



Coventry & Warwickshire  
Chamber of  
Commerce  
The Ultimate Business Network

2021 Q3

QES Partner

**prime**  
ACCOUNTANTS GROUP



# Coventry & Warwickshire Quarterly Economic Survey

Q1

Q2

Q3

Q4

## Quarter 3 2021 Analysis

OVERALL

59.7

down from 63.4

**The Economic Outlook Index for Coventry & Warwickshire in Q3 2021 has fallen for first time this year from 63.2 in Q3 2021 to 59.7 in Q2, suggestive of a slowing in the pace of expansion and optimism amongst local businesses.**

A similar notion is also recognised on a national level, with the UK's composite PMI score falling for a second consecutive month to 54.1 in September, a 7-month low.

Q3 2021 saw a continued and sustained opening of the national economy with the beginning of the quarter (July 19th) seeing the end of social distancing restrictions such as mandatory wearing of face masks and limits on the number of people at events. The relaxation of

restrictions came at a 4-week delay as concerns over the delta variant of COVID 19 meant an acceleration in roll-out of vaccinations.

Q3 2021 saw a continued and sustained opening of the national economy with the beginning of the quarter (July 19th) despite the unlocking of the economy, the initial surge in demand softened over the course of Q3, National manufacturing PMI fell to 57.1 in September with supply chain delays, inflationary pressure, slower new order growth and rising material and labour shortages constraining overall growth levels across Q3.

Coventry & Warwickshire's manufacturing PMI fell considerably to 51 in Q3, 14 points lower than

Q2 showing a substantial slowing in the pace of expansion amongst the local manufacturing sector.

National services PMI on the other hand only fell marginally to 54.6 in September with new orders increasing at a decent pace alongside rapid increase in job creation. However, this was offset by an upsurge in input price inflation amid reports of higher wage costs, product shortages and increased transportation costs all having an impact on the national service sector in Q3.

SERVICE

63.2

up from 61.0

MANUFACTURING

51.0

down from 65.4



# Quarterly Economic Survey Commentary



**Sean Rose**  
Head of Policy,  
Coventry and  
Warwickshire  
Chamber of  
Commerce

“The QES results bear out what we are hearing from members. There was real confidence that there would be a big rebound as restrictions were fully lifted but issues around recruitment, the supply chain, cost increases and Brexit have dampened that.

“As the most recent GDP figures showed, the economy is growing but it is still significantly short of pre-pandemic levels.

“It’s vitally important that decision-makers look at how businesses are feeling, understand the issues they are facing, and look to find solutions that how the economy to come back stronger from Covid in the months and years ahead.”

“Quarter 3’s QES presents a mixed bag of results for Coventry & Warwickshire’s business and economic landscape. The overall economic outlook index in Q3 has fallen for the first time this year, presenting a slowing in the pace of expansion, especially when compared to the highs seen in Q2.

The continued unlocking of the economy at the beginning of the quarter has had some positive impacts, particularly within the local service sector which has seen a buoyant performance in terms of its orders, employment, cashflow and investment indexes in Q3.

However, the quarter was also dominated by issues surrounding material / labour shortages and supply chain delays which have most notably impacted the local manufacturing sector, in turn constraining business activity. This is reflected in the reductions seen in terms of its overseas orders, employment, cashflow and investment indexes within the sector.

For a second consecutive quarter price pressures dominated the survey results and to add to the worry, we could see a period of “stagflation” if prices continue to rise at a faster rate due to material shortages and demand / growth continue to cool off from the heights it experienced in Q2.”



**Sunny Parekh**  
Senior Economist,  
Warwickshire  
County Council



**Steve Harcourt**  
Director,  
Prime Accountants Group

“The overall economic outlook in Q3 has fallen from the levels of Q2, however it is important to point out that both Service sector & Manufacturing Sector in Coventry & Warwickshire remain above the 50 point index marker, indicating optimism within the local economy for the next 12 months. It really is a tale of two sectors in Q3 with a drop off and slowing in demand for Manufacturing, while the Service sector which makes up around 80% of the economy, is seeing improvement nearly all the way across the board; with overseas and domestic sales, employment and investment/cash flow all increasing; Suggesting the region is getting back to work as remaining restrictions are lifted, and returning to near capacity in this sector.

Manufacturing businesses across the region are highlighting key areas of concern as we move through this period of recovery, supply of product, supply of labour and price demands on both of these components. Recruitment difficulties are being reported across all sectors of the economy, which has its origins in leaving the EU and then the pandemic putting a halt to training and apprenticeship progression in most businesses; leaving local businesses with a shortage of skilled people to recruit from. Speaking to clients in manufacturing we are hearing of large raw material price rises, for example, sheet metal prices at twice the level per tonne than 2 years ago. It is unsustainable for a business not to pass these rising costs on during Q4 and on in to 2022.

Coventry & Warwickshire is still trending above the UK average when considering general business confidence, which historically has always been the case as we see solutions to challenges, innovation and opportunities throughout our economy.”





## Overseas Orders:

### Services:

The service sector saw a marginal increase in its overseas orders index moving from 43.5 in Q2 to 44.8 in Q3 as a result of just over half of the businesses stating that both current and advanced orders remained constant when compared to the previous quarter.

### Manufacturing:

Contrastingly, the local manufacturing sector saw a significant reduction in its overseas order index falling from 57.1 in Q2 to 39.7 in Q3. This puts the index value well below the 50 mark, as most local manufacturing businesses reported decreases in both current and advanced overseas sales in Q3. This may have come as a consequence of post EU processes such as VAT and customs declarations creating increased time delays on the movement of goods and businesses incurring additional costs as a result.

## Domestic Sales:

### Services:

Domestic orders in the local service sector remained unchanged with a slight increase to 59.7 in Q3 from 59.5 in Q2. The marginal increase was driven by both current and advanced orders in equal amounts, with the majority of businesses reporting either orders had increased or remained constant in Q3 for both current and advanced orders.



### Manufacturing:

The manufacturing sector experienced a marginal drop in its domestic orders for the second consecutive quarter, from 51.3 in Q2 to 50.5 in Q3, with majority of businesses indicating current orders either declined or remained constant when compared to the previous quarter.







## Investment & Cashflow

### Services:

The service sector increased by 4 points to 56 in Q3 2021, with the cashflow component carrying the largest weight for the upsurge. The increase comes as an overwhelming majority of respondents suggested that their cashflows had either increased or remained constant when compared to the previous quarter.

The continued improvement and expansion in the cashflow and investment index for the local service sector can be attributed to the sustained reopening of the economy across quarters 2 and 3. This may have particularly benefited the hospitality, leisure and tourism sectors who had been either closed or remained open under restricted capacity at the start of 2021.



### Manufacturing:

Contrastingly, the local manufacturing sector has experienced a significant reduction in its cashflow and investment index moving from 60.5 in Q2 to 49.6 in Q3, dropping below the 50 mark, showing signs of pessimism in the sector. This comes as both the cashflow and investment indexes experienced equal reductions.

Issues surrounding supply chains could have been a contributing factor, particularly in terms of raw materials and other products such as aluminium and steel creating price increases and having a knock-on effect on manufacturer's cashflows.



## Employment:

### Services:

The services sector index increased for another quarter showing an expansion from 55 in Q2 to 59.5 in Q3. An overwhelming majority of respondents in the local service sector suggested that their labour forces had either increased or remained constant when compared to the last 3 months. Further to this, many respondents also suggested that their labour forces would either increase or remain constant in the coming three months. This optimistic outlook amongst Coventry & Warwickshire service businesses is translated into their labour force index score increasing significantly beyond the 50 mark. Despite the positive outlook, 48.5% of service sector respondents reported attempting to recruit in Q3 with 70% of them encountering recruitment difficulties.



### Manufacturing:

The manufacturing sector on the other hand has experienced a substantial reduction in their labour force index, contracting from 68.6 in Q2 to 45.5 in Q3. This reduction was largely driven by the majority of respondents suggesting that their labour forces had either decreased or remained constant in the last 3 months. In terms of the next 3 months manufacturing businesses reported that they expect their labour forces to further remain constant. Out of those businesses that responded, 41.2% engaged in recruitment activities and the vast majority of them indicated that they encountered difficulties in hiring.

## Business Confidence:

### Services:

The local service sector business confidence index remained fairly unchanged in Q3 with only a 0.6-point reduction from the previous quarter coming in at 83.8 in Q3, indicating high levels of optimism amongst local service sector businesses. The high levels of business confidence are attributed to an overwhelming majority of businesses reporting that they expect their turnover and profitability to increase in the coming 12 months.

Despite the upbeat sentiment, Q3 was the second consecutive quarter where many businesses indicated that they expect prices to rise in the coming 3 months, with the majority suggesting this rise to come from "other overheads". The local service sector also indicated that corporation tax, business rates and interest rates could be the external factors also contributing to price inflation.

SERVICE  
**83.8**  
down from 84.4

MANUFACTURING  
**62.9**  
down from 80.0

### Manufacturing:

Contrastingly, the manufacturing sector business confidence index fell considerably from the record heights of 80 in Q2 to 62.9 in Q3. Despite there being a contraction in the index, the value remains above the 50-mark, indicating overall levels of optimism. This was offset somewhat by a number of businesses suggesting a fall in profitability in the coming 12 months. Majority of the manufacturers that completed the survey expect price pressures to intensify, with nearly 62% of respondents expecting such pressures to come from "other overheads".



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#### **Birmingham Office**

No. 3 Caroline Court  
13 Caroline Street  
Birmingham B3 1TR  
T: 0121 711 2992

[info@primeaccountants.co.uk](mailto:info@primeaccountants.co.uk)

#### **Coventry Office**

5 Argosy Court, Scimitar Way  
Whitley Business Park  
Coventry CV3 4GA  
T: 024 7651 8555

[www.primeaccountants.co.uk](http://www.primeaccountants.co.uk)

#### **Solihull Office**

Corner Oak  
1 Homer Road  
Solihull B91 3QG  
T: 0121 711 2468

[@PrimeCharAccnts](https://twitter.com/PrimeCharAccnts)

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# Coventry & Warwickshire's Voice of Business



Chamber House, Innovation Village, Cheetah Road, Coventry, CV1 2TL  
024 7665 4321  
[info@cw-chamber.co.uk](mailto:info@cw-chamber.co.uk)  
[www.cw-chamber.co.uk](http://www.cw-chamber.co.uk)



Data analysis by:

