



# QUARTERLY ECONOMIC SURVEY

Q2 / 2022



## THIS QUARTER...



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 West of England and Swindon and Wiltshire Initiatives.

Business West run the Quarterly Economic Survey (QES) as an accredited member of the British Chambers of Commerce. 395 businesses completed the survey between 16 May and 8 June 2022, giving Business West unique insight into the trends and experience of business health for our region.

We thank all respondents for their time in completing the survey. This quarter our focus has been on businesses responses to the challenges and potential opportunities presented by climate change.

With the squeeze on living standards, the highest inflation in 40 (Feb 1982 CPI) years and fears of a recession looming, it is interesting to explore how businesses weigh their economic and environmental sustainability both in the near term and into the future.



# EXECUTIVE SUMMARY



## SALES

Overall, net UK sales and orders remain positive, but the slowing trend compared to previous months continues. 35% of respondents report an increase in their domestic sales during the past 3 months.



## INTERNATIONAL SALES

Businesses who export remain in negative territory, with decreasing international sales and orders. Shipping costs and administrative burdens of international trade continue to weigh heavily on exporters margins. 30% of exporters have experienced a decrease in their international sales over the last 3 months.



## EMPLOYMENT

Of the nearly half (49%) of businesses who have tried to recruit new staff, 79% had difficulties finding suitable staff. Pressure to increase wages to avoid losing staff to competitors, and paying more for new hires were common themes reported, impacting overall business profitability.



## INFLATION

Business concern about inflation (which worried 69% of respondents) is at the highest level ever recorded since the QES first started asking this question in 2008.

Prices continue to soar, with 57% of businesses having increased their prices over the last 3 months and over half of respondents planning to increase prices in the next 3 months.

The sources of inflation reported by respondents were surprisingly broadly based – whilst labour costs and utilities were the highest rated (cited by over two thirds of respondents) both fuel and raw materials were both over 50% and trade costs over 20%.



## BUSINESS CONFIDENCE

There has been a dramatic decline in confidence, especially in the UK economy within the quarter, with just 13% of respondents expressing confidence in UK economic prospects for the coming year.

Just over half (52%) of businesses expressed confidence about their own business prospects. Inflation and the general economic conditions are the main factors of concern (two thirds of respondents worried about these factors) for businesses during Q2.

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**Shipping costs and administrative burdens of international trade continue to weigh heavily on exporters margins. 30% of exporters have experienced a decrease in their international sales over the last 3 months**

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# CURRENT ISSUES



## NET ZERO

Compared to last year the level of climate awareness within the business community has remained high, with 71% regarding climate change as a business issue.

Yet a major gap persists between those who see climate change as a business issue and those who have taken concrete steps such as having measured their business's carbon footprint (just 22% of respondents).

Every business who had measured their footprint reported that they had implemented a plan to reduce their carbon emissions – demonstrating that once a business audits their activities they are inclined to take steps to reduce their impact.

Many businesses have made changes to their operations to reduce their environmental cost as well as overheads. For instance, by moving meetings online to reduce business travel, cutting down on waste and recycling more, and insulating their buildings where they can. Motivations for making changes varied, but the leading one was the values of the business owner themselves.

Many businesses face challenges to taking further action. The most frequently cited was things being out of the business's control, such as operating from rented premises, followed by a lack of available cash to finance the modifications and other competing business priorities.

Businesses struggle to understand their adaptation options and need advice from a trusted source and financial incentives to take further steps.

*"Businesses in the region are facing unprecedented price pressures – by ever increasing costs of energy, raw materials, fuel and labour, which have intensified since the outbreak of war against Ukraine.*

*The lack of an energy price cap for business users means there's no protection against unit costs spiking upwards. The costs of retaining existing staff and taking on new employees exacerbate a difficult labour market and long standing skills shortages. Whilst pressure on the costs of living threatens future consumer demand and investment sentiment.*

*From a vulnerable starting position, many businesses are seeing margins squeezed and face difficult choices ahead. The need for a clear economic strategy from government is now more important than ever."*

*– Matt Griffith, Director of Policy, Business West*



## PRICES AND INFLATION

Price levels continue to soar, with a majority of respondents (57%) having increased their prices in the last 3 months and 54% expecting to put their prices up in the next 3 months (this breaks down as 64% of manufacturers versus 50% of service based businesses).

69% of businesses were more concerned about inflation compared to last quarter, overtaking general business conditions to become the top area of worry (and a historical record since the question was introduced 14 years ago).

Manufacturing businesses are even more worried about inflation, reaching 75% of those businesses citing it as a concern – services based businesses are a little behind at 66%.

Some startling cases of individual commodities increasing in price were reported by individual businesses.

*“Raw material prices are out of control and uplift is not always pre -announced so we can’t always pass on the cost. [Our] electricity unit price has doubled.”*

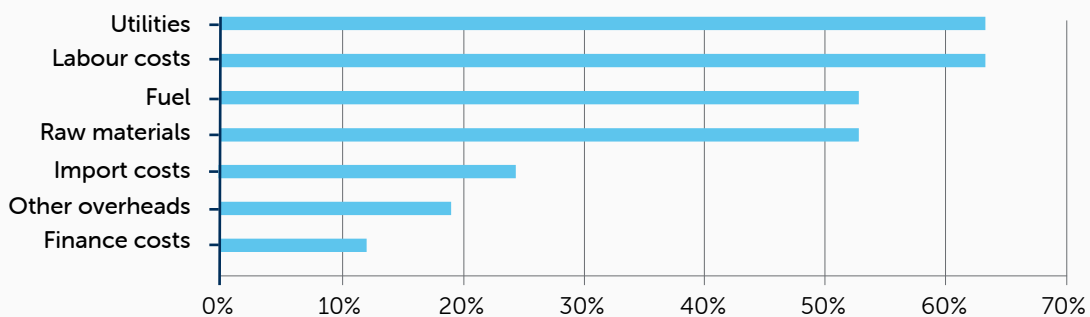
*– Phoenix Electrical Engineering Services Limited in Cornwall*

Several respondents mentioned suppliers of diesel and other fuels being unwilling to quote for a delivery until the date of dispatch, reflecting record high prices and the speed of change in market conditions.

*“Overall we are experiencing 25% materials cost increases across most key materials, however timber is up 70% and steel 50%. Business is becoming unviable due to failures by clients and suppliers in the sector having widespread impacts. I’ve never known it so bad in the 40 years of my working career.”*

*– KM Plant, Construction company based in Newport*

### SOURCES OF INFLATION



\*Respondents could select all that apply



### PRICES AND INFLATION CONTINUED

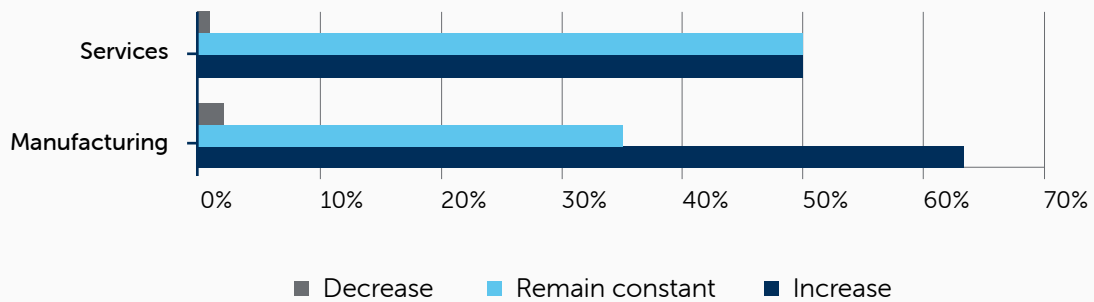
Prices for materials as diverse as semi-conductors, plywood, steel, paint and butter showed dramatic price increases over a short period – leaving businesses to worry about how much higher prices could reach in the future and impacting their ability to plan.

*"Energy cost rises are not yet factored into the cost of our agricultural products, more increases are coming and we don't know how high to expect them."*

*– Gloucestershire based wholesalers*

Inflationary pressures are expected to continue to force businesses to raise their prices moving into the second half of the year.

OVER THE NEXT 3 MONTHS DO YOU EXPECT YOUR PRICES TO...



# BUSINESS ENVIRONMENT

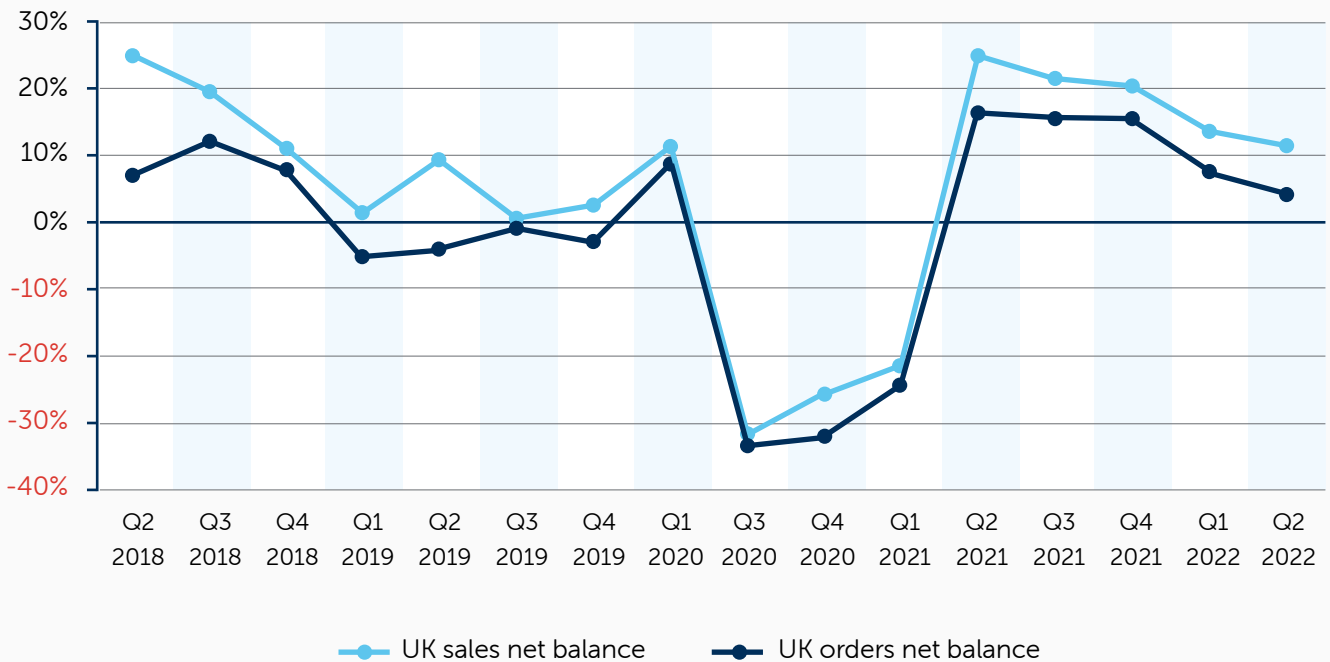
## DOMESTIC MARKET



Overall, net UK sales and orders have remained in marginally positive territory but the recovery has slowed down considerably since 2021. 35% of respondents have experienced an increase in their domestic sales during the past 3 months, versus 22% reporting a decrease.

For the majority of businesses UK sales and orders have remained flat – 37% and 32% respectively. Manufacturers report a materially better domestic performance than the service industry (31 point net balance versus 12 points for services businesses).

DOMESTIC MARKET - HISTORICAL NET BALANCE



**"Confident that the demand for our work is there, less confident that clients are willing to pay what we need to charge as costs go up"**

- Bristol based Strike Communications Ltd

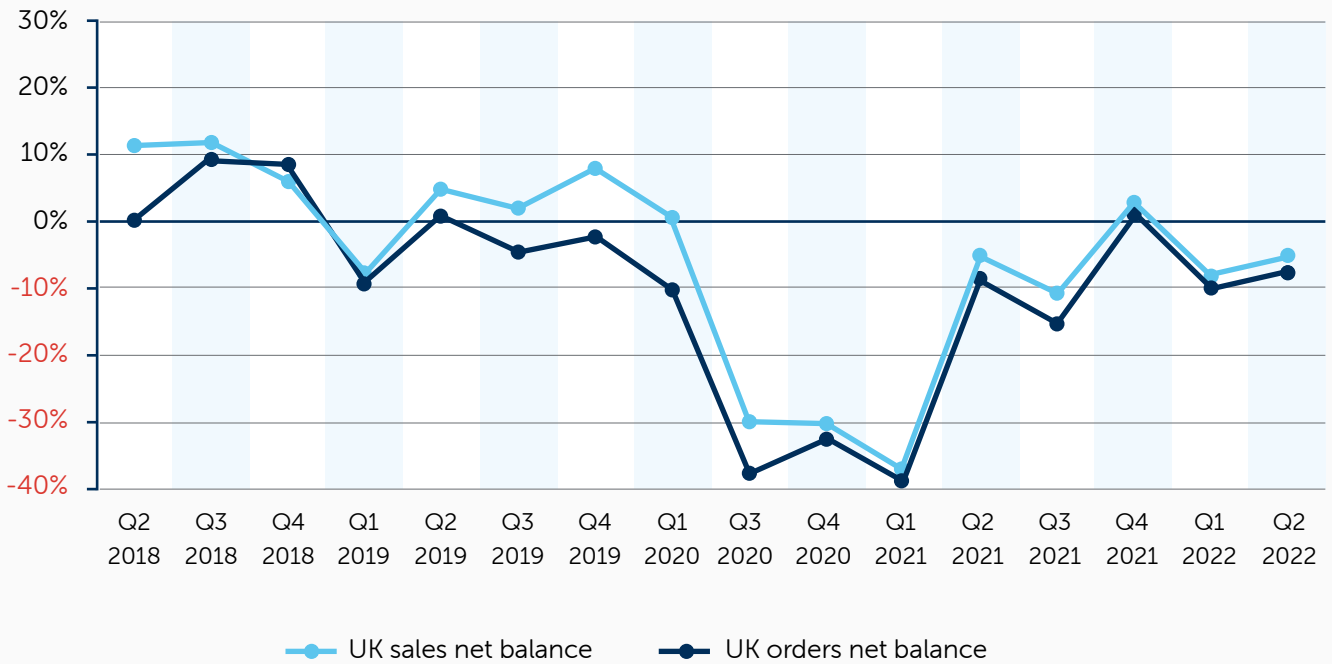
## INTERNATIONAL MARKET



The international market performance remains in negative territory in Q2 for the 54% of respondents who sell internationally. Of exporters, Europe remains the top overseas market with 93% of respondents selling their goods and services there, despite the complexities encountered as a consequence of Brexit.

Substantially fewer businesses export to the next largest markets, being North America (39%) and Australasia (25%). 30% of exporting respondents have experienced a decrease in international sales in the last three months versus the 25% that have seen an increase.

INTERNATIONAL MARKET - HISTORICAL NET BALANCE



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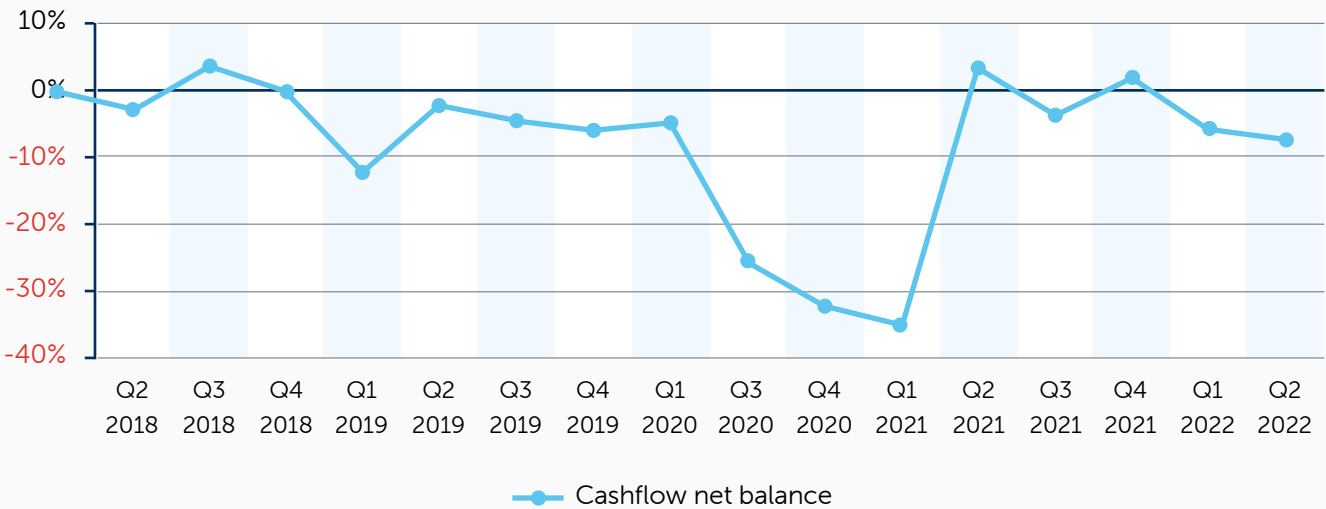
## CASHFLOW



With businesses facing substantial uncertainty and worrying times, the importance of business cashflow has never been greater. Yet cashflow is in a net negative position overall with a third of businesses reporting decreased cashflow in the last 3 months of trading, continuing the trend which began at the start of the year.

Cashflow levels have remained constant for 40% of the survey respondents. Businesses in the services sectors report a net negative cashflow balance of -16 points versus -6 points amongst manufacturers.

CASHFLOW - HISTORICAL NET BALANCE



## PROFITABILITY



As in previous quarters, more businesses expect sales growth in the coming year, but with stable or declining profit margins. In the second quarter 52% of respondents predict future turnover to improve compared to just 37% who expect improving profitability.

And the reverse is also true with 33% expecting profitability to worsen vs only 17% expecting sales to decline. Many respondents see their margins squeezed by sustained inflationary pressures which they can't pass on to their customers in fear of choking off demand. The trend continues to get gloomier compared to preceding quarters.

## FINANCE AND INVESTMENT



Businesses are increasing their investment in staff training (net balance +5 points) which is a new trend since the first quarter. This might reflect the tight market conditions for skills and labour.

This is in contrast to the other categories of business investment such as for office space, equipment and machinery, and research and development where businesses are retrenching – with more reporting decreases than increases.

The availability of finance for businesses has remained the same for 70% of businesses requiring it, and equally small (15%) proportions of respondents reported improving or worsening availability of finance.

14% of businesses are more concerned about interest rates now than they were 3 months ago. The proportion of businesses operating at full capacity is now 45%, similar to pre-pandemic levels.

## WORKFORCE AND EMPLOYMENT



Ongoing tightness within the labour market is a theme running throughout this quarter's results. The labour market is a source of concern for 31% of respondents and labour costs are the joint top source of pressure for businesses to increase their prices. Amongst services based businesses this reaches an eye-watering 63%.

The proportion of respondents who have tried to recruit staff over the last 3 months has fallen again this quarter to 49%, its lowest rate since Q2 2021. Against a backdrop of UK wide record vacancy rates during April 2022, it would seem that some businesses have given up efforts to secure new staff, fearing they won't be able to fill vacancies that arise.

Of those persevering with their attempts to recruit, most roles advertised are full time (80%). Only 21% of businesses actually reported increases in their workforce within the quarter, level with Q1.

As seen in 2021, the existing historical mismatch between skills and labour demand has been exacerbated by the aftermaths of Brexit and Covid-19. 79% of those trying to recruit have faced difficulties in finding suitable candidates this quarter (a recent record), and these recruitment difficulties were across all categories of employee but especially professional and managerial grade roles.

31% of businesses expect to recruit during the next three months – up 3 points from Q4 2021 expectations. Given that across the UK there are [now more vacancies than unemployed people seeking work](#) its unclear where these new workers might come from.

# BUSINESS CONFIDENCE

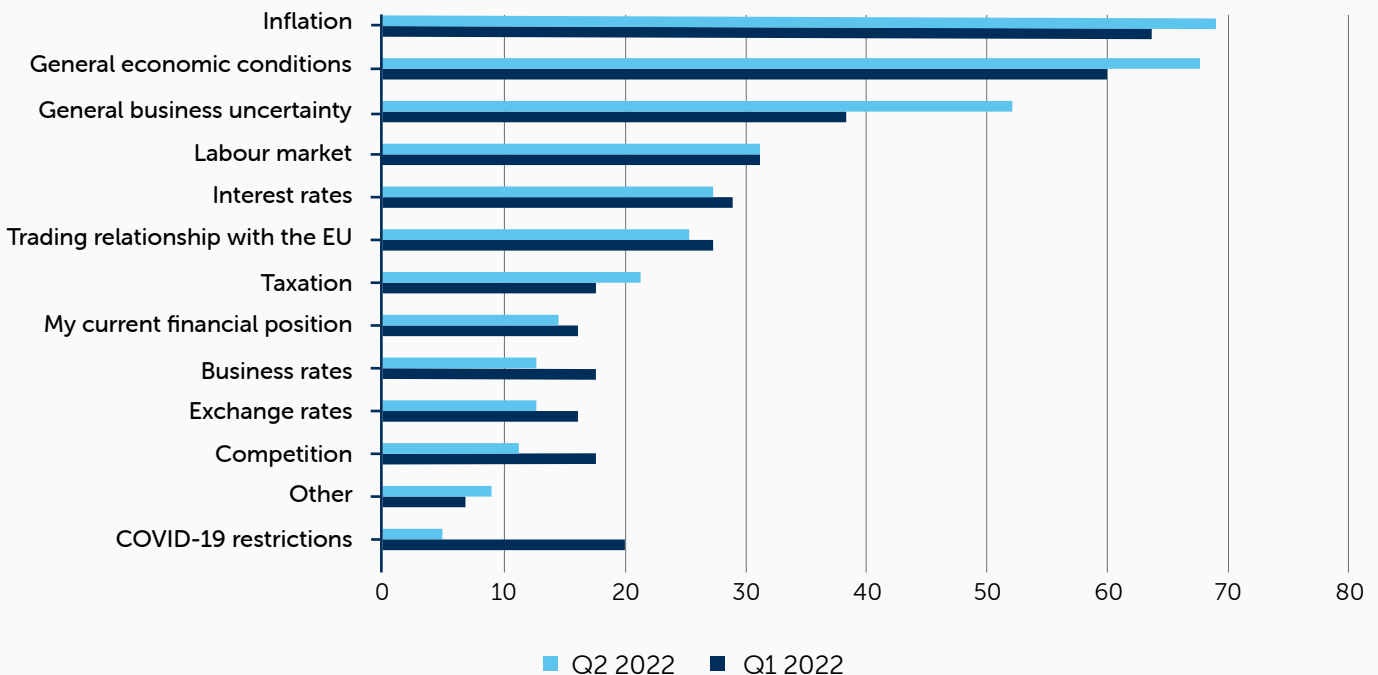
## SOURCES OF CONCERN



The QES has tracked sources of concern amongst the business community since 2008 as part of the wider view of sentiment and confidence. The levels reporting concern related to inflation in Q2 2022 is the highest on record at 69% (up from 63% last quarter), overtaking general economic conditions (at 68% up from 60% in Q1 2022).

General business uncertainty edges up to 54% (from 48% in Q1 2022). Manufacturing businesses are even more worried about inflation, reaching 75% of those businesses citing it as a concern – services based businesses are a little behind at 66%.

SOURCES OF BUSINESS CONCERN



\*Respondents could select all that apply

**“[A] high degree of uncertainty exists over UK economy due to the situation with Ukraine and its impact on inflation and [the] cost of living.”**

- Bristol based Avantix Ltd

## CONFIDENCE FOR THE NEXT 12 MONTHS



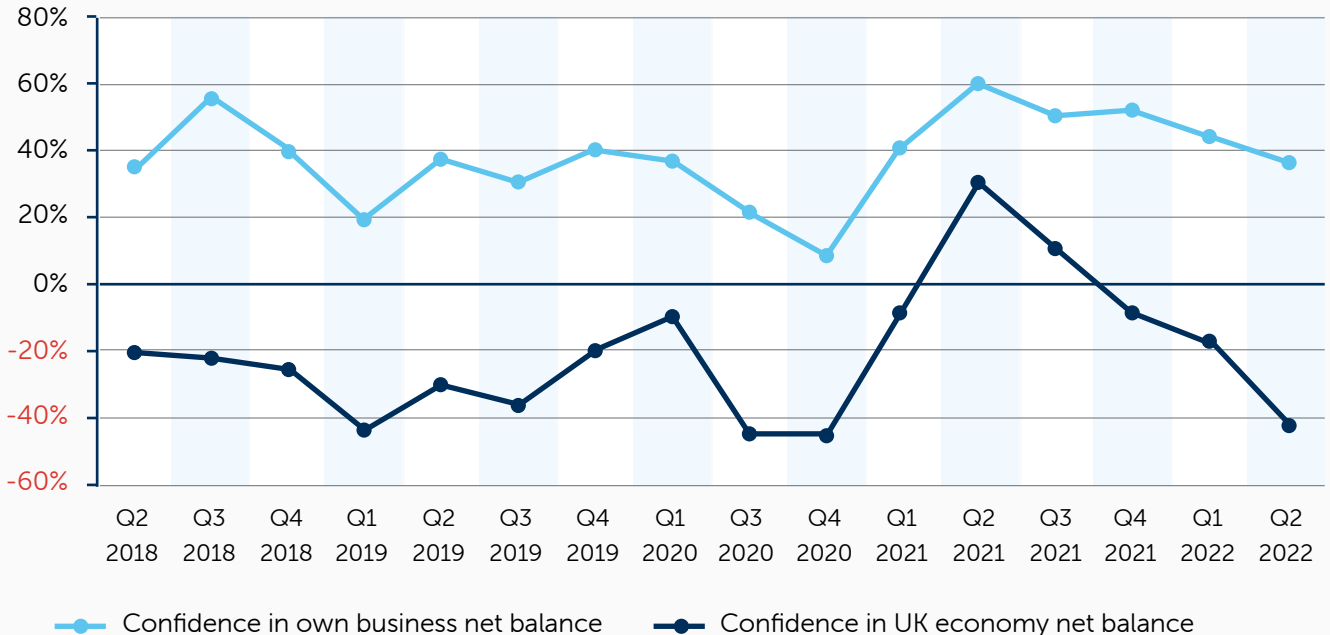
Confidence amongst respondents is always higher for their own business than for the wider UK economy, as seen in the chart below.

However, both measures are substantially down compared to Q1 2022, and the gap is wider than ever. Positivity created by Covid-19 restrictions lifting and the vaccine rollout has now ebbed away to be replaced by fears of stagflation.

When asked about the prospects for their own business performance for the next 12 months, just over half (52%, down from 60% in Q1) are confident or very confident, compared to the 17% that are negative or very negative.

Only 13% of the respondents are confident or very confident of the prospects of the UK economy for the next 12 months – 10 points lower than the start of 2022 – versus an alarmingly high 66% that report negative or very negative feelings.

BUSINESS CONFIDENCE - HISTORICAL NET BALANCE



**Only 13% of the respondents are confident or very confident of the prospects of the UK economy for the next 12 months**

# METHODOLOGY



## BUSINESS PROFILES

Of the 395 respondents, most are smaller businesses, half have an annual turnover under £500,000, and 26% between £1 – 10 million. The majority of respondents (80%) are limited companies and 54% are exporters.

Geographically, nearly half of the respondents are from the 'West of England' area (24% of these are in the narrower City of Bristol area), another 16% are located in Swindon and Wiltshire, 15% 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.

## 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.

During the peak of the economic fallout from Covid-19 last year we did not run the QES in the standard form, hence the historical net balance time series misses out the Q2 2020 data-point.



# RESULTS AT A GLANCE

## OUR FINDINGS



THIS QUARTER: Q2 2022

	Services	Manufacturing	Overall	Quarterly trend
UK Sales	5%	29%	12%	↓
UK Orders	-2%	20%	5%	↓
Export Sales	-2%	-11%	-6%	↑
Export Orders	-10%	-4%	-8%	↑
Current Workforce	8%	11%	8%	=
Future Workforce	23%	35%	25%	↓
Business Confidence	36%	33%	35%	↓
Confidence in UK Economy	-50%	-27%	-43%	↓



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