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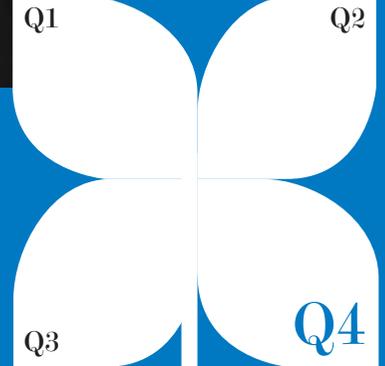
2021 Q4

QES Partner

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Coventry & Warwickshire Quarterly Economic Survey



Quarter 4 2021 Analysis

OVERALL

57.9

down from 59.7

SERVICE

61.3

down from 63.2

MANUFACTURING

49.2

down from 51.0

The Economic Outlook Index for Coventry & Warwickshire in Q4 2021 has fallen for a second consecutive quarter moving from 59.7 in Q3 to 57.9 in the last quarter of the year. This reduction in the overall economic outlook of the sub-region presents a continued slowing in the pace of expansion and optimism amongst local businesses.

Quarter 4 once again, presented a mixed picture in terms of the national economic landscape, with national reports of buoyant business growth and gains in the job market, coupled with a sustained rise in the cost burden to businesses, driven by higher wages and price spikes on fuel, energy, and other raw materials.

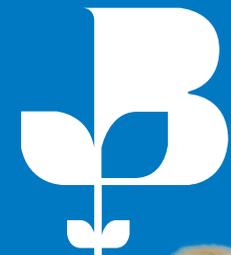
The local service sector index experienced a slowing in momentum decreasing slightly from 63.2 in Q3 to

61.3 in Q4. Varied movements were seen across the components that make up the overall index value. The orders index both domestic and overseas experienced sizeable increases, whilst the growth in business confidence and investment & cashflow slowed somewhat. The labour force component remained unchanged when compared to the Q3 and on the whole, the local service sector continued to remain upbeat in the final quarter of the year.

The local manufacturing sector index continued on its path of slowdown, with a second consecutive quarter of downturn moving from 51 in Q3 to 49.2 in Q4, dipping below the important 50-mark and thus signifying a pessimistic outlook from local manufacturers and a contraction in overall growth. This reduction was attributed to a challenging operating environment with strained supply chains, increase in raw

material costs and knock-on inflationary pressure, alongside recruitment difficulties (particularly when seeking workers of a skilled / manual or technical nature). This is translated into low / reduced index scores for the investment & cashflow, labour force and overseas orders components respectively.

The varied economic landscape is further translated into the individual business confidence indexes of both sectors. The local service sector business confidence fell in Q4 from the heights seen in the past two quarters to 71.3 in Q4 from 83.8 in Q3. A reduction was also seen in the local manufacturing sector, dipping from 62.9 in Q3 to 55.8 in Q4. Both index scores are reflective of the fall in optimism amongst local businesses in the last quarter of the year.



Quarterly Economic Survey Commentary



Sean Rose
Head of Policy
Coventry &
Warwickshire
Chamber of
Commerce

“It’s not surprising that confidence took a dip towards the end of 2021. With each passing quarter, it is important to remember what was happening in the previous three months to provide context.

“In the summer months, the economy was fully open for the first time after more than a year of restrictions so confidence was on the up. However, as we approached the end of the year Covid began to play a part in business sentiment and while restrictions haven’t impacted majorly, the rising number of cases has had an effect.

“Throw into the mix the major concerns around inflation and the rising costs of doing business, it’s little wonder that companies have started 2022 slightly more subdued than they were three months ago.

“However, the fact that the economic outlook is still on the positive side suggests that the economy in the region will continue to rebound in the coming weeks and months.”

“Whilst it is disheartening to see a drop in confidence amongst businesses across the region in Q4, it is one that is not surprising, with most sectors of our economy encountering a challenging business environment.

“We are faced with strained supply chains, over inflationary increases in some raw material costs, fuel and energy cost spikes, teamed with skilled worker recruitment shortages, notwithstanding the Omicron variant now spreading quicker and affecting more people daily. It is inevitable that with a percentage of the workforce in isolation businesses may now face ongoing economic and Covid related issues coming in to 2022.

“However, the positive signs we can see are rises in domestic and overseas orders across the service and manufacturing sectors, with businesses predicting increasing turnovers in 2022.

“Overall, locally, most figures in the Q4 survey remain above the 50 mark which is still optimistic through the various sectors of our economy. As most businesses are still remaining confident and are tackling business challenges head on, the call to remain agile and reactive to change remains important for business leaders to consider through the coming year.”



Steven Harcourt
Director
Prime Accountants
Group



Sunny Parekh
Lead Economist
Warwickshire County Council

“The final quarter of 2021 was dominated once again by a difficult operating environment for the manufacturing sector as inflationary pressure continued to mount, supply chains were strained and businesses experienced hiring difficulties.

“Contrastingly, the local service sector remained upbeat with an escalation in new orders both domestic and overseas, driven mostly by improved market conditions because of a sustained lifting of restrictions and a loosening of limits on international travel.

“As we begin 2022, we find ourselves in a familiar situation with Covid-19 case rates rising due to the emergence of the Omicron variant and another bout of restrictions being put in place to curb its spread.

“This will undoubtedly raise concerns amongst local businesses on how rising case rates (domestically and overseas), could impact demand levels, exacerbate any current labour/supply shortages and further price pressures. However, the impacts could be short-lived if the new variant is efficiently brought under control.”



Overseas Orders:

Services:

The service sector saw a sizeable and important increase in its overseas orders index, moving from below the 50-mark at 44.8 in Q3 to 50.9 in Q4, suggesting an expansion in overseas orders when compared to the previous quarter. This is very much in line with the national outlook for exports mainly because of restrictions on travel being loosened in Q4.

Manufacturing:

The local manufacturing sector also saw an uptick in its overseas orders index moving from 39.7 in Q3 to 40.5 in Q4, despite the increase the value remains below the 50-mark presenting a subdued export environment for local manufacturers. When looking at the respondents, equal numbers of businesses indicated that overseas orders (both current and advanced) remained constant or decreased when compared to Q3. The difficult export environment could be explained by reports of weaker demand from China, alongside disruption to EU trade, partly due to ongoing complications with the EU transition.

Domestic Sales:

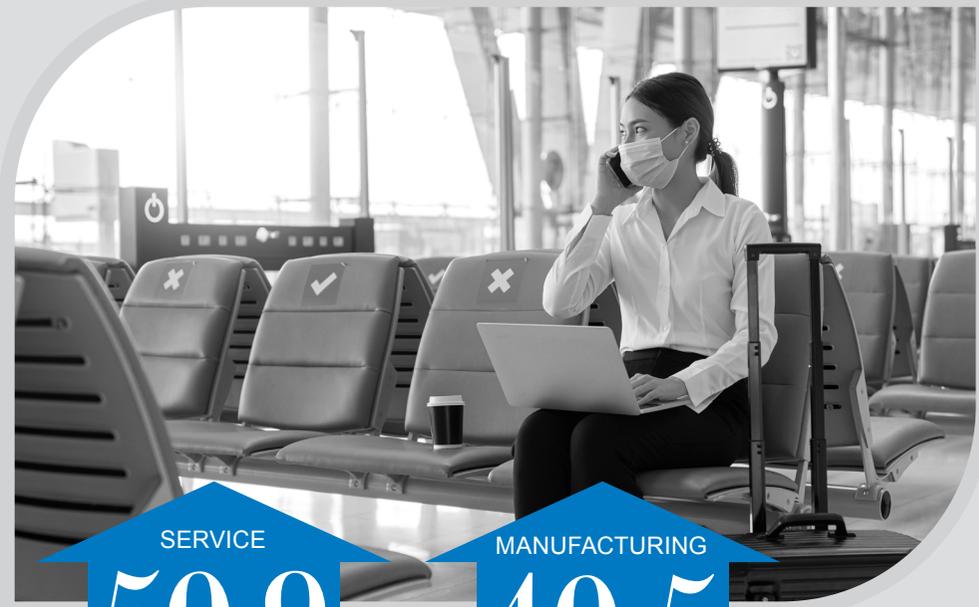
Services:

Domestic orders in the local service sector increased considerably in Q4 moving from 59.7 in Q3 to 66.3 in Q4. The domestic index score pushed further past the 50-mark indicating significant expansion in orders within the UK in the last quarter of 2021. This may have been largely due to improved economic conditions and boosts from the sustained lifting of COVID-19 restrictions.



Manufacturing:

The manufacturing sector's domestic orders index also experienced an increase in its domestic orders index, moving further beyond the 50 mark to 54.2 in Q4 from a Q3 reading of 50.5. The increase comes as all the manufacturing respondents suggested that both current and advanced orders had either remained constant or increase when compared to the previous quarter.





Investment & Cashflow

Services:

The service sector investment & cashflow index fell slightly to 53.7 in Q4 2021 from a previous quarter reading of 56.1, with the investment component seeing the largest reduction. The cashflow component also experienced a reduction but to a lesser extent, moving from 55.4 in Q3 to 52.2 in Q4, with the majority of respondents suggesting that their cashflow remained constant when compared to the previous quarter.

SERVICE
53.7
down from 56.1

Manufacturing:

Contrastingly, the manufacturing sector's investment & cashflow index moved further away from the all-important 50 – mark, with a 5.7-point reduction in Q4 to 44. This comes as both the cashflow and investment indexes experienced reduction, with the investment component experiencing the largest reduction and driving the overall decrease.

MANUFACTURING
44.0
down from 49.7

The cashflow component also saw a reduction but to a lesser extent, moving from 53.2 in Q3 51.4 in Q4. This mixed response rate may come as some businesses have continued to be significantly impacted by ongoing supply chain issues, increased raw material costs alongside longer lead times having a subsequent impact on cashflow levels.



Employment:

Services:

The services sector index remained consistent with the previous quarter with only a fractional reduction from 59.9 in Q3 to 59.5 in Q4. An overwhelming majority of respondents in the local service sector suggested that their labour forces had remained constant when compared to the last 3 months. Looking forward, many respondents also suggested that their labour forces would remain constant in the coming three months.

SERVICE
59.5
down from 59.9

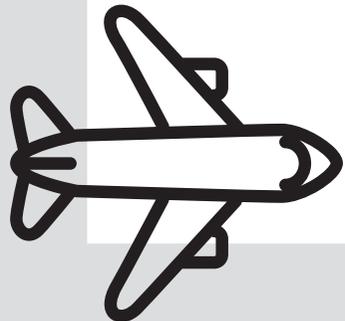
MANUFACTURING

49.3
up from 45.5

Manufacturing:

The manufacturing sector, saw a slight uptick in its employment index from 45.5 in Q3 to 49.3 in Q4, moving closer to towards the 50-mark signifying less pessimism amongst local manufacturers when it comes to their labour force. The uptick was largely driven by an equal number of respondents suggesting that their labour force had either remained constant or decreased relative to the last 3 months.

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



Business Confidence:

Services:

The local service sector business confidence index fell for a second consecutive quarter from the heights experienced in Q3 of 83.8 to 71.3 in Q4, indicating a 12.5-point reduction in business confidence. Despite the reduction, the index reading remained significantly above the 50 mark in Q4, indicating optimism amongst local service sector businesses. The upbeat business confidence amongst local service sector is attributed to an overwhelming majority of service businesses reporting that they expect their turnover and profitability to increase in the coming 12 months.

Many businesses suggested the price pressures are expected to come from “other overheads” alongside “pay settlements”, local firms also indicated that inflation, business rates and interest rates could all be the external contributing factor to price inflation in the next 3 months.

SERVICE
71.3
down from 83.8

MANUFACTURING
55.8
down from 62.9

Manufacturing:

Business confidence amongst the local manufacturing sector also continued to fall for a second consecutive quarter, moving from 62.9 in Q3 to 55.8 in Q4 calculating to a 7.1-point reduction. The business confidence levels have fallen from the heights seen in Q2, but similarly to the service sector remain above the 50-mark indicating overall levels of optimism.

Looking forward to the next 3 months, most manufacturers that completed the survey expect price pressures to continue to intensify, with nearly 94% of respondents expecting such pressures to come from “raw materials”. In addition to this, a large majority of manufacturers indicated that “inflation” would be the biggest external factor contributing to pricing pressures.



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Data analysis by:

