

GC Business Survey. Results for Q1 and Q2. The challenges and opportunities for growth

21/09/2021. Read 5-10 mins.

The Growth Company exists to enable growth, create jobs and improve lives. In March 2020 GC immediately adapted its resources to reach out directly to GM businesses impacted by the pandemic, providing support and guidance. One of the most important tools that has informed our approach is continually monitoring a range of data and intelligence to understand the impact of Covid-19, and other economic risks and opportunities. Nearly 8,000 businesses have participated in the GC Survey to date. As we move into the latter part of 2021, we look at how the economy and pandemic has affected business; and at the prospects for firms for the remainder of the year ahead.

The current economic context

There has been sustained broad-based recovery in business activity levels across all regions and nations of the UK up to summer-time this year. ONS data on UK Gross domestic product (GDP) rebounded strongly in Q2-2021, growing by 4.8% quarter-on-quarter, up from 1.6% in Q1. Most of this growth was driven by a sharp recovery in household spending. However, the latest data on GDP shows the UK economy growing by 0.1% in July 2021, 2.1% below its pandemic level (February 2020).

Production industries were the main driver of growth in July, with output growing by 1.2% in July 2021, boosted by the reopening of oil production sites. Construction contracted over the same period – with output down by 1.6% in July, and remains 1.8% below its pre-pandemic level. **Services output remained broadly flat, some 2.1% below pre-pandemic levels, whilst the Leisure sector grew by 9%** boosted by summer festivals, sports events and easing of social distancing. Output in consumer-facing services fell by 0.3% in July 2021, its first fall since January 2021, due to a 2.5% fall in retail sales in July.

Challenges and opportunities facing businesses. What you've told us over Q1 and Q2

Since re-opening of the economy there has been a significant improvement in business performance. During lockdown, the main impacts reported by business were decreased sales, diminishing reserves and cashflow risks. More recently, there has been a continued fall in the proportion of firms reporting decreased sales and **a significant rise in firms reporting an increase in sales** (31%, up from 20% in spring). In addition, the survey's Business Confidence Index is now 7.4 points out of 10, its highest since its introduction in summer 2020. **Firms reserves remains strong** – another reflection of the stability seen in other national surveys from April onwards this year.

The proportion of firms reporting redundancies in the survey remains subdued with less than 2% of firms saying they may make redundancies in the foreseeable future. National data (from the Insolvency Office) in August also saw the lowest figure for proposed job cuts for seven years, despite the imminent end of the government's furlough scheme. Nationally, employers planned just under 12,700 job cuts in August, down 11% since July.

The ending of the current furlough scheme in September could bring more job hunters to the market in Q3 – however, it could also add to existing labour shortages. **Many businesses will have changed their business model during the pandemic, and so significant numbers of staff returning from furlough may need reskilling to re-join the workforce** - in the same or another sector.

Government and employers will therefore need **to develop plans to address the labour shortages that are more evident in certain sectors**, alongside the risks to furloughed workers. It is becoming increasingly clear that the labour market will need more intervention in matching workers with the right vacancies (given the levels of labour shortages reported); and furloughed workers will need to have access to employment support, careers advice, and training opportunities.

Figure 1: GC Survey. Proportion of firms reporting they have decreased sales

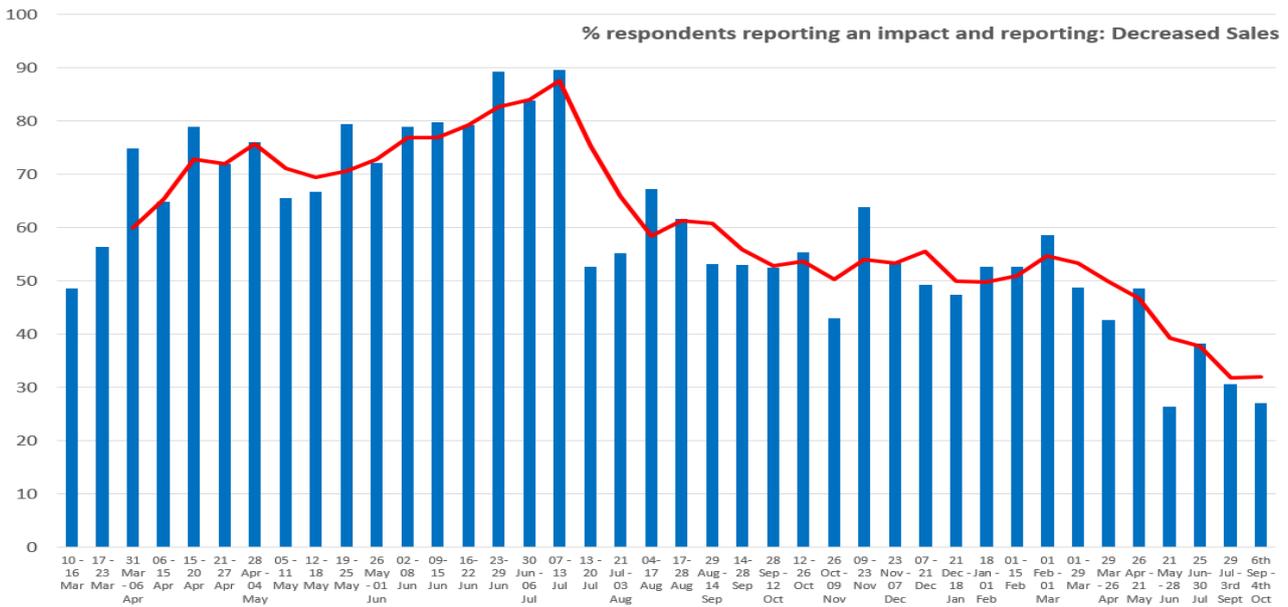
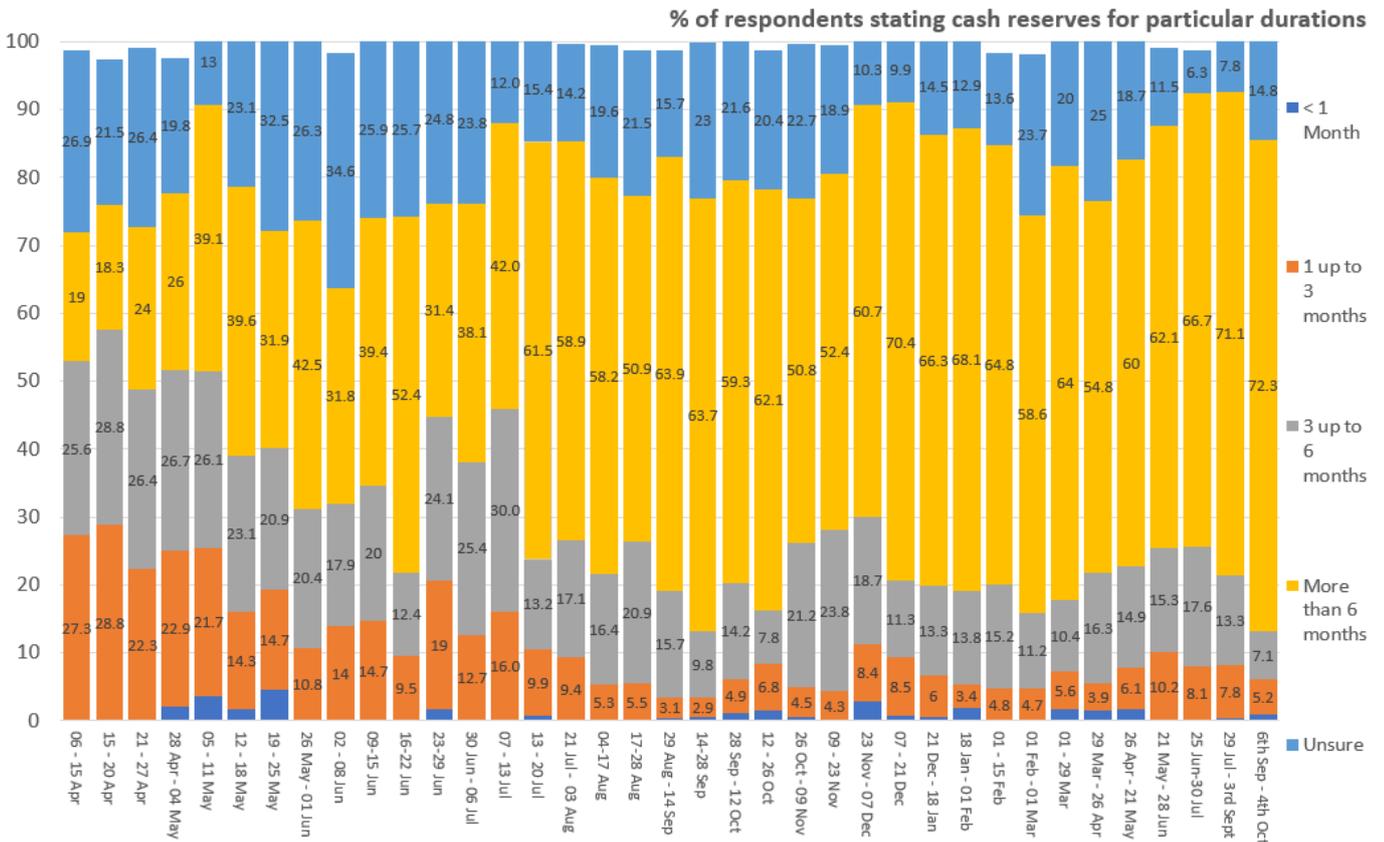


Figure 2: GC Survey. Proportion of firms reporting cash reserves to support business >6 months



Whilst the latest ONS workforce figures (September 2021) show a continuing recovery, they disguise the fact that the national labour market is over half a million less people than when the crisis began – the largest contraction in the workforce since the 1991 recession. Around two thirds of this contraction is explained by higher ‘economic inactivity’ (driven by students and rising long-term ill-health), and one third by residents returning to home countries. As a result, the **lack of workers is now becoming a bigger challenge in the labour market than any lack of jobs**. More positively, long-term unemployment appears to be levelling off, earlier than many previously anticipated.

Supply chain problems and rising inflation

A combination of Brexit, staff self-isolation, and pandemic related shortages, has led to supply chain problems and price rises. The proportion of firms reporting these risks in the survey has risen to its highest ever level since the survey began tracking these impacts. **Firms have reported acute**

shortages in raw materials (mostly within construction, manufacturing and hospitality), as well as price inflation (in particular for energy, but also increases in wages) and delays to production. For some firms this has resulted in a minor increase in suspended investment.

These supply chain problems have fed through into input prices. The latest ONS data shows that the UK inflation rate hit 3.2% in the year to August, the biggest increase since consistent records began in 1997. It now exceed the Bank of England’s 2% target, aimed at keeping prices steady. ‘Rising costs’ is now the second most significant risk reported in the survey (after ‘decreased sales’) mentioned by 27% of survey respondents, the highest since the survey started tracking the impacts of the pandemic.

Until recently, it has been generally assumed that inflation rates would soon fall back to pre-pandemic levels. However, **the strength of recoveries in advanced economies and signs of labour shortages, are both casting some doubt on those assumptions.** The CBI’s own research has concluded that stock levels in relation to expected sales fell to their lowest level in August since it began tracking retail industry trends 40 years ago.

The global pandemic has also led to disruption at ports and on-sea freight. The largest Pearl River Delta Ports in China were closed for a week, and the blockage in the Suez arguably led to a spike in container costs. **The spot price for shipping a standard 40-foot container from the Far East to western Europe is now (August/September) around \$11,000, almost ten times what it was two years ago.** These risks could be here for some time, and large shipping firms have stated that these will not end until consumer demand falls, and major port infrastructure projects are completed.

One final set of factors to watch will be energy and oil prices. There is a global shortage of gas that has increased prices around the world. **Demand has increased as economies emerge from the pandemic. Gas use for power generation remains stronger than usual,** especially in Europe, because of low wind speeds, and maintenance at nuclear plants, these factors are already feeding through into energy costs. Oil is currently within the range \$70-\$80 per barrel, clearly **much higher than prices during lockdown,** and futures prices sitting in a similar range.

Return to full global economic activity could push prices higher in the longer-term. Despite these risks, the Monetary Policy Committee’s (MPC) views in August were that **price pressures would be temporary,** though there would be the possibility of some slight tightening of monetary policy.

Figure 3: GC survey. Firms reporting major and minor supply chain problems

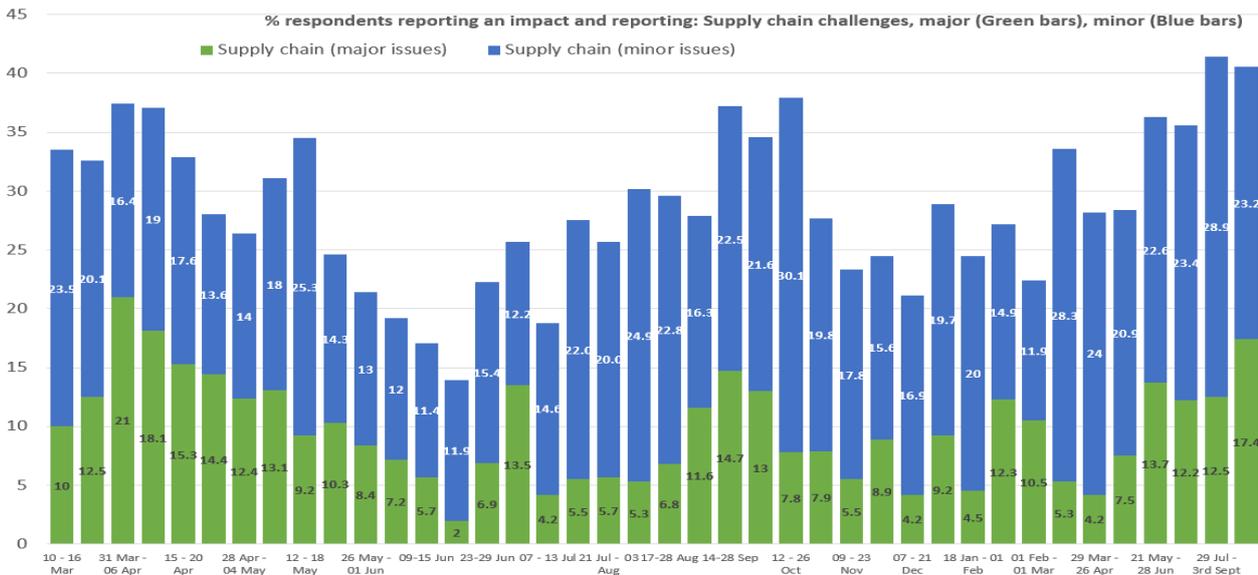
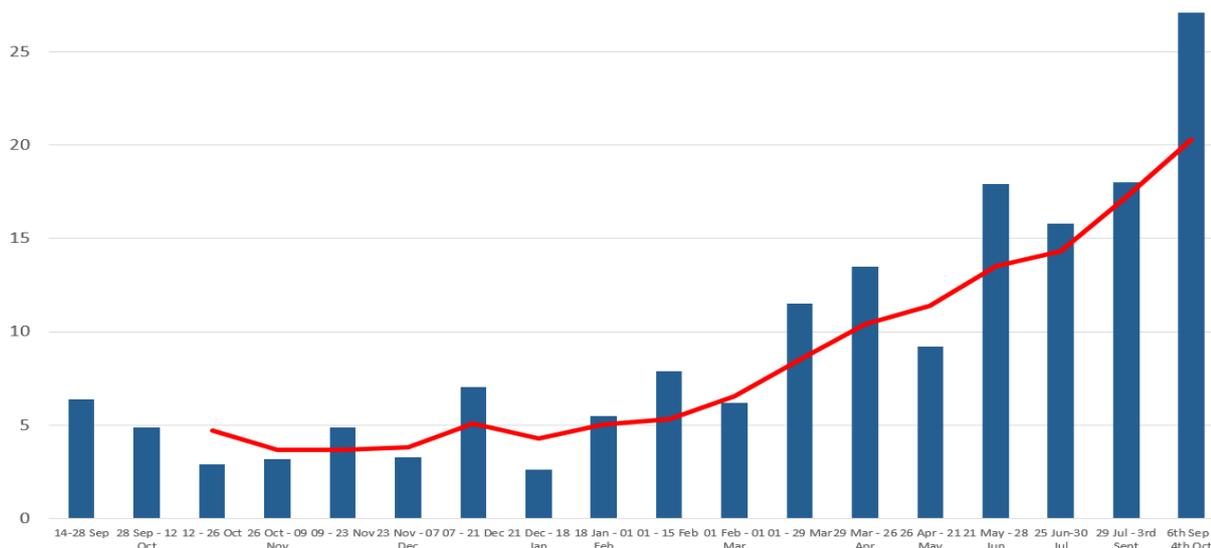


Figure 4: GC Survey. Firms reporting rising costs of raw materials

% respondents reporting an impact: Rising costs of raw materials



Labour shortages have increased, but many will be short-lived

Nationally, **payrolls grew by 650k from April to June. More recently the number of payroll employees showed another monthly increase**, up 241,000 to 29.1 million in August 2021, returning to pre-coronavirus (COVID-19) pandemic (February 2020) levels. All regions except London, Scotland and South East are now above pre-pandemic levels.

Vacancies have picked up to above pre-pandemic levels topping 1m vacancies nationally in the month to August (ONS) - while hiring intentions in the GC Survey have also recovered noticeably over summer. **The reopening of certain sectors has resulted in too many firms chasing after a limited supply of workers at the exact same time.**

The GC Survey and work of the Skills for Growth Programme highlights a range of occupations are reported as hard-to-fill. These are summarised under the ten areas below:

- **Digital Communication Technologies:** Developers, data engineers, analysts, project support
- **Financial & professional services:** financial management, accountancy, HR
- **Tourism, Hospitality and Leisure:** Chefs, food preparation, front of house staff, baristas
- **Engineering:** Field engineers, installers and maintenance fitters, electrical engineers, welders
- **Manufacturing:** Food manufacturing and food services preparation, warehouse operatives
- **Logistics and transport:** HGV drivers, delivery/postal workers, and warehouse operatives
- **Retail (& Digital):** Sales and marketing officers in e-commerce
- **Construction:** Brick layers, joiners and fitters
- **Employment and support services:** Cleaners, domestic services, security
- **Health & Social Care:** Nurses, social care workers and home carers
- **Education:** Primary and nursery teaching professionals

Whilst many of these areas will ease as the economy returns to more of a business-as-usual, there will be some pockets where shortages persist. These are especially where the need for reskilling / upskilling limits the speed at which in-demand roles can be filled. Our survey evidence suggests these are **likely to be in roles requiring increasingly intensive use of digital skills** – across all sectors of the economy, not simply within the Digital and Technology industries.

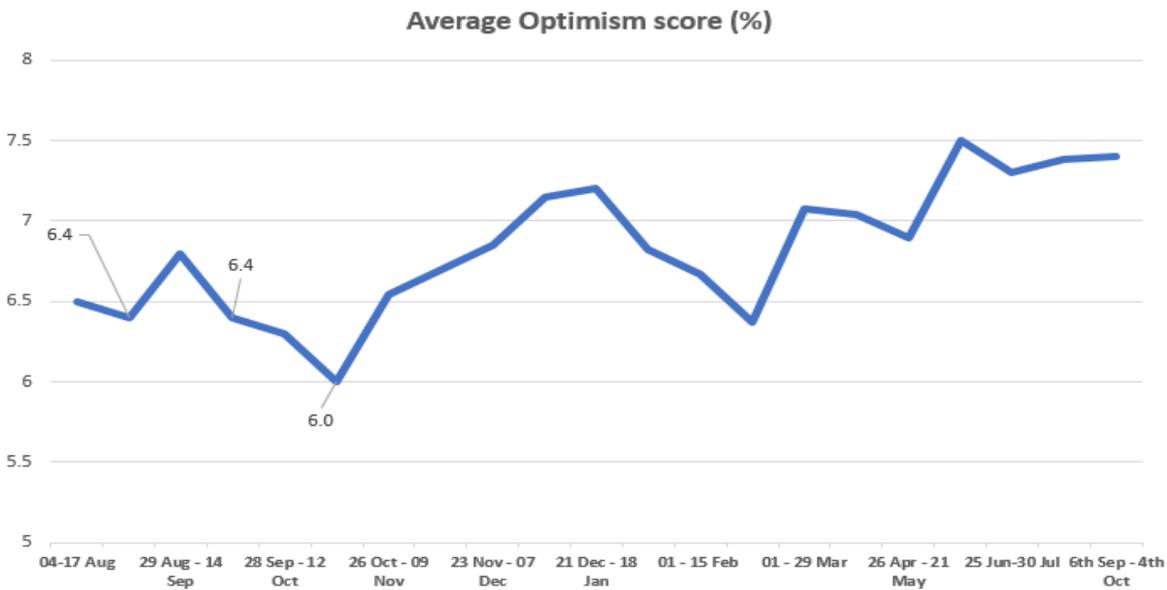
Looking at employer's views on their own workforce, the survey shows that just under half of employers think their staff are only partly matched against the skills they need to match their future business plans; and just over a third said they were currently planning to hire staff to fill their skills shortages. The Growth Company will continue to track these issues – in particular how **skills requirements have changed as a result of changing business models** and practices resulting from the pandemic amongst other drivers of change.

What the future holds? Confidence remains high, but are risks on the horizon?

One major future risk is business continuity, in particular for those firms that have experienced significant Covid impacts, as well as those firms that are also overly indebted with rising input, and those seeing a sharp decline in their market segment. These firms may be more exposed to acquisition by cash rich firms, or possibly insolvency in firms struggling to pay back debts.

However, the latest survey results continue to show high levels of optimism. 63% of firms expect profits to increase in the year ahead. In terms of investment plans, 38% of firms expect to increase Capex in the year ahead; 50% said they would invest more in workforce development, and 41% are investing more in digital transformation.

Figure 5: GC Survey. Overall business confidence Index for the next 12 months



The survey asks firms about their priorities for the year ahead. One of the main areas is growing access to new markets and developing new / innovative products and services. The recent skills intelligence data reinforces this, as businesses expect that future skills gaps will emerge due to both of these priorities, in particular within areas such as digital marketing, e-commerce and customer data/relationship management. The crisis has also spurred shifts in supply chain technology, cloud computing, communications/remote working and e-commerce.

What these results suggest is that the UK has reached a tipping point on both digital transformation and an acceleration of demand for digital skills across many occupations. Within the space of a few months the pandemic crisis brought about years of change in the way companies in all sectors and regions do business. According to a McKinsey Global Survey of executives, their companies have **accelerated the digitisation of their customer and supply-chain interactions and of their internal operations by three to four years.** And **the share of digital or digitally enabled products in their portfolios has accelerated by up to seven years.**¹

The evidence also shows that the rates for developing digital products during the pandemic differ. The differences are more apparent between sectors with and without physical products - than between B2B and B2C companies. **Respondents in consumer-packaged goods and automotive and assembly, for example, report relatively low levels of change in their digital-product portfolios. By contrast, the rates of change are more significant in health, life-sciences, and financial & professional services.**

The demand for digital skills (and leadership to implement change) is clearly not an issue for the Digital / Tech sector alone. Demand is clearly outstripping supply for digital skills across many different occupations and industries. Whilst many firms according to the survey are upping their investment in recruitment and workforce development in the year ahead, **there is a clear opportunity to grow the pool**

¹ Source: McKinsey (2020): How COVID-19 has pushed companies over the technology tipping point. Results of the 2020 survey

of talent, and ensure that employers have the skills they need. For many firms this will include **addressing basic digital literacy, alongside those areas of business transformation that require high end technology, and the leadership and management skills needed for their implementation.**

The evidence is clear, that **the pandemic has forced many business leaders to rapidly reassess how they do business and the role of technology.** It has made them think about future business strategy, and as the survey shows, it is leading them to **reconsider the way they deliver products and services** – in a way that makes digital innovation and skills pivotal to growing new markets. **The challenge for many is now not necessarily one of digital ambition, but one of digital adoption, building capabilities and workforce development to allow their businesses to succeed.**

Why this insight matters to GC and the Business Growth Hub

This insight provided by nearly 8,000 firms over the course of the last two years has allowed us to continue to provide a range of services that directly respond to the challenges they are facing, helping them mitigate the impact of the pandemic and drive future growth. Covid has accelerated many trends and changes that were already occurring pre-pandemic.

The restructuring of retail, transforming town and city centre roles, remote working and virtual meetings, the increasing digitalisation of business, markets, commerce and society – have all taken a big leap in the past 18 months. It is therefore no surprise that the main support needs identified by business for the year ahead include support for business planning, financial planning and advice, digital transformation, skills investment and workforce development.

GC is continuing to respond to these challenges, through a range of services for businesses and individuals to enable growth. We can only do this by listening to you. If you would like to join the GC Survey respondents list, please contact: sabirah.chowdhury@grwothco.uk

- *Learn more about the Business Growth Hub’s services: [Our services | GC Business Growth Hub](#)*
- *The Business Growth Hub also offers a range of support for [Digital development](#)*
- *Find out more about GC Education and Skills: [Education and Skills \(gceducationandskills.ac.uk\)](http://gceducationandskills.ac.uk),*
- *Follow this link to see more on the [Skills for Growth Programme](#) which is designed to address occupational skills gaps, and skills shortages identified by employers.*
- *[The monthly survey reports are available here.](#) The business survey services developed by GC Business are also now available to other Local Enterprise Partnership areas, contact us for further information - or to discuss your requirements: rupert.greenhalgh@growthco.uk*

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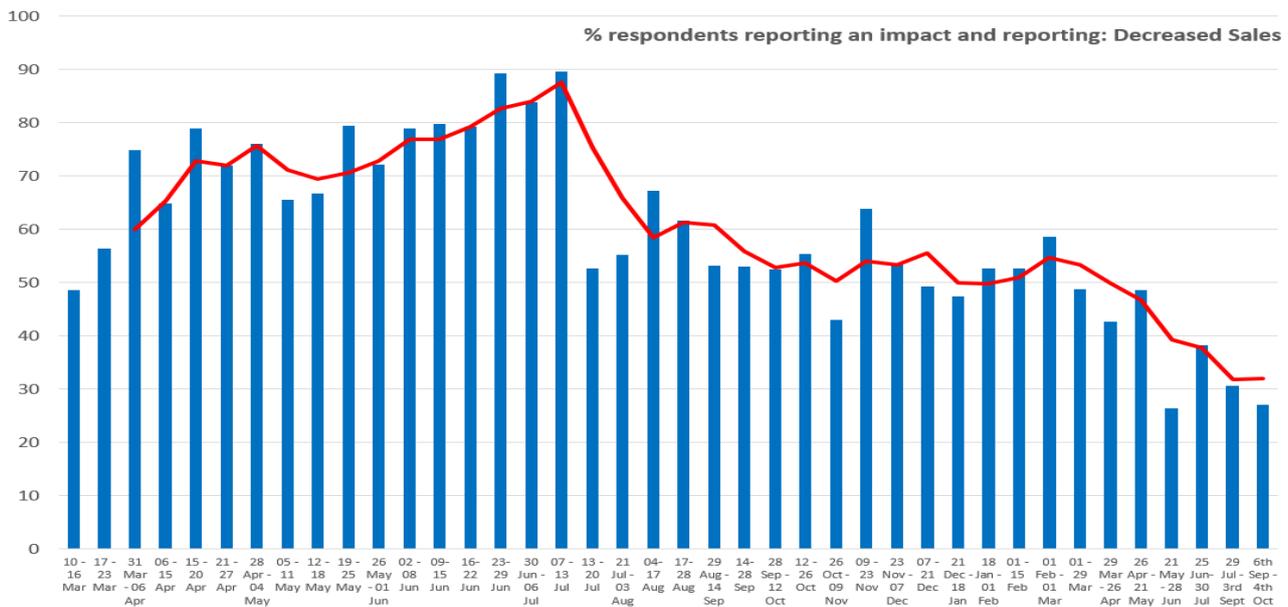


Figure 2: GC Survey. Proportion of firms reporting they have cash reserves to support their business for different durations

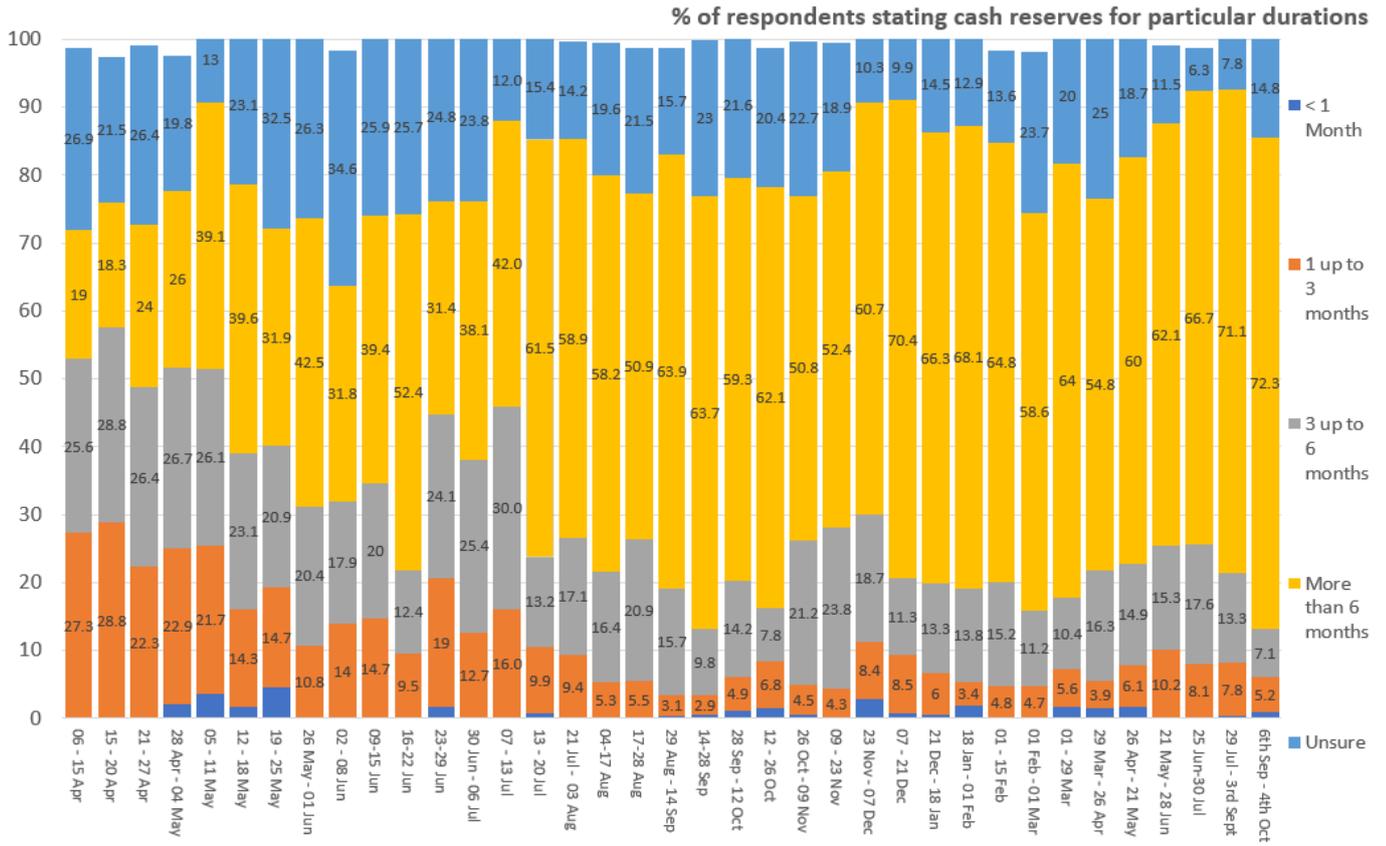


Figure 3: GC survey. Firms reporting major (green bar) & minor (blue bar) supply chain problems

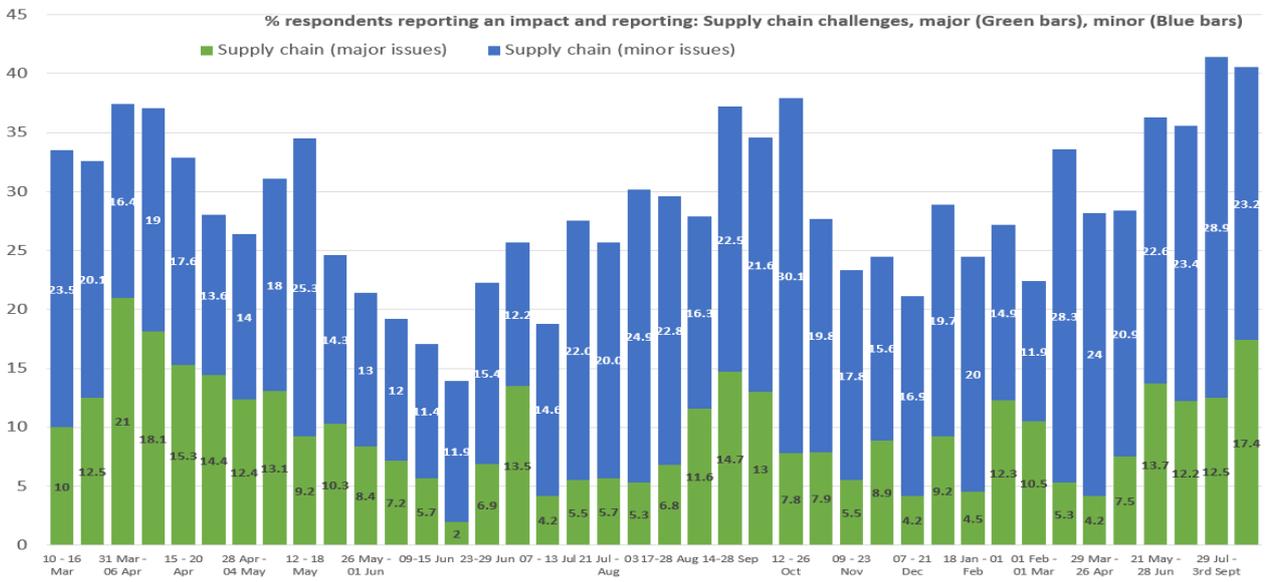


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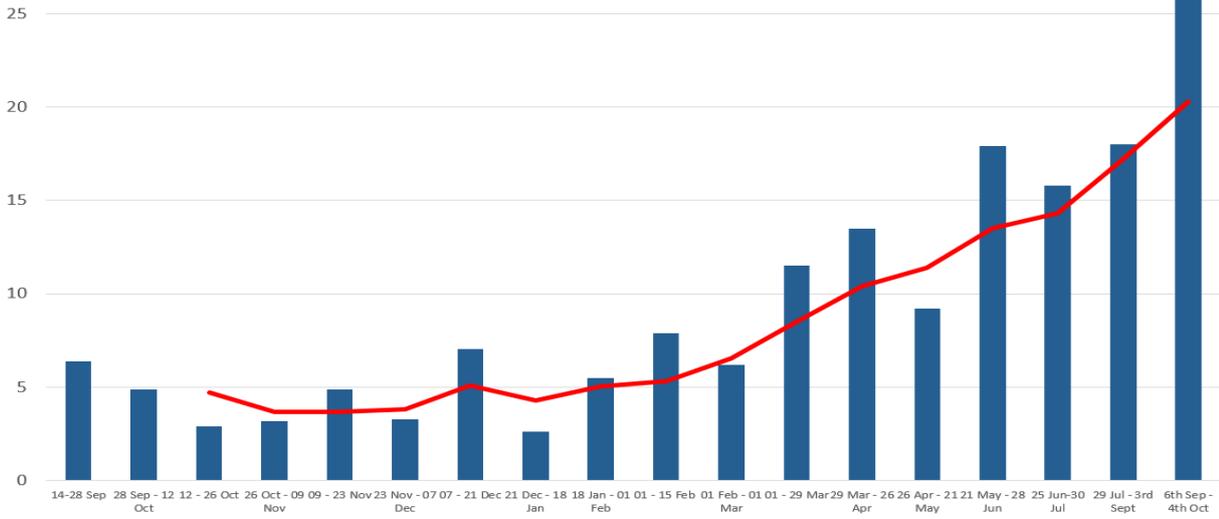


Figure 5: GC Survey. Overall business confidence Index for the next 12 months

Average Optimism score (%)

