

Business West



QES REPORT
Q2. 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.

290 businesses completed the survey between 15 May and 7 June 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

WORKFORCE AND SKILLS

Labour costs remain the strongest factor forcing businesses to consider increasing their prices. Keeping up with staff expectations of pay and benefit increases (cited by 62%), workforce retention (37%), and staff morale & wellbeing (at 36%) were the main areas of concern for the regions' employers. For new staff, on the job training was by far the most common training method used by 82%.

BUSINESS CONFIDENCE

Confidence in the UK economy over the next year has fallen marginally, while the prospects for their own businesses have experienced larger declines compared to the previous quarter. Both figures are now lower than in Q1 2020, before the start of the Covid-19 pandemic. The margin between their own business confidence and that of the broader economy has further narrowed from its previous high.

SALES

Overall, net UK sales and orders have slumped into strongly negative territory (negative 12 percentage points for both) since their temporary relative bounce back last quarter. Both figures have been driven by symmetrical forces – markedly lower proportions reporting increasing sales and orders volumes and materially more reporting decreasing sales and order volumes. The proportion reporting a decrease in domestic sales is now 34%.

INTERNATIONAL SALES

Export sales and orders have sharply fallen since Q1, and now languish in strongly negative territory (-18 percentage points and -23 percentage points respectively), the lowest either measure has been since Q1 2021 when the full impact of Britain's exit from the European Union kicked in. Smaller exporting businesses were especially likely to report decreasing international sales and orders than larger exporters (as measured by turnover), and there were fewer exporters in the dataset this quarter than normal.

SOURCES OF CONCERN

The top concerns for business during the quarter were the same as last quarter, general economic conditions (down 6 points to 69%), inflation (up one point to 60%) and general business uncertainty (up 3 points to 57%).

PROFITABILITY

In the current quarter, respondents forecast a moderate growth in profits over the next 12 months, with a net balance of 3%. However, the impact of persistent inflation seems to be affecting profit margins and widening the gap between expected turnover and profitability. A higher proportion of businesses (47%) anticipate an increase in turnover, while a smaller percentage (36%) expect higher profits.

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CURRENT ISSUES

WORKFORCE AND SKILLS

This quarter we focussed on a perennial topic of general application to businesses across the area, that of their human capital assets and how they attract, retain and invest in their staff and workers.

When asked what the main challenges in relation to their current workforce were, the most common were keeping up with staff expectations of pay and benefit increases (cited by 62%). This was followed by workforce retention (37%) and staff morale and wellbeing (at 36%, respondents could pick as many as applied to them).

Most employers use informal training routes such as on the job training (82%) or work shadowing (38%). Of the just under half (46%) who use accredited training options, apprenticeships were used by 20%. When asked about training needs for current staff, employers were more likely to cite leadership, resilience, and public speaking – possibly reflecting more senior role requirements for those established in their careers. This compares to new employees where the most frequent training needs were related to functional numeracy and English/literacy, which might be indicative of their more junior roles within their new employers (although in absolute terms the numbers selecting these options were smaller).

One of the most popular areas selected by survey respondents was project management, 68% of employers selecting this option indicated that further training was required for existing staff, compared to just 32% for new employees joining the business.

“Junior managers should learn about ‘process’ driven management, the difference between management and leadership, empathy, and delivering high-quality products that meet customer expectations.”

– South Gloucestershire based construction business

Whilst there is plenty of anecdotal evidence that employers are struggling to keep hold of staff within the excessively tight labour market as reported in the last 12–18 months, when we asked employers to self-evaluate how they felt their staff turnover compared to similar businesses in their sector it was notable that three times as many reported lower than average turnover (36%) as reported higher than average rates.

“We take great care to maintain a culture that supports and acknowledges the team. We run annual eNPS (employee Net Promoter Score) surveys with quarterly ‘booster’ surveys and then act on what is said.”

– Dan Wooler, Bristol based retail ‘TC Group’

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CURRENT ISSUES

RECRUITMENT

Workforce related challenges remain a recurring issue within this quarter's results. Over a quarter of respondents (27%) 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 74% of manufacturers and 64% of service sector businesses, 68% of all businesses overall.

Data published by the Office for National Statistics (ONS) on UK earnings reveals that wage growth has not eased throughout Q2 as some predicted, with pay increasing by 7% in the private sector and 5.6% in the public sector. However, these increases remain below the reported 8.7% surge in the Consumer Price Index (CPI) for April 2023. Furthermore, the persistently high level of advertised job indicates that wage pressures are likely to remain a prominent feature of the economic landscape for the rest of 2023.

The extremely tight labour market continues to be a major headache, especially for businesses with higher staffing numbers. Almost half (48%) of respondents have tried to recruit staff over the last 3 months, with most of those roles being full time (83%).

Whilst the proportion of firms who are trying to recruit report experiencing difficulty has fallen (now 72% vs 81% in Q1), it's clearly still hard for employers to attract suitable candidates for roles. 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 15% of respondents reporting increases in their personnel compared to 3 months ago, meaning many businesses have not been successful in filling vacancies. A further 26% of businesses are expecting to recruit during the next three months to replace departing staff or expand, vs just 10% expecting to shed staff overall.





PRICES AND INFLATION

Inflation was the second most cited source of concern (chosen by 60% of respondents) in Q2. The underlying business costs driving inflation remain broadly based, costs associated with staff and contractors are the leading source of price pressures at 68% followed by utilities at 64%.

Whilst the rates of inflation have recently dipped (meaning that prices are still increasing albeit at a slower rate), there are other costs imposed by government that are eating into profit margins, for example Business Rates uplifts effective from April.

The consistently elevated figures across all indexes monitoring price changes in the UK economy seem to indicate that achieving price stability while promoting economic growth is a challenging task for policymakers. Amidst a context of global uncertainty, the UK appears to be facing a more demanding situation compared to many of its Western counterparts given the proportion of energy and foodstuffs that are imported on world markets. In addition to these challenges, businesses across various sectors are grappling with higher costs

for new energy contracts with reduced government support. This comes at a time when consumer spending is declining, and other operational expenses continue to rise. Against this backdrop it is a challenge for firms to protect their profit margins and retain cash to invest back into expansion. Whilst 47% anticipate turnover to increase in Q3, only 36% predict profits to increase compared to Q2.

Price levels continue to rise strongly, 54% of respondents have increased their prices in the last 3 months and another 40% are expecting to put their prices up in the next 3 months (this has fallen from 45% in Q1 2023). Inflation is coming down slowly, and some of this is choking off growth especially in sectors that rely on discretionary spending such as hospitality and leisure.

“Our industry is currently going through a time of high staff demand versus recourse pool – poaching is significant and driving up resource cost.”

– South Gloucestershire based engineering business

BUSINESS ENVIRONMENT

DOMESTIC MARKET

Net UK sales and net UK orders have both slumped to -12 percentage points, indicating that Q1's more neutral results were a one-off blip.

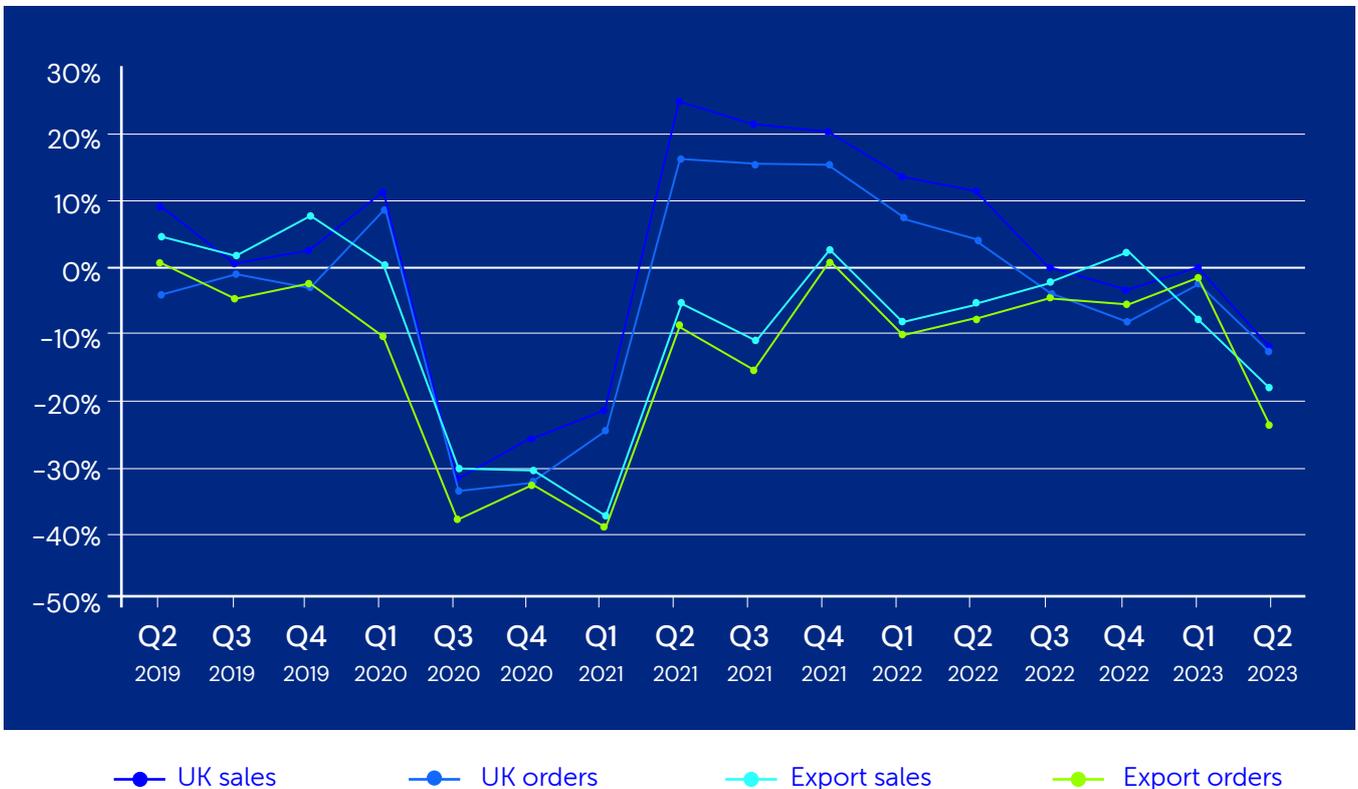
Analysing the underlying data more closely indicates that businesses in the smallest turnover categories (up to £1million per annum) are dragging down the overall sample and represent a slightly higher than normal proportion of respondents this quarter. This indicates that businesses with sufficient scale are weathering the economic conditions better and more able to keep their sales volumes up with greater consistency than the smallest firms.

In line with the results presented above, the net balance of domestic sales has significantly dropped for both manufacturers and service business. The former reported a negative figure of -16%, while the latter fared slightly better at -10%.

“We are always looking to expand our customer base with new products. As technologies develop, we can offer more and more to new and existing markets.”

– Jamie Clark, Bristol Based manufacturer 'Microwave Amps'

DOMESTIC & INTERNATIONAL MARKET – HISTORICAL NET BALANCE



BUSINESS ENVIRONMENT

INTERNATIONAL MARKET

When comparing this quarter's results to those of Q1, the overseas market for firms in our region looks to have become substantially less lucrative, with sales and orders both in strongly negative territory.

International sales for example are trending at -18 percentage points, meaning substantially more respondents report decreased sales (39%) than those reporting increases (21%), both compared to Q1 excluding seasonal variations.

Fewer businesses make international pre-orders or other advance custom, so our sample error could be material, but export orders are yet more negative, at -23 percentage points overall. It would seem that smaller businesses within our exporting respondents are struggling disproportionately compared to larger businesses who benefit from being able to operate at scale.

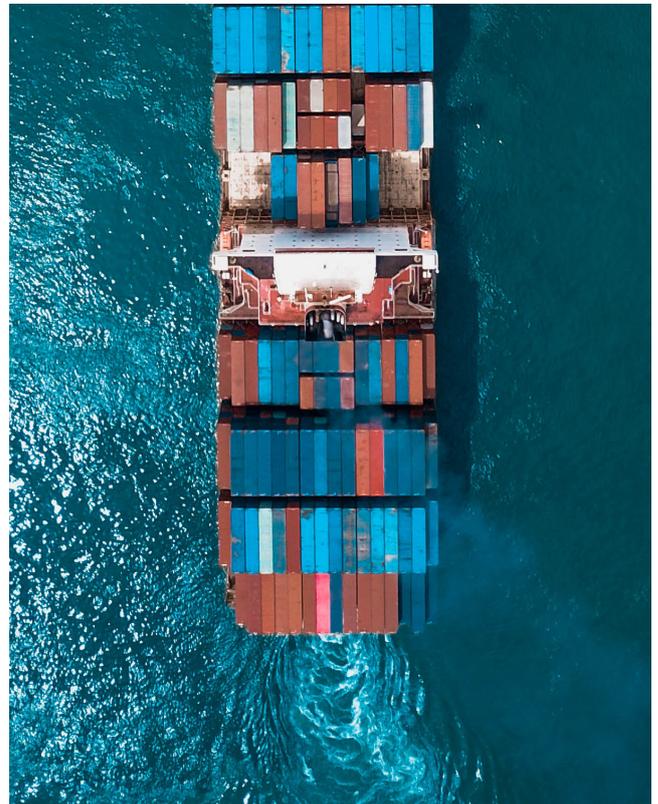
“Prior to the pandemic, China and Australasia were growing markets for us. They both seem to have been slower in recovery but would like to pick back up on those two markets going forward so not to lose the 7 years we took in developing those markets pre-pandemic.”

- Devon based tourism business.

The performance of the participants engaged in international trade worsened in terms of net orders in Q2 compared to Q1 2023. Export sales net balance has dropped into negative territory once again during the current quarter at -18 percentage points. These figures represent the lowest point observed since Q2 2021.

For exporters, Europe remains the overseas market mentioned most frequently with 91% of businesses selling their goods and services on the continent. The proportion of respondents who are exporting to any overseas market has fallen in Q2 to a recent low of 47%, which is only the second time it has been less than 50% of the overall results for two years.

North America and Australasia continue to be the second and third most mentioned markets with 61% and 48% (substantially up from 36% reported in Q1) of firms engaged in international trade reporting sales to those regions. It will be interesting to see if the newly agreed Atlantic convention, falling short of a full free trade deal with the USA, improves the trading terms for firms in our region to the point where we start to see the proportion of respondents exporting to the US growing closer to those exporting to Europe.



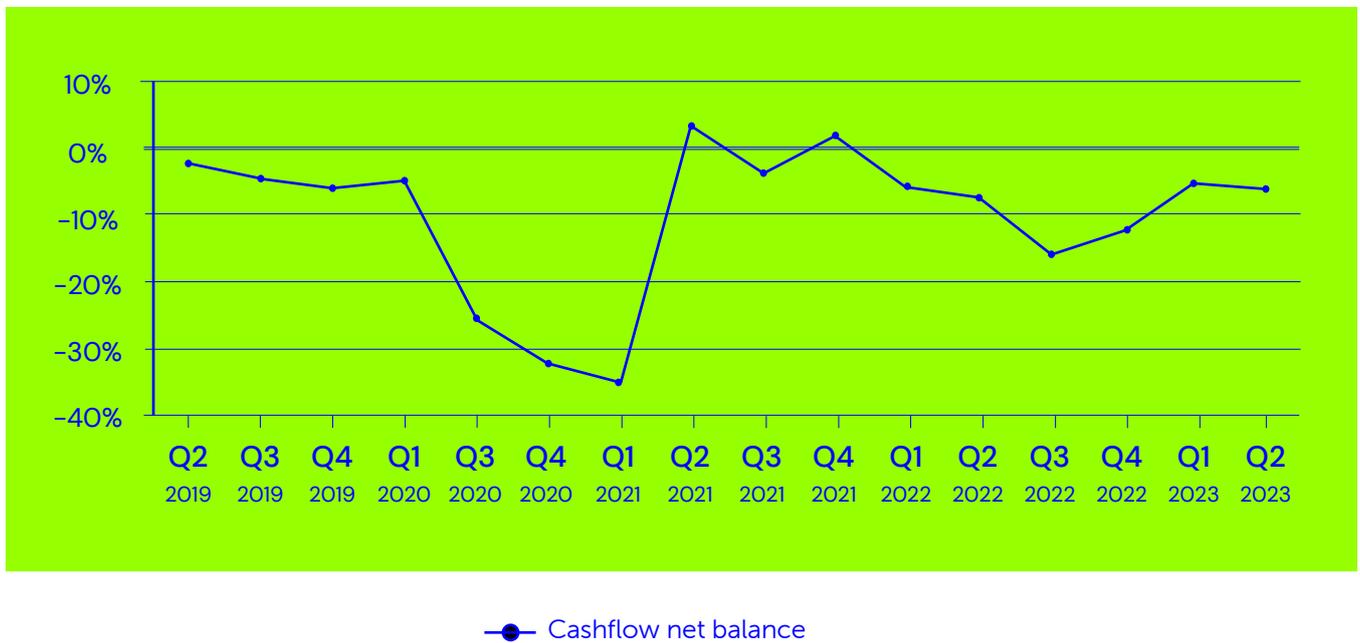
BUSINESS ENVIRONMENT

CASHFLOW

Movements in business cashflow is often a good indicator of the health of firms in the region and provide vital resilience during times of uncertainty.

The cashflow net balance for Q2 remains virtually unchanged from 3 months ago at -7 percentage points although interestingly with greater numbers reporting increases and decreases and reduced proportions reporting stable cashflows.

CASHFLOW - HISTORICAL NET BALANCE



The cashflow net balance for Q2 remains virtually unchanged from 3 months ago.

PROFITABILITY

Research conducted by the British Chamber 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 Q2, survey respondents anticipate a moderate growth in their profits, with a net balance of 3%.

As in previous quarters, more respondents expect increases in turnover compared to those expecting higher profits in the coming year (47% and 36% respectively). These figures could serve as another sign of the impacts of inflation, with rising costs exerting pressure on profit margins within the region's economy.



BUSINESS ENVIRONMENT

FINANCE AND INVESTMENT

The net balance of business investment showed negative figures across all four metrics of the survey. Equipment & machinery and office space were the categories with the most significant declines, both reaching a net balance of -18%.

Investment in Research & Development and staff training were less affected, with net balances of -4% and -2% respectively. The availability of finance has remained unchanged for a majority (62%) of businesses.

However, a notable increase was observed in the percentage of respondents facing challenges in obtaining funds, with 27% reporting a reduction in their access to finance compared to 18% with similar issues in the previous quarter.

Almost a third of participants (30%) expressed concerns about interest rates, potentially influenced by the aforementioned difficulties.

In Q2, nearly a quarter of QES respondents stated that their businesses remained debt-free. This positioning serves to insulate them from the potential impact of the increase in the Bank Rate decided by the Bank of England's Monetary Policy Committee – the most recent adjustment occurring in May brought the rate to 4.5% and another hike is expected to be decided at the June meeting.

The proportion of businesses operating at full capacity has dropped to 39% in Q2 from 43% in Q1, marking the lowest figure since Q1 2021.

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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.

While the overall figure shows a gradual decline in Q2 2023, general economic conditions remain the primary area of concern for 69% of respondents, down from 75% in Q1 2023.

Inflation continues to rank second at 60%, while general business uncertainty follows closely after experiencing an increase of 3 percentage points, reaching 57% this quarter. Both the costs of finance and the levels of taxation for companies have recently increased, but how visible and immediate the impacts of these changes are varies.

Corporation tax at the higher rate is only payable for most companies 9 months after the end of the accounting period, whereas if a business is using an overdraft facility or other variable debt options the increases in the Bank of England base rate can cost a business higher interest charges almost immediately.

The proportion of businesses concerned by taxation remains relatively low, where concern about interest rates now affects 30% of respondents up from 23% in Q1.

“We have to reflect increases on some key materials and cope with reduced sales and customer confidence”.

– Wiltshire based manufacturing business.

BUSINESS CONFIDENCE

CONFIDENCE: 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. In Q2, both measures are down compared to the previous quarter as businesses face ongoing challenges such as inflation, workforce issues and declining consumer spending.

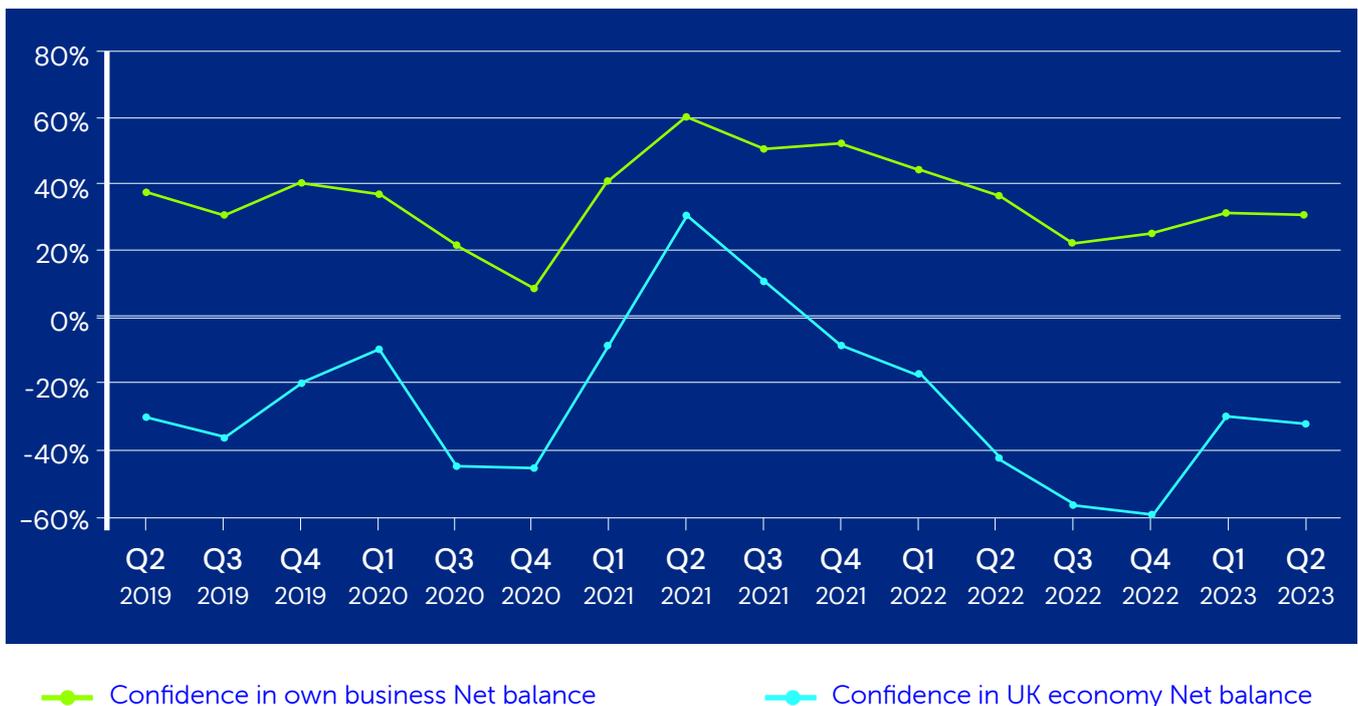
However, the drop is not as pronounced as in previous downturns. Although confidence in the UK economy has been declining in recent quarters, when untangling our results we found that an increasing proportion of respondents hold neutral expectations whereas previously they would either feel positive, and this outnumbering the move from previously neutral outlooks into the negative categories.

The decrease in positive outlook contributes to the downward trend in the net balance. Some concerns about the UK economy seem to have shifted from being perceived as temporary disruptions to being recognised as long-term structural challenges. A clear strategy is needed to foster innovation and adaptability to overcome these obstacles and regain a sense of optimism for the future.

“We are expecting the financial position to improve later in the year which would allow us to seek market expansion more actively”.

- Gloucestershire based retail business.

BUSINESS CONFIDENCE - HISTORICAL NET BALANCE



METHODOLOGY

BUSINESS PROFILES

Of the 290 respondents, most are smaller businesses, almost half have an annual turnover under £500,000, and 27% between £1 – 10 million. The vast majority of respondents (76%) are limited companies.

Geographically, 50% the respondents are from the 'West of England' area (26% of these are in the narrower City of Bristol area), another 17% are located in Swindon and Wiltshire, 14% in Gloucestershire, and 18% 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.

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All questions and comments about the material are welcome to:
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RESULTS AT A GLANCE

OUR Q2 FINDINGS

THIS QUARTER: Q2 2023

	SERVICES	MANUFACTURING	OVERALL	Q2 TREND
UK SALES	-10%	-16%	-12%	▼
UK ORDERS	-14%	-8%	-12%	▼
EXPORT SALES	-15%	-22%	-18%	▼
EXPORT ORDERS	-21%	-28%	-23%	▼
CURRENT WORKFORCE	-6%	5%	-3%	▼
FUTURE WORKFORCE	13%	23%	16%	▲
BUSINESS CONFIDENCE	24%	34%	26%	▼
CONFIDENCE IN ECONOMY	-33%	-28%	32%	▼



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