



QUARTERLY ECONOMIC SURVEY

Q1 / 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 as an accredited member of the British Chambers of Commerce. 434 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.

We collected responses between the 14th February and the 8th March 2022. The latter part of the survey occurred after Russia launched its war against Ukraine on the 24th February; 92 of the 434 responses were collected after that date.

Therefore, this survey may underestimate current business sentiment and the concerns about energy price inflation.



EXECUTIVE SUMMARY



SALES

Overall, net UK sales and orders have started the year in positive territory, but with a deceleration compared to the second half of 2021. 35% of respondents have seen an increase in their domestic sales during the past 3 months.

The proportion of businesses operating at full capacity has fallen to 42%, similar to pre-pandemic levels.



INTERNATIONAL SALES

The international market performance has fallen to negative numbers this first quarter of 2022.

Uncertainty in the global market, shortage of all types of materials, trade constraints and Brexit are some of the factors that hinder export growth. 34% of exporters have experienced a decrease in their international sales over the last 3 months.



PRICES

Price levels continue to soar, with nearly half of respondents having increased their prices over the last 3 months – up 8 points from last quarter, which had already reported a 10 points rise from Q3 2021.

Manufacturers remain under greater inflationary pressures, 64% of them have increased their prices in the first quarter of 2022.



ENERGY

Practically half of the respondents expect their energy bill to increase between 11%-50% year on year in the next 3 months. 9% of businesses expect this jump to be above 50% of their energy price cost last year.



EMPLOYMENT

A higher proportion of manufacturers have tried to recruit (55% versus 42% of service businesses). Those manufacturers trying to recruit are also more likely to have suffered difficulties in finding suitable staff (80%) than their service counterparts (69%).

Close to half of respondents have faced pressures to increase wages to current employees during the last 6 months, and 32% have had pressures to raise salaries to recruit new staff.



BREXIT

Only 5% of the businesses affected by the implementation of the UK-EU Trade Cooperation Agreement believe that it has had a positive impact on their business activity one year after its application.

50% of businesses affected have seen a deterioration of their business activity as a result of it.



FINANCE

A third of respondents think increasing interest rates during 2022 will pose a material risk to their business growth prospects versus the 44% that believe that a rise will not affect their growth. Manufacturers are more likely to be impacted by increasing interest rates.



BUSINESS CONFIDENCE

61% of businesses are confident about their own business prospects versus 24% of the respondents who are confident of the prospects of the UK economy for the next 12 months. Inflation and the general economic conditions are the main factors of concern for businesses this first quarter of 2022.

"During 2021 and the start of 2022, we were already seeing strong inflationary pressures. Part of this was due to labour market shortages, with firms struggling to recruit and retain; another considerable part was in input inflation, driven by rising import costs with global supply chain constraints and Brexit.

The Ukraine crisis adds further pressure to commodity price inflation, particularly to oil, gas and energy costs, which permeate all parts of the economy. It also adds considerable uncertainty to the global economic outlook.

Covid left many firms in a fragile situation, businesses now need a government that is alert to taking smart short term measures to help ease the further pressures they face."

– Matt Griffith, Director of Policy



CURRENT ISSUES



BREXIT

A year on, 50% of businesses affected by the implementation of the UK-EU Trade Cooperation Agreement (TCA) report a deterioration of their business activity as a result of the post-Brexit trade relationship between the two entities. Only 5% of those affected believe it has had a positive impact on their business activity.

55% of manufacturers affected by the implementation of the TCA reported a deterioration as a result of it.

"Trading with Northern Ireland, where we had established customers, is incredibly difficult to supply due to the onerous paperwork now required around exporting goods."

– Julia Fairchild, Restorative Techniques, Bristol



OMICRON WAVE RESTRICTIONS

A third of respondents experienced staff availability issues due to the Covid-19 Omicron variant and linked restrictions during the first months of 2022. 45% also reported goods and supplies availability difficulties over the same period.

"The reduction in isolation times and relaxing of restrictions have helped greatly with Covid staff issues."

– Marcus Pearce, Martha Jackson Ltd, Bristol

A higher proportion of manufacturers reported a negative impact related to the Omicron variant, with 66% having suffered goods and supplies availability issues.

"I had up to 45% of our staff off at one time in January due to Covid."

– Retail & Wholesale, Stroud



55% of manufacturers affected by the implementation of the TCA reported a deterioration of their business activity as a result of it



PRICES AND INFLATION

Price levels continue to soar, nearly half of respondents have increased their prices over the last 3 months – up 8 points from last quarter, which already reported a 10 points rise from Q3 2021.

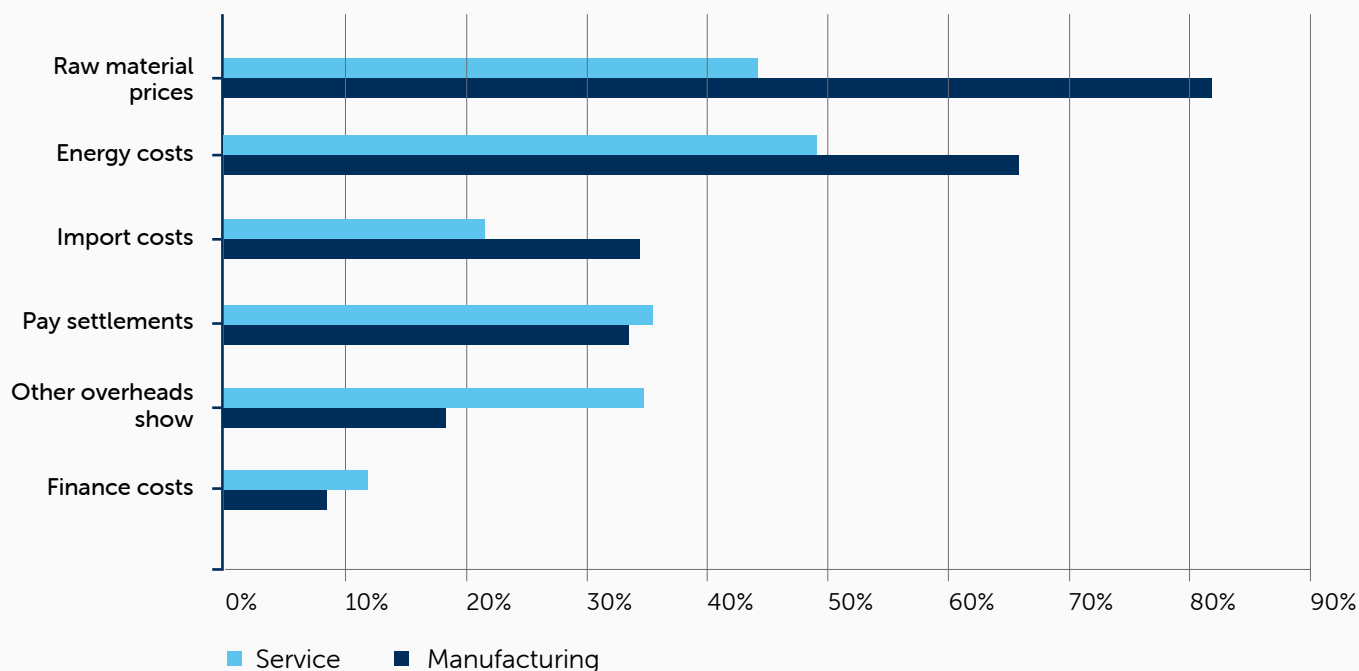
Manufacturers remain under greater inflationary pressures, with 64% having increased their prices this quarter compared to 40% of service businesses.

Almost 60% of businesses have suffered pressures to raise prices from the mounting costs of raw materials – 82% for manufacturers – and 57% from energy costs. 34% of respondents have experienced inflationary pressures from pay settlements.

"All our materials have increased dramatically, however shipping has been the biggest problem, and has cost me an extra ½ million in the current trading year."

– Richard Hardstaff, Polydron, Cirencester

IS YOUR BUSINESS SUFFERING PRESSURE TO RAISE PRICES FROM ANY OF THE FOLLOWING?*



*Select all that apply

On energy costs, a quarter of respondents expect their energy bill to increase between 11%-20% year on year in the next 3 months, and another quarter forecast a 21%-50% year on year hike. 9% of businesses expect this increase to be over 50% of their energy cost last year.

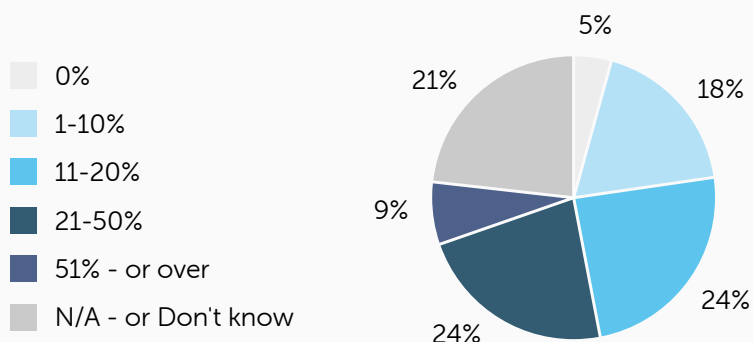
"We have already seen a substantial increase in energy and material costs to our business and we anticipate this will increase in the double digits for the remainder of the year."

– Poeton Industries, Gloucester

Similar to last quarter, 53% of participants expect to increase prices in the next 3 months – building on the generalised inflation that we have seen throughout 2021.

63% of manufacturers expect to increase prices versus 47% of service based businesses.

BY HOW MUCH DO YOU EXPECT YOUR BUSINESS' ENERGY BILL TO INCREASE (YEAR ON YEAR)?



BUSINESS ENVIRONMENT

DOMESTIC MARKET

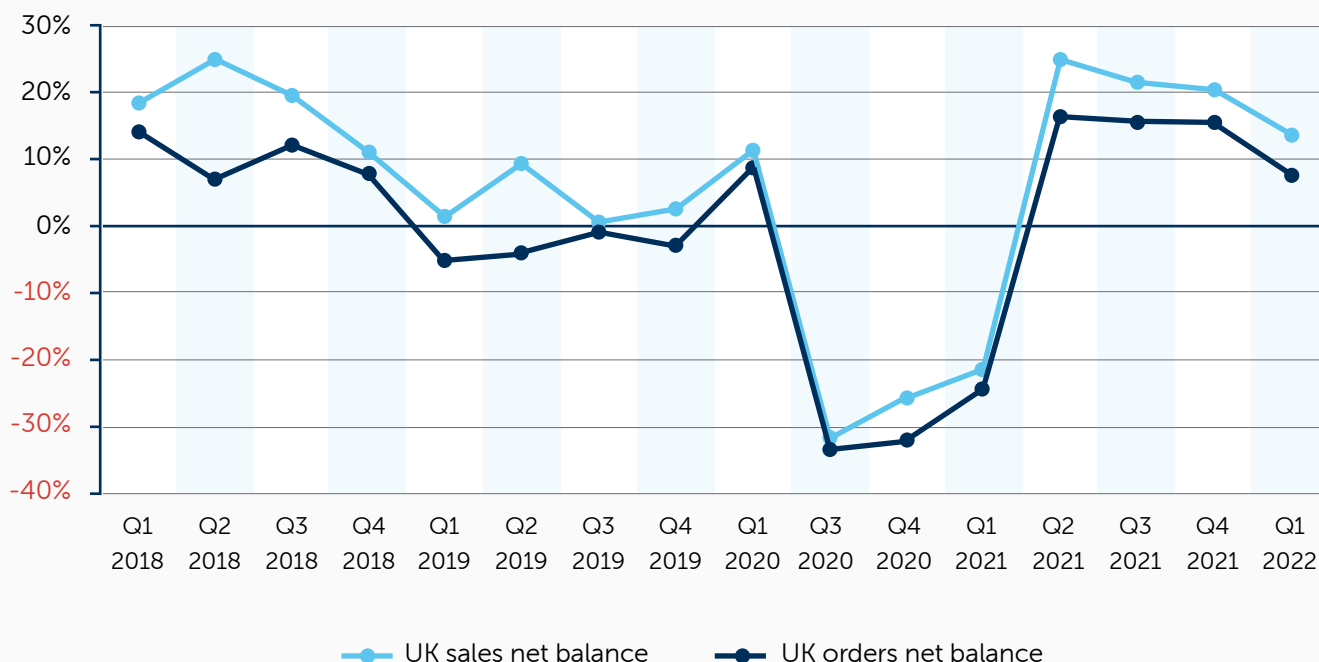


Overall, net UK sales and orders have started 2022 in positive territory, but with a deceleration compared to last year's recovery.

35% of respondents have experienced an increase in their domestic sales during the past 3 months, a lower proportion than in the previous quarter. Sales and orders remained constant for over a third of respondents.

Manufacturers report better domestic performance than the service industry (22% sales net balance versus 9% across service businesses).

DOMESTIC MARKET - HISTORICAL NET BALANCE



INTERNATIONAL MARKET

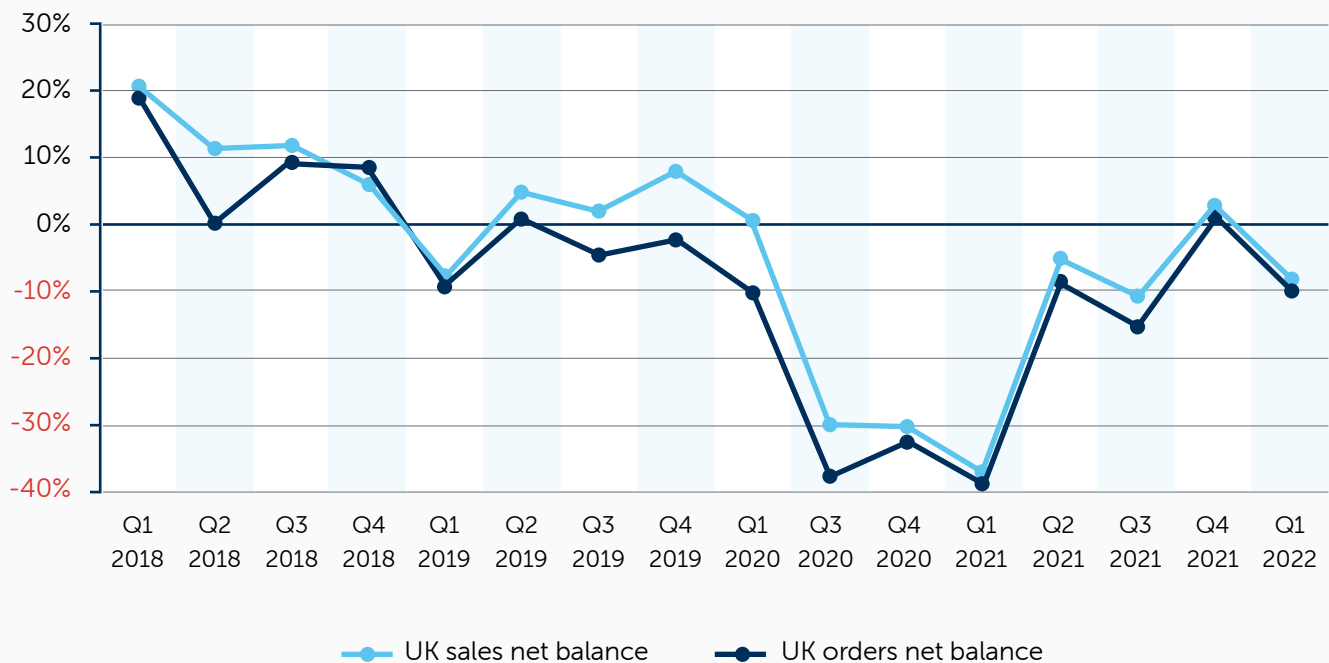


The international market performance has fallen to negative numbers this first quarter of 2022. Uncertainty in the global market, trade constraints and Brexit are some of the factors that have hindered export growth.

Of the 51% of respondents who sell internationally, 34% have experienced a decrease in international sales in the last three months versus the 26% that have seen an increase.

87% of exporters sell their goods and/or services to Europe, 57% to North America and 38% to Australasia, closely followed by the Middle East (36%).

INTERNATIONAL MARKET - HISTORICAL NET BALANCE



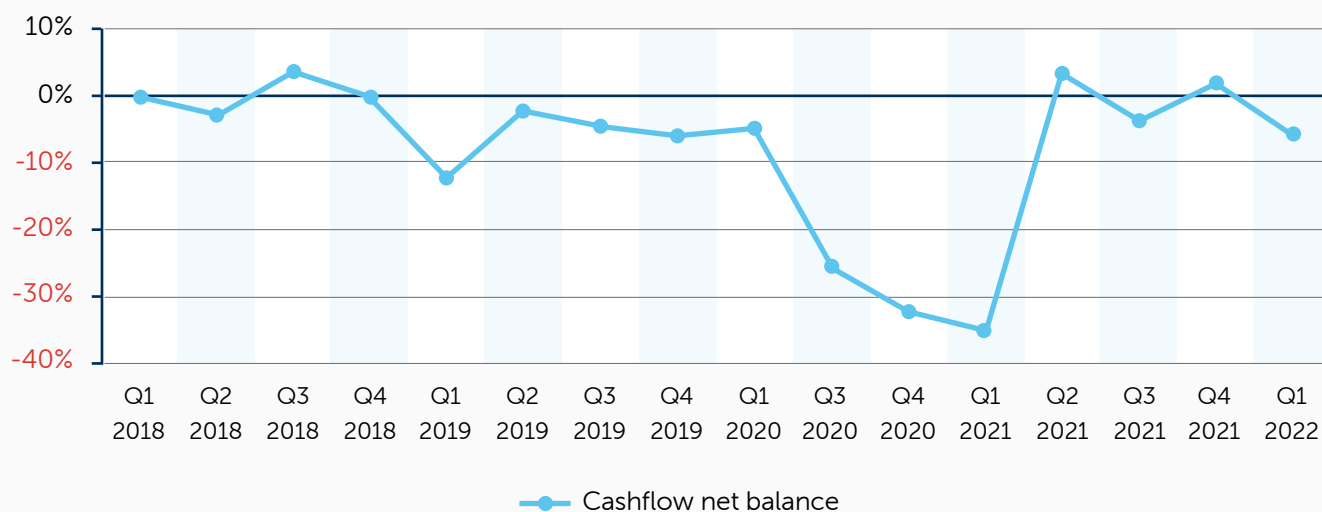
CASHFLOW



Net cashflow levels have dropped to negative numbers (-5%) following last quarter's positive figures (2%). Cashflow levels have remained constant for 42% of the survey respondents, with another 30% of businesses experiencing a decrease in their cashflow numbers over the last 3 months.

When dividing by sectors, service businesses report a net negative cashflow balance of -4% versus -7% manufacturers.

CASHFLOW - HISTORICAL NET BALANCE



54% of businesses predict that their turnover will improve over the next 12 months versus 17% that expect it to worsen, these numbers are slightly more pessimistic than in Q4 2021.

In terms of profitability, 36% anticipate that their profitability will improve in the next 12 months, versus 34% that expect it to worsen. These numbers are gloomier than last quarter but remain above zero in a net balance factor.

As in previous quarters, businesses feel more positive in sales terms than they do about profitability – implying an expected margin reduction due to exceptionally high inflationary cost base pressures across the board.

FINANCE AND INVESTMENT



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, except for office and property space, was marginally greater than those decreasing them.

The availability of finance for businesses has remained constant over the first quarter of the year for 40% of participants – only 7% report an increase in their finance availability, 4 points lower than Q4 2021.

Another 9% have experienced a deterioration in their availability to get finance.

A third of respondents think increasing interest rates during 2022 will pose a material risk to their business growth prospects versus the 44% that believe it will not hinder them. Manufacturers are more likely to be impacted by increasing interest rates.

"With costs of everything going up, remaining competitive whilst also covering overheads and making profit is much more difficult"

– Manufacturer, Bristol



WORKFORCE AND EMPLOYMENT



47% of respondents have tried to recruit staff over the last 3 months – 7 points down from last quarter and the lowest percentage since Q2 2021. The UK labour market reported record vacancy numbers during the second part of 2021. Businesses have tried to recruit to fill full-time (73%) and permanent (52%) positions.

21% of businesses have actually recruited during Q4, down 4 points from Q4 2021.

As seen in 2021, the existing historical mismatch between skills and labour demand has been exacerbated by Brexit and Covid-19. 74% of those trying to recruit have faced difficulties in finding suitable candidates this quarter, a similar proportion as Q3 and Q4 last year.

A higher proportion of manufacturers have tried to recruit (55% versus 42% of service businesses). Those manufacturers trying to recruit are also more likely to have suffered difficulties in finding suitable staff (80%) than service counterparts (69%). Skilled manual or technical (49%), professional or managerial (48%) and semi/unskilled (40%) roles have been the job categories most difficult to fill.

"We can't find the staff we need, we are struggling to recruit suitable sales staff and it's impacting our cashflow."

– Marketing & Communications, Bath & North East Somerset

46% of respondents have faced pressures to increase wages for current staff during the last 6 months, and 32% have had pressures to raise salaries to recruit new staff – up to 40% for manufacturers. Overall, manufacturers reported higher inflationary pressures to raise wages to retain and recruit staff.

"We have had to offer more to attract the right kind of staff and this will, of course, mean that we will need to increase existing staff wages to maintain the appropriate differentials for staff that have more experience."

– Retail & Wholesale, Swindon

31% of businesses expect to recruit during the next quarter (Q2 2022) – up 3 points from Q4 2021 expectations, which were lower than those reported across 2021.

APRIL 2022: INCREASE IN NATIONAL INSURANCE CONTRIBUTION RATES

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

43% of participants indicated that higher contribution rates increase pressure to raise prices to consumers, and 37% believe this will result in inflationary wage pressures while also recognising that higher costs reduce their ability to increase pay to staff.

A quarter do not think this will have an impact on their workforce make-up and costs.

"Increases in the minimum wage and the living wage has driven up wages throughout my workforce - plus now a NI increase - we have had to increase wages by at least 10%"

– Retail & Wholesale, Dorset

BUSINESS CONFIDENCE

SOURCES OF CONCERN



Inflation is the main factor of concern this first quarter of 2022, worrying 63% of respondents, closely followed by the general economic conditions (60%) and general business uncertainty (48%). In addition, a third of businesses are concerned about taxation.

The labour market (31%), the trading relationship with the EU (27%) and Covid-19 restrictions (20%) concern a considerably lower proportion of respondents this quarter than last year.

"Since everyone is suffering the same issues, we cannot raise our prices to cover for the increasing costs, which means it has to come out of the already receding bottom line."

– Angie Petkovic, APT Marketing, Cheltenham



Inflation is the main factor of concern this first quarter of 2022, worrying 63% of respondents, followed by the general economic conditions at 60%

CONFIDENCE FOR THE NEXT 12 MONTHS



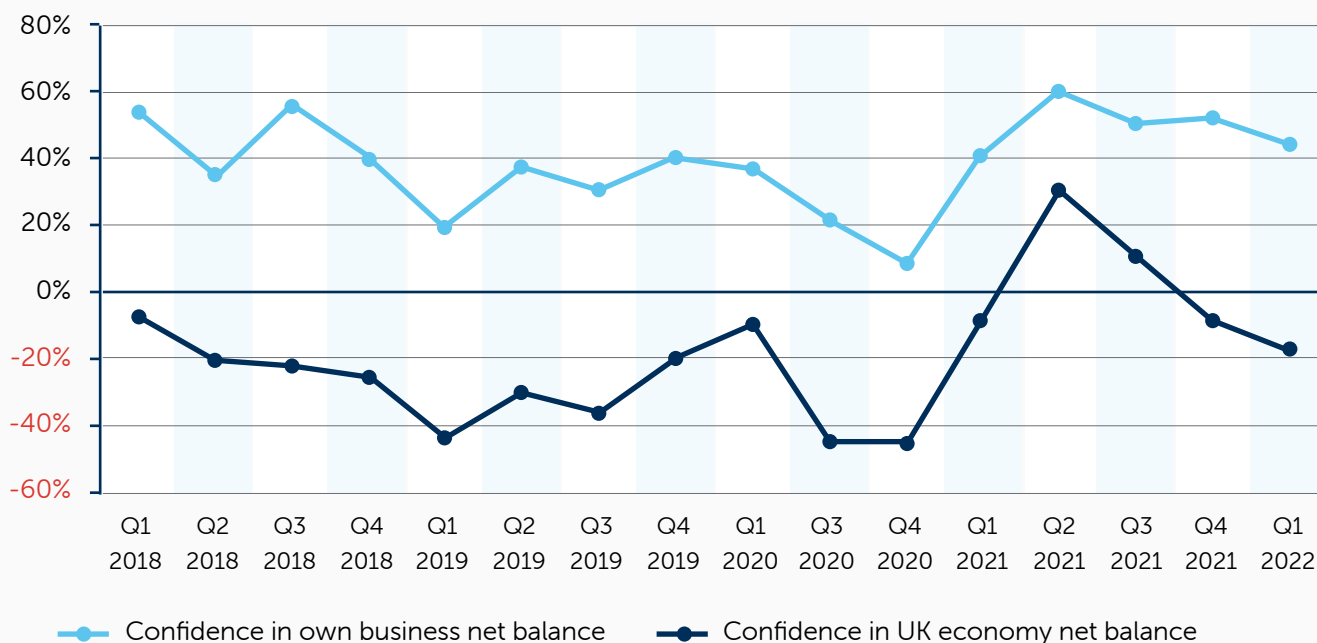
When asked about the prospects for their own business performance for the next 12 months, the majority (60%) of businesses are confident or very confident, compared to the 15% that are negative or very negative about them.

23% of the respondents are confident or very confident of the prospects of the UK economy for the next 12 months – 6 points fall from Q4 2021 – versus 42% that have negative or very negative feelings about it.

Service-based respondents are overall 10 points more pessimistic in both, confidence in their own business prospects and on the UK economy future performance, than manufacturing businesses.

Historically, there is an ongoing large gap in outlook between business confidence in their own future versus that of the UK as a whole (see chart below). The surge in positive sentiment started after Q4 2020, with the vaccine rollout and economic reopening, has stalled or fallen since Q2 2021.

BUSINESS CONFIDENCE - HISTORICAL NET BALANCE



The surge in positive sentiment started after Q4 2020, with the vaccine rollout and economic reopening, has stalled or fallen since Q2 2021

METHODOLOGY



434 businesses completed the survey between the 14th February and the 8th March 2022. Most respondents are small businesses, over half have an annual turnover under £500,000, and 26% between £1 – 10 million. The majority of respondents (78%) are limited companies and 51% are exporters.

Geographically, nearly half of the respondents are from the 'West of England' area (23% of these are in the narrower City of Bristol area) another 14% 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.

MANUFACTURING SECTOR BUSINESSES COMPRISE THE FOLLOWING CATEGORIES:

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

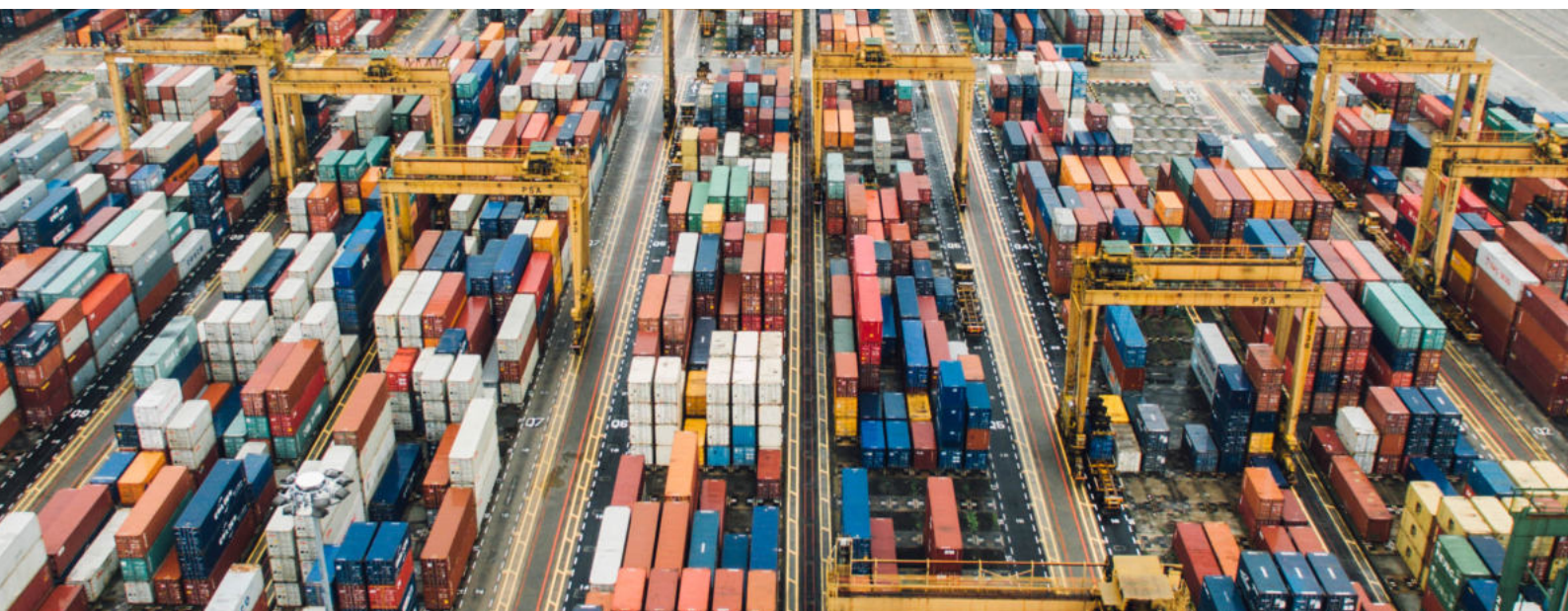
SERVICE SECTOR BUSINESSES COMPRISE THE FOLLOWING CATEGORIES:

Consumer services; Education; Environmental Services; Financial Services; Health & Social Work; Hotels, Accommodation & Catering; IT Services; Legal Services; Marketing & Media; Other Professional & Business Services; 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.

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.



RESULTS AT A GLANCE

OUR FINDINGS



THIS QUARTER: Q1 2022

	Services	Manufacturing	Overall	Quarterly trend
UK Sales	9%	22%	14%	↓
UK Orders	3%	12%	7%	↓
Export Sales	-8%	-8%	-8%	↓
Export Orders	-11%	-9%	-10%	↓
Current Workforce	6%	13%	8%	↓
Future Workforce	22%	36%	26%	↑
Business Confidence	41%	51%	45%	↓
Confidence in UK Economy	-22%	-10%	-18%	↓



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