Q1 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

Given the seemingly never-ending cavalcade of negative news businesses have faced in the last few months, it is very encouraging to see increasing levels of optimism in the latest Quarterly Economic Survey.

Despite a very challenging labour market, companies have been taking on new members of staff over the last three months. Moreover, the levels of firms that are anticipating growth in terms of both revenue and profitability hints that many of our business leaders believe the worst of the storm may be over and that calmer waters lie ahead.

That said nobody will be complacent. Following the easing of the pandemic restrictions we saw similar increases in optimism, only to see geopolitical events conspire to make life challenging. As we saw with last month's increase in inflation and interest rates, volatility is still with us. Energy bills are still at astronomical levels, there is still plenty to be concerned about. Given all of these obstacles, it is clear that the appetite for investment remains constrained.

However, the results from both our own figures here in Yorkshire, and elsewhere in the country, indicate that the mood is increasingly turning more positive and that the worst may be behind us.

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

In what I would characterise as a familiar story of Yorkshire grit, Yorkshire firms have overcome incredible headwinds in order to project highly impressive increases in turnover and profitability.

Despite the highest levels of inflation in a generation, the number of manufacturers in our region expecting to increase their profits in the next three months has doubled – with the service sector not far behind. Similarly turnover projections are significantly up on the previous few quarters.

There has also been an agreeable increase in employment, with manufacturing in particular posting some of the highest levels of hiring seen in six years. The labour market remains very challenging but, here in West and North Yorkshire, companies seem to be finding the right people for the right roles - something that has not been the case for quite some time.

The fieldwork for this QES was undertaken prior to the latest Office for Budget Responsibility forecasts which not only predicted the UK would (narrowly) avoid a recession this year but that inflation would decline to a far more manageable 2.9 per cent by the end of the year. Had these projections been available during the fieldwork, we might have seen an even more optimistic picture.

Of course that is not to say that the doom and gloom of the past three years is now disappearing in the rear view mirror. Far from it. Inflation is continuing to play havoc with our economy, with investment plans at best placed into stasis or abandoned altogether as companies fight fires on a daily basis. Similarly, after an impressive increase in Q4 of last year, sales fell back both domestically and overseas. And while profit expectations are increasing, there is no such comparable optimism that costs are going to decline in tandem, with those believing their overheads will reduce being in single digits.

In such a volatile period in history, forecasting can often leave the best of us looking foolish. However, given such positive indicators in this latest QES, there are some significant signs of hope and, while we might not have turned the corner, we could be at least approaching it.

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 West Yorkshire labour market continues to show signs of strength. Employment across both manufacturing and the service sector grew throughout Q1 2023, with manufacturing growth being at its highest level since Q1 2017.

The growth in manufacturing employment is particularly impressive with the cost pressures that the sector is dealing with. Despite this, we also know that many firms are dealing with supply-side problems due to vacancies, so it is important that we continue to support bringing businesses and people together.

We are all aware of the cost pressures that businesses have dealt with and continue to deal with. Businesses have been hit from multiple cost angles: energy, transport, raw materials, exchange rates, interest rates and wages.

Whilst the Budget announced measures designed to promote investment, it is unsurprising that this survey shows investment plans are currently on hold. If business investment doesn't increase in-line with the forecasts, it will put increasing pressure on UK borrowing and continue to exacerbate the productivity problem that plagues the West Yorkshire and UK economy.

Thankfully, despite the economy still facing many challenges, confidence across West Yorkshire does seem to be improving. The number of manufacturing firms expecting increased profits has doubled from Q4 2022, and service sector firms are also expecting stronger business performance this year. Cautious optimism is required, but it does look like there is a clear path out of the economic headwinds that the region has been dealing with.

Going forward, the key will be to ensure that West Yorkshire businesses can be as productive and as resilient as possible, so that when the next economic crisis hits, we are in a better position to deal with it.

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 319 respondents of business owner/senior manager/director/partner status. Forty three per cent of this sample were actively trading internationally, a small increase of 1 per centage point from the Quarter Four 2022 study. Businesses were surveyed by telephone or online questionnaire between the periods February 13 and March 9.

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 a strong a respectable rebound in Q4 of last year following the disastrous mini-Budget, domestic sales declined for both the service and manufacturing sectors. Order books also fell for both sectors, albeit less acutely for manufacturers who only posted a modest decline.

EXPORT SALES
Service and manufacturing firms posted wildly contrasting figures when it came to export sales, with the service sector posting a healthy rise while manufacturing declined. The outlook for both sectors however remains a challenge with order book levels having slipped across the board.

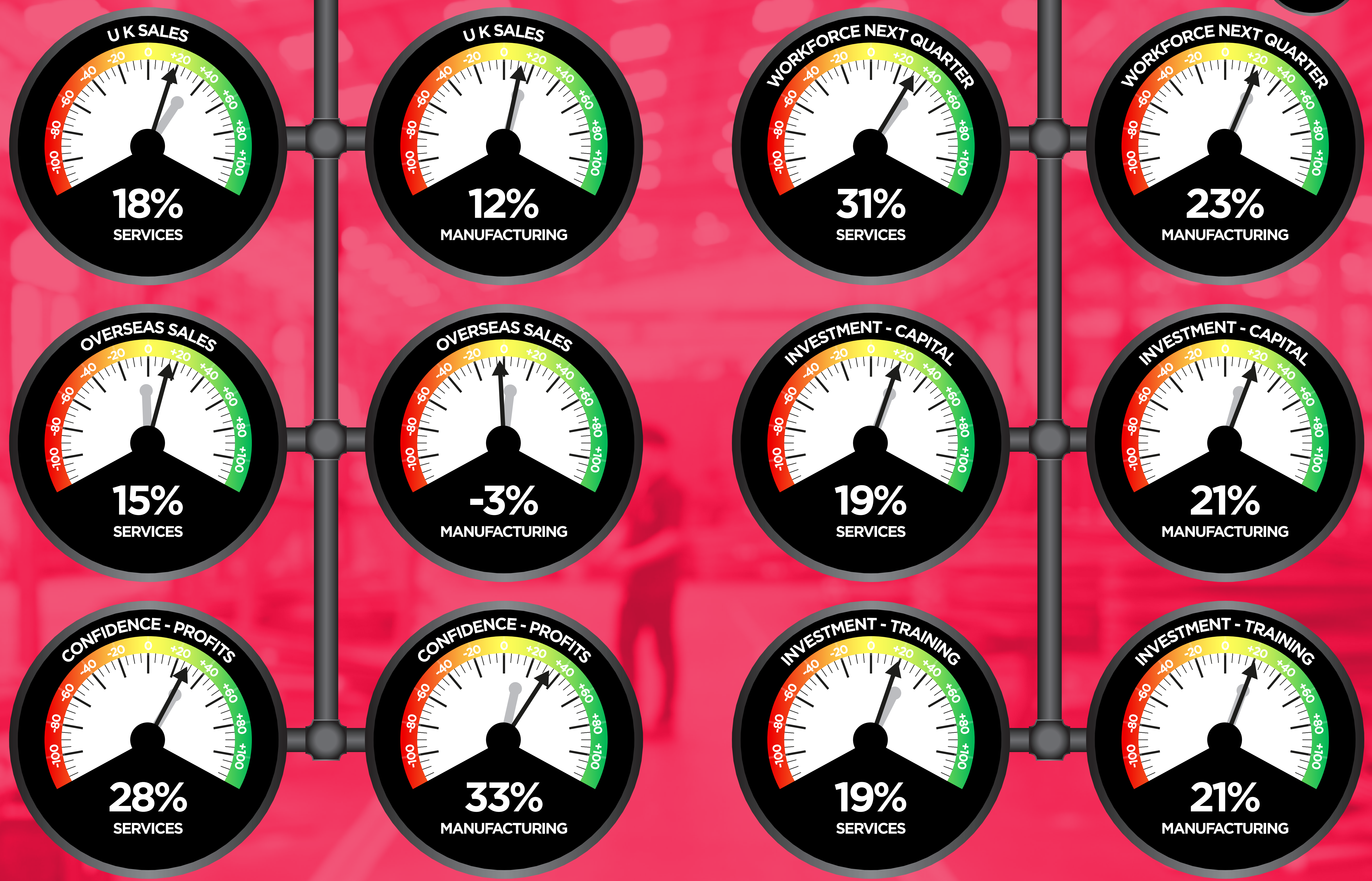
EMPLOYMENT
The start of 2023 saw firms across West & North Yorkshire enjoy very strong levels of hiring, with the manufacturing sector in particular showing posting employment figures at its joint highest level since the start of 2017. Service sector firms also enjoyed a decent boot in new hires.

INVESTMENT
The phenomenal increases in the costs of raw materials, transport and labour will unquestionably have hindered companies' ability to invest in its processes and people, with investment levels having declined across the board. Investment into training for service firms was down slightly but more pronounced for manufacturers. When it came to capital investment in machinery and equipment, manufacturing posted a significant fall while the decline for service firms was more modest. Serving as a stark reminder of the impact of inflation, both sectors will be hoping the Office for Budget Responsibility's forecasted decline to below 3 per cent by the end of the year starts to manifest itself sooner rather than later.

BUSINESS CONFIDENCE
The seeds of optimism seen towards the end of 2022 have blossomed into very positive outlooks when it comes to revenues and profits. Both sectors expect turnover and profit to significantly improve this year with levels of confidence comparable to the start of 2022 before the war in Ukraine began.

BUSINESS COSTS AND CONCERNS
There can be no shying away from the fact that both service and manufacturing firms continue to face unprecedented challenges on costs. Inflation was rated as a significant risk by 8 out of 10 firms surveyed and issues persist on labour and raw material costs.


CURRENT QUARTER
PREVIOUS QUARTER
Q1 23


U K SALES
18%
SERVICES
U K SALES
12%
MANUFACTURING
WORKFORCE NEXT QUARTER
31%
SERVICES
WORKFORCE NEXT QUARTER
23%
MANUFACTURING
OVERSEAS SALES
15%
SERVICES
OVERSEAS SALES
-3%
MANUFACTURING
INVESTMENT - CAPITAL
19%
SERVICES
INVESTMENT - CAPITAL
21%
MANUFACTURING
CONFIDENCE - PROFITS
28%
SERVICES
CONFIDENCE - PROFITS
33%
MANUFACTURING
INVESTMENT - TRAINING
19%
SERVICES
INVESTMENT - TRAINING
21%
MANUFACTURING
-100 -80 -60 -40 -20 0 +20 +40 +60 +80 +100

Q1

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.

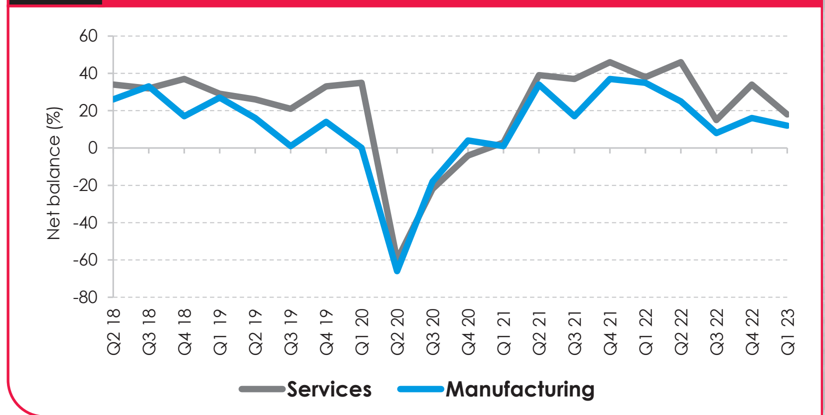
UK SALES

SERVICES	MANUFACTURING
18%	12%
▼ -16%	▼ -4%

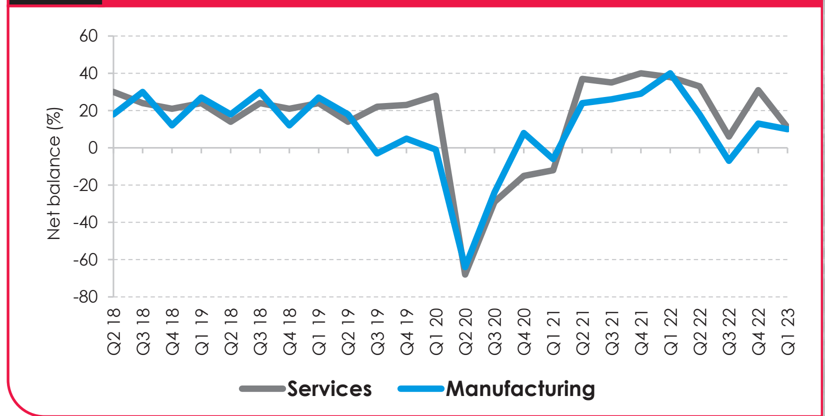
DOMESTIC SALES
After an impressive return to form in Q4 of last year it was disappointing to see levels roll backwards when it comes to UK sales. In the service sector this was largely due to more firms reporting a static picture when it comes to sales, as opposed to a decline whereas manufacturing saw a genuine fall in activity.

Order books do not look particularly strong either, although they are stronger than seen just prior to the mini-Budget. Service and manufacturing firms now face an important three months to see if the improving economic outlook now translates into increased activity levels as confidence grows.

Q1 2023 DOMESTIC SALES



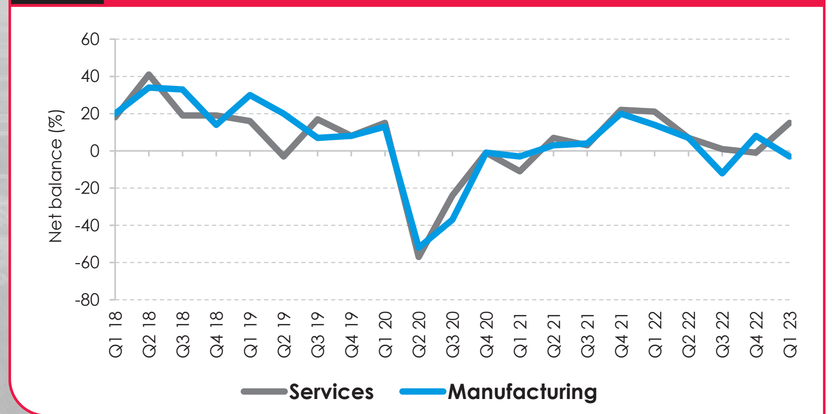
Q1 2023 DOMESTIC ORDERS



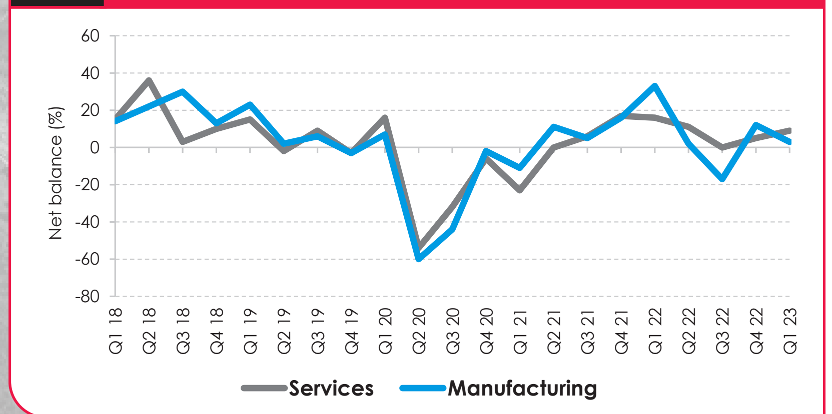
OVERSEAS SALES

SERVICES	MANUFACTURING
15%	-3%
▲ 16%	▼ -11%

Q1 2023 EXPORT SALES



Q1 2023 EXPORT ORDERS



INTERNATIONAL SALES
Service sector firms enjoyed a healthy rise of 18 points while manufacturing businesses declined by 16 points. This represents a reversal of the picture seen in Q4 of last year when manufacturing sales were soaring while the service industry struggled. Order books also struggled but are still at a comparable level to the middle of 2021 when they started to pick up as lockdown eased.

Again, the improved forecast for UK PLC will hopefully push all of these numbers in the right direction by the end of the Spring.

EMPLOYMENT (NEXT QUARTER)

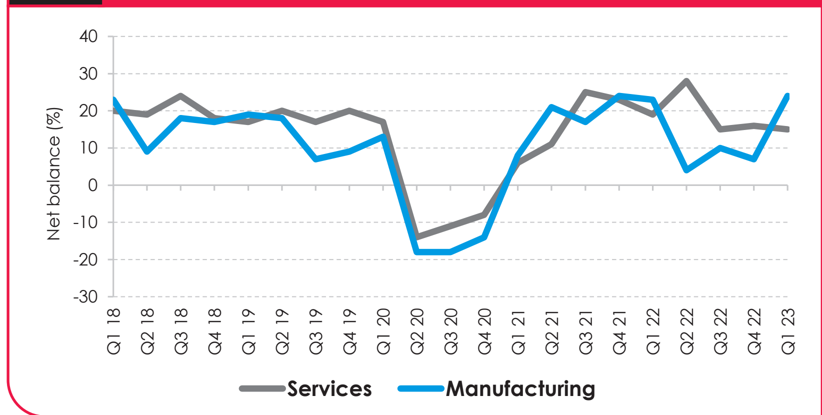
SERVICES 31% ▼ -5%

MANUFACTURING 23% ▼ -1%

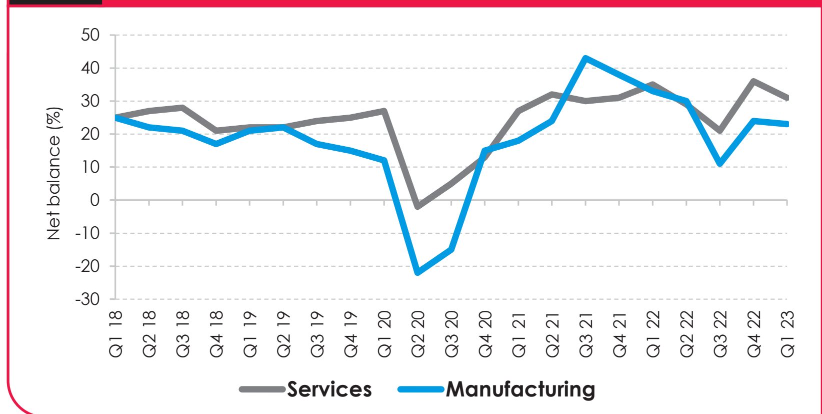
EMPLOYMENT
While the labour market remains extremely tight there was much to be cheerful for with Q1 bringing an impressive increase in hiring for both sectors. This was most notable in the manufacturing sector where hiring was at its joint highest level since the start of 2017, remarkable given the cost pressures the sector has faced and testimony to its strength.

Similarly, service sector firms enjoyed a healthy increase in new hires, back to pre-Mini Budget territory, albeit still below the impressive levels seen as the UK exited lockdown. Although there was a small decline in intent to keep hiring in the coming three months, levels remain at a respectable level.

Q1 2023 WORKFORCE CHANGES - LAST QUARTER



Q1 2023 WORKFORCE CHANGES - NEXT QUARTER

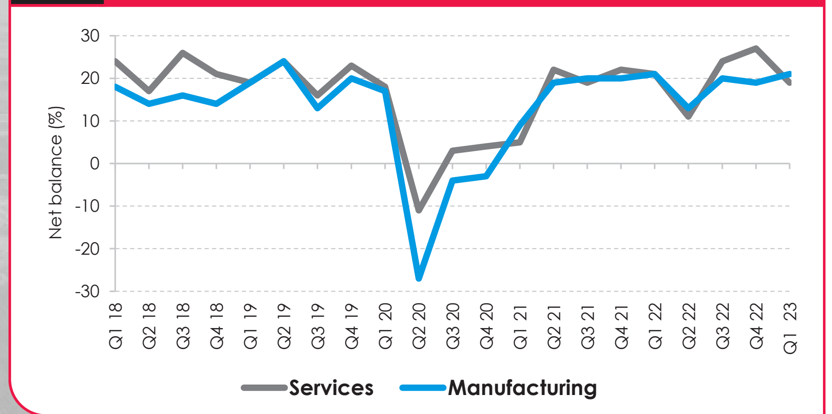


INVESTMENT (CAPITAL)

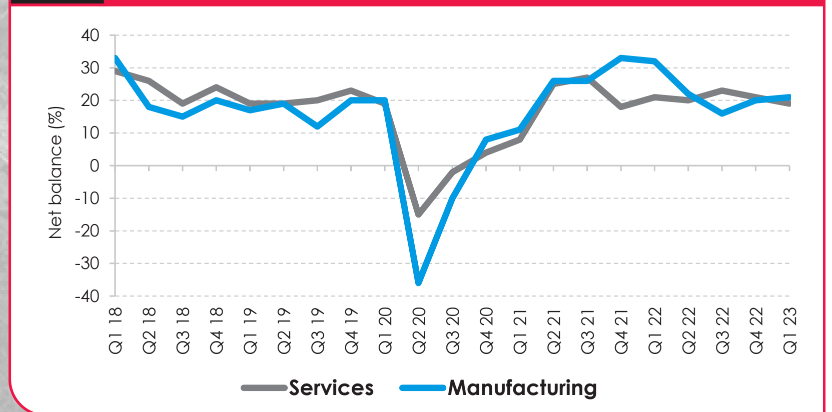
SERVICES 19% ▼ -2%

MANUFACTURING 21% ▲ 1%

Q1 2023 TRAINING INVESTMENT



Q1 2023 CAPITAL INVESTMENT

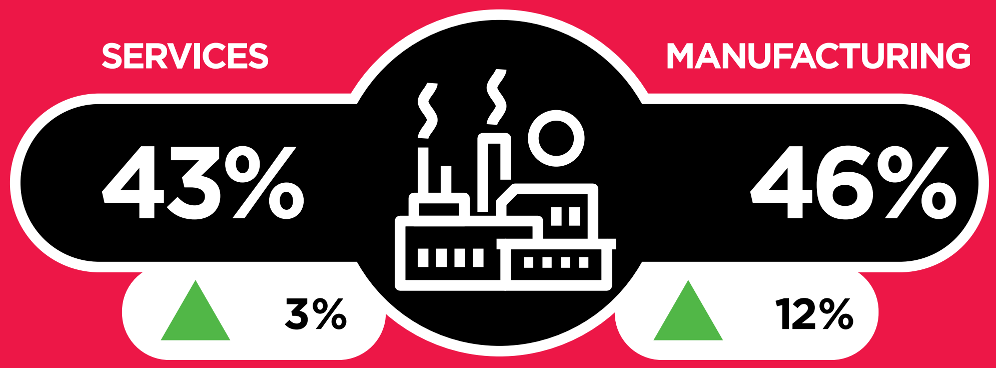


INVESTMENT
With such significant pressures facing firms on everything from raw materials, energy, transport and labour costs, it is perhaps unsurprising that investment plans are remaining on hold for now. The Budget laid out a number of measures designed to increase investment plans in the UK economy but whether they will either make a difference or measure up to previous Whitehall incentive programmes remains to be seen.

While the appetite for investing in people and machinery has fallen slightly, it is still ahead of pre-pandemic levels.

INDUSTRY COMMENT:
"All staffing and recruitment problems and general cost of living issues that are affecting staff well-being etc and has a knock-on effect to the business."

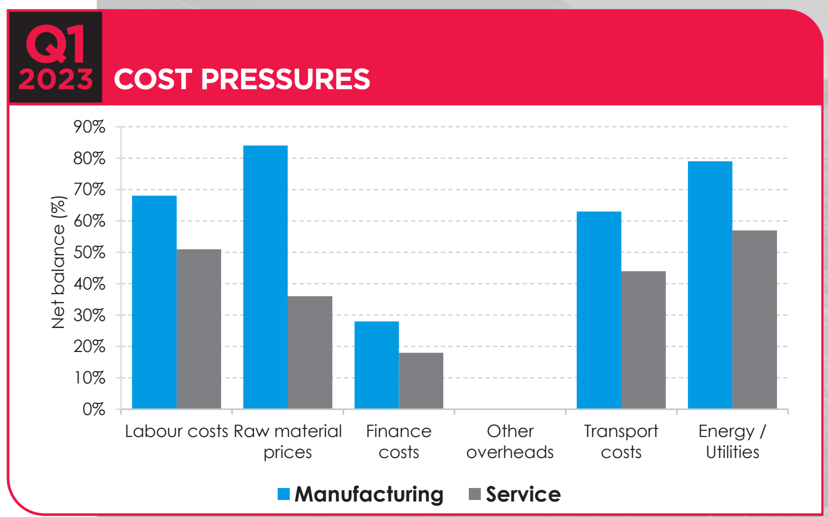
CAPACITY (FULL)

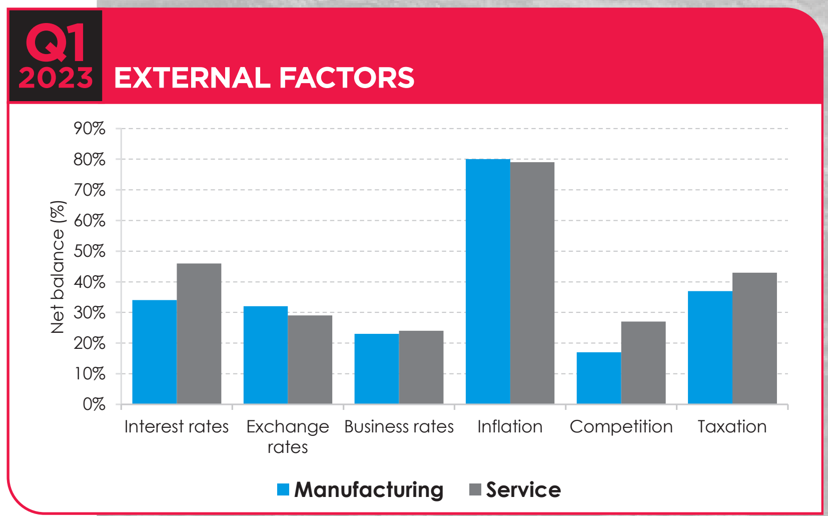


CAPACITY
Inflationary pressures resulted in capacity remaining either static or slightly reduced for many firms. For context, 84 per cent of manufacturers reported raw materials as being a significant issue. Eight in every 10 firms referenced inflation as a risk to their business. Interest rates were impacting 46 per cent of service firms and 36 per cent of manufacturers.

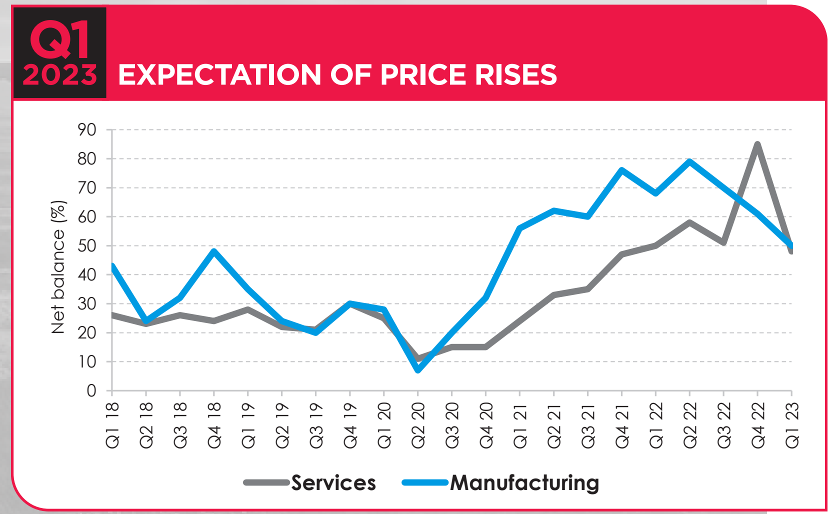
Tax was cited by 43 per cent of companies in the service sector and 37 per cent of those working in manufacturing, while 32 per cent of manufacturers said exchange rates were problematic. Until these cost pressures ease, it will be hard for any business large or small to grow capacity.

INDUSTRY COMMENT:
SME manufacturer: "Generally, we have not been operating at full capacity over the last 12 months. We expect growth over the next 12 months, but that is because of the significant investments we have made. This has diversified our market and is enabling us to exploit more of the international market."





PRICES



EXPECTATION OF PRICE INCREASES
It is perhaps a measure of the state of the current UK economy that just four per cent of firms anticipate a decline in prices during the next three months. As with the previous quarter, the best most firms can hope for is that prices remain where they are, and on this measure businesses in Yorkshire are seeing some success, if it can be defined as such then 45 per cent of service firms and 42 per cent of manufacturers are confident their overheads will not increase.

However for 54 per cent of manufacturing companies and 52 per cent of service sector operators, the expectation is that costs will increase in the coming weeks.

INDUSTRY COMMENT:
SME manufacturer in Bradford: "It's been a tough environment in our industry since Christmas. People ordering through China etc. A lot of companies are cutting their order and storage."

SME in Wakefield: "Supply chains increasing prices which is being passed on to our customers which is having an impact on what they spend with us."

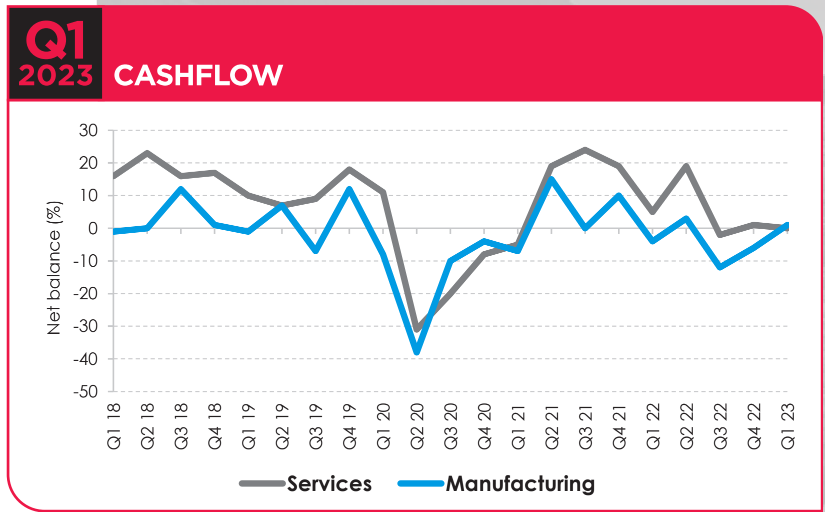
CASHFLOW

SERVICES	MANUFACTURING
0%	1%
-1%	7%

CASHFLOW
A big improvement was seen for the manufacturing sector which arrested two quarters of decline with a respectable increase. Service firms were marginally down but not by the same lengths as was seen in the autumn of last year.

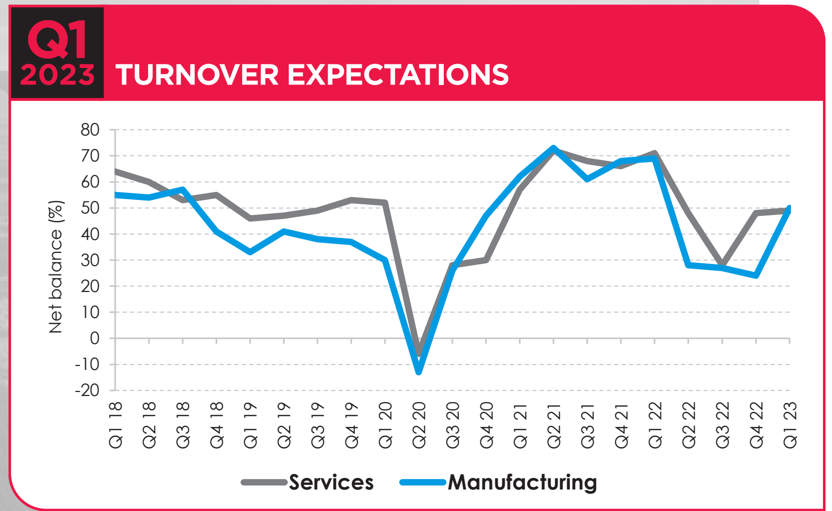
INDUSTRY COMMENT:
"Generally feel this quarter that things are harder however we are a seasonal business so things are normally quiet this time of year. This year due to the additional expenses of Cbils it does seem harder."

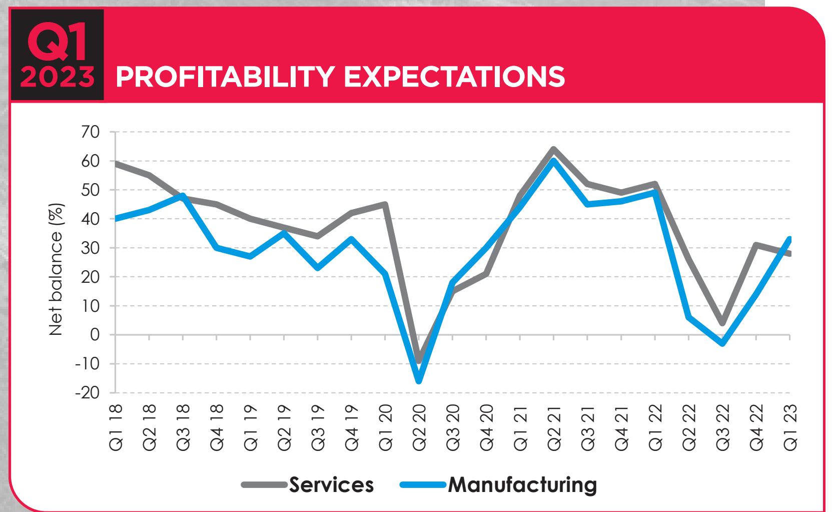
"I don't believe that those in the powers that be have any idea what's going on in small businesses. Totally out of touch."



CONFIDENCE (PROFITABILITY)

SERVICES	MANUFACTURING
28%	33%
-3%	19%





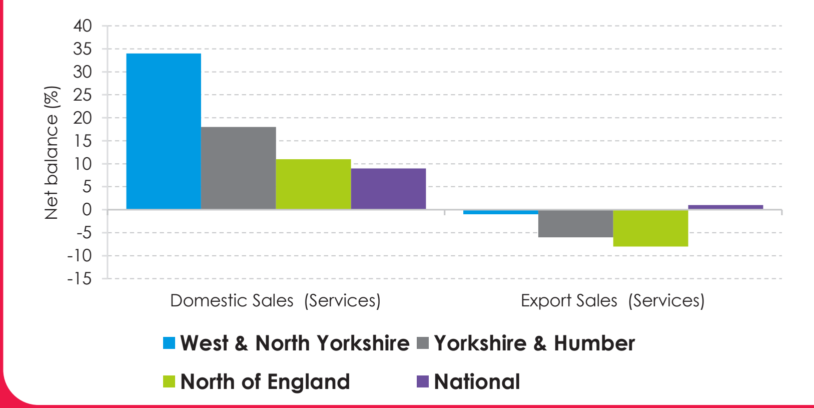
BUSINESS CONFIDENCE
If we are to take anything away from this latest Quarterly Economic Survey, it is that firms believe happier times are on their way.

The number of manufacturers who expect their profits to increase has nearly doubled from the last quarter while the service sector also showing optimism in the future.

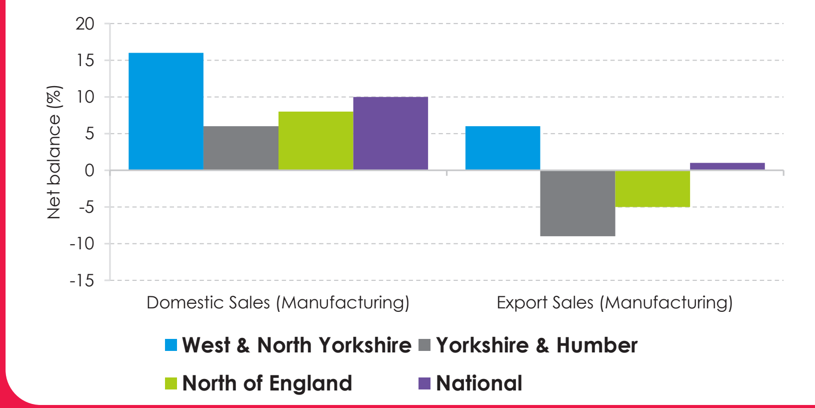
Expectations on profits are at their highest point since the start of 2022 and, for the manufacturing sector, ahead of pre-pandemic levels.

While we will all proceed with cautious optimism, there does look to be a feeling that there is light at the end of the tunnel.

Q1 2023 REGIONAL COMPARISON - SERVICES



Q1 2023 REGIONAL COMPARISON - MANUFACTURING



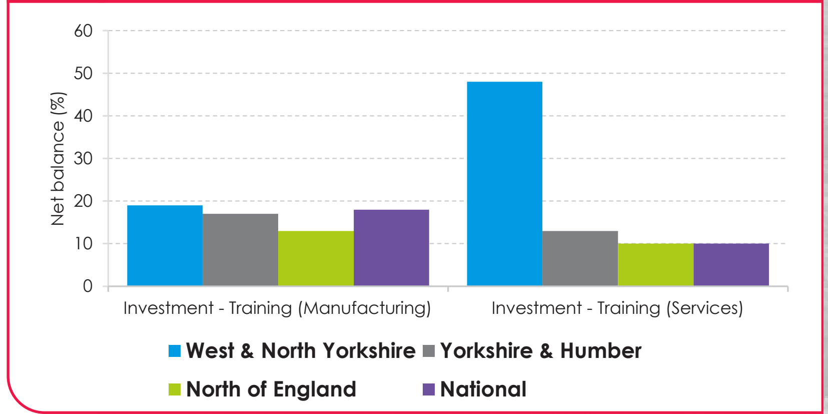
NATIONAL AND REGIONAL COMPARISONS

The QES for Q1 2023 does seem to cast West and North Yorkshire in a favourable light on a number of areas, most notably sales.

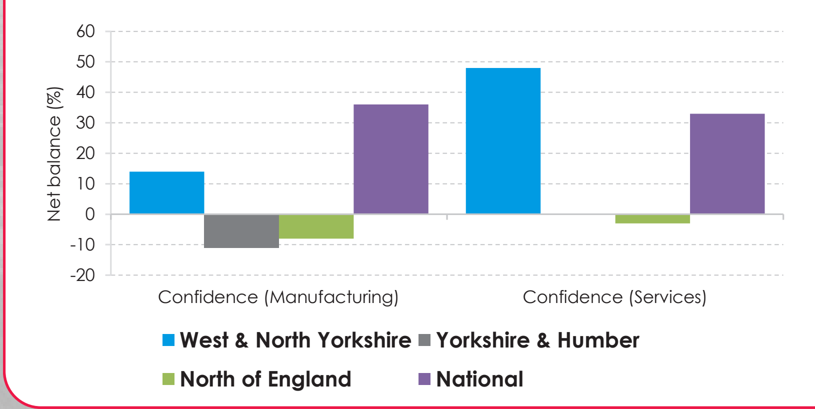
Plans for capital investment are notably stronger than the national average.

Cashflow remains an area of concern and it will be interesting to see how the picture evolves if the anticipated increases in revenue and profitability are brought to bear.

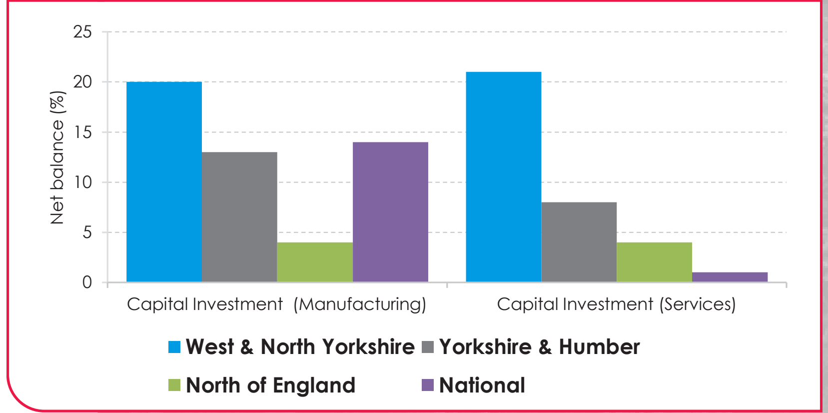
Q1 2023 REGIONAL INVESTMENT TRAINING



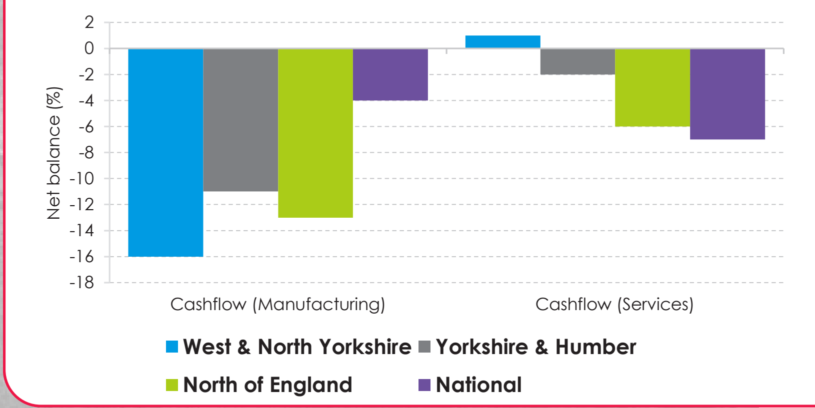
Q1 2023 REGIONAL BUSINESS CONFIDENCE - PROFITS



Q1 2023 REGIONAL INVESTMENT CAPITAL



Q1 2023 REGIONAL CASHFLOW



David Bharier
Head of Research
British Chambers of Commerce

"After a significant decline in business confidence in the second half of 2022, results from QES Q1 show an improvement in business sentiment as political turmoil and inflationary pressures show some signs of easing."

DESPITE UPTICK IN BUSINESS CONFIDENCE, MOST FIRMS SEE NO IMPROVEMENT TO SALES

- Over half (52%) of UK firms believe their business turnover will increase over the next 12 months, up from 44% in Q3 2022.
- However, only one in three (34%) firms experienced an increase in sales over the past three months.
- Almost half (47%) of hospitality businesses reported a drop in cashflow in the last quarter.

The BCC's Quarterly Economic Survey (QES) for Q1 2023 shows that while business confidence has improved from a very weak base, most firms see no improvement to business conditions.

The survey of over 5,200 firms – 92% of whom are SMEs – reveals a sectoral division in business performance, with hospitality and retail firms consistently more likely to report worsening cash flow, investment, and turnover than other sectors.

The research took place between February 13 and March 9, before the Chancellor's Spring Budget was announced.

GROWTH IN BUSINESS ACTIVITY REMAINS WEAK, WITH RETAIL AND HOSPITALITY SECTORS FACING MOST SIGNIFICANT CHALLENGES.
The percentage of firms reporting increased domestic sales has not seen any bounce back since it fell significantly in Q3 2022. Only one in three (34%) firms experienced an increase in sales over the past three months, while 24% reported a decrease and 41% reported no change.

The retail and hospitality sectors remain particularly weak. Almost two in five (38%) retail firms experienced a decrease in sales over the past three months, with one in three (32%) hospitality businesses reporting a fall.

More businesses continue to report a decrease, rather than an increase, in cash flow, highlighting the precarious state many SMEs are still in. Only one in four (25%) businesses said their cash flow has increased over the last three months, while 30% have seen it decrease.

The hospitality and retail sectors are again facing the greatest challenges. 40% of retail firms, and almost half (47%) of hospitality businesses, reported decreased cashflow.

AFTER A SIGNIFICANT FALL IN Q3 2022, BUSINESS CONFIDENCE IS NOW ON THE UP.
After business confidence plummeted to historically low levels in the second half of 2022, there has been a marked improvement in sentiment in the first quarter of 2023. Over half (52%) of firms believe their business turnover will increase over the next 12 months, up from 44% in Q3 2022.

While profitability confidence has also improved, it continues to remain weaker than turnover confidence. 42% of businesses now expect their profits to increase over the next year, up from 34% in Q4 2022.

LITTLE DISCERNIBLE IMPROVEMENT TO BUSINESS INVESTMENT OVER PAST SIX YEARS
Three quarters (75%) of respondents reported no increase to investment in plant/equipment. There has been little discernible improvement to investment over the past six years; only a quarter of firms planned to increase investment in Q1 2023, the same level as reported in Q2 2017.

INFLATIONARY PRESSURES CONTINUE TO EASE SLIGHTLY, BUT STILL REMAIN THE TOP CONCERN
Following a drop last quarter, the percentage of firms expecting their prices to rise shows further signs of easing, as it fell five percentage points from 60% in Q4 2022 to 55% in Q1 2023.

The overall level of concern regarding inflation has dropped for the first time in over two years. However, at 74%, the level remains close to the historical high.

COST PRESSURES ARE VARIED, BUT LABOUR COSTS AND UTILITIES COME OUT TOP OVERALL
Cost pressures vary considerable across sectors; 87% of hospitality firms reported utilities as a factor driving price increases while 86% of manufacturers cited raw materials.

David Bharier, Head of Research at the British Chambers of Commerce (BCC), said: "After a significant decline in business confidence in the second half of 2022, results from QES Q1 show an improvement in business sentiment as political turmoil and inflationary pressures show some signs of easing.

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

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

Shevaun Haviland
Director General
British Chambers of Commerce

Responding to the findings, Director General of the British Chambers of Commerce, Shevaun Haviland, said: "Last month's Budget included several positive measures for business, including increased childcare support as well as plans for full capital expensing. However, it did not go far enough to shift the dial on growth which remains stubbornly low.

"The Government failed to tackle some of the major issues holding firms back from their potential, in particular energy costs and the tight labour market which remain top business concerns.

"The Government's new energy support package represents a drop of 85% in the financial help available to businesses. We reiterate our calls for increased, targeted support for those firms who desperately need it.

"The energy crisis faced by firms and households are two sides of the same coin. Yet, non-domestic customers do not enjoy the same protection as households.

"To ensure competition in the business energy sector, and solve market failures, Government must also ensure Ofgem has the necessary powers to properly regulate the industry.

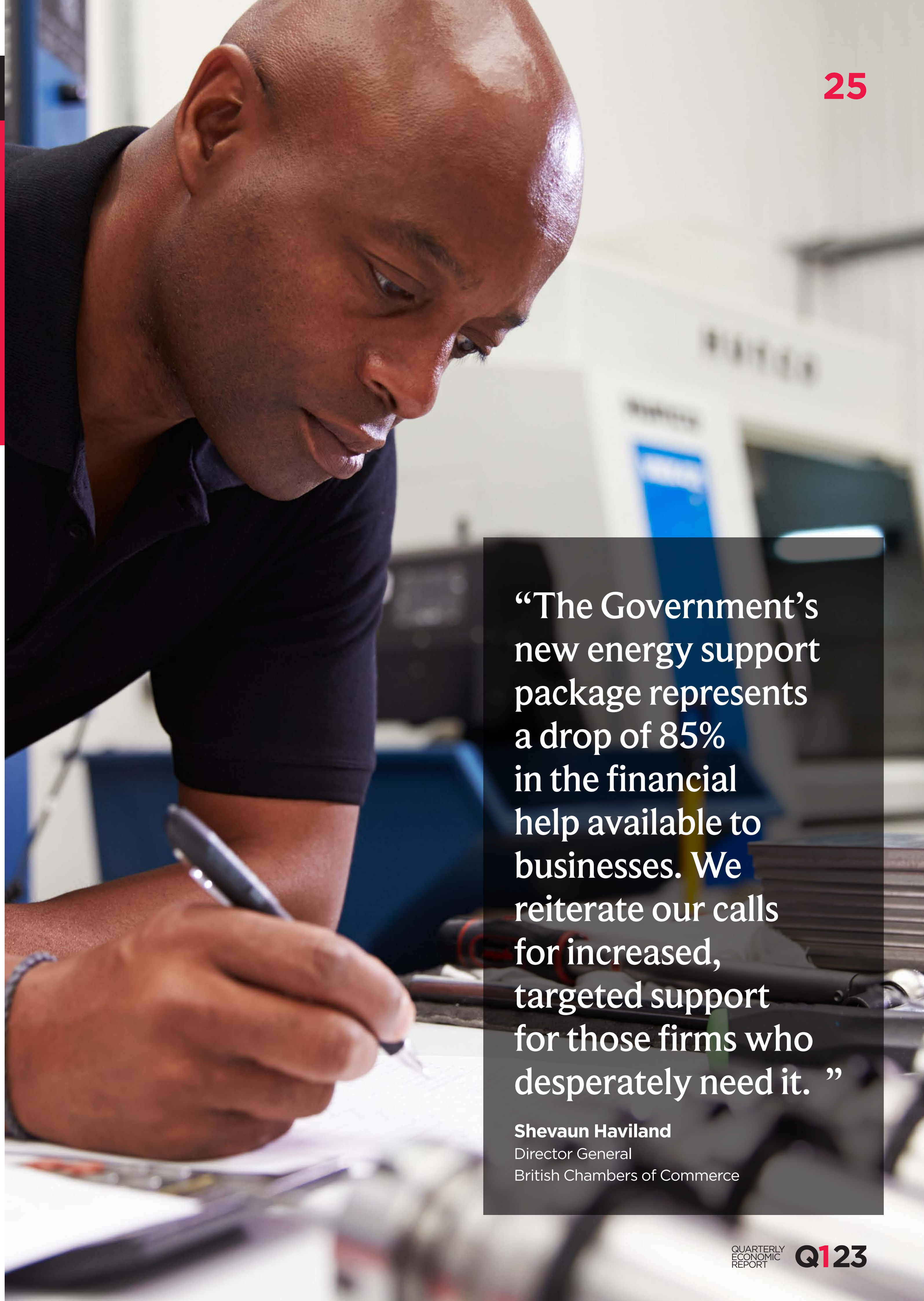
"While we welcomed the Government's decision to add five new construction jobs to the Shortage Occupation List, the lack of skilled labour is having a corrosive effect on our economy. This shift to a new system cannot come fast enough and other sectors facing huge recruitment pressures, such as hospitality, must be given help."

WHAT BUSINESSES SAY:

"Increases in prices, in general, have affected profitability and cash flow to the point I am having to borrow more finance. If I don't get the finance, my business will fold."
Micro services firm in Northern Ireland

"As an advanced manufacturing organisation, we have a huge reliance on energy, we're a very high user consuming >27Giga Watts of electricity. Our fixed pricing contract expires in March and the uplift in cost will be >£5m so will need to be passed through to our customers."
Large manufacturer in Business West

"The market feels buoyant, lots of enquiries and activity, it doesn't seem to fit with the mood music from government or the media."
Small retail or wholesale firm in the East Midlands



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Shevaun Haviland
Director General
British Chambers 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 West Yorkshire Combined Authority