

Q1  
2023

  
**GREEN  
BUSINESS**

Environment

Management



QUARTERLY  
ECONOMIC SURVEY  
Focussing on Green Skills



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 March. Data collection took place between 13th February and 6th March 2023.**

The commitment from so many local businesses to share their business concerns to allows us to truly reflect the views of businesses in Herefordshire and Worcestershire, so firstly many thanks to

all who have supported our work this quarter. This extensive research allows us to identify current challenges, potential barriers to growth and to identify opportunities for businesses looking to grow and expand. 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 5258 businesses across the UK and 352 (6.7%) of these were businesses in Herefordshire and Worcestershire.

In the introduction to previous reports, I have outlined the same challenges businesses have been facing over the last 12 months such as rising energy costs, inflation, and the stretched labour market. In this survey we have seen a reduction in the number of businesses reporting inflation as a cause for concern to their business. 67% of businesses reported that inflation was a concern to their business, compared to 76% in the previous quarter. At the time of writing, the Chancellor Jeremy Hunt has recently announced his Spring Budget. The Chancellor made it a priority to tackle inflation, attributing it to ongoing economic challenges. It is encouraging for businesses that the government are addressing the significant inflationary pressures firms are facing. The recent figures released by the Office for National Statistics show a slight easing in inflation to 10.1%, however rising food prices has kept inflation above 10%, it was widely expected to fall below this.

In terms of the QES, the number of businesses reporting their domestic sales had increased was 32% this quarter, a slight decrease from 36% in Q4 2022. In contrast, 21% of businesses reported their UK sales had decreased in the last three months, compared to 18% in Q4. The net balance of UK sales had been declining since Q3 2021, despite an increase in the previous quarter, the decline

has continued this quarter to 11% compared to 18% in Q4. Furthermore, the overseas market for businesses in Herefordshire & Worcestershire remains a concern. Only 12% of businesses reported that overseas sales had increased in the last three months. This figure decreased in each quarter in 2022 and supports the narrative we are continuing to receive from businesses that Brexit remains a significant issue because of increased costs, paperwork, supply chain shortages as well as the tight labour market we are facing.

Businesses have been operating in an extremely tight labour market in recent months which is having a significant impact on their workforce. Businesses will welcome the recently announced plans in the Spring Budget to tackle the labour market issues with further support for working parents around childcare costs and pension reform. This will hopefully bring more people back to the labour market. The expansion of the government's 'Skills Bootcamps' for over 50s will offer free training to address the current skills shortages. This will help improve job opportunities and upskill current employees. In this QES, 13% of businesses reported their workforce had decreased in the last three months. This figure remains high when comparing to this quarter last year, with the recent support announced to tackle the labour market issues, hopefully we will see an improvement in the data in the upcoming quarters.

I am grateful to our partners at Worcestershire County Council and Worcestershire Local Enterprise Partnership for supporting us with this survey. The Herefordshire & Worcestershire Chamber of Commerce are committed to supporting all activities that promote green skills development, opportunity, and workforce planning.

I hope you find the report useful to your business and thank you again for taking part in the survey.

# WORCESTERSHIRE GREEN SKILLS



**Judy Gibbs**

Worcestershire LEP Director of Skills and  
Worcestershire County Council Head of  
Service, Skills, and Investment

**Worcestershire Local Enterprise Partnership**

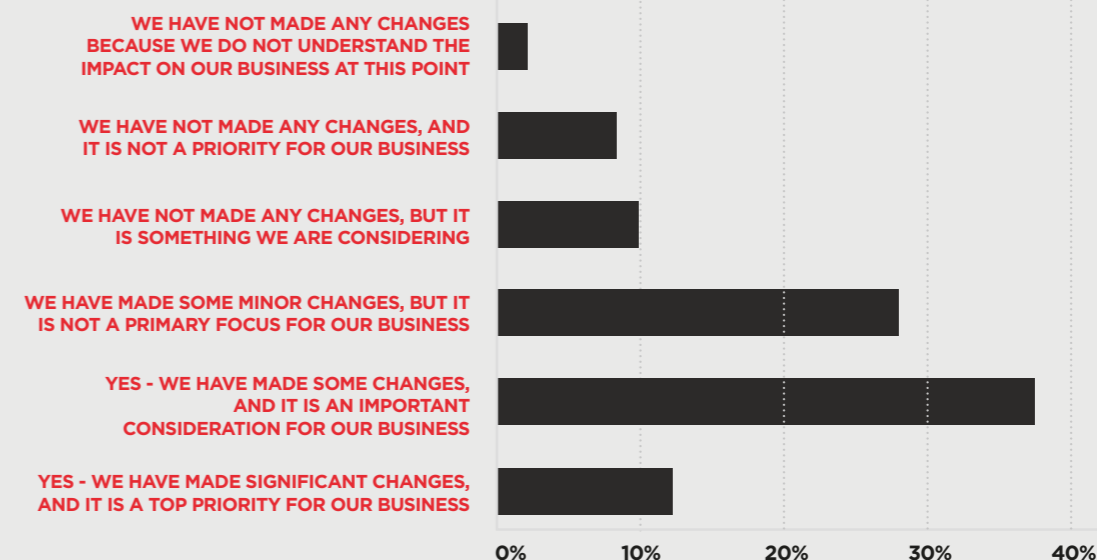


**As 2022 gave way to 2023, a number of emerging themes have come to the forefront of the skills and recruitment needs within the county. It is highly evident that the challenge of recruitment and ongoing vacancies continues to affect our organisations negatively within Worcestershire and it has never been clearer that the need to look forward, and to consider those internal and external factors that impact our skills needs is here.**

One such external factor that continues to build is the growing need to understand sustainability and net zero practices within our businesses. This skills agenda, whilst challenging to define for many organisations, will impact all employers both in our needs to consider our own impact through corporate social responsibility, customer buying preferences but also in the pressures to be recognised as positively contributing towards the goal of net zero by current and future generations of workforce.

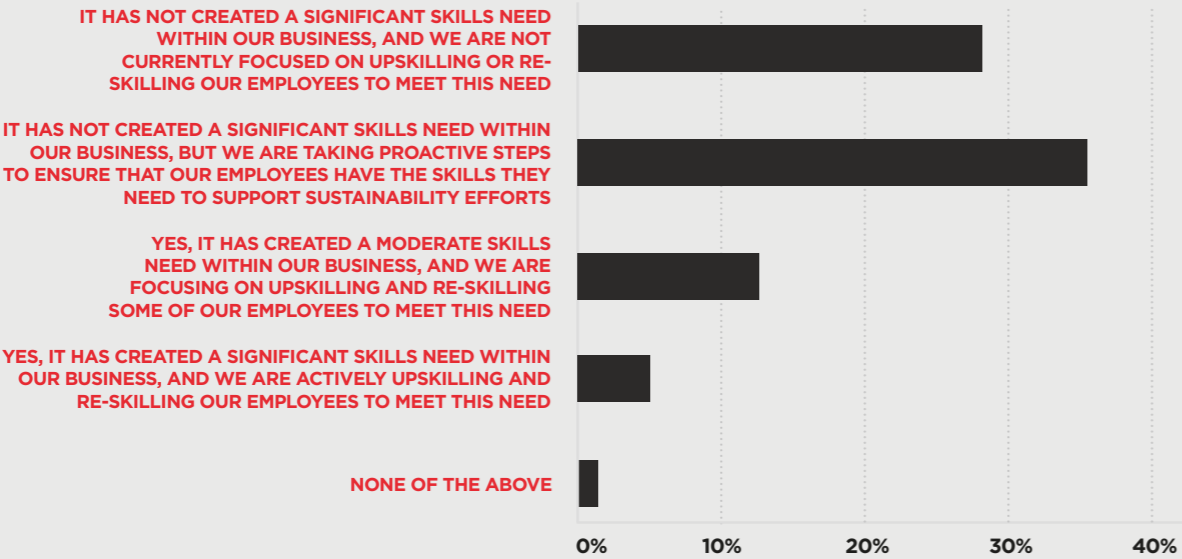
It is without a doubt that the journey for most organisations in the county is in its infancy, and the transition for businesses to adapt processes and practices has not yet been fully felt. However, with the advent of net zero supplier roadmaps from organisations such as the NHS, it will start to affect our policies and organisation's ability to supply across public sector procurement and contracting. This transition will require behavioural change in our organisations and in our employees, with the need to upskill our existing staff to understand their own impact and practice changes that they can support within their roles, as well as the need to consider those new technological developments in this market that will bring the need for new skills and even specialist sustainability roles.

**HAS YOUR BUSINESS OR ORGANISATION ADAPTED YOUR WORK PROCESSES OR PRACTICES TO RESPOND TO THE DRIVE TOWARDS SUSTAINABILITY AND WHAT LEVEL OF IMPORTANCE DO YOU PLACE ON THIS?**



# WORCESTERSHIRE GREEN SKILLS

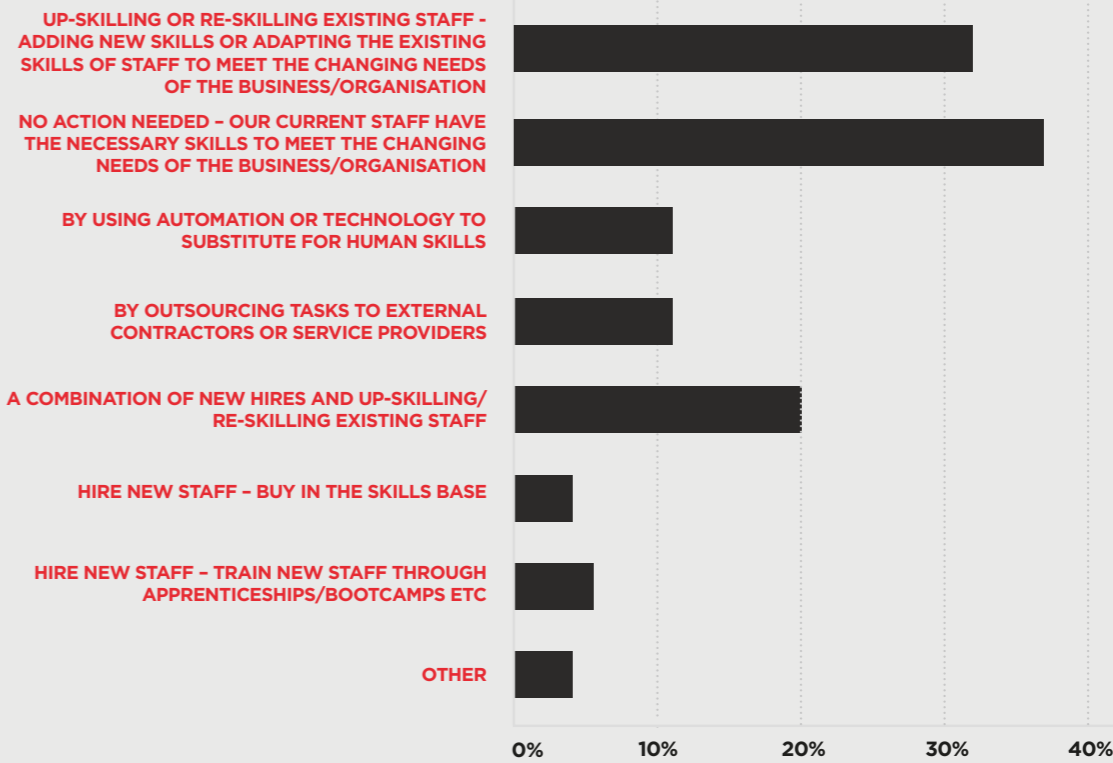
## HAS THE DRIVE TOWARDS A MORE SUSTAINABLE FUTURE FOR YOUR PRODUCT/SERVICE RESULTED IN (OR IS ANTICIPATED TO RESULT IN) A NEED FOR UPSKILLING OR RESKILLING WITHIN YOUR BUSINESS?



One of the most interesting elements of this agenda is the impact on recruitment, where amongst young people aged 18-24 within a national survey, they found that one third would reject roles based on the company's green record and that a growing trend of 'climate quitting' was being felt by employers, where individuals were seeking out a more environmentally friendly role. This growing trend is of concern in an already tight labour market, where money and flexibility, are not, it seems always the main influencers in employer and employment choice.

This agenda will continue to emerge whilst awaiting that greater degree of regulatory compliance from HM Government to influence our thinking. From our research, we see that those organisations who have started this journey whilst sometimes requiring investment have also found efficiency and financial savings from taking a strategic view of sustainability and moving to net zero throughout their organisations, focusing on waste management and energy efficiency.

## HOW DO YOU INTEND TO MEET ANY IDENTIFIED SKILLS NEEDS TO RESPOND TO A MORE SUSTAINABLE FUTURE FOR YOUR PRODUCT/SERVICE WITHIN YOUR BUSINESS OR ORGANISATION?



# WORCESTERSHIRE GREEN SKILLS

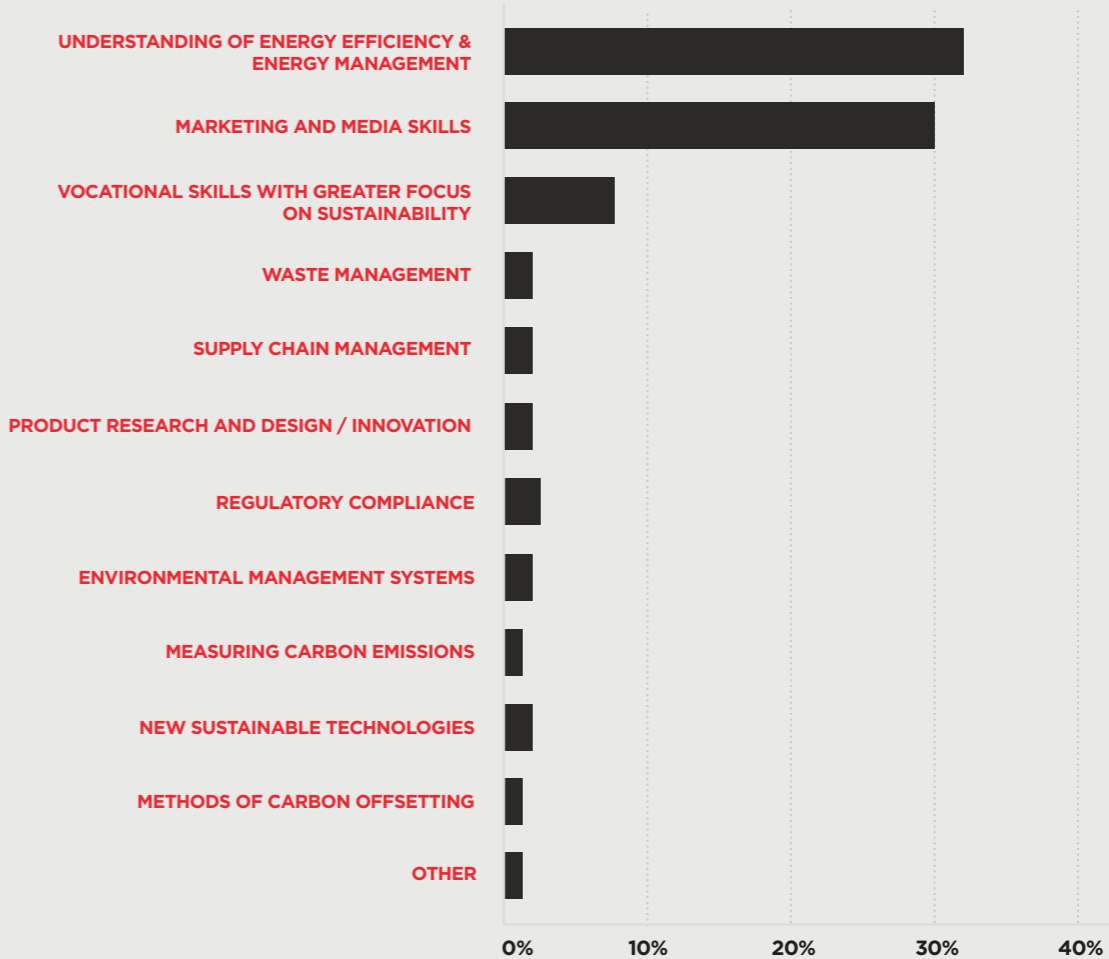
I would encourage Worcestershire's businesses to reflect and to consider the skills needs they will have in the future driven by this agenda, whether specialist in nature or simply more of an awareness raiser, and to talk both with the Worcestershire Growth Hub ([www.worcestershiregrowthhub.co.uk](http://www.worcestershiregrowthhub.co.uk)) and the Herefordshire & Worcestershire Chamber of Commerce about your needs, helping us and the wider skills stakeholders to move the agenda forward and meet your skills needs in the future.

I ask you all to engage in the Local Skills Improvement Plan process from the Herefordshire and Worcestershire Chamber of Commerce to help us support you both with your skills needs driven by this agenda but also more widely (<https://www.surveymonkey.co.uk/r/surveyisip>).

Worcestershire LEP continues to be committed to supporting our employers to create their future workforce but also to support the upskilling and development of the current workforce, helping to build the county's resilience and support its economy now and in the future.

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 net zero.

## WHAT SPECIFIC SKILLS OR TECHNOLOGIES ARE CURRENTLY IN HIGH DEMAND WITHIN YOUR BUSINESS OR ORGANISATION TO MEET YOUR SUSTAINABLE FUTURE GOALS?



# METHODOLOGY

During Quarter 1 (Q1) 2023, 352 businesses in Herefordshire and Worcestershire responded to the Quarterly Economic Survey. Data collection took place between Monday 13 February 2023 and Monday 6 March 2023. Any reference to Quarter 4 (Q4) 2022 refers to the data collection period from Monday 7 November 2022 and Monday 28 November 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 reduction 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

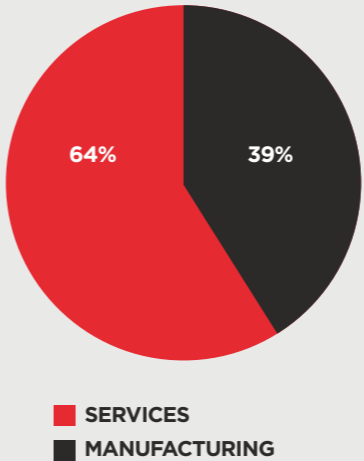
Main business activity includes manufacturing of goods (including electronic or information technology goods) and production of raw materials, construction, agriculture, fishing, mining, or utilities.

### Service Sector

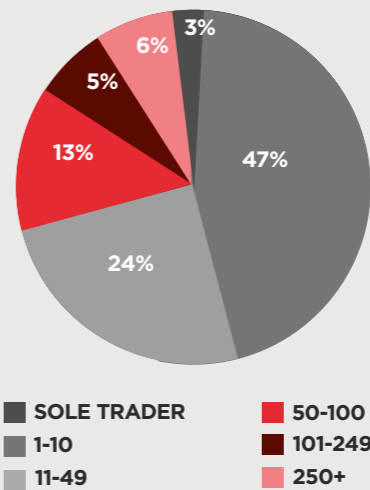
Main business activity provides a service to businesses as well as final consumers (including retailing/wholesaling, professional services, and marketing).

## SAMPLE SUMMARY

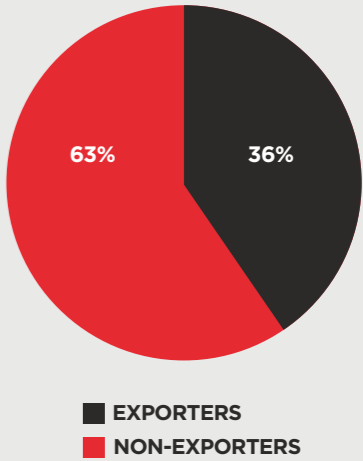
Responses by Sector



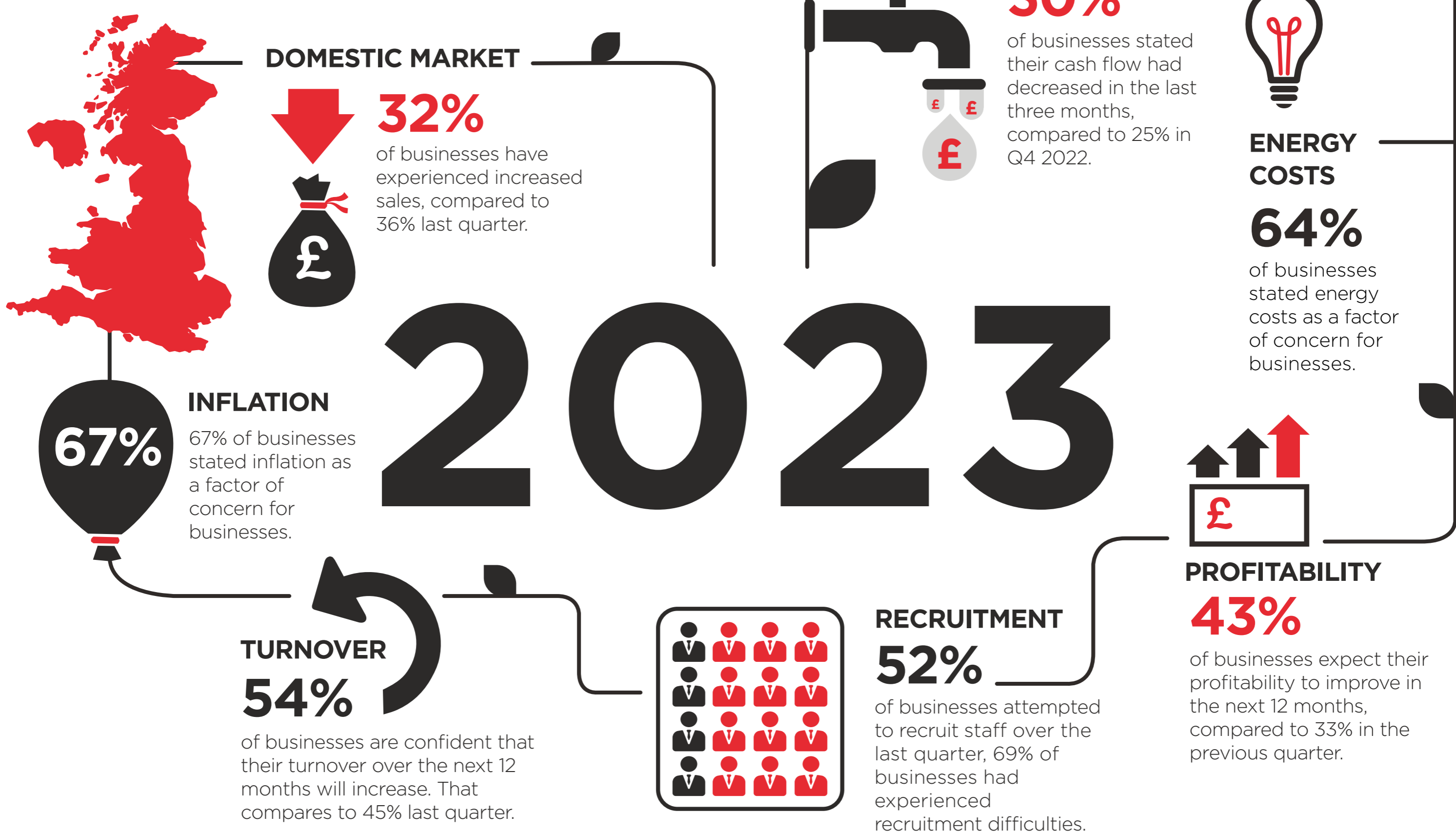
Responses by Business Size



Responses by Exporter



# EXECUTIVE SUMMARY:



# BUSINESS PERSPECTIVE

## IN THEIR OWN WORDS:

***The market is very, very tough. The Cost of Living Crisis for a small business that is breaking new ground is proving very difficult to survive.***

Manufacturing company employing 1-10 people

***Government energy cost support is reducing massively from 31 March and the minimum wage is increasing by 10% which pushes all wages costs up.***

Manufacturing company employing 50-100 people

***There is a complete lack of cohesive planning for infrastructure for small businesses needing finance and premises, we are a renewable company with a passion for doing the right thing but Biomass is now getting rejected by major finance companies because the government tariffs have been removed for new systems.***

Agriculture company employing 1-10 people

***Our main issue has been finding good staff.***

Professional services company employing 1-10 people

***The grants available to the Marches Growth Hub are B2B heavy but I'm hoping the new financial year will bring new B2C grants to smaller businesses.***

Hospitality company employing 1-10 people

***I am fed up with everything being hard. Covid, inflation, Ukraine, energy costs, current government tax policies, labour shortage. It's about time UK small businesses had the support and environment to be able to recover and grow for a few years rather than taking a constant battering.***

Marketing company employing 1-10 people

***My business is Hereford based but I work nationally within the civil engineering and construction sector. Business is healthy and I do not worry unduly about future work. Costs are rising though, with the associated need for me to charge accordingly.***

Engineering company employing 1-10 people

***Recent business rate review is going to add significant pressure to our company. Previously our Rateable value has always allowed us to obtain 100% small business relief, resulting in no business rate payment. The new review has moved our property (rented) significantly out of this bracket, and we will get no relief at all, despite us still being a very small business. This will add significant financial burden to our business.***

Professional services company employing 11-49 people

***Concerned about no uplift to VAT threshold for small businesses like ours. With inflation feels like a stealth tax and will inflate our prices by 20 % which will reduce our competitive tariff viability. So we will shut down activities to remain below.***

Hospitality company employing 1-10 people

***Concerns over the last three months - and something we have involved Jesse Norman MP in - are the huge disparity in Business Rates we pay compared to peers in similar or better premises. Support for independent retail is hard to find but it's the backbone of our high street.***

Retail company employing 1-10 people

***I feel very disappointed about the lack of joined up thinking in government, both national and local. The economic situation has meant few bookings in 2022 and 2023, resulting in debt to meet high costs. The Truss Govt meant that finance has become expensive and hard to get. The valuation office is conducting a review of holiday houses in April and will probably change my rate banding to residential as the business has not had enough bookings in 2022. This would raise costs even more! Everywhere I look costs of running my business are rising and there's no help, it seems. So I have no option but to reduce my business, try to sell my holiday lets and use my let's for residential letting until I can sell the buildings. Disappointing and frustrating.***

Hospitality company employing 1-10 people

***We're linked to property and land development and saw a reduction in business on our traditional sales in November, December (down 30%) and early January. We've seen some improvement since then but are cautious. We work alongside a land/building survey company who have conversely been very busy.***

Professional services company employing 1-10 people

# UK MARKET

The analysis of UK sales in Herefordshire and Worcestershire is a highly influential method of measuring business performance in the two counties over the last three months. The net balance of UK sales increased in the previous quarter to 18% however this has decreased to 10% this quarter, highlighting a challenging period for businesses in the last three months.

32% of businesses indicated their sales had increased, in contrast to 36% in Q4. 21% of businesses indicated their sales decreased in the last three months. This figure was 18% in Q4. 40% of businesses stated their sales had remained the same.

However, the analysis of advanced orders is more encouraging than sales. The net balance of advanced orders for this quarter is 10%, increasing from 5% in the previous quarter. 30% of businesses indicated they had experienced increased orders. This has increased from 26% (Q4). 37% of businesses indicated their sales had remained the same. Finally, 20% of businesses reported their orders had decreased, an improvement from 21% in Q4.

## Manufacturing Sector Insight

The net balance of manufacturers reporting on their UK sales was 2% this quarter. This has decreased from 8% in the previous quarter. This indicates a tough Q1 period for manufacturers that have taken a hit to their sales. In terms of advanced orders, the data is much more positive than sales as the net balance of orders have increased by 11% from -9% in the previous quarter to 2% this quarter.

## Service Sector Insight

The net balance of service sector companies reporting on their UK sales was 11% in this quarter, a decrease from 22% in Q4. This was due to a significant increase in service sector businesses reporting their sales had decreased over the last three months (25% in Q1 compared to 17% in Q4). In similar fashion to manufacturing businesses, the net balance of advanced orders has increased to 11% from 9% in Q4. 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).

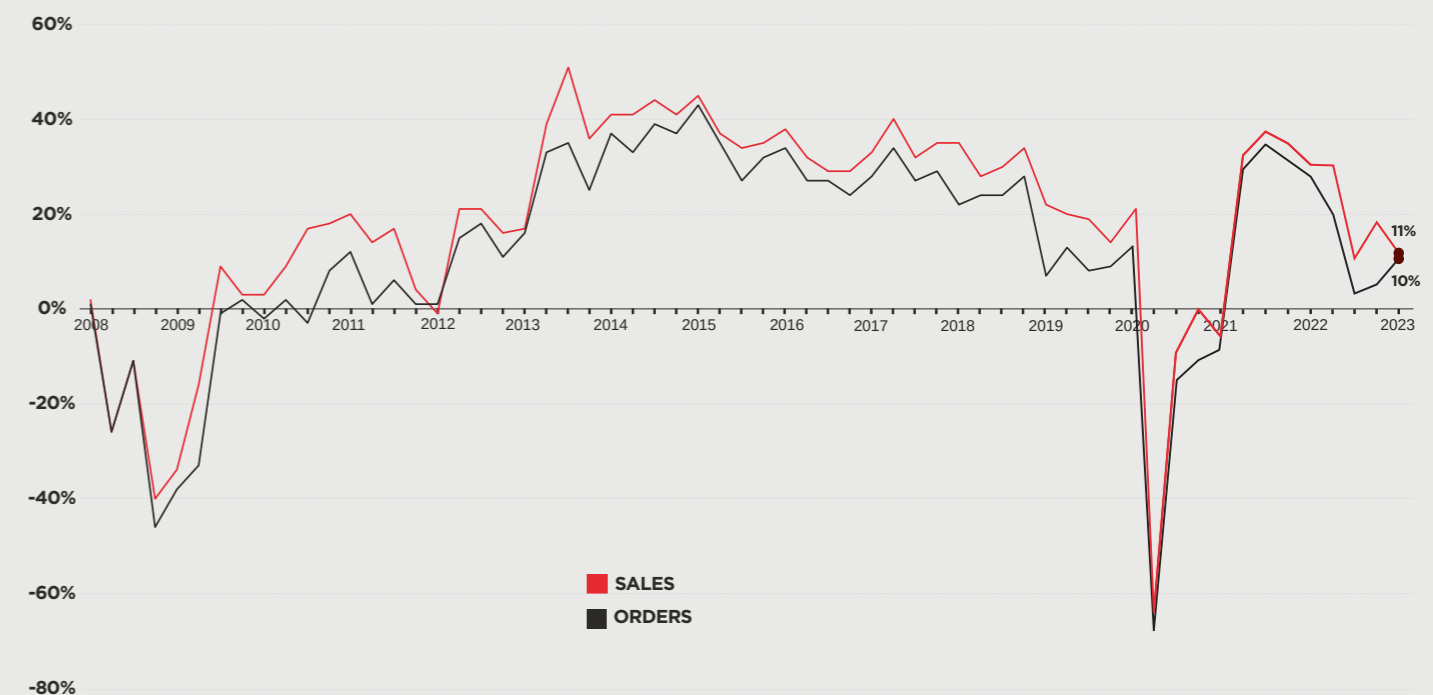
The latest Office for National Statistics (ONS) data released in March indicated that UK Gross Domestic Product (GDP) is estimated to have increased by 0.3% in January 2023 to 1% following a fall of 0.5% in December 2022. Monthly GDP is now estimated to be 0.2% below its pre-coronavirus levels (February 2020). These figures highlight an improvement after a bleak period for businesses hit by rising inflation, energy prices and labour market issues.

According to the ONS, UK inflation has eased in March, however rising food prices has meant inflation remains higher than expected above 10%, adding to the speculation that the Bank of England will raise interest rates again on Thursday. Inflation fell to 10.1 per cent in the year to March from 10.4 per cent in February. It was widely expected to fall below 10 per cent, but food prices have risen their fastest rate in 45 years.

Sam Merrett, Policy Executive at HWCC, said: "The easing of inflation figures is welcome news to businesses that have been tackling the rise in prices in recent months. However inflation remains high, and the rate of rising prices will have an impact on businesses through a lack of consumer spending. In the Spring Budget, Jeremy Hunt made it his priority to tackle inflation and it is now vital that further support is provided to businesses to help tackle the spiralling costs."

In this survey, 67% of businesses indicated inflation as a cause for concern to their business. This was by far the most significant concern to businesses in Herefordshire and Worcestershire.

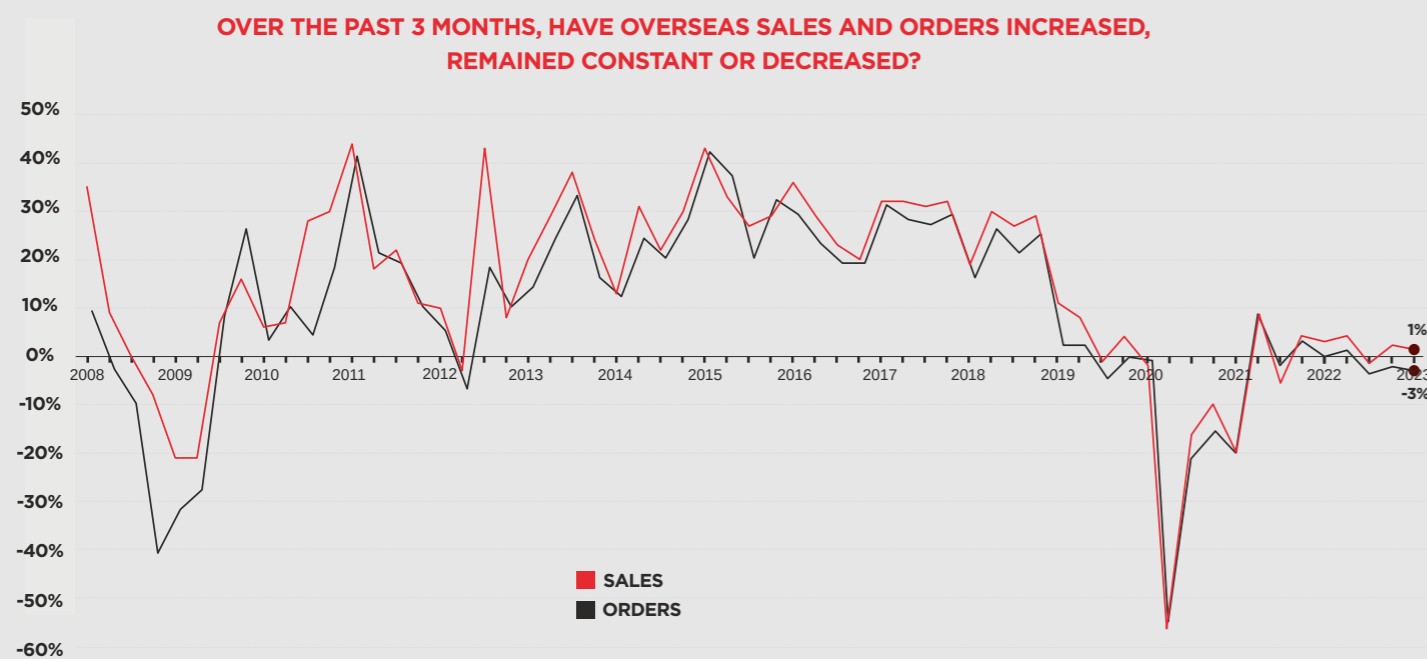
OVER THE PAST 3 MONTHS, HAVE UK SALES AND ORDERS INCREASED, REMAINED CONSTANT OR DECREASED?



# OVERSEAS MARKET

36% of businesses in Herefordshire and Worcestershire that answered this survey are exporters. Our survey has indicated the market for these exporters has remained steady since the previous quarter. The net balance of overseas sales was 1% this quarter, compared to 2% in the previous quarter. Of the 36% of exporting businesses that answered this survey, 12% reported that their overseas sales had increased, the same as Q4. Only 11% of businesses reported their overseas sales had decreased, compared to 10% in Q4. 17% indicated no change. In terms of overseas orders, the data is similar to overseas sales. 9% of businesses indicated that their overseas sales had increased. 12% said their orders had decreased and 18% reported no change. Therefore, the net balance of overseas orders was -3%.

In this survey and in previous surveys we have carried out, many businesses commented on the continuous challenges they are facing as a result of Brexit. Problems that they are facing range from supply chain delays, increased costs, paperwork and red tape causing significant disruption to their overseas trading. The publication of the 2023 Integrated Review was a welcome announcement for exporting businesses. Improvements in the UK's Brexit deal with the EU was identified as a priority. The prospect of improved relations with the EU could help to maximise potential of the Trade and Co-operation Agreement for the UK and reduce the challenges businesses are facing as a result of Brexit.



Recent ONS data released in March has provided a clear picture of UK trade in the overseas market in Q1 2023. The value of goods imports decreased by £4.9 billion (8.7%) in January 2023; after removing the effect of inflation, imports of goods fell by £4.1 billion (9.3%). Goods imports from the EU fell by £2.5 billion (8.8%) and those from non-EU countries fell by £2.4 billion (8.7%) in January 2023.

The value of goods exports decreased by £0.6 billion (1.8%) in January 2023, as exports of fuels, chemicals and material manufactures to EU countries each fell by £0.2 billion. After removing the effect of inflation, total exports of goods decreased by £0.3 billion (1.0%). The total trade in goods and services deficit widened by £3.5 billion to £27.6 billion in the three months to January 2023, as exports fell more than imports.

From this data from the ONS, it is clear that cost of living pressures are hitting consumer incomes globally and this is widely forecast to impact global trade in 2023. BCC research also shows that while overall export values have held up, many smaller companies are not reporting any improvements in their trading conditions.

## Manufacturing Sector Insight

The net balance of manufacturers reporting on their overseas sales was -6% this quarter, compared to -5% in the previous quarter. In terms of overseas orders, the net balance was -11%, compared to -7% in the previous quarter. These figures show the significant challenges manufacturers are facing when trading overseas and this downward trend has continued at a constant pace since Q3 2022.

## Service Sector Insight

The net balance of services companies reporting on their overseas sales was 2%, the same as the previous quarter. Overseas orders have improved slightly to 2%, compared to -1% in Q4.

# CASH FLOW

The Quarterly Economic Survey allows us to gather key information on business cash flow to be able to create an overall picture of business performance over the last three months and compare this to the previous quarters. 26% of businesses reported their cash flow had increased in the last three months. This has increased slightly from 24% in Q4. 45% indicated their cash flow had remained the same. Finally, 30% of businesses reported their cash flow had decreased. This has alarmingly increased from 25% in Q4. Therefore, business cashflow has indicated a negative net balance for the third quarter running, decreasing to -4% this quarter, indicating a contraction in business cashflow over the last three months.

In February 2023, 37% of trading businesses reported the prices of goods or services bought had increased compared with the previous month. This compares with 39% of businesses that reported an increase in the prices of goods or services bought in January 2023, and 41% in December 2022.

This suggests businesses are continuing to experience increases in prices bought month on month, however the proportion has been falling steadily since September 2022 (48%).

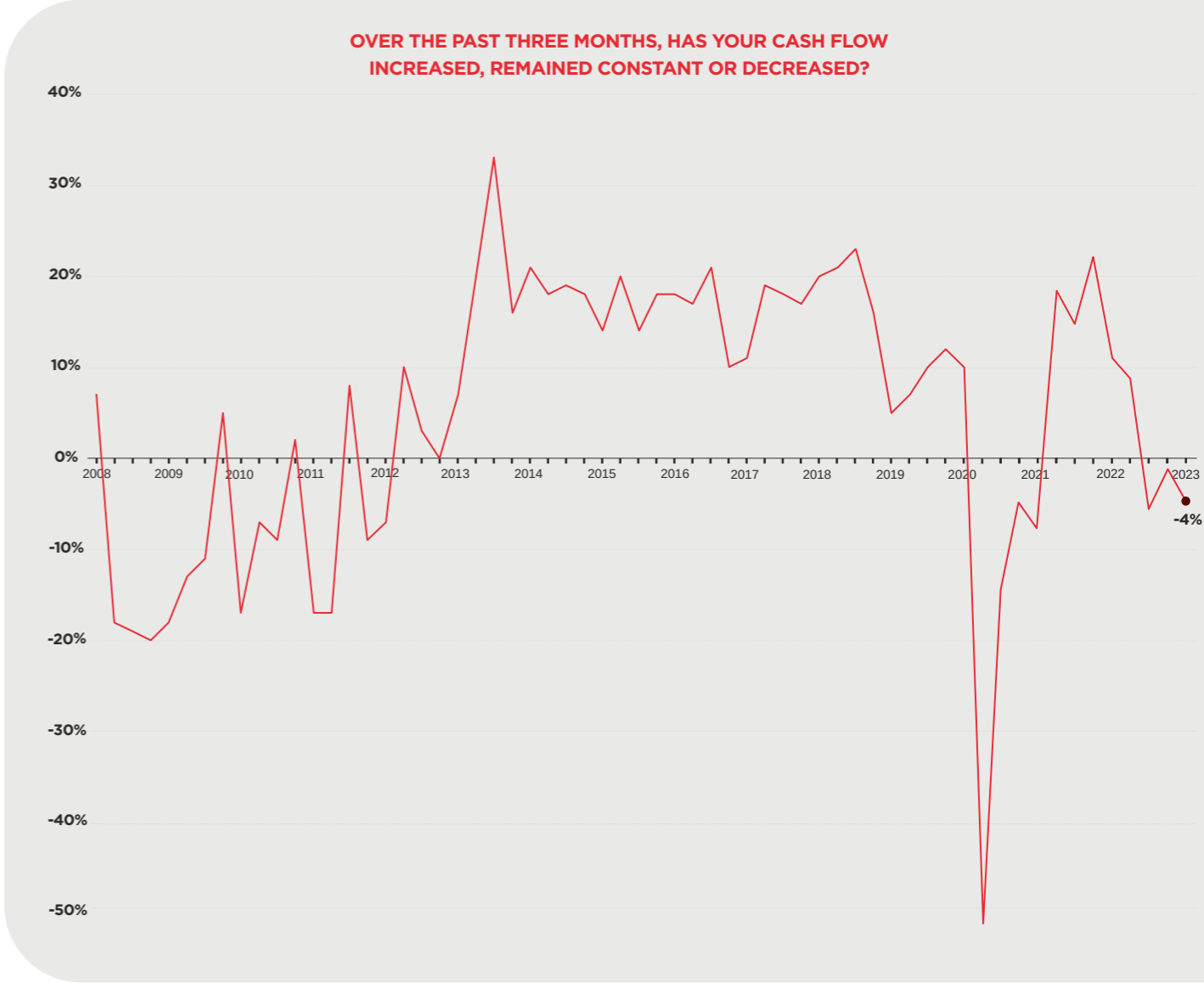
The proportion of businesses that reported their prices of goods or services bought stayed the same increased by 11% from 31% in September 2022, to 42% in February 2023.

For March 2023, 7 in 10 (70%) businesses reported some form of concern for their business, broadly stable with the proportion for February 2023 (72%); the top two concerns reported by businesses continued to be energy prices (19%) and inflation of goods and services prices (15%).

Further ONS research in early March 2023 asked businesses in which ways, if any, had they been affected by price rises.

Nearly two-thirds (62%) of businesses reported they had been affected in some way. The most commonly reported effects were:

- **Having to absorb costs (41%)**
- **Having to pass on price increases to customers (27%)**
- **Having to change suppliers (12%)**



## Manufacturing Sector Insight

The net balance of manufacturers reporting increased cash flow was -12%. The figure remains historically low in previous surveys.

## Service Sector Insight

The net balance of services companies reporting increased cash flow was -1%. The figure was 0% in the previous quarter.

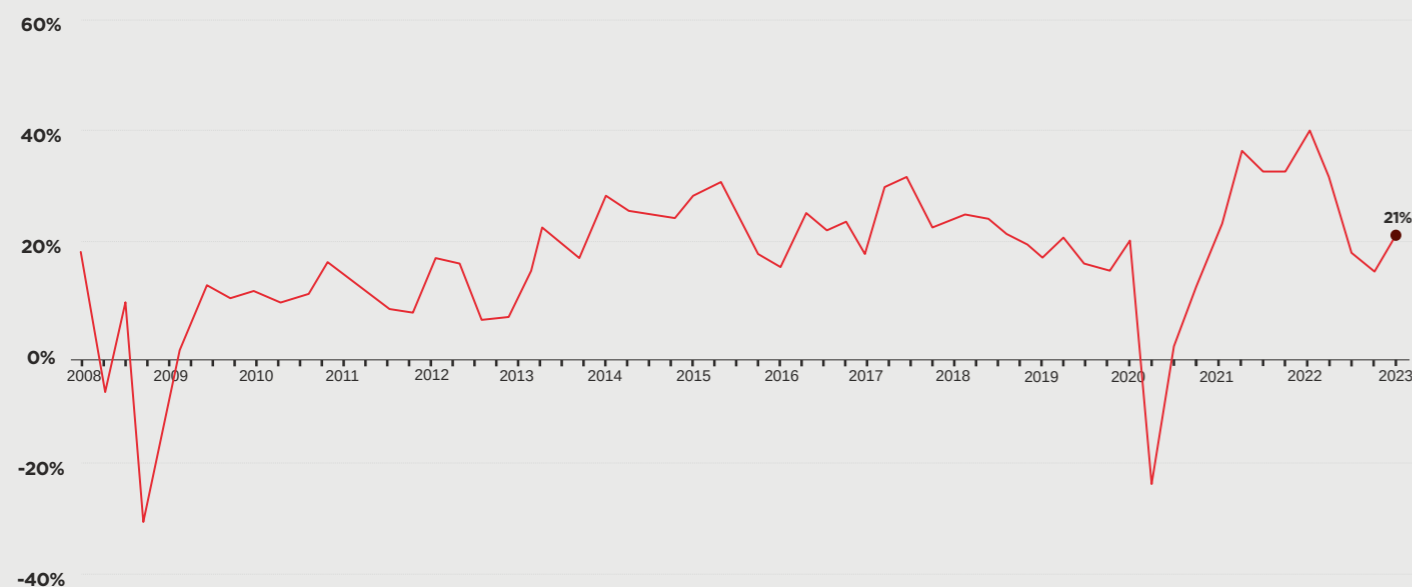
# EMPLOYMENT & RECRUITMENT

52% of businesses attempted to recruit staff over the last quarter. Of these businesses, 69% had experienced problems recruiting. This highlights the significant labour market issues businesses of all sizes continue to face in Herefordshire and Worcestershire. However, despite the recruitment challenges we are seeing, businesses can be optimistic that the labour market issues are key on the government's agenda as Jeremy Hunt announced in his Spring Budget support for working parents around childcare costs and pension reform which will hopefully bring more people back to the labour market. The expansion of the government's 'Skills Bootcamps' for over 50s will offer free training to address the current skills shortages in the labour market. This will help improve job opportunities and upskill current employees.

24% of businesses indicated they had increased their workforce in the last three months. 63% reported no change. 13% reported they had reduced their workforce. These figures are relatively similar to the previous quarter; therefore, businesses can hope that the recent announcements from the Chancellor will improve the tough labour market conditions in Herefordshire and Worcestershire.

Furthermore, 27% of businesses expect to increase their workforce in the next three months, increasing from 25% in Q4. 67% reported no change. 6% of businesses indicated they expect to reduce their workforce in the next three months, compared to 10% in Q4.

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



According to ONS data released in March 2023, the UK employment rate was estimated at 75.7% in November 2022 to January 2023, 0.1% higher than the previous three-month period. The increase in employment over the latest three-month period was driven by part-time employees and self-employed workers. The timeliest estimate of payrolled employees for February 2023 shows another monthly increase, up 98,000 on the revised January 2023 figures, to 30 million. The unemployment rate for November 2022 to January 2023 was largely unchanged on the quarter at 3.7%. The number of people unemployed for over 12 months increased slightly in the latest three-month period.

Furthermore, in mid-January 2023, a quarter (25%) of businesses reported their staffing costs had risen over the previous three months, with the accommodation and food service activities industry reporting the highest proportion of businesses whose staffing costs had increased (44%). In late December 2022, 5% of businesses with 10 or more employees said they expect to make redundancies over the next three months. The most commonly reported reasons for doing so were to reduce staff costs (69%) and certain job roles no longer being required (29%).

## Service Sector Insight

The net balance of workforce changes for service sector businesses was 17% this quarter, an improvement from 12% in the previous quarter. For expected change in workforce, the net balance was 24%, a significant improvement from 13% in the previous quarter. Therefore, from the data it suggests the manufacturing sector is facing more difficulty in the labour market than service sector businesses.

## Manufacturing Sector Insight

The net balance of workforce changes for manufacturing businesses was 3% this quarter, compared to 4% in the previous quarter. With regards to expected change in workforce, the net balance was 12%, a significant decrease from 20% in the previous quarter.



# INVESTMENT

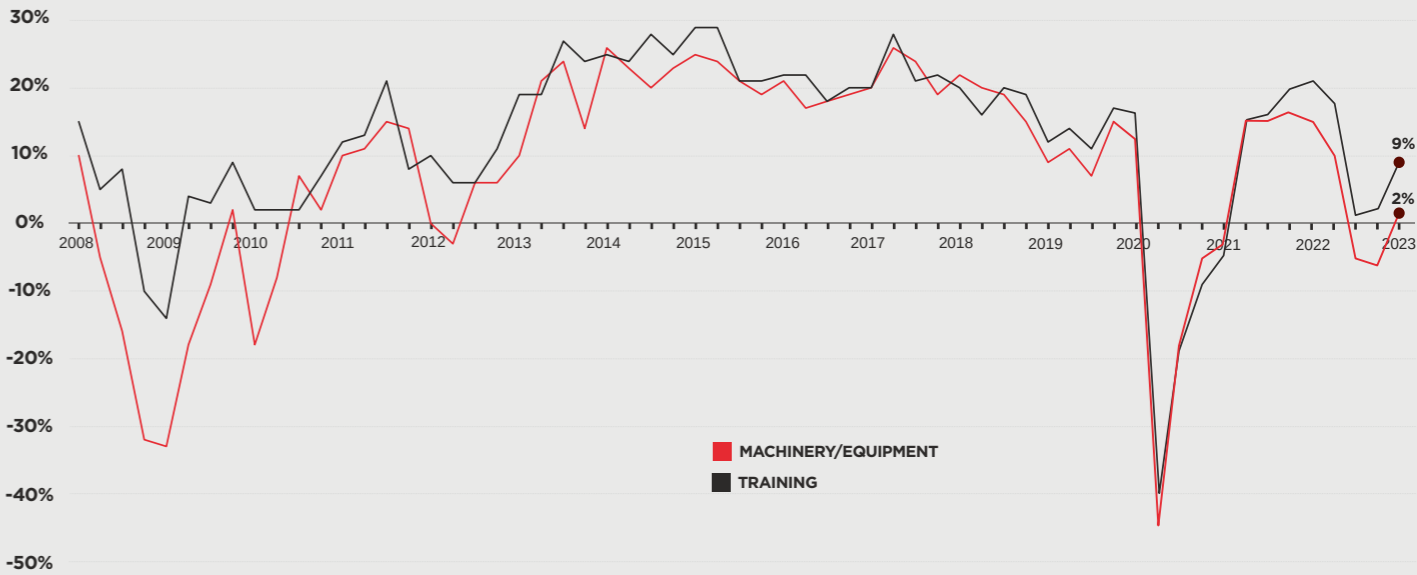
From the QES, we can gather data from businesses in regard to their plans for future investment and training. 21% of businesses indicated that they had revised upwards their plans for investment in machinery/equipment. This has increased from 15% in Q4. 60% of businesses reported no change. 19% of businesses indicated they have revised downwards their plans for investment, compared to 22% in Q3. Therefore, an overall net balance for capital investment has improved significantly to 2% this quarter from -7% in Q4. This suggests that businesses can now invest in their business to promote innovation and growth after government support with energy bills has relieved some of the pressure on firms to pay their energy bills.

Training is essential to upskill staff and leads to significant development in the business and ultimately growth. In this quarter, 21% of businesses revised upwards their plans for training. 67% reported no change. 12% revised downwards their plans to invest in training. An overall net balance of 9% compared to 2% in Q4 also suggests that businesses can place more of an emphasis on training after some of the pressure from energy bills has been relieved.

The latest business investment data released from the ONS supports the QES data that businesses are growing their investment. The ONS published that UK business investment has rose by 4.8% in 2023 and is 13.2% above where it was the same quarter a year previous. The level of business investment has neared that of Quarter 4 2019, the quarter before the pandemic. Business investment increased by 9.9% in 2022 following a 0.9% increase in 2021. Whole economy investment, technically known as gross fixed capital formation (GFCF), which includes business and public sector investment, increased by 1.5% in Quarter 4 2022 and was 7.7% above where it was in the same quarter a year previous.

The primary drivers of growth in Quarter 4 2022 were transport, ICT equipment and other machinery and equipment, and other buildings and structures. Transport made the largest contribution to growth this quarter, driven by the air and water transport industries as well as vehicle rental. Other machinery, and buildings investment also increased this quarter, with increases being seen across all industries. Intellectual property products (IPP) were the only asset that contributed negatively to business investment in Quarter 4 2022.

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



### Manufacturing Sector Insight

After a decline in previous quarters, planned investment in machinery/equipment/training from manufacturers has increased to 0% from -6% in the previous quarter. Planned investment in training has also increased to 9%, from 1% in the previous quarter.

### Service Sector Insight

Service sector investment intentions in machinery has also improved however remains a negative figure at -1%, albeit an improvement from -8% in Q4. Planned investment in training was 7%, an improvement from 2% in Q4.

# BUSINESS CONFIDENCE

The QES provides us with valuable data that quantifies business confidence across Herefordshire and Worcestershire. In this quarter, we have seen a significant spike in business confidence over the last three months. 54% of businesses indicated they expected turnover to increase, compared to 45% in the previous quarter. 30% expected no change to their turnover. Finally, only 16% expected their turnover to decrease, compared to 23% in the previous quarter. Therefore, the net balance for turnover was 38%, the highest this figure has been since Q1 2022, before the current cost of living crisis.

There was a similar upward trajectory for business profitability. 43% of businesses expect their profitability to improve over the next 12 months, this has improved from 33% last quarter and reinforces the upward trajectory of business confidence. 29% reported no change. Only 29% of businesses expect their profitability to worsen over the next 12 months, decreasing from 36% in the previous quarter. Therefore, the net balance of business profitability was 14% this quarter, a substantial increase from -3% in the previous quarter. Business confidence this quarter is as high as it has been since Q2 2022. It is encouraging to see business confidence on the rise again and with the recent support announced for businesses in the Spring Budget, we are hopeful business confidence improves further into 2023.

## Service Sector Insight

Manufacturer businesses' confidence in yearly turnover has increased to 25% this quarter, from 16% last quarter. Confidence in yearly profitability has also improved but remains a low figure at -7%, compared to -23% in the previous quarter.

## Manufacturing Sector Insight

Service sector confidence in turnover has increased greatly, the figure was 41% this quarter, compared to 28% in the previous quarter. Confidence in yearly profitability also increased to 23% this quarter. In contrast to 7% in the previous quarter.

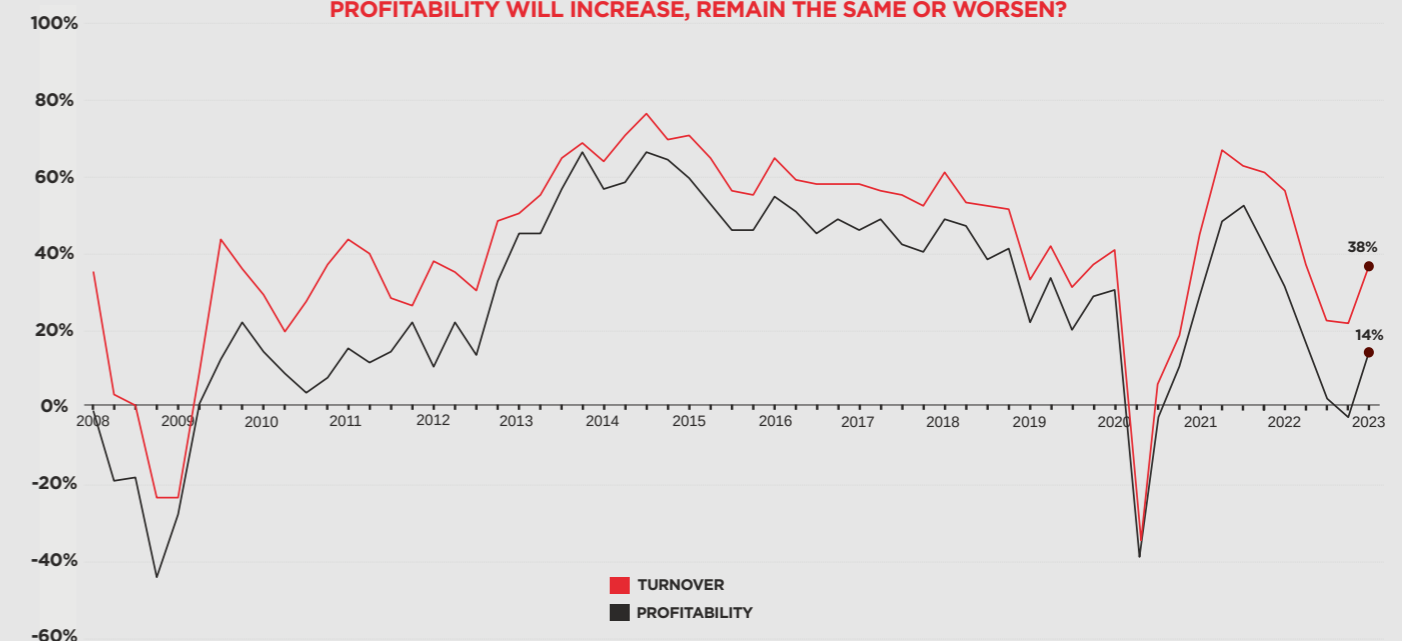
Recent national ONS data released in March suggests business conditions remain challenging but estimates show small signs of positive improvement for some measures; examples include, a smaller proportion of businesses reporting lower turnover and reporting higher prices for goods or services bought, however, it is too early to know if this is the start of a longer-term change in conditions.

In February 2023, a quarter (25%) of trading businesses reported their turnover was lower compared with January 2023, while 16% reported their turnover was higher; therefore, a net 9% of businesses reported their turnover decreased, this is up from a negative net position of 13% in January 2023.

More than one in five (22%) trading businesses expect turnover to increase in April 2023, while 12% of businesses expect turnover to decrease; the net 9% of businesses expecting turnover to increase is the highest net position since the question was first asked in April 2022. This ONS data suggests businesses across the country are becoming more confident in their turnover improving in the upcoming months after a challenging period last year. From our local QES data and national ONS data, we can conclude that business confidence is improving locally and nationally however confidence is still below pre pandemic levels.

Furthermore, amidst the ongoing strike action, around one in six (16%) trading private sector businesses were affected because of recent industrial action. A quarter (25%) of those businesses reported they were unable to obtain necessary goods and 21% were unable to obtain necessary services. Therefore, businesses are facing further challenges that are impacting negatively on business confidence.

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



# BRITISH CHAMBERS OF COMMERCE COMMENTARY

The BCC's Quarterly Economic Survey (QES) for Q1 2023 shows that while business confidence has improved from a very weak base, most firms see no improvement to business conditions.

The survey of over 5,200 firms – 92% of whom are SMEs – reveals a sectoral division in business performance, with hospitality and retail firms consistently more likely to report worsening cash flow, investment, and turnover than other sectors.

**Growth in business activity remains weak, with retail and hospitality sectors facing most significant challenges.**

The percentage of firms reporting increased domestic sales has not seen any bounce back since it fell significantly in Q3 2022. Only one in three (34%) firms experienced an increase in sales over the past three months, while 24% reported a decrease and 41% reported no change.

The retail and hospitality sectors remain particularly weak. Almost two in five (38%) retail firms experienced a decrease in sales over the past three months, with one in three (32%) hospitality businesses reporting a fall.

More businesses continue to report a decrease, rather than an increase, in cash flow, highlighting the precarious state many SMEs are still in. Only one in four (25%) businesses said their cash flow has increased over the last three months, while 30% have seen it decrease.

The hospitality and retail sectors are again facing the greatest challenges. 40% of retail firms, and almost half (47%) of hospitality businesses, reported decreased cashflow.

After a significant fall in Q3 2022, business confidence is now on the up.

After business confidence plummeted to historically low levels in the second half of 2022, there has been a marked improvement in sentiment in the first quarter of 2023. Over half (52%) of firms believe their business turnover will increase over the next 12 months, up from 44% in Q3 2022.

While profitability confidence has also improved, it continues to remain weaker than turnover confidence. 42% of businesses now expect their profits to increase over the next year, up from 34% in Q4 2022.

**Little discernible improvement to business investment over past six years.**

Three quarters (75%) of respondents reported no increase to investment in plant/equipment. There has been little discernible improvement to investment over the past six years; only a quarter of firms planned to increase investment in Q1 2023, the same level as reported in Q2 2017.

**Inflationary pressures continue to ease slightly, but still remain the top concern.**

Following a drop last quarter, the percentage of firms expecting their prices to rise shows further signs of easing, as it fell five percentage points from 60% in Q4 2022 to 55% in Q1 2023.

The overall level of concern regarding inflation has dropped for the first time in over two years. However, at 74%, the level remains close to the historical high.

**Cost pressures are varied, but labour costs and utilities come out top overall.**

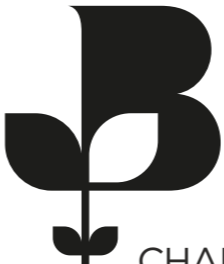
Cost pressures vary considerable across sectors; 87% of hospitality firms reported utilities as a factor driving price increases while 86% of manufacturers cited raw materials.

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

***“After a significant decline in business confidence in the second half of 2022, results from QES Q1 show an improvement in business sentiment as political turmoil and inflationary pressures show some signs of easing.***

***“However, this comes from a very weak base, and while confidence has improved, this is yet to translate into an overall improvement of business conditions. Most SMEs still report no improvement to sales, cash flow, and investment.***

***“Three years of economic shocks - Covid lockdowns, global supply chain crises, inflation, and Brexit - have taken a significant toll on UK SMEs. The QES Q1 data once again confirms that these shocks have disproportionately impacted the retail and hospitality sectors, which are once again most likely to be reporting worsening sales and cash flow.”***



**CHAMBER  
POLICY  
CONTACTS**



**ROBERT ELLIOT**  
Director of Business  
Engagement and Development  
roberte@hwchamber.co.uk  
01905 673 600



**SAM MERRETT**  
Policy Executive  
samm@hwchamber.co.uk  
01905 672 748

**2023 QUARTERLY ECONOMIC SURVEY DATES**

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

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

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

## **WORCESTERSHIRE OFFICE (HEAD OFFICE)**

Severn House  
Prescott Drive  
Warndon Business Park  
Worcester  
WR4 9NE  
01905 673 600

## **HEREFORDSHIRE OFFICE**

The Shell Store  
Canary Drive  
Skylon Park  
Hereford  
HR2 6SR  
01432 803 236

For further information or to find out about our next Quarterly Economic Survey, sponsorship opportunities and data collection, contact: **[policy@hwchamber.co.uk](mailto:policy@hwchamber.co.uk)**

**[policy@hwchamber.co.uk](mailto:policy@hwchamber.co.uk)**  
**[www.hwchamber.co.uk](http://www.hwchamber.co.uk)**



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