



Business
West



Quarterly
Economic
Survey

Q3/2024

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 292 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 Q3 2024 report highlights cautious optimism among businesses amidst a challenging economic environment. Despite some improvement in business sentiment, the report reflects ongoing concerns about workforce skills, profitability, and economic conditions.

WORKFORCE AND SKILLS

Recruitment activity has remained steady, with 46% of businesses seeking new staff. However, 60% reported difficulties in finding suitable candidates, particularly for skilled and managerial roles. This, along with labour market pressures, continues to affect operational capacity, with 59% of businesses operating below full capacity.

BUSINESS CONFIDENCE

Business confidence remains resilient, with a net balance of 35%, although it has slightly declined from Q2 2024. Confidence in the UK economy shows a modest improvement, with a net balance of -12%, up from -21% in the previous quarter.

SALES

The domestic market returned to negative territory in Q3 2024, with a net balance of -1% for UK sales.

INTERNATIONAL SALES

International sales also experienced a decline, with a net balance of -4%, reflecting global challenges.

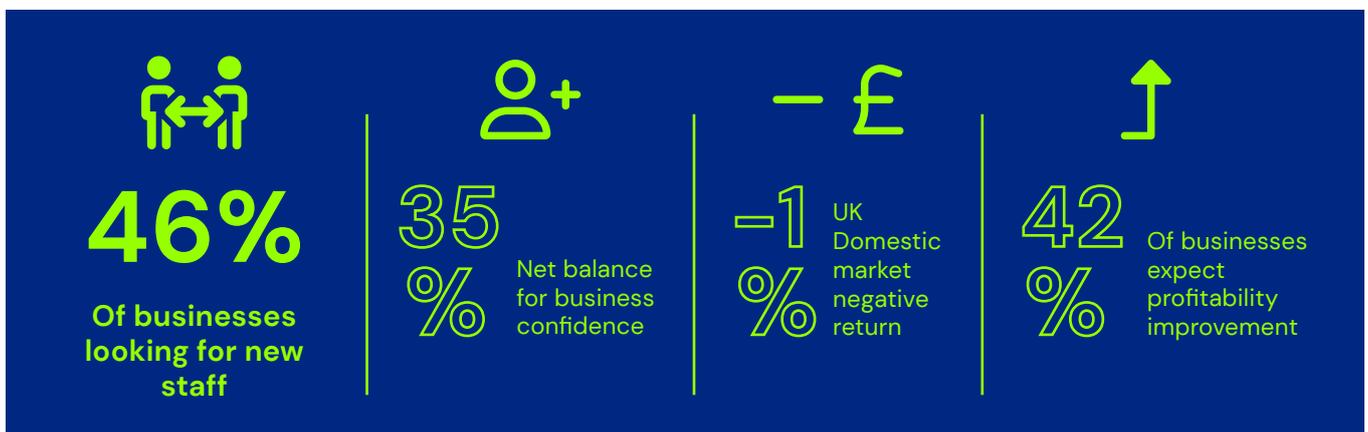
SOURCES OF CONCERN

General economic conditions and business uncertainty remain the top concerns, with 67% and 49% of businesses respectively. Concerns about inflation remains a significant issue for 31% of respondents. Other notable concerns include competition, taxation, and interest rates.

PROFITABILITY

Profitability forecasts are moderately optimistic, with 42% expecting improvement, but they lag behind turnover expectations, indicating challenges in translating sales into profit growth.

General economic conditions and business uncertainty remain the top concerns.



KEY THEMES

This quarter, we delve into the Net Zero landscape to gain a deeper understanding of the challenges and opportunities it presents for businesses in our region. Our survey findings reveal a consistent level of climate awareness among the business community.

A substantial majority (70%) of respondents recognise climate change as a significant issue, mirroring the previous year. However, a significant gap persists between awareness and action. While 70% acknowledge the environmental challenge, only 32% have taken the crucial step of measuring their carbon footprint.

A wide range of climate action strategies have been implemented. Waste reduction, recycling, and material changes were the most common approaches, adopted by 64% of businesses. Business travel mitigation was also a priority, with 52% taking action in this area. Additionally, 45% of businesses made improvements to their premises, while 43% introduced incentives to support staff in reducing their work-related impact.

While these initiatives are encouraging, there remains room for growth. A smaller proportion of businesses have adopted more advanced strategies such as formal carbon reduction plans (29%) and carbon offsetting (14%).

When asked about their motivations for climate action, business values emerged as the primary driver for 79% of respondents. Client expectations (55%) and staff expectations (39%) were also significant factors.

Financial incentives (35%) and mandatory requirements (32%) played a role for a smaller number of businesses. Interestingly, new business opportunities and supply chain demands were less influential, cited by 23% and 10% respectively.

To further accelerate climate action, businesses expressed a need for additional support. Tax incentives were the most sought-after measure, with 49% of respondents requesting them. Access to funding and finance was also crucial for 45%. Other priorities included clearer policies and regulations (31%), information and advice (23%), and technology and innovation support (20%).

However, businesses face various challenges in their climate journey. Competing priorities were the most commonly cited barrier, affecting 41% of respondents. A significant number also struggled with a lack of available cash or finance (38%). Human resource capacity and the constraints of rented offices were additional challenges for 32% and 26% respectively.

Furthermore, the availability of necessary technology and infrastructure, uncertain policies and regulations, long-term payback on climate measures, and a lack of knowledge and information were all cited as obstacles. A small percentage of businesses (8%) found the subject overwhelming, while 4% did not currently prioritise climate change in their business strategies.



WORKFORCE AND EMPLOYMENT

The third quarter of 2024 provides insights into the evolving recruitment landscape and workforce dynamics within our region. Over the past three months, recruitment activity remained consistent. 46% of respondents actively sought new staff, while 54% did not engage in hiring.

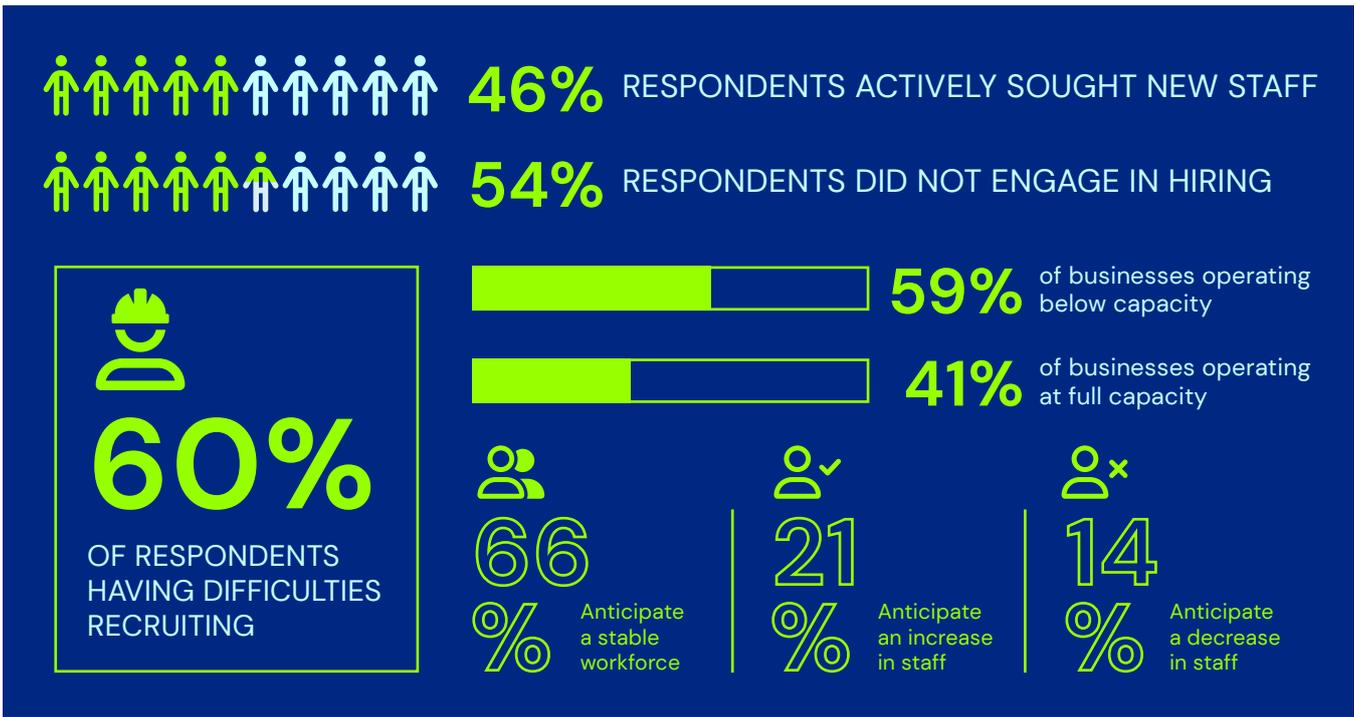
Among those recruiting, full-time and permanent roles continued to be the primary focus, with no significant changes from the previous quarter.

However, finding suitable candidates remained a challenge for many businesses. 60% of respondents reported difficulties in recruitment, although this represents a slight improvement from the previous quarter's 69%. Skilled manual and technical positions, as well as professional and managerial roles, were particularly challenging to fill.

The aforementioned challenges might be one of the reasons why the majority of businesses (59%) are currently operating below capacity, while 41% are operating at full capacity.

The labour market continues to be a concern, with 22% of respondents identifying it as an issue in the past three months. Looking ahead, workforce expectations are cautious. While 66% of businesses anticipate a stable workforce, 21% expect an increase in staff numbers. However, a growing number (14%) foresee a decrease in staff, up from 7% in the previous quarter.

60% of respondents reported difficulties in recruitment. A slight improvement from the previous quarter.



PRICES AND INFLATION

The third quarter of 2024 revealed a continuation in the trend towards price stability among businesses. 71% of respondents reported no change in their prices over the past three months. However, it is important to note that a significant portion (25%) increased their prices, while only a small minority (4%) reduced them.

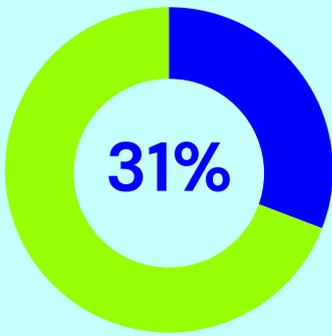
Inflation remained a pressing concern for many businesses, with 31% identifying it as an ongoing issue. The survey results highlight the significant pressure to raise prices due to rising costs. Labour costs emerged as the most significant factor, affecting 67% of businesses. Utilities (48%), raw materials (36%), and fuel (21%) also contributed to inflationary pressures.

Other notable factors included finance costs (17%) and import costs (17%). These findings align with Q2 results and recent ONS data indicating steady wage growth in the UK economy.

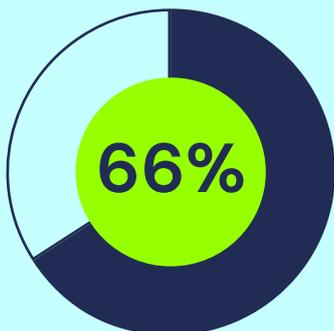
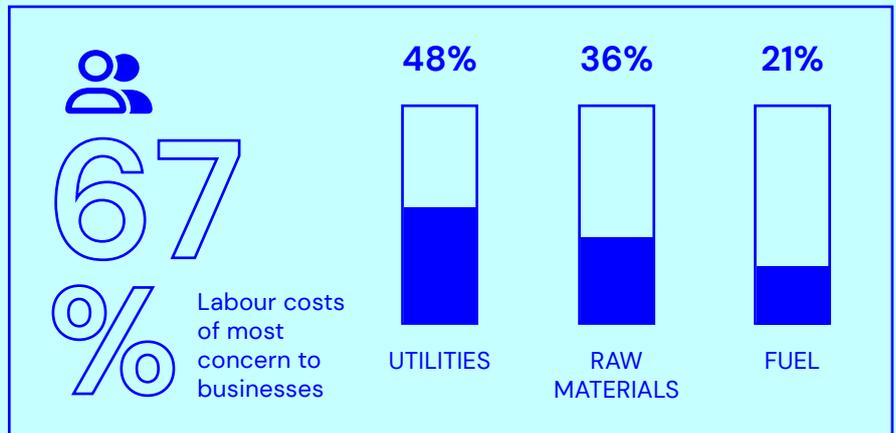
Looking ahead, price stability is expected to continue. 66% of businesses anticipate no change in their prices over the next quarter, while 31% foresee price increases. Although inflationary pressures appear to be easing, concerns about cost rises and their impact on pricing strategies persist.

“We perceive that the market is extremely price sensitive, but overall we are seeking to try and increase prices to at least try and maintain profit.”

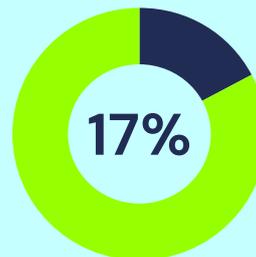
- Wiltshire based Facilities Business



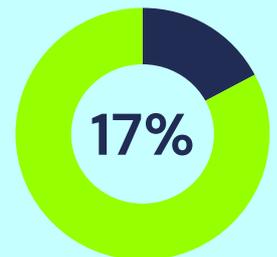
Remains a pressing concern for businesses



Of businesses expect no change in their prices over the next quarter



£ FINANCE COSTS



£ IMPORT COSTS

DOMESTIC MARKET

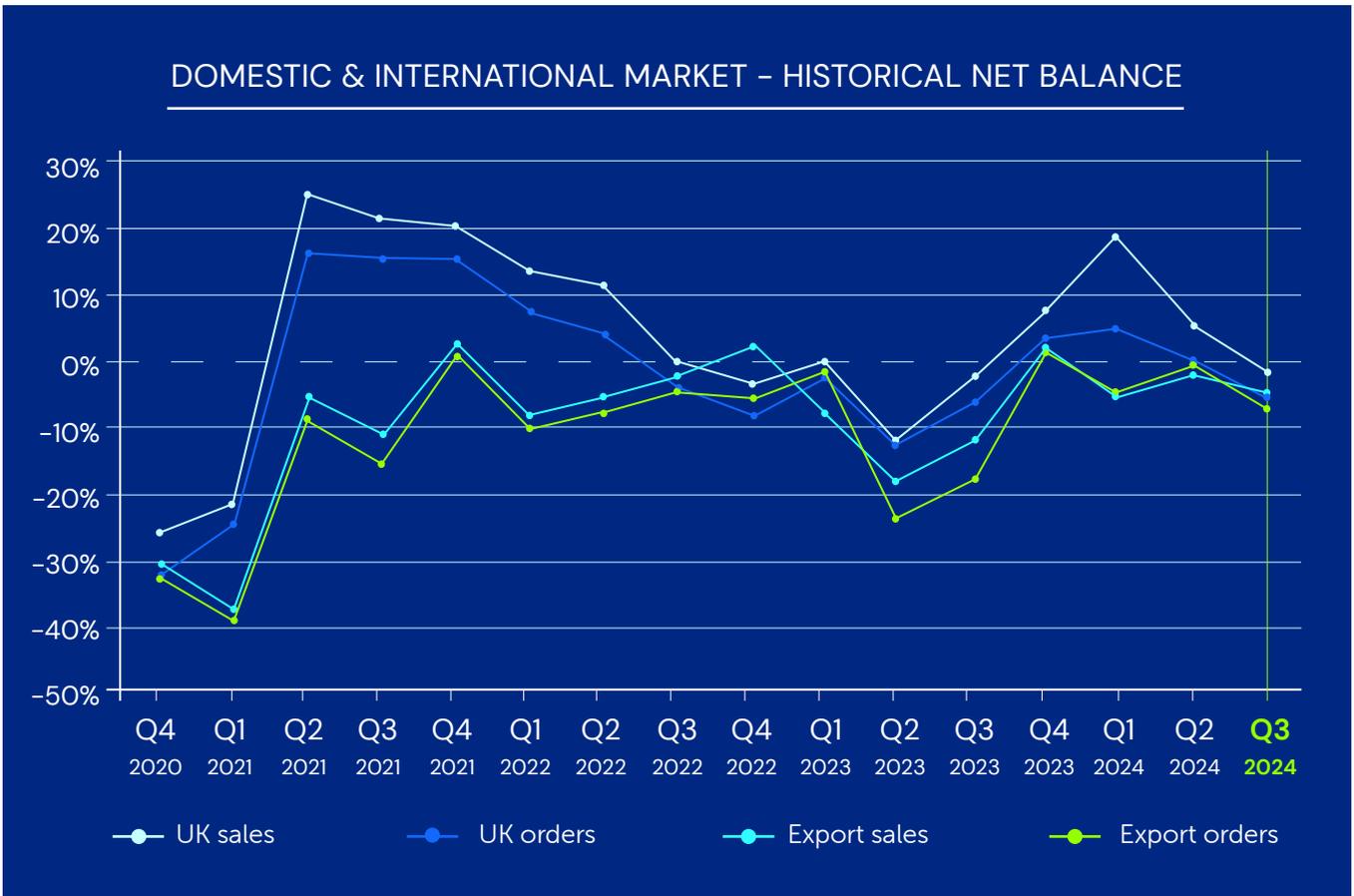
In Q3 2024, the domestic market displayed mixed results across sectors. For the overall sample, the net balance for UK sales was -1%, with 26% of businesses reporting an increase and 27% experiencing a decrease. UK orders showed a negative balance of -3%, with 21% reporting an increase and 24% a decrease.

Manufacturers faced more challenging conditions in the domestic market compared to the broader sample. Both UK sales and orders for manufacturers experienced negative net balances of -6%, indicating a decline from the more positive results of Q2.

The service sector, however, presented a less negative picture. UK sales in the service sector had a net balance of 0%, with an equal number of businesses reporting increases and decreases. UK orders showed a slight negative balance of -2%.

Compared to Q2 2024, when the net balance for domestic sales was 5% and for orders was 0%, the overall performance of the domestic market has declined in Q3.

£ Net balance for UK sales Q3 2024 -1%



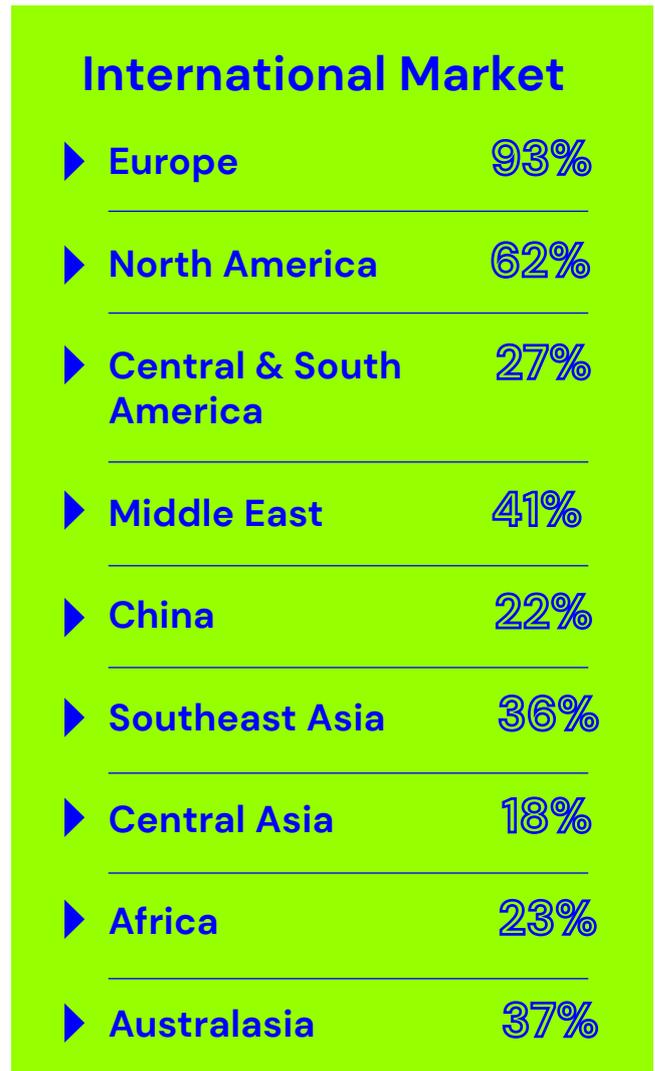
INTERNATIONAL MARKET

In the third 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 -4% compared to 1% in Q2, with 23% of businesses reporting an increase and 27% experiencing a decrease. Export orders were also negative with a net balance of -7%, as just under a quarter of businesses (20%) reported increases, while 27% experienced decreases in their orders.

Manufacturers exhibited stronger performance in the international market. However, their net balance for export sales was 0%, with equal proportions (27%) of manufacturers reporting increases and decreases. Export orders dropped to a negative net balance of -4%, with 24% reporting an increase and 28% a decrease, indicating challenging external conditions for manufacturers.

The net balance for export sales in services was -9%, with 20% of service businesses reporting an increase and 29% a decrease. Export orders showed also a net balance of -9%, with 17% reporting an increase and 26% a decrease. This reflects a more subdued performance in the services sector compared to manufacturers.

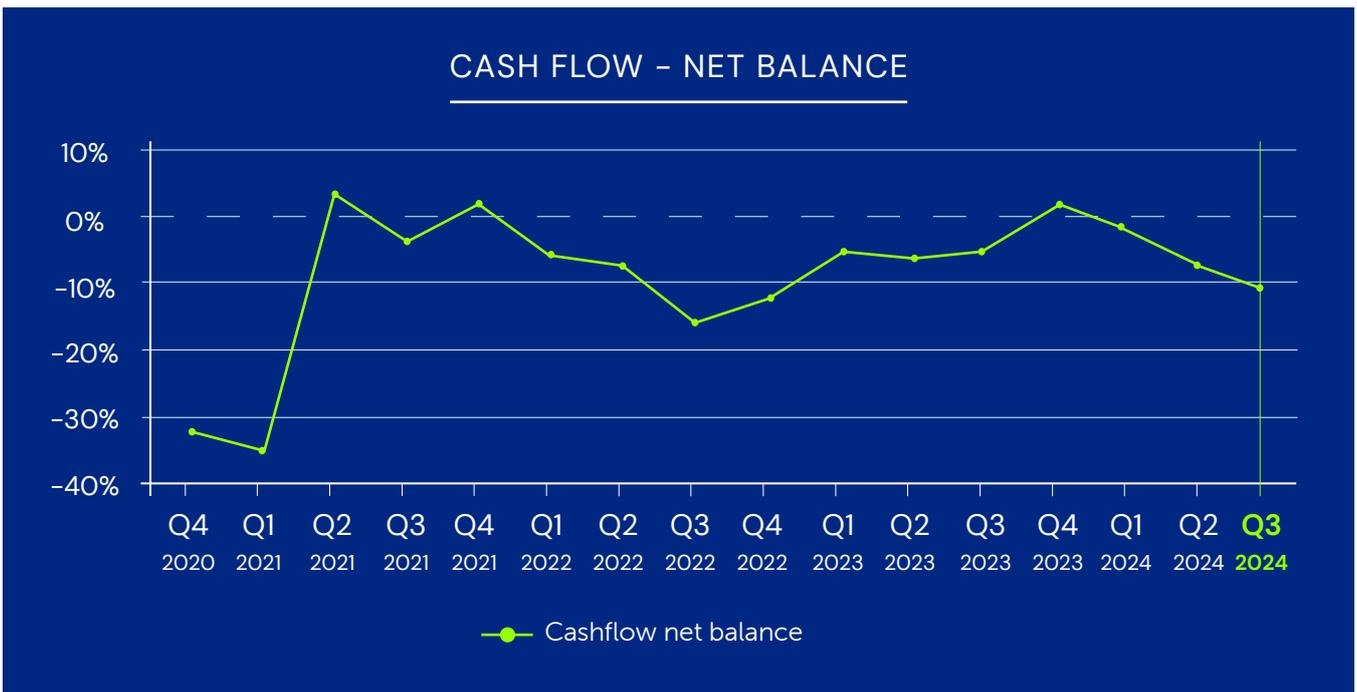
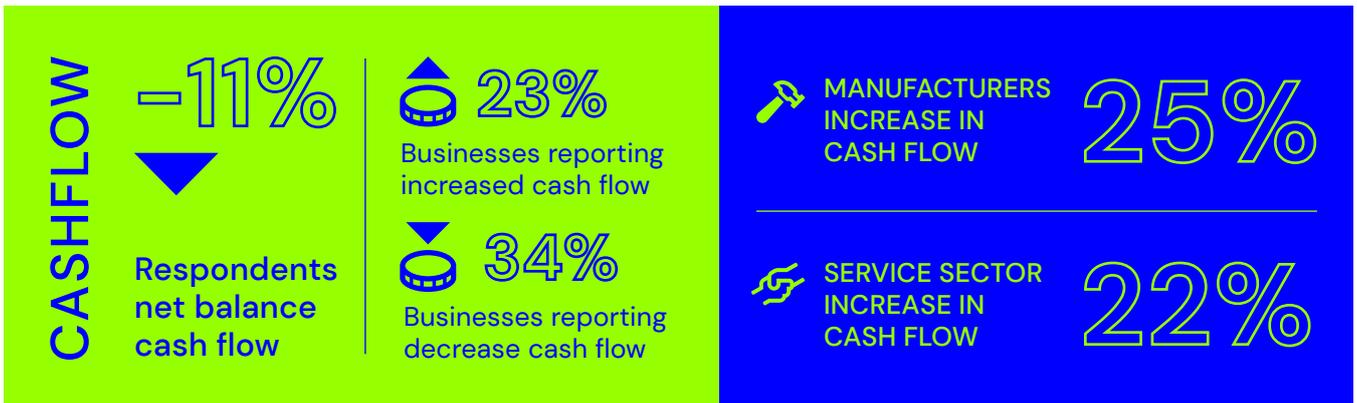
Comparing these results to Q2 2024, the overall net balance for export sales declined from 5% to -1%. These results are in line with the ONS July’s data showing that export volumes saw a double-digit drop in July, with declining figures in consignments to both EU and non-EU destinations.



CASHFLOW

In Q3 2024, cash flow challenges persisted across all sectors. For all respondents, the net balance for cash flow was -11%, reflecting significant liquidity issues, with 23% of businesses reporting increased cash flow and 34% experiencing a decline. This overall negative balance indicates continued financial strain.

Manufacturers reported a slightly better net balance for cash flow at 1%. Although 25% of manufacturers saw an increase in cash flow, almost the same number (24%) reported a decrease. This net balance shows a modest improvement 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 -15%. While 22% of service businesses reported an increase, 37% experienced a decrease in cash flow.



PROFITABILITY AND TURNOVER

Businesses maintain a positive outlook for their commercial prospects over the next 12 months. For turnover, 52% of respondents anticipate improvements, 31% expect stability, and 17% foresee a decline. Regarding profitability, the outlook is slightly more reserved, with 42% predicting improvement, 27% expecting stability, and 31% anticipating a decline.

Manufacturers exhibit a similar stance, with 48% expecting turnover improvement, 35% anticipating stability, and 17% predicting a decline. In terms of profitability, 41% expect improvement, 34% foresee stability, and 25% predict a decline.

The service sector is slightly more optimistic about turnover, with 53% expecting an increase. However, their profitability expectations are similar to those of manufacturers, with 43% predicting improvement, 24% expecting stability, and 33% anticipating a decline.

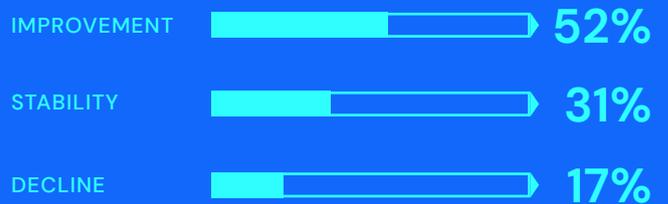
Compared to Q2 2024, when 52% of businesses expected turnover improvement and 46% anticipated increased profitability, there are no changes in turnover expectations but a slight decrease in profitability expectations.

“I have to balance reduced income with the risk that increasing my prices will contribute to an overall loss of profit. However my current prices doom my business to losing money.”

- Bath based Service Business

52% of businesses anticipate positive commercial prospects

BUSINESSES OUTLOOK FOR THE NEXT 12 MONTHS: % RESPONDENTS VIEW:



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 -7% indicates a decline in investment. Investment in office and property space also experienced a decline, with a net balance of -4%.

However, investment in training showed a positive net balance of 1%, suggesting increased focus on workforce development. Research and development investment remained stable, with a net balance of 0%.

The availability of finance has been mixed. Only 10% of businesses reported an improvement, while 41% experienced no change and 10% reported a deterioration. A significant number of respondents (17%) expressed uncertainty about the current financial landscape, highlighting potential concerns or a lack of clarity in the market.

Compared to Q2 2024, when 6% of businesses reported improved finance availability and 17% saw deterioration, Q3 reflects similar results. This suggests a continued climate of uncertainty and financial constraints among businesses reduced economic resilience.

A significant number of respondents expressed uncertainty about the current financial landscape, highlighting concerns or a lack of clarity in the market.





SOURCES OF CONCERN

In Q3 2024, businesses continue to face myriad challenges, with general economic conditions remaining the predominant concern for 67% of respondents. This reflects persistent anxiety about the economic environment, slightly up from the 62% reported in Q2 2024.

General business uncertainty is also a significant issue, cited by 49% of businesses. Although this is consistent with Q2 figures, it underscores ongoing instability within the business community. Inflation remains a substantial concern for 31% of respondents, indicating that the cost of doing business continues to be a critical issue.

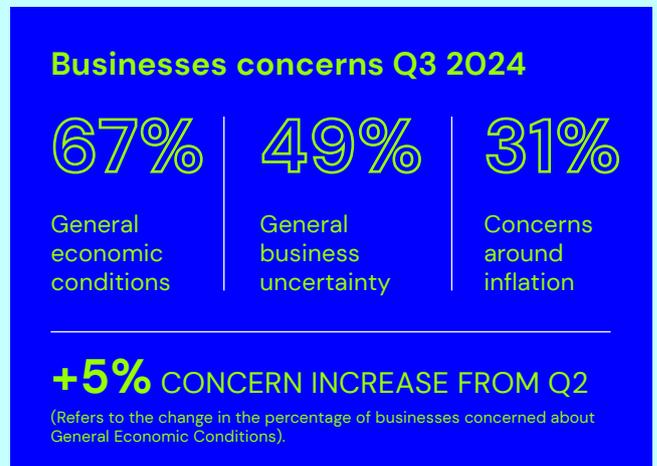
Other notable concerns include taxation and competition, cited by 33% and 24% of respondents, respectively.

Interest rates are a concern for 16% of businesses, reflecting worries about borrowing costs and financial stability. This is consistent with Q2 figures, where 17% highlighted interest rates as a concern.

Finally, the labour market is a concern for 22% of respondents, indicating ongoing challenges in hiring and retaining talent.

“I think the uncertainty of what the next budget holds and the direction we are going will have an affect on business confidence.”

- North Somerset based Accountancy Firm



CONFIDENCE: THE NEXT 12 MONTHS

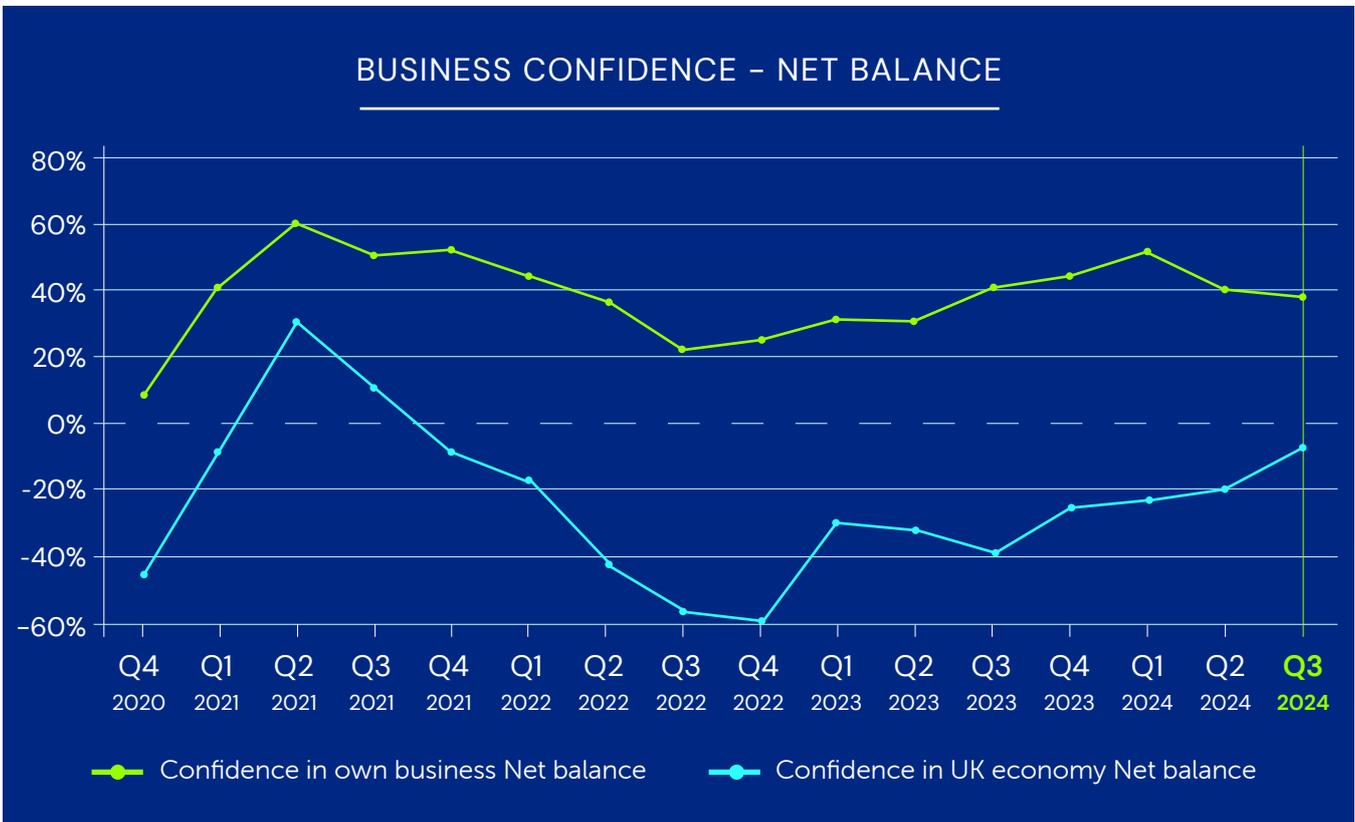
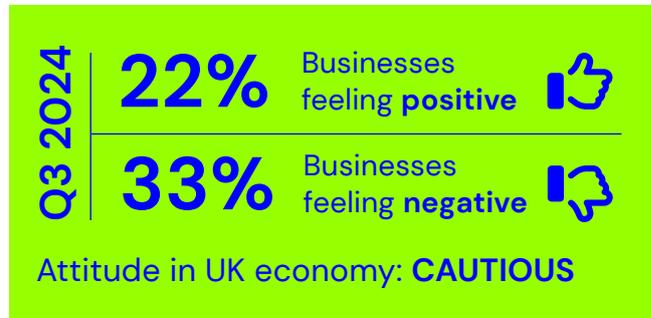
In Q3 2024, business confidence in the UK economy shows a modest improvement, with 22% of businesses feeling positive and 33% feeling negative, resulting in a net balance of -12%. This marks a slight improvement from Q2 2024's net balance of -21%, indicating some stabilisation amid ongoing challenges.

Confidence in individual business prospects also reflects resilience, with a net balance of 35%. While this is a slight decline from 39% in Q2 2024, it remains in line with the last two years' average.

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 continued to slightly decrease in Q3 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.



BUSINESS PROFILES

Of the 292 respondents, most are smaller businesses, almost half have an annual turnover under £500,000, and 36% between £1 – 10 million. The vast majority of respondents (78%) are limited companies.

Geographically, 42% of the respondents are from the 'West of England' area (29% of these are in the narrower City of Bristol area), another 14% are located in Swindon and Wiltshire, 14% in Gloucestershire, and 29% are from the wider South West region.

Our respondents are significantly more likely to be exporters than the general UK business community, making up 49% 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.

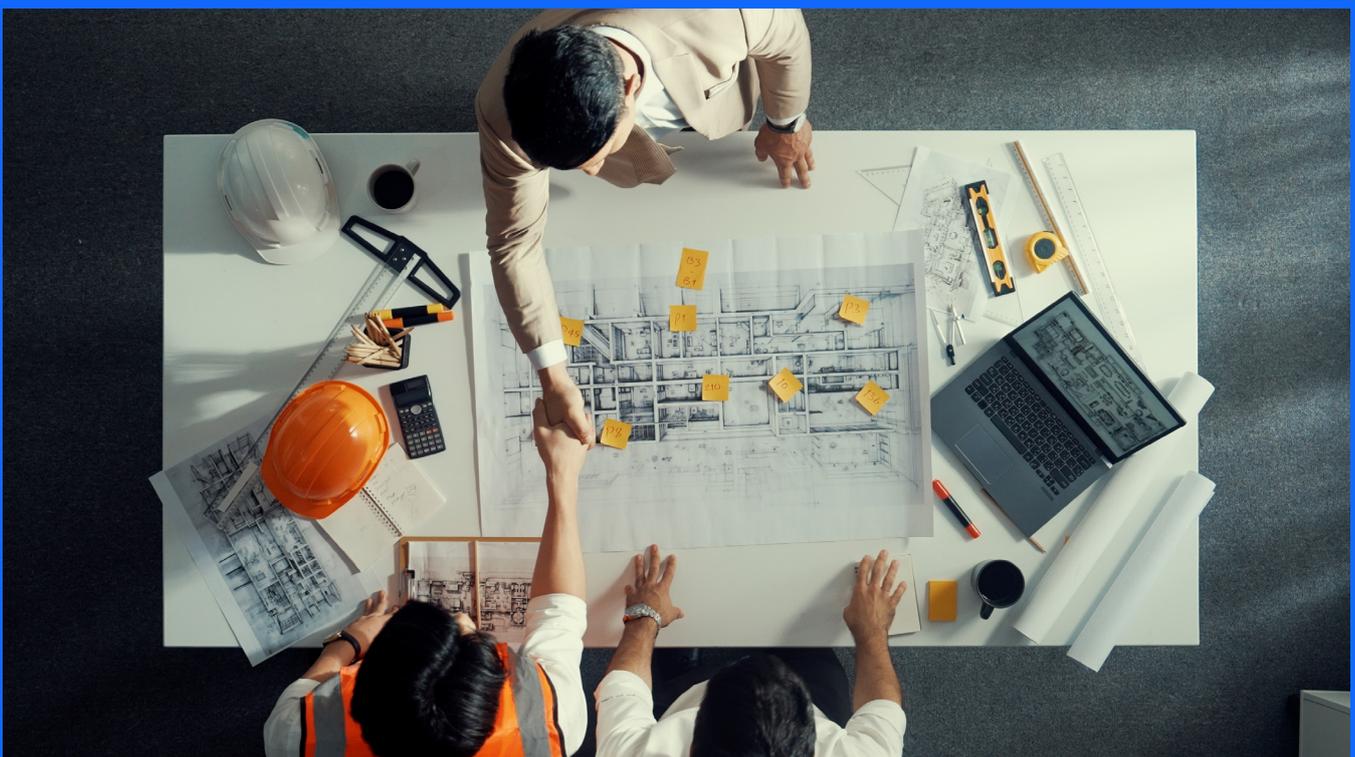
NET BALANCE

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: Q3 2024

	SERVICES	MANUFACTURING	OVERALL	Q2 TREND
UK SALES	0%	-6%	-1%	▼
UK ORDERS	-2%	-6%	-3%	▼
EXPORT SALES	-9%	0%	-4%	▼
EXPORT ORDERS	-9%	-4%	-7%	▼
CURRENT WORKFORCE	6%	9%	7%	▼
FUTURE WORKFORCE	13%	14%	13%	▼
BUSINESS CONFIDENCE	34%	38%	35%	▼
CONFIDENCE IN ECONOMY	-11%	-13%	-12%	▲



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