Business West

Quarterly Economic Survey

Q2/2024

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 223 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 findings of Q2 2024 illustrate a business landscape grappling with ongoing economic challenges and moderate optimism in specific areas. There is a slight improvement in confidence regarding the UK economy, but businesses still face significant uncertainties and pressures.

WORKFORCE AND SKILLS

The labour market remains a critical issue, with 69% of businesses reporting difficulties in recruitment, particularly for skilled manual/technical and professional/managerial roles. Despite this, 79% of respondents are looking to recruit full-time positions and 49% for permanent positions.

BUSINESS CONFIDENCE

The net balance of confidence in business prospects has declined to 39% from 52% in Q1 2024, though it remains robust compared to previous downturns. Confidence in the UK economy shows a modest improvement, with a net balance of -21%.

SALES

Domestic sales remained positive in Q2 with a net balance of 5%, indicating resilience despite broader economic challenges. Manufacturers reported stronger performance compared to businesses in the service sector.

INTERNATIONAL SALES

International sales present a mixed picture with a net balance of 1% for export sales, reflecting modest recovery. However, the services sector continues to struggle with export performance.

SOURCES OF CONCERN

General economic conditions and business uncertainty remain the top concerns, with 62% and 51% of businesses respectively. Concerns about inflation have eased slightly, but it remains a significant issue for 25% of respondents. Other notable concerns include competition, taxation, and interest rates.

PROFITABILITY

Profitability forecasts are moderately optimistic, with 46% expecting improvement, but they lag behind turnover expectations, indicating challenges in translating sales into profit growth.

The labour market remains a critical issue, with 69% of businesses reporting difficulties in recruitment.

79% Looking for full-time positions

69% Respondents experiencing recruitment difficulties

57% Experiencing decline in business confidence

25% Increase in concerns about inflation

46% Respondents expect economic improvement

KEY THEMES

This section provides an analysis of the main business concerns and sentiments based on comments collected in the second quarter of 2024. The comments have been categorised into various themes to understand the primary issues businesses are facing.

The categories include Political/Economic Uncertainty, Business Environment, Positive Outlook, Negative Outlook, Pricing and Inflation and No Comment/ Neutral. Each category is explained below, along with direct quotes from the comments.

POLITICAL AND ECONOMIC UNCERTAINTY

A significant number of comments indicate that political events, such as elections and changes in government policies, are major concerns for businesses. This uncertainty impacts their confidence and planning.

"With the election looming, that can cause some instability and caution, it is hard to predict right now I think."

- Wiltshire based training company

BUSINESS ENVIRONMENT

Many comments across various sections reflect concerns about the overall business environment, including market conditions, competition, and external pressures.

"I need to work harder to stand still - not a great prospect but I have no choice."

- Bath-based services company

PRICING AND INFLATION

Specific concerns about price changes and inflation indicate that businesses are worried about their pricing strategies and the impact of inflation on their costs and profitability.

"We expect to decrease manpower and increase prices."

- Gloucestershire based manufacturing business

POSITIVE OUTLOOK

Although fewer in number, some comments reflect a positive outlook, indicating optimism or steady conditions. These businesses are hopeful about future prospects and see opportunities for growth and improvement.

"If we can deliver on our commitments then we will have achieved fantastic growth over the past few months."

- Bristol based services company

NEGATIVE OUTLOOK

Comments in this category indicate a negative outlook on business prospects, suggesting challenges and downturns faced by businesses.

"This is the first year we've experienced a downturn in turnover and profitability."

- Gloucestershire based services business

NEUTRAL/UNSPECIFIED CONCERNS

It is important to note that a significant number of neutral or unspecified comments suggests that some businesses may not have a clear stance or are facing a variety of smaller issues that do not fall into specific categories.

WORKFORCE AND EMPLOYMENT

The second quarter of 2024 highlights key trends in recruitment and workforce dynamics among businesses in our region. Over the past three months, 47% of respondents attempted to recruit staff, while 53% did not engage in hiring activities. Among those recruiting, 79% sought full-time employees, 49% aimed for permanent roles, 35% advertised part-time positions, and 20% recruited for temporary jobs.

A significant challenge for businesses was finding suitable staff, with 69% of respondents reporting difficulties. The recruitment struggle was particularly pronounced for skilled manual and technical positions (53%) and professional and managerial roles (42%). Recruitment for semi/unskilled positions and clerical jobs was also challenging for 29% and 24% of businesses, respectively. Current operational capacity shows that 56% of businesses are operating below capacity, while 44% are operating at full capacity.

This indicates a substantial proportion of businesses experiencing underutilisation of their resources, potentially linked to the difficulties in recruitment. The labour market remains a significant concern, with 21% of respondents indicating it as a growing issue compared to three months ago. Looking ahead, the workforce expectations over the next quarter reveal a cautious outlook. While 70% of businesses expect their workforce to remain constant, 24% anticipate an increase, and 7% foresee a decrease in staff numbers.

These findings underscore the ongoing recruitment challenges and capacity issues faced by businesses. Addressing these concerns is crucial for enhancing productivity and growth in the region. Further focus on skills development and workforce planning could be instrumental in mitigating these challenges.

> *70% of businesses expect their workforce to remain constant*

69%
OF BUSINESSES HAVING RECRUITMENT ISSUES

49%
BUSINESSES ADVERTISING FOR PERMANENT ROLES

35%
BUSINESSES ADVERTISING FOR PART-TIME ROLES

47%
of businesses attempting to recruit staff

24%
Expect an increase in workforce

07%
Expect a decrease in workforce

56%
Businesses operating below capacity

44%
Businesses at full capacity

PRICES AND INFLATION

The results for Q2 reveal a trend towards price stability among businesses, with 61% reporting that their prices remained constant over the past three months. However, it is relevant to highlight that a considerable 35% of participants increased their prices, while only a small proportion, 5%, reduced them.

When asked about concerns over the past three months, a quarter of respondents identified inflation as a persisting issue. The survey results indicate significant pressure to raise prices due to various cost factors. Labour costs are the most prominent, affecting 66% of businesses, followed by utilities (46%), raw materials (38%), and fuel (29%). Other notable pressures include finance costs (21%) and import costs (17%).

This aligns with Q1 results and recent ONS data confirming that wage growth remains strong in the UK economy. Looking forward, 68% of businesses expect their prices to remain constant over the next quarter, while 30% anticipate price increases. This suggests that although inflationary pressures seem to be easing, there are still ongoing anxieties about cost rises and their impact on pricing strategies.

Labour costs are the most prominent, affecting 66% of businesses.

Business expect prices to remain constant

Business expect prices to increase

35%
Business increased prices

5%
Business reduced prices

Businesses affected by labour costs

Breakdown figures for manufacturers

61%
Reported prices remained constant

DOMESTIC MARKET

In Q2 2024, the domestic market exhibited a mixed performance across sectors. For the overall sample, the net balance for UK sales was 5%, with 32% of businesses reporting an increase and 27% experiencing a decrease. UK orders showed a neutral balance of -1%, with 23% reporting an increase and 24% a decrease.

Manufacturers reported a stronger net balance in both UK sales and orders compared to the overall sample. The net balance for UK sales was 16%, with 36% of manufacturers reporting an increase and 20% a decrease. UK orders had a net balance of 13%, with 29% reporting an increase and 16% a decrease.

This suggests that the manufacturing sector is experiencing a more positive domestic market trend compared to the general business landscape.

The service sector presented a more mixed picture. The net balance for UK sales was 2%, with 31% of service businesses reporting an increase and 29% a decrease. UK orders in the service sector had a net balance of -5%, with 22% reporting an increase and 26% a decrease.

In comparison to Q1 2024, where the net balance for domestic sales was 18% and for orders was 5%, Q2 shows a decline in overall performance. Manufacturing has shown resilience, improving from Q1's 5% sales balance, while services have seen a drop from 18% to 2% in sales balance.

INTERNATIONAL MARKET

In the second quarter of 2024, the performance of the international market also showed variability across sectors. For the overall sample, the net balance for export sales stood at 1%, with 30% of businesses reporting an increase and 29% experiencing a decrease. Export orders were flat with a net balance of 0%, as equal proportions (25%) of businesses reported increases and decreases.

Manufacturers exhibited stronger performance in the international market. The net balance for export sales was 16%, with 41% of manufacturers reporting an increase and 24% a decrease. Export orders also showed a positive net balance of 12%, with 36% reporting an increase and 24% a decrease, indicating a more optimistic outlook for manufacturers.

Conversely, the services sector faced greater challenges. The net balance for export sales was -8%, with 23% of service businesses reporting an increase and 32% a decrease.

Export orders showed a net balance of -7%, with 22% reporting an increase and 30% a decrease. This reflects a more subdued performance in the services sector compared to manufacturers.

Comparing these results to Q1 2024, the overall net balance for export sales improved slightly from -4% to 1%, suggesting a modest recovery. However, export orders remained flat, showing no significant change from the previous quarter's -4%. Manufacturers saw notable improvements, whereas the services sector continued to struggle with maintaining stable export performance.

International Market

Europe	94%
North America	65%
Central & South America	23%
Middle East	37%
China	16%
Southeast Asia	28%
Central Asia	10%
Africa	25%
Australasia	39%

CASHFLOW

In Q2 2024, cash flow challenges persisted across all sectors. For all respondents, the net balance for cash flow was -8%, reflecting significant liquidity issues, with 24% of businesses reporting increased cash flow and 32% experiencing a decline. This overall negative balance indicates continued financial strain, contrasting with some improvements in other business metrics.

Manufacturers reported a slightly better net balance for cash flow at -5%. Although 20% of manufacturers saw an increase in cash flow, 25% reported a decrease. This net balance shows a modest decline from the previous quarter, indicating ongoing but less severe financial challenges in the manufacturing sector.

The services sector faced the most substantial cash flow difficulties, with a net balance of -9%. While 25% of service businesses reported an increase, 34% experienced a decrease in cash flow.

CASHFLOW

-8%

Respondents net balance cash flow

24%

Businesses reporting increased cash flow

32%

Businesses reporting decrease cash flow

MANUFACTURERS CASH FLOW -5%

SERVICE SECTOR CASH FLOW -9%

PROFITABILITY AND TURNOVER

Over the next 12 months, a significant portion of businesses remain optimistic about their financial prospects. For turnover, 52% of respondents expect improvements, 32% anticipate stability, and 15% foresee a decline. Regarding profitability, 46% predict improvement, 29% expect it to remain constant, and 25% foresee a decline. This indicates a cautious but hopeful outlook, with businesses generally more confident about turnover than profitability.

Manufacturers are particularly optimistic about their future financial performance. A robust 57% of manufacturers expect their turnover to improve, 36% believe it will remain constant, and only 7% anticipate a decline. In terms of profitability, 48% expect improvement, 34% foresee stability, and 18% predict a decline.

The services sector is slightly less optimistic. While 51% of service businesses anticipate an increase in turnover, 31% expect it to remain constant, and 18% foresee a decline.

Regarding profitability, 46% predict improvement, 28% expect stability, and 27% foresee a decline. Compared to Q1 2024, where 60% of businesses expected turnover improvement and 44% anticipated increased profitability, there is a slight decline in optimism regarding turnover but a marginal increase in profitability expectations. Manufacturers have become more optimistic about turnover (up from 53% to 57%) and slightly more positive about profitability (up from 42% to 48%). However, the services sector has seen a decrease in turnover optimism (down from 62% to 51%) but a slight increase in profitability optimism (up from 45% to 46%).

Overall, the disparity between turnover and profitability expectations persists, with businesses more confident about sales than profits. This highlights the ongoing challenges in managing costs and maintaining margins amidst varying market conditions.

A robust 57% of manufacturers expect their turnover to improve.

FINANCE AND INVESTMENT

During the past three months, businesses have shown changing levels of investment activity across different categories. For plant, machinery, and equipment, participants reported a net balance of 2%. Equally, investment in office and property space saw a net balance of 2%.

Investment in training has been relatively strong, with a net balance of 4%. Research and development investment saw a net balance of 8%.

Over the past three months, the availability of finance has shown mixed results. Only 6% of businesses reported an improvement in financial availability, while 38% reported no change, and 17% experienced a deterioration. Notably, 19% of respondents were uncertain about the current financial landscape, indicating potential concerns or lack of clarity in the market.

Compared to Q1 2024, where 11% of businesses reported improved finance availability and 9% saw deterioration, Q2 reflects a decrease in both improvement and stability. This suggests increasing uncertainty and financial constraints among businesses.

Compared to the Q1, the current quarter shows a slight decline in net balances for plant, machinery, and equipment and office space investments, while training and R&D investments remain robust but slightly reduced economic resilience.

19% of respondents were uncertain about the current financial landscape.

SOURCES OF CONCERN

In Q2 2024, businesses continue to face myriad challenges, with general economic conditions remaining the predominant concern for 62% of respondents. This reflects persistent anxiety about the economic environment, slightly down from the 69% reported in Q1 2024.

General business uncertainty is also a significant issue, cited by 51% of businesses. Although this is consistent with Q1 figures, it underscores ongoing instability within the business community.

Inflation remains a substantial concern for 25% of respondents, indicating that the cost of doing business continues to be a critical issue. These worries, while significant, have decreased from 39% in Q1, suggesting a slight easing of inflationary pressures.

Other notable concerns include competition and taxation, both cited by approximately 24% of respondents. Interest rates are a concern for 17% of businesses, reflecting worries about borrowing costs and financial stability.

This is consistent with Q1 figures, where 22% highlighted interest rates as a concern. Finally, the labour market is a concern for 21% of respondents, indicating ongoing challenges in hiring and retaining talent.

Businesses concerns Q2 2024

62%	51%	25%
General economic conditions	General business uncertainty	Concerns around inflation

CONFIDENCE: THE NEXT 12 MONTHS

In Q2 2024, business confidence in the UK economy shows a modest improvement, with 17% of businesses feeling positive and 38% feeling negative, resulting in a net balance of -21%. This marks a slight improvement from Q1 2024's net balance of -26%, indicating some stabilisation amid ongoing challenges.

Confidence in individual business prospects also reflects resilience, with a net balance of 39%. While this is a decline from 52% in Q1 2024, it remains relatively strong compared to the net balance of 32% in Q2 2023. This shows that businesses continue to maintain a positive outlook on their operations despite external pressures.

Over the past year, confidence in the UK economy has gradually improved from a low of -59% in Q4 2022, suggesting a slow recovery from the energy and inflation crises. Individual business confidence peaked in Q1 2024 at 52% but has slightly decreased in Q2 2024.

This evolution over the last year highlights the persistent impact of economic factors on business sentiment. While there is cautious optimism about the economy, businesses continue to face significant external challenges that influence their confidence levels.

Q2 2024

17% Businesses feeling **positive**

38% Businesses feeling **negative**

BUSINESS PROFILES

Of the 223 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 (79%) are limited companies.

Geographically, 38% the respondents are from the 'West of England' area (21% of these are in the narrower City of Bristol area), another 13% are located in Swindon and Wiltshire, 17% in Gloucestershire, and 32% 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 Q2 FINDINGS

THIS QUARTER: Q2 2024

	SERVICES	MANUFACTURING	OVERALL	Q2 TREND
UK SALES	2%	16%	5%	▼
UK ORDERS	-5%	13%	0%	▼
EXPORT SALES	-8%	16%	1%	▲
EXPORT ORDERS	-7%	12%	0%	▲
CURRENT WORKFORCE	6%	18%	9%	=
FUTURE WORKFORCE	15%	23%	17%	▼
BUSINESS CONFIDENCE	32%	59%	39%	▼
CONFIDENCE IN ECONOMY	-25%	-13%	-22%	▲

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