



Business
West

Quarterly Economic Survey

Q3/2023

Business West is the largest business group in the South West representing and advocating for commerce in our region.

Business West is the combined Chambers of Commerce for Bristol, Bath, Gloucestershire and Wiltshire, as well as the Bristol, Bath, and Swindon and Wiltshire Initiatives. Business West run the Quarterly Economic Survey (QES) as an accredited member of the British Chambers of Commerce.

323 businesses completed the survey between 21 August and 14 September 2023, giving Business West up to date insight into the trends and state of business health for our region. We thank all respondents for their time in completing the survey.



THIS QUARTER'S FINDINGS

The results of this quarter indicate that respondents continue to grapple with challenges such as labour market tightness, rising costs, and overall business uncertainty. However, the gradual easing of inflationary pressures and a modest upturn in domestic sales provide hope for improved economic conditions in the remaining months of the year.

WORKFORCE AND SKILLS

Labour costs remain a major source of inflationary pressure, reported by 62% of respondents. Almost half of respondents persist in their efforts to fill vacancies, although 71% encountered recruitment obstacles. Skilled manual and technical positions (50%) and professional/managerial roles (46%) are most challenging to fill. Despite challenges, 19% report an increase in their workforce, and 24% expect growth in the next three months, reflecting cautious optimism amid labour market complexities.

BUSINESS CONFIDENCE

The majority of respondents (57%) express confidence in the prospects of their businesses for the next 12 months. In contrast, half of the participants hold pessimistic views regarding the outlook for the national economy over the next year – only 11% of surveyed businesses report to be confident in the prospects of the UK economy for the next 12 months.

SALES

The net balance for UK sales stands at -2% and net UK orders at -6%. These figures represent an improvement compared to the Q2 results when both categories were at a less favourable -12%. The rise was mainly driven by the services sector returning to positive territory with a net balance for domestic sales of 2%. Meanwhile, manufacturers also saw an upturn in their net balance for domestic sales, which stood at -11% in Q3, a slight increase from the -16% recorded in Q2.

INTERNATIONAL SALES

Export sales and orders both remain in negative territory, although they experienced a slight improvement compared to Q2's results. The international sales net balance went up from -18% in Q2 to -11% in Q3. Service business net international sales performed better than their manufacturing counterparts, with net balances of -9% and -14%, respectively. The main overseas markets for the survey respondents continue to be Europe (89%), North America (58%), and Australasia (42%).

SOURCES OF CONCERN

General economic conditions remain the primary source of concern for 66% of respondents, slightly down from 69% in Q2 2023. General business uncertainty is the second most significant worry at 53%, with inflation closely trailing at 51%, marking a notable decrease from 60% in the previous quarter.

PROFITABILITY

In Q3, a significant number of survey respondents (40%) anticipate an improvement in their profits over the next twelve months – a more positive outlook than in previous quarters. However, there is still a considerable gap between the percentage of participants anticipating increases in turnover compared to those expecting increases in their profits for the upcoming year (51% and 40% respectively).

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SUSTAINABILITY, CLIMATE & TRADING TO NET ZERO

This quarter we asked some additional questions on sustainable business practices to update our understanding of the challenges and opportunities posed by this critical issue for businesses in our region.

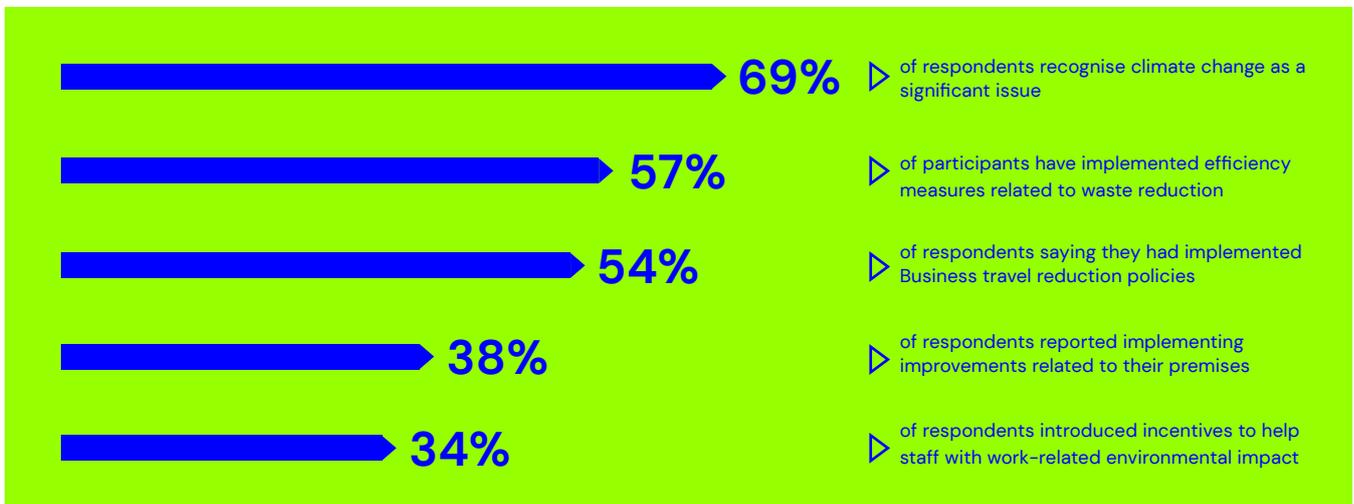
Compared to the previous year, the level of climate awareness within the business community has remained consistently high, with 69% of respondents recognising climate change as a significant issue. However, a considerable gap persists between those who acknowledge the environmental challenge and those who have taken concrete steps, such as measuring their business's carbon footprint (just 29% of respondents).

The majority (57%) of participants have implemented efficiency measures related to waste reduction, recycling, and changes in the materials they use in their business operations. Business travel reduction emerged as another popular strategy, with 54% of respondents saying they had implemented policies along these lines. A substantial percentage of participant businesses (38%) reported implementing improvements related to their premises, while a third of respondents (34%) introduced incentives to help staff with their work-related environmental impact.

Less widely adopted initiatives include the adoption of a formal carbon reduction plan (29%) and carbon offsetting (12%). An overwhelming majority of participants (78%) consider business values to be the main motivation behind their climate action.

This is followed by client expectations (52%). Other significant reasons reported were staff expectations (37%), financial incentives (34%) and mandatory requirements (32%). Interestingly, fewer businesses consider new business opportunities and supply chain demands as drivers of climate related actions, with figures at 18% and 11%, respectively.

When asked about the additional support needed to reduce their environmental impact, 40% of businesses mentioned tax incentives while 39% of respondents informed us that what they need is access to funding and finance. Other demands were information and advice (25%), clarity on policies and regulations (23%), and help with technology and innovation (21%).



WORKFORCE AND EMPLOYMENT

In Q3, workforce and employment concerns persist, with nearly a quarter of respondents expressing anxieties about the labour market. These concerns highlight some of the persistent issues that businesses face in the current economic landscape.

Notably, labour costs remain the most significant source of inflationary pressure, as reported by 62% of respondents across both the services and manufacturing sectors. This aligns with recent data published by The Office for National Statistics confirming that annual growth in average pay in the UK, excluding bonuses, currently stands at 7.8 percent – the highest rate since comparable records began in 2001.

Efforts to hire new employees persist in Q3, with 48% of respondents indicating they have undertaken recruitment initiatives. Among those, the majority (76%) are focused on full-time positions. However, it's important to note that recruiting in the current environment has not been without its difficulties.

An overwhelming 71% of respondents have encountered obstacles in the recruitment process. Further analysis reveals that certain job categories pose more significant challenges than others. Skilled manual and technical positions top the list, with 50% of respondents identifying them as the most challenging to fill, closely followed by professional and managerial roles at 46%.

These insights underscore the importance of continuing and expanding the efforts to support the business community in finding ways to resolve the existing skill gaps and shortages. Despite the challenges, this quarter's results indicate that 19% of respondents experienced an increase in their workforce, showing that expansion efforts are ongoing.

Looking ahead, 24% of participants expect their workforce to continue to grow in the next three months, reflecting a sense of cautious optimism as businesses navigate the complexities of the labour market in the coming months.



PRICES AND INFLATION

Prices and inflation continue to be pivotal concerns for businesses, with 51% of respondents highlighting them as a source of unease. This sentiment places it as the third most frequently cited concern, trailing only behind general economic conditions and business uncertainties, underscoring the prevalence of costs pressures experienced by businesses in the region.

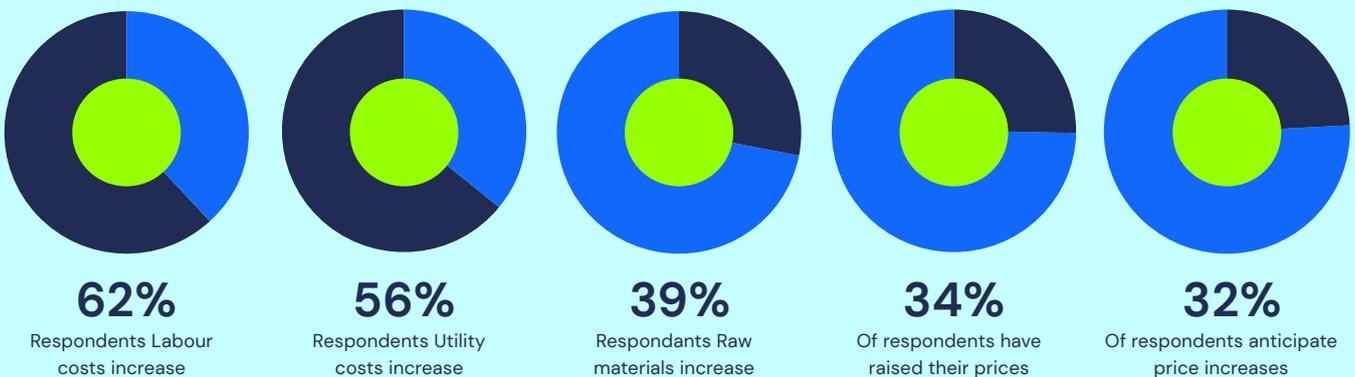
Although August data confirmed that the rate of inflation has been falling for three consecutive months, the headline figure of 6.7% is still much higher than the Bank of England's 2% target.

Delving into the drivers of inflation, labour costs remain the primary source, identified by a substantial 62% of respondents. Following closely, utilities contribute significantly, with 56% of respondents recognising their impact, while raw materials rank third, at 39%. These figures elucidate the complex nature of inflationary pressures, impacting various facets of businesses' cost structures.

Examining recent pricing trends, 34% of respondents reported raising their prices in the last three months, representing a notable decline from the 54% reported in the previous quarter. This change suggests that businesses may be attempting to strike a balance between managing inflation and maintaining competitiveness.

Looking ahead, 32% of respondents anticipate price increases in the next three months. While this marks a decrease from the 40% recorded in the previous quarter, it suggests that although price pressures seem to be starting to cool down, businesses remain vigilant with their pricing strategies amidst ongoing economic uncertainties.

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Utilities contribute significantly, with 56% of respondents recognising their impact while raw materials rank third, at 39%.

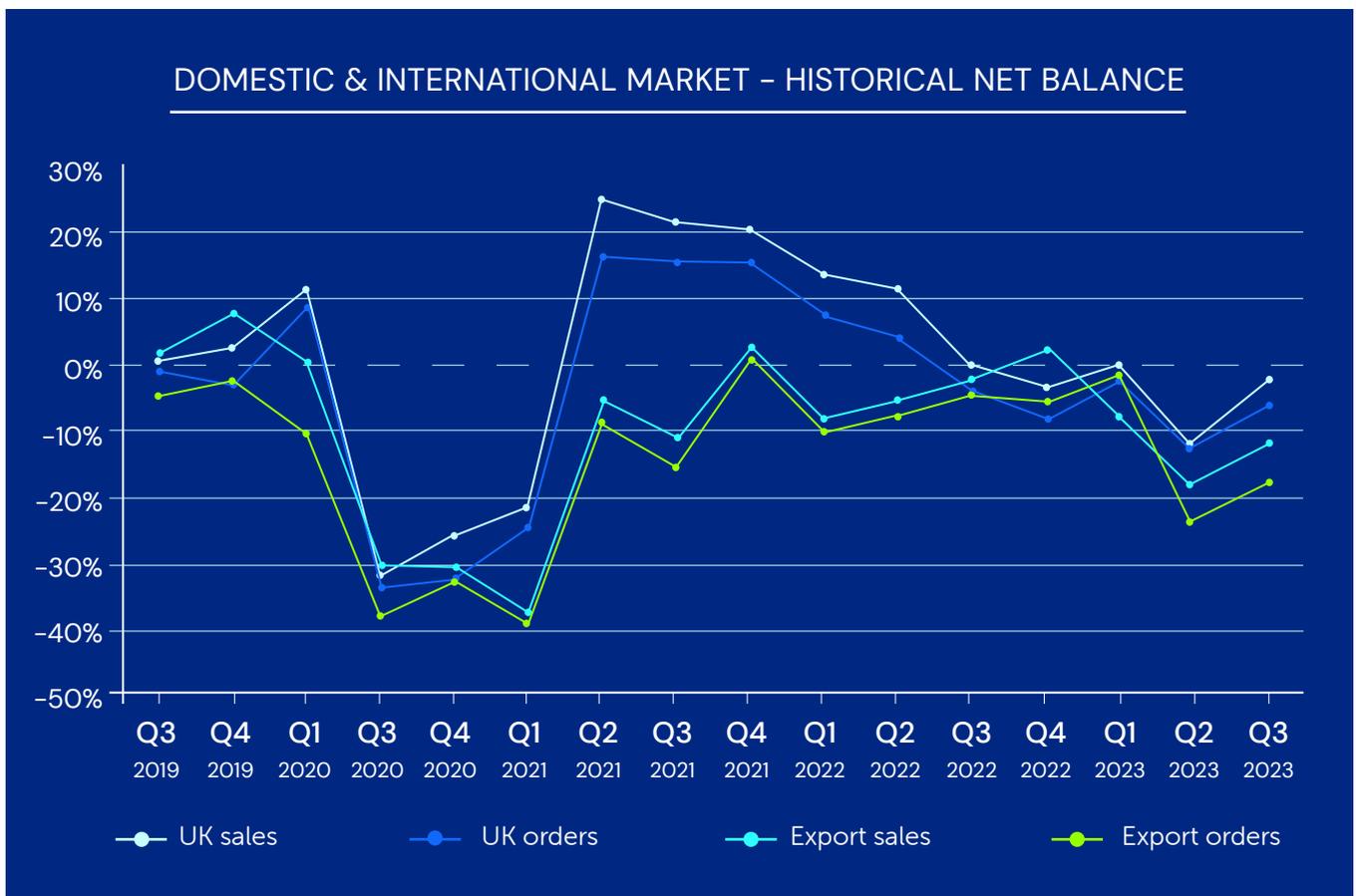
DOMESTIC MARKET

In this quarter, the UK sales net balance showed signs of improvement, with a figure of -2%, compared to a more concerning -12% in the preceding quarter. This shift is indicative of a modest recovery in sales performance for businesses operating in the UK market. A similar upward trend was observed in net UK orders, which improved from -12% in Q2 to -6% in Q3.

This positive change could be attributed to several factors, including increased consumer confidence and changes made by businesses in response to the ongoing economic challenges.

Conversely, the manufacturing sector reported a net balance of -11% for domestic sales in Q3, though this represents an improvement from the -16% observed in Q2. Issues such as supply chain disruptions and rising costs seem to be having a stronger impact on manufacturers' performance.

Within the services sector, the net balance for domestic sales in Q3 notably improved, standing at 2%. This marked a significant shift from the -11% figure recorded in Q2.



INTERNATIONAL MARKET

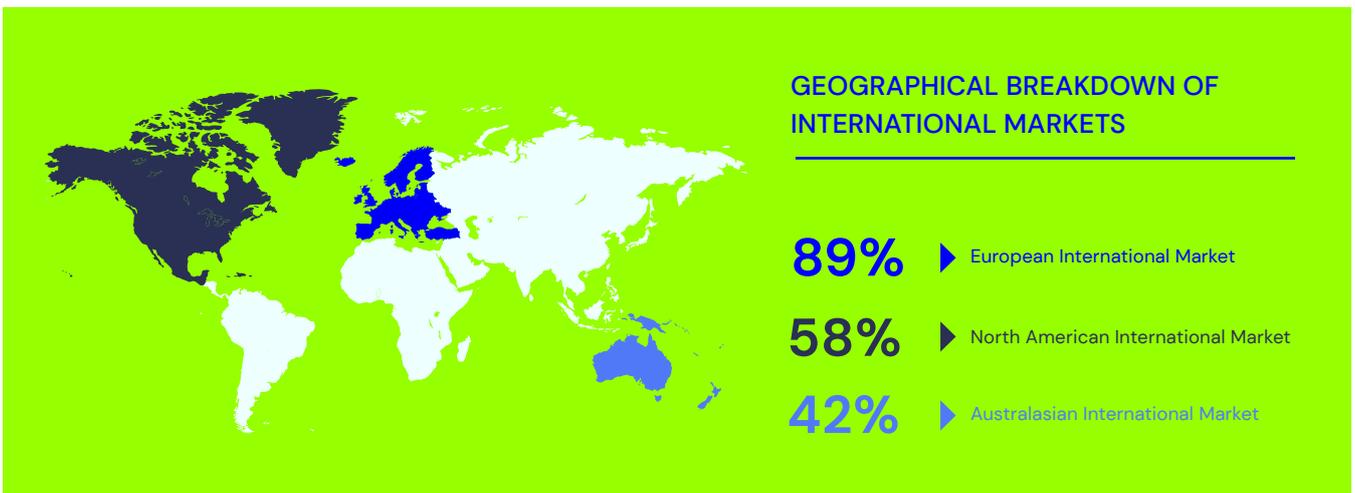
In the context of the international market, businesses continue to face challenges, although there has been a slight improvement compared to Q2. Both sales and orders remain in negative territory, reflecting the ongoing complexities of global trade dynamics.

For international sales, the net balance stood at -11%. This figure is comprised of 31% of respondents reporting decreased sales, while 20% reported increased sales. Although the net balance remains negative, the shift towards a more balanced representation between decreases and increases suggests a potential stabilization in international sales performance.

Similarly, international orders reported a net balance of -18%, indicating persistent challenges in securing international orders. The negative net balance underscores the difficulties faced by businesses in maintaining and growing their international client base in a climate of global economic uncertainty. Within the international context, service businesses have displayed relatively better performance in comparison to their manufacturing counterparts.

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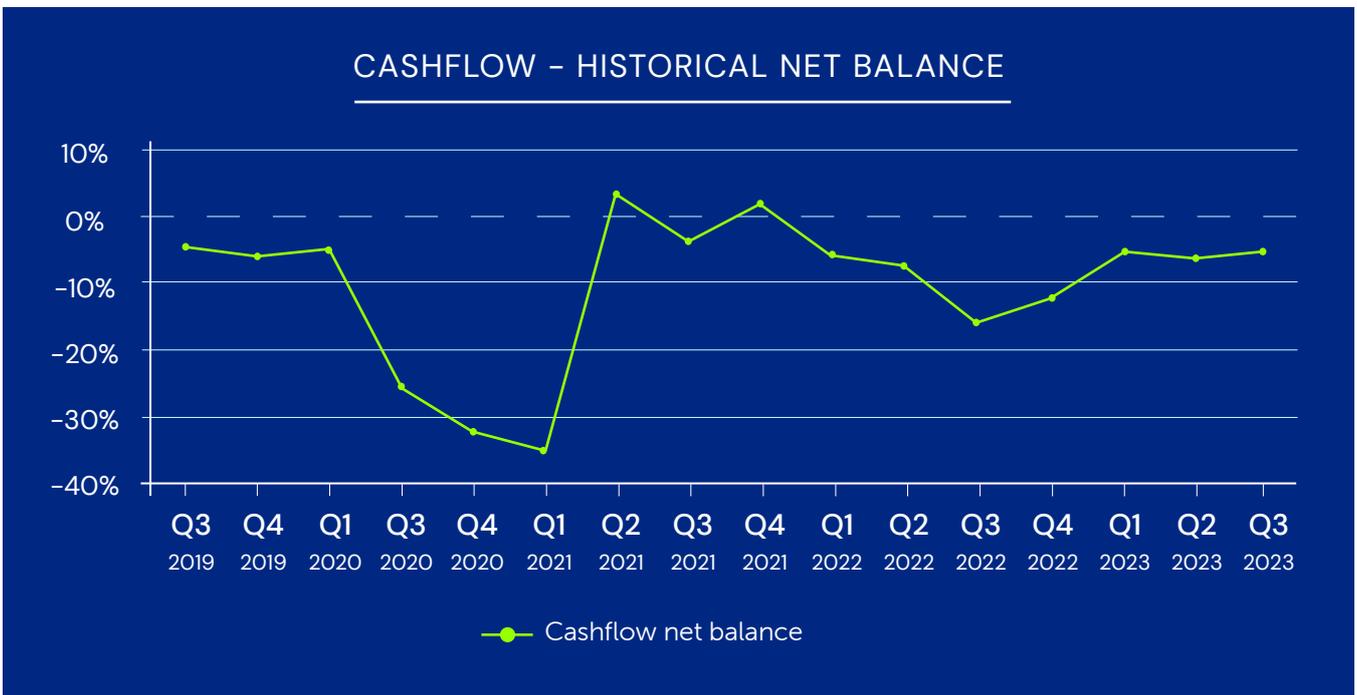
Service businesses reported a net international sales balance of -9%, whereas manufacturers reported a net balance of -14%. This divergence may be attributed to changes in global demand and seasonal aspects related to international trade dynamics.



CASHFLOW

The fluctuations in business cash flow often serve as a reliable indicator of firms' financial health, offering essential resilience during periods of uncertainty.

In Q3, the cash flow net balance exhibited minimal change compared to three months ago, holding steady at -6 percentage points. This aligns with the ongoing trend of an increasing number of cases reporting both cash flow increases and decreases, with fewer firms indicating stable cash flows.



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PROFITABILITY

Research conducted by the British Chambers of Commerce has shown that business expectations for profitability in the next 12 months typically align with the overall trajectory of the UK's GDP. In Q3, a significant number of survey respondents (40%) anticipate an improvement in their profits over the next twelve months – a more positive outlook than in previous quarters.

A persistent trend in Q3 is the gap between the percentage of participants anticipating increases in turnover compared to those expecting increases in their profits for the upcoming year (51% and 40% respectively). These figures could serve as another sign of the impact of ongoing inflation, with rising costs still exerting pressure on profit margins within the region's economy.



FINANCE AND INVESTMENT

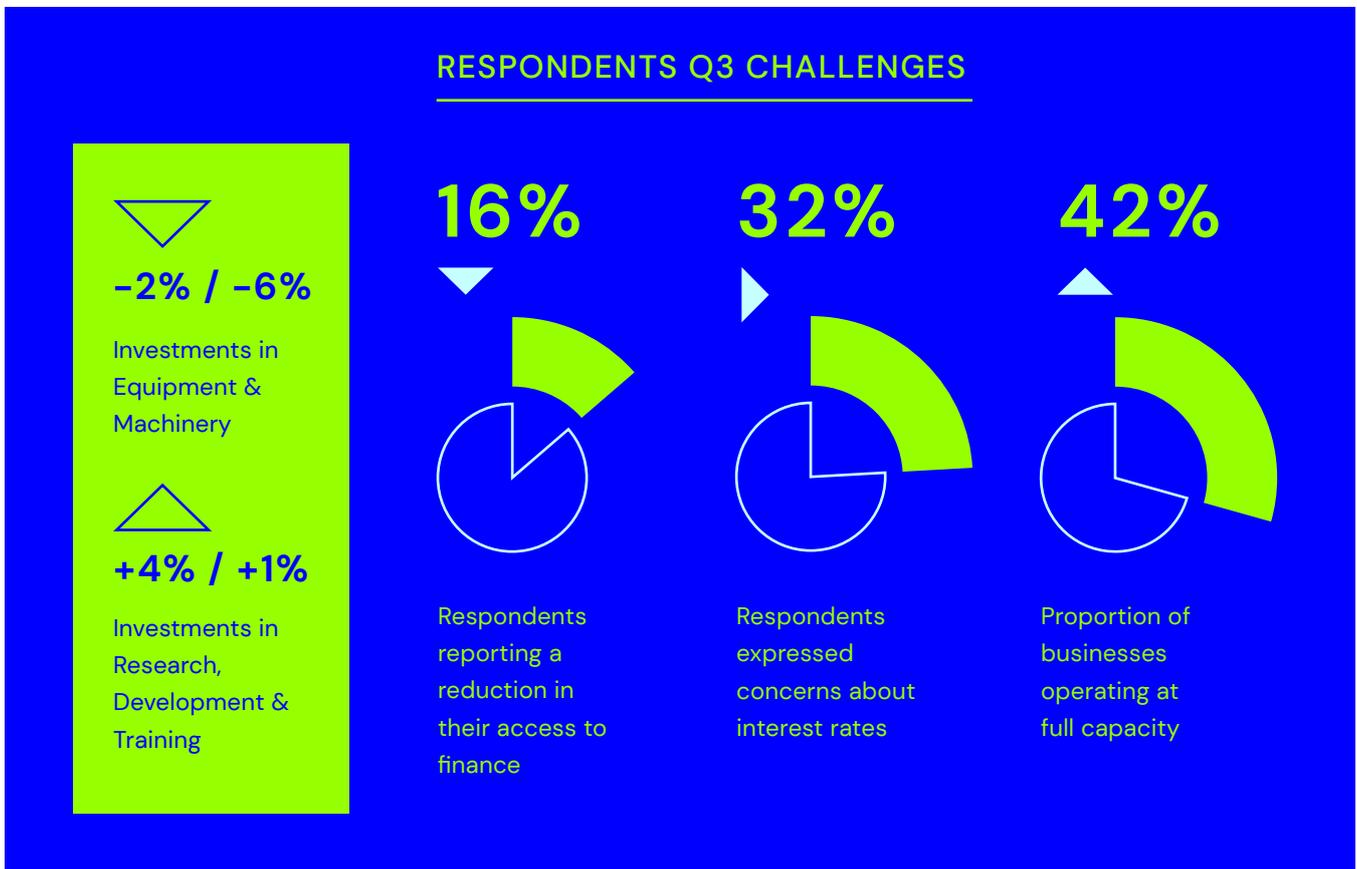
The net balances of business investment yielded contrasting results amongst the different surveyed categories. While investments in equipment & machinery and office space remained in the negative territory at -2% and -6.81% respectively, there was a shift toward positive territory in the net balances for investment in research & development (4%) and staff training (1%). The availability of finance has remained unchanged for 40% of businesses.

The percentage of respondents facing challenges in obtaining funds has declined in Q3, with 16% reporting a reduction in their access to finance compared to 27% with similar issues in the previous quarter.

Almost a third of participants (32%) expressed concerns about interest rates, possibly influenced by the impact of ongoing increases in the Bank Rate determined by the Bank of England’s Monetary Policy Committee. The most recent adjustment in August raised the rate to 5.25%, and this rate level was maintained at the September meeting.

The proportion of businesses operating at full capacity has slightly increased to 42% in Q3, up from 39% in Q2.

Participants (32%) expressed concerns about interest rates





SOURCES OF CONCERN

The QES has been tracking sources of concern within the business community since 2008 as part of a broader assessment of sentiment and confidence. While the overall figures continue to demonstrate a gradual decline across all metrics in Q3 2023, general economic conditions remain the primary area of concern for 66% of respondents, down from 69% in Q2 2023.

General business uncertainty now ranks second at 53%, while inflation follows closely behind, having experienced a decrease of 9 percentage points from 60% in Q2 to 51% in this quarter. The consistent drop in the percentage of businesses worried about inflation in recent quarters may be an indication that inflationary pressures, although still present, are beginning to ease.

The proportion of businesses concerned by taxation remains relatively low, while concerns about interest rates affect 32% of respondents, a similar level to that reported in the previous quarter (30%).

Overall figures continue to demonstrate a gradual decline across all metrics in Q3 2023, general economic conditions remain the primary area of concern for 66% of respondents.

CONFIDENCE: THE NEXT 12 MONTHS

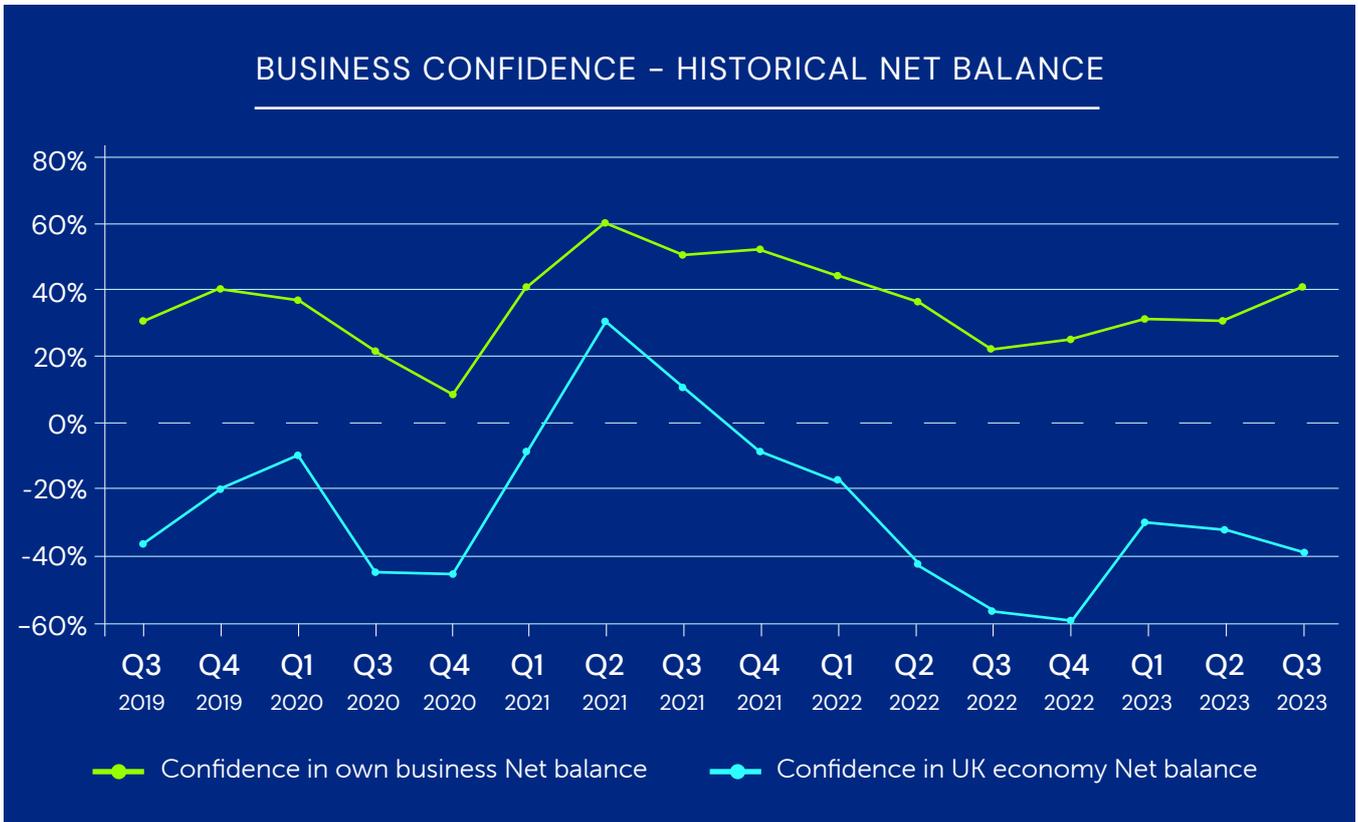
Confidence amongst respondents is consistently higher for their own business than for the broader UK economy, as illustrated in the chart below. In Q3, this disparity became more pronounced compared to the previous quarter, indicating that businesses seem to be adapting to ongoing challenges such as inflation, recruitment and retention, and declining consumer spending.

The majority of respondents (57%) express confidence in the prospects of their businesses for the next 12 months. In contrast, half of the participants hold pessimistic views on the outlook for the national economy over the next year, with only 11% of surveyed businesses reporting confidence in the prospects of the UK economy for the next 12 months.

The contrast between the sentiments of respondents about their own prospects and those of the UK economy reveals that businesses are facing a complex economic landscape, characterised by persistent difficulties and emerging glimmers of optimism. optimism for the future.

“We do need to put things up to redress the last 2 years, but we will run to Christmas in the hope that things recover”.

- Wiltshire based, manufacturing business.



BUSINESS PROFILES

Of the 323 respondents, most are smaller businesses, more than half have an annual turnover under £500,000, and 28% between £1 – 10 million. The vast majority of respondents (76%) are limited companies.

Geographically, 47% the respondents are from the 'West of England' area (24% of these are in the narrower City of Bristol area), another 15% are located in Swindon and Wiltshire, 16% in Gloucestershire, and 22% are from the wider South West region. Our respondents are significantly more likely to be exporters than the general UK business community, making up 47% of the results.

MANUFACTURING SECTOR BUSINESSES COMPRISE THE FOLLOWING CATEGORIES:

Agriculture, Fishing, Mining & Utilities, Construction, Energy, Engineering, and Manufacturing.

SERVICE SECTOR BUSINESSES COMPRISE THE FOLLOWING CATEGORIES:

Consumer Services, Education, Environmental Services, Financial Services, Health & Social Work, Hotels, Accommodation & Catering, IT Services, Legal Services, Marketing & Media, Other Professional & Business Services, Public & Voluntary Services, Real Estate, Recreation & Leisure, Retail & Wholesale, and Transport, Storage & Distribution.

NET BALANCE

Net balance figures in this report and the graphs are calculated by subtracting the percentage of respondents reporting decreases in a factor from the percentage of respondents reporting increases.

Research and reporting conducted by Gustavo Guntren.

All questions and comments about the material are welcome to:

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OUR Q3 FINDINGS

THIS QUARTER: Q3 2023

	SERVICES	MANUFACTURING	OVERALL	Q2 TREND
UK SALES	2%	-11%	-2%	▲
UK ORDERS	-3%	-14%	-6%	▲
EXPORT SALES	-9%	-14%	-11%	▲
EXPORT ORDERS	-13%	-25%	-18%	▲
CURRENT WORKFORCE	5%	-1%	3%	▲
FUTURE WORKFORCE	18%	20%	19%	▲
BUSINESS CONFIDENCE	41%	38%	40%	▲
CONFIDENCE IN ECONOMY	-36%	-37%	-38%	▼



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