



BRITISH CHAMBERS OF COMMERCE QUARTERLY ECONOMIC SURVEY

COVENTRY AND WARWICKSHIRE RESULTS

Q4 2018



Coventry & Warwickshire
Chamber of
Commerce
The Ultimate Business Network



Warwickshire
County Council





COVENTRY AND WARWICKSHIRE RESULTS

Quarter 4 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 Q4 2018 has seen a small fall from 65.2 to 62.5, this draws out the tentative and pessimistic attitude being felt this quarter in contrast to Q3 where business spirits seemed to be much sprightlier.

The Economic Outlook for the service sector has fallen by 2.6 down to 61.6 alongside the manufacturing sector which has also fallen by 3.8, down to 65.6.

The national comparator, the Markits Purchasing Managers Index (PMI), this quarter has reached a new 4 year low at 50.7. Both the manufacturing and services sector, similarly to Warwickshire have fallen too, to 53.1 and 50.4 respectively. With the date growing ever closer to the day the UK leaves the EU, and still no firm confirmation on what kind of withdrawal the UK will endure, the fall in these indexes is not unexpected as the economic surroundings grow increasingly uncertain and panicked.



DOMESTIC ORDERS

The Index for Domestic Orders in Q4 2018 demonstrates the wariness of the UK population as we see a fall, the opposite of what was seen last quarter. Q4 saw the manufacturing domestic orders falls from 67.8 to 64.2 and the services domestic orders fall by slightly less from 63.9 to 62.9.

Whilst both sectors have seen a lack of demand in their respective UK markets, it is for different reasons. Within the manufacturing sector, both orders received and advanced orders have fallen, with orders received having shrunk by 0.92 and advanced orders having decreased by 6.3. There is a clear indication that advanced orders are the main cause for concern within the manufacturing sector.

The services sector has seen changes in its orders too, but on a much less drastic and weighted scale than the manufacturing sector with received orders standing at 63.1 and advanced orders at 62.6, having seen a small rise.

 **64.2** ↓ 3.6pts

 **62.9** ↓ 1.0pts



OVERSEAS ORDERS

The Index for Overseas Orders has seen a substantial decline in both the services and manufacturing sectors. The manufacturing sectors index has dropped from 64.5 to 60.5 triggered by a fall in both received and advanced orders this quarter by 4.4 and 3.4 points respectively.

Similarly, the service sector has seen a total fall of 4.7, slightly higher than the drop seen in the manufacturing. Sales and advanced orders have both decreased, with sales decreasing by 4.5 points and advanced orders falling 4.7.

This quarter, unlike the last, has seen near equal dips in exports and orders for both sectors, instead of one or the other as was previously seen. This shows that the overseas market is growing increasingly hesitant given the current economic climate around the UK.

 **60.5** ↓ 4.0pts

 **49.7** ↓ 4.7pts



EMPLOYMENT

The Index for Employment for the service sector has seen a small, but important improvement from 61.4 to 61.8 a further improvement on last quarter. This has been driven by the last quarter's employment activity which has risen by 2 points, suggesting that they fulfilled their ambitions for recruitment they reported in Q3. In comparison, over the next three months the service sector show a 1.1 point fall, highlighting again, businesses hesitancy and uncertainty. Additionally 5% fewer companies attempted to recruit in the service sector in Q4, yet an additional 1.8% reported recruitment difficulties.

Conversely, the manufacturing sector has seen its employment index fall by 2.4 down to 63.8, showing a fall in both, employment activity (-2.7) and forecasted employment activity (-2.2). Only an additional 0.8% of businesses attempted recruiting this quarter, with an additional 2.4% of them reporting recruitment difficulties, making exactly half of all those who attempted recruiting reporting difficulties in doing so.

 **63.8** ↓ 2.4pts

 **61.8** ↑ 0.4pts



INVESTMENT & CASHFLOW

Both the manufacturing and services sector have seen falls in their **cashflow & investment** combined indexes from 66.5 to 60.3 and 58.3 to 57.5 respectively.

 **60.2** ↓ 6.3pts

 **57.5** ↓ 0.7pts

In terms of investment the manufacturing sector has seen the harshest fall from 66.9 to 62.1 but still remains well above the services index. This is driven mostly by a drop in capital investment falling by 7.25 points since Q3 however there has been a 2.3 point decrease in employee investment too. In contrast, this sector has seen a small improvement in its cashflow rising by 0.8.

The services sector has remained fairly stagnant in terms of investment seeing a small drop in its investment index from 57.7 to 56.8, much less drastic than seen in the manufacturing sector. This has been triggered by a drop in capital investment which has fallen by 2 points, then offset by a rise in human investment by 1.8 points. In contrast to manufacturing, the service sector has also remained relatively flat in terms of its cashflow, seeing a small 0.5 drop in its index this quarter.



BUSINESS CONFIDENCE

 **76.0** ↓ 2.4pts

 **69.8** ↓ 6.4pts

Given the events and importance of this quarter, with the Brexit deal attempted to be pushed through, and the above mentioned hesitancies, uncertainties and recruitment difficulties, the fall in business confidence from both the manufacturing and services sector is unsurprising. **The business confidence index** has fallen by 6.4 points in the service sector, down to 69.8, and by 2.4 in the manufacturing sector, down to 76.0.

Only 34% of businesses within the service sector reported operating at full capacity with 41% of companies' main concern of cost pressures coming from 'other overheads', a 2% fall from last quarter. There has been a 1.8 point fall to 66 in the price pressure index throughout the services sector, with a falling portion of businesses worrying about cost pressures within the next 3 months, as reflected by the decreased percentage. The main fall in business confidence has come from the expectation regarding turnover (-5.1) and profit (-7.7), due to some of the above mentioned reasons ie. The overseas and domestic market, neither of which are particularly positive as of Q4 2018.

The manufacturing sector, despite the fall in business confidence has seen an 8% fall in businesses who believe they are operating below full capacity, and a 1% rise in the businesses who believe they are operating at full capacity. Unlike the services sector however, the manufacturing index for price pressures has risen to 71.2 from 68.5, with an additional 7.1% of businesses reporting price pressure concerns due to pay settlements and an additional 2.4% due to financial costs. Raw material price pressures, in contrast, have fallen to 54.3%, lower than in Q3 and Q2, yet still above half. Like the service sector, the manufacturing sector has lower expectations surrounding both profitability (fallen from 76.3 to 71.8) and turnover (a significantly smaller fall from 80.6 to 80.2).

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

Uncertainty is really kicking in and is undoubtedly affecting confidence among businesses across the region.

The Chamber, along with other business organisations, has been pressing hard for businesses to be given certainty about the future and that has still not been forthcoming.

So it is understandable that we have seen a weaker QES – although as a region we are still in a stronger position than most.

And we would urge firms across Coventry and Warwickshire to make the most of the help and support on offer to help them grow in the New Year.



The overall economic outlook index has recorded a fall this quarter, also reflective of the national PMI. In spite of this Coventry & Warwickshire still remain over 10 points above this comparator, but it is becoming apparent that the external economic events and most importantly uncertainty are beginning to take their toll.

Both the overseas and domestic markets shows a lack of confidence and demand this quarter with both exports and advanced orders all showing a fall, excluding the advanced orders within the service sector which have seen a slight rise.

Similarly to last quarter, the manufacturing sector are seen to be struggling more in terms of employment than the service sector, however both report concerns for their recruitment and employees within the coming quarter. The service sector has however suffered a bigger dampening to their business confidence than the manufacturing sector due to both turnover and profitability expectations.

On the whole, it is a hesitant and pessimistic outlook this quarter which was to be expected. Key events taking place this quarter including the EU Summit and parliamentary votes on the deal forecasted make it a key time for business to be cautious and aware, waiting to discover what the economic future may look like for them. Until there is more clarity on the future for the UK in terms of Brexit, it is likely for this type of behaviour and attitude from businesses to continue.

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

Coventry & Warwickshire's Economic Outlook Index has followed the national trend and has seen a fall this quarter. In spite of this, the local economy still remains well above the national averages.

Both the manufacturing and services sector currently have a more pessimistic outlook. The manufacturing sector is affected by the subdued growth in China as a result of the ongoing American trade war they are exposed to, alongside the drop in demand for diesel cars which is impacting on our automotive sector and supply chains. The service sector has also experienced weakened consumer spending over the Christmas period with it being reported the worst December in a decade for the UK high street.

Both sectors are victim to the Brexit headwinds as this quarter saw the EU Summit and parliamentary votes. It is evident that both trade and employment are affected by a lack of confidence and uncertainty which is likely to continue until there is more clarity surrounding the UK's departure from the EU.



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



Access to business networks and support with supply chains



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:
business@warwickshire.gov.uk
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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**.