



QUARTERLY ECONOMIC SURVEY

Q4 / 2021

EXECUTIVE SUMMARY

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 West of England, and Swindon Initiatives.

Business West runs the Quarterly Economic Survey as an accredited member of the British Chamber of Commerce. 348 businesses completed the survey giving Business West unparalleled insight into the trends and experience of business health for our region – we thank all respondents for their time in completing the survey.





DOMESTIC SALES & ORDERS

38% of respondents have increased their domestic sales during the past 3 months. Net UK sales and orders close the year in positive territory, making 2021 a year of recovery for the domestic market despite of the uncertainty and difficulties linked to Brexit and Covid-19.



INTERNATIONAL SALES

The international market performance returns to positive territory, even if modestly – it is the first time since Q2 2019 that both international sales and orders jump to a positive net result. 34% of exporters have increased their international sales this quarter.



EMPLOYMENT

Over a half (52%) of respondents have tried to recruit staff over the last 3 months – down 8 points from Q3, but still significantly high. Of those, 72% have faced difficulties finding suitable candidates to fill their vacancies.

The already existing mismatch between skills and labour demand has been exacerbated by Brexit and Covid-19, as we have been seeing through the year.



PRICES

Price levels continue to soar, with 41% of respondents having increased their prices over the last 3 months – up 10 points from Q3. Manufacturers remain under greater inflationary pressures; raw material prices, energy costs and pay settlements loom large for employers.

58% of participants expect to increase prices in the next 3 months – building on the inflation experienced throughout 2021.



SUPPLY CHAIN

More than half (55%) of participants have been impacted by the national and global supply chain issues since the start of 2021 – 82% of manufacturers have been impacted.

Businesses have suffered delays or other disruptions particularly when importing supplies or goods, affecting 66% of those that import. Almost 70% of manufacturing businesses are worried about input and stock availability ahead of the Christmas season.



BUSINESS CONFIDENCE

Results on own business confidence maintain the positive outlook started with the vaccine rollout and economic reopening; while confidence in the UK economy prospects declines to net negative digits, mainly due to uncertainty, inflation, Brexit, supply chain constraints and labour shortages.

62% of businesses are confident about their own business prospects compared to 35% of the respondents that are confident of the prospects of the UK economy for the next 12 months.

“Businesses in our region close 2021 in a significantly stronger position than last year, proving, once again, their resilience, talent and excellence during difficult times.

However, while there are clear signs of economic recovery, businesses face a wide range of old and new critical challenges such as inflationary pressures, supply chain delays, trade constraints, labour shortages and skills gaps.

Our economy faces stiff headwinds and government cannot take recovery for granted without further measures to support business growth.”

– Matt Griffith, Director of Policy



CURRENT ISSUES

More than half (55%) of participants have been impacted by national and global supply chain issues since the start of 2021. Manufacturers have been remarkably more exposed to these disruptions – 82% of them have been impacted versus 41% of service businesses.

“We have struggled with steel, cement and wood shortages all year. Inflation makes it hard to quote for work, continually having to increase prices during planning and evaluation processes”

– Stuart Dennis, BK Grain Handling Engineers, Wiltshire

Businesses have suffered delays or other disruptions particularly when importing supplies or goods, affecting 66% of those that import – and 77% when looking at manufacturers. Delays of up to 12 weeks or more for deliveries from Europe and Asia, shortages of raw materials such as steel and wood, exponential price increases of shipping containers, and UK based companies being dropped by EU suppliers, are some of the common disruptions encountered.

“Raw material deliveries are weeks/months late. Container prices have increased from circa £2,300 to over £16,000. All of this equates to my company now being non-competitive for exports orders and UK too.”

– Manufacturing company, Exeter

In addition, 43% of respondents that export have been impacted with disruptions when trying to sell internationally. This figure rises to 62% for manufacturing businesses.

Businesses report encountering the most disruptions when trying to export to the European Union; parcels being held up at destination countries is the main issue, fuelled by a lack of clarity and consistency on the exporting documents required.

“Lead times for delivery of purchase exports to the EU have been affected significantly by customs clearance delays taking several weeks”

– Engineering company, Bath and North East Somerset

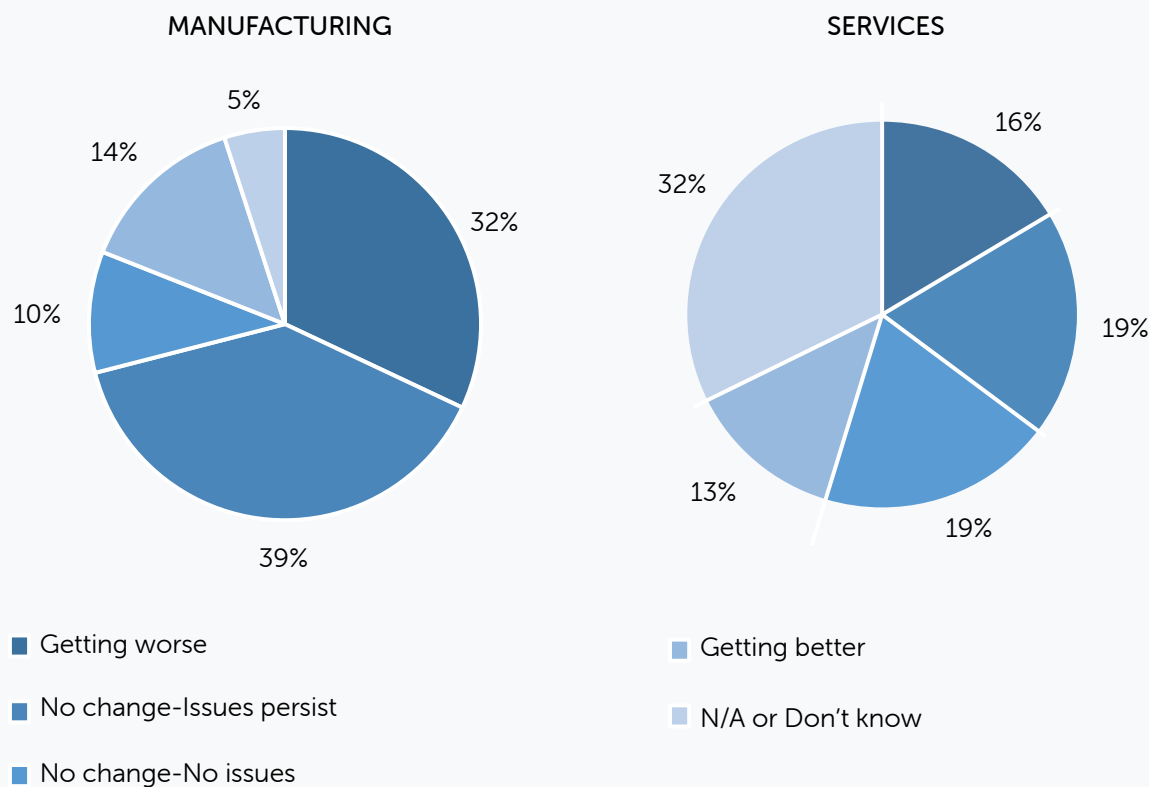
A third of manufacturers confirm that the supply chain disruptions affecting their business activity have deteriorated since the summer, while 39% indicate that the issues persist but have not aggravated. Only 10% have not had any issues, and a further 14% believe that the level of disruptions has improved since the summer.

The service industry presents a better outlook with only 16% indicating that supply chain disruptions have intensified since the summer, and 19% experiencing the same level of supply chain issues since Q2. 20% have not had any issues in this area.

Manufacturing businesses are also more likely to have taken mitigating steps to manage and reduce these risks (87% versus 61% of service respondents). Overall, the most common measures implemented by businesses have been purchasing ahead of need to allow for delays (40%), raising prices to customers (32%) and overstocking (25%). In addition, 23% have increased wages of current staff.

Businesses have suffered disruptions particularly when importing supplies or goods, affecting 66% of those that import – and up to 77% when looking at manufacturers.

HAVE THE SUPPLY CHAIN DISRUPTIONS GOT BETTER OR WORSE SINCE THE SUMMER?



THE RUN UP TO CHRISTMAS

Almost 70% of manufacturing businesses are worried about input and stock availability ahead of the Christmas season, and 43% are concerned about their workforce capacity and availability for that period.

"As the lead times have increased so dramatically for raw materials, we are concerned that we will not be able to complete orders on time."

– Julie Boyles, Linden Leisure, Gloucestershire

In contrast, service businesses are generally confident about their business and supply chain operating normally during that period, however, a third remain worried about disruptions in stock and inputs availability, and the same proportion have concerns about staff capacity or availability.

BUSINESS ENVIRONMENT

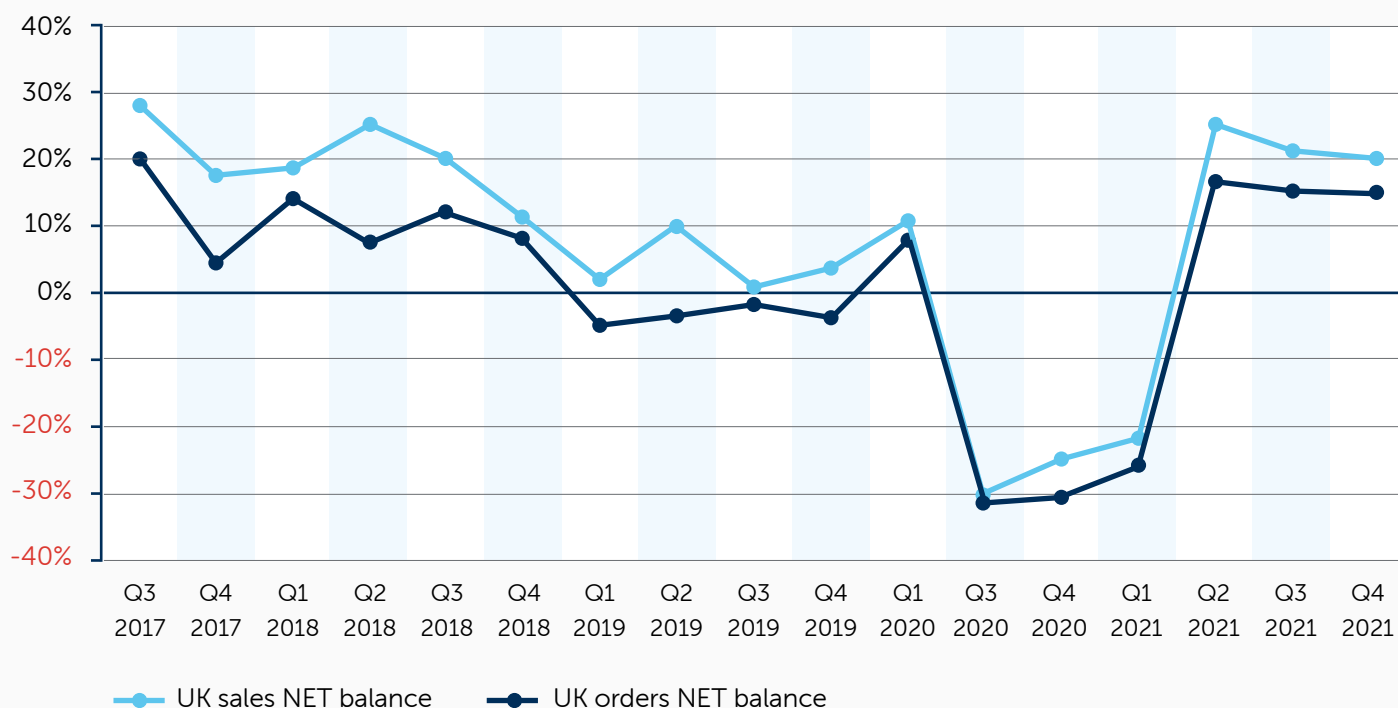


DOMESTIC MARKET

38% of respondents have seen an increase in their domestic sales during the past 3 months, slightly less than in the previous quarter. Nevertheless, net UK sales and orders close the year in positive territory, making 2021 a year of recovery for the domestic market, despite the uncertainty and difficulties linked to Brexit and Covid-19. Manufacturers report a better domestic performance than the service industry this quarter.

The proportion of businesses operating at full capacity has decreased 9 points since last quarter's peak, 51% of businesses are currently operating at full capacity. This is still 4 points higher than in Q2 2021 indicating a stabilisation of the business activity rather than a decline.

DOMESTIC MARKET - HISTORICAL NET BALANCE



Net UK sales and orders close the year in positive territory, making 2021 a year of recovery for the domestic market, despite the uncertainty and difficulties linked to Brexit and Covid-19.

INTERNATIONAL MARKET

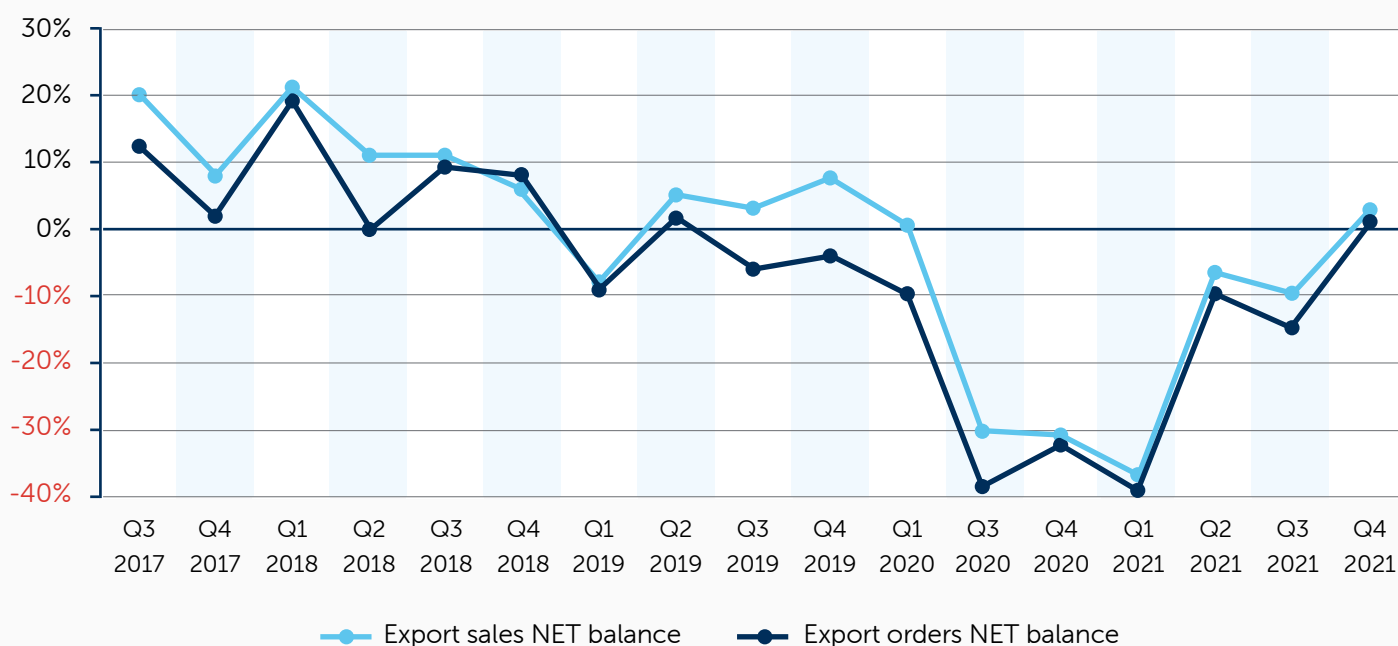


The international market performance returns to positive numbers, albeit modestly – it is the first time since Q2 2019 that both international sales and orders jump to a positive net result.

Of the 51% of respondents who sell internationally, 34% have experienced an increase in international sales in the last 3 months versus the 30% that have seen a decrease.

91% of exporters sell their goods and/or services to Europe, 62% to North America and 42% to Australasia, closely followed by the Middle East (41%).

INTERNATIONAL MARKET - HISTORICAL NET BALANCE



Of the 51% of respondents who sell internationally, 34% have experienced an increase in international sales in the last 3 months. It is the first time since Q2 2019 that international sales and orders report a positive net result.

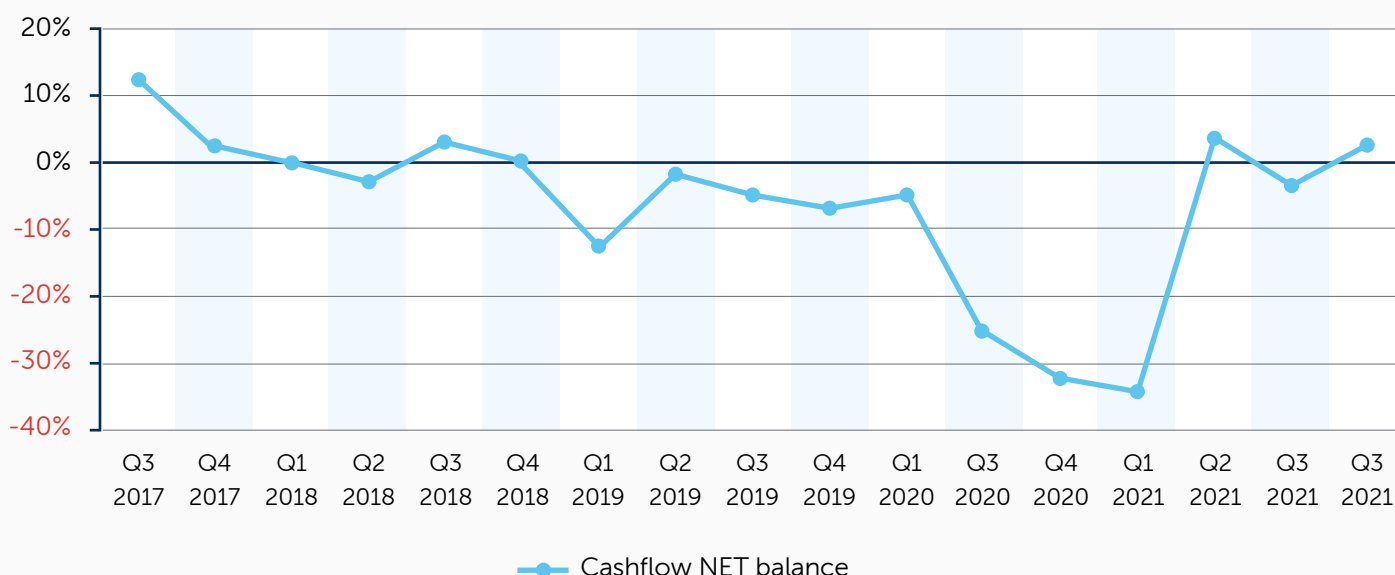
CASHFLOW



Over the last 3 months, cashflow levels have remained constant for 41% of the survey respondents, with another 30% of businesses experiencing an increase.

Overall, net cashflow levels return to moderate but positive figures (2%) – within the best results in the last three years, only second to Q2 2021, which was exceptionally positive reflecting the reopening of the economy. However, when dividing by sectors, manufacturing businesses still report a net negative cashflow balance.

CASHFLOW - HISTORICAL NET BALANCE



59% of businesses predict that their turnover will improve over the next 12 months, similar to the previous quarter, versus 14% that are expecting it to worsen.

In terms of profitability, 40% anticipate that their profitability will improve in the next 12 months, versus 28% that expect it to worsen. These numbers are more modest than Q3, but remain positive.

As in previous quarters, businesses feel more positive in sales terms than they do about profitability – implying an expected margin reduction due to inflationary cost base pressures. 34% of manufacturing businesses expect a decline in profitability, 6 points more than service businesses.

FINANCE AND INVESTMENT



INVESTMENT PLANS ACROSS ALL CATEGORIES

Investment plans across all categories – for office space, equipment and machinery, training, and research and development – have not changed during the past 3 months for the majority of respondents.

The proportion of respondents increasing their investment in all of the categories mentioned was greater than those decreasing, except in investment plans for office and property space, where it was marginally negative.

The availability of finance for businesses has remained constant this last quarter of the year for 41% of participants – 11% report an increase in their finance availability and a further 12% report a decrease in this area.



WORKFORCE & EMPLOYMENT



Over a half (52%) of respondents have tried to recruit staff over the last 3 months – down 8 points from Q3, but still significantly high. Businesses have tried to recruit to fill full-time (72%) and permanent (43%) positions.

More than a quarter of businesses have actually recruited during Q4. However, another 16% have reduced their workforce in the last 3 months.

Similarly to Q3, 72% of those trying to recruit have faced difficulties finding suitable candidates this quarter. The already existing mismatch between skills and labour demand has been exacerbated by Brexit and Covid-19. A trend that looks likely to continue in 2022.

A higher proportion of manufacturers wanting to recruit have suffered difficulties in finding suitable staff (79%) versus service businesses (67%) – as opposed to Q3 this year, when these percentages were practically reversed. Skilled manual or technical (52%), semi or unskilled (42%), and managerial roles (38%) are reported to be the job categories most difficult to fill.

“Workforce shortages have affected the business for a number of months; there are now signs of improvement but will remain challenging this year. Distribution continues to carry issues through driver shortages on occasion.”

– Ben Hutchins, Lye Cross Farm, North Somerset

28% of businesses expect to recruit during the next quarter (Q1 2022) – down 8 points from Q3 2021 expectations – but in line with the end of the Christmas campaign and the cumulative efforts that businesses have been reporting over the last quarters to increase their capacity.

APRIL 2022: INCREASE IN NATIONAL INSURANCE CONTRIBUTION RATES.

The Government announced earlier this year an increase to National Insurance contribution rates from April 2022 affecting employers and employees.

33% of respondents have indicated that this will result in inflationary wage pressures and 10% that will use more self-employed contractors in place of employees. 33% do not think this will have an impact in their workforce make up and costs.



BUSINESS CONFIDENCE



The general economic conditions and inflation worry half of the respondents, being the two main sources of concern this last quarter of 2021, followed by general business uncertainty (42%) and the labour market (34%) – down 10 points from last quarter. The proportion of businesses worried about inflation has increased almost 20 points quarter on quarter.

The trading relationship with the EU and the Covid-19 restrictions continue to worry close to a third of businesses in our region each, a decrease compared to the first quarters of the year but still significant. Consistently with previous quarters, manufacturing businesses are more concerned about the trading relationship with the EU (41%) than about the Covid-19 restrictions (21%), the opposite is true for the services sector (28%; 35%).

PRICES

Price levels continue to soar, with 41% of respondents having increased their prices over the last 3 months – up 10 points from Q3. Manufacturers remain under greater inflationary pressures, with more than a half having increased their prices this last quarter compared to 35% of service businesses.

85% of manufacturers have suffered pressure to raise prices from the mounting costs of raw materials, and 45% from energy costs - the latter also being the main inflationary pressure for service businesses. A third of service respondents experience inflationary pressures from pay settlements.

“Our freight costs have increased more than tenfold, adding 6% to our core costs. Recruitment/wage expectations have risen considerably which is putting pressure on us into 2022.”

– Nick Barnes, Stanilod Group Ltd, Gloucestershire

58% of participants expect to increase prices in the next 3 months – a 9 points increase from last quarter – and building on the inflation that we have seen throughout 2021.

¹This survey was carried out before new Covid-19 restrictions were put in place to mitigate the spread of the Omicron variant.



BUSINESS CONFIDENCE

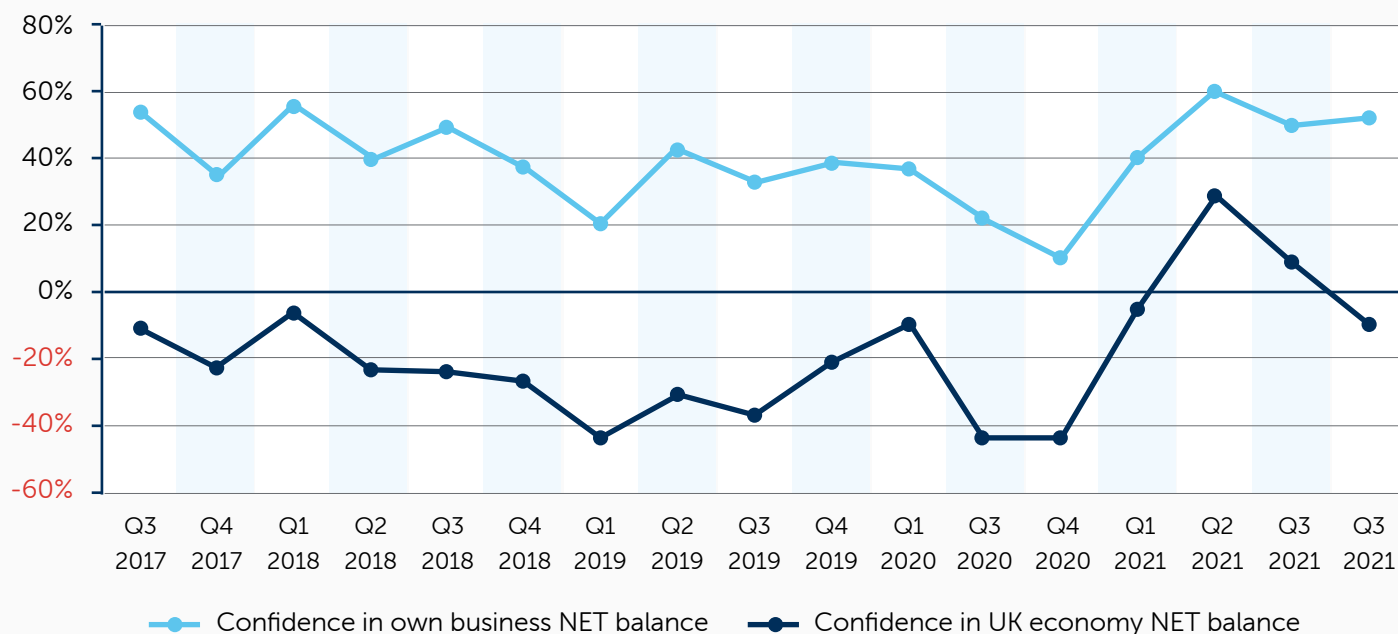
CONFIDENCE FOR THE NEXT 12 MONTHS

When asked about the prospects for their own business performance for the next 12 months, the majority of businesses (62%) are confident or very confident, compared to the 12% that are negative or very negative about them. In line with this quarter's results, service businesses are more positive than manufacturers.

Regarding the country's economy, 35% of the respondents are confident or very confident of the prospects of the UK economy for the next 12 months versus 38% that have negative or very negative feelings about it.

Lastly, confidence results decouple, with numbers on own business confidence maintaining the positive outlook started with the vaccine rollout and economic reopening; while confidence in the UK economy prospects declines to net negative digits, mainly due to uncertainty, inflationary pressures, Brexit, supply chain constraints and labour shortages.

BUSINESS CONFIDENCE - HISTORICAL NET BALANCE



Confidence in own business results maintain a positive outlook, while confidence in the UK economy prospects for the next 12 months declines to net negative digits.



METHODOLOGY

348 businesses completed the survey between the 10th November and the 1st December 2021, one day after the new Covid-19 restrictions to mitigate the spread of the Omicron variant came into force. Consequently, the results and analysis on business confidence do not reflect the impact of these factors on the business activity.

Most respondents are small businesses with almost a half reporting annual turnover under £500,000, and 32% with a turnover between £1 – 10 million. The majority of respondents (81%) are limited companies and 51% are exporters. Geographically, 48% are from the “West of England” area (23% are in the narrower City of Bristol area) another 18% are located in Swindon and Wiltshire, 12% 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.

Manufacturing sector businesses comprise the following categories: Agriculture, Fishing, Mining & Utilities; Construction; Manufacturing; and Engineering.

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; Real Estate; Recreation & Leisure; Retail & Wholesale; and Transport, Storage & Distribution.

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

During the peak of the economic fallout from Covid-19 last year we did not run the QES in the standard form, hence the historical net balance time series misses out the Q2 2020 data-point.









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RESULTS AT A GLANCE



OUR FINDINGS

THIS QUARTER: Q4 2021

		SERVICES	MANUFACTURING	OVERALL	QUARTERLY TREND
	UK SALES	17%	27%	21%	=
	UK ORDERS	12%	22%	15%	↓
	EXPORT SALES	-2%	11%	4%	↑
	EXPORT ORDERS	6%	-3%	1%	↑
	CURRENT WORKFORCE	11%	9%	10%	↑
	FUTURE WORKFORCE	25%	18%	23%	↓
	BUSINESS CONFIDENCE	54%	42%	50%	↑
	CONFIDENCE IN UK ECONOMY	-10%	-3%	-8%	↓



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