



Coventry & Warwickshire
Chamber of
Commerce
The Ultimate Business Network

2024 Q1

QES Partner

prime
ACCOUNTANTS GROUP



Coventry & Warwickshire Quarterly Economic Survey

Q1

Q2

Q3

Q4

Quarter 1 2024 Analysis

Responses to the survey are translated into an Economic Outlook Index score which presents an indication of whether respondents believe that things are getting better, staying the same, or getting worse.

If all respondents felt things were getting better, then the score would be 100. Conversely, if everyone felt things were getting worse, the score would be 0. A score of 50 is where there is a balance between the two, with over 50 showing that most respondents feel positive and less than 50 shows a majority feeling negative.

Overall Economic Outlook Index:

The Economic Outlook Index for Coventry & Warwickshire has increased in Q1 2024 compared to Q4 2023, moving from 55.2 to 60.1. The increase keeps the overall value well above the 50-mark showing clear signs of continuing confidence amongst respondents in early 2024.

The increase in National (UK) private sector output in March 2024 was mainly due to the manufacturing economy. The UK's composite PMI score increased from 52.1 at the end of Q4 2023 to 52.9 at the end of Q1 2024. Like Coventry and Warwickshire, this continues to move the national index value above the 50-mark, indicating moderate expansion.

The national manufacturing PMI increased from 46.2 in December 2023, to

49.9 in March 2024. Manufacturing production almost flattened in March 2024. New orders are up the most in almost 2 years, leading to the first production increase in a year and the highest manufacturing optimism in almost a year.

Coventry & Warwickshire's manufacturing index continued to buck the national trend, essentially flat from 56.0 in Q4 2023 to 55.8 in Q1 2024, and remaining above 50. The local manufacturing sector appears significantly more confident than the UK as a whole.

National services PMI remained strong at 53.4 at the end of December 2023 and 53.4 at the end of March 2024. Nevertheless, concerns are rising over ongoing growth prospects and political uncertainty going forward. Coventry & Warwickshire's service sector index decreased slightly in Q1 2024 to 60.9 from 55.2 in Q4 2023.



Quarterly Economic Survey Commentary



Raj Kaur
LSIP Project Manager

Coventry &
Warwickshire
Chamber of
Commerce

"In the latest QES results, we have seen some insightful statistics from firms who are attempting to recruit, with 71% of respondents saying they have faced difficulty in finding suitable staff.

"When we looked into the data, we found that some firms were citing applicants as not having the right skills for the role or lacking managerial skills. We will use this information when we continue to champion business-focused skills with our Local Skills Improvement Plan (LSIP).

"When you consider that the national economy slipped into technical recession at the end of 2023, this survey would indicate that Coventry and Warwickshire is still in good shape.

"Our region area has always been a dynamic, forward-thinking place to do business and that remains the case despite a range of challenges that firms have faced over many years now."

Steven Harcourt
Director and
Chamber President



Prime Accountants Group

"Businesses have had a tough few years and we all know that global circumstances remain fragile. We will continue to highlight some of the barriers to growth that are preventing companies from expanding.

"Productivity has long been barrier to business growth, but a digital revolution provides firms with an opportunity to supercharge their output.

"A big opportunity for businesses is global trade which makes firms more resilient to economic shocks & the Chambers global network is a great place for businesses to start their international trade journey.

"That said, the business outlook for the region based on the latest QES looks positive, with more exciting developments on the horizon."

Todd Williams
Insight Analyst



Warwickshire County Council

"Quarter one at a national level improved slightly with continuing strong growth in services output, and early signs of a potential return to growth for manufacturing output.

"Meanwhile, the latest QES results show the local economy maintaining optimism alongside a significant reduction in spare capacity.

"The results show that the overall economic outlook index for Coventry and Warwickshire aligning with the national trend. Local services businesses are positive about the domestic market, however sentiment about the services overseas market have fallen. The local manufacturing business sentiment is solidifying around growth in both domestic and overseas markets.

"While there are local short-term concerns, especially around recruiting, labour costs and interest rates – both the local manufacturing and service sectors show strong confidence that business is expected to improve over the next 12 months."

Domestic Market:

The domestic orders index displayed a positive picture amongst Coventry & Warwickshire's services and manufacturing sectors. However, the very low response rate for local manufacturing companies in Q4 2023 makes comparison to previous results less meaningful.

The local service sector's domestic orders index increased from 58.4 in Q4 2023 to 66.1 in Q1 2024. This indicates continuing growth for domestic orders, while slightly softer in terms of advanced orders. Increases were seen in both the current and advanced orders index, increasing to 70.0 and 61.8 from previous quarter readings of 60.5 and 56.2 respectively. This comes as result of around 91% of businesses responding suggesting that their current and advanced orders had either increased or remained constant in Q1 2024.

The domestic orders index within the local manufacturing sector is more meaningful, moving from 33.3 in Q4 2023 to 54.5 in Q1 2024. This was down to the current orders index score and advanced orders index score stabilising from 33.3 and 33.3 in Q4 2023, to 50.0 and 59.1 respectively in Q1 2024.



Overseas Market:

The overseas orders index decreased for the second quarter in a row for both the services sector and for the manufacturing sector, within Coventry & Warwickshire in Q1 2024.

The service sector saw a decrease in its overseas sales index moving from 50.0 in Q4 2023 to 43.2 in Q1 2024. The decrease was due to slightly more respondents indicating that sales were decreasing than increasing in Q1 2024. The results for advanced orders were lower than the results for current orders, suggesting an ongoing downward trend.

The manufacturing overseas orders index saw a smaller downturn, with the index value remaining above the 50-mark at 53.1 in Q1 2024 from 58.3 in Q4 2023. In the latest quarter, for both current sales and advanced orders the majority of respondents indicated neither an increase nor a decrease.



Employment:

The service sector employment index remained flat at 56.3 in Q1 2024. The labour force index increased for the last 3 months and decreased in the next 3 months. The index score remained above the 50-mark, showings signs of continuing employment optimism amongst local service businesses in Q1 2024. Less than half (35.5%) of service respondents indicated that they attempted recruitment in Q1 2024 with a majority (72.4%) of them indicating that they came across recruitment difficulties.

The manufacturing sector saw a very slight drop in its labour force index, moving from 58.3 in Q4 2023 to 56.8 in Q1 2024. The index remains above 50 as respondents indicate that their labour forces neither increased or decreased in the last 3 months, with some expectation of expansion looking forward to the coming 3 months. A large minority of respondents (45.5%) attempted recruitment in Q1 2024, with the vast majority being for full-time roles. Of those that attempted a recruitment drive, 85.7% indicated that they encountered difficulties in hiring.



Investment & Cashflow:

The investment & cashflow index for the local service sector jumped back above 50 in the first quarter after moving below 50 in the fourth quarter of 2023, while the manufacturing sector returned to a positive centre ground.

The service sector investment & cashflow index experienced an increase from 47.1 in Q4 2023 to 56.1 in Q1 2024. The increase was mainly driven by an increase seen in the cashflow component, which increased from 47.0 in Q4 2023 to 58.1 in Q1 2024. The investment component improved almost as strongly to 54.7 from 47.1 in the previous quarter. 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 a majority of respondents suggested that investment in training also remained constant.

The manufacturing investment & cashflow index recovered strongly, moving from 38.9 in Q4 2023 to 53.3 in Q1 2024, reversing the drop in the last quarter and showing hope of reduced variability amongst the local manufacturing sector in terms of its cashflow and investment.

The cashflow component experienced the largest increase, moving from 16.7 in Q4 2023 to 50.0 in Q1 2024 with only one in ten respondents indicating that their cashflow levels had worsened in the first quarter of 2024. The investment component increased from 50.0 to 55.3, with the same proportion of responses indicating investment increased or decreased in Q1 2024.



Business Confidence:

The local service sector business confidence index showed significant strength, and the manufacturing sector business confidence remained strong in the first quarter of 2024.

The service sector index value improved noticeably from 61.8 in Q4 2023 to 70.7 in Q1 2024, indicating strong and growing optimism amongst local service businesses. The increase comes primarily from the turnover component being very high while the profitability component was not quite as high; 95% of respondents saw turnover increasing or remaining constant, and 85% of respondents saw profitability increasing or remaining constant.

Twenty-seven percent of service sector respondents suggested that they were working below full capacity in Q1 2024, a significant drop from the previous quarter where more than half were working below full capacity.

Price pressures remain a significant concern. Q4 2023 saw 40% of service sector respondents indicate that they expect price increases in the next 3 months. Sixty-eight percent of service businesses who responded indicated price pressures are expected to come from "Labour costs", while twenty-seven percent were concerned about "Other overheads". Thirty-two per cent of respondents indicated "Inflation" as the main sources of

external price pressure impacting business operations, significantly less than in Q4 2023.

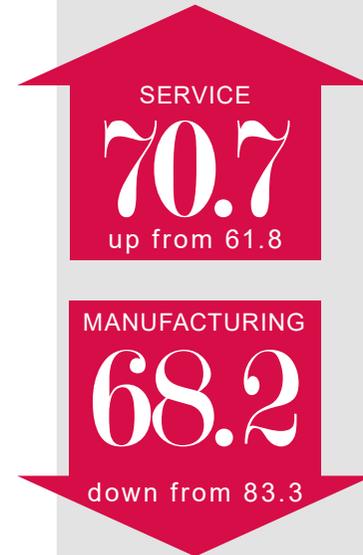
Business confidence amongst the local manufacturing sector showed solid strength in the first quarter of 2024. The index score moved from a sharp jump to 83.3 in Q4 2023 to a very strong yet less dynamic 68.2 in Q1 2024. The strength included responses indicating strong turnover, while the profitability component was below 50.

Turnover moved from to 83.3 in Q4 2023 to 72.7 in Q1 2024, with 54.5% of the manufacturing respondents suggesting that they expect their turnover to increase in the coming 12 months. Despite the strong business confidence for manufacturing, the profitability component dropped to 45.0 in Q1 2024 from a previous quarter reading of 83.3. This came as a result of only 10.0% of respondents from the manufacturing sector expecting profitability to increase in the coming 12 months.

In terms of capacity levels, 45.5% of respondents in the manufacturing sector indicated that they had been operating below full capacity during Q1 2024. This is a reversal from the previous quarter where it

was all of respondents.

Looking forward to the next 3 months, less than half (45.5%) of local manufacturers that completed the survey expected price pressures to increase, with "Labour costs" (90.9%) dominating the results in terms of internal prices pressures. As opposed to local service businesses, the majority (54.5%) of manufacturers indicated that "Interest rates" would be the biggest external factor contributing to pricing pressures followed by "Corporate taxation" (36.4%).





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