Q3 2023

QUARTERLY ECONOMIC SURVEY

Focussing on Sustainability

worcestershire county council

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 September. Data collection took place between Monday 21 August 2023 and Monday 11 September 2023.

I start my foreword for this quarter with a quote from a previous Bank of England Inflation Report to emphasise how important the data we receive from local businesses in our two counties is in influencing national policy. "Private sector surveys of businesses, such as those provided by the British Chambers of Commerce (BCC), are some of the most important data sources for nowcasting. This is because they are highly correlated with official estimates of growth and are available well in advance of the official data".

I would like to thank all 360 businesses that completed this survey out of 5051 businesses that completed nationally, our Chamber is consistently in the top 3 Chambers for QES responses, which is a testament to the commitment from our local businesses that support the Chamber in providing invaluable data for us to share with the BCC.

The results we have received have reasons for optimism as well as reasons for concern, with UK sales decreasing this quarter as well as overseas sales. On the other hand, cash flow has increased, which offers optimism for businesses.

Inflation and interest rates are of significant interest to businesses and, along with energy costs, were the most significant factors of concern in the QES. However, despite the concerns, inflation unexpectedly fell in August to 6.7%. Despite the figure remaining high, it is promising that inflation is gradually easing. The figure was a surprise, as economists forecast an increase to 7%. In terms of our local data, 59% of businesses that answered the QES highlighted inflation as a factor of concern, down from 61% in Q2 and 67% in Q1. Businesses will welcome the recent decision by the Bank of England to hold the interest rate at 5.25%. Constant hikes in the cost of borrowing have had a hugely detrimental impact on the firms we represent. Recent research by the BCC's Insight Unit found that 46% of companies said current interest rates are having a negative impact as costs of borrowing and mortgages go up. 37% of businesses reported interest rates as a cause for concern over the last three months, increasing from 30% in Q2.

As mentioned above, UK sales data for this quarter has taken a hit from the previous quarter. A net balance of 11% for UK sales is a 6% decrease from Q2. 20% of businesses reported that their UK sales had decreased over the last three months, compared to 16% in Q2. It is a similar picture for overseas sales, with a net balance of -3%, a 7% decrease from the previous quarter. 14% of businesses reported their sales in overseas markets decreased over the last three months, compared to 9% in Q2.

The workforce data we collect is extremely valuable in assessing the current state of the labour market in Herefordshire and Worcestershire. In this quarter, we have found that recruiting and retaining staff remains a significant challenge. 58% of businesses that answered this survey attempted to recruit staff over the last quarter. 69% of these businesses faced recruitment difficulties, increasing from 62% in Q2. Skilled manual and technical roles were again the most difficult to recruit for (57%). Businesses reporting on their workforce changes have reported a 15% net balance for changes in the workforce over the last three months; this has decreased from 18% in the previous quarter and suggests the recruitment difficulties businesses are facing are having a direct impact on workforce numbers. This is further highlighted by the fact that 59% of businesses that answered this survey reported operating below capacity. Data collection for the upcoming Salary & Benefits Survey starts on Monday October 2nd. Addressing the local and regional skills gap remains one of the Chamber's priorities as we continue to support businesses in the months ahead. Therefore, please have your say and complete the Salary & Benefits survey when data collection is live.

Finally, business confidence is another key indicator we quantify in the QES. Businesses are asked to report on whether they believe their turnover will increase, remain the same, or worsen over the next 12 months. In this quarter, 57% reported they expect their turnover to improve over the next 12 months, compared to 58% in Q2. 12% expect their turnover to worsen, compared to 14% in Q2. Therefore, the net balance of businesses reporting on their turnover increased slightly to 45% from 44%.

These results and more will be detailed in full throughout the report, and I would like to thank our sponsors for this survey, Worcestershire County Council, for their support. The questions they asked were sustainability themed and you will see the results in the report.

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

WORCESTERSHIRE COUNTY COUNCIL

Cllr Richard Morris
Cabinet Member for Environment
Worcestershire County Council

worcestershire county council

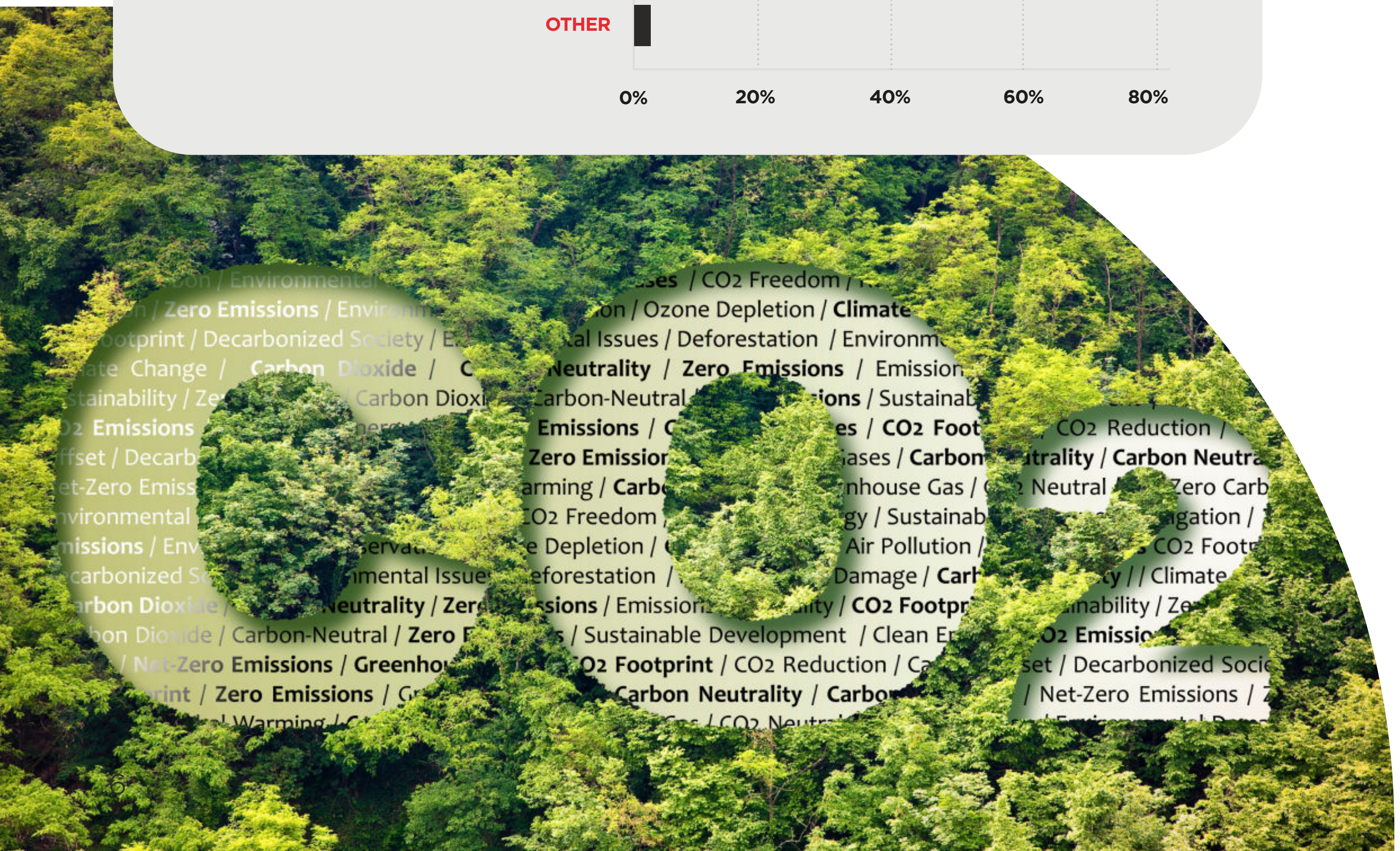
I'm delighted to write the sponsor foreword to this quarter's economic survey report and share the encouraging findings, which illustrate that so many businesses in Herefordshire and Worcestershire are committed to environmental sustainability. The results of the survey have been extremely useful to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

Environment and sustainability continue to make headline news as the UK pledges to decarbonise all sectors of the economy to meet our net zero target by 2050.

Businesses in Herefordshire and Worcestershire have demonstrated through the QES that they are playing their part, with 72% of local businesses saying they have taken steps to be more environmentally sustainable or cut carbon emissions in the last year.

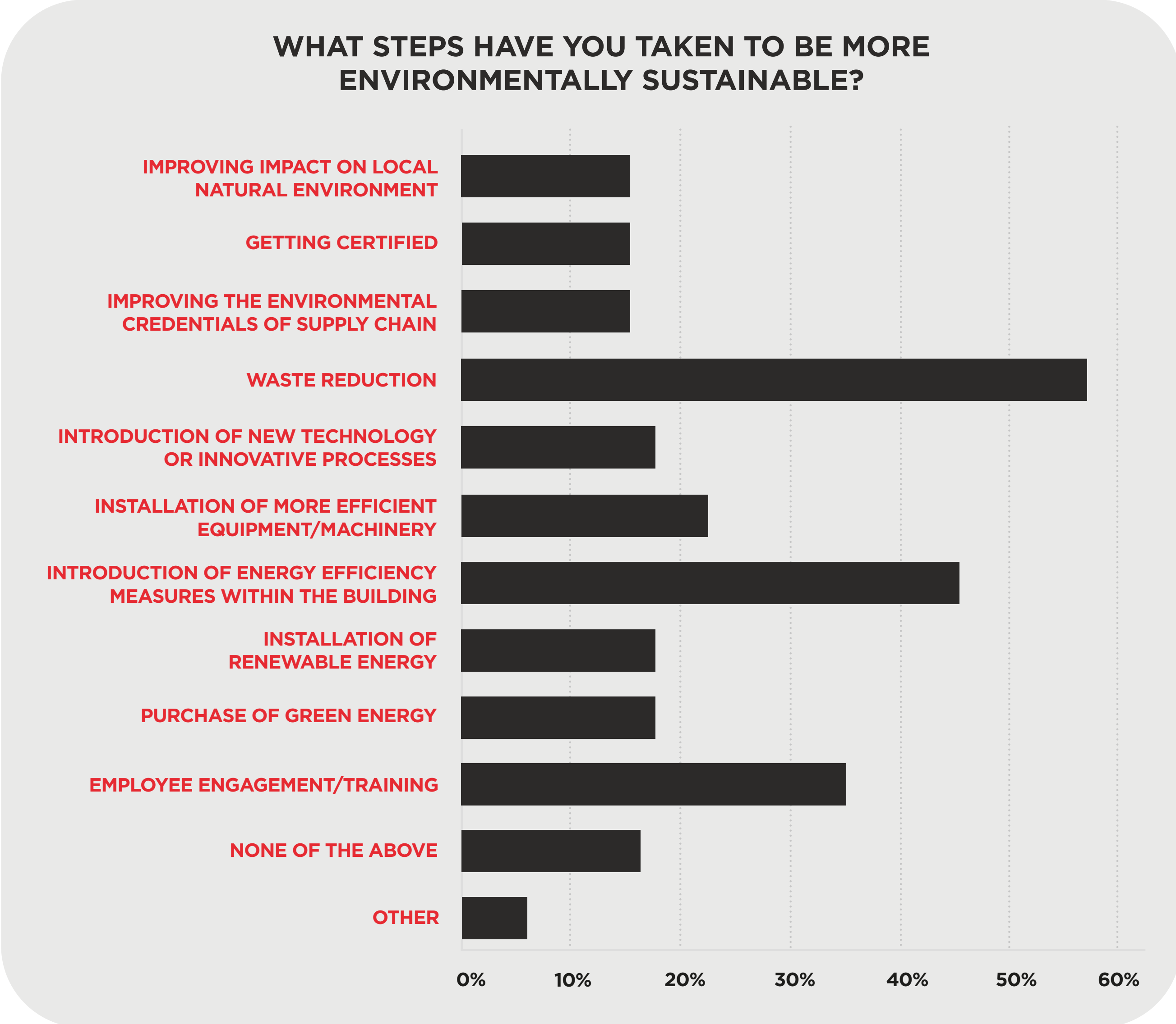
Energy prices continue to challenge businesses and reducing energy costs is clearly a key business driver (63%), however the QES shows that the desire to reduce environmental impact continues to be the biggest reason for change (77%). Market advantage/reputation is also becoming more important, with 42% of respondents now citing this as a key reason for change. From both an environmental and financial perspective, it makes sense to review and manage energy consumption and costs.

WORCESTERSHIRE COUNTY COUNCIL

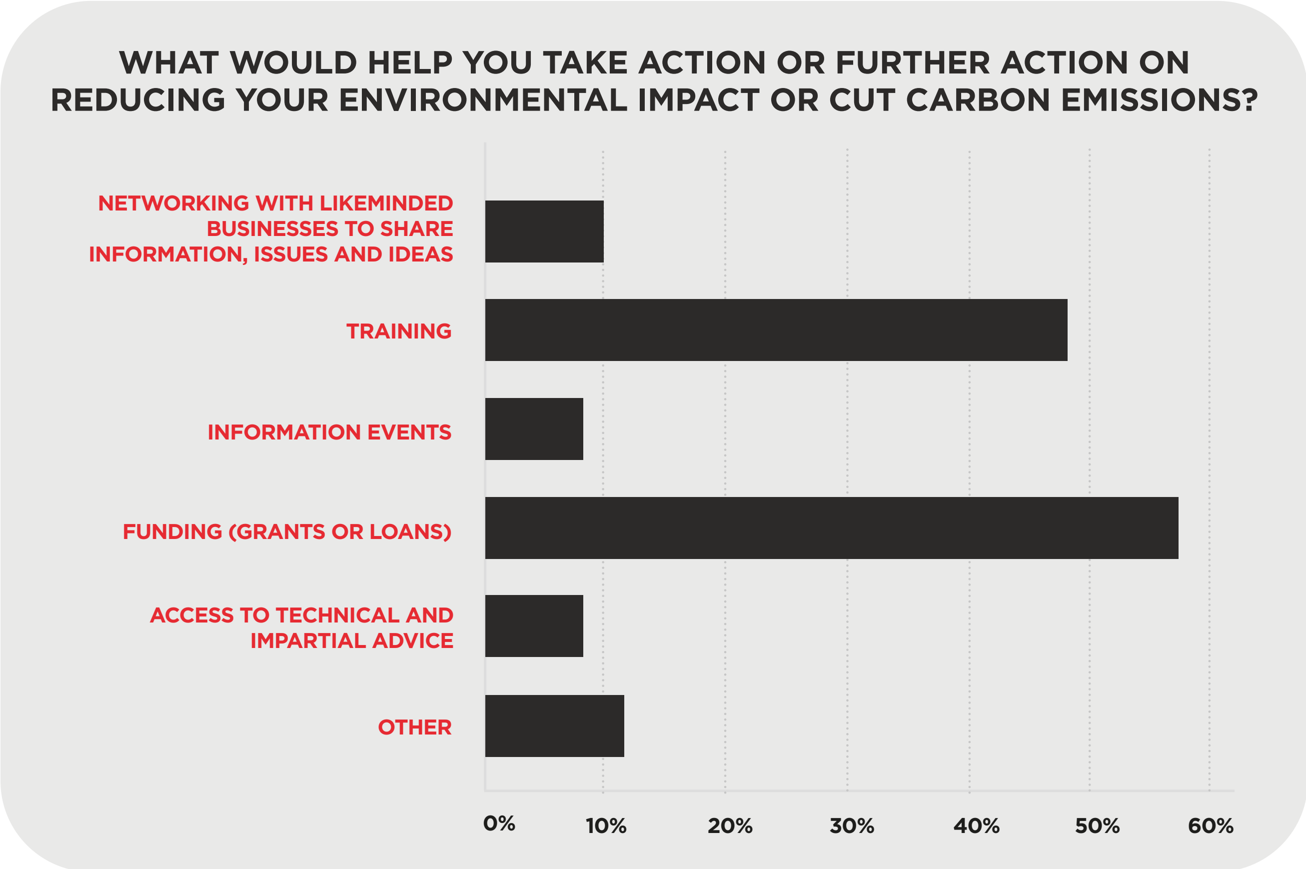


Worcestershire County Council, which sponsors this edition, offers small and medium size enterprises (SMEs) the opportunity to lower their energy bills, improve their efficiency and become more environmentally friendly through Net Zero Worcestershire and the Marches Energy Grant programmes. These programmes are delivered through the UK Shared Prosperity Fund (UKSPF)*, Worcestershire County Council's Open for Business programme and The Marches LEP.

The programme provides technical advice through flexible and impartial decarbonisation reviews, and grants of between £4,000 to £20,000 (depending on district authority area) to install measures like LED lighting, efficient heating, and even electric forklift trucks.



WORCESTERSHIRE COUNTY COUNCIL



The County Council and Worcestershire Wildlife Trust also provide advice and grant support to help SME's improve the biodiversity of their land, through the Natural Networks programme.

The QES highlighted the importance of technical and impartial advice, funding, informative events, and networking to help businesses take action. The programmes running until March 2025 through Worcestershire County Council are well placed to support these needs, and I would encourage businesses to access the support available from these programmes.

To find out more about the support programmes available for SME's visit https://www.worcestershire.gov.uk/business-support-and-grants.

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

*The UK Shared Prosperity Fund programmes are being delivered on behalf of the District Councils in Worcestershire and the Marches. (Bromsgrove District Council, Herefordshire Council, Malvern Hills District Council, Redditch Borough Council, Shropshire Council, Telford and Wrekin Council, Worcester City Council, Wychavon District Council, Wyre Forest District Council.

METHODOLOGY

During Quarter 3 (Q3) 2023, 360 businesses in Herefordshire and Worcestershire responded to the Quarterly Economic Survey. Data collection took place between Monday 21 August 2023 and Monday 11 September 2023. Any reference to Quarter 2 (Q2) 2023 refers to the data collection period from Monday 15 May 2023 and Monday 5 June 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.

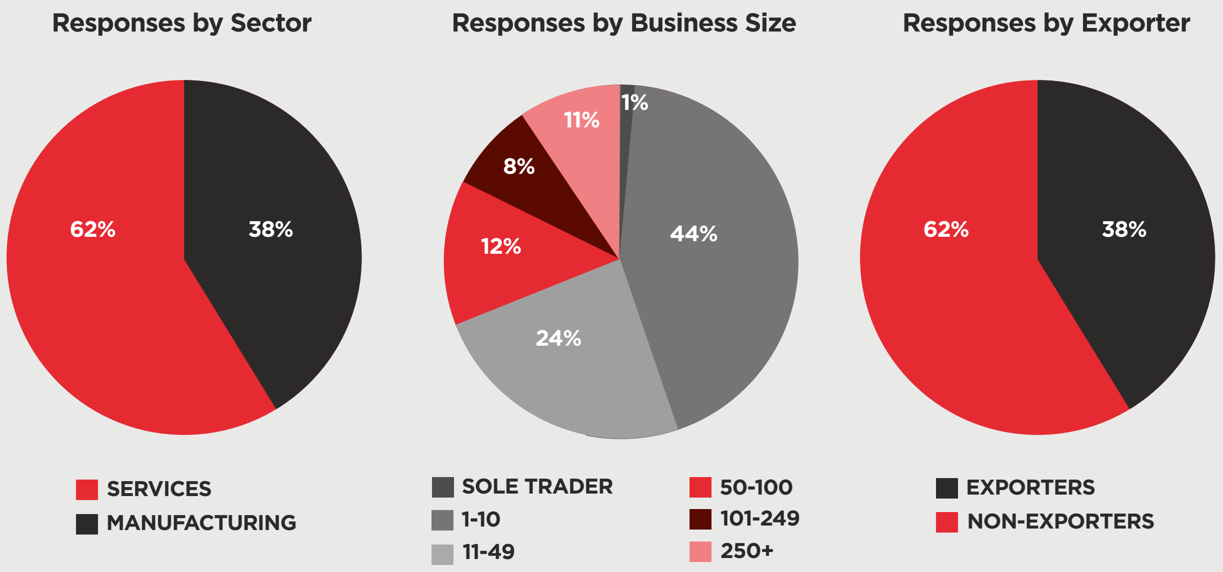
Manufacturing Sector

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:

2023

DOMESTIC MARKET

UK sales have decreased this quarter to a net balance of **11%** decreasing from **17%** in the previous quarter.

INFLATION

59% of businesses stated inflation as a factor of concern for businesses.

Overseas sales have decreased this quarter to a net balance of **-3%**, decreasing significantly from **4%** in Q2.

RECRUITMENT

58% of businesses attempted to recruit staff over the last quarter, **69%** of businesses had experienced recruitment difficulties.

TRAINING

23% of businesses indicated they had revised upward their investment in training over the last quarter. This has decreased from **27%** in Q2.

ENERGY COSTS

42% of businesses stated energy costs as a factor of concern compared to **51%** in the previous quarter.

CASH FLOW

31% of businesses reported their cash flow has increased in the last three months, an improvement from 26% in Q2.

BUSINESS PERSPECTIVE

IN THEIR OWN WORDS:

Our biggest challenge as an SME is cash flow with large conglomerates demanding 60 days credit and not even adhering to that.
Consumer services company employing 1-10 people

Bank of England predictions have ceased so business confidence in purchasing training has been constant.
Professional services company employing 1-10 people

We are reducing our presence in the UK, in favour of Poland, Germany, Spain, Austria, Italy - all far less bureaucracy and business rates.
Retailing company employing 250+ people

Lettings market is expanding and under pressure, we have sold over 18 factory units over the last 2 years, and tremendous demands for units between 1000-5000 sqft. City and rural town commercial are difficult, and the residential market is readjusting on a downward trend. The bottom end of the market from 0 - 300,000 is still buoyant but from 400,000 - 1.5 million has been affected due to higher interest rates.
Professional services company employing 11-49 people

UK policy on product certification - UKCA / CE Marking. Having spent thousands of pounds on re-certification and then the requirement to only use UKCA has been extended with a real possibility of being scrapped.
Manufacturing company employing 1-10 people

Business rates and rental costs, energy costs and increased corporation tax coupled with the ease our European competitors can import against costs and complexity of exporting to EU are greatest challenges to growth. We have been looking into relocating to countries offering fantastic opportunities with no rates and lower labour costs and reducing size in UK to just import hub.
Manufacturing company employing 11-49 people

HM Treasury - tax policy - R&D - utter shambles and represents an existential threat to the knowledge economy. Dept for Education - their management of the GCSE and A Level syllabus and grade boundaries for the 2023 exams has been appalling. Unfair on students and complicated for employers trying to put lower grades into context.
Professional services company employing 250+ people

Thankfully Q2 of 2023 has been MUCH better than Q1 when I was wondering how I was going to survive.
Professional services company 1-10 people

UK MARKET

The analysis of UK sales is a key indicator of business performance over the last three months in Herefordshire and Worcestershire. After improvement to the data we received in the previous QES report, we have seen a decrease in the net balance for UK sales this quarter. The net balance has decreased to 11%, from 17% in Q2. 31% of businesses indicated their sales had increased. 40% indicated no change. 20% indicated their sales had decreased in the last three months.

We also ask businesses to report on their orders/advance custom/bookings. In contrast to the sales data, we saw an increase to UK orders this quarter to 12%, from 7% in Q2. 29% of businesses reported their orders had increased. 38% reported no change. 17% reported their orders had decreased in the last three months.

The latest data released by the Office for National Statistics (ONS) found that GDP grew by 0.2% in the three months to July, with a 0.5% decline in July itself underlines the precarious state of the economy. Small and medium-sized businesses continue to battle against stubbornly high inflation, rising interest rates, trade barriers with the EU, higher taxes, and an uncertain labour market.

The British Chambers of Commerce (BCC) have recently released their latest Quarterly Economic Forecast, this expects GDP to flatline over the next two quarters, leading to 0.4% growth for this year. Longer term growth is also expected to be less than 1% for 2024 and 2025.

Furthermore, inflation unexpectedly fell in August to 6.7%. Despite the figure remaining high, it is promising that inflation is gradually easing. The figure was a surprise as economists forecast an increase to inflation to 7%. Recent research by the BCC's Insight Unit found that 46% of companies said current interest rates are having a negative impact, as costs for borrowing and mortgages go up. Smaller firms and those in the consumer facing sector are disproportionately impacted. 59% of businesses that answered this QES highlighted inflation as a factor of concern, down from 61% in Q2 and 67% in Q1.

The decline in UK sales data in Herefordshire and Worcestershire emphasises the need for businesses to see a clear framework from politicians, outlining how long-term investment can be unlocked, and economic growth accelerated.

Manufacturing Sector Insight

The net balance of manufacturers reporting on their UK sales was 1% this quarter. This has significantly decreased from 14% in the previous quarter. In terms of advanced orders, the net balance of orders also decreased to 0% compared to 4% in Q2.

Service Sector Insight

The net balance of service sector companies reporting on their UK sales slightly increased to 17% this quarter from 16% in Q2. The net balance of UK orders also increased this quarter to 19% from 9% 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

38% of businesses that answered our Quarterly Economic Survey were exporters. The overseas market in Herefordshire and Worcestershire has seen a decline in sales and orders data this quarter, reflecting a similar picture to UK market data. The net balance of overseas sales has decreased to -3% from 4% in Q2. This is the first negative net balance since Q3 2022. 11% of businesses reported their overseas sales had increased. 18% reported no change. 14% reported their overseas sales had decreased over the last three months, up from 9% in Q2. Therefore, highlighting the lack of sales for businesses trading in the overseas market over the last quarter.

Overseas orders data has also seen a decrease in net balance for this quarter. The net balance was -3% this quarter, down from 2% in the previous quarter. 10% of businesses reported an increase to overseas orders/advance custom/bookings. 18% reported no change. Finally, 13% reported a decrease resulting in the negative net balance.

New research by the BCC has uncovered that the vast majority of businesses are unaware and unprepared for a swathe of fast approaching changes in EU/UK regulations. When asked about their knowledge of a number of changes coming down the track, the survey of more than 700 firms found:

- **84%** of manufacturers do not know about new reporting requirements on exports of goods containing high-carbon steel, and selected other products, to the EU starting in October
- **87%** of exporters are either unaware or unprepared for new EU VAT requirements due in January 2025
- **43%** of manufacturers are still unaware of the UK's, now voluntary, alternative product safety marking system to the EU's CE one

The lack of knowledge and preparation for the changes, mean that some traders with the EU could face a whole range of new delays and unexpected costs. In some cases exporters could also find their goods unable to be transited to EU customers.

While not all of the incoming changes to regulations will impact every firm, the wide range of new rules, and the complexity of their requirements, means many businesses will face new obstacles. The decline in the overseas market in Herefordshire and Worcestershire, as well as the decline in the national data collected by the BCC, is concerning. We anticipate further struggles in the overseas market for our local businesses.

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

Manufacturing Sector Insight

The net balance of manufacturers reporting on their overseas sales decreased significantly to -13% this quarter, from 1% in the previous quarter. This again highlights the struggles businesses are facing trading overseas. It was a similar picture for overseas orders, the net balance was also -13%, compared to 0% in the previous quarter.

Service Sector Insight

In contrast to the manufacturing sector, the net balance of services companies reporting on their overseas sales was 6%, reducing slightly from 7% in the previous quarter. Overseas orders have improved slightly to 6%, compared to 5% in Q2.

CASH FLOW

Cash flow data is a great measurement of business performance. Cash flow is a measurement of the amount of cash that comes into and out of your business in a particular period of time. When you have positive cash flow, you have more cash coming into your business than you have leaving it. When you have negative cash flow, the opposite is true. Therefore, when compared over a period of time, cash flow data can be an important tool to analyse business performance.

In this quarter, 31% of businesses reported their cash flow has increased in the last three months, an improvement from 26% in Q2. 48% reported no change. 21% reported their cash flow has decreased in the last three months, an improvement from 24% in Q2. A net balance of 10% for cash flow is the highest the figure has been since Q1 2022.

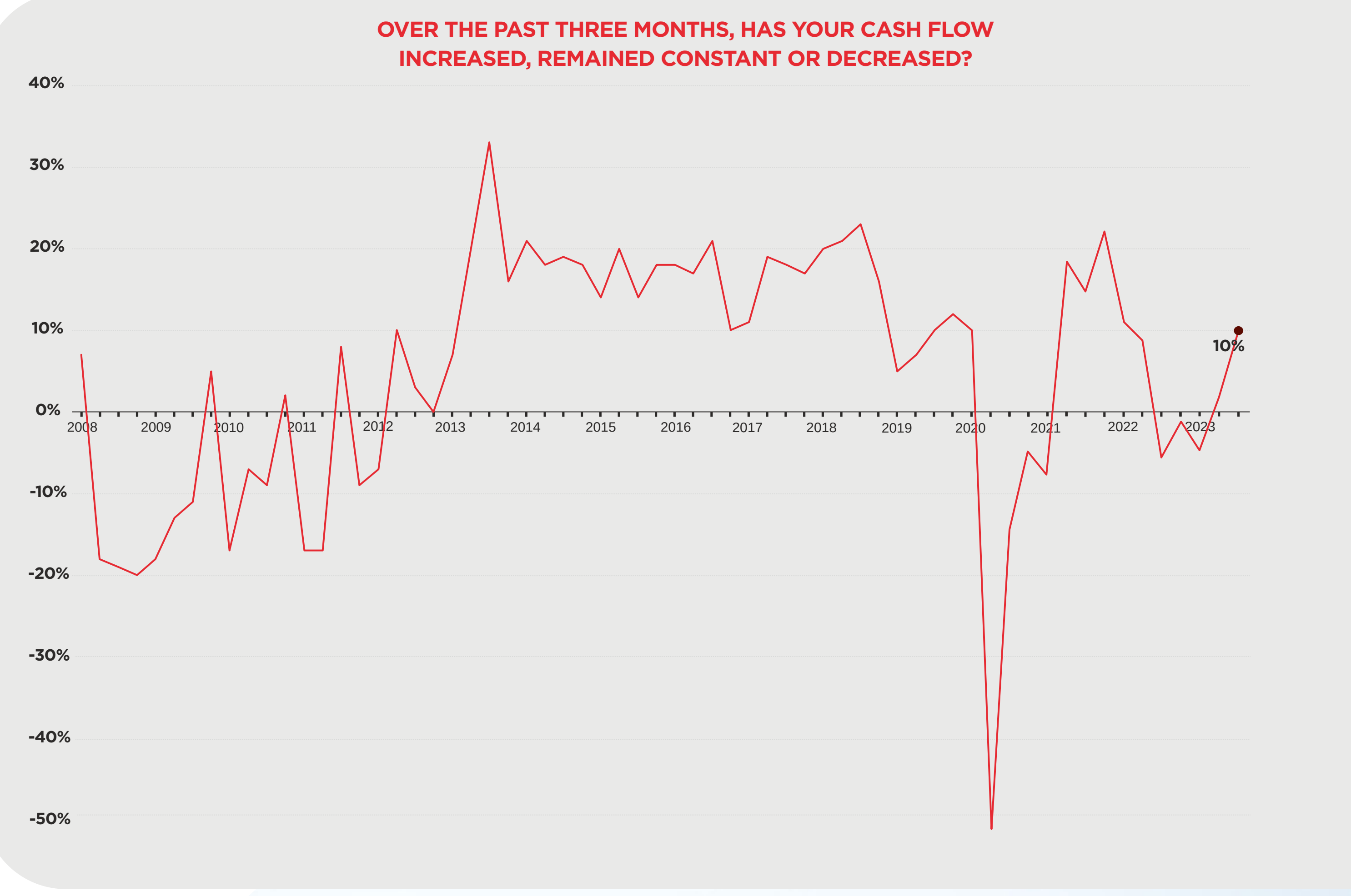
ONS data has detailed that more than a quarter (26%) of trading businesses reported an increase in the prices of goods or services bought in August 2023 compared with July 2023, down 4% when comparing July 2023 with June 2023.

Furthermore, almost one in five (19%) trading businesses reported that their performance had decreased in August 2023 compared with August 2022; this was broadly consistent with July 2023.

However, almost half (48%) of trading businesses reported that they were not considering raising prices. This is the largest proportion of businesses to report this since the question was introduced to the Business Insights and Conditions Survey (BICS) in April 2022.

Across all industries, the most reported reasons for businesses considering raising prices included:

- energy prices (22%), down 2% from September 2023
- raw material prices (20%), down 1% from September 2023
- labour costs (18%), down 3% from September 2023



Manufacturing Sector Insight

The net balance of manufacturers reporting on cash flow has again improved this quarter. In previous quarters, the net balance has been a negative figure however we saw an improvement in the previous quarter. The net balance has further increased to 7% from 2% in Q2, the highest it has been since Q4 2021..

Service Sector Insight

The net balance of services companies reporting increased cash flow also increased to 7%. The figure was 2% in the previous quarter.

EMPLOYMENT & RECRUITMENT

It is well documented that people are the most valuable resources to any business. Therefore, employment & recruitment is significant to any organisation. We have found that recruiting, and retaining staff remains a significant challenge in the current labour market. 58% of businesses that answered this survey attempted to recruit staff over the last quarter. 69% of these businesses faced recruitment difficulties, increasing from 62% in Q2. Skilled manual/technical roles were again the most difficult roles to recruit for (57%).

Businesses reporting on their workforce changes have reported a 15% net balance for changes in the workforce over the last three months, this has decreased from 18% in the previous quarter and suggests the recruitment difficulties businesses are facing are having a direct impact on workforce numbers. This is further highlighted by 59% of businesses that answered this survey reporting they are operating below capacity. When asking businesses on their workforce changes, 28% of businesses increased their workforce over the last three months, the same as Q2. 59% reported no change. 13% reported they have reduced their workforce over the last three months, increasing from 10% in Q2 and resulting in the 15% net balance.

The latest Office for National Statistics (ONS) labour market overview has reported on UK employment rate, number of payrolled employees and much more. The UK employment rate was estimated at 75.5% in May to July 2023, 0.5% lower than February to April 2023. The quarterly decrease in employment was mainly driven by full-time self-employed workers.

The estimate of payrolled employees for August 2023 is largely unchanged on the month, down 1,000 on the revised July 2023 figure, to 30.1 million.

Annual growth in regular pay (excluding bonuses) was 7.8% in May to July 2023, the same as the previous 3-month period and is the highest regular annual growth rate since comparable records began in 2001.

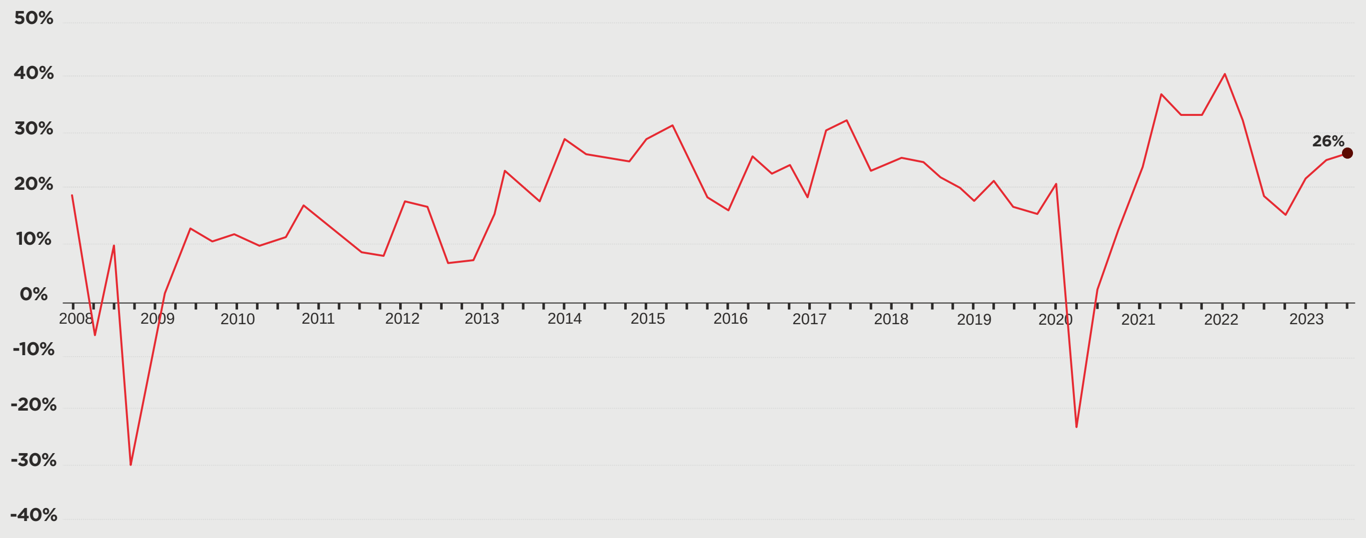
Manufacturing Sector Insight

The net balance of workforce changes for service sector businesses was 17% this quarter, a slight decrease from 19% in the previous quarter. For expected change in workforce, the net balance was 26%, also a slight decrease from 28% in the previous quarter.

Service Sector Insight

The net balance of workforce changes for manufacturing businesses was 9% this quarter, compared to 12% in the previous quarter. With regards to expected change in workforce, the net balance was 27%, a significant improvement from 21% in the previous quarter. Therefore, highlighting mixed results in the labour market for local manufacturers.

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



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

"Hard to attract electrical engineers. Not many candidates applying for the role. Unrealistic pay expectations."
Electrical Contractor employing 1-10 people.

"A very buoyant employment market presently, experiencing lots of movement."
Professional services company employing 100+ people.

"Recruitment of quality personnel continues to be an issue for us, both in technical and non-technical roles."
Professional services company employing 11-49 people.

"Finding the right level of talent is difficult. People expect more pay than they are "worth" based on their experience and their ability."
Manufacturing company employing 500+ people.

"Continued difficulty recruiting and retaining lower skilled staff. Difficulty recruiting to teaching / lecturing posts due to higher salaries in the school & sixth form sectors."
Public sector or voluntary business employing 250+ people.

"We struggled to find employees with relevant experience for the roles available, so have recruited people who we can train and invest in for the roles."
Manufacturing company employing 11-49 people.

INVESTMENT

Investment and training are essential to develop a business. Training improves employee performance, increases employee's understanding of the organisation, and improves employee engagement, to name a few benefits. In terms of investment in business, there are many reasons why businesses invest, but the main goal is always to improve the bottom line. By investing in new products, processes, or services, businesses can increase sales, reduce costs, or improve efficiency. In some cases, investment is also necessary simply to maintain the status quo and keep up with the competition.

20% of businesses revised upwards their plans for capital investment (plant/machinery/equipment), an increase from 18% in Q2. 62% reported no change. 18% revised downwards their plans for capital investment, no change from Q2. An improvement in the net balance to 2% suggests investment is on the rise after being put to one side in our Q3 and Q4 2022 surveys.

Businesses were asked the same questions but reporting on their plans for training over the last three months. 23% reported they have revised upwards their plans for training, a decrease from 27% in Q2. 65% reported no change. 12% reported they revised downwards their plans for training, this was 9% last quarter. Therefore a net balance of 11% has dropped from 18% in Q2 and suggests less of a priority is being placed on training amongst businesses in Herefordshire and Worcestershire.

The latest business investment data released by the ONS has indicated that business investment increased by 4.1% in Quarter 2 (Apr to June) 2023, revised up from the provisional estimate of 3.4% growth. Further positive data is that business investment has grown by 9.2% compared with the same quarter a year ago. This also reflects the local data we have received in this quarter, that business investment is on the rise after a period of stagnation due to other concerns such as energy costs and inflationary pressure, which is now easing.

Furthermore, ONS figures also show that whole-economy investment (technically known as Gross Fixed Capital Formation (GFCF)), which includes business and public sector investment, increased by 0.8% in Quarter 2 2023, revised up from the provisional estimate of 0.0% growth. Finally, GFCF has grown by 4.6% compared with the same quarter a year ago.

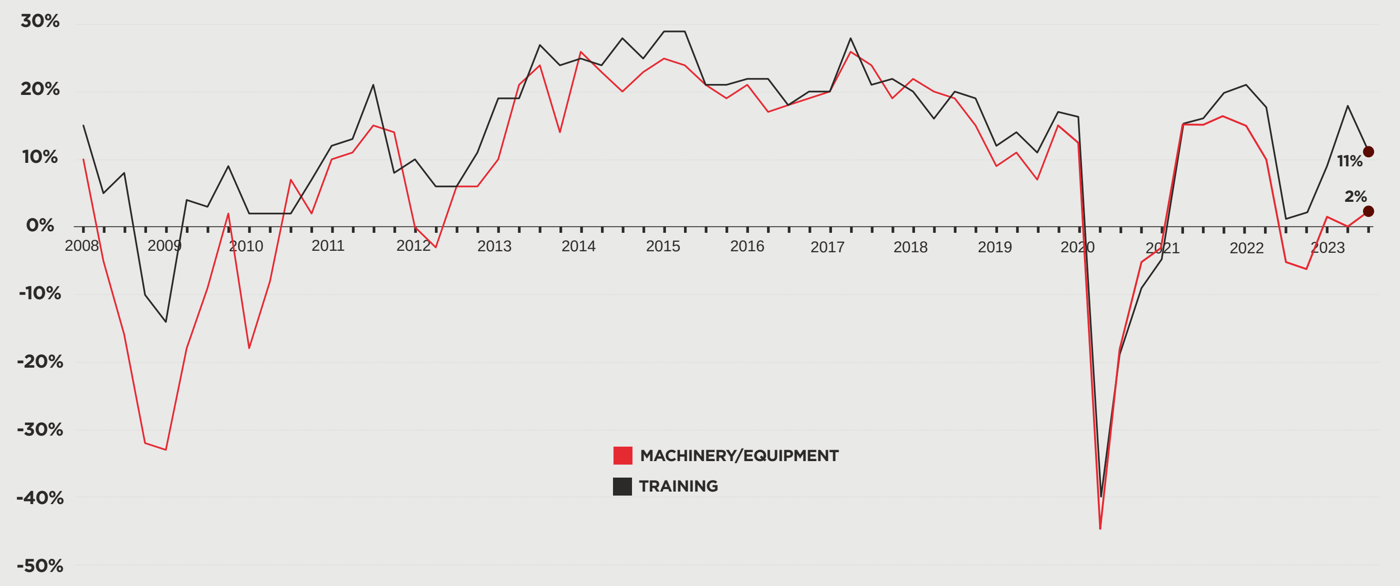
Manufacturing Sector Insight

The net balance of manufacturers plans for capital Investment decreased significantly to -1% from 13% in the previous quarter. Planned investment in training has also took a significant hit to 5%, from 27% in the previous quarter.

Service Sector Insight

Service sector businesses plans for capital investment has improved to -1%, from -5% in Q2. Planned investment in training decreased however, to 12% compared to 18% in Q2.

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



BUSINESS CONFIDENCE

Business Confidence has mostly remained the same since the previous QES report. The net balance of businesses reporting on their turnover increased slightly this quarter to 45% from 44%, and the net balance for profitability remained the same at 28%.

Businesses are asked to report on whether they believe their turnover will increase, remain the same, or worsen over the next 12 months. In this quarter, 57% reported they expect their turnover to improve over the next 12 months, compared to 58% in Q2. 31% expected no change. 12% expect their turnover to worsen, compared to 14% in Q2.

In our survey, the same question was also asked but businesses reported on their profitability this time. The data was the exact same as the previous quarter. 47% of businesses expect their profitability to improve over the next 12 months. 34% expect no change. 19% expect their profitability to worsen.

Recent data collected from the ONS found that more than a quarter (27%) of trading businesses reported turnover had decreased in August 2023 compared with the previous calendar month, this is up 2% from July 2023; in comparison 15% reported their turnover was higher, down from 17% over the same period. Furthermore, more than one in six (18%) trading businesses expect their turnover to increase in October 2023, the same proportion that had these expectations for September 2023; meanwhile 54% reported that they expect their turnover to stay the same.

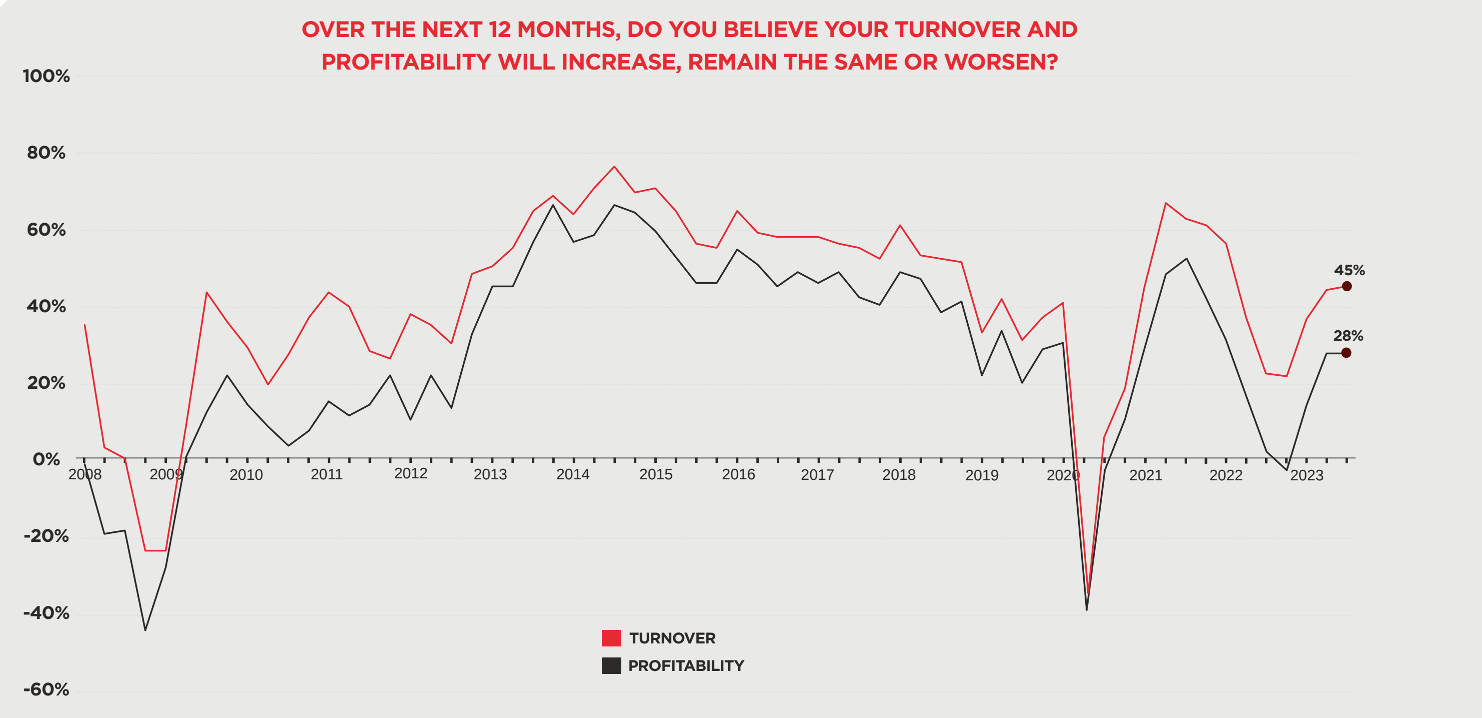
The ONS also reported that, in early September 2023, nearly a quarter (23%) of trading businesses reported that they expect their overall performance to increase over the next 12 months; this is broadly consistent with early August 2023.

Manufacturing Sector Insight

Manufacturer businesses' confidence in yearly turnover has slightly decreased to 50% this quarter, from 51% last quarter. Confidence in yearly profitability has also decreased to 24%, from 29% last quarter. Although the figures have dropped from last quarter, when comparing to Q3 of 2022, turnover was 13% and profitability was -23% therefore highlighting the significant improvement in business confidence in the manufacturing sector over the last year.

Service Sector Insight

On the other hand, service sector businesses confidence in turnover has increased 44% from 41%. Confidence in yearly profitability has also increased to 33% this quarter from 29% in Q2.



What is causing the most concern to businesses over the last 3 months?

42% ENERGY COSTS

12% EXCHANGE RATES

37% INTEREST RATES

15% BUSINESS RATES

59% INFLATION

23% COMPETITION

25% CORPORATE TAX

BRITISH CHAMBERS OF COMMERCE COMMENTARY

The BCC's Quarterly Economic Survey (QES) for Q3 2023 shows the percentage of firms expecting to raise prices in the next three months has fallen for the fifth consecutive quarter.

The data also reveals that for the second quarter running the main factor for increasing costs is coming from wages.

The survey, by the BCC's Insights Unit, of over 5,000 firms – 91% of whom are SMEs – also reveals business performance across different sectors varies considerably. The research took place between 21 August and 14 September before the Bank of England decided to hold the interest rate at 5.25%. Respondents were split into 28% manufacturing and 72% services industries, with 48% exporting.

Activity in the service sector ticks up but manufacturing is lagging behind

The percentage of all firms reporting increased domestic sales remained unchanged from Q2 at 35%. Meanwhile 23% reported a decrease and 42% reported no change. But the services sector saw a larger bump with 36% seeing an increase, diverging from manufacturers, where 29% saw an increase.

For cashflow, more businesses saw an improvement rather than a decline – a reversal of the situation in Q1 and Q2. But the changes remain small, as 28% of businesses said their cash flow has improved over the last three months (26% in Q2), while 26% have seen it decline (29% in Q2).

After a rocky end to 2022, business confidence bounced back and has now stabilised.

The percentage of firms expecting to see their turnover increase over the next 12 months stood at 53% for Q3, broadly similar to Q1 (52%) and Q2 (54%) but up significantly from Q3 and Q4 in 2022 (both 44%). Only 16% expect a decrease in the next twelve months.

Profitability confidence also remains stable at 45%, up from 44% in Q2, although it continues to remain weaker than turnover confidence. 23% expect a decrease in the next twelve months.

This recovery in confidence in 2023 is yet to feed into increased business investment.

The percentage of respondents reporting an increase to investment in plant/equipment remains stuck at 23%, while 59% reported no change and 18% saw a decrease.

Over the last six years the number of firms increasing investment has dropped as low as 9%, at the start of the pandemic, but it has never gone higher than 28% (Q1 2018). The hospitality sector remains under additional pressure with 33% reporting a decrease in investment, and 22% an increase.

Inflationary pressures continue to ease but remain the top concern.

The percentage of firms expecting their prices to rise fell for the fifth consecutive quarter. Two-fifths of firms (41%) now expect to put up prices in the next three months. This is down from an historic high of 65% in Q2 of 2022, indicating inflationary pressures are continuing to ease.

While inflation remains firms' biggest concern, the level has dropped for the third quarter running, with 65% of firms now worried compared to 69% in Q2. However there has been a corresponding 4 percentage point rise in businesses worried about interest rates, increasing from 41% in Q2 to 45% in Q3.

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

Concerns around wage costs was the biggest pressure for most firms for the second quarter running, although the percentage worried has dropped from 68% in Q2 to 66% in Q3. However, worries about utility prices fell even further from 63% to 59%, creating clear water with wage costs as the number one issue.

But there remain wide sectoral differences with manufacturers citing wages (68%), raw materials (65%) and utilities (65%) in a three-way tie as main factors driving price increases. While in hospitality, 81% of firms were most worried about utility costs, with wages in second place at 74%. The retail sector was least worried about labour costs, with 52% citing it as an issue, against 59% flagging utilities and 58% raw materials.

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

"The results of the QES continue to point to tough trading conditions for many firms as inflation, labour shortages, global trade barriers, and interest rate rises continue to bite.

"Manufacturers have reported a particularly tough quarter, and it will be crucial over the coming months to see how this trend plays out.

"Most firms continue to report no increase to their investment intentions. This is in part a reflection of broader uncertainty, with little clarity on major long-term projects and yet more trade barriers to come with the EU.

"Easing inflation and a recovery to business confidence provide brighter spots, but these need to be reinforced with a clear plan from Government on long-term investment and direction from the Bank on the interest rate."

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

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

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

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

policy@hwchamber.co.uk
www.hwchamber.co.uk
@hw_chamber
Herefordshire & Worcestershire Chamber of Commerce

Herefordshire
& Worcestershire
Chamber of Commerce