



QUARTERLY ECONOMIC SURVEY

Q3 / 2021

EXECUTIVE SUMMARY

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 & Wiltshire Initiatives.

Business West run the Quarterly Economic Survey as an accredited member of the British Chambers of Commerce. 258 businesses completed the survey, giving Business West unparalleled insight into the trends and experience of business health for our region – we thank all respondents for their time in completing the survey.



DOMESTIC SALES AND ORDERS

39% of respondents have increased their domestic sales during the past 3 months, similar to Q2, cementing the improvement in the domestic market. In contrast, reported UK exports continue to underperform, which could be due to slower recovery of the global economy, international supply chain constraints and Brexit.



EMPLOYMENT

60% of respondents have tried to recruit staff over the last 3 months, a 15 points increase quarter on quarter, which already was a recent high. 74% of businesses looking to recruit have experienced difficulties finding suitable staff, 12 points higher than in Q2.



BUSINESS CONFIDENCE

Business confidence has stabilised after peaking following the economy reopening - 37% of the respondents are confident or very confident of the prospects of the UK economy for the next 12 months, and 60% are feeling confident or very confident in their own business' potential over the same period.



SKILLS PROVISION

Of the 28% of respondents who felt their business lacked the right skills to fulfil its ambitions, apprenticeships and internships were considered the most effective routes to upskill their workforces.



EXPORT SALES AND ORDERS

Prices have continued to rise, with a third of respondents having increased their prices during this quarter, following inflation reported in previous quarters. Wage increases and future payroll costs loom large for employers.

"The third quarter of the year maintains the positive outlook from quarter two, albeit with more moderate results. Businesses in the South West are on the path to economic recovery.

Nevertheless, this is not without a set of complex challenges that must be addressed, such as labour market misalignments, skills shortages, inflationary pressures and trade constraints."

– Matt Griffith, Director of Policy,
Business West



CURRENT ISSUES

70% of respondents are confident or very confident that their business has the right skills to fulfil its ambitions. This perception is higher (74%) among businesses with up to £1 million turnover versus 65% of larger businesses.

For the close to 30% who were not confident (in part or at all), half believe that the main skills gaps holding back their business activity and growth are: professional or managerial skills requiring advanced qualifications or extended work experience, and technical skills requiring formal tertiary qualifications – especially in manufacturing. Another known skills gap for a third of respondents are the digital or other non-technical skills not requiring formal qualifications.

"We are only as good as our staff and to improve on this, staff need training, so any new staff will be placed on an apprenticeship course."

– Andreas Henken, Avon Home Carers Ltd, Bristol

The most common options to fill in these skills gaps were: direct recruitment (64%), apprenticeships (50%), engaging a subcontractor (40%) and internal development and upskilling of staff (42%). There are significant differences on recruitment preferences, 72% of manufacturing businesses favour apprenticeships versus just 38% of service businesses. On the effectiveness of the existing schemes, apprenticeships and internships (work placements) are the most well-known schemes as well as the ones that are perceived as effective for the highest proportion of businesses, 47% and 39% respectively.

"The available apprenticeships could be further simplified for employers to understand them and what they need to do for their responsibilities, especially if you've never done it."

– Care Provider, Swindon

T-level placements are the least known by respondents, which is not a surprise because they are the newest addition to the skills 'landscape' – albeit marketing and promotion activity will have to ramp up. Traineeships were also unfamiliar to most – over 75% do not know enough to rate them.

All schemes, including Kickstart and graduate placements, are perceived to be more effective than not by both businesses that have used them and the cohort that have not used them but have an understanding.

35% of respondents do not experience any barriers that would prevent them from offering training to their staff. For the businesses that have experienced difficulties, time to release staff for training is a barrier for a third of respondents, and the cost of training and COVID-19 restrictions have also been a barrier for almost a quarter of them.

Looking ahead, in the next 12 months, retention of current staff is the issue that concerns the highest proportion of service businesses (40%), whereas 47% of manufacturers could be impacted by retirement of staff and succession problems to backfill roles or skills.

Wage and inflationary costs worry 39% of respondents, whereas 35% are concerned about recruiting additional staff to roles they already have some personnel working in. The new migration regime is reported to be a potential issue for 17% of businesses.

"The combination of Brexit and COVID-19 has affected farming and construction clients in labour availability and material costs and supply"

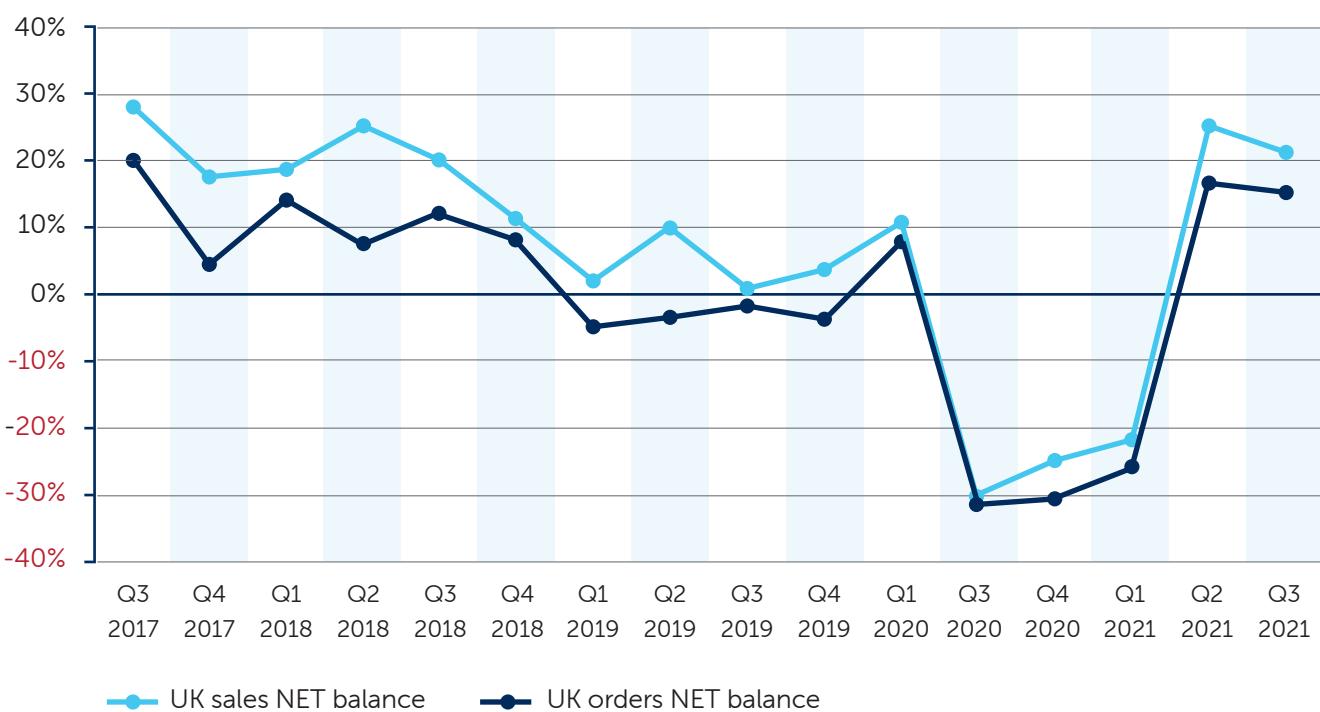
– Buildings Surveyors, Yatton

BUSINESS ENVIRONMENT



DOMESTIC MARKET

39% and 32% of respondents have increased their domestic sales and orders respectively during the past 3 months, similar to the previous quarter – which saw the first positive net domestic sales numbers since Q1 2020. The domestic market is on track to economic recovery, assuming the COVID-19 situation remains under control this autumn. The proportion of businesses operating at full capacity continues to climb from 2020 and early 2021 lows, reaching 60%, 15 points higher than last quarter.

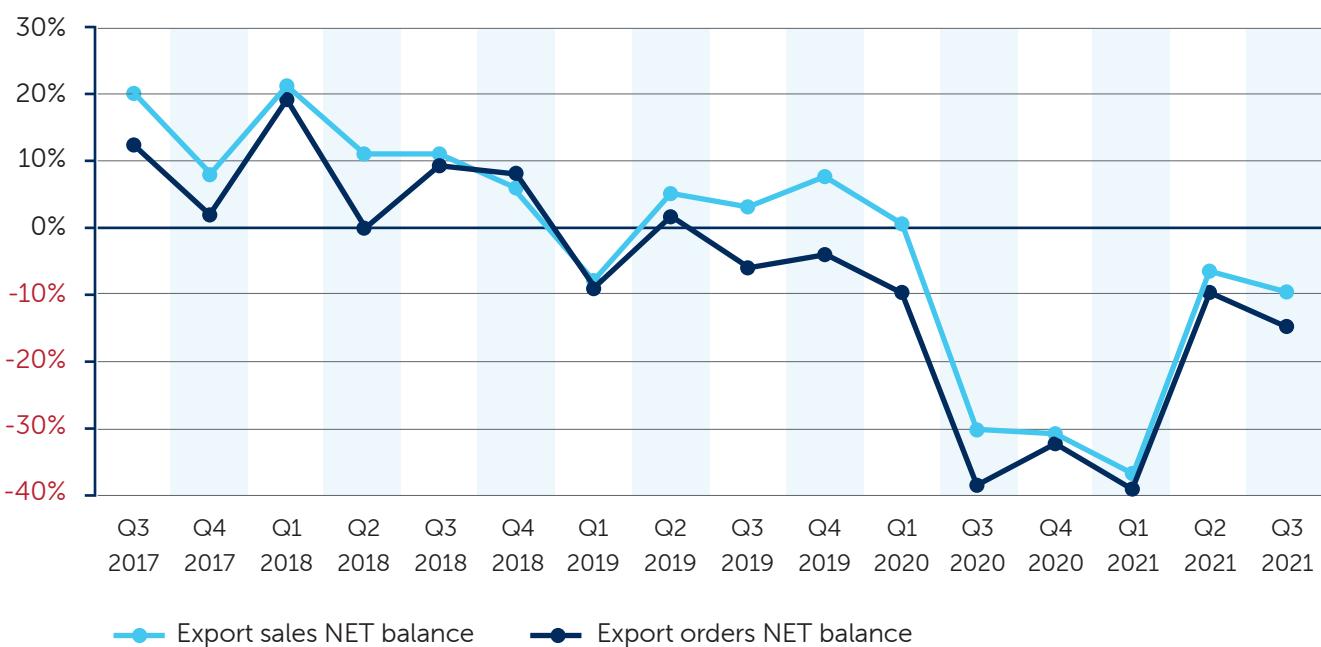


INTERNATIONAL MARKET



The overall international market performance continues to be modest. Of the 49% of respondents who sell internationally, close to 40% have experienced a decrease in international sales and orders in the last three months (similar to Q2) versus the quarter that have seen an increase.

Service based businesses were more impacted (45% reporting a decrease), than manufacturers (less than a third). 91% of exporters sell their goods and/or services to Europe, 63% to North America and 49% to the Middle East.



CASHFLOW

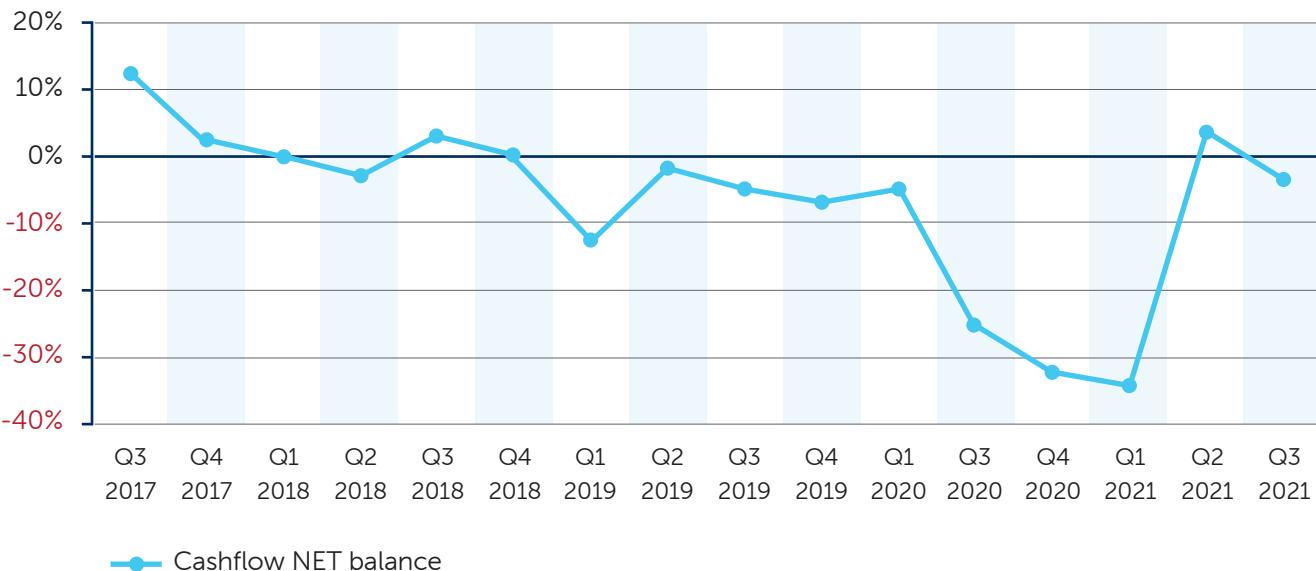


Over the last 3 months, cashflow levels have remained constant for over 43% of the survey respondents, with another 29% of businesses suffering a decrease in their cashflow levels. Net cashflow numbers return to negative territory after last quarter's peak.

57% of businesses expect their turnover to increase over the next 12 months, 7 points lower than in the previous quarter. The number of businesses expecting it to worsen has remained constant at 12%.

In terms of profitability, 41% expect their profitability to improve in the next 12 months, versus 26% that expect it to worsen.

These numbers are more modest than the previous quarter but remain positive. Businesses are feeling more positive in sales terms than they do about profitability – implying an expected margin reduction due to inflationary cost base pressures.



FINANCE AND INVESTMENT



INVESTMENT PLANS ACROSS ALL CATEGORIES

Investment plans across all categories – for office space, equipment and machinery, training, and research and development – have not changed during the past 3 months for the majority of respondents.

The proportion of respondents increasing their investment in any of the categories mentioned was greater than those decreasing.

The availability of finance for businesses has remained constant this third quarter for 46% of participants, with only 9% reporting either a decrease or an increase in this area.

WORKFORCE & EMPLOYMENT



60% of respondents have tried to recruit staff over the last 3 months mainly to fill full-time (79%) and permanent (55%) positions – this represents a 15 point increase from last quarter, which already was a recent high. 25% of businesses confirm having actually recruited during Q3, however another 19% have decreased their workforce in the last 2 months, almost doubling the Q2 percentage.

The service industry experienced more difficulties to find suitable staff, with 77% reporting difficulties, compared with 69% for manufacturers. This represents a quarter on quarter rise of 11 and 16 points respectively. Skilled manual or technical (50%) and semi or unskilled roles (46%) are reported to be the most difficult to fill.

"I have been at this hotel for eighteen years, and I have never known staff shortages like it."

– Hotel, West Dorset

Overall, the main type of recruitment problems that businesses face to bring new people in are a shortage of candidates with the right skills or experience (82%), wages affordable to businesses not being competitive enough (37%), struggles to get the role "seen" by the intended candidates (17%) as well as difficulty to attract candidates to premises for in-person roles (16%).

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Migration related issues such as visa requirements have also been a problem for 11% of businesses that experienced recruitment issues.

"Recruiting and retaining developers, digital project managers and digital marketers is a real problem...European candidates with the relevant skills are no longer in the UK or do not want to be here anymore."

– Roger Proctor, Proctor and Stevenson, Bristol

36% of businesses expect to recruit during the next quarter, some of these are preparing for the Christmas campaign as well to cater for an increase in customer demand'.

"There is a lack of candidates & those applying have none of the skills required. This is an industry wide problem and as a result, we are seeing significant increases in salaries, which only bigger companies can accommodate."

– Emma Carter, Smarter Media, Swindon

END OF FURLOUGH

The majority of respondents (83%) have not been affected by the phase out of the furlough (Coronavirus Job Retention) scheme prior to the scheduled closure date at the end of September.

The common issues expressed for the 12% of businesses impacted are: not having enough work to bring staff back and are having to face an increase in costs, reduced hours or make redundancies.

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BUSINESS CONFIDENCE

General business uncertainty (49%) and general economic conditions (46%) remain the two main sources of concern in the third quarter of 2021 (similar to Q2), closely followed by the labour market (44%) – which jumps 22 points since last quarter.

The trading relationship with the EU and COVID-19 restrictions continue to worry a third of businesses in our region.

For manufacturing businesses, the trading relationship with the EU (40%) is a greater concern than COVID-19 restrictions (20%), the opposite is true for the services sector. Manufacturers also highlight inflation (33%) and exchange rates (26%) as worrying issues.

PRICES

Prices have continued to rise, with a third of respondents having increased their prices during this quarter – the same proportion as last quarter. The difference between manufacturers and service sector businesses is less acute than in Q2, but manufacturers are still under greater inflationary pressures.

76% of manufacturers report having suffered pressure to raise prices from the soaring costs of raw materials, and more than half from increasing import costs. Service businesses report pressures from wage increases.

Half of respondents expect to increase prices in the next 3 months – a 15 points jump from last quarter. This is 62% when looking at the manufacturing industries.

"We have increased wages to improve attractiveness of our roles, but we are unable to pass this onto clients in the short term."

– Home Care Provider, Bristol

CONFIDENCE FOR THE NEXT 12 MONTHS

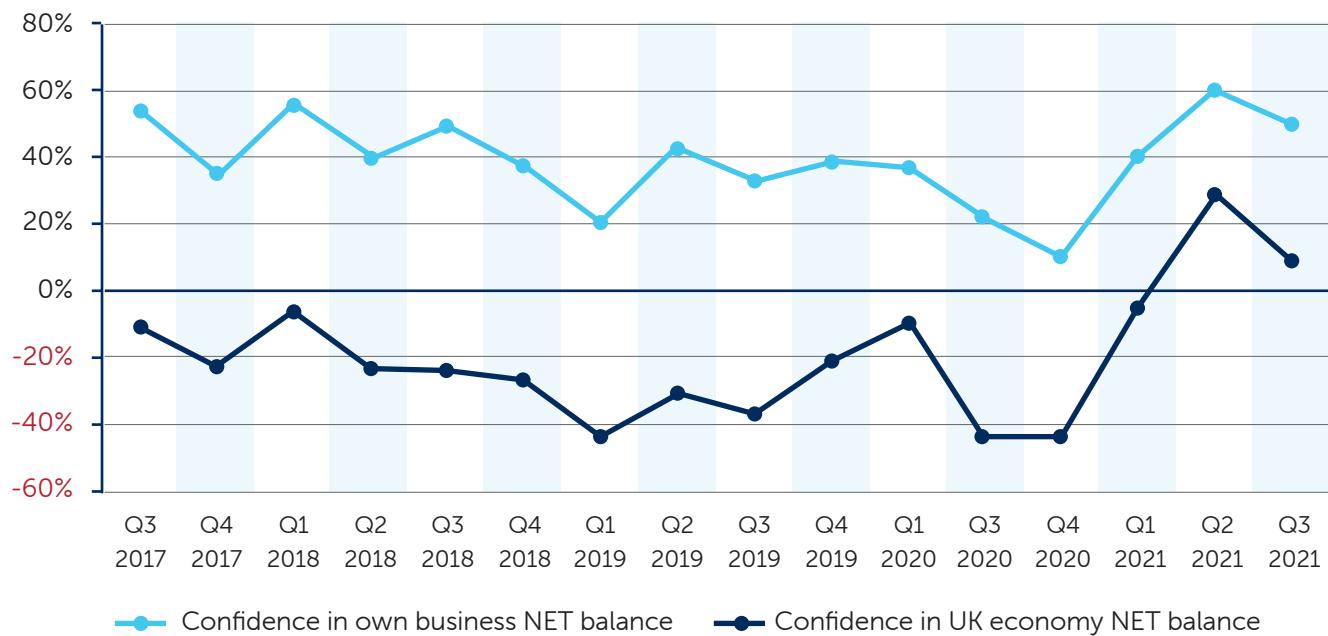
The numbers on business confidence remain positive, implying a stabilisation of expectations after the peak following reopening.

37% of the respondents are confident or very confident of the prospects for the UK economy for the next 12 months versus 26% that have negative or very negative feelings about it.

When asked about the prospects for their own business performance for the next 12 months, the majority (60%) were confident or very confident, compared to the 13% that were negative or very negative.

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METHODOLOGY

258 businesses completed the survey between the 31st August and the 21st September. Most respondents are small businesses, 42% reporting an annual turnover under £500,000, and almost a third with a turnover between £1–10 million.

The majority of respondents (78%) are limited companies and 49% are exporters. Geographically, 40% are from the West of England area (and just over half of these are in the narrower City of Bristol area). Another quarter are located in Swindon and Wiltshire, and 19% are from the wider South West region.

New College Swindon, City of Bristol College and Wiltshire College partnered with Business West to send out this survey to their employer contacts, for which we are incredibly grateful for the insights of the 49 employer partners who contributed their responses to the totals.

Our respondents are significantly more likely to be exporters than the general UK business community.

Manufacturing: Manufacturing sector businesses comprise the following categories: Advanced engineering, Aerospace and defence; Construction and development; Manufacture of electronic or information technology goods; Manufacture of other goods; Micro-electronics; and Rural economy and agriculture.

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Services: Service sector businesses comprise the following categories: Consumer services (e.g. cleaning, decorating, plumbing, repairs, private leisure/education/health); Creative; Food and drink; Low carbon industries; Marketing and media; Other services; Professional services (e.g. finance, consultancy, legal, IT support, recruitment); Public or voluntary sector services; Retail; Social enterprise; Tourism; and Transport and distribution.

Net balance: Net balance figures in this report and represented in 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.



OUR FINDINGS

THIS QUARTER: Q3 2021

		SERVICES	MANUFACTURING	OVERALL	QUARTERLY TREND
	UK SALES	20%	24%	21%	
	UK ORDERS	13%	20%	16%	
	EXPORT SALES	-16%	-7%	-11%	
	EXPORT ORDERS	-25%	-7%	-16%	
	CURRENT WORKFORCE	5%	7%	7%	
	FUTURE WORKFORCE	30%	34%	31%	
	BUSINESS CONFIDENCE	47%	47%	47%	
	CONFIDENCE IN UK ECONOMY	9%	15%	11%	



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