Coventry & Warwickshire Chamber of Commerce
The Ultimate Business Network

2020 Q2

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 an unprecedented reduction in Q2 2020 falling to a record-low of 29.2 from 59.0 in Q1 2020. The sharp reduction has been driven by parallel reductions in all measured indexes. Domestic and overseas sales have seen striking reductions as the global economy has been forced to halt in Q2 2020, with the service sector left feeling particularly vulnerable.

The labour force has been compromised this quarter with businesses under restricted operating capacity. This has been felt more so by the manufacturing sector, whose operating capacity has been limited and supply chains hindered.

Whilst the service sector employment index has fallen below the 50 ‘balance’ mark, the continuation of key services has counteracted any further reduction. The Government’s furlough scheme has also allowed many businesses to maintain their workforces.

Cashflow & Investment has fallen as businesses suffer from reduced profits and turnover but maintained over head costs. It is again the service sector that has felt this more so than the manufacturing sector, due to its continued operation.

Business confidence has been unsurprisingly damaged this quarter for all of the above reasons with the majority of businesses from both quarters expecting increase price pressures in the coming 3 months.

It has been clear from the results of this quarters QES that COVID-19 has had impacts that are likely to be more long lasting for Coventry & Warwickshire businesses than the immediate short-term.

The service sector has suffered more so than the manufacturing sector, but both have been put under strain and are facing challenges. Reduced and restricted operating capacity has meant employment, sales, investment and profitability has been compromised which is combined with an unclear future.

Aside from the coronavirus, there are still the impacts of Brexit looming in the background alongside the inevitable onset of a worldwide recession.

Quarterly Economic Survey Commentary

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

The latest QES reveals the true extent of the impact Coronavirus has had on the regional economy and some of the record-low indicators show just how tough these past few months have been for firms across our patch.

"The fact that cashflow, orders, confidence and the overall outlook have fallen sharply come as no surprise but that makes them no less stark and reveal just how much support and investment is going to be required as we get the economy restarted.

Government has been agile in the way it has responded to the crisis in recent months and has offered unprecedented levels of support, often adapting at short notice as gaps in the help were pointed out.

But what the survey shows is that while the support may have helped many more businesses to survive who would have otherwise failed, more help will be required to build a short, medium and long-term economic recovery.

Our members have sent a clear message to decision-makers about their current plight and we are using our voice at a local, regional and national level to call for more support to get them growing again."

Steve Harcourt
Director, Prime Accountants Group

"It is an extremely challenging time for all businesses in our region, however we are proud to be partnered with Coventry and Warwickshire Chamber of Commerce in order to gather this vital information on how companies are managing, adapting and diversifying in the current crisis. Not many businesses are immune to the impact of Coronavirus, and this is seen in the results of the latest QES.

The results of the survey show an immediate adverse impact on cash flow for 2/3rds of businesses in the region; and a pessimistic outlook over the coming months as most businesses strive to return to working at full capacity. The Government lifting some restrictions on businesses will help stimulate the local economies, as we see employees return to work from a position of furlough. However, there is still the need for sector specific support from Central Government; as the likes of the Entertainment & Leisure sectors and some of the hospitality businesses struggle to pay bills with no income coming from trade for the foreseeable future.

As Louise has already mentioned Government support for businesses is required to aid the short & long term recovery, tax breaks as mentioned would be a good fiscal stimulus for the economy. But I would add that we must support the key workers and businesses that have helped keep the country going through this crisis, suppliers to the NHS & Delivery Companies/Contractors, must not be penalised with tax red tape as planned and Government must look at the flexibility needed in the workforce of the future."

Economic Team
Warwickshire County Council

"It has been clear from the results of this quarters QES that COVID-19 has had impacts that are likely to be more long lasting for Coventry & Warwickshire businesses than the immediate short-term. The service sector has suffered more so than the manufacturing sector, but both have been put under strain and are facing challenges. Reduced and restricted operating capacity has meant employment, sales, investment and profitability has been compromised which is combined with an unclear future. Aside from the coronavirus, there are still the impacts of Brexit looming in the background alongside the inevitable onset of a worldwide recession."

Coventry & Warwickshire Chamber of Commerce QES Quarter 2 2020 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 Q2 2020 has shown an unprecedented contraction from 59.0 in Q1 2020 to a record low of 29.2. The significant reduction reflects the extraordinary economic landscape that has manifested itself as a subsequent result of the lockdown restrictions and social distancing measures imposed by the government on 23rd March, in order to combat the spreading of the coronavirus (COVID-19).

Such restrictions have undoubtedly weighted heavy on businesses and the local economy. Q2 2020 has seen striking contractions within the Economic Outlooks of both the service and manufacturing sectors of Coventry & Warwickshire. The Service sector has in particular experienced a stark reduction, falling by more than a half from 60.2 to 28.8 in Q2 2020. The Manufacturing sector has also followed suit, seeing a drastic decline from 54.0 in the previous quarter to 30.6 in Q2 2020. Both sectors now sit well below 50, indicating considerable pessimism towards their economic outlooks, in light of the strict lockdown measures imposing considerable strain on normal business operations within both sectors.

Comparable falls are also seen on a national scale. The latest national service sector PMI signalled severe downturns in activity in May with a PMI of 29.0 up from the survey record low of 13.4 in April. This suggests the sector experienced significant contractions in service sector business activity in May but not to the same extent to what it was in the first full month of lockdown (April). The rate of decline within the service sector was exclusively linked to the slump seen in business activity and consumer spending amidst the COVID – 19 pandemic.

A similar trend can also be seen in the national manufacturing sector PMI, which posted a 40.7 PMI score in May up from its record-low of 32.6 in April. Despite the increase in PMI once more, a score below 50 signifies a marked deuteriation in overall operating conditions within the sector as a result of the widespread contractions seen in output, new orders, new export business and employment as a direct impact of the restrictions put in place to combat COVID -19.

OVERALL
29.2
down from 59.0

SERVICE
28.8
down from 60.2

MANUFACTURING
30.6
down from 54.0

SERVICE
38.4
down from 71.1

MANUFACTURING
39
down from 57.4

Business Confidence

Business confidence has experienced the largest fall on record with neither sector having an index above 50 showing businesses lack of confidence. The manufacturing sector has fallen from 57.4 to 39.0 and the service sector has fallen from 71.1 to 38.4. It is clear here that the service sector has lost the most confidence during the COVID-19 pandemic, though both sectors have felt the consequences.

The manufacturing sector has seen a decrease in its business confidence index of -18.4, falling below the 50 'balance' point. This is mostly as a result of a decrease in the profitability index (-18.9) to 34.5, with over half of the businesses surveyed reporting their profitability had fallen. Turnover has also reduced by a similar figure (-17.7) to 43.7, with exactly half of businesses reporting a fall in their turnover.

74% of businesses in the manufacturing sector also reported operating below full capacity with most businesses expecting costs to increase in the next 3 months. Future costs are mostly expected to be as a result of an increase in raw material costs (47.6%), though other overhead costs also play a significant part (35.7%).

Across the service sector the business confidence index has fallen by -32.7 points to 38.4, going from a higher point than the manufacturing sector in Q1 2020 to a lower point in Q2. This reduction is mostly as a result of reduced turnover where over half of businesses reported a fall. Profitability has also been reported to have decreased by the majority of businesses, with 89% of businesses report operating below full capacity. Half of the businesses surveyed expect costs to increase in the next 3 months where the other half expect them to decrease, with overhead costs (30%) being the dominating price pressure.

Domestic Orders

The index for domestic orders in Q2 2020 displays a record low for both the service and manufacturing sectors.

Domestic orders within the service sector has nosedived considerable below the 50 mark to 14.0 in Q2 2020 from a previous quarter reading of 59.4. Both current and advanced orders within the service sector suffered sizeable reductions, plunging to the lows of 14.8 and 13.3 respectively in Q2 2020 from previous quarter readings of from 59.4 and 48.9. These stark reductions come as a result of most survey respondents citing a decrease in both current and advance orders. It is very likely that businesses have suffered from limited opportunities to win new orders due to client businesses furloughing their workforce alongside subdued consumer demand levels because of the hiatus in economic activity.

Domestic orders for manufacturing (albeit not as low as the service sector) show an extensive contraction to 20.5 in Q2 2020 from 56.7 in Q1 2020. The decrease is driven by both current and advance orders seeing sizeable reductions, with current orders falling from 58.7 in Q1 2020 to 21.4 in Q2 2020 and advance orders going from 54.7 to 19.5. Like the services sector, the majority of survey respondents cite a decrease in both current and advanced orders, fuelling the overall reduction. This reduction comes once again undoubtably as a result of the COVID – 19 lockdown measures causing extensive disruption to manufacturing supply chains, demand levels and overall output levels.

SERVICE
14.0
down from 59.4

MANUFACTURING
20.5
down from 56.7

Overseas Orders

Unsurprisingly, the overseas orders index for both the services and manufacturing sectors fell considerably within Coventry & Warwickshire.

The overseas orders index for the service sector plummeted from 48.8 to 17.5 in Q2 2020. With 66% of the service sector businesses being exporters, most respondents stated that both current and advanced overseas orders had decreased as of Q2. Similarly, the overseas orders index for the manufacturing sector also decreased to 23.9 in Q2 2020 from 47.4 in the previous quarter. 83% of manufacturing sector businesses that were surveyed were exporters and the majority of respondents stated a decrease in current and advance overseas orders.

The contractions observed in the overseas orders index for both the services and manufacturing sectors shows stark pessimism by local businesses as both indexes fall significantly below the 50 mark in Q2 2020. The restrictive measures place by various governments (including restrictions on travel) alongside business/factory closures (to protect workers health), has undoubtedly played a key role in triggering significant drops in global trade and reduced export demand for UK goods and services reflected within Coventry & Warwickshire.

SERVICE
17.5
down from 48.8

MANUFACTURING
23.9
down from 47.4

Employment

In Coventry & Warwickshire's manufacturing sector the employment index has, expectedly, experienced its biggest fall to 33.3 from 52.3. This is driven almost equally by the last 3 months (-19.9) and the forthcoming 3 months (-18.2). Significantly more businesses have seen, and further anticipate their workforce decreasing than increasing. This is coupled with a lack of recruitment as, for another quarter, no manufacturing companies have attempted to recruit. Given the surrounding uncertainty about not only the immediate term, but long-term conditions businesses will be operating in, this is unsurprising. Restricted capacity, supply chains and global trade have meant reduced productivity and output which in turn leads to a lesser demand for additional, or even current, workforce. The government's Coronavirus Job Retention Support Scheme will have assisted businesses in enabling them to keep the current workforce they have. This is reflected in the manufacturing sector as most businesses reported, in the last, and next 3 months they expect their workforce to remain the same size.

SERVICE
40.8
down from 58.5

MANUFACTURING
33.3
down from 52.3

The service industry employment index has also fallen in line with the manufacturing sector from 58.5 to 40.8 (-17.7). The service industry had the advantage of businesses having more optimism (a higher index score) for their workforces than the manufacturing sector in Q1 2020. This means that a similar size reduction has meant that more businesses are still optimistic in this sector than the manufacturing. The index score for the service sector labour force over the last 3 months has dropped by 16.7 points to 39.1, less than that seen in the manufacturing sector. Key services have had to continue during the period of 'lockdown' meaning significantly more businesses have seen their workforce stay the same over the last 3 months than decrease, but only 5% have seen an increase. Over the coming 3 months however, the index is expected to drop more than the manufacturing by 19.5. There has also been no attempt to recruit from any of the service businesses surveyed this quarter.

For both industries it is clear that the impacts of COVID-19 on the labour force are going to continue to be felt for the next quarter.

Investment & Cashflow

The investment & cashflow index has fallen for both industries, but more drastically in the service sector.

The Coventry & Warwickshire manufacturing industry investment and cashflow index has fallen from 54.1 to 30.2 which is mostly due to the reduction in cashflow index (-29.2). Over half of the businesses surveyed reported a worsened cashflow as many struggle to generate sufficient income to cover their overhead costs. The investment index also reduced, to a lesser extent, by -21.2. This quarter we have observed less businesses investing in capital and the majority keeping the level of training the same. There has been a very minimal amount of businesses that have increased their human and capital investment as cashflow worsens and the future remains uncertain.

The service sector cashflow & investment index has experienced a much larger decrease from 56.9 to 25.7 with the cashflow index taking the biggest hit (-34.8), this is likely due to the nature of many service businesses that will have been forced to close completely, or also struggling to generate income. Almost 2/3rd of service businesses have reported a fall in cashflow. The investment index has also fallen by 29.4 with the capital and human investment index falling near equally as uncertainty and reduced cashflow clouds future vision of business and trading.

SERVICE
27.2
down from 56.9

MANUFACTURING
30.2
down from 54.1

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At Prime we take pride in listening to our clients and understanding their business objectives and personal goals. We provide clients with tailored advice that is specific to their requirements.

Our brand values are embraced by our team and our services are delivered in accordance to these values. Therefore our clients benefit from receiving a personal service provided by an experienced team.

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Our Brand Values: Do the Right Thing - Build Relationships - Simplify the Complex - Keep the Passion - Be an Ambassador for Prime - Provide a Personal Service - Embrace Change - Always be Approachable

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Coventry & Warwickshire's Voice of Business

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