**PURPOSE**

The purpose of this paper is to provide insight to the economic conditions being reported by the Cheshire and Warrington business community.

**BACKGROUND**

2020/2021 was an extremely challenging year with Coronavirus and the EU Exit. To support the sub region a number of groupswere set up to deal with both the emergency response and the longer-term recovery with responsibility for co-ordination of the LEP, local authorities and other agencies (FSB, IOD, CBI, Chamber of Commerce, BIDs and the voluntary and charity sector) to gather and analyse business intelligence.

To ensure extensive insight, the intelligence provided in this briefing is from a range of sources including the Economic Resilience Cell, Workforce Recovery Group, Cheshire Business Group, EU/Export Group and the Growth Hub.

In 2021/2022 The business environment remains challenging. The intelligence being received is now as a consequence of the pandemic and with the implementation of the new trade rules.

**NATIONAL PICTURE**

The coronavirus pandemic has impacted the economy in many ways different sectors of the economy to different degrees. Sectors reliant on social contact, including hospitality and entertainment, have been especially badly hit. Some sectors, such as financial services, have fared relatively better. From lockdown restrictions shutting down many businesses to limits on mobility, the economic impact has been severe. GDP declined by 9.8% in 2020 (1) the steepest drop since records began. The decline has been less severe than expected with a rebound and as at July 2021 was 2% lower than pre pandemic and has slowed during the summer of 2021.

Inflation has risen throughout 2021, partly a result of the supply problems, and is expected to continue to do so heading into 2022. This may cause consumers to become more cautious in their spending and, in turn, rein in economic growth. Another important question is how the end of the furlough scheme at the end of September 2021 will affect the labour market and, in turn, consumer spending.

In 2020 the UK’s exports of goods and services totalled £574 billion and imports totalled £586 billion (2). The EU accounted for 42% of UK exports of goods and services and 50% of imports in 2020 (3). The trade deficit with all countries increased to £5.8 billion in the three months to July compared with a £2.9 billion deficit in the previous three months. Exports increased by 2.9% in cash terms over this period and imports increased by 4.8%.

The Office for National Statistics said the fall was largely driven by declines in medicinal and pharmaceutical products, which have been particularly hit by the need for separate regulatory approval post Brexit. The time delay in localised data being available/reported means that Cheshire and Warrington will not have local level data on exports of goods and services until 2023.

There is therefore a great deal of uncertainty over the economic outlook and how strong and sustained the recovery will be, even assuming there won’t be a resurgence of the Coronavirus that materially impacts the economy.

As of September 2021, the average forecast among economists for GDP growth in 2021 is 6.8% (4). Expectations rose during the spring and early summer as data showed a strong recovery. In March 2021, the OBR forecast GDP growth of 4.0% in 2021 and it is very likely to revise that higher in its next set of forecasts scheduled to be published alongside the Government’s Budget and Spending Review on 27 October 2021.

**LOCAL PICTURE**

As of September 2021, there are 71,630 (5) active registered companies in the Cheshire and Warrington LEP area, 38% are in Cheshire East, 36% in Warrington and 26% in Cheshire West and Chester. Total company turnover, reported in latest financials, is £85b with an estimated 557,000 employees, 21% employed in Cheshire West and Chester, 44% in Cheshire East and 35% in Warrington. The average company in the area employs 12 people.

The business sector profile across the area broadly favours technology and admin sectors, with over 65% of businesses in Warrington being from just three sectors: information & communication, professional & scientific and admin & support. In Cheshire West and Chester and Cheshire East, the spread is a little broader, including significant activity in wholesale & retail and construction sectors.

Over the past four years, net company formations (after deducting dissolutions) have increased across the region, except for Warrington, which saw a forecast fall (pro rata) of 1844 in its company stock for 2021 (6). Contrary to what might be expected, company formation and cessation rates remained consistent across the four-year period, again except for Warrington, which saw a marked decrease in formations in 2020/21 and increase in cessations in 2021. We have been able to establish that many formations and cessation in Warrington have been due to location of accountants due to registered address and not necessarily trade.

On average, around 18% (7) of businesses across the LEP area claimed Job Retention Scheme payments in the period Dec 2020 to June 2021. The highest level of claimants was in Chester West and Cheshire (20%) and the lowest in Warrington (15%). Most claims in all areas were in the lowest claim band of less than £10,000 (98%+). Refer to Appendix 1 for source data.

**BUSINESS INTELLIGENCE**

The reported “perfect storm” caused by EU exit and the coronavirus pandemic has left many of our businesses in Cheshire and Warrington battling skills shortages, supply chain challenges and in need of working capital. Our local conditions and the challenges are no different to those being reported nationally. Appendix 2 provides a summary of intelligence that the Growth Hub and partners have and are continuing to receive from businesses pan Cheshire and Warrington this financial year.

We have 449 companies that are being tracked through business intelligence platform Beauhurst with evidence of scale up. These companies are also measured for Coronavirus status. This is a rapidly evolving situation. Tracked companies see their impact tags reviewed at least once every two weeks as a minimum. The chart shows that since April 2021 more of these companies are showing signs of recovery.



The changing nature of the labour market in Cheshire and Warrington sees the number of claimants unemployed still at historically high levels, although a recent levelling off. However, two thirds of Universal Credit claimants searching for work have now been claiming for a year or over. Nearly half of the 2,754 people claiming Employment and Support Allowance have health-related barriers to employment.

Health and care sector is a significant employer but with seriously high staff turnover rates (25-40%) and very difficult to fill vacancies. Around 7% of residents live in places ranked in most deprived 10% in England. We have 31,000 looking for work yet we have been creating 6,900 jobs/year including in sectors with low skills demand which could provide pathways into employment

45% of workforce qualified to degree level (UK 38.4%) but those aged under 35 less well qualified than UK average. Losing approx. 5,000.

Many reports have been received from businesses in the last quarter of recruitment difficulties and skills needs. The retail, hospitality and visitor economy are continuously trying to recruit many to replace where redundancies were made at the height of the pandemic. Companies are reporting that they are recruiting but have significant skills gaps or that the recruitment process is failing as new recruits choose not to join even when successful. The pressures on operational costs and cashflow sees businesses looking for government supported options including Kickstart and Apprenticeships, these in turn require enhanced training.

Our logistics sector is adapting we are receiving reports on the immense pressure from driver shortages and impending threats of loosing skills due to market conditions. Companies providing logistic services are increasing salaries for drivers to retain skills and renegotiating contacts with customers to try and share some of the increase costs. All of this is impacting on supply chains.

Investment readiness and access to finance needs have intensified the Growth Hub is supporting businesses with limited or inconsistent cash flow, with too much debt, have difficulties with budgeting, have neglected reporting, lack of understanding credit rating, do not understand finance options with many lacking appetites to take on more debt. However, we are also supporting businesses that are growing with their investment planning. Sometimes the limiting factor for growth is the mainstream debt options. Several successful companies reporting that they are having to access commercial finance for investment where they would previously have used their own reserves, but these have been depleted by covering Coronvirus & EU Transition costs, therefor the costs of growth are much higher.

A manufacturer in Warrington progressing with application for £250k Recovery Loan. Owner unwilling to sign personal guarantee luckily in this case not required as under mandatory threshold. However, a deal breaker otherwise. Construction business in Cheshire West and Chester acquired land for new factory to manufacture. £8.5m turnover pre-Coronavirus dropped to £6.5m 2020 and forecasting £14m next FY. Mainstream debt only option, equity not an option for the shareholders. Manufacturer in Cheshire East, a spin out from a long-established manufacturer needs £1m-£3.5m over 3 years. Looking for multiple options. Secured £500k private investment. Ongoing support looking at other options this approach will enable growth but at a slower rate.

Many hospitality and visitor economy companies are telling us that they are having to be creative, working at reduced capacity and/or have introduced shift working patterns. This is a balance to trade and work within operational budget.

Companies are reporting the impacts of global supply chain disruptions and pressure with rising costs of materials resulting in contractual pressures and insecurity.

The rising costs of trade for many companies mean doing international trade is no longer viable, for some the consequences are minimal and with planning new opportunities can be identified domestically or in other markets. The impact on others is more significant particularly where contractual obligations.

**APPENDIX 1 – Cheshire and Warrington Business Stock September 2021**

|  |  |
| --- | --- |
|  | **Active Companies** |
|   | **LEP** | **CWaC** | **CE** | **Warr** |
| **All Sectors** | 71,630 | 100.0% | 18,914 | 26.4% | 27,220 | 38.0% | 25,496 | 35.6% |
| **A - Agriculture** | 582 | 0.8% | 249 | 1.3% | 290 | 1.1% | 43 | 0.2% |
| **B - Mining** | 66 | 0.1% | 19 | 0.1% | 27 | 0.1% | 20 | 0.1% |
| **C - Manufacturing** | 2,842 | 4.0% | 934 | 4.9% | 1321 | 4.9% | 587 | 2.3% |
| **D - Gas & Electric Supply** | 181 | 0.3% | 41 | 0.2% | 63 | 0.2% | 77 | 0.3% |
| **E - Water Supply** | 234 | 0.3% | 80 | 0.4% | 111 | 0.4% | 43 | 0.2% |
| **F - Construction** | 5,960 | 8.3% | 1,826 | 9.7% | 2,497 | 9.2% | 1,637 | 6.4% |
| **G - Wholesale & retail** | 6,801 | 9.5% | 2,215 | 11.7% | 3,151 | 11.6% | 1,435 | 5.6% |
| **H - Transport & storage** | 2,773 | 3.9% | 1,329 | 7.0% | 845 | 3.1% | 599 | 2.3% |
| **I - Accomodation & food** | 2,541 | 3.5% | 921 | 4.9% | 1,108 | 4.1% | 512 | 2.0% |
| **J - Information & communication** | 9,065 | 12.7% | 1,361 | 7.2% | 2,156 | 7.9% | 5,548 | 21.8% |
| **K - Financial & insurance** | 2,238 | 3.1% | 714 | 3.8% | 1,066 | 3.9% | 458 | 1.8% |
| **L - Real estate** | 4,872 | 6.8% | 1,542 | 8.2% | 2,303 | 8.5% | 1,027 | 4.0% |
| **M - Professional, scientific & tech** | 15,057 | 21.0% | 3,517 | 18.6% | 6,057 | 22.3% | 5,483 | 21.5% |
| **N - Admin & support sevices** | 10,060 | 14.0% | 1,751 | 9.3% | 2,563 | 9.4% | 5,746 | 22.5% |
| **O - Public Administration** | 138 | 0.2% | 32 | 0.2% | 53 | 0.2% | 53 | 0.2% |
| **P - Education** | 1,250 | 1.7% | 445 | 2.4% | 514 | 1.9% | 291 | 1.1% |
| **Q - Health & social** | 3,026 | 4.2% | 800 | 4.2% | 1,628 | 6.0% | 598 | 2.3% |
| **R - Arts, entertainment & recreation** | 1,555 | 2.2% | 542 | 2.9% | 689 | 2.5% | 324 | 1.3% |
| **S - Other services** | 3,849 | 5.4% | 985 | 5.2% | 1,288 | 4.7% | 1,576 | 6.2% |
| **T - Households** | 967 | 1.3% | 390 | 2.1% | 478 | 1.8% | 99 | 0.4% |
| **U - Overseas** | 558 | 0.8% | 172 | 0.9% | 267 | 1.0% | 119 | 0.5% |
| Largest 5 business sectors by area in green |  |  |  |  |  |  |  |  |
| **Company Formation / Cessations by Calendar Year (2021 period pro-rata)** |  |  |  |  |  |  |
|  | **Formations** | **Cessation** | **Net Increase** |
|   | **2018** | **2019** | **2020** | **2021** | **2018** | **2019** | **2020** | **2021** | **2018** | **2019** | **2020** | **2021** |
| **Local Enterprise Partnership Area** | 12159 | 12206 | 10438 | 9380 | 7267 | 7837 | 6200 | 9118 | 4892 | 4369 | 4238 | 262 |
| **Cheshire West and Chester** | 2630 | 2736 | 3439 | 3017 | 1938 | 1975 | 1722 | 1989 | 692 | 761 | 1717 | 1028 |
| **Cheshire East** | 3683 | 3876 | 3948 | 3735 | 3064 | 2850 | 2163 | 2657 | 619 | 1026 | 1785 | 1078 |
| **Warrington** | 5846 | 5594 | 3051 | 2628 | 2265 | 3012 | 2315 | 4472 | 3581 | 2582 | 736 | -1844 |

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Job Retention Scheme Claimants (Dec 2020 - Jun 2021)** |   |   |   |   |
|   | **LEP** | **CWaC** | **CE** | **Warr** |
| Numbers of businesses claiming JRS | 12592 | 3815 | 5090 | 3687 |
| %age of businesses claiming JRS | 17.6% | 20.2% | 18.7% | 14.5% |
| Number of claims <£10,000 | 12377 | 3759 | 4989 | 3629 |
| %age of claims <£10,000 | 98.3% | 98.5% | 98.0% | 98.4% |
|  |  |  |  |  |

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Financial Summary (active companies)** |   |   |   |   |
|   | **LEP** | **CWaC** | **CE** | **Warr** |
| Total turnover in latest financials | £85.3b | £19.3b | £34.4b | £31.6b |
| Average turnover | £26.9m | £22.3m | £22.0m | £42.5m |
| Estimated total employees | 557400 | 117083 | 246106 | 194211 |
| %age of total employees in area | 100.0% | 21.0% | 44.2% | 34.8% |
| Estimated average employees | 12 | 11 | 15 | 10 |
| Note that figures are estimated as fewer than 5% of businesses file full financials |  |  |

**APPENDIX 2 – Summary of Local Business Challenges & Impacts Reported FY21/22**

**EU Exit/New Rules**

* Intelligence on exports of goods and services will not be available at a local level until 2023.
* Local businesses are looking at setting ways to trade and improve trade by setting up offices/locations in EU.
* Process of getting advice difficult as incur costs of specialists prior to knowing what advice needed.
* Regulatory approval/licencing uncertainties in medical and pharma products.
* Increased costs in import and export.
* Increased time to import and export.
* A shortage of shipping containers or containers are in the wrong place.
* Difficulties exporting to areas of the EU.
* Businesses asking for training with export as new rules develop.
* Challenges with VAT rule changes to EU customers.
* Tariff difficulties
* Export sales dropped across range of sectors
* Challenges with customs declarations.
* Challenges with commodity codes.
* Origin of products has encountered difficulties in cases with multiple elements.
* Tariffs when re-exporting to the EU.
* Complexities moving goods between UK and Northern Ireland.
* Supply chain disruption across range of sectors, foreign owned through to independents.
* Difficulties winning new business.
* Difficulties in order fulfilment.
* Loss of EU national employees.
* Uncertainty over pre agreed prices and delivery dates.
* Increase bureaucracy.
* Pressures on supply chains EU27 & Global
* Increase on costs of materials.
* Companies lacking knowledge on the benefits of Free Trade Agreements
* Trade finance challenges.

**Coronavirus**

* Businesses reports of reduced capacity and trading hours.
* Stresses on operational budgets.
* Ongoing use of financial reserves.
* Hybrid approach/return to work.
* Accelerated shift to online shopping. Google
* Housing demand. Fuelled by
* Loss of employees (choice).
* Redundancies.
* Recruitment challenges.
* Reduced investment in businesses.
* Use of furlough, tracjectory is in decline 5% pan area.
* Turnover has decreased for some but increased for others.
* Many businesses lack business plans