



Business Bulletin

Autumn 2023



C | B | I



MANUFACTURING
barometer



SWMAS



Executive Summary



David Ralph
HotSW LEP Chief Executive

Focussing on the Fundamentals

Welcome to the autumn edition of our regular Business Bulletin which presents a range of data and sentiment on the national and local economy. To complement this I'm also pleased to say that our economic dashboards have been updated this month and a wealth of further data and analysis can be found in them at [Our dashboards - Heart of the south west LEP \(heartofswlep.co.uk\)](https://heartofswlep.co.uk)

In our last Bulletin, I posed the question of whether lacklustre was the new normal and the latest batch of data seems to continue to point in this direction. The recent party conferences have focussed in part on the importance of growth but whilst it is part of the political agenda, real change in intention right now and real change in data are both thin on the ground.

Businesses and consumers face increased costs which are now baked-in and inflation remains higher than recent years.

The UK economy has now nudged above pre-pandemic levels but continues to bump along from quarter to quarter. Although CPI inflation is starting to fall as the impact of increased energy prices from the last 12 months starts to work its way out of the data, businesses and consumers face increased costs which are now baked-in and inflation remains higher than recent years. Importantly, investment intentions remain muted; as a proxy for longer term growth and for raising productivity – this area's

perennial challenge – this is concerning. There are also signs that small and medium-sized businesses are finding it harder to get new finance from lenders.

The LEP's Access to Finance platform is now live providing businesses with connections to sources of finance and support www.accesstofinance.co.uk

To that end, the July launch of the British Business Bank's £200 million South West Investment Fund is very welcome and the I am proud that the LEP's Access to Finance platform is now live and helping businesses connect to that fund, other sources of finance and financial support more broadly. If you haven't yet seen it, please visit www.accesstofinancesw.co.uk to register – with rapidly growing (free) membership and a series of events over the autumn, it's worth spending a few minutes to look it over.

Despite the challenges, business confidence is showing signs of improving though confidence in the SW remains below that of the UK as a whole and the SW labour market continues to be the tightest in the country by some way. As such, labour and skills shortages, along with higher costs, remain a long-standing issue.

In that context then, it is important that future arrangements for supporting local economic growth and this area's distinctive opportunities are robust and add value, working in true partnership across business, further and higher education and local government. Later in the autumn the LEP will publish the results of a study on the longer term impact of LEP investments over the years. Early findings suggest some very good value for money from public investment in this area but at this point it is hard to see what a true replacement is for the £197 million Local Growth Fund or the £35 million Getting Building Fund which, the study shows, have done and will continue to contribute to growth over through to the mid-2030s.

Where is the next programme of strategic significance which will push that on into the 2024s and beyond? Amongst all the current debate on structures, some of the fundamentals are in danger of being missed, with real long-term consequences for businesses and people in this fantastic area.

As ever, I would like to thank our partner organisations for their help and support in providing material for this bulletin; the views of the 25,000 businesses they represent are invaluable. Note as well that whilst the publications included in this bulletin provide the most up-to-date view of the UK's economic position at the time of their release, many of the forward-looking contributions may be subject to significant change against a background of economic uncertainty.

Where is the next programme of strategic significance which will push that on into the 2024s and beyond? Amongst all the current debate on structures, some of the fundamentals are in danger of being missed, with real long-term consequences for businesses and people in this fantastic area.

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 monthly estimate, UK: July 2023

ONS, GDP first quarterly estimate, UK: April to June 2023

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

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

UK GDP increased by an estimated 0.2% in the second quarter of 2023 (April to June), having risen by 0.3% in Quarter 1. Monthly estimates however suggest that UK GDP fell again by 0.5% in July. The latest figures indicate that GDP is 1.8% above where it was before the pandemic (Q4 2019).

The quarterly rise in GDP was primarily driven by the production sector, which increased by 1.2%. Within the sector, manufacturing saw the highest rise of 1.9%, with the highest contribution from the manufacture of transport equipment. Manufacturing output fell by an estimated 0.8% in July 2023 alone however, following the strongest monthly growth seen since November 2020 in June (2.4%). This previous growth was attributed to the additional bank holiday in May, the impacts of which have not been excluded from the GDP calculations.

No growth was seen in the service sector over the quarter, with mixed trends seen within the sub-sectors. The highest growth was seen in the information and communication sub-sector, which increased by 0.9%, and the accommodation and food service activities sector, which increased by 2.1%. The growth in these were offset by the professional, scientific and technical activities sub-sector, which saw output fall by 1.3% over the quarter. In July alone, services output fell by 0.5%, driven by a 2.1% fall in human health and social work activities output. This has been attributed to the ongoing industrial action by NHS doctors over the month.

Construction output reportedly grew by 0.3% over Q2, largely driven by a 1.8% rise in repair and maintenance output. This subsector saw a fall of 1.3% in July alone however, resulting in construction output overall decreasing by 0.5% over the month.

Quarter 2 saw an increase in household consumption of 0.5%, as spending grew on housing, water, electricity and gas, transport, and recreation and culture. Government consumption increased by 2.5%, largely reflecting increased spending on public administration and defence.

The above figures for Q2 2023 were released by the ONS in September 2023. The figures for Q3 2023 (July to September 2023) are due to be released by the ONS in November 2023. The monthly estimate figures for August 2023 are due to be released in October 2023.

ONS, Labour Market Overview, UK: September 2023

ONS, Vacancies and jobs in the UK: September 2023

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

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

The latest estimates indicate that there were 30.1 million payrolled employees in the UK in August 2023, a figure largely unchanged from the previous month, and representing a 1.5% increase from the same time last year (August 2022). The number of payrolled employees is now around 3.9% higher than before the pandemic (February 2020).

Labour Force Survey estimates for May to July 2023 show the UK employment rate to have fallen slightly by 0.5 percentage points on the quarter to 75.5%. The employment rate is still 1.1 percentage points below where it was before the pandemic (December 2019 to February 2020). The UK unemployment rate for May to July 2023 was estimated to be 4.3%, having risen by 0.5 percentage points on the quarter. Economic inactivity rose by 0.1 percentage points from the previous quarter to an estimated 21.1%, and is now 0.9 percentage points higher than pre-pandemic levels.

The number of job vacancies in June to August 2023 was 989,000, having fallen for the 14th consecutive period since May to July 2022. Vacancy numbers are below 1 million for the first time since May to July 2021. Whilst total vacancy numbers had fallen by 6.0% on the quarter, the largest decreases were seen in the administrative and support service activities, and professional, scientific and technical activities sectors, which fell by 15.7% and 12.1%, respectively. The total number of vacancies remains 188,000 above pre-pandemic levels (January to March 2020) however.

Bank of England, Monetary Policy Report – August 2023

[Monetary Policy Report - August 2023 | Bank of England](https://www.bankofengland.co.uk/monetary-policy-report-august-2023)

The Bank of England's latest 'monetary policy report', published on the 3rd of August 2023, outlined projections for the UK economy for the coming months. The Monetary Policy Committee voted in August to increase Bank Rate by 0.25 percentage points, to 5.25%.

UK GDP is predicted to have increased by 0.1% in Q2 of 2023, likely slowed by the additional bank holiday in May, and growth in the medium term is expected to remain below pre-pandemic levels as interest rates weigh on the economy in the coming months.

CPI inflation fell to 7.9% in June, from 8.7% in May, and 11.1%, likely due to energy prices having stopped their rise. Inflation expected to continue falling, and is predicted to reach 5% by the end of 2023, before reaching the 2% target by early 2025. In addition to lower energy costs, price inflation for food and core goods is expected to fall over the coming months.

Whilst the labour market remains tight, the Bank notes some signs of it loosening. The unemployment rate rose to 4% over the three months to May 2023, higher than predicted in the May report, and is expected to increase to just under 5% by 2026. Pay settlements have remained stable over recent quarters, at around 6%-6.5%, and are expected to fall slightly over the rest of 2023. Annual private sector pay growth rose to 7.7% over the three months to May, significantly higher than predicted in the May report. Growth in earnings is expected to fall in the coming quarters however, reaching around 6% by the end of the year.

Bank of England, Agents' Summary of Business Conditions – 2023 Q2

[Agents' summary of business conditions - 2023 Q2 | Bank of England](#)

The Bank of England's latest 'Agents' Summary of Business Conditions' report summarises information gathered between mid-April and late-May 2023.

Consumer demand: Consumer spending continued to increase as a result of high price inflation, although sales volumes remained relatively flat. Grocery sales saw very strong growth, whilst clothing retailers experienced varied demand, with poor weather impacting sales of summer lines, and customers tending to buy cheaper items.

Manufacturing: Growth in output was stable, as supply constraints have eased and exporting volumes have improved moderately. The food and drink sector reported stable sales volumes, despite consumers preferring lower priced items. Elsewhere, demand in the defence sector and aerospace remained high, however the demand for construction materials was reported to have fallen again.

Construction: Output volumes continued to decline, as housing build rates fell in response to lower demand. Similarly, home improvement spend fell as a result of increased pressure on household incomes. High building costs also impacted construction of office and commercial properties, and public sector demand slowed.

Investment: Intentions remained subdued across many sectors due to high investment costs and increased economic uncertainty. Investment in buildings and construction projects was impacted by material costs and planning delays, whilst investment in machinery and vehicles was negatively impacted by delivery delays. IT and digital investment remained strong however, and investment in automation was supported by increased labour availability.

Corporate finance: Credit demand remained weak, although demand for working capital was high, as businesses reported seeking short-term floating-rate debt due to interest rate uncertainty. Banks were reportedly more cautious about issuing new credit to small and medium-sized businesses as the value of property collateral fell.

Employment and Pay: Employment intentions remained positive, although findings varied across sectors. Headcount continued to rise in business services and manufacturing firms, however both construction and consumer facing businesses reported reducing headcount to cut costs, and retailers looked to reduce hours for employees. Recruitment for lower-skilled positions remained a challenge, whilst recruitment for specific skills related to IT, engineering and finance, was 'particularly tough'. Pay settlements for 2023 were broadly consistent with the May 2023 Monetary Policy report, and continued to average at 6%-6.5%.

SWMAS, National Manufacturing Barometer - July 2023 (Q1 23/24)

[National Manufacturing Barometer - July 2023 \(Q1 23/24\) | SWMAS](#)

The Manufacturing Barometer for Q1 2023/24 surveyed small and medium-sized manufacturing businesses in the UK, covering April, May, and June 2023. The data over the quarter suggests that despite a challenging few months, outlook for the sector remains positive for firms going forward.

- 37% of respondents reported that sales turnover had increased over the six months prior to the survey, whilst 42% had seen a decrease in turnover. Meanwhile, 49% expected to see turnover increase over the coming six months, a significantly lower proportion than recorded in the previous survey in April 2023 (74%).
- 27% of businesses had seen their profits rise over the previous six months, compared to 52% who had seen profits fall. 43% meanwhile expected to see profits increase over the coming six months, whilst 28% expected profits to fall.
- The proportion of businesses who had seen staff numbers increase over the six months prior to the survey has remained the same (31%) since January 2023. 24% had seen a fall in staff numbers over the past six months, similarly close to previous quarters results. 35% meanwhile expected staff number to increase over the coming six months, whilst 14% were expecting staff numbers to fall.
- 36% of businesses saw capital investment increase over the past six months, and 23% saw a decrease. Similarly, 35% expected to see capital investment increase over the coming six months, and 17% predicted a decrease.

With regard to trade post - COVID-19, 48% of businesses reported seeing increased trade, however a third of respondents reported that they have still not returned to pre-pandemic levels, with 58% of these expecting recovery to take at least another year.

The survey has repeatedly reported significant challenges the businesses are facing, with the same issues being raised each quarter. 85% of businesses have been negatively impacted by inflation, whilst 81% reported energy costs as a challenge. Similarly, 78% saw supply chain price rises, and 67% were struggling with passing on cost changes to their customers.

ICAEW, UK Business Confidence Monitor: National – Q2 2023

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

The findings in the ICAEW's latest report are based on data collected between the 27th March and the 23rd June 2023. Business confidence showed signs of continued improvement, however concerns around inflation and increasing interest rates remain, and overall confidence levels remain below pre-pandemic averages. There was a significant variation in confidence across sectors, with construction and properties sectors showing the weakest confidence, having been exposed to higher interest rates. The Transport and Storage sector demonstrated the strongest business sentiment, followed by the Energy, Water and Mining sector.

Over the survey period, interest rates were increased twice, whilst sales growth was reportedly low. Businesses did not expect to see domestic sales growth to increase over the coming year, and the rise in export sales has ceased.

The most commonly reported challenge over the quarter was regulatory requirements (reported by 37% of respondents), followed by consumer demand (seen by 34%), reflecting the uncertain economic background and concerns over an increased administrative burden.

British Chambers of Commerce, Quarterly Economic Survey – Q3 2023

[Quarterly Economic Survey - British Chambers of Commerce](#)

The British Chambers of Commerce's Quarterly Economic Survey (QES) for Q3 2023 was based on data collected between the 21st August and 14th September 2023. The report noted that overall, there are signs that inflationary pressures are easing, although there is still widespread concern about interest rates.

Overall, 35% of businesses had seen sales increase over the 3 months prior to interview, whilst 23% saw a decrease. These figures remain largely unchanged from the previous quarter. Firms in the consumer service industries (for example cleaning or decorating) were most likely to have reported an increase in sales (43%), whilst retail firms were the least likely (30%).

59% of firms reported no change to their investment in equipment or technology over the past three months, whilst only 23% reported an increase in investment.

The proportion of businesses expecting to see their prices rise continued to decrease (41%), however this figure remains significantly higher than historical records. Inflationary pressures was considered the highest concern for 65% of respondents, however this proportion has fallen from the peak of 84% recorded over the same period in 2022.

British Chambers of Commerce, Quarterly Recruitment Outlook – Q2 2023

[Quarterly Recruitment Outlook: People Problem Key To Tackling Inflation - British Chambers of Commerce](#)

The results from the BCC's latest Quarterly Recruitment Outlook survey for Q2 2023 shows that the proportion of businesses facing recruitment difficulties remains at record high levels. Of the 60% of firms who attempted to recruit over the quarter, 79% had faced challenges. These figures remain virtually unchanged from the previous quarter, when 80% of the 59% of firms who attempted to recruit had faced challenges.

The sectors most likely to report difficulties were the construction and engineering, and hospitality sectors, at 86% each. Similarly, large proportions of businesses in the manufacturing and professional services sectors faced recruitment challenges, at 81% and 77% respectively.

Of those businesses in the construction and engineering sector who faced challenges, 76% reported difficulties in recruiting skilled or technical workers, whilst finding semi or unskilled workers was a challenge for hospitality firms.

The sectors most likely to report difficulties were the construction and engineering, and hospitality sectors, at 86% each. Similarly, large proportions of businesses in the manufacturing and professional services sectors faced recruitment challenges, at 81% and 77% respectively.

ONS, Labour market in the regions of the UK: April 2022

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

Between May and July 2023, the South West recorded the second highest employment rate in the UK at 77.5%, compared with the national average of 75.5%. This represents a 0.9 percentage point decrease on the quarter in the South West, and a 0.7 percentage point decrease from the same period the previous year.

The unemployment rate in the South West between May 2021 and July 2022 was one of the lowest in the UK at 3.6%, compared with the UK average of 4.3%. The rate in the South West had increased by 0.5 percentage points from the previous quarter, and 0.9 percentage points from the previous year, similar to the UK increases of 0.5 and 0.7 percentage points respectively.

Between May and July 2023, the South West reported one of the lowest economic inactivity rates estimate in the UK at 19.5%, compared with the UK figure of 21.1%. The rate in the South West had increased by 0.6 percentage points on the quarter, and was unchanged from a year previously.

Between May and July 2023, the South West recorded the second highest employment rate in the UK at 77.5%, compared with the national average of 75.5%. This represents a 0.9 percentage point decrease on the quarter in the South West, and a 0.7 percentage point decrease from the same period the previous year.

FSB, South West Quarterly Small Business Index – Q2 2023

[FSB South West Quarterly Small Business Index Q2 2023 | FSB, The Federation of Small Businesses](#)

The Federation of Small Businesses (FSB) released their latest quarterly Small Business Index in August 2023. Over the second quarter of 2023, small business confidence fell to -25, from the -23 recorded over Q1. Despite remaining negative, confidence levels are still higher than seen through most of 2022, and significantly higher than the low of -62 recorded in Q4 2022. The continued negative outlook is likely attributed to inflationary pressures and the ongoing cost-of-living crisis seen since 2022. Confidence amongst small businesses in the South West was one of the lowest in the UK, and well below the UK average of 14%.

The overall net balance for revenue in the South West in Q2 2023 remained negative (net -10%), although this represents an increase from previous quarters, with net -30% recorded in Q4 2022, and net -19% in Q1 2023. Revenue levels in the South West remains below the UK average of net -9% over the quarter. The future outlook for revenue was slightly more positive, with 33% of businesses predicting an increase in revenue over the next quarter, and 39% predicting a decrease, resulting in an overall net balance of -6%. This is lower than the UK average however, of net -3%.

17% of small businesses surveyed by the FSB had decreased staff numbers over Q2 2023, whilst 12% had increased employment levels, leaving a net negative employment figure (-5%). The majority of firms (69%) reported that their staffing levels had remained unchanged over the quarter, and 17% of businesses expressed their intentions to increase their workforce in the coming three months.

72% of small businesses in the South West had increased their average salary over the past year, and 66% of these reported an average increase of 2% or more. 70% of businesses expected to make salary increases over the coming year, with 85% of these reporting that it was likely the increase would be at least 2%.

The net balance of businesses expecting to increase their investment in the next quarter was 6%, with 25% expecting to increase investment, and 19% expecting to decrease. The South West net figure is just below the UK average of net 7%.

In the South West, the main challenges facing businesses have remained similar from the previous quarter, with 64% of businesses reporting that the general economic conditions in the UK as the greatest perceived barrier to growth over the coming year. Other significant barriers to growth were consumer demand and utility costs, reported by 41% and 31% respectively.

NatWest, South West Purchasing Managers' Index (PMI) – August 2023

[NatWest UK regional PMI report for August 2023 | NatWest Business](#)

The latest PMI survey collected data from South West businesses during the second half of August 2023. The report noted that the Business Activity Index, which measures the monthly change in output of regional manufacturing and service sectors, fell from 49.8 in July to 46.7 in August. This signals a fall in business activity for the third month straight.

The private sector saw further reductions in new work in August, with the steepest contraction recorded since November 2022. This was attributed to high interest rates and weaker economic conditions, and the South

West saw the largest decline of all UK regions over the month. Despite this, private sector firms in the South west remained optimistic, as the 12-month outlook for business activity rose to a five month high in August. The degree of business confidence was higher than the UK average over the month. Those firms predicting that output will increase anticipate economic conditions improving in the near future, and consumer confidence to strengthen.

Employment increased further in the South West private sector, and despite growth being modest, the South West continued to see a stronger staffing expansion rate than seen in the UK as a whole. Increased headcount was often linked by firms to new projects, and preparations for future growth.

Inflation of input costs continued over August, rising towards a six-month high. Increased costs were passed onto customers in part through increased output charges. The rate of output charge inflation was the softest seen for 29 months, however firms in the South West reported having increased their selling prices at a higher pace than seen in the UK as a whole.

ICAEW Business Confidence Monitor (BCM): South West – Q2 2023

[South West | ICAEW](#)

The latest ICAEW Business Confidence Monitor for Q2 2023 is based on intelligence collected between the 27th March and 23rd June 2023. Overall, business sentiment in the South West was higher than the average across the UK, as well as the regions historical average, although this upturn is expected to be fragile.

Growth in domestic sales in the South West was weaker than any other region, at 3.1% over the 12 months to Q2 2023. It is predicted that growth will rise to 4.7% over the coming year, however this is still lower than the predicted UK average of 5.2%. Whilst annual growth in export sales in the South West was in line with the UK average (3.4%), the region expects to see one of the lowest growths in the UK over the coming 12 months.

Businesses are continuing to see the same challenges, with customer demand again cited as the greatest challenge in Q2 in the South West. Consumer-facing industries are the most impacted, with Retail and Wholesale businesses seeing the most significant challenges. Skills availability is also a growing challenge for businesses, especially non-management skills, with 37% of businesses reporting this as a concern.

Despite the challenges, South West businesses are continuing to expand their workforces, with annual employment growth close to regional historic averages (1.5%). Growth is expected to increase to 2.2% over the coming 12 months, reflecting the positive sentiment around sales growth. Wages in the South West increased by a record high of 4.6% over the preceding 12 months, largely driven by rising inflation and challenges surrounding skills shortages. South West businesses predict wage growth to be 4.1% over the coming 12 months, the highest of all UK regions.

The South West recorded slightly higher growth in capital investment than the UK average, at 2.7%, although this is expected to fall to 1.7% over the coming year. Whilst budgets for Research and Development have reportedly grown by 1.3% over the 12 months to Q2 2023, this is still below the historical average for the region, and is expected to weaken further over the coming year in light of the numerous challenges businesses continue to face.

Regional Chambers of Commerce Perspectives: Somerset Chamber of Commerce

Concerns about inflation remain the main concern for Somerset businesses, but those concerns appear to be levelling off, with 67% of firms questioned by Somerset Chamber of Commerce for its Quarterly Economic Survey citing it as their main worry, compared to 85% in the previous quarter. This reflects the national picture conducted by the British Chambers of Commerce, which found the percentage of firms worried about inflation was now 65% compared to 69% three months ago.

Interest rates, however, are starting to replace inflation as a cause for concern, with 59% citing it as a business worry, up a massive 14% in just three months. This is significantly higher than the national figure of 45%, which has risen from 41% from the previous quarter.

Labour costs remain the biggest pressure on companies to raise prices, with 80% saying rising wages were having an impact, compared to a third who cited increased raw material costs.

Interest rates, however, are starting to replace inflation as a cause for concern, with 59% citing it as a business worry, up a massive 14% in just three months. This is significantly higher than the national figure of 45%, which has risen from 41% from the previous quarter.

Nationally, the percentage of firms that expected to raise prices in the next three months fell for the fifth consecutive quarter, but wage pressures were also the main factor for those considering price rises.

In Somerset, almost half of businesses expected their prices to remain the same in the coming three months, with 42% saying they could go up. Almost 54% had attempted to recruit staff, with 60% of those having problems filling vacancies. Almost half of those were for professional/managerial roles and 40% for skilled manual/technical jobs.

Business confidence remains rocky but has shown an improvement on the previous quarter when almost a third believed turnover would worsen in the next 12 months. That figure has now dropped to just over a quarter, with 28% expecting it to remain the same and almost 47% believing it will improve.

Trading conditions continue to be tough for many firms, with manufacturers reporting a particularly tough quarter. Most firms continue to report no plans to increase investment due to the ongoing squeeze on cashflow, coupled with economic uncertainty and the possibility of more trade barriers with the EU.

The Chamber network is continuing to lobby the Government for a long-term plan for both business investment and economic direction. The warning lights are still flashing and it is clear more needs to be done to spur growth, boost investment and return the UK economy to a firmer footing.

In Somerset, almost half of businesses expected their prices to remain the same in the coming three months, with 42% saying they could go up. Almost 54% had attempted to recruit staff, with 60% of those having problems filling vacancies. Almost half of those were for professional/managerial roles and 40% for skilled manual/technical jobs.

With thanks

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

