Coventry & Warwickshire Chamber of Commerce
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Q1 Q2 Q3 Q4

# Coventry & Warwickshire Quarterly Economic Survey Q3 Results

# Quarterly Economic Survey Overview

The overall economic outlook for Coventry & Warwickshire has recorded a small but important rise, from 60.9 to 61, driven by the service sector. This is a nation-wide trend too, seeing the service sectors strong summer assist in keeping the UK out of a recession as we move into Q4. Last quarter we saw a reverse locally of the current picture whereby the manufacturing sector rose and the service sector fell.

Domestically, the manufacturing sector has seen a slow down in growth, mostly due to advanced orders as uncertainty continues and a global slowdown seeps through to local economies. The service sector on the other hand see their domestic consumers continue to spend through uncertainty as current sales grow, with a slight drop off in future sales.

The overseas market has seen a drop this quarter too, for both the service and the manufacturing sector with both current and advanced orders seeing a slowdown. This comes as no surprise as we see a global slowdown. Alongside this is also uncertainty that surrounds the UK economy. Both key factors are filtering through to the local Coventry & Warwickshire economy which rely enormously on exports (55% of service businesses and 77% of manufacturing businesses).

Regarding employment, both the manufacturing and service sector have seen a pick up in Q3. This is evident more so in the manufacturing sector than the service sector. Whilst a lower percentage of businesses in the manufacturing sector have attempted to recruit than the service sector, the percentage of businesses who have had recruitment difficulties is higher. This could be due to the types of roles that the manufacturing sector is looking for, requiring more technical and professional full-time workers due to the nature of the industry.

Further to this there has been a small decrease in the cashflow & investment index figure for both the manufacturing and the service sector. Both sectors have seen a slight fall in their cashflow index figures which is offset by a rise in their investment index. Both sectors investment is as a result of training investment rather than capita. As uncertainty continues, hiring staff is an easier temporary solution than investing in capital in order to increase productivity. If this is the case, investment in training would be crucial, which has been seen.

Business confidence has fallen again this quarter amongst an uncertain back drop. Cost pressures continue to mount, and the external competition is beginning to both drive and unsettle local businesses.

This quarter on a whole has shown growth which is carried by the service sector as the manufacturing sector begins to slow at the hands of a global slowdown. Capital investment for both sectors remains stagnant as uncertainty continues, but training investment increases as the sectors use their labour force to continue to push productivity and output. Cost pressures and competition are of primary concern in Q3 as international demand weakens along with the value of the pound, which leads to further supply-side concerns as imports becoming increasingly expensive, a key concern for the manufacturing sector. Despite this the service sector again remains strong and optimistic for the coming quarter.

Coventry & Warwickshire's overall business activity index figure remains above the national figure and still shows weakened, but important, growth. Hopeful clarity at the end of the month will allow companies to understand their surrounding business environment going forward and make the necessary moves to grow and thrive.

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

"The improvement in the economic outlook for Coventry and Warwickshire is small but it is not insignificant. It shows, once again, just how robust our economy is and that we continue to buck national trends.

We are seeing a strengthening service sector, which has shown growth in domestic orders although there was a fall in overseas orders.

The biggest area for concern comes from manufacturing where both domestic and overseas orders fell, which has naturally had an effect on confidence in the sector.

When you look at the bigger picture, the uncertainty that is hanging over firms across Coventry and Warwickshire – and the UK as a whole – has proved to be a real drag on business confidence.

The latest Quarterly Economic Survey shows that companies across Coventry and Warwickshire have weathered the last two to three years but they really do need certainty and confidence to invest and grow for the future."

**Steve Harcourt**
Director, Prime Accountants Group

"This quarters results show Coventry & Warwickshire continue to punch above national average in regards to the overall economic outlook for the country.

As part of our input to the survey; we asked businesses if over the next year they would anticipate cash flow, investment in plant, machinery, equipment and training to increase, stay the same or decrease? The majority of businesses indicated they were expecting to maintain their current level of investment which is understandable considering the Brexit uncertainly.

There are marginal gains throughout the index which indicates businesses are starting to feel more positive compared to last quarter, especially in the service sector which accounts for 80% of the UK economy. The warning signs in the rest of the UK are clear though, as the service sector contracts.

As we move towards a Brexit resolution businesses can start to adjust to the implications of the outcome. It's encouraging seeing the region performing better than the national average and having statistics to back up the current consensus should reassure businesses and investors that we are still open for business."

**Emily Newport**
Economist, Warwickshire County Council

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## About the Quarterly Economic Survey

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 Q3 2019 has shown a small rise from 60.9 to 61.0. This is dissimilarly to the UK, which has fallen from last quarter to 49.3. Coventry & Warwickshire are bucking the national trend increasing the gap between the UK purchasing managers index and our own.

The Economic Outlook for the service sector in Coventry & Warwickshire has risen by from 60.1 to 61.6 counteracted by a 1.5 point fall to 59.1 amongst the manufacturing sector.

As mentioned above, the national comparator, the Markits Purchasing Managers Index (PMI), has fallen by 1.3 to 49.2. Alongside the local trend, the national manufacturing PMI has fallen again to 48.3 in Q3, with reports of reduced capacity due to reduced demand, cost controls and redundancies. The services PMI has also fallen to 49.5 in Q3, which is below the market consensus and against the local trend. The UK service sector reported increased uncertainty from Brexit which has led to postponed orders.  Both industries now being sub 50 is of increasing concern to the UK, but sees Coventry & Warwickshire far from a similar spot.

OVERALL
61
up from 60.9

SERVICE
61.6
up from 60.7

MANUFACTURING
59.1
down from 61.4

## Business Confidence

Business confidence has risen to 72.2 (+4.3) in the service sector but fallen to 61.8 (-5.8) in the manufacturing sector.

Service sector in Coventry & Warwickshire shows a clear poise amongst the uncertain surroundings, however not quite returning to its position in Q1. Over the next 3 months the service sector expects to see an increase in cost pressures, mostly from other overheads (39%) and finance costs (21%). Further to this, externally, the service sector sees 41% of its pressures coming from competition. This is a reduction from Q2 and again reflects the optimism with regards to profitability and turnover. This is further assisted by a weak sterling making services more affordable and facilitating the sectors ability to compete. Further external pressures are also being felt from corporate tax, exchange rates and business rates equally.

The manufacturing sector has seen a fall in business confidence this quarter, falling by 6.8 points down to 61.8. Both feelings towards turnover and profitability are to blame equally for this, following a nationwide and global slowdown. There is also weaker international demand which is filtering through to impacts on the local manufacturing sector. 0.7% fewer firms believe they are operating at full capacity, with an additional 0.9% operating below full capacity. Similarly to the service sector, the manufacturing sector is expecting to see an increase in cost pressure over the coming quarter, with 59% being due to raw material costs. Uncertainty is, as predicted, continuing to reduce business confidence.

SERVICE
72.2
up from 68.1

MANUFACTURING
61.8
down from 67.6

## Domestic Orders

The Index for Domestic Orders in Q3 2019 shows a decrease for the manufacturing sector from 62.3 to 56.5 falling to the lowest figure seen this year. The sector shows a fall in current sales (60 to 57.3) but the most drastic fall in the advanced orders (64.5 to 55.8) as uncertainty continues and capacity becomes more restrained.

The service sector on the other hand has seen a small yet important increase from 61.7 to 62.4. Consumers domestically are detached from the surrounding economic headwinds as current sales have risen by 1.7. Advanced orders have however seen a minimal fall by 0.6 points.

SERVICE
62.4
up from 61.7

MANUFACTURING
56.5
down from 62.3

## Overseas Orders

The Index for Overseas Orders has seen a decrease for the manufacturing sector seeing a drastic fall by 6.9 points to 56.1 and the service sector, a 2-point increase to 53.9 respectively. The fall has been from both current sales and advanced orders for both industries in Coventry & Warwickshire.

The manufacturing sector has seen a more significant fall regarding their overseas orders as over ¾ of businesses are exporters in comparison to just over ½ within the service sector.

Although uncertainty surrounding Brexit is an important factor contributing to the business activity slowdown on the overseas market, this is combined with ongoing trade wars and global growth hesitancy. These combined factors have led to the point that a fall has been seen for both of Coventry & Warwickshire sectors. It is worth noting however, that both sectors are still above 50, therefore growing, and above the national figures.

SERVICE
53.9
down from 55.9

MANUFACTURING
56.1
down from 63.0

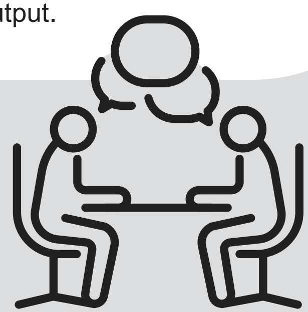
# Employment

The Index for Employment for both the service and manufacturing sector has seen both a reversal, and therefore a rise from last quarter. The service industry has seen a marginal increase by 0.1 point, which is solely driven by employment in the last 3 months. Historically the national service sector has been more resilient than the manufacturing sector which is evident here for Coventry & Warwickshire. This sector is however pessimistic with regard to the next 3 months with regard to employment, seeing a 0.3 point drop. Q3 shows the same percentage of businesses attempting to recruit as Q2, at 41.5%, with 32% of all positions looking to be filled by full time workers, 3% higher than last quarter. In contrast, only 17% of positions were for part-time workers in comparison to 21% last quarter. Furthermore, there are a higher percentage of both permanent and temporary jobs that are being recruited for than last quarter.

SERVICE
58.4
up from 58.3

The manufacturing sector has seen a far larger point rise in employment from 56.0 to 61.6. This is also solely driven by the last 3 months employment, with the upcoming 3 months following the trend seen in the service sector. Despite this, of the 64% of businesses who attempted to recruit, 35% of them had recruitment difficulties, this is a higher percentage than seen in the service sector (29.2%). There are a smaller percentage of employees that are skilled or professional when compared with last quarter and a higher percentage of those who are in clerical and un/semi-skilled roles. As mentioned in previous quarters, recruiting more workers rather than investing in expensive capital is common in times of uncertainty. Something that the manufacturing sector in particular can benefit from to increase productivity and ultimately output.

MANUFACTURING
61.6
up from 56.0



# Investment & Cashflow

This quarter the investment & cashflow index has seen a further 0.1 fall to 56.6 for the services sector, and a 0.3 fall to 57.9 in the manufacturing index.

The service sector has seen a small rise in its investment index by 0.1 points, which has been driven by investment in training (2.5 point rise) rather than capital (2.5 point fall). This sits well with a rise in the percentage of staff that are categorised as professional/managerial, having all required some form of training. Consequently, cash flow has also fallen (-0.7).

The manufacturing sector has followed a similar story, seeing a 0.3 fall in cashflow and investment, which is driven by an increase in training and decrease in the capital investment, with a subsequent fall in the cashflow index. If the manufacturing sector is hiring staff to increase productivity rather than invest in capital, it is logical to see an increase in human investment. The percentage of firms who looked to recruit has also fallen by 10% since last quarter, potentially suggesting that firms in the manufacturing sector are upskilling their current workforce. Further to this, a dampened international demand and surrounding trade wars is meaning firms are holding back on investment as they become increasingly myopic.

SERVICE
56.5
down from 56.7

MANUFACTURING
57.9
down from 58.2

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Our brand values are embraced by our team and our services are delivered in accordance to these values. Therefore our clients benefit from receiving a personal service provided by an experienced team.

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