heart of the south west
local enterprise partnership

Quarterly Business Bulletin

Winter 2022/23

BCCSW
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CBI

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Executive Summary

David Ralph
HotSW LEP Chief Executive

As I write this the temperatures outside are at or below zero and it feels like the economy is similarly frozen. Welcome to the Winter 2023 edition of our Business Bulletin, providing a roundup of the latest economic statistics and sentiment nationally and locally.

The UK economy is still smaller than pre-pandemic and the accelerating recovery we were seeing 12 months ago feels very distant, buffeted and then choked off by rising prices across energy, food etc and subsequent interest rate rises. Business has said that the changes to the energy support from March are creating a cliff-edge for businesses, exacerbating problems already faced. Whilst CPI is expected to plateau in the next few months, prices remain high.

At the moment the labour market remains very tight and the south west the tightest in the country; there are some signs of softening – vacancy rates have declined for the last 6 months but the number of vacancies is still over 1 million nationally. Economic inactivity – a major issue nationally – is lowest in the South West. Rising costs and shortage of labour are driving pay increases to historically high levels though the headline rate masks a stark difference in private sector pay growth (+7.2%) vs public sector pay growth (+3.3%).

We are also seeing signs of a tightening in the availability of finance for businesses, especially smaller SMEs – reported by Bank of England and being seen through enquiries to the Growth Hub where businesses have increasingly been seeking funding for day to day operations rather than investment. Business sentiment suggests investment decisions have been delayed since the autumn and overall business confidence is lower in the south west than other parts of the country; experience from the pandemic suggests that the recession will be deeper here, and recovery take longer.

Over the last 4 years business start-ups have been above UK levels, particularly due to growth in Plymouth, and the rate of housebuilding across Heart of the SW over the last 5-6 years has exceeded the UK average on a per head basis. However, the HotSW economy remains relatively low wage and low productivity.

Indeed, some businesses have started talking about "de-growth", for example some in tourism and hospitality are looking at not going back to the capacity they were running pre-Covid due to cost and labour challenges.

It's not all gloom: retail sales were higher in December than a year ago, with suggestions that savings built up during the pandemic remain available to spend. Slightly longer term, our latest dashboards (https://heartofswlep.co.uk/understanding-our-economy/our-dashboards/) show that over the last 4 years business start-ups have been above UK levels, particularly due to growth in Plymouth, and the rate of housebuilding across Heart of the SW over the last 5-6 years has exceeded the UK average on a per head basis. However, the HotSW economy remains relatively low wage and low productivity.

Locally, it's essential we do what we can to support businesses to survive and then grow and I was delighted to be able to confirm before Christmas that the LEP is continuing to fund our Growth Hub through to at least the autumn, helping SMEs navigate and access the right support. I would also like to highlight the pending launch of the Devon & Somerset Local Skills Improvement Plan, part of the Government's Skills Accelerator programme. LSIPs will put employers at the heart of planning the future of skills and the Chambers are encouraging employers in the areas to share their views by completing the short form at https://devonandsomersetlsip.co.uk/get-involved/. The Chambers will be hosting a series of events and engagement opportunities across the LEP region early in 2023 to engage in conversation with businesses and employers and we will publish more details on these as they become available. Details will also be advertised at the dedicated website https://devonandsomersetlsip.co.uk

I have said before, and I repeat, the economic challenges, the disincentives for investment that will drive long-term sustainable growth, all require a strong and clear-sighted plan for growth, something the UK lacks. The recent speech by the Chancellor is welcome and it's hard to disagree with the 4 E's he highlighted, but what is needed is a substantive plan. The March budget is a major opportunity which I hope Government seize.

LSIPs will put employers at the heart of planning the future of skills and the Chambers are encouraging employers in the areas to share their views

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Summaries and Extracts from Key Reports

NB: We have used the most recent data available at the time of the production of this Bulletin and thus, some reports refer to different 'quarters'.

ONS, GDP quarterly national accounts, UK: July to September 2022

GDP quarterly national accounts, UK - Office for National Statistics (ons.gov.uk)

UK GDP is estimated to have decreased by 0.3% in Q3 2022 (July to September), and is now estimated to be 0.8% below where it was before the pandemic. It is believed that the figures for Q3 have been affected by the additional bank holiday in September.

Services output increased by 0.1% in Q3 2022, and is now 1.3% below its pre-pandemic level (Q4 2019). The rise was primarily driven by a 1.6% increase in education output and a 0.8% increase in public administration and defence. Overall services growth was limited however by falls in the wholesale and retail sector, the arts, entertainment and recreation sector, and other services activities sector, which decreased by 0.9%, 1.7% and 2.2% respectively. Output falls in these sectors are likely due to significant pressures relating to the cost of living crisis and squeeze on disposable incomes.

Production output fell by 2.5% in Q3 2022, and is now 1.2% above its pre-pandemic levels. This was the fifth consecutive quarter that output has fallen. All the key production sectors saw decreases in output over the quarter, with manufacturing output falling by 2.7%, electricity, gas, steam and air conditioning supply and water supply; sewerage, waste management and remediation activities both falling by 2.1%, and mining and quarry activities dropping by 1.3%.

Output in the electricity, gas, steam and air conditioning supply sector saw the largest drop in output compared to initial expectations for the quarter; output was previously recorded as being 6.3% above its pre-pandemic levels, before it was revised to 2.7% below. This is likely due to lower volumes of energy consumed over the quarter than previously thought.

Construction output decreased by 0.2% over Q3, although it is now 3.3% above pre-pandemic levels. The key drivers of the quarterly fall are the non-housing repair and maintenance, and infrastructure sectors, which fell by 2.2% and 2.5% respectively.

Falls in household consumption led to a 0.3% decline in expenditure in Q3 2022. Real household expenditure fell by 1.1% over the quarter, primarily driven by decreases in output in food and drink, household goods and services, tourism, and transport sectors. Meanwhile, real government expenditure rose by 0.5% over the quarter, as spending increases on public administration, education, and defence were seen, despite falls in local government spending.

The above figures for Q3 2022 were released by the ONS in December 2022. The figures for Q4 (October to December 2022) are due to be released by the ONS in March 2023.

ONS, Labour Market Overview, UK: January 2023

ONS, Vacancies and jobs in the UK: January 2023

Labour market overview, UK - Office for National Statistics (ons.gov.uk)
Vacancies and jobs in the UK - Office for National Statistics (ons.gov.uk)

Estimates indicate that in December 2022, there were a record 29.9 million payrolled employees in the UK, having increased by 28,000 from November 2022, and 888,000 from before the pandemic (February 2020).

The latest figures show the UK employment rate (75.6%) in September to November 2022 has not changed since the previous quarter, and is still 1.0 percentage point lower than before the pandemic. The unemployment rate meanwhile had increased by 0.2 percentage points over the quarter, to 3.7%. The economic inactivity rate fell by 0.1 percentage points in September to November 2022 to 21.5%, primarily driven by the 16 to 24 age group, and the 50 to 64 age group. The economic inactivity rate is now 1.3 percentage points above pre-pandemic levels.

Both average total pay and regular pay had increased by 6.4% in September to November 2022, the largest growth in regular pay seen outside of the pandemic. The average growth rate for the private sector was 7.2%, whereas average growth in the public sector was 3.3%. Despite this, both total and regular pay, when adjusted for inflation, fell by 2.6%, one of the largest falls in growth since records began in 2001.

The number of job vacancies was 1,161,000 in October to December 2022, having fallen for the sixth consecutive quarter. The overall rate of quarterly growth fell to -6.1% over the quarter, having decreased across most sectors. The lowest rate of growth was seen in the Arts, entertainment and recreation sector, at -23.3%, followed by the transport and storage sector, at -15.3%.

Office for Budget Responsibility, Economic and fiscal outlook – November 2022

[Economic and fiscal outlook - November 2022 - Office for Budget Responsibility (obr.uk)]

The Office for Budget Responsibility (OBR) publish their Economic and fiscal outlook twice a year, the most recent having been published in November 2022. It was developed against a backdrop of political uncertainty, and the final published forecast reflects the policies announced in five major fiscal statements made since March 2022. Over the past six months, European wholesale gas prices have increased ten-fold from pre-pandemic levels, as Russian imports have further reduced. It is now expected that energy prices will remain four times higher than pre-pandemic levels in the medium term.

Alongside rising energy prices, increasing food and other goods prices have worked to push up interest rates set by central banks to levels not seen since the financial crisis in 2008. As a result, global economic recovery from the pandemic has been slow, with governments facing increased financial pressures to support households and businesses through the coming months.

CPI inflation in the UK is due to peak in fourth quarter of 2022 at a 40-year high of 11%. This figure has been revised up from the peak of 8.7% predicted in the March forecast. The OBR notes that this peak is likely to have been a further 2.5 percentage points higher had the government's energy price guarantee not been implemented to limit the energy bills for typical households to £2,500 this winter.

It is expected that real wages and living standards will fall by 7% are a result of rising prices over the two financial years to 2023-24. As real incomes are squeezed and interest rates rise, consumption and investment levels will be impacted, and the economy is expected to be in recession until around the third quarter of 2023. This medium-term fiscal outlook has worsened since the OBR's March forecast, as wholesale gas prices have reached new highs, and interest rate expectations have significantly increased. They also noted that the value of the pound had fallen by 14.2% against the dollar, and by 4.3% against the euro at the time the report was published.

The OBR are due to release their next outlook for the UK economy in March 2023.

Bank of England, Monetary Policy Report – November 2022

Monetary Policy Report - November 2022 | Bank of England

The Bank of England's latest 'monetary policy report' was published on the 3rd of November 2022, and outlines projections for the UK economy.

In September 2022, the Monetary Policy Committee (MPC) voted to increase the Bank rate by 0.5 percentage points to 2.25%, in response to volatile wholesale gas prices, the falling value of the pound, the tight labour market, and elevated cost pressures on households seen since the Bank's August report. Since August, when the Government announced the Energy Price Guarantee for households, uncertainty around future UK retail energy prices has fallen, and therefore further increases in CPI inflation are likely to be limited and less volatile that they would have been without the Guarantee.

The MPC voted in November to increase Bank rate by a further 0.75 percentage points, to 3%. At this time, the Bank made the assumption that some fiscal support will continue beyond the six-month period of the Energy Price Guarantee, which would therefore limit further increases and volatility in the energy component of CPI inflation. However, the support could increase inflationary pressures in non-energy elements, and subsequently CPI inflation is likely to remain over 10% in the short term, although at a lower level than previously expected in August. The MPC predicted in November 2022 that CPI inflation will fall below 2% over the next two to three years, reflecting falling energy prices and a rising unemployment rate.

Business investment is expected to be low over the short-term whilst the financial market remains volatile, and is then predicted to fall by 3.5% over 2023, and by 6.5% over 2024.

Bank of England, Agents' Summary of Business Conditions – 2022 Q4

Agents' summary of business conditions - 2022 Q4 | Bank of England

The Bank of England's latest 'Agents' Summary of Business Conditions' report published in December 2022 summarises intelligence gathered between mid-October and late November 2022.

Consumer demand: The demand for goods and services continued to be impacted by the squeeze on real household incomes. Retailers have reported increased demand for lower-priced food products, alongside a sharp fall in demand for household goods such as furniture and appliances. Whilst retailers and contacts in the hospitality sector expected to see limited sales growth over the Christmas period, many remained concerned sales and bookings falling significantly in the New Year.

Manufacturing: Sectors reliant on consumer spending saw declines in output compared with a year ago, with demand for household items and some food items reporting weaker production. Meanwhile, sectors such as IT, defence and aerospace reported strong growth, as supply-chain challenges continued to ease. Shortages were still being reported however by organisations in the electronics and steel sectors due to the ongoing conflict in Ukraine, and delivery times have still not returned to pre-pandemic levels.

Construction: Both commercial development projects and home renovations declined, leading to a fall in construction output. Rising costs, and the subsequent increased risk for developers led to many reported public infrastructure projects being delayed, and small housebuilding organisations reporting slowed activity.

Investment: Overall, companies looked to reduce or pause their investment plans as a result of weakened demand and increased uncertainty. Many organisations reported having less available cash to invest, as they have prioritised building up their stocks to protect against further supply-chain disruption. Higher energy costs have also reportedly both incentivised and deterred organisations from investing in energy efficiency and power generation projects.

Corporate finance: Credit risk increased as the economic outlook weakened, leading to credit availability tightening. For large firms and low-risk borrowers, bank credit remained available, however the availability reportedly tightened for small and medium-sized organisations, as banks looked for greater security. Demand for credit similarly fell, reflecting companies' desire to reduce debt and build cash reserves.

Employment & pay: Generally, hiring intentions were low for the coming year, as economic uncertainty and weakening demand led to many organisations pausing efforts to hire new staff, and leave vacancies unfilled. In sectors such as business services however, many organisations have reported increased hiring intentions. Sectors including IT, catering and care services reported seeing continued challenges with recruitment, despite reports that the labour market has begun to loosen. Pay settlements reportedly remain high, and the outlook for settlements into 2023 remains uncertain.

SWMAS, National Manufacturing Barometer Q2 2022/23

National Manufacturing Barometer - October 2022 (Q2 2022) | SWMAS

The latest Manufacturing Barometer surveyed small and medium-sized manufacturing businesses in the UK over July, August and September 2022, and was published in October 2022.

Overall, SME manufacturers continue to see significant challenges, and are facing making decisions with long term consequences in a period of great uncertainty.

- **40% of respondents reported that sales turnover had increased over the previous six months, whilst 42% expected to see turnover increase over the coming six months. Both proportions have fallen since the previous survey in July 2022.**
- **50% of businesses had seen their profits fall over the past six months, whilst 42% expected to see profits fall in the coming six months.**
- **27% of respondents had seen an increase in staff numbers over the past six months, compared to 31% expecting to increase stall numbers over the next six months. Both of these figures are similar to those recorded in July 2022, and sentiment has not recovered to the levels seen over the past year.**
- **31% of businesses had increased their capital investment over the past six months, and 34% planned to increase investment in the coming six months.**

The number of businesses reporting increased trade compared to before the pandemic remained the same this quarter, at 46%. Meanwhile, the proportion of businesses who experienced a reduction in trade compared to their pre-pandemic position was 31%, with the majority of these expecting recovery to take more than 12 months.

Ongoing challenges continue to impact manufacturers in the UK, with 95% of respondents having been negatively affected by supply chain price changes, 92% impacted by inflation, 86% struggling with lead time changes, and 84% affected by the availability of suitably skilled staff. Additionally, over the quarter there appears to have been a reduction in the number of firms able to pass costs onto their customers; in April 2022, 86% stated they were able to do this, however this quarter 75% of firms reported that this is having a negative impact on their business.

ICAEW, UK Business Confidence Monitor: National – Q4 2022

UK Business Confidence Monitor: National | ICAEW

The latest Business Confidence Monitor report published by the ICAEW utilised data gathered between the 25th July and 14th October 2022. The report demonstrated that overall, business confidence continued to fall across all sectors and regions, reflecting recent political uncertainty and economic challenges.

Business confidence is now in negative territory for all but one sector (Transportation & Storage), with the lowest confidence reported within Construction, Wholesale & Retail, and Property sectors. This finding is linked to the slowdown in domestic sales growth compared to the previous quarter, with these sectors predicting the weakest sales rise over the coming 12 months. Export sales growth has also been slow, although sales are expected to continue rising over the coming year, as some of the challenges seen over the past few years are beginning to ease. Driver shortages and supply chain difficulties were less frequently reported by businesses over the survey period, and some noted that port delays and other Brexit-related challenges may also have been resolving.

Labour market challenges were still commonly reported by businesses, in particular the availability of non-management skills and high staff turnover rates. Additionally, labour costs are reportedly rising, with the UK average annual salary growth standing at 3.7% in Q4, a rate not seen since 2005. The rate of employment growth is slowing however, following significant increases over 2021 and the first half of 2022. It is predicted that this will ease the pressures of wage rises.

British Chambers of Commerce, Quarterly Economic Survey – Q4 2022

PowerPoint Presentation (britishchambers.org.uk)

The British Chambers of Commerce's latest Quarterly Economic Survey for Q4 2022 utilises data collected between the 1st and the 30th November 2022. The report noted that business conditions overall have not changed following the large fall in the previous quarter.

33% of respondents reported an increase in domestic sales over Q4, the same figure as recorded in Q3, but a significantly lower proportion than in previous quarters. Businesses in the hospitality industry were the least likely to have reported an increase in domestic sales (26%).

As in Q3, the proportion of businesses that increased investment in equipment and technology over the quarter was 21%, whilst 22% reported a decrease in investment. The balance of firms in the manufacturing sector that reported increased investment was +5% in Q4 2022, the lowest since Q1 2021. Meanwhile, the balance of firms in the services sector was 0%.

The balance of firms expecting an increase in profitability over the coming 12 months was negative overall, with 34% expecting to see growth, and 36% expecting to see a decrease. In both the manufacturing and services sectors, the overall balance of businesses expecting increases in profitability was -1%.

60% of businesses expected their prices to increase, with the balance of firms in the manufacturing and services sectors standing at +68% and +55% respectively.

British Chambers of Commerce, Quarterly Recruitment Outlook – Q3 2022

[Staff Shortages Impacting Productivity - Quarterly Recruitment Outlook (britishchambers.org.uk)]

The results from the BCC's latest Quarterly Recruitment Outlook survey from Q3 2022 shows that recruitment difficulties are still at record high levels, mostly unchanged from the previous quarter.

62% of businesses surveyed had attempted to recruit new staff over Q3, with 76% of these reporting difficulties with their recruitment. The sectors most likely to report difficulties were the manufacturing and hospitality sectors, with 82% and 81% of firms respectively facing challenges.

Alongside these challenges, only 24% of businesses surveyed had increased their investment in training for staff over the quarter, a reduction from the 28% recorded in Q2.

Overall, over half of the firms surveyed were operating below full capacity (56%), with the hospitality sector seeing the most widespread challenges; 71% of hospitability firms were reportedly operating below their full capacity over the quarter.

The Local Picture

ONS, Labour market in the regions of the UK: January 2023

Labour market in the regions of the UK - Office for National Statistics

The employment rate in the South West for the three months ending November 2022 was 79.3%, the highest recorded rate in the UK over the quarter, and well above the UK average of 75.6%. The South West figure represented a 0.7 percentage point increase on the quarter, the largest increase in the UK.

The South West recorded the lowest unemployment rate in the UK at 2.1% in September to November 2022, compared to the national average of 3.7%. The South West rate had fallen by 0.5 percentage points since the previous quarter, the largest fall in the UK.

The inactivity rate in the South West was 18.9% over the quarter, having fallen by 0.3 percentage points from June to August 2022. The region recorded the lowest inactivity rate in the UK, and was far below the UK average of 21.5%.

FSB, South West Quarterly Small Business Index – Q3 2022

FSB South West Confidence Report Oct 2022.pdf

The Federation of Small Businesses (FSB) published their latest quarterly Small Business Index in October 2022. The South West Index, which measures confidence amongst businesses, fell again in Q3 2022 to -47. As a result, the South West is the least positive region in the country, with confidence levels much lower than the UK average of -36. The level of sentiment in the South West is also much lower than during the same time last year, when the Index was recorded as 9 in Q3 2021. The decline is most likely due to inflationary pressures and cost of living challenges.

The overall net balance for revenue in the UK over Q3 was -12%, with the South West falling below this average at net -23%. This is the second quarter in a row where a negative net revenue balance has been recorded. Predictions for the coming three months (from October 2022) in the South West were equally pessimistic, and lower than the UK average of net -10%; whilst 26% of South West businesses expected to see an increase in revenue, 45% expected a decrease, resulting in a net balance of -19%.

9% of South West Small businesses reported increasing staff numbers, whilst 17% had decreased employment, resulting in a net balance of -8%. Over the 3 months following the survey, 11% of businesses had plans to increase their staff numbers, whilst 13% planned to decrease their staff numbers. Meanwhile, 67% of businesses reported having increased the average salary awarded across the business over the 12 months ending October 2022, and 63% expected to see salary increases over the coming year.

Consistent with Q2 figures, 41% of small businesses in the South West expected to grow over the coming 12 months, a slightly lower proportion that the UK average of 47%. The net balance of businesses planning to increase their investment over the coming 3 months was -12% in October, with 17% looking to increase investment, and 29% expecting to reduce their investment levels. The South West recorded the lowest net investment intentions, and was much lower than the UK average of net 4%. Additionally, 18% of businesses reported intentions to contract the business in the coming 12 months, a large rise from Q1 of 2022, when just 6% reported the same intent.

SWMAS, South West Manufacturing Barometer – Q2 2022/23

Manufacturing Barometer - October 2022 (Q2 2022) | SWMAS

The latest South West Manufacturing Barometer for Q2 2022/23 reported data collected from SME manufacturing businesses between July and September 2022.

Turnover: 35% of respondents saw an increase in sales turnover over the past six months, a reduction from the 46% recorded last quarter, and a lower proportion than the UK figure of 40%. 39% of South West manufacturers reported seeing a decrease in turnover over the past six months, similar to the 40% recorded in Q1. 42% of respondents reported that they expected to see sales turnover increase over the coming six months, the same figure as the UK overall, and a significant fall in numbers from the 68% recorded in the spring of 2022. Meanwhile, 29% expected to see turnover decrease in the coming six months, similar to the 30% recorded in the previous quarter.

Profits: 22% of manufacturing businesses saw an increase in profits over the past six months, whilst 49% had seen profits fall. These figures are very similar to the UK proportions of 26% and 50% respectively. Expectations for the coming six months remained very similar to those recorded in the previous quarter; 33% of South West businesses expected to see an increase in profits, whilst 40% expected a decrease.

Employment: 26% of respondents had seen an increase in staff numbers over the past six months, a smaller proportion than the previous quarter (36%), although similar to the UK average of 27%. 51% meanwhile reported that their staff numbers had not changed over the same period in the South West. 34% of businesses expected to see staff numbers increase over the coming six months, whilst 51% again expected to see no change. Similar to the previous quarter, 15% expected to see a fall in staff numbers.

Capital Investment: 30% of manufacturing businesses had increased their investment over the past six months, compared to 20% who had reduced their investment levels. Similar to the previous quarter, 39% of respondents expected to increase their investment over the coming six months, and 17% expected investment to decrease. This is compared to 34% in the UK expecting increases, and 21% expecting decreases.

Challenges: Key challenges are regularly highlighted by the Manufacturing Barometers, which continually impact the majority of businesses surveyed. 97% of businesses reported that supply chain price changes have had a negative impact on their business, whilst 91% reported inflation as a key challenge. 85% agreed that long lead times has had a negative impact on their business, whilst 82% had struggled with energy costs, 79% with the availability of skilled staff, and 74% had seen difficulties in passing on rising costs to their customers. Despite these proportions being very high, all have decreased slightly since the previous quarter, suggesting that conditions have improved marginally since the last report.

Overall, 48% of manufacturing businesses reported that they were trading at increased levels compared to their pre-pandemic position. This figure represents an increase of 3% from the previous quarter. 30% of businesses meanwhile reported trading at reduced levels compared with before the pandemic, two thirds of which expect recovery to take more than 12 months.

NatWest, South West Purchasing Managers' Index (PMI) – December 2022

South-West-PMI-Report-December-2022.pdf

The latest NatWest PMI survey collected data from businesses in the South West over the second half of November 2022. The report noted that the Business Activity Index, which measures month-on-month changes in regional manufacturing and services output, fell to 45.3 in November. This represents the fourth successive monthly decline in activity. This figure also shows that output in the South West contracted at a sharper rate than that seen at the national level, and has been linked to increased cost pressures, a weak economic climate, and cuts to spending beyond national averages occurring in the region.

Business confidence regarding output over the coming year did increase slightly in November, with the highest degree of positive sentiment in five months recorded. Confidence levels are still much lower than historical trends however.

Overall, total new work placed with private sector businesses in the South West fell again in November, with businesses in the region seeing sharper declines in new orders than the UK average. This was assumed to be due to clients cutting back on spending because of uncertainty around outlook and rising costs.

ICAEW Business Confidence Monitor (BCM): South West – Q4 2022

South West | ICAEW

The latest ICAEW Business Confidence Monitor for Q4 2022 collected data between the 25th July and the 14th October 2022. Overall, business confidence has continued to fall amongst South West businesses, with sentiment in the region amongst the lowest in the UK.

One of the main reasons behind the fall in confidence is the ongoing supply chain challenges that continue to be seen, as well as input price inflation, which reached 5.5% over the quarter. Businesses in the South West have also been impacted by significant labour market challenges, with 45% of businesses surveyed citing the availability of non-management skills as a concern, and 36% reporting issues with staff turnover.

Despite these findings, South West businesses have reported higher sales performances than most other regions in the UK, having seen a 5.6% year-on-year increase in domestic sales in Q4 2022, and a 4.8% growth in export sales.

In response to the labour market challenges being seen, businesses in the South West have increased average salaries by 3.5% over the past year, and a further 3.9% wage increase is expected for the coming 12 months.

Regional Chambers of Commerce: Somerset Chamber of Commerce perspective

Even more Somerset businesses are now operating below capacity in the third quarter of the year, with 65% now saying they are not operating at maximum capacity, compared with 56% in Q2 of the Quarterly Economic Survey (QES). The QES is the largest, independent business survey of its kind in the UK and is carried out in Somerset by Somerset Chamber of Commerce.

It was a similar story for those trying to recruit, with 71% saying there were having difficulty finding suitable staff in Q3, up from 60% in the previous survey. Of those, almost half were for skilled manual/technical roles, while demand for professional/managerial roles increased by 20% on the previous quarter, with 65% of firms trying to find staff.

Business confidence remained low, with 38% believing turnover will worsen in the next 12 months and just 34% believing it will improve, down 10% on the previous quarter. Some 77% of respondents expected to raise prices in the next three months, with businesses citing labour costs, utilities, fuel and raw materials as the driving factors.

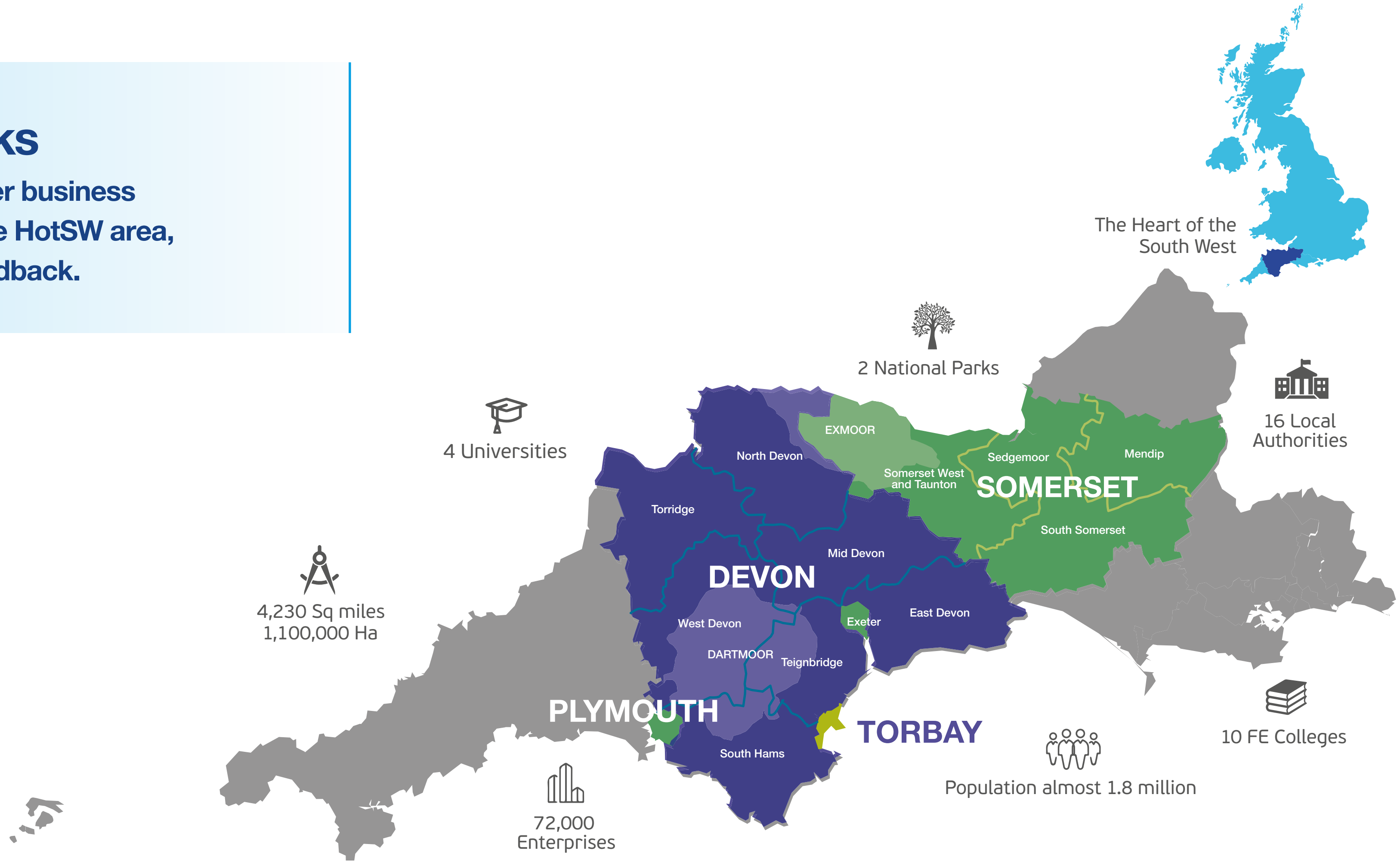
The Chamber network's own quarterly economic forecast expects the UK economy to be in recession for five consecutive quarters. Business confidence has been falling dramatically as firms face a wall of higher prices and energy bills, increased taxation and rising borrowing costs.

The Chamber highlights that unless the Government helps create a stable environment to allow businesses to invest, the UK faces a long-term loss of competitiveness. They also note that businesses need to see concrete action to resolve the immediate disruptions facing the UK economy, such as soaring energy costs and the burdens in our trading relationship with Europe. They also need to see a long-term plan on infrastructure, skills, trade, and green innovation.

The Heart of the South West

With thanks

again to the wider business community in the HotSW area, for providing feedback.



£37 BILLION ECONOMY
as big as Birmingham or Liverpool