



# BRITISH CHAMBERS OF COMMERCE QUARTERLY ECONOMIC SURVEY

## COVENTRY AND WARWICKSHIRE RESULTS

Q2 2018





## COVENTRY AND WARWICKSHIRE RESULTS

### Quarter 2 2018 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.

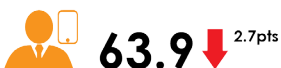


### ECONOMIC OUTLOOK

The **Economic Outlook Index** for Coventry & Warwickshire for the 2nd quarter of 2018 has seen a second successive deterioration, falling by 1.4 points to 65.0 – down from 66.4 in Q1 and 67.3 at the end of 2017.



The Economic Outlook Index for just the Service Sector is down by 0.8 points to 63.9, while the Outlook Index for Manufacturing is down from its previous record high in Q1 (71.5) to post 68.8 in Q2.



While it is somewhat disappointing that we have seen a fall in the overall index for the second quarter in a row, these are only minor variations over the average scores we have seen over the couple of years (64.7 for Services, and 68.2 for Manufacturing) and the picture is relatively stable. Moreover, the Index remains significantly higher than the national comparator Markits Purchasing Managers Index (PMI).

The national Manufacturing PMI for May 2018 was 54.4, and the Services PMI was 54.0; continuing to show a relatively more buoyant and confident economy despite some of the headwinds that are starting to blow.



## DOMESTIC ORDERS



The **Index for Domestic Orders** for Q2 2018 shows a mixed picture, and a reversal of what we saw in Q1. The service sector has seen a rise this quarter, moving from 65.2 to 66.1, somewhat offsetting the fall we saw from the high of 67.7 at the end of 2017. Conversely, the manufacturing sector has seen a fall in the Domestic Orders Index, dropping a significant 4.2 points from 67.8 to 63.6. This has been driven by a large reduction in advanced orders (down 6.5 points to 61.1), but also a smaller fall in orders received over the past quarter (down 2.2 points to 65.8).

Advanced orders within the Service Sector seem to be improving, rising from 62.3 in Q1 to 63.6 in Q2, and suggesting a slight pick-up in activity within this sector of the economy.



## OVERSEAS ORDERS



The **Index for Overseas Orders** has seen declines for both the manufacturing and services sectors. The manufacturing sector has seen a drop of 5.6 points to 63.8 – driven by both a decline in exports over the past 3 months (down 3.7 points to 65.3), and by a reduction in advanced orders (a fall from 69.8 to 62.3). However, both elements and the overall score is of course well above the 50 mark that demarcates growth and contraction. The index for the services sector has fallen from 56.0 to 53.3, which is clearly getting much closer to point of contraction. The drop has been spread equally across exports over the past 3 months (down 3.4 to 53.0), and in advanced export orders (down 2.1 to 53.6).

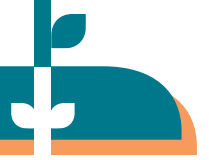


## EMPLOYMENT



The **Index for Employment** has fallen for the service sector for the second quarter in a row, and falling from 61.0 to 59.5. This is being caused by both a decline in employment activity over the past three months (down 1 point to 57.0), and expectations over employment over the next quarter (down 1.7 points to 61.9). However, despite this, the sector has reported an increase in difficulties in recruiting, with percentage of respondents stating that they had faced problems rising from 28% to 34%.

For the manufacturing sector, the Index for Employment has seen a small fall of 0.6 points to 67.5, suggesting that the sector has remained quite stable this quarter. Indeed, while expectations over future recruitment has dipped slightly (down from 71.3 to a still healthy 69.6), recruitment over the past three months has risen by 0.6 points to 65.4. As with the services sector, manufacturers have seen a slight increase in reporting difficulties in recruitment (an increase from 34% to 36% of respondents stating they had faced difficulties).



## INVESTMENT & CASHFLOW

**66.7** ↑ 1.1pts

**58.2** ↓ 0.5pts

Manufacturers surveyed in Q2 have indicated a slight improvement in the **Investment & Cashflow Index**, rising 1.1 points to 66.7. This is being pushed up by an improvement in capital investment (rising from 69.0 to 70.4) and human capital investment (up from 62.6 to 64.9, and aligned with the improvements in recruitment shown above). However, cashflow for the manufacturing sector has been largely flat, dropping just 0.1 points to 64.8.

For the service sector, the Investment & Cashflow Index has seen a slight fall, dropping 0.5 points from 58.7 to 58.2. All sub-elements have seen small falls, the largest being in human capital (down 1.8 points to 58.6 and again linked to the changes in recruitment highlighted above).



## BUSINESS CONFIDENCE

**78.1** ↓ 5.7pts

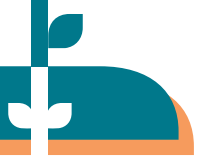
**76.5** ↓ 1.1pts

Given the overall slight weakening of activity seen across the various Indices measured in this survey, it is unsurprising to see that the **Business Confidence Index** for both the manufacturing and service sectors have experienced falls. Manufacturing sector confidence has fallen by 5.7 points to 78.1, but this must be put into context of the record high level of 83.8 posted in Q1 and still shows an incredibly high level of confidence around future business activity. While expectations around turnover over the next 12 months remains relatively stable, the fall is driven by a decline in profit expectations – suggesting an increase in cost pressures within the sector, with 55.6% of respondents highlighting concerns over rising costs in raw materials.

The index for the service sector has seen a slight fall, down 0.9 points to 76.5 – showing an equally robust view of future trading conditions within Coventry & Warwickshire. Again, the falls are driven by reduced expectations on profitability rather than turnover, with key cost pressures coming from “over overheads” (instead of pay pressures, raw materials or finance costs).

- GETTING TO GRIPS WITH NEW TECHNOLOGY
- DEVELOPING A DIGITAL MARKETING PLAN
- IMPLEMENTING SUPERFAST BROADBAND\*
- MOVING TO THE CLOUD





**Louise Bennett**  
**CEO**  
 Coventry & Warwickshire  
 Chamber of Commerce

The QES is a great gauge of how businesses are feeling across our patch and the results bear out what we are hearing anecdotally from companies.

There is still confidence and optimism in this region – which is why the index is still positive and way ahead of the national picture – but there is also an element of uncertainty creeping in which has seen the index drop slightly.

It's important to recognise that there is still strong confidence in the region and that companies, generally, have a positive outlook about doing business here.

But, equally, as a Chamber we will continue to give firms as much support as possible to help them grow either through getting out there and meeting potential new clients and, also, supporting and advising them on opportunities that are out there.



The changes reported in the results do not lead to any immediate concerns over business activity within Coventry and Warwickshire, it is perhaps worth noting that there has been a marked increase this quarter in businesses highlighting uncertainty over Brexit as being a key area of concern.

Economic theory highlights the importance of certainty and stable conditions to promote and stimulate business investment and confidence.

Until there is some more clarity around the Brexit negotiations, it is likely that we will continue to see some downward pressures on these indices, particularly the elements that are looking at future market opportunities and conditions.



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



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 your business now...

reach  
**FOR THE**  
 sky!



**FREE**  
**1-2-1**  
**SUPPORT**  
 for new  
 businesses



# Grow Your Business In Warwickshire



A programme of workshops and 1:1 support for start-up businesses and individuals interested in starting their own business



Support to tackle skills shortages and gaps by helping you build recruitment pipelines with schools, colleges and local universities.



Access our Business Ready programme with our partners, the University of Warwick Science Park



Flexible and affordable business units in our portfolio of Business Centres



Access to finance advice and business loans & grants schemes



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Commercial property searches and location advice



Innovation advice and support, able to link your business into strong knowledge and research base available locally



Soft landing support for UK and international business locating here



Economic intelligence and analysis



Free and impartial advice, support and brokerage on skills, apprenticeships and recruitment



Direct and connect businesses to the help and support available around trading standards and business regulations

**To find out more, contact us on:**  
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**01926 412709**  
**[www.warwickshire.gov.uk/business](http://www.warwickshire.gov.uk/business)**

For information about other support available to grow your business or general information and enquiries, contact the Coventry & Warwickshire Growth Hub on **0300 060 3747**.