Business West

Quarterly Economic Survey

Q4/2024

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 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 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 for our region.

EXECUTIVE SUMMARY

The results of Q4 2024 show an overall decline in optimism among businesses amidst a challenging economic environment. The report reflects ongoing concerns about the labour market, taxation, price pressures, and general economic conditions.

WORKFORCE AND SKILLS

Recruitment activity has remained steady, with 45% of businesses seeking new staff. However, 64% of participants reported difficulties in finding suitable candidates, particularly for skilled and managerial roles. 62% of businesses are operating below capacity.

BUSINESS CONFIDENCE

Business confidence remains positive, with a net balance of 14%, although this is a decline from Q3 2024. Confidence in the UK economy shows a notable deterioration, with a net balance of -53%, down from -12% in the previous quarter.

SALES

The domestic market remains in negative territory in Q4 2024, with a net balance of -12% for UK sales, dropping from -1% in Q3 2024.

INTERNATIONAL SALES

International sales also experienced a decline, with a net balance of -7%, down from -5% in the previous quarter.

SOURCES OF CONCERN

General economic conditions and business uncertainty remain the top concerns, with 75% and 63% of businesses respectively. Concerns about taxation are now the third most mentioned issue by 62% of respondents. Other notable concerns include inflation, competition, and interest rates.

PROFITABILITY

Profitability forecasts for the next 12 months have turned pessimistic in Q4, with 31% expecting improvement, 26% anticipating stability, and 43% foreseeing decreases.

Confidence in the UK economy shows a notable deterioration.

45%
Of businesses looking for new staff

-53%
Confidence in the UK economy

-7%
Decline in NET balance sales

31%
Expected improvement in profitability

The results of Q4 2024 show an overall decline in optimism among businesses amidst a challenging economic environment.

KEY THEMES

This section highlights some of the main business concerns and sentiments based on comments collected in the last quarter of 2024.

INFLATION & PRICING CHALLENGES

"We don't want to increase prices, as we want to remain competitive internationally, but will be forced to raise our prices by changes in taxation and the minimum wage."

- North Somerset based manufacturing business.

INFLATION & PRICING CHALLENGES

"We need to increase prices as the pound is dropping versus other currencies and we see this getting worse - 90% of our turnover is from export markets."

- Gloucestershire based consultancy business.

BUSINESS PROSPECTS FOR THE NEXT 12 MONTHS

"We are a new growing business with lots of opportunities so hopeful that things should improve, but it isn't easy to convert opportunities into actual revenue and profit."

- South Gloucestershire based hospitality business.

"We are expecting the business to grow, but the profit to remain consistent due to rising costs."

- Somerset based Education Business - comment edited for clarity.

"There is lots of demand out there for our products but with shortages of labour and the increases in taxation, the prospects are uncertain."

- North Somerset based manufacturing business.

"We have a solid customer base but the impending rises in inflation, salary costs may impact their ability to work with us at the same levels."

- Bristol based service business.

EXPECTATIONS FOR THE ECONOMY OVER THE NEXT 12 MONTHS

"[I am] anxious about the effect on the economy of the new administration in the US and impact of general inflation in the case of tariffs."

- Bristol based service business.

"We expect profitability to fall as a result of increased taxation, inflation, falling business confidence, economic downturn."

- Swindon based education business.

"I can understand what the current government is trying to achieve through its budget - with the exception of the NI rise which is very damaging - but it's going to take longer than 12 months to make a positive difference."

- Bath and North Somerset based service business.

WORKFORCE AND EMPLOYMENT

Over the past three months, recruitment activity remained consistent. 45% of respondents actively sought new staff, while 55% did not engage in hiring. Among those recruiting, full-time and permanent roles continued to be the primary focus, with no significant changes from the previous quarter.

However, finding suitable candidates remained a challenge for many businesses. Almost two thirds (64%) of respondents reported difficulties in recruitment. Skilled manual and technical positions, as well as professional and managerial roles, were particularly challenging to fill, as reported by 57% and 48% of businesses respectively.

The aforementioned challenges might be one of the reasons why the majority of businesses (62%) are currently operating below capacity, while 38% are operating at full capacity.

The labour market continues to be a concern, with 23% of respondents identifying it as an issue in the past three months. Looking ahead, workforce expectations are cautious. While 68% of businesses anticipate a stable workforce, 16% expect an increase in staff numbers. However, a growing number (16%) foresee a decrease in staff, up from 14% in the previous quarter.

Skilled manual and technical positions, as well as professional and managerial roles, were particularly challenging to fill.

PRICES AND INFLATION

The fourth quarter of 2024 revealed a continuation in the trend towards price stability among businesses. 70% of respondents reported no change in their prices over the past three months. Nevertheless, it is important to note that a significant portion (27%) increased their prices, while only a small minority (3%) reduced them.

Inflation remained a pressing concern for many businesses, with almost a third of respondents (32%) identifying it as an ongoing issue. Labour costs emerged as the most significant contributor to price pressures, affecting 73% of businesses. Utilities (46%), raw materials (40%), and fuel (25%) were also mentioned as inflationary drivers.

Other notable factors reported were finance costs (17%) and import costs (16%). Although inflationary pressures appear to be easing, concerns about cost rises and their impact on pricing strategies persist as indicated by almost half of respondents who are expecting to increase their prices over the next three months.

73%

Labour costs emerged as the most significant contributor to price pressures, affecting 73% of businesses.

INFLATION

Remains a pressing concern for businesses

Whilst Inflation remained a pressing concern for many businesses, labour costs, utilities, raw materials and fuel were also inflationary drivers.

Of businesses expect to increase their prices over the next quarter

BUSINESSES INCREASED PRICES

BUSINESSES REDUCED PRICES

DOMESTIC MARKET

In Q4 2024, the domestic market displayed negative results across sectors. For the overall sample, the net balance for UK sales was -11%, with 21% of businesses reporting an increase and 32% experiencing a decrease. UK orders showed a negative balance of -21%, with 14% reporting an increase and 35% a decrease.

Both UK sales and orders for service sector businesses experienced negative net balances of - 13% and -21% respectively, deepening the decline reported in the previous quarter. Domestic sales in the manufacturing sector had a net balance of -9%, with 23% of participants reporting increases and 32% decreases.

UK orders showed a negative balance of -20%. Compared to Q3 2024, when the net balance for domestic sales was -1% and for orders was - 3%, the overall performance of the domestic market has continued to decline in Q4

£ Net balance for UK sales Q3 2024	-11%
£ UK sales & orders (service sector)	-13%
£ Domestic sales (manufacturing)	-9%

INTERNATIONAL MARKET

In the fourth quarter of 2024, the performance of the international market also showed negative results across sectors. For the overall sample, the net balance for export sales stood at -7% compared to -5% in Q3, with 11% of businesses reporting an increase and 18% experiencing a decrease. Export orders were also negative with a net balance of -11%, as just 9% of businesses reported increases, while 20% experienced decreases in their orders.

The net balance for export sales in manufacturing was -7%, with 18% of service businesses reporting an increase and 25% a decrease. Export orders also showed a net balance of -9%, with 18% reporting an increase and 37% a decrease.

For service sector businesses, the net balance for export sales was -8%, with 8% of service businesses reporting an increase and 16% a decrease. Export orders showed also a negative net balance of -11%, with 6% reporting an increase and 17% a decrease.

SERVICE SECTOR BUSINESSES

EXPORT SALES	-8%
EXPORT ORDERS	-11%

INTERNATIONAL MARKET

Europe	90%
North America	67%
Central & South America	23%
Middle East	40%
China	18%
Southeast Asia	30%
Central Asia	17%
Africa	26%
Australasia	42%

CASHFLOW

In Q4 2024, cash flow challenges persisted across all sectors. For all respondents, the net balance for cash flow was -22%, with 17% of businesses reporting increased cash flow and 39% experiencing a decline. This overall negative balance indicates continued financial strain.

The manufacturing sector has faced the most substantial cash flow difficulties in Q4.

The manufacturing sector faced the most substantial cash flow difficulties with a cash flow net balance of -32% in Q4. 14% of manufacturers saw an increase in cash flow, while 46% reported a decrease. This net balance shows a significant decline compared to the previous quarter's neutral results.

The services sector reported a slightly less pronounced decline in their net balance for cash flow with a result of -18%, with 18% of service businesses confirming increases and 36% experiencing a decrease. However, the negative trend continues to indicate ongoing challenges in the service sector.

CASHFLOW

-22%

Respondents net balance cash flow

17% Businesses reporting increased cash flow

39% Businesses reporting decreased cash flow

MANUFACTURERS DECREASE IN CASH FLOW **46%**

SERVICE SECTOR DECREASE IN CASH FLOW **36%**

PROFITABILITY AND TURNOVER

Businesses express a less positive outlook for their commercial prospects over the next 12 months than in previous quarters. For turnover, 43% of respondents anticipate improvements, 32% expect stability, and 25% foresee a decline. Regarding profitability, the outlook is slightly more reserved, with 31% predicting improvement, 25% expecting stability, and 43% anticipating a decline.

Manufacturers exhibit a similar stance, with 41% expecting turnover improvement, 32% anticipating stability, and 27% predicting a decline. In terms of profitability, 32% expect improvement, 23% foresee stability, and 45% predict a decline.

The service sector is slightly more optimistic about turnover, with 44% expecting an increase. However, their profitability expectations are similar to those of manufacturers, with 31% predicting improvement, 26% expecting stability, and 42% anticipating a decline. Compared to Q3 2024, when 52% of businesses expected turnover improvement and 42% anticipated increased profitability, there has been a decline in the expectations of respondents about their turnover and profitability over the next 12 months.

The manufacturing sector is expecting a 41% turnover improvement.

The service sector is slightly more optimistic about turnover, with 44% expecting an increase.

BUSINESSES COMMERCIAL PROSPECTS OUTLOOK FOR TURNOVER IN THE NEXT 12 MONTHS:

FINANCE AND INVESTMENT

Investment activity among businesses has varied across different categories in the past three months. For plant, machinery, and equipment, a net balance of -17% indicates a decline in investment. Investment in office and property space also experienced a decline, with a net balance of -16%.

Investment in training showed a negative net balance of -8%, while research and development investment declined as well with a net balance of -7%.

The availability of finance has been mixed. Only 6% of businesses reported an improvement, while 41% experienced no change and 10% reported a deterioration. A significant number of respondents (21%) expressed uncertainty about the current financial position, highlighting potential concerns or a lack of clarity in the market.

Compared to Q3 2024, when 10% of businesses reported improved finance availability and 10% saw deterioration, Q4 reflects similar results. This suggests a continued climate of uncertainty and financial constraints among businesses.

A significant number of respondents (21%) expressed uncertainty about the current financial position, highlighting a lack of clarity in the market.

SOURCES OF CONCERN

In Q4 2024, businesses continue to face a myriad of challenges, with general economic conditions remaining the predominant concern for 75% of respondents. This reflects persistent anxiety about the economic environment, up from the 67% reported in Q3 2024.

General business uncertainty is also a significant issue, cited by 64% of businesses. Although this is consistent with Q3 figures, it underscores ongoing instability within the business community.

The percentage of participants reporting an increase in taxation as a source of concern is significant, raising to 62% from 33% in Q3 2024.

Other notable concerns include inflation and competition, cited by 32% and 21% of respondents, respectively. Interest rates are a concern for 14% of businesses, reflecting worries about borrowing costs and financial stability. This is consistent with Q3 figures, where 16% highlighted interest rates as a concern.

Finally, the labour market is a concern for 23% of respondents, indicating ongoing challenges in hiring and retaining talent.

An increase in taxation as a source of concern is significant.

Businesses concerns Q4 2024

75%	64%	62%
General economic conditions	General business uncertainty	Concerns around taxation

Other notable concerns include inflation and competition, cited by **32%** and **21%** of respondents, respectively.

CONFIDENCE: THE NEXT 12 MONTHS

In Q4 2024, business confidence in the UK economy shows a decline, with 8% of businesses feeling positive and 61% feeling negative, resulting in a net balance of -53%. This marks a considerable deterioration from Q3 2024's net balance of -12%.

Confidence in individual business prospects remains positive, with a net balance of 14%. Although this is a decline from 35% in Q3 2024.

Q4 BUSINESS POSITIVITY

8% Businesses feeling **positive**

61% Businesses feeling **negative**

CONFIDENCE IN THE UK ECONOMY NET BALANCE:

Q3: -12 **Q4: -53%**

ATTITUDE IN UK ECONOMY:

CAUTIOUS

BUSINESS PROFILES

Most respondents are smaller businesses, almost half have an annual turnover under £500,000, and 37% between £1 – 10 million. The vast majority of respondents (77%) are limited companies.

Geographically, 47% of 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, 18% in Gloucestershire, and 19% 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:

policy@businesswest.co.uk

OUR QUARTERLY FINDINGS

THIS QUARTER: Q4 2024

	SERVICES	MANUFACTURING	OVERALL	TREND
UK SALES	-13%	-9%	-12%	▼
UK ORDERS	-21%	-20%	-21%	▼
EXPORT SALES	-8%	-7%	-7%	▼
EXPORT ORDERS	-11%	-9%	-11%	▼
CURRENT WORKFORCE	1%	-5%	0%	▼
FUTURE WORKFORCE	1%	-4%	0%	▼
BUSINESS CONFIDENCE	13%	18%	14%	▼
CONFIDENCE IN ECONOMY	-52%	-57%	-53%	▼

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LinkedIn.com/businesswest
@bw_businesswest

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