



QUARTERLY ECONOMIC SURVEY

Q4 / 2022

THIS QUARTER...



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 and Wiltshire Initiatives. Business West run the Quarterly Economic Survey (QES) as an accredited member of the British Chambers of Commerce.

357 businesses completed the survey between 7 and 28 November 2022, 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. On 17 November, halfway through the fieldwork period, the new Chancellor unveiled his Autumn Budget containing key tax and public spending policies for the next 5 years.

The impacts of these measures haven't been separately identified but an insight blog on this can be found [here](#)



EXECUTIVE SUMMARY



SALES

Overall, net UK sales and orders have both fallen further into negative territory in Q4, exacerbating the recessionary trend which started in Q3. The proportion reporting a decrease in domestic sales is now above 30%, compared to 17% this time last year.



INTERNATIONAL SALES

For only the third time in three years export sales are in net positive territory albeit by the slimmest of margins (+1%, from -1% in Q3). International orders fall further into negative balance at -5%. Exporters were much more concerned with exchange rates than those who don't sell overseas with 44% citing it as a source of worry.



RECRUITMENT & LABOUR COSTS

The difficult labour market we have seen since the start of the year shows no sign of easing. Just under half of respondents have tried to recruit new staff during Q4, with most reporting difficulties finding suitable staff. 62% of respondents were under pressure to increase prices because of labour costs.

"It's a challenging time for all business, and our government and economics not helping when frankly we should all be relieved and happy to be the other side of a global pandemic."

- Gloucestershire based wholesalers

"2022 has been a very tough year for local businesses, with global inflation and economic headwinds compounded by a confidence sapping period of political uncertainty in the UK. The consequences of both are still being felt, both on business balance sheets and economic sentiment. We hope that 2023 holds more cheer, and it is a testament to business resilience that most still feel confident in their own business prospects. With luck the new year will bring a let up of pressures and we can report signs of green shoots in future surveys."

- Matt Griffith, Director of Policy,
Business West



UNCERTAINTY

The variable impacts of exchange rate volatility, interest rate rises and the dampening effect of sustained high energy and key commodity prices all make business budgeting and protecting margins and cashflow harder. 55% of respondents report political and economic uncertainty having had a material impact on their business. The top concerns for business during the quarter were general economic conditions (77%), inflation (67%) and general business uncertainty (63%).



BUSINESS CONFIDENCE

From a historical low of 9% last quarter, there has been a further decline in confidence in the UK economy, with now only 6% of respondents feeling confident in the nation's economic prospects for the coming year. The proportion expressing confidence about their own business prospects remains unchanged at 46%. The gap between confidence in their own business and that of the UK economy is the highest ever recorded.

CURRENT ISSUES



VOLATILITY IN BUSINESS COSTS

The second half of 2022 has been characterised with higher than normal economic and political uncertainty and instability. This has had far-reaching implications for businesses across almost all industries.

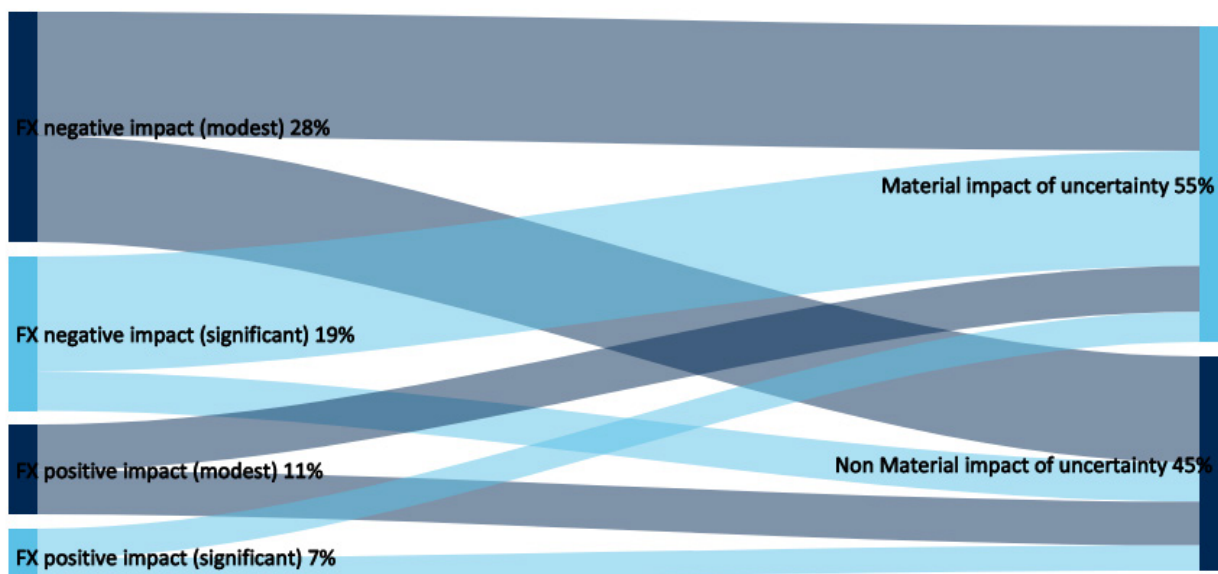
This uncertainty corrodes confidence and increases costs and risk for firms, especially for those trading internationally. Nearly half of respondents (47%) reported a negative impact of exchange rate volatility, in most cases by increasing the cost of imported goods.

A (smaller) proportion of businesses are positively impacted by foreign exchange movements – 18% of the full respondent group reported modest or significant positive impacts.

This was noticeably higher (30%) amongst businesses who export to overseas markets as a weaker sterling makes their products and services more price competitive to buyers paying in US dollars, Euros or other currencies. As the chart below illustrates, volatility in exchange rates is positively correlated with political and economic instability having a material impact on business prospects. As such businesses find it harder to plan their future decisions and UK investment attracts a new risk premium.

The proportion of respondents concerned about exchange rates has remained at 26%, unchanged from Q3. Again exporters report a dramatically higher rate of concern about exchange rates, nearly half (44%) reflecting their exposure to international trading headwinds.

Respondents negatively impacted by foreign exchange volatility more likely to also report material impact of uncertainty on their business



Left axis: Respondents were asked whether recent volatility and weakening in the relative value of the £ has impacted their business
 Right axis: Respondents were asked whether uncertainty in UK politics and economics in last 3 months had a material impact on their business



PRICES AND INFLATION

Businesses across the board are grappling with an energy price crisis which in many cases threatens their profitability and prosperity and remains the leading source of inflation, especially when compared to Q4 2021. The Government's Energy Bills Relief Scheme caps the unit prices non-domestic gas and electricity customers can be charged for the 6 months through to 1 April 2023.

Whilst prevailing market gas prices have come down from their peak in late summer the situation is expected to remain volatile for business customers beyond the end of the scheme. Businesses are still under inflationary pressure during the winter even with Government intervention, given the cap is over 100% higher than businesses were paying 12 months ago.

Price levels continue to rise strongly, with 53% of respondents having increased their prices in the last 3 months and another 53% expecting to put their prices up in the next 3 months (this breaks down as 66% of manufacturers versus 47% of service based businesses).

Whilst the proportions worried about inflation have dropped slightly (to 67% from 73% in Q3) they are still the second highest ever recorded. Our results support the conclusion that inflation has become embedded within the economy, with the producer price indices at record highs.

Manufacturing businesses are even more worried about inflation, growing to 76% of those businesses citing it as a concern. Services based businesses are less worried, but still 64% report it as a concern.

"Prices of steel and of building materials show no sign of coming back down. Suppliers are now adding cost of fuel and energy to take up any saving from raw material reductions."

- Stuart Dennis, BK Grain Handling Engineers, Wiltshire.



BUSINESS ENVIRONMENT

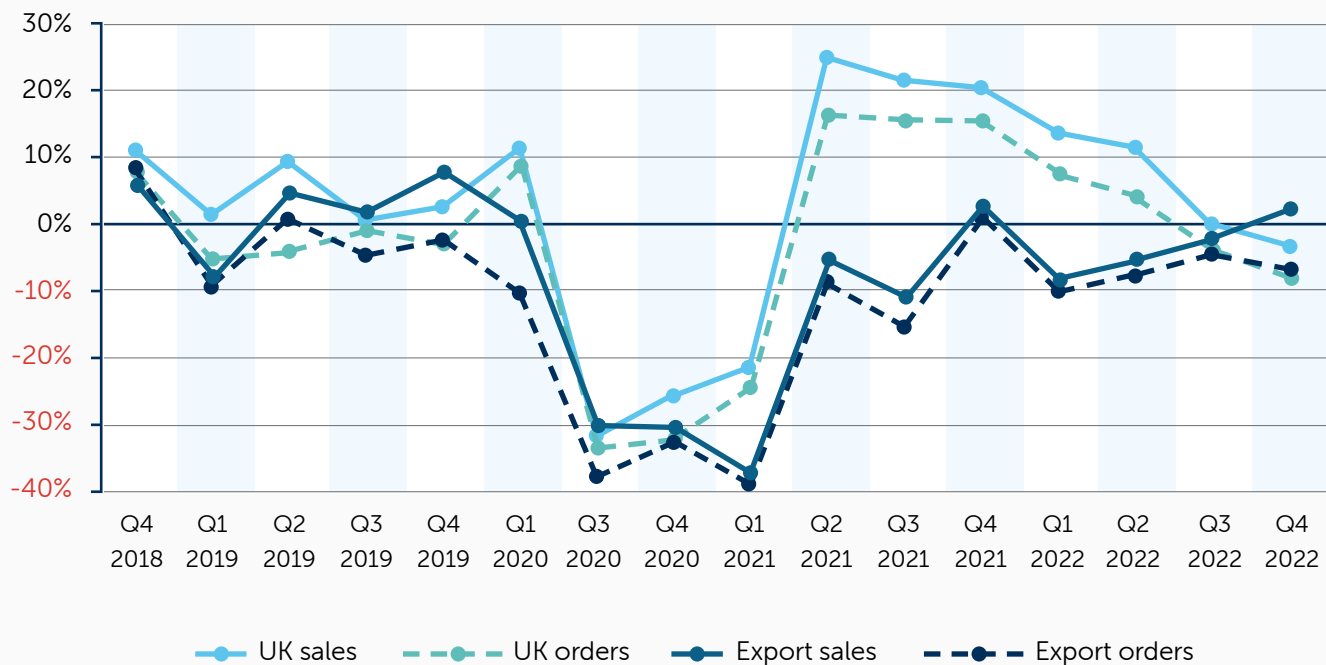
DOMESTIC MARKET



The downturn in economic activity continues in the current quarter with net UK sales and net UK orders remaining in negative territory. Less than a third of respondents (27%) have experienced an increase in their domestic sales during the past 3 months. UK sales and orders remain flat at 38% and 30%, respectively, for the largest proportion of respondents.

Although both manufacturers and service businesses report negative UK sales balances, the former's performance fared slightly better at -1 percentage points compared to -4 for the latter.

DOMESTIC & INTERNATIONAL MARKET - HISTORICAL NET BALANCE



Less than a third of respondents (27%) have experienced an increase in their domestic sales during the past 3 months

INTERNATIONAL MARKET



The performance of the participants who trade internationally improved in terms of net sales in Q4, reaching positive figures (1%) for the first time since Q4 2021. However, the net balance for export orders has dipped further into negative territory to -4 from -3 percentage points in Q3.

For exporters, Europe remains the top overseas market with 90% of businesses selling their goods and services on the continent.

North America and Australasia continue to be the second and third most mentioned markets with 60% and 43% of firms engaged in international trade reporting sales to those regions. The pattern has been extremely stable in recent quarters.



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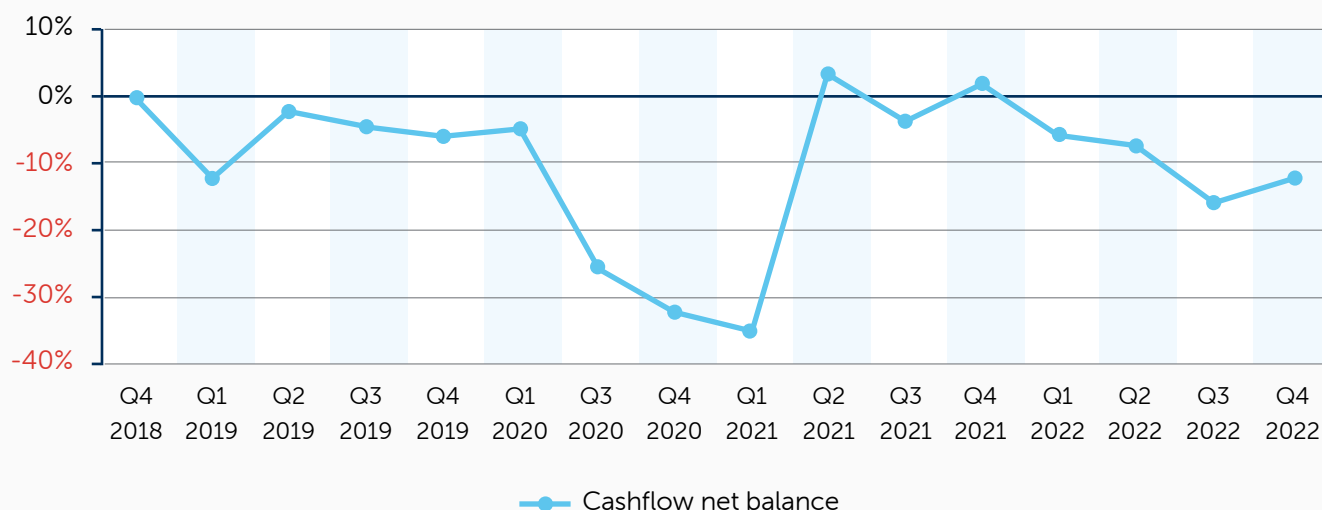
CASHFLOW



With businesses facing substantial uncertainty, the importance of business cashflow has never been greater. The net balance for Q4 has improved on Q3, but remains in deeply negative territory, as it has been for the whole of 2022, at -12 percentage points. The proportion of businesses reporting cashflow was increasing has actually fallen compared to Q3, to just 23%.

Many businesses in our region lack the financial resilience to cope with the downturn in economic activity as we move into a recession.

CASHFLOW - HISTORICAL NET BALANCE



PROFITABILITY



As in previous quarters, a majority of businesses still expect sales growth in the coming year. But with stable or declining profit margins which further shows the impact of inflation on the region's business community. The trend continues to get weaker than earlier quarters, which is a theme of the whole year's results.

In Q4, 40% of respondents predict future turnover to improve compared to 25% who expect improving profitability.

FINANCE AND INVESTMENT



The net balance of all the metrics of business investment surveyed (staff training, office space, equipment and machinery, and research and development) remains negative in Q4 - with more businesses reporting decreases than increases. The availability of finance has remained the same for the 64% of businesses requiring it.

However, almost a quarter (24%) of respondents reported a deterioration in their capacity to obtain funds compared to 12% finding finance easier to access. The proportion of businesses worried about interest rates went up by 1 percentage point from 28% in Q3 to 29% in Q4.

Although this figure remains double the amount of what it was in Q2, this slight increase might indicate that a significant number of businesses are starting to adjust to the tighter financial conditions driven by another consecutive rise in the Bank of England's base rate (set at 3% on November 2022). A significant proportion of QES responders report that their businesses are currently debt free and they have an aim to ensure this continues.

Therefore our results understate the impact of finance cost increases for those businesses requiring new lending (perhaps to invest or expand) or who need to restructure loans at the end of their existing terms. The proportion of businesses operating at full capacity has dropped to 40% in Q4, the lowest level since Q1 2022.

WORKFORCE AND EMPLOYMENT



Workforce related challenges remain a recurring issue within this quarter's results. Almost a third of respondents (30%) have concerns about the labour market. Labour costs continue to be one of the main sources of pressure for businesses to increase their prices, as reported by 70% of manufacturers and 58% of service sector participants.

Increases to the national minimum and living wage rates due in April 2023 combined with a freezing of employers National Insurance thresholds will ensure this remains a feature well into next year. Almost half (48%) of respondents have tried to recruit staff over the last 3 months, with most roles being full time (76%). As seen in previous quarters, the ongoing tightness in the UK's labour market continues to negatively affect businesses in search of new talent.

An overwhelming majority (79%) of those trying to recruit have faced difficulties in finding suitable candidates this quarter. These recruitment difficulties were across all categories of employee but especially noticeable in the cases of skilled technical workers and professional and managerial grade roles.

Workforce expansion remains low in Q4 with only 18% of respondents confirming increases in their personnel, and just a fifth (20%) of businesses expecting to recruit during the next three months.

BUSINESS CONFIDENCE

SOURCES OF CONCERN



The QES has tracked sources of concern amongst the business community since 2008 as part of the wider view of sentiment and confidence. General economic conditions has remained the top area of concern at an eye watering 77% (marginally down from the high of 79% recorded in Q3). This followed by inflation at 67% (also marginally down compared to the record breaking 73%) and general business uncertainty flat at 63%.

The proportion of businesses concerned by taxation has jumped up to 38% from 22% in Q3 reflecting the cancellation of promised tax cuts and fiscal consolidation measures within the Chancellor's Autumn Statement (which took place mid-way through the fieldwork period) where the tax burden relative to the economy's overall size has reached a historic high.



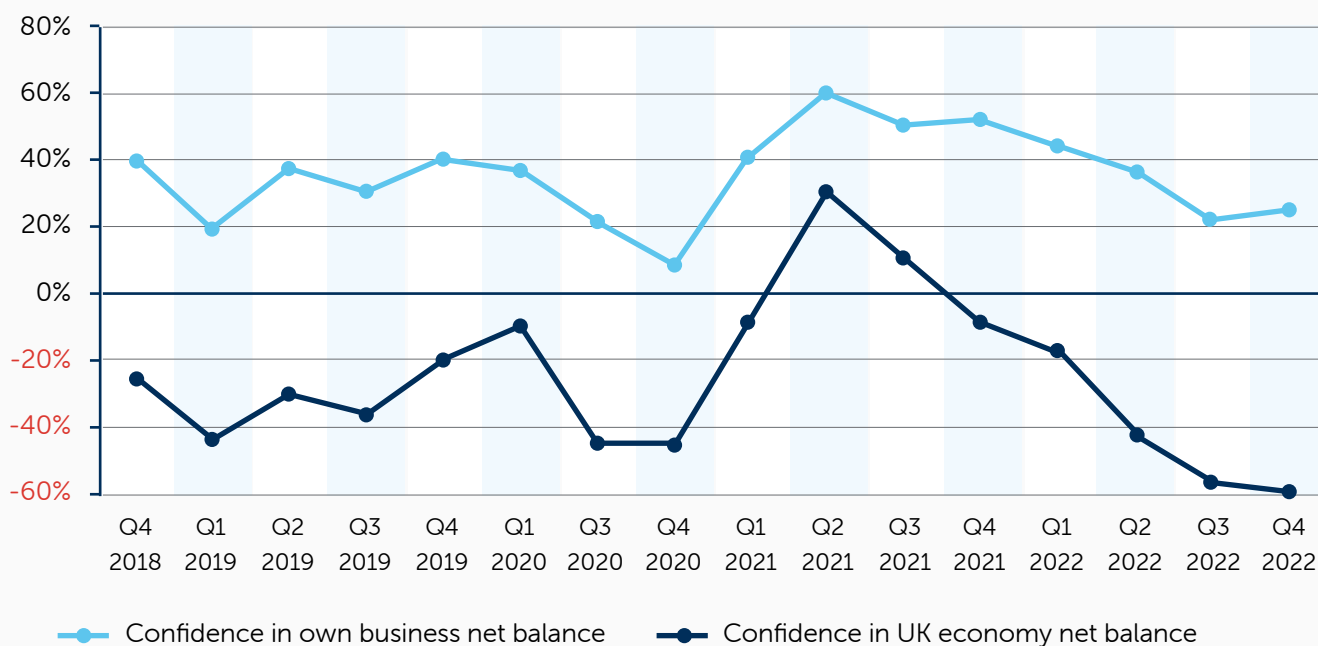
CONFIDENCE FOR THE NEXT 12 MONTHS



Confidence amongst respondents is always higher for their own business than for the wider UK economy, as seen in the chart below. Confidence in their own business prospects marginally improved this quarter compared to last, but faith in the wider economy plumbs ever lower depths.

The proportion of respondents feeling confident about the UK's economic performance for 2023 is now a very poor 6%, only a fifth of what it was just a year ago.

BUSINESS CONFIDENCE - HISTORICAL NET BALANCE



Confidence in their own business prospects marginally improved this quarter compared to last, but that in the wider economy plumbs ever lower depths.

METHODOLOGY



BUSINESS PROFILES

Of the 357 respondents, most are smaller businesses, almost half have an annual turnover under £500,000, and 32% between £1 – 10 million. The vast majority of respondents (83%) are limited companies. Geographically, 45% the respondents are from the 'West of England' area (20% of these are in the narrower City of Bristol area), another 15% are located in Swindon and Wiltshire, 14% in Gloucestershire, and 26% are from the wider South West region. Our respondents are significantly more likely to be exporters than the general UK business community, making up 50% 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.



RESULTS AT A GLANCE

OUR FINDINGS



THIS QUARTER: Q2 2022

| | Services | Manufacturing | Overall | Quarterly trend |
|--------------------------|----------|---------------|---------|-----------------|
| UK Sales | -5% | -1% | -3% | ↓ |
| UK Orders | -9% | -8% | -8% | ↓ |
| Export Sales | -2% | 6% | 1% | ↑ |
| Export Orders | -8% | 0% | -5% | ↓ |
| Current Workforce | 2% | 4% | 3% | ↑ |
| Future Workforce | 10% | 10% | 10% | ↑ |
| Business Confidence | 24% | 23% | 24% | ↑ |
| Confidence in UK Economy | -57% | -64% | -59% | ↓ |



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