Q2
2022

QUARTERLY ECONOMIC SURVEY

Herefordshire
& Worcestershire
Chamber of Commerce

Worcestershire
Local Enterprise Partnership

Herefordshire
Council

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Herefordshire & Worcestershire Chamber of Commerce has released the results of the latest Quarterly Economic Survey, outlining business performance and confidence in the period between mid-March and mid-May 2022. The survey was conducted between Monday 16 May and 6 June 2022.

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 survey was completed by 5700 businesses across the UK, 376 (6.8%) of them from Herefordshire and Worcestershire. I would like to thank everyone who invested time in completing the QES and I hope you find the survey useful.

Whilst writing my introduction to the last two surveys, I referred to the fact that for over two years we had been conducting our research, through this survey, in what was often referred to as “unprecedented times”. Each moment there was a chance of sustained recovery, another factor would become relevant to slow any progress. I do believe this is still the case. Whilst Covid factors may have settled in the UK, and the transport of goods across our oceans may have calmed, the effects of the Ukraine War, and the global supply issues that has created along with tough health measures in China have given businesses huge challenges in fulfilling production schedules and orders. Supply issues drive prices; none more so than in energy prices and the inflationary increase in many vital raw materials is a huge concern.

This survey indicates the considerable financial stress that businesses across Herefordshire and Worcestershire are experiencing. The level of inflationary pressure has reached record levels and to some extent, based on recent times, we are in uncharted territory. It is evident that where previously businesses were showing cautious optimism, they are now reporting concern and a number of factors have presented themselves in this report.

Locally in Herefordshire and Worcestershire businesses have reported that their UK Sales have remained relatively constant. Over the last two surveys, 45% of business have reported increased sales whilst 37% had reported falls, just 1% different from the last quarter. Equally 14% of businesses reported a fall in sales. It is useful to compare this situation with the British Chamber of Commerce’s data. Nationally, 41% reported increased sales, and 18% a fall in sales. I think this can be seen as a positive indicator that our local economy is fighting its corner in the UK marketplace.

Sales might be vital for any business, but cashflow and profitability drive survival and growth. The indicators from our survey are concerning. The last three quarters have indicated pressures on cash flow in businesses across Herefordshire and Worcestershire. In this survey 24% of those surveyed reported their cashflow had worsened in the last three months.

Profitability is a similar concern, 42% expect their profits to increase, this is compared to 50% last quarter (43% v 50% nationally) and 26% of businesses in our region expect profitability to decline. Little encouragement really but this figure rises to 28% in the national analysis.

I am particularly grateful to our partners at Herefordshire County Council and Worcestershire Local Enterprise Partnership for supporting us with this survey. The UK Shared Prosperity Funds and the Levelling Up policies that drive the funding are vital for our cities, towns, districts, and counties and for that reason we hope the results this survey has generated will make a positive difference in decision making.

HEREFORDSHIRE COUNTY COUNCIL AND WORCESTERSHIRE LOCAL ENTERPRISE PARTNERSHIP

Herefordshire Council

Worcestershire Local Enterprise Partnership

UK Shared Prosperity Funds

The UK Shared Prosperity Fund (UKSPF) is a central pillar of the UK government's ambitious Levelling Up agenda. It provides £2.6 billion of new funding for local investment by March 2025, with all areas of the UK receiving an allocation via a funding formula. There are clear objectives with the fund. To boost productivity, pay, jobs, and living standards, spread opportunities and improve public services, restore a sense of community, and empower local leaders and communities.

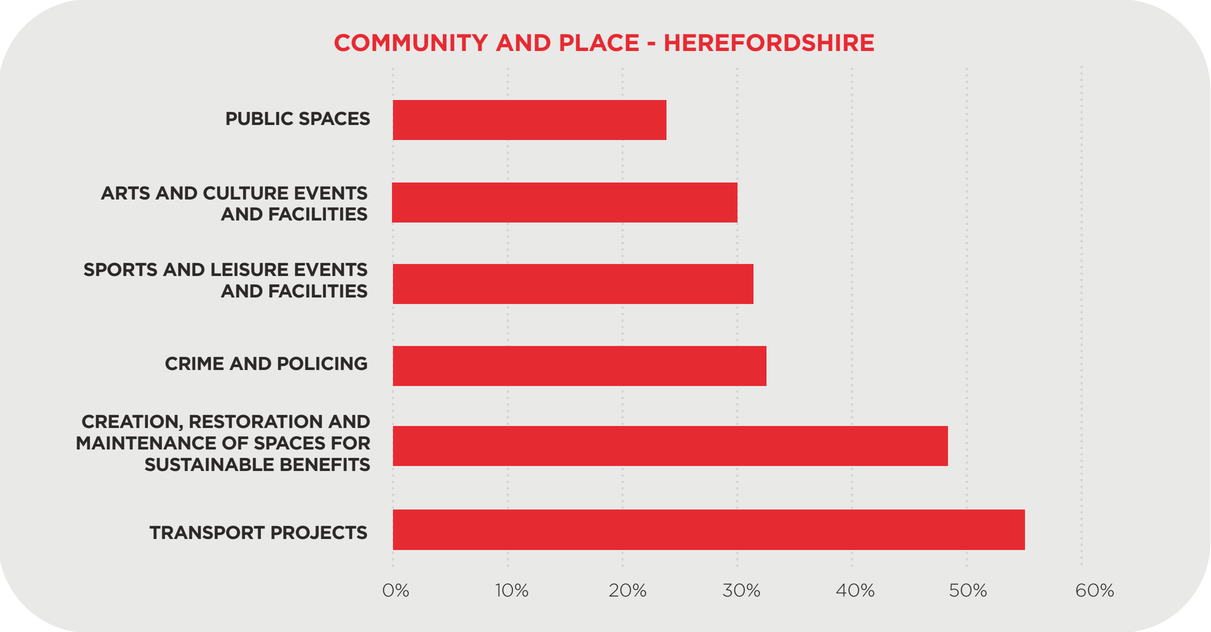
We are grateful to both Herefordshire County Council, and Worcestershire Local Enterprise Partnership for their support of this survey. They are working with local district and town councils who are developing their locality investment plans as part of the funding, which replaces EU funding. This research has been very useful to inform our conversations with the local district councils and show how businesses can be supported to achieve growth and expansion to support the government's ambitions regarding Levelling Up.

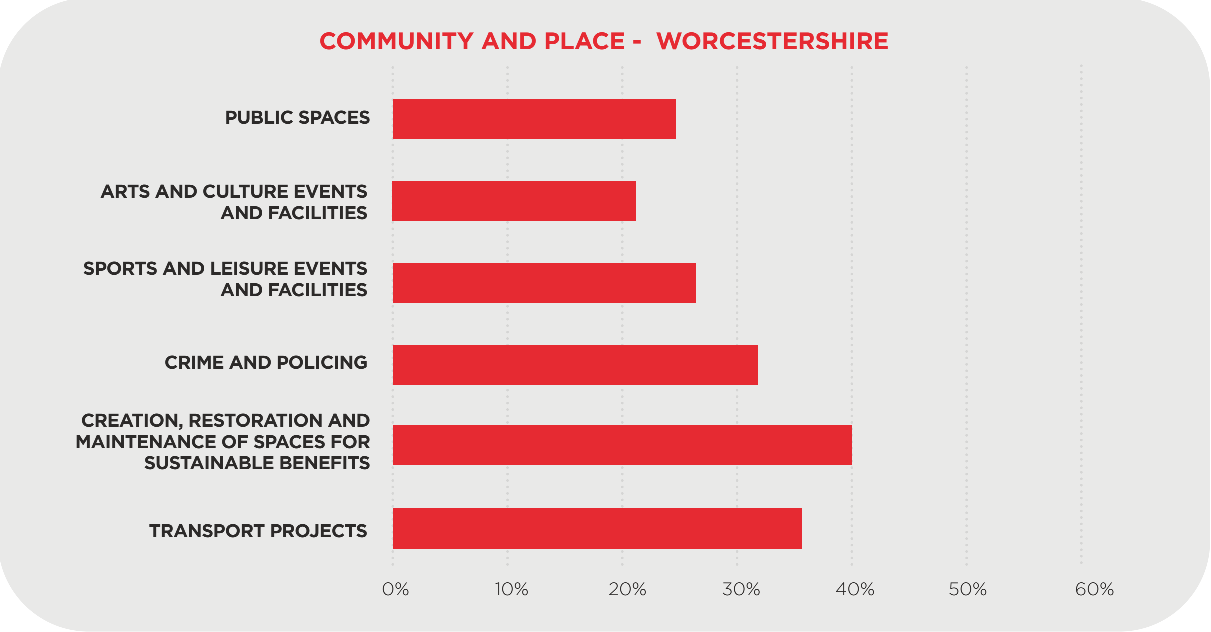
Community and Place

The communities and place investment priority will enable places to invest to restore their community spaces and relationships and create the foundations for economic development at the neighbourhood-level. The intention of this is to strengthen the social fabric of communities, supporting in building pride in place.

Herefordshire is one of the most sparsely populated areas of the UK, with an ageing population and connectivity challenges characteristic of rural areas. The overall population of Herefordshire has increased by 2% over the past 10 years compared to 6.6% in England, and between 5.2% and 6.4% in neighbouring areas.

UKSPF investment will add significant value to the development of Herefordshire's tourism offer. It will support the delivery of our culture strategy and towns fund programme, providing enrichment opportunities through community and visitor engagement in arts, culture and heritage-based activities. Investment will build the unique identities and place-based assets of local service centres through enlivenment, visual arts, music, events, and festivals, as well as support the creative economy and local craft industries.

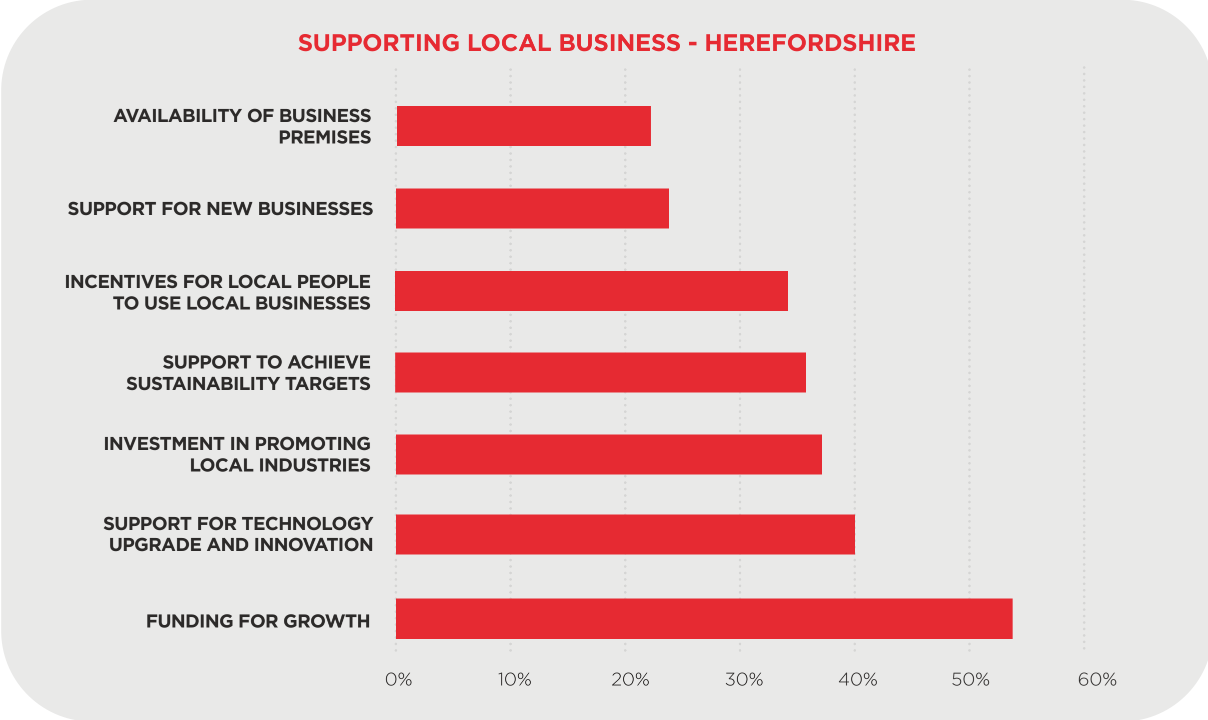




HEREFORDSHIRE COUNTY COUNCIL AND WORCESTERSHIRE LOCAL ENTERPRISE PARTNERSHIP

Supporting Local Business

The provision of high-quality business support will raise the capacity of our business base to innovate, diversify and scale, as well as capitalise on new growth opportunities within emerging, high value markets. Support will be provided to entrepreneurs to establish and grow new businesses, particularly where this supports the retention of talent and the vibrancy of service centres, and adoption of the energy efficiency measures within business.

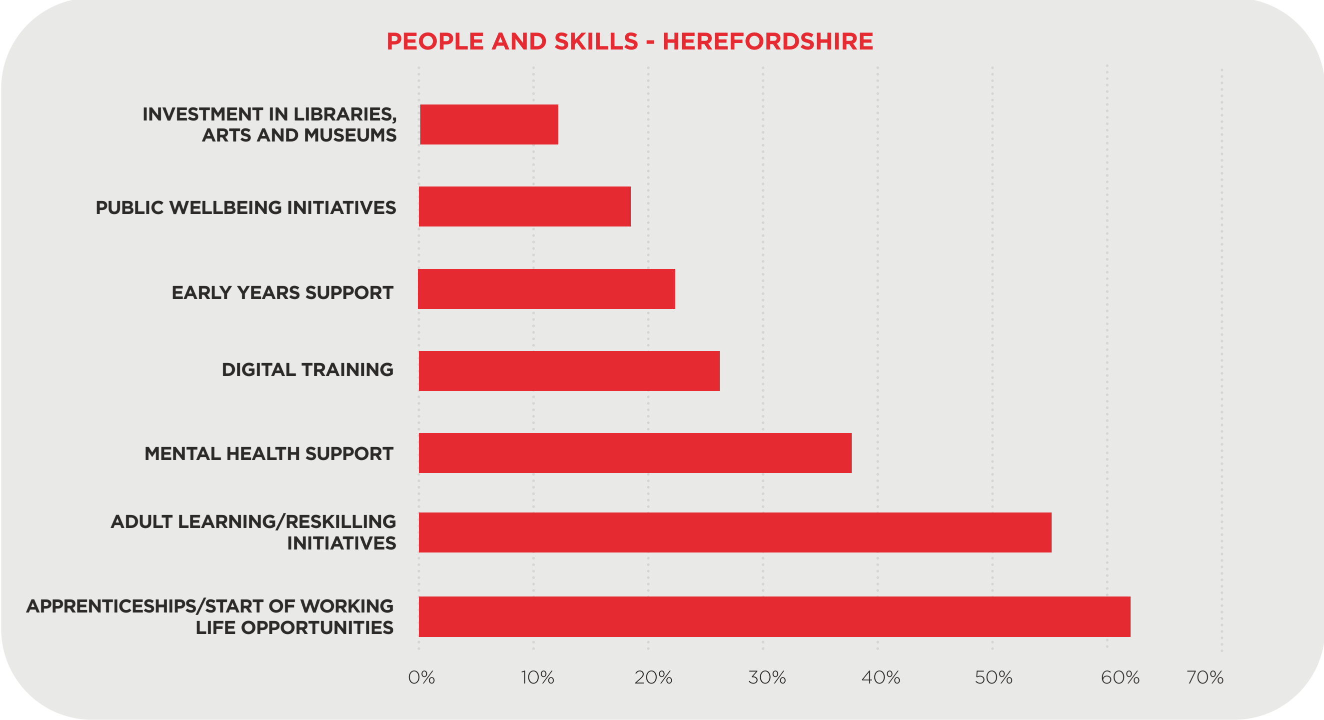


People and Skills

Training programmes and opportunities for upskilling will target working people in low-productivity occupations to help them transition towards higher-skilled work. This would have the potential to increase salary, GVA and employee aspirations for working residents, resulting in a better quality of life. Intervention will also support capacity building and social mobility amongst the socially excluded and those facing financial stress and build viable pathways for young people to encourage their retention in the area.

The Herefordshire Sustainable Growth Strategy Board (HSGSB), set up in June 2022, will be the partnership/advisory board for the Shared Prosperity within Herefordshire. The newly formed board includes the county's business sectors, public sector organisations, geographies, the voluntary sector, communities, and the chairs of other local stakeholder groups such as the Herefordshire Business Board, Skills Board and Climate and Nature Partnership. The board will have a key role in the delivery of the UK Shared Prosperity Fund within Herefordshire.

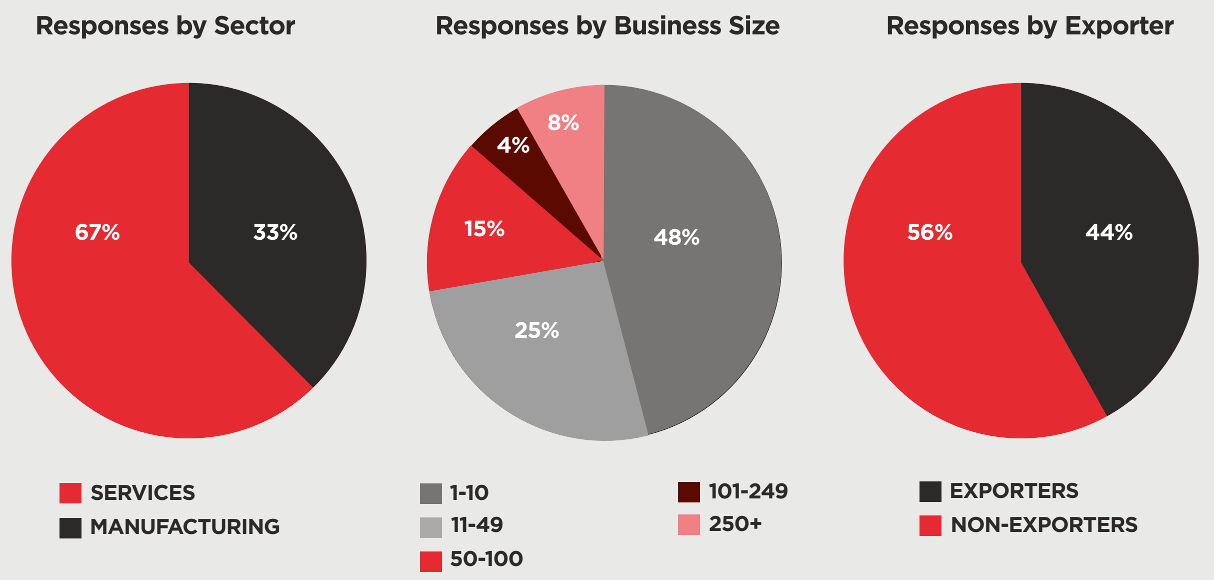
The council has a strategic commitment to supporting and engaging with businesses which will greatly assist within the delivery of the selected business interventions. Additionally, the council engages with businesses in Hereford and the market towns every 6 months via open invitation sessions. Within these sessions, the council listens to issues that businesses have as well as briefs on key initiatives.



METHODOLOGY

During Quarter 2 (Q2) 2022, 376 businesses in Herefordshire and Worcestershire responded to the Quarterly Economic Survey. Data collection took place between Monday 16 May and Monday 6 June 2022. Any reference to Quarter 1 (Q1) 2022 refers to data collections between Monday 14 February and Monday 6 March 2022. 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.

SAMPLE SUMMARY



EXECUTIVE SUMMARY:

DOMESTIC MARKET

45%

of businesses have increased sales, compared to 46% last quarter. 14% reported a decrease in sales compared to 11% last quarter.

CASH FLOW

24%

of businesses expected their cash flow to worsen this quarter.

2022

Energy and fuel prices biggest concern for businesses.

16%

of businesses reported an increase in overseas sales.

42%

of businesses expected their profitability to improve in the next 3 months.This is compared to 50% of companies reporting an increase in last quarter.

TURNOVER

53%

of businesses are confident that their turnover over the next 3 months will increase. That compares to 65% last quarter. 16% expected turnover to fall.

BUSINESS PERSPECTIVE

IN THEIR OWN WORDS:

We are working at capacity, with more work coming in, recruitment is our biggest issue.
• Professional Services company employing 11-49 employees.

Like most industries our business has been hit massively by increased costs of materials and wages. The ban on red diesel will have a massive impact on our profitability. I don't see this as having any benefit for the green agenda as its only increasing the tax that government is collecting, leading to businesses being forced to increase costs through the supply chain, creating a deeper ripple effect with inflation.
• Transport and logistics business 1-10 employees.

Our main challenge remains supply chain. We are seeing strong demand but we cannot satisfy that demand due to supply chain constraints. I have never known supply chain to be this unreliable. My fear is that there will be a further economic shock when we realign our headcount to the volume of business we are actually delivering. At the moment we are carrying artificially high headcount because supplies are so unpredictable.
• Manufacturing business 250+ employees.

Currently only trading at the same level as the 1st Covid year although there does seem to be a slight pick-up. Amazed at how many people still seem to be away from work.
• Printed products company 1-10 employees.

Need to cut red tape from local and national government to make access to services and funding easier and faster.
• Construction and engineering company 11-49 employees.

We have had a great few months but we have no confidence that we can press ahead with planned expansion with outrageous inflation and recession warnings. After two years of Covid, when will we get some stability? It's a constant fight.
• Marketing and media business 1-10 employees.

The support provided to small one person start-up businesses is non-existent and there have been so many hurdles. I started trading just 6 months prior to covid and have just about survived, but have not thrived.
• Consumer services company 1-10 employees.

It is no longer possible to recruit the unemployed instead you need to poach from other companies forcing the wage price up. Whilst I applaud upskilling the workforce it means that businesses requiring unskilled workers are left without the ability to recruit.
• Facilities management company 50-100 employees.

The major limit on our business is the difficulties importing and exporting. We can't get import permits from Defra when we do, we can only use two ports and the delays at port are incurring huge fees (£20k on our last container).
• Food and Agriculture company 11-49 employees.

Many other regions have start up and growth funds available in real cash for things like software, social media content generation, great linkages of academia with industry providing low cost help and support whilst the business provides placement opportunities. I feel we should benchmark ourselves against Birmingham and Warwickshire to see where we have strengths and weaknesses.
• Professional service company 1-10 employees.

For us, the last three months have offered an opportunity to select upon both the challenges of the pandemic and to adjust to new working practices, priority themes and projects, and we hope to emerge as a company even more agile and innovative.
• Marketing and media company 11-49 employees.

My commercial landlord has increased our rent by 30%. Currently there's nowhere else to move to with equal or more suitable premises, and with affordable business rates. Our IT support have just increased their costs by 33%. If I attempt to pass all these increases on to our patients, this makes my business unaffordable to most people and my business will fail.
• Public sector health and education business 1-10 employees.

Governor of the Bank of England should not mention the possibility of recession. That word is self-fulfilling and automatically deteriorates business confidence. Report the economy yes, but not the word recession which means months of hardship to most business owners and managers, investment plans being delayed and job vacancies disappearing overnight.
• Services company 1-10 employees.

Orders due to economic concerns & Ukraine conflict factors have reduced. Business outlook is weak.
• Manufacturing company 11-49 employees.

Inflation is causing major increases in our costs, raw material, wages & salaries, energy, and fuel. These have led to selling prices increasing by approx. 32%, which is only covering the cash inflation we are not recovering the same gross margins, as a result customers cannot afford to buy the same volume. We are now at a precipice. If input inflation continues to raise, we continue to increase our selling prices and customers reduce the volume they buy - we are in a downward decline fuelled by inflation and something has to be done to address the current situation.
• Manufacturing company 50-100 employees.

Business premises have been difficult to secure, and in particular working with agents has been very difficult.
• Manufacturer of IT goods 5-10 employees.

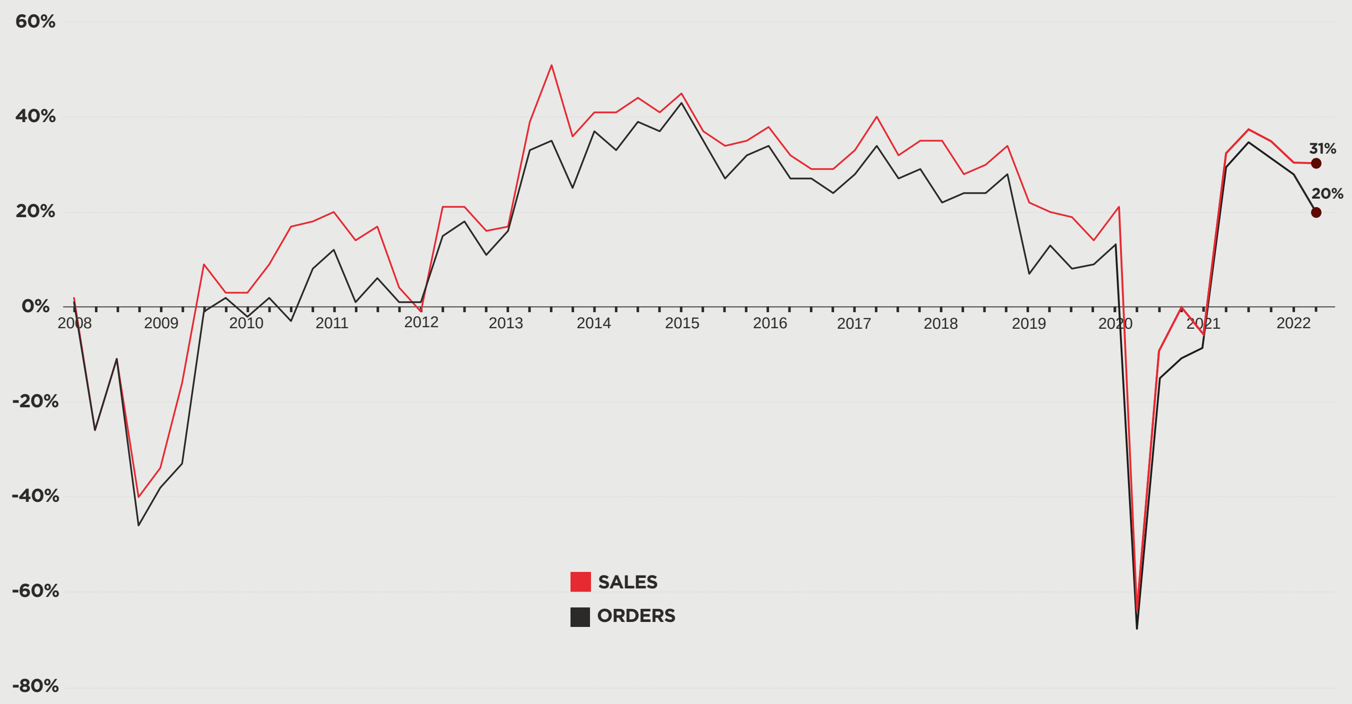
UK MARKET

In terms of businesses in Herefordshire and Worcestershire, the quarterly analysis of UK Sales can be a very useful measurement of business performance and a barometer for the months ahead. This quarter is no different.

What this survey is indicating is that sales have remained relatively constant. 45% of businesses reported that their sales had increased in the last 3 months. This was the same level as the previous quarter. Over the same period, 37% of businesses explained that their sales had fallen compared to 36% last quarter. Equally, 14% said their sales had decreased. The same percentage as the previous quarter.

However, a more concerning analysis of the survey results is that of "advanced orders". Just 35% of businesses reported that they had experienced increased orders. This is in contrast to the last survey when 41% reported strong orders. More concerning is 39% of businesses said orders had remained the same (35% Quarter 1), and crucially, 15% reported a decrease in advanced orders compared to 12% last quarter.

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



OVERSEAS MARKET

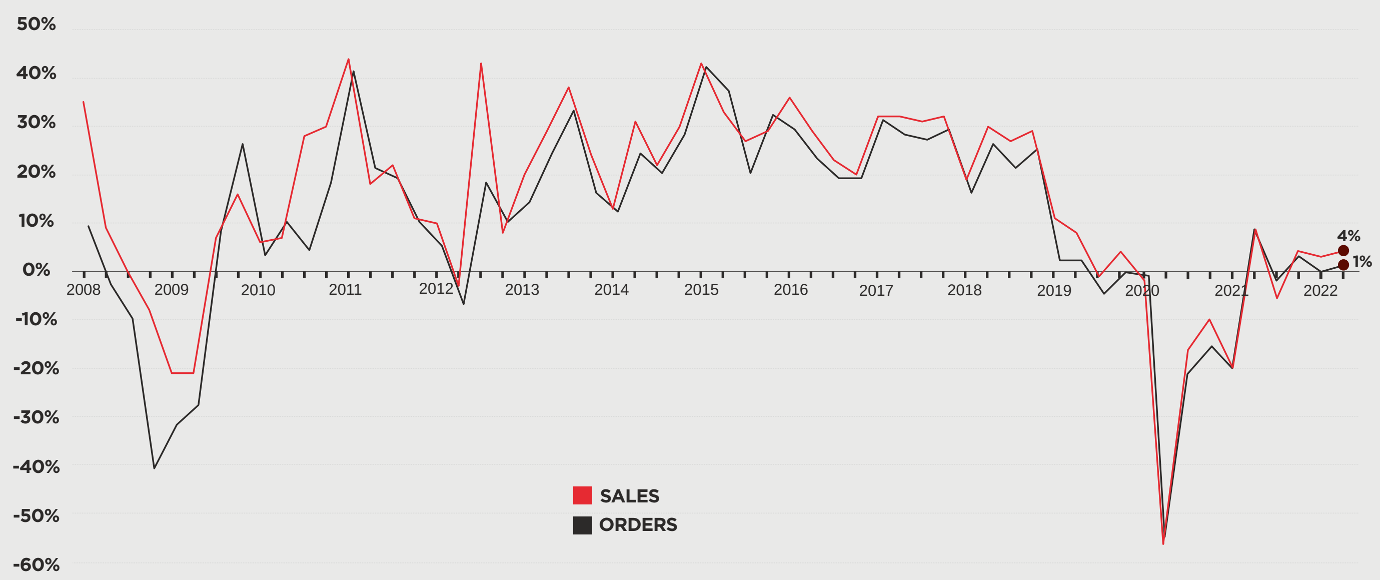
International trade is a key element of business in Herefordshire and Worcestershire. The exporters amongst the survey respondents do not need this report to confirm the importance of their contribution to the local economy. So, this is why the survey results provide a good comparison to UK sales earlier in the report.

What the survey does present is a complicated picture of the state of international trade for our counties' exporters. 16% of businesses reported an increase in overseas sales. This compares with 18% reporting increases last quarter. 22% reported sales remaining constant, compared to 21% previously. It can be seen as a positive that 12% experienced a fall in sales when those reporting such falls were 15% last quarter.

Analysis of advanced overseas orders will provide a view of where businesses see themselves in the months ahead. Interestingly, it is more the fact that sales are holding firm that is encouraging. 22% of businesses reported their overseas sales had remained constant. This compares to 20% last quarter. 13% reported a fall in orders compared to 16% in the last survey.

Whether these results provide a picture that Brexit changes have eased, or whether demand in overseas markets does not mirror UK markets is for conjuncture. What should be seen here is a positive in a changing business environment.

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 previous three months. This is where businesses can provide a real-time picture of the state of health in terms of their business.

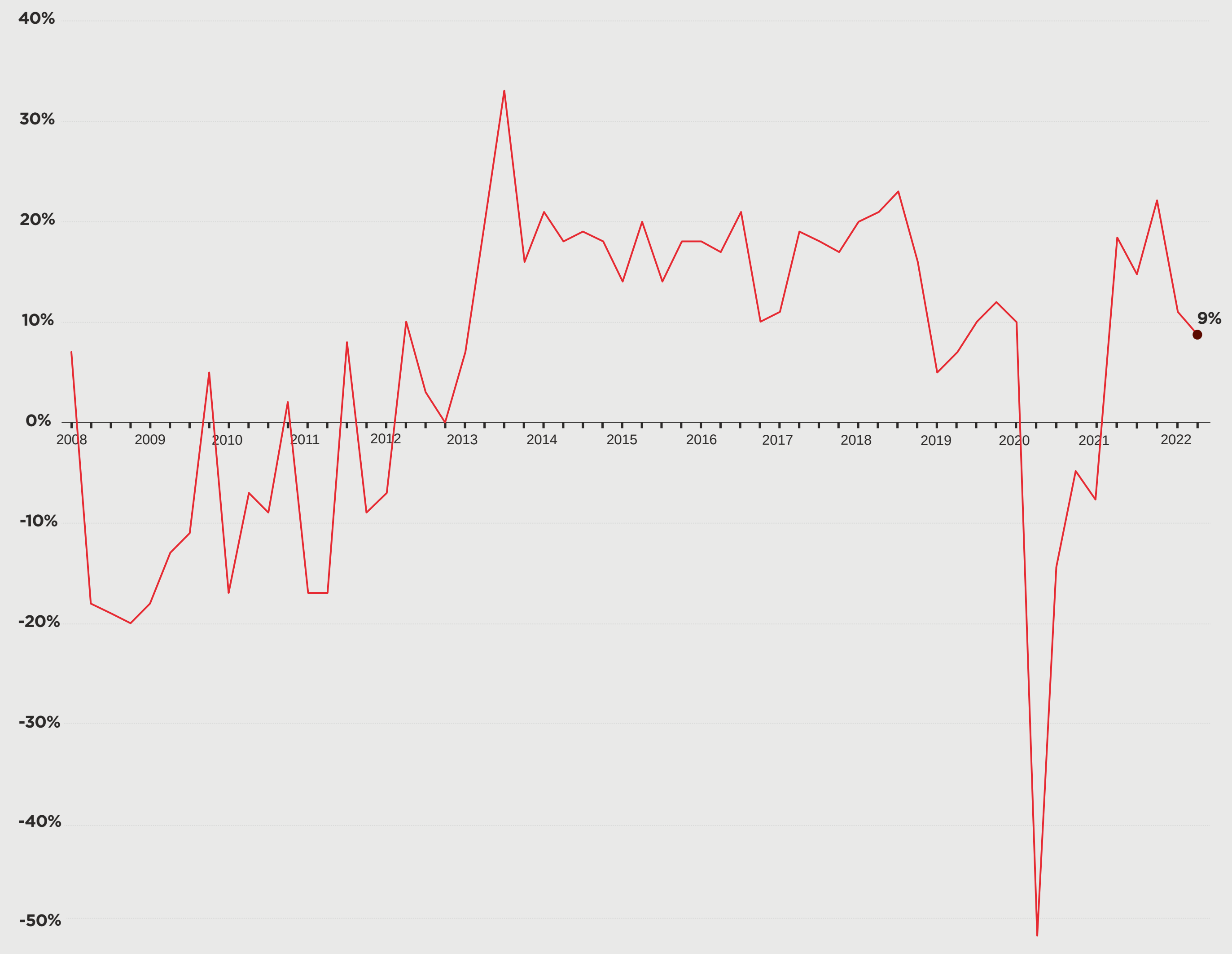
What does cash flow actually mean. The Oxford Dictionary quotes cash-flow to be “the total amount of money being transferred into and out of a business, especially as affecting liquidity”. In real terms, cash flow is the movement of money in and out of a company, cash received signifies inflows, and cash spent signifies outflows.

Businesses reading this will reflect on how such a simple explanation does not represent the true running of a business day to day. Our latest survey indicates that cash flow pressures are indeed causing business owners concern.

In Quarter 4 of 2021, 39% of respondents indicated their cashflow had increased compared to the previous quarter. This dropped to 33% in Q1 of 2022 and the same percentage, 33%, was reported in this survey. However, the more worrying analysis is that over the last 3 quarters, more and more businesses have reported their cash flow has worsened. 17%, 22% and now 24% of business experiencing reduced cash flow.

Why? Our respondents have detailed Labour Costs, Raw Materials, Utility Prices and Fuel Costs as the key reasons.

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



INVESTMENT

The Quarterly Economic Survey presents us with many “barometers” of business conditions. In order for businesses to grow, a level of investment in capital and training is required and will complement predictions in sales and costs.

This survey is no different, and the responses to questions regarding investment are reflective of a general picture developing.

16% of businesses have reported that they have revised downwards their intentions to invest in capital plant and machinery. This is the most pessimistic prediction since January 2021.

Training plans can form the basis for the development of a business. In this survey, there has been a fall in general plans to train with a 3% negative change in businesses increasing their plans and 1% increase in businesses planning to reduce their plans. However, the fact that 63% have decided to maintain the current plans offers some encouragement.

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

EMPLOYMENT & RECRUITMENT

It is well documented that “people” are the most valuable resource to any business. Like other raw materials there are pressures on the supply chain for our workforce.

The latest QES makes for interesting reading as it displays changes in priorities for employers and shows how challenging the situation has become.

The last three months have seen significant changes in employment. In Q1, 33% of businesses reported that they had increased their workforce. This fell to 31% over the last three months. Interestingly, over the same period, 61% of workforces remained the same. This was up from 59% in the last survey. 9% of businesses have reduced their workforce, compared to 7% last quarter.

So, we now look to the future, and assess whether this picture changes. Perhaps not. Just 37% of businesses expect to increase their teams. This compares with a more positive message of 44% last quarter. 59% of respondents said their business would not change their workforce number. This shows a change from 53% last quarter and a possible re-allocation of tasks and non-replacement of leavers.

This is also reflected in the number of businesses looking to recruit, 59% compared to 60% last quarter. The biggest increase was in the recruitment of part-time roles and encouragingly a slight increase in the recruitment of apprenticeships, but still not the levels of the last 6 months of 2021. This might indicate a cyclical nature to apprenticeship recruitment or as has been reported in recent times, a difference in apprenticeships offered and applications to fill those opportunities.

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

BUSINESS CONFIDENCE

The Quarterly Economic Survey provides us with valuable insight into many aspects of business. Sales and orders are easy to quantify, but confidence is a more emotive area.

It can only be described that business confidence is falling. 53% of businesses expect their turnover to increase, this compares to 65% last quarter. 16% expect their turnover to fall, this compares with 9% in the last survey.

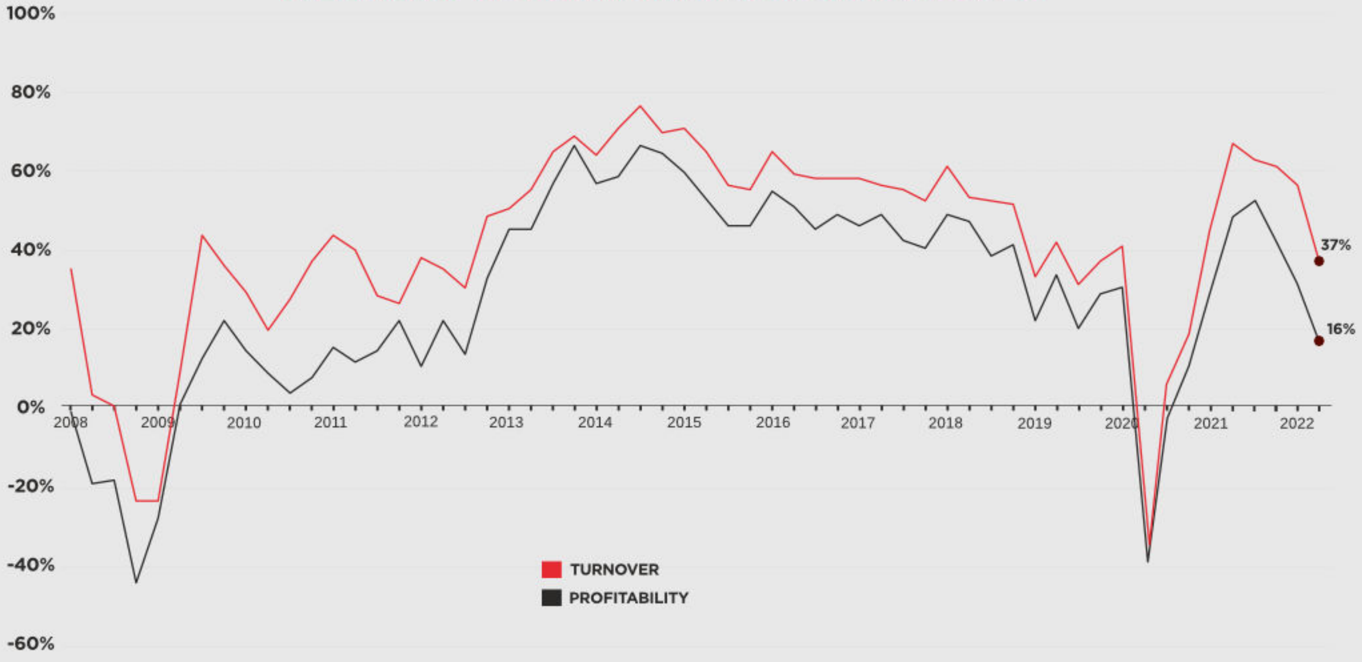
42% expect their profitability to increase compared to 50% last quarter. Of most concern is that 26% of businesses expect their profitability to worsen. This is the highest reported decline since businesses were in the maelstrom of Covid in the Autumn and Winter of 2020.

Labour Costs, Raw Materials, Utilities and Fuel Costs were most concerning to businesses. Salary increases, short term bonuses, costs of living, loans and cost of contractors were factors in labour costs.

Inflationary pressures on costs of raw materials are far higher than headline inflation figures, and also an uncertainty over supply chain will always affect business confidence.

Uncertainty over utility costs, and fuel prices, are totally out of the hands of businesses and yet have such an effect on them.

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



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2022 QUARTERLY ECONOMIC SURVEY DATES

Q3 2022

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