

BRITISH CHAMBERS OF COMMERCE QUARTERLY ECONOMIC SURVEY

COVENTRY AND WARWICKSHIRE RESULTS

Q2 2017



Coventry & Warwickshire
Chamber of
Commerce
The Ultimate Business Network



Warwickshire
County Council





BRITISH CHAMBERS OF COMMERCE QUARTERLY ECONOMIC SURVEY Q.2 2017

COVENTRY AND WARWICKSHIRE RESULTS

Quarter 2 2017 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.



Q2 2017

ECONOMIC OUTLOOK

65.1 ↓ 1.1 points



70.7 ↑ 4.3 points



63.7 ↓ 2.5 points



The Economic Outlook Index for Coventry & Warwickshire for the Q2 shows a slight dropping off in terms of business confidence, with the overall index falling by 1.1 points to 65.1 (down from 66.2 in the previous quarter). There is, however, a clear split between the manufacturing and services sector. The index for just manufacturing companies has seen a strong increase – up 4.3 points to 70.7 – showing a very positive picture for this sector. However, the service sector has seen a fall from 66.2 in the previous quarter to 63.7 – a fall of 2.5 points. Some 80% of responses to the Quarterly Economic Survey were from businesses in the service sector (which is broadly in line with their respective contributions to the local economy), so the fall for services outweighs the growth in manufacturing to post a drop in overall Economic Outlook Index.

While the fall is a small cause for concern, it should be noted that the index scores for Coventry & Warwickshire are still above the regional and national comparable PMIs (Purchasers Managers Index). The latest West Midlands PMI (produced by the West Midlands Economic Forum in conjunction with Birmingham City University) posted a score of 56.5 in May, down from 60.3 in April. Nationally, the Markits Manufacturing PMI stood at 56.7 in May (down from 57.3 in April) and the Services PMI was 53.8 (down from 55.8).



DOMESTIC ORDERS

69.9 ↑ 8.6 points



63.8 ↓ 3.8 points



The Index for Domestic Orders for Q2 2017 sheds some further light on the differing perspectives for manufacturing and service sector industries. The manufacturing index for domestic orders has increased strongly from 61.3 in Q1 to 69.9 in Q2 (+8.6), while the index for the service sector has fallen by 3.8 points to 63.8.

Manufacturers in particular saw strong growth in current sales and bookings (up a huge 10.2 points on Q1 to 71.4), but are also increasingly confident about future orders and sales (up 7 points to 68.4). The service sector experienced the biggest fall in current sales and bookings (down 4.1 points to 65.1), with future orders slightly less affected (down 3.4).



OVERSEAS ORDERS



70.2 ↑ 2.7 points



57.0 ↓ 0.4 points

As may be expected with the continued depreciation of the pound, manufacturers reported improvements with respect to **Overseas Orders**. The index for this component rose 2.7 points from 67.5 in Q1 to 70.2 in Q2. Overseas orders for the services sector have held up quite well in comparison with domestic orders, falling just 0.4 points to 57.0.

The improving position for manufacturing was felt equally across current sales and future orders (both rising by around 3 points), while the driver for the slight dip in the Overseas Orders Index for the service sector was around views on future orders and sales (dropping 1.1 points from 57.6 in Q1 to 56.5 in Q2).



EMPLOYMENT



63.2 ↓ 0.9 points



60.3 ↓ 2.4 points

The Index for Employment has seen a fall for both manufacturing (down 0.9 from 64.1 in Q1 to 63.2 for Q2) and the service sector (down 2.4 points from 63.7 to 60.3). Just under a third of manufacturing businesses had increased their labour force over the past 3 months, compared with one-fifth of service sector businesses.

Similar to Q1, just over half (53.1%) of manufacturing businesses surveyed had attempted to recruit, predominantly to full time, permanent positions. 50% of those that had sought to recruit faced difficulties – significantly lower than the 89.9% in Q1. With respect to the service sector, 48.3% had attempted to recruit, up slightly from Q1 (45.6%), but two-thirds (68%) had experienced difficulties – up slightly from Q1 and perhaps explaining why employment growth has not been as strong as perhaps expected in service sector businesses.

Looking ahead, both sectors are confident about the need to increase their labour force in the next three months. The index for future recruitment remains high for manufacturing at 67.9 (albeit a slight decline of -0.7 from Q1), and shows a slight increase on Q1 for services (+0.3 at 65.5).



%



INVESTMENT & CASHFLOW


65.4 ↑ 4.0 points

57.8 ↓ 1.0 points

The overall index for **Investment and Cashflow** has seen positive growth for manufacturing, rising from 61.4 in Q1 to 65.4 in Q2 (+4.0 points), but a slight decline for the service sector (falling 1 point to 57.8). Cashflow position has improved markedly for manufacturers, rising 7 points from 55.8 to 62.8 in Q2, but has reduced slightly for those in services (falling 0.4). It seems that as a consequence, businesses in the service sector are reporting cutting back slightly on investment in plant/equipment/buildings (-0.4 points on Q1), and on training of staff (-1.4 points on Q1). In contrast, while manufacturers seem to be reducing investment in plant/equipment/buildings at the moment (-2.3 points), they are investing in training (up strongly by 7.1 points to 65.6 in Q2).

Survey respondents suggest that cost pressures are easing for the manufacturing sector (37% of businesses think that prices/costs will rise in the next three months compared to 42% in Q1), while they seem to be increasing for the service sector (39% of respondents think that prices/costs will rise compared to 35% last quarter). For the service sector, these cost pressures seem to be coming from overhead costs (as opposed to pay settlements, raw materials or finance costs) while the majority of manufacturers felt that the pressures were still coming from raw material costs.

BUSINESS CONFIDENCE


82.9 ↑ 6.9 points

75.6 ↓ 3.2 points

As might be expected given the findings from the various indices presented above, **Business Confidence** in the service sector has fallen since Q1, dropping by 3.2 points to 75.6. However, it should be noted that this is still an extremely high score when you consider that 50 is the threshold between growth and contraction, and therefore suggests that this sector is still buoyant in the local economy.

The manufacturing sector locally goes from strength to strength at the moment, posting a remarkably high score for the Business Confidence Index of 82.9 – up by 6.9 points from Q1. This points to even stronger growth in the sector, and therefore the wider Coventry & Warwickshire economy, over the coming months.



Broadband analysis

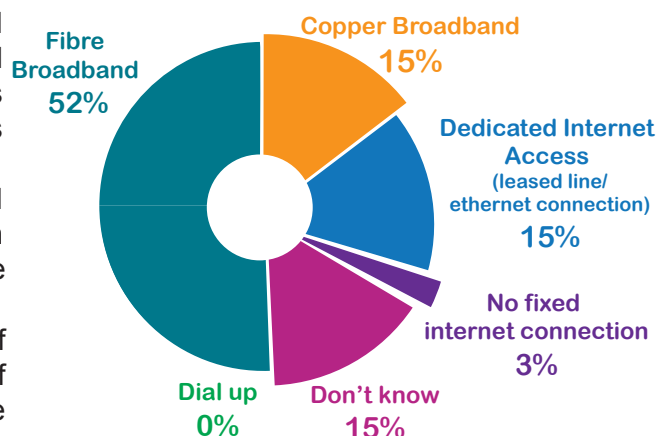
Reliable internet connection is essential for the success and development of most businesses. From point of sale to online tax returns, faster broadband will lead to a more efficient use of companies' time. The resulting increase the amount of goods and services produced per worker will translate into a more productive economy. It is, therefore, the aim of the public sector to invest resources effectively to improve internet availability. Warwickshire County Council has considered it important to gauge the responses to the following questions:

1. What type of fixed internet does your business currently use?

There were 501 responses to this question, the majority of which have Fibre Broadband. 14 respondents reported having no fixed internet connection. Although this is a small proportion within the sample, as a proportion of all businesses across Coventry & Warwickshire, this could be as many as 900 businesses.

Micro businesses are most likely to have copper broadband connection, but also no fixed internet connection. Those with no fixed internet connection are also more likely to be in the manufacturing sector.

Fibre broadband was uniformly distributed across all sizes of firms. Firms located in Rugby were most likely to this type of broadband, whereas firms located in Stratford district were most likely to have copper broadband. Coventry has the large proportion of business connected to fibre broadband and were least likely to have the copper alternative. The majority of the firms with no fixed broadband were located in Coventry, although a couple were based in Warwick and Leamington Spa, and North Warwickshire.



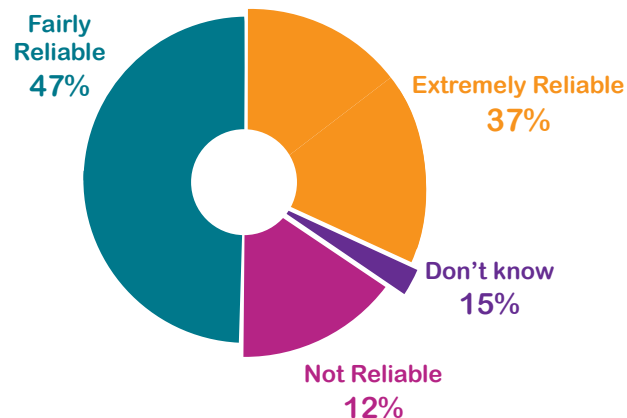
2. How would you rate the overall reliability of your business internet connection?

There were 499 responses to this question, the majority of which rate their internet connection as fairly or not reliable. Only just over a third of businesses in the sample believed their internet connection was extremely reliable.

Of the 62 businesses who felt their internet connection was not reliable at all, the majority are micro sized (employment between 0-9 people). The proportions of fairly reliable and extremely reliable responses were uniformly distributed across size.

When broken down by sector, the manufacturing sector was more likely to have less than perfectly reliable internet, with 63% of business choosing fairly, not very or not at all reliable, compared to 60% in the service sector.

Those with the most reliable internet were likely to be based in Coventry – 42% of Coventry respondents chose the extremely reliable option compared to 35% in Warwickshire. The latter was also more likely to have very poor reliability, potentially due to the abundance of rural areas in Warwickshire.



3. How important is a reliable broadband connection to your business?

The most important message from this question is that the vast majority of firms (87%) believe internet is extremely important. Without doubt there is scope to improve the reliability of internet connection in Coventry and Warwickshire. If this sample is representative of the Coventry and Warwickshire economy, then approximately 23,000 businesses across the LEP have a sub-optimal level of internet connection.

Coventry, Warwickshire and Solihull are rolling out superfast broadband to tackle the issue of broadband availability. Although this does not explicitly tackle reliability, the responses from question one show there is a need to improve availability. For more information about the roll out of superfast broadband and details on when it could be coming to your area, please visit <http://www.cswbroadband.org.uk/>.



Louise Bennett
CEO
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This is the second Quarterly Economic Survey (QES) of 2017 and, once again, we are very pleased to be working with Warwickshire County Council in analysing the results. With more than 500 responses to this QES, it's fair to say it's a very accurate barometer of our regional economy.

The results make fascinating reading and it's great to see that manufacturing is growing in this area and businesses are confident about their ability to grow in the future.

The likes of Jaguar Land Rover are a big part of that but what we are seeing is many other manufacturers thriving in our area and growing their order books.

On the service side, the level of confidence dropped slightly on the previous quarter. That said, the majority of companies are still optimistic about their future growth – it's just slightly down on the first quarter of 2017.

These are uncertain times politically and there is so much talk about Brexit, it's great the so many firms appear to be taking a 'business as usual' approach which is exactly what we are encouraging.

This quarter, we have seen a record number of respondents to the Quarterly Economic Survey, giving us a very strong and representative sample to better understand the current mood of businesses in Coventry & Warwickshire and up to date market conditions – providing invaluable evidence to inform policies and activities by the public sector and our key partners and stakeholders.

The findings from this latest survey highlight that the continued depreciation of the pound seems to be pulling the economy in two directions. On the one hand, businesses in the manufacturing sector are seeing strong growth, both from overseas markets but particularly from domestic orders (potentially as suppliers to other manufacturers who are seeing an upturn in exporting), and are posting incredibly high levels of confidence about the future. In contrast, the service sector is starting to feel the pinch from falling real wages as price inflation pushes past income growth, reducing consumer spending. Domestic orders are falling, cashflow reducing, and confidence about the future is down. Given the size and relative contribution of the service sector to the overall economy, this has led to a fall in the overall Economic Outlook Index.

However, despite this, the overall Index is still well above the threshold between growth and contraction, and significantly higher than regional and national comparators. The Coventry & Warwickshire economy remains strong and buoyant, and high levels of business confidence bodes well for the future months.



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The 2nd in our series of 4 economic outlook surveys posed additional questions relating to the effectiveness of the broadband service in our region.

The results have shown that clearly there is a need to improve reliability of internet connection in our region and if we were to look at scaling up the responses from the 502 respondents then over 20000 businesses have a less than satisfactory level of connection. Business communities across the UK still report that our digital infrastructure is not fit for purpose.

Throughout the country, significant numbers of companies of every size and sector lack reliable internet connectivity – a basic requirement for businesses to operate efficiently in today's world.

The immediate focus must be on providing all companies with connections that are reliable and of sufficient speed, which would boost business confidence and encourage firms to maximise opportunities for growth, trade and investment.

It is clear from the results that it is micro-businesses who need the most help in accessing reliable broadband services.

It shows there is scope to improve reliability across the city and the county and, as a Chamber, we will be working hard to ensure that companies can access vital, reliable broadband services.