

Q4 2022



CLEAN GROWTH
WORCESTERSHIRE **SUSTAINABILITY**

QUARTERLY
ECONOMIC SURVEY
Focussing on Sustainability



Herefordshire
& Worcestershire
Chamber of Commerce

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Sharon Smith
Chief Executive

Herefordshire & Worcestershire
Chamber of Commerce

Herefordshire & Worcestershire Chamber of Commerce are pleased to release the results of the latest Quarterly Economic Survey, outlining business performance in the three months up to November 2022. Data collection took place between 7 and 28 November 2022.

The core objective of the survey is to provide the highest quality evidence base and unique insights from businesses to inform decision making across UK Government and the wider business community. This survey had a focus

on the importance of clean growth and creating environmentally sustainable conditions for businesses as well as options for further support and training that allow businesses to reduce their environmental impact. The research conducted will be shared with the British Chambers of Commerce, along with 53 UK Chambers, and provide a framework from which Herefordshire & Worcestershire Chamber of Commerce can influence local and national partners, and benefit Chamber Members in the two counties. The latest survey was completed by 5687 businesses across the UK and 432 (7.6%) of these were businesses in Herefordshire & Worcestershire. I would like to thank everyone that took part in our latest survey, and I hope you find the report useful to your business.

In previous quarters, businesses have emphasised the significant challenges they have faced such as the rising energy costs, inflation, and the stretched labour market. The British Chambers of Commerce predicted the UK would enter a recession and recent inflation figures suggest we are now in a recession and that the economy is likely to weaken further from here. The Chancellor Jeremy Hunt placed an emphasis on stability and growth in the Autumn budget. Tackling inflation was key on the Chancellor's agenda after it hit a 41-year high of 11.1%. In this survey, 76% of businesses stated inflation as a factor of concern for businesses and 65% of businesses stated energy costs as a further factor of concern. This highlights the increased pressure firms are experiencing from rising inflation figures as well as the pressure to settle their energy bills this winter. However, the number of businesses reporting that energy costs were a cause for concern to their businesses fell to 65% this quarter, from 82% last quarter. It's possible from the data, we can see that the energy support package for businesses has relieved some of the pressure.

The number of businesses reporting their domestic sales had increased was 36% this quarter, a slight increase from 32% in Q3. In contrast, 18% of businesses reported their UK sales had decreased in the last three months, compared to 22% in Q3. The net balance of UK

sales had been declining since Q3 2021, however it has increased to 18% in this quarter which illustrates a positive picture for businesses and leads to cause for optimism for the coming months. However, trading internationally remains a concern for businesses in Herefordshire & Worcestershire. Only 12% of businesses reported that overseas sales had increased in the last three months. This figure has decreased in each quarter in 2022 and supports the narrative we are receiving from businesses that Brexit remains a significant issue for trading overseas.

The rising costs and inflation businesses are experiencing is having a significant impact on their workforce. 14% of businesses reported their workforce had decreased in the last three months. The significant labour market issues have arguably had an impact on business cashflow. Our survey has shown that 24% of businesses reported an increased cash flow, this has decreased from 27% in the previous quarter. However, the number of businesses reporting their cash flow had decreased was 25%, an improvement from 32% in the last quarter. Cashflow remains a negative balance at -1%, albeit a slight improvement from -5% in Q3. Turnover has also decreased this quarter, 45% of businesses expect their annual turnover to improve in the next three months, this is the lowest figures since Q3 2020, a period in the midst of the Covid 19 pandemic. Furthermore, businesses indicating an improvement in their profitability in the coming months has also decreased to 33% from 37% in the previous quarter. The net balance of turnover and profitability are both sitting at historically low levels and highlights the pressure businesses are facing to survive in the current cost-of-doing-business crisis.

The feedback we receive from the Quarterly Economic Survey allows us to support business by lobbying local and national government. Through the various means of support, we offer at the Chamber, we will do our utmost to support businesses in Herefordshire & Worcestershire.

Thank you again for taking part in the survey.

WORCESTERSHIRE CLEAN GROWTH



Cllr Richard Morris
Cabinet Member for Environment
Worcestershire County Council

CLEAN GROWTH
WORCESTERSHIRE SUSTAINABILITY



I'm thrilled to write the foreword to this quarter's economic survey report and share the encouraging findings, which illustrate that many in the Herefordshire and Worcestershire business community are committed to environmental sustainability. The results of the survey have been useful to gauge where businesses are in their sustainability journeys and understand the support needed to make further improvements.

Environment and sustainability continue to be important issues, with the UN Secretary-General stressing during COP27 in November 2022 the need to "drastically reduce emissions now" to limit the damage and consequences of climate change on the planet.

Businesses in Herefordshire and Worcestershire have demonstrated through the QES that they are playing their part, with 66% of local businesses saying they have taken steps to be more environmentally sustainable or cut carbon emissions in the last year.

Soaring energy prices have dominated the news throughout 2022 and reducing energy

costs is clearly a key business driver, however perhaps surprisingly the QES shows that the desire to reduce environmental impact continues to be the biggest reason for change (77%). From both an environmental and financial perspective, it makes sense to review and manage energy consumption and costs. Managed by Worcestershire County Council, the Business Energy Efficiency Programme (BEEP), which sponsors this edition, offers small and medium size businesses the opportunity to lower their energy bills, improve their efficiency and become more environmentally friendly.

BEEP provides technical advice through impartial energy resource efficiency reviews, and grants of up to £20,000 to install measures like LED lighting, efficient heating, and even electric forklift trucks.

Advice and grant support via Worcestershire County Council is also available to help SME's across Worcestershire to install renewable energy measures, like solar panels, through the

Low Carbon Opportunities Programme (LOCOP). 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.

LOCOP also offers advice and grants of up to £30,000 to help Worcestershire SME's to develop low carbon products, services and technologies.

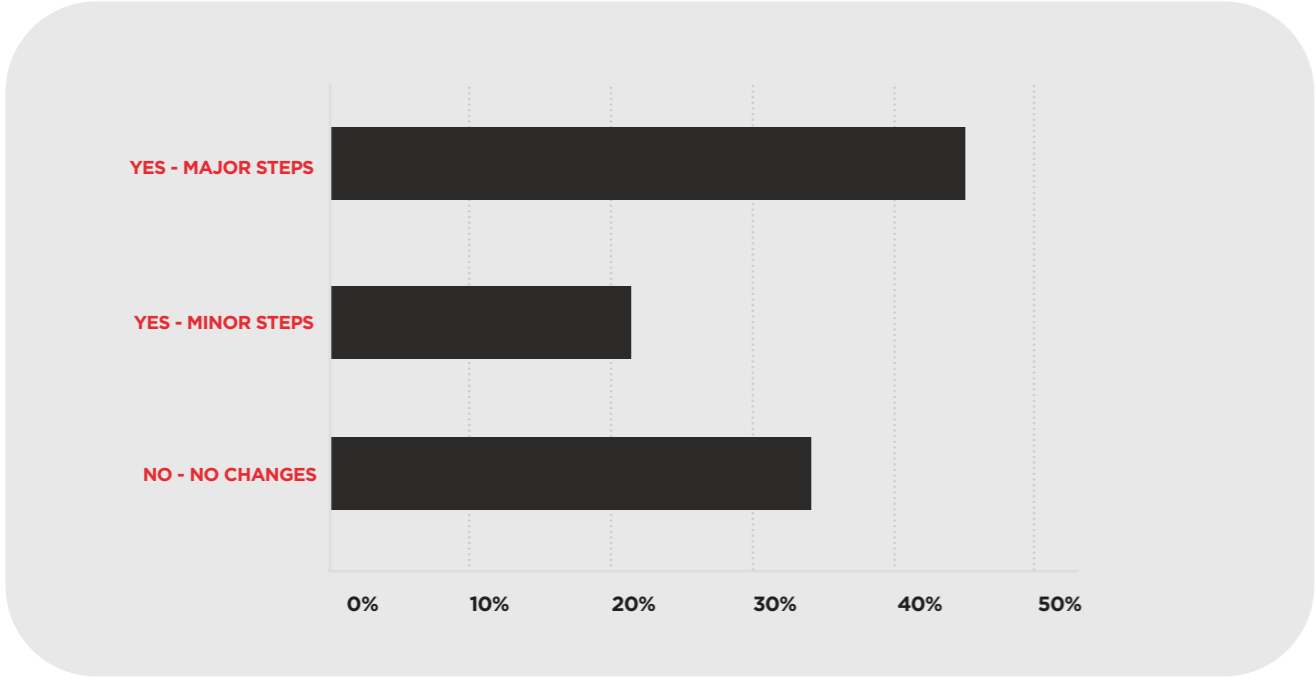
The QES highlighted the importance of technical and impartial advice, funding, informative events, and networking to help businesses take action. The European funded programmes running until June 2023 through Worcestershire County Council are well placed to support these needs, and I would encourage businesses to access the support available from these programmes.

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

Thank you to everyone who completed the survey, I hope that the results will be informative and interesting to you, and help you focus on your own journey towards environmental sustainability.

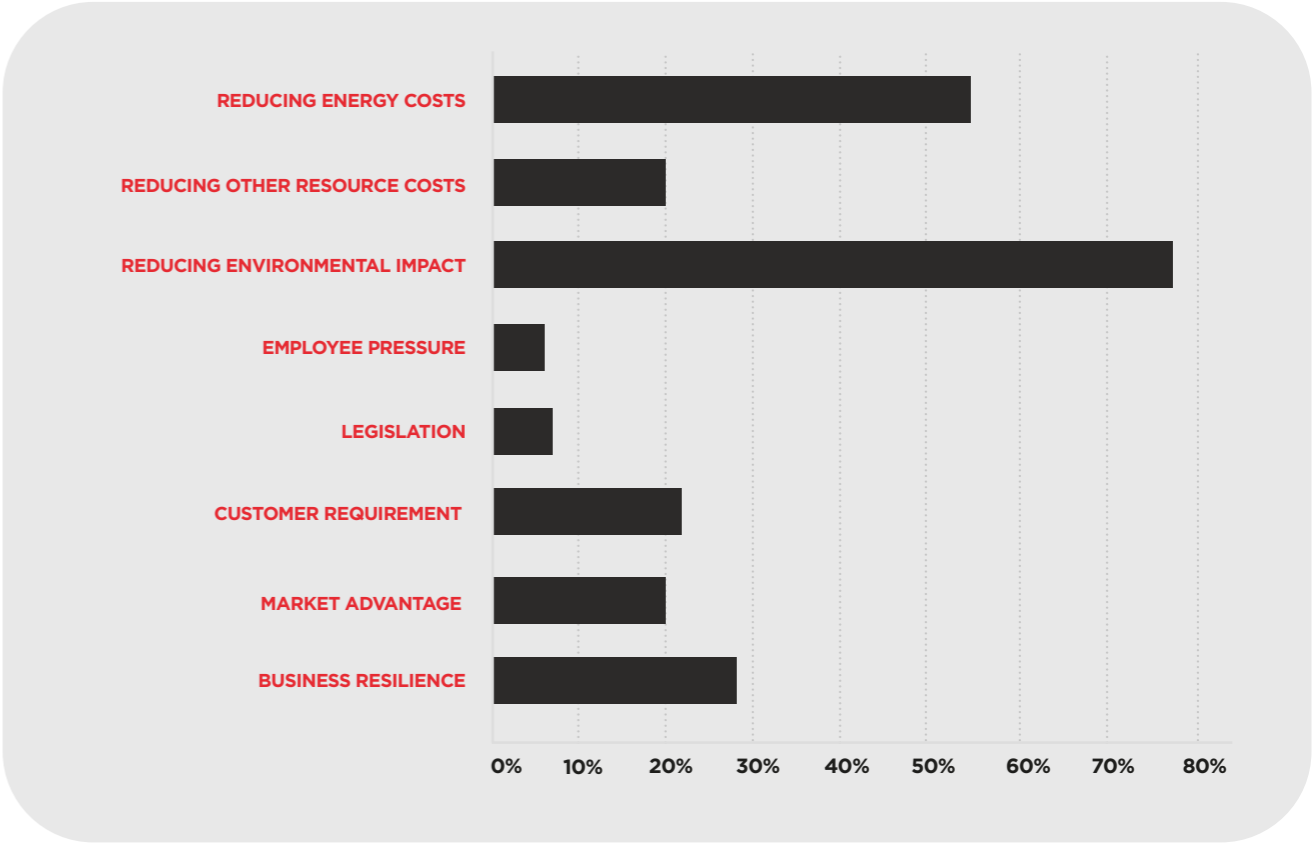
WORCESTERSHIRE CLEAN GROWTH

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



381 businesses answered this question. Encouragingly 251 of those businesses had taken steps to be more environmentally sustainable, of these 251 businesses, 83 have taken major steps in improving their environmental position. 130 businesses reported no change in taking steps to be more sustainable. This was 34% of the respondents highlighting the need for further work to be done to improve businesses environmental impact in Herefordshire & Worcestershire. Examples of steps that businesses have taken to cut their emissions are: changing the sourcing of materials to more efficient options, reducing single use plastic, reducing travel time, and using rail travel instead of car travel, LED lighting and motion sensor lighting to reduce energy usage, and increasing working from home provisions to reduce travel emissions from staff. [The Chamber Sustainability Hub](#) and [British Chamber of Commerce Net Zero Hub](#) provide support for businesses to improve their carbon footprint and remain as important as ever moving forward to a greener future.

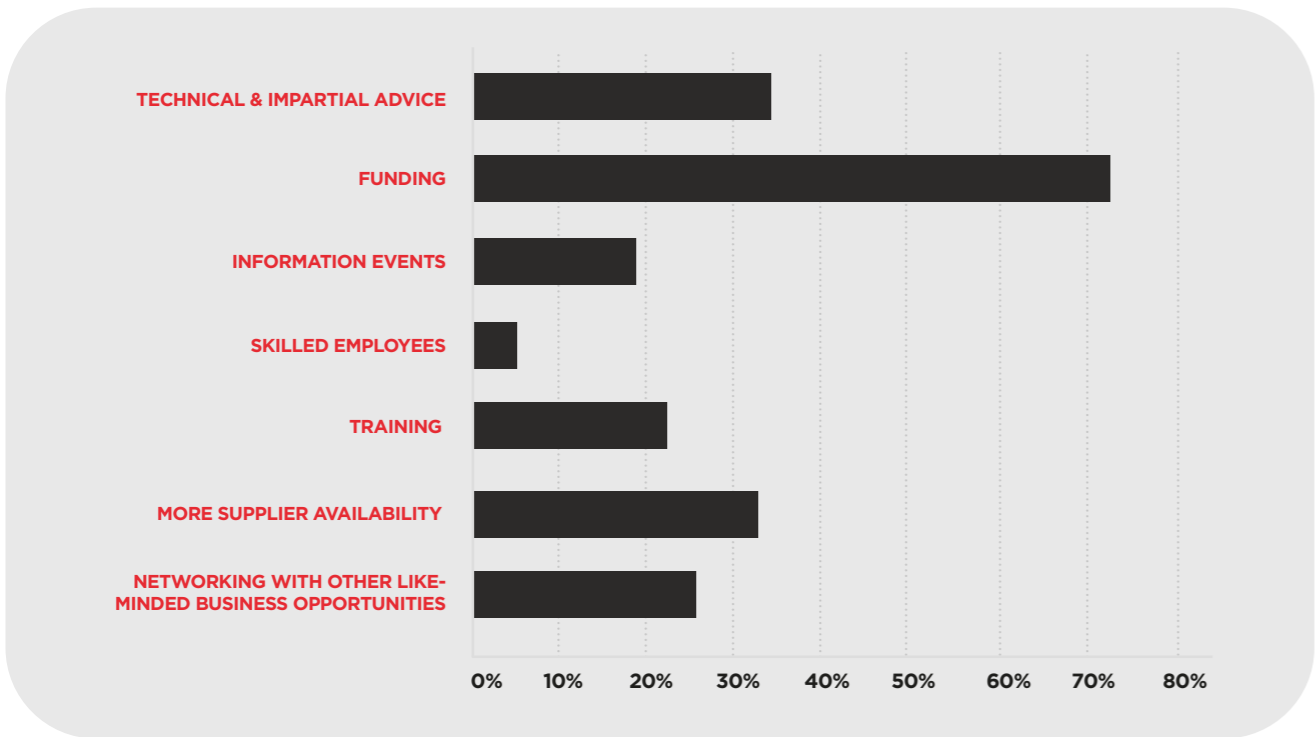
IF YES, PLEASE COMMENT ON WHY YOU TOOK THOSE STEPS



252 businesses answered this question. 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 business-critical reasons such as reducing energy costs (164 businesses) and some more cultural values criteria such as reducing environmental impact (194 businesses). After these, it's interesting that business resilience, 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" ([Deloitte.com](#)).

WORCESTERSHIRE CLEAN GROWTH

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



323 businesses answered this question. There were 5 key factors of assistance that businesses indicated would help them act or take further action on reducing their environmental impact. These were: Funding (72%), Technical & Impartial Advice (34%), Networking with other businesses (25%), Training (22%), Information Events (19%). It is clear that funding is the major factor that would help businesses improve their carbon footprint. Worcestershire County Council's Clean Growth team have resources available to support businesses, [Business Energy Efficiency Programme](#) (BEEP) that is facilitated by Herefordshire & Worcestershire Chamber of Commerce is a European Union funded project that supports eligible businesses to become more resource efficient. On-site efficiency advice is provided by a team of Energy Efficiency Advisors that operate throughout Herefordshire, Worcestershire, Shropshire, and Telford & Wrekin. Furthermore, the [Low Carbon Opportunity Programme](#) is available and can make significant improvements to a business' environmental impact.

COMMENTS FROM BUSINESSES



Net Zero ambition for 2040. Identified ways to achieve this is capture more carbon, reduce emissions and generate green energy.

We now plant trees through Ecologi, for every completed project and we are working further on our environmental policy and procedure.

Changes to credit policies to focus on EPCs, sustainable practices to ensure we support sustainable customers. Internally we have reduced frequency of our office supply orders to reduce carbon footprint and have significantly reduced paper usage in branch.

We are a renewable company - all of our onsite electricity is generated by our own solar panels. Our water comes from a bore hole and we have a company wide carpool scheme that has been very successful.

Using recovered fibres and cellulose according to recognised sustainability criteria. Self-produce most of the energy and heat.

We have replaced with/invested in electric or hybrid vehicles, major steps to decarbonising premises and working practices.



METHODOLOGY

During Quarter 4 (Q4) 2022, 432 businesses in Herefordshire and Worcestershire responded to the Quarterly Economic Survey. Data collection took place between Monday 7 November 2022 and Monday 28 November 2022. Any reference to Quarter 3 (Q3) 2022 refers to the data collection period from Monday 22 August 2022 and Monday 12 September 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.

BUSINESS SECTOR CLASSIFICATION

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

Manufacturing Sector

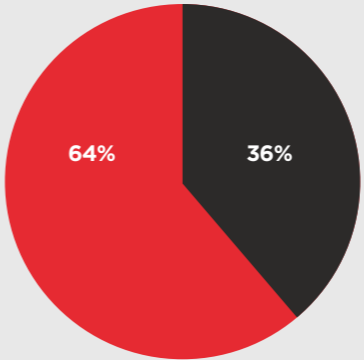
Main business activity includes manufacturing of goods (including electronic or information technology goods) and production of raw materials, construction, agriculture, fishing, mining, or utilities.

Service Sector

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

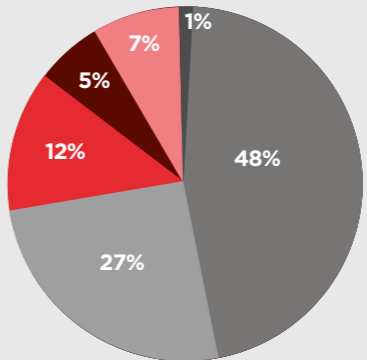
SAMPLE SUMMARY

Responses by Sector



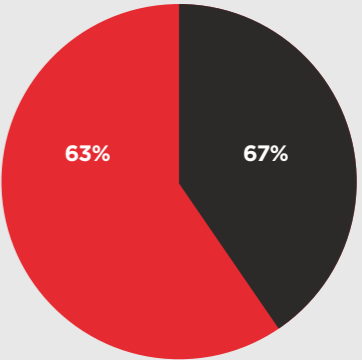
■ SERVICES
■ MANUFACTURING

Responses by Business Size



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

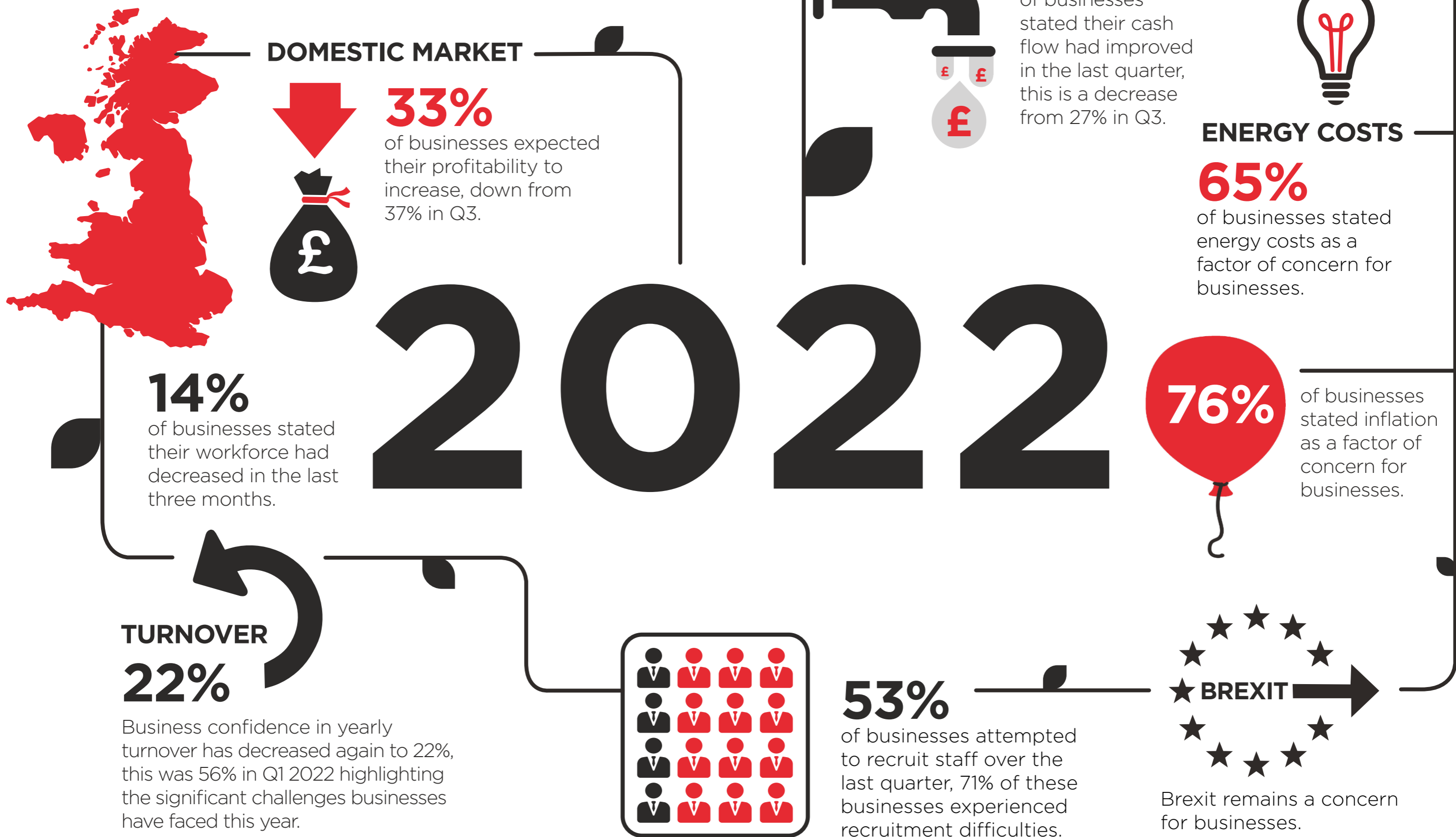
Responses by Exporter



■ EXPORTERS
■ NON-EXPORTERS



EXECUTIVE SUMMARY:



BUSINESS PERSPECTIVE

IN THEIR OWN WORDS:



Difficulty in recruiting, fuel cost/energy costs and bus parts costs escalating.

- Transport and distribution company employing 11-49 people

As a cyber security supplier - we have concerns over organisations having to cut budgets for cyber security due to the poor economy - other projects may take precedence.

- Professional services company employing 1-10 people

In the last 3 months we have invested a lot in electric Grounds Maintenance tools, and we keep pushing this innovative tech into the business. We are just waiting for the industry to catch up with bigger and better tools and products to allow use to go fully electric.

- Consumer services company employing 1-10 people

CSR is a prime driver within our business both here and abroad. Customers are awake to CSR within their range of activities. We are and must continue to work towards a carbon neutral business with achievable targets both communicated and championed.

- Tourism company employing 250+ people

The lack of consumer confidence has hit our business really hard and occupancy is down about 30%. This is not just us - it is affecting every level of hospitality. We are already seeing a large number going out of business and that is only going to get worse.

- Hospitality company employing 11-49 people

It's all about survival at present, nothing else.

- Manufacturing company employing 11-49 people



We need stability in the financial markets.

- Manufacturing company employing 11-49 people

More grants needed.

- Marketing company employing 1-10 people

It is really tough for charities we live from month to month.

- Voluntary company employing 1-10 people

Recruiting & retaining suitable volunteers is becoming increasingly challenging. Volunteers represent c80% of our workforce; so, availability of suitable volunteers is essential. With changing expectations, more demanding rules & training requirements, has prompted many 'established' volunteers to stop working.

- Tourism company employing 11-49 people

MOD Procurement continues to be chaotic and unreliable. Taxation of business is worrying when we should be focused on growth (not just survival). Exchange rate volatility is a risk. A better understanding of Government initiatives would be useful.

- Retail company employing 11-49 people

Brexit has hit small businesses hard, carrier companies are partly to blame for loss of EU business due to attitudes. Exhibiting costs have gone through the roof.

- Retail company employing 1-10 people

It is very difficult to get staff post pandemic and Brexit. The workforce is just not out there.

- Consumer services company employing 50-100 people



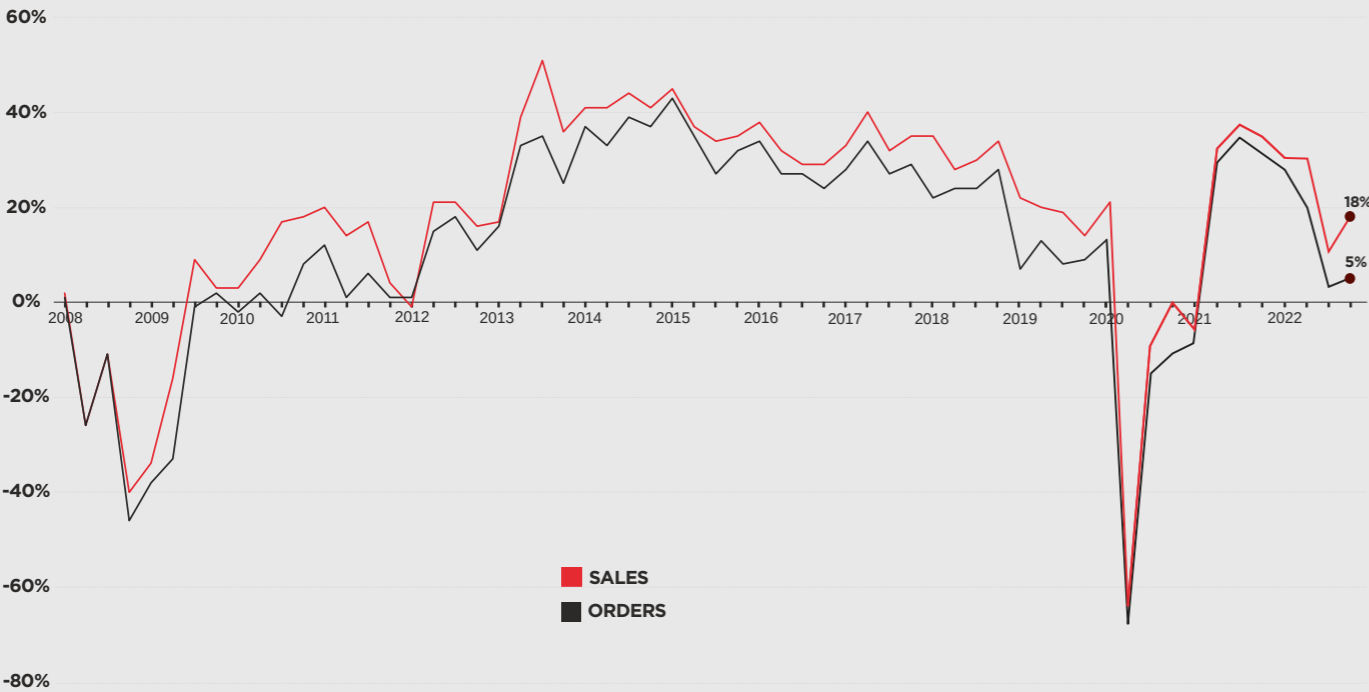
UK MARKET

In Herefordshire and Worcestershire, the analysis of UK sales is influential in analysing business performance over the last three months and also the months ahead. This quarter has seen an improvement from the previous quarter with an increase in sales and orders this quarter.

36% of businesses indicated their sales had increased, in contrast to 32% in Q3. 18% of businesses indicated their sales has decreased in the last three months. This figure was 22% in Q3, a slight improvement in Q4 and hints at a resurgence in business confidence in the last three months. 38% of businesses stated their sales had remained the same.

In terms of orders, 26% of businesses indicated they had experienced increased orders. This has increased slightly from 25% (Q3). 37% of businesses indicated their sales had remained the same. Finally, 21% of businesses reported their orders had decreased, an improvement from 22% in Q3.

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



These figures show cause for optimism for businesses after the UK economy was left in deep uncertainty following former Chancellor Kwasi Kwarteng's budget in September. The UK's rate of inflation hit a fresh 41-year high in October, accelerating to 11.1 per cent on the back of rising energy and food prices. This is the highest rate of inflation since October 1981. The Office for National Statistics said the rate rose from 10.1 per cent in September, putting inflation at its highest level since October 1981. Economists had expected a rate of 10.7 per cent. The tackling of inflation was key on the current Chancellor Jeremy Hunt's agenda in his Autumn statement. Bringing down inflation will ultimately lead to stability and stability will lead to growth.

Service Sector Insight

The percentage of service sector companies reporting their UK sales had increased was 39%, an increase from 31% in the last quarter. The net balance of service sector businesses reporting on their UK sales increased significantly to 22% from 9% in Q3. This data shows a more positive outlook on business for service sector businesses than for manufacturing businesses. We categorise the service sector as businesses that main business activity provides a service to businesses as well as final consumers (retail/wholesale, professional services, marketing, public sector). The net balance of UK orders also increased to 9% from 3% in the previous quarter.

Manufacturing Sector Insight

The net balance of manufacturers reporting on their UK sales was 8% this quarter. This has increased from 3% in the previous quarter after a significant decrease from 26% in Q2. While the figures have improved from the previous quarter, the manufacturing sector experienced a significant hit to their sales this year. In terms of orders, the figures are more concerning as 32% of businesses reported their orders had decreased. Therefore, the net balance was -9%, continuing the downward trend that started in Q3. Consequently, more manufacturing businesses are experiencing fewer orders than those experiencing an increase in orders.

OVERSEAS MARKET

The overseas market in Herefordshire and Worcestershire has improved slightly since the previous quarter. 37% of businesses that answered the survey were exporters. Of these businesses, 12% reported that their overseas sales had increased, a slight decrease from 14% in Q3. However, only 10% of businesses reported their overseas sales had decreased, an improvement from 15% in Q3. 17% indicated no change. Therefore, the net balance of overseas sales was 2%, a positive figure again after a -1% net balance in Q3. However, in terms of overseas orders, only 9% of businesses indicated that their overseas sales had increased. 11% said their orders had decreased and 18% reported no change. Therefore, the net balance of overseas orders was -2%.

In our survey, many exporters commented that overseas trading remains a challenge due to Brexit causing extortionate prices and further paperwork causing a decrease in overseas orders. Businesses have also highlighted the significant labour market issues Brexit has caused. According to the Office for National Statistics (ONS), total imports of goods, excluding precious metals, decreased by £2.8 billion (5.0%) in September 2022, with imports from EU countries decreasing by £1.9 billion (7.3%) and imports from non-EU countries falling by £0.9 billion (3.0%). The decrease in imports from non-EU countries was primarily driven by a £1.3 billion decrease in fuel imports, linked to falling gas imports from Norway and falling oil prices during September. Total exports of goods, excluding precious metals, decreased by £1.6 billion (4.7%) in September 2022, with exports to EU countries falling by £0.9 billion (5.1%) and exports to non-EU countries decreasing by £0.7 billion (4.2%). Removing the effect of inflation, total

imports of goods, excluding precious metals, decreased by £2.6 billion (6.1%) and total exports of goods, excluding precious metals, decreased by £1.4 billion (4.8%) in September 2022. Recent ONS data also shows that approximately two in five (41%) trading businesses with 10 or more employees that had imported in October 2022 reported they had experienced an increase in transportation costs compared with September 2022; this was 35% for exporting businesses.

A recent British Chambers of Commerce survey, of 486 businesses, for its ChamberCustoms brokerage service has found a third of businesses have little or no confidence on the costs they will pay to export goods. More than a third (34%) of SME goods exporters are either 'never confident' or 'rarely confident' about the final cost of shipping goods until they received the bill. Only 12% are 'always confident', and 55% are 'usually confident'. Half of SME exporters (47%) say it has become difficult to trade through UK or international ports since the start of 2022, while only 3% say it has become easier. 38% report no change. Businesses cited constant changes in shipping and transportation prices, unexpected customs charges, exchange rate volatility, delays at borders and fluctuating fuel costs for the uncertainty.

The Herefordshire and Worcestershire Chamber remain committed to working with local, national and regional government to ensure UK businesses in the two counties are able to effectively trade with EU and non-EU states to help the economy and drive growth.

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



Manufacturing Sector Insight

The net balance of manufacturing businesses experiencing increased overseas sales was -5% this quarter. In terms of overseas orders, the figure was -7%. This presents the challenges manufacturing businesses are facing in overseas sales as the effects of Brexit remain a significant issue for businesses.

Service Sector Insight

The net balance of service sector companies reporting on their overseas sales was 2%, an increase from -1% in Q3. Overseas orders remain a negative figure at -1%.

CASH FLOW

24% of businesses reported their cash flow had increased in the last three months. This has decreased slightly from 27% in Q3. 51% indicated their cash flow had remained the same. Finally, 25% of businesses reported their cash flow had decreased. This has decreased from 32% in Q3, highlighting an improvement in balance figure in the last three months. However, business cashflow has indicated a negative cash flow for the second quarter running. The net balance was -1% this quarter, an improvement from -5% in the last quarter but the negative figure is alarming for businesses.

ONS data released in mid-November highlighted that in October 2022, 46% of trading businesses reported the prices of goods or services bought had increased compared with the previous month. This compares with 48% of businesses who reported an increase in the prices of goods or services bought in September 2022. For prices sold, these percentages were 20% and 21%, across the same periods. The data suggests that some businesses are experiencing a continued increase in prices bought and sold month on month.

In early November 2022, 31% of businesses that had not stopped trading reported their production and/or suppliers had been affected by the recent increase in energy prices, broadly stable with early October 2022. For businesses with 10 or more employees, this percentage was 43%.

In early November 2022, the ONS carried out a study researching whether businesses had been affected by price rises. Just over three in five (61%) businesses reported they had been affected in some way. The most reported effects were:

- having to absorb costs (39%); the accommodation and food service activities industry reported the highest proportion (59%)
- having to pass on price increases to customers (28%); the manufacturing industry reported the highest proportion (49%)
- having to change suppliers (12%); the accommodation and food service activities industry reported the highest proportion (26%)

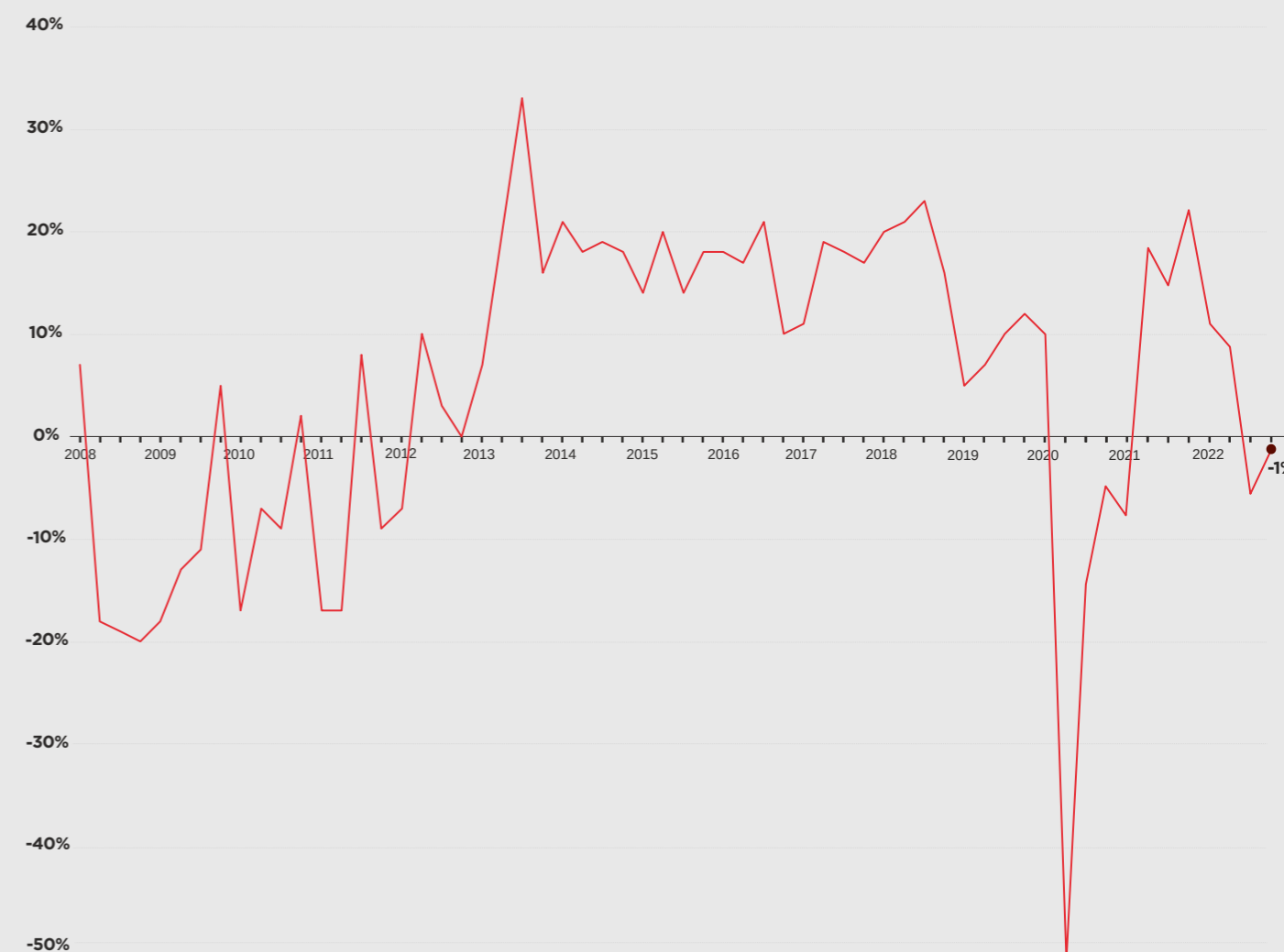
Manufacturing Sector Insight

The net balance of manufacturers reporting increased cash flow was -10%. The figure remains historically low in previous surveys.

Service Sector Insight

The net balance of services companies reporting increased cash flow was 0%. The figure was -5% in Q3.

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



EMPLOYMENT & RECRUITMENT

53% of businesses attempted to recruit staff over the last quarter. Of these businesses, 71% had experienced problems recruiting. This highlights the significant labour market issues previously discussed that are affecting businesses of all sizes in Herefordshire and Worcestershire. 86% of firms tried to recruit for full time roles. However, the number of firms attempting to recruit for apprentice roles reduced from 23% in Q3 to 14% this quarter. On the back of the first T-level students graduating in August, the drop off in firms recruiting apprentices is a worry for students enrolled on the T-levels program. 54% of businesses struggled to recruit for roles such as skilled manual and technical roles. This is the highest figure it has been since Q2 2020. Therefore, the local labour market is in need of a clear plan from the government to solve the labour shortages in the two counties.

Only 22% of businesses indicated they had increased their workforce in the last three months. 63% reported no change. 14% reported they had reduced their workforce. The percentage of businesses reporting that they had increased their workforce has been decreasing since Q3 2021. This puts into context the significant labour market challenges businesses are facing.

Furthermore, only 25% of businesses expect to increase their workforce in the next three months, decreasing from 27% in Q3. Further highlighting the alarming labour market shortages businesses are facing. 65% reported no change. 10% of businesses indicated they expect to reduce their workforce in the next three months. Ultimately, this can be seen as a cost cutting method for businesses as they struggle to tackle inflation, energy costs, wage costs, and as a result businesses are left with no choice but to cut costs.

The UK employment rate was estimated at 75.6% in September to November 2022, largely unchanged compared with the previous three-month period and 1.0 percentage points lower than before the pandemic (December 2019 to February 2020). The number of employees and part-time self-employed workers increased over the latest three-month period, while full-time self-employed workers decreased.

The most timely estimate of payrolled employees for December 2022 shows another monthly increase, up 28,000 on the revised November 2022 figures, to 29.9 million.

The unemployment rate for September to November 2022 increased by 0.2 percentage points on the quarter to 3.7%. In the latest three-month period, the number of people unemployed for up to six months increased, driven by those aged 16 to 24 years. Those unemployed for over six and up to 12 months increased, while those unemployed for over 12 months decreased in the recent period.

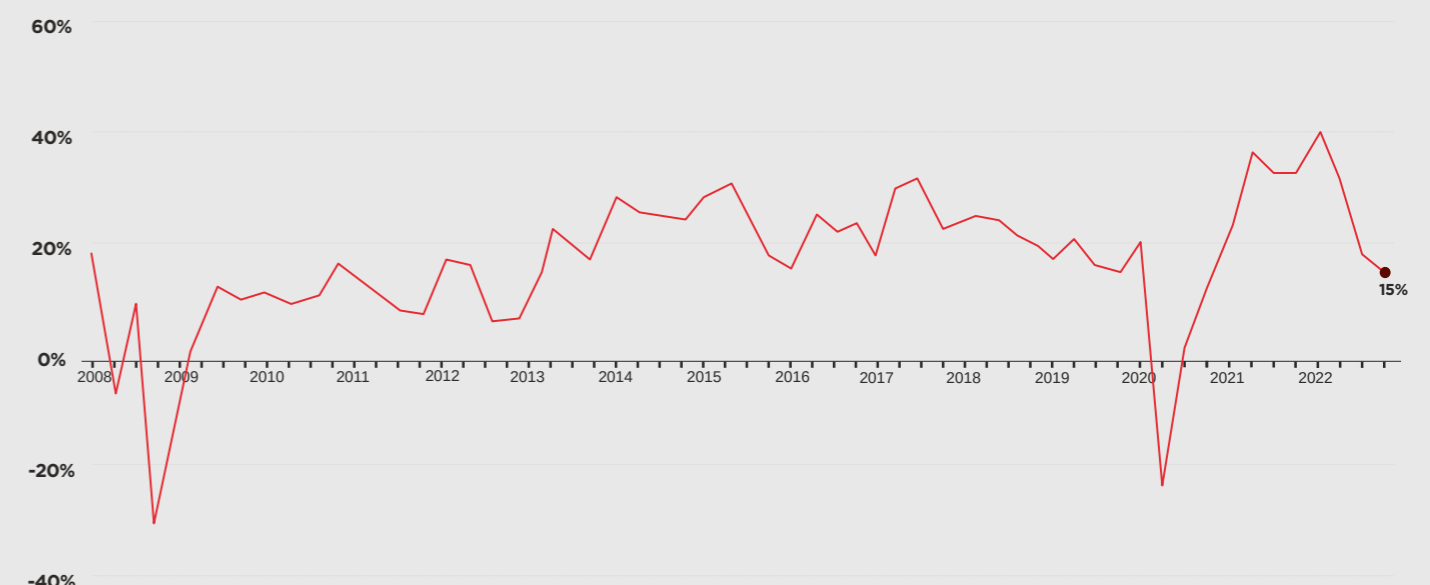
Manufacturing Sector Insight

25% of manufacturers have increased their workforce over the last three months. This is the same as the previous quarter. With regards to expected change in workforce, 30% of manufacturers expect to increase their workforce over the next three months. This has increased from 26% in the previous quarter.

Service Sector Insight

22% of service sector companies have increased their workforce over the last three months, a 5% decrease from 27% since the last quarter. 22% of service sector companies expect to increase their workforce over the next three months, this has decreased from 28% in the previous quarter.

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

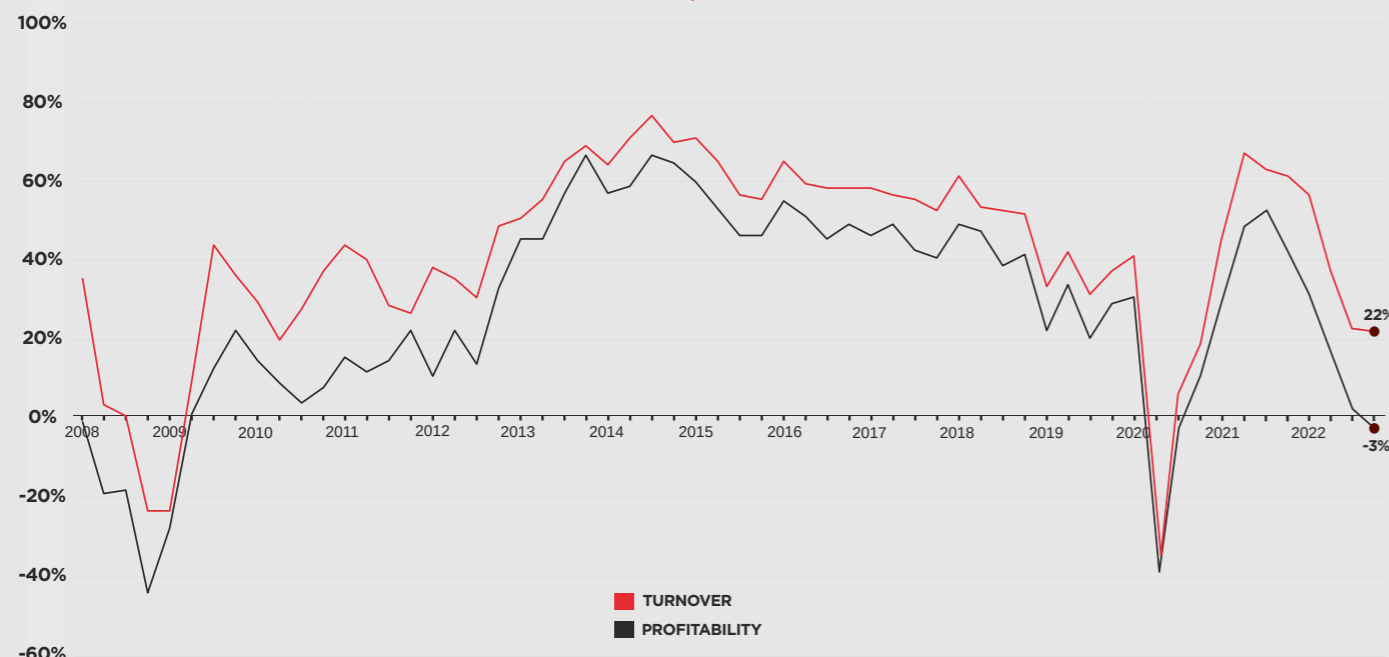


BUSINESS CONFIDENCE

It has been well documented that businesses are facing a tough period due to the current rising inflation, rising energy bills, labour shortages etc. The Quarterly Economic Survey provides us with valuable data that quantifies business confidence across Herefordshire and Worcestershire. In this quarter, the downward trend of businesses expecting their turnover to improve has continued. Only 45% of businesses expected their turnover to increase, this is the lowest it has been since Q3 2022, during the pandemic. In contrast to this time last year in Q4 2021, 67% of businesses expected their turnover to increase, highlighting the significant challenges businesses are facing in the current climate. Furthermore, in this quarter, 32% of businesses expected no change to their turnover. 23% expected their turnover to decrease.

As we look to profitability, the figures are as alarming as only 33% of businesses expect their profitability to increase, the lowest figure since Q2 2020. In contrast to this time last year, 56% expected their profitability to increase. In this quarter, 30% expected no change, and 36% expected their profitability to decrease, the same as Q3 which is at a historically low figure. The net balance for profitability this quarter is -3%, the first negative number since Q2 2020. As we analyse the turnover and profitability data from the QES, it is clear that business confidence is significantly low, and is matching the figures collected during the pandemic when businesses were under significant restrictions. The data further highlights the need for more substantial support to businesses, as the data shows the significant issues they have continued to face in recent quarters.

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



According to the latest ONS figures released in December. Almost a third (32%) of businesses with 10 or more employees reported they were experiencing a shortage of workers, with the health and social work activities industry reporting the highest proportion of businesses affected, at 54%.

When looking ahead to December 2022, input price inflation and energy prices remain the top two concerns reported by businesses, at 25% and 19%, respectively, with energy price concerns being at the lowest level reported since late February 2022 (15%).

One in eight (13%) businesses had been affected by industrial action in October 2022; more than a quarter (27%) of those businesses reported they were unable to obtain necessary goods for their business.

Nearly three-quarters (73%) of businesses reported some form of business concern for December 2022. This percentage was higher for businesses with 10 or more employees, at 84%. These percentages were broadly stable with the proportion reported for November 2022, 76% and 85%, respectively.

Service Sector Insight

Service sector confidence in turnover has decreased by 20% from last quarter, the figure was 24% this quarter, a sharp decrease from 44% in Q2. Confidence in yearly profitability also decreased to 8% this quarter. In contrast to 21% in Q2. Therefore highlighting the significant challenges that business expect over the next three months.

Manufacturing Sector Insight

Manufacturer confidence in yearly turnover decreased from 25% last quarter to 13% this quarter. Furthermore, confidence in yearly profitability has decreased drastically, the figure for this quarter was -23%, it was -9% last quarter.

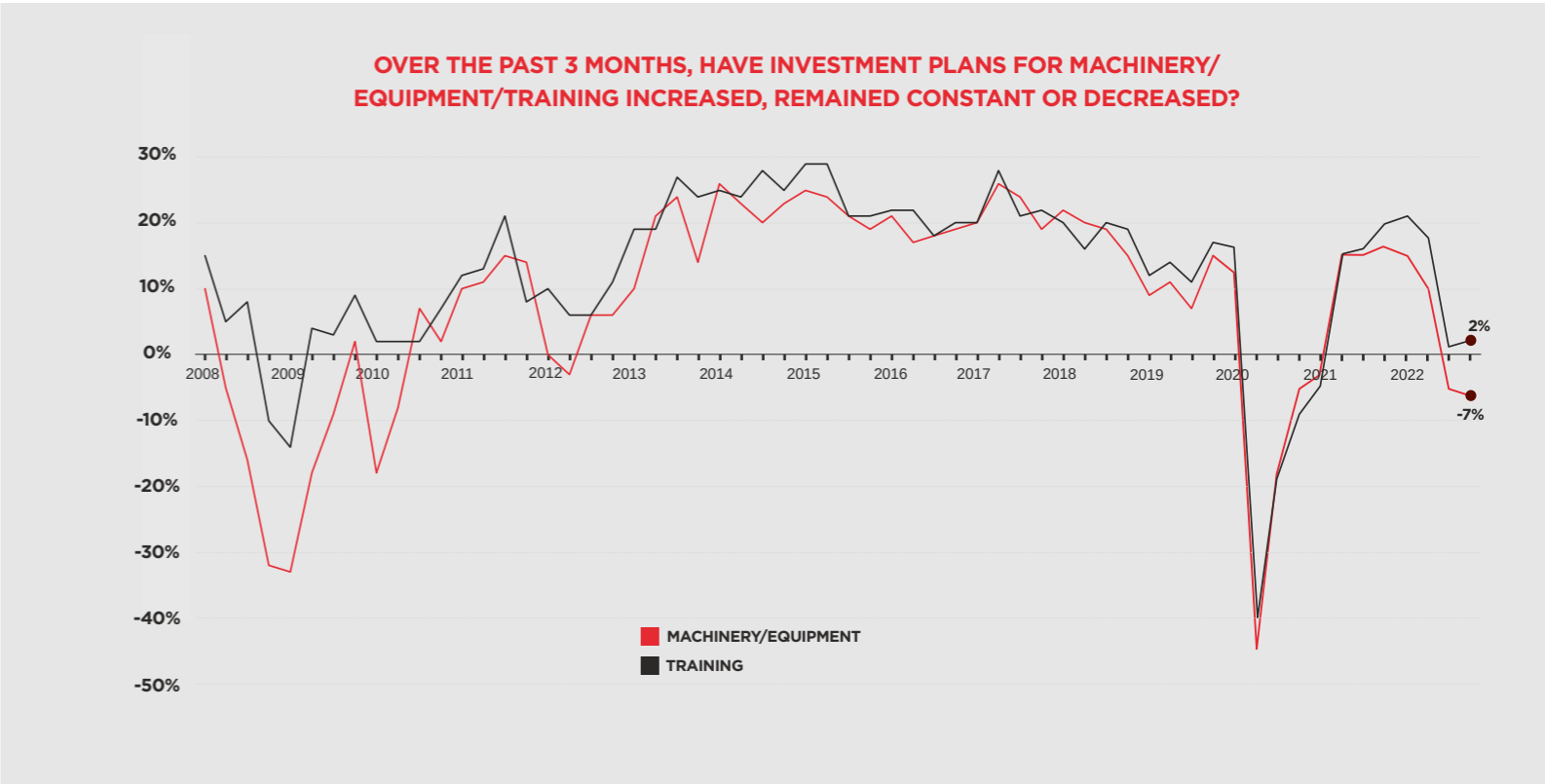
INVESTMENT

From the QES, we can gather data from businesses in regard to their plans for future investment and training. 15% of businesses indicated that they had revised upwards their plans for investment in machinery/equipment. This has decreased from 18% in Q3. 63% of businesses reported no change. 22% of businesses indicated they have revised downwards their plans for investment, compared to 23% in Q3.

Training is essential to upskill staff and leads to significant development in the business and ultimately growth. In this quarter, 16% of businesses revised upwards their plans for training. 70% reported no change. 14% revised downwards their plans to invest in training.

The ONS released a Business Investment report in Mid-November. The report found that Business investment fell by 0.5% in Quarter 3 (July to Sept) 2022. The level of business investment in Quarter 3 2022 is 8.4% below where it was in Quarter 4 (Oct to Dec) 2019, the quarter before the pandemic; gross fixed capital formation (GFCF) levels are 0.8% above that same quarter. Whole economy investment, which includes business and public sector investment, increased by 2.5% in Quarter 3 2022 and was 5.8% higher than in the same quarter a year ago. Government investment grew by 7.6% in the latest quarter.

Business investment has still not returned to pre-pandemic levels while whole economy investment (technically known as Gross Fixed Capital Formation - GFCF) has returned to pre-pandemic levels as of Quarter 3 2022. This reflects the different patterns of investment by government and businesses observed throughout the coronavirus pandemic. The positive growth of dwellings and government investment in the latest quarter are the main factors in GFCF returning to its pre-pandemic level.



Manufacturing Sector Insight

For the second quarter in a row, planned investment in machinery/equipment/training from manufacturers was negative at -6%. This is a 10% decrease from Q2 and highlights the significant impact the energy crisis is having on businesses plans for investment to stimulate future growth. Planned investment in training is 1%, also the same as Q3.

Service Sector Insight

Service sector investment intentions in machinery were also negative at -7%, the first time since Q1 2021. This was a decrease from 9% in the last quarter (Q2). Planned investment in training was also negative -2%. A 19% decrease from Q2 where it was 17%. This highlights the cost cutting businesses are having to make due to the energy crisis and as a result investment in training has decreased significantly in the service sector.

BRITISH CHAMBERS OF COMMERCE COMMENTARY

The BCC's Quarterly Economic Survey (QES) for Q4 2022 shows key economic indicators have stabilised at concerning low levels, following significant declines in Q3.

The survey of over 5,600 firms – 92% of whom are SMEs – reveals business confidence, conditions and sales have stabilised at low levels, while inflation remains the top external factor of concern.

The research took place between November 7 and November 30, across the period the Government's Autumn Statement was announced.

Business activity not experiencing any bounce back from significant fall in Q3

The percentage of firms reporting increased domestic sales has stabilised at the low level reported in Q3. Only 33% of firms experienced an increase in sales over the past three months, while 25% of firms reported a decrease in sales and 42% report no change.

Activity in the retail and hospitality sectors remains particularly weak. Both sectors are firmly in 'negative territory', with more firms reporting a decrease in sales than an increase over the past three months.

The hospitality sector is also struggling to operate at full capacity; three quarters (74%) of hospitality businesses reported they are operating below capacity.

More firms continued to report decreased cash flow versus increased cash flow.

Only 24% of business said their cash flow has increased over the last three months, while 30% have seen it decrease.

Business confidence remains at Covid-crisis levels

After business confidence plummeted in Q3, firms continued to report a negative outlook for the future in Q4. Less than half (44%) of firms expect their turnover to increase over the next 12 months, while 25% expect a decrease. Those expecting turnover to increase remains ten percentage points down from a level of 54% in Q2 2022.

Profitability confidence remains much weaker than turnover confidence and has stabilised at Covid-crisis levels. Only one in three (34%) businesses believe their profits will increase over the coming year, while 36% now expect a decrease.

Little sign of plans to increase business investment

Increases to business investment remain low. Only 21% of firms reported an increase to plant/equipment investment over the past three months, while 57% reported no change, and 22% reported a decrease.

Inflationary pressures remain top business concern

The percentage of firms expecting their prices to rise over the coming months (60%) remains near record highs but is showing slight signs of easing, down from 62% in Q3.

Concern about inflation also remains at record highs; 80% of firms cited inflation as a growing worry to their business. But there are also significant jumps in the percentage of firms concerned about taxation (38%) and interest rates (43%).

David Bharier, Head of Research at the British Chambers of Commerce (BCC), said:

“These results provide further confirmation that business conditions deteriorated significantly in the second half of 2022.

The situation remains critical for the majority of SMEs who find themselves cut adrift by monumental inflationary pressures, often driving triple-digit percentage cost increases, particularly on energy.

Business confidence remains worryingly low, with only a third of firms reporting improvements to sales, and less than a quarter reporting increased investment. The widespread economic damage caused by Covid shutdowns has been compounded by subsequent inflation, global trade crises, and new trade barriers with the EU. For many SMEs, the cost of doing business is now simply too high.

While the change in administrations from Truss to Sunak may have stabilised markets, the Autumn Statement on 17 November appears to have had no impact on business confidence. Indeed, while inflation is still by far and away the top concern for businesses, taxation has now become far more of an issue for SMEs.

These results reaffirm the need to create a stable environment for businesses to invest, with energy, improvements to infrastructure, access to skills, and removal of trade barriers, particularly with the EU, all top priorities for firms.”



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2023 QUARTERLY ECONOMIC SURVEY DATES

Q1 2023
Fieldwork: 13 February to 6 March
Publication: April 2023

Q2 2023
Fieldwork: 15 May to 5 June
Publication: July 2023

Q3 2023
Fieldwork: 21 August to 11 September
Publication: October 2023

Q4 2023
Fieldwork: 6 November to 27 November
Publication: January 2024

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