



Coventry & Warwickshire
Chamber of
Commerce
The Ultimate Business Network

2020 Q4

QES Partner

prime
ACCOUNTANTS GROUP



Q1

Q2

Q3

Q4

Coventry & Warwickshire Quarterly Economic Survey

Quarter 4 2020 Analysis



Economic Outlook Index, 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.

Overall Economic Outlook Index:

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 that the majority of respondents feel positive and less than 50 shows a majority feeling negative.

The **Economic Outlook Index** for Coventry & Warwickshire in Q4 2020 has shown another positive move and pushed above the 50 mid-mark threshold with more businesses experiencing growth and optimism than not, at 51.5, compared with 42.6 in Q3.

Q4 witnessed another unprecedented period in UK history whereby another national lockdown

was imposed in November but eased again at the start of December, the furlough scheme was extended, and the festive period looked financially bleaker for hospitality and high street businesses than ever before. In addition, the concept of Brexit resurfaced as a more immediate threat/challenge that can be viewed as overlooked given the crisis throughout 2020. However, the confirmation and roll-out of a vaccine has provided a sense of prosperity and clarity that has helped pushed the national PMI to 50.7 in December. Making Coventry & Warwickshire businesses notably more optimistic than the national feeling.

The national manufacturing PMI has increased to 57.3 in December as manufacturers experience heightened business activity due to pre-Brexit stockpiling and thus fewer job losses. The Coventry & Warwickshire manufacturing sector very much matches this, with a score of 57.5. This is an enormous and important jump from Q3's score of 43.2.

The national service sector has felt the impacts of the restrictions more so than the manufacturing sector with hospitality, leisure and travel industries all either redundant or

restricted in some form but still hopeful for a future with a vaccine and continued government support. As a result, the national services PMI rose to 49.9 in December, just below that all important 50 mid-mark. At a more local level, Coventry & Warwickshire service businesses PMI has risen to 51.2 breaking through the equilibrium point and moving towards optimism and growth, contrasting with a more defeatist attitude nationally. This is an impressive 8.8 points higher than in Q3.

It important to note that the survey response has been lower again this quarter meaning that the survey may not be an accurate reflection of all Coventry & Warwickshire businesses in both the manufacturing and services sectors. It isn't uncommon to see low response rates to surveys in times of recession.





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

“There is no doubt that the emergence of the vaccine in the final quarter of the year gave businesses more confidence coming into the New Year.

However, the survey was conducted before the discovery of the new variant of Covid-19 and the chaos that ensued with the UK borders closed and before the final outcome of Brexit.

So, while it is good to see businesses feeling more upbeat about their prospects in 2021, there is still a long way to go before normality returns.

Businesses in Coventry and Warwickshire are going to need support to reach a time when the world feels like it is returning to some kind of normality – and then further help to get back up to speed as the economy emerges from this pandemic.

We’d encourage firms across the region to make full use of the support available at the Chamber to help them to survive and then recover and grow when the opportunity arises.”



Quarterly Economic Survey Commentary



Steve Harcourt
Director, Prime Accountants Group

“As the toughest year many businesses have ever had to face came to an end, it was clear that the imminent announcement of the vaccine rollout had a positive impact on the outlook held by business leaders in Coventry & Warwickshire, however this was before the new, more infectious strain emerged. Assuming the vaccine is effective against this new strain and the spread is reduced by the third lockdown we have entered, we should remain hopeful that this positive outlook will become reality, as we head towards normality, or what will be the new normal. As we head into 2021 with a Brexit deal finally in place and hope that the destruction caused by COVID-19 will begin to

be repaired for those who were fortunate enough to continue in business, we can only hope that this year will eventually return to pre Covid levels in the economy. However, a few hurdles still remain at present; the impact of the third lockdown, the end to the furlough scheme and other Government support schemes being phased out. With a resilient local economy being more optimistic than the national average, there is a real sense of pent up demand to be realised and progress to be made in Coventry & Warwickshire.”



“The economic outlook for Coventry & Warwickshire shows strength and robustness in time of adversity, once again with the overall business activity index increasing to 51.5 showing growth and optimism. Whilst this remains below pre COVID 19 levels, it is an incredibly important step for the local businesses and thus economy. The manufacturing sector is riding the waves of a temporary increase in business activity due to preparations for the Brexit deadline, whilst the service sector has felt the impact of local lockdowns more so throughout Q4. Importantly both sectors are managing to maintain their workforces and are somewhat more confident this quarter than previously. There is however expected to be increased price

pressures going forward and uncertainty around future overseas trading. The impact of a vaccine has created a ‘light at the end of the tunnel’ that seemed completely invisible until now. The question still remains however, what will the picture look like when funding is withdrawn? But for now we see a resilient local economy with some continued challenges going forward.”

Sunny Parekh
Senior Economist,
Warwickshire County Council

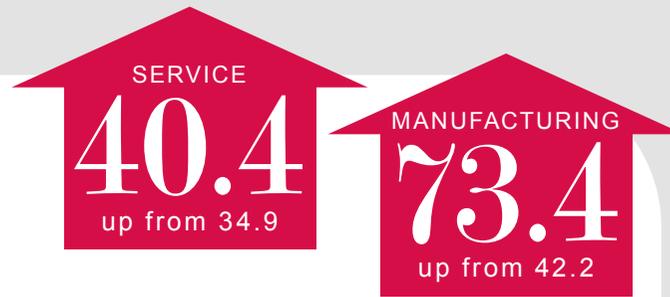


Domestic Orders:

The index for domestic orders in Q4 2020 displays a considerable increase for both sectors, but particularly the manufacturing sector.

Domestic orders in the local service sector have risen to 40.4, which is 5.5 points higher than in Q3, but still well below the 50 mid-mark. This increase is mostly as a result of current orders score, though there has been an increase in the advanced orders score too. Despite this, nearly half of all service sector businesses reported a decrease in current and advanced orders, suffering at the hands of constraints regarding both capacity and consumer demand.

Manufacturing domestic orders have surged from 42.2 in Q3 to 73.4 in Q4. This jump is extraordinary and is mostly due to current orders but also due to an increase in advanced orders. This supports the stock piling hypothesis stated earlier whereby businesses are preparing in advance of any Brexit trade deal to ensure smooth running.



Employment

The labour force index has also seen some positive movements for both sectors, particularly regarding thoughts for the coming three months.



An extension of the furlough scheme and announcement of job support scheme has allowed businesses to secure their current work force, noting the majority of businesses across both sectors have retained their existing employees over the last 3 months, and expect to over the coming 3 months which is of vital importance for Coventry & Warwickshire's economy and employees. This has pushed both index scores over the 50 line and shows a robust and positive local picture.



Across the service sector, the index has risen to 52.8, compared to 49.2 in Q3 2020. This implies optimism and growth and is supported by the 30% of businesses that reported attempting to recruit in this quarter. Of those, 50% found they had recruitment difficulties.

The manufacturing sector has also experienced an improvement regarding their employment index, rising from 38.6 to 54.8, which is an incredible improvement, which is likely to be partially due to the increased business activity from the increased domestic orders to prepare for Brexit. 37.5% of businesses attempted recruiting with only 1 reporting recruitment difficulties, which is shown in the index rise.



Overseas Orders:

The overseas orders index for Coventry & Warwickshire's services and manufacturing sectors has seen a rise in Q4, relative to the lows experienced in Q3 though still feeling pessimism at 41.7 for services and 48.3 for manufacturers.

The overseas orders index for the services sector has risen by 9.6 points to 41.7, with the majority of businesses who responded reporting that the level of overseas order has remained steady, both for current and advanced overseas orders.

Across the manufacturing sector the overseas market has picked up too, scoring 48.3 compared with 38.8 in Q3. This is, similarly to the service sector, as a result of a stabilising level of current and future orders. Whilst we strive for growth, stabilisation is important during times of crisis to give both service and manufacturing businesses a sense of security, particularly when the global supply chain is in a mixed state of affairs.



Business Confidence

Q4 sees additional force behind the 'bounce back' having risen across both sectors. As the vaccine becomes both approved and rolled out, a return to some sort of normal allowing more business functionality is not such a distant concept.

As a result, the service sector business confidence index has increased from 54.4 to 67.9, with a vast majority of businesses reporting increased turnover and profitability this quarter. Despite this, 73% of businesses have still reported working at below full capacity likely due to government guidelines and there is an expectation of a higher level of pressure coming from prices in the coming 3 months as the index rises from 61.1 to 75, most of which are expected to come from 'other' overheads. 46% of businesses have also expressed competition as an external factor that is likely to affect their business.

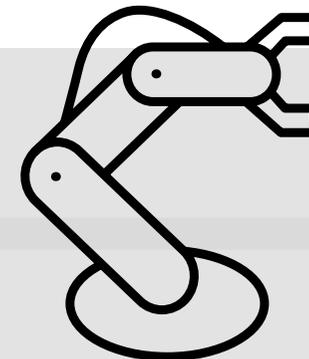
The manufacturing sector in particular have experienced a boost to confidence this quarter due to the stock piling subsequently increasing the business confidence index from 47.7 to 71 mostly as a result of the increase in turnover experienced, though profitability has also risen to 59.4. Similarly, to the service sector, 75% of businesses have reported working below full capacity. Looking forward over the next 3 months, all businesses that completed the survey expect price pressures to increase, with 75% expecting this to be as a result of raw material prices. Given the imminent departure from the EU, this is unsurprising. Additionally, 56% of businesses expect corporate taxation to play a role in increasing pressures going forward, alongside competition and business rates.

SERVICE
45.4
up from 35.3

SERVICE
67.9
up from 54.4

MANUFACTURING
41.6
down from 45.6

MANUFACTURING
71.0
up from 47.7

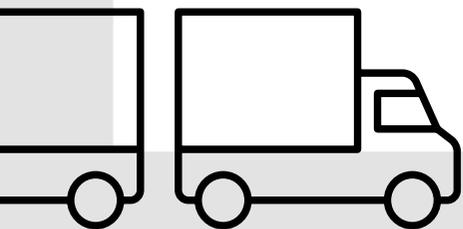


Investment & Cashflow

The investment & cashflow index has increased for both the services and manufacturing sectors within Coventry & Warwickshire but continues to remain below the 50-mark, as was reported last quarter.

The service sector has jumped up by 10 points to 45.4, with cashflow carrying the largest weight for the jump. Though the cashflow index remains below 50 at 45.7, almost 2/3's of businesses has experienced either an improvement or stagnation of their cashflow, with the remaining 1/3 reporting a worsened set of affairs. In a similar fashion, the majority of businesses have kept levels of human and capital investment constant.

The manufacturing sector index has dropped by 4.3 points to 41.3, which is mostly as a result of either a decrease in investment levels or stagnation, with only 1 business reporting an increase in investment. However, cashflow has risen to 56.3, which is again likely due to the heightened business activity.



Q4 Analysis by Warwickshire County Council

The economic outlook for Coventry & Warwickshire shows strength and robustness in time of adversity, once again with the overall business activity index increasing to 51.5 showing growth and optimism.

Whilst this remains below pre COVID 19 levels, it is an incredibly important step for the local businesses and thus economy. The manufacturing sector is riding the waves of a temporary increase in business activity due to preparations for the Brexit deadline, whilst the service sector has felt the impact of local lockdowns more so throughout Q4. Importantly both sectors are managing to maintain their workforces and are somewhat more confident this quarter than previously. There is however expected to be increased price pressures going forward and uncertainty around future overseas trading.

The impact of a vaccine has created a 'light at the end of the tunnel' that seemed completely invisible until now. There is no doubt that Q1 2021 will be interesting with the complete departure from the EU and the service sector not having its usual boost from the Christmas period to carry it through what is notoriously a quiet month and the continued restrictions from the tier system. The question still remains however, what will the picture look like when funding is withdrawn? But for now we see a resilient local economy with some continued challenges going forward.



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Data analysis by:

