

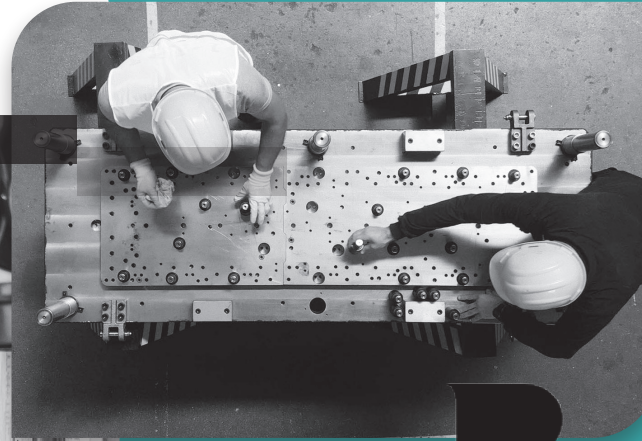


Coventry & Warwickshire  
Chamber of  
Commerce  
The Ultimate Business Network

2022 Q3

QES Partner

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ACCOUNTANTS GROUP



# Coventry & Warwickshire Quarterly Economic Survey

Q1

Q2

Q3

Q4

## Quarter 3 2022 Analysis

OVERALL

51.9

down from 54.9

**The Economic Outlook Index for Coventry & Warwickshire has fallen for the third consecutive quarter in Q3 2022, moving from 54.9 in Q2 2022 to 51.9 in Q3 2022 indicating a 3-point reduction in the overall economic outlook index.**

This puts the index value at the lowest it has been since Q2 2021. Despite the reduction, the value remains just above the 50-mark showing overall expansion, however, the reduction from the previous quarter alludes to a slowing in the pace of expansion and optimism amongst local businesses.

The economic climate continued to worsen in the third quarter of the year as reports suggest subdued demand levels within the economy

because of the rising cost of living and related energy crisis. Inflationary pressures furthered as energy costs, supply constraints and import costs (as result of the weakened pound) became elevated.

Coventry & Warwickshire's manufacturing index followed the national trend, registering a decrease in its index score from 53.9 in Q2 2022 to 49.8 Q3 2022, falling below the 50-mark indicating a contraction in the local manufacturing sector.

National services PMI also fell to 50.9 at the end of September 2022 from a previous quarter reading of 53.4 at the end of June 2022. This came as national reports showed signs of a reduction in momentum within the services, with businesses suggesting falling in volumes of new orders as

household budgets become squeezed, this comes alongside widespread pessimism with regards to the economic outlook.

Coventry & Warwickshire's service sector followed the national trend decreasing from to 55.1 in Q2 2022 to 52.2 in Q3 2022 showing signs of a reduction in the pace of expansion.

SERVICE

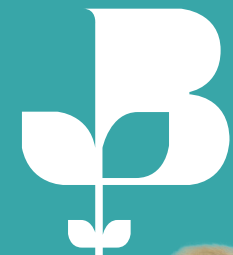
52.2

down from 55.1

MANUFACTURING

49.8

down from 53.9



# Quarterly Economic Survey Commentary



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

“It is clear that national and international issues are affecting the business confidence in the West Midlands. The rising costs of energy, interest rates and inflation generally are putting a drag on confidence as well as many other issues that are holding back growth, such as the difficulty to recruit.

“Here in the West Midlands, we have seen confidence fall but still more businesses are expecting profits and turnover to rise than are expecting a drop, which when you consider the uncertainty firms are facing this a positive reminder of how resilient firms are across the patch. We have seen manufacturers working through their covid backlogs and this may have played a role in keeping the economic outlook relatively buoyant.

“On top of that, the region has enjoyed a year in the spotlight through City of Culture in Coventry and then through the Commonwealth Games in Birmingham and these events have, undoubtedly, given everyone a boost and shown the world that we are open for business.”

As we leave Q3 and step into Q4, it is clear that business owners have been somewhat unnerved by recent economic events, with a majority of scores showing a drop in positivity this quarter. Although

65% of businesses have predicted consistency or an increase in profits, business confidence has dropped 10% suggesting although there may be some uncertainty, things will not be as bad as some are predicting.

One challenge many businesses are currently facing is the rise in prices, with 76% of manufacturers expecting the price of goods to increase over the next quarter, therefore leading to a knock on effect of products continuing to rise in price to the consumer.

Businesses are continuing to report difficulties with recruitment, which has had a negative effect on overall productivity within the region again through the quarter and does not look to resolve itself as we move into Q4 and the New Year. Recent figures state UK unemployment is at 3.5%, the lowest this rate has been for almost 50 years.

However, now that a majority of the mini-budget announcements have been reversed, businesses should do everything they can to plan accordingly. Concise planning and budgeting will be key to ensuring businesses continue to see consistent or an increase in cash flow, which 70% of businesses in the region are expecting to see, and being agile with any future economic events businesses will stay positive despite the uncertainty.



**Steven Harcourt**  
Director  
Prime Accountants Group



**Sunny Parekh**  
Lead Economist  
Warwickshire County Council

“It comes as no surprise that Coventry & Warwickshire overall economic outlook index experienced a slowing in pace in Q3 2022.

The third quarter of the year saw the macroeconomy continue to spiral, presenting a significant problem for local businesses and consumers. Demand levels began to dry up as cost pressures continued their ascent, particularly impacting domestic orders for local manufacturers. The weakening of the pound did little by way of improving the export market for either local manufacturing or services. Alongside this, the political turmoil seen at the end of the quarter only added to the difficult operating environment local businesses faced, reducing overall confidence levels.

Looking at the latest QES results show that the overall outlook index for Coventry & Warwickshire remains in positive territory, showing overall signs of robustness despite a faltering macroeconomy. However, with forecasts for the last quarter of the year pointing towards certain recession, only time will tell on how long the overall economic outlook for the subregion can remain positive.”



## Overseas Orders:

## Domestic Orders:

**The domestic orders index displayed a mixed picture amongst Coventry & Warwickshire's services and manufacturing sectors.**

The local service sector's domestic orders index registered an expansion moving from 52.4 in Q2 2022 to 59.0 in Q3 2022. This indicates an acceleration in the expansion of domestic orders. Increases were seen in both the current and advanced orders index, increasing to 60.4 and 57.5 from previous quarter readings of 55 and 49.6 respectively. This comes as many businesses suggested both current and advanced orders had either increased or remained constant across the quarter. This bucked national reporting on slowing orders for the services as household budgets began to be squeezed.

Contrastingly, the domestic orders index within the local manufacturing sector experienced a significant decrease, moving from 57.4 in Q2 2022 to 45.2 in Q3 2022. This came as a result of both current and advanced orders index scores experiencing a downturn moving to 40.4 and 50 respectively, from the highs of the 50s in Q2. The contraction in the index scores comes as the majority of respondents suggested that both current and advanced orders had remained constant or decreased during Q2. This remains very much in line with the national manufacturing narrative which suggested a slowdown in domestic demand across Q3.



**The overseas orders index experienced reductions for both the services and manufacturing indexes within Coventry & Warwickshire.**

The service sector saw a decrease in its overseas orders index for a third consecutive quarter, moving from 43.7 in Q2 2022 to 42.3 in Q3, suggesting a significant 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 Q3.

Similarly, the manufacturing overseas orders index saw also saw a downturn moving from 50 in Q2 2022 to 47.1 in Q3, suggesting an overall contraction in overseas orders. This came as many manufacturers suggested that current and advanced overseas orders had either remained constant or decreased in Q3.



## Employment:

**The service sector employment index remained unchanged at 57.1 in Q3 2022 as large 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, the majority of respondents also suggested that their labour forces would remain constant in the coming three months. The labour force index remained above the 50-mark showing signs of optimism amongst service businesses in Q3. 52.5% of service respondents suggested that they actively engaged in recruitment in Q3 with 78% of them indicating that they came across recruitment difficulties.

The manufacturing sector, on the other hand, saw a reduction in its labour force index from 54.3 in Q2 to 50 in Q3, despite the reduction the index remains balanced signifying an overall positive outlook in terms of the manufacturing labour force. The downturn was largely driven by the majority of respondents suggesting that their labour force had either remained constant with a few suggestions that it had decreased in the past 3 months.

Looking forward, many respondents suggested that they expect their labour forces to remain unchanged or in fact increase in the coming 3 months. Out of those businesses that responded, half engaged in recruitment activities, with the majority seeking workers of a skilled / manual or technical nature. Of those that attempted a recruitment drive, 73% indicated that they encountered difficulties in hiring.

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

SERVICE  
**57.1**  
unchanged

MANUFACTURING  
**50.0**  
down from 54.3

## Investment & Cashflow

**The investment & cash flow index for the local service sector and manufacturing sectors experienced a reduction in Q3 2022.**

The service sector investment & cashflow index experienced a reduction from 52.2 in Q2 to just below the 50 mark at 49.2 in Q3 2022. The overall reduction was driven by the reduction seen within the cashflow component, which decreased from 52.5 in Q2 to 45 in Q3. This came as many service sector businesses suggested that their cashflow levels had either remained constant or decreased across the third quarter of 2022.

The investment component experienced a fractional reduction moving from 52 in Q2 to 51.7 in Q3, with a large majority of respondents suggesting that their levels of investment 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 many respondents suggested that investment in training also remained constant.

It is important to note that the investment and cashflow index for the local service sector remains above the 50-mark presenting a positive and expansive outlook when it comes to investment and cashflow in the local service sector in Q3 2022.

The manufacturing investment & cashflow index also experienced a reduction in Q3 but by a significant amount when compared to local services. The sector saw its index slide from 54.9 in Q2 to 50 in Q3.

The cashflow component experienced the largest reduction, moving from 54.9 in Q2 to 50 in Q3 as most respondents indicated that their cashflow levels had remained constant or otherwise decreased throughout Q3.

The overall reduction in the index was somewhat offset by the increase seen in the investment component which improved for a second consecutive quarter from 50.6 in Q2 to 52.3 in Q3. Over 77% of the local manufacturers that responded to the survey suggested that investment in training had either increased or remained constant when compared to the previous quarter. Further to this, over 68% of the respondents suggested investment in plant / machinery / equipment / buildings remained constant in Q3.

MANUFACTURING

**51.5**

down from 52.1

SERVICE

**49.2**

down from 52.2



## Business Confidence:

**The local service sector business confidence index continued its downward trajectory experiencing a reduction from the highs seen at the start of the year as the service sector enjoyed a bounce back from the pandemic.**

The index value fell by 12.8 index points from 63.5 in Q2 to 50.6 in Q3. Despite the deceleration, the overall confidence level remains just above the 50 mark indicating signs of expansion and optimism amongst local services. The reduction comes from the individual components that make up the business confidence index. For instance, the turnover component decreased from the high of 65.5 in Q2 to 53.8 in Q3 as result a of over 40% of survey respondents expecting turnovers to remain the same in the coming 12 months, alongside 26.5% suggesting that turnovers will decrease. Looking at the profitability component shows quite a mixed outcome, with roughly an even split in terms of survey respondents suggesting that they expect profitability to either remain constant, increase, or decrease. This overall puts the component at a reduction compared to the highly positive form it took in Q2 moving from 61.4 to 47.5 in Q3.

Just over half of the respondents suggested that they are working above full capacity in Q3 2022 a shift from the previous quarter, in which over half were working below full capacity.

As with recent quarters price pressures have continued to dominate survey results. Q3 2022 saw 57% of service sector respondents indicate expectations of price surges in the next 3 months, with the rest of the respondents suggesting that they will remain the same. All service businesses who responded indicated price pressures are expected to come from “pay settlements” alongside “raw materials” in terms of internal factors, alongside an overwhelming number of respondents indicating “inflation” as the main source of external price pressure impacting business operations.

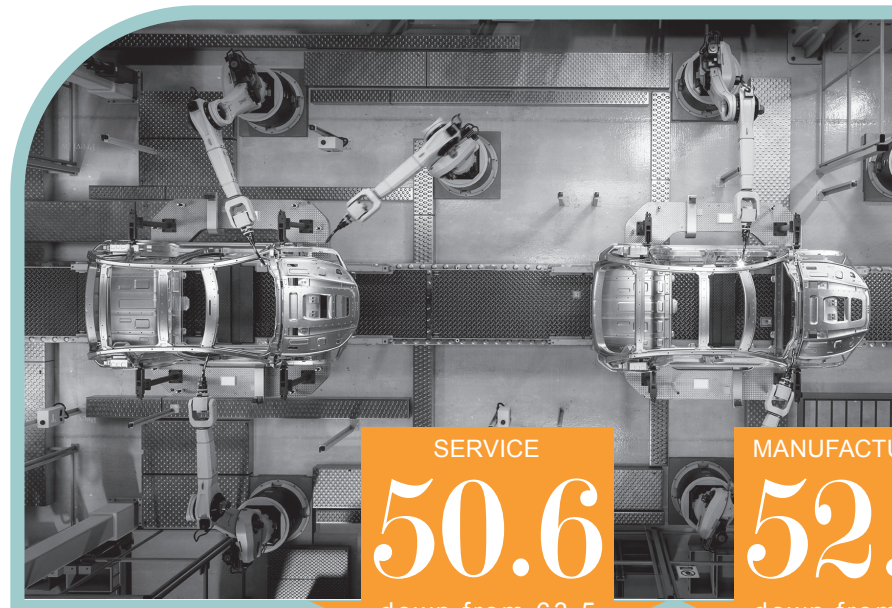
Business confidence in the local manufacturing sector also decreased in Q3, with the index score falling by 2.9 points from 55.1 to 52.3. The reduction in the business confidence comes mainly from a reduction seen within the profitability component moving from 45 in Q2 to 41 in Q3, this is a result of half of the manufacturing respondents suggesting that they expect their profitability to decrease in the coming 12 months. The extent of the decrease in business confidence for manufacturing was mitigated somewhat due to the turnover component only experiencing a slight

reduction in comparison moving from 65.4 in Q2 to 63.6 in Q3, with over half of the respondents expecting turnovers to improve in the coming 23 months.

In terms of capacity levels, 59.1% of businesses indicated that they were working below full capacity in Q3 2022.

Looking forward to the next 3 months, as expected over the majority of manufacturers that completed the survey expect price pressures to continue to intensify in the coming quarter, with “raw material prices” and “pay settlements” dominating the results in terms of internal price pressures. As with local service businesses, a large majority of manufacturers once again indicated that “inflation” would be the biggest external factor contributing to pricing pressures but also “interest rates”.

It is important to note that despite overall reductions in each local sector’s business confidence index, their index scores remain above the 50 threshold indicating overall levels of confidence amongst local businesses.



SERVICE  
**50.6**  
down from 63.5

MANUFACTURING  
**52.1**  
down from 55.1

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Data analysis by:

