

Greater Manchester Chamber of Commerce

Quarterly Economic Update Q4 2020

16th December 2020



Greater Manchester
Chamber of Commerce



Economic Briefing Q4 2020

Welcome & Introduction

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QES Presentation

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Q&A / Discussion

#GMEconomics



Quarterly Economic Briefing

What is the QES?

- The UK's largest and most reliable business confidence survey, is the first to be published in each quarter and is used by key policy makers to determine economic decision-making

Does sample size matter?

- Yes. Better the response rate, more accurate the results. The Greater Manchester QES alone has the same sample size as other *national* business surveys.

How reliable?

- Very. It has accurately predicted the recessions of the 1990s and 2000s and can disprove some early releases of national statistics (the “double-dip” that never was in 2012).

Does being first matter?

- Yes. It allows us to help you to be ahead of the curve, often months ahead of official data.

Do policy makers use the QES?

- Lots of them do. It's routinely quoted by HM Treasury, the Bank of England, the European Union, the OECD and the International Monetary Fund. And, if we're getting it right, *you*.

We will cover QES data and GM Business Monitor

- The Greater Manchester Index™
- Business confidence
- Domestic & overseas demand
- Sectoral analysis
- Labour Market
- Macroeconomic outlook

The Greater Manchester Index™ is a combination of seven key QES measures that best indicate the overall performance of the GM economy:

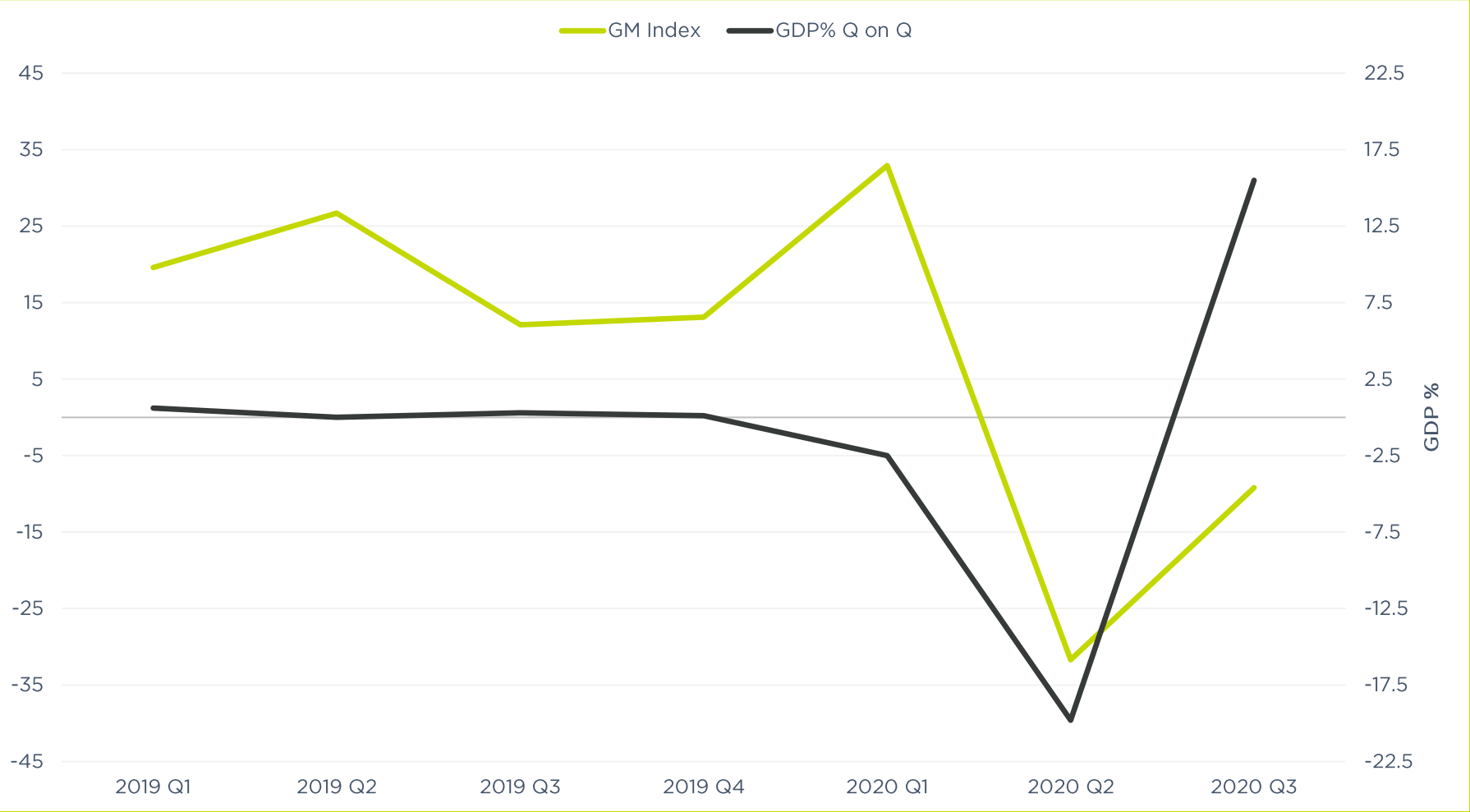
- Domestic Sales
- Domestic orders
- International sales
- International orders
- Confidence in turnover
- Confidence in profitability
- Capacity utilisation

Economic context

- Covid-19 has delivered the most adverse peacetime shock to the local, national and global economies.
- Supply side constraints
- Rising unemployment
- Nearly £300 billion of response measures
- Long-term 'economic scarring'
- Recovery is not possible without beating the virus
- Dual blow of Covid-19 and Brexit causes uncertainty. No-deal will present tariff and non-tariff barriers
- Within GM, short-term outlook remains gloomy



Where were we in September?

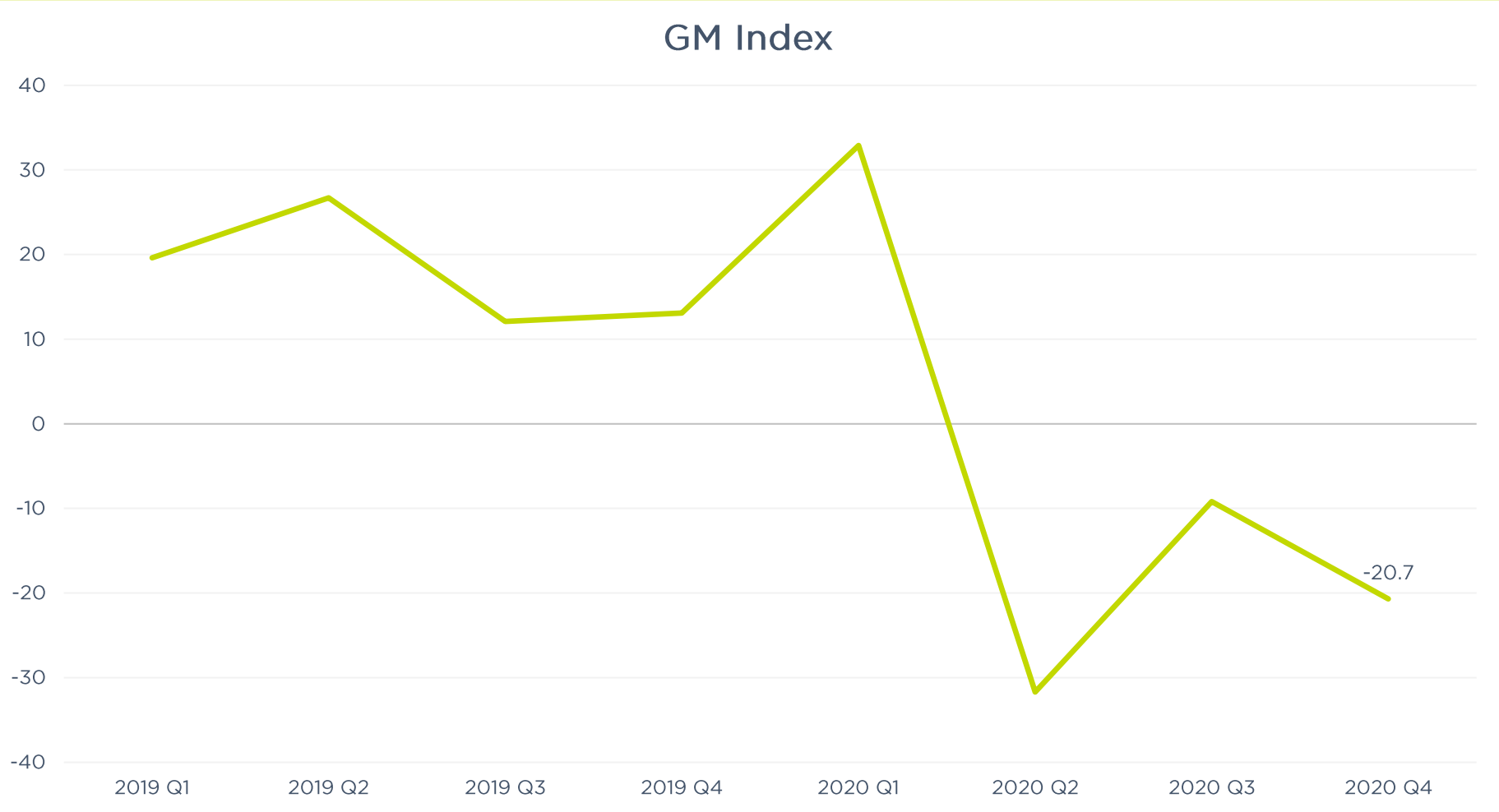


- Q3 2020 GM Index™: -9.2
- 15.5% increase in Q3 GDP reflects the low base in Q2
 - 14.2% increase in services (led by wholesale, retail and motor trade)
 - 18.7% increase in manufacturing
 - 41.7% increase in construction output

Sources: GMCC QES



Where are we now?

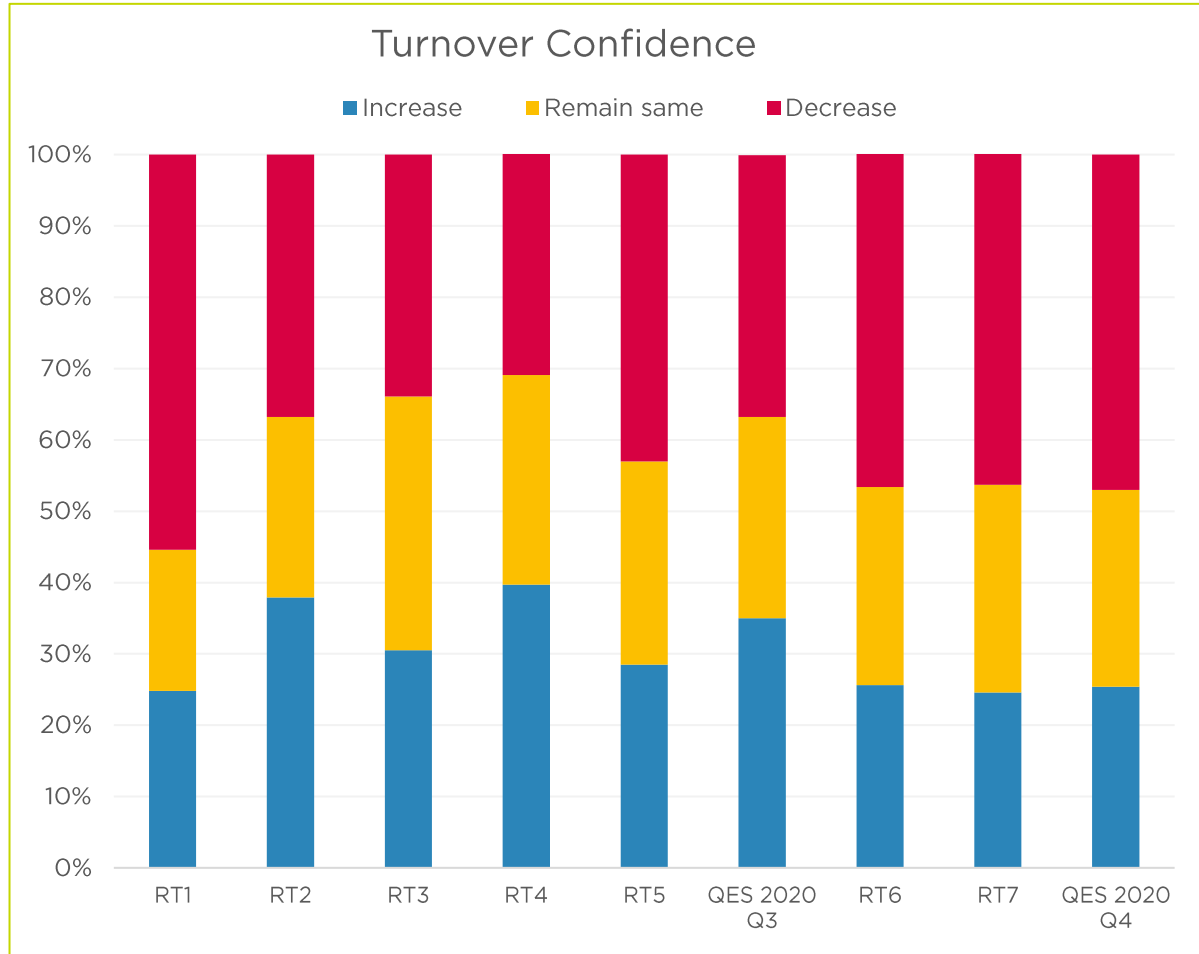


- Q4 2020 GM Index™: **-20.7**
- Much of Q3 growth was in July
- UK economy grew by just 0.4% in October because of restrictions but before second national lockdown
- GDP is 7.9% lower than in February
 - Manufacturing lower 21.4%
 - Services lower 8.6%
 - Construction lower 6.4%
- Possibility of further decline, weak festive trading and Brexit shock
- Uncertainty and low levels of business confidence

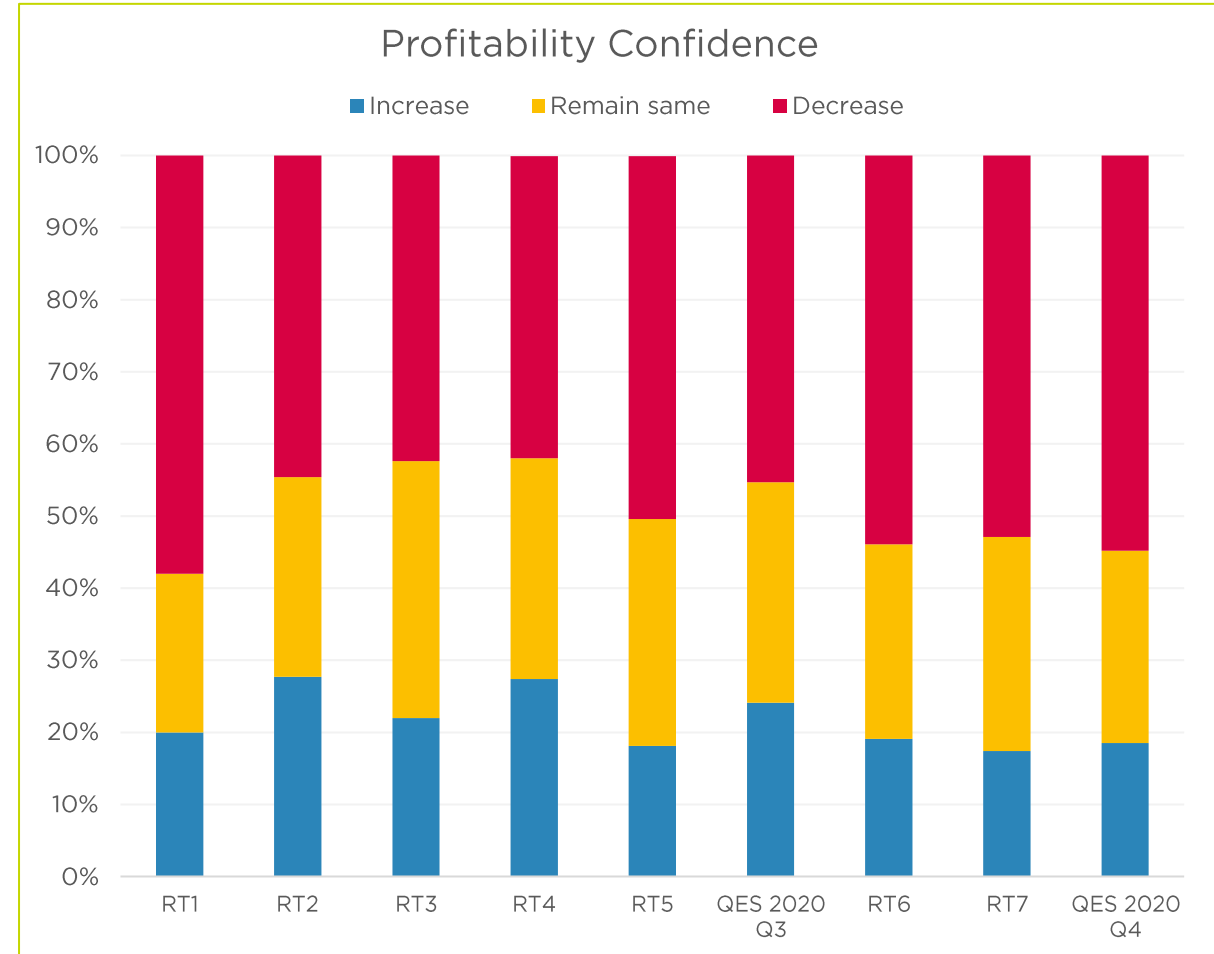
Sources: GMCC QES



Business Confidence



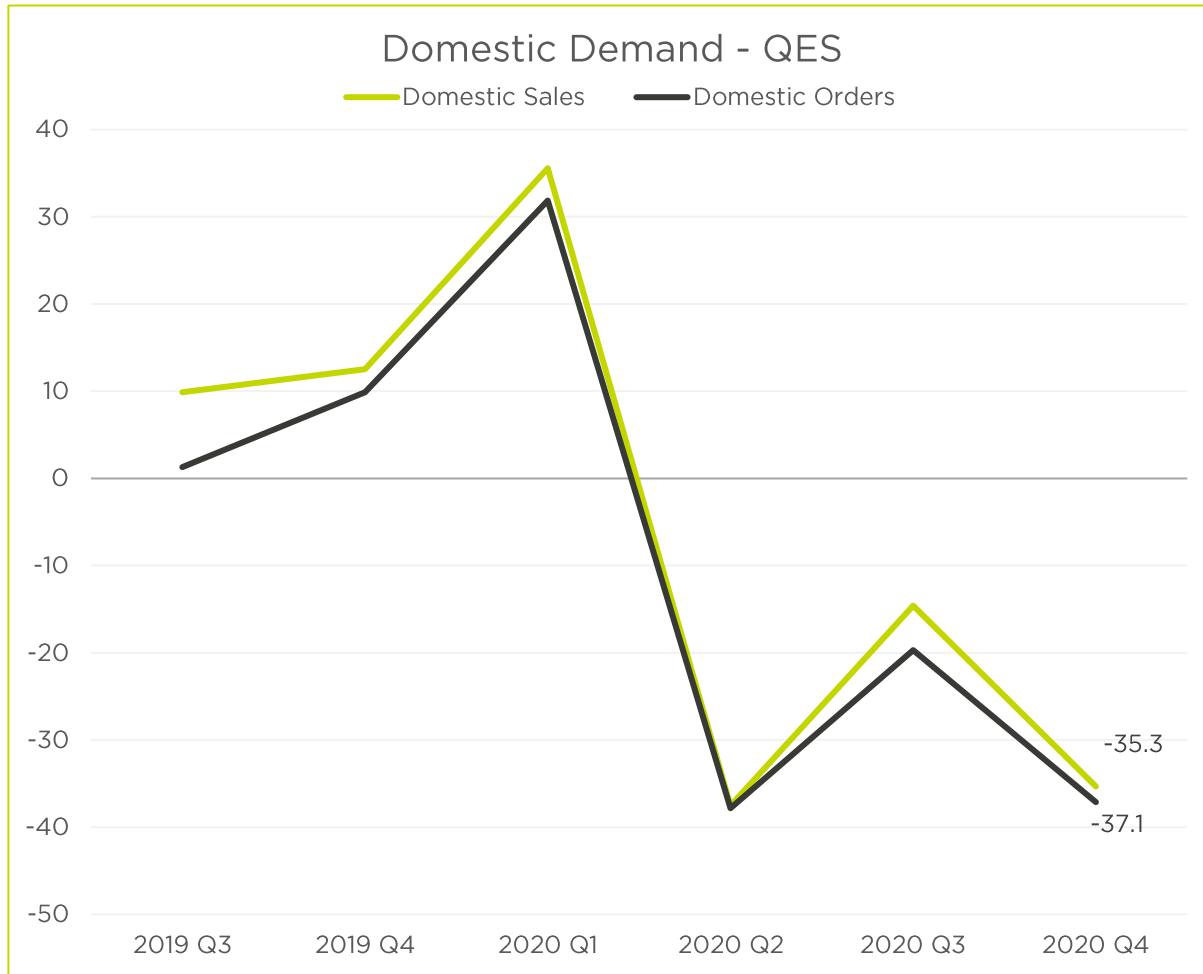
Source: GMCC QES, GM COVID-19 Recovery Tracker



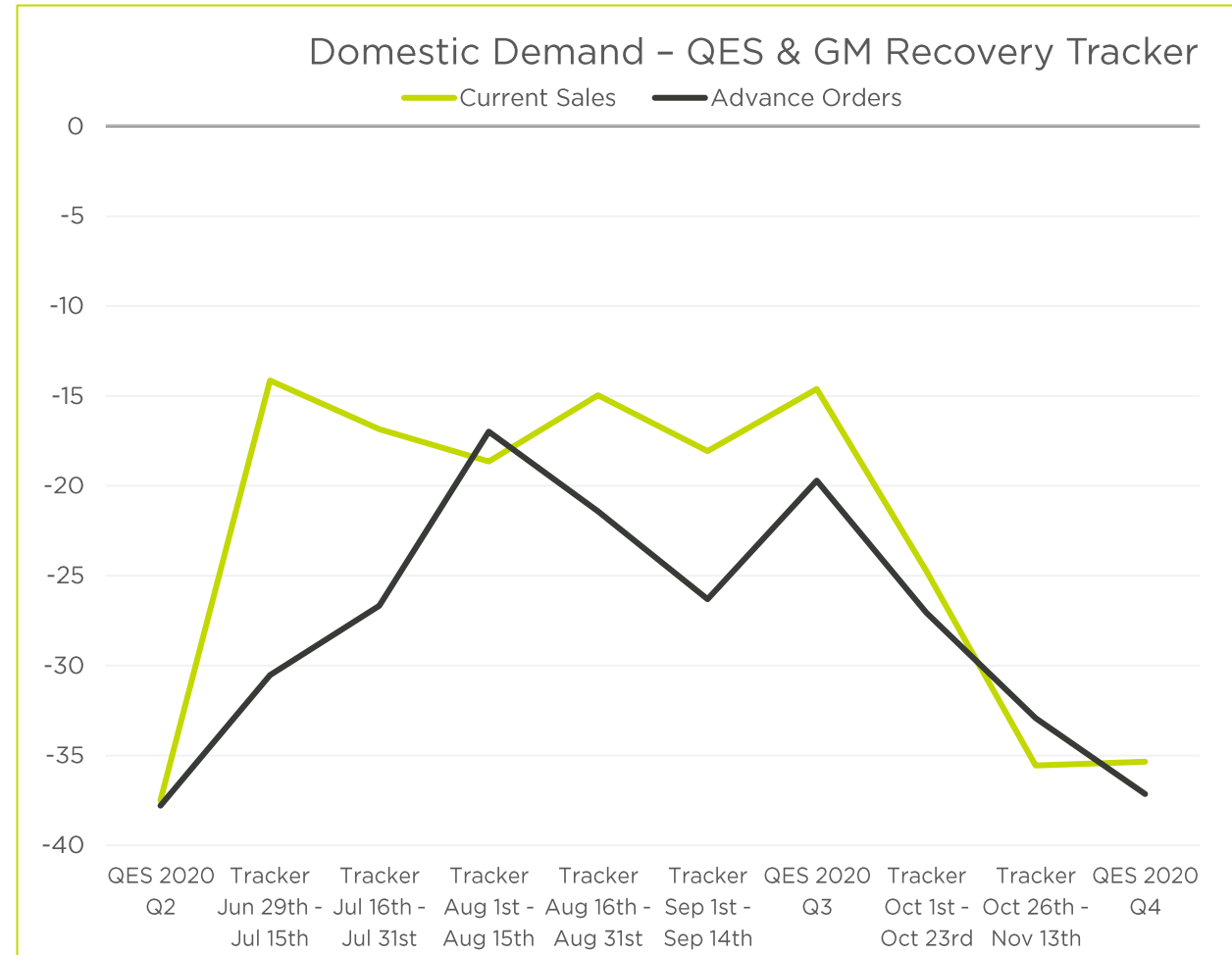
Source: GMCC QES, GM COVID-19 Recovery Tracker



Domestic Demand



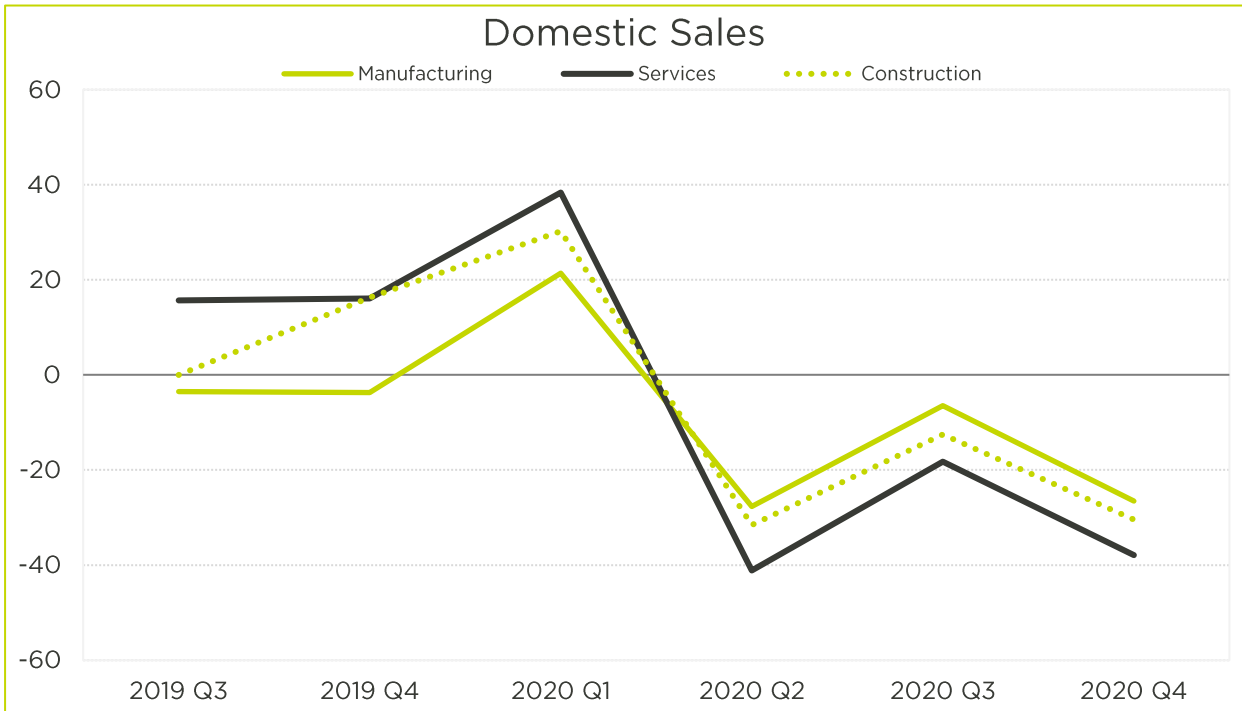
Source: GMCC QES



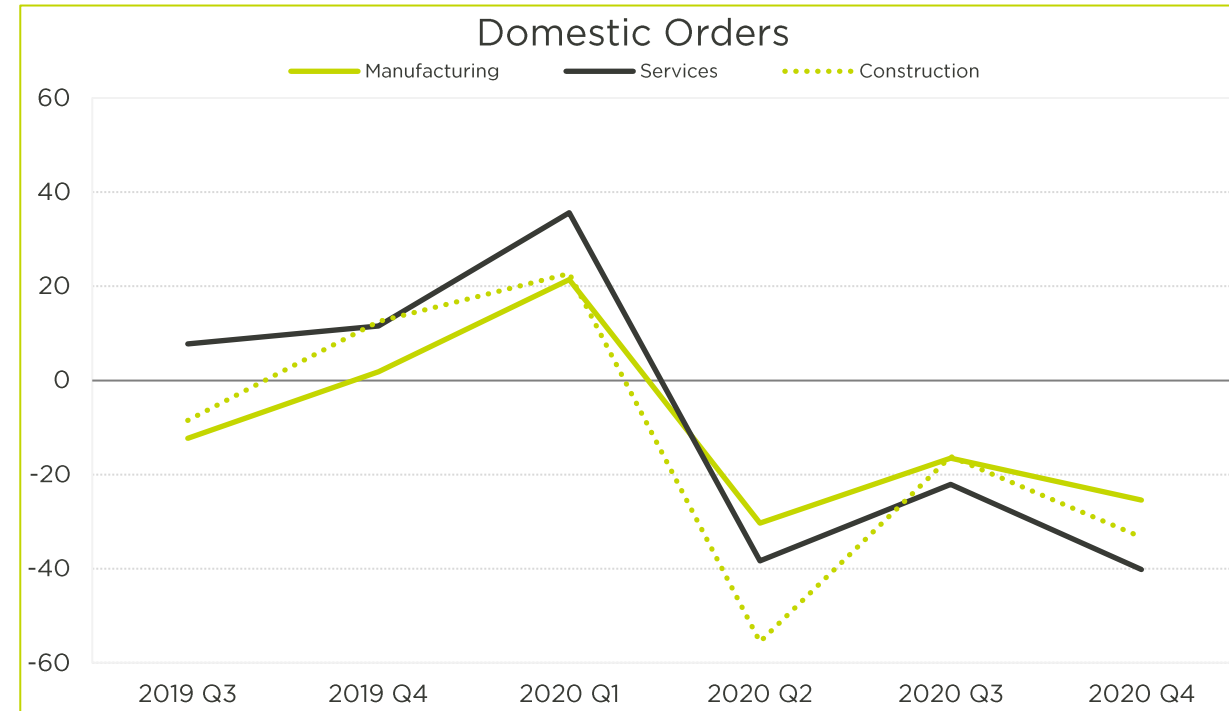
Source: GMCC QES, GM COVID-19 Recovery Tracker



QES Domestic Demand



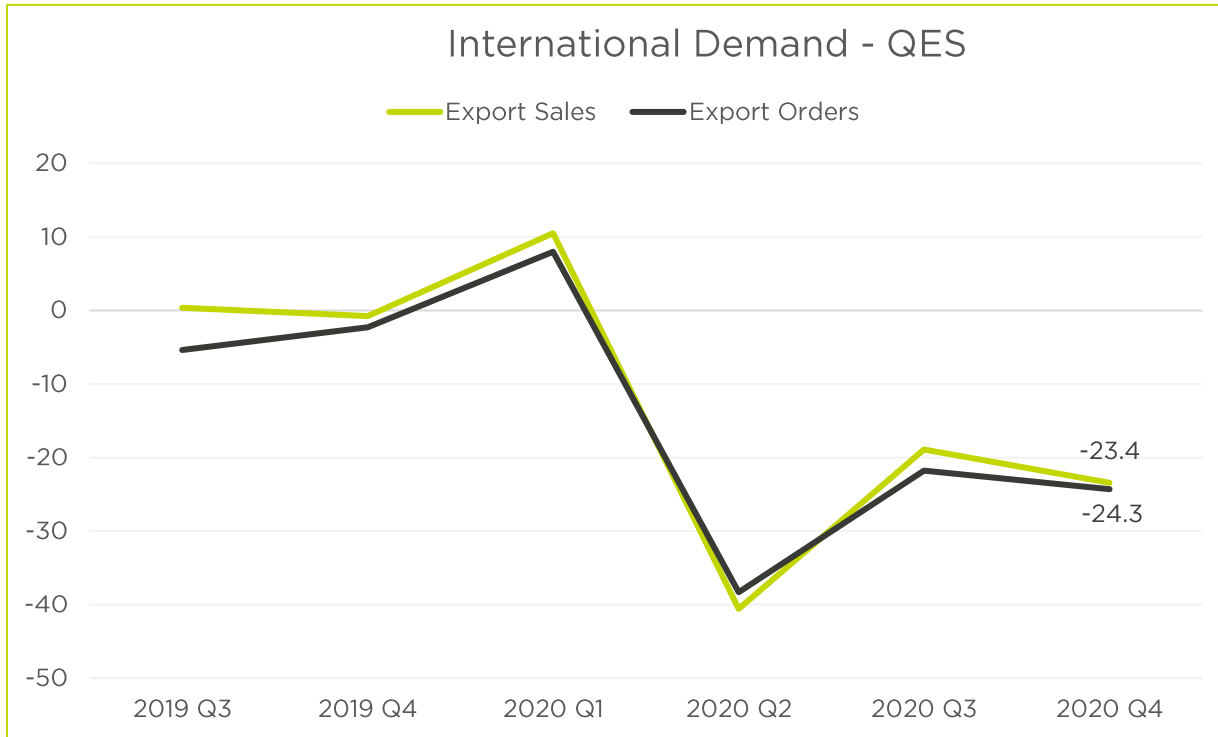
Source: GMCC QES



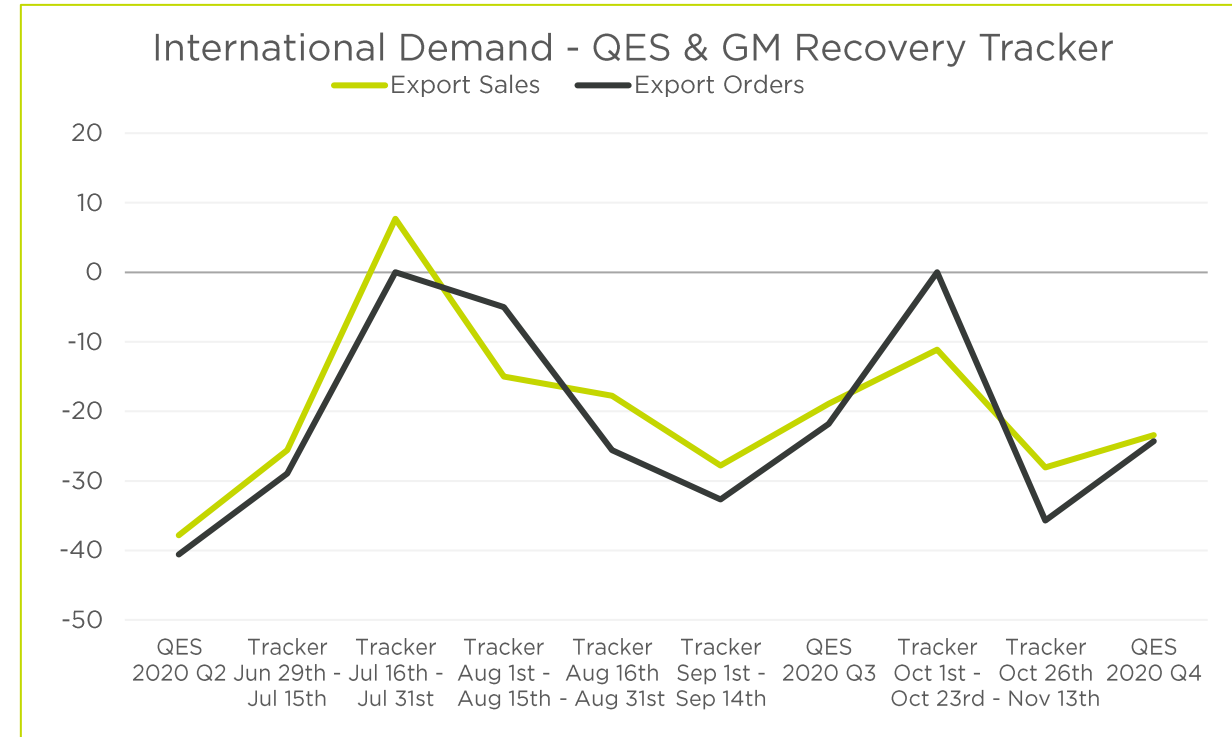
Source: GMCC QES

- Businesses in professional services, technology and finance reported increases in trade but other consumer facing service sub-sectors have been badly hit.
- Manufacturing growth is led by chemicals and pharmaceuticals.
- Free text comments show that some manufacturing businesses are approaching a 'stress point'.
- Car registrations for the 12 months ending Nov-20 was 31% lower than in the 12 months ending Nov-19 but sale of hybrid and EVs increased
- Construction pipeline data shows growth in housing and industrial projects but commercial developments and infrastructure projects are lagging behind.

International Demand



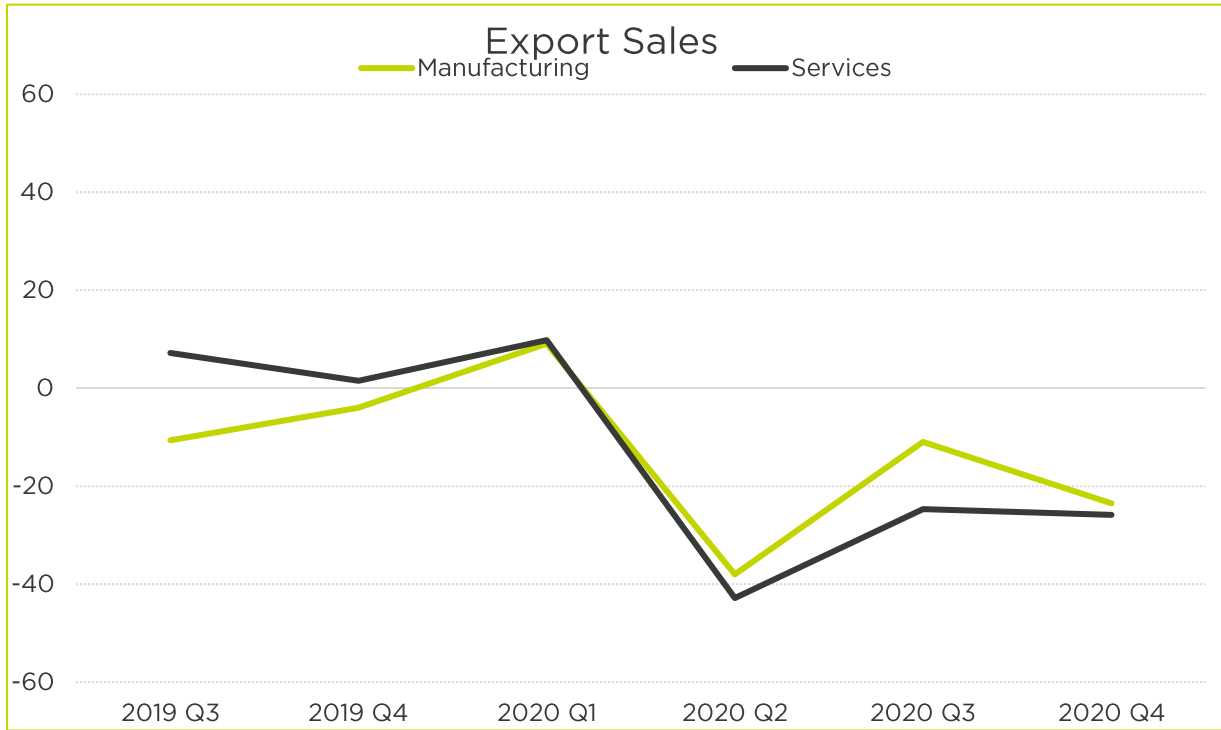
Source: GMCC QES



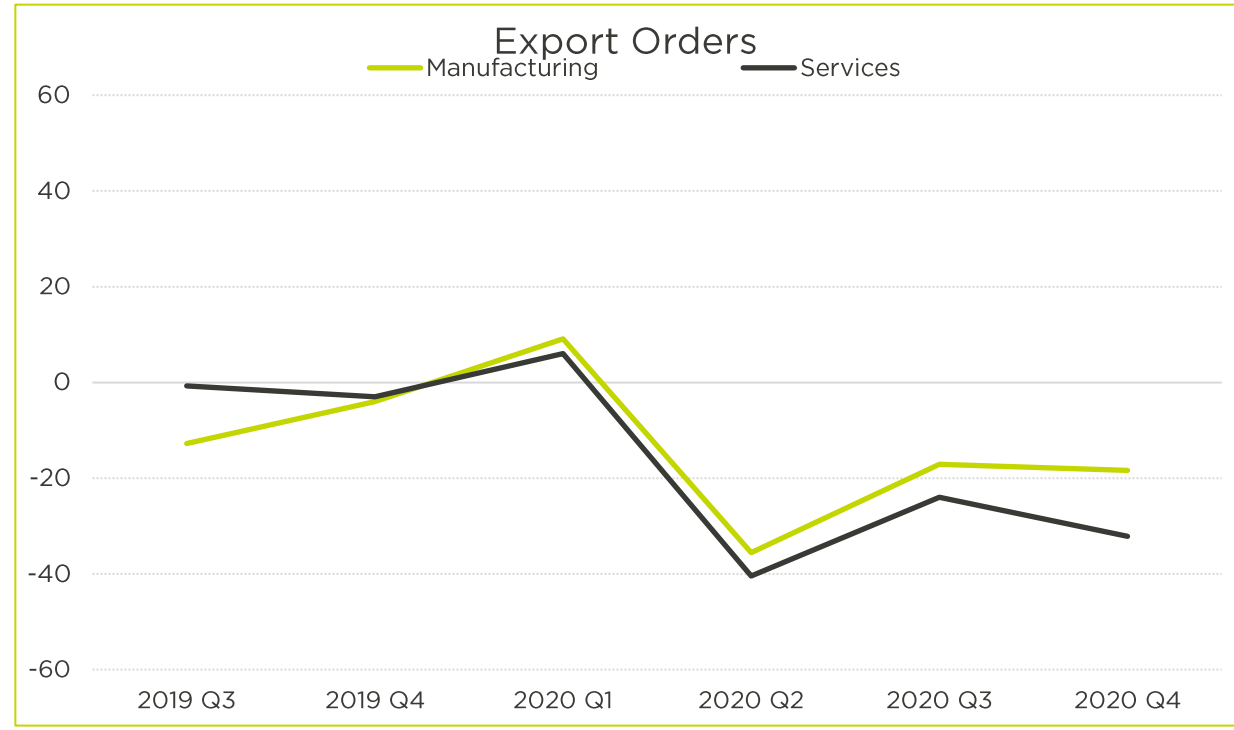
Source: GMCC QES, GM COVID-19 Recovery Tracker

- Export documents processed by the Chamber in Oct and Nov 2020 were together 27% lower than in Oct and Nov 2019. Allowing for seasonal fluctuations, the total for Q4 could be lower by similar levels compared to Q3.
- Exports increased marginally in Oct 2020 compared to Sep 2020.
- In Oct 2020, EU exports are lower by 11% and non-EU exports lower by 22% compared to Oct 2019.

QES International Demand



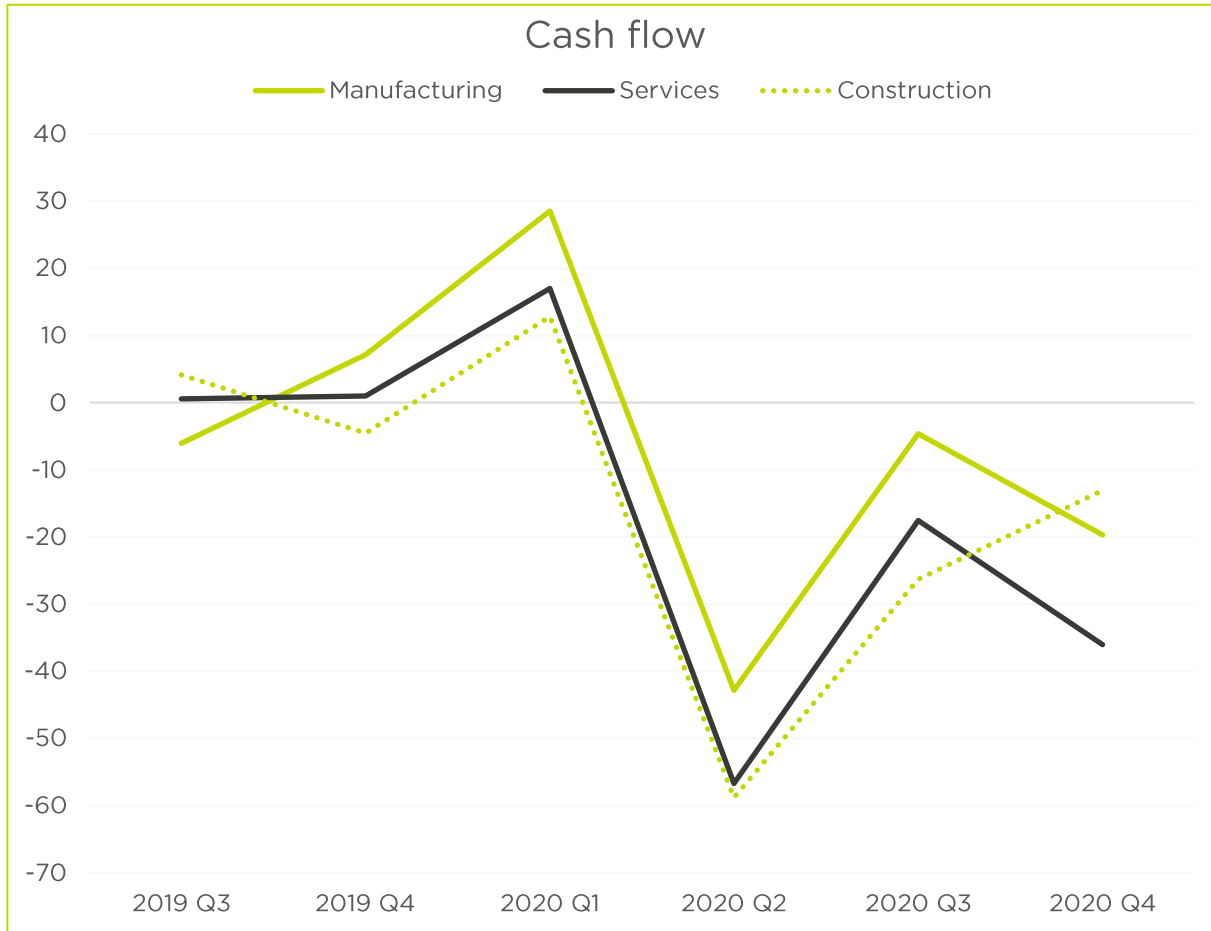
Source: GMCC QES



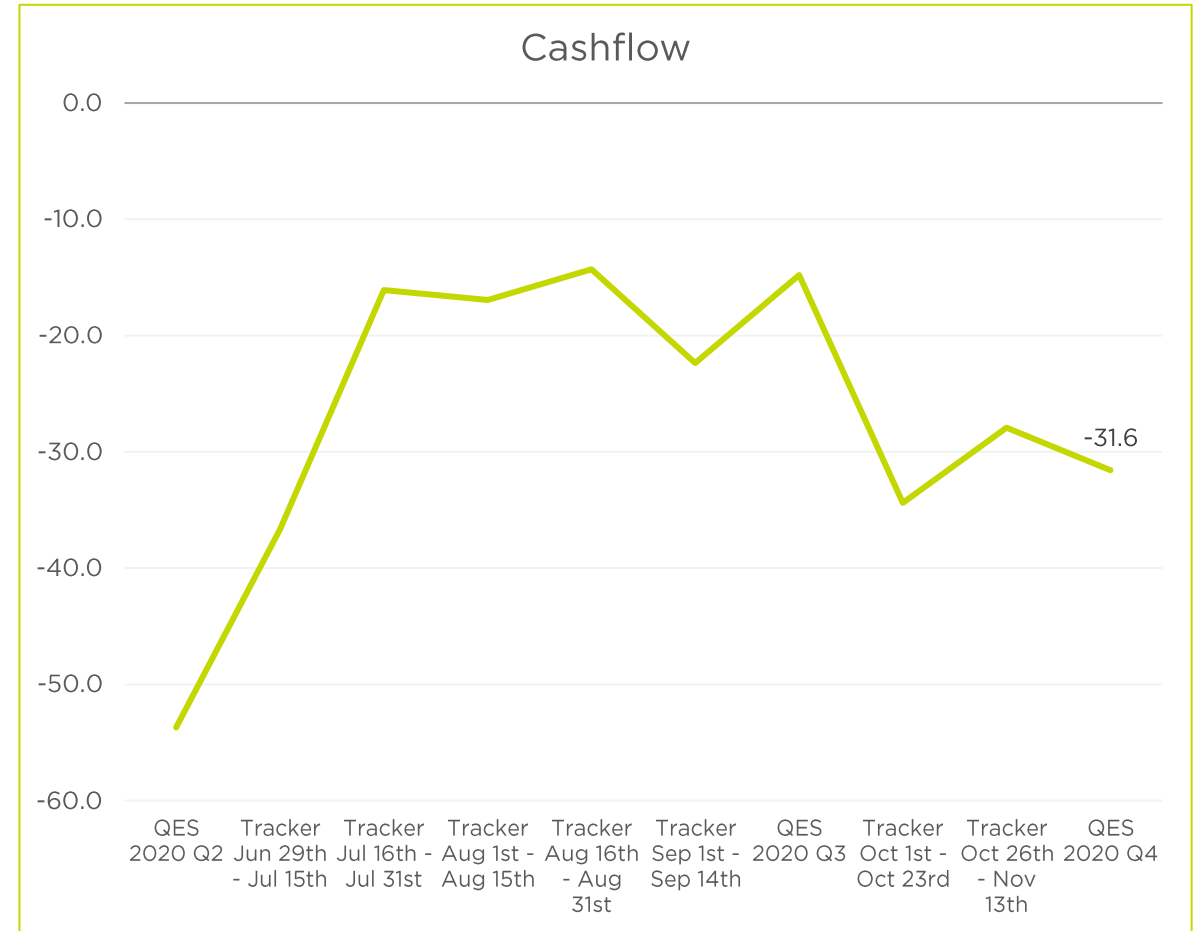
Source: GMCC QES

- Goods exports are led by pharmaceuticals, motor vehicles and precious metals.
- Within services group, businesses in professional services and logistics, warehousing & distribution more likely to report increases in exports

Cashflow



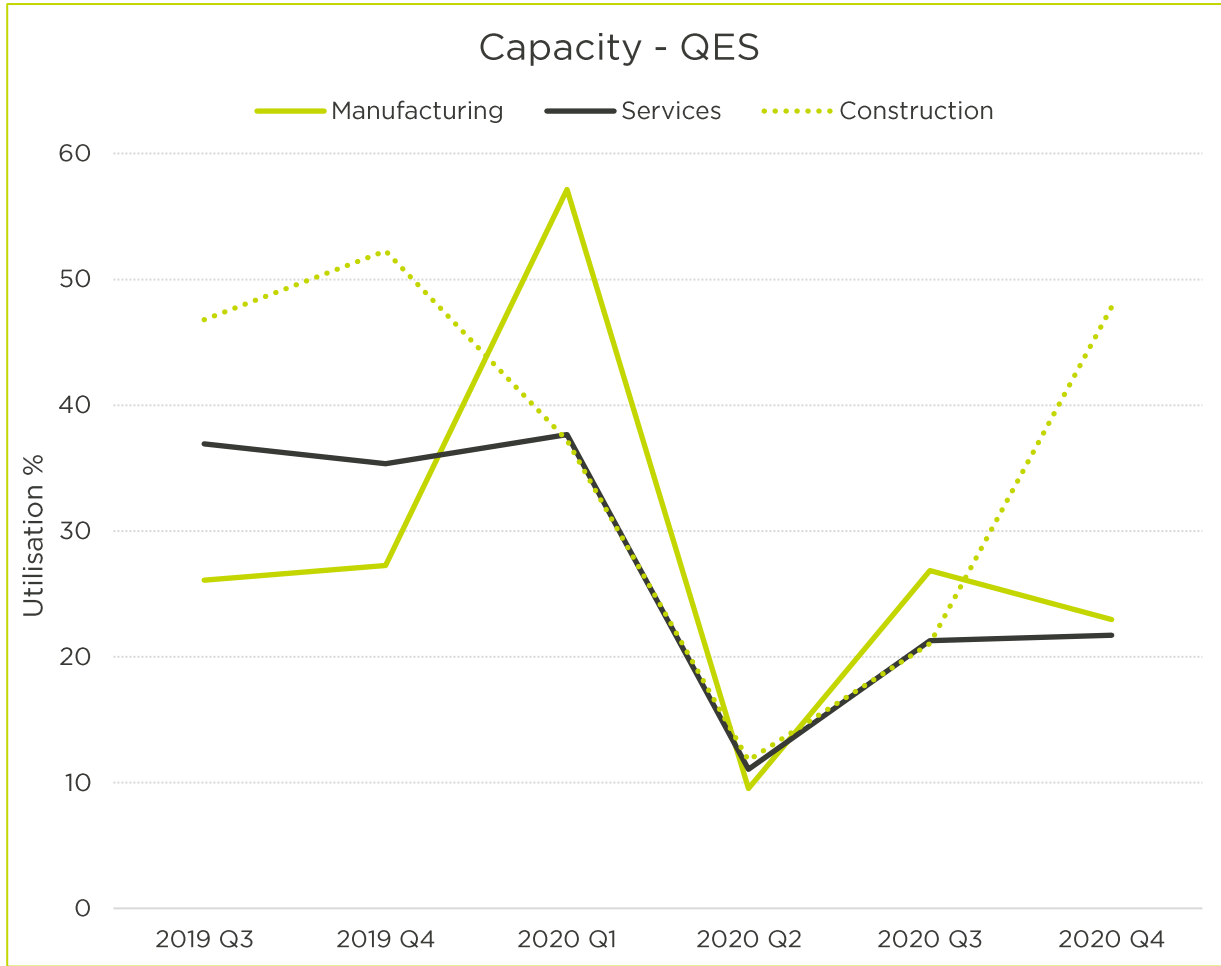
Source: GMCC QES



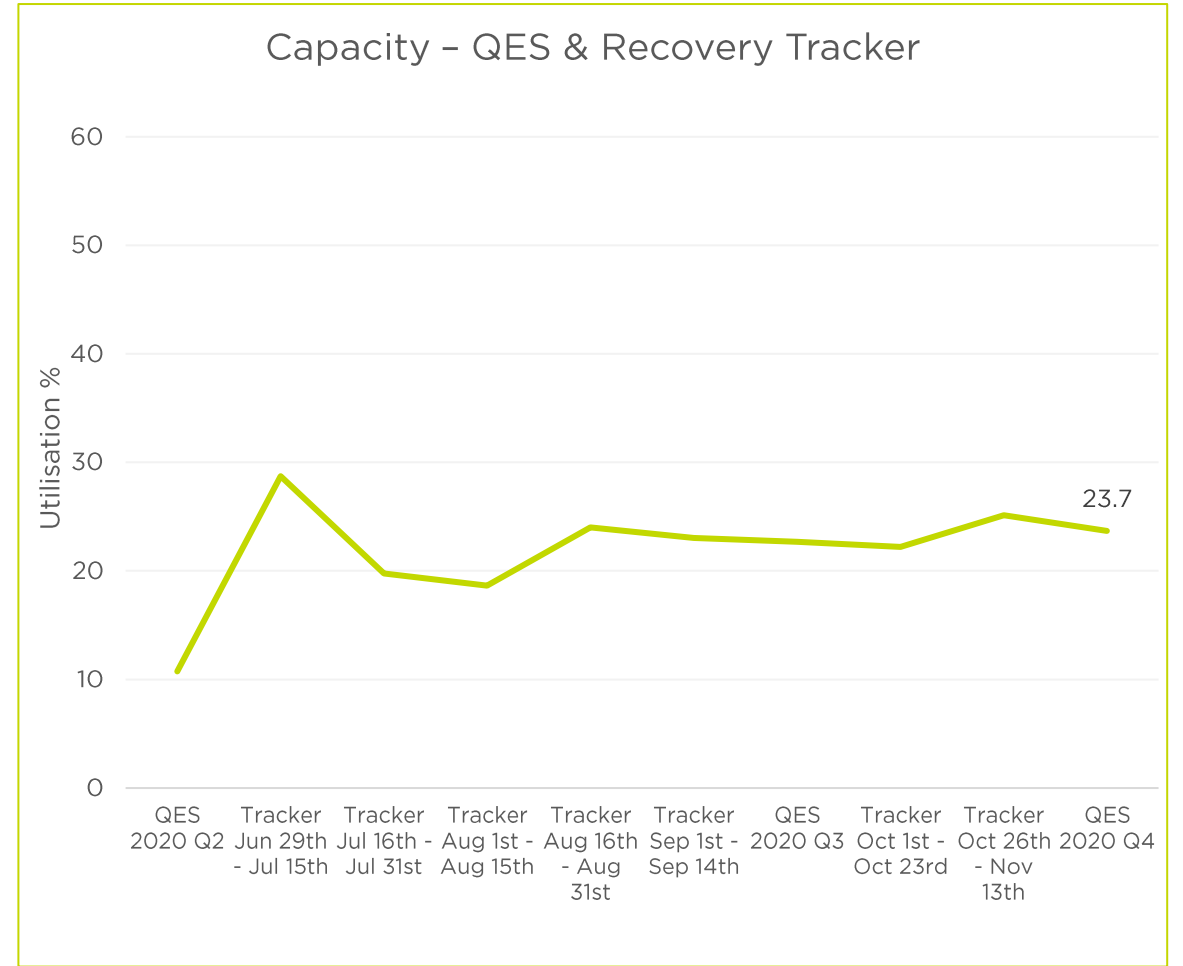
Source: GMCC QES, GM COVID-19 Recovery Tracker



Capacity Utilisation



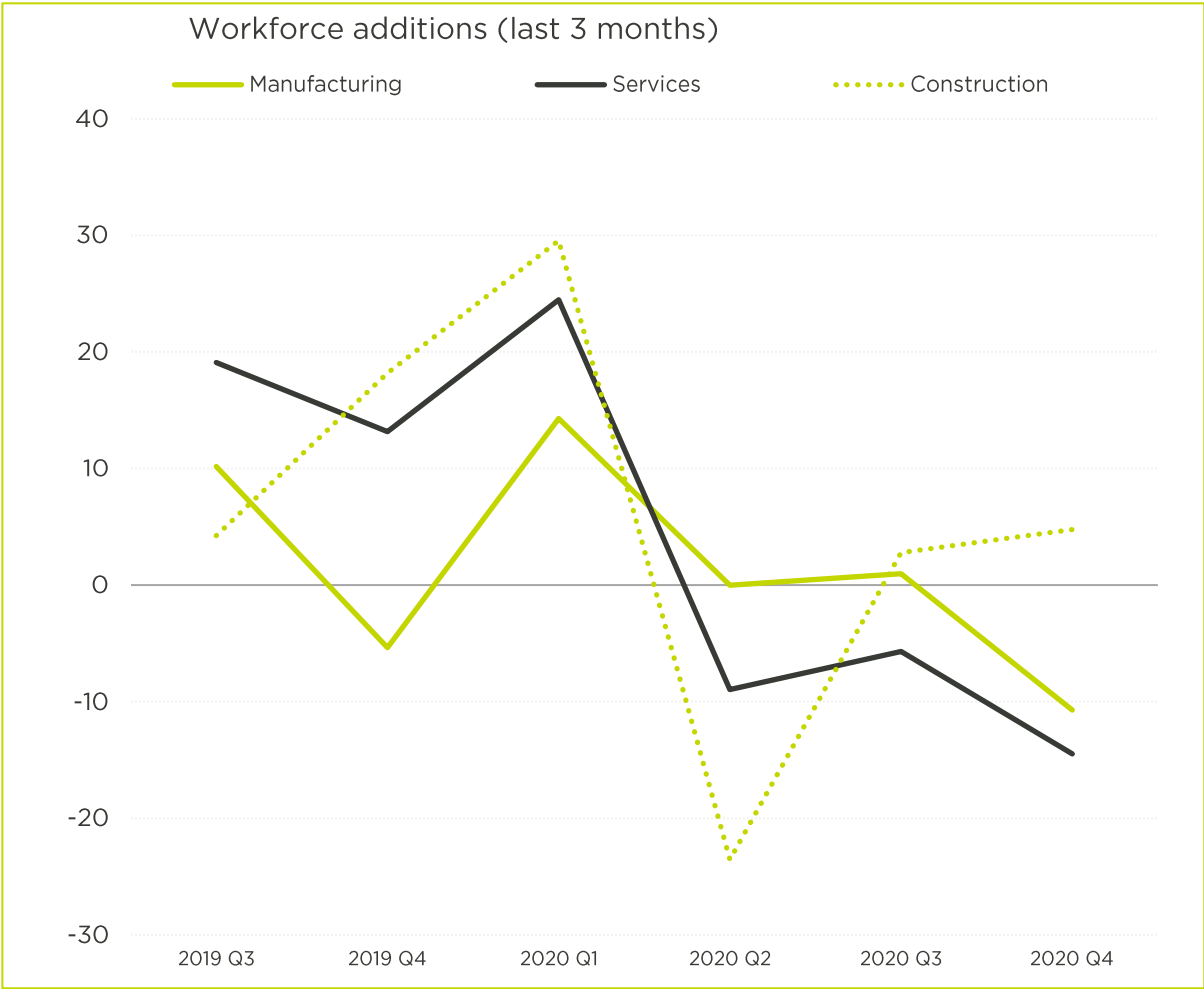
Source: GMCC QES



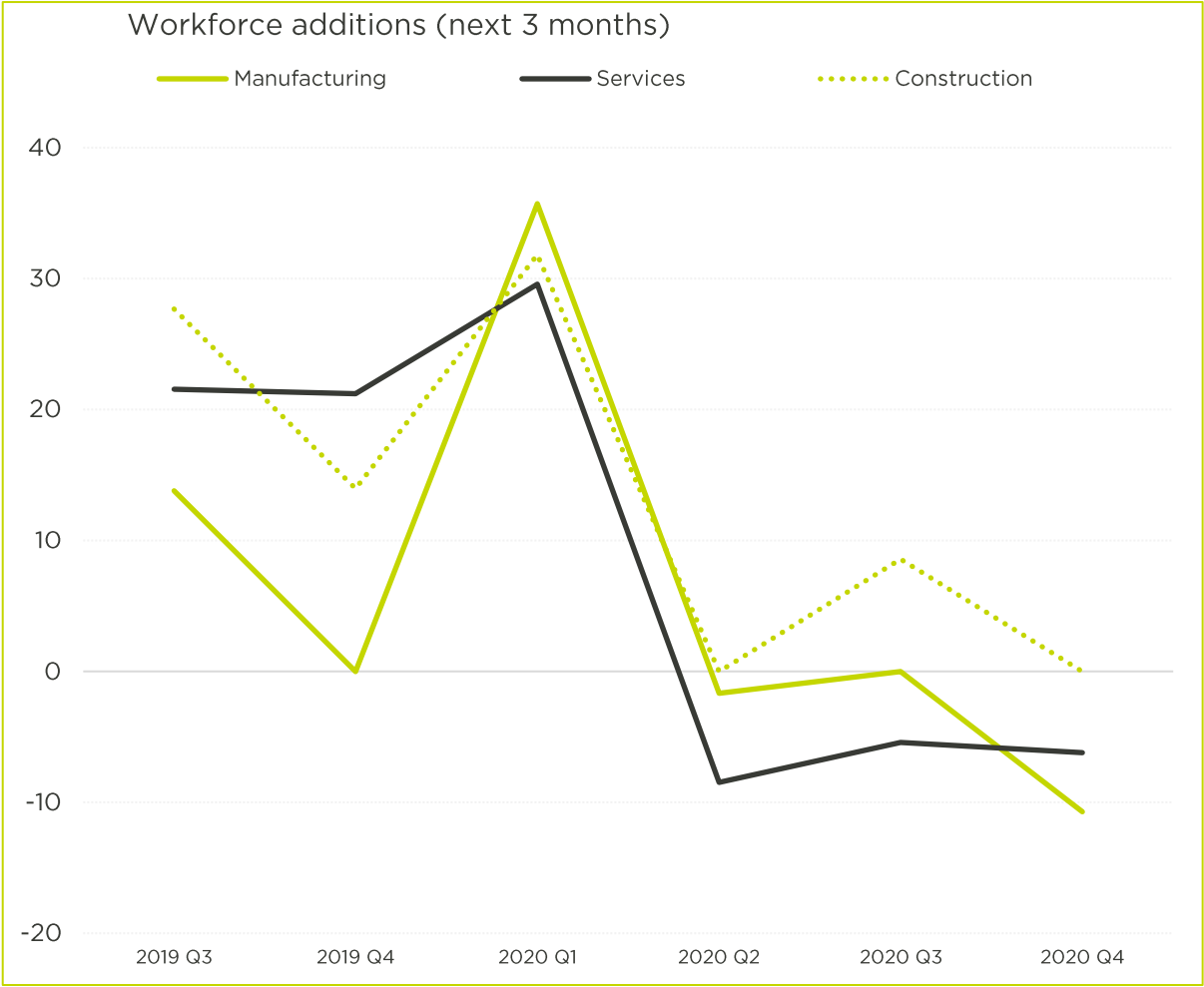
Source: GMCC QES, GM COVID-19 Recovery Tracker



QES Workforce data



Source: GMCC QES

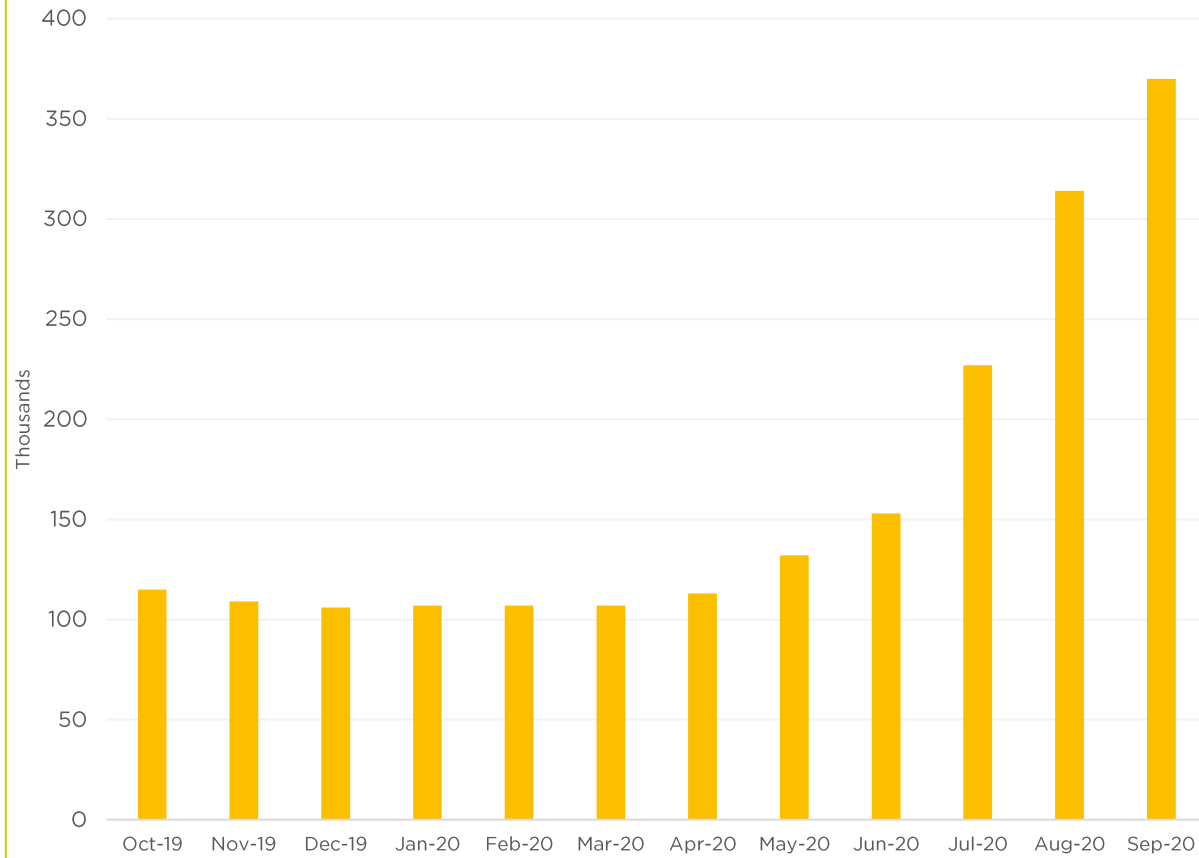


Source: GMCC QES



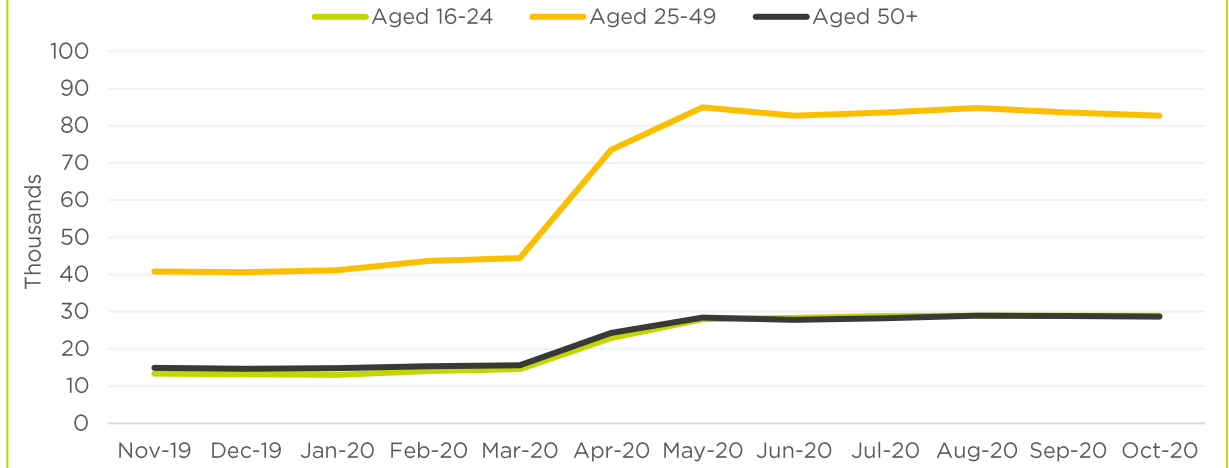
Labour Market

Redundancies - UK

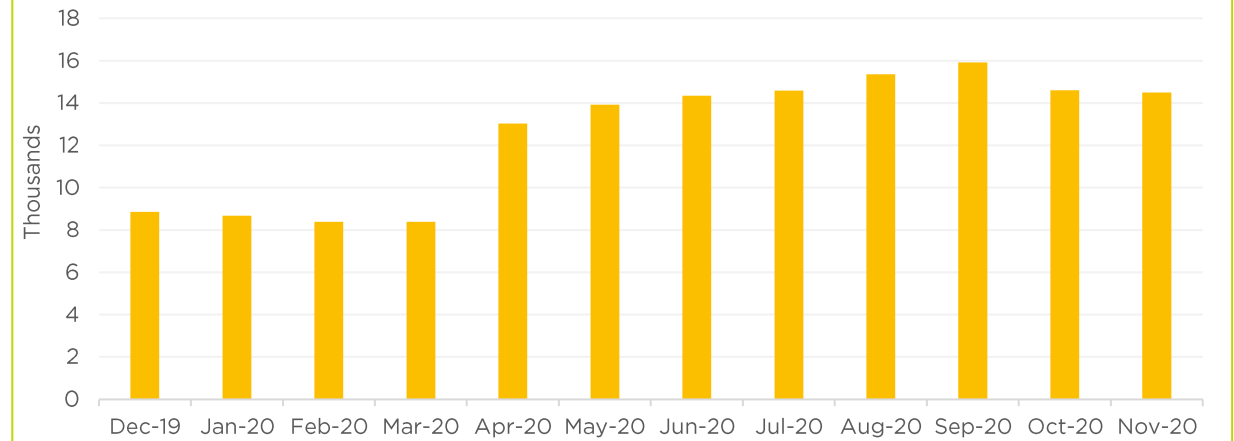


Source: ONS

UC claimants - Greater Manchester

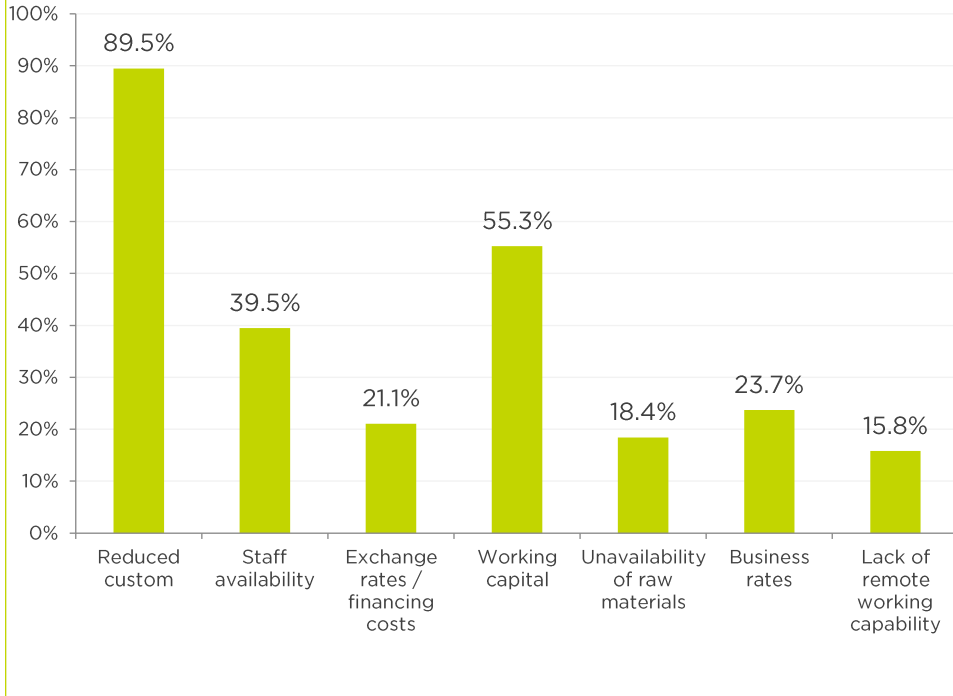


Jobseeker's Allowance claimants - Greater Manchester



Business concerns - Recovery Tracker / QES

Issues of concern

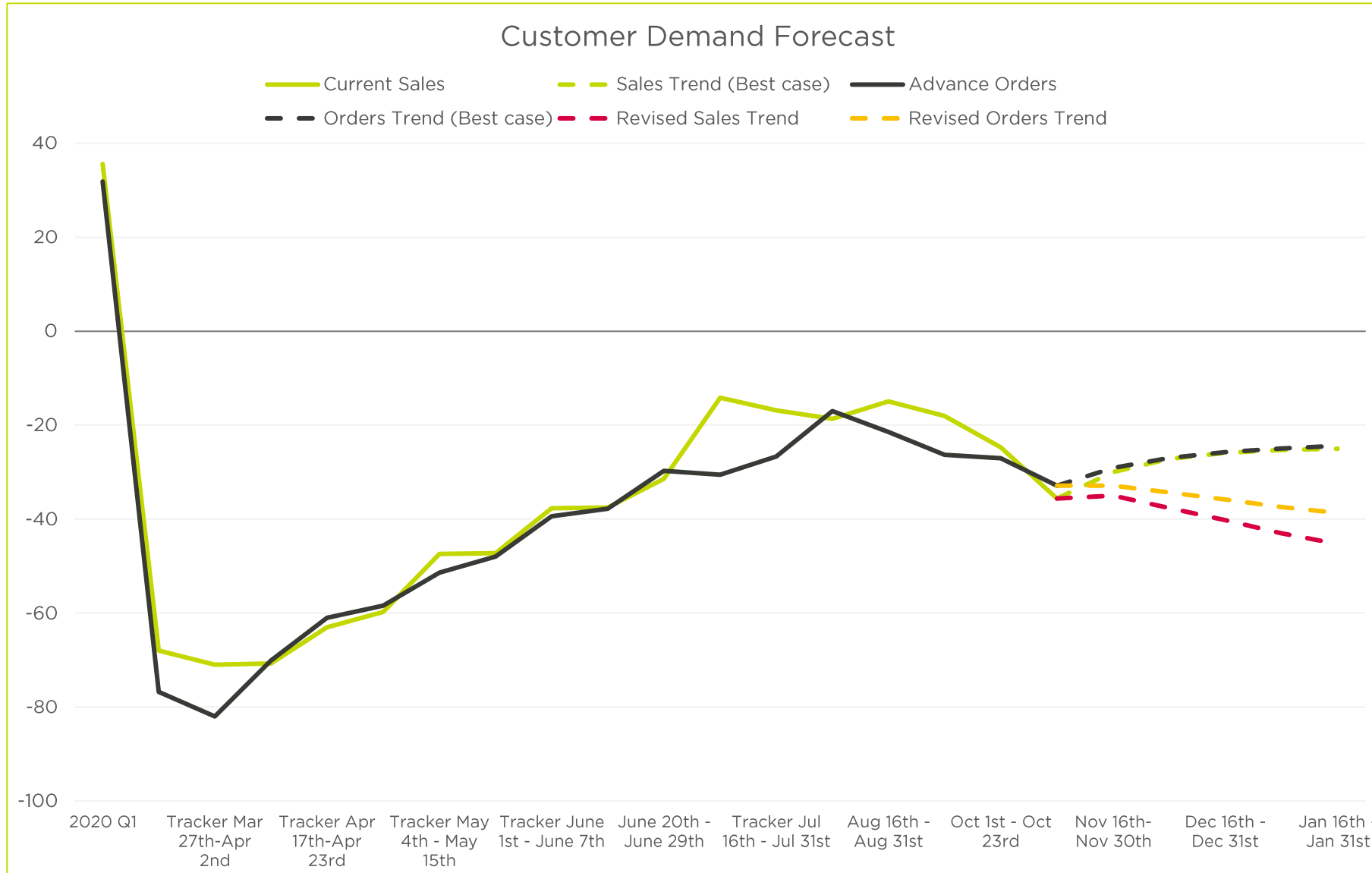


- With the Chancellor's disregard of owner-Directors of limited companies it appears the Govt doesn't mind thousands of small businesses going to the wall in order to "save the NHS" - [Professional services, Bury](#)
- The Government support is a good scheme but unfortunately for us our customers are either permanently closing or ordering in much smaller quantities - [Manufacturing & engineering, Trafford](#)
- My Business of a soft play centre is still closed, it has been closed since the 21.03.2020, was permitted to open for 3 days and then closed again due to the local tier 3 restriction in place - [Recreation services, Bolton](#)
- I have had no work since the 16th March so no income I have used my savings and a loan to keep this business a float as I have 150 bookings for 2021 and 2022- [Weddings and events management, Wigan](#)
- Due to hospitality being limited and restricted no one is booking weddings / postponed. Our flowers are coming from Holland. I'm worried about the upcoming Brexit and how this will also impact my trade - [Florist, Wigan](#)
- Brexit is foolhardy in the middle of a pandemic - [Financial services, Trafford](#)
- BREXIT/Covid remain the greatest challenges. Both have a level of uncertainty which makes strategic planning incredibly difficult - [Manufacturing, Bolton](#)
- We are really worried about the complexity of the new import/export environment after the end of this year - [Manufacturing & engineering, Macclesfield](#)
- Media are causing a divide in the county - [Manufacturing & engineering, Stockport](#)
- It is all too short term, a longer term strategy is needed. Everyone is just guessing what if any the government will do in January 2021 - [Health & social care, Oldham](#)
- Living wage increase will mean we have to pay some employees off - [Property & real estate, Salford](#)
- The support measures came too late from the government for round 2 furlough and we had already completed our required redundancy process. Even private sector office based jobs are struggling not just shops, gyms, salons, theatres, bars - [Property & real estate, Manchester](#)

employees many lost keep funding lockdown loss loan
 Brexit impact trading stop economy really
 struggling hard people work better
 support use need even pay furlough
 rules concerned time small export
 business support measures forced close



GM Recovery Outlook

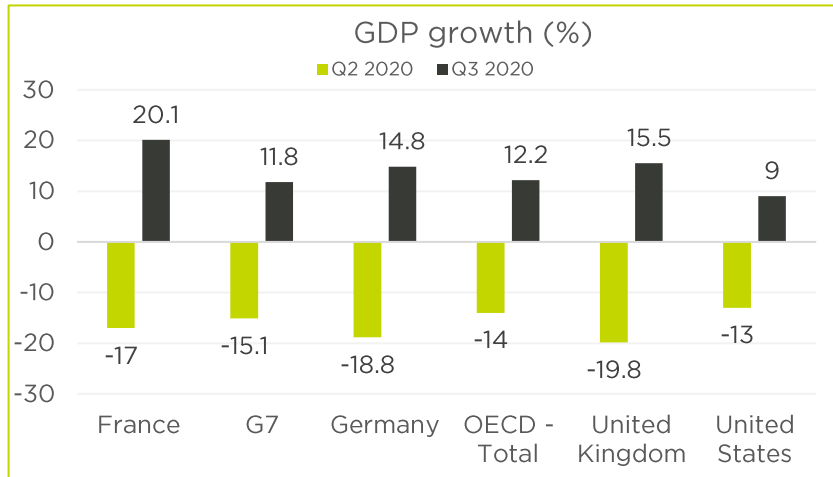


- The recovery outlook has been revised to reflect the decrease in customer demand.
- Business activity plateaued and then declined
- Current balances are much lower than initially expected and indicate recovery will be drawn out
- The best case scenario indicates real growth in demand only in spring 2021.
- GM GVA will likely decrease by over 15% in 2020.

Source: GMCC QES, GM COVID-19 Recovery Tracker



Economic truth index: GDP & Productivity



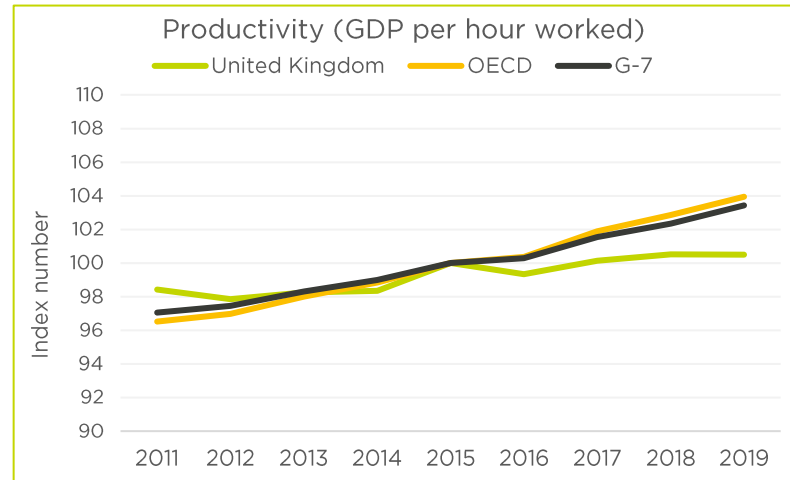
Source: OECD

• GDP

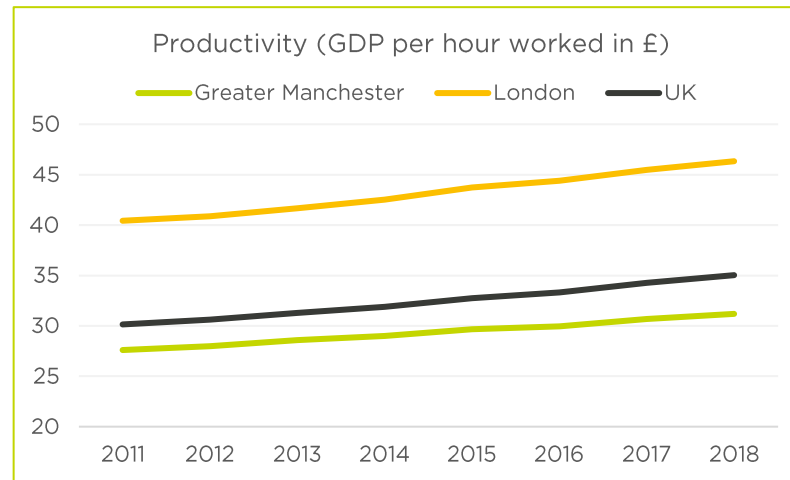
- Myth: UK had the highest economic growth in Q3.
- Reality: Growth was on par with other G7 countries in Q3. Q2 contraction was highest amongst G7.

• Productivity

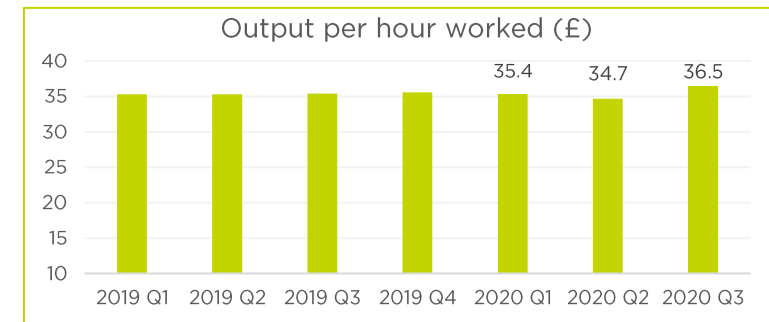
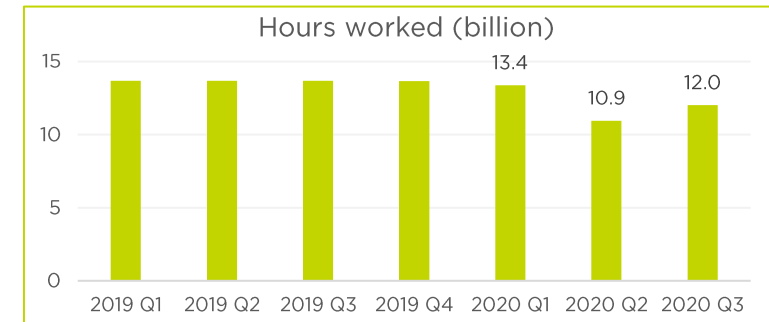
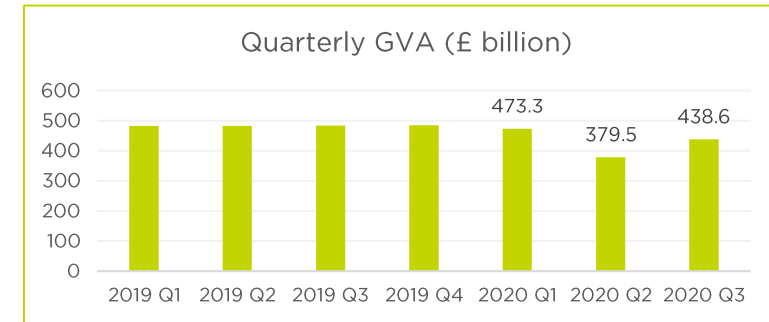
- Myth: Productivity increased during the pandemic.
- Reality: The marginal increase in output per hour worked in Q3 is due to a significant decline in the number of hours worked i.e. unemployment or reduction in hours of employment. UK lags behind OECD and G-7 averages and GM productivity is lower than UK average
- OBR expects productivity improvement to stall as the restrictions to fight the second wave curtail activity



Source: OECD



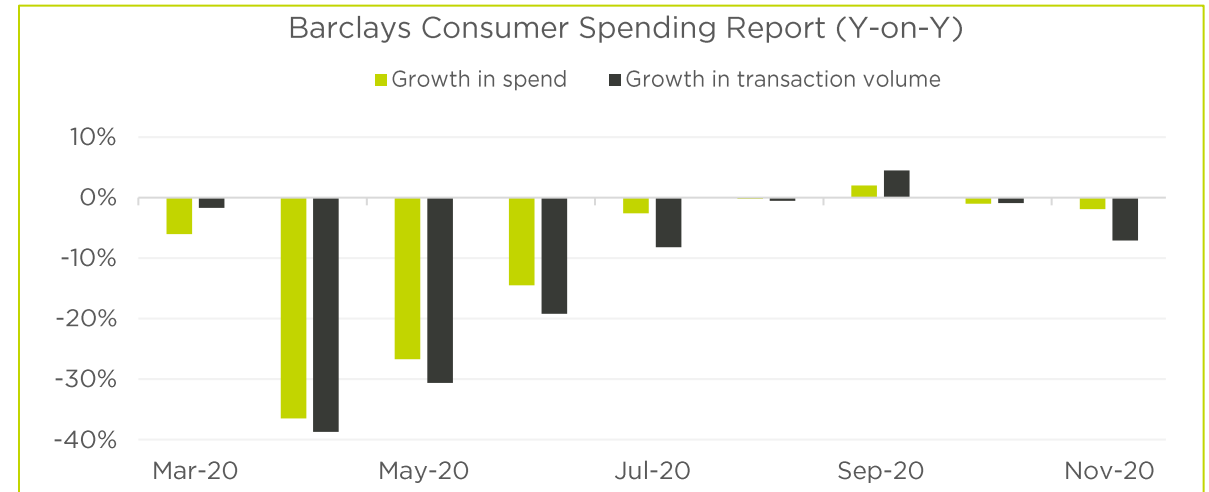
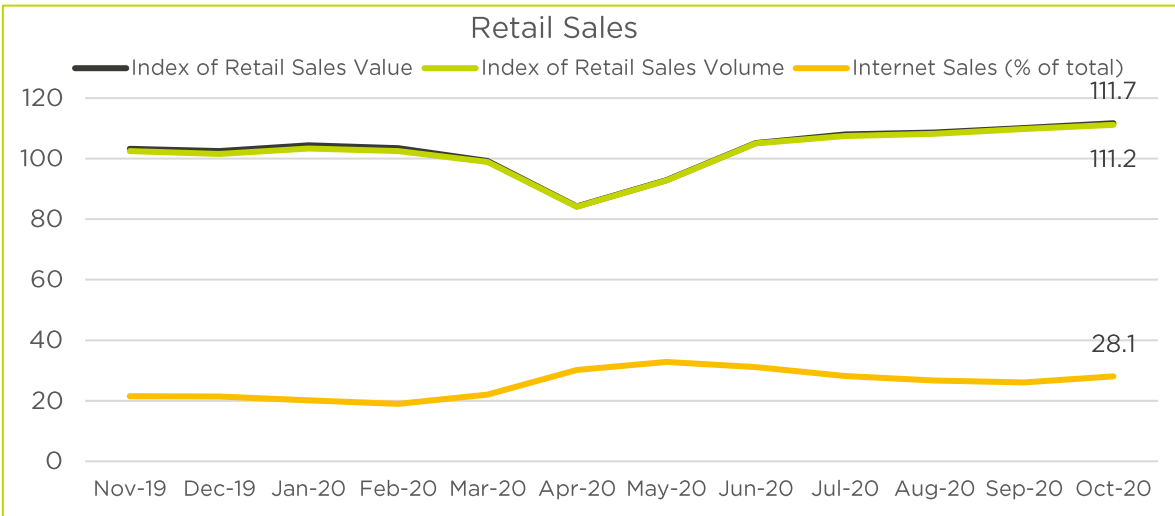
Source: ONS



Source: ONS



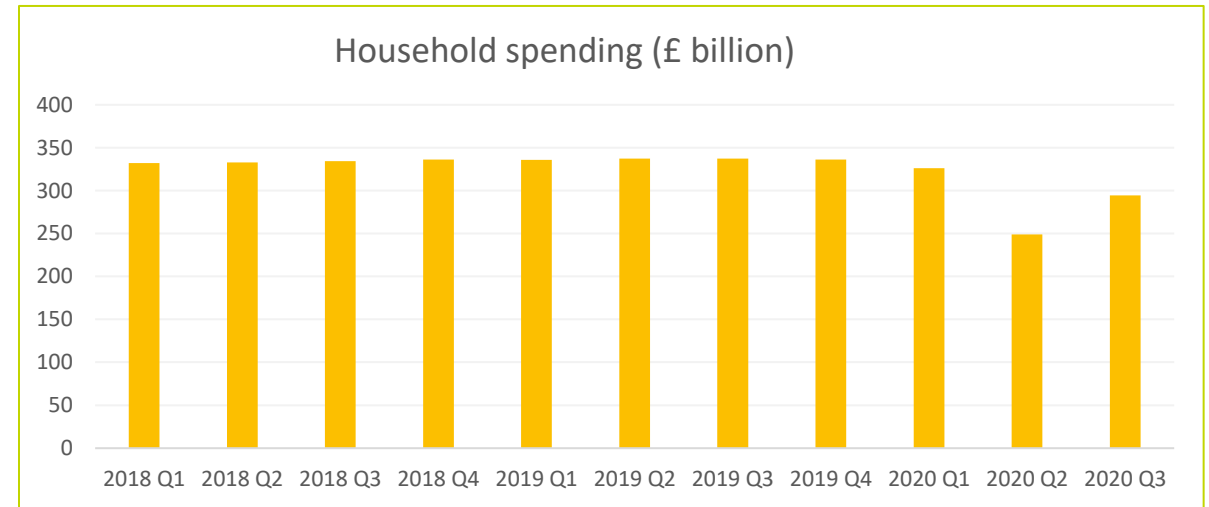
Economic truth index: consumer demand



Does the rebound in retail sales indicate strong economic growth?

Will it save the high street?

- Retail sales have improved from the low levels of April. Growth for six successive months. E-commerce is looking very strong.
- Q3 consumer spending was still lower than Q1 and relative to Q3 2019.
- Early start to Christmas shopping - consumer spending in Oct 2020 was higher compared Oct 2019
- Barclays data point to reduced consumer spending in Nov 2020
- Fundamental challenges to high street remain.



Source: ONS Retail Sales Index

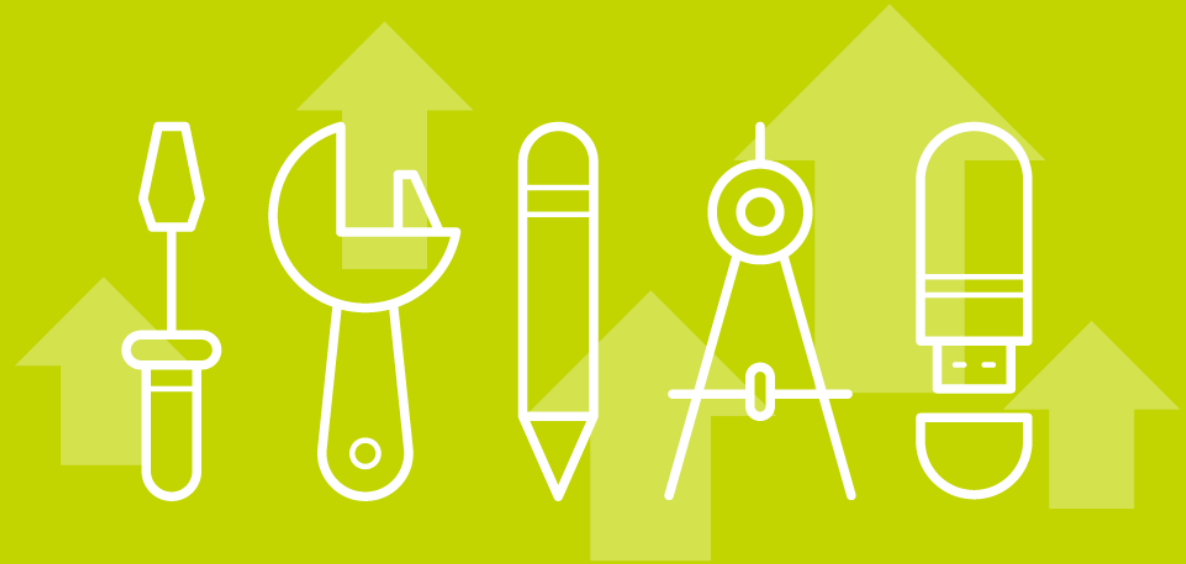
Source: ONS Household Final Consumption Expenditure

Economic outlook: dual blow

- Covid-19
 - The impact of Covid-19 is set to reduce UK GDP 11.3% assuming smooth Brexit transition to FTA
 - Permanent damage of between 3%-6% depending on infection spread and response measures
 - Covid-19 support spending is approx. £280 billion
 - Increasing budget deficit: £394 billion or 19% of GDP
- Brexit
 - Long-term reduction in output from Brexit is 4% assuming FTA is agreed
 - A no-deal scenario will decrease output by a further 2%
 - UK will stop benefiting from the “protectionism” of the EU
 - Brexit preparation is inadequate because businesses are facing severe cash pressures.
 - OBR says neither the Government nor businesses are fully prepared for the imminent changes even if a deal is agreed
- Covid-19 interfaces with Brexit and may constrain response capacity
 - Fundamental restructuring of the economy
 - Reduced absorptive capacity / employment opportunities

Summary

- The GM Index has declined by over 11 points to -20.7 in Q4
- Decline in GM GVA of more than 15% is possible and will be accompanied by job losses
- Anticipated UK GDP contraction of between 10% -12%
- Rising infections and recent lockdown have added business anxiety and dampened demand.
- Recovery will require ongoing fiscal and monetary policy support
- Mitigating job displacement will require significant investment to expand the economy and improving skills
- Despite Chancellor's support measures, there will be business failure and significant job losses.
- Vaccination will play a big part in return to normalcy



Q&A / Discussion

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