Q2 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

Life has not become any easier for businesses since the last Quarterly Economic Survey was published.

Yes, inflation finally started to decline in April but remains unchanged for May at 8.7 per cent, still an eye-watering level. Interest rates continue to nudge ever upwards having now reached a 15-year high. And the labour market remains challenged.

However, it is clear from the latest fieldwork that despite the near continuous headwinds, Yorkshire's business community is maintaining a largely positive outlook. The level of firms expecting to increase their profits in the next three months has stayed roughly the same as the previous quarter and, while appetite for investment remains very low, there are positive signs of companies still wanting to take on new personnel, with the amount of firms looking to reduce their headcount very small indeed.

Sales remain a challenging area for many firms, although manufacturers are enjoying better conditions in domestic markets and service sector firms are continuing to grow transactions on the continent.

Since the fieldwork was concluded we have learned that Britain's economy is growing, albeit at a very slow pace.

It is a pattern replicated across the western world, where economic growth is either constrained or in some cases in negative territory. Forecasts say we will avoid a recession here in Britain but nothing should be taken for granted.

However, Yorkshire's business community is both richly diverse and resilient. It will continue to whether the storm and, as soon as the shackles to investment are removed, will continue to do world-leading work.

The Chamber thanks our key delivery partners at West Yorkshire Combined Authority and our two Local Enterprise Partnerships. We continue to work together to make sure our wonderful region gets all the help and support it needs.

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

The circumstances around Yorkshire businesses have been in a state of non-stop flux this past few months. However, one thing that has remained consistent is its steely optimism.

Despite weeks of stubborn inflation and increasing interest rates, half of all companies in West and North Yorkshire anticipate that their profitability will increase in the next 12 weeks. While there has been a distinct levelling off from the rapid rise seen during Q1 of 2023, both manufacturers and service sector firms expect better times ahead. And on revenues, the picture is even more optimistic, although it seems likely that inflation has artificially inflated some of this data.

Employment remains a challenge but the appetite for hiring staff remains persistent, with signs of companies wishing to reduce headcount increasingly rare. The tight labour market means that firms are much more likely to wish to maintain their current staffing levels.

All of this comes despite some very challenging trading conditions. Domestic sales for the service sector are down and order books generally look weak, although manufacturing finally saw a pick-up in sales after a difficult few months. On exports, service sector firms are flying while manufacturing is in slump.

Despite inflation finally beginning to recede, pressures on overheads remain a problem. The numerous rises in interest rates are being viewed as increasingly problematic by the service sector in particular. Meanwhile raw material costs continue to give producers a headache.

All of this has led to another phase of stagnation for investment, with company bosses given no leeway whatsoever to commit to increased spending on its machinery or its personnel. If we are to take any comfort from the latest QES data, it is that the majority (two thirds) of firms have no plans to change their current levels of investment.

However, the economic landscape remains fluid. Just before the fieldwork concluded for the latest QES we learned that inflation had fallen into single digits. Then, just after the fieldwork ended, we learned that the UK had posted economic growth of 0.2 per cent. This was followed by yet another hike in interest rates to 5 per cent, this highest level we have seen for quite some time.

Until these figures start to improve prospects for a reduction in interest rates and improved activity remain weak.

As summer gets underway, we need to hope that things start to go our way and that no more nasty surprises await us. Given our capacity and fortitude in this region, we will be well-placed to deal with whatever comes our way.

I would welcome any feedback, positive or negative on the latest findings and you can reach me on mark.casci@wnychamber.co.uk.

Tracy Brabin
Mayor of West Yorkshire

These latest findings from the Quarterly Economic Survey allow us to step back and reflect on what has been a challenging period for everyone in our region – people and businesses alike.

I am committed to working with partners to create a brighter West Yorkshire that works for all, and these results show some positive green shoots starting to emerge. Sales in the manufacturing sector are bouncing back, while exports in the service sector continue to be strong.

Businesses who responded are optimistic about future growth, reporting strong performance on turnover. Around half of the manufacturers and service sector firms expect to be more profitable, with cautious optimism for these sectors and hope that better times may be near. However, with inflation increasing, we need to monitor how this trend progresses over the rest of the year.

The cost of doing business is still high and is likely to remain high for some time to come.

We will continue to support businesses to be resilient, meeting their current challenges and those in the future. To support businesses in these difficult times, alongside our existing support we have put a range of measures in place including an emergency energy grant with more support to come this Summer. Our Business Sustainability Support is a £10 million fund offering extensive help to improve environmental performance and drive productivity improvements, taking steps to cut carbon, reduce waste and reduce carbon emissions.

We are also acutely aware that access to a skilled workforce is profoundly important to business growth. To that end, we have an extensive skills offer for West Yorkshire businesses. For example, our Skills for Growth programme connects small and medium-sized businesses to training course providers to help upskill staff.

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.

It's always a pleasure to work closely with businesses in our region, and I look forward to continuing to deepen our relationships over the coming years.

METHODOLOGY
This quarter there were 233 respondents of business owner/senior manager/director/partner status. Fifty per cent of this sample were actively trading internationally, an increase of seven per centage points from the Quarter One 2023 study. Businesses were surveyed by telephone or online questionnaire between May 15 and June 8.

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 tale of two cities, with manufacturing showing a rebound in sales and the service sector in a slump. Order books are also down for both sectors. Both service and manufacturing firms were most likely to report static activity, hinting at pent up demand.

EXPORT SALES
A reversed picture, with service sector firms enjoying strong activity and manufacturers continuing to struggle. Issues around exchange rates persist due to global volatility.

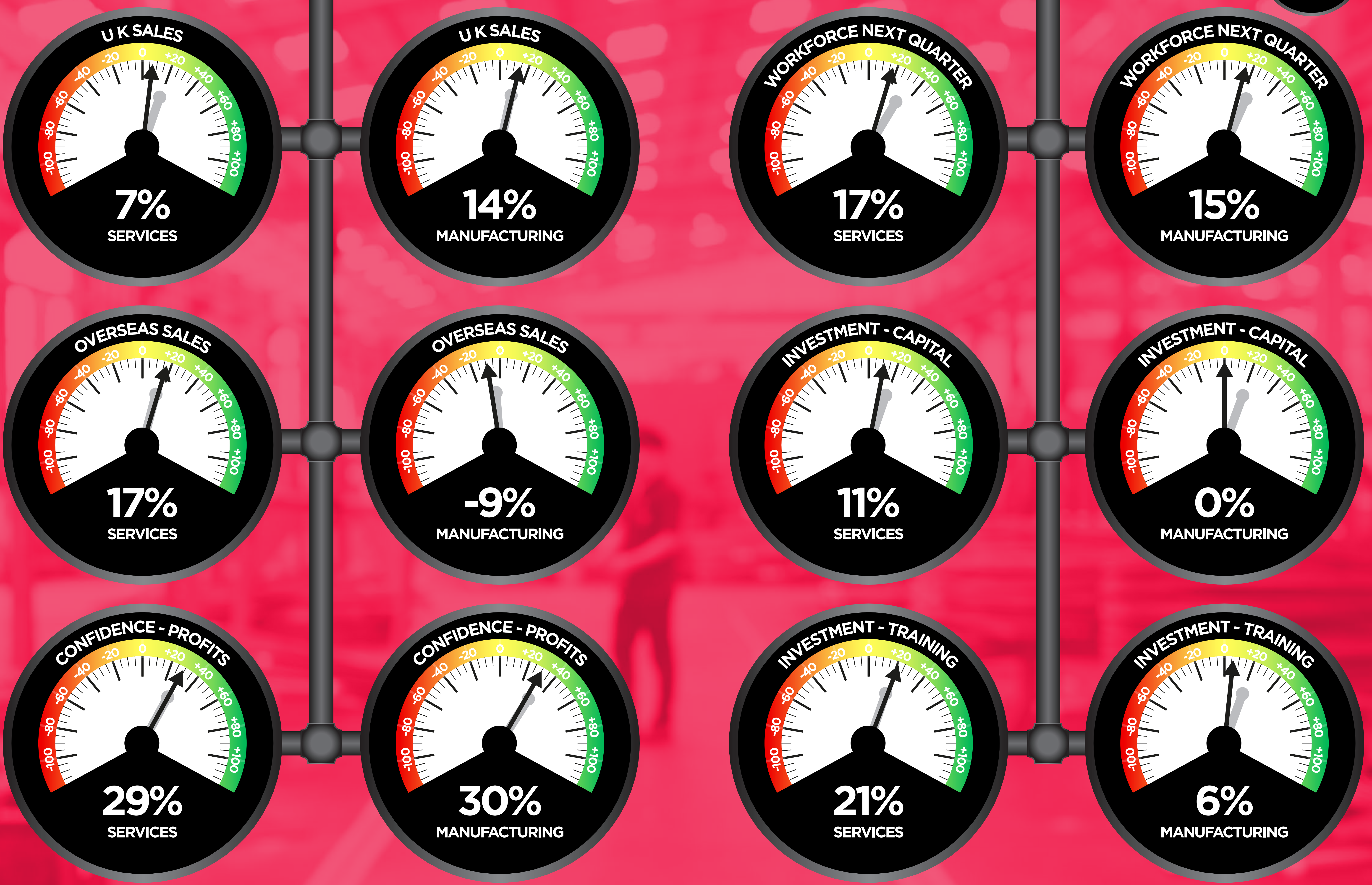
EMPLOYMENT
While most firms expect to keep their staffing levels at their current levels, the level of firms expecting to cut their workforce is now in single digits for both sectors. The labour market remains tight and volatile, with vast swathes of the workforce yet to return following the pandemic.

INVESTMENT
Appetite for investment is still very low. Overheads, global instability and interest rate rises have meant firms are reluctant to spend on their workforce or equipment. Just one in five firms expect to spend on these areas, with more than two thirds expecting to keep things static.

BUSINESS CONFIDENCE
While optimism levels have slowed down slightly, expectations on future growth in profits is still encouragingly high. Turnover had reached more impressive levels as well, although inflation may be artificially driving this. All eyes on Q3 to see if the optimism was well-founded.

BUSINESS COSTS AND CONCERNS
The march of rising interest rates was a huge concern in Q2, particularly for service firms. Worries around inflation and raw materials remain high but have fallen from the previous quarter. The cost of doing business remains high and presents huge challenges.


CURRENT QUARTER
PREVIOUS QUARTER
Q2 23


U K SALES
7%
SERVICES
U K SALES
14%
MANUFACTURING
WORKFORCE NEXT QUARTER
17%
SERVICES
WORKFORCE NEXT QUARTER
15%
MANUFACTURING
OVERSEAS SALES
17%
SERVICES
OVERSEAS SALES
-9%
MANUFACTURING
INVESTMENT - CAPITAL
11%
SERVICES
INVESTMENT - CAPITAL
0%
MANUFACTURING
CONFIDENCE - PROFITS
29%
SERVICES
CONFIDENCE - PROFITS
30%
MANUFACTURING
INVESTMENT - TRAINING
21%
SERVICES
INVESTMENT - TRAINING
6%
MANUFACTURING

Q2

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

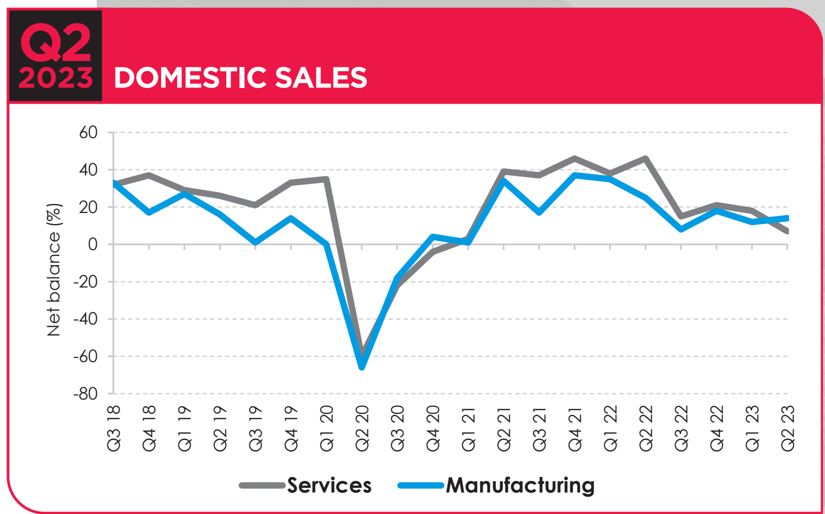
SERVICES 7% ▼ -11%

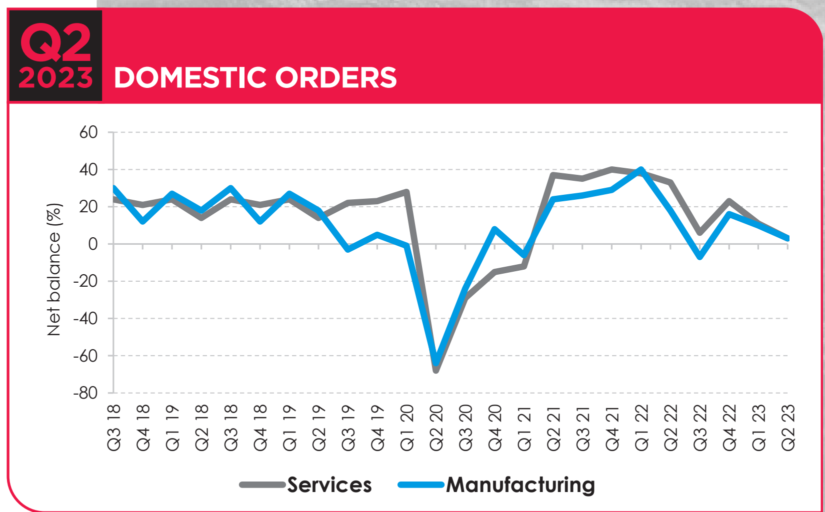
MANUFACTURING 14% ▲ 2%

DOMESTIC SALES
After a sharp decline in the first quarter of the year, it was heartening to see manufacturing bouncing back with improved sales in Q2. Thirty-eight per cent of producers saw their sales increase, with 39 per cent reporting a static picture.

The service sector was less fortunate, with a heavy decline of seven per cent. However, it should be noted that more than half of those surveyed, some 54 per cent of service firms, reported no change in the sale levels, hinting at the potential for pent up demand in the months ahead.

Order books were also significantly down from the previous quarter as both service and manufacturing firms await downward movement on inflation.

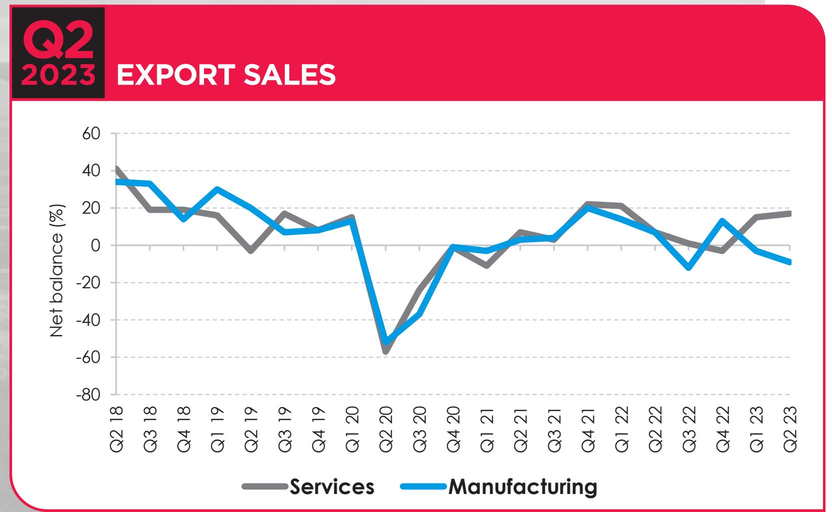


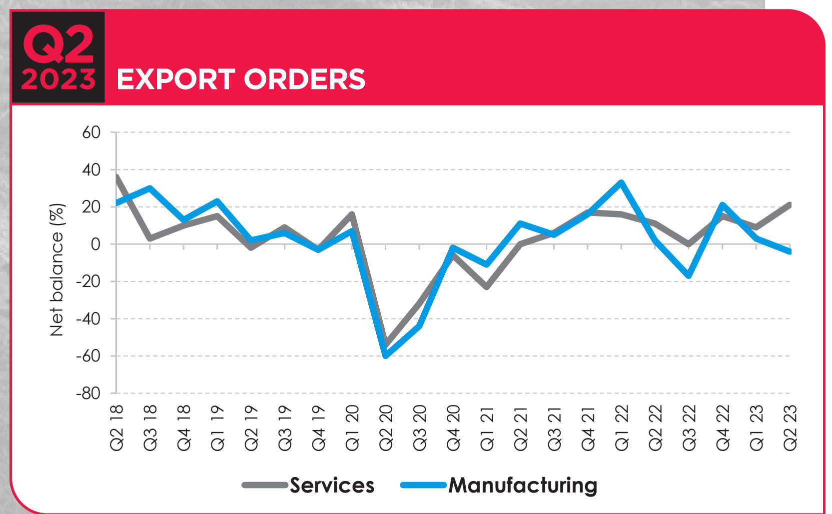


OVERSEAS SALES

SERVICES 17% ▲ 2%

MANUFACTURING -9% ▼ -6%





INTERNATIONAL SALES
A hugely contrasting picture emerged for overseas sales. The service sector continued its strong performance from Q1 with a rise of 17 points in Q2. Order books for service firms also remain very strong with an increase of 21 points on the previous quarter.

The same cannot be said, however, for manufacturers who saw a further decline in sales in Q2. Sales were down by nine points and orders down by four points.

INDUSTRY VOICE:
"We would usually have more work at this time of year - our normal customers are not having things done as they're watching their money. Because we put our prices up its levelling out, but not making a profit."

EMPLOYMENT (NEXT QUARTER)

SERVICES

17%

-14%

MANUFACTURING

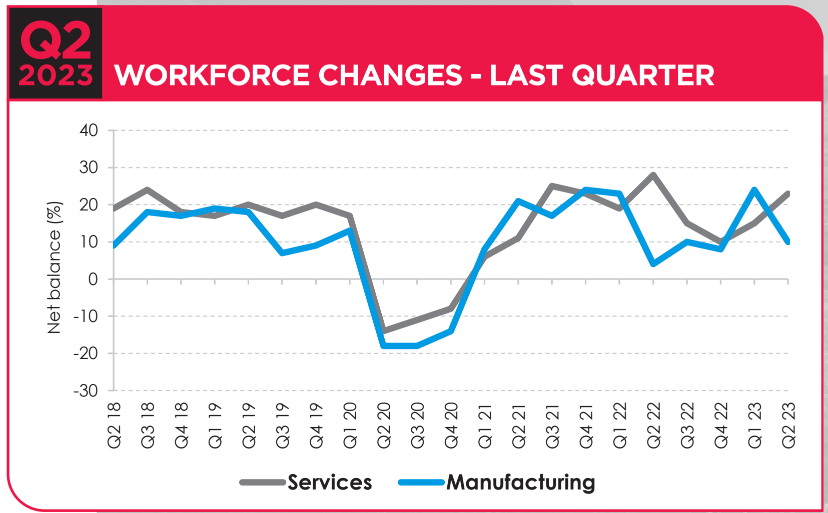
15%

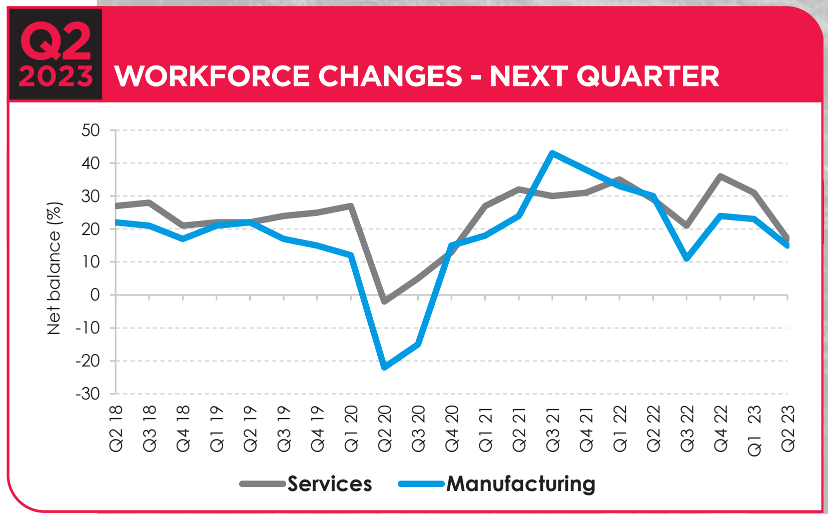
-8%

EMPLOYMENT

The strong performance in hiring across both sectors that we saw at the start of 2023 is continuing. Just six per cent of service firms and eight per cent of manufacturers anticipate a decrease in their workforces in the next three months, with just under a quarter of firms in both sectors anticipating growing their headcounts.

However, the vast majority of firms merely expect their staffing levels to remain unchanged, very much a case of running to stand still. The labour market remains incredibly tight and firms of all sizes continue to report challenges when it comes to recruitment.





INVESTMENT (CAPITAL)

SERVICES

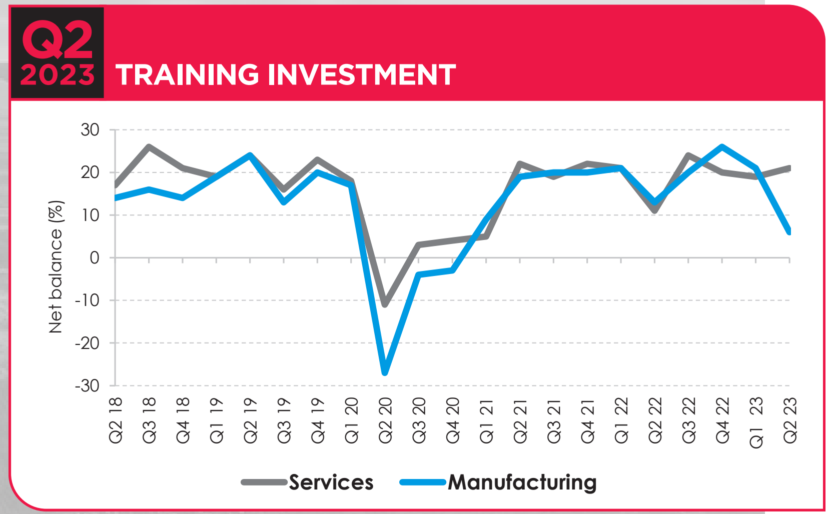
11%

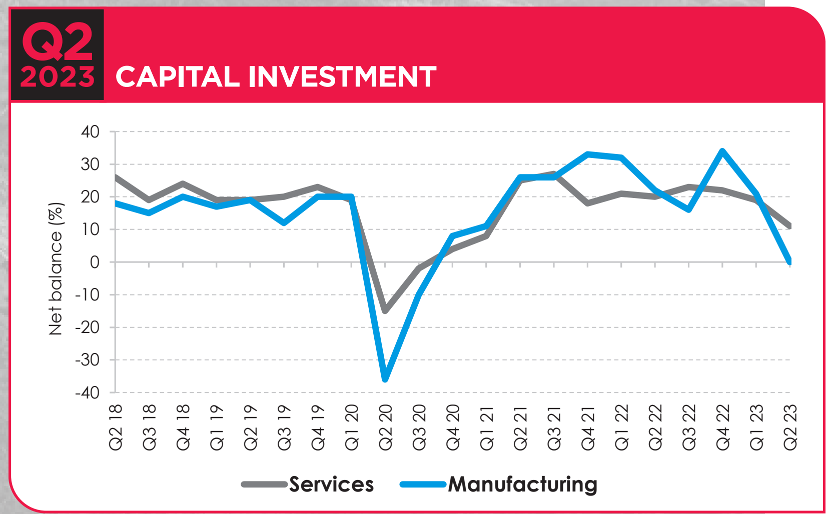
-8%

MANUFACTURING

0%

-21%





INVESTMENT

The pattern of stagnating investment levels we have seen in recent months is sadly continuing. Despite inflation finally beginning to decline it remains a fact that pressures on overheads are still at eye-watering levels. Despite a number of measures being announced by the Chancellor at the March Budget there appears to be a continuing lack of appetite for investment in plant or machinery.

Similarly, investment in people and training remains static.

If any positives are to be taken, it is that investment levels are still at a level seen before the pandemic and that downward pressures from inflation are forecast to decline in the months ahead.

CAPACITY (FULL)

SERVICES	MANUFACTURING
38%	33%
▼ -5%	▼ -13%

PRICES

SERVICES	MANUFACTURING
39%	29%
▼ -9%	▼ -21%

CAPACITY

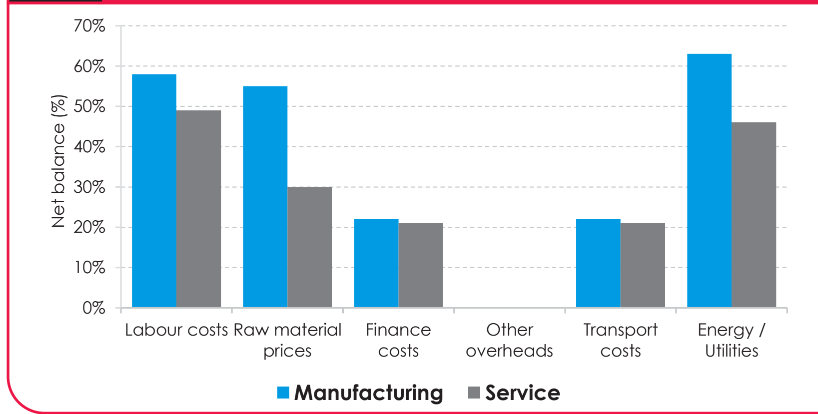
Some good news for the manufacturing sector as activity showed real signs of improvement. Capacity levels rose by seven points for producers, with 46 per cent of firms now at full capacity.

There were also signs that cost pressures were beginning to ease. In Q1, 84 per cent of manufacturers said they were seeing issues with raw materials, with eight out of 10 firms reporting inflation was a risk to their business.

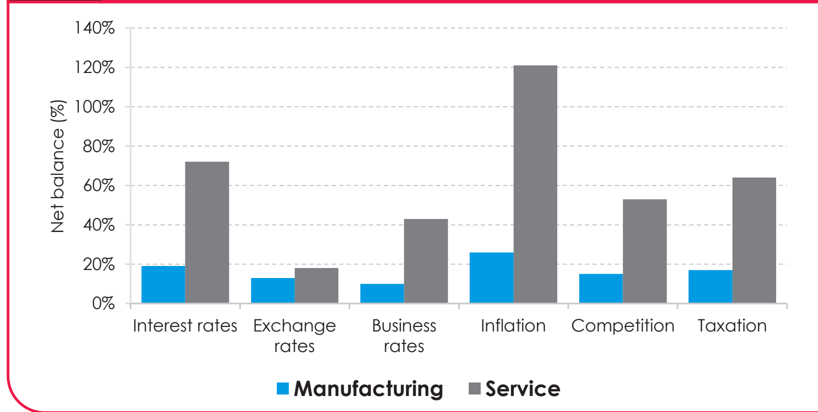
For this quarter, the level of firms reporting issues with raw materials has fallen to 58 per cent and inflation was seen as a risk by 26 per cent of companies. Whilst we are still early days, these could be signs that prices are finally starting to fall.

For the service sector the picture was less rosy, with a drop of six points from the previous quarter's low ebb. For service sector firms, inflationary pressure has not eased at all and, if anything, is showing signs of rising.

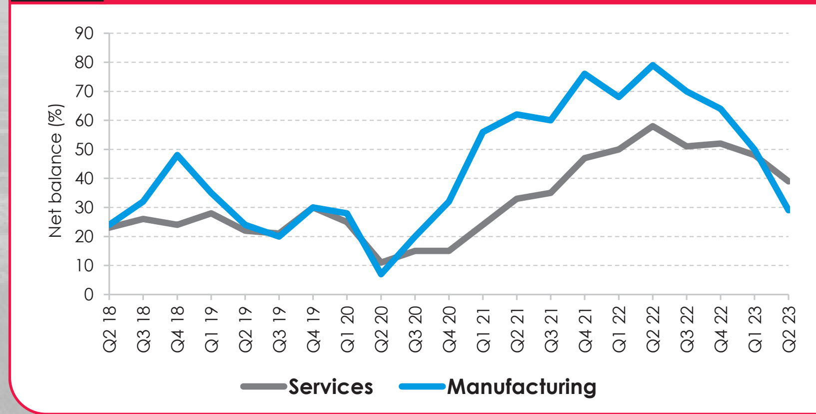
Q2 2023 COST PRESSURES



Q2 2023 EXTERNAL FACTORS



Q2 2023 EXPECTATION OF PRICE RISES



EXPECTATION OF PRICE INCREASES

After the worst period of inflation for a generation, it now seems clear that firms are beginning to believe the worst is over. That said, prices remain a huge problem for many businesses who have now faced more than a year of sky-high overheads.

Forty-one per cent of businesses expect prices to increase while 58 per cent of service firm and 47 per cent of manufacturers expect them to remain static. Interest rates are a huge concern, particularly in the service sector, where 72 per cent of firms report it as an issue.

Sixty-three per cent of manufacturers and 46 per cent of service sector firms continue to report issues around utility costs. With the better weather and anticipated declines in energy bills, hopefully this figure will decline once the summer warmth begins to recede.

INDUSTRY VOICE:

"Business has improved but the current climate is leaving us in a position where we have to increase our prices. Everything costs more so profit margins are getting smaller."

CAPACITY (FULL)

SERVICES 38% ▼ -5%

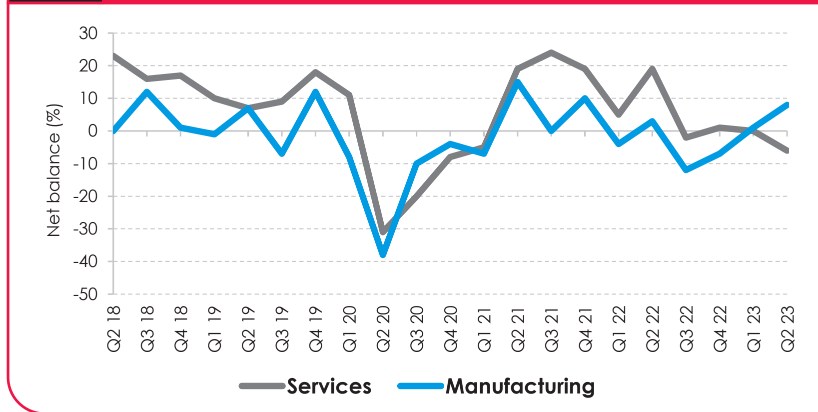
MANUFACTURING 33% ▼ -13%

CASHFLOW
A big improvement was seen for The service sector continues to show a real struggle when it comes to cashflow. After a modest decline in Q1, it fell by a further six points in Q2. It now marks a whole year since the sector began its struggles with cashflow and with pay awards continuing to be very high, it is unclear how long it will be before the picture improves.

Manufacturers, however, will be heartened by another strong rise in their cashflow, up seven points. It is the second quarter in a row that the sector has posted an improvement.

INDUSTRY VOICE:
"General air of emerging caution in the property and property development market."

Q2 2023 CASHFLOW

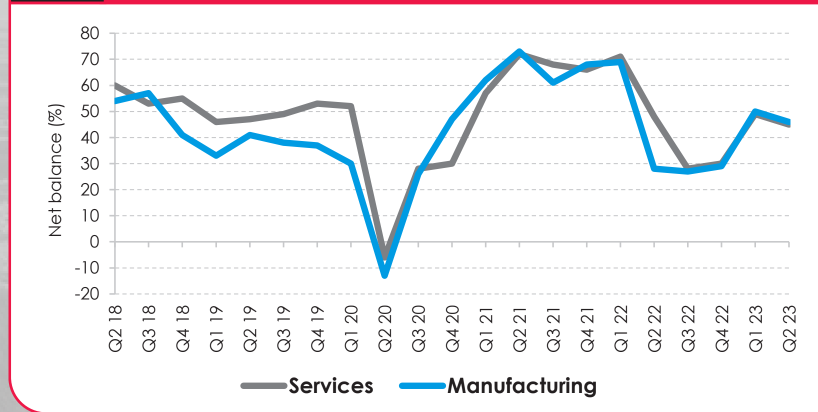


CONFIDENCE (PROFITABILITY)

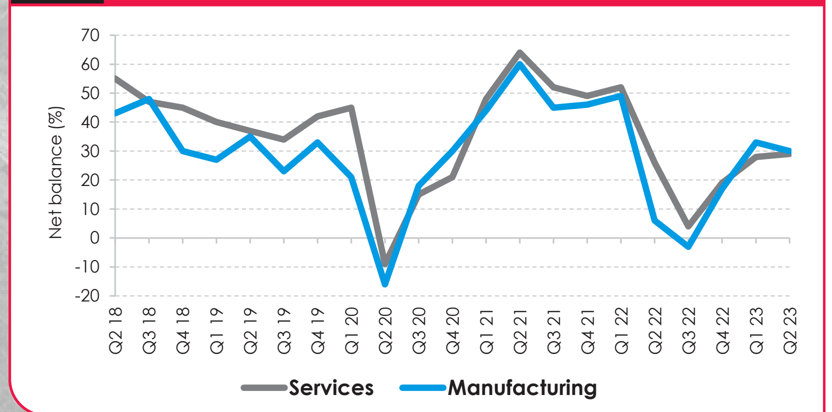
SERVICES 29% ▲ 1%

MANUFACTURING 30% ▼ -3%

Q2 2023 TURNOVER EXPECTATIONS



Q2 2023 PROFITABILITY EXPECTATIONS



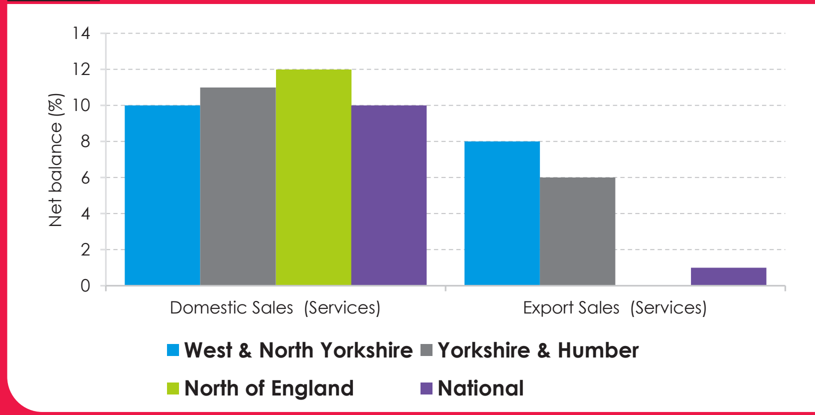
BUSINESS CONFIDENCE
The strong improvement in optimism levels seen in the aftermath of the disastrous mini-Budget showed signs of beginning to level of this quarter. Service sector firms expecting their profits to rise grew by one point as compared with nine in the previous quarter. Meanwhile manufacturers saw a slight dip of three points.

However, 52 per cent of manufacturers and 49 per cent of service firms said they expected to grow their profits in the next three months, while expectations on turnover were even higher – although this may be being masked by inflation.

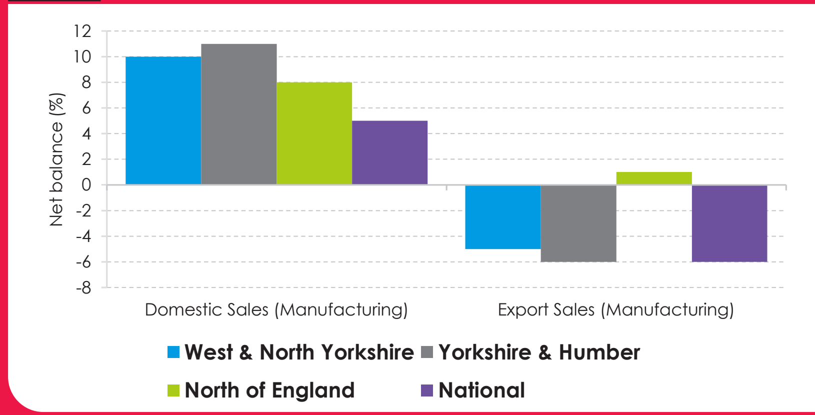
We are a cautious bunch in Yorkshire but if this optimism can be repeated in Q3 then the better days ahead we have been hoping for may be close to hand.

INDUSTRY VOICE:
"Increase in business rates and corporation tax can only have a negative effect on businesses already suffering with inflationary and utilities increases."

Q2 2023 REGIONAL COMPARISON - SERVICES



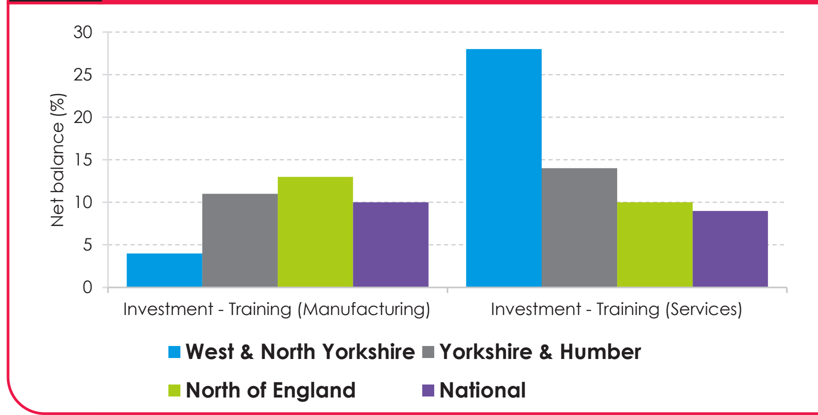
Q2 2023 REGIONAL COMPARISON - MANUFACTURING



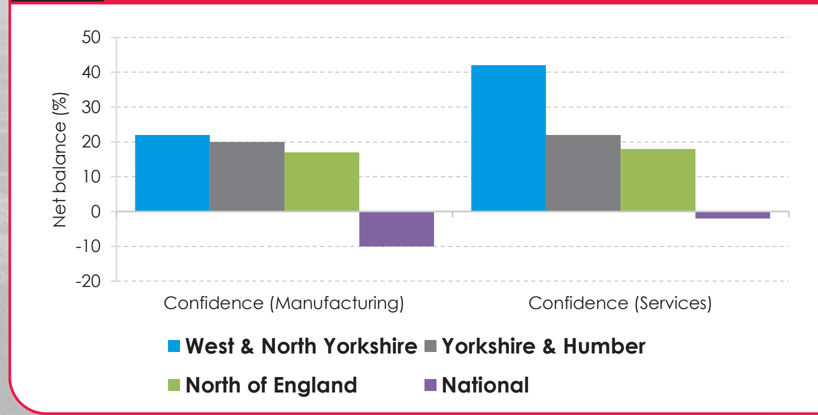
NATIONAL AND REGIONAL COMPARISONS

Overall, it seems that West and North Yorkshire are faring a lot better than other regions around the north and the country more widely. Expectations on profitability are far higher in our region than with our colleagues round Britain. Sales activities remain broadly in line with trends seen around the nation, hinting that all parts of the UK are finding things tough.

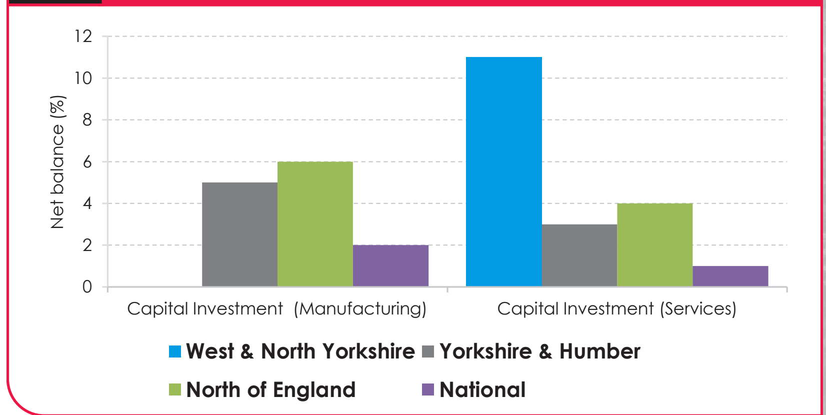
Q2 2023 REGIONAL INVESTMENT TRAINING



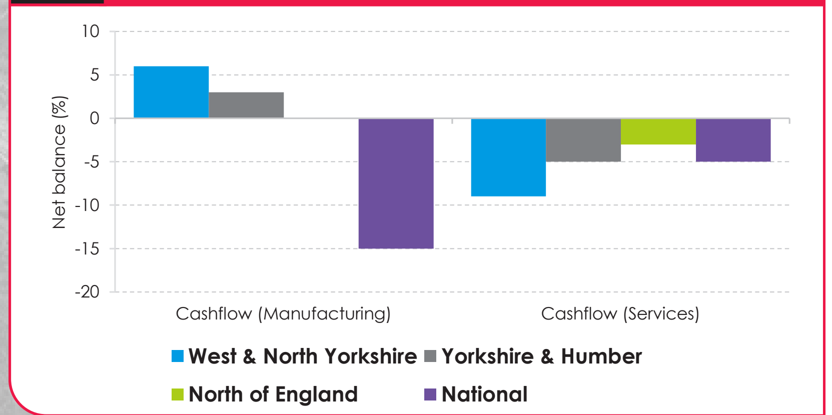
Q2 2023 REGIONAL BUSINESS CONFIDENCE - PROFITS



Q2 2023 REGIONAL INVESTMENT CAPITAL



Q2 2023 REGIONAL CASHFLOW



David Bharier
Head of Research
British Chambers of Commerce

"Three years of economic shocks in the form of Covid-19 lockdowns, inflation, and new trade barriers with the EU have placed clear obstacles in the ability of firms to trade and grow."

BCC QUARTERLY ECONOMIC SURVEY: SIGNS INFLATION PRESSURE EASING

- Less than half (45%) of UK firms expect their prices to increase in the next three months, down from 55% in Q1.
- Labour costs are the biggest driver of price rises, cited by 68% of businesses.
- Domestic sales, cashflow, turnover and profitability indicators all remain largely unchanged from Q1.

THE BCC'S QUARTERLY ECONOMIC SURVEY (QES) FOR Q2 2023 SHOWS THAT LESS THAN HALF OF FIRMS NOW PLAN TO RAISE PRICES IN THE NEXT THREE MONTHS AS COST PRESSURES EASE.
But the data also reveals that the main factor for increasing costs is now coming from wages rather than utility bills or raw materials.

The survey, by the BCC's Insights Unit, of over 5,000 firms – 92% of whom are SMEs – also reveals business performance across different sectors varies considerably, with hospitality and retail firms suffering more widely from cashflow difficulties.

The research took place between 15 May and 9 June and before the Bank of England increased the base rate to 5%. Respondents were split into 27% manufacturing and 73% services industries, with 47% exporting.

GROWTH IN BUSINESS ACTIVITY REMAINS WEAK, WITH NO SIGNIFICANT IMPROVEMENT TO SALES AND CASHFLOW DATA.
The percentage of firms reporting increased domestic sales remained largely static, with 35% reporting a rise (broadly unchanged from 34% last quarter). Meanwhile 24% reported a decrease and 41% reported no change.

For cashflow, more businesses continue to report a decrease, rather than an increase and again the picture remains largely unchanged since Q1. Just over one in four (26%) businesses said their cash flow has increased over the last three months (25% in Q1), while 29% have seen it decrease (30% in Q1).

Pressures remain highest in the retail and hospitality sectors with 38% and 37% respectively reporting reduced cashflow, while PR and Marketing was the most positive sector with 33% reporting growth.

AFTER BUSINESS CONFIDENCE SHOWED SIGNS OF A REBOUND IN Q1 2023, IT HAS NOW STALLED AGAIN.
There was a small increase in the percentage of firms believing their business turnover will rise over the next 12 months, up to 54%, from 52% in Q1.

Profitability confidence also improved slightly to 44% from 42% in Q1, but it continues to remain weaker than turnover confidence.

THIS SLIGHTLY IMPROVED OUTLOOK IS NOT TRANSLATING THROUGH TO INCREASED BUSINESS INVESTMENT.
The number of respondents reporting an increase to investment in plant/equipment dropped to 23% from 25% in Q1. Over the last six years this measure has dropped as low as 9% of firms, at the start of the pandemic, but it has never gone higher than 28% (Q1 2018).

INFLATIONARY PRESSURES CONTINUE TO EASE, BUT STILL REMAIN THE TOP CONCERN.
The percentage of firms expecting their prices to rise fell below 50% for the first time since Q3 in 2021. It has fallen from 60% of firms in Q4 2022 to 45% in Q2 2023.

While inflation remains firms' biggest concern, the level has dropped for the second quarter running, with 69% of firms now worried compared to 74% in Q1. However there has been a corresponding 5 percentage point rise in businesses worried about interest rates, increasing from 36% in Q1 to 41% in Q2.

LABOUR COSTS ARE NOW THE NUMBER ONE COST PRESSURE FOR BUSINESSES.
With concern around utility costs dropping, 63% report these as an issue (74% in Q3 2022), the number of firms struggling with wage costs has risen to 68% (67% in Q1) and is now the lead cost pressure.

But there remain wide sectoral differences with 75% of manufacturers citing raw materials as the main factor driving price increases, while in hospitality, 85% of firms were most worried about utility costs. The retail sector was least worried about labour costs, with 56% citing it as an issue, against 64% flagging utilities and 67% raw materials.

David Bharier, Head of Research at the British Chambers of Commerce (BCC), said: "Once again, data from the Quarterly Economic Survey sees no major improvement to key business indicators.

"Three years of economic shocks in the form of Covid-19 lockdowns, inflation, and new trade barriers with the EU have placed clear obstacles in the ability of firms to trade and grow.

"Now many SMEs face further pressure following interest rate rises, as borrowing costs increase. Predictably, investment suffers in such tough conditions.

"Despite this, business confidence remains buoyant, following a big drop in 2022, as inflationary ease further. This optimism should be reinforced with greater clarity from government on a plan for economic growth."

Shevaun Haviland
Director General
British Chambers of Commerce

Responding to the findings, Director General of the British Chambers of Commerce, Shevaun Haviland, said: "With inflationary pressures weakening, but wage cost concerns remaining high, our research should give the Government and Bank of England pause for thought on their next steps.

"There is a fine balancing act to be struck here. Push too hard on interest rates and there is a real danger that the long-term outlook for economic growth and prosperity will be dented.

"The Bank of England has itself identified the tight labour market as a key factor in the UK's stubbornly high inflation. Fierce competition for skills, wage demands and candidates' expectations leave many businesses with job vacancies they can't fill.

"The Government must redouble its efforts to get people back into work and create the right conditions for employers to invest in staff training and development. Where firms cannot recruit and train from their local or national labour market, a flexible, efficient and affordable immigration system is crucial.

""Further upcoming changes on trade with the EU, such as new customs requirements and charges for imports, will also add upward pressure on prices. We need to think carefully about adding in further costs for businesses when they are already under strain."

WHAT BUSINESSES SAY:

"We have the highest order book ever but not enough staff to deliver it."

Medium sized construction firm in Bedfordshire

"Lack of skilled workers in the UK, particularly welders and engineers, has had a telling impact on the business."

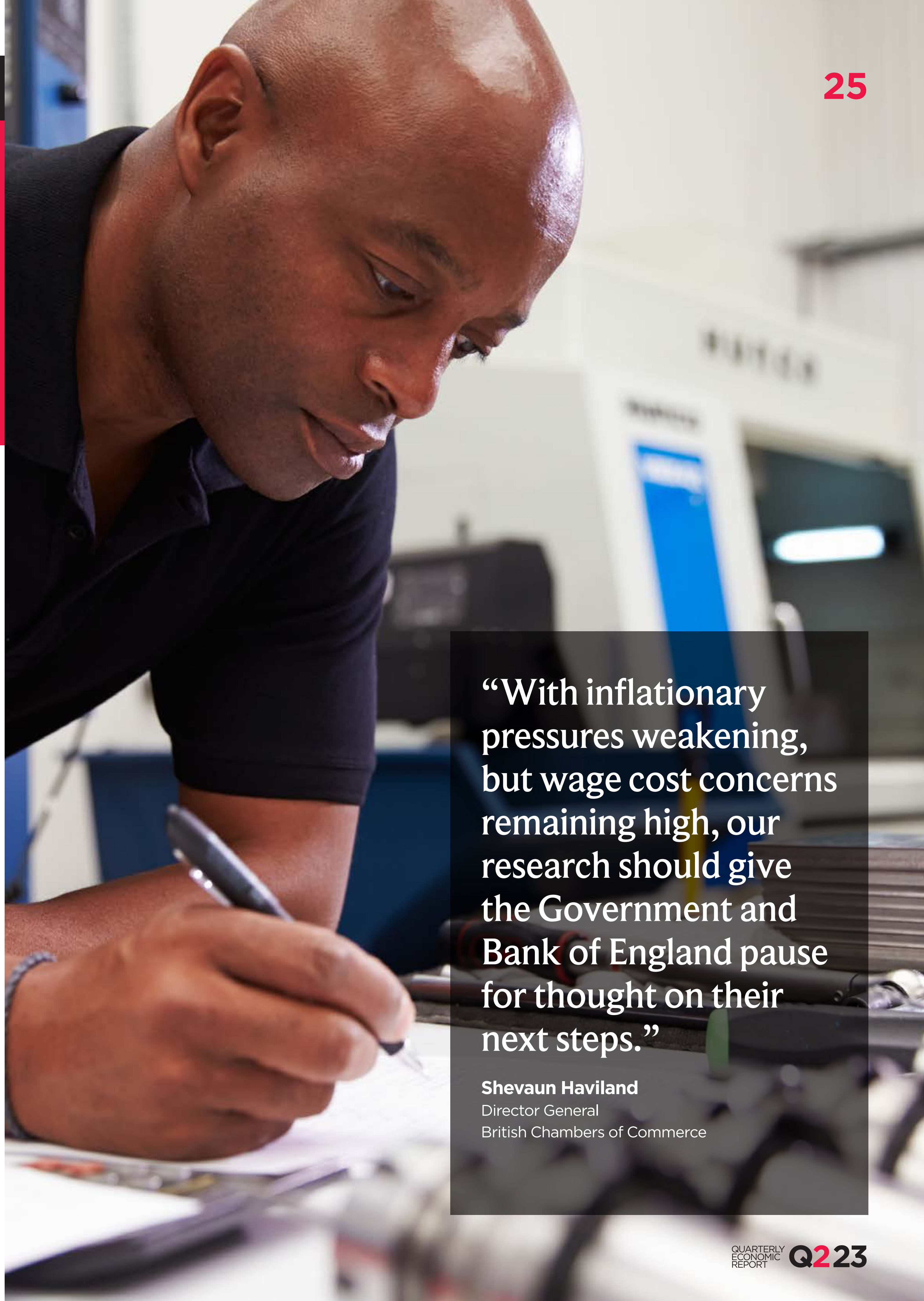
Medium sized manufacturer in Cumbria

"The general economy seems to be into stagnation. This may be good for inflation, but it isn't good for the growth and trading prospects of businesses. We are starting to business closures impacting our sector, which may be a sign of a wider problem that will come to light if the economy doesn't rally soon."

Small manufacturer in Cambridgeshire

"Our visitor figures have nearly halved over the last three months. Customers are simply not spending due to the cost-of-living crisis."

Medium sized tourism firm in the East Midlands



"With inflationary pressures weakening, but wage cost concerns remaining high, our research should give the Government and Bank of England pause for thought on their next steps."

Shevaun Haviland
Director General
British Chambers of Commerce

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