



Coventry & Warwickshire
Chamber of
Commerce
The Ultimate Business Network

2022 Q1

QES Partner

prime
ACCOUNTANTS GROUP



Coventry & Warwickshire Quarterly Economic Survey

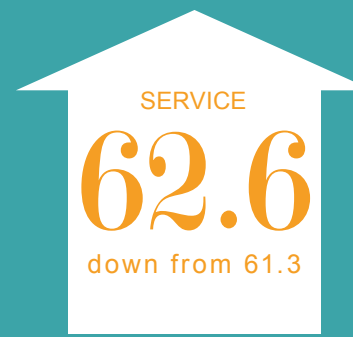
Q1

Q2

Q3

Q4

Quarter 1 2022 Analysis



Coventry & Warwickshire's overall economic outlook index has risen in the first quarter of 2022, moving from 57.9 in Q4 to 59.6 in Q1. This is the first quarterly increase that the economic outlook index has experienced since Q1 to Q2 2021. The uptick presents a further broadening in the pace of expansion and optimism amongst local businesses as the index score moves further beyond the all-important 50-mark.

The first quarter of the year once again continued to present a varied national economic landscape, with reports of faster service growth boosting the UK economy, whilst increases in the cost of living and the cost burden to businesses begins to mount as inflation hits significant heights.

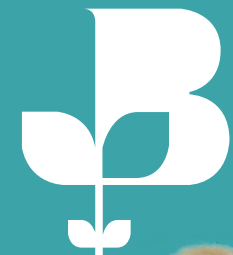
The local service sector index experienced an uptick in their index score increasing its momentum from 61.2 in Q4 2021 to 62.6 in Q1 2022, presenting an expansive and

optimistic outlook for the service sector within Coventry & Warwickshire. Many of the components that made up the overall index, experienced slight reductions in their pace of expansion when compared to Q4 such as both domestic and overseas orders, alongside the labour force, employment, and cashflow & investment indexes respectively. Despite these reductions, most of the components scores remained above the all-important 50-mark (excluding the overseas orders which narrowly fell below), suggestive of overall levels of optimism.

Business confidence levels within the local service sector on the other hand reached significant heights in Q1, this increase in morale could be linked to the removal of all COVID-19 restrictions alongside pent up demand from consumers on leisure, hospitality, and travel activities in the first quarter of 2022.

Contrastingly, the local manufacturing sector index continued its path of slowdown, with a third consecutive quarter of downturn, moving further away from the important 50-mark. Quarter 1's index score was 47.6 a reduction from 49.2 in Q4. This reduction was attributed once again by a challenging operating environment as inflationary pressures intensified, supply shortages continued, and recruitment difficulties perpetuated (particularly when seeking workers of a skilled / manual or technical nature). This translated into low / reduced index scores for the overseas orders, labour force and the investment & cashflow components respectively.

The first quarter of the year saw a contraction in business confidence amongst local manufacturers with the value falling below the 50-mark, as concerns over rising costs, supply shortages and geopolitical unrest deepened.



Quarterly Economic Survey Commentary



Sean Rose
Head of Policy
Coventry &
Warwickshire
Chamber of
Commerce

“The small increase in the overall economic outlook for Coventry and Warwickshire is a positive sign, particularly when we have to consider the variety of issues that are hitting businesses.

“The outlook is broadly in line with the rest of the UK and, as it remains above the 50-point mark, this suggests the regional economy will continue to grow.

“There is a clear divide between the confidence of our service sector businesses and our manufacturers – driven, most likely, by the fact that our manufacturers are much more affected by the rising prices across the board.

“It is vitally important, therefore, that we continue to raise these issues with decision-makers, that we keep pushing for further support and also getting the message across that the Chamber is here to help businesses to grow – even in difficult times.”

“There is a clear sign from this latest QES that there is a gap in confidence between service sector businesses and manufacturers and the gap is widening.

“Leisure, hospitality and tourism have, for the first time in two years, been able to trade without restrictions which will, of course, give them renewed optimism.

“In manufacturing, there is undoubtedly a sense that they are facing difficulties on a range of fronts – none more so than rising costs, whether that’s on raw materials or energy prices.

“As ever, global events do have an impact on the way businesses across Coventry and Warwickshire look ahead to the future and it does, undoubtedly impact confidence.”



Steven Harcourt
Director
Prime Accountants
Group



Sunny Parekh
Lead Economist
Warwickshire County Council

“Coventry & Warwickshire’s overall economic outlook index indicated a robust local landscape as the pace of expansion increased, with the index score moving further past the 50-mark in the first quarter of 2022, representing overall levels of optimism and expansion amongst local businesses.

The first quarter of the year presented local businesses with a unique operating environment, creating a deviated picture between the local sectors.

Geopolitical unrest in Europe meant that existing price pressures intensified as raw material and energy prices surged and inflation hit record heights. The latest QES show that the manufacturer’s economic outlook became subdued as business confidence declined amidst ongoing price pressures.

Despite such headwinds, the impact of the Omicron wave of COVID-19 was brought under control and remaining restrictions on the economy were lifted, resulting in significant expansion and optimism within the local service sector. This offset the decline seen in the manufacturing results. Business confidence levels amongst local services reached significant heights in Q1, indicating positive expectations for 2022.

Looking forward, the coming quarter points towards further surges in inflation and increases to the cost of living, painting a difficult picture for the local business landscape.”



Overseas Orders:

The overseas orders index experienced mixed movements for both the service and manufacturing sectors within Coventry & Warwickshire.

The service sector saw a decrease in its overseas orders index, moving from 50.9 in Q4 to 47.2 in Q1, suggesting a slight contraction in overseas orders when compared to the previous quarter. A large majority of businesses that responded suggested that their current and advanced overseas orders had either decreased or remained constant in Q1.

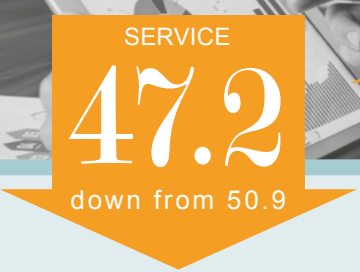
The manufacturing overseas orders index saw an uptick moving from 40.5 in Q4 to 45 in Q1. This uptick came as the majority of manufacturers suggested that current overseas orders had either remained constant or improved. This was offset somewhat by many businesses suggested that advanced orders had either remained constant or decreased. Overall, the index score remained below the 50-mark suggestive of a difficult exporting environment for local manufacturers. This is in line with national reports of the ongoing issues surrounding the EU transition alongside pandemic related restrictions with trading partners causing weakened demand.

Domestic Orders:

The domestic orders index in Q1 decreased across Coventry & Warwickshire's service and manufacturing sectors.

The pace of expansion slowed slightly for the domestic orders in the local service sector, as the index score decreased in Q1 moving from 66.3 in Q4 to 62.1 in Q1. Despite the reduction, the domestic index score remains significantly above the 50-mark suggesting overall levels of expansions despite the reduction seen in the index score. Decreases were seen in both current and advanced orders indexes, however both index scores remain in the low 60's (62 and 62.2 respectively) as the majority of businesses alluded to current and advanced orders remaining constant or increasing when compared to the previous quarter. The overall growth in domestic orders could be explained by the improved situation surrounding the pandemic and fading of restrictions alongside pent up demand from consumers.

The manufacturing sector's domestic orders index also experienced a decrease in its domestic orders index, moving to 51.7 in Q1 from a Q4 reading of 54.2. The decrease comes as both current and advanced index scores experienced reductions but remain above the 50-mark at 50 and 53.5 respectively. The contraction in the index scores comes as most respondents suggested that both current and advanced orders had remained constant when compared to the previous quarter.



Employment:

The services sector index remained consistent with the previous quarter with only the labour force index decreased for both the local services and manufacturing sectors in Q1.

The services sector index remained consistent with the previous quarter with only a fractional reduction from 59.5 in Q4 to 59.1 in Q1. An overwhelming majority of respondents in the local service sector suggested that their labour forces had remained constant when compared to the last 3 months. Looking forward, many respondents also suggested that their labour forces would remain constant in the coming three months. The labour force index remained significantly above the 50-mark showing signs of optimism amongst service businesses in Q1. 45% of service respondents suggested that they actively engaged in recruitment in Q1 with nearly 70% indicating that they came across recruitment difficulties.

The manufacturing sector, saw a downturn in its labour force index from 49.3 in Q4 to 45.4 in Q1, moving further away from the 50-mark signifying pessimism amongst local manufacturers when it comes to their labour force. The downturn was largely driven by the majority respondents suggesting that their labour force had either remained constant or decreased relative to the last 3 months. Looking forward, the majority of respondents suggested that they expect their labour forces to remain unchanged or in fact decrease in the coming 3 months. Out of those businesses that responded, almost 39% engaged in recruitment activities with the majority seeking workers of a skilled / manual or technical nature. Of those that attempted a recruitment drive, most indicated that they encountered difficulties in hiring.

The difficulties experienced by both the local service and manufacturing sectors when hiring new staff continuous to stay in line with the overall tight labour market experienced at a national level.

SERVICE
59.1
down from 59.5

MANUFACTURING
45.0
up from 40.5

Investment & Cashflow

The investment & cashflow index for the local services and manufacturing sectors experienced mixed movements in the first quarter of 2022.

The service sector investment & cashflow index fell for a second consecutive quarter shifting from 53.7 in Q4 to 52 in Q1, with the cashflow component experiencing the largest reduction. This comes as the majority of respondents suggested that their cashflow levels had remained constant when compared to the previous quarter. This accounted for the 4.1-point reduction in the cashflow index from 56.4 in Q4 to 52.4 in Q1.

The investment component also experienced a reduction but to a lesser extent, moving from 52.2 in Q4 to 51.8 in Q1, with a large majority of respondents suggesting that their levels of investments in plant / machinery / equipment / buildings had remained constant when compared to the previous quarter. A similar outcome is seen with investment levels in training as the majority of respondents suggested that investment in training also remained constant.

It is important to note that despite reductions in the investment and cashflow index for the local service sector the overall value remains above the 50-mark presenting a positive and expansive outlook when it comes to investment and cashflow in the local service sector.

Contrastingly, the manufacturing sector's investment & cashflow index moved further towards the all-important 50 – mark, with a 5.6-point uptick in Q1 to 49.6 from a previous quarter reading of 44. This comes as both the

cashflow and investment indexes experienced significant increases, with the cashflow component experiencing the largest upturn, driving the overall increase.

The cashflow index rose significantly from 51.4 in Q4 to 59.1 in Q1, with most manufacturing businesses that responded suggesting that their cashflow levels had improved when compared to the previous quarter.

The investment component also saw an increase but to a lesser extent, moving from 40.3 in Q4 to 45 in Q1. This comes as over half the local manufacturers that responded indicate that their investment levels in plant / machinery / equipment / buildings had remained constant in Q1. Similarly, nearly 47% of respondents suggested that investment in training also remained constant.

Despite the increases in the overall investment & cashflow index for the local manufacturing sector, the value remains below the 50-mark showing signs of overall contraction.

SERVICE
52.0
down from 53.7

MANUFACTURING
49.6
up from 44



Business Confidence:

The local service sector business confidence index soared to 83.7 in the first quarter of 2022 from a Q4 reading of 71.3, indicating a 12.4-point increase in business confidence within the local service sector. The index score has bounced back to the record heights experienced in Q3, with the upbeat business confidence levels being attributed to 86.1% of survey respondents indicating that they expect turnover to increase in the coming 12 months alongside 80.3% indicating profitability levels to increase in the coming 12 months.

Just over half of the respondents also suggested that they are working below full capacity in Q1 2022. This may come because of the difficulties in hiring workers that are needed to meet the demand levels experienced by Coventry & Warwickshire service businesses.

Despite the highly optimistic outlook from local services, price pressures have continued to dominate survey results once again. Quarter 1 saw over 95% of service sector respondents indicate expectations of price surges in the next 3 months. As with recent quarters, many businesses indicated price pressures are expected to come from “other overheads” alongside “raw material prices” and “inflation” when it comes to external prices pressures.

Contrastingly, business confidence amongst the local manufacturing sector fell for a third consecutive quarter, with the index score coming in at 46.1 in Q1, a 9.7-point reduction when compared to 55.8 in Q4.

The business confidence levels for the manufacturing sector have fallen below the 50-mark showing signs of contraction and pessimism in terms of manufacturing business confidence.

There has been a mixed picture in terms of the drivers underpinning the overall contraction, with 50% of manufacturing survey respondents suggesting that they expect their turnovers to increase in the coming 12 months. This was offset by 50% of manufacturers expecting that turnovers will decrease in the coming 12 months.

Despite this, 57% of manufacturers suggested that they expect profitability to decrease in the coming 12 months, somewhat tipping the overall business confidence levels into pessimistic territory.

In terms of capacity levels, 64% of businesses indicated that they are working below full capacity in Q1.

Looking forward to the next 3 months, as expected given the national reports, all the manufacturers that completed the survey expect price pressures to continue to intensify in the coming quarter, with “raw material prices” and “other overheads” dominating the results in terms of internal prices pressures. As with the local services a large majority of manufacturers once again indicated that “inflation” would be the biggest external factor contributing to pricing pressures.



Listen Advise + Prosper

At Prime we take pride in listening to our clients and understanding their business objectives and personal goals. We provide clients with tailored advice that is specific to their requirements.

Our brand values are embraced by our team and our services are delivered in accordance to these values. Therefore our clients benefit from receiving a personal service provided by an experienced team.

Explore more at primeaccountants.co.uk



Our Brand Values: Do the Right Thing - Build Relationships - Simplify the Complex - Keep the Passion - Be an Ambassador for Prime - Provide a Personal Service - Embrace Change - Always be Approachable

Birmingham Office

Charter House
161 Newhall Street
Birmingham B3 1SW

T: 0121 711 2992

info@primeaccountants.co.uk

Coventry Office

5 Argosy Court, Scimitar Way
Whitley Business Park
Coventry CV3 4GA

T: 024 7651 8555

www.primaccountants.co.uk

Solihull Office

Corner Oak
1 Homer Road
Solihull B91 3QG

T: 0121 711 2468

[@PrimeCharAccnts](https://www.primaccountants.co.uk)

Stanley Yule Office

Unit 3 Waterside Business Park
1649 Pershore Road
Birmingham, B30 3DR

T: 0121 415 3060

Part of Prime Accountants Group

prime
ACCOUNTANTS GROUP

Coventry & Warwickshire's Voice of Business



Chamber House, Innovation Village, Cheetah Road, Coventry, CV1 2TL
024 7665 4321
info@cw-chamber.co.uk
www.cw-chamber.co.uk



Data analysis by:

