

Q4

2021

QUARTERLY ECONOMIC REPORT

CLEAN GROWTH
WORCESTERSHIRE **SUSTAINABILITY**



Herefordshire
& Worcestershire
Chamber of Commerce

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Sharon Smith
Chief Executive
Herefordshire & Worcestershire
Chamber of Commerce

Herefordshire & Worcestershire Chamber of Commerce has released the results of the latest Quarterly Economic Survey, outlining business performance and confidence between August and October 2021. The survey was conducted between the 1 and 22 November.

The Quarterly Economic Survey (QES) has been conducted by the British Chambers of Commerce within its UK network since 1989. Its findings have allowed businesses, their partners, and representative bodies to assess their current position, plan, and benchmark themselves amongst their peers. This last survey was completed by 5487 businesses across the UK, 409 (7.4%) of them from Herefordshire and Worcestershire. I'd like to thank everyone who invested time in completing the QES and I hope you find the survey useful.

It is without doubt that the surveys completed throughout 2020 and 2021 have been done so during "unprecedented times". A phrase much used, but perhaps with this survey once again very relevant. As stated above the survey was conducted in the first three weeks of November. Businesses had previously reported that despite supply chain challenges, limited labour supply, and increasing costs there was a cautious optimism that the economy was showing signs of recovery.

However, very soon after the collection of data in QES 4, the government announced "Plan B". The British Chambers of Commerce have predicted that some data collected in

this survey will be compromised as turnover in many retail and hospitality businesses will be effected when people change their festive plans and work from home. Equally that might affect suppliers to those businesses, and plans these businesses would have had to invest in people and product. The results in this survey are valuable nonetheless, as will be those accumulated in February 2022 when the Quarterly Economic Survey is once again held.

I am particularly grateful to our partners at Worcestershire County Council and their Clean Growth Team for supporting us with this survey. The Herefordshire & Worcestershire Chamber of Commerce are committed to delivering the Business Energy Efficiency Programme (BEEP) and Low Carbon Opportunities Programme (LoCOP).

As a Chamber we like to reflect the priorities of our Members in the activities we carry out. Sustainability and Skills (Salary and Benefits Survey in association with Hewett Recruitment published in November 2021) were two key elements of our Manifesto for 2021/22 and this survey allows us to concentrate on Sustainability.

As you will read later, there are great efforts being made to become more sustainable. Some feel they might be able to do more, and others will appreciate that they could start making a difference by implementing simple changes to their operations. I could understand that the need to reduce costs was vital to any business, and there are indications of this later in the report, but I took most encouragement from employees putting pressure on business to change practices, making sure their suppliers were more sustainable, and that changes were being made to make businesses more competitive.

Another aspect was "how can this happen?" Funding, Events and Training, and Networking were the most popular solutions. All are made available through the Chamber and it is our intention to make this process, these events, and the sharing of best practice accessible to as many businesses as possible in 2022.

I hope you enjoy the findings of the report that covers all aspects of business performance and confidence and may I thank you all once again for taking part.



Cllr Tony Miller
Cabinet Member for Environment
 Worcestershire County Council

CLEAN GROWTH
 WORCESTERSHIRE SUSTAINABILITY

I'm delighted, not only to write the foreword to this quarter's economic survey report, but also to highlight some of the encouraging findings, which demonstrate the growing importance of tackling environmental issues within the Herefordshire and Worcestershire business community. We have found the results extremely useful in terms of where businesses are in their journey and also highlighting the support that is required to make improvements.

The environment has consistently been making headline news, with world leaders meeting in Glasgow for COP26 in November 2021 discussing; limiting average global temperature increase to 1.5 degrees centigrade and renewing ambitions, which can limit the damage and consequences of Climate Change.

The positive message of businesses playing their part is echoed in the QES with 72% of local businesses saying they are taking steps to reduce their environmental impact.

This desire from businesses to factor the environment into their decision-making processes has also happened at a time when we are seeing drastically increasing energy costs, which are ramping up the costs of production, squeezing margins and inflating prices.

And although reducing costs is clearly a key business driver to be more sustainable, the QES shows that the desire to reduce environmental

impact is the biggest reason for change (86%). From both an environmental and financial perspective, it makes sense to review and manage energy consumption and costs.

Managed by Worcestershire County Council, the Low Carbon Opportunities Programme (LoCOP), which sponsors this edition, offers small and medium size businesses the opportunity to reduce their reliance on the national energy grid and protect against rising energy prices by supporting the transition to generating their own renewable energy.

LoCOP provides technical advice through impartial renewable energy advisors, and grants of up to £50,000 to install technology such as: solar panels; air, ground and water source heat pumps; wind and biomass powered energy generation.

Advice and grant support via Worcestershire County Council and the Chamber of Commerce is also available to help SME's across both Herefordshire and Worcestershire to install energy efficiency measures, like LED lighting, through the Business Energy Efficiency Programme. The County Council and Worcestershire Wildlife Trust also provide advice and grant support to help SME's improve the biodiversity of their land, through the Natural Networks programme.

Not only is support available to help businesses to become greener, LoCOP also offers advice and grants of up to £30,000 to help Worcestershire SME's to develop low carbon products, services and technologies. A recent study commissioned by Worcestershire Local Enterprise Partnership and the County Council, showed the value of the low carbon and environmental sector to Worcestershire as £1.5bn, with more than 700 local businesses involved and a preCovid growth rate of 6%.

The above European funded programmes are perfectly placed to help meet the response in Q19, which highlighted the importance of technical and impartial advice, funding, events to learn of opportunities, and the sharing of best practice.

To find out more about the Low Carbon Opportunities Programme and other support available to SME's visit www.business-central.co.uk/clean-growth.

Thank you to all who completed the survey, I hope you find the results interesting and useful and wish you well in your efforts towards greater sustainability.

METHODOLOGY

During Quarter 4 (Q4) 2021, 409 businesses in Herefordshire and Worcestershire responded to the Quarterly Economic Survey. Data collection took place between Monday 1 November and Monday 22 November 2021. Any reference to Quarter 3 (Q3) 2021 refers to data collection between Monday 23 August 2021 and Monday 13 September 2021. In this document some of the QES results are presented as balance figures. Balance figures show the difference between the increase and decrease in activity. If the figure is a plus, it indicates an expansion of activity. If the figure is a minus, it indicates a contraction of activity against the previous quarter.

BUSINESS SECTOR CLASSIFICATION

Throughout the document business sectors are used to make comparisons of activity. The sectors are defined below:

Manufacturing Sector

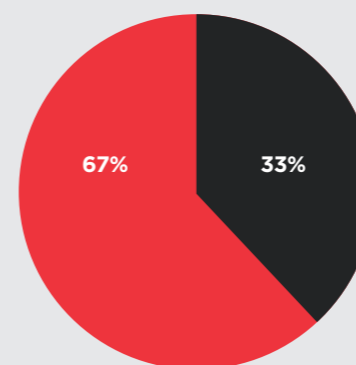
Main business activity includes manufacturing of goods (including electronic or information technology goods) and production of raw materials, construction, agriculture, fishing, mining, or utilities.

Service Sector

Main business activity provides a service to businesses as well as final consumers (including retail/wholesaling, professional services, and marketing).

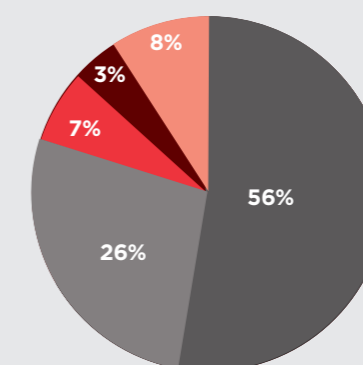
SAMPLE SUMMARY

Responses by Sector



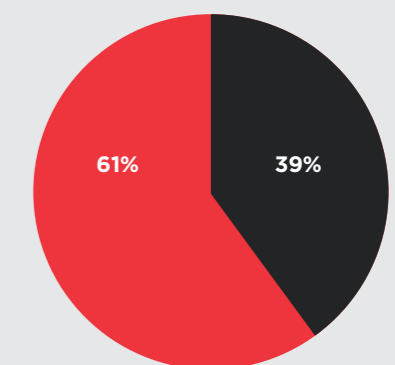
■ SERVICES
 ■ MANUFACTURING

Responses by Business Size



■ 1-10
 ■ 11-49
 ■ 50-100
 ■ 101-249
 ■ 250+

Responses by Exporter



■ EXPORTERS
 ■ NON-EXPORTERS

EXECUTIVE SUMMARY: KEY FINDINGS

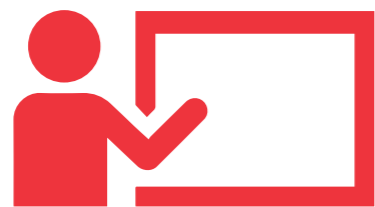


DOMESTIC MARKET



UK sales have slightly decreased this quarter. 46% of businesses have increased sales, compared to 49% last quarter.

2021



29%

of businesses reported up-scaling of training plans, up 5% from the previous quarter.

61%

of businesses expect prices to increase over the next three months, compared to 49% last quarter.



CASH FLOW

39%

of businesses saw an increase in cash flow this quarter, up 6% from the last quarter.



53%



74%

WORKFORCE

53% of businesses attempted to recruit in the last 3 months. 74% of those experienced difficulties recruiting.

TURNOVER

67%

of businesses are confident that their turnover over the next 12 months will increase. That compares to 70% last quarter.



BUSINESS PERSPECTIVE

IN THEIR OWN WORDS:

I provide nationwide CAD training. Demand for training is a good indication of business confidence. As long as government and the media remain positive.

- Sole Trader operating within Construction

In a very competitive construction world, it is difficult to see ways of making an environmental difference apart from reducing wastage - which we already do. All our plant is diesel fuelled and alternatives are just not viable yet.

- Manufacturer employing 50-100 people

The Survey didn't specifically cover supply chain challenges - this is by far the biggest challenge, concern, and risk to our business in short/medium term.

- Manufacturer employing 250+ people

We're static in terms of growth but have huge potential to grow into adjacent markets and overseas.

- Manufacturer employing 11-49 people

When will the government pay attention to business people that need a visa to visit the UK? Schengen countries have solved the problem.

- Manufacturer employing 1-5 people

Without the support of the Job Retention scheme we are concerned that our current levels of trading will not produce sufficient levels of cash flow for us to continue. We are reviewing our position.

- Manufacturer employing 1-10 people

One of the biggest issues we face is key equipment and commodity shortages in the global supply chain, with massive price increases and or late or no deliveries.

- Manufacturer employing 250+ people

If we could have a word with the government and MP's about inflation and energy costs that would be great. We are still suffering from supply chain issues. More needs to be done to ease these issues.

- Media Services employing 1-5 people

The big impact the national living wage will have on staffing - pushing up overall salary and wage costs across the whole organisation.

- Hospitality services employing 11-49 people

It seems labour shortages regarding unskilled and semi-skilled adults look likely to get worse. It feels like the government doesn't value non-technology companies, if we are that unwanted manufacturing will continue its march offshore. Not every adult is capable of a high technology occupation, pricing these people out of the workforce with ever-higher minimum wages is going to leave them without opportunities in either manufacturing or retail sectors.

- Manufacturer employing 11-49 people

Brexit is a major issue for us, as we cannot deliver our services in Europe as we used to. This means significant increases in cost as we have to buy in things locally, abroad, which we ordinarily would have delivered from the UK. Brexit has also meant a major skills drain, with many skilled people leaving the UK to relocate to the EU. The current Brexit deal does not cover our - and other - industries anywhere near sufficiently enough. We need much closer alignment otherwise we'll lose out against EU competitors.

- Services employing 250+ people

Positive economic stimulus response and furlough action during lockdown period but we need more flexibility in repaying business bounce-back loans.

- Professional Services employing 1-10 people

Currently working in the travel industry, the lack of certainty on borders and lack of funding is causing the biggest issues in growth. As an ABTA registered agent, we only receive profits once people travel, and until there is more clarity on these areas we will struggle to grow financially.

- Services employing 1-10 people

SUSTAINABILITY AND LOW CARBON GROWTH

During this Quarterly Economic Survey, we asked a series of questions on how businesses had become more sustainable, and the support they needed to make a difference.

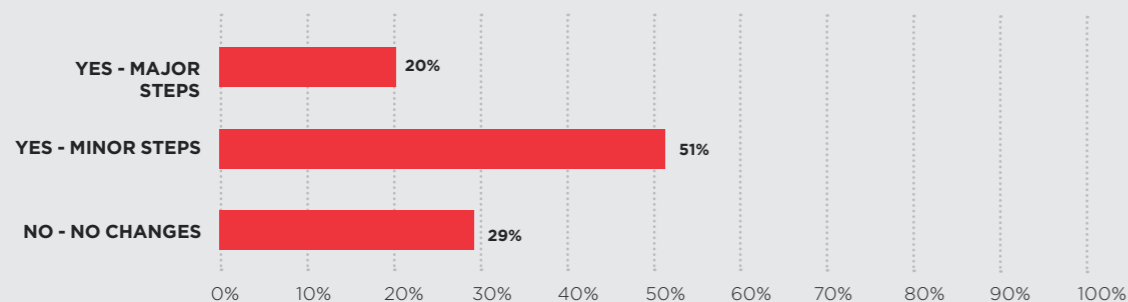
Later in this report it will be identified that rising energy prices are major concern to businesses. Coupled with that cost, measures taken now to become more sustainable will not only benefit a business, but the community as a whole. The drive towards greater sustainability was highlighted in some responses to the questions outlined by report sponsor - The Low Carbon Opportunities Programme, part of Worcestershire County Council's Clean Growth Programme. 20% of businesses reported they had taken major steps to improve sustainability, while 52% detailed minor steps and 28% no action at all, providing a huge opportunity for the Chamber of Commerce running the Business Energy Efficiency (BEEP and Low Carbon (LoCOP) Worcestershire County Council run Programmes to explore further. Reducing environmental impact, being a responsible employer and meeting customer expectations were key drivers in greater sustainability. Funding, expert advice and events to share best practice were detailed as vehicles beneficial to change.

Steps taken to become more sustainable and cut emissions.

204 organisations responded to this question. Encouragingly 145 of those had taken some steps to improve their position environmentally. It is true that 59 organisations reported they had made no change. This represents 28.9% of the sample and highlights there is work still to be done. This is not unusual across the Chamber network and that is why support from The Herefordshire & Worcestershire Chamber of Commerce in the form of the [Sustainability Hub](#) and [British Chamber of Commerce Net Zero Hub](#) will be important moving forward.

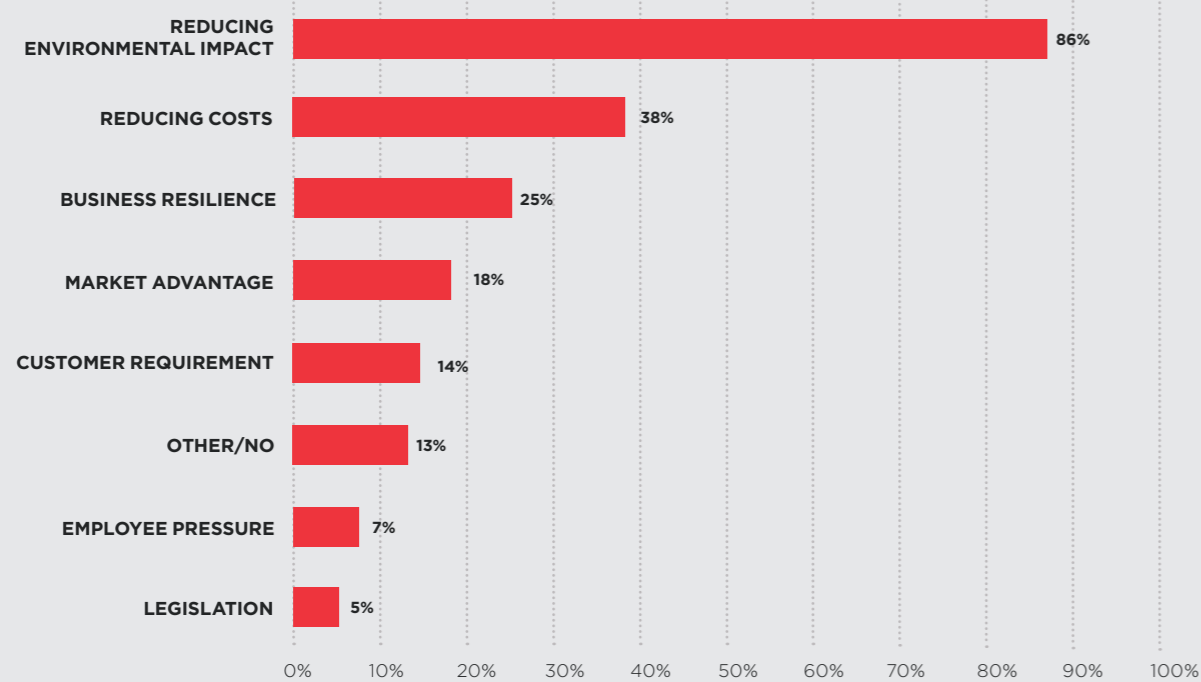


HAS YOUR BUSINESS OR ORGANISATION TAKEN STEPS TO BE MORE ENVIRONMENTALLY SUSTAINABLE OR CUT CARBON EMISSIONS IN THE LAST YEAR?



SUSTAINABILITY AND LOW CARBON GROWTH

WHY HAS YOUR ORGANISATION TAKEN STEPS TO BECOME MORE SUSTAINABLE?

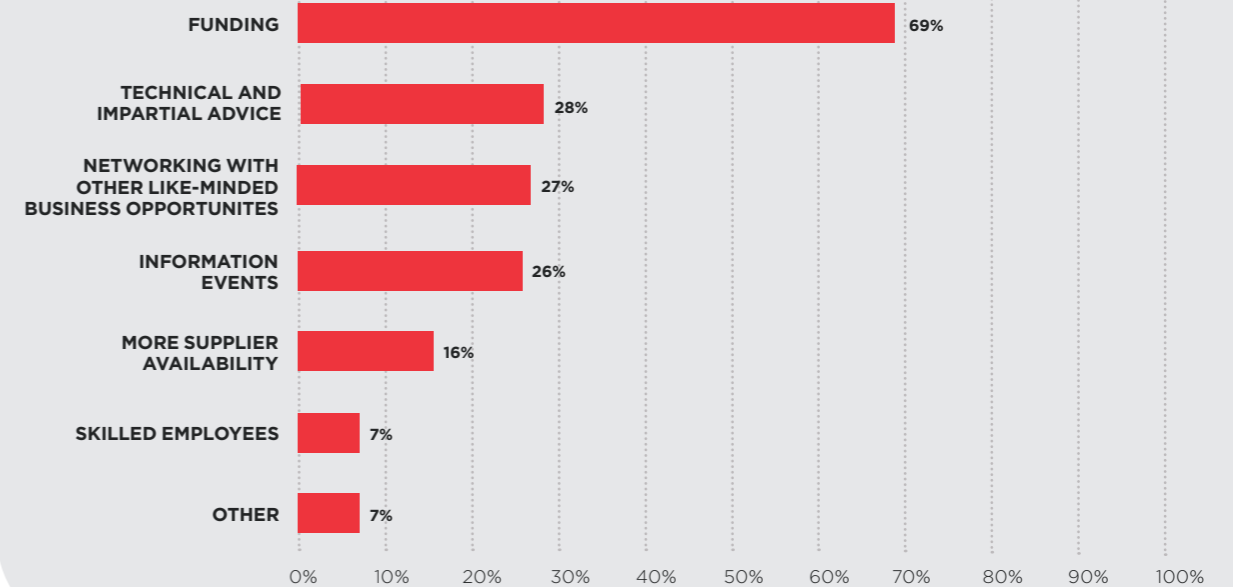


It's important to understand why organisations would make a change in the processes to create a better environment in which to belong. This question in our survey highlighted some businesses critical reasons such as reducing costs (57 businesses) and some more cultural values such as "reducing environmental impact" (129 businesses). After these, it's interesting that employee and customer pressures, along with creating an advantage over one's competitors, was an important drive. A recent study by Deloitte UK stated that "28% of consumers have stopped buying certain products due to ethical or environmental reasons, 64% wanted brands to reduce packaging, 50% wanted information on recycling, and perhaps most enlightening, 46% wanted information on how the products had been sourced."

What help is needed?

A desire to change, along with strong reasoning and in some cases pressure to do so can require support and advice. This is why our survey asked;

WHAT WOULD HELP YOU TAKE FURTHER ACTION ON REDUCING YOUR ENVIRONMENTAL IMPACT OR CUT CARBON EMISSIONS?



180 businesses responded to this question. 4 key aspects of assistance were identified. Technical and impartial advice, funding, events to learn of opportunity, and the sharing of best practice with like-minded businesses and support organisations. All of these are achievable with resources available in Herefordshire and Worcestershire. Worcestershire County Council's Clean Growth team have resources available, none more so than through the [Business Energy Efficiency Programme](#) (BEEP) that is facilitated by Herefordshire & Worcestershire Chamber of Commerce. Equally [LoCOP, Low Carbon Opportunity Programme](#) is available and can make significant improvements to a business' environmental impact, and [Natural Networks](#) programmes.

Add this information, advice and funding, a series of sustainability forums, seminars and joint ventures run across Herefordshire and Worcestershire in conjunction with the Marches LEP, Herefordshire County Council, Worcestershire LEP, Worcestershire County Council and Herefordshire & Worcestershire Chamber of Commerce, there is much support available.

SUSTAINABILITY AND LOW CARBON GROWTH

COMMENTS FROM BUSINESSES:

“The investment needed to get to Net Zero will be extremely challenging and government match funding and investment will help.”

“Would like to see BEEP programme mentioned more at Chamber events.”

“Greater understanding of payback on solar energy roof panels.”

“We are soon to replace our delivery vehicle and sadly it will have to be another diesel-powered van. We would love to have an electric van, but costs are prohibitive for such a vehicle with the payload and range required.”

“Government should impose stricter rules for packaging manufacturers so that there is better choice and value on the market.”



UK MARKET

In terms of UK sales, 46% of businesses responding to the survey reported an increase over the previous three months. Interestingly in the previous survey this figure had been 49%. As with the previous QES some of this increase would have been represented by businesses experiencing an upturn as further Covid restrictions were lifted. However, there are also indications that this apparent rising demand may be starting to slow. 35% of businesses reported their sales had remained the same, and 11% had experienced a decrease in sales over the last three months. This compared to 32% and 12% respectively.

For the third quarter this year orders within the UK market have declined from the previous quarter. 39% reported increased orders in last three months, 46% in Q3, and 48% in Q2 2021. A key indicator also was that 37% of businesses reported orders remaining at the same level. This was 26% in Q3 2021.

The British Chambers of Commerce have commented that this survey was conducted before any “Plan B” government restrictions were implemented and that the recommendation of working from home, discouraging gatherings and some businesses experiencing cancellations, will have significant impact on Quarterly Economic Surveys held in early 2022.

The latest figures released by the Office for National Statistics suggest UK Gross Domestic Product is estimated to have increased by 1.1% between July and September. Perhaps reflecting previous comments this is revised from a previous estimate of 1.3%. Along with these assessments the level of GDP is now 1.5% below where it was pre-coronavirus in Q4 2019.

Along with concerns over sales and advanced orders, businesses continue to face many challenges particularly around labour shortages and supply chains, which have impacted industries such as manufacturing, transport, and logistics. Inflation has reached 5% by the end of 2021 but this does not necessarily represent a true reflection of cost increases facing businesses. The British Chambers of Commerce recently commented that while consumer inflation might be single digit, cost inflation of 20% in paper, 70% in wood, and 50% in metals was making existing challenges greater.



OVER THE PAST 3 MONTHS, HAVE UK SALES AND ORDERS INCREASED, REMAINED CONSTANT OR DECREASED?



OVERSEAS MARKET

Following a disappointing quarter 3 2021 where only 13% of businesses reported an increase in overseas sales, this situation did improve in this quarter with 17% of businesses seeing growth in their overseas sales. However, this still does not compare well though with the 37% of businesses in the quarter 2 2021.

It is well documented that international trading conditions are as hard as they have ever been. Costs, delays and documentation are all factors that must be overcome regardless of demand. Increasing capacity of production is being affected by all three factors and is having residual impact on trading generally. Despite this, 15% of businesses did see an improvement in overseas orders compared to just 10% last quarter.

Once again referring to ONS data, it is reported that total imports of goods, excluding precious metals, decreased by £0.4 billion (1.1%) in October 2021, driven by a reduction of EU imports by £0.7 billion (3.6%) but partially offset by an increase in imports from non-EU countries of £0.3 billion (1.2%).

Imports of fuels from non-EU countries increased by £1.0 billion (23.8%) in October 2021, reflecting increases in the quantity of fuel imports as well as rising prices.

Imports from non-EU countries continue to be higher than from EU countries for the 10th consecutive month, driven predominately by increasing imports of fuels.

Total exports of goods, excluding precious metals, increased by £0.4 billion (1.6%) in October 2021, driven by a £0.8 billion (6.2%) increase in exports to non-EU countries while exports to EU countries decreased by £0.4 billion (2.7%).

The trade in services surplus increased by £1.6 billion to £35.7 billion in the three months to October 2021.



OVER THE PAST 3 MONTHS, HAVE OVERSEAS SALES AND ORDERS INCREASED, REMAINED CONSTANT OR DECREASED?



CASH FLOW

The Quarterly Economic Survey asks businesses to report on cashflow over the past three months. Despite pressures previously outlined, 39% of businesses reported improved cashflows. However, 17% did experience reduced turnover in the same period. These figures will always be finely balanced as sales may fluctuate and change as Covid precautions affect markets. As Covid loans become payable cash flow may also be compromised further.

The Office for National Statistics are reporting in December 2021 that “Of businesses not permanently stopped trading, 13% reported they had no cash reserves in early December 2021; this is the highest percentage reported since June 2020 (6%) when the question was first asked, while 25% reported they had less than three months of cash reserves.”

This further emphasises the importance of making funds, grants, and loans available to businesses of all sizes. Herefordshire & Worcestershire Chamber of Commerce, the regional LEP's, and county councils all have teams working with businesses to identify such support.



OVER THE PAST THREE MONTHS HAS YOUR CASH FLOW INCREASED, REMAINED CONSTANT OR DECREASED?



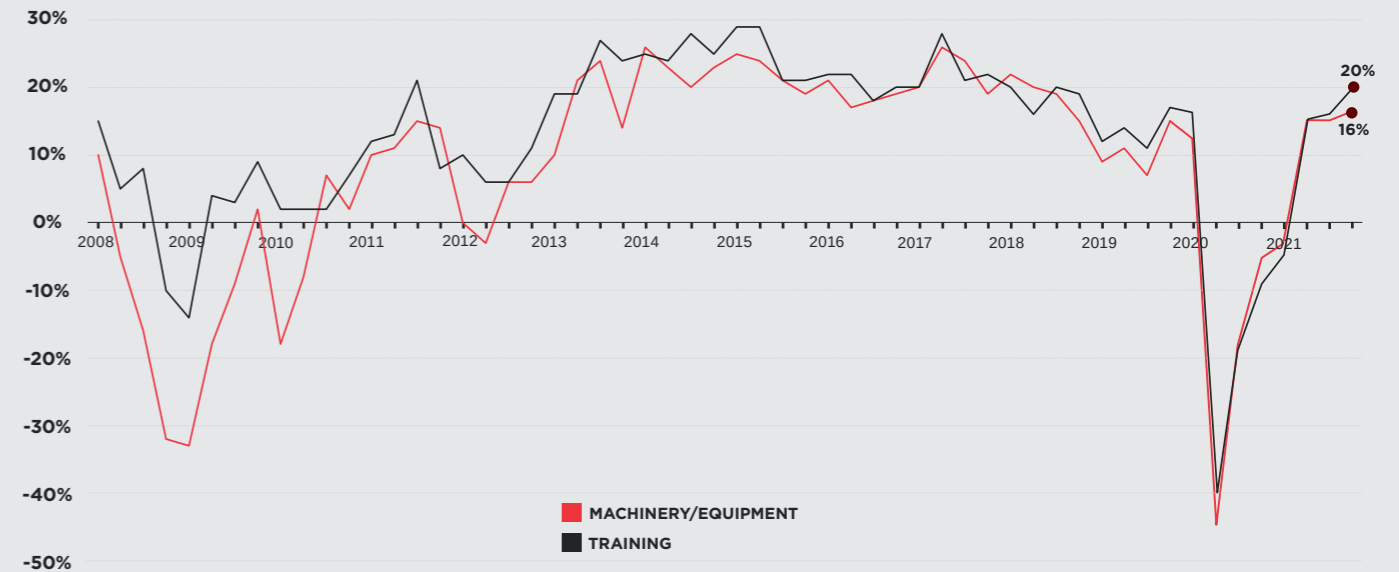
INVESTMENT

Investment plans for machinery and training have been revised upwards from the previous quarter but not to levels expressed earlier in the year. In the latest report 27% of respondents outlined that their investment plans had increased, compared to 26% in the last survey, but 31% in Q2. Encouragingly, but maybe in response to firms struggling to recruit, plans for greater investment in training had been identified by 29% of organisations, up from 24% last quarter.

As always, factors which have impacted investment by firms are the concerns around interest rates and the cost of borrowing to fund investment opportunities. Businesses are concerned that if interest rates were to rise, this would then lead to less investment in machinery and training. Opportunity does present itself in the form of tax allowances for research and development and the Chamber will be working with partners in 2022 to ensure these benefits are fully utilised.

Attracting investment across Herefordshire and Worcestershire remains one of top priorities for Herefordshire & Worcestershire Chamber of Commerce. Investment in training and skills is pivotal in helping to secure long term investment across both regions and helps to develop the local economy. There are currently a number of investment opportunities for SME's and large business to invest in key sites and joint ventures including the Malvern Hills Science Park and the Shell Store within Skylon Park in Herefordshire.

OVER THE PAST 3 MONTHS, HAVE INVESTMENT PLANS FOR MACHINERY/EQUIPMENT/TRAINING INCREASED, REMAINED CONSTANT OR DECREASED?



EMPLOYMENT & RECRUITMENT

Over the last three months 31% of businesses have increased their workforce compared to 34% in Q3. 60% of businesses reported no change compared to 58% in the previous quarter. Whilst this might indicate some stability in the job market, it is more likely to show a consolidation of the existing workforce as advanced orders are reduced.

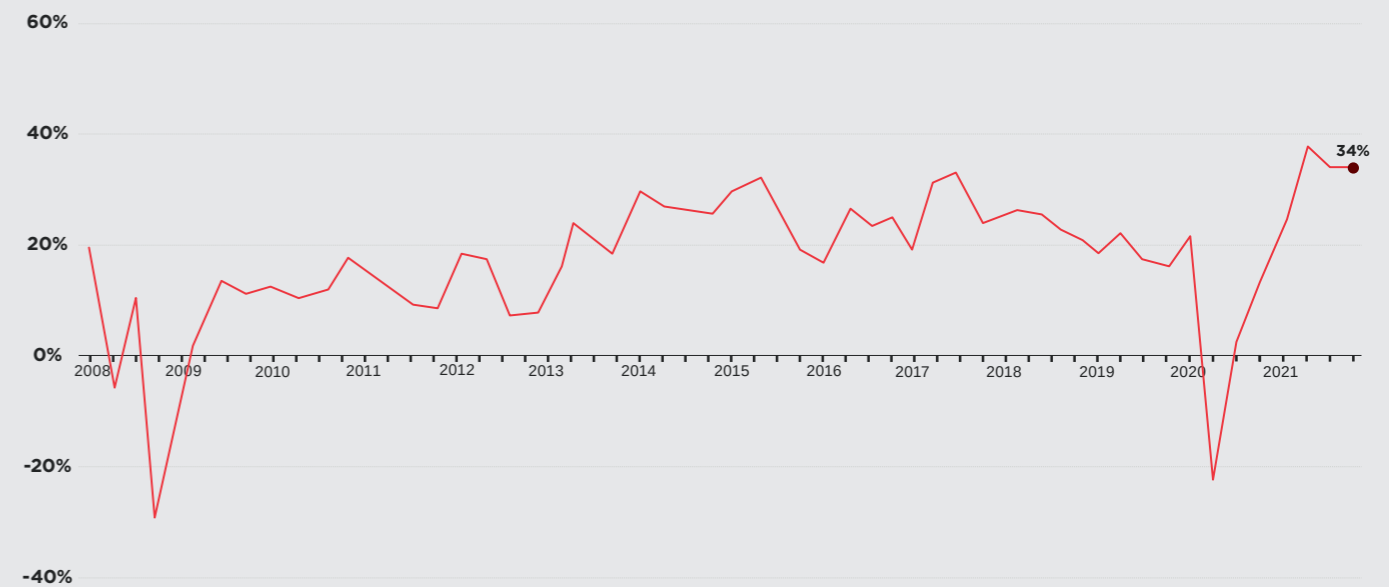
Recruitment continues however, indicated by 38% expecting to increase their workforce in the next quarter. 53% of businesses attempted to recruit in the last quarter. Encouragingly these were predominantly full-time roles, and apprenticeships at a higher level than last year. One measure that continues to be consistent is that 74% of those recruiting had difficulties in doing so. Main problem areas were professional, managerial, and clerical positions.

Since the last Quarterly Economic Survey, the Chamber, in conjunction with Hewett Recruitment, have published the latest Salary and Benefits Survey. This study can be found on the Chamber website and provides a valuable analysis of many aspects of recruitment and retention across multiple sectors.

According to the Office for National Statistics, in November 2021 there were 29.4 million employees in the UK: up 257,000 on the revised October 2021 level and up 424,000 on the pre-Coronavirus February 2020 level. Labour Force Survey estimates for August to October 2021 show the employment rate increased by 0.2 percentage points on the quarter, to 75.5%. The number of part-time workers decreased strongly during the Coronavirus pandemic, but has been increasing since April to June 2021, driving the quarterly increase in employment. The unemployment rate decreased by 0.4 percentage points on the quarter to 4.2% while the inactivity rate increased by 0.1 percentage points to 21.2%.



OVER THE NEXT 3 MONTHS, DO YOU EXPECT YOUR WORKFORCE TO INCREASE, REMAIN CONSTANT OR DECREASE?



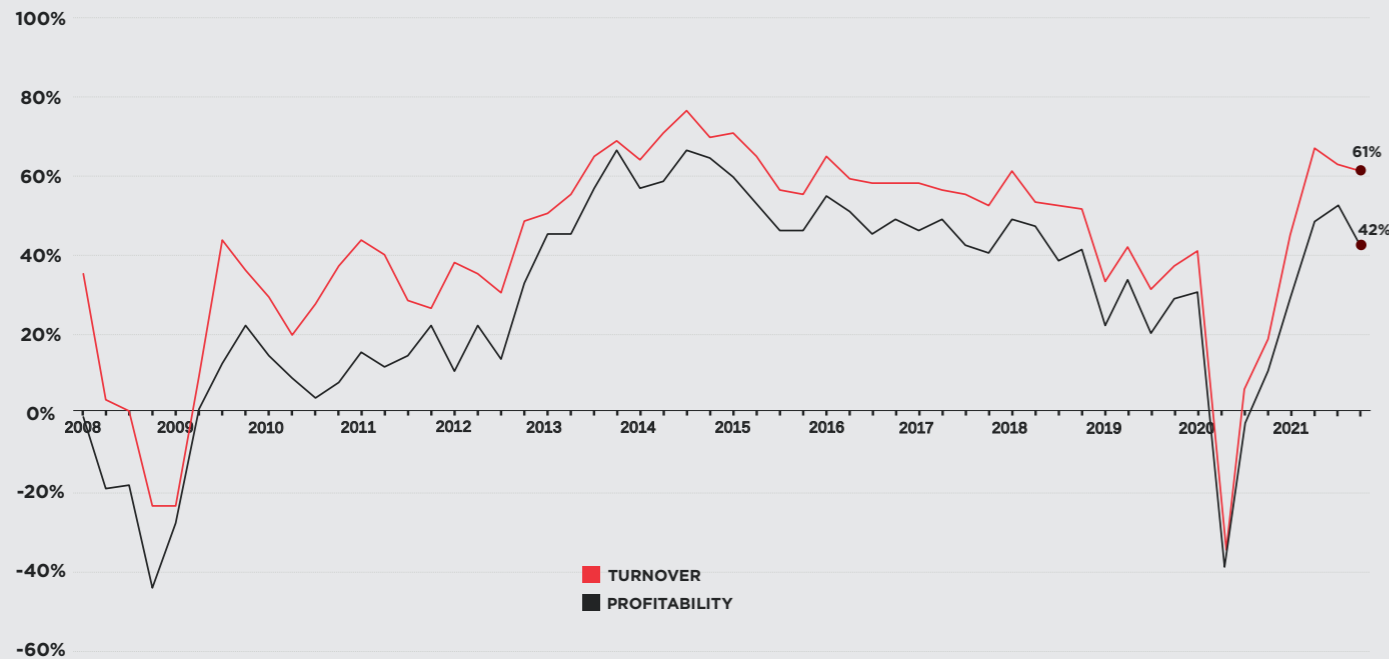
BUSINESS CONFIDENCE

Business confidence in turnover continues to fall. 67% of businesses expected their turnover to improve, this figure was 70% last quarter, and 72 % in Q2 2021.

61% of businesses expected their own prices to increase, compared to 49% last quarter. Principle reasons for these increases were detailed as pay settlements (wages and salaries), raw materials and staffing costs.

Price rises will not all be passed onto the consumer. Keeping a competitive edge is vital. It is no surprise that businesses are showing concern over their profitability. 56% of businesses expected profitability to improve in next three months. This was a positive 65% last quarter.

OVER THE NEXT 12 MONTHS, DO YOU BELIEVE YOUR TURNOVER AND PROFITABILITY WILL INCREASE, REMAIN THE SAME OR WORSEN?



What's causing most concern to business?

The biggest increase in this list since last quarter was easily energy costs.



CHAMBER POLICY CONTACTS



ROBERT ELLIOT

Director of Business Engagement and Development

2022 QUARTERLY ECONOMIC SURVEY DATES

Q1 2022

Fieldwork: 14 February to 7th March 2022
Publication: End March 2022

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