

# ECONOMIC

QUARTER 2  
2022

# SURVEY



North East England  
Chamber of Commerce

IN ASSOCIATION WITH



**Durham**  
University  
Business School

# FOREWORD

After a broadly optimistic start to the year, it is perhaps unsurprising that our second survey for 2022 paints a more challenging picture of regional economic conditions. Sales, exports, investment and cashflow are nearly all now in negative territory as a number of economic headwinds impact the region's firms.

Notably, over 90 percent of businesses have told us that inflation and energy prices are of significant concern, with staff costs and staff shortages not far behind.

One of the strengths of our survey is that it can highlight the important differences in experiences and perceptions of services and manufacturing firms. This quarter we can see that a little more sharply with manufacturing businesses feeling more neutral on the question of future profitability, compared to the service sectors' relative optimism.

Part of the power of the QES is that we can tailor the survey to some of the questions foremost in businesses' minds. This quarter we asked specific questions about energy costs and adaptations and shone a spotlight on some of the positive steps firms are taking to reduce costs and consumption. From the obvious – such as turning off equipment to reduce energy usage – to the innovative - such as using solar panels and other local energy generation methods – we can identify some of these early shifts and use future surveys to chart regional progress. That resilience and creativity will be powerful as businesses deal with the challenging economic conditions ahead.

This quarter's data in particular highlights why your insights matter so much. By understanding your positivity and concerns, we can work locally and nationally to make a difference. Thank you to everyone who has shared their intelligence and our partners at Durham University Business School for helping us make sense of the picture – as ever, we are stronger together.

**Andrew Haigh**  
**Chamber President**





## OVERVIEW

The second Economic Survey paints a picture which reflects the worries and concerns of the recent months. Perhaps not surprisingly, the main issue is the inflationary pressure, which is driven by the increased cost of energy. This has been a shock to many and probably something that we were not prepared for.

The additional questions that have been added in the survey help provide some great insights into how the increase in the cost of energy affects business activity. The results do show that the higher cost of operating has made some reconsider investment decisions and at times has generated some short term cashflow problems. This is a concern because investment at the local and business level can improve productivity, innovation, and competitiveness.

Yet, all is not bad. The region is still home to a host of leading academic institutions that conduct state of the art research and educate leaders. At Durham University Business School, we have noticed a significant increase in the interest for executive education programmes. This demand provides robust evidence of the desire of businesses to invest in their employees. Although the survey shows a moderate reduction of the budgets allocated for the training, the long term trend for more training is robust.

Furthermore, it is evident from the survey that businesses do not stand still. In addition to encouraging energy saving behaviours, e.g. by making the most of online communication technologies and reducing the use of private cars, there is a very notable increased in the use of renewable energy generation.

The insights provided by this survey are thus, overall, encouraging. They indicate a dynamic set of businesses that are resilient, creative, and ambitious. Thank you to everyone and particularly our partners at the North East England Chamber of Commerce for working hard to make this happen.

**Christos Tsinopoulos**  
**Durham University Business School**

# KEY INDICATORS

INDICATOR	BALANCE (ALL COMPANIES)	CHANGE ON LAST QUARTER	CHANGE ON LAST YEAR	MANUFACTURING	SERVICE
UK sales	-2	-13.3 ▼	-18.2 ▼	-12.7	1.6
UK orders	-3.8	-12.5 ▼	-20.1 ▼	-10.6	-1.4
Export sales	-7	-13.4 ▼	-8.3 ▼	-7.2	-6.9
Export orders	-8	-10.2 ▼	-9.3 ▼	-6.9	-8.5
Plant investment plans	-2.4	-20.2 ▼	-13.8 ▼	-0.7	-3.1
Training investment plans	3.4	-16.6 ▼	-10.1 ▼	-3.9	6
Cashflow	-14.4	-2.4 ▼	-9.9 ▼	-19.5	-12.7
Prices	6.8	-12 ▼	-14.9 ▼	2.1	8.3
Current workforce	14.5	-34.1 ▼	-7.6 ▼	18.9	13.1
Future workforce	23.6	-14.1 ▼	-17.1 ▼	16.2	26
Future profitability	16.3	-4.9 ▼	-17.8 ▼	2.2	20.9
Future turnover	30	-11.8 ▼	-20.7 ▼	20.5	33.1
Future prices	20.9	N/A	N/A	21.9	20.5

The Economic Survey is carried out by the North East England Chamber of Commerce in partnership with Durham University Business School. This survey was conducted during May and June 2022 and is based on responses from 117 businesses.

### **Methodology**

Every quarter, we ask businesses about each of these key indicators. For current indicators (e.g., UK sales, cashflow), they are asked whether these have increased, decreased, or stayed consistent throughout the past three months. For the future indicators (e.g., future workforce, future turnover), they are asked whether they think these will increase, decrease, or stay consistent over the next three to 12 months. The values above are the 'balance' of the amount of 'increase(d)' and 'decrease(d)' answers we received.

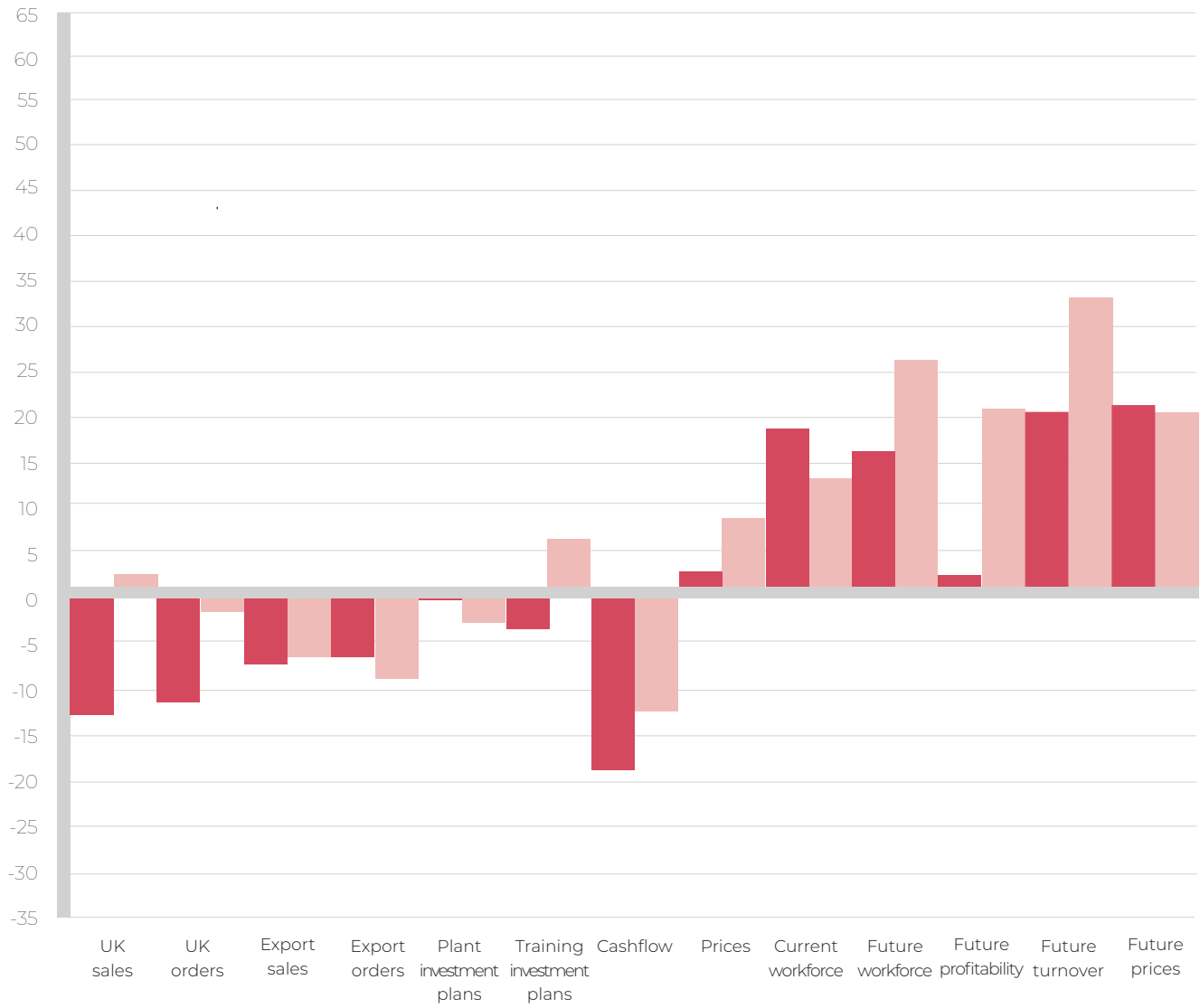
It is worth noting that the number of businesses providing responses in the All Companies analysis is not necessarily equal to the sum of those providing responses for the two broad sectors, as not all respondents provide details of the industry in which they operate. Where data analysis involves more than two variables, and where three or less companies have provided information, data has been withdrawn from the survey in order to protect the anonymity of companies, and to provide accurate analysis.

### **Key insights:**

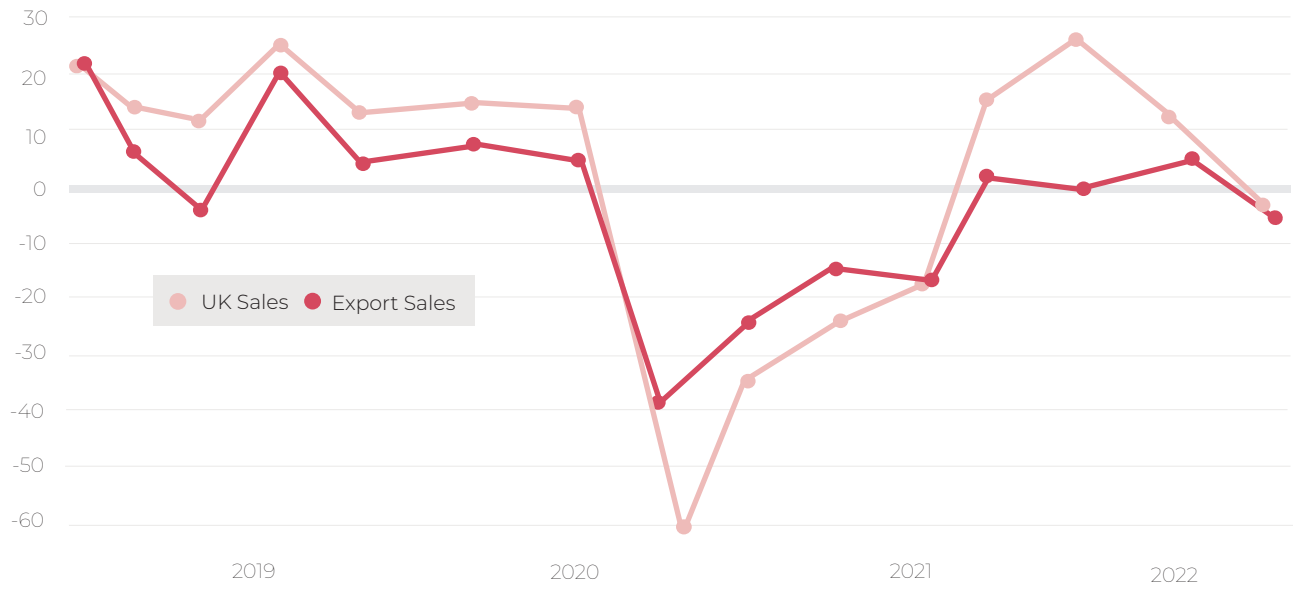
- Workforce figures remain strong, suggesting continued efforts to recruit, though the drop in the future workforce figure may be a reflection of growing concerns around labour costs and recruitment difficulties.
- Cashflow is still very depressed and has dropped further to below Q4 2020 levels (though not reaching the low point of Q2 2020). Prices are in positive territory demonstrating likely rises due to inflation.
- There has been a drop in optimism regarding future turnover and future profitability as well as a large drop in (especially plant and machinery) investment plans as price pressures continue to rise.
- Both UK and export orders and sales remain slow, decreasing to the point where our figures are now in the negatives – we need these to be strong to drive continued recovery.
- Manufacturing firms appear less optimistic than services firms in general. The biggest difference between manufacturing and service sectors is around perceptions of future profitability. Manufacturing firms have shown limited optimism with a nearly neutral position (2.2%) while service sector firms are feeling notably more optimistic (20.9%). The sectors also diverged around investment training plans with service firms in positive territory (6%) and manufacturing in negative territory (-3.9%).

# KEY INDICATORS

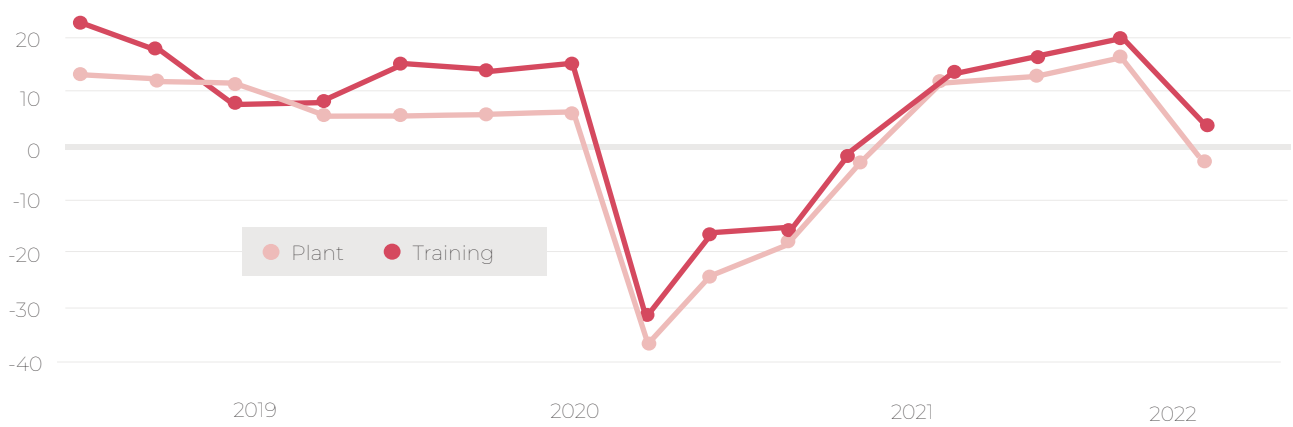
● Manufacturing ● Service



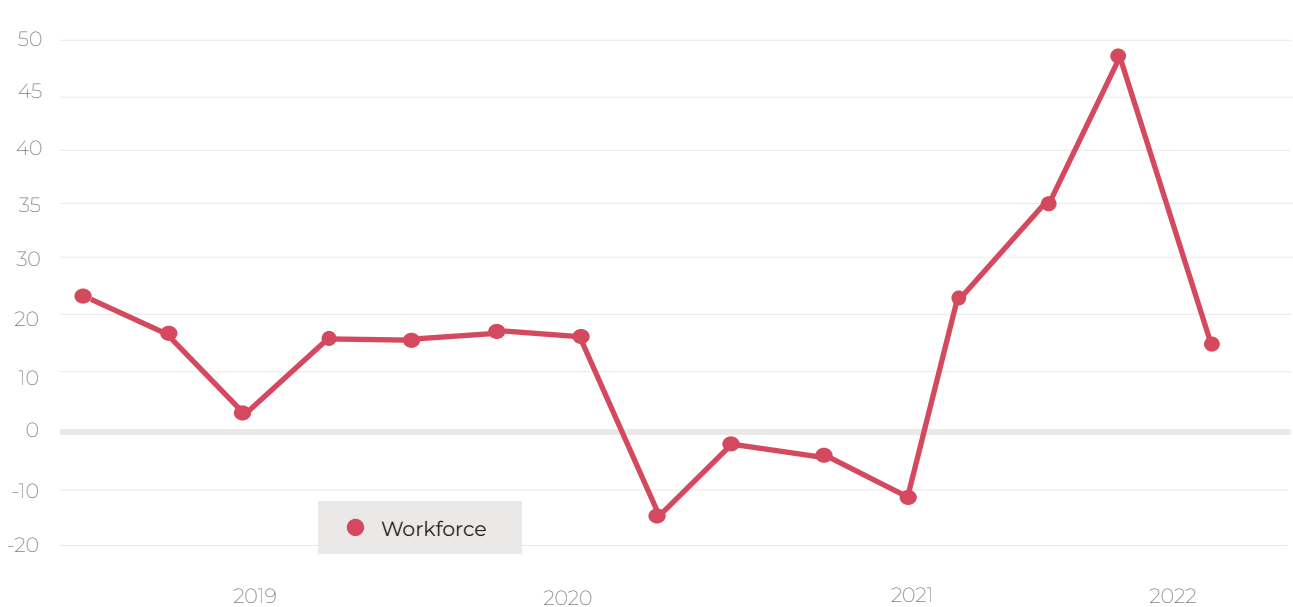
## FIVE YEAR TREND - SALES



## FIVE YEAR TREND - INVESTMENT



## FIVE YEAR TREND - WORKFORCE



# Businesses are continuing to feel the effect of a tightening labour market and rising cost pressures.

## Capacity

- The proportion of businesses operating at full capacity is at 50.9%, which is for the most part unchanged from the level recorded last quarter (50.7%), but is above Q2 2021 (42.8%)
- For context, the last pre-pandemic quarter (Q4 2019) recorded a level of 31.3%.

## Recruitment

- 70.4% of respondents attempted to recruit full-time staff in Q2, an increase on levels recorded last quarter (64.5%), showing a continued upward trend across the last 12 months from the levels recorded in Q2 2021 (56.8%).
- A smaller proportion attempted to recruit part-time staff (34.3%), up slightly on the last quarter (33.1%), and close to the level recorded in Q2 last year (31.7%).
- 55.6% of respondents attempted to recruit permanent staff, a slight decrease on figures recorded last quarter (56.3%) and a significant increase on Q2 last year (40.5%).
- A smaller percentage of businesses attempted to recruit temporary staff (20.4%) than last quarter (26.7%), and slightly fewer than Q2 last year (22.7%).

## Price pressures

- The proportion of members facing price pressures from raw materials (53.3%) decreased from the levels recorded last quarter (68.1%) but were an increase on the same period last year (41.6%).
- Price pressures as a result of finance costs (40.2%) were lower than the figures last quarter (47.1%), but up significantly on Q2 2021 (22.0%).
- There were three new questions regarding price pressures arising from labour costs (72.0%), fuel (77.6%), and utilities (77.6%). Unsurprisingly these were the pressures that seem to have impacted respondents in 2020 Q2 the most.
- 54.7% of businesses also experienced price pressures arising from overheads, representing a significant decrease from last quarter (77.5%), though it was a similar to last year's figure (53.4%).

## Key factors of success

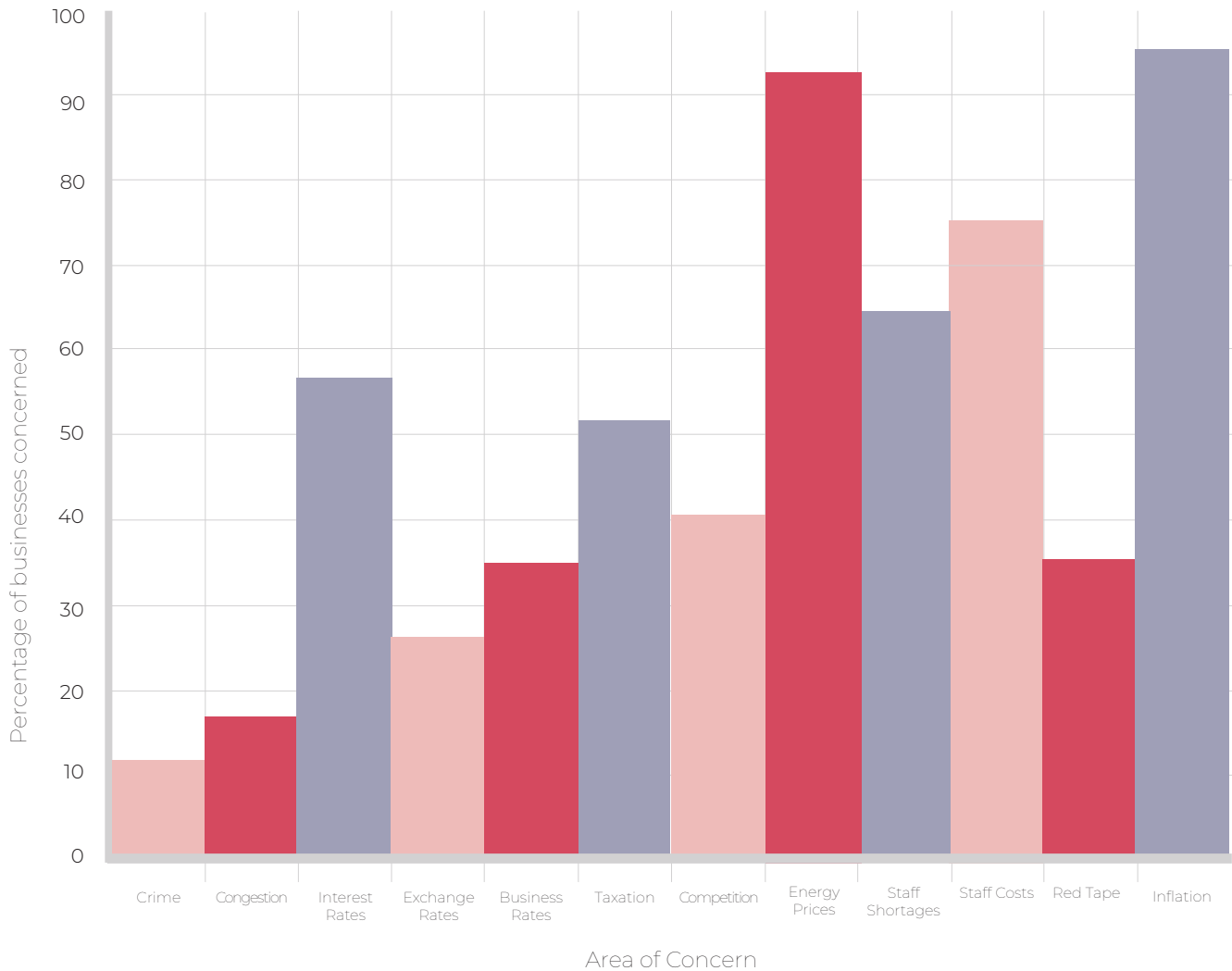
- Businesses continued to report high demand remaining in sectors including construction, steel, storage, luxury furniture, and housing.
- Other indicators of business health were optimism in relation to networking opportunities, new income streams, employee loyalty, retaining experienced staff, evidence of hard work and determination, retaining a good reputation, and high quality and/or unique products which allow the business to stand out.

## Barriers and concerns

- By far the most commonly cited brake on business success this quarter was inflation and cost increases, including shipping costs, fuel, leisure and business travel costs, export costs, raw materials and energy prices. Related issues have been cash flow and a lack of demand in some sectors due to the cost of living crisis, while availability of materials has also been a common barrier.
- Other issues cited included concerns around staff, especially recruitment of skilled workers. One business reported that their difficulties in this area were even preventing them from opening every day.
- There was also concern about consumer confidence and some lack of spending on non-essentials.



# Staffing and costs pressure continue to be businesses' top concerns – with nearly every firm responding worried about inflation



## Perceptions

Perception scores reflect whether issues affecting members and their business activity are of greater concern now compared to last quarter. The scores above represent the proportion of respondents who indicated they were more concerned about these issues compared to last quarter.

The top three indicators, inflation (96.0%), energy prices (92.2%), and staff costs (75.0%) continue upwards trend from last quarter (from 91.3%, 89.3% and 71.0% respectively) and over the last six months. Looking at the previous figures, there is a clear upward trend in the percentage of businesses worrying more about these factors from quarter to quarter, to the point that concern about inflation has become almost universal for our respondents. In fact, 100% of respondents from the manufacturing sector noted inflation as a concern.

Staff shortages have worsened, moving up in the rankings from 6th to 4th, from 57.1% in Q1 to 65.6% in Q2, demonstrating continued worry about retention and recruitment. Firms are slightly less worried about interest rates (57.4% down from 62.2% in Q1) and less worried about taxation (51.1% down from 60.5% in Q1).

Other than staff shortages, only competition (40.4%) has increased its place in the ranking this quarter (from 9th to 7th), not because it is more concerning - in fact, the value is 0.4% lower than Q1 (40.8%). However, red tape (36.0%, 46% in Q1), business rates (34.8%, 41.1% in Q1), exchange rates (27.1%, 31.0% in Q1), congestion (17.0%, 19.5% in Q1), and crime (11.6%, 17.2% in Q1) have been considerably less concerning in Q2 2022 than the previous quarter, contributing to its rise.

### **Energy usage**

In Q2 2022, 92.2% of our respondents were concerned about energy prices. By sector, this was 86.5% of manufacturing businesses and 95.5% of service businesses responding to the survey.

Significantly 82% of businesses said they had taken action to try to reduce expenditure on energy.

Of those respondents:

- 72% said they were reducing energy usage by turning off equipment
- 68% are encouraging staff behaviour change to improve efficiency
- 38% are investing in new, more energy efficient equipment
- 24% are investing in energy efficiency measures (including windows, insulation, etc.)
- 21% are switching tariff or provider, and 12% are using local energy generation such as solar panels
- 16% are changing work patterns to reduce energy usage on-site

Other actions respondents stated that they were taking included switching transport modes (greater use of public transport), reducing travel in general (including fewer people travelling to customer sites) and investing in more appealing online meeting and collaboration tools.

One respondent pointed out that, due to their company already trying to achieve Net Zero, their energy usage was already reduced. Another noted that, as they are in leased premises, there were limits to the actions they could take. That said, they did note that they had still been able to invest in some energy efficient measures and equipment, turn off equipment, and encourage staff to adopt behaviours to lower consumption.

## Connect with us

 [@nee chamber](https://twitter.com/nee chamber)

 [@nee chamber](https://www.instagram.com/nee chamber)

 [facebook.com/northeastenglandchamber](https://www.facebook.com/northeastenglandchamber)

 [linkedin.com/company/213667](https://www.linkedin.com/company/213667)

 [nee chamber.co.uk](https://nee chamber.co.uk)