Coventry & Warwickshire Chamber of Commerce
The Ultimate Business Network

2023 Q1

QES Partner
prime ACCOUNTANTS GROUP

Q1 Q2 Q3 Q4

Coventry & Warwickshire Quarterly Economic Survey

Analysis:

OVERALL	SERVICE	MANUFACTURING
55.3	54.3	60.6
up from 52.9	up from 51.6	up from 57.7

The Economic Outlook Index for Coventry & Warwickshire has increased in Q1 2023 compared to Q4 2022, moving from 52.9 to 55.3. The increase retains the overall value above the 50-mark maintaining signs of confidence amongst respondents at the start of 2023.

National (UK) private sector growth was maintained in March 2023 largely due to the service economy. The UK's composite PMI score increased from **48.2** at the end of Q4 2022 to **52.2** at the end of Q1 2023. Like Coventry and Warwickshire, this moves the national index value above the 50-mark, indicating moderate expansion.

The national manufacturing PMI increased from **46.5,** at the end of December 2022 to **49.0** in March 2023. Manufacturing production decreased in March 2023 mainly due to low advanced orders, but this was offset by input price inflation being at its lowest in 2-years and improving supply conditions.

Coventry & Warwickshire's manufacturing index bucked the national trend, increasing from **57.7** in Q4 2022 to **60.6** in Q1 2023, a 5% increase. This puts the local manufacturing sector on a strong footing in the first quarter of 2023.

National services PMI also improved, increasing from **48.8** at the end of December 2022 to 52.8 at the end of March 2023. New business received by the service sector saw the greatest increase in 12 months despite staff shortages that have constrained growth. Coventry & Warwickshire's service sector index also increased in Q1 2023 to **54.3** from **51.6** in Q4 2022; a 5.2% increase showing some signs of optimism in this sector.

80% **of the businesses that responded suggested that their current and advanced orders have either increased or remained constant in Q1 2023.**

52% **of firms attempted to recruitment in Q1 2023 - Of those that attempted a recruitment drive,**

83% **indicated that they encountered difficulties in hiring due to lack of relevant skills.**

Quarterly Economic Survey Commentary

Corin Crane
Chief Executive of the Coventry and Warwickshire Chamber of Commerce

"Businesses in Coventry and Warwickshire are, once again, proving to be incredibly resilient when faced with tough trading conditions. We've seen from the most recent GDP figures that the economy remains quite flat and, yet, our region continues to buck the trend. There are all sorts of issues that businesses are facing across our region, including high energy prices, inflation, rising interest rates and recruitment problems, but they continue to innovate and find ways to grow.

"We will continue to speak out on those many issues but, also, offer our support directly to businesses who are looking to grow and seek new opportunities.

"It's vitally important that the Government really starts to break down the barriers to international trade for businesses as this was one area of the survey that was particularly downbeat. Firms that export give themselves a greater chance of growing and that, in turn,has a positive knock-on effect for the regional and national economy."

Steven Harcourt
Director
Prime Accountants Group

"The labour market has proved to be very robust over the past three years. The huge concern when Covid first hit was that it would send unemployment spiralling and, yet, here we are three years on and the reverse is true and it is actually a case of businesses not being able to find the staff to help them grow.

"So, while the sentiment within the QES is positive around employment and recruitment, it remains to be seen whether those businesses that want to take on people and grow will be able to do so due to the very tight labour market."

Sue Robinson
Business Intelligence Lead
Warwickshire County Council

"It is great to see that there is such confidence among companies across the county and the city, particularly when there is such uncertainty in the national and global economies.

"This remains a great place to start and grow a business – in any sector – and that is why we are seeing such a positive response to the QES in Coventry and Warwickshire."

91.3% **of Manufacturers who responded sited "raw material prices" as more of a concern to their business with firms not believing they will be able to absorb the costs.**

69% **of respondents indicated "inflation" as the main source of external price pressure impacting business operations.**

Domestic Market:

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

The local service sector's domestic orders index increased from 52.0 in Q4 2022 to 57.9 in Q1 2023. This indicates acceleration in the pace of expansion for domestic orders. Increases were seen in both the current and advanced orders index, increasing to 59.7 and 56.1 from previous quarter readings of 52.4 and 51.6 respectively. This comes as result of around 80% of businesses responding suggesting that their current and advanced orders had either increased or remained constant in Q1 2023.

Similarly, the domestic orders index within the local manufacturing sector experienced an increase, moving from 58.8 in Q4 2022 to 60.2 in Q1 2023. This was largely down to the advanced orders index score increasing from 57.4 to 61.9. The current orders index scores experiencing a slight downturn moving from 60.0 in Q4 2022 to 58.7 in Q1 2023.

SERVICE
57.9
up from 52.0

MANUFACTURING
60.2
up from 58.8

Overseas Market:

The overseas orders index decreased for both the services and manufacturing sectors within Coventry & Warwickshire in Q1 2023.

The service sector saw a slight decrease in its overseas orders index moving from 45.6 in Q4 2022 to 45.0 in Q1 2023. The decrease was largely due to an increase in respondents indicating advance orders decreased or remained constant in Q1 2023. There was a slight uptick in the position for current sales since Q4 2022 but there were still more respondents indicating a decrease rather than an increase in sales.

The manufacturing overseas orders index saw a larger downturn, with the decrease pushing the index value below the 50-mark to 48.5 in Q1 2023 from a previous quarter reading of 54.9. In the latest quarter, for both current sales and advanced orders there were equal numbers of businesses saying orders had either increased or decreased with the majority indicating they had remained the same.

SERVICE
45.0
down from 45.6

MANUFACTURING
48.5
down from 54.9

Employment:

The service sector employment index decreased slightly from 57.4 in Q4 2022 to 56.4 in Q1 2023. The decrease was mainly due to the labour force in the last 3 months which for many respondents had remained constant. Looking forward, there was an increase in respondents suggesting that their labour forces would increase in the coming three months. The index score remained above the 50-mark showings signs of optimism amongst local service businesses in Q1 2023. Just over a third (36.3%) of service respondents indicated that they attempted recruitment in Q1 2023 with 82% of them indicating that they came across recruitment difficulties.

The manufacturing sector, saw an improvement in its labour force index, moving from 59.8 in Q4 2022 to 65.9 in Q1 2023. The upturn was largely driven by the majority of respondents suggesting that their labour force had either remained constant or increased in the last 3 months, and looking forward to the coming 3 months, all respondents indicating that they expect their labour forces to remain unchanged or increase.

Out of those businesses that responded, just over half (52.2%) attempted recruitment in Q1 2023, with the majority seeking to fill skilled manual/technical or professional/managerial roles. Of those that attempted a recruitment drive, 83% indicated that they encountered difficulties in hiring.

SERVICE
56.4
down from 57.4

SERVICE
65.9
up from 59.8

Investment & Cashflow:

The investment & cashflow index for the local service sector and manufacturing sectors experienced an increase in the first quarter of 2023.

The service sector investment & cashflow index experienced an increase from 45.9 in Q4 2022 to 49.4 in Q1 2023. The increase was mainly driven by an increase seen in the cashflow component, which increased from 43.1 in Q4 2022 to 50.4 in Q1 2023. The investment component also increased but less so, from 47.4 in Q4 2022 to 48.8 in Q1 2023. The majority of service sector businesses suggested that their 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.

The manufacturing investment & cashflow index also experienced an increase, moving from 49.4 in Q4 2022 to 53.8 in Q1 2023, moving the index value above the 50-mark indicating some optimism amongst the local manufacturing sector in terms of its cashflow and investment.

The cashflow component experienced the largest increase, moving from 45.0 in Q4 2022 to 60.9 in Q1 2023 with most respondents indicating that their cashflow levels had improved in the first quarter of 2023. The investment component decreased slightly from 51.7 to 50.0, investment in plant / machinery / equipment / buildings and in training remaining constant for the majority of respondents.

SERVICE
49.4
up from 45.9

MANUFACTURING
53.8
up from 49.4

Business Confidence:

SERVICE SECTOR
59.2
up from 55.5

SERVICE SECTOR
69.6
up from 65.0

The local service sector and manufacturing sector business confidence index experienced an increase in the first quarter of 2023.

The service sector index value improved by 3.7 index points from 55.5 in Q4 2022 to 59.2 in Q1 2023 moving the value further above the 50-mark, indicating overall signs of optimism amongst local services. The increase comes from the turnover and profitability components that make up the business confidence index both increasing. 81.3% of respondents saw turnover increasing or remaining constant, and 72.% of respondents saw profitability increasing or remaining constant.

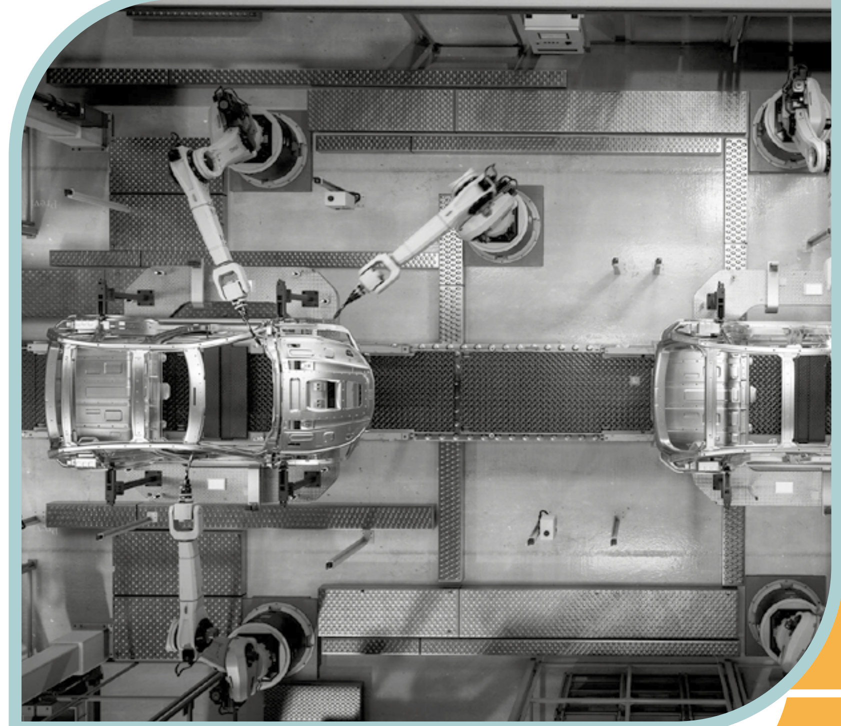
Forty percent of service sector respondents suggested that they were working below full capacity in Q1 2023, an improvement from the previous quarter where over half were working below full capacity.

In line with the current economic climate, prices pressures continue to dominate. Q1 2023 saw 56.6% of service sector respondents indicate that they expect price increases in the next 3 months. Sixty per cent of service businesses who responded indicated price pressures are expected to come from “pay settlements” whilst 37% said “raw materials”. 69% of respondents indicated “inflation” as the main sources of external price pressure impacting business operations.

Business confidence amongst the local manufacturing sector continued to increase in the first quarter of 2023. The index score moved from 65.0 in Q4 2022 to 69.6 in Q1 2023, a 4.6-point increase. The increase again came from improvement within the profitability component moving from 58.3 in Q4 2022 to 65.2 in Q1 2023, this is as a result of 78.3% of the manufacturing respondents suggesting that they expect their profitability to increase or remain constant in the coming 12 months. The increase in business confidence for manufacturing was furthered due to the turnover component reaching 73.9 in Q1 2023 from a previous quarter reading of 71.7. This came as a result of 60.9% of respondents from the manufacturing sector expecting turnover to increase in the coming 12 months.

In terms of capacity levels, 60.9% of respondents in the manufacturing sector indicated that they had been operating at full capacity during Q1 2023. This is an increase from the previous quarter where it was around half of respondents.

Looking forward to the next 3 months, under half (43.5%) of local manufacturers that completed the survey expected price pressures to increase, with “raw material prices” (91.3%) and “pay settlements” (56.5%) dominating the results in terms of internal prices pressures. As with local service businesses, the majority (60.9%) of manufacturers indicated that “inflation” would be the biggest external factor contributing to pricing pressures followed by “business rates” (39.1%).



Coventry & Warwickshire's Voice of Business

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The Ultimate Business Network

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