Q1 2024

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

3 INTRODUCTION
4 FOREWORD
5 MESSAGE FROM THE BRITISH CHAMBERS
6 METHODOLOGY
7 EXECUTIVE SUMMARY
8 INFOGRAPHIC
12 DOMESTIC PERFORMANCE
13 INTERNATIONAL PERFORMANCE
14 EMPLOYMENT
15 INVESTMENT
16 CAPACITY
17 EXPECTATION OF PRICE RISES
18 CASHFLOW
19 BUSINESS CONFIDENCE
18 NATIONAL AND REGIONAL COMPARISONS
22 BCC COMMENTARY

Businesses of all sizes will be delighted to know that things here in Yorkshire are starting to look up.

Our latest Quarterly Economic Survey shows great levels of appetite to invest and take on staff, with outlook on profits and orders also showing a marked improvement.

This is most welcome news, especially given that the previous QES had shown a more negative outlook.

Clearly, much uncertainty persists. The levels of businesses concerned about the conflict in the Middle East remains high. Interest rates remain high.

But within a few short weeks we will have enhanced devolution in Yorkshire, with a mayor set to be elected for North Yorkshire on May 2, meaning the entirety of the Chamber's patch will be covered by a mayor.

While instability might be the new normal, we have the resilience and leadership here in Yorkshire to deliver a vibrant and bright economy that is able to create jobs, fuel investment and bolster profits.

While the level of businesses concerned by the impact of artificial intelligence remains relatively low at one in four, it is likely this figure will rise in the coming months. As a Chamber, a number of events are planned around raising awareness of this topic. See the Chamber's events page for more details.

It is too early to look at this latest report's findings and assume the worst is over. The litmus test will come in the next QES report which is due at the start of the summer. If this shows sustained improvements in conditions, then perhaps we can begin to feel more confident.

Until then, Yorkshire will do what it does best and work its socks off to generate results.

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

It is my happy duty to report that, certainly here in West and North Yorkshire, things seem to be looking up for our business community. For the first quarter of this year, there has been an improving picture on sales – both domestic and international, on hiring intent, upon investment and on expectations around improved profitability.

And these findings are based on fieldwork carried out when it was confirmed the UK had entered a technical recession. Does this mean that we can now expect a period of calm and growth? Almost certainly not. It is clear from the supplementary questions I have asked about concerns over the impact of the conflict in the Middle East that the geopolitical uncertainty we have witnessed these last few years is far from settling down. Sixty per cent of manufacturers reported concern on this matter, as compared with 25 per cent of service sector firms.

But on the domestic front, there are several economic winds which are likely to have contributed to this improvement in optimism.

Firstly, inflation is not only falling but is forecast to continue to fall. It's clear from the fieldwork that concern over prices and overheads has yet to decline but there is now an expectation that this will now be happening soon.

Secondly, interest rates are also widely expected to fall, an issue that more than two thirds of service sector firms state in the fieldwork is the main inhibitor to growth.

And thirdly, at some point in the next few months, a general election will be held. Although forecast to be weak, growth is still anticipated to pick up in coming months. In summary, businesses are beginning to see light at the end of the tunnel – albeit a dim one.

The findings that pleased the most in this latest QES were those around exports. Yorkshire is known around the world for its first-class goods and services and so it was fantastic to see such a healthy boost in sales. The good news could be set to continue as well, with order books particularly for the manufacturing sector looking so strong.

The state of our workforce remains a challenge, with labour costs the most frequently cited overhead pressure cited in the findings. This, however, is not stopping companies looking to hire. Twenty-eight per cent of service sector firms and 24 per cent of manufacturers saying they grew their workforce in the three months prior to the fieldwork taking place.

Investment appetite is back as well, mainly when it comes to plant and machinery. And, after a downbeat end to 2023, confidence on future profitability has returned, with around four out of every five businesses in our region expecting to swell or maintain current levels of profitability during the coming months.

What is crucial now is whether the anticipated decline in overheads filters through into reality. After two years of soaring costs, the hope is now we can welcome a period of stabilisation.

Shevaun Haviland
Director General
British Chambers of Commerce

The BCC's Quarterly Economic Survey – the UK's largest and longest-running independent business survey – shows most firms reporting no improvement in investment levels, sales or cashflow in the first quarter of 2024.

Our results are a timely reminder of the challenges businesses are facing across the UK.

We desperately need to see SMEs investing again. Government moves on rate relief, planning reform and full expensing are welcome - but they haven't yet shifted the dial.

The recent rise in the national living wage is good news for millions of employees. But it comes at a time when labour costs pressures for business are already very high. Firms need room to breathe as they strive to pay staff fairly.

In this election year it's vital that politicians remain laser focused on helping businesses invest, develop and grow. We encourage all parties to study our findings and understand the reality for SMEs in communities up and down the country".

METHODOLOGY
The respondents of business owner/senior manager/director/partner status. Thirty-four per cent of this sample were actively trading internationally, a smaller figure than seen in the Quarter Four 2023 study.

Of those businesses surveyed 43 per cent were micro, 30 per cent were small, 18 per cent were medium and 9 per cent were large. Businesses were surveyed by telephone or online questionnaire between February 12 and March 11, 2024.

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 significant improvement upon the disappointing figures seen in Q4 of 2023. The service sector so a four-point boost whilst manufacturers delivered a five-point increase. The real success story was seen on businesses' order books which were light years ahead of the previous quarter, most notably from manufacturers who posted a 22-point improvement.

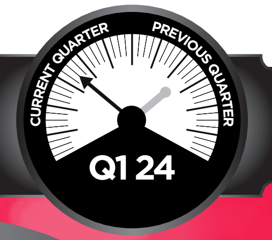
EXPORT SALES
Yorkshire's mantle as a first-class exporting economy was restored in spades during Q1 of this year, largely driven by the service sector which saw a 34 point improvement in international trade. Order books too were looking strong, most notably for the manufacturing sector.

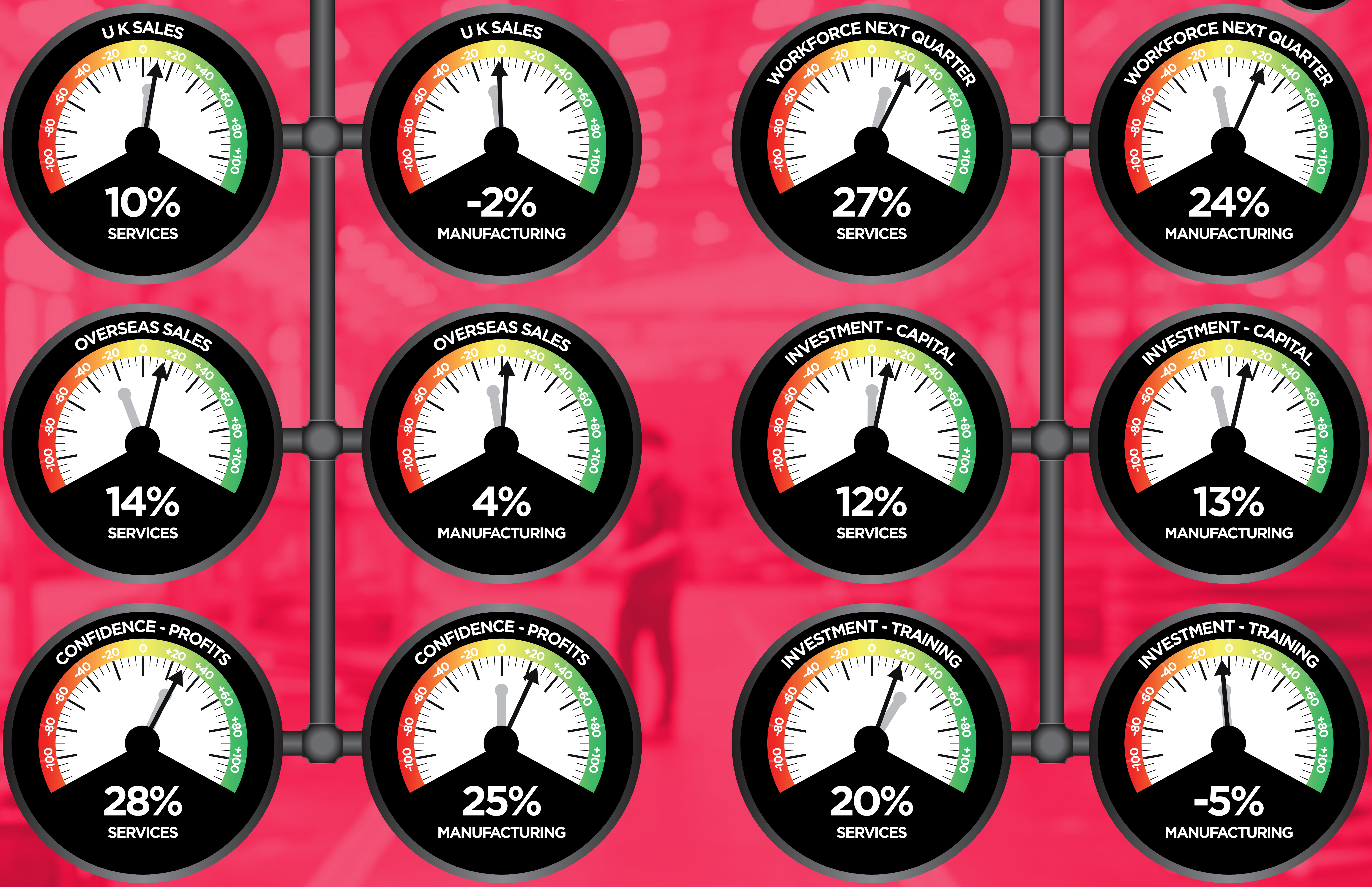
EMPLOYMENT
The gradual cooling off in hiring seen during the second half of 2023 looks to be reversing with 28 per cent of service sector firms and 24 per cent of manufacturers saying they grew their workforce in the three months prior to the fieldwork taking place. Even better news lies in firms' appetite for growing their workforces further with one in three businesses expecting to hire more staff in the next quarter.

INVESTMENT
A largely positive picture on investment, particularly among manufacturers who reported a 25-point improvement when it came to capital investment. Service firms also showed greater willingness to invest in capital projects although the sector showed a decrease in the desire to greater train its staff.

BUSINESS CONFIDENCE
After a weak finish to Q4 of 2023, the region's business community's confidence looks to be very much back on track, particularly in the manufacturing sector where a big improvement in expectations on profits and turnover was reported. One in four firms in our region expects to swell their profits during the coming months.

BUSINESS COSTS AND CONCERNS
Wages is now the main concern for businesses when it comes to costs, with 62 per cent of manufacturers and 60 per cent of services firms citing it as their top issue. Raw material costs and utility bills remain hot topics too, despite inflation falling.


CURRENT QUARTER
PREVIOUS QUARTER
Q1 24


U K SALES
10%
SERVICES
U K SALES
-2%
MANUFACTURING
WORKFORCE NEXT QUARTER
27%
SERVICES
WORKFORCE NEXT QUARTER
24%
MANUFACTURING
OVERSEAS SALES
14%
SERVICES
OVERSEAS SALES
4%
MANUFACTURING
INVESTMENT - CAPITAL
12%
SERVICES
INVESTMENT - CAPITAL
13%
MANUFACTURING
CONFIDENCE - PROFITS
28%
SERVICES
CONFIDENCE - PROFITS
25%
MANUFACTURING
INVESTMENT - TRAINING
20%
SERVICES
INVESTMENT - TRAINING
-5%
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
10%	-2%
▲ 4%	▲ 5%

DOMESTIC SALES

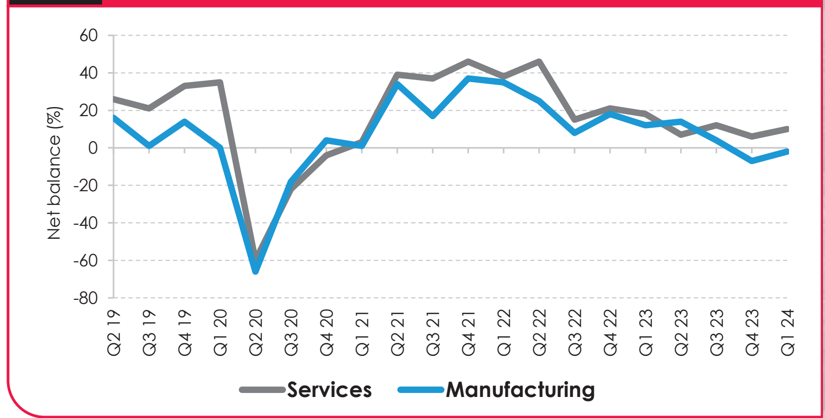
After a poor end to 2023, firms in the region are now reporting healthy improvements on sale activities. Manufacturers reported a five-point improvement in sales, with the service sector not far behind with a four-point improvement. Overall, 32 per cent of service sector firms and 26 per cent of manufacturers grew their sales in Q1. And while manufacturing remains in negative territory, it is heading in the right direction for the first time in nearly a year.

And, based on order books, this upward momentum is set to continue, with manufacturers posting a 22-point improvement. The service sector too looks far more optimistic about domestic markets with a 12-point boost in orders.

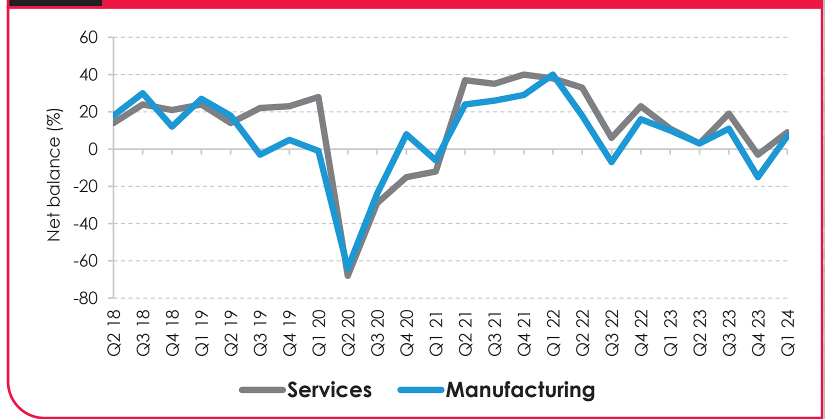
INDUSTRY VOICE

"We are seeing an increase in sales although packaging industry is quieter than normal."

Q1 2024 DOMESTIC SALES



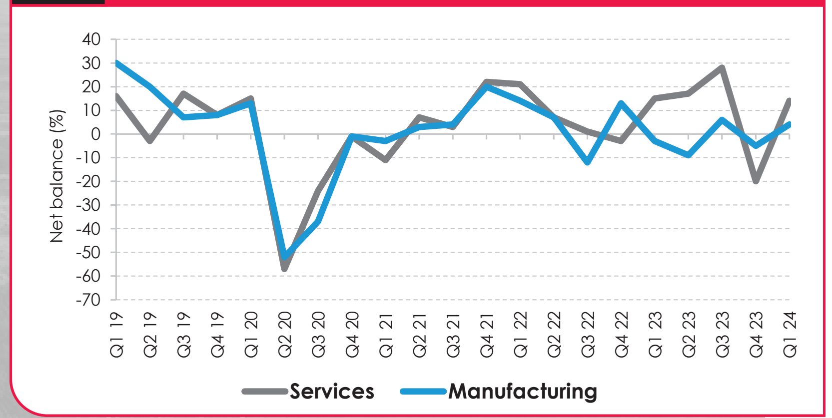
Q1 2024 DOMESTIC ORDERS



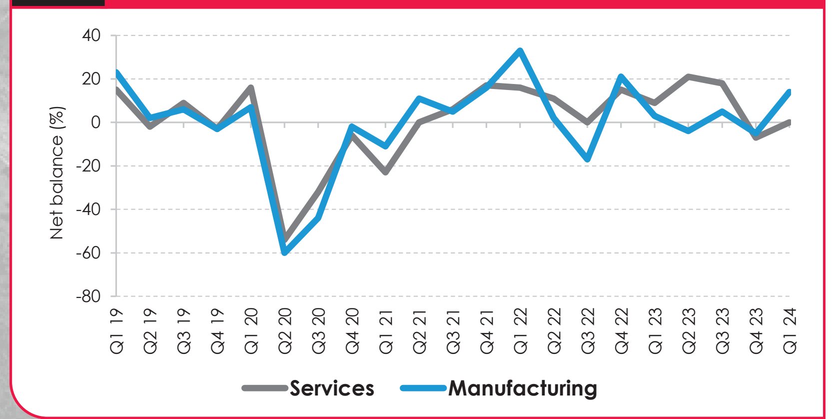
OVERSEAS SALES

SERVICES	MANUFACTURING
14%	4%
▲ 34%	▲ 9%

Q1 2024 EXPORT SALES



Q1 2024 EXPORT ORDERS



INTERNATIONAL SALES

Another good news story, with both sectors posting increases in sales and orders.

International trade among the region's firms has bordered on volatile over the past two years and suffered a sharp decline in Q4 of last year.

This picture has very much reversed with an impressive 34-point improvement in sales from the service sector and a nine-point boost for manufacturers. Orders from overseas were strongly improved for manufacturing firms, with 46 per cent of exporters in the sector reporting improved order books.

EMPLOYMENT (NEXT QUARTER)

SERVICES	MANUFACTURING
27%	24%
▲ 11%	▲ 31%

EMPLOYMENT
A big improvement on Q4 in the region, with firms across both sectors reporting increasing hiring and improved prospects for taking on additional staffers in the coming months.

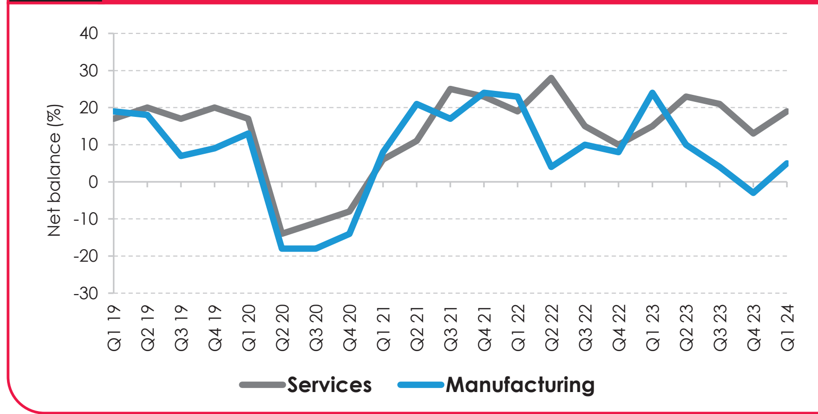
Manufacturers posted an eight-point boost in hiring during Q1 of the year, with the service sector showing a six-point increase.

When it comes to future hiring intent, manufacturers showed an impressive 31-point improvement on Q4 of last year.

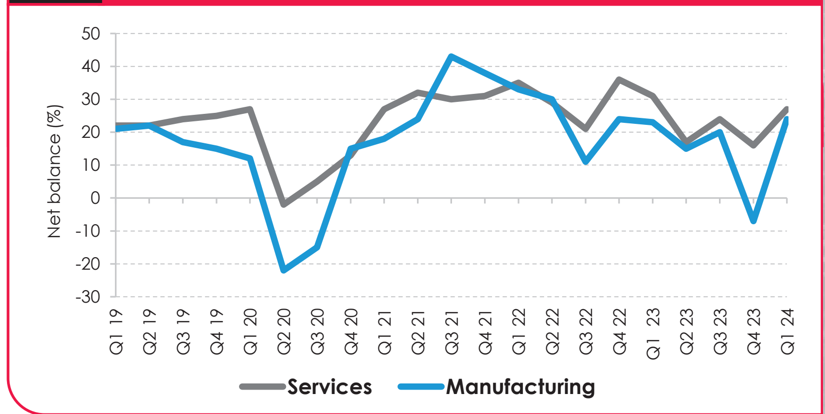
Overall, 35 per cent of service sector firms and 31 per cent of manufacturers expect to increase their headcount in the next few months, with the per centages of employers who expect to reduce headcount in single digits.

The most popular reply from firms however, remains that they expect to keep their headcounts static during the spring months.

Q1 2024 WORKFORCE CHANGES - LAST QUARTER



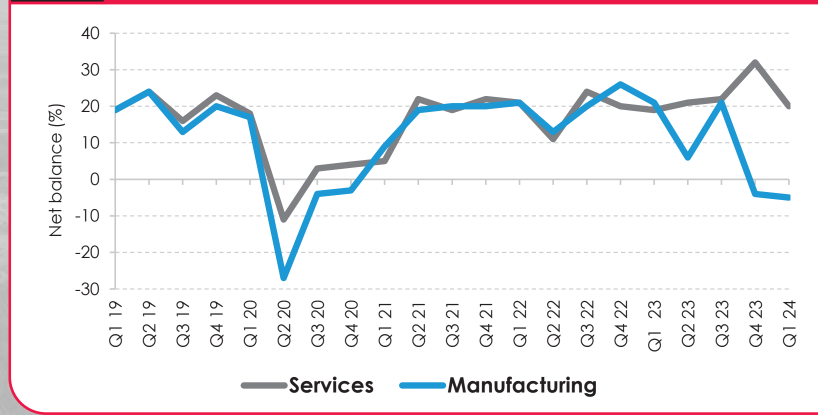
Q1 2024 WORKFORCE CHANGES - NEXT QUARTER



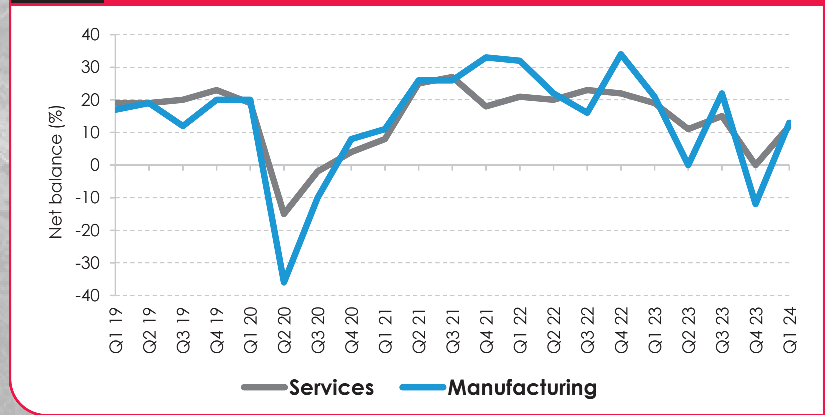
INVESTMENT (CAPITAL)

SERVICES	MANUFACTURING
12%	13%
▲ 12%	▲ 25%

Q1 2024 TRAINING INVESTMENT



Q1 2024 CAPITAL INVESTMENT



INVESTMENT
A significant improvement on most measures from the end of 2023, particularly with regards to plant and machinery. Twenty-five per cent of service firms and 27 per cent of manufacturers expect to invest in capital measures in the next quarter.

Appetite to invest in training and upskilling staff however continues to dip, most notably in the service sector which saw a 12-point fall in expectations.

The key test will be in the coming quarters as inflation begins to fall further, hopefully in tandem with interest rates.

CAPACITY (FULL)

SERVICES	MANUFACTURING
41%	34%
▲ 1%	▼ -5%

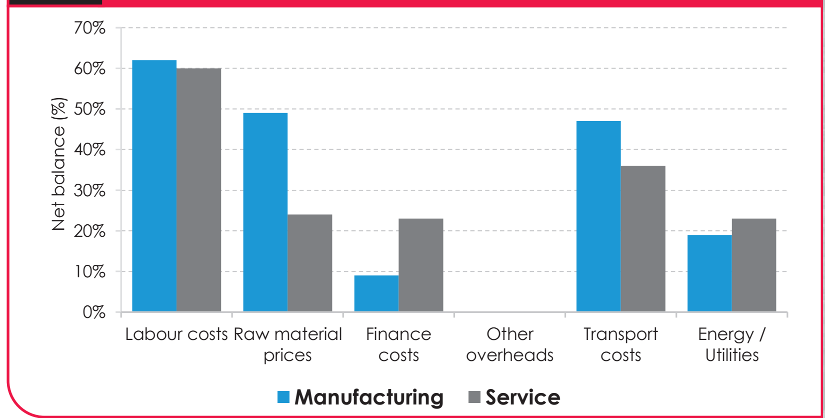
CAPACITY & COST PRESSURES
The cost of labour is now squarely the top issue facing businesses in our region. Sixty-two per cent of manufacturers and 60 per cent of services firms cited it as the chief cost pressure.

Despite falls in inflation, the cost of doing business remains very high, with raw material costs and utilities continuing to be cited as major issues, particularly in manufacturing where nearly half of businesses cited them as significant inhibitors to growth.

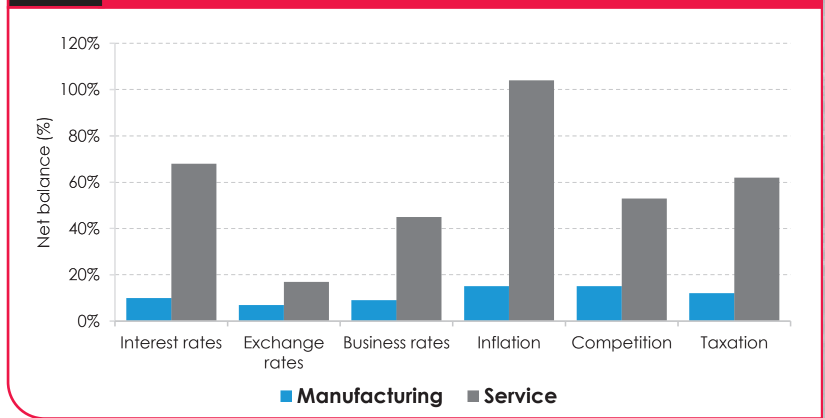
Capacity continues to be an area of concern for Yorkshire business. Sixty-six per cent of manufacturers reported themselves to be below capacity, a figure that declines slightly to 59 per cent when looking at the service sector.

INDUSTRY VOICE
"Increase in NLW has a significant impact on our business and we cannot necessarily pass it on to customers reducing our profitability."

Q1 2024 COST PRESSURES



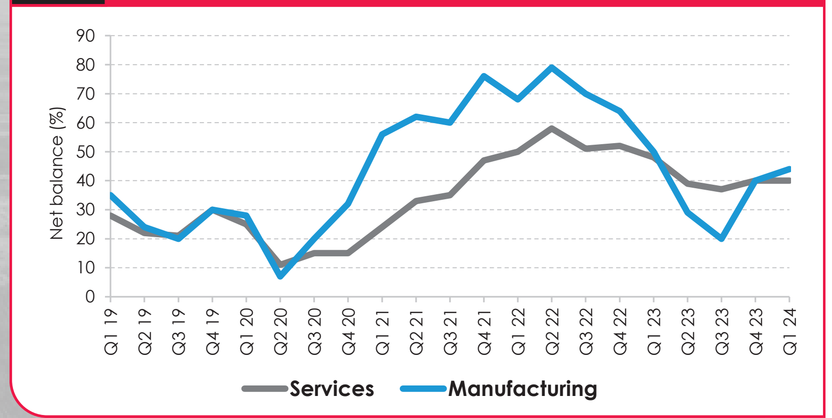
Q1 2024 EXTERNAL FACTORS



PRICES

SERVICES	MANUFACTURING
40%	44%
▶ 0%	▲ 4%

Q1 2024 EXPECTATION OF PRICE RISES



PRICES
Inflation may be falling but not to the extent that the service sector would like it to. A worryingly high level of firms in the sector cited it as the top overhead issue.

Interestingly taxation has steadily crept up the league table of cost pressures, again most notably for service industries.

In what is very much a sign of the times, just five per cent of manufacturers think their costs will decline in the next quarter, with just four per cent believing the same.

Just under half of all firms think costs will remain the same as the preceding quarter, with slightly less than half expecting increases.

INDUSTRY VOICE:
"Moving goods to Europe has tripled in freight costs."

"Interest rates must drop to provide growth."

CASHFLOW

SERVICES -10% ▲ 1%

MANUFACTURING -3% ▲ 43%

CONFIDENCE (PROFITABILITY)

SERVICES 28% ▲ 4%

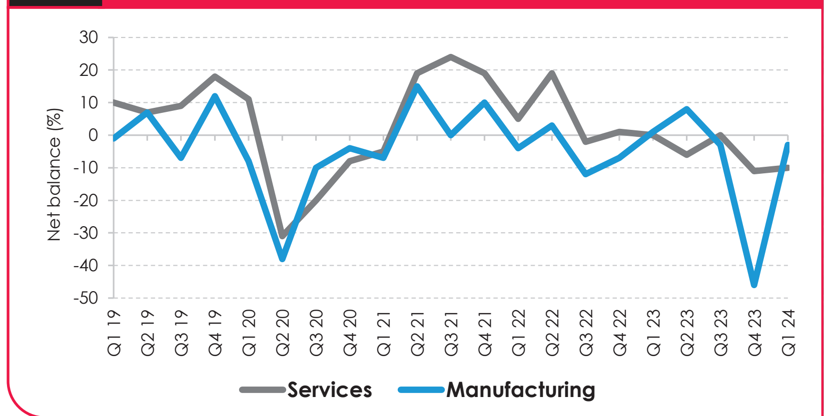
MANUFACTURING 25% ▲ 25%

CASHFLOW

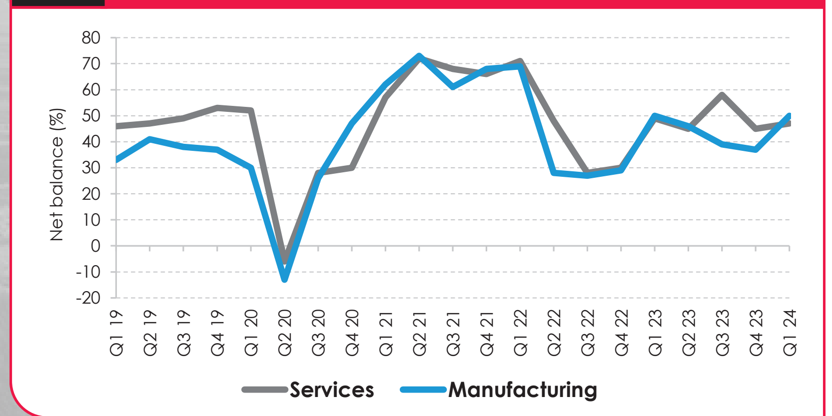
The flow of capital around business in our region remains hugely challenging. Although manufacturers reported a large improvement in cashflow during Q1 of this year (43 points ahead of Q4, 2024) all firms remain in negative territory.

Cashflow has been a problem for our region's businesses for the last two years and, given the domestic and geopolitical challenges we face, there are little signs of light at the end of the tunnel.

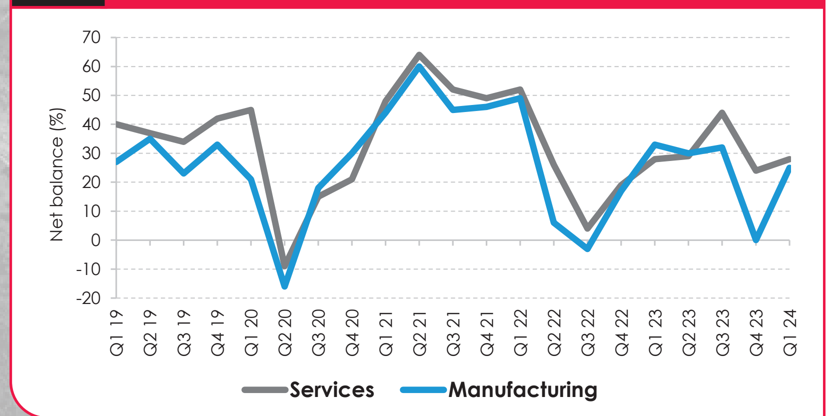
Q1 2024 CASHFLOW



Q1 2024 TURNOVER EXPECTATIONS



Q1 2024 PROFITABILITY EXPECTATIONS



BUSINESS CONFIDENCE

Our manufacturing community reported a significant increase in confidence of improved profitability during the next three months, up 25 points.

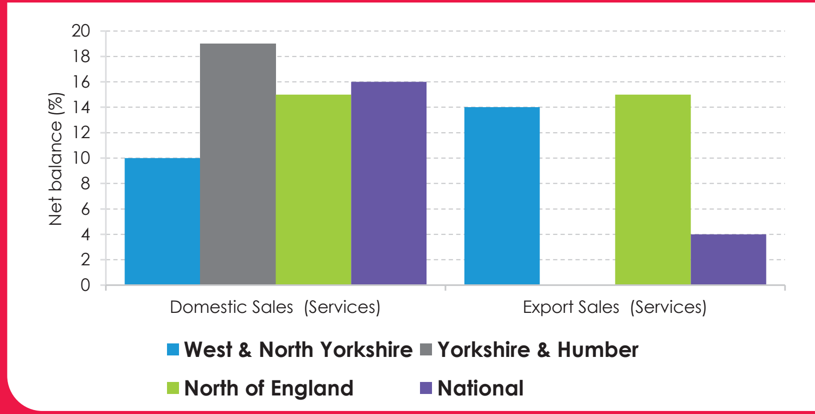
Service sector firms are also upbeat, up by four per cent on the same metric.

Manufacturers were also more optimistic on turnover, predicting a 13 per cent increase from this quarter during the Spring.

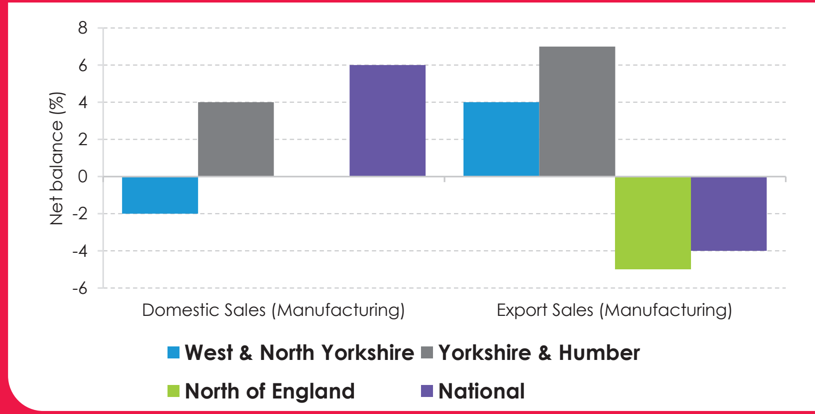
Still, around 50 per cent of those businesses who took part in the survey reported an expectation that profits would remain stagnant in the months ahead.

While the picture on bottom lines is much more positive than the previous quarter, uncertainty persists.

Q1 2024 REGIONAL COMPARISON - SERVICES



Q1 2024 REGIONAL COMPARISON - MANUFACTURING



NATIONAL AND REGIONAL COMPARISONS

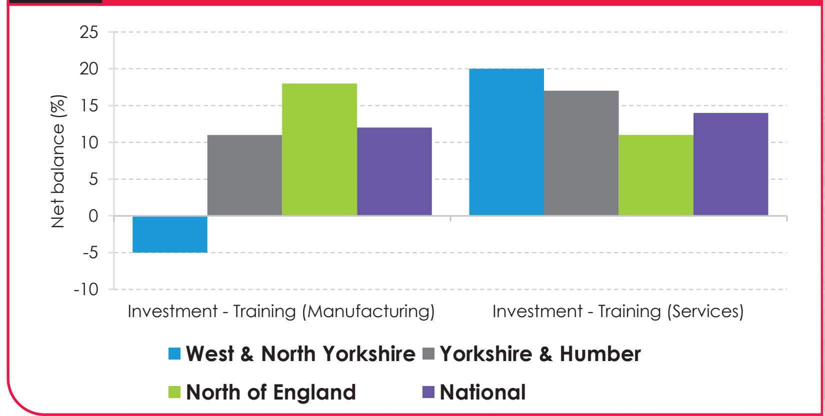
Another mixed bag, with our region outperforming the rest of the country on some measures, but lagging behind in others.

Capital investment and export sales were two notably successful areas for West and North Yorkshire.

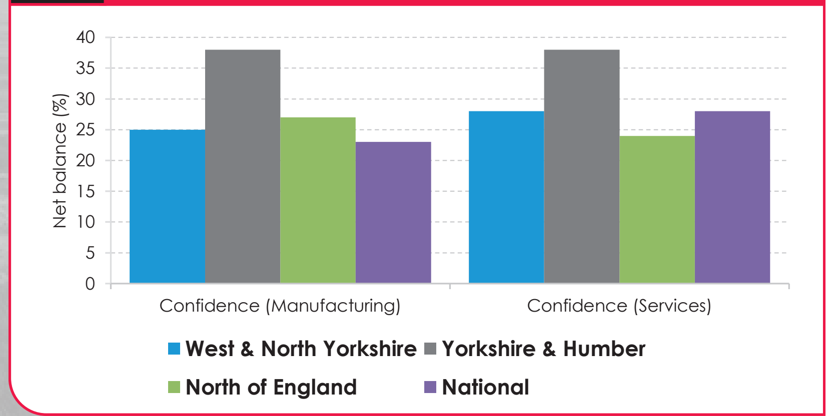
Ultimately, the region's success will be the nation's success and vice versa.

With an election looming, the proof will be in the pudding as to how seriously the main parties take levelling up in their manifestos.

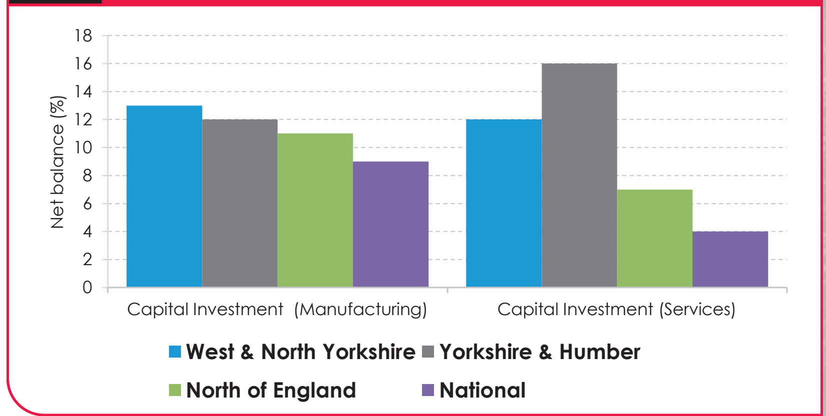
Q1 2024 REGIONAL INVESTMENT TRAINING



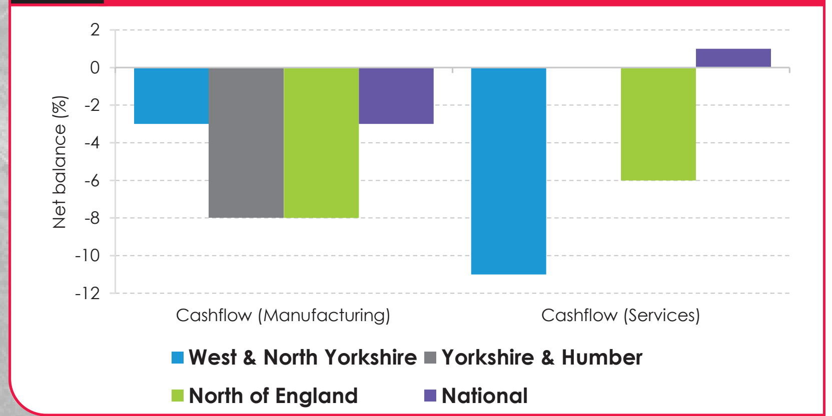
Q1 2024 REGIONAL BUSINESS CONFIDENCE - PROFITS



Q1 2024 REGIONAL INVESTMENT CAPITAL



Q1 2024 REGIONAL CASHFLOW



David Bharier
Head of Research
British Chambers of Commerce

"Inflation, skills shortages, and an almost endless list of new trade barriers with the EU, coupled with a lack of clear direction on infrastructure and technology investment at the government level, have led to paralysis for many businesses."

FIRMS TREADING WATER ON INVESTMENT

- No overall improvement in business conditions in Q1 2024 as measured by investment, sales and cashflow.
- Levels of business confidence remain unchanged, with 56% of UK businesses expecting an increase in turnover in the next twelve months.
- Almost half of firms are expecting the price of their goods or services to rise.
- Interest rates continue to slowly decline as a concern for businesses.
- Hospitality sector continues to struggle disproportionately, with 39% of these firms reporting a decrease in their cash flow, compared with 28% of respondents overall.

After a slight rise in Q4, levels of business confidence have remained static. For the second quarter in a row, 56% of businesses say they are expecting an increase in turnover over the next year.

With inflation likely to remain volatile over the coming months – the data also reveals that more firms expect hikes in their own prices, with staffing costs being the main pressure.

The survey, conducted between 12 February and 12 March, of over 4,800 firm across the UK – 92% of whom are SMEs (fewer than 250 employees) - also reveals business performance across different sectors varies considerably.

NO IMPROVEMENT IN OVERALL BUSINESS CONDITIONS

The percentage of respondents reporting increased domestic sales stayed at 36%, the same level as Q4. Likewise for the second quarter in a row, 22% reported a decrease and 42% said sales had remained constant.

But there were significant sectoral differences. 44% of professional service firms said they had seen a boost in sales, whereas only 27% of logistic companies and 29% of retailers saw an increase.

BUSINESS CONFIDENCE REMAINS UNCHANGED

56% firms expect to see their turnover increase over the next 12 months - the same as Q4 2023. Only 14% of respondents are expecting to see their financial situation worsen in the year ahead, 29% expect things to remain the same.

Profitability confidence has remained static, with 48% of companies saying they expect profits to increase in the next year. That compares to 47% in Q4. 21% of respondents believe their profits will fall.

MOST FIRMS STILL NOT INCREASING INVESTMENT

Economic headwinds continue to impact heavily on business investment. The majority of firms say they haven't increased the amount of new plant, machinery and equipment they've bought or rented. Only 24% reported an increase in investment (the same as Q4), while 60% said levels had remained the same, 16% reported a decrease.

There are large sectoral disparities in investment levels. 28% of hospitality sector firms say they have decreased investment, while 30% of manufacturing businesses have increased investment.

MANY FIRMS EXPECT THEIR PRICES TO RISE

Although inflation has slowed significantly in recent months, almost half of firms are expecting the price of their goods or services to rise. 46% of respondents are predicting an increase (compared with 47% in Q4), 51% think prices will stay the same, and just 3% are anticipating a decrease.

Labour costs are cited as the main cost pressure across all businesses. For the second quarter running, 68% of responding firms say they are under pressure to raise prices because of staffing costs. Some sectors are feeling this pressure more than others, with 77% of hospitality firms and 76% of manufacturers citing it as a key driver.

INTEREST RATES CONTINUE TO DECLINE AS A CONCERN

While inflation remains firms' biggest concern, business worries about interest rates continue to gradually fall. 35% of businesses say they are concerned about the cost of borrowing, compared with 39% in Q4. These figures remain high compared with the pre-Covid trend.

David Bharier, Head of Research at the British Chambers of Commerce said: "The latest results from the QES provide further evidence that the UK economy is trapped in a low-to-no growth state Although business confidence remains buoyant at the start of the year, most SMEs are still not reporting any tangible improvement to business conditions.

"The lack of investment among most SMEs is a real concern. Inflation, skills shortages, and an almost endless list of new trade barriers with the EU, coupled with a lack of clear direction on infrastructure and technology investment at the government level, have led to paralysis for many businesses.

"The increased percentage of firms expecting price rises is also a reflection of global conflicts and the introduction of further import costs. As we head towards an election, businesses will need to see a clear long-term plan for investment and innovation from politicians."

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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