



QUARTERLY ECONOMIC SURVEY

Q1 / 2023



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.

319 businesses completed the survey between 13 February and 6 March 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.



EXECUTIVE SUMMARY



RECRUITMENT & LABOUR COSTS

The difficult labour market we have seen since 2022 remains a dominant feature this quarter. Just under half of respondents have tried to recruit new staff during Q1, with over 80% reporting difficulties finding suitable candidates. 68% of respondents reported labour cost based inflation applying upward pressure to their prices.



BUSINESS CONFIDENCE

Confidence in both the UK economy over the next year, and the prospects of their own business are both higher than last quarter. Confidence in the national economy has increased dramatically to 20%, from its all-time low of just 6% in Q4 2022. The proportion expressing confidence about their own business prospects is also up to 52% (from 46% previously). The margin between their own business confidence and that of the broader economy has narrowed from its previous high.



SALES

Overall, net UK sales and orders remain in negative territory this quarter but UK sales only marginally so, and both are much less negative than they were 3 months ago. The proportion reporting a decrease in domestic sales is now 30%, compared to 22% this time last year.



INTERNATIONAL SALES

Export sales return to contraction this quarter, falling to -8 percentage points, and this is the first time since late 2018 that export sales are below export orders which are also negative but marginally improved since Q4 2022. Exporters were much more concerned with exchange rates than those who do not sell overseas with 31% of them citing it as a source of worry, compared to 18% of respondents overall.

"We are continually investing in our service offering and adding new customers. We have recently opened in France and are looking to expand in that market as well as growing our operations in other overseas markets."

– Wiltshire based management consultancy company.



SOURCES OF CONCERN

The top concerns for business during the quarter were general economic conditions (75%), inflation (59%) and general business uncertainty (54%). These are the same top factors as 2022 but the levels of reported concern are down across the board.

CURRENT ISSUES



RESILIENCE AND CAPACITY

After a time of significant and unpredictable changes for businesses, this quarter we asked about how resilient firms were feeling and whether they felt their plans for 2023 were up to the challenges they are facing. We specifically asked what innovations or adaptations they were considering to their business operations to improve their prospects. Our results give a mixed picture of optimism even with the prevailing sources of concern.

Thankfully 60% of respondents rate their current business resilience as good or excellent, and only 2% self-evaluating this as very poor. We asked respondents whether they were planning to adapt their products or services to reflect anticipated challenges in 2023, we summarise the results below.

"We are creating our own immersive educational resources, [and] plan to offer the immersive experience as part of an event day - which will be a new route to market for us. We have invested in tech to 360 degree film, edit and produce immersive resources to be viewed in a Virtual Reality (VR) headset or within a dome."

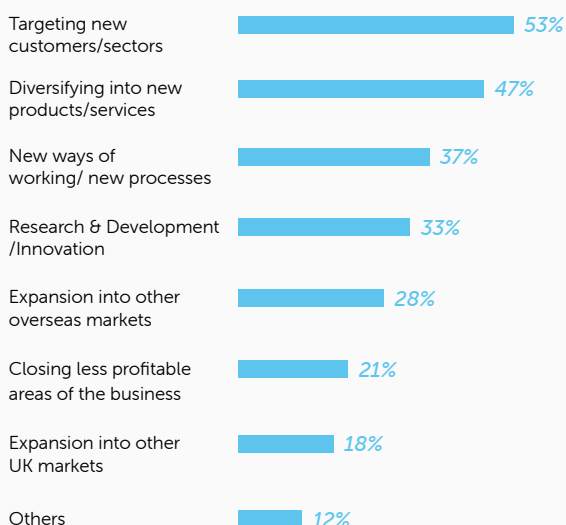
- Bournemouth based IT consultancy

"[Our plan is to] create a new product partly owned by third party (for sales motivation) using our technology inside. Reaching new popular genres with existing product. Continue the big swing towards investment in cloud services, and scale that into more cloud products."

- Wiltshire based visual software company

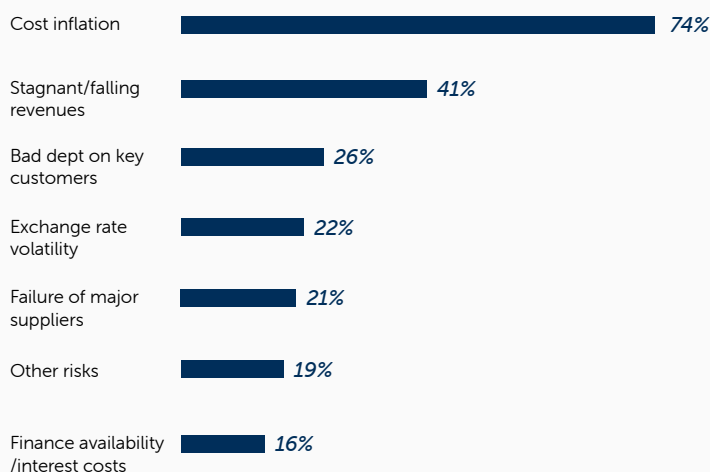
BUSINESS ADAPTATION STRATEGIES FOR 2023*

Respondents could select all that apply



MAJOR RISKS FOR BUSINESSES 2023*

Respondents could select all that apply





WORKFORCE AND EMPLOYMENT

Workforce related challenges remain a recurring issue within this quarter's results. Over a quarter of respondents (28%) 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 75% of manufacturers and 65% of service sector businesses.

"We have recently moved to a four-day week (8am - 6pm Mon-Thur), this has had a positive effect on a) increased productivity b) Staff motivation/wellbeing."

- Gloucestershire based website design company.

There are upcoming changes to national minimum and living wage rates and the freezing of National Insurance and Income Tax thresholds from April, so an increasing proportion of workers are suffering larger payroll tax deductions from their take home pay.

The extremely tight labour market continues to be a major headache, especially for businesses with higher staffing numbers. Almost half (49%) of respondents have tried to recruit staff over the last 3 months, with most of those roles being full time (81%).

An overwhelming majority (81%) of businesses who are 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 Q1 with only 19% of respondents reporting increases in their personnel compared to 3 months ago, but many predicted growth in the future with 31% of businesses expecting to recruit during the next three months.

"We are investing in automation and AI to reduce our need for human labour and to streamline our operations."

- Swindon based legal services firm.





PRICES AND INFLATION

Last year, businesses experienced a significant rise in their costs, which was a big problem for them. Although things have improved a little since then, prices are still going up (though the rate of increases has slowed down). This is especially true for things like energy, where the government provided support to businesses by capping the price they were charged per unit for the 6 months of winter through to end of March 2023. However, this support has now been cut very substantially, leaving businesses (especially small firms that don't have much bargaining power) very exposed to paying high costs.

Businesses are still under inflationary pressure during the winter even with Government intervention, given the broad base cost increases, as shown by the Producer Price Inflation (PPI).

Price levels continue to rise strongly, 54% of respondents have increased their prices in the last 3 months and another 45% are expecting to put their prices up in the next 3 months (this has fallen from 53% in Q4 2022, indicating inflation may have peaked).

"With rising costs and labour shortages we are looking at smarter [and] more efficient areas to operate. Ways to onboard new recruits easier with day - to - day operations and trading platform, making jobs easier to navigate to deliver better outcomes. Looking at new routes to market, social media platforms and bespoke advertising programmes."

- Bristol based building firm



BUSINESS ENVIRONMENT

DOMESTIC MARKET

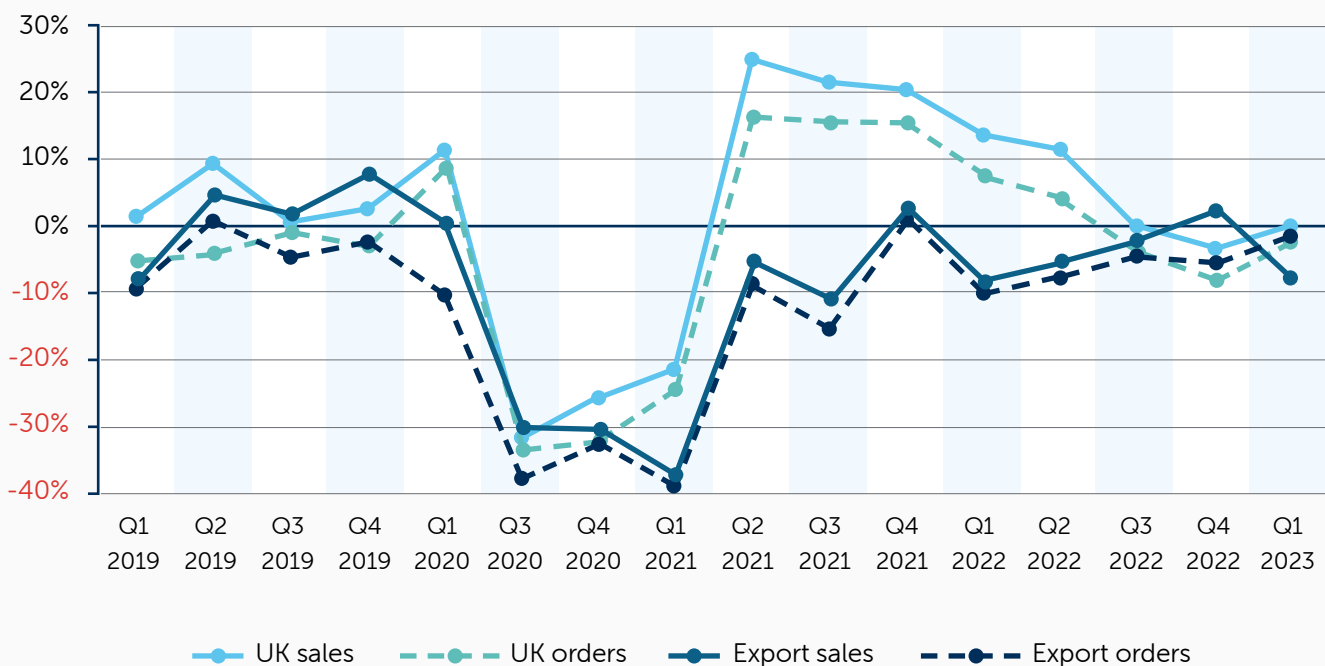


Net UK sales and net UK orders continue to be negative, but much closer to 'break even' than they were in Q4 2022, especially net UK sales. The proportions reporting increasing sales and orders are both up, and the conversely, the number of businesses reporting sales and orders are decreasing has gone down.

Manufacturers and service businesses report opposite results in relation to UK sales net balances, manufacturers in positive territory at +3 percentage points compared to -2 for services-based respondents.

Businesses from a multitude of different sectors have told us how they were attempting to offset a difficult trading environment by increasingly focussing on particular types of customers, simplifying their range of products and increasing their marketing activity for UK customers.

DOMESTIC & INTERNATIONAL MARKET - HISTORICAL NET BALANCE



INTERNATIONAL MARKET



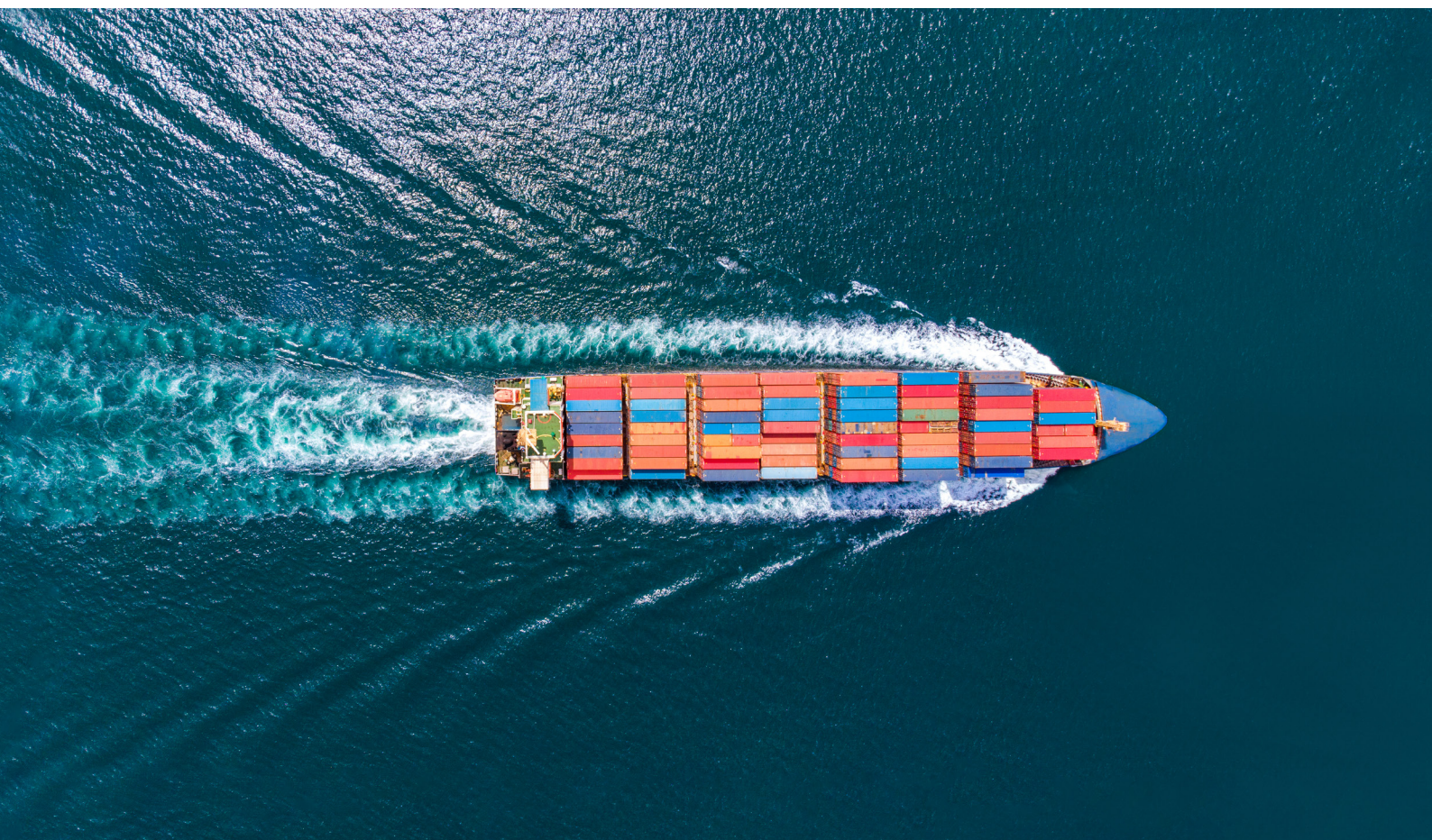
The performance of the participants who trade internationally improved in terms of net orders in Q1 compared to Q4 2022, but still remains negative. Export sales have collapsed into negative territory once again during Q1 at -8 percentage points. It's the first time export sales are lower than export orders since Q4 2018.

For exporters, Europe remains the overseas market mentioned most frequently 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 61% and 36% of firms engaged in international trade reporting sales to those regions. This pattern has been extremely stable in recent quarters.

This quarter we asked whether businesses had experienced difficulties with importing or exporting goods. Reassuringly, the majority (70%) reported that they had a straightforward experience, with the remainder reporting problems with imports (only) at 12%, exports (only) 7%, and both imports and exports at 11%.

Businesses are reporting a growing interest in exploring overseas markets and expanding through partnerships, mergers or acquisitions with competitors. Additionally, some companies are opting for reshoring activities to address the supply chain challenges that have adversely impacted UK businesses in recent times.



CASHFLOW



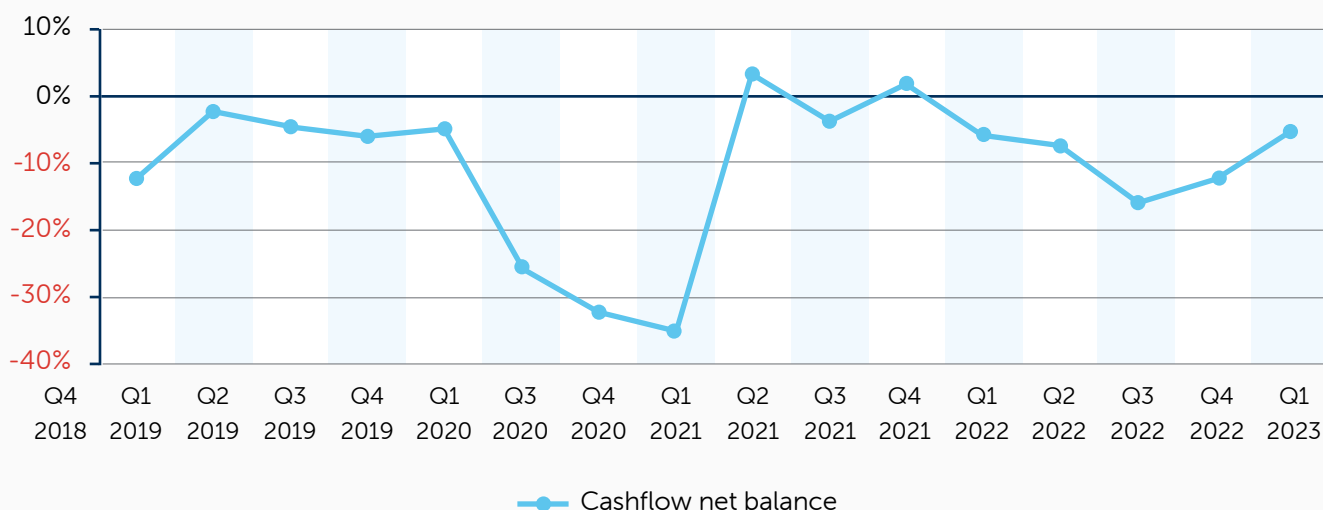
Movements in business cashflow indicate the health of firms in the region and provide vital resilience during times of uncertainty. The cashflow net balance for Q1 remains in negative territory but to a much-reduced extent compared to Q4 2022, at -7 percentage points.

Respondents are more actively managing cashflow and debtors, for example:

"[We are looking to] tighten credit control and reduce credit terms to lower outstanding debts and improve cashflow"

- North Somerset based engineering firm.

CASHFLOW - HISTORICAL NET BALANCE



PROFITABILITY



As in previous quarters, a majority (51%) 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 weaken when compared to previous quarters, which is a theme of the whole year's results.

This quarter 51% of respondents predicted their future turnover would improve, this is compared to 36% who expect improving profitability.

FINANCE AND INVESTMENT



Of the net balance of business investment metrics, only research & development ('R&D') was positive this quarter. The others (staff training, equipment and machinery, and especially office space) were negative, implying a contraction within our region. The availability of finance has remained the same for the 67% of businesses requiring it.

However, nearly a fifth (18%) of respondents reported a reduction in their capacity to obtain funds compared to 15% finding finance easier to access. Reported concern about interest rates has fallen since last year, down to 23% this quarter from 29% in Q4 2022.

Nearly a quarter of QES respondents report that their businesses are currently debt free, thus insulating themselves from the impact of Bank of England set base rate increases, the most recent being in early February to 4%.

The proportion of businesses operating at full capacity has rebounded a bit to 43% in Q1.



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BUSINESS CONFIDENCE

SOURCES OF CONCERN



The QES has tracked sources of concern amongst the business community since 2008 as part of a wider view of sentiment and confidence. General economic conditions remain the top area of concern at an alarming 75% (though this is down from the high of 79% recorded in Q3 2022). This followed by inflation at 59% (also down compared to 67% last quarter) and general business uncertainty flat at 54%.

The proportion of businesses concerned by taxation has fallen back to levels most recently seen a year ago despite the tax burden relative to the economy's overall size having reached a historic high.



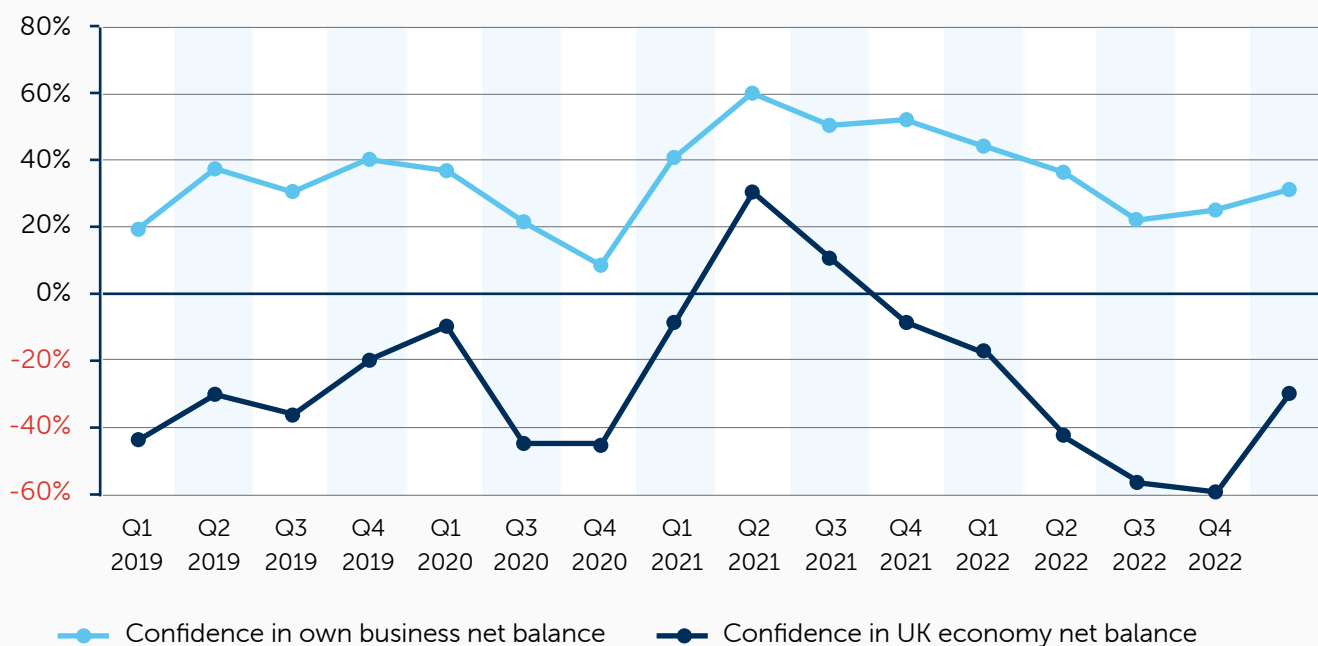
CONFIDENCE FOR THE NEXT 12 MONTHS



Confidence amongst respondents is always higher for their own business than for the wider UK economy, as shown in the chart below. Both measures are up compared to last quarter, dramatically so in relation to the UK economy – this is now only half as negative as it was just 3 months ago.

Year on year both measures are around 15 percentage points lower than in Q1 2022 though. We are relieved to report a less downbeat picture of business sentiment after several quarters in a row of the opposite.

BUSINESS CONFIDENCE - HISTORICAL NET BALANCE



Research and reporting conducted by Claire Ralph & Gustavo Guntren.

All questions and comments about the material are welcome to: policy@businesswest.co.uk

METHODOLOGY



BUSINESS PROFILES

Of the 319 respondents, most are smaller businesses, almost half have an annual turnover under £500,000, and 33% between £1 – 10 million. The vast majority of respondents (79%) are limited companies. Geographically, 45% the respondents are from the 'West of England' area (23% of these are in the narrower City of Bristol area), another 16% are located in Swindon and Wiltshire, 12% 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 53% 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: Q1 2023

	Services	Manufacturing	Overall	Quarterly trend
UK Sales	-2%	3%	0%	↑
UK Orders	-5%	2%	-3%	↑
Export Sales	-10%	-3%	-7%	↓
Export Orders	-7%	5%	-2%	↑
Current Workforce	4%	3%	3%	=
Future Workforce	17%	36%	4%	↓
Business Confidence	26%	45%	32%	↑
Confidence in UK Economy	-37%	-17%	-30%	↑



01275 373 373 | info@businesswest.co.uk
www.businesswest.co.uk

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