Q4

2022

QUARTERLY ECONOMIC REPORT

West & North Yorkshire Chamber of Commerce

IN PARTNERSHIP WITH

Leeds City Region Enterprise Partnership

Working in partnership with the West Yorkshire Combined Authority

CONTENTS

INTRODUCTION

Amanda Beresford
Chair
West & North Yorkshire Chamber of Commerce

There is no getting away from the fact that 2022 finished on a challenging note for our region's economy. After a year of grappling with increasing prices and difficulties on the supply side of doing business, firms in our region have had no option other than to get comfortable with being uncomfortable.

The fieldwork for the Quarterly Economic Survey for the last three months of 2022 took place as the economy began to settle following the turbulence that followed the mini-Budget event which rattled the markets and sent Sterling into challenging areas. While the impacts of all of these difficulties are still being felt keenly, we should take heed of the fact that there are numerous signs that business leaders here in Yorkshire are beginning to see indications of optimism on the horizon.

Question marks remain over what happens when the energy price cap comes to an end in March and, as a Chamber, we will continue to press ministers on ensuring energy costs do not becomes unsustainable.

As ever we continue to work with our key partners at West Yorkshire Combined Authority and the two Local Enterprise Partnerships to make sure our region gets the support we need.

Mark Casci
Head of Policy and Representation
West & North Yorkshire Chamber of Commerce

While the results of the final Quarterly Economic Survey do not make for especially pleasant reading there are some signs of positivity which we should grab hold of celebrate. Inflation continues to place an often intolerable strain on businesses of all sizes and sectors. But after the economic storm that followed the 'mini-Budget' event in September there have been some signs that things may be slowly but surely moving in the right directions.

Confidence on turnover and profitability expectations for the new year have edged up from Q3's low point to more respectable levels, with companies expecting to see an improved trading picture in the coming three months. Service sector domestic sales bounced back to a more respectable level and manufacturers saw an improved picture for their overseas sales. The proof will very much be in the pudding in the figures for the next quarter when we will learn if this is part of an overall upward trend or merely a bounce from a notable low point.

We cannot shy away from the fact that we do not compare favourably with other geographies when it comes to a number of areas. Cashflow for manufacturers in West and North Yorkshire is notably poorer than the rest of Yorkshire, the North and nationally.

Employment and investment prospects remain weak across the region with firms faced with a situation in which they are concentrating on the here and now. In particular, inflation has dismantled most firms' ability to commit to meaningful investment.

With both the British Chamber of Commerce (BCC) and the Bank of England predicting a protracted recession it is clear we are in for a tough 2023. Our Chamber nationally expects to see us return to economic growth by this point next year and for inflation to peak at 11 per cent before falling to five per cent by the end of 2023.

But our region has been here before. We are blessed to be home to a world class business community and our economic leaders know how to navigate tough times.

As a Chamber, we remain ready to provide support and a bold series of initiatives and events are planned for the months ahead to make sure that we can seize every opportunity for growth.

As ever, your views are crucial to our thinking so please so send any thoughts and observations to mark.casci@wnychamber.co.uk.

Mark Roberts
Chair
Leeds City Region Enterprise Partnership

The final Quarterly Economic Survey of 2022 does present some positive "green shoots" across the business base in West and North Yorkshire. Across the region, domestic sales and orders have risen sharply on Q3, in both the services and manufacturing sectors. The manufacturing sector has also seen strong quarterly growth on the exporting front, with export sales up 8% and export orders up 12% on the third quarter of 2022. As a result, turnover has remained strong across the region, ensuring a more stable position for businesses to enter the new year in.

However, there are still some key challenges that businesses are facing that are likely to linger into next year. Inflation is a key cost pressure across the entire business base, cited by 80% of manufacturing firms and 79% of service sector businesses. Whilst the two issues are linked, firms are significantly more concerned about inflation than interest rates, likely due to the more immediate impact which inflation is having on input prices.

In terms of internal cost pressures, manufacturing firms are significantly more likely to feel the effects of raw material price rises and transport costs than firms in the service sector. However, energy and labour costs are significant pressures across the entire business base, and these pressures will persist throughout the next 12 months.

Into the next year, the LEP will continue to support businesses within the Leeds City Region. This quarter has also seen the delivery of the Autumn Statement, where the Government are starting to address the triple blow of high energy costs, soaring inflation and recession, which together will make for a bitter winter.

Our own figures show over 200,000 people in West Yorkshire are employed by companies whose future may be at risk due to towering energy bills. This is an issue affecting not only those businesses who are energy intensive, but also those who are competing internationally against firms in countries where the cost of energy is much lower – placing West Yorkshire exporters at a trade disadvantage.

If you would like to explore how your business can benefit from the LEP's Business Support Service, get in touch with us by calling the helpline on 0113 348 1818, or by emailing businesssupport@the-lep.com.

METHODOLOGY

This quarter there were 251 respondents of business owner/ senior manager/director/partner status. Forty two per cent of this sample were actively trading internationally, a fall of nine per centage points from the Quarter Three study. Businesses were surveyed by telephone or online questionnaire between the periods November 7 to November 25.

Net balance figures referred to throughout this report and represented in the graphs are determined by subtracting the percentage of companies reporting decreases in a factor from the percentage of companies reporting increases.

The Chambers that conducted the survey are:

- West and North Yorkshire Chamber of Commerce (which covers Bradford. Leeds, City of York and all of the North Yorkshire Districts).
- Mid Yorkshire Chamber of Commerce (which covers Wakefield, Calderdale and Kirklees).

BUSINESS SIZE CLASSIFICATION

Throughout the document we refer to the European standard definition of company size as follows

0 – 9 employees	**Micro business**
10 – 49 employees	**Small business**
50 – 249 employees	**Medium business**
250+ employees	**Large business**

DOMESTIC SALES

After falling to a three-year low point, UK sales began to move in the right direction, albeit at a faster pace for the service sector versus manufacturing. The state of firms' order books is also improved hinting at improved demand, although still not quite at that seen in the summer.

EXPORT SALES

There was better news for manufacturers this quarter with international sales now back to levels seen before the summer. However, the service sector is now back to the levels seen at the start of 2021.

EMPLOYMENT

The labour market remains extremely tight. The service sector saw little movement from the last quarter in terms of new hires while manufacturing slipped slightly during the same period. There is some optimism to be found in the fact that employers anticipate a small increase in employment in the next 12 weeks.

INVESTMENT

Given the scale of the challenges seen both domestically and internationally, it was inevitable that many plans for investment are being put on hold, although there were small improvements in the number of manufacturers looking to invest in new equipment.

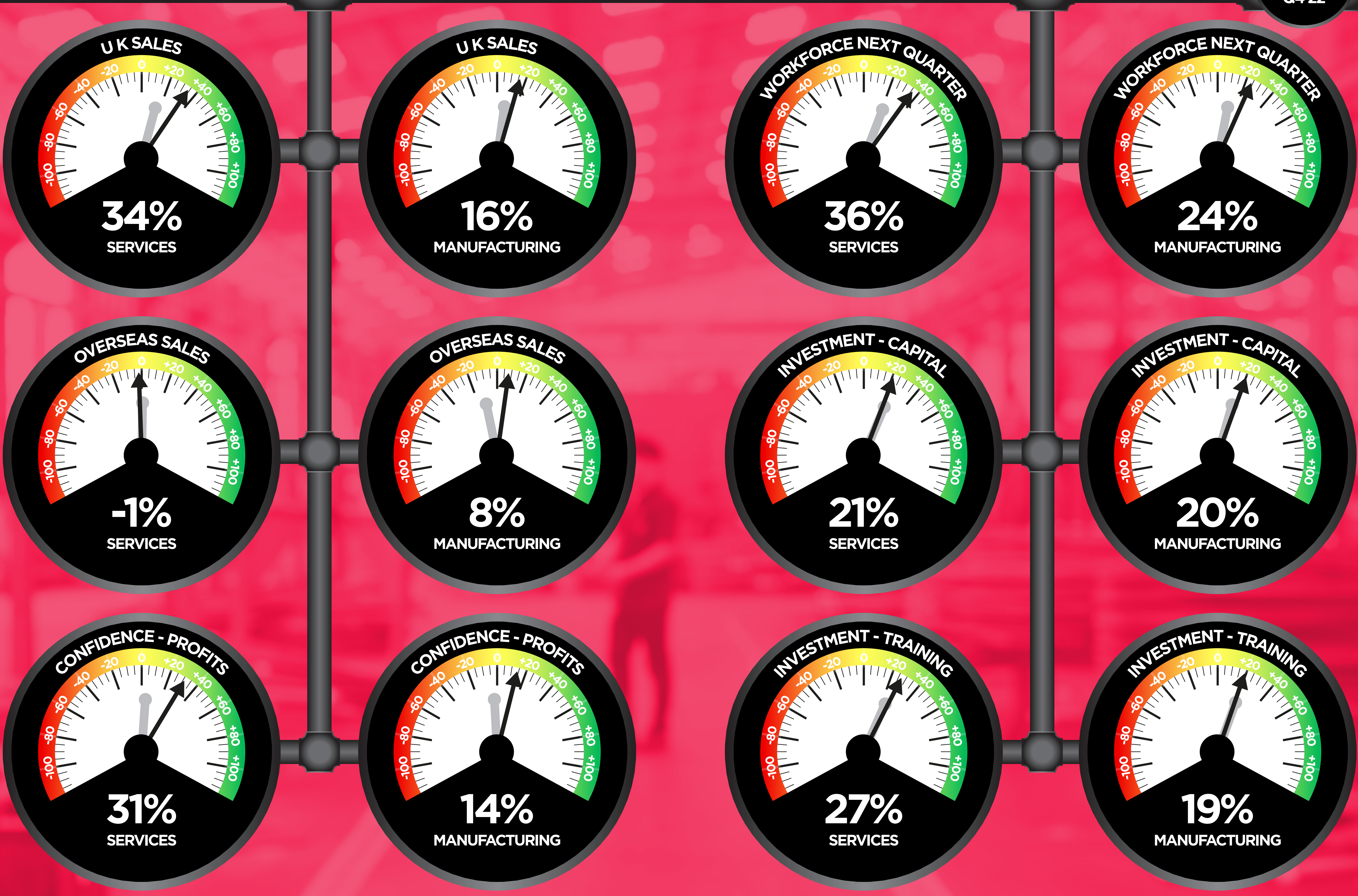
BUSINESS CONFIDENCE

Outlook has improved from the low ebb seen during Q3 with bosses expecting to see turnover and profits improve at a much higher level than seen previously. After a dark period of rising costs and staff shortages, there is a sense among some that better days lie ahead.

BUSINESS COSTS AND CONCERNS

Many firms are in a defensive crouch still, with only a tiny percentage of firms expecting costs to decrease in the coming months. However, a significant amount of firms expect to maintain their current cost levels, although this is proving more difficult for manufacturers.


CURRENT QUARTER
PREVIOUS QUARTER
Q4 22


U K SALES
34%
SERVICES
U K SALES
16%
MANUFACTURING
WORKFORCE NEXT QUARTER
36%
SERVICES
WORKFORCE NEXT QUARTER
24%
MANUFACTURING
OVERSEAS SALES
-1%
SERVICES
OVERSEAS SALES
8%
MANUFACTURING
INVESTMENT - CAPITAL
21%
SERVICES
INVESTMENT - CAPITAL
20%
MANUFACTURING
CONFIDENCE - PROFITS
31%
SERVICES
CONFIDENCE - PROFITS
14%
MANUFACTURING
INVESTMENT - TRAINING
27%
SERVICES
INVESTMENT - TRAINING
19%
MANUFACTURING

Q4

The service sector accounts for around 80% of businesses in West & North Yorkshire and contributes significantly to employment and the economy. The sector has significant clusters including professional and financial services, banking, legal, digital and creative across the region. Retail and tourism also pay a leading role in parts of our region. This survey includes results from all sub-sectors.

Manufacturing (including construction, utilities and primary industries) represents approximately 19% of the companies in West & North Yorkshire region. Manufacturing is still a major employer in our region with over 130,000 peopled employed here. Analysis of sub-sectors shows that the region has above-average representation in more advanced sectors such as chemicals and chemical production, medical technology, electrical equipment and machinery. Survey results include responses from across all major sub-sectors. The sample used in this survey includes a high proportion of manufacturing exporters.

UK SALES

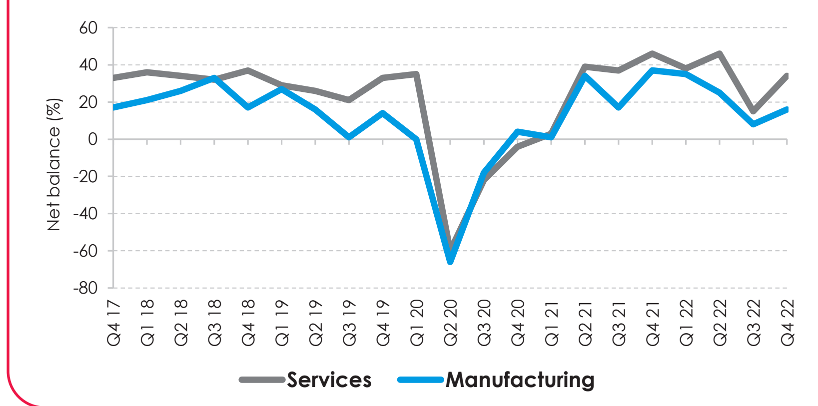
SERVICES	MANUFACTURING
34%	16%
▲ 19%	▲ 8%

OVERSEAS SALES

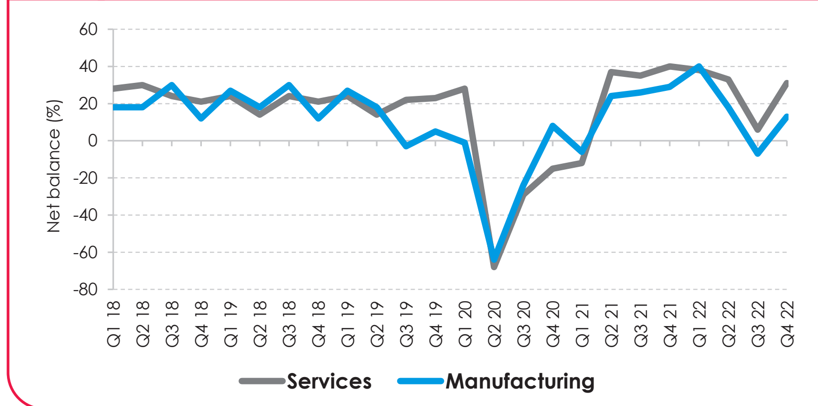
SERVICES	MANUFACTURING
-1%	8%
▼ -2%	▲ 20%

DOMESTIC SALES
Domestic sales levels have made a respectable recovery from the sharp dip we witnessed in Q3 when they fell to the lowest point in three years. While rising costs and supply chain encumbrances remain a concern, we are now back at a level in the service sector that is not far away from the situation seen at the start of the year. Manufacturing also recovered from Q3's low ebb but still languishes in a similar state to the start of 2021 when the country was still in lockdown. Order books have also recovered to an encouraging level, although not quite to the level seen prior to the fiscal event in September.

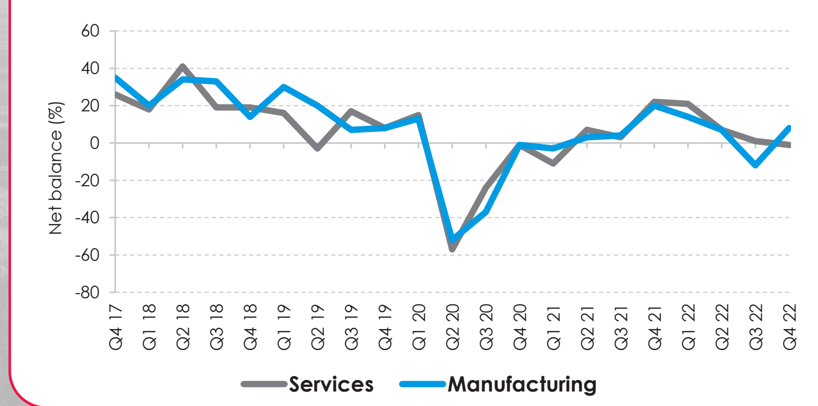
Q4 2022 DOMESTIC SALES



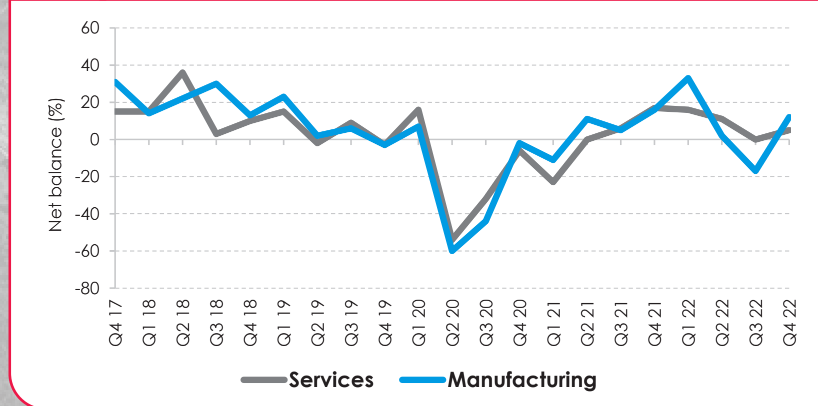
Q4 2022 DOMESTIC ORDERS



Q4 2022 EXPORT SALES



Q4 2022 EXPORT ORDERS



INTERNATIONAL SALES
Manufacturers will be cheered by the fact that international sales are now back at the same level as seen in the early summer. Makers had seen sales collapse in Q3 but are now reporting a healthier outlook with order books moving in the right direction. The service sector slipped slightly on export levels which have been in decline throughout the year and now lie at the lowest level since the end of 2021.

EMPLOYMENT (NEXT QUARTER)

SERVICES	MANUFACTURING
36%	24%
▲ 15%	▲ 13%

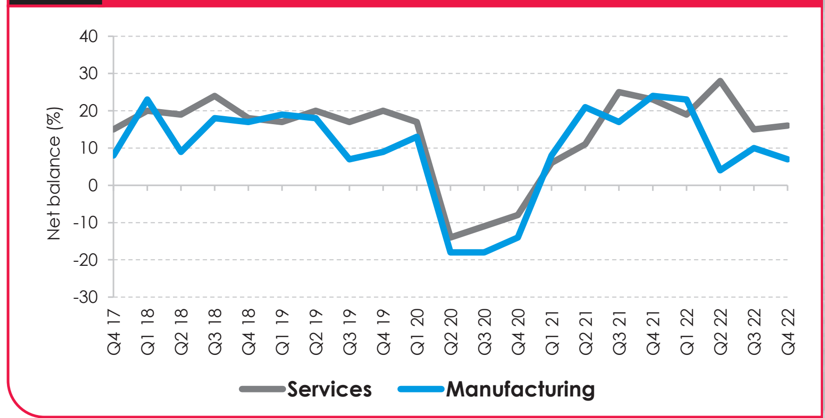
EMPLOYMENT

The employment market remains weak with no movement in terms of additional hiring seen in either the services or manufacturing sector having been witnessed during Q4, with the latter indeed having witnessed a further decline in taking on further staff.

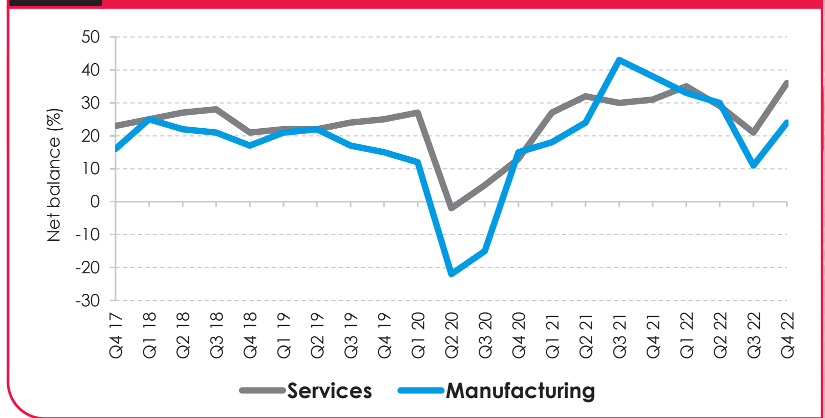
While this picture may have been a reflection on the lighter order books seen during the summer there does now see some grounds for optimism with rising sale projections being reflected in an increasing appetite to employ further staff during the coming three months, most notably in the services sector which is now back at a comparable level to that seen at the start of the year. Identifying suitable candidates for these vacancies will of course prove a challenge in what remains an extremely tight labour market.

Attempted to recruit	Services	Manufacturing
Yes	49%	67%
No	51%	33%

Q4 2022 WORKFORCE CHANGES - LAST QUARTER



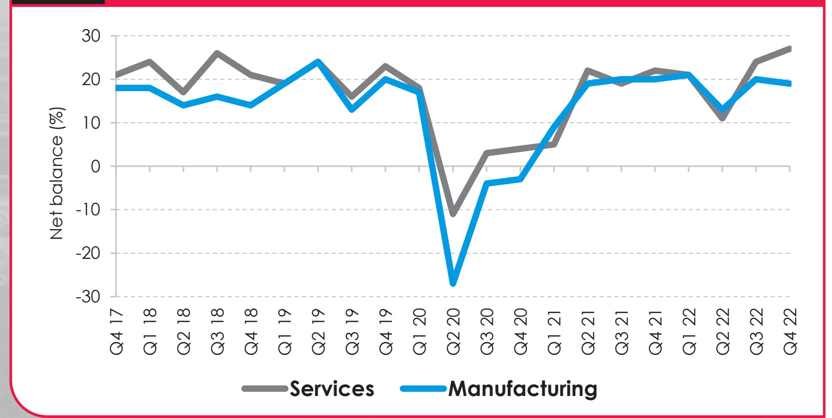
Q4 2022 WORKFORCE CHANGES - NEXT QUARTER



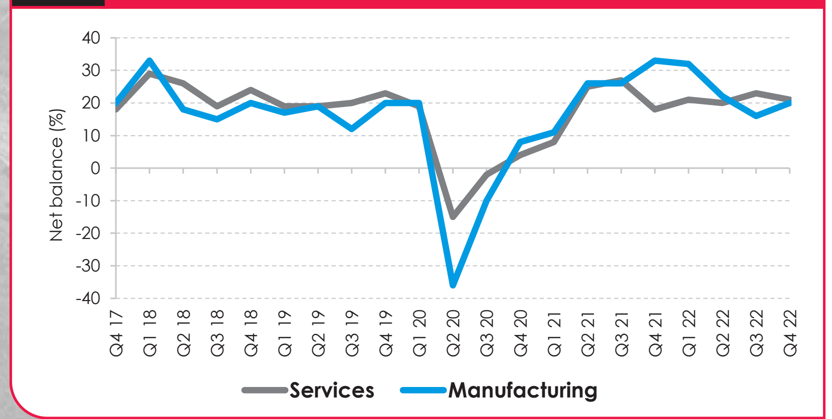
INVESTMENT (CAPITAL)

SERVICES	MANUFACTURING
21%	20%
▼ -2%	▲ 4%

Q4 2022 TRAINING INVESTMENT



Q4 2022 CAPITAL INVESTMENT



INVESTMENT

Investment plans seem to remain very much on hold as businesses wrestle with serious challenges both internationally and domestically.

There was a marginal improvement in manufacturing bosses looking at purchasing new machinery and systems but nowhere near the levels seen at the start of the year. Similarly, the services sector remains static on investment plans as it has done for 24 months. Growth in training investment across both sectors remains negligible. With no discernible light at the end of the tunnel, investment levels show little prospect of improving in the near future.

CAPACITY (FULL)

SERVICES

64%

8%

MANUFACTURING

29%

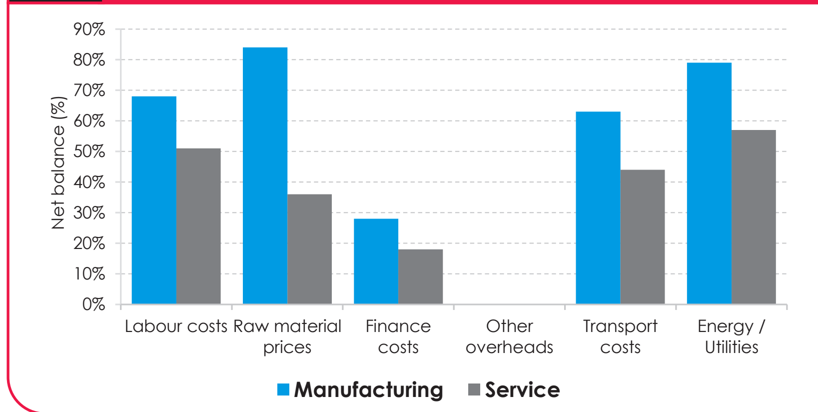
-15%

CAPACITY
Inflationary pressures continue to represent powerful headwinds for businesses in the region, with the issue cited as a considerable problem for the vast majority of firms across the region.

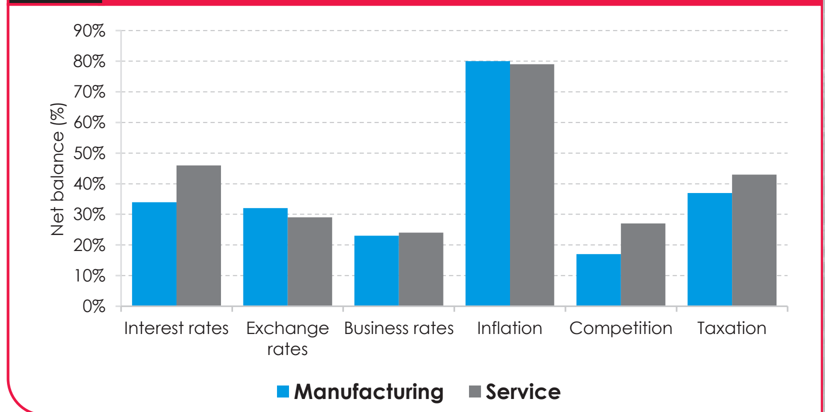
The manufacturing sector reported an improved situation with regards to interest rates compared to Q3 although it is still proving a challenge. While the cost of transport, labour and energy continue to present huge problems in the service sector, it is the cost of raw materials which is the greatest challenge to manufacturers who have been wrestling with sky high costs for months. Question marks will inevitably remain for both sectors as to what the world will look like when the energy price cap expires at the end of March. Clarity on this matter will make an impact on investment decisions going forward.

	Full capacity	Below capacity
Service	40%	60%
Manufacturing	34%	66%

Q4 2022 COST PRESSURES



Q4 2022 EXTERNAL FACTORS



PRICES

SERVICES

85%

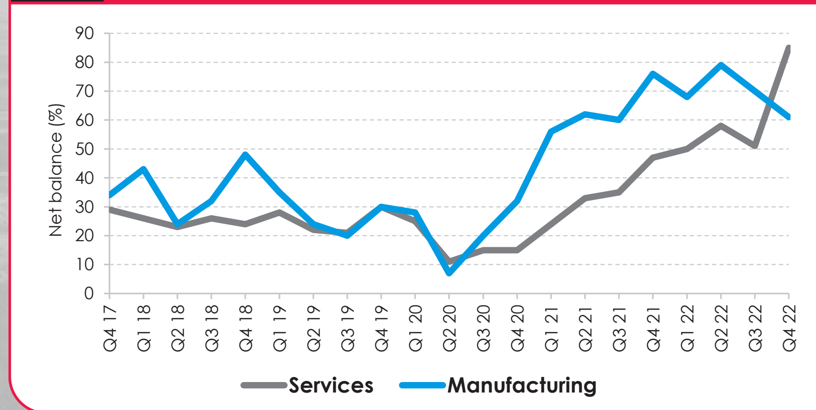
34%

MANUFACTURING

61%

-9%

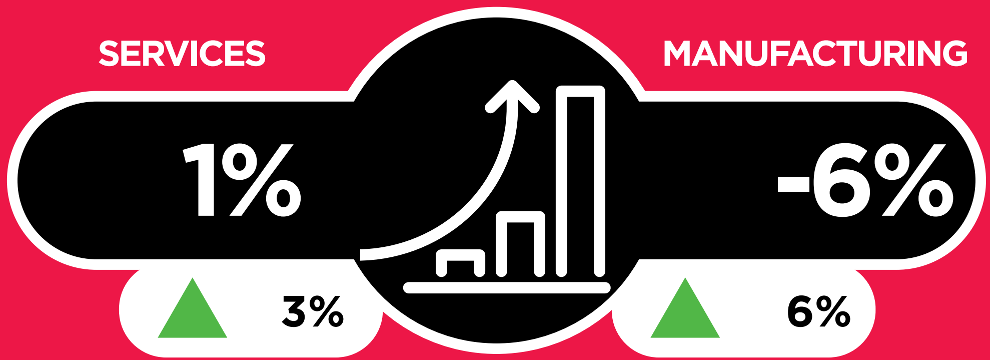
Q4 2022 EXPECTATION OF PRICE RISES



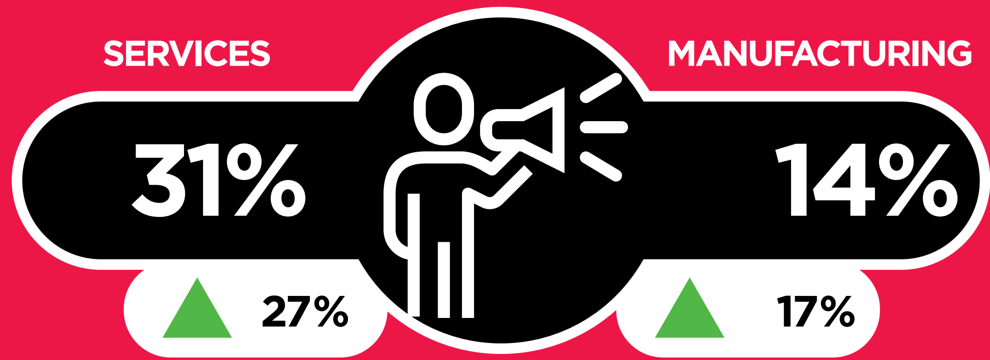
EXPECTATION OF PRICE INCREASES
The current climate on inflation means that the best many firms can hope for is for matters to remain as they are. Just six per cent of service firms expect to see their prices decrease in the coming quarter while for manufacturing this figure falls to three per cent.

Although not demonstrated on the tables laid out on this page, there is also a significant number of firms in both sectors who are confident of maintaining price levels at their current levels. The volatility of price levels is something manufacturers have become accustomed to in the last two years but in the service sector, the level of firms expecting to increase their costs now stands at the highest level since 2011, having risen 34 per cent since Q3.

CASHFLOW



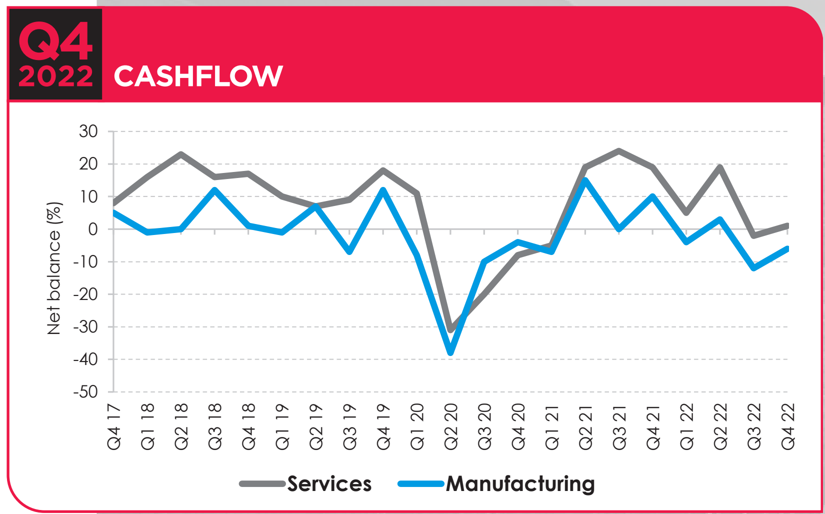
CONFIDENCE (PROFITABILITY)

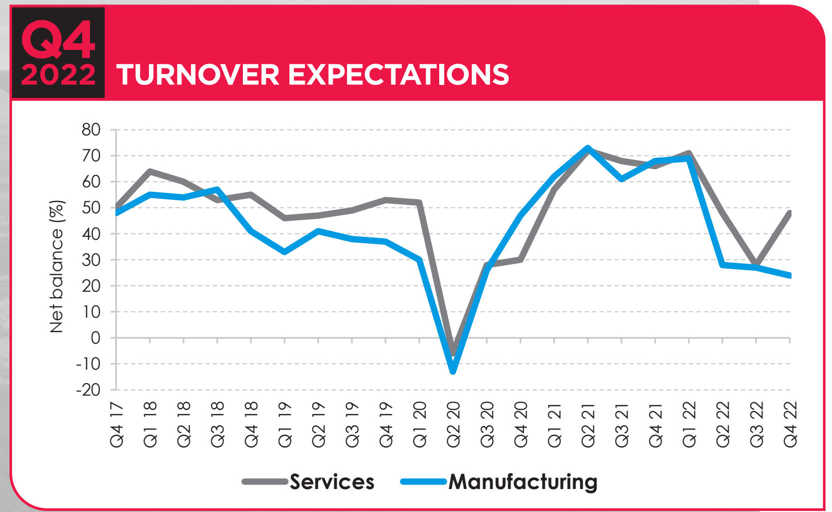


CASHFLOW
Given the uncertain trading market it was inevitable that cashflow would remain poor for both service and manufacturing firms.

While both sectors made marginal improvements against Q3's dire figures, they remain far short of those seen in the middle of 2021. Manufacturing remains in negative territory with services only avoiding the same fate by the tiniest of margins. There is a strong likelihood that firms are now stockpiling reserves in order to cope with the uncertainty currently engulfing the economy.

Cashflow	Services	Manufacturing
Increase	26.5%	25.3%
Decrease	25.6%	32.5%
Remained the same	47.5%	42.2%





BUSINESS CONFIDENCE
The outlook of companies is one to give rise to some optimism. Expectations on turnover and profitability for the start of 2023 both posted big improvements on Q3's figures, with the service sector now edging back to confidence levels that it was experiencing at the start of the year.

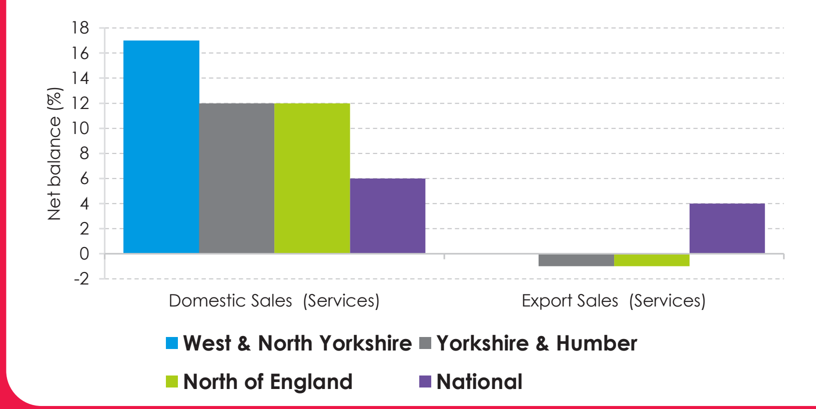
While not quite back at the levels seen during 2021, manufacturing also moved in the right direction and out of the negative territory it occupied during Q3. Decreasing demand, staff shortages and increasing costs continue to damage the economy but there is clear sign that company bosses see something of a light at the end of the tunnel in terms of their outlook.

Q4

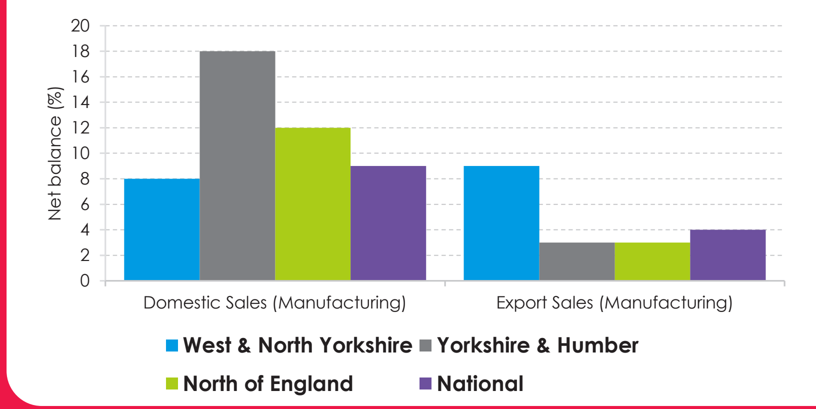
The British Chambers of Commerce Quarterly Economic Survey (QES) is the largest and most representative independent business survey of its kind in the UK. Each quarter over 6,000 businesses complete the QES, making it the largest business survey in the UK.

The QES is the first economic indicator of the quarter, published in advance of official figures and other private surveys, and it consistently mirrors trends in official data. For this reason, the survey is closely watched by policy-makers such as the Treasury, the Bank of England, the Office for Budget Responsibility, the EU Commission and the International Monetary Fund.

Q4 2022 REGIONAL COMPARISON - SERVICES



Q4 2022 REGIONAL COMPARISON - MANUFACTURING

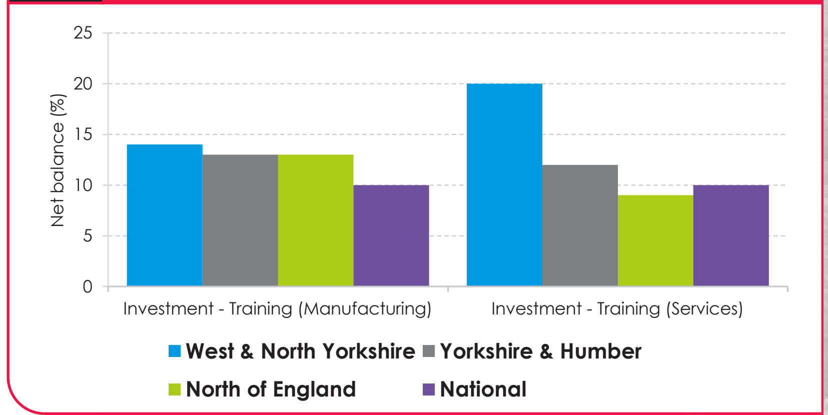


NATIONAL AND REGIONAL COMPARISONS

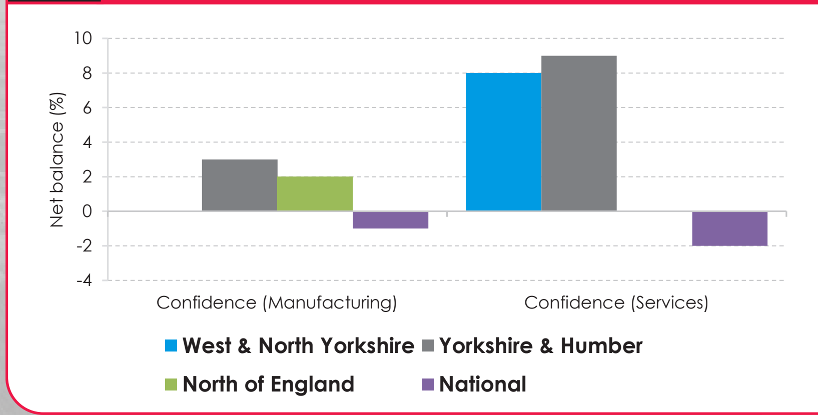
We are looking at a veritable mixed bag when it comes to our comparison to the rest of the nation. It is heartening to see both manufacturing and service firms showing greater appetites for both capital and training investments than elsewhere in the country. Similarly domestic sales for services look strong when compared with both the North of England and the rest of the UK.

Cashflow for manufacturing across West and North Yorkshire however remains a worry given how far we lag behind other geographies, hinting that inflation is taking a more serious toll on this sector than elsewhere in the UK.

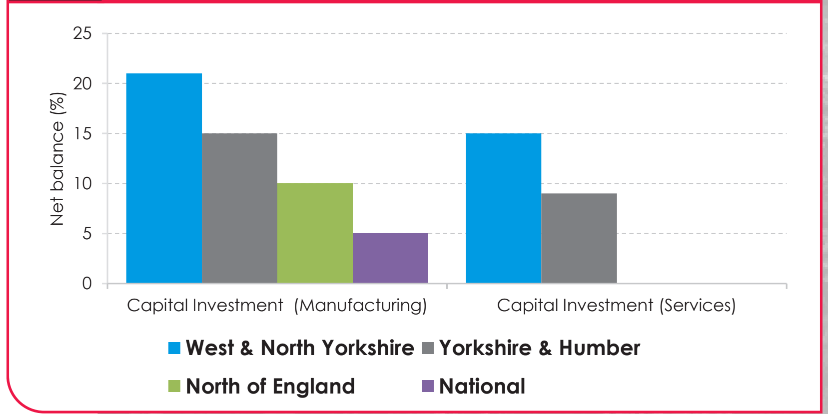
Q4 2022 REGIONAL INVESTMENT TRAINING



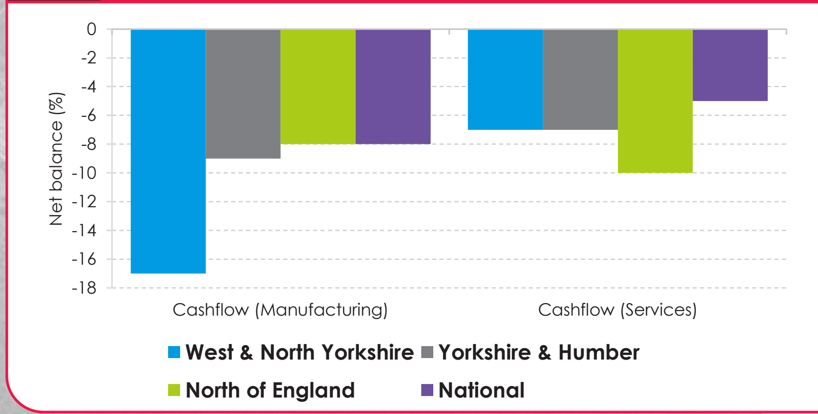
Q4 2022 REGIONAL BUSINESS CONFIDENCE - PROFITS



Q4 2022 REGIONAL INVESTMENT CAPITAL



Q4 2022 REGIONAL CASHFLOW



David Bharier
Head of Research
British Chambers of Commerce

"The situation remains critical for the majority of SMEs who find themselves cut adrift by monumental inflationary pressures, often driving triple-digit percentage cost increases, particularly on energy."

NO SIGNS OF BUSINESS RECOVERY

- After significant declines across all business conditions tracked by the BCC in Q3, most indicators have stabilised at a low level.
- Profitability confidence remains at Covid-crisis levels; only one in three (34%) businesses believe their profits will increase over the coming year, while more (36%) expect a decline.
- Just 33% of firms experienced an increase in sales over the past three months, while 25% of firms reported a decrease, with hospitality firms the least likely to report improvements.
- More firms are reporting taxation (38%) and interest rates (43%) as growing business concerns.

The BCC's Quarterly Economic Survey (QES) for Q4 2022 shows key economic indicators have stabilised at concerningly low levels, following significant declines in Q3.

The survey of over 5,600 firms – 92% of whom are SMEs – reveals business confidence, conditions and sales have stabilised at low levels, while inflation remains the top external factor of concern.

The research took place between November 7 and November 30, across the period the Government's Autumn Statement was announced.

BUSINESS ACTIVITY NOT EXPERIENCING ANY BOUNCE BACK FROM SIGNIFICANT FALL IN Q3

The percentage of firms reporting increased domestic sales has stabilised at the low level reported in Q3. Only 33% of firms experienced an increase in sales over the past three months, while 25% of firms reported a decrease in sales and 42% report no change.

Activity in the retail and hospitality sectors remains particularly weak. Both sectors are firmly in 'negative territory', with more firms reporting a decrease in sales than an increase over the past three months.

The hospitality sector is also struggling to operate at full capacity; three quarters (74%) of hospitality businesses reported they are operating below capacity.

More firms continued to report decreased cash flow versus increased cash flow.

Only 24% of business said their cash flow has increased over the last three months, while 30% have seen it decrease.

BUSINESS CONFIDENCE REMAINS AT COVID-CRISIS LEVELS

After business confidence plummeted in Q3, firms continued to report a negative outlook for the future in Q4. Less than half (44%) of firms expect their turnover to increase over the next 12 months, while 25% expect a decrease. Those expecting turnover to increase remains ten percentage points down from a level of 54% in Q2 2022.

Profitability confidence remains much weaker than turnover confidence and has stabilised at Covid-crisis levels. Only one in three (34%) businesses believe their profits will increase over the coming year, while 36% now expect a decrease.

LITTLE SIGN OF PLANS TO INCREASE BUSINESS INVESTMENT

Increases to business investment remain low. Only 21% of firms reported an increase to plant/equipment investment over the past three months, while 57% reported no change, and 22% reported a decrease.

INFLATIONARY PRESSURES REMAIN TOP BUSINESS CONCERN

The percentage of firms expecting their prices to rise over the coming months (60%) remains near record highs but is showing slight signs of easing, down from 62% in Q3.

Concern about inflation remains at record highs; 80% of firms cited inflation as a growing worry to their business. But there are also significant jumps in the percentage of firms concerned about taxation (38%) and interest rates (43%).

David Bharier, Head of Research at the British Chambers of Commerce (BCC), said: "These results provide further confirmation that business conditions deteriorated significantly in the second half of 2022.

"The situation remains critical for the majority of SMEs who find themselves cut adrift by monumental inflationary pressures, often driving triple-digit percentage cost increases, particularly on energy.

"Business confidence remains worryingly low, with only a third of firms reporting improvements to sales, and less than a quarter reporting increased investment. The widespread economic damage caused by Covid shutdowns has been compounded by subsequent inflation, global trade crises, and new trade barriers with the EU. For many SMEs, the cost of doing business is now simply too high.

"While the change in administrations from Truss to Sunak may have stabilised markets, the Autumn Statement on 17 November appears to have had no impact on business confidence. Indeed, while inflation is still by far and away the top concern for businesses, taxation has now become far more of an issue for SMEs.

Shevaun Haviland
Director General
British Chambers of Commerce

"These results reaffirm the need to create a stable environment for businesses to invest, with energy, improvements to infrastructure, access to skills, and removal of trade barriers, particularly with the EU, all top priorities for firms."

Responding to the findings, Director General of the British Chambers of Commerce, Shevaun Haviland, said: "The outlook from businesses remains bleak. Now, more than ever, we need to create the right conditions for firms to invest and grow.

"Providing businesses with clarity regarding the new energy support package must be top of the Government's agenda for the New Year, after they failed to do so before Christmas.

"We urge Government to promote business growth by investing in public infrastructure and incentivising international trade, with a particular emphasis on making the UK the global hub for green innovation.

"Barriers to trade must be removed in order to allow firms realise their full trading potential. The impasse over the Northern Ireland Protocol continues to loom and the UK Government must work with the European Commission to reach a negotiated solution on its business compliance burdens.

"The Government's New Year's resolution should be to put business support for SMEs at the heart of its agenda and get the UK on the road to recovery."

WHAT BUSINESSES SAY:

"Our electric costs will rise from £34,000 per year to around £250,000 from March and there is so much uncertainty. We want to invest to make us more efficient and reduce our electrical usage, but there are no grants on offer to help."

Small services firm in Somerset

"Uncertainty caused by bad government decisions over an extended period have led to wasted effort and lost opportunities in the construction sector."

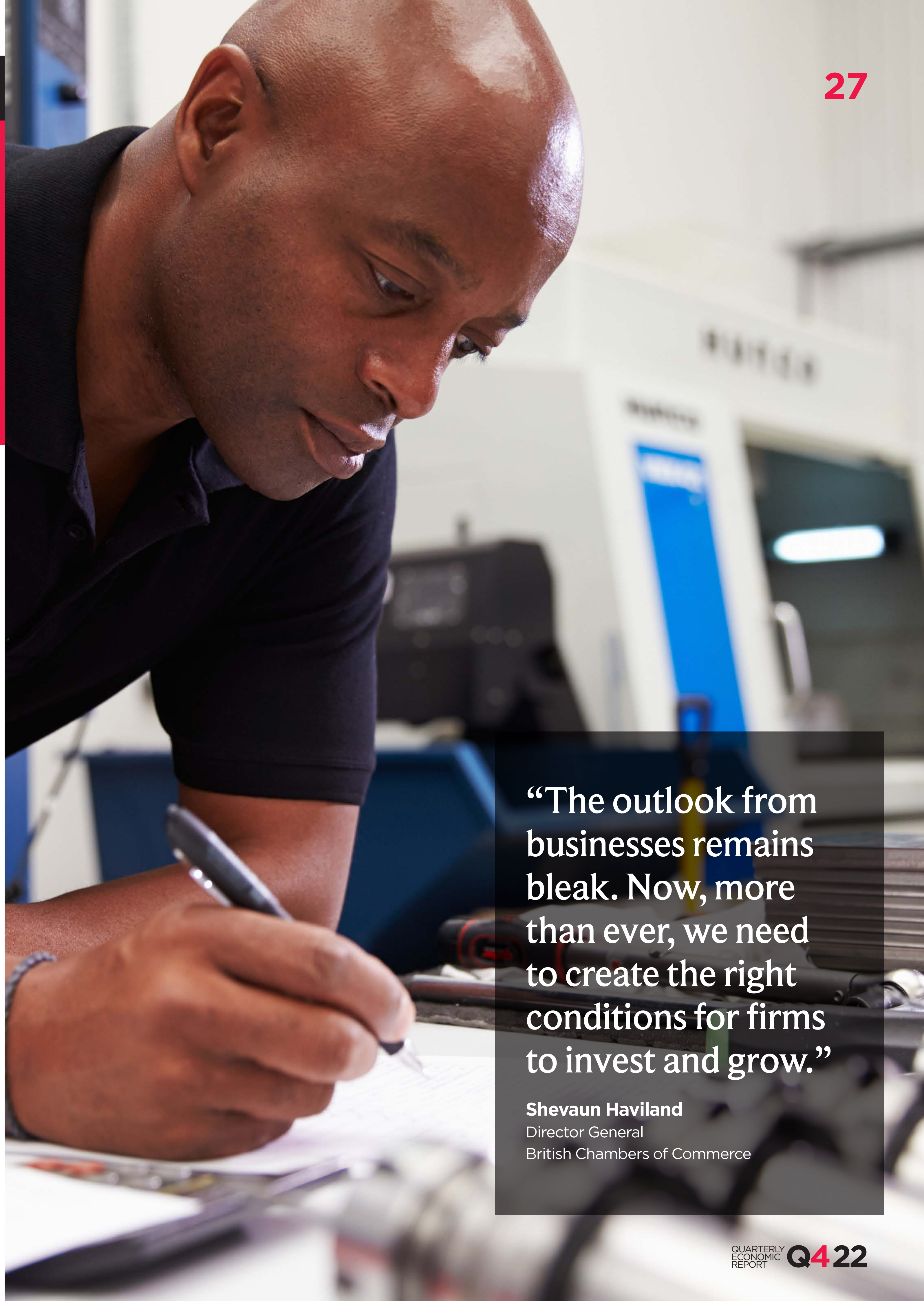
Micro construction firm in Kent

"We are desperately short of semi/unskilled workers. We could increase business by about 20% if we could employ. We are turning away work as we are struggling to meet current requirements with the staff we have."

Small professional services firm in Sussex

"We are still suffering from the pretty much total loss of our European export trade. This is directly as a result of Brexit and shipping difficulties, including factors such as double duty payments. This has reduced turnover by 50%."

Micro retailer in Norfolk



"The outlook from businesses remains bleak. Now, more than ever, we need to create the right conditions for firms to invest and grow."

Shevaun Haviland
Director General
British Chambers of Commerce

Amanda Beresford
Schofield Sweeney
Chair of the Board

James Mason
West and North Yorkshire
Chamber of Commerce
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West & North Yorkshire Chamber of Commerce

IN PARTNERSHIP WITH

Leeds City Region Enterprise Partnership

Working in partnership with the

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