



Coventry & Warwickshire
Chamber of
Commerce
The Ultimate Business Network

2022 Q2

QES Partner

prime
ACCOUNTANTS GROUP



Q1

Q2

Q3

Q4

Coventry & Warwickshire Quarterly Economic Survey

Quarter 2 2022 Analysis

OVERALL

54.9

down from 59.6

SERVICE

55.1

down from 62.6

MANUFACTURING

53.9

up from 47.6

Coventry & Warwickshire's overall economic outlook index has decreased in the second quarter of 2022, reducing from 59.6 in Q1 to 54.9 in Q2 2022. The reduction presents a deceleration in the pace of expansion and optimism amongst local businesses as the index value falls to the lowest it has been since Q2 2021. It is important to note despite the reduction, the value remains above the all important 50-mark indicating overall optimism in terms of local businesses and their economic outlook.

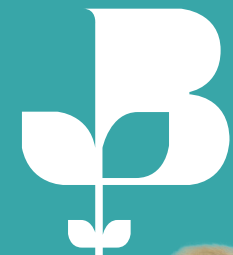
The second quarter of 2022 presented a significant shift in terms of the national economic landscape. Headline reports were dominated by the war in Ukraine and the subsequent global economic shocks causing upwards pressure on energy, commodity, and food prices. This, combined with the continuation of rising raw material costs, increases in the energy price cap and VAT reversals on the hospitality sector, has undoubtedly spurred a crisis of its own in terms of the cost of living in Q2.

The local service sector economic outlook index experienced a reduction in momentum from 62.6 in Q1 to 55.1 in Q2 2022, presenting a deceleration in the pace of expansion and optimism in the economic outlook of the service sector in Coventry & Warwickshire. Many of the components that made up the overall index experienced slight reductions in their pace of expansion when compared to Q1 such as both domestic and overseas orders, alongside the employment, and cashflow & investment indexes respectively. Despite these reductions, most of the component scores remained above the all-important 50-mark (excluding the overseas orders which fell below), suggestive of overall levels of optimism.

The local service sector business confidence index experienced the biggest reduction out of all the components, moving away from the significant heights experienced in Q1. The deceleration in morale is most likely linked to the reduction in consumer demand, counteracting any pent-up demand that was left from the pandemic as cost pressures rose in Q2, squeezing household budgets.

Contrastingly, the local manufacturing sector's index seem to buck the national trend for the first time in four quarters, with the outlook index score registering an increase from 47.6 in Q1 to 53.9 in Q2 2022. This increase, put the score beyond that all important 50-mark, presenting an expansive and optimistic environment for the local manufacturing sector. All the components that made up the overall index, experienced increases in the second quarter of 2022.

Most notably, local manufacturing business confidence experienced a particularly large uptick in the second quarter of 2022. This came as many businesses suggested that they expect turnovers to increase in the coming 12 months. However, price pressures continued to dominate the survey results, with many respondents pointing to pay settlements, raw materials and inflation as significant factors contributing to increases in price.



Quarterly Economic Survey Commentary



Corin Crane
Chief Executive
Coventry &
Warwickshire
Chamber of
Commerce

“In broad terms, the economy of Coventry and Warwickshire is holding up well in the face of many issues that are putting a drag on growth.

“Despite a drop in the economic outlook based on the responses to this survey, it is still in positive territory which means the regional economy is on course to continue to grow.

“It is pleasing that manufacturers appear to have seen a bit of a bounce in the second quarter of the year through increased domestic and overseas sales.

“The service sector did see a dip in fortunes compared to three months ago and there are a host of factors that will have played a part in that as businesses have had to face rising inflation, recruitment problems and a general increase in the cost of doing business.”

“As we entered Q2, it was clear we were heading into a turbulent time for the local & national economy, this would impact all businesses and consumers. With a large part of the local economy involved in supply chain, businesses would be affected by events happening around the world as has been the case for the last 2 years. With no prospect of economic stability in the near future the local economic confidence has been dented in line with the rest of the UK regions.

As expected, the scores from this quarter have seen a drop across the board in the service sector, as a result of the cost of living crisis and consumers tightening their purse strings.

It promising to see that the outlook within the manufacturing sector has improved despite the challenges businesses are facing across the region. Overall the results still show the local economy as having a positive outlook with the overall economic outlook index being at 54.9%.

With all the challenges that we can see ahead, it is important as a region we continue to push through the second half of the year and do what we can to support one another in business.”



Steven Harcourt
Director
Prime Accountants Group



Sunny Parekh
Lead Economist
Warwickshire County Council

“Coventry and Warwickshire’s overall economic outlook index continued to indicate a robust local economic landscape, despite the overall index score experiencing a reduction in Quarter Two.

“The second quarter of the year presented businesses in Coventry and Warwickshire with a turbulent operating environment as the economic fallout of the war in Ukraine created considerable economic shocks, particularly impacting energy, commodity and food prices. Inflation reached unprecedented heights in Q2, as businesses and consumers alike had to navigate the impact of price pressure on their business operation and household budgets respectively.

“The latest QES shows a varied local picture, any pent-up demand that was experienced by local services in Q1 was mitigated in the second quarter as the outlook index reduced significantly, likely due to the tightening of household budgets impacting consumer demand levels. Meanwhile, the local manufacturing sector surprisingly bucked the national trend with positive movements in its overall economic outlook, somewhat offsetting the decline seen in the service sector results.

“Despite such deviations, both sectors continue to show a positive economic outlook in the face of economic adversity, but the question is for how long?

“Looking forward to the second half of the year paints a difficult picture for local businesses. The economic headwinds facing the economy show little signs of decelerating as inflation is forecasted to continue to rise as wage growth slows further impacting demand levels both nationally and locally.”

Overseas Orders:

The overseas orders index experienced mixed movements for both the service and manufacturing sectors within Coventry & Warwickshire.

The service sector saw a decrease in its overseas orders index for a second consecutive quarter, moving from 47.2 in Q1 2022 to 43.7 in Q2, suggesting a large contraction in overseas orders when compared to the previous quarter. A large majority of businesses that responded suggested that their current and advanced overseas orders had either decreased or remained constant in Q2.

On the other hand, the manufacturing overseas orders index saw a considerable uptick moving from 45 in Q1 to 50 in Q2, suggesting an expansion in advanced orders. This uptick came as many manufacturers suggested that current overseas orders had either remained constant or improved in Q2. The overall increase was offset slightly by many manufacturers suggesting that advanced overseas orders had either remained constant or decreased.

Domestic Orders:

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

The local service sector's domestic orders index registered a significant reduction moving from 62.1 in Q1 2022 to 52.4 in Q2. The reduction indicates a deceleration in the pace of expansion. Decreases were seen in both the current and advanced orders index, falling from the highs of the 60's seen in the previous quarter to 55 and 49.6 respectively. This comes as many businesses suggested both current and advanced orders had either remained constant or decreased across the quarter. The overall deceleration in domestic orders within the service sector is likely to be explained by household budgets beginning to be squeezed, offsetting any pent-up demand that consumers had as a result of the pandemic.

Contrastingly, the domestic orders index within the local manufacturing sector experienced a significant increase, moving from 51.7 in Q1 2022 to 57.4 in Q2 2022. This came as a result of both current and advanced orders index scores experiencing an uptick moving to 58.5 and 56.2 respectively, from the low of the 50s in Q1. The expansion in the index scores comes as the majority of respondents suggested that both current and advanced orders had remained constant or increased during Q2. This bucks the national manufacturing narrative which suggested a slowdown in domestic demand across Q2.



MANUFACTURING

57.4

up from 51.7

SERVICE

52.4

down from 62.1



SERVICE

43.7

down from 47.2

MANUFACTURING

50.0

up from 45.0

Employment:

The service sector employment index reduced slightly to 57.1 in Q2 2022, compared to a previous quarter reading of 59.1. A large majority of respondents in the local service sector suggested that their labour forces had remained constant when compared to the last 3 months.

The manufacturing sector, on the other hand, saw a significant increase in its labour force index from 45.4 in Q1 to 54.3 in Q2, moving beyond the 50-mark and signifying optimism amongst local manufacturers when it comes to their labour force. The upturn was largely driven by the majority of respondents suggesting that their labour force had either remained constant or increased relative to the last 3 months.

The difficulties experienced by both the local service and manufacturing sectors when hiring new staff continues to stay in line with the overall tight labour market experienced at a national level.



Investment & Cashflow

The investment & cashflow index for the local service sector remained unchanged in Q2, whilst the local manufacturing sector experienced a slight uptick.

The service sector investment & cashflow index remained unchanged at 52 in the second quarter of 2022. The cashflow component saw a fractional increase from 52.4 in Q1 to 52.5 in Q2, as the majority of survey respondents indicated that cashflow levels had remained the same when compared to the previous quarter.

The investment component experienced a fractional increase moving from 51.8 in Q1 to 52 in Q2, with a large majority of respondents suggesting that their levels of 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 many respondents suggested that investment in training also remained constant.

The increase in the local manufacturer's investment & cashflow index was somewhat offset by the cashflow component which saw a deceleration moving from 59.1 in Q1 to 54.9 in Q2. Many respondents suggested that their cashflow index had either remained constant or had decreased.

MANUFACTURING

51.2

up from 49.6

SERVICE

52.0

unchanged



Business Confidence:

The local service sector business confidence index experienced a significant reduction from the highs seen in Q1, reducing by 20.2 index points, from 83.7 to 63.5. Despite the deceleration, we see that overall business confidence remains significantly above the 50-mark indicating that overall local service sector businesses feel generally optimistic and upbeat. This comes as over half of survey respondents indicated that they expect turnover to increase in the coming 12 months, whilst just over 47% expect turnovers to either remain the same or decrease in the coming 12 months, somewhat offsetting the overall increase. In terms of profitability, 43% of survey respondents suggested that they expect profitability to increase in the coming 12 months, whilst 53% of service sector businesses indicated that they expect their profitability to remain the same or decrease in the coming 12 months.

Just over half of the respondents also suggested that they are working below full capacity in Q2 2022 in line with the previous quarter. This may continue to be the case as a result of the recruitment difficulties that were also seen in Q2 2022.

Price pressures have continued to dominate survey results once again. Q2 2022 saw over 60% of service sector respondents indicate expectations of price surges in the next 3 months, with the rest of the respondents suggesting that they will remain the same. As with recent quarters, many businesses indicated price pressures are expected to come from “pay settlements” alongside “other overheads” in terms of internal factors, alongside an overwhelming number of respondents indicating “inflation” as the main source of external price pressuring impacting business operations.

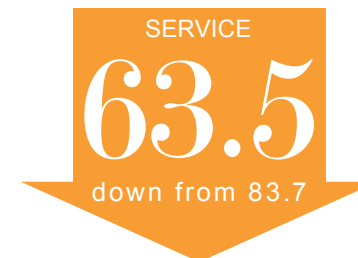
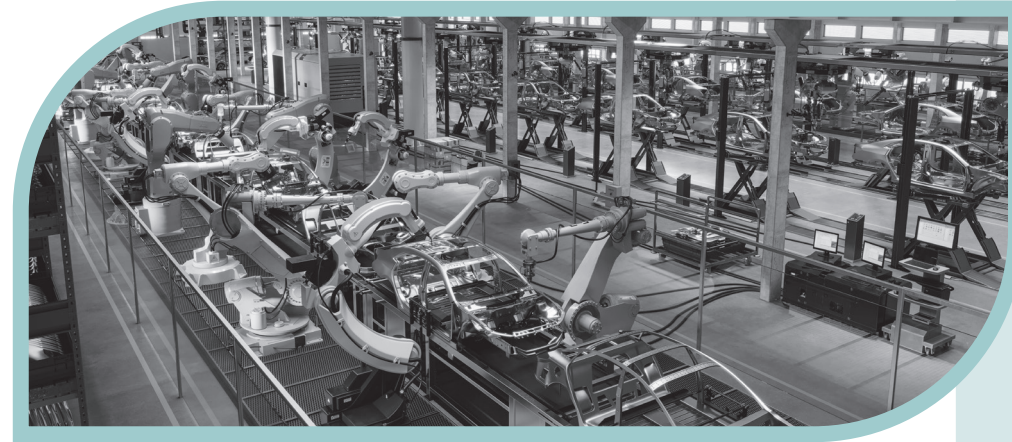
Contrastingly, business confidence amongst the local manufacturing sector increased significantly in Quarter 2, with the index score rising by 9-points from 46.1 in Q1 to 55.1 in Q2, surpassing the all important 50-mark showing signs of expansion and optimism in terms of manufacturing business confidence.

There has been a positive picture in terms of the drivers underpinning the overall expansion, with 48% of manufacturing survey respondents suggesting that they expect their turnovers to increase in the coming 12 months alongside 33% suggesting that they expect turnovers to remain unchanged.

When asked about profitability expectations, over 33% indicated that they expect profitability to increase in the coming 12 months, slightly offset by 43% indicating that they expect profitability to decrease in the same time frame.

In terms of capacity levels, 59.5% of businesses indicated that they are working below full capacity in Q2 2022.

Looking forward to the next 3 months, as expected given the national reports, over half of manufacturers that completed the survey expect price pressures to continue to intensify in the coming quarter, with “raw material prices” and “pay settlements” dominating the results in terms of internal prices pressures. As with local service businesses, a large majority of manufacturers once again indicated that “inflation” would be the biggest external factor contributing to pricing pressures.



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Data analysis by:

