Q3 2023

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

Amanda Beresford
Chair
West & North Yorkshire Chamber of Commerce

One swallow does not a summer make the saying goes.

However, based on the findings of our latest Quarterly Economic Survey, it seems that we may be starting to turn the corner.

Expectations on future earnings, and particularly profits, have increased. After months of stagnant investment, more firms in Yorkshire are investing into their workforces, machinery and property. And sales, both domestically and particularly internationally, are on the rise.

All of this with an economy which, while hardly delivering stellar levels of growth, is not contracting, inflation is defying the odds and continuing to fall and after interest rate rises were finally – and at least for now – put on hold.

As the nights draw in, this is exactly the news we have all been waiting for so patiently.

As a sensible and pragmatic business community we know we are far from out of the woods.

Trading is still very challenging and costs remain a significant challenge to all firms. We will certainly not be able to celebrate until this latest QES becomes a recuring trend for at least six months.

However, this is perhaps time to reflect on the resilience and determination of our region's business community. For centuries Yorkshire has been a hotbed of entrepreneurial zeal and we know how to roll with the punches in this part of the world.

As ever, our Chamber is here to serve and support. We continue to listen to your views and experiences and reflect them when we deal with governments both local and national.

As usual we thank our partners at West Yorkshire Combined Authority and our two Local Enterprise Partnerships for their continued support.

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

For the first time in well over a year it appears that there is now light at the end of the tunnel.

The results for the performance and outlook of Yorkshire's economy during June, July and August of 2023 is at an overall level not seen since the start of 2022. More firms in both the worlds of manufacturing and services are reporting increasing sales, particularly on the continent. More businesses are investing in their teams, both in terms of increasing their headcounts and upgrading their plant and machinery. And, most crucially, more and more firms are expecting to grow their profits in the final three months of the year.

It goes without saying, this is most welcome news. After years of relentless assault from Brexit, political upheaval, the pandemic, inflation and soaring interest rates, it seems for now at least that business leaders believe the worst is behind us.

Context is, of course, everything. The fieldwork for the latest Quarterly Economic Survey was conducted as inflation declined when it was anticipated to increase. He economy, widely forecasted to contract over the summer, unexpectedly grew – albeit at a snail's pace. And, although fieldwork had concluded by the time of the announcement, interest rate rises were at last put on hold.

The net result is that companies in West and North Yorkshire have, at least for now, a sense that they can breathe and begin to move forward.

This was, naturally, only a matter of time. Economic cycles are a reality but so too is the indefatigable character of Yorkshire's entrepreneurs. Our business leaders are used to taking their share of blows from external events, more so than ever this last decade. It is to their enormous credit that they are able to register the results and outlook that they have.

But we are also a prudent and judicious bunch in this part of the world. While the latest QES is reason for hope, we are far from out of the woods. Inflation is falling but is still at an eye-watering level. Interest rates were frozen in September but remain one of the principal tools used by the Bank of England in tackling inflation. And, as the nights darken and the temperature drops, the increased cost of energy is going to rear its head once again.

All eyes will be on the final QES of 2023 to see if the light at the end of the tunnel has gotten any brighter. In the meantime let us keep our heads up and do what we do best. Ultimately, that's all we can do. As ever, please do send any feedback on the latest QES – good or bad – to mark.casci@wnychamber.co.uk.

Tracy Brabin
Mayor of West Yorkshire

The results of the latest quarterly economic survey are grounds for cautious optimism. Businesses across our region are reporting an improved outlook for their order books, greater investment in their staff and equipment, and are more confident about their future profitability.

Having access to good, skilled people is crucial if businesses are to grow and succeed, as we build a brighter West Yorkshire that works for all. So, it is great to see that many businesses also plan to hire more new staff over the next three months, in what is already a tight and competitive labour market and are putting greater emphasis on training and skills.

Investing in skills and training remains a priority for me and the Combined Authority. Our extensive skills offer is designed to help West Yorkshire businesses find, recruit and retain apprentices and graduates, help build employees' build essential maths, English and digital skills, as well as developing the kinds of specialist skills currently in demand across the region.

While inflation remains high, it is falling - albeit not quickly enough. But for the first time in a long time, wages are now rising faster than prices, giving workers some much needed respite from the cost-of-living pressures. Yet we need to be mindful that despite these positive indicators, businesses are still operating in one of the most challenging and uncertain economic environments for a generation.

High energy prices and interest rates are negatively affecting the cost of doing business, and the UK economy is still in a fragile state.

It's in this context that the significant rises in overseas sales for both manufacturing and services sectors is positive. International trade is one of the most effective ways for businesses to increase their competitiveness, resilience and productivity – all of which we are keen to promote and support across our region.

That's why I want to help businesses to make the most of these export opportunities through the latest round of support from my £6m Innovative Entrepreneurs fund, which aims to unlock enterprise, innovation and growth. It will enable businesses to launch services and products made in West Yorkshire to sell to the world, through a programme of tailored support, coaching and mentoring.

Strong, successful businesses are the cornerstone of the thriving and diverse region that I want to help develop. The relationship between myself as Mayor, the Combined Authority and the business community is paramount to this, and I will be a champion of good businesses.

For more information on business support at the West Yorkshire Combined Authority, please contact the Business Support Service at businesssupport@the-lep.com or 0113 348 1818.

METHODOLOGY

The respondents of business owner/senior manager/director/partner status. Fifty per cent of this sample were actively trading internationally, an identical figure to the Quarter Two 2023 study.

Of those businesses surveyed 44 per cent were micro, 32 per cent were small, 19 per cent were medium and 9 per cent were large. Businesses were surveyed by telephone or online questionnaire between August 21 and September 14.

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

A clear diving line has been drawn between manufacturing and service sectors on domestic sales this past three months. Services grew sales by five per cent during Q3 while manufacturers saw sales plummet by 10 per cent. However, both sectors showed significant improvements in their order books so hopefully this will level up in Q4.

EXPORT SALES

After a turbulent few months, both manufacturers and services sector firms showed significant improvements in their overseas markets. Manufacturers growing international sales rose by 15 per cent while service sector firms continued their upward trajectory seen in 2023 with an 11 per cent rise.

EMPLOYMENT

More encouraging findings, with both sectors looking to increase their headcounts in the next three months. Services firms saw hiring intentions increase by seven per cent while manufacturers were up by five per cent.

INVESTMENT

Yorkshire manufacturing showed a marked improvement in investment with large increases in spending on both training and equipment. This follows months of stagnant investment. Meanwhile the service sector continued its upward trajectory with increases in spending.

BUSINESS CONFIDENCE

Both manufacturers and service sector firms anticipate profits to grow in the final three months of the year. While service sector firms report greater levels of optimism, it is clear the majority of businesses believe the worst is behind them.

BUSINESS COSTS AND CONCERNS

Despite the improving performance and outlook, constraints remain. Interest rates, inflation and the cost of energy remain at the forefront of business leaders' minds. As the weather cools and overheads from utilities begin to increase, a tough winter could loom for some businesses.


CURRENT QUARTER
PREVIOUS QUARTER
Q3 23


U K SALES
12%
SERVICES
U K SALES
4%
MANUFACTURING
WORKFORCE NEXT QUARTER
24%
SERVICES
WORKFORCE NEXT QUARTER
20%
MANUFACTURING
OVERSEAS SALES
28%
SERVICES
OVERSEAS SALES
6%
MANUFACTURING
INVESTMENT - CAPITAL
15%
SERVICES
INVESTMENT - CAPITAL
22%
MANUFACTURING
CONFIDENCE - PROFITS
44%
SERVICES
CONFIDENCE - PROFITS
32%
MANUFACTURING
INVESTMENT - TRAINING
22%
SERVICES
INVESTMENT - TRAINING
21%
MANUFACTURING
-100 -80 -60 -40 -20 0 +20 +40 +60 +80 +100

Q3

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

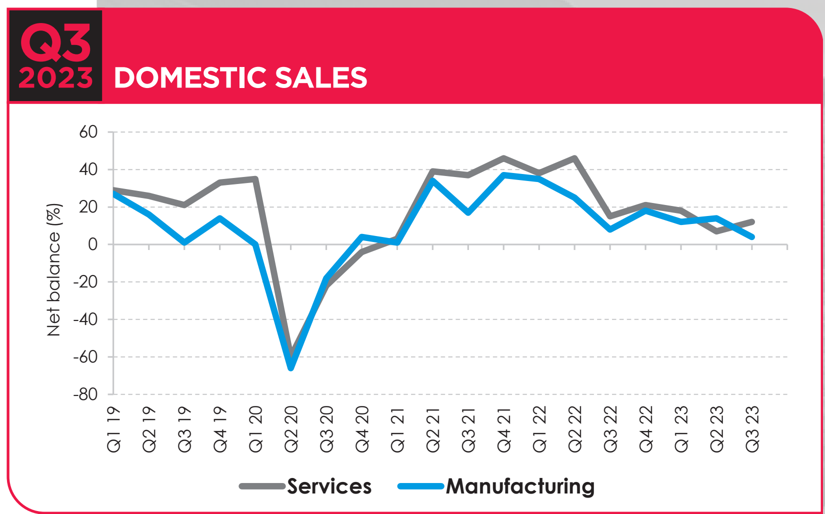
SERVICES	MANUFACTURING
12%	4%
▲ 5%	▼ -10%

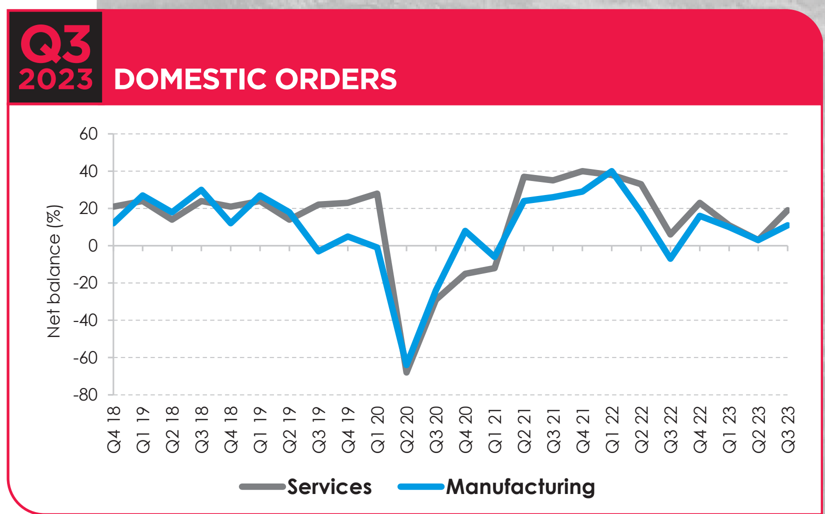
DOMESTIC SALES
The service sector saw a marked improvement during the third quarter, rising five points on the preceding period. Given the sector's domestic sales had declined by 11 per cent in quarter two, this performance will be of significant comfort to businesses in the service industries.

Manufacturing however enjoyed a far less successful quarter, with sales down by 10 per cent. The figures are a particular disappointment given that the sector had enjoyed a healthy improvement during the previous quarter.

While this mixed bag of sale activity may appear to be for concern for the latter, it is worth bearing in mind that most firms reported a static period of trading. However, both sectors can draw significant comfort from the fact that both service and manufacturing firms saw their order books improve considerably.

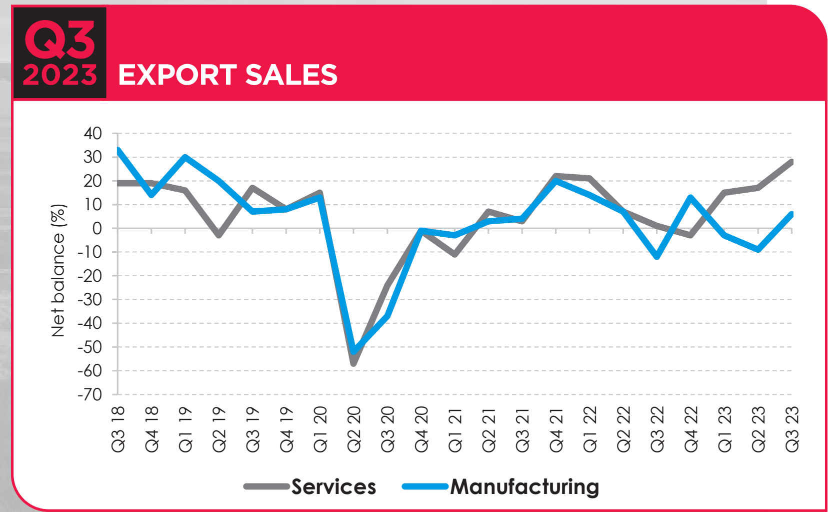
INDUSTRY VOICE
"We've seen a number of customers failing to replace items as soon as usual. So this impacts on our sales."

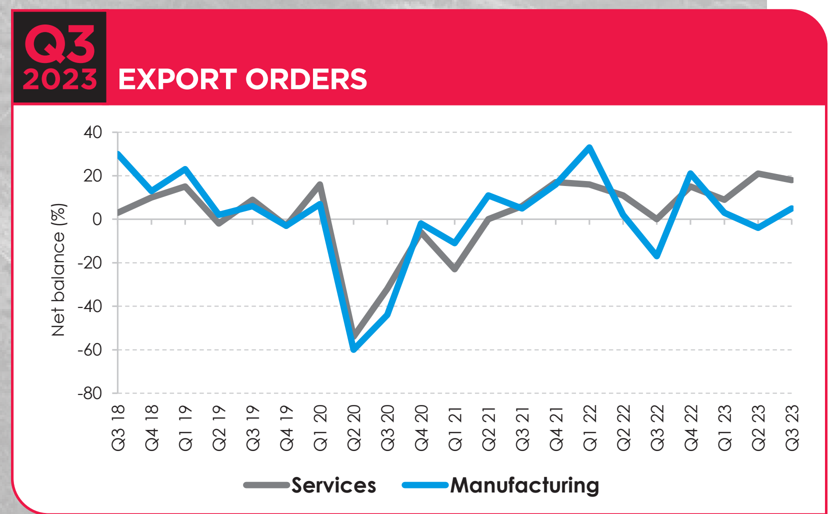




OVERSEAS SALES

SERVICES	MANUFACTURING
28%	6%
▲ 11%	▲ 15%





INTERNATIONAL SALES
Exporters enjoyed a strong quarter of trading with sales up significantly from Q2.

Services continued the strong rise it has seen since the start of the year with an increase of 11 per cent in sales. Meanwhile manufacturing, which has had a challenging 2023 when it came to exports, posted an impressive 15 per cent increase in sale activity.

Order books in the latter sector also improved with a nine per cent increase. There was some cause for concern however in the service industry which saw their order books drop slightly by three per cent.

INDUSTRY VOICE
"Compliance issues when exporting to the EU from the UK are significant, and costs are increased which has reduced our competitiveness.

Brexit is still a drag and adding costs to the business."

EMPLOYMENT (NEXT QUARTER)

SERVICES	MANUFACTURING
24%	20%
▲ 7%	▲ 5%

EMPLOYMENT
Another positive set of results as both manufacturers and service sector firms signalled their intention to hire additional staff in the next three months.

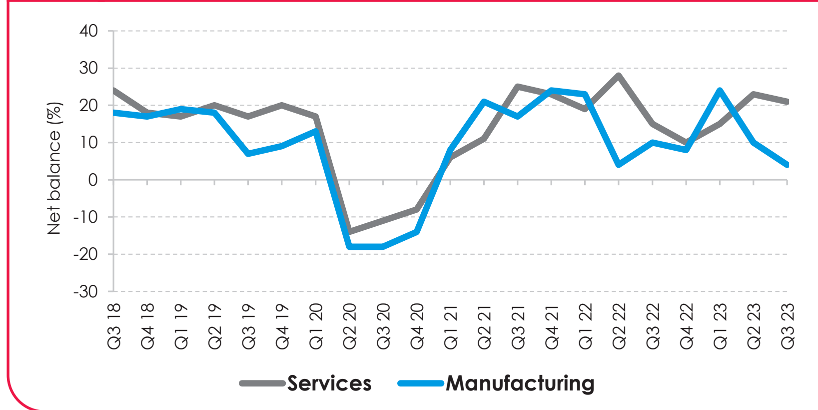
Services saw hiring intent increase by seven per cent while manufacturers were up by five per cent.

This brings to an end close to a year of declining optimism in both sectors, with hiring intent having consistently fallen since the end of last year, with the preceding quarter having seen services sector firms down two per centage points and manufacturers by six per cent.

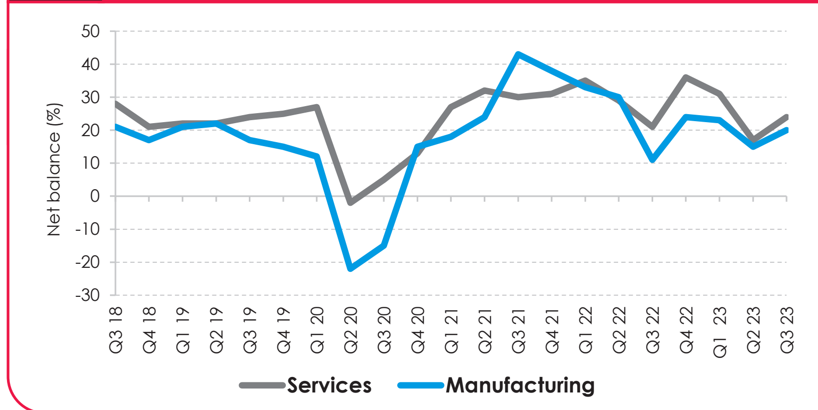
Given how tight the labour market has been and how uncertainty still pervades the UK economy, it will be interesting to see what the final quarter of the year brings and as to whether these optimistic predictions prove to become statistical realities.

INDUSTRY VOICE
"Tougher than they have been for many years, especially not being able to reasonable employees."

Q3 2023 WORKFORCE CHANGES - LAST QUARTER



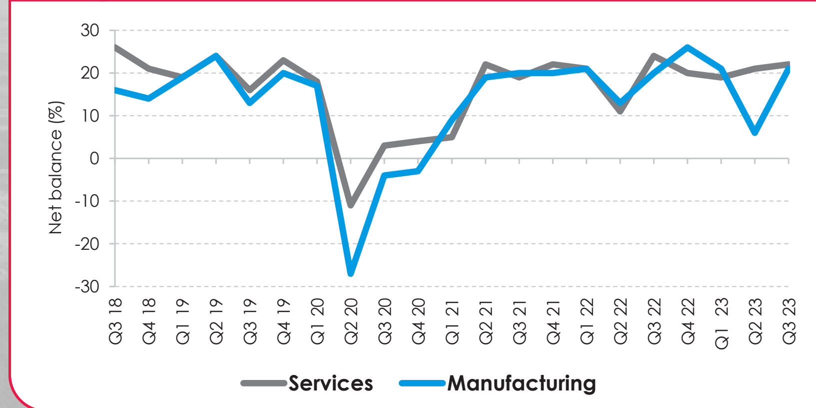
Q3 2023 WORKFORCE CHANGES - NEXT QUARTER



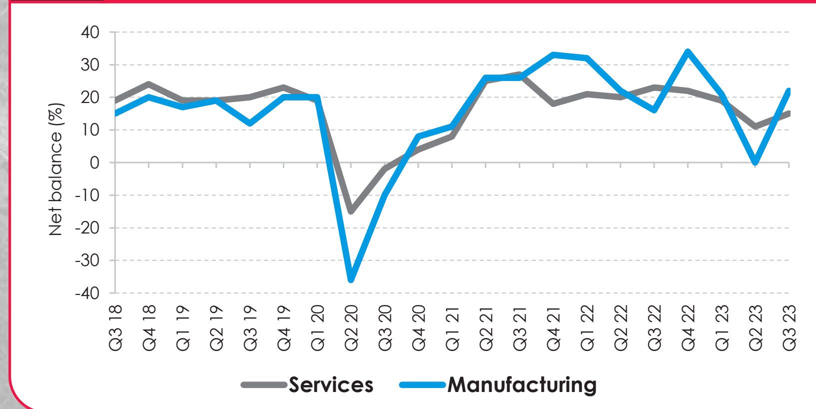
INVESTMENT (CAPITAL)

SERVICES	MANUFACTURING
15%	22%
▲ 4%	▲ 22%

Q3 2023 TRAINING INVESTMENT



Q3 2023 CAPITAL INVESTMENT



INVESTMENT
After months of steady decline, manufacturers came roaring back during the third quarter of the year when it came to investment.

Producers seeking to invest in capital equipment such as plant and machinery rose by 22 per cent, the highest level in 12 months. Meanwhile manufacturers intending to invest in training increased by 15 per cent.

For the service sector, a more modest improvement was shown, with increases of four per cent and one per cent seen for capital and training investment respectively.

How much the improved pictured can be owed to measures introduced in the March Budget to increase the appetite for investment has contributed to this is hard to quantify but regardless of the causes such an improvement is to be warmly welcomed.

INDUSTRY VOICE
"We took on another company's staff and machinery after it went into administration."

CAPACITY (FULL)

SERVICES 40% ▲ 2%

MANUFACTURING 39% ▲ 6%

PRICES

SERVICES 37% ▼ -2%

MANUFACTURING 20% ▼ -9%

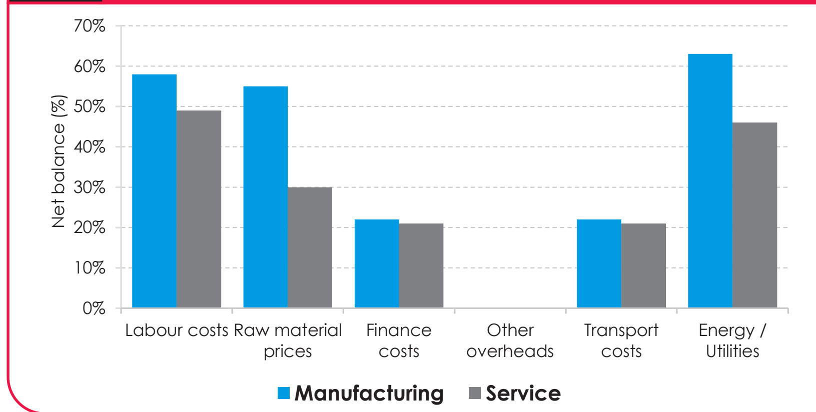
CAPACITY & COST PRESSURES
A slight decrease was reported with 38 per cent of services firms at full capacity, falling to 33 per cent for manufacturers.

Labour costs continue to pose headaches, particularly in manufacturing where 58 per cent of firms highlighted it as an area of concern. The reduction in relief on energy costs inevitably fed through into the final results with close to two thirds (63 per cent) of manufacturers citing it as an issue – all at a time when the summer saw usage decline.

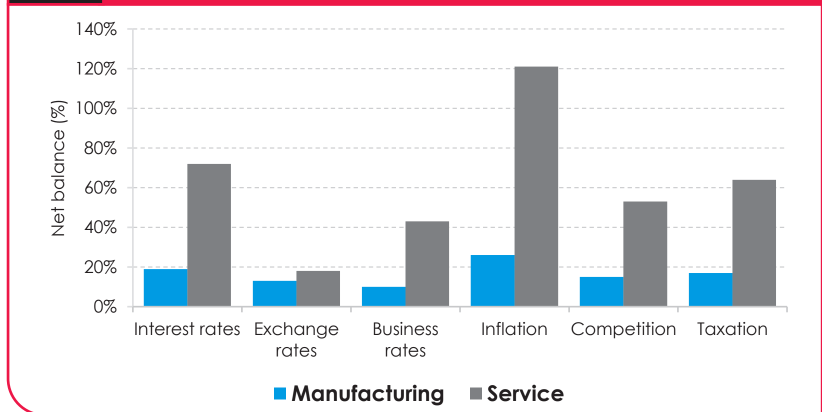
Labour and energy costs were also the top two issues for the service sector.

Despite September finally seeing an end to increasing interest rates, the matter is still top of mind for many business leaders, with nearly three-quarters (73 per cent) of service sector firms reporting it as a problem. And while inflation is finally falling, the reality of higher costs is simply not going away for businesses of all sizes and sectors.

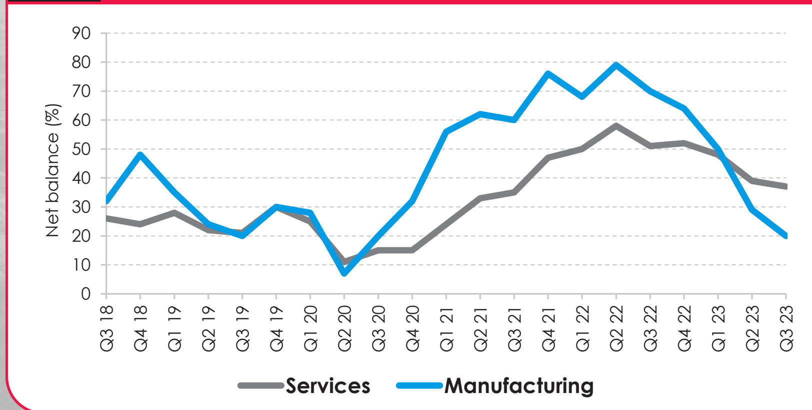
Q3 2023 COST PRESSURES



Q3 2023 EXTERNAL FACTORS



Q3 2023 EXPECTATION OF PRICE RISES



PRICES
The decline in inflation may now be filtering into business leader's expectations on future price increases.

Thirty-six per cent of all firms saw price rises in the last quarter as compared with 41 per cent last time they were asked. There was a small increase in the level of firms experiencing no overall change while just five per cent reporting a decline.

Manufacturers experienced more price freezes than service sector firms, with the latter also seeing more increases in the prices.

With the winter not far away, energy costs will once again weigh on the minds of owners.

INDUSTRY VOICE
"All the companies put the prices up, prices have never come back down since."

"Our quiet time of year for heating etc. but we have done more marketing than normally to drum up custom."

CASHFLOW

SERVICES **0%** ▲ 6%

MANUFACTURING **-3%** ▼ -11%

CONFIDENCE (PROFITABILITY)

SERVICES **44%** ▲ 15%

MANUFACTURING **32%** ▲ 2%

CASHFLOW
Access to cash remains a significant problem in Yorkshire.

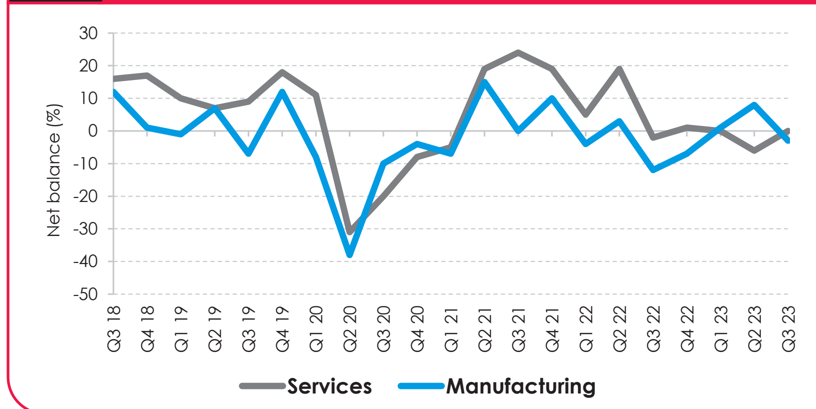
The issue has been volatile for more than a year and an ever-changing picture remains the reality with firms taking one step forward only to reverse it the following quarter.

Service sector business improved cashflow in Q3 by six per cent while manufacturing companies saw a decline of 11 per cent.

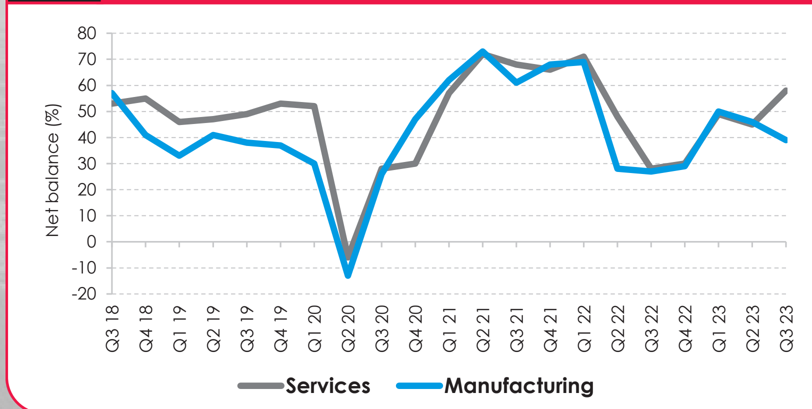
INDUSTRY VOICES
"Just general poorer economic climate affecting us. Destocking is an issue, where companies are selling stuff to raise cash - they then have less money to buy from us."

"Kirklees are in a mess financially, so business rates are squeezing us."

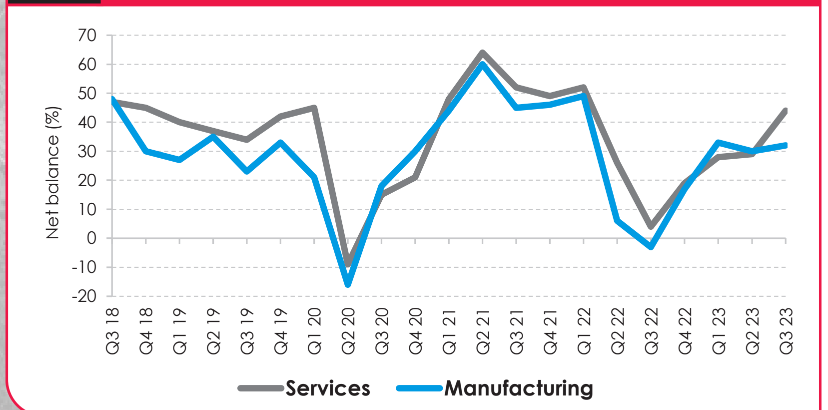
Q3 2023 CASHFLOW



Q3 2023 TURNOVER EXPECTATIONS



Q3 2023 PROFITABILITY EXPECTATIONS



BUSINESS CONFIDENCE
A big tick in the 'reasons to be cheerful' department as both sectors showed serious signs of optimism when it came to future profits.

The service sector showed a 15 per cent increase in expectations of improved profits while manufacturing firms reported a rise of two per cent.

Looking forward on turnover, services firms were once again bullish, with a 13 per cent increase in those expecting to grow revenues. Manufacturers meanwhile were slightly less cheery, with a seven per cent decline reported.

THE RISE OF AI AND ITS IMPACT ON BUSINESSES

Artificial Intelligence (AI) has been in the news cycle on an increasing basis as of late. What was once a far-fetched idea featured in sci-fi B-movies is now a reality. Many experts and ordinary people alike are engaging in debates on what this means for the future of businesses and employment.

ARTIFICIAL INTELLIGENCE

The integration of artificial intelligence (AI) in business operations has ushered in a new era of efficiency and productivity. With AI-powered tools, businesses can automate routine tasks, minimise errors, and optimise processes, freeing up more time and resources for higher-value tasks.

AI systems also enable businesses to gain valuable insights from vast amounts of data, enhancing decision-making capabilities, and driving revenue growth. Additionally, AI can improve customer service by providing personalized experiences and round-the-clock support. While AI adoption may result in job displacement, the benefits are undeniable and it is crucial for businesses to embrace this disruptive technology to remain competitive.

The above paragraph of this article was written entirely by a free AI text generator created by DeepAI. Whilst you may have not realised anything was different upon initially reading it, upon closer inspection there is a definite lack of humanity within this text. Not only does it often utilise a needlessly formal tone, but it also tends to be quite repetitive and overall, very unengaging - in addition to providing quite a biased view in favour of AI.

BUSINESS INTELLIGENCE

So, what is artificial intelligence? In Layman's terms, AI is a branch of computer science which uses and collates readily available data in order to mimic human intelligence and complete tasks. Thanks to advanced programming from the likes of ChatGPT, and various platforms such as Spotify and Snapchat implementing AI-based features to their services, AI is now more relevant than ever, and can be used to perform a plethora of tasks from creating 'photographs' to writing essays.

In terms of what these means for businesses; whilst many are currently utilising AI to cut costs, improve efficiency and remove chances of human error, others point out flaws within current, often primitive, AI programmes and argue that the rise of AI will lead to a loss of jobs.

In the recent Quarterly Economic Survey, carried out by the Chamber, it was found that a quarter of businesses in the region said they were worried about the impact of AI, whilst 31% of businesses claimed to have taken steps to mitigate against the impact of AI. Within the context of a cost-of-living crisis, it is clear to see why many are worried about the impact of AI.

Kevin Baragona, co-founder and CEO of DeepAI, said in an interview that AI could be, "capable of replacing a wide range of jobs, and […] would potentially surpass human intelligence. […] It has the potential to render all human professions obsolete". It should come as no surprise, therefore, that the impact of AI can be seen as very worrying.

EMOTIONAL INTELLIGENCE

It is certainly worth noting that AI is, at present, far from perfect. Humans are inherently emotional, and AI lacks emotional intelligence thus rendering it useless for certain tasks such as HR management or personal communications.

Moreover, AI only functions using the data that is inputted into it and can only give answers based on information and resources that are readily available to it. Hence, if you were to use an AI chatbot to write about a quite specific event without much pre-existing content surrounding it, the results are much less likely to be accurate. If, for instance, you were to ask AI to write a report on the Chamber of Commerce Annual General Meeting, which took place at The Great Victoria Hotel in Bradford in September, this is what the output would be:

ACCURATE INTELLIGENCE

"The West & North Yorkshire Chamber of Commerce held their Annual General Meeting with members gathering virtually to discuss the organization's achievements in the previous year. The meeting included updates on membership growth, international trade and investment, policy advocacy efforts, and events.

The keynote speaker was Sir John Timpson, who shared his insights on employee engagement and building a positive company culture. The meeting concluded with the election of new board members and a call to continue supporting businesses and promoting economic growth in the region."

Whilst the paragraph does give basic, general information on what goes on at an average AGM, it is very vague and littered with inaccuracies. The AGM did not take place virtually, Sir John Timpson was not a keynote speaker, nor was he present at all – though he has been to a Chamber event previously, circa 2008.

The AI is clearly using information from previous AGM reports and articles to influence its report of the latest meeting, which then leads to inaccuracies and confusion. It is fair to say, therefore, that AI in its current form is no replacement for human involvement in this case.

BIASED INTELLIGENCE

A further issue with the functionality of AI using previously inputted data to create an output is that it is fairly easy to corrupt. Some will remember back in 2016 when the Microsoft AI chat boy, Tay, was forced to be shut down after it consumed data from the internet and users that caused its output to be extremely racist and antisemitic.

Whilst there have been many advances in controlling AI in the years between the Tay debacle and the present day, there is every possibility that this could occur again. Ultimately, there is no telling what the next developments in the world of AI will be, or how quickly these will occur.

Regardless, though, businesses should certainly be starting to think about how AI could impact their businesses. Whether businesses embrace or neglect AI is up to them, there are positives and negatives for each option. However, regardless of what those businesses decide, it is almost inevitable that some changes will have to be made in the wake of the AI revolution to deal with its impact. The future is now, whether we like it or not.

Written by Ben Forrest
Image by deepai.org

ARTIFICIAL INTELLIGENCE SURVEY

For the first time, the Chamber asked respondents to the Quarterly Economic Survey for their thoughts on artificial intelligence.

We asked businesses two questions, whether they were worried about the impact of AI on their businesses and whether they had taken any steps to prepare for any impact from AI.

We found that 25 per cent of firms said they were worried, with the remaining 75 per cent declaring themselves unworried by the impact of AI.

Meanwhile 31 per cent of businesses said they had taken steps to mitigate against the impact of AI while 69 per cent said they had not.

David Bharier
Head of Research
British Chambers of Commerce

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

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

THE DATA ALSO REVEALS THAT FOR THE SECOND QUARTER RUNNING THE MAIN FACTOR FOR INCREASING COSTS IS COMING FROM WAGES.

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

ACTIVITY IN THE SERVICE SECTOR TICKS UP BUT MANUFACTURING IS LAGGING BEHIND

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

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

AFTER A ROCKY END TO 2022, BUSINESS CONFIDENCE BOUNCED BACK AND HAS NOW STABILISED.

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

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

THIS RECOVERY IN CONFIDENCE IN 2023 IS YET TO FEED INTO INCREASED BUSINESS INVESTMENT.

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

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

INFLATIONARY PRESSURES CONTINUE TO EASE BUT REMAIN THE TOP CONCERN.

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

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

LABOUR COSTS ARE NOW THE NUMBER ONE COST PRESSURE FOR BUSINESSES.

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

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

DAVID BHARIER, HEAD OF RESEARCH AT THE BRITISH CHAMBERS OF COMMERCE (BCC), SAID:

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

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

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

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

Shevaun Haviland
Director General
British Chambers of Commerce

RESPONDING TO THE FINDINGS, DIRECTOR GENERAL OF THE BRITISH CHAMBERS OF COMMERCE, SHEVAUN HAVILAND, SAID:
"Our research shows that business confidence has stabilised at much healthier levels following a rocky end to 2022. But the economic warning lights are still flashing.

"Firms are increasingly worried about interest rates, and while inflation concerns are falling, persistent wage pressures show we need a greater focus on relieving the UK's tight labour market.

"With manufacturing lagging behind services, and low rates of investment across the board, especially in the hospitality sector, it is clear more needs to be done to spur growth.

"After the disappointment of HS2, firms want to see clear signals from Government to encourage investment. This means putting in place a five-year rolling guarantee on the full expensing tax allowance to give business some much needed certainty."

"After the disappointment of HS2, firms want to see clear signals from Government to encourage investment."

Shevaun Haviland
Director General
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