

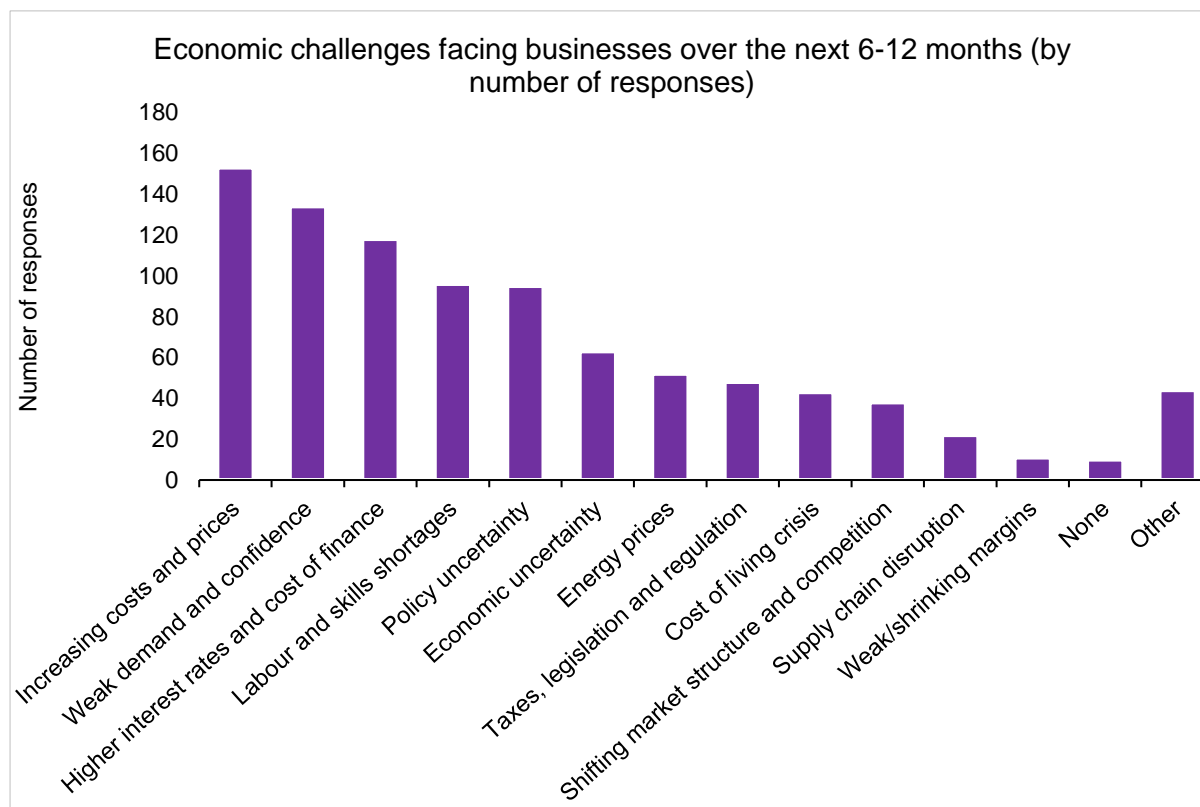
Taking the pulse of UK businesses: what CBI surveys tell us about challenges for the year ahead

October 2023

The UK economy has been effectively stagnant since the start of 2022 in the face of a number of economic headwinds, including global supply chain disruption, the war in Ukraine and resultant energy price shock, the impact of inflation and, more recently, drags on spending and investment from rising interest rates.

While recent [revisions](#) to national accounts from the ONS show that the UK recovered faster from the pandemic than previously thought – finding that the economy is 1.8% larger than in Q4 2019 compared to 0.2% lower under previous estimates – they don't alter the picture of a fairly subdued economic performance since the re-opening boost faded in the middle of 2022.

To better understand the main economic challenges facing UK businesses during these challenging times, we included a supplementary question in each of our August surveys that asked respondents in manufacturing, services and distributive trades sectors “What do you see as the main economic challenge(s) facing your business over the next 6-12 months”. We received 927 responses in total, which have been categorised below.



Some core themes stood out across the responses. Increasing costs and prices was the most cited constraint in each of the surveys (17% of total responses), reflecting the impact of rapid price rises over the last two years on businesses in different sectors of the UK economy. However, in reading the responses we also noted a high degree of commonality and linkage between businesses' concerns, and so the most cited constraints shouldn't necessarily be seen as a ranking *per se*. For instance, while more firms mentioned labour shortages than mentioned energy costs, both may explain some of the concerns about increasing costs and prices.

Indeed, businesses cited a broad range of cost pressures, including acquiring raw materials and services, through higher wage bills and energy prices, which together are limiting many companies' ability to compete effectively, especially internationally where businesses in low-cost countries have been taking advantage of cheaper access to raw materials and energy. Many firms also said they were constrained in their ability to pass on costs to customers, so that businesses profitability is being squeezed. One nationwide grounds maintenance firm said they have had to scale back their operations and pivot to a leaner business model.

Lack of demand was another commonly cited theme (14%), with rising uncertainty weighing on both businesses' own confidence and that of their customers. We heard from a printing firm that said they had slipped back to COVID levels of activity, while many of their smaller clients have stopped trading. An architecture firm said that they have seen less work in their sector, with lots of projects being delayed or cancelled. This was echoed by an IT firm that said their own clients have slowed down their investment decision making.

Many businesses pointed to the impact of rising interest rates and the increased cost of finance (cited by 13% of respondents). Some pointed to a direct impact on their business. For example, a components manufacturer said high interest rates and a lack of access to capital was limiting their ability to grow. For others the impact was indirect. A removals firm said higher interest rates had weakened the housing market. An IT firm said that the cost and availability of finance has increased not only for them, but for their customers, and their customers' customers. A chemical manufacturer said that higher rates had deterred borrowing and were reducing their profits.

Labour and skills shortages remained a key challenge (cited by 10% of respondents), with many respondents saying a difficulty in attracting the right people had limited their ability to invest and grow. A hotel operator said that they have had to refuse business due to staff shortages. A coach operator said that they have the vehicles and the demand but are desperately short of drivers. Several respondents noted that the quality of candidate pools had deteriorated, highlighting the lack of available skills in the labour market.

Policy uncertainty was cited as a key challenge (by 10% of respondents). In some cases, this related to a lack of clarity over the evolution of EU-exit related trade rules. For example, a motor vehicles repair firm said that Brexit had reduced their entire European operation over the last 12 months, while a wholesaler told us that retaining EU customers has become difficult and attracting new customers is even harder, citing the costs of administration & paperwork, and transport delays. Other firms were simply being more cautious, with one intellectual property law firm saying that the future of business taxation is a major source of uncertainty.

Altogether, these results point to a challenging environment for businesses across the UK economy as weak demand growth accompanied by increasing costs & prices, rising interest

rates, a lack of labour and skills, and policy uncertainty have contributed to a slowing economy.

If you have any feedback on this article or would like to share any insights into the trading conditions currently facing your business, please contact us at either of the email addresses below:

Insights@cbi.org.uk

Cameron Martin, Economist

Cameron.Martin@cbi.org.uk