Q2 2023

The Development Manager Ltd.

QUARTERLY ECONOMIC SURVEY

Focussing on Skills, Apprenticeships, and Workforce Planning

Herefordshire & Worcestershire Chamber of Commerce

CONTENTS

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 May. Data collection took place between 15th May and 5th June 2023.

The Quarterly Economic Survey (QES) is the longest-running, largest and most reliable business confidence indicator in the UK.

Forming part of the British Chambers of Commerce's national survey, the QES is one of the single largest contributors to this important piece of research. It gives us an unparalleled view into the health of the local economy and is invaluable to anybody interested in the economic climate for businesses in Herefordshire and Worcestershire.

As the most authoritative national business confidence survey, and the first to be published in each quarter, its results are closely watched by senior business leaders, local and national government, HM Treasury, and the Bank of England's Monetary Policy Committee. Further afield, the International Monetary Fund uses the QES to assess the health of the UK economy and when comparing the UK to its competitors worldwide.

Since its formation in 1989, it has reliably anticipated the onset of both the 1990s and 2008 recessions before they began and continues to act as a reliable indicator of national and regional economic performance. The Chamber uses the results of the survey to inform on detailed economic performance and trends. The latest survey was completed by 5009 businesses across the UK and 329 (6.6%) of these were businesses in Herefordshire and Worcestershire.

In similar fashion to my foreword in the previous survey for Q1, encouragingly, we have seen a reduction in the number of businesses reporting inflation as a cause of concern to their business (61% of businesses, compared to 67% in the previous quarter). In Q2 2022, 81% of businesses reported inflation as a concern, highlighting the significant easing of inflationary pressure in the past 12 months. However, despite the decline, we recognise inflation remains the top external factor of concern for businesses. The number of businesses reporting interest rates as a concern has risen to 30% this quarter. Interest rate rises are now causing challenges for a rapidly growing number of firms with soaring borrowing costs. Businesses will need clarity on the direction of further changes. High inflation, high interest rates and slow growth will be a dangerous combination for many. Fundamentally, solutions need to be found beyond the interest rate lever.

In Q2, the UK market has seen sales increase from Q1. The number of businesses reporting their domestic sales had increased was 33% this quarter, a slight increase from 32% in Q1. In contrast, 16% of businesses reported their UK sales had decreased in the last three months, compared to 21% in Q1. The net balance of UK sales had been declining since Q3 2021, however has improved to 17% this quarter, in contrast to 11% in Q1. 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 has not improved from the previous quarter since Q1 2022 and supports the narrative we are continuing to receive from businesses that Brexit remains a significant issue with issues such as additional paperwork, changes in transportation costs and changes in exchange rates impacting exporters/importers.

In the QES, businesses are asked to report on workforce changes over the last 3 months. 56% of respondents attempted to recruit staff over the last quarter. 62% of these had problems when recruiting. Although this data shows there remain recruitment difficulties for businesses, the number of firms reporting recruitment problems has been declining as a steady pace since Q1 2022 (75%). 28% of businesses reported their workforce has increased over the last three months, compared to 24% in Q1. Furthermore, only 10% reported that their workforce had reduced. Therefore, a net balance of 18% is as high as it has been since Q2 2022.

Business confidence data is highly valuable in quantifying how businesses have been performing and how they expect their business to perform over the next 12 months. In this quarter, we have seen further improvement to business confidence in turnover and profitability after a period of sharp stagnation as a result of the cost-of-living crisis. 58% of businesses reported they expect their turnover to improve over the next 12 months, compared to 54% in Q1. 14% expect their turnover to worsen, compared to 16% in Q1. There was further improvement in business profitability data. 47% of businesses expect their profitability to improve over the next 12 months, compared to 43% in Q1. Only 19% expect their profitability to worsen, decreasing significantly from 29% in Q1. The continued improvement in the net balance figures for business confidence reflects the national BCC data that is showing a continued improvement after a big drop in confidence throughout 2022.

Discussion over workforce planning, training and skills has been prolific over last 6 months as the Chamber has researched, engaged, and now delivered phase 1 of the Local Skills Improvement Plans to the Department for Education. Never have employers had a better opportunity to articulate their skills needs and many have engaged. We are particularly grateful to the team at The Development Manager for their sponsorship of this report. Questions they have asked about apprenticeships, funding and requirements for training have been a valuable addition to this survey. Derrin Kent from TDM comments later in this report.

The feedback we receive from the Quarterly Economic Survey allows us to lobby on your behalf to 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 over the forthcoming months.

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

THE DEVELOPMENT MANAGER

The Development Manager Ltd.

Derrin Kent
MD & Director of Studies for
The Development Manager

I am thrilled to have been invited to explore the findings on the theme of Government-funded Skills Development and Workforce Development Planning from our Chamber's Quarterly Economic Survey.

Developing Workforce Knowledge, Skills, Attitudes and Behaviors (KSABs)

Putting the consequences of and responses to Brexit to one side, the Herefordshire & Worcestershire employer cognoscenti are currently engaging in radical conversations around four seriously disruptive paradigm shifts.

1. **Workforce Development Planning:** Some employers are needing to cascade established KSABs down as their aging workforce need to be replaced by younger replacement employees. Most employers are also needing to think about new skills required for their future business directions, not least their digital skills.

2. **Post-Pandemic Productivity & Talent Experience:** The pandemic and the post-pandemic periods have both caused us to seriously rethink our attitudes towards, and behaviours within, our working life.

   - Is working from home really so great for productivity and mental health?
   - Can homeworkers effectively align with an organisational vision?

3. **Digital Transformation:** Artificial intelligence, low-latency 5g and robotics are going to be as disruptive for the way we work, and the way we understand our job roles, as have been the combined arrival of cloud and mobile technologies. In many roles, the skills our workforce need are changing both majorly and quickly.

4. **Green Skills:** As we head towards a zero-carbon economy, it is imperative that employers deliver green / sustainable products, processes and internal working processes. Our people need to think green.

In each of these, an employer organisation needs to consciously and systematically consider workforce development planning as a long-term strategy.

Who are The Development Manager?

We are called "The Development Manager" because we develop professional people for a digital world via long-term learning journeys. We believe that people don't become Techs nor Professionals on a short course. Instead, The Development Manager (TDM) want to acknowledge that performance improvement takes time and to take on that challenge to deliver both:

- **Employer-responsive (Organisational) Performance Competence (KSAB) improvements –** where the learning we deliver increases the workforce's ability to deliver the right duties and tasks which deliver the right outputs for the employer.

- **Employee-responsive (Personal) Performance Competence (KSAB) improvements** – where each employee learns to ***Do Well*** for themselves in career and social mobility terms. How best? ***By Doing Good*** for their employer, colleagues and clients. Employees need to know what KSAB learning really matters and then focus on achieving those useful performance improvements.

We therefore seek to partner with employer partners to deliver longer-term coaching:

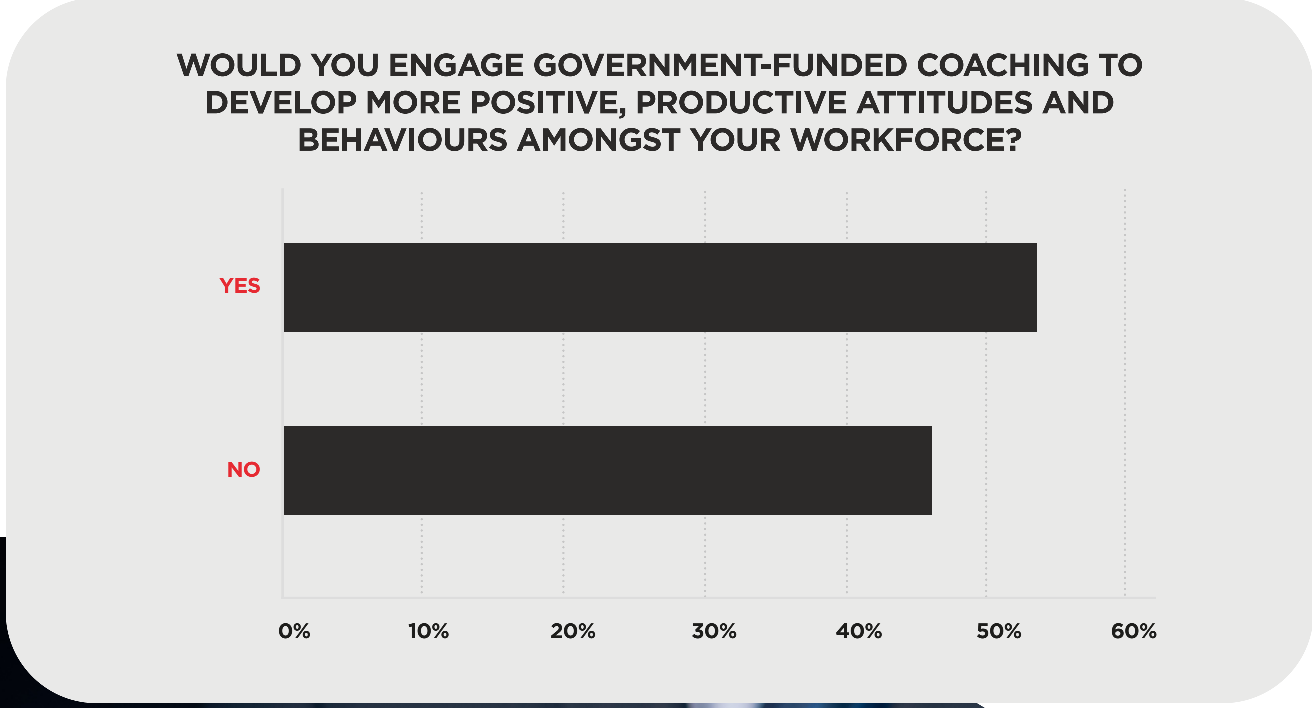
- Over a sequence of aggregated (and curated) short courses.

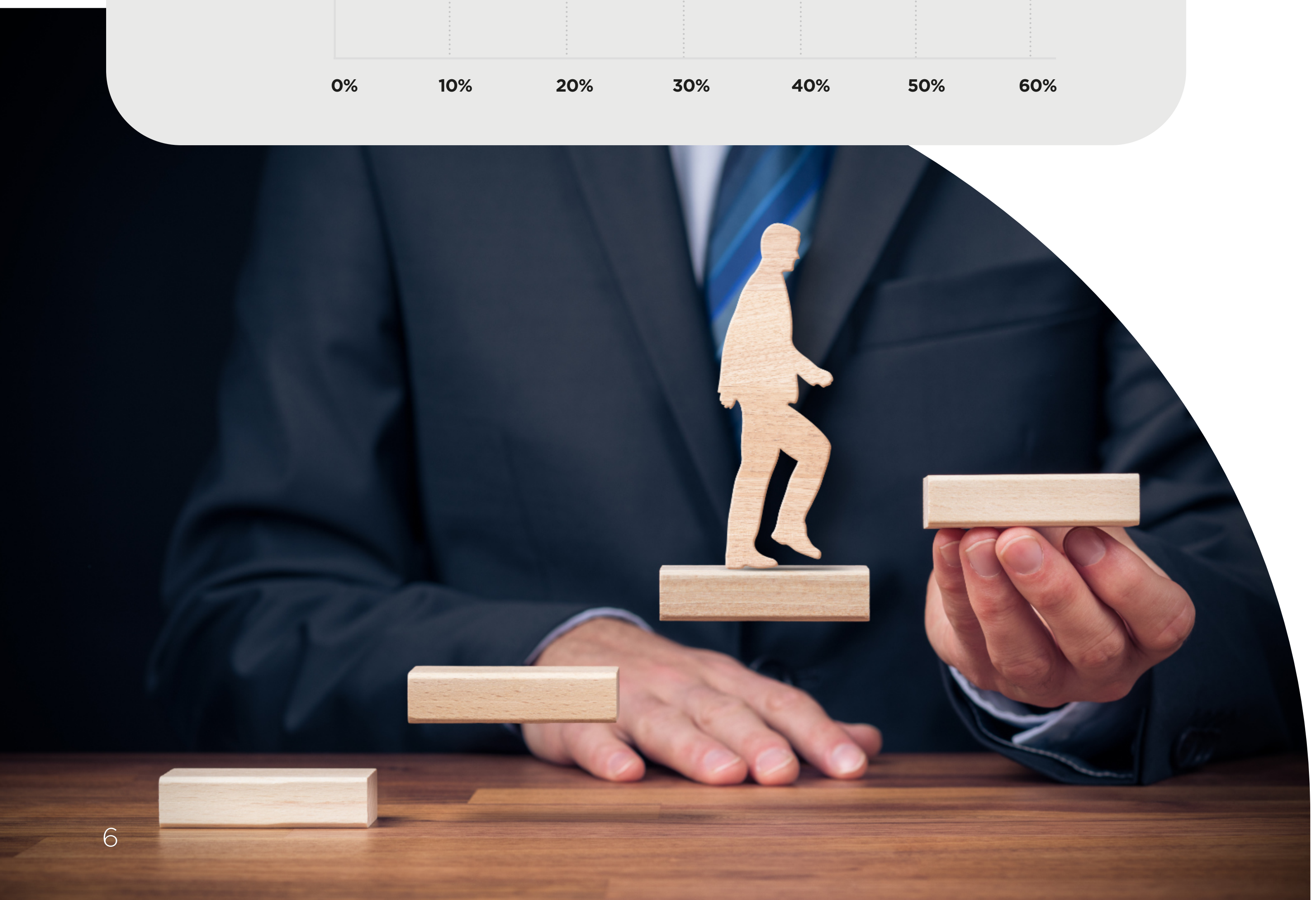
- And underpinned by an overarching, structured process for applying this theory to employer-responsive work-based learning practice which is the necessary process for effective professionalisation.

If we look at the findings of the Quarterly Economic Survey, we will see that there is a definite need for serious conversations to be had in Herefordshire & Worcestershire around Workforce Skills Development and Workforce Skills Development Planning, particularly in terms of accessing government-funded support for these deliverables.

THE DEVELOPMENT MANAGER

QUESTION 18





Only 53% of employers surveyed said that they would engage government-funded coaching to develop positive productive behaviours amongst their workforce. The 53% vote is encouraging, but the 47% vote is concerning.

There are all sorts of reasons why half of the employers might say they would not like Government-funded organisations to deliver coaching to develop the attitudes and behaviours of their colleagues. Here are some possible motivators as to why employers may say they would not want this (and also some challenges back to those ideas):

- **My staff do not have the time.**
  What if you did allow your workers to take time out to sharpen their saws and develop positive, productive attitudes to their work? We are talking about topics such as autonomy, effective listening, influence over others, accountability, productivity as efficiency, productivity as effectiveness.

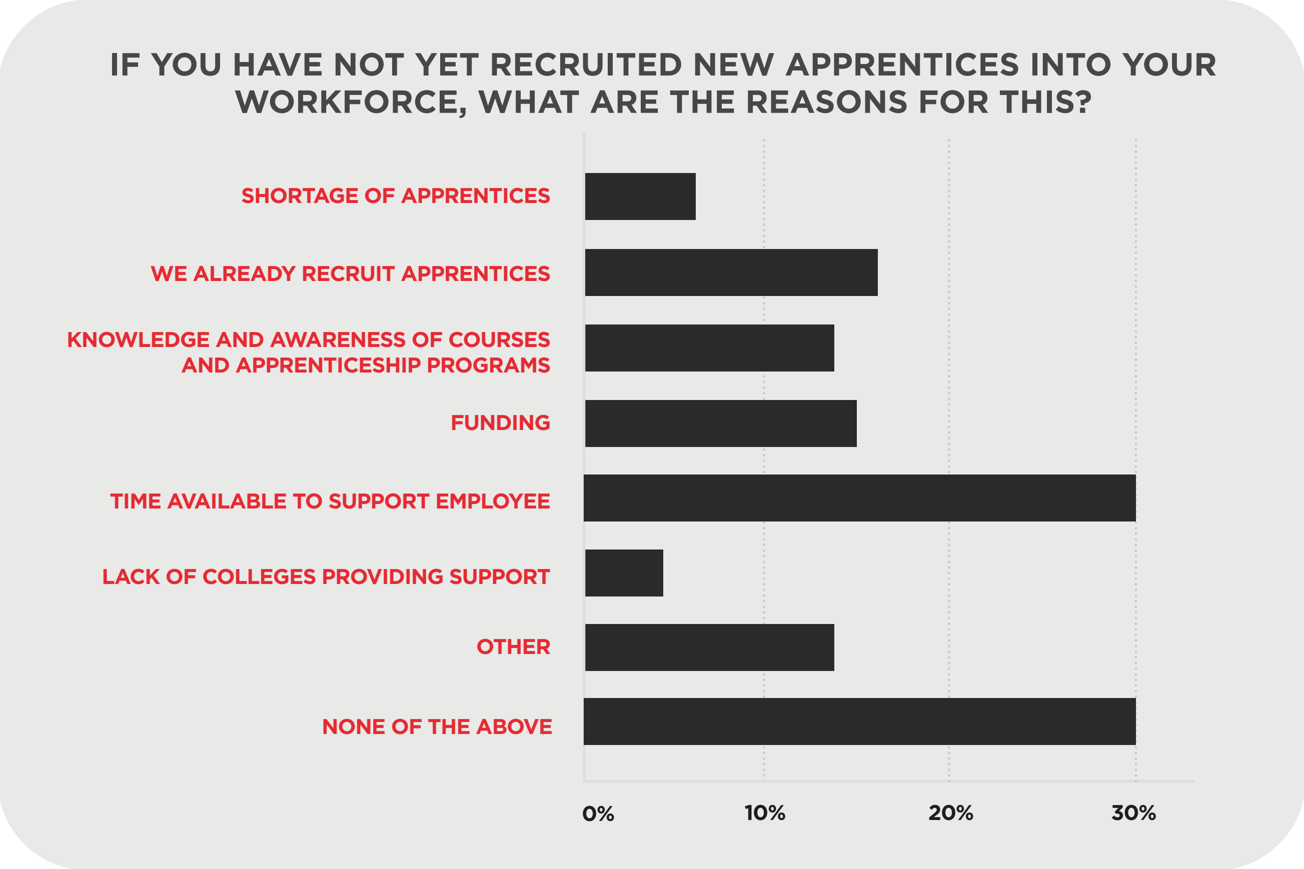
- **Government-funded educators would probably deliver overcomplicated, contrived, irrelevant stuff if I brought them in to talk to my staff about this.**
  The Attitudes and Behaviours named and assessed on the different Apprenticeship Standards were developed by Trailblazer Groups of Employers - all of whom were at pains to identify the attitudes and behaviours which would be conducive to practical performance improvements and maximised productivity in the named trade / professional standard.

What is interesting here is that this Question 18 survey findings run very much counter to the interim findings from the Chamber's Local Skills Improvement Plan Research. In this LSIP research, the alternative message coming back from employers is much more loudly claiming that local educators need to help local employers with Soft Skills (Attitudes and Behaviours) development. Why would this be? Perhaps, when asked about the need for Soft Skills development, more employers will instinctively click "no" on a survey response but these same employers would instinctively answer differently when consulted in face-to-face conversation?

A challenging thought for small business owners: Many of the respondents here were small business owners who may not be inclined to apprentice too many career entrants nor too many existing staff who need to be employed to attend to everyday business deliverables. There is a moral point for small business founders and owners to raise amongst ourselves as employers, also, though. If we use skills development to grow and diversify our business, we can create more local employment, more social mobility for our reskilling employees and more revenues/profits for our businesses – which in turn will return more tax contributions - which in turn will be deployed to strengthen our public sector services.

THE DEVELOPMENT MANAGER

QUESTION 19

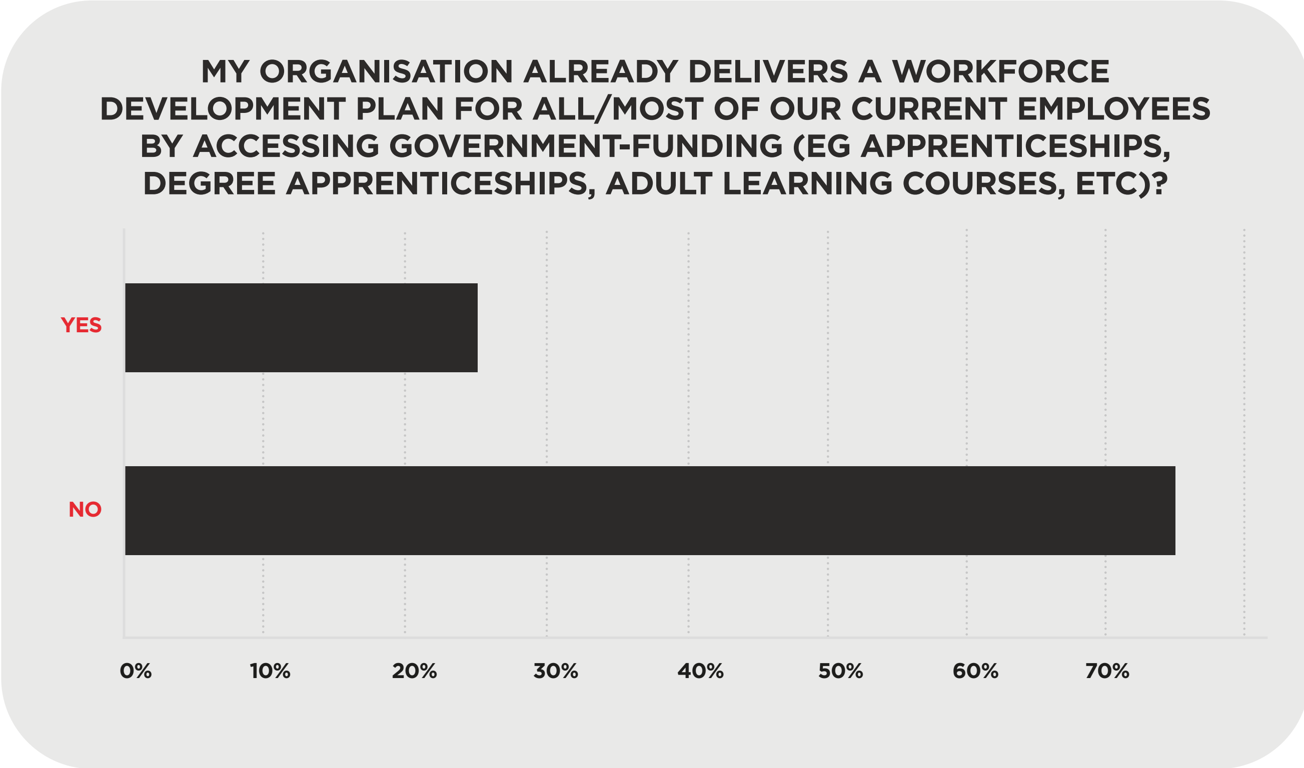


It is interesting that:

- Fewer than 20% of employers apprentice people when they recruit them into new roles. I think there is too often a false perception that an apprenticeship is only suitable for a low-skilled youth as opposed to being a mechanism for embedding, stretching, and challenging a new worker in a new role in an employer organisation. Embedding new recruits is an obvious moment to access government-funding for coaching this process (as is, for example, reskilling existing employees into brand new roles or responsibilities).

- There is no single, stand-out reason as to why local employers are not recruiting new apprentices into their workforce, with the standout exception that 30% of employers feel they do not have time available to apprentice people. This is a serious and entirely reasonable consideration because the employer ***does*** need to release time (and hope) in order to apprentice an employee into a new skillset. Don't apprentice an employee unless you are ready to release your in-house mentors to work with the training provider's coaching and training team. You will know when the time is right and wrong to begin apprenticing people.

QUESTION 20



It is startling to think that, whilst most employers will have a Business Plan or Strategic Growth Plan (at least in an informal version), nearly four from five say they have not got a Workforce Development Plan! I would actively encourage employers to talk to your local training providers about this. In this radically changing world , employers of all sizes really do need to be thinking seriously about accessing government-funded education in order to:

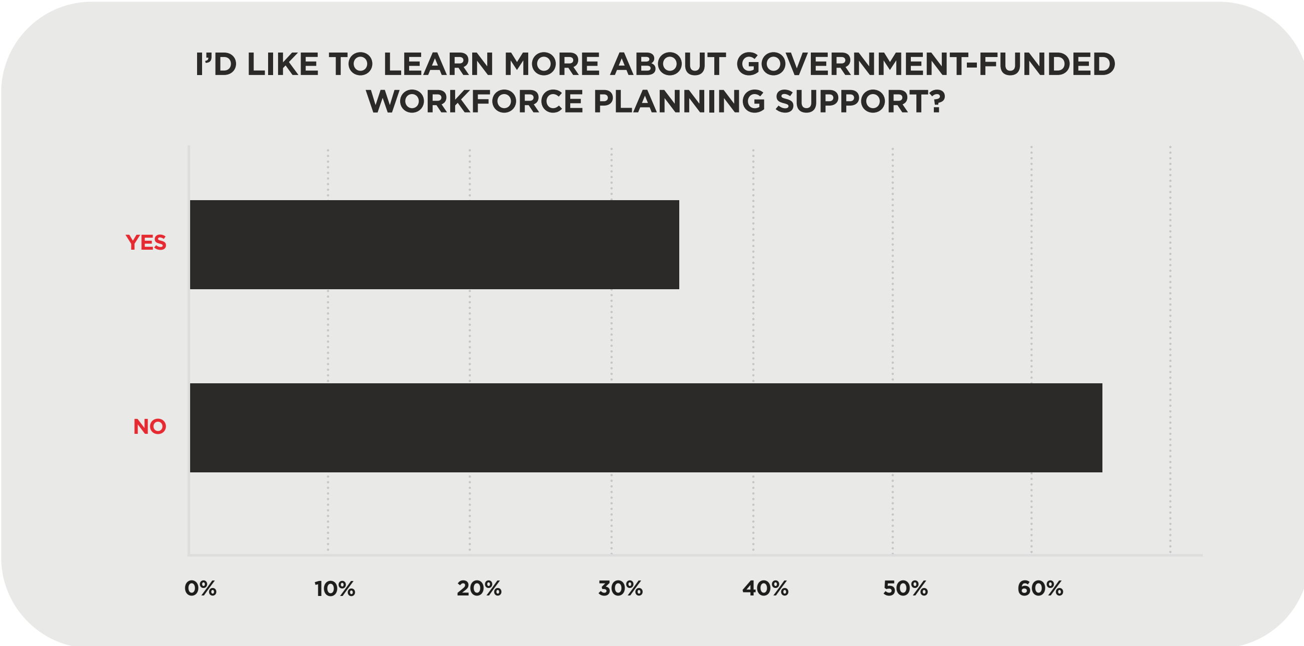
- **Recruit and embed new employees** – whatever their age, prior qualifications or entry-level salary, systematically developing KSABs can ensure that you embed your new people with the challenge and expectation that they deliver brilliantly for you as effective new colleagues.

- **Upskill existing employees** – many of our colleagues job roles are changing and modernising. It might be sensible to talk to your local training provider about modern apprenticeship standards which are described on www.instituteforapprenticeships.org. The modern and regularly refreshed occupational standards are designed to guide, stretch and challenge your employees to be operating at the cutting edge of professional KSABs required in their professional field, today.

THE DEVELOPMENT MANAGER

- **Reskill existing employees –** many of our job roles are actually disappearing and new job roles are replacing old job roles. Here are some examples:
    - A Business Administrator may be becoming a Digital Support Technician
    - A clerk may be becoming a Data Analyst
    - An IT Tech may be becoming a Network Engineer or a Cyber Security Specialist
    - A Software Developer may be needing broader software engineering skills as a "Solutions Professional"
    - A Customer Service Rep may be becoming a Digital Marketer
- **Retain stretch and challenge your talent –** people feel valued when they are learning. If they feel they are growing by working with you they will both deliver better for you immediately and stay with you for longer.

QUESTION 21



An encouraging number of local employees would like to learn more about government-funded support for Workforce Planning. This is timely because the Chamber's LSIP Research is likely to be promoting government-funded interventions for this. But I would leave us all with the thought that:

- Workforce Planning is NOT an event.
- Workforce Planning is a continuous process.

This applies not only to overarching employer-unique workforce performance improvement planning but also to highly personalised, employee-unique workforce improvement planning:

- **Employer-unique workforce performance improvement planning** should be continuously measuring workforce efficiencies. A kick-off training needs analysis project must then become worth a regular revisit in order to ask if the training being delivered is having the impact it needs to.
- **Employee-unique workforce improvement planning** should be planned upfront for each individual after a rigorous initial assessment of where their KSABs currently stand where these, therefore, need to be stretched and challenged next. These learning objectives must then be continuously and regularly renegotiated and repurposed via a tripartite-negotiated and individualised learning plan for each and every employee in each and every role.

Thank you to everyone who completed the survey. I hope the findings are useful to your business.

METHODOLOGY

During Quarter 2 (Q2) 2023, 329 businesses in Herefordshire and Worcestershire responded to the Quarterly Economic Survey. Data collection took place between Monday 15 May 2023 and Monday 5 June 2023. Any reference to Quarter 1 (Q1) 2023 refers to the data collection period from Monday 13 February 2023 and Monday 6 March 2023.

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.

For example, if 50% of firms told us their sales increased and 18% said their sales decreased, the balance for the quarter would be +32% (an overall expansion). If 32% told us their sales increased and 33% said their sales decreased, the balance would be -1% (an overall contraction).

BUSINESS SECTOR CLASSIFICATION

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

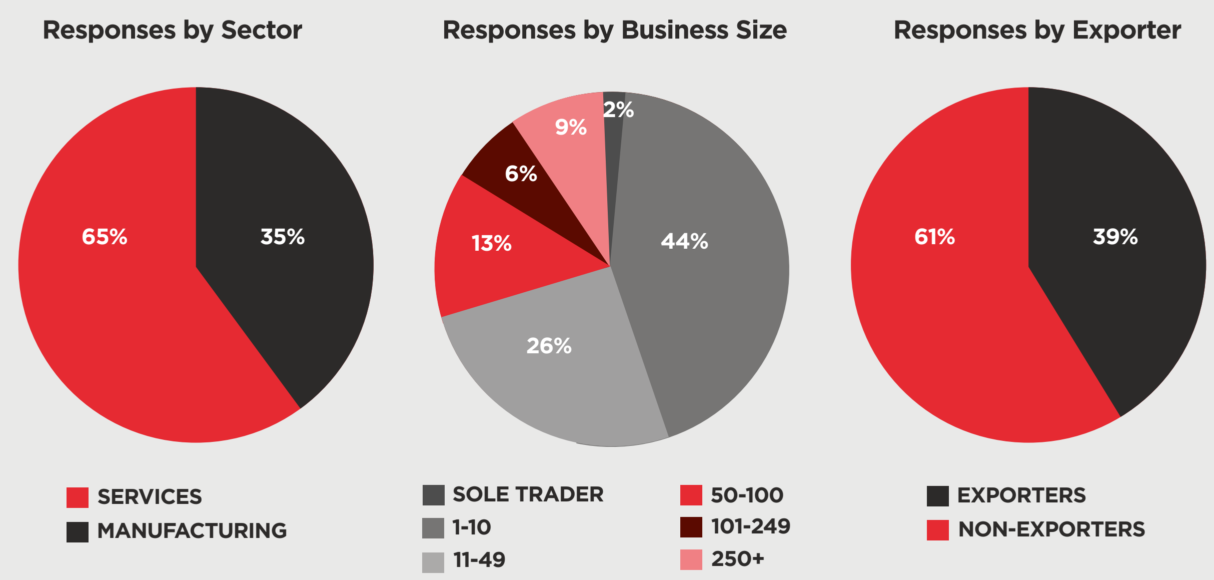
Manufacturing Sector

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



EXECUTIVE SUMMARY:

DOMESTIC MARKET

33%

of businesses have experienced increased sales, compared to **32%** last quarter.

INFLATION

61%

of businesses stated inflation as a factor of concern for businesses.

TURNOVER

58%

of businesses are confident that their turnover over the next 12 months will increase. That compares to **54%** last quarter. 14% expected turnover to fall compared to 16% in the previous quarter.

2023

PRICE INCREASES

40%

of businesses expect prices to increase over the next 3 months, compared to **56%** in the previous quarter.

ENERGY COSTS

51%

of businesses stated energy costs as a factor of concern compared to **64%** in the previous quarter.

RECRUITMENT

56%

of businesses attempted to recruit staff over the last quarter, **62%** of businesses had experienced recruitment difficulties.

PROFITABILITY

47%

of businesses expect their profitability to improve in the next 12 months, compared to **43%** in the previous quarter. **19%** expected their profitability to worsen, compared to **29%** in the previous quarter.

BUSINESS PERSPECTIVE

IN THEIR OWN WORDS:

Large corporations (publishing houses and editorial services) are keeping pricing low, driving down fees to increase their profits. Meanwhile, business expenses (phones, energy, etc.) have increased substantially. This makes it difficult to increase cash reserves.
Publishing company employing 1-10 people

Shipping costs rising, not good for small businesses with products with low profit margin.
Retail/Wholesale company employing 1-10 people

Hospitality is struggling and pubs are closing weekly due to energy and business rates costs. Our business is very reliant on brewers and the beer sales through pubs. Support in this area would help us immensely. Local farmers are struggling to continue to grow hops which would be a tragedy now that we are starting to produce new varieties that can compete on a world stage.
Retail/Wholesale company employing 11-49 people

Just as we're beginning to see some confidence return another interest rise is suggested as likely which leaves people thinking we are now heading for a recession again. It shatters confidence, which is everything in our business. The Bank of England were far too slow to react to obvious inflationary pressure at the beginning of this process.
Construction/Engineering company employing 11-49 people

Bookings have reduced. Leisure and health are seen as a 'luxury' so is often the first to go when budgets are tight.
Health and Fitness sole trader

We need partnership and collaboration with larger other sector industries and local companies that can 'levy gift/share' to our smaller social care and VCSE organisations who just cannot invest in apprenticeships as they do not have the levy pot to do this. we could explore 'sponsorship' opportunities; utilising private industry sector estate, e.g. free training and meeting rooms to aid our need for health & care training and education.
Public sector, education, health, social work or voluntary company employing 250+ people

Rising energy costs and demand for pay awards means that we have to operate within tighter financial constraints as an organisation. This has led to us becoming much more entrepreneurial in our approach, to secure funding required to deliver future proofed skills education to meet regional skills gaps.
Public sector, education, health, social work or voluntary company employing 101-249 people

We're suffering extra costs as a result of Brexit; including the registration of products for sale in both the EU and the UK - causing additional paperwork. Our EU customers have lost trust in our ability to supply.
Manufacturing company employing 11-49 people

More legislation in the form of the new EPR (packaging legislation) regulations is increasing admin burden and costs. Not fully informed as legislation is still in draft form despite us having to register in July - impossible to plan ahead and costs seem ikely to be prohibitive. Real concern for the future of the business.
Packaging company employing 11-49 people

As a start-up that grew very quickly, it would have been really helpful to have more government backed support. But there is currently no support and the support previously was too onerous to apply for.
Professional services company employing 1-10 people

Business rates which were never an issue are now an added cost / overhead due to re-valuation of the office building we rent. No change in business or size, but now added cost to deal with.
Professional services company employing 11-49 people

The cost of living crisis is affecting our business as we are dependent on hospitality. We are seeing pubs and breweries close almost weekly and a main competitor has also gone into administration. More support for high energy users (brewers) and hospitality is essential.
Retail/Wholesale company employing 11-49 people

The feel of "doom & gloom" seems to have dissipated recently and our visitor numbers are on par with last year. Our confidence grows which is supported by our investment plans for the next 5 years.
Hospitality, catering, or tourism company employing 250+ people

UK MARKET

UK sales data has improved in Q2. The net balance has increased to 17% this quarter, compared to 11% in Q1. 33% of businesses indicated an increase in UK sales, this was 32% in the previous quarter. Encouragingly, only 16% of businesses reported a decrease in UK sales over the last three months, this figure was 21% in Q1. 40% reported no change to their UK sales.

In contrast, the net balance data for UK orders shows a slight decrease from the previous quarter. 23% of businesses reported an increase in UK orders over the last three months, this has fallen from 30% in Q1. 16% reported a decrease, compared to 20% last quarter. 41% reported no change. Therefore, the net balance fell slightly to 7% from 10% in Q1.

The latest Office for National Statistics (ONS) data released in July indicated that monthly real gross domestic product (GDP) is estimated to have fallen by 0.1% in May 2023 after growth of 0.2% in April 2023, which is unrevised from the previous publication. Looking at the broader picture, GDP has shown no growth in the three months to May 2023. Businesses in Herefordshire and Worcestershire have shown great resilience in UK Market activity with an increase in UK sales despite numerous external mitigating factors. However, businesses are operating in a climate with a high degree of uncertainty and government and Bank of England policy both need to be very responsive to developments.

The UK's rate of inflation is currently 7.9%. The Office for National Statistics said falling fuel costs, the first drop in raw materials prices since 2020 and a reduced rate of food bill rises has helped bring the inflation rate down. It means the rate of price rises in the UK has slowed more than expected, down from 8.7 per cent in May - although it remains high. After 18 months of price shocks, the impact of sustained inflation remains the top issue for businesses that have answered this survey. 61% of businesses stated inflation as a factor of concern for businesses. Despite inflation easing, the rate is significantly higher than the 2% target set by the Bank of England. However, the Bank of England has predicted inflation will drop to 5% by the end of 2023, rather than the 4% it had been anticipating. Attention now turns to interest rates and the looming prospect of further increases which will ultimately impact businesses plans for growth and investment in the months ahead. 30% of respondents to this survey stated interest rates as a concern to their business, with further increases very likely, this figure is expected to ascend further.

Manufacturing Sector Insight

The net balance of manufacturers reporting on their UK sales was 14% this quarter. This has significantly improved from 2% in the previous quarter. In terms of advanced orders, the net balance of orders have increased slightly to 4% compared to 2% in Q1.

The net balance of service sector companies reporting on their UK sales also increased to 16% this quarter from 11% in Q1. However, the net balance of UK orders decreased to 9% from 11% in the previous quarter. 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).

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

OVERSEAS MARKET

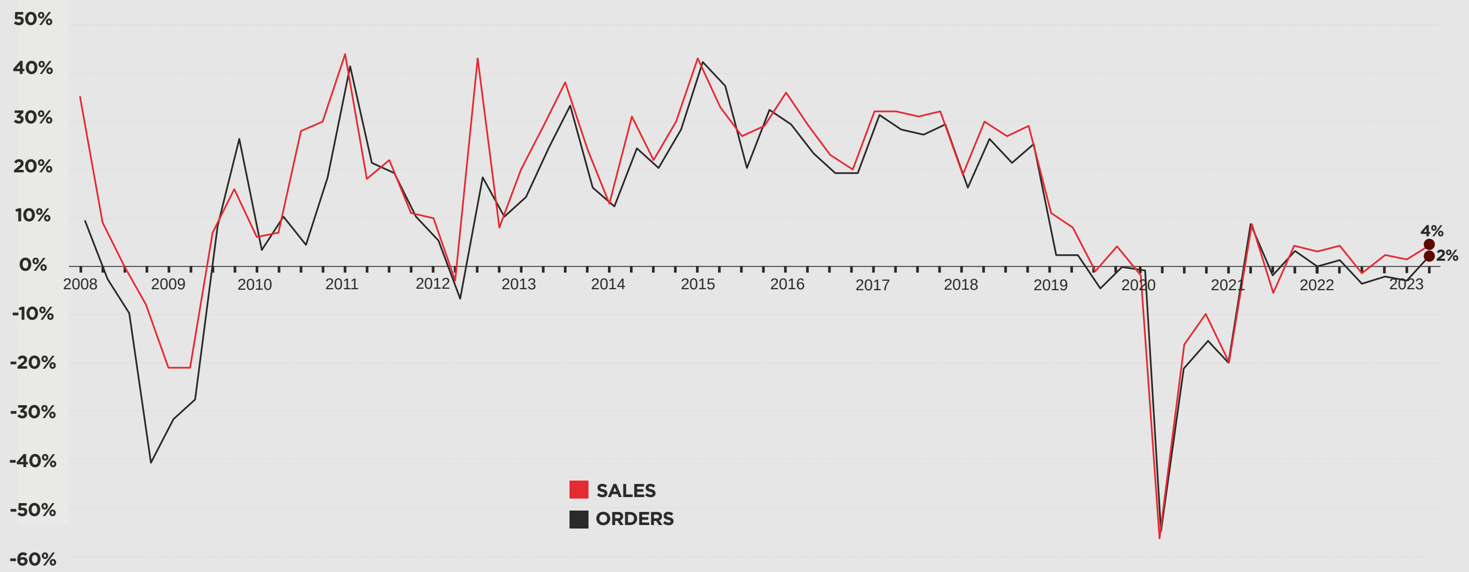
The overseas market for businesses in Herefordshire & Worcestershire has improved this quarter. The net balance of overseas sales has increased to 4% this quarter, the figure was 1% in the previous quarter. 12% of businesses reported an increase in overseas sales, the same as Q1. 9% reported a decrease in sales, an improvement from 11% of businesses reporting a decrease in sales in the previous quarter. 21% reported no change.

Overseas orders data has also improved over the last three months. The net balance of overseas orders has increased to 2%, from -3% in Q1. 11% of businesses reported an increase in overseas orders, compared to 9% in Q1. 9% reported a decrease in overseas orders, an improvement from 12% in Q1. 20% reported no change.

A recent Office for National Statistics (ONS) survey asked businesses that had exported and/or imported in the last year were asked how their exporting and importing in May 2023 compared with May 2022, and which challenges they had experienced an increase in compared with the previous calendar month. The most significant challenges faced by exporters was additional paperwork (21.3%), change in transportation costs (19.6%), and change in exchange rates (17.3%). These challenges were also the most significant for importers however in a different order; change in transportation costs (21.6%), additional paperwork (19.9%), and change in exchange rates (18.9%).

ONS data released in July has shown a rise in imports from EU and non-EU countries. The value of goods imports increased by £2.0 billion (4.2%) in May 2023 with a rise in imports from both EU and non-EU countries; after removing the effect of inflation, imports of goods increased by 5.9%.

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



The value of goods exports decreased by £1.4 billion (4.4%) in May 2023 with a fall in exports to both EU and non-EU countries; after removing the effect of inflation, exports of goods fell by 3.2%.

Boosting exports is key to the UK's future economic prosperity, but firms of all sizes are facing a wide range of stumbling blocks. These include inflationary pressures, a restructuring of global supply chains and a continuing flow of new requirements from the EU trade relationship.

The BCC's newly revised Trade Manifesto, supported by logistics company WTA Group, sets out a comprehensive list of steps to get more UK businesses, currently just 10%, involved in international trade. It builds on other recent research by the BCC that found:

- 54% of businesses say smoother customs procedures are the key to boosting UK exports.
- 42% favour lowering tariffs, while 35% said there is a need to reduce regulatory barriers, and 29% want better support for smaller businesses.

The full Trade Manifesto can be found here.

Manufacturing Sector Insight

The net balance of manufacturers reporting on their overseas sales was 1% this quarter, compared to -6% in the previous quarter. This is the first time the net balance has been a positive figure since Q2 2022. In terms of overseas orders, the net balance was 0%, compared to -11% in the previous quarter. These figures show significant improvement in the data compared to the previous quarter which is encouraging for local businesses trading in the overseas market.

Service Sector Insight

The net balance of services companies reporting on their overseas sales was 7%, improving from 2% in the previous quarter. Overseas orders have improved slightly to 5%, compared to 2% in Q1.

CASH FLOW

The Quarterly Economic Survey allows us to gather key information on business cash flow to be able to measure business performance over the last three months, and how this compares to previous quarter.

26% of businesses reported their cash flow has increased in the last three months, no change from the previous quarter. 24% reported their cashflow has worsened in the last three months, in contrast to 30% in Q1. 51% reported their cashflow has remained the same. Therefore, cashflow has indicated a positive net balance for the first time since Q2 2022.

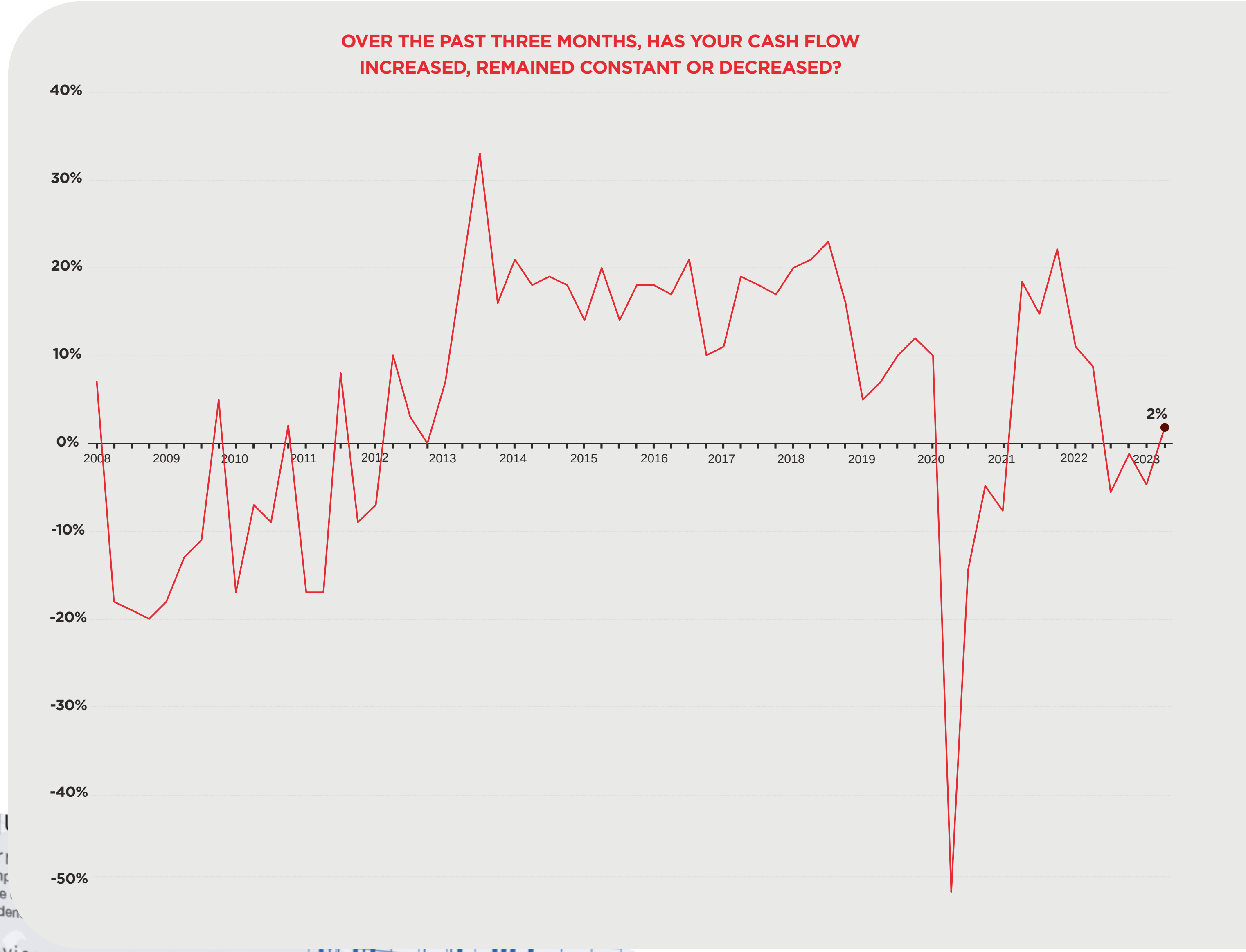
ONS data released in July has shown nearly one in five (18%) businesses reported a decrease in domestic demand for goods and services in June 2023 compared with May 2023; this is up from the 16% reported for both May and April 2023.

The percentage of trading businesses that reported higher prices for goods or services bought in June 2023 compared with May 2023 was 32%, broadly stable with those that reported higher prices in May 2023 compared with April 2023.

When asked in early July 2023, fewer than one in six (15%) trading businesses expected to raise the prices of goods or services they sell in August 2023, down from the 17% reported for July 2023. In comparison, 59% of businesses expect prices to stay the same in August 2023, this is broadly stable when comparing with expectations of July.

The most reported reasons for why trading businesses are considering raising their prices in August 2023 were:

- **Energy prices (25%)**
- **Labour costs (21%)**
- **Raw material prices (19%)**



Manufacturing Sector Insight

The net balance of manufacturers reporting on cash flow has returned to a positive figure this quarter. In previous quarters, the net balance has been negative figure with the most recent data in Q1 reporting a -12% net balance. However, this has increased to 2% this quarter, the highest it has been since Q4 2021.

Service Sector Insight

The net balance of services companies reporting increased cash flow also increased to 2%. The figure was -1% in the previous quarter.

EMPLOYMENT & RECRUITMENT

56% of businesses that answered this QES attempted to recruit staff over the last quarter. 62% of these businesses had experiences problems when recruiting. The number of businesses reporting difficulties has decreased slowly since Q1 2022. This suggests the labour market is improving after a difficult period in recent quarters. 50% of businesses reported that skilled manual/technical roles were the most difficult roles to recruit for.

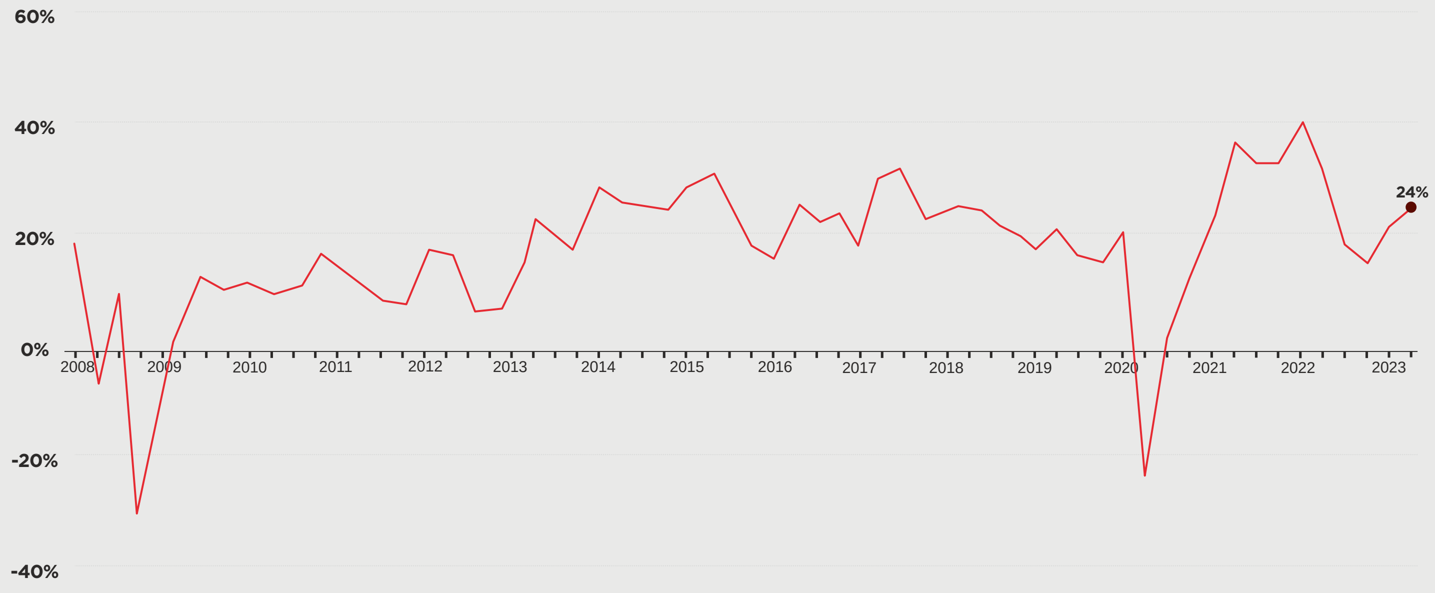
Businesses have also reported on their workforce changes. 28% indicated they had increased their workforce in the last three months, compared to 24% in Q1. 10% reported they had reduced their workforce, compared to 13% in Q1. 62% reported no change.

Furthermore, 29% of businesses expect to increase their workforce in the next three months, improving on 27% in Q1. 5% expect to reduce their workforce, compared to 6% in Q1. 67% expected no change.

According to the most recent labour market overview report from the ONS. The UK employment rate was estimated at 76% in March to May 2023, 0.2 percentage points higher than December 2022 to February 2023. The quarterly increase in employment was mainly attributed to part-time employees.

In April to June 2023, the estimated number of vacancies fell by 85,000 on the quarter to 1,034,000. Vacancies fell on the quarter for the 12th consecutive period.

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



More than a quarter (29%) of businesses reported their staffing costs have increased over the last three months, broadly stable with early April 2023.

More than one in six (17%) businesses reported they expect staffing costs to increase over the next three months, down 13 percentage points from 30% of those who had these expectations in early April 2023.

Growth in employees' average total pay (including bonuses) was 6.9% and growth in regular pay (excluding bonuses) was 7.3% in March to May 2023. For regular pay, this equals the highest growth rate, which was also seen last month and during the pandemic for April to June 2021.

Businesses have also left comments in relation to the specific recruitment difficulties they have faced.

"FE & HE graduates don't have qualifications recognised by employers (not aligned to sector Professional Standards). Hard for career starters to see a future career with progression within the sector. Entry level roles in other sectors offering higher pay."
Sport and Physical Activity business employing 500+ people.

"Difficulty in recruiting skilled teachers of digital technology. General lack of skills demonstrated in applicants for a range of positions, both teaching and support."
Public sector, education, health, social work, or voluntary business employing 101-249 people.

"We have had a dip in applications for the care roles within the organisation. Some roles, we struggle to recruit to. Currently trying to recruit to a facilities and project role which has been difficult and revamped the advert and JD a couple of times to attract the right candidate."
Public sector, education, health, social work, or voluntary business employing 101-249 people.

"In common with most other organisations, recruitment has had mixed success. Finding the right candidate being the key area of difficulty, even in what is in effect a relatively specialised arena, where ex forces personnel are usually the best candidates."
Armed Forces Covenant Business Engagement business employing 50-100 people.

"It is still difficult to recruit suitable staff but there appears to be more people available than there was in previous months."
Manufacturing business employing 11-49 people.

Manufacturing Sector Insight

The net balance of workforce changes for manufacturing businesses was 12% this quarter, compared to 3% in the previous quarter. With regards to expected change in workforce, the net balance was 21%, a significant improvement from 12% in the previous quarter.

Service Sector Insight

The net balance of workforce changes for service sector businesses was 19% this quarter, an improvement from 17% in the previous quarter. For expected change in workforce, the net balance was 28%, a slight improvement from 24% in the previous quarter. Therefore, from the data it suggests the manufacturing and services sectors are seeing an improvement in the labour market over the last three months.

INVESTMENT

Investment and training are essential for any business to develop. From the QES, we can gather data on businesses plans for investment and training.

18% of businesses revised upwards their Capital Investment plans, a slight decrease from 21% in Q1. 18% have revised downwards their plans for Investment, compared to 19% in Q1. 64% reported no change. This data is disappointing after a positive increase in plans for Capital Investment in the previous quarter. It suggests businesses currently have other priorities such as tackling high inflation and interest rates and as a result plans for Capital Investment have been put to one side.

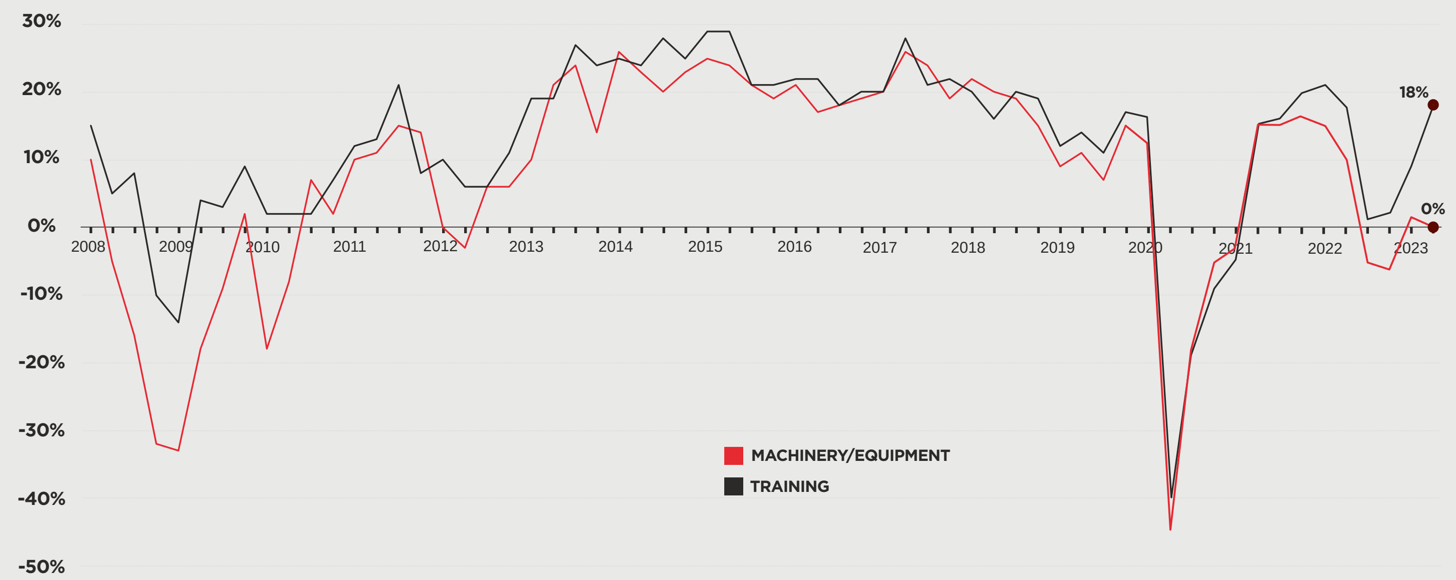
However, the data for investment in training provides a positive outlook on businesses plans for investment. 27% of businesses revised upwards their investment in training over the last three months, improving from 21% in Q1. Only 9% revised downwards, compared to 12% in Q1. 64% indicated no change. Therefore, a net balance of 18% is a 9% increase from Q1 and suggests businesses are seeing the value to their business in training to upskill staff.

The latest ONS Business Investment data released at the end of June has reported that Business investment increased by 3.3% in Quarter 1 (Jan to Mar) 2023, revised up from the provisional estimate of 0.7% growth. Business investment in Quarter 1 2023 is now 1.1% above that of Quarter 4 (Oct to Dec) 2019, the quarter before the pandemic.

Information and communication technology (ICT) equipment and other machinery and equipment was the primary driver behind the 3.3% increase in Quarter 1 2023. It contributed 2.2 percentage points to Quarter 1 2023 Business Investment growth.

Whole economy investment (technically labelled as gross fixed capital formation (GFCF)), which includes business and public sector investment, increased by 2.4% in Quarter 1 2023, revised up from the provisional estimate of 1.3%.

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



Manufacturing Sector Insight

The net balance of manufacturers plans for Capital Investment has increased to 13% from 0% in the previous quarter. Planned investment in training has also increased to 27%, from 9% in the previous quarter.

Service Sector Insight

Service sector businesses plans for Capital investment has decreased to -5%, from -1% in Q1. Planned investment in training improved however, to 18% compared to 7% in Q1.

BUSINESS CONFIDENCE

Business Confidence data is highly valuable in quantifying how businesses have been performing and how they expect their business to perform over the next 12 months. In this quarter, we have seen further improvement to business confidence in turnover and profitability after a period of sharp stagnation as a result of the cost-of-living crisis.

58% of businesses reported they expect their turnover to improve over the next 12 months compared to 54% in Q1. 14% expect their turnover to worsen compared to 16% in Q1. 28% reported they expect their turnover to remain the same.

There was further improvement in business profitability data. 47% of businesses expect their profitability to improve over the next 12 months, compared to 43% in Q1. Only 19% expect their profitability to worsen, decreasing significantly from 29% in Q1. 34% expect no change.

Service Sector Insight

Service sector confidence in turnover has remained 41% this quarter. Confidence in yearly profitability has increased to 29% this quarter from 23% in Q1.

Manufacturing Sector Insight

Manufacturer businesses' confidence in yearly turnover has substantially increased to 51% this quarter, from 25% last quarter. Confidence in yearly profitability has also improved significantly to 29%, from -7% last quarter.

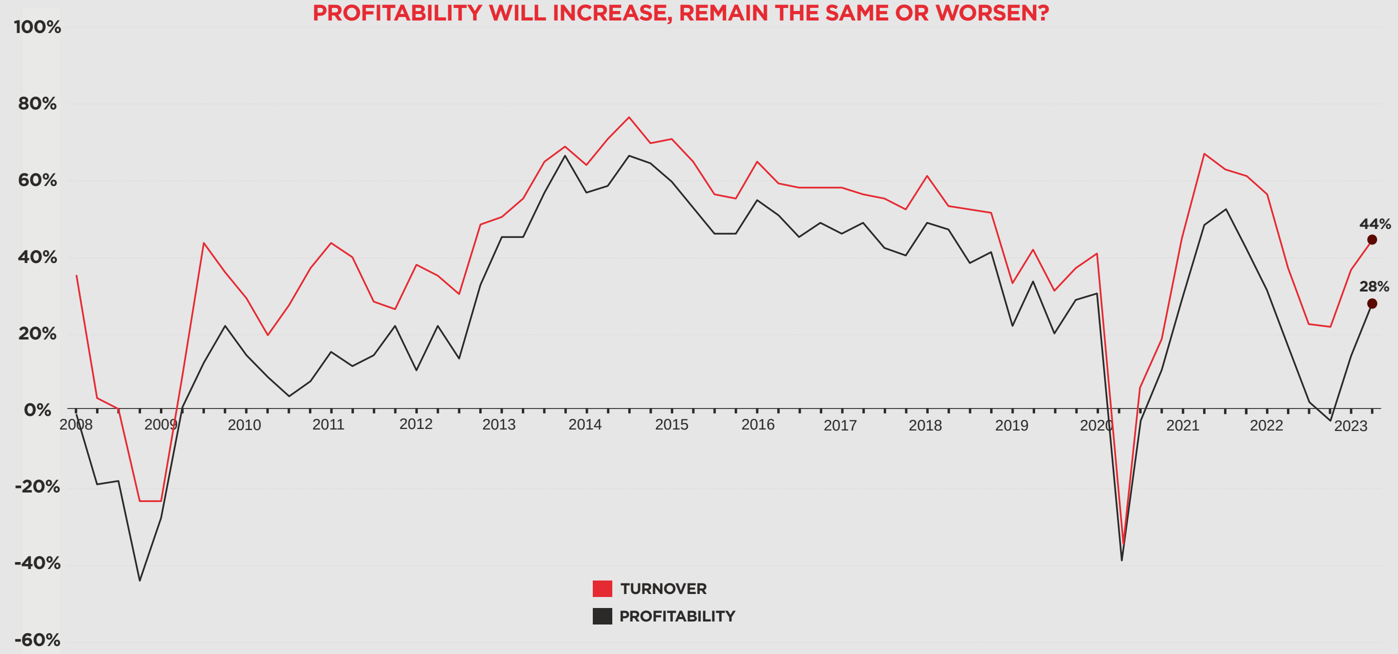
Recent ONS national data shows a different picture to the data received locally in Herefordshire and Worcestershire.

Fewer than a quarter (24%) of trading businesses reported lower turnover in June 2023 compared with May 2023; in comparison, 15% reported their turnover was higher in June, with both figures broadly stable with the proportions reported for May 2023.

When looking ahead to August 2023, more than half (54%) of trading businesses expect their turnover to stay the same while 15% reported that they expect their turnover to increase, down four percentage points from the 19% reported for July 2023.

In comparison, one in six (17%) trading businesses expect their turnover to decrease in August 2023, up from the 13% reported for July 2023. Most trading businesses, however, expect turnover to remain the same (54%), broadly stable with expectations for July 2023.

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 Q2 2023 shows that less than half of firms now plan to raise prices in the next three months as cost pressures ease.

But the data also reveals that the main factor for increasing costs is now coming from wages rather than utility bills or raw materials.

The survey, by the BCC's Insights Unit, of over 5,000 firms – 92% of whom are SMEs – also reveals business performance across different sectors varies considerably, with hospitality and retail firms suffering more widely from cashflow difficulties.

Growth in business activity remains weak, with no significant improvement to sales and cashflow data.

The percentage of firms reporting increased domestic sales remained largely static, with 35% reporting a rise (broadly unchanged from 34% last quarter). Meanwhile 24% reported a decrease and 41% reported no change.

For cashflow, more businesses continue to report a decrease, rather than an increase and again the picture remains largely unchanged since Q1. Just over one in four (26%) businesses said their cash flow has increased over the last three months (25% in Q1), while 29% have seen it decrease (30% in Q1).

Pressures remain highest in the retail and hospitality sectors with 38% and 37% respectively reporting reduced cashflow, while PR and Marketing was the most positive sector with 33% reporting growth.

After business confidence showed signs of a rebound in Q1 2023, it has now stalled again.

There was a small increase in the percentage of firms believing their business turnover will rise over the next 12 months, up to 54%, from 52% in Q1.

Profitability confidence also improved slightly to 44% from 42% in Q1, but it continues to remain weaker than turnover confidence.

This slightly improved outlook is not translating through to increased business investment.

The number of respondents reporting an increase to investment in plant/equipment dropped to 23% from 25% in Q1. Over the last six years this measure has dropped as low as 9% of firms, at the start of the pandemic, but it has never gone higher than 28% (Q1 2018).

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

The percentage of firms expecting their prices to rise fell below 50% for the first time since Q3 in 2021. It has fallen from 60% of firms in Q4 2022 to 45% in Q2 2023.

While inflation remains firms' biggest concern, the level has dropped for the second quarter running, with 69% of firms now worried compared to 74% in Q1. However there has been a corresponding 5 percentage point rise in businesses worried about interest rates, increasing from 36% in Q1 to 41% in Q2.

Labour costs are now the number one cost pressure for businesses.

With concern around utility costs dropping, 63% report these as an issue (74% in Q3 2022), the number of firms struggling with wage costs has risen to 68% (67% in Q1) and is now the lead cost pressure.

But there remain wide sectoral differences with 75% of manufacturers citing raw materials as the main factor driving price increases, while in hospitality, 85% of firms were most worried about utility costs. The retail sector was least worried about labour costs, with 56% citing it as an issue, against 64% flagging utilities and 67% raw materials.

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

"Once again, data from the Quarterly Economic Survey sees no major improvement to key business indicators.

"Three years of economic shocks in the form of Covid-19 lockdowns, inflation, and new trade barriers with the EU have placed clear obstacles in the ability of firms to trade and grow.

"Now many SMEs face further pressure following interest rate rises, as borrowing costs increase. Predictably, investment suffers in such tough conditions.

"Despite this, business confidence remains buoyant, following a big drop in 2022, as inflationary ease further. This optimism should be reinforced with greater clarity from government on a plan for economic growth."

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2023 QUARTERLY ECONOMIC SURVEY DATES

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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