ECONOMIC SURVEY

QUARTER 1
2023

North East England
Chamber of Commerce

British
Chambers of
Commerce

FOREWORD

Our final economic survey of 2022 anticipated a recession in early 2023. Business confidence had been stubbornly low throughout the year and inflation, energy prices and staff costs all continued to concern more and more organisations across our region.

In contrast – and perhaps somewhat unexpectedly - concerns across all indicators in our first survey of 2023 have eased and forecasts suggest that the UK economy will avoid a technical recession this year. This provides a welcome opportunity to reflect on how resilient, resourceful, and innovative businesses in our region were throughout a year of uncertainty. Business confidence in the North East has begun to rise, and it is vital that as a business community we seize this as an opportunity for growth.

While an average improvement across all indicators of concern of 13% is certainly positive, the cumulative impact of the stresses organisations have faced recently are made clear in the longer-term trends. Low cashflow was among the core challenges that businesses faced through 2022, and this remains firmly in negative territory. It is likely that this is feeding through into the declines in investment plan indicators, which suggest that businesses may be responding to challenging economic circumstances by reducing their short-term expenditure on future growth.

Alongside cashflow, another factor which registered as a constant challenge for organisations last year was recruitment. There are some suggestions that labour market pressures are beginning to ease this quarter. However the data over time shows a more complex picture, with labour market difficulties having a significant impact on the number of organisations working at full capacity.

Despite these causes for concern, we can be cautiously optimistic that while some of the most challenging conditions for businesses remain with us, there are signs emerging that they may have peaked. As your Chamber we will continue to be active in monitoring these trends and supporting organisations throughout the North East to capitalise on their growth potential and better understand the complex business environment.

Thank you to everyone who has contributed to the survey this quarter. As we navigate the year ahead it will be vital that we represent your concerns regionally and nationally. Participating in this survey is an important way in which your voice can be heard. We will continue to use this insight to make the North East stronger and fairer.

We are stronger together.

Andrew Haigh
Chamber president

KEY INDICATOR BALANCES

INDICATOR	ALL COMPANIES	CHANGE ON LAST QUARTER	CHANGE ON LAST YEAR	MANUFACTURING	SERVICES
UK Sales	13.6	4.1 ▲	2.3 ▲	3.8	17.7
UK orders	8.6	3.0 ▲	-0.1 ▼	-3.8	14.5
Export sales	9.0	-1.9 ▼	2.6 ▲	14.6	5.7
Export orders	6.4	0.9 ▲	4.2 ▲	10.0	4.3
Plant investment plans	3.9	-10.9 ▼	-13.9 ▼	3.8	4.0
Training investment plans	10.3	-5.1 ▼	-9.7 ▼	9.6	10.7
Cashflow	-7.6	0.2 ▲	4.4 ▲	-5.8	-8.3
Current prices	52.2	9.9 ▲	33.4 ▲	59.6	49.2
Future prices	36.1	-12.7 ▼	-22.0 ▼	41.5	33.8
Current workforce	13.5	-2.6 ▼	-35.1 ▼	23.1	9.5
Future workforce	38.9	16.7 ▲	1.2 ▲	35.2	40.5
Future profitability	22.5	17.6 ▲	1.3 ▲	13.0	26.6
Future turnover	48.9	23.0 ▲	7.1 ▲	44.4	50.8

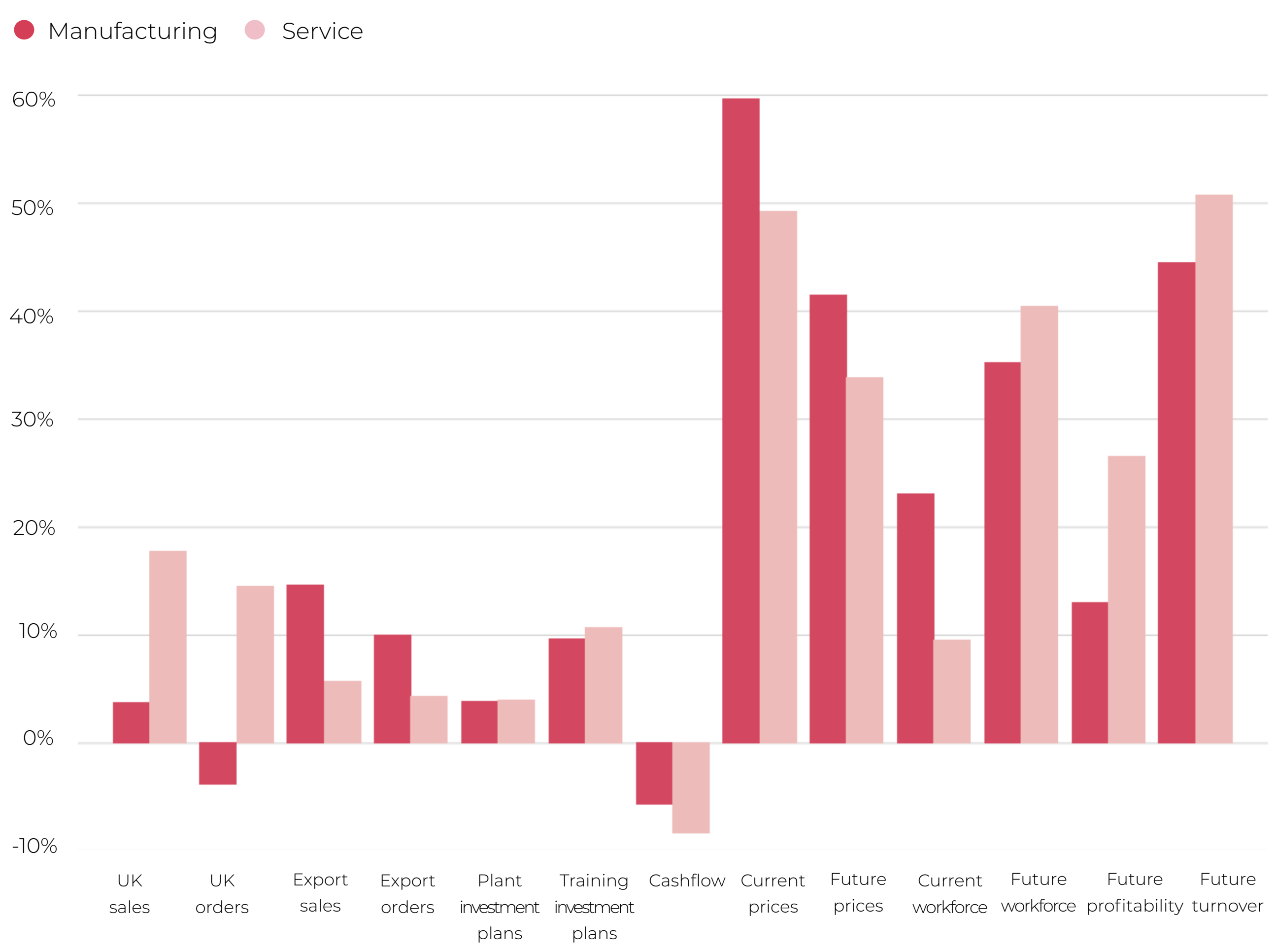
The Economic Survey is carried out by the North East England Chamber of Commerce. This survey was conducted between February and March 2023 and is based on responses from 185 businesses. The data collection window finished on 9 March 2023, a week before Chancellor Hunt's Spring budget on 15 March 2023.

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.[1]

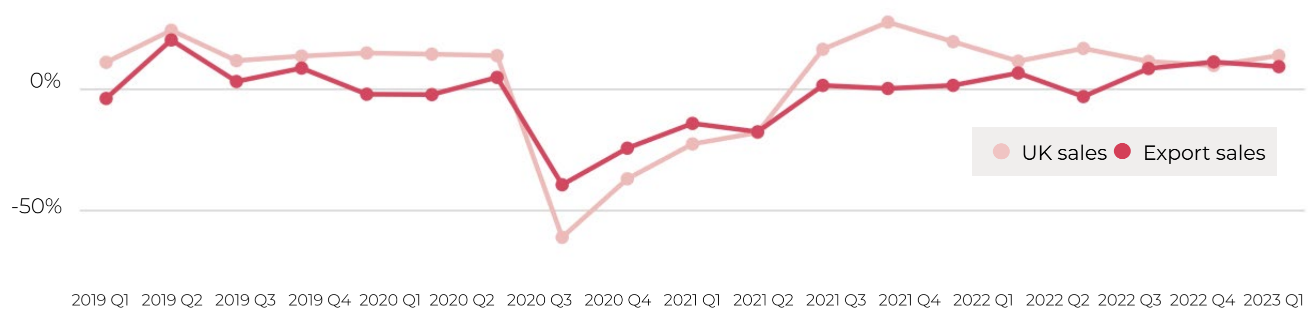
Key insights
- Business confidence has seen a significant improvement since last quarter, with an average -13.0% decline across all indicators of concern.
- While business confidence has improved, significant quarterly drops in plant investment (-10.9%) and training investment (-5.1%) suggest that continuing cashflow pressure is forcing businesses to reduce their investment which may affect future growth.
- Cashflow remains depressed at -7.6%, a recovery of only +0.2% from last quarter indicating the continuing effect of inflation.
- These effects are also seen in the current prices indicator which has increased to 52.2%, an increase from 42.3% last quarter and 18.8% in Q1 2022.
- Predictions that inflation may stabilise appear to be impacting perceptions of strong future prices. This indicator declined from 48.8% in Q4 2022 to 36.1% this quarter.
- More organisations are preparing for workforce growth compared to last quarter. This is not yet impacting current workforce indicators however, which have continued to decline. The current workforce indicator stands at 13.5%, compared to 16.1% last quarter. This represents a significant annual decline from 48.6% in Q1 2022.
- After declining between Q3 and Q4 2022, both UK sales and UK orders indicators have recovered this quarter. UK sales grew from 9.5% to 13.6%, and UK orders grew from 5.6% to 8.6%. This improvement is largely driven by services firms. Manufacturing firms have identified a contraction of -3.8% in their UK orders.
- This recovery of UK sales and orders has created closer alignment between domestic and international trade. Last quarter, both export sales and orders increased whereas this quarter, export sales decreased from 10.9% to 9.0% and export orders increased by less than +1%, from 5.5% to 6.4%.
- Businesses' top three concerns are still inflation (73.7%), energy prices (71.3%) and staff costs (67.8%), although these have all seen considerable decreases since last quarter.

1 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 of services and manufacturing, 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.

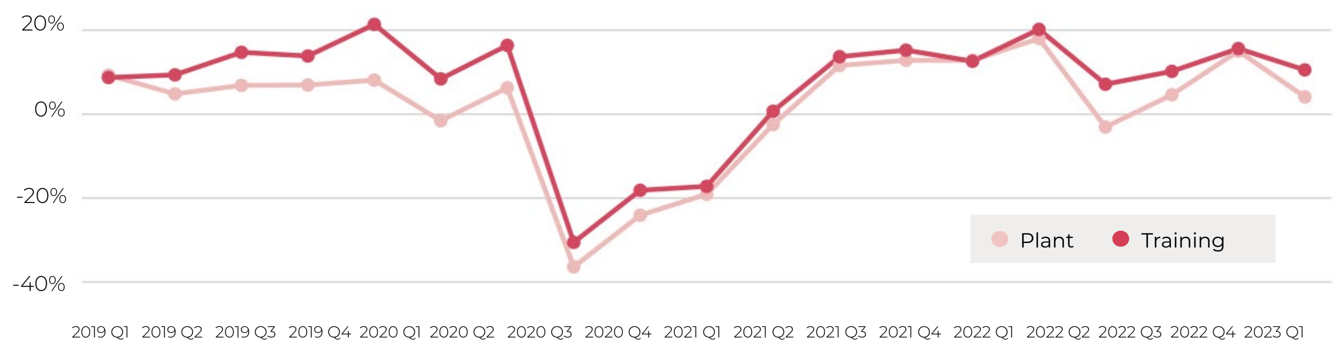
KEY INDICATORS



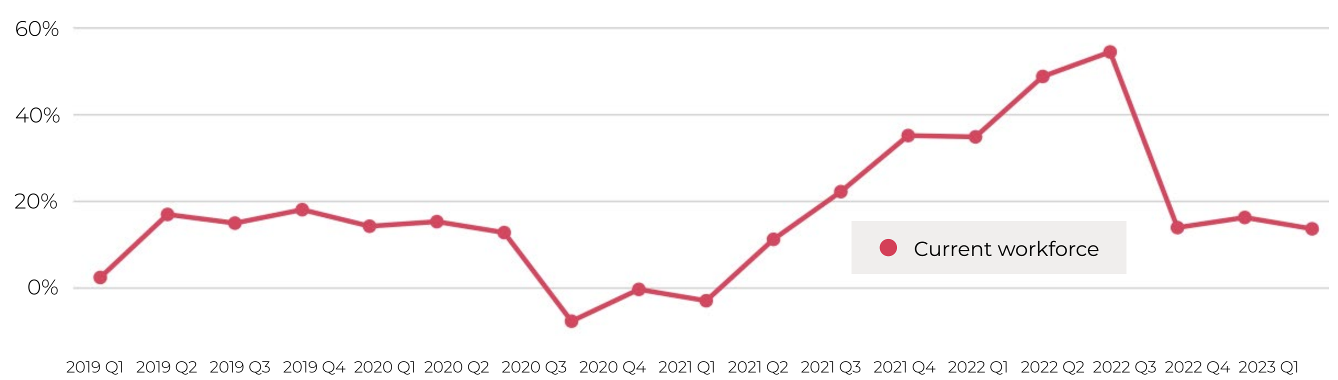
FIVE YEAR TREND - SALES



FIVE YEAR TREND - INVESTMENT



FIVE YEAR TREND - WORKFORCE



The impacts of significant inflation are easing albeit with prices stabilising at higher overall rates. All cost pressures have reduced since last quarter but pressures on utilities, fuel and labour costs have all risen compared to Q1 2022.

Price pressures

The top three price pressures reported this quarter are labour costs (76.1%), utilities (72.3%), and fuel (60.5%). The order of these three most significant price pressures remains the same as Q4 2022, although their severity has dropped compared to last quarter.

Raw material costs have continued to decline in significance for manufacturing firms. After tracking as the most significant concern for manufacturing organisations in Q3 2022, they dropped to second position in Q4 and have further declined to the third most significant concern. There has also been a real-terms drop in the number of manufacturing organisations concerned about raw material costs, declining to 75.5% this quarter, from 86.1% last quarter and 98.0% in Q1 2022.

Labour and utilities costs remain the most significant price pressures among service sector respondents at 74.0% and 69.4% respectively. Both indicators have declined since Q4 2022, when they stood at 81.4% and 77.1%. Price pressures are still generally lower for services firms than manufacturing firms, although this gap has narrowed in most instances.

Price pressures across all companies have dropped by an average of -9.9%. The most significant quarterly declines are in the finance costs indicator, which has declined to 45.0% this quarter from 58.1% in Q4 2022. The raw material indicator has dropped to 52.3% from 64.6% last quarter, and the other overheads indicator has dropped to 58.9% from 69.4% in the same timeframe.

PRICE PRESSURES KEY INDICATORS

INDICATOR	ALL COMPANIES	CHANGE ON LAST QUARTER	CHANGE ON LAST YEAR	MANUFACTURING	SERVICES
Finance costs	45.0	-13.0 ▼	-2.1 ▼	40.0	47.1
Labour costs	76.1	-5.9 ▼	33.6 ▲	81.1	74.0
Raw material	52.3	-12.2 ▼	-15.8 ▼	75.5	42.0
Fuel	60.5	-9.1 ▼	60.5 ▲	61.5	60.0
Utilities	72.3	-8.7 ▼	72.3 ▲	79.2	69.4
Other overheads	58.9	-10.5 ▼	-18.6 ▼	58.8	58.9

Recruitment

After extremely constrained workforce growth throughout last year, a number of indicators suggest that businesses are increasingly able to deal with labour market challenges. One of the key areas of concern last quarter was the future workforce indicator, which stood at 22.3% suggesting relatively low ambition among firms to grow their headcount. This quarter it has returned to 38.9%. This compares favourably to Q4 2022, but also reflects growth from Q1 2022, when it stood at 37.7%. This more optimistic future workforce indicator is likely to be due to decreases in recruitment difficulties in all job types relative to last quarter. Compared to Q4 2022, companies are finding it slightly easier to recruit for semi and unskilled positions (25.6% of firms compared to 36.3%) and professional and managerial positions (50.0% of firms compared to 60.1%) this quarter.

This relative optimism about future workforce growth has not affected the current workforce indicator, which has declined to 13.5% this quarter. Last quarter this indicator was 16.1%, meaning fewer organisations have reported growth in their headcount this quarter. Overall, only 40.5% of companies reported working at full capacity, a decrease of -11.7% relative to last quarter and -10.1% relative to last year.

This decline in the number of organisations working at full capacity is true across both services and manufacturing firms. 42.6% of manufacturing firms reported operating at full capacity this quarter compared to 50.7% in Q4 2022. 39.7% of services firms reported operating at full capacity this quarter compared to 52.9% last quarter.

This low level of firms working at full capacity is especially concerning given that across all job categories, fewer companies are trying to recruit than last quarter. This suggests that projected workforce increases are from a relatively low base, and increasingly companies are adapting to the tight labour market by reducing productivity and growth potential.

The roles with fewest organisations attempting to recruit are those in semi and unskilled or temporary positions.

RECRUITMENT KEY INDICATORS

INDICATOR	ALL COMPANIES	CHANGE ON LAST QUARTER	CHANGE ON LAST YEAR	MANUFACTURING	SERVICES
Part time	38.4	-5.9 ▼	5.4 ▲	28.3	42.4
Full time	66.5	-6.0 ▼	1.9 ▲	71.7	64.3
Temporary	28.8	-4.7 ▼	2.1 ▲	38.3	24.8
Permanent	64.3	-2.3 ▼	8.0 ▲	71.4	61.5

RECRUITMENT DIFFICULTIES KEY INDICATORS

INDICATOR	ALL COMPANIES	CHANGE ON LAST QUARTER	CHANGE ON LAST YEAR	MANUFACTURING	SERVICES
Clerical	32.7	-7.4 ▼	2.8 ▲	28.9	34.2
Professional and managerial	50.0	-10.1 ▼	-2.9 ▼	52.0	49.2
Semi and unskilled	25.6	-10.7 ▼	-8.6 ▼	29.2	24.1
Skilled manual and technical	55.4	-5.4 ▼	-8.7 ▼	68.6	49.6

Perceptions
Perception scores reflect whether issues affecting respondents and their business activity are of greater or lesser 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.

Business confidence has seen a marked improvement since last quarter. All indicators of concern are tracking at lower levels relative to both last quarter and last year, which means fewer organisations worried about the environment in which they do business. The average -13.0% quarterly decline in the number of organisations concerned across all indicators reflects a broad positive shift in business sentiment across the region.

The interest rates, exchange rates and taxation indicators have registered the most significant shift in levels of concern across organisations between Q4 2022 and Q1 2023. The interest rates indicator has decreased to 44.4% from 68.0%, the exchange rates indicator has decreased to 26.5% from 47.8%, and the taxation indicator has decreased to 38.8% from 58.6%.

Over the longer term, taxation is the indicator which has seen the most significant annual decline. Relative levels of concern in this indicator have dropped to 38.8% this quarter, from 60.5% in Q1 2022. This is followed by energy prices where proportions of concerned organisations have dropped to 71.3% from 89.3%.

Businesses' top three concerns are still inflation, energy prices, and staff costs. Relative levels of concern around inflation and energy costs have dropped considerably compared to both last quarter and Q1 2022. For energy prices, organisations reporting greater levels of concern have declined to 73.7% this quarter, from 88.9% in Q4 2022 and 89.3% in Q1 2022. For inflation, organisations reporting greater levels of concern this quarter have declined to 73.1%, from 90.3% in Q4 2022 and 91.3% in Q1 2022.

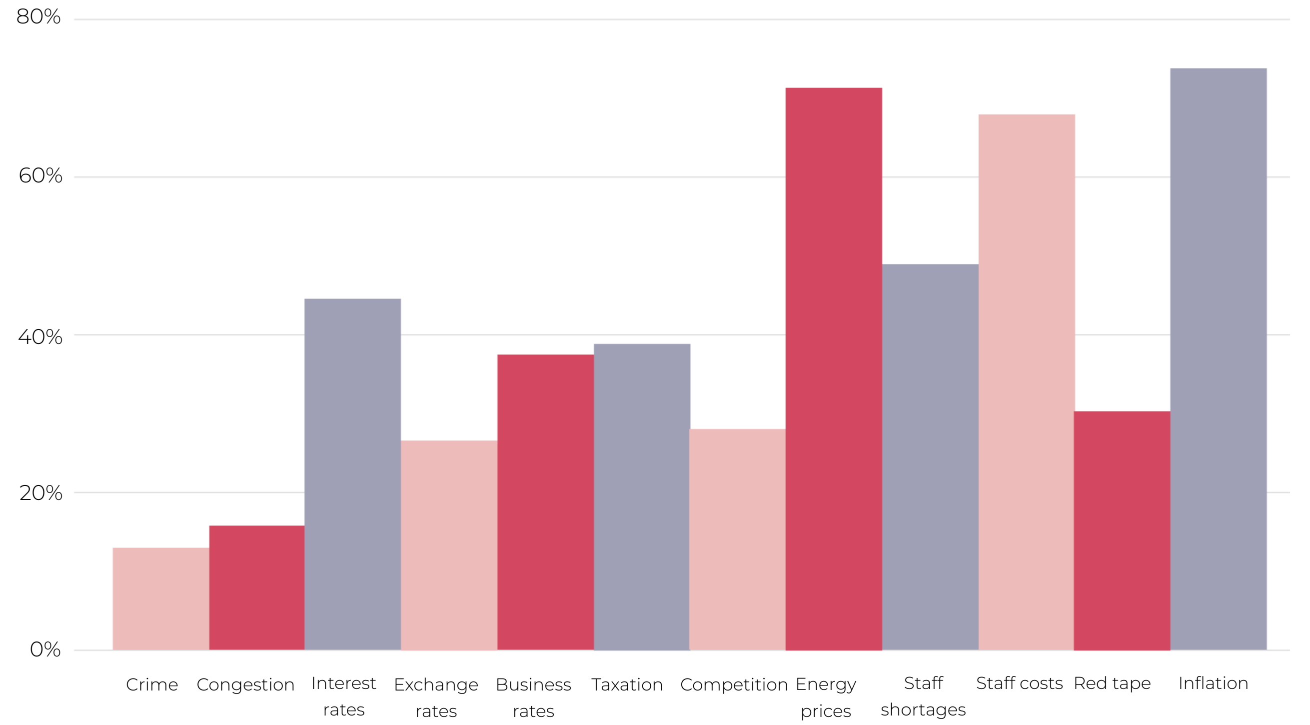
The proportion of organisations more concerned about staff costs has declined to 67.8%, from 74.4% in Q4 2022 and 71.0% in Q1 2022, but these relatively small declines in concern represent how persistent labour market difficulties continue to be for organisations in the North East.

Inflation and energy are still businesses' top two concerns but worries have eased in all areas relative to both last quarter and last year.

Organisations more concerned about staff costs have decreased -6.6% relative to last quarter and -3.2% relative to last year. This compares to quarterly decreases of -16.5% for organisations concerned about inflation and -17.6% for organisations concerned about energy prices and annual decreases of -17.6% and -18.0% in the same indicators.

After diverging at the end of last year, levels of relative concern this quarter have largely coalesced between manufacturing and services firms. While differently ordered, the primary three concerns for firms in both areas are inflation, energy prices and staff costs. More manufacturing firms are concerned about inflation (79.2%), followed by energy prices (69.8%) and staff costs (58.8%). More services firms are concerned about energy prices (79.1%), followed closely by staff costs (71.7%) and inflation (71.3%). Staff shortages registered as the fourth most significant concern among both manufacturing and services firms.

Organisations' persistent concerns around workforce reflect the longer-term tightness of the labour market. This is also apparent across recruitment indicators. Cross-sectoral comparisons around staffing concerns shows that while numbers of organisations concerned about staff costs and staff shortages have declined overall, this decline is driven exclusively by services firms, who experienced an extremely tight labour market throughout last year. Proportions of manufacturing firms more concerned about staff costs and staff shortages have increased since last quarter. The staff costs concern indicator for manufacturing firms increased from 56.9% last quarter to 58.8% this quarter, and the staff shortages concern indicator increased from 46.5% to 49.0% over the same timeframe. The decreasing relative levels of concern across services firms in staff costs and staff shortages indicators should not necessarily be seen as a sign of a healthy labour market in the sector, as it is services firms who reported the greater drop in organisations operating at full capacity. Close monitoring of the labour market and its sector-specific effects will be a priority over the upcoming year to understand how firms are responding to workforce challenges over the longer term.



CONCERNS KEY INDICATORS

INDICATOR	ALL COMPANIES	CHANGE ON LAST QUARTER	CHANGE ON LAST YEAR	MANUFACTURING	SERVICES
Crime	73.7	-16.5 ▲	-17.6 ▲	79.2	71.3
Congestion	71.3	-17.6 ▲	-18.0 ▲	69.8	71.9
Interest rates	67.8	-6.6 ▲	-3.2 ▲	58.8	71.7
Exchange rates	48.8	-9.2 ▲	-8.3 ▲	49.0	48.8
Business rates	44.4	-23.5 ▲	-17.8 ▲	38.5	47.1
Taxation	38.8	-19.8 ▲	-21.7 ▲	42.3	37.2
Competition	37.3	-16.5 ▼	-3.7 ▲	46.2	33.3
Energy prices	30.2	-6.1 ▲	-15.7 ▲	27.5	31.5
Staff shortages	28.0	-7.8 ▼	-12.8▲	30.8	26.7
Staff costs	26.5	-21.3 ▲	-4.4 ▲	34.6	22.7
Red tape	15.7	-6.9 ▲	-3.8 ▼	16.3	15.5
Inflation	12.9	-4.4 ▲	-4.3 ▲	9.8	14.3

Energy usage
In Q1 2023, 71.3% of our respondents were concerned about energy prices. This represents a significant quarterly decrease of -16.5% from the previous quarter's result of 88.9%, and an even larger annual decrease of -17.6% from the 89.3% recorded in Q1 2022. This is likely to reflect the implications of sharp falls in global wholesale gas prices alongside some government intervention which has stabilised the energy market compared to what many organisations expected through the winter.

Further certainty around energy for businesses remains a key priority for our members. Chancellor Jeremy Hunt's Spring budget did not address the functioning of the commercial energy market despite being an urgent priority for businesses. In particular, the budget did not address the role of OFGEM in ensuring lower wholesale prices are passed on to businesses, which we called for

alongside the British Chamber of Commerce. Our key asks of the government from the Spring Budget are available here. For further clarity on what the Spring budget will mean for organisations in the North East, our briefing is available here.

This quarter, 80.0% of businesses said they had taken action to try to reduce expenditure on energy. Of those respondents:

- 77% were encouraging staff behaviour change to improve efficiency (a decrease of -7% from 84% last quarter)
- 76% said they were reducing energy usage by turning off equipment (a decrease of -4% from 80% last quarter)
- 51% were investing in new, more energy efficient equipment (an increase of +10% from 41% last quarter)
- 30% were investing in energy efficiency measures (e.g. insulation) (an increase of +3% from 27% last quarter)
- 18% were switching tariff or provider (a decrease of -4% from 22% last quarter)
- 17% were changing work patterns to reduce energy usage on site (a decrease of -5% from 22% last quarter)
- 15% were using local energy generation (e.g., solar panels) (a decrease of -4% from 19% last quarter)

The number of businesses trying to reduce energy expenditure has reduced slightly from 82.2% to 80%. As energy prices decline and concerns about energy prices ease, the pressure on organisations to go to significant lengths to reduce their energy usage may reduce. However, this early picture of changing behaviours captured by the QES suggests that the shift towards more sustainable and energy efficient practices is here to stay. If energy prices stabilise it will be important to monitor these indicators further and see how organisations continue to be energy efficient without impacting productivity.

There also continue to be promising signs that organisations are making efforts to use energy more sustainably and efficiently. The increase this quarter to 30% of organisations investing in energy efficiency measures such as insulation, from 27% last quarter is one noteworthy example. More striking is the +10% increase in organisations who are investing in more energy efficient equipment, a rise to 51% this quarter from 41% in Q4 2022. That so many organisations are investing in energy efficient equipment despite pressures on cashflow and reduced investment in plant and training plans demonstrates how high on organisations list of priorities energy efficiency remains.

Additional free text responses to the survey included mentions of investment in wind turbines, carbon offset programmes and encouraging staff to switch to public transport when visiting clients. However, the number of firms investing in local energy generation overall declined to 15% this quarter, from 19% in Q4 2022. Local energy generation often involves large capital outlays and given continued fluctuations in the energy market this early indicator of longer-term energy resilience may continue to fluctuate for a while. Therefore, government support for investment in sustainable, carbon neutral local energy generation would be welcomed by organisations in the North East. Lack of control over energy costs in managed workspaces was also mentioned in the free text responses, which highlights how important providers of commercial space will be in reducing energy usage and reaching net zero.

We continue to welcome your feedback on energy policy as an important issue for the region. To add your voice to that conversation please contact Thomas Lonsdale, knowledge and research executive, at **thomas.lonsdale@neechamber.co.uk**

Connect with us

@neechamber

@neechamber

facebook.com/northeastenglandchamber

linkedin.com/company/213667

neechamber.co.uk