



Coventry & Warwickshire
Chamber of
Commerce
The Ultimate Business Network

2023 Q2

QES Partner

prime
ACCOUNTANTS GROUP



Coventry & Warwickshire Quarterly Economic Survey

Q1

Q2

Q3

Q4

Analysis:

This report presents the results from the second Quarterly Economic Survey of 2023. There were 151 responses to the survey, 133 from the services sector and 18 from the manufacturing sector, between them employing 2,917 employees.

Responses to the survey are translated into an Economic Outlook Index score which presents an indication of 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 most respondents feel positive and less than 50 shows a majority feeling negative.

Overall Economic Outlook Index:

The Economic Outlook Index for Coventry & Warwickshire has decreased in this quarter compared to the first quarter of 2023, moving from 55.3 to 50.6. This decrease just retains the overall value above the 50-mark maintaining weak signs of confidence amongst respondents at the start of 2023.

National (UK) private sector growth was maintained in March 2023 largely due to the service economy. The UK's

composite PMI score increased slightly from 52.2 at the end of quarter one to 52.8 at the end of quarter two. Like Coventry and Warwickshire, this moves the national index value above the 50-mark, indicating moderate expansion.

The national manufacturing PMI decreased from 49.0 at the end of Q1 2023, to 46.2 in Q2 2023. Manufacturing production has decreased mainly due to falling new orders, and customer destocking.

Coventry & Warwickshire's manufacturing index followed the national trend, decreasing from 60.6 in Q1 2023 to 52.7 in Q2 2023, a 13% decrease. Nonetheless, the local manufacturing sector remains significantly more confident than the UK as a whole.

National services PMI also improved, increasing from 52.8 at the end of Q1 2023 to 53.7 at the end of Q2 2023. The strongest demand was for business and financial services, whereas consumer, construction and real estate spending was weaker. Coventry & Warwickshire's service sector index decreased in Q2 2023 to 50.3 from 54.3 in Q1 2023; a 7.4 point decrease showing some signs of weakening optimism in this sector.



52% of the businesses that responded have attempted to recruit in the past three months.

OVERALL

50.6

down from 55.3

SERVICE

50.3

down from 54.3

MANUFACTURING

52.7

down from 60.6

Quarterly Economic Survey Commentary



Corin Crane
Chief Executive
Coventry &
Warwickshire
Chamber of
Commerce

“Across the region, businesses are working really hard to grow and make a difference in their communities – and they continue to show incredible resilience in the face of some of the most difficult challenges our economy has faced in decades and, as a Chamber, it’s vital that we connect with businesses in as many ways possible.

“The QES provides us with an acid test of how companies are feeling and the issues they are facing. We then work with our partners to analyse those results and feed them into colleagues at the British Chambers of Commerce.

“What we can see right now is that the regional economy is finely balanced – still in positive territory, but only just. We know there are strong ambitions to grow but, with interest rates rising, inflation stubbornly high and a recruitment crunch, it is tough.

“We’d urge businesses in need of support to get in touch with the team at the Chamber to help them to grow and continue the amazing work they are doing.”



Steven Harcourt
Director
Prime Accountants Group

“There is a really mixed picture in Coventry and Warwickshire. When you look at business confidence in both the services and manufacturing sectors, the region is still in positive territory, which underlines how well firms across the city and county have held up despite the variety of challenges they’ve faced over the past three years.

“Trading conditions remain tough but there is still an appetite to grow among many companies right across the region and it is vitally important that we nurture that in order to continue growing the economy.”



Todd Williams
Insight Analyst (Economy & Skills)
Warwickshire County Council

“Quarter two at a national level remained flat as inflation persists and concerns over interest rates are growing, while recruiting difficulties continue.

“However, the latest QES results show the local economy maintaining optimism despite the ongoing economic adversity.

“The results show that the overall economic outlook index for Coventry and Warwickshire contrasts the national trend with local manufacturing businesses remaining optimistic versus a national pessimism, while local service businesses are less optimistic than the national average.

“While there are local short-term concerns, especially cash flow for manufacturing businesses and ongoing pessimism for exporting services, both the local manufacturing and service sectors show confidence that business is expected to improve over the next 12 months.”



74% of respondents
indicated they are
facing pressure to raise
prices because of
utilities (gas, electricity,
etc).

Domestic Market:

The domestic orders index displayed a negative picture amongst Coventry & Warwickshire's services and manufacturing sectors.

The local service sector's domestic orders index decreased from 57.9 in Q1 2023 to 48.5 in Q2 2023. This indicates a sudden flattening for domestic orders, with potential early signs of plummeting advanced orders. Decreases were seen in both the current and advanced orders index, from previous quarter readings of 50.0 and 46.8 to 59.7 and 56.1 respectively. This comes as result of around 75% of businesses responding suggesting that their current and advanced orders had either increased or remained constant in Q2 2023.

The domestic orders index within the local manufacturing sector experienced slightly less of a decrease, moving from 60.2 in Q1 2023 to 55.9 in Q2 2023. This was largely down to the advanced orders index score decreasing sharply from 61.9 to 50.0. The current orders index scores experienced a slight upturn moving from 58.7 in Q1 2023 to 61.8 in Q2 2023.

SERVICE
48.5
down from 57.9

MANUFACTURING
55.9
down from 60.2

Overseas Market:

The overseas orders index increased for the manufacturing sector, and remained pessimistically flat for the services sector, within Coventry & Warwickshire in Q2 2023.

The service sector saw a slight increase in its overseas orders index moving from 45.0 in Q1 2023 to 45.2 in Q2 2023. This was largely due to an increase in respondents indicating advance orders increasing or remaining constant in Q2 2023. There was a slight downtick in the position for current sales since Q1 2023 as there were still more respondents indicating a decrease rather than an increase in sales.

The manufacturing overseas orders index saw a larger upturn, with the increase pushing the index value well above the 50-mark to 57.7 in Q2 2023 from a previous quarter reading of 48.5. In the latest quarter, for both current sales and advanced orders there were more businesses saying orders had increased than decreased – yet with the majority indicating that they had remained the same.

SERVICE
45.2
up from 45

MANUFACTURING
57.7
up from 48.5



Employment:

The service sector employment index decreased from 56.4 in Q1 2023 to 51.6 in Q2 2023. The decrease was similar for the labour force in the last 3 months as for the next 3 months. Nevertheless, the index score remained above the 50-mark showing signs of optimism amongst local service businesses in the latest quarter. Just over 2 in 5 (42.1%) of service respondents indicated that they attempted to recruit in Q2 2023 with a persistent vast majority (84%) of them indicating that they came across recruitment difficulties.

The manufacturing sector saw a large fall in its labour force index, moving from 65.9 in Q1 2023 to 54.4 in Q2 2023. The index remains above 50 as more respondents indicate that their labour forces increased than decreased in the last 3 months, as well as looking forward to the coming 3 months. Out of those businesses that responded, just over a quarter (27.8%) attempted to recruit in Q2 2023, with an equal spread across the various types of roles. Of those that attempted a recruitment drive, 80% indicated that they encountered difficulties in hiring.



Investment & Cashflow:

The investment & cashflow index for the local service sector reversed gains in the first quarter with a moderate decrease in the second quarter of 2023, while the manufacturing sector had a very sharp decline.

The service sector investment & cashflow index experienced a decrease from 49.4 in Q1 2023 to 45.2 in Q2 2023. This was mainly driven by a decrease seen in the cashflow component, which fell from 50.4 in Q1 2023 to 44.6 in Q2 2023. The investment component also decreased but less so, from 48.8 in Q1 2023 to 45.6 in Q2 2023. The majority of service sector businesses suggested that their investment in plant / machinery / equipment / buildings had remained constant when compared to the previous quarter. A similar outcome is seen with investment levels in training as a small majority of respondents suggested that investment in training also remained constant.

The manufacturing investment & cashflow index dropped sharply, moving from 53.8 in Q1 2023 to 39.0 in Q2 2023, moving the index value well below the 50-mark indicating strong pessimism amongst the local manufacturing sector in terms of its cashflow and investment.

The cashflow component experienced the largest decrease, moving from 60.9 in Q1 2023 to 35.2 in Q2 2023 with 35% of respondents indicating that their cashflow levels had worsened in the second quarter of 2023. The investment component decreased less sharply from 50.0 to 40.9. There were more responses indicating an increase or decrease in investment in plant / machinery / equipment / buildings and in training than responses indicating investment remaining constant for Q2 2023.



Business Confidence:

The local service sector business confidence index remained almost flat, and the manufacturing sector business confidence index experienced a decrease in the second quarter of 2023.

The service sector index value worsened slightly from 59.2 in Q1 2023 to 58.0 in Q2 2023, indicating continuing overall signs of optimism amongst local service businesses. The increase comes from the turnover and profitability components that make up the business confidence index both increasing; 77% of respondents saw turnover improving or remaining constant, and 73% of respondents saw profitability increasing or remaining constant.

Fifty-eight percent of service sector respondents suggested that they were working below full capacity in Q2 2023, a worsening from the previous quarter where less than half were working below full capacity.

There may be early signs of a reduction in price pressures. Q2 2023 saw 48.5% of service sector respondents indicate that they expect price increases in the next 3 months. Sixty per cent of service businesses who responded indicated price pressures are expected to come from “pay settlements” whilst 38% said “raw materials”. Sixty-one per cent of respondents indicated “inflation” as the main source of external price pressure impacting business operations, a slight reduction from sixty-nine percent in Q1

SERVICE
58.0
down from 59.2

2023.

Business confidence amongst the local manufacturing sector dropped in the first quarter of 2023. The index score moved from 69.6 in Q1 2023 to 60.3 in Q2 2023, a 9.3 decrease. This came mainly from weaker yet still positive responses on the turnover component moving from 73.9 in Q1 2023 to 61.8 in Q2 2023, with 64.7% of the manufacturing respondents suggesting that they expect their turnover to increase or remain constant in the coming 12 months. The decrease in business confidence for manufacturing was also affected by the drop in the profitability component reaching 58.8 in Q2 2023 from a previous quarter reading of 65.2. This came as a result of 60.9% of respondents from the manufacturing sector expecting turnover to increase in the coming

MANUFACTURING
60.3
down from 69.6

12 months.

In terms of capacity levels, 38.9% of respondents in the manufacturing sector indicated that they had been operating at full capacity during Q2 2023. This is a decrease from the previous quarter where it was over half of respondents.

Looking forward to the next 3 months, more than half (52.9%) of local manufacturers that completed the survey expected price pressures to increase, with “raw material prices” (66.7%) and “finance costs” (55.6%) dominating the results in terms of internal prices pressures. As with local service businesses, the majority (55.6%) of manufacturers indicated that “inflation” would be the biggest external factor contributing to pricing pressures followed by “corporate taxation” (38.9%).



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Birmingham Office

Charter House
161 Newhall Street
Birmingham B3 1SW
T: 0121 711 2992

info@primeaccountants.co.uk

Coventry Office

5 Argosy Court, Scimitar Way
Whitley Business Park
Coventry CV3 4GA
T: 024 7651 8555

www.primaccountants.co.uk

Solihull Office

Corner Oak
1 Homer Road
Solihull B91 3QG
T: 0121 711 2468

[@PrimeCharAccnts](https://twitter.com/PrimeCharAccnts)

Stanley Yule Office

Unit 3 Waterside Business Park
1649 Pershore Road
Birmingham, B30 3DR
T: 0121 415 3060

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ACCOUNTANTS GROUP

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Coventry & Warwickshire
Chamber of
Commerce
The Ultimate Business Network

Chamber House, Innovation Village, Cheetah Road, Coventry, CV1 2TL
024 7665 4321
info@cw-chamber.co.uk
www.cw-chamber.co.uk

Data analysis by:

