



# Business Bulletin

## Spring/Summer 2023



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# Executive Summary



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## Lacklustre – the new normal?

Welcome to the summer edition of our business bulletin digest.

The latest evidence is showing that over the last few months growth has shown tentative signs of moving in a positive direction though the picture differs across sectors, the economy remains smaller than it was before the pandemic and is not expected to return to pre-pandemic level until mid-2024. Energy prices seem to have peaked but remain high so we have now had over 3 years where the economy has effectively stagnated or fallen. In historical terms that is by any definition a major derailment; growth projections are anaemic at best and while inflation is falling, the costs of borrowing continue to increase as does pressure on disposable income. The prospects for investment in the short term are not healthy to say the least, levels of equity investment have fallen off a cliff since early 2022 and the Bank of England is not forecasting an increase in business investment until 2025. So it seems this lacklustre performance will continue for the next 12-18 months and there still remains no clear, coherent national plan or strategy for investing in the industries and growth sectors of the future. The overall economic situation is fragile and major vulnerabilities remain.

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## Though continuing to soften, the labour market remains tight and available numbers of workers and skills shortages exacerbate the challenges faced by businesses

Though continuing to soften, the labour market remains tight and available numbers of workers and skills shortages exacerbate the challenges faced by businesses. Continuing previous trends, the south west has the tightest labour market in the country; for an economy which has historically relied on employment-driven growth, this is a major constraint on future economic performance.

The turmoil of the autumn had a significant impact on business confidence though this has returned to positive levels through the spring. However business confidence in the south west is the weakest in the UK and there are worrying signs that access to capital to support investment is more challenging in the south west than elsewhere. In that context the British Business Bank SW Fund is even more welcome and the LEP will be promoting this to SMEs across the area. Unfortunately there is no quick fix; long term prosperity of this area will require long term investment from businesses and from Government and there is more to be done to support and encourage businesses to make that investment.

## Long term prosperity of this area will require long term investment from businesses and from Government

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So, are we through the eye of the current storm? It seems like that might be the case but things are fragile, many of the forecasts this bulletin draws upon could change significantly given the underlying challenges and it would not take much to throw things significantly off course. There remains a long long way to go and a lot to do to return to what would be considered “normal” levels of sustained growth.

As usual I would like to thank our partner organisations, representing over 25,000 businesses across the HotSW area for their help and support in developing this Bulletin and without whom this wouldn't be possible.

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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 first quarterly estimate, UK: January to March 2023

[GDP first quarterly estimate, UK - Office for National Statistics \(ons.gov.uk\)](https://ons.gov.uk/gdp/first-quarterly-estimate-uk)

UK GDP is estimated to have increased by 0.1% in Q1 2023 (January to March), and is now 0.5% below where it was before the pandemic (Q4 2019). Increases in output was seen across all major sectors in the UK.

Services output increased by 0.1% in Q1 2023, having also risen by 0.1% the previous quarter. Half of the services sub-sectors saw increases, with information and communication output and administrative and support service output rising by 1.2% and 1.3% respectively. However, transport and storage, education, public administration and defence, and health all saw fall in output over the quarter (1.0%, 0.7%, 0.7%, and 0.5% respectively). Recent industrial action in these sectors is assumed to have had an impact on these falls.

Production output increased by 0.1% in Q1 2023, having shown no growth over the previous quarter, and decreases in the five consecutive quarters before that. The increase was primarily driven by the manufacturing sector, which saw output increase by 0.5% over the quarter. However, electricity, gas, steam and air conditioning supply activities have shown no growth over Q1, whilst mining and quarrying activities fell by 5.0%, the fourth consecutive quarterly fall for the sector.

Construction output increased by 0.7% over Q1, primarily driven by a 4.9% growth in output from repair and maintenance activities. This is the sixth consecutive quarter that construction output has risen.

Household consumption showed no signs of growth over Q1 2023, having increased by 0.2% last quarter. Meanwhile, real government expenditure fell by 2.5% over the quarter, reflecting decreases in spending on public administration and defence.

The above figures for Q1 2023 were released by the ONS in May 2023. The figures for Q2 (April to June 2023) are due to be released by the ONS in August 2023.

### ONS, Labour Market Overview, UK: May 2023

### ONS, Vacancies and jobs in the UK: May 2023

[Labour market overview, UK - Office for National Statistics \(ons.gov.uk\)](https://ons.gov.uk/labour-market-overview-uk)

[Vacancies and jobs in the UK - Office for National Statistics \(ons.gov.uk\)](https://ons.gov.uk/vacancies-and-jobs-in-the-uk)

Estimates indicate that in April 2023, there were 29.8 million payrolled employees in the UK, having fallen by 136,000 from February 2023. This is the first time since February 2021 that a fall in payrolled employees has been recorded.

The latest figures show that the UK employment rate was 75.9% in January to March 2023, a rise of 0.2 percentage points from the previous quarter. The unemployment rate meanwhile had increased by 0.1 percentage points over the quarter to 3.9%. The economic inactivity rate fell by 0.4 percentage points to 21.0% in January to March 2023, primarily driven by the 16 to 24 age group.

Average total pay growth in the UK was 5.8% in January to March 2023, whilst growth in regular pay was 6.7% over the quarter. The average growth rate for the private sector was 7.0%, whereas average growth in the public sector was 5.6%. Despite this, when adjusted for inflation, both growth in total and regular pay fell in January to March 2023 compared to the previous year, by 3.0% and 2.0% respectively.

The estimated number of vacancies in February to April 2023 was 1,083,000, having fallen by 55,000 on the quarter. This is the 10th consecutive quarter that vacancies have fallen, reflecting the economic uncertainty being felt by businesses. Vacancy numbers had fallen across most sectors, with the largest falls seen in financial and insurance activities and mining and quarrying activities, at -15.7% and -11.1% respectively.

## **Office for Budget Responsibility, Economic and fiscal outlook – March 2023**

[Economic and fiscal outlook - March 2023 - Office for Budget Responsibility \(obr.uk\)](https://obr.uk/economic-and-fiscal-outlook-march-2023/)

The Office for Budget Responsibility (OBR) publish their Economic and fiscal outlook twice a year, the most recent having been published in March 2023. The report reflects the recent government policies announced up to and including the 2023 Spring Budget.

Since the previous forecast in November 2022, the economic and fiscal outlook has reportedly brightened, with the expected short-term economic downturn likely to be shorter and smaller than previously predicted,

and the medium-term output expected to be higher than previously thought. Despite these developments, there are still significant economic challenges being faced.

Over the six months prior to the March outlook, wholesale gas prices had fallen by more than half, and are expected to continue falling in the coming months. Despite this, gas prices are still over twice their pre-pandemic level. From July 2023, annual household energy bills are predicted to fall below the energy price guarantee limit set by the government, and are expected to fall to an average of £2,200 by the end of the year.

CPI inflation reached 11.1% in October 2022, and is now expected to fall significantly to 2.9% by the end of 2023. This represents a sharper fall than previously predicted in the November outlook. Meanwhile, GDP is predicted to fall by 0.4% over the first quarter of 2023, before beginning to rise again from the third quarter. The overall fall in GDP expected to occur will therefore be less than a quarter of the 2.1% decrease previously predicted in the November forecast. Output is now expected to reach pre-pandemic levels in mid-2024, six months earlier than previously thought.

It is expected that real household disposable income per person will decrease by 5.7% over the two financial years ending 2023-24. This will be the largest two-year fall seen since records began in 1956-57.

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

## Bank of England, Monetary Policy Report – May 2023

[Monetary Policy Report - May 2023 | Bank of England](#)

The Bank of England's latest 'monetary policy report' was published on the 11th May 2023, and outlines projections for the UK economy.

In May 2023, the Monetary Policy Committee (MPC) voted to increase the Bank rate by 0.25 percentage points to 4.5%, in response to continuing inflationary pressures and employment challenges. In the first quarter of 2023, CPI inflation was 10.2%, with impacts seen in food and core goods prices. Inflation is predicted to fall from April 2023, as the extension of the Energy Price Guarantee and falls in wholesale energy prices will reduce the inflationary contribution that household energy bills will have. Meanwhile, inflation of food prices and other goods is likely to fall slower than previously thought, and therefore the MPC now expects CPI inflation to decrease more slowly than set out in the February report. Overall, it is expected that inflation will meet the 2% target by the end of 2024.

Business investment is expected to fall by 0.25% over 2023, before levelling off in 2024 and rising again by 1.5% in 2025. This prediction is stronger than previously set out in the February report, and is likely in part due to the temporary increase in capital allowances for investment announced in the recent Budget.

## Bank of England, Agents' Summary of Business Conditions – 2023 Q1

[Agents' summary of business conditions - 2023 Q1 | Bank of England](#)

The Bank of England's latest 'Agents' Summary of Business Conditions' report, published in March 2023, summarises intelligence gathered between mid-January and early March 2023.

**Consumer demand:** The demand for lower-priced goods has remained high, with reports from supermarkets and clothing and footwear retailers suggesting that consumers are switching to cheaper items and turning to discount chains. Demand for goods such as furniture and household appliances continued to fall, as consumers are reportedly choosing to repair instead of replace items. Meanwhile, the hospitality sector has seen higher than expected demand, and the travel sector has seen similar activities as last year.

**Manufacturing:** Output in the manufacturing sector continued to fall, as household's real incomes remain tight. Output volumes for goods such as furniture and household appliances contracted slightly, whilst output for food and drink products remained stable. Lead-times reportedly remain above pre-pandemic levels, despite suggestions that supply chains are returning to normal.

**Construction:** As demand for housing continued to soften, construction output reportedly fell further, compared to the same time last year. Most public infrastructure projects continued to go ahead as planned, however rising costs and delays in planning restrained output for other projects. Spending on home improvements also decreased.

**Investment:** Overall investment intentions improved as uncertainty about the economic outlook reduced slightly. As labour costs and energy prices remain high, investment intentions for automation and energy efficiency increased, particularly amongst manufacturing businesses. For other industries, such as the construction sector, investment in machinery and plant continue to be low due to high costs and limited availability of equipment.

**Corporate financing conditions:** Credit demand was reportedly weak, due to the uncertain economic outlook and high borrowing costs. Access to credit for firms in strong financial positions remained strong, and small and medium-sized firms had access to credit for equipment purchases or working capital. Generally however, access to credit for property investment or corporate acquisition activities continued to be tight.

**Employment and pay:** Recruitment difficulties remained above normal levels, despite easing slightly, and overall employment intentions remained flat. A small proportion of businesses planned to reduce their workforce, whilst a larger proportion were looking to recruit in response to higher demand and ongoing labour shortages. Pay settlements averaged at 6%, with pay awards primarily driven by rates of CPI inflation, as well as National and Real Living Wage increases, and union activity.

## **SWMAS, National Manufacturing Barometer Q4 2022/23**

[National Manufacturing Barometer - April 2023 \(Q4 22/23\) | SWMAS](#)

The latest Manufacturing Barometer surveyed small and medium-sized manufacturing businesses in the UK over January, February and March 2023, and was published in May 2023.

Overall, SME manufacturers continue to face significant challenges, and are facing making decisions with long term consequences to support future growth.

- 44% of respondents reported that sales turnover had increased over the previous six months, whilst 34% saw a decrease in turnover. Meanwhile, 74% expected to see turnover increase over the coming six months, a significantly higher proportion than recorded in the previous survey in January 2023 (54%).
- 46% of businesses had seen their profits fall over the past six months, whilst 58% expected to see profits rise in the coming six months.
- 31% of respondents had seen an increase in staff numbers over the past six months, compared to 49% expecting to increase staff numbers over the next six months. Sentiment for the future has improved since the last quarter, when 36% reported expecting an increase.
- 39% of businesses had increased their capital investment over the past six months, and 52% planned to increase investment in the coming six months.

The number of businesses reporting increased trade compared to before the pandemic remained similar to previous quarters, at 52%. Meanwhile, the proportion of businesses who experienced a reduction in trade compared to their pre-pandemic position was 26%, with 90% of these expecting recovery to take at least another six months.

Ongoing challenges continue to impact UK manufacturers, with 89% of respondents having been negatively affected by supply chain price changes, 87% impacted by inflation, 82% struggling with energy costs, and 72% impacted by the availability of suitably skilled staff. Additionally, 73% reported that they were struggling to pass costs onto their customers, a slightly smaller proportion that reported the same in January 2023.

### **ICAEW, UK Business Confidence Monitor: National – Q1 2023**

[UK Business Confidence Monitor: National | ICAEW](#)

The latest Business Confidence Monitor report published by the ICAEW utilised data gathered between the 16th January and 23rd March 2023. The report demonstrated that overall, business confidence is recovering slightly, although it is still weak, as inflation and interest rates remain high.

Business confidence is now in positive territory, for the first time in a year, having been weakened by the political turmoil in the last quarter of 2022. However, domestic sale growth is expected to weaken over the coming months, and the rise in exports continues to be slow.

Customer demand and regulatory requirements are growing challenges for businesses, due to the ongoing economic uncertainty. Labour market challenges are also prominent, with Transport and Manufacturing firms reporting shortages of non-management skills, and retailers seeing high staff turnover. Average salaries have increased by 4% over the 12 months to Q1 2023, the joint fastest rate of increase since the survey began in 2004. Salary growth is highest in the Energy, Water & Mining sector, which is also increasing employee numbers at the faster rate across the sectors.

Construction and Property sectors remain the least confident, and continue to be negative on the Business Confidence Index. Meanwhile, the Manufacturing and Energy, Water & Mining sectors are amongst the most confident.

### **British Chambers of Commerce, Quarterly Economic Survey – Q1 2023**

[PowerPoint Presentation \(britishchambers.org.uk\)](#)

The British Chambers of Commerce's latest Quarterly Economic Survey for Q1 2023 utilises data collected between the 13th February and the 9th March 2023. The report noted that businesses overall have not noted any improvements to business conditions, despite business confidence improving slightly.

34% of respondents reported an increase in domestic sales over Q1, whilst 24% had seen a decrease. Both these figures remain largely

unchanged from the previous two quarters. The firms most likely to report a decrease in sales were from the Wholesale & Retail sector (38%).

25% of respondents had increased investment in equipment and technology over the quarter, compared to 21% the previous quarter, and 19% had seen a decrease in investment. The balance of firms in the manufacturing sector that reported increased investment was +14%, a much higher figure than the +5% recorded last quarter. Meanwhile, the balance of firms in the services sector was +1%.

Overall, 55% of respondents expected their prices to increase. The balance of firms in the manufacturing and services sectors stands at +58% and +50% respectively, both slightly lower than recorded over the previous quarter.

## **British Chambers of Commerce, Quarterly Recruitment Outlook – Q1 2023**

[Quarterly Recruitment Outlook: No sign of hiring difficulties easing \(britishchambers.org.uk\)](https://britishchambers.org.uk)

The results from the BCC's latest Quarterly Recruitment Outlook survey from Q1 2023 shows that recruitment challenges largely remain unchanged, and are still at record levels.

59% of businesses surveyed had attempted to recruit new staff over the quarter, with 80% of these reporting experiencing difficulties. Firms in the hospitality and manufacturing sectors were the most likely to report challenges, with 83% of businesses facing difficulties in each industry.

Meanwhile, 81% of firms in the construction and engineering sector had seen challenges, and 79% in the public, health, and education sector.

Of those who reported challenges in the construction and engineering sector, 71% had struggled to recruit skilled manual or technical workers, whilst 64% of hospitality businesses who had struggled to recruit had difficulties finding semi or unskilled workers.

Only 27% of firms reported increasing their investment in training for staff over Q1, and 14% had seen a fall in training investment.

## ONS, Labour market in the regions of the UK: May 2023

[Labour market in the regions of the UK - Office for National Statistics](#)

The employment rate in the South West in January to March 2023 was 78.8%, the joint highest recorded rate in the UK over the quarter, and much higher than the UK average of 75.9%. The South West figure represented a 1.5 percentage point decrease on the quarter however, the largest fall in the UK.

The South West recorded the joint lowest unemployment rate estimate in the UK at 2.5% in January to March 2023, compared to the UK average of 3.9%. The unemployment rate in the South West had risen by 0.4 percentage points from the previous quarter.

The economic inactivity rate in the South West was 19.1% in January to March 2023, having increased by 1.1 percentage points from the previous quarter. The South West recorded the third lowest economic inactivity rate in the UK over the quarter, and saw the second highest percentage point quarterly rise.

## 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 May 2023. The South West Index, which measures confidence amongst businesses, rose to -23 in Q1 2022. Whilst still negative overall, this represents a steep rise from Q4 2022 (-62), and the first increase in over a year. However, sentiment is still lower than this time last year (-1 in Q1 2022), which is likely due to continued inflationary pressures and cost of living challenges that have continued into 2023.

Overall, small businesses in the South West reported the lowest confidence in the UK, and sentiment was much lower than the UK average, which was -3 over Q1 2023.

The overall net balance for revenue in the South West over Q1 was -19%, representing an increase from the previous quarter (net -30%). The region still sits below the UK net average, and had the weakest performance for revenue growth in the country over the quarter. Predictions for the coming three months (Q2 2023) in the South West suggest that revenue will decline by net -2% (30 of small businesses predicted an increase whilst 32% predicted a decrease), a more pessimistic outlook than recorded in the UK as a whole (+13%).

16% of South West small businesses reported decreasing employment levels, whilst 9% had increased staff numbers, resulting in a net balance of -7%. Over the 3 months following the survey, 14% of businesses planned to increase staff numbers, and 8% planned to decrease employment. Meanwhile, 73% of businesses reported having increased the average salary awarded across the businesses over the past year, and the same proportion expected to see salary rises over the coming 12 months.

In Q1 2023, 38% of South West businesses expected to grow over the 12 months following the survey, slightly lower levels than seen in Q4 2022 (40%), and the UK average for the quarter (46%). The net balance of small businesses in the South West expecting to increase investment over the 3 months following the survey was 2%, a slightly lower figure than recorded last quarter (net +6%). However, the South West is in line with the UK average for Q1 2023. Additionally, 13% of businesses reported intentions to contract the business in the next year, similar to the previous quarter when 12% reported the same intent.

## **NatWest, South West Purchasing Managers' Index (PMI) – April 2023**

[NatWest UK Regional PMI - April 2023 | NatWest Group](#)

The latest NatWest PMI survey collected data from businesses in the South West over April 2023. The report noted that the Business Activity Index, which measures month-on-month changes in regional goods and services output, rose to 52.9 in April. This is the first time a rise has been seen across all regions since February 2022.

Overall, total new work placed with private sector businesses in the South West increased over the month, although the rate of growth was lower than the UK average. Business expectations in the South West for future activity were similarly positive, however sentiment had weakened slightly from the previous month, and was overall lower than the UK average. Business capacity pressures fell in April in the South West, as the region recorded decreases in outstanding business.

## **ICAEW Business Confidence Monitor (BCM): South West – Q1 2023**

[South West | ICAEW](#)

The latest ICAEW Business Confidence Monitor for Q1 2023 collected data between the 16th January and the 23rd March 2023. Overall, business confidence amongst South West businesses has risen to positive territory, but is still weak and below the UK average.

Domestic sales in the South West rose at the slowest rate in the UK (3.7%) over the year prior to the report, and businesses expect to see sales increase by 4.9% over the coming year. Export sales in the South West grew at around the same rate as the UK over the past 12 months, however growth is expected to slow over the coming year to 3.2%. This is the second lowest expectation in the UK.

The South West was one of the only regions that recorded an increase in the proportion of businesses noting labour market challenges as a growing problem. The region saw an increase in businesses reporting struggles with the availability of non-management skills, and the South West was the only region to report staff turnover as a growing challenge compared to the previous quarter, with 36% citing it as a rising problem.

The South West recorded the highest proportion of businesses (21%) reporting access to capital as a significant challenge over the quarter, the highest percent of any region and almost double the South West historical average.

Average salary growth was 3.5% in the South West in Q1, the slowest recorded in the UK alongside London. Similarly, businesses are reportedly predicting a 3.3% increase in salaries over the coming 12 months, the second slowest rise in the UK.

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

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### **Regional Chambers of Commerce: Somerset Chamber of Commerce perspective**

Business confidence slightly improved in the first quarter of the year, with 44% of Somerset firms believing turnover would increase in the next 12 months, according to the latest results from Somerset Chamber of Commerce's Quarterly Economic Survey (QES).

Some 34% thought their profitability would improve, the same as the previous quarter, although fewer firms expected it to worsen at 34%, a drop of 4% from the last survey. Business capacity remained an issue with 70% operating below capacity, up from 65% at the end of last year.

Although 55% of businesses still reported recruitment difficulties, the figure was down substantially from the 71% experiencing problems in the previous quarter. Of those, it was fairly even split for skilled manual/technical roles, professional/managerial roles, clerical and semi/unskilled.

The number of businesses expecting to raise their prices also fell this quarter from 77% to 58%, with labour costs and energy bills cited as the main cost pressures.

It was a similar story nationally, with the British Chambers of Commerce also reporting a slight improvement in business confidence.

Emma Rawlings, Chief Executive of Somerset Chamber of Commerce, said: "After a significant decline in business confidence in the second half of 2022, results from QES Q1 show an improvement in business sentiment as political turmoil and inflationary pressures show some signs of easing.

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

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

## With thanks

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

