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## Professor Frank Peck

The economics expert considers the challenges facing businesses in Cumbria during 2023 and evidence of business resilience

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The signs suggest that 2023 is going to be a testing time for businesses across Cumbria. At national level, the main indicator of economic growth, Gross Domestic Product (GDP) – a measure of the value of all goods and services produced in an economy – shows that 2022 is likely to have seen growth of around 4% from a low base level in the previous year which was still impacted negatively by the pandemic. More significantly, the average of all forecasts for 2023 suggests an overall decline of -0.9% for the year.

The rate of inflation for 2022 was 12.9% (Retail Price Index) with considerable uncertainty surrounding the rates likely in 2023. Independent forecasts published by the UK Treasury in November range significantly from 2.6% to 11%! Simultaneously, the labour market is expected to remain very tight, acting as a further inhibitor to business growth as firms in many sectors struggle to recruit workers with relevant skills.

The causes of these conditions have, of course been widely discussed. There is a sober account of this published by the International Monetary Fund (*World Economic Outlook: Countering the Cost-of-living Crisis*, October 2022). This describes the “lingering effects of three powerful forces” – the invasion of Ukraine, rising inflation and the slowdown in the economy of China where continued Covid lockdown policies have added to problems associated with the disruption to global supply chains. These forces have combined to generate a cost-of-living crisis marked in Europe by a severe energy crisis arising from gas-price inflation associated with reductions in supply from Russia. The conflict has also impacted on the supply of food and materials to both developed and lower income countries globally.



There were 50 new start-ups in the accommodation and food sector in the county, according to the Labour Market Briefing in December

There is considerable anecdotal evidence of the ways in which these national and international conditions are already having effects on some businesses in Cumbria. See, for instance, ‘Businesses struggle to deal with rising costs’ and ‘Brewery closure a devastating blow’ both reported in *Agenda Briefing in-Cumbria Magazine* October 2022.

Data on the labour market also confirms that recruitment is still a major challenge for Cumbrian firms. The employment rate is high (78.6% of working age are in employment) and unemployment is consistently below the national level. The number of new job postings has fallen slightly from the peak in the summer of 2021 but remains well above pre-pandemic levels. In October 2022, there were still very high numbers of jobs advertised in the health and social care sectors as well as in customer service, food services and sales indicative of possible recruitment and retention difficulties.



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Given this economic environment, what can we say about the prospects for businesses in Cumbria during 2023? It's important to note that the vast majority of businesses in Cumbria are small – 98% employ less than 50 people and around 90% would be classed as “micro” (less than 10 workers). There are competing arguments on how recessions might affect small firms like these. Some argue that new and small businesses are more vulnerable and less likely to survive. Typically, they have fewer internal resources to fall back on, a narrower product range and limited bargaining power in markets and supply chains.

On the other hand, it is suggested that new and smaller firms can cope better with rapid change. They have higher adjustment capabilities that enable them to respond to short-term shifts in consumer demand and the emergence of new markets. So, what evidence is there that might indicate business prospects in Cumbria for 2023?



180 new businesses were created in Cumbria in October, including some in the city of Carlisle. Pic: SkyCam

Data recently published by Cumbria Intelligence Observatory provides some very interesting clues related to this question (Labour Market Briefing, December 2022). Here are some headlines:

- Despite the worsening economic outlook, there were 268 new Companies House incorporations registered in Cumbria in October 2022, the highest monthly total over the past 12 months and 83 more than in October 2021.

- Companies House data shows that around 6.2% (1,811) of Cumbrian registered businesses were classed as “high growth” (annual increase in turnover or employment over 10%) compared to the national average of around 5%.

- The level of insolvency of businesses in Cumbria in 2022 has worsened slightly. There were 176 insolvencies per month up to November compared to 170 per month in 2022.

- Business start-up data (based on new bank account records) shows that there were 180 new businesses created in October 2022, a rise of 10 on September and 29 more than the same month in 2021. Over

the three months from August to October there were 534 start-ups which is 53 more than in the same period in 2021.

- Business start-ups occurred in wide range of sectors, including real estate & professional services (130); retail & wholesale (80); recreation, personal & community services (78); construction (67); and accommodation & food (50).

These trends are, of course, short term and need to be viewed in the context of the longer-term pattern of change pre- and post-pandemic.

In this regard, there has been a steady year-on-year decline in the number of active enterprises in Cumbria down from 23,670 in 2019 to 23,105 in 2022 a drop of 565 (-2.4%).

Even so, evidence above suggests most existing businesses are finding ways to sustain activities during 2022 and entrepreneurs across the county still seem willing to take risks to set up businesses even in sectors that are thought to be under pressure (property, retail, visitor economy, recreation).

This business resilience however is likely to be given a significant test during the year ahead.