



QUARTERLY ECONOMIC SURVEY

Q3 / 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.

400 businesses completed the survey between 25 August and 19 September 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.

On 8 September, halfway through the fieldwork period, the Government announced the Energy Price Guarantee shielding businesses from the full extent of energy price hikes through the coming winter months. However, details about how it would work for businesses were published after the survey closed.



EXECUTIVE SUMMARY



SALES

Overall, net UK sales and orders which were both positive in Q2 have now tipped into negative territory (although UK sales is only marginally so). The proportion reporting an increase in domestic sales has now dipped below 30%, a fall of 5 percentage points from the prior quarter.



INTERNATIONAL SALES

Businesses who export remain in negative territory, with a net balance of respondents reporting 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 half of businesses who have tried to recruit new staff, the majority were full time positions and 79% had difficulties finding suitable staff. The labour market remains very tight and employers continue to struggle to attract the talent they need. 60% of respondents were under pressure to increase prices because of labour costs.



ENERGY & INFLATION

Business concern about inflation (which worried 73% of respondents) is higher than ever, beating last quarter's historic high. Half of businesses put up their prices in the last 3 months and a further 52% expect to have to increase them during the next quarter. Energy led the inflationary pressure, with utilities reported as a factor by 68% of respondents and road fuel by 52%.



BUSINESS CONFIDENCE

There has been a further dramatic decline in confidence, especially in the UK economy within the quarter, with now only 9% of respondents feeling confident in the nation's economic prospects for the coming year.

Slightly under half (46%) expressed confidence about their own business prospects. Inflation worried three quarters of respondents and the general economic conditions were a concern for four fifths of businesses.

"Like many businesses, we're caught in a situation whereby to maintain profitability we need to increase prices, but at the same time we're conscious that our clients budgets are also being squeezed."

- Adam Soble, Cotswold Printing, Gloucestershire

CURRENT ISSUES



ENERGY

Business across the board are grappling with an energy price crisis which in many cases threatens their profitability and prosperity. When asked specifically about cost increases for utilities many reported 300%+ increases following the expiration of current fixed rate deals.

Halfway through the QES fieldwork period, on 8 September, the new Truss Government announced an Energy Price Relief Scheme would apply to non-domestic customers for 6 months of the 2022/23 Winter. Whilst the detail of how this guarantee would apply to business customers

remained unclear for the rest of the QES fieldwork period the prospect of a temporary reprieve may have had some impact on our findings for the quarter.

On 21 September the capped unit prices for gas and electricity used from 1 October for most business customers were released. Whilst these are considerably below prevailing market prices, they represent an approximate doubling of what businesses were paying last winter. Businesses are still under inflationary pressure during the winter even with the Government intervention.





PRICES AND INFLATION

Price levels continue to rise strongly, with 48% of respondents having increased their prices in the last 3 months and 52% expecting to put their prices up in the next 3 months (this breaks down as 60% of manufacturers versus 49% of service based businesses).

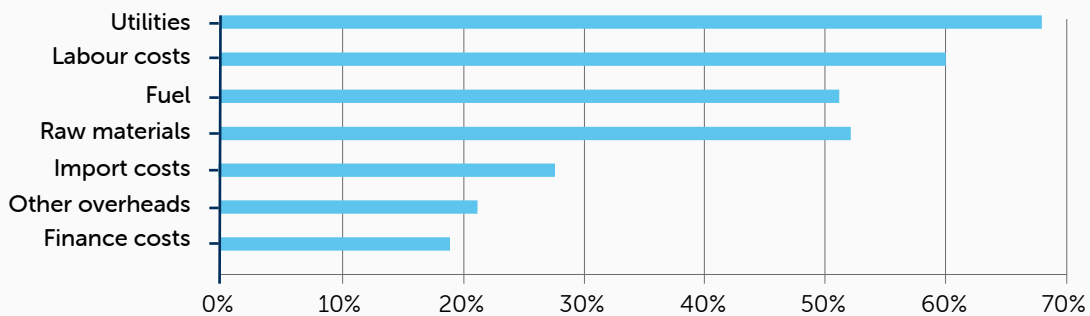
73% of businesses were more concerned about inflation compared to last quarter, a new record since the question was introduced 14 years ago.

Manufacturing businesses are even more worried about inflation, reaching 79% of those businesses citing it as a concern – services based businesses are a little behind at 70%.

“Raw materials remain high, and manufactured materials in the build construction keep rising from pressures on wages and energy costs hitting the supply chain.”

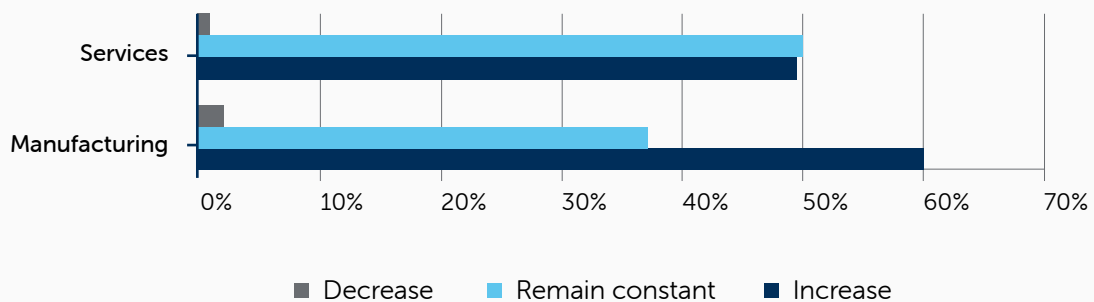
- Sean Morgan, Kellaway Building Supplies, Bristol.

SOURCES OF INFLATION



*Respondents could select all that apply

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



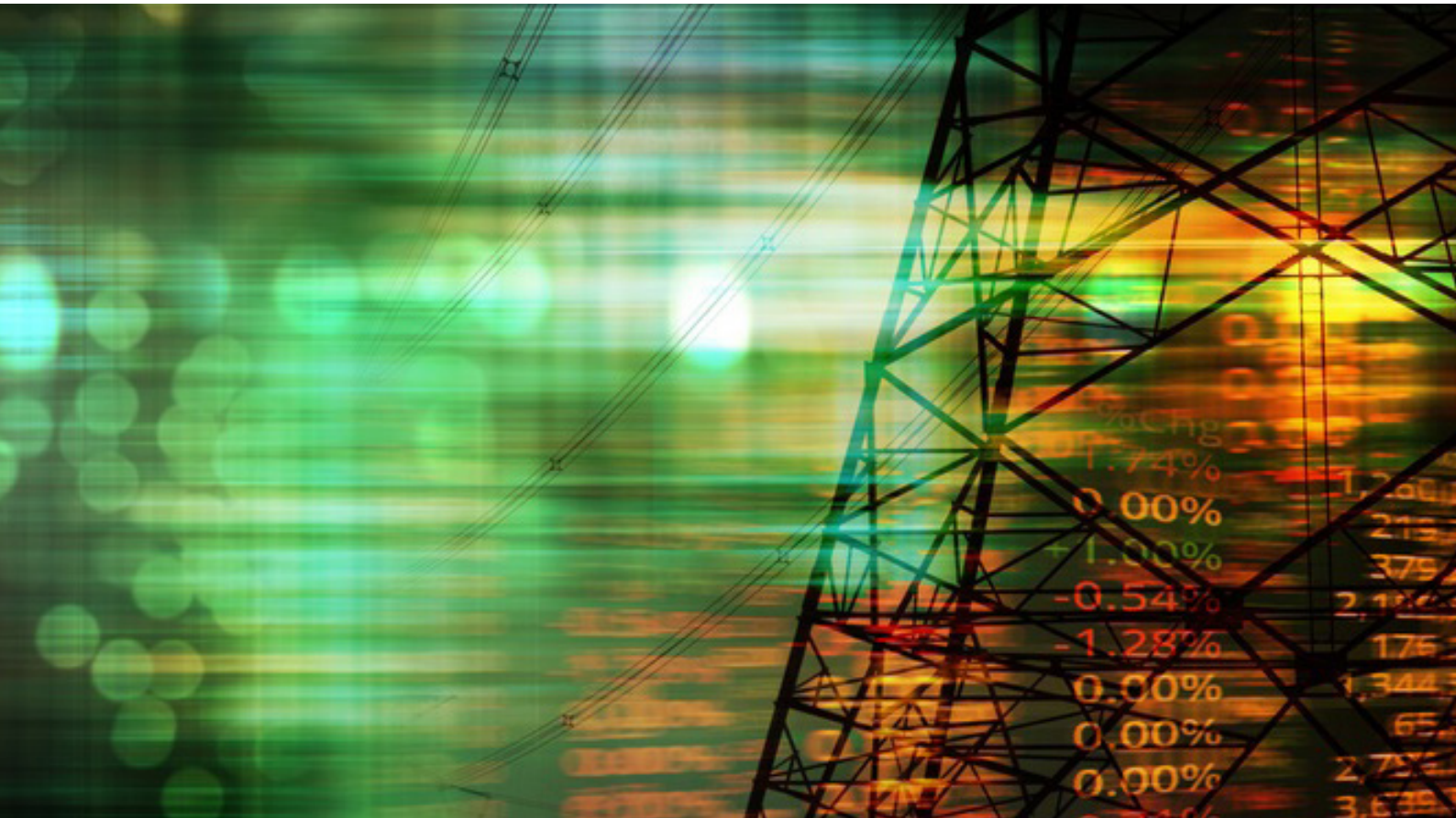


"As the region's businesses approach a difficult winter characterised by higher costs across all categories of their spending and falling consumer demand, there are scant sources of brightness on the horizon.

In a reflection of the volatile times faced by the UK and globally, our report sees several historic highs in our measures of local business concern, from inflation to future economic uncertainty.

The energy price intervention will have addressed some of our local firms most pressing concerns, but our findings highlight the scale of the challenge in securing future business health and vitality over the coming year".

– Matt Griffith, Director of Policy, Business West



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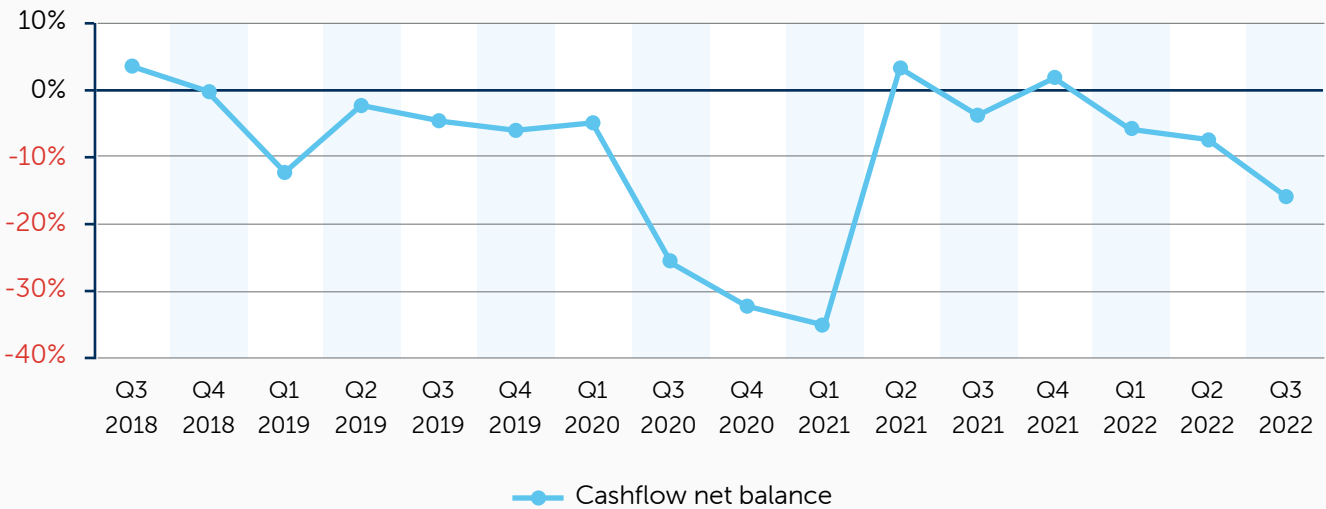
CASHFLOW



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 almost half of businesses (40%) 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 36% of the survey respondents but the overall cashflow net balance is -16 points, showing that activity levels across the region's economy are slowing.

CASHFLOW - HISTORICAL NET BALANCE



PROFITABILITY



As in previous quarters, a majority of businesses still expect sales growth in the coming year, but with stable or declining profit margins. In Q3, 41% of respondents predict future turnover to improve compared to 27% who expect improving profitability.

In their detailed comments many respondents have told us their margins are being 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.

BUSINESS CONFIDENCE

SOURCES OF CONCERN



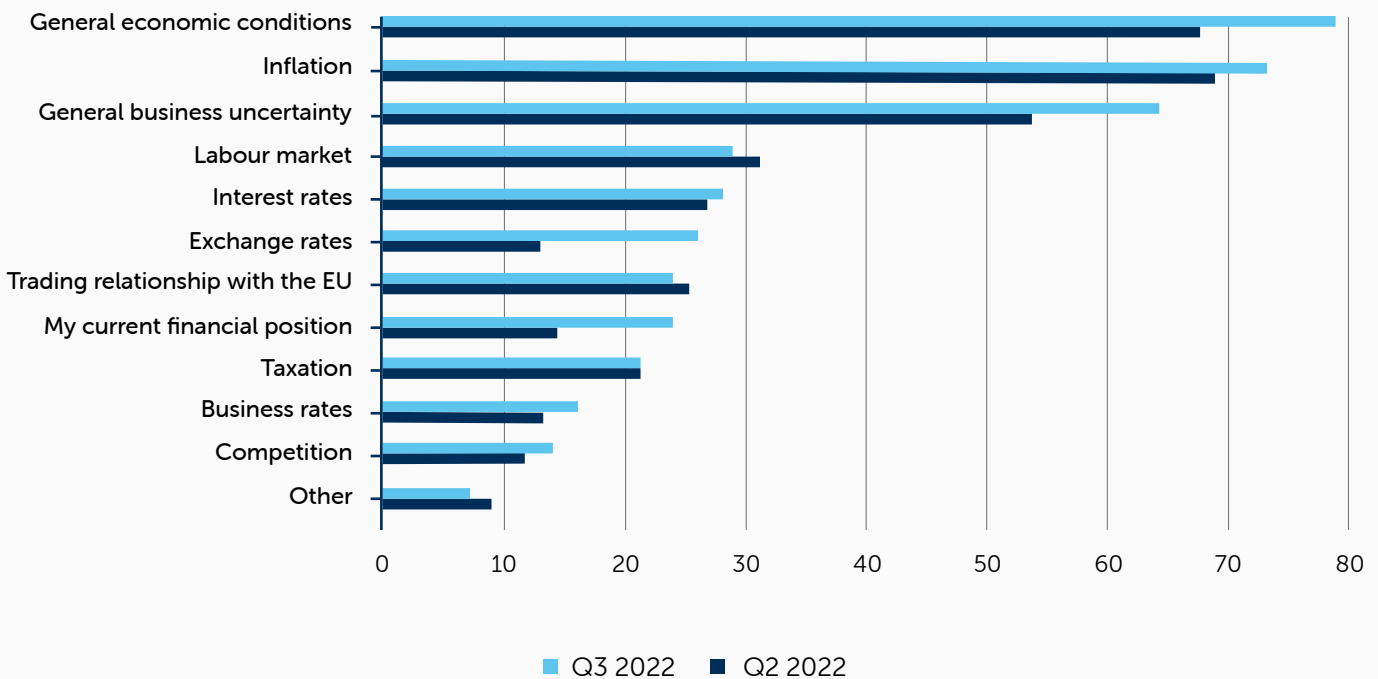
The QES has tracked sources of concern amongst the business community since 2008 as part of the wider view of sentiment and confidence. The levels reporting concern related to inflation this quarter have set a new record at 73% (up from the previous record of 69% set in Q2 2022). General economic conditions has returned to the top area of concern – cited by a staggering 79% of respondents, another recent high.

General business uncertainty is significantly up (now being reported by 63% of respondents compared to 54% in Q2 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 70%.

The number of respondents concerned about exchange rates has doubled since Q2 to 26%, prior to the recent slide in the strength of the pound. We expect this concern to become more salient in Q4 especially as it compounds other factors such as inflation (with imports becoming more expensive) and the likely further monetary policy tightening required by the Bank of England feeding through to the costs of debt finance.

SOURCES OF BUSINESS CONCERN



*Respondents could select all that apply

CONFIDENCE FOR THE NEXT 12 MONTHS



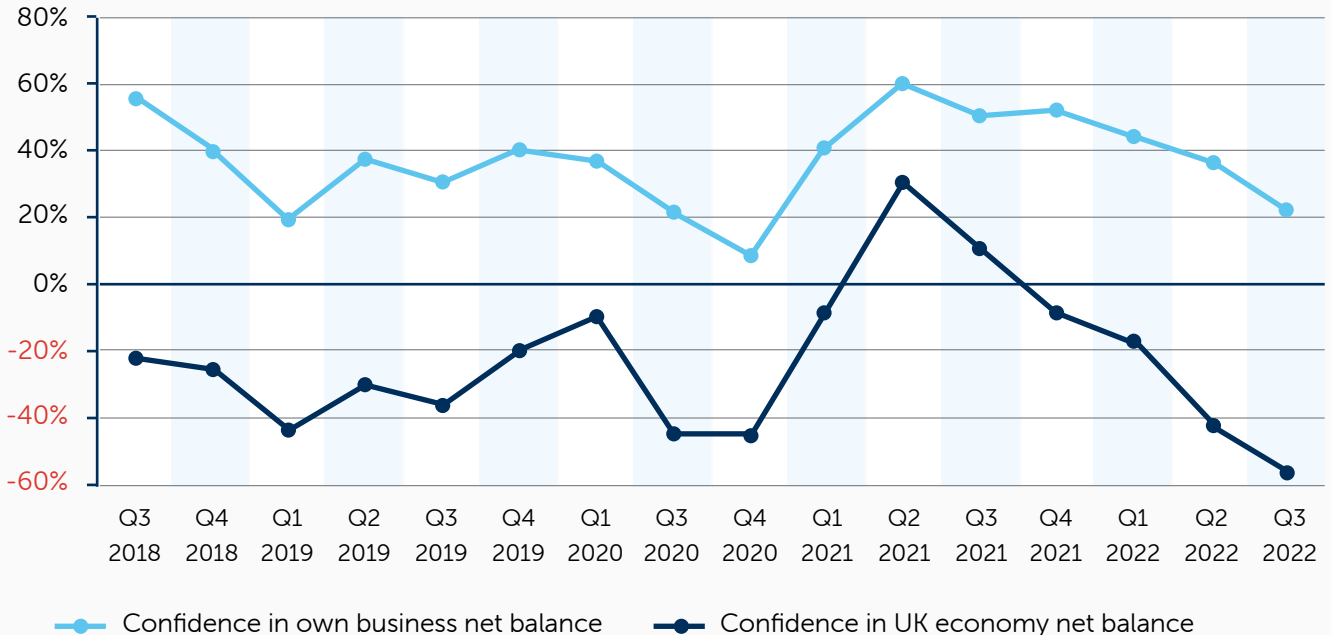
Confidence amongst respondents is always higher for their own business than for the wider UK economy, as seen in the chart below.

However, both measures are substantially down compared to Q1 and Q2 2022, and the gap is wider than ever. Whilst the UK is not yet formally in recession (as measured by two consecutive quarters of negative gross domestic product), the trends in the QES reinforce the expectation that this will occur before next Spring.

When asked about the prospects for their own business performance for the next 12 months, now less than half (46% down from 52% in Q2) are confident or very confident, compared to the 23% that are negative or very negative.

Two thirds feel either negative or very negative about the prospects of the UK economy for the next 12 months – this is unchanged since Q2 but the proportion feeling positive or very positive has fallen further, from 13% last quarter to a mere 9% now.

BUSINESS CONFIDENCE - HISTORICAL NET BALANCE



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BUSINESS ENVIRONMENT

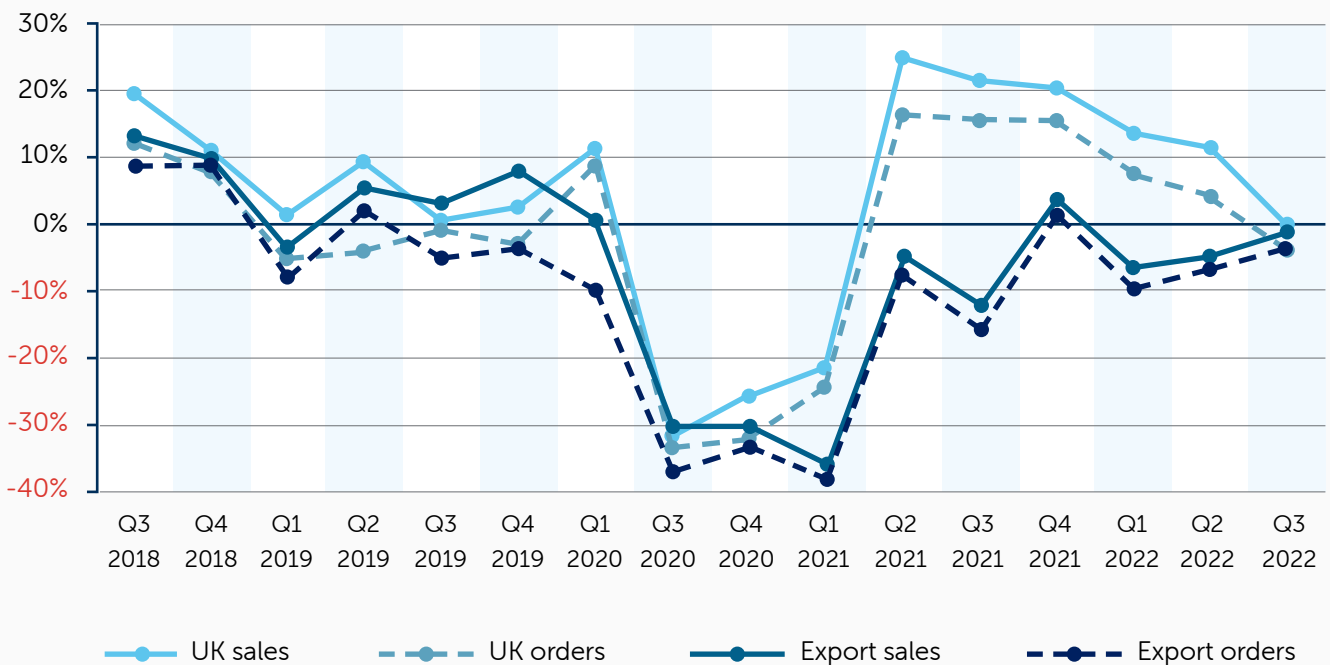
DOMESTIC MARKET



The economic slowdown evidenced in previous reports has accelerated in the current quarter with net UK sales and net UK orders entering negative territory for the first time since Q1 2021. Less than a third of respondents (28%) have experienced an increase in their domestic sales during the past 3 months, a fall of 7 percentage points versus the prior quarter.

The largest proportion of respondents report UK sales and orders remaining flat at 38% and 29%, respectively. Manufacturers report a slightly better domestic performance than the service industries attaining a 2-point positive sales balance compared to -1 points for the service sector.

DOMESTIC & INTERNATIONAL MARKET - HISTORICAL NET BALANCE



INTERNATIONAL MARKET



The international market performance has shown signs of improvement in Q3 for the 52% of businesses surveyed who trade internationally. 29% of exporting respondents have experienced an increase in international sales, 4 percentage points above Q2's figures. However, the net balance for exports remains negative.

For exporters, Europe remains the top overseas market with 93% of businesses selling their goods and services on the continent. North America and Australasia continue to be second and third largest markets with 60% and 44% of firms engaged in international trade reporting sales to those regions.



WORKFORCE AND EMPLOYMENT



Tightness within the labour market remains a recurring theme within this quarter's results.

More than a quarter of respondents (29%) have concerns about the labour market while labour costs are the second source of pressure for businesses to increase their prices. Amongst manufacturers, this reaches an eye-watering 64%.

Half of respondents have tried to recruit staff over the last 3 months, with most roles being full time (82%). As seen in previous quarters, the existing historical mismatch between skills and labour demand continues to negatively affect businesses in search of new talent.

An overwhelming majority (78%) of those trying to recruit have faced difficulties in finding suitable candidates this quarter, and these recruitment difficulties were across all categories of employee but especially skilled technical workers and professional and managerial grade roles.

Only 18% of businesses reported increases in their workforce within the quarter, the lowest since Q1 2021. 20% of businesses expect to recruit during the next three months – down 11 points from Q2 2022 expectations.

These figures show that the labour market might be entering a slowdown as businesses navigate greater economic uncertainty and tighter margins.

FINANCE AND INVESTMENT



Businesses investment in staff training has returned to a negative net balance (-3 points) after trending positive for a one-off quarter in Q2. Now all the metrics of business investment (office space, equipment and machinery, and research and development) are negative – with more businesses reporting decreases than increases.

The availability of finance for businesses has remained the same for 60% of businesses requiring it, but worryingly 23% reported this deteriorating compared to 17% finding finance easier to access. The proportion of businesses worried about interest rates has doubled since Q2 to 28% - which is to be expected given businesses who took out loans to

survive Covid are now being impacted by the Bank of England raising interest rates to try to control inflation – a seventh consecutive rise to 2.25% being announced on 22 September. The cost of servicing business debt, and the expectation of future rate rises through the winter means 18% of businesses report pressure to increase their prices as a result of their financing costs increasing.

14% of businesses are more concerned about interest rates now than they were 3 months ago. The proportion of businesses operating at full capacity remains at 42%, similar to pre-pandemic levels.

METHODOLOGY



BUSINESS PROFILES

Of the 400 respondents, most are smaller businesses, almost half have an annual turnover under £500,000, and 26% between £1 – 10 million. The majority of respondents (79%) are limited companies and 52% 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, 14% in Gloucestershire, and 25% 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.



RESULTS AT A GLANCE

OUR Q3 FINDINGS



THIS QUARTER: Q3 2022

	Services	Manufacturing	Overall	Quarterly trend
UK Sales	-1%	2%	0%	↓
UK Orders	-5%	0%	-3%	↓
Export Sales	-5%	5%	-1%	↑
Export Orders	-5%	2%	-3%	↑
Current Workforce	-5%	10%	0%	↓
Future Workforce	5%	17%	9%	↓
Business Confidence	17%	32%	22%	↓
Confidence in UK Economy	-56%	-57%	-56%	↓



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