



Coventry & Warwickshire
Chamber of
Commerce
The Ultimate Business Network

2019 Q4

QES Partner

prime
ACCOUNTANTS GROUP



Q1

Q2

Q3

Q4

Coventry & Warwickshire Quarterly Economic Survey

Quarterly Economic Survey Overview

The overall economic outlook for Coventry & Warwickshire has recorded a small fall from 61 to 60.8. This has mainly been driven by the fall seen within the manufacturing sector. The reduction experienced is on trend with the national picture with many reports highlighting a reduction in output within the UK manufacturing sector in the last quarter of the year. Q4 sees a role reversal from the last quarter, with manufacturing sector falling but the service sector rising slightly.

Domestically, the manufacturing sector continues the slowdown that it had experienced in Q3 with a reduction in advanced orders being the main driver. Conversely, a similar narrative can be said for the service sector with a reduction in domestic orders this quarter coming mainly from reduced advanced orders. The reduction in domestic orders across both sectors suggests signs of consumer hesitancy amidst political and economic uncertainty.

Moving onto employment, both the manufacturing and service sectors have seen a fall in Q4. This is far more prominent in the manufacturing sector which saw a fall in employment activity in the last 3 months alongside a significant reduction in the number of businesses attempting to recruit in Q4 compared to Q3. Further to this of all the businesses that did attempt to recruit over half faced difficulties. This

is further reflected through the fact that there was a smaller percentage of employees that are skilled manual / technical in Q4 when compared to Q3, suggesting that these jobs may have been difficult to recruit for.

There has been more of a mixed bag this quarter with regards to the cashflow & investment index with the service sector seeing a slight rise mainly as a result of increased cashflow when compared to Q3. Contrastingly, the manufacturing sector has seen a fall in its cashflow & investment index mostly fuelled by reduction shown in the investment component. This comes as result of reduced investment in both human and physical capital, with falls in the latter unsurprisingly coming in a quarter where there was heightened uncertainty surrounding Brexit and the general elections, with many businesses holding off on investments until they have further clarity on the economic environment.

Despite this however, business confidence in both sectors has increased when compared to the previous quarter. This comes as result of businesses becoming increasingly optimistic towards their turnover and profitability particularly in the manufacturing sector where more than half of the businesses surveyed said they were working at full capacity, potentially explaining such positive spirits.

In summary, Q4 has shown a small fall in Coventry & Warwickshire's economic outlook fuelled mainly by the manufacturing sector as the sustained global economic slowdown trickles into the local economy. Domestic and Overseas orders have continued to fall in both sectors as the shroud of uncertainty that surrounds the UK economy heightens in Q4. Employment activity becomes somewhat subdued as both sectors post points fall in their labour force within the last 3 months. On the other hand, the cashflow & investment index has seen a slight pickup in the services sector but a reduction in the manufacturing sector. Uncertainty once again could be the reason businesses within the manufacturing sector hold off on investing in capital until the economic environment becomes clearer. Despite this, business confidence in both sectors show signs of improvement in the final quarter suggesting increased optimism towards the future.

Coventry & Warwickshire's overall economic outlook continues to remain well above the national figure despite seeing a small fall in the last quarter of this year. With the general election occurring in December, hopefully the shroud of uncertainty can be lifted in order to allow businesses to gain a better picture of their economic environment.





Louise Bennett OBE DL
CEO Coventry & Warwickshire
Chamber of Commerce

“The latest Quarterly Economic Survey results reflect what has been a period of uncertainty for companies across Coventry and Warwickshire, making it difficult to plan for the future.

The end of 2019 brought a new Government and, with it, a degree of certainty about the future direction of the country. This must now be backed up by policy that delivers real incentives to firms to invest and grow and remove some of those up-front costs from doing business.

We need investment in infrastructure and a strategy for overseas trade – both with the EU and beyond. So while the economic outlook for Coventry and Warwickshire saw the slightest of falls it is encouraging to see that confidence is beginning to pick up and it is vital that the seeds of that optimism are nurtured in the coming weeks and months.

We will be working with businesses in the region to support their growth and will continue to be their voice to decision-makers in order to ensure that the needs and aspirations of companies across Coventry and Warwickshire are heard.”

Quarterly Economic Survey Commentary



Steve Harcourt
Director, Prime Accountants Group

“As predicted last quarter, the final quarter of 2019’s economic results for Coventry and Warwickshire have shown a dip in all areas of the survey apart from ongoing and future business confidence. Due in most part to businesses telling us that they are working at full capacity; giving them an optimism of profitability for the coming year. A lot of the uncertainties in the economy due to the delay of Brexit and a Winter General Election have now passed and businesses are looking forward with greater optimism. The first budget of the Government is crucial for this business optimism to continue,

so we are looking forward to budget day on the 11th March to provide the tax friendly incentives and policies to help business in the region to flourish and grow.

The economic outlook index in Coventry and Warwickshire still remains considerably higher than the national average, indicating we have a strong and vibrant local business community in the region.”



Sunny Parekh
Senior Economist, Warwickshire County Council

“Coventry & Warwickshire’s overall economic outlook continues to remain well above the national figure despite seeing a small fall in the last quarter of this year. With the general election occurring in December, hopefully, the shroud of uncertainty can be lifted in order to allow businesses to gain a better picture of their economic environment.”

Coventry & Warwickshire Chamber of Commerce QES Quarter 4 2019 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.

Overall Economic Outlook

The Economic Outlook Index for Coventry & Warwickshire for Q4 2019 has shown a small fall from 61 to 60.8. This contrasts the UK PMI, which has remained the same as last quarter at 49.3. Coventry & Warwickshire PMI remains considerably higher than the national trend.

The Economic Outlook for the service sector in Coventry & Warwickshire has risen slightly from 61.6 to 61.9 offset by a decline within the manufacturing sector from 59.1 to 57.8.

As mentioned above, the national comparator, the Markit's Purchasing Managers Index (PMI), remained static at 49.3. Alongside the local trend, the national manufacturing PMI has fallen once more to 47.4 in Q4, with reports eluding to a fall in incoming work orders, weakened export sales and delayed spending ahead of the general election being the main reasoning behind the fall. The services PMI has also marginally fallen by 0.5 points to 49 in Q4, which is below the market expectations and against the local trend. Reports have suggested that there were signs of new business volumes stabilising after a period of reduction, this came as a result of discounting strategies and a squeeze on profit margins. Both Industries remain sub 50 for another quarter further raising concerns for the UK, though, Coventry & Warwickshire's manufacturing and service industries remain significantly above 50.

SERVICE

74.7

up from 72.3

MANUFACTURING

65.4

up from 61.8

OVERALL
60.8

down from 61

SERVICE
61.9

up from 61.6

MANUFACTURING
57.8

down from 59.1

Business Confidence

Business confidence has increased in both the service and manufacturing sectors of Coventry & Warwickshire, increasing by 2.4 points and 3.6 points respectively.

Coventry & Warwickshire's service sector shows positive signs amidst heightened uncertainty, with business confidence increasing to 74.7. The rise is mostly as a result of businesses becoming increasingly optimistic towards profitability (+4.1) and to a lesser extent turnover (+0.8) when compared to the previous quarter. In the coming 3 months Coventry & Warwickshire's service sector expects increased cost pressures largely in the form of other overheads (37%). Moving onto external factors, 37% of the service sector sees its external pressure coming from competition, which is a 4% reduction on the last quarter. This may come from a continued weakening of the pound in most of Q4, allowing domestic services to be more competitive on international markets.

The manufacturing sector has seen a significant rise in its business confidence this quarter increasing by 3.6 points to 65.4. This comes as a result of positive sentiment towards both turnover (+4.1) and profitability (+3.1) when compared to the previous quarter. Q4 has also shown that more than half of the businesses surveyed said they were working at full capacity (significantly higher than in Q3) potentially explaining the optimism towards turnover and profitability. In the coming quarter, the vast majority of businesses that were surveyed expect cost pressures to remain constant, with 45% of businesses suggesting competition to be their main external concern.

Domestic Orders

The Index for Domestic Orders in Q4 2019 shows a decrease for the manufacturing sector from 56.5 to 55.2 falling to the lowest figure seen this year. The sector shows a fall in current sales (57.3 to 56.5) and advanced orders (55.8 to 53.8). This is in line with the national picture with reports suggesting weakened order books as a result of the prospects of higher importing tariffs following Brexit.

The service sector has also seen a decrease from 62.4 to 61.1 with the main driver being a fall in advanced orders. The reduction in domestic orders in both sectors shows a level of consumer hesitancy amid political and economic uncertainty surrounding the general election and more broadly Brexit.

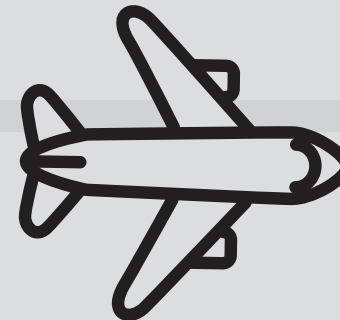
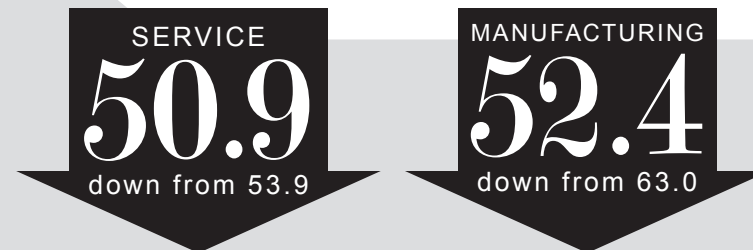


Overseas Orders

The Index for Overseas Orders has seen a decrease for both the manufacturing and service sector once again in Q4, with the manufacturing sector seeing a contraction of 3.7 points to 52.4 and the service sector, a 3 point decrease to 50.9 respectively.

The manufacturing sector this quarter has seen a slightly larger contraction regarding their overseas orders as 86% of businesses are exporters in comparison to 56% within the service sector.

The general election undoubtedly added to the Brexit-related uncertainties which has continued to cloud the future business and economic outlook. These factors alongside a broader global economic slowdown is reflected in Quarter 4's points fall in Overseas Orders across Coventry & Warwickshire's manufacturing and service industries. Despite this, both manufacturing and services remain above 50.



Employment

The Index for Employment for both the manufacturing and service sectors has seen a fall in Q4.

The service industry has seen a decrease by 0.6 point from 58.4 to 57.8, which is mostly driven by a fall in employment activity in the last 3 months (-1.4). This sector, however shows a marginal increase in terms of forecasted employment activity in the next 3 months with a 0.1-point rise on the last quarter showing marginal signs of optimism. Q4 shows 32% of service sector businesses engaged in recruitment with 27% of positions looking to be filled by full time workers, 5% lower than the last quarter. Additionally, there are a lower percentage of permanent and temporary jobs that are on offer in Q4 when compared to Q3.

The manufacturing sector has seen a much more significant point drop in employment from 61.6 to 56.3. This reduction is predominantly driven by the fall in employment activity in the last 3 months (-8.1), in line with the trend seen in the service sector. However, there has also been a fall in forecasted employment activity in the next 3 months (-2.5) contrasting the marginal rise seen in the service sector, suggesting that the manufacturing sector is more pessimistic in terms of employment in the upcoming 3 months than it was in Q3. There was an 8.2% fall in the number of businesses attempting to recruit in Q4 when compared to the last quarter. In addition to this, of all the manufacturing businesses that attempted to recruit over half of them faced difficulties in doing so. In terms of categories of employees there are a smaller percentage of employees that are skilled manual/technical when compared with last quarter and a higher percentage of those who are in un/semi-skilled roles in.



Investment & Cashflow

This quarter the investment & cashflow index has seen a 1.5-point rise to 58.1 for the services sector but a 1.8 point fall to 56.1 for the manufacturing index.

The increase shown within the service sector has mainly been driven by the rise in the cashflow index in Q4 increasing by 3.6 points coupled with a marginal rise of 0.2 point in the investment index.

The manufacturing sector however, has shown a contrasting story with a fall in its investment & cashflow index. The cashflow index remained static with only a marginal decrease of 0.1 point on last quarter. However, the overall decrease was driven by a fall shown in the investment index (-2.7). This comes as a result of a combined decreases in investment in both human capital (-3.2) and physical capital (-2.2). The fall in human capital can potentially be explained by the reduction in recruitment activity shown this quarter, reducing the need to invest in training for new staff. The reduced investment in physical capital is unsurprising in a quarter where there was heightened uncertainty surrounding Brexit and the general election, with many businesses holding off on investments until further clarity on their economic futures. The majority of the manufacturing sector businesses that were surveyed suggested investment in plants, machinery and other equipment remained constant in Q4 playing well towards this explanation.



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Coventry & Warwickshire's Voice of Business



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