



◀ Business
West

Quarterly Economic Survey

Q1/2024

Business West, a business leadership and support organisation, helps companies **grow, innovate and export.**

Everything it does contributes to making the South West the best place to live, learn and work. It runs the Chambers of Commerce for Bristol, Bath, Gloucestershire and Wiltshire as an accredited member of the British Chambers of Commerce.

Leaders and staff from almost 300 businesses completed the latest quarterly economic survey, the longest running survey of its kind which is used by the Bank of England as one of the first economic indicators of each quarter.

We would like to thank all respondents for their time in completing the survey, which provides Business West with invaluable up to date insight into the trends and state of business health in our region.



EXECUTIVE SUMMARY

The findings of Q1 2024 portray an economic environment filled with ongoing challenges and emerging opportunities. Businesses are noticing a widening gap between how they expect their business to perform and their expectations for the UK's economy as a whole. This means they have to work harder to meet their goals, especially with the uncertainty in the national economy and the overall lack of confidence among consumers and investors.

WORKFORCE AND SKILLS

The labour market remains a notable concern with 19% of businesses expressing difficulty recruiting, although 42% of respondents are still seeking to fill predominantly permanent and full-time roles, a significant 63% have said they are facing challenges in hiring, especially for skilled manual/technical and professional/managerial positions.

BUSINESS CONFIDENCE

Confidence in business prospects remains strong, with 63% optimistic about their future despite only 16% reflecting such positivity towards the wider UK economy.

SALES

Domestic sales have shown an upward trajectory with net balance improvement reported by businesses, signalling an active market despite the broader economic headwinds. Manufacturers and service providers alike report a generally optimistic sales outlook.

INTERNATIONAL SALES

International sales present a less favourable picture. A downturn in the export sales net balance signifies that businesses are facing tougher global trading conditions, with manufacturing particularly impacted.

SOURCES OF CONCERN

General economic conditions and business uncertainty are the dominant sources of concern for businesses, with taxation, interest rates, and competition also flagged as significant. While the level of worry about inflation has declined this quarter, it remains a critical issue for a sizable portion of respondents.

PROFITABILITY

Profitability forecasts are moderately optimistic, yet lag behind sales expectations, suggesting that businesses are bracing for challenges in translating sales into bottom-line growth.

Businesses are noticing a widening gap between how they expect their business to perform and their expectations for the UK's economy as a whole.

FEEDBACK TRENDS

Respondents could share comments along with their survey responses, giving crucial insights that supported the emerging trends seen in the data. They provide further context into the current challenges and expectations within the UK's economic and business landscape, particularly focusing on themes such as business expectations, government action, price pressures, and recruitment difficulties. These themes are not only pivotal in understanding the immediate concerns of businesses but also in delineating the broader economic trajectory as we navigate through the first quarter of 2024.

BUSINESS EXPECTATIONS

The overall expectations for the future paint a picture of moderate optimism tempered by concerns over economic conditions. While businesses express confidence in their individual prospects, worries about the broader UK economy persist. This complex perspective is evident in the report's findings, which highlight a disparity between the optimism for individual business outlooks and the national economic prospects. Such a discrepancy suggests that while opportunities for growth and stability exist, they are navigated within a context of broader economic headwinds.

"I think the constant uncertainty and forthcoming election will unsettle the markets, but small businesses are pretty resilient, and we are still finding prospective clients approaching us."

– North Somerset based, accountancy business.

Expectations for the future paint a picture of moderate optimism.

GOVERNMENT ACTION

The role of government policies and their impact on businesses is a recurring theme, with several comments expressing concerns or expectations towards governmental actions. As businesses grapple with enduring challenges, there is a clear call for policy measures that are responsive and supportive of the business environment, particularly in areas highlighted by the report such as regulation, taxes, and skills development.

"Bristol property / construction sector is buoyant however the slow and unpredictable planning system is still a major risk factor for developers and is undoubtedly holding Bristol back."

– Bristol based, construction business.

PRICE PRESSURES

Inflationary pressures remain a major concern, with a significant amount of comments pointing towards issues related to rising prices and costs. As businesses anticipate further price rises, the need for targeted policy responses to mitigate these impacts and support sustainable growth becomes increasingly apparent. The alignment between the comments and the report underscores the pervasive nature of inflationary pressures and the urgent need for comprehensive strategies to address them.

"GDP growth is way below inflation, so company earnings are getting increasingly squeezed by labour and other cost rises."

– North Somerset based, accountancy business.

RECRUITMENT DIFFICULTIES

Recruitment is one of the key challenges in our respondent's comments directly addressing difficulties in attracting talent, especially in skilled, manual, technical, professional, and managerial roles. The difficulty in sourcing skilled workers underscores the critical gap between the supply of and demand for labour, emphasising the necessity for the continuation of initiatives aimed at aligning the education and skills system with business needs.

“We wanted to move to a local office - 15 highly paid professional staff members, but can't recruit people so had to go to work from home model, distributed. we need local policies to support building local skills pools.”

– John Spear, EPI Consulting in Gloucestershire

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WORKFORCE AND EMPLOYMENT

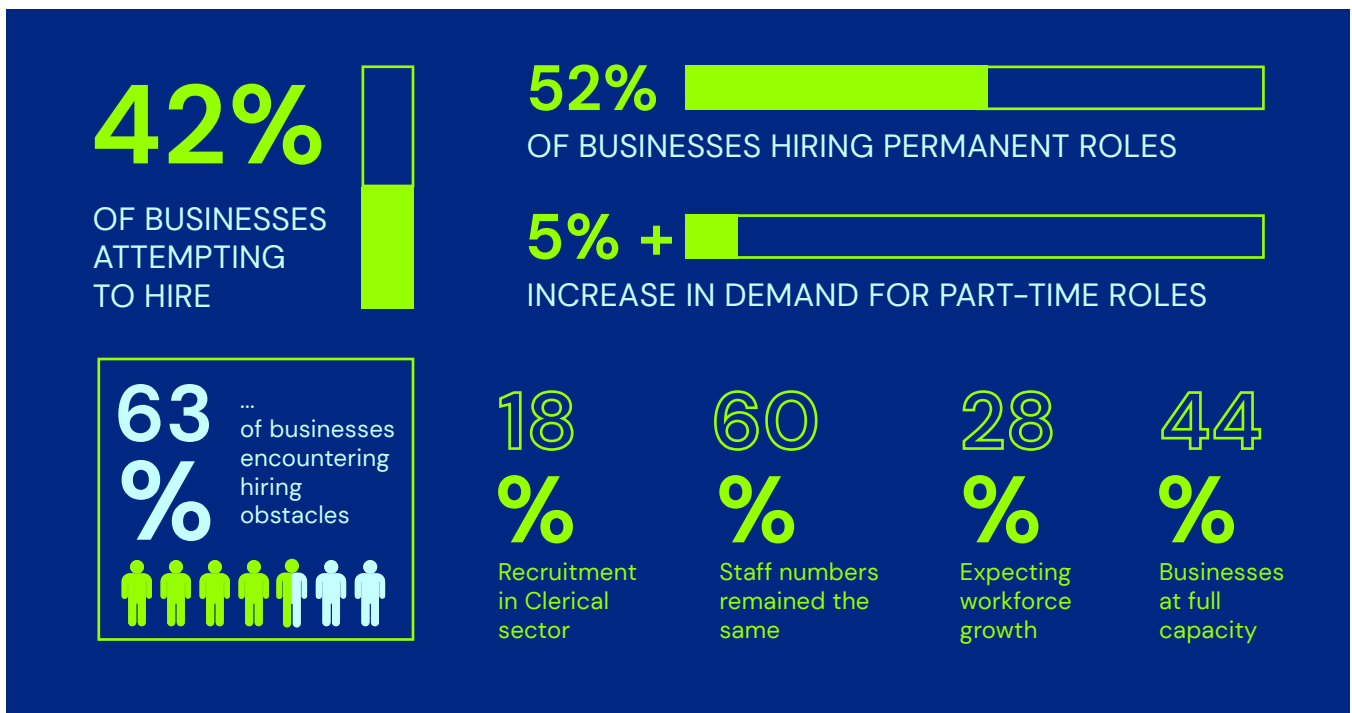
The first quarter of 2024 continues to reflect long-standing challenges within the UK labour market, with 19% of respondents highlighting it as a concern. Recruitment activities were robust, as 42% of businesses attempted to hire, predominantly seeking to fill permanent (52%) and full-time positions (80%), though there was also a 5% increase in demand for part-time roles from Q4 2023 (45%).

However, the endeavour to attract new talent is proving difficult for many, with 63% of businesses encountering hiring obstacles. This difficulty is most pronounced in sourcing skilled manual or technical workers (33%) and professional or managerial staff (32%), indicating a pressing demand for this level of expertise. Less acute, but still challenging, are the recruitment efforts for clerical (8%) and semi-skilled or unskilled jobs (18%).

On a positive note, workforce numbers are expanding: 18% of businesses reported an increase in their payrolls, contrasting with an 11% decrease. For 60% of respondents, staff numbers remained the same. The outlook for the next quarter is similarly positive, with 28% of respondents expecting workforce growth, 70% anticipating no change, and only a marginal 3% predicting a reduction.

Capacity utilisation within businesses tells a mixed story: while nearly half (44%) are operating at full capacity, the remaining 56% are not, pointing to untapped potential within the economy. These results echo last year's patterns, indicating a gradual alleviation of labour market pressures.

Nevertheless, pressures persist at levels higher than what might be desired, signalling that while the direction of change is favourable, the pace is slower than businesses and policymakers might hope for.



PRICES AND INFLATION

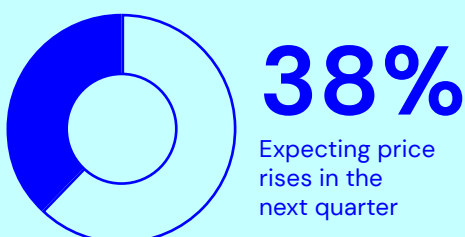
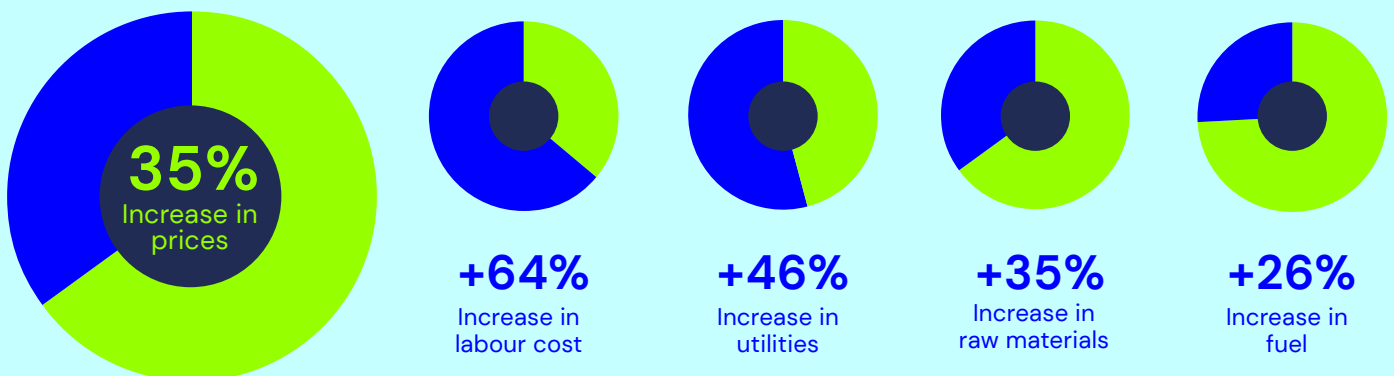
In the first quarter of 2024, 35% of businesses surveyed reported an increase in prices, underlining the pervasive inflationary pressures across sectors. A detailed analysis reveals that 64% of all respondents identified labour costs as the principal inflation driver, followed by utilities (46%), raw materials (35%), and fuel (26%). With 38% of businesses expecting price rises in the forthcoming quarter, it is evident that these inflationary pressures are set to continue.

A sectoral breakdown shows significant variances. In manufacturing, a higher proportion of businesses, 49%, reported price increases, attributing this to labour costs (72%), raw materials (62%), utilities (49%), and import costs (39%). Here, 39% of firms anticipate further price increases, indicating acute inflationary tendencies.

Conversely, in the services sector, 29% of businesses noted price hikes, with labour costs again cited as the primary factor (61%), followed by utilities (44%), fuel (27%), and raw materials (23%). With 37% of service providers expecting price increases, it underscores a sustained inflationary outlook.

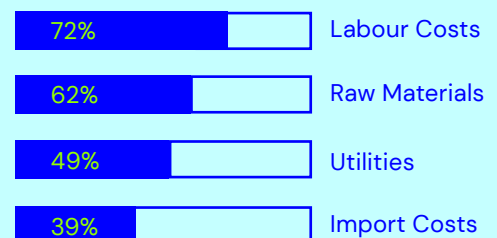
Labour costs emerge as a universal challenge across most sectors.

This analysis highlights the sector-specific impacts of inflation, with manufacturing facing more pronounced pressures. Labour costs emerge as a universal challenge across sectors, providing further evidence that the labour market remains a key challenge for businesses.



Breakdown figures for manufacturers

49%
Reported price increases



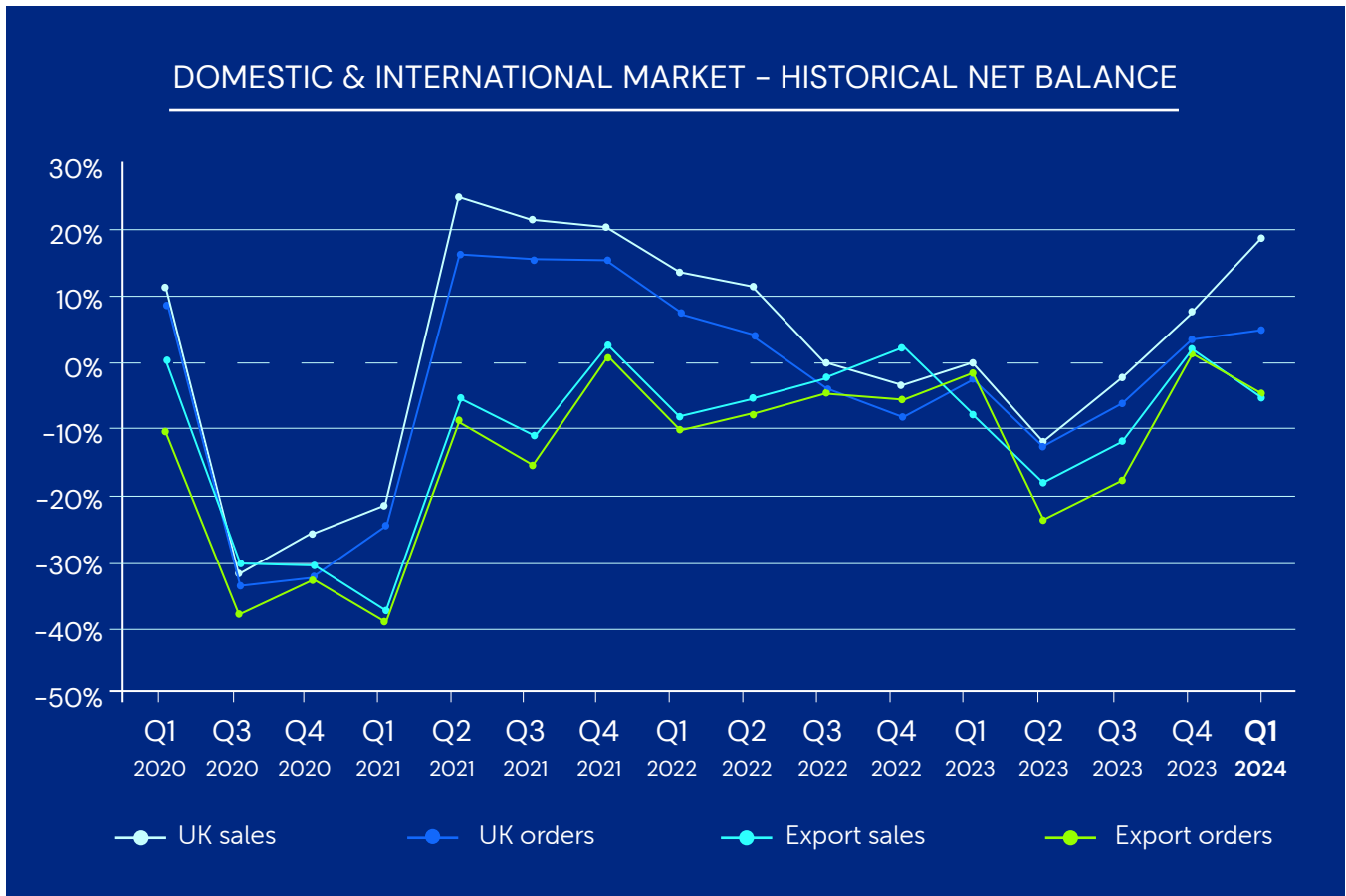
DOMESTIC MARKET

In the first quarter of 2024, the domestic sales net balance for all surveyed businesses exhibited a notable increase to 18%, up from 7% in the final quarter of 2023. This improvement reflects a robust demand environment, even as the UK grappled with the onset of a recession.

Similarly, the net balance for domestic orders in Q1 2024 rose to 5%, demonstrating an improvement of three points from the previous quarter. These figures suggest that, despite economic challenges, demand within the UK market remains resilient among the surveyed respondents.

A closer examination by sector reveals a divergent picture. Within the manufacturing sector, the domestic sales net balance stood at 5 percentage points in Q1 2024, indicating a more subdued performance compared to the aggregate. Conversely, service businesses reported a much stronger domestic sales balance of 18 percentage points in the same period, aligning with the overall sample's performance.

This sector-specific analysis underscores the differential impacts of the current economic downturn, with service businesses seemingly better positioned to withstand the recessionary pressures than their manufacturing counterparts.



INTERNATIONAL MARKET

The recent findings for Q1 2024 present a disappointing shift in the UK's international trade outlook, particularly after the slightly more optimistic perspectives observed in Q4 2023. All respondents experienced a downturn in export performance, with the export sales net balance declining to -4%, a noticeable drop from the 1% recorded in the previous quarter. Similarly, the export orders net balance also fell to -4%, reversing the modest gains seen in Q4 2023.

The manufacturing sector felt a sharper impact, with its export sales net balance worsening to -6% and export orders declining further to -9%. This downturn underscores the significant challenges faced by manufacturers in reaching overseas markets amidst ongoing economic uncertainty.

Conversely, the services sector displayed a somewhat steadier performance, with export sales net balance reducing slightly to -3% and export orders net balance managing to hold steady at 0%.



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

Despite this relative stability, the overall decline in both export sales and orders across sectors signals a concerning trend away from the hopeful signs of recovery noted at the end of the previous year, highlighting the need for renewed strategies to bolster the UK's export capabilities.



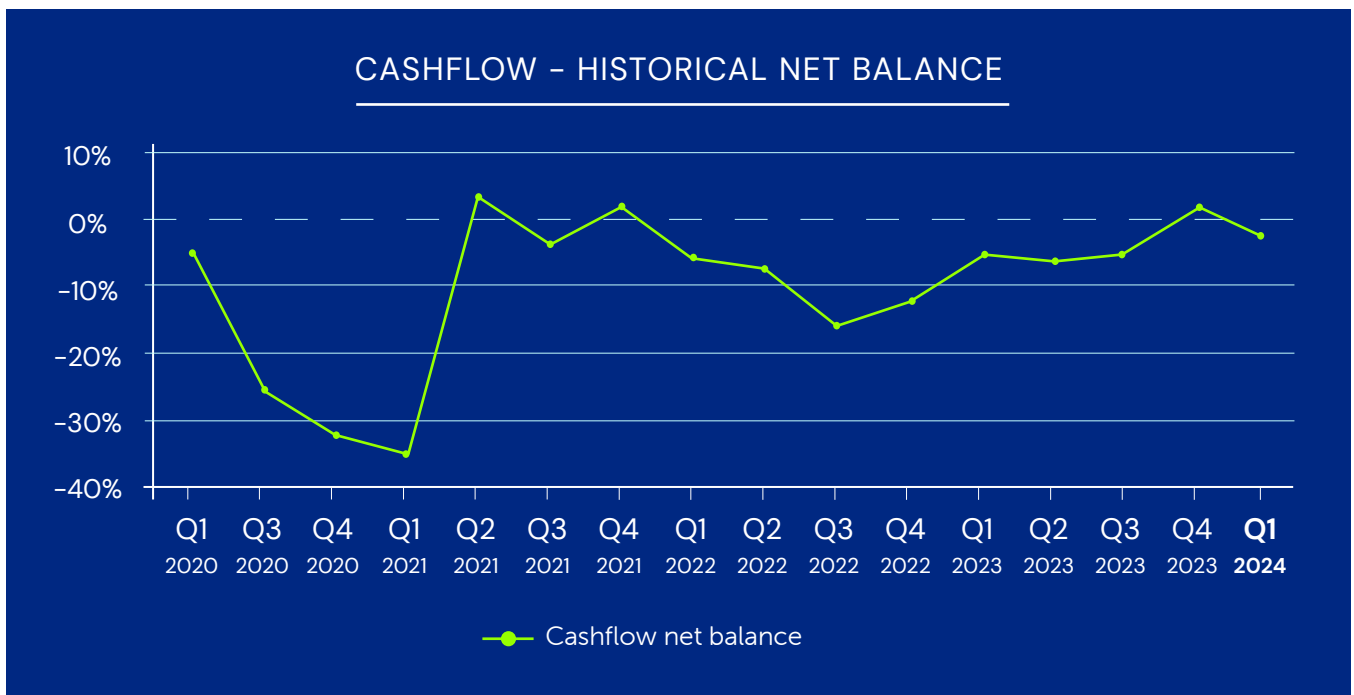
CASHFLOW

Moving into the first quarter of 2024, there has been a shift in financial momentum, contrasting with the more optimistic outlook of Q4 2023. However, it's important to note that cash flows are still holding up when compared to previous years. Despite seeing improvement in domestic sales, the overall cash flow net balance across all respondents dipped into negative territory at -1%. This downturn contrasts sharply with the domestic sales uplift, highlighting the challenges businesses face in managing their liquidity.

Manufacturers, despite maintaining a positive cash flow net balance of 3%, experienced a significant decline from the 12% reported in the previous quarter.

Meanwhile, the services sector saw a continuation of its previous quarter's trend, with a cash flow net balance of -3%, suggesting ongoing financial strains.

-1% Cashflow
net balance
Q1 2024



PROFITABILITY

Q1 results present an intriguing outlook on turnover and profitability expectations within UK businesses over the next 12 months. For all businesses surveyed, a majority anticipate improvements in turnover (60%) and profitability (44%). This sentiment is slightly more optimistic regarding turnover than in profitability, where a significant 21% foresee a downturn.

A sector-specific analysis again reveals a more nuanced perspective. Manufacturers are cautiously optimistic, with 53% expecting an uptick in turnover and 42% in profitability. However, there's a notable concern about profitability, with 17% predicting a decline, indicating concerns about operational costs or market conditions impacting earnings.

The services sector shows a more positive outlook on turnover however, with 62% predicting improvement, suggesting robust consumer demand or service innovation. Yet, the sentiment is again more reserved regarding profitability, with 45% optimistic, and a noteworthy 23% anticipating a worsening situation. The concern over profitability, despite high turnover expectations, could reflect the way in which rising costs or competitive pressures are eroding margins.

Overall, this quarter's most consistent trend lies in the disparity between turnover and profitability expectations across sectors. There's a clear optimism about sales, but this does not directly translate to profitability, highlighting the underlying challenges businesses may face in converting sales into profits.

60% Anticipated improvements in turnover



FINANCE AND INVESTMENT

This quarter's survey reflects a modest yet welcome expansion in all categories of investment among UK businesses, signalling a continuation of the positive turn that took place in Q4 2023.

Over the past quarter, the availability of finance has shown stability for a significant 37% of respondents, with 11% of businesses reporting improvements. However, access to finance has deteriorated for 9% of respondents, indicating that challenges persist for some.

Furthermore, 18% of participants expressed concerns regarding their current financial position, emphasising the need for continued monitoring of business health.

Finance costs remain a pressing issue, with 17% indicating it as a factor exerting upward pressure on prices, a figure consistent with the last quarter's report. Similarly, concern around interest rates is sustained, with 22% of businesses voicing concerns. In light of these challenges, the overall expansion in investment is particularly encouraging. Investment plans for plant, machinery, and equipment showed a net balance of 3%, matching the net balance for office and property space investments. More significantly, investment plans in training and research and development are up by 8% and 6% respectively.

These figures suggest a strategic commitment to future growth and innovation, which is vital for long-term economic resilience.





SOURCES OF CONCERN

The first quarter of 2024 has not brought the alleviation that businesses might have hoped for, as most of the previous year's concerns persist. Notably, general economic conditions remain the predominant concern, with an unchanged 69% of respondents highlighting this as a major issue, reflecting a consistent anxiety about the macroeconomic landscape.

General business uncertainty, while still a significant concern for just over half of the participants at 51%, has seen a marginal decrease from 56% in the previous quarter. Nonetheless, it retains its position as the second most cited source of concern, underscoring a persistent sense of instability within the business community.

Inflation, despite a reduction in the number of businesses flagging it as a worry to 39%, continues to be a substantial issue. This suggests that, while perhaps less acute than in previous quarters, the cost of doing business remains a considerable challenge.

Other issues faced by business participants include taxation, which 27% of respondents have reported as concerning, interest rates flagged by 22%, and the labour market and competition, mentioned by 19% and 18% of businesses respectively. These issues, while less pressing than general economic conditions and business uncertainty, show the array of challenges that businesses face as they navigate an increasingly complex economic environment.



CONFIDENCE: THE NEXT 12 MONTHS

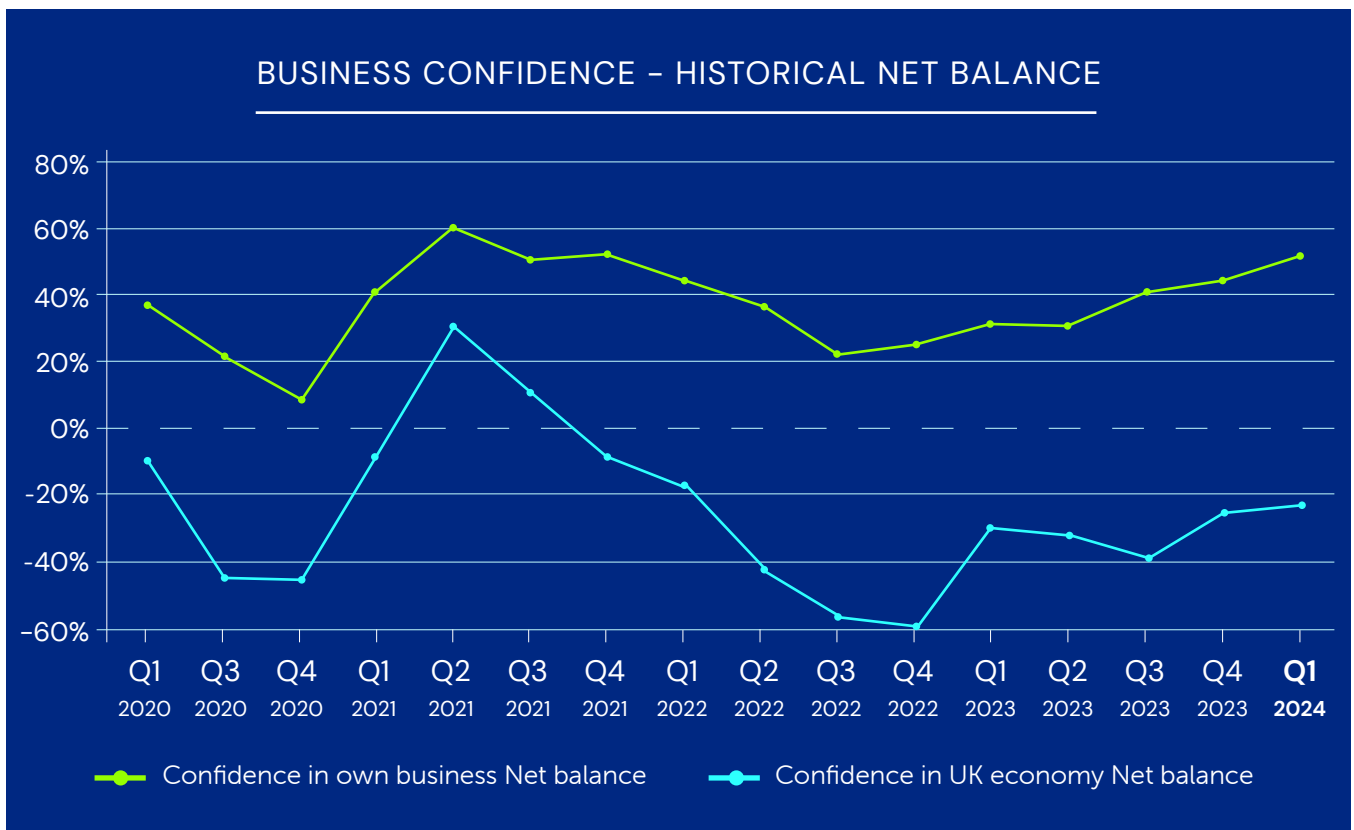
In the first quarter of 2024, a notable divergence has been observed in the sentiment of UK businesses: while a majority of 63% expressed confidence in their own prospects over the next 12 months, only 16% shared this optimism towards the broader UK economy. The contrast is striking, with the gap between individual business outlooks and the national economic prospects widening.

Such a discrepancy highlights a complex context where businesses possibly foresee opportunities for growth or stability within their operations or sectors, despite broader economic headwinds.

This positive outlook coexists with 42% of participants harbouring negative expectations for the UK economy, a consideration also balanced by the 42% of respondents who prefer to remain neutral is perhaps a reflection of the prevailing economic uncertainties.

A lower number of respondents (11%) are pessimistic about their own business prospects, suggesting that while the overall economic sentiment is subdued, many retain a measure of optimism for their own affairs. This resilience in the face of national economic challenges may be due to robust business models, niche market positions, or effective adaptation strategies.

Nonetheless, the disparity in perspectives underscores a critical need for context-specific understanding of economic confidence levels within the UK.



BUSINESS PROFILES

Of the 268 respondents, most are smaller businesses, more than half have an annual turnover under £500,000, and 29% between £1 – 10 million. The vast majority of respondents (78%) are limited companies.

Geographically, 39% the respondents are from the 'West of England' area (21% of these are in the narrower City of Bristol area), another 16% are located in Swindon and Wiltshire, 15% in Gloucestershire, and 30% 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.

Research and reporting conducted by Gustavo Guntren.

All questions and comments about the material are welcome to:

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OUR Q1 FINDINGS

THIS QUARTER: Q1 2024

	SERVICES	MANUFACTURING	OVERALL	Q1 TREND
UK SALES	18%	20%	18%	▲
UK ORDERS	4%	8%	5%	▲
EXPORT SALES	-3%	-6%	-4%	▼
EXPORT ORDERS	0%	-9%	-4%	▼
CURRENT WORKFORCE	10%	4%	9%	▲
FUTURE WORKFORCE	19%	38%	24%	▲
BUSINESS CONFIDENCE	49%	62%	52%	▲
CONFIDENCE IN ECONOMY	-26%	-35%	-26%	=



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