



Coventry & Warwickshire
Chamber of
Commerce
The Ultimate Business Network

2023 Q3

QES Partner

prime
ACCOUNTANTS GROUP



Q1

Q2

Q3

Q4

Coventry & Warwickshire
Quarterly Economic Survey

Quarter 3 2023 Analysis:

The Economic Outlook Index for Coventry & Warwickshire has increased in Q3 2023 compared to Q2 2023, moving from 50.6 to 62.3. The increase moves the overall value well above the 50-mark showing clear signs of confidence amongst respondents in the summer of 2023.

The decline in National (UK) private sector output, was limited in September 2023 due to the service economy. The UK's composite PMI score decreased from 52.8 at the end of Q2 2023 to 46.8 at the end of Q3 2023. Unlike Coventry and Warwickshire, this moves the national index value below the 50-mark, indicating moderate contraction.

The national manufacturing PMI decreased from 46.2 at the end of June 2023, to 44.3 in September 2023. Manufacturing production decreased in September 2023 as demand continued to fall due to ongoing

market uncertainty, the cost-of-living crisis, and weak conditions in overseas markets.

Coventry & Warwickshire's manufacturing index bucked the national trend, increasing from 52.7 in Q2 2023 to 71.5 in Q3 2023, a 35-point increase. Clearly, the local manufacturing sector remains significantly more confident than the UK as a whole.

National services PMI also fell, decreasing from 53.7 at the end of June 2023 to 47.2 at the end of September 2023. Companies citing rising economic uncertainty, elevated interest rates, and constraints on non-essential spending both from domestic and foreign customers. Coventry & Warwickshire's service sector index increased in Q3 2023 to 56.5 from 50.3 in Q2 2023; a 12.3% increase showing some signs of strengthening optimism in this sector.

" We've noticed a decrease in domestic clients, we believe this has been caused by the financial pressures many households are experiencing"

SME service sector business, based in Warwickshire



Quarterly Economic Survey Commentary



Corin Crane
Chief Executive
Coventry &
Warwickshire
Chamber of
Commerce

"I don't think anyone is suggesting that we are out of the woods when it comes to the number of issues facing companies across our patch.

"Inflation is starting to fall – but it's still way above target – and interest rates are still much higher than the record lows we've seen in recent years.

"It's still incredibly difficult for firms to attract the skilled staff they need to be able to grow and that is something we are working with partners to look to address in the short, medium and long term.

"All that said, this is a very positive QES for the third quarter of 2023 and I hope we can build on this sentiment and start to see some serious growth in our economy in the coming years and, crucially, that it has a meaningful impact on communities across the whole of Coventry and Warwickshire."



Steven Harcourt
Director
Prime Accountants Group

"It is great to see such a bounce back in confidence among Chamber members – this is, more than likely, due to the fact that inflation is coming down from its peak and firms feel that they can start to plan for the future.

"Coventry and Warwickshire businesses have proved to be extremely resilient over the past three or four years, in the face of unprecedented events which have led to growing uncertainty.

"That is why our economy in the region has remained pretty stable but, what we'd like to see now, is a real drive for growth and this latest survey suggests that could be a possibility in the not-too-distant future."



Todd Williams
Insight Analyst
Warwickshire County Council

"Quarter three at a national level fell slightly as concerns over inflation and interest rates persist, while recruiting difficulties have not improved significantly. However, the latest QES results show the local economy gaining noticeable 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 showing very strong optimism versus a national pessimism, while the clear optimism of local service businesses also defies the national trend. While there are local short-term concerns, especially around recruiting, price pressures and inflation - both the local manufacturing and service sectors show strong confidence that business is expected to continue to improve over the next 12 months."



68.5% of
respondents have attempted
to recruit in the past 3
months.

Domestic Market:

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

The local service sector's domestic orders index increased from 48.5 in Q2 2023 to 54.5 in Q3 2023. This indicates a switch to growth for domestic orders, with potential early signs of increasing advanced orders. Increases were seen in both the current and advanced orders index, increasing to 54.6 and 54.3 from previous quarter readings of 50.0 and 46.8 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 Q3 2023.

The domestic orders index within the local manufacturing sector experienced an even stronger increase, moving from 55.9 in Q2 2023 to 72.9 in Q3 2023. This was down to the current orders index score and advanced orders index score increasing sharply from 61.8 and 50.0 in Q2 2023, to 72.4 and 73.5 respectively in Q3 2023.

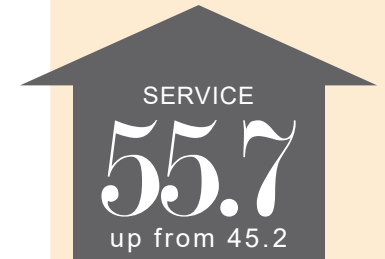


Overseas Market:

The overseas orders index increased for the services sector, and achieved further strengthening for the manufacturing sector, within Coventry & Warwickshire in Q3 2023.

The service sector saw an increase in its overseas sales index moving from 45.2 in Q2 2023 to 55.7 in Q3 2023. The increase was largely due to an increase in respondents indicating current sales increased or remained constant in Q3 2023. There was a lesser improvement in the position for advanced orders since Q1 2023 as there were only a few more respondents indicating an increase rather than a decrease in sales.

The manufacturing overseas orders index saw a larger upturn, with the increase pushing the index value far above the 50-mark to 70.5 in Q3 2023 from a previous quarter reading of 57.7. In the latest quarter, for both current sales and advanced orders there were far more businesses saying orders had increased than decreased.



Employment:

The service sector employment index increased from 51.6 in Q2 2023 to 58.6 in Q3 2023.

The increase was stronger for the labour force in the next 3 months than for the last 3 months. The index score moved further above the 50-mark, showing signs of increasing employment optimism amongst local service businesses in Q3 2023. Almost 3 in 5 (58.0%) of service respondents indicated that they attempted recruitment in Q3 2023 with a similar majority (59.8%) of them indicating that they came across recruitment difficulties.

The manufacturing sector saw a large rise in its labour force index, moving from 54.4 in Q2 2023 to 73.0 in Q3 2023. The index moves well 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, over three quarters (81.4%) attempted recruitment in Q3 2023, with the vast majority being for full-time roles. Of those that attempted a recruitment drive, 88% indicated that they encountered difficulties in hiring.



Investment & Cashflow:

The investment & cashflow index for the local service sector reversed losses in the second quarter with a strong increase in the third quarter of 2023, while the manufacturing sector had a very sharp movement to growth.

The service sector investment & cashflow index experienced an increase from 45.2 in Q2 2023 to 52.2 in Q3 2023. This was mainly driven by an increase seen in the investment component, which increased from 45.6 in Q2 2023 to 56.6 in Q3 2023. The cash component stayed flat at 44.6 in both Q2 2023 and Q3 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 jumped sharply, moving from 39.0 in Q2 2023 to 69.0 in Q3 2023, moving the index value well above the 50-mark indicating strong optimism amongst the local manufacturing sector in terms of its cashflow and investment.

The cashflow component experienced the largest decrease, moving from 35.2 in Q2 2023 to 73.6 in Q3 2023 with 54% of respondents indicating that their cashflow levels had improved in the third quarter of 2023. The investment component increased almost as sharply from 40.9 to 66.7, as there were more responses indicating an increase in training than responses indicating investment remaining constant or decreasing for Q3 2023.



Business Confidence:

The local service sector business confidence index rose slightly, and the manufacturing sector business confidence index experienced a strong increase in the third quarter of 2023.

The service sector index value improved slightly from 58.0 in Q2 2023 to 61.3 in Q3 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 increasing or remaining constant, and 73% of respondents saw profitability increasing or remaining constant.

Forty-seven percent of service sector respondents suggested that they were working below full capacity in Q3 2023, an improvement from the previous quarter where more than half were working below full capacity.

Price pressures remain a significant concern. Q3 2023 saw 73.1% of service sector respondents indicate that they expect price increases in the next 3 months. Seventy-two per cent of service businesses who responded indicated price pressures are expected to come from "Pay settlements" whilst 48% said "Raw material prices" and 48% said "Finance costs". Sixty-one per cent of respondents indicated "Inflation" as the main sources of external

SERVICE
61.3
up from 58.0

MANUFACTURING
72.5
up from 60.3

price pressure impacting business operations, the same as Q2 2023.

Business confidence amongst the local manufacturing sector increased in the third quarter of 2023. The index score moved from 60.3 in Q2 2023 to 72.5 in Q3 2023, a 12.2-point increase. The increase included responses indicating growth in the turnover component moving from 61.8 in Q2 2023 to 73.9 in Q3 2023, with 59.4% of the manufacturing respondents suggesting that they expect their turnover to increase or remain constant in the coming 12 months. The increase in business confidence for manufacturing was also affected by the rise in the profitability component reaching 71.0 in Q3 2023 from a previous quarter reading of 58.8. This came as a result of 59.4% of respondents from the manufacturing sector expecting turnover to increase in the coming 12 months.

In terms of capacity levels, 70.0% of respondents in the manufacturing sector indicated that they had been operating at full capacity during Q3 2023. This is a strong increase from the previous quarter where

it was less than half of respondents.

Looking forward to the next 3 months, well over half (63.2%) of local manufacturers that completed the survey expected price pressures to increase, with "raw material prices" (60.0%) and "pay settlements" (50.0%) dominating the results in terms of internal prices pressures. As with local service businesses, the majority (52.9%) of manufacturers indicated that "inflation" would be the biggest external factor contributing to pricing pressures followed by "business rates" (50.0%).



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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://www.primaccountants.co.uk)

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:

