



BRITISH CHAMBERS OF COMMERCE QUARTERLY ECONOMIC SURVEY Q.1 2017

COVENTRY AND WARWICKSHIRE RESULTS

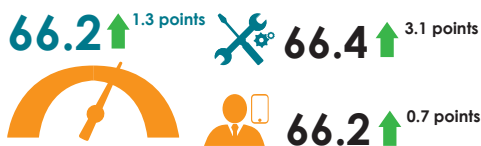
Quarter 1 2017 Analysis

For 2017, we have introduced a new way of analysing the responses provided by businesses through the Quarterly Economic Survey. We are basing our results on an Economic Outlook Index, which can be broken down into its component parts. The Index looks at 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 a majority of respondents feeling positive and less than 50 a majority feeling negative. The way that this Index is calculated enables comparisons to be made with the widely used Purchasers Managers Index (PMI) nationally, and regional PMI based analysis.



Q1 2017

ECONOMIC OUTLOOK



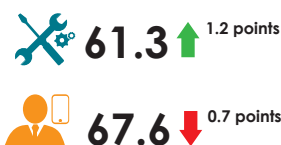
The Economic Outlook Index for Quarter 1 2017 stood at a healthy 66.2 – up a little from a score of 64.9 for Q4 2016. The optimism was shared equally between the manufacturing sector (66.4) and the services (66.2). There has been a greater strengthening in the outlook for Manufacturing since the last quarter, up 3.1 points from 63.3 to 66.4; while the outlook for

Services has been more stable (up just 0.7 points from 65.5 to 66.2).

The position in Coventry & Warwickshire through this QES is markedly stronger than both regional and national PMI-based indicators. The West Midlands PMI (produced by the West Midlands Economic Forum in conjunction with Birmingham City University) posted a score of 57 in February, down from 60.1 in January. Nationally, the Markits Manufacturing PMI stood at 54.6 in February (down from 55.9 in January) and the Services PMI was 53.3 (down from 54.5).



DOMESTIC ORDERS

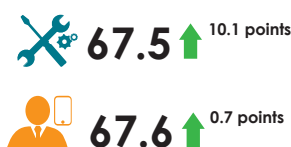


The Index for Domestic Orders for Q1 2017 stood at 61.3 for Manufacturing, and 67.6 for Services. This is a slight improvement over the previous quarter for Manufacturing (up 1.2 points from 60.1), but a small fall for Services (down 0.7 points from 68.3).

For manufacturing, there was a broadly equal split in scores between current sales and bookings, and outlook for future sales and custom (61.2 and 61.4 respectively). For Services, there was a more marked difference between the two, with current sales activity performing more strongly (69.2) than expected future orders (65.9). So, while domestic orders are performing strongly for both parts of the economy, there is an expected slight falling off of activity in the next quarter – particularly in the Services sector.



OVERSEAS ORDERS



With respect to **the Index of Overseas Orders**, the manufacturing sector is significantly more buoyant than the services sector, with the Index standing at 67.5 compared to 57.4. This probably represents the greater levels of exporting undertaken by manufacturing businesses compared to the service sector, and the beneficial impacts of a lower pound in boosting

sales and orders of manufactured goods. While the services sector has similar scores for both current orders and for future sales, manufacturers were slightly more optimistic about future sales with a higher score (67.8) than for current orders (67.1).

EMPLOYMENT



 **64.1** ↓ 1.7 points

 **63.7** ↑ 1.3 points

The Index for Employment has seen a slight decrease for Manufacturing this quarter (down to 64.1 compared with 65.8 in the previous quarter), but a slight increase for Services (up to 63.7 from 62.4). Over 50% of respondents from the manufacturing sector had attempted to recruit in the past 3 months, the majority full-time and permanent positions. However,

a huge 87% of those companies had experienced difficulties in recruitment – mostly in skilled manual/technical and professional/managerial occupations.

A slightly lower amount of respondents from the service sector had looked to recruit (45%), and had also faced problems with 67% stating they had faced recruitment difficulties. These were broadly spread across different occupations, but with a largest difficulty at the professional/managerial level.

Looking ahead to the next three months, both sectors were confident about the need to take on more staff (an index for future recruitment of 68.6 for manufacturing and 65.2 for services). However, this increasing demand is likely to exacerbate the difficulties being faced in terms of finding new staff with the suitable skills required.

INVESTMENT & CASHFLOW

%



 **61.4** ↓ 6.9 points

 **58.9** ↑ 0.8 points

The overall index for Investment and Cashflow has shown a marked reduction for the manufacturing sector. Whilst still well above the line separating growth and contraction, the score for manufacturing fell from 68.3 in Q4 2016 to 61.4 in Q1 2017. Conversely, the service sector saw a small upturn, rising 0.8 from 58.1 to 58.9.

With respect to manufacturing, this fall was driven by a reduction in respondents reporting that cashflow was improving (falling from a score of 60.5 last quarter to 55.8 this quarter), and that investment in training was increasing (falling from 68.1 to 58.5). However, investment in plant & machinery was still strong within the sector, with a score this quarter of 70.1 (compared to 76.3 in the previous quarter). Given the difficulties in recruitment being faced by manufacturers, this drop (albeit still positive) in reported investment in training is of some concern.

In terms of the services sector, scores for cashflow have decreased slightly (59.3 compared to 60.9 in the previous quarter); investment in plant & machinery holding steady at 57, but a good increase in investment in training (rising 4.5 points from 55.9 to 60.4).

Issues over cashflow are likely to be due to rising cost pressures. 42% of respondents from the manufacturing sector stated that they felt prices and costs would rise in the next three months (largely driven by increased raw material prices), and only one respondent thought they would fall. 35% of respondents from the service sector were anticipating a rise, and again just 3% were forecasting a reduction. Over a third of respondents from this sector indicated that increased competition was having an impact, along with business rates and inflation.

BUSINESS CONFIDENCE



 **76.0** ↑ 16.0 points

 **78.9** ↑ 2.1 points

Despite a relative fall in positive respondents with respect to cashflow, businesses within Coventry & Warwickshire remain very confident about the future. **The Index for Business Confidence** stands at a very healthy 76 for manufacturing, and even better score of 78.9 for services. This is a significant improvement for manufacturing (up 16 points on the previous

quarter), and a more modest rise for services (up 2.1 points). This optimism appears to be driven by expected future improvements in turnover, with the large majority of manufacturers expecting to see a significant improvement over the next 3 months.



BUSINESS GROWTH SURVEY Q.1 2017

Coventry & Warwickshire Chamber of Commerce

Where do you see the opportunities for growth?

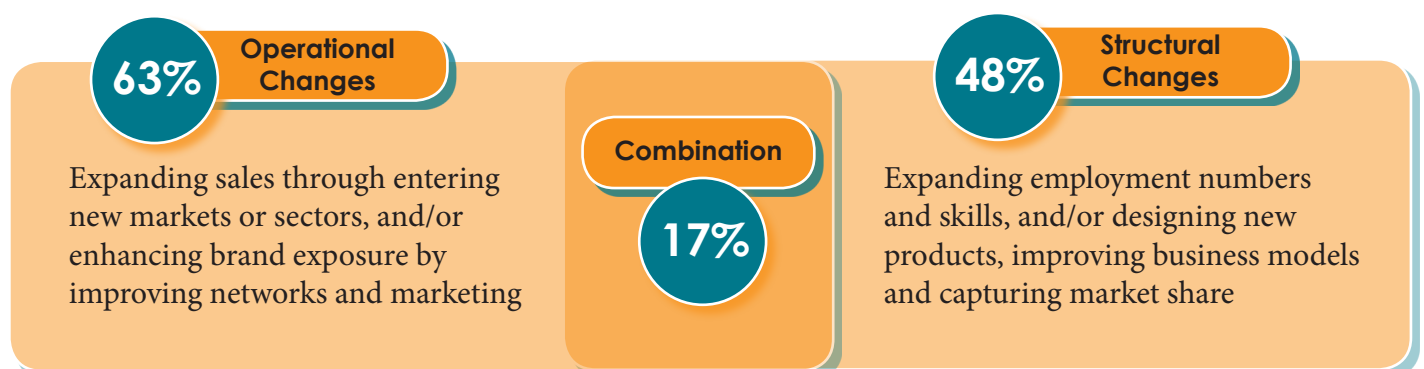
The responses to this question were open-ended and thus varied. Of the 413 respondents, 259 people answered this question, a response rate of 63%. The best way to analyse the responses was categorising them into 'Operational' and 'Structural' growth opportunities.

Structural growth opportunities refer to changes in the structure of the existing business to generate growth. Examples include; more staff, improving skills, training & R&D, new products, outsourcing, acquisitions and new property. 125 respondents (48%) believe altering the structure of their firm would lead to the best growth opportunities. Two-thirds of these firms were focussed on bringing new products to market to stimulate growth. The second largest proportion of firms in this category identified Training & R&D would be most important for their growth. However, only 3% of firms felt employing more people would lead to growth.

Operational growth opportunities refer to the approach of firms to expand sales with existing products to generate growth. Examples include; expanding into new (export) markets, new sectors, online presence, advertising, networking and events. 164 respondents (63%) believe changes in these operations could lead to the best growth opportunities.

Over half felt accessing new markets would be the leading opportunity for growth in the coming months. Half of these felt this opportunity was greatest in export markets, perhaps making the most of the weaker pound. 27 firms believe improvements in brand exposure will be the leading opportunity for the expansion of their business.

17% of firms identified expanding both the operation and structure of their firms would be most effective in generating growth. Diversification with regards to new markets and new products was clearly the most popular option in this category, with the majority of firms expressing this opinion.

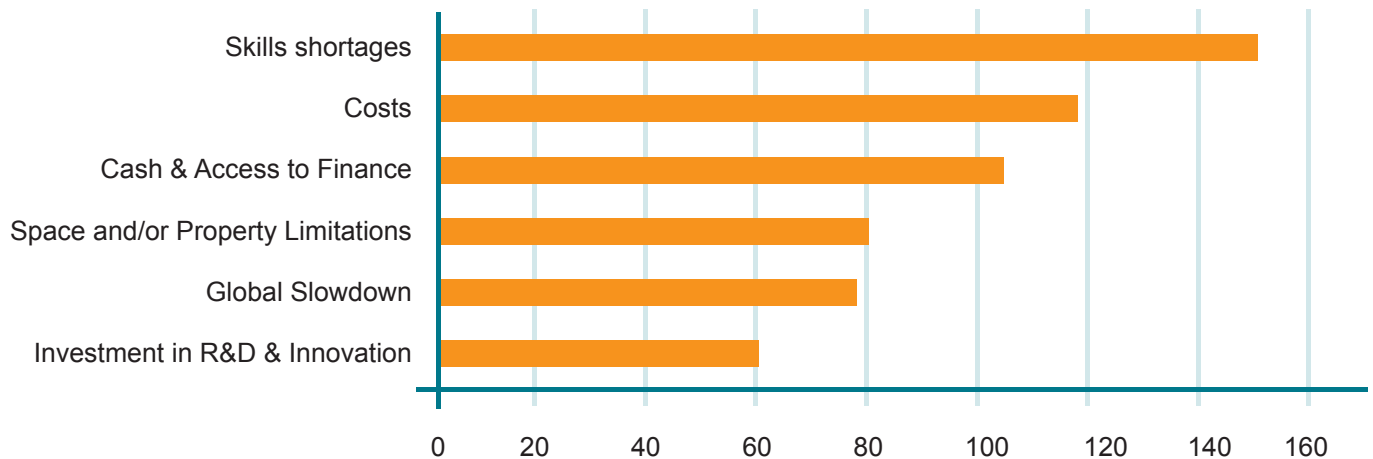


A small proportion (15%) of firms believed that changes in government legislation, public confidence and funding opportunities were where growth opportunities lie in the coming months.



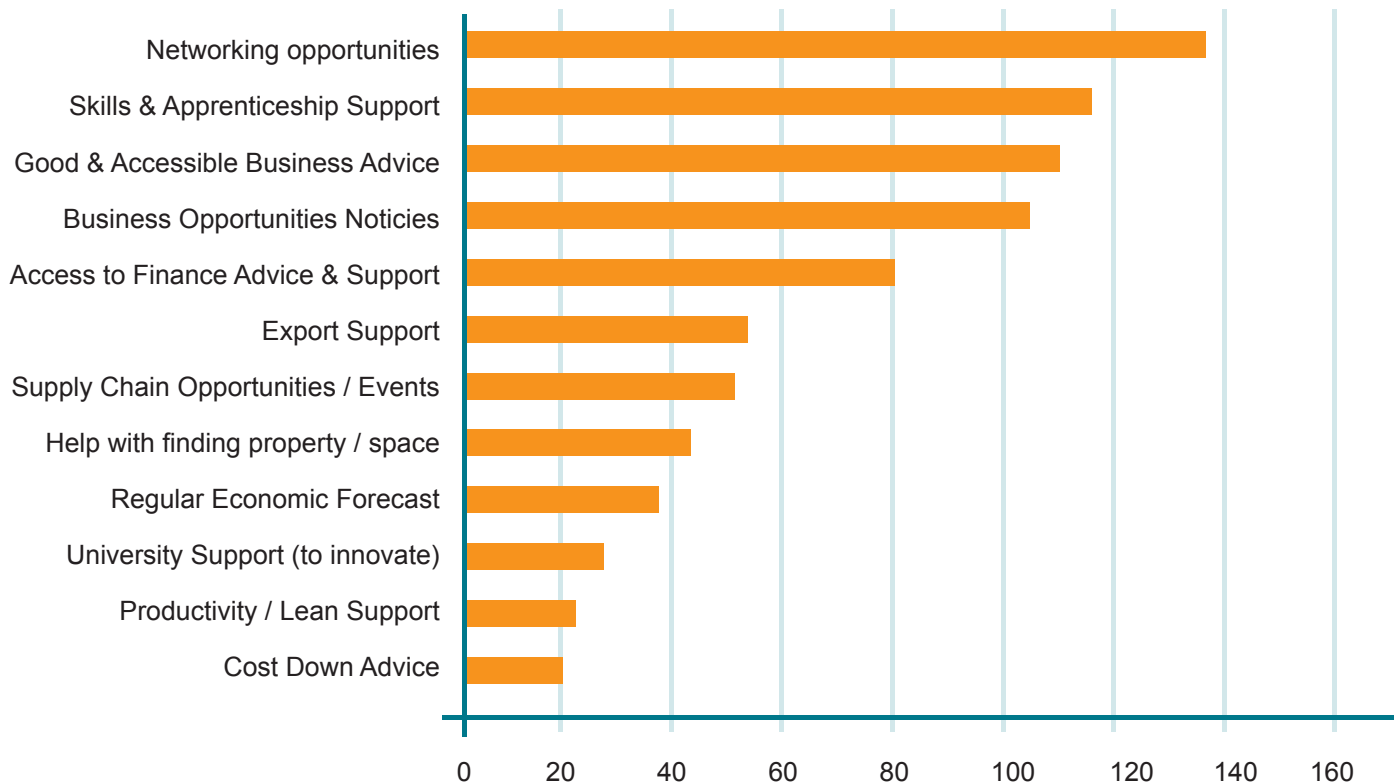
What, if any, are the perceived barriers to the growth of your business?

The results from this question show a clear indication of a skills shortage in the area. Costs and Access to finance come in second and third, respectively.



What kind of business support, if any, would you be seeking to assist the growth of your business?

Networking Opportunities come out as a clear favourite in terms of business support. Skills & Apprenticeship Support comes in second, which is no surprise on the basis of the results from question 2.





BUSINESS GROWTH SURVEY Q.1 2017

SUMMARY

The table below identifies businesses by the growth opportunities they have identified, and the subsequent barriers to growth these firms are facing:

<i>Figure 1</i>	Expanding Sales 147 respondents		Expanding Business 109 respondents	
Costs	47	32%	38	35%
Skills Shortages	50	34%	38	35%
Accessing Finance	44	30%	31	28%
Investing in R&D	24	16%	32	29%

Those looking to expand sales through accessing new markets and sectors found skills shortages to be the biggest hurdle to growth. Skills shortages alongside costs were also the biggest barriers to growth for those looking to expand their businesses through acquisitions, new products and/or new property. This is no surprise given they were the two most popular answers for question 2. However, if we break this down into the size of the firm, the results become more informative:

<i>Perceived barriers to your business growth</i>	micro (0-9) 198 businesses		small (10-49) 126 businesses		medium (50-249) 61 businesses		large (250+) 28 businesses	
Cash & access to finance	68	34%	22	17%	10	16%	1	4%
Invest more in R&D & Innovation	22	11%	20	16%	12	20%	5	18%
Skills Shortages	46	23%	56	44%	31	51%	10	36%
Space and/or Property Limitations	29	15%	35	28%	8	13%	6	21%
Costs	53	27%	35	28%	21	34%	6	21%
Global Slowdown Concerns	28	14%	27	21%	14	23%	6	21%

Small to medium businesses are those who are struggling most with skills shortages. 44% and 51% of businesses who employ 10-49 and 50-249 people, respectively, in the sample mentioned skills shortages as a barrier to growth. These are exactly the firms that require expertise to expand. More experienced employees with networks in multiple sectors or export markets would allow these firms to capture growth opportunities.

Costs are a barrier for every sized firm. We can narrow this down by sector to find a high proportion of businesses in manufacturing, marketing and transport sectors reporting costs as their biggest barrier to growth. Almost half of manufacturing firms are worried about increasing costs, in contrast to approximately 1 in 5 businesses in construction, customer service and cultural/creative sectors.

Investing in R&D, row 4 in **Figure 1**, was considered a main barrier to growth for businesses that identified new products as important to expanding their business. This is a notable difference to those looking to expand sales, and is unsurprising given the R&D investment required to develop new products successfully. The proportion of medium-sized firms struggling with R&D is almost double that of micro-sized firms (11%-20%). From the table below, we can see that 38% of medium and 40% of small businesses are placing emphasis on new products for future growth opportunities. This is a higher proportion than micro businesses and could explain why medium sized firms are more concerned about investing more in R&D.



Accessing finance is the third largest barrier to growth for firms who consider expanding sales as their main growth opportunity. Micro-sized businesses are clearly driving this result, as more than a third (34%) of this category feel access to finance is a problem. This barrier seems to tail off as firms get larger.

<i>Opportunities for growth</i>	micro (0-9) 198 businesses		small (10-49) 126 businesses		medium (50-249) 61 businesses		large (250+) 28 businesses	
New Markets	40	34%	28	34%	22	49%	7	47%
New Products	37	32%	33	40%	17	38%	3	20%
Exports	22	19%	14	17%	10	22%	3	20%

Location is also important, as firms in Coventry may not face the same problems as those in Warwickshire. In the table below there is a distinct difference between businesses in Coventry and Warwickshire who face skill shortages. 41% of firms in Coventry felt it was a barrier to growth, relative to 32% in Warwickshire. Costs, access to finance and the global slowdown seem also to be more of a concern in Coventry.

Finally, space and/or property limitations in Warwickshire are a barrier to growth for 21% of businesses, compared to only 15% in Coventry.

Export market growth opportunities will be important for the longevity of the UK economy following the exit from the EU. Coventry and Warwickshire have the second largest export value in England behind London. 1 in 5 businesses in the survey reported export markets were the biggest growth opportunity for their firm. This proportion is relatively evenly distributed across all sizes. Just under a third of these businesses believe 'skills shortages' are their largest barrier to growth, perhaps signalling that they require expertise in the export department to exploit these opportunities. Indeed, more than half of firms wanting to expand sales through exporting felt they required export support, captured in the third question. Twice as many required this form of support than any of the others.

<i>Perceived barriers to your business growth</i>	Coventry		Warwickshire	
Cash & Access to Finance	33	27%	59	23%
Invest more in R&D & Innovation	16	13%	39	15%
Skills Shortages	50	41%	83	32%
Space and/or Property Limitations	19	15%	54	21%
Costs	40	33%	67	26%
Global Slowdown Concerns	24	20%	43	17%

Identifying the need for support is one of Warwickshire County Council's biggest priorities. The following table looks at the same categories as before, but the support that they require most:

<i>Figure 2</i>	Expanding Sales 147 respondents		Expanding Business 109 respondents	
Networking Opportunities	54	37%	38	35%
Business Opportunities	42	29%	32	29%
Skills and Apprenticeship support	41	28%	34	31%
Accessing Finance support	39	27%	34	31%
Regular Economic Forecasts	13	9%	4	4%
University Support to Innovate	6	4%	15	14%



Across the board in **Figure 2**, the top four rows are the four most required forms of support. Networking opportunities are by far the most valued among businesses, with business opportunities, skills & apprenticeship support and accessing finance making up the top four. University support is more important for expanding businesses, which makes sense given these firms are most concerned about R&D. Analysis has been done on support by location, however, there were no big differences between Coventry and Warwickshire, other than skills & apprenticeship support. The proportion of businesses in Coventry requiring skills & apprenticeship support was over 20% higher than Warwickshire. This is unsurprising given more firms were worried about skills shortages in Coventry.

Business support requirements by size is more informative. The table below breaks the support sought after by employment numbers:

<i>Support sought for your business growth</i>	micro (0-9) 198 businesses		small (10-49) 126 businesses		medium (50-249) 61 businesses		large (250+) 28 businesses	
Good & Accessible Business Advice	68	34%	20	16%	16	26%	4	14%
Skills & Apprenticeship Support	33	17%	48	38%	26	43%	6	21%
Export Support	23	12%	20	16%	9	15%	1	4%
University Support (to innovate)	9	5%	13	10%	5	8%	0	0%
Access to Finance Advice & Support	52	26%	19	15%	7	11%	2	7% 14%
Productivity / Lean Support	7	4%	5	4%	9	15%	4	
Supply Chain Opportunities / Events	17	9%	24	19%	6	10%	3	11%
Regular Economic Forecasts	20	10%	7	6%	6	10%	4	14%
Cost Down Advice	14	7%	4	3%	4	7%	0	0%
Business Opportunities Notices	55	28%	35	28%	14	23%	3	11%
Help with finding properties / spaces	19	10%	20	16%	4	7%	1	4%
Networking Opportunities	81	41%	40	32%	19	31%	3	11%

To be expected is the business support craved by micro firms. As we have seen earlier, these are firms trying to access new markets and produce new products. It is therefore, also no surprise that 2 in 5 businesses in this category feel networking opportunities are really important.

Skills & Apprenticeship support is desired most by small- to medium-sized businesses. These two groups also reported the largest skills shortages in question 2. There is a clear link between the two questions, as more than half who mentioned skills shortages as a problem, required skills & apprenticeship support. Small- and medium-sized businesses will most likely be focussing more on expanding their existing businesses to capture more market share and customers. To expand into new markets, these firms will need to employ more people with the right expertise and networks, rather than utilise business support.

Access to finance support seems to tail off as companies get larger, perhaps due to the greater internal resources available to well-established, large businesses. On-the-other hand, larger businesses seem to require relatively more productivity/lean support.

Finally, we can assess support by sectors. There is a particular need for skills & apprenticeship support for public/voluntary sector services, tourism and construction. Export support is the most required support in the manufacturing and transport & distribution sectors. The most important form of support for the professional service sector is networking. This sector has the largest proportion of firms in our sample and the highest proportion expressing their need for networking opportunities. The retail/wholesaling sector would like to receive good & accessible business advice and access to finance support the most. Lastly, regular economic forecasts seem to be most useful for the construction and tourism sectors.



BRITISH CHAMBERS OF COMMERCE QUARTERLY ECONOMIC SURVEY Q.1 2017

COMMENTS



Louise Bennett
CEO

Coventry & Warwickshire
Chamber of Commerce

We are very pleased to be working in partnership with Warwickshire County Council on our Quarterly Economic (QES) and I must particularly thank Dave Ayton-Hill for his diligent and extremely informative analysis of these first results of 2017.

The QES is a national survey which we, as a Chamber, feed into and it provides a barometer for both the regional and national economy. It's one of the most important surveys undertaken with UK businesses and helps to inform Government and the Bank of England on the mood among companies.

We are delighted with response for this first survey of the year and we thank each and every member for taking the time to fill in the survey as, the more companies that take part, the more accurate the results we produce.

Of course, in these uncertain times (with Article 50 triggered and Brexit on the not-too-distant horizon) business confidence is going to be a very important measure and the QES is perfect for that.

So, despite the uncertainty, it is very pleasing to see that, on the whole, businesses on our patch remain confident and believe that they are in a strong position to make the most of the opportunities that lie ahead.

Here at the Chamber, we are ready to support businesses in their plans to grow and work closely with the likes of Warwickshire County Council to deliver programmes that help businesses of all sizes and sectors to achieve success.

This is Warwickshire County Council's first edition of the Quarterly Economic Survey (QES) review and I would like to thank the Chamber for the opportunity and my team in Economy and Skills for assisting with the preparation of the report.

A very good number of firms responded to this quarter's QES. A larger sample makes for a more representative business mood in the survey and can lead to sound analysis.

Although the data presented in the report shows general business attitudes in Coventry and Warwickshire, it would be remiss to assume that all sectors are facing skills shortages and all firms are struggling with access to finance.

Businesses are fundamentally different in size, sector and location and I have structured the analysis to voice the concerns and perspectives of firms taking into account their differences.

Identifying the need for support is one of Warwickshire County Council's biggest priorities, we need to support stronger growth in our small and micro businesses.

Small businesses are the lifeblood of the economy and the data captured in the survey will enable us to do much more to address the needs within the business community, working alongside partners such as the Chamber.



Dave Ayton-Hill
**Group Manager for
Economy and Skills**

Warwickshire County Council



Warwickshire County Council

Economy and Skills

Support:

- ▶ Start-up support (via the C&W Chamber of Commerce)
- ▶ Business Growth Support
- ▶ Access to Finance
- ▶ Skills & apprenticeship support
- ▶ Commercial property searches and location advice
- ▶ Local data & intelligence
- ▶ Flexible & affordable business units

For more information visit:
www.warwickshire.gov.uk/business

The Economy & Skills Team provide a range of support and help for businesses to enable them to prosper and grow, and was recognised in the recent 2016 Enterprising Britain awards for its work to improve the local business environment.

The Warwickshire area also benefits from a wide package of financial support including European Regional Development Fund (ERDF) investment grants, ERDF innovation grants, ERDF low carbon grants, LEADER grants in North Warwickshire, RDPE Growth Grants and Warwickshire County Council's Capital Growth Fund – Small Capital Grants. We also provide pro-active support to help businesses access finance, and identify the most suitable forms of support available to them.

The Coventry and Warwickshire Business Support Programme is part-funded by the European Regional Development Fund Warwickshire County Council and Coventry City Council.