

BRITISH CHAMBERS OF COMMERCE QUARTERLY ECONOMIC SURVEY

COVENTRY AND WARWICKSHIRE RESULTS

Q3 2017



Coventry & Warwickshire
Chamber of
Commerce
The Ultimate Business Network



Warwickshire
County Council





BRITISH CHAMBERS OF COMMERCE QUARTERLY ECONOMIC SURVEY Q.3 2017

COVENTRY AND WARWICKSHIRE RESULTS

Quarter 3 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.



Q3 2017

ECONOMIC OUTLOOK

63.4 ↓ 1.7 points



65.4 ↓ 5.3 points



63.0 ↓ 0.7 points



The Economic Outlook Index for Coventry & Warwickshire for the 3rd quarter shows another drop in business confidence, with the overall index falling by 1.7 points to 63.4 (down from 65.1 in the previous quarter). Both the service and manufacturing sectors have experienced decline this quarter, with manufacturing seeing the biggest fall – down from 70.7 to 65.4. This is in marked contrast to Quarter 2 where we saw strong growth in confidence for manufacturing businesses. Services saw a smaller decline of -0.7, falling from 63.7 to 63.0, but continuing the trend set in the previous quarter.

The Coventry & Warwickshire Economic Outlook Index remains above both regional and national comparator PMIs (Purchasers Managers Index). The West Midlands Regional PMI for September stood at 55.2 (down from 58.1 in June) representing a sharper fall (and from a much lower base) than that for Coventry & Warwickshire. Nationally, there has been a slight improvement between Q2 and Q3, with the Markits Manufacturing PMI standing at 55.9 in September (up slightly from 54.2 in June) and the Services PMI at 53.6 (up very slightly by 0.2 from 53.4).

The fall in the Economic Outlook Index for the second quarter in a row is clearly cause for some concern, however the Index is still firmly within growth territory, and business activity is clearly stronger than the national and regional average.



DOMESTIC ORDERS



64.6 ↓ 5.3 points



61.7 ↓ 2.1 points



The Index for Domestic Orders for Q3 2017 mirrors the movements in the overall Economic Outlook Index. Both manufacturing and services saw a drop in activity, with manufacturing seeing the largest fall (down 5.3 points from 69.9 to 64.6) and services seeing a smaller decline (down 2.1 points from 63.8 to 61.7).

The manufacturing sector saw a bigger fall in current sales/orders (down 6.4 points) than in future orders/advanced bookings (down 4.2 points); while services saw the opposite – a smaller fall in current sales (-1.4) and a larger fall in future orders (down 3 points from 62.5 to 59.5) suggesting a potential further slowing of growth in Q4.



OVERSEAS ORDERS



62.0 ↓ 7.8 points



56.7 ↓ 0.3 points

Of perhaps particular concern given the current favourable exchange rates, **Overseas Orders** for the manufacturing sector saw a big fall – down 8.2 points from 70.2 to 62 – more than reversing the gains that were made earlier in the year. Overseas orders for the service sector have held up better than domestic orders, with just a small fall of 0.3 points from Q2 to Q3 to 56.7.

The fall for manufacturers was felt across both current sales (-7.5) and even greater for future orders (-8.9), suggesting a further slowdown in exporting for the sector in quarter 4. Services experienced a slight fall in current sales (-0.2), and a slightly greater fall in future orders (-0.5).



EMPLOYMENT



66.1 ↑ 2.9 points



61.0 ↑ 0.7 points

The Index for Employment has risen for both manufacturing (up 2.9 from 63.2 to 66.1) and services (up 0.7 from 60.3 to 61.0), in line with expectations around future employment requirements made in the Q2 survey. Indeed, the growth in the index is driven by recruitment undertaken over the past three months (up strongly from 58.4 to 67.4 for manufacturing; and up 2.4 points to 57.3 for services).

Expectations about recruitment over the next three months are falling, however. The index for employment growth in the next three months is down 3.2 points for manufacturing to 64.7, and down 1.2 for services to 64.3. It should of course be pointed out that these are still strong positive figures, and well above the balance between contraction and expansion. As such, despite these falls, many more businesses than not in both manufacturing and services expect to increase their labour force over the next three months. Indeed, only 3.8% of businesses surveyed expect to see a reduction in their employment levels over the next three months.

Demand for labour therefore remains very strong in Coventry & Warwickshire, as can be seen in the analysis on responses to the additional questions asked this quarter around skills shortages. Half of all service sector businesses, and nearly two-thirds of manufacturing businesses, attempted to recruit over the past quarter. Of those that did attempt to recruit, two-thirds (across both sectors) struggled to find suitable candidates. Difficulties were particularly acute for skilled workers (manufacturing and services), and for managerial positions (manufacturing).



%



INVESTMENT & CASHFLOW


65.4 ↓ 3.1 points

59.8 ↑ 1.9 points

The overall Index for Investment & Cashflow has improved for the service sector (rising from 57.9 to 59.8 in Q3), but worsened for the manufacturing sector (dropping 3.1 points to 62.3). Looking at the constituent parts of this index, we see that cashflow has actually improved for both sectors (rising 2 points to 60.9 for services, and +2.9 points to 65.7 for manufacturing), and it is with respect to investment into the business where the divergence appears.

Within the manufacturing sector, investment in plant and machinery has fallen 7.6 points from 67.7 in Q2 to 60.1 in Q3, and investment in training of staff has fallen by 4.7 points from 65.6 to 60.9. Conversely, within the service sector, investment into the business has increased by 1.5 points from 55.7 to 57.2; and investment in training of staff has increased by 2.1 points from 59.0 to 61.1.

The reduction in investment by the manufacturing sector (despite the improving cashflow position) could well be influenced by economic uncertainty surrounding Brexit (nationally the data is also showing a slowdown in business investment activity), but the reduction in investment in training is somewhat puzzling given the recruitment difficulties and skills shortages being regularly reported by businesses. However, again it is important to stress the index is still firmly in the growth side, and the vast majority of businesses surveyed are either increasing their training activity (30%) or keeping investment constant (61.5%), with therefore less than 10% looking to reduce training investment.



BUSINESS CONFIDENCE


82.9 ↓ 12.7 points

71.7 ↓ 3.9 points

In line with the rest of the data provided, the index for **Business Confidence** has also seen a significant drop. The index for manufacturing fell by 12.7 points from the very high Q2 figure of 82.9 to 70.2; and the index for services dropped by 4.9 points from 75.6 to 71.7.

For the manufacturing sector, the sub-index looking at expected turnover for the next 12 months dropped by 11.3 points to 73.9, and the index for profits forecast for the next year have fallen by even more (-15.9 points to 66.4). Part of this is a reflection of the extremely high values that were posted in Q2, and again it is important to highlight that these figures remain very positive with just 15% of businesses surveyed reporting that turnover and profits are likely to fall over the coming year (compared to 55% expecting to see growth).

For services, the change has been less dramatic, with a fall in the index for expected turnover falling by 4.3 points to 73.9; and the index for profits over the next year falling by 3.5 points to 69.5. Again, these remain high and positive figures, with just 10% of businesses in this sector surveyed expecting to see turnover and profitability to reduce next year (compared to over half who are expecting to see growth).



Louise Bennett
CEO
Coventry & Warwickshire
Chamber of Commerce

The Coventry and Warwickshire economy is healthy and we have some outstanding businesses here of all sizes and sectors that are performing extremely well. We know the barriers to growth on our patch include the availability of land and access to a strong, skilled labour market that can fill the jobs that are out there.

The outlook for businesses in Coventry and Warwickshire is stronger than that of the wider West Midlands and the rest of the UK but we must also recognise that there has been a small dip in confidence.

Is that surprising? Not really. While the region performs well it cannot be immune from the uncertainty that continues at a national level. The path to Brexit remains unclear and the conflicting noises around striking a deal are unhelpful. Consumer spending has weakened and we have seen inflation rise to three per cent.

In light of that, it's great to see that the overall business outlook in Coventry and Warwickshire remains on the positive side and that is testament to the companies based on our patch who continue to look for opportunities to grow.

Here at the Chamber, we are here to offer support to companies on everything from coaching and possible grant funding, through to international trade as well as providing a voice on issues that matter to firms.

In line with the national economic picture, this Quarter 3 survey shows that we are seeing a drop in business activity, investment and confidence. Undoubtedly this is linked to the uncertainty surrounding the future economic landscape in light of Brexit, and also inflationary pressures on input costs and weakening consumer demand as real wages continue to fall. However, despite the fall being reported in the overall Economic Outlook Index (and various sub-measures), it is clear that the majority of businesses remain optimistic about the future. Over half of businesses surveyed expect to see stronger growth and improved profitability next year, and very few planning for a reduction in activity. This obviously bodes well, and should lead to continued growth of the Coventry & Warwickshire economy into 2018.

The buoyant local economy is clearly placing pressure on the availability of labour in Coventry & Warwickshire. Some 70% of businesses surveyed state that their recruitment difficulties are a result of skills shortages in the labour market, with nearly half (44%) believing that this is a result of workers with the right skills simply not existing locally. Competition for those employees that do exist is therefore clearly strong, and the need to retain skilled workers and attract new ones is leading to widespread pay-rises across the area. There is also increasing awareness and focus on increasing non-wage benefits, and to explore alternative routes to access employees (including working with schools, apprenticeships, and individuals with physical or learning disabilities).



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Martyne Manning
**Policy Manager and
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Coventry & Warwickshire
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Working at the 'coalface' with our SMEs and understanding how the skills shortage is affecting their growth has prompted the Chamber to do more to ensure employers are aware of all 'pools' of workers available to them.

We have been working closely with MPs and Ministers at a local and national level to ensure that our migrant workers are made to feel welcome and want to remain here in work. 12-15% of our workforce are migrant workers and with an already tight labour market we are keen to support them. Additionally we provide skills advisory support to businesses who are struggling to retain and recruit staff either via one to one coaching or via our masterclasses.

'Grow your own' via training and apprenticeships is something we have noticed businesses are now embracing and I would encourage businesses to contact us to discuss their situation further and we can plug them into appropriate providers.

Our final economic survey will take place this quarter and we will be reviewing the whole year at our Outlook Breakfast on November 29th please do feel free to join us.



Warwickshire County Council

Economy and Skills

Support:

- ▶ Start-up support (via the C&W Chamber of Commerce)
- ▶ Business Growth Support
- ▶ Access to Finance
- ▶ Skills & apprenticeship support
- ▶ Commercial property searches and location advice
- ▶ Local data & intelligence
- ▶ Flexible & affordable business units

For more information visit:
www.warwickshire.gov.uk/business

The Economy & Skills Team provide a range of support and help for businesses to enable them to prosper and grow, and was recognised in the recent 2016 Enterprising Britain awards for its work to improve the local business environment.

The Warwickshire area also benefits from a wide package of financial support including European Regional Development Fund (ERDF) investment grants, ERDF innovation grants, ERDF low carbon grants, LEADER grants in North Warwickshire, RDPE Growth Grants and Warwickshire County Council's Capital Growth Fund – Small Capital Grants. We also provide pro-active support to help businesses access finance, and identify the most suitable forms of support available to them.

The Coventry and Warwickshire Business Support Programme is part-funded by the European Regional Development Fund Warwickshire County Council and Coventry City Council.