



BRITISH CHAMBERS OF COMMERCE QUARTERLY ECONOMIC SURVEY

COVENTRY AND WARWICKSHIRE RESULTS

□ □ □ ■ Q4 2017





COVENTRY AND WARWICKSHIRE RESULTS

Quarter 4 2017 Analysis

Our results are based 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.



Q4 2017

ECONOMIC OUTLOOK

67.3 ↑ 3.9 points



71.1 ↑ 5.7 points



66.2 ↑ 3.2 points



The **Economic Outlook Index** for Coventry & Warwickshire for the 4th quarter shows a strong improvement in business confidence, with the overall increasing rising by 3.9 points to 67.3. This is the strongest reading for the whole of 2017, and shows that Coventry & Warwickshire businesses are ending the year on a high. Both service and manufacturing services have seen good improvements, with the Economic Outlook Index for Manufacturing reaching a new high of 71.1 (up by a huge 5.8 points), and Services matching their old high of 66.2 (previously set in Q2 2017), with a rise of 3.2 points on the previous quarter.

The Coventry & Warwickshire Economic Outlook Index continues to remain well above both regional and national comparator PMIs (Purchasers Managers Index). The West Midlands Regional PMI (produced by the West Midlands Economic Forum in conjunction with Birmingham City University) for September stood at 57.2, which saw a slight rise on the previous month but not as significant growth as we have seen in Coventry & Warwickshire.

Nationally, the Markits Manufacturing PMI has been largely flat, with the latest figures standing at 56.3 (up just 0.3 on September), and the Services PMI has seen a slight improvement, rising from 53.6 in September to 55.6.

The rise in the Economic Outlook is heartening given wider concerns about economic uncertainty and falling consumer confidence within the UK economy. Clearly our manufacturing sector is continuing to benefit from the low pound and strong growth in the EU and global markets; and the strengthening of the service sector suggests that the local domestic economy remains buoyant and performing well above the national average.



DOMESTIC ORDERS



70.0 ↑ 5.4 points

67.7 ↑ 6.0 points

The **Index for Domestic Orders** for Q4 2017 shows strong growth, with the service sector seeing the strongest growth – rising 6 points to 67.7 (61.7 in Q3); but manufacturing not far behind with growth of 5.4 points to take it to a reading of 70.

The strongest growth has been in sales over the past 3 months, with services seeing a rise of 7.3 points on the last quarter (taking it to 71.1), and manufacturing seeing growth of 6.4 points to 71.4. The level of recent sales has perhaps surprised businesses, who in Q3 were suggesting a weakening of advanced orders for the end of year period.

In this quarter, the advanced orders index also saw good improvements, but rates were slightly lower than for current sales. This index for services rose 4.5 to 64, and for manufacturing increased by 4.6 points to 68.8.



OVERSEAS ORDERS



67.9 ↑ 5.9 points

53.7 ↓ 3.0 points

It is pleasing to see that **Overseas Orders** for manufacturing have rebounded from the previous quarter (where we saw strong falls from Q2 to Q3). The Index of overseas orders for manufacturing rose by 5.9 points to bring it back up to 67.9. Again, this is driven more by current sales (up 7.5 points to 70.2), with advanced sales for this sector seeing slightly lower growth of 4.3 points to 65.6).

The service sector saw a fall in the overseas orders index, dropping 3 points to 53.7 – its lowest reading for 2017 and getting quite close to the 50 mark that separates growth with contraction. The drop was driven both by a fall in current sales (down 3.4 points to 54), and advanced orders (falling 2.5 points to 53.5).



EMPLOYMENT

66.5 ↑ 0.4 points

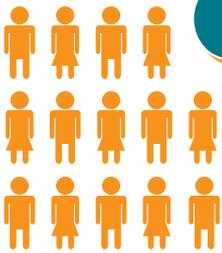
63.1 ↑ 2.1 points

The **Index for Employment** has risen for both manufacturing (up 0.4 from 66.1 to 66.5) and services (up 2.1 from 61.0 to 63.1). However, when we look at the split between what has happened in the past 3 months compared to what businesses are forecasting for the next 3 months, we see a divergence in the manufacturing sector.

Manufacturers have recorded a drop in the index for employment over the past 3 months (down 1.5 points to 65.9), but are expecting growth over the next 3 months (rising 2.4 points to 67.1). The service sector are seeing a growth in the index for employment over the past 3 months (up a strong 4.5 points to 61.9), but flat for the next three months (staying at 64.3). This could perhaps be linked to the Christmas period boost seen in a number of service sector industries....



EMPLOYMENT



66.5 ↑ 0.4 points



63.1 ↑ 2.1 points

...continued

Demand for labour remains high in Coventry & Warwickshire, with over half of manufacturing businesses (59.6%) and service sector businesses (52.5%) having attempted to recruit over the past three months. However, the labour market remains tight and competitive given the low levels of unemployment in the region, and nearly three quarters of all businesses surveyed who had attempted to recruit stated that they had faced difficulties. The main roles that have been hardest to recruit remain the same as Q3 – skilled manual workers in manufacturing, and professional/managerial in the service sector.

%

INVESTMENT & CASHFLOW



68.1 ↑ 5.8 points



63.1 ↑ 1.7 points

Manufacturers surveyed in Q4 have indicated a slight worsening in **Cashflow**, dropping from 65.7 to 64.8. However, the sector has seen a significant strengthening in **Investment** (up 9.4 points from 60.5 to 69.9) – driven both by investment in plant & machinery (+10.4 points to 70.5), and investment in training of staff (+8.4 points to 69.3).

The service sector has seen an improvement in both cashflow (up 1.8 points to 62.7), and in the index for investment (up 1.6 points to 60.8). Again, both the sub-components of the investment index (capital investment in premises and machinery; and investment in training) have seen improvement – rising 2.4 points and 0.8 points respectively.

BUSINESS CONFIDENCE



80.0 ↑ 9.8 points



78.0 ↑ 6.3 points

In line with the rest of the data provided, the index for **Business Confidence** shows a strong rebound for the Q3 position, taking them back to near the highs experienced in Q2. The index for manufacturing rose by nearly 10 points, increasing from 70.2 in Q3 to 80.0 in Q4. Services also saw good growth, rising 6.3 points to a strong 78.

For the manufacturing sector, the sub-index looking at expected turnover for the next 12 months increased by 9.5 points to a very high 82.9, and expectations around profitability over the coming year rose by a huge 11.7 points (up from 66.4 to 77.1).

The service sector also saw good growth within the sub-indexes, with expectations over turnover for the coming 12 months seeing a rise from 73.9 in Q3 to 79.7; and profitability over that period rising by 6.8 points to 76.3.



Louise Bennett
CEO
 Coventry & Warwickshire
 Chamber of Commerce

It has been great working with Warwickshire County Council on our Quarterly Economic Survey (QES) over the past year and the thorough, detailed analysis provided by the Economic team has proved invaluable.

The final survey of 2017 has showed that Coventry and Warwickshire companies are more confident now than at any stage throughout the past 12 months.

This is extremely encouraging news – especially when you considered all of the uncertainty we are seeing around Brexit and the economy.

Coventry and Warwickshire does have plenty of reasons to be cheerful and there have been some very exciting announcements in recent weeks to continue that cheer as we head into a New Year.

Business in Coventry & Warwickshire are clearly feeling much more confident about current and expected future business performance, with a strong “bounce-back” from the drop seen in Quarter 3. Both the manufacturing and service sector end the year strongly, with the former reaching record highs in terms of the overall Economic Outlook Index, and the latter matching their previous highest level.

Confidence about turnover and profitability over the next 12 months is very strong, boding well for the area for 2018. This is also shown by a marked increase in investment activity, both within property/plant/machinery and also staff training. This is somewhat in contrast to the overall national picture, where high inflation, weakening consumer spending and uncertainty over Brexit are starting to impact on slower growth and delays around decisions on investment activity. It is therefore pleasing to see Coventry & Warwickshire bucking the trend, and places in a strong position for 2018.



Dave Ayton-Hill
**Group Manager for
 Economy and Skills**
 Warwickshire County
 Council



Martyne Manning
**Policy Manager and
 Business Advisor**
 Coventry & Warwickshire
 Chamber of Commerce

The figures from the latest QES are extremely positive and put Coventry and Warwickshire businesses in a great position to grow in 2018.

However, skills remains an issue for businesses across our patch with 62 per cent saying their company is suffering from a skills shortage. 7 in 10 businesses will implement either a pay or no-wage related pay increase over the next 12 months as retention of key employees is vital in the current climate. Its encouraging that firms are looking at skilled labour alternatives such as apprenticeships or graduates or retaining existing employees. There is a concern that 1 in 2 micro-sized businesses are not considering alternatives and there is a fear that they may not be able to achieve their ambitions for growth with such a limited labour force supply.

The Chamber continues to work with partners right across the board to look to alleviate the issue for members across the city and the county. We have a dedicated Employability Group which is a working partnership between the Chamber of Commerce, Senior HR professionals, education providers and local authorities. We are here to support our local businesses and encourage firms to get in touch with us.



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.