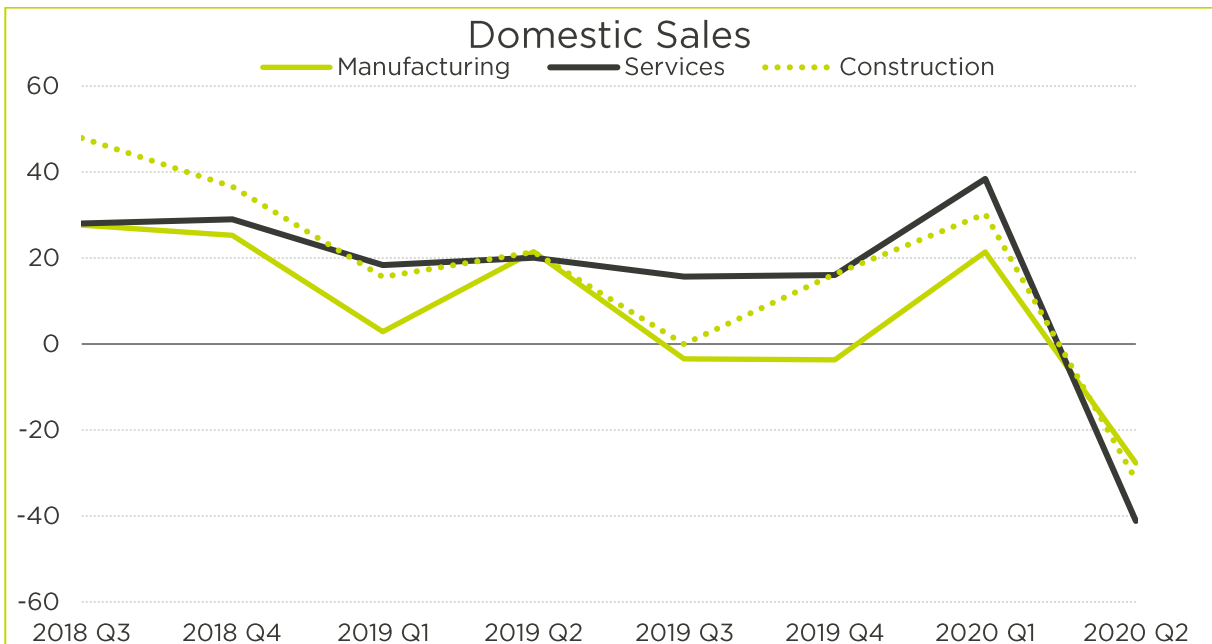
Within GM, consumer sales and hospitality sectors together account for 23% of employment and 14% of Gross Value Add. That combined with impact on other sectors of the economy means normal trading came to a standstill.

The low level of the GM Index is corroborated by national data – monthly GDP declined by 6% in March and 20% in April. The government stepped in with support measures and now we have 330,000 GM workers or 30% of GM's workforce on furlough and over £500m paid through grants to eligible businesses.



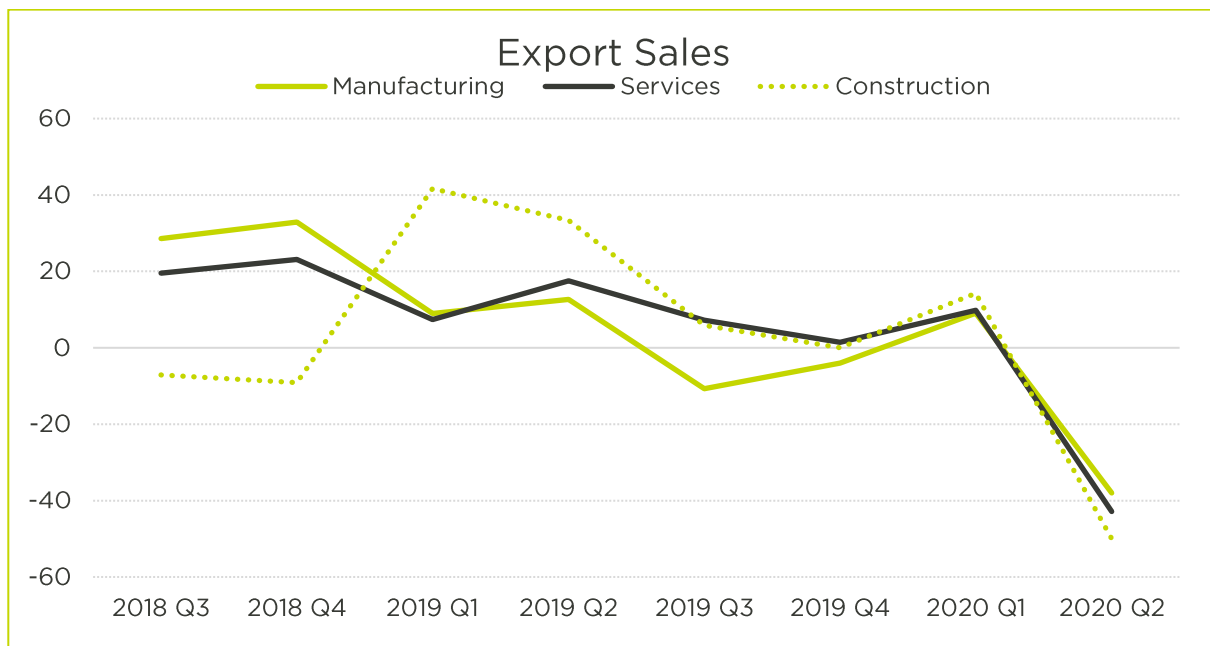
Domestic Demand

Sales and order books are currently looking rather weak. The story is the same across all sector groups. The pandemic badly affected the services sector group and indeed that is where the activity levels shrunk the most. One of the sectors that has probably not been talked about much is construction. Initially, many sites were closed. They have since reopened, so current projects are being undertaken. At the moment, productivity is very low in the sector because of social distancing rules and more worryingly, new orders are not coming in. It would appear that the manufacturing sector could be picking up new orders in the new few weeks.



International Demand

The international demand picture is similar to the domestic demand situation. All three sector groups have reported a decline in both export sales and future orders from overseas customers. One of the first signs of the adverse economic impact of COVID-19 was the disruption to international supply chains which began in China and the far east. Sea freight was badly affected over a four-month period until May but some optimism has set in over the last two weeks.



The issuing of export documentation is a good proxy for GM international trade. The number of certificates of origin and similar export documents processed by the Chamber's International trade team was almost a quarter less compared to the same period last year, which signifies the magnitude of the drop in demand.

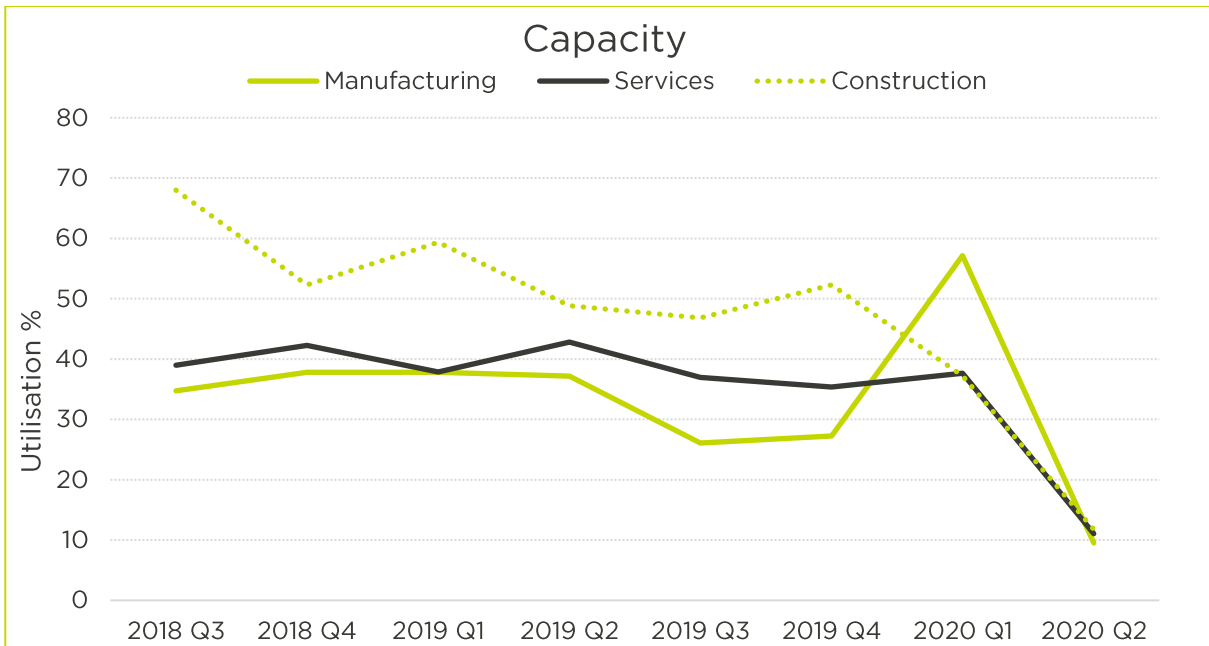
Cash flow

In the Chamber's COVID-19 tracker, the issue of perilous cash positions was highlighted as a grave concern over the last three months. With demand at historic lows and delays in payments, working capital positions are badly affected. This is true for all three sector groups and, as a result, discretionary spend is close to zero. The early Business Monitor surveys showed that up to 90% of respondents were anxious about weak cash positions. Although there was a feeble turnaround after COVID-19 grants and salary subsidy for furloughed staff were paid out towards the end of April, further improvement is unlikely before businesses return to normal trading.

Capacity Utilisation

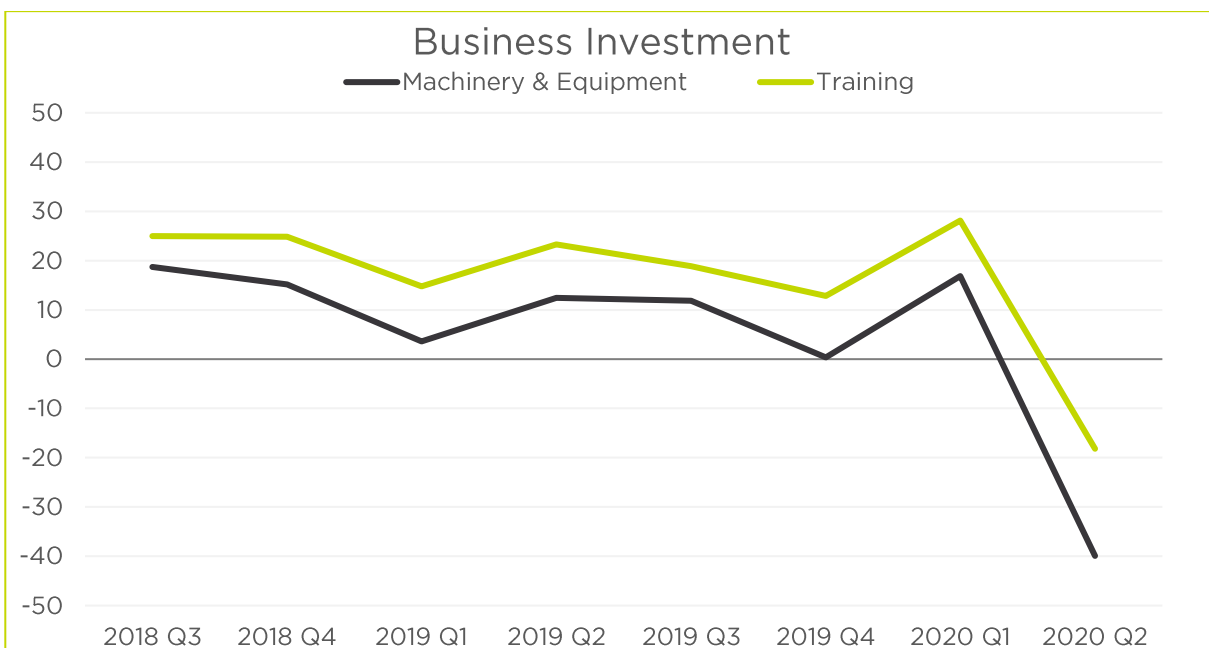
Capacity utilisation is a good measure of business activity levels. With both domestic and international demand badly affected, capacity utilisation has dropped sharply for all three sector groups. The manufacturing sector appeared to have turned a corner

early in 2020, which makes the recent decline more pronounced than it is for the other two sectors. From close to 40% utilisation in services and construction and, 60% in the manufacturing sector, operational capacity has come down to 10%.



Business Investment

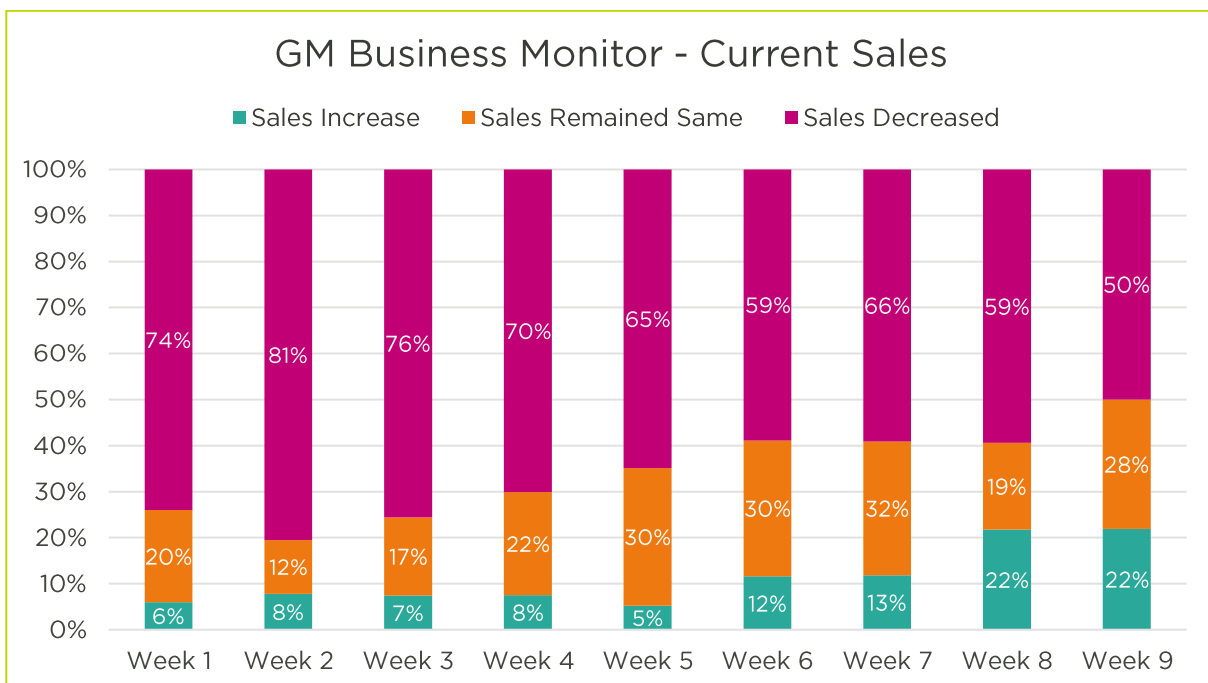
Given low demand, cash flow problems, depressed productivity and uncertainty about the duration and type of recovery, prospects for fresh business investment are also weak. It is likely that business investment and recruitment is likely to dampen for the rest of the year.



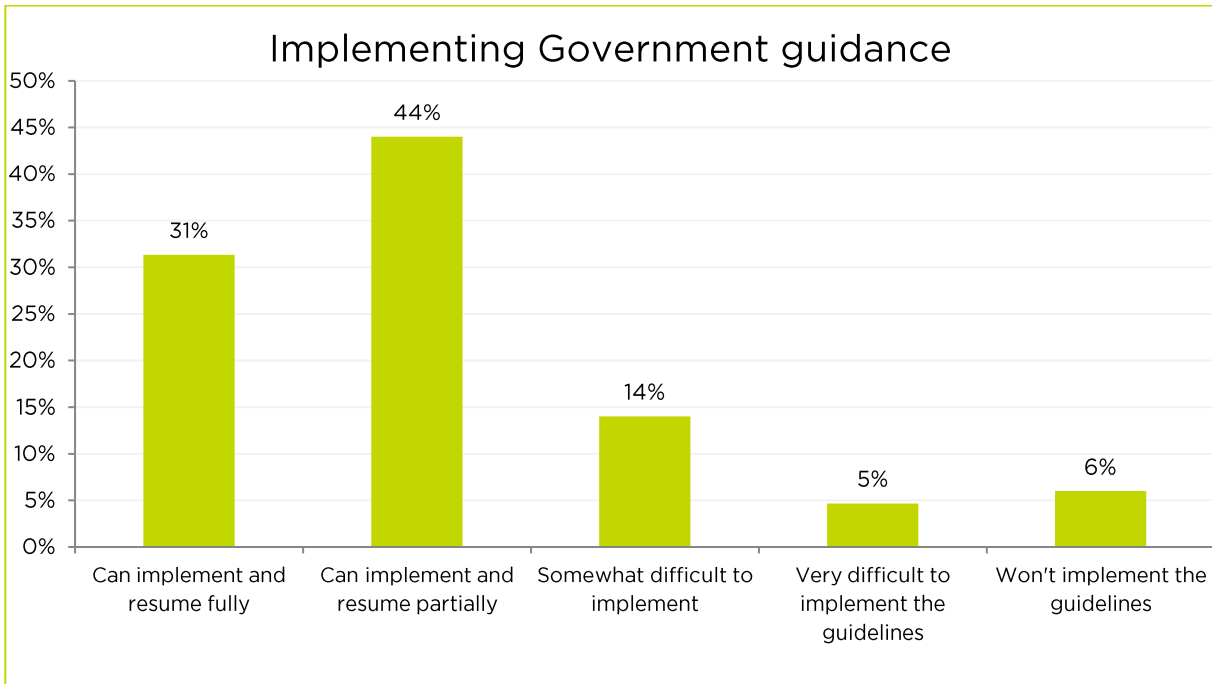
Economic Outlook

Although the full economic impact of this epidemic is still unknown, it is certain the shock has weakened demand and adversely affected liquidity for most businesses. In the last few days, non-essential retail shops have opened and the consumer response to the relaxation in the lockdown suggests that there could be gradual upturn.

Detailed analysis of the responses to the GM Business Monitor surveys reveals how business sentiment has changed since late March. In the earlier BM surveys, over 80% of respondents chose the 'sales decreased' option but in the latest tracker, this had decreased to 50%. During this period, the number of 'stay same' and more recently the number of 'sales increased' responses went up. While this does not confirm a full recovery, it shows that demand is not in free fall and pent up demand from the last three months could improve trading in the coming weeks.



Businesses are keen to reopen and move towards a business as usual normalcy. Three-fourths of respondents are able to implement safe working guidelines and reopen to at least partial trading - this is exactly what we have seen here in GM. On 15th June, when non-essential retail stores opened in Manchester, footfall in Market Street and the Arndale Centre increased to its highest level since early March.



The COVID-19 pandemic is first and foremost a public health crisis, there has been substantial negative impact on both the national and local economy. A significant short-term downturn cannot be averted but businesses can make a quick recovery once the health crisis has been warded off.

Methodology

Most QES measures are presented as balances, the difference between the positive and negative responses.

Fieldwork for Q2 QES was conducted from May 18th to June 12th and had over 300 responses from Greater Manchester based businesses.