



Business
West



Quarterly
Economic
Survey

Q4/2023

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.

301 businesses completed the survey between 6 November and 30 November 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.



THIS QUARTER'S FINDINGS

Overall, Q4's results indicate that businesses are demonstrating resilience and adaptability in the face of ongoing challenges. The recovery in domestic sales and international trade is encouraging, and other businesses performance indicators also show signs of improvement. However, concerns about the national economy and the labour market persist, highlighting the need for continued work to foster a more stable and supportive business environment.

WORKFORCE AND SKILLS

The labour market remains a source of concern for businesses, with 71% of respondents reporting difficulties in finding suitable staff. Skilled manual/technical and professional/managerial positions are particularly challenging to recruit. Hiring activity increased in Q4, with 22% of participants reporting increases in their staff. 58% of businesses are operating below capacity, indicating a need for additional skilled workers.

BUSINESS CONFIDENCE

Businesses continue to demonstrate resilience and adaptability, with 62% of respondents expressing confidence in their prospects for the next 12 months. However, concerns about the national economy persist, with only 19% of businesses expressing confidence in the UK's economic outlook.

SALES

The net balance of UK sales and orders returned to positive territory in Q4 (7% and 2%, respectively), indicating a recovery in domestic demand. Service sector businesses and manufacturers both reported improved domestic sales performance in Q4.

INTERNATIONAL SALES

International trade performance also returned to positive territory in Q4, with both export sales and orders reaching a net balance of 1%. Exporting manufacturers reported a net balance of international sales of 5%, suggesting a stronger recovery in the manufacturing sector.

SOURCES OF CONCERN

General economic conditions were reported as the main source of concern by 69% of respondents, followed by general business uncertainty – selected by 56% of participants. Interest rates and the labour market remain within the top sources of concern for businesses.

PROFITABILITY

Business profitability expectations for the next 12 months remained positive, with almost half (48%) of participants anticipating improvement in their margins.

Concerns about the national economy persist, with only 19% of businesses expressing confidence in the UK's economic outlook.

LOOKING TO THE FUTURE

Bristol Chambers of Commerce, now known as Business West and encompassing the Chambers for the wider region, celebrated its 200th anniversary in 2023. As we reach this milestone it is crucial to acknowledge our region’s strengths while addressing the challenges that hinder their growth potential.

As part of this quarter’s survey we asked our participants some questions about the challenges they are facing when looking to the future of their businesses. These combined with the Quarterly Economic Survey (QES) Q4 results provide valuable insights into the key issues facing businesses in the South West.

Skills gaps and shortages emerged as the top challenge for businesses who responded to the QES, with 55% of respondents citing it as a major concern. This reflects the ongoing challenges faced by businesses in finding and retaining skilled workers, particularly in areas such as technology, engineering, and healthcare. Addressing skills gaps and labour shortages will be critical for ensuring the region’s future competitiveness.

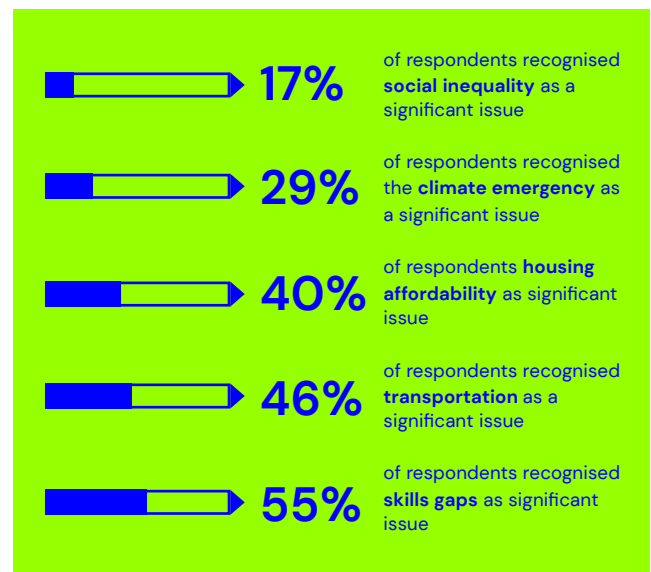
Infrastructure and transportation issues also pose significant challenges for businesses, with 46% of respondents citing transport and 38% mentioning infrastructure networks as key concerns. These concerns highlight the need for investment in infrastructure upgrades and improvements to transportation networks to support business growth and connectivity.

Housing affordability and the rising cost of living remain significant concerns for businesses, with 40% of respondents citing them as challenges. These issues not only affect businesses’ ability to attract and retain talent but also impact their overall operating costs due to corresponding salary increases needed by staff to combat the rising cost of living.

The climate emergency and social inequality are emerging as growing concerns for businesses, with 29% and 17% of respondents citing them as challenges, respectively. Many of our responding businesses recognise the need to adapt to the challenges posed by climate change and are working to contribute to a more equitable society.

Despite these challenges, the South West possesses notable strengths that businesses value. The natural environment (56%), work-life balance (49%), and creativity (49%) were identified as key strengths by respondents. These strengths provide a solid foundation for the region’s continued growth and development.

As part of our forward-looking questions, our survey participants also told us their expectations for Business West, and how we prioritise the work we do on their behalf. Innovation, investment, and growth were identified as top priorities by 63% of respondents, followed by skills development (60%). Businesses also seek guidance and thought leadership on a strategy for the South West Region (48%) and support for Net Zero policy (25%) and social enterprise activities (19%).



WORKFORCE AND EMPLOYMENT

The fourth quarter of 2023 saw a continuation of the labour market trends observed in Q3. Concerns about the labour market remained elevated, with 21% of participants expressing worries. Labour costs persist as the primary source of cost pressures for 69% of participant businesses. Recruitment efforts remained active, with 44% of respondents attempting to hire during the last three months.

The majority of respondents (73%) sought to employ full-time workers, primarily on a permanent basis (42%). Part-time positions were also in demand (40%), along with temporary openings (22%). However, finding suitable staff proved challenging for 71% of participants.

The most difficult categories of employees to recruit were skilled manual/technical (51% of businesses) and professional and managerial (50% of participants). Clerical and semi/unskilled positions presented challenges to less than 20% of respondents.

Workforce expansion was positive this quarter, with 22% of participants reporting increases in their staff. However, 17% experienced a reduction in their number of employees. The overall workforce outlook remains stable, with 69% of businesses expecting their workforce to remain constant over the next three months.

Anticipation of workforce growth in the next three months was moderate, with 24% of participants expecting an increase in their staff levels. Only 7% of respondents foresee a decrease in their workforce. A significant number of businesses (58%) reported operating below capacity. The level of capacity utilisation in the coming year could influence businesses' hiring decisions.

The labour market remains a key concern for businesses, with recruitment challenges and staffing shortages persisting. However, workforce expansion remains positive, and the outlook for the next three months is cautiously optimistic. Addressing labour market challenges and attracting and retaining skilled workers will be crucial for businesses to thrive in the current economic environment.



PRICES AND INFLATION

In line with the November forecast published by the Office for Budget Responsibility, inflation remained a factor of concern for 44% of participant businesses in Q4 2023.

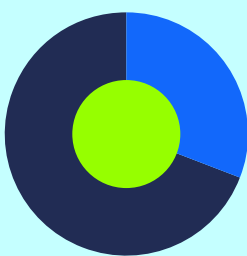
The OBR report indicated that inflation is expected to be more persistent and domestically fuelled than previously thought, falling below 5 per cent by the end of 2023 but not returning to its 2 per cent target until the first half of 2025. This extended timeline for inflation reduction aligns with the concerns expressed by businesses in the current survey.

Despite the moderation in price increases observed in recent months, inflationary pressures persisted in Q4, with more than a quarter (28%) of participant businesses reporting price increases in the last three months. Delving into the drivers of inflation, 69% of respondents stated that labour costs were the primary driver of price increases, followed by utilities (53%), raw materials (38%), and fuel (35%).

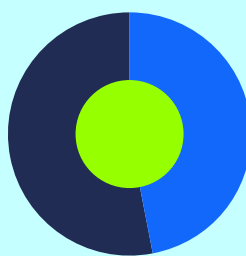
These findings underscore the significance of wages as the predominant domestic component of the region's rising cost structure. Adding complexity to the current economic landscape, the OBR also stated that the UK is still facing the largest fall in real living standards since records began in the 1950s.

Looking ahead, 43% of respondents anticipate an increase in their prices over the next three months, suggesting that inflation is likely to remain elevated in the near term.

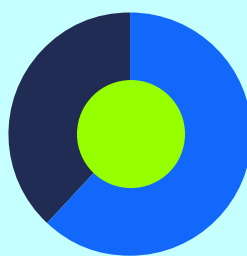
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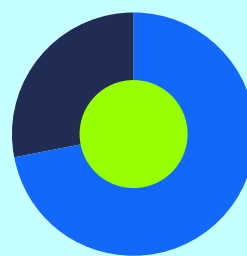
69%
Respondents Labour costs increase



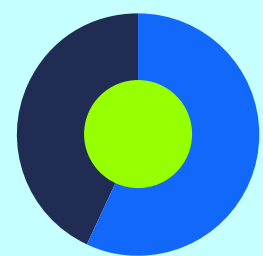
53%
Respondents Utility costs increase



38%
Respondants Raw materials increase



28%
Of respondents have raised their prices



43%
Of respondents anticipate price increases

These findings underscore the significance of wages as the predominant domestic component of the region's rising cost structure.

DOMESTIC MARKET

The domestic market outlook brightened in Q4 2023, with both sales and orders returning to positive territory for the first time this year.

Domestic sales performed particularly well, with the net balance rising to 7% in Q4. This significant improvement from -2% in Q3 suggests that domestic demand is strengthening and that businesses are finding new opportunities in the home market.

A similar upward trend was observed in net UK orders, which improved from -6% in Q3 to 2% in Q4. The service sector participants reported growth in domestic sales, with a net balance of 7%, 5 percentage points higher compared to Q3's results (2%).

Manufacturing businesses also continued to demonstrate resilience, reporting a domestic sales net balance of 5%.

Overall, the domestic market outlook is encouraging, with both sales and orders trending in the right direction. Businesses are finding ways to navigate the challenges of the current economic climate and achieving an improved performance in the domestic market.



INTERNATIONAL MARKET

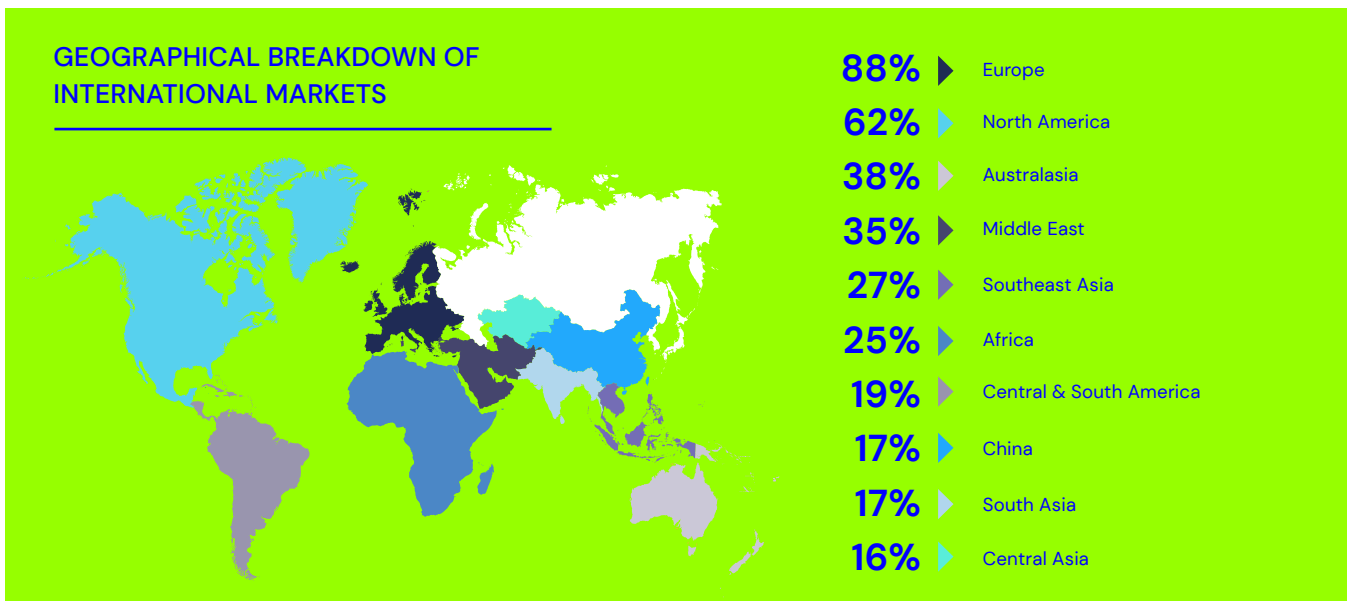
The international trade outlook for businesses in the region showed signs of improvement in Q4 2023, with both export sales and orders returning to positive territory for the first time this year. This suggests a gradual recovery in international trade activity after a challenging period marked by global economic uncertainties and supply chain disruptions.

The export sales net balance reached a 2023 high of 1% in Q4, a significant improvement from the negative balance of -11% reported in Q3. The export orders net balance also edged up to 1% in Q4, indicating that businesses are anticipating increased demand from international customers in the coming months.

However, there were some disparities in the international performance of different sectors. Service sector businesses reported a negative export sales net balance of -1%, indicating that they continue to face challenges in the international market. In contrast, exporting manufacturers reported a positive export sales net balance of 5%.

The Service sector especially, continues to face challenges in the international market.

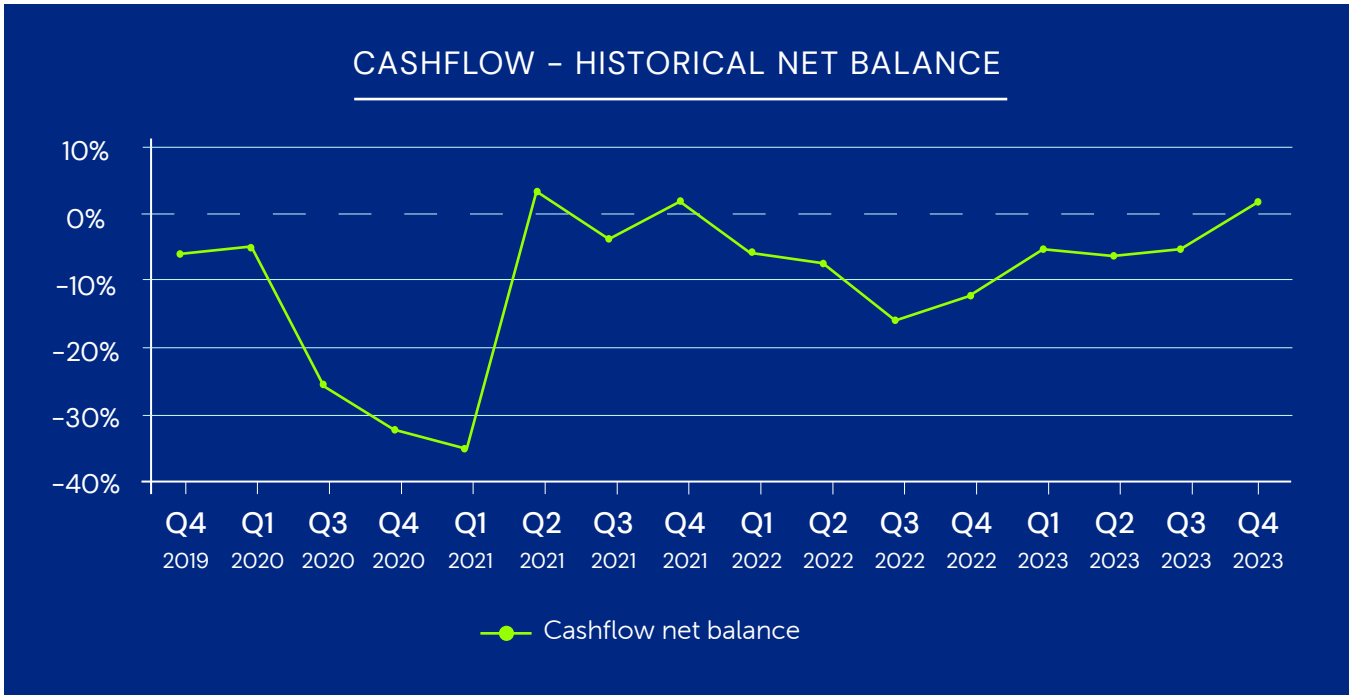
Overall, the international trade outlook is cautiously optimistic. While there are still challenges to overcome, businesses are demonstrating resilience and adaptability in the face of global economic uncertainties.



CASHFLOW

The cash flow net balance experienced a welcome improvement in Q4, returning to positive territory for the first time since Q4 2021. However, the positive overall result was primarily driven by the strong performance of the region’s manufacturers, who recorded a 12% balance. In contrast, the cash flow balance for service businesses remained negative at -3%.

This divergence highlights the uneven impact of economic conditions across different sectors. While manufacturers seem to be benefiting from stronger demand and supply chain improvements, service businesses continue to face challenges related to labour shortages and subdued consumer spending.



...manufacturers seem to be benefiting from stronger demand and supply chain improvements.

PROFITABILITY

The upward trend in business profitability expectations for the next 12 months persisted in Q4 2023. Almost half (48%) of participants anticipate improvement in their margins, providing a positive sign for the future of our participants' economic performance.

Despite this positive sentiment, there remains a gap between expectations for turnover and profit growth. While 61% of respondents expect an increase in turnover, only 48% anticipate improved profits. This suggests that businesses are still facing challenges in converting revenue growth into higher profits.

The persistence of cost pressures, particularly labour costs, energy prices skyrocketing, raw materials, and fuel continue to weigh on profit margins. Businesses will need to find effective ways to manage these costs while maintaining or increasing sales to achieve their profitability goals.

...businesses are still facing challenges in converting revenue growth into higher profits.



48%
of participants anticipate improvements



FINANCE AND INVESTMENT

The availability of finance remained relatively stable in Q4 2023, with 40% of participants reporting no change in access to funding. While 9% experienced improvements, 11% encountered difficulties in securing financing.

Finance costs continued to exert upward pressure on prices for 19% of participant businesses, highlighting the ongoing impact of higher interest rates on business operations. However, concerns about interest rates among businesses eased in Q4, with 25% of respondents expressing concerns, down from 32% in Q3. This suggests that the recent pause in Bank Rate increases may be providing some relief to businesses.

Despite the reported reduction in concerns about interest rates, 19% of participants remained worried about their current financial position. These concerns may stem from ongoing cost pressures, supply chain disruptions, or the general uncertain economic outlook.

Investment plans for the next three months showed mixed trends. The net balance for investment plans in plant/machinery/equipment remained negative at -6%, indicating that businesses are cautious about increasing their capital expenditures. In contrast, net balances for investment in office/property space (1%), training (5%), and research & development (4%) were positive, suggesting a more positive outlook for these areas of investment.





SOURCES OF CONCERN

The fourth quarter of 2023 saw a continuation of the concerns expressed by businesses in the previous two quarters. General economic conditions remained the top concern for 69% of respondents, highlighting the ongoing uncertainty and challenges posed by the current economic climate.

General business uncertainty also persisted, with 56% of participants citing it as a major worry. This reflects the complex and unpredictable environment in which businesses are operating, characterised by factors such as geopolitical tensions, supply chain disruptions, and rising inflation.

Inflation continued to be a concern for businesses, with 44% of respondents expressing worries. While the level of concern has moderated from 51% in the previous quarter, inflation remains a significant factor affecting business operations and profitability. Interest rates and labour market conditions also emerged as sources of concern for businesses.

25% of respondents expressed worries about interest rates, reflecting the impact of monetary policy tightening on borrowing costs and investment decisions. Additionally, 21% of participants cited labour market challenges, including recruitment difficulties and rising labour costs, as a major concern.

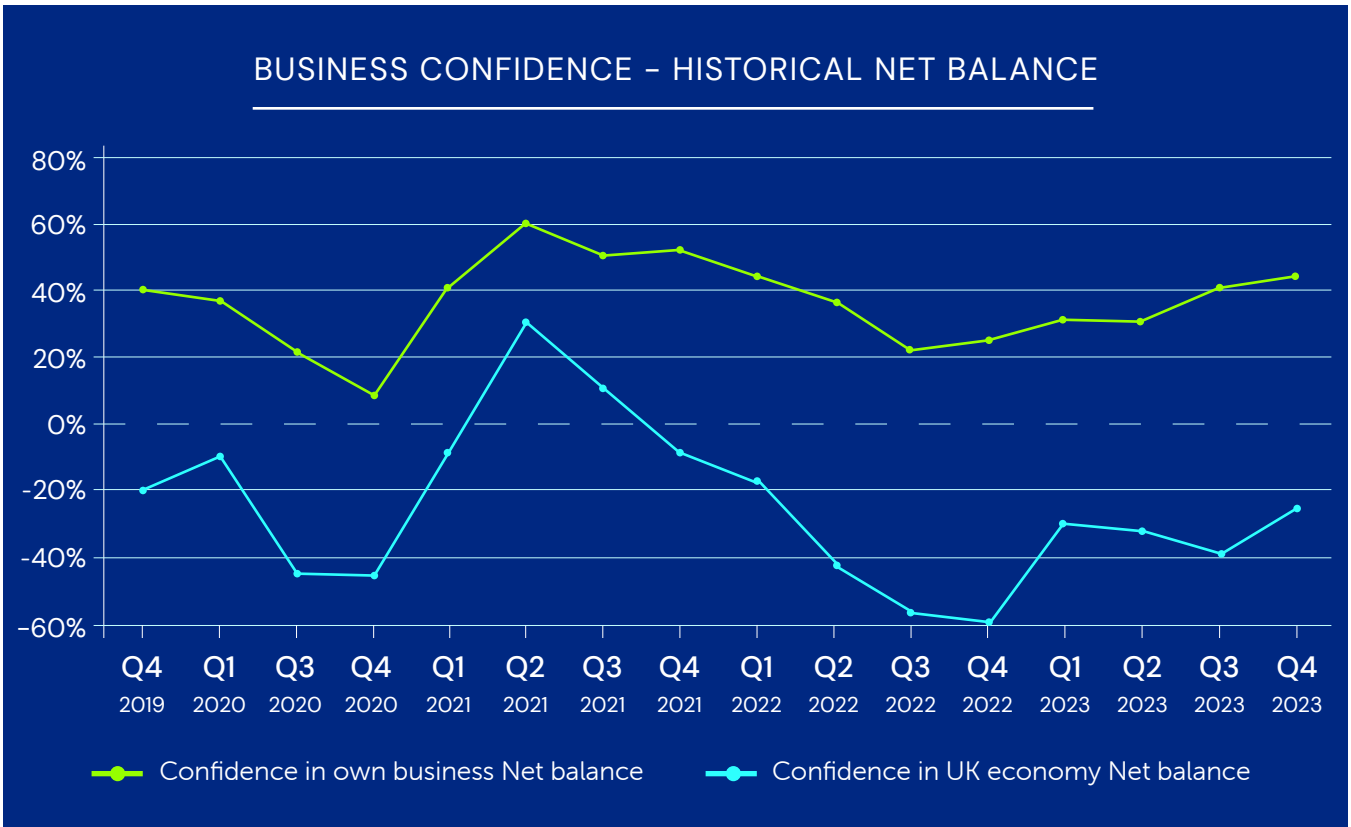
CONFIDENCE: THE NEXT 12 MONTHS

The QES results over 2023 have consistently revealed a disparity in confidence levels between businesses’ own prospects and their outlook for the broader UK economy. This trend persisted in Q4, with businesses expressing significantly higher confidence in their own growth potential compared to the national economic outlook.

This quarter, 62% of respondents expressed confidence in the prospects of their businesses for the next 12 months, reflecting a degree of resilience and adaptability amidst ongoing challenges. This positive sentiment suggests that businesses are finding ways to navigate the complex economic landscape, including persistent inflation, recruitment and retention difficulties, and declining consumer spending.

In contrast, almost half (45%) of participants held pessimistic views on the outlook for the national economy over the next year, highlighting the lingering uncertainties facing the broader economy. Only 19% of surveyed businesses reported confidence in the prospects of the UK economy for the next 12 months.

This disparity in confidence levels underscores the complex nature of the current economic environment. Businesses are facing a multitude of challenges, yet they are also demonstrating resilience and adaptability. While the national economic outlook remains uncertain, businesses’ confidence in their own growth potential offers a glimmer of optimism for the future.



BUSINESS PROFILES

Of the 301 respondents, most are smaller businesses, more than half have an annual turnover under £500,000, and 27% between £1 – 10 million. The vast majority of respondents (76%) are limited companies.

Geographically, 52% the respondents are from the 'West of England' area (26% of these are in the narrower City of Bristol area), another 15% are located in Swindon and Wiltshire, 14% in Gloucestershire, and 20% are from the wider South West region.

Our respondents are significantly more likely to be exporters than the general UK business community, making up 48% 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.

Research and reporting conducted by Gustavo Guntren.

All questions and comments about the material are welcome to:

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OUR Q4 FINDINGS

THIS QUARTER: Q4 2023

	SERVICES	MANUFACTURING	OVERALL	Q3 TREND
UK SALES	7%	5%	7%	▲
UK ORDERS	2%	4%	2%	▲
EXPORT SALES	-1%	5%	1%	▲
EXPORT ORDERS	-6%	14%	1%	▲
CURRENT WORKFORCE	3%	9%	5%	▲
FUTURE WORKFORCE	14%	26%	17%	▼
BUSINESS CONFIDENCE	39%	53%	43%	▲
CONFIDENCE IN ECONOMY	-24%	-35%	-27%	▲



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