

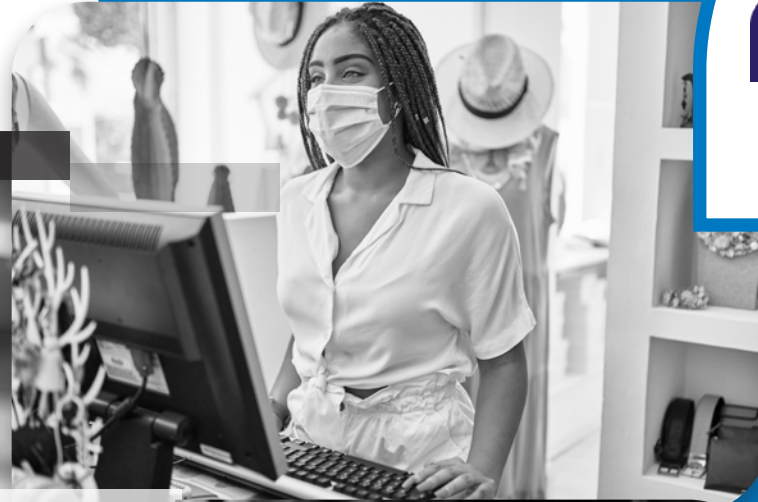


Coventry & Warwickshire
Chamber of
Commerce
The Ultimate Business Network

2021 Q2

QES Partner

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Q1

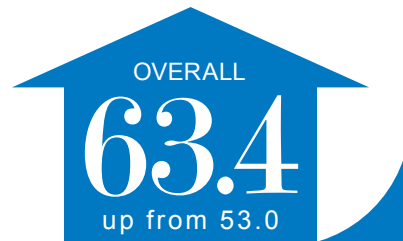
Q2

Q3

Q4

Coventry & Warwickshire Quarterly Economic Survey

Quarter 2 2021 Analysis



The Economic Outlook Index for Coventry & Warwickshire in Q2 2021 has risen for a second time this year from 53.0 in Q1 2021 to 63.4 in Q2 2021, suggesting increasing optimism, a notion recognised nationally.

Q2 2021 has seen a sustained opening of the economy in the UK, with May recording an unprecedented national high PMI as the government allowed the indoor opening of many hospitality venues.

There has also been the promise of no back-tracking, giving companies some certainty. Further to this, the vaccine rollout has been gaining increasing momentum. Vaccines are now being offered to those over-18's with 80% of those eligible in England having received their first vaccine, and a further 59% having received their second dose.

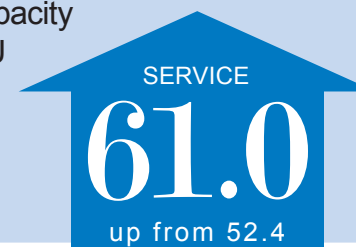
There is a sense of 'pent-up' demand from the population as individuals are keen to build back their social activities after over a year's worth of varying restrictions, driving the UK economy's recovery. It is also reported that there was a small fall in online spending as individual's favour in-store shopping, which is preferable to local high streets.

The relaxation of restrictions combined with a successful continuing vaccine programme has been reflected this quarter in Coventry & Warwickshire's index increase.

The national manufacturing PMI hit 64.2 in Q2 2021 as growth continues in the manufacturing sector with reduced restrictions and increased employment as a result of increased operating capacity and some clarity regarding the EU transition.

Despite this, there is increased inflation and raw material shortages effecting prices. Coventry & Warwickshire's manufacturing PMI rose to 65.4, 10.5 points higher than Q1 2021 showing the huge positive shift for the manufacturing businesses.

Reduced restrictions and increased demand has also had a positive knock on effect to the national service sector, with a national PMI of 61.7 in Q2 2021. This is also reflected in Coventry & Warwickshire service sector which has jumped from 52.4 in Q1 2021, to 61.0 in Q2.





Quarterly Economic Survey Commentary



Sean Rose
Head of Policy,
Coventry and Warwickshire
Chamber of Commerce

“It is extremely promising to see an increase in business confidence not just in the services sector and the high street, but in the manufacturing industry too.

This is an indication of a widespread feeling of positivity in local businesses generally as we reap the benefits of the slow return to normality thanks to the relaxation of Covid-19 restrictions and as businesses come to terms with the finer details of post-Brexit trade.

What we can see as a result of this is an intensified belief in both the consumer market in the local area, with people heading into town centres and shopping parks to spend lockdown savings, alongside the confidence to look global and open up new avenues of overseas trade.

There will no doubt be a number of fresh challenges that businesses will have to contend with over the coming months, as all of these fluctuations will start to have a material impact on the way local companies do businesses.

That being said, to know that we are one of several regions seeing an increase in confidence within the manufacturing industry is extremely satisfying, and serves as a timely reminder of the spirit that made Coventry and Warwickshire crucial to the economy of mid-century Britain.

If we add rising employment figures to the general increase in business confidence and investment, we may be on the verge of a very exciting time for the region.”



Steve Harcourt
Director,
Prime Accountants Group

“Once again, it is promising to see the increase in business confidence in the last quarter which assures me that as businesses we are all once again on the path to recovery as life slowly returns to normal and a majority of businesses are able to operate at somewhere near full capacity.

With the vaccine rollout continuing at a remarkable speed and the easing of restrictions, it is no surprise that the Economic Outlook Index for Coventry & Warwickshire has risen from 53.0 to 63.4 in Q2, while the manufacturing PMI and service sector PMI have also both risen from 54.9 to 65.4, and 53.4 to 61.0 in the past quarter. Business is able to proceed now with less restrictions and an increasing workforce, fulfilling the advanced orders they received in previous quarters.

However, whilst final restrictions remain in place for an extra few weeks until they ease in mid-July, we can only hope that whatever may come in Q3 does not stall the positive momentum we have gained so far. The upturn in the forward indicators points to a summer economic rebound and the economy returning to pre-pandemic levels towards the end of 2021, as was predicted this time last year.

It is positive to see that both investment and cash flow have increased for both manufacturing and service sectors, which will hopefully help businesses to prepare for the future and potential bumps in the road, as the government support for businesses winds down.

What needs to filter through from the increased confidence is an improvement in business trading results and growth. As we can see from the survey, domestic manufacturing sales is down five points from the Q1 results, which should provide a word of warning as manufacturers are seeing the price of raw materials rocketing and availability of materials falling, impacting on future confidence and economic performance.”

“Q2’s QES presented another quarter of positive results for Coventry & Warwickshire. The overall economic outlook index in Q2 was the first quarter to reach pre-pandemic levels, showing clear signs of economic recovery within the local economy.

The easing of COVID 19 restrictions alongside the extensive and successful rollout of vaccinations has undoubtedly been reflected in the overall upbeat performance of both the local services and manufacturing sectors, particularly in terms of business confidence, which reached record heights for both local sectors as they look towards a brighter outlook.

It is further encouraging to see a revival in the local labour markets as the employment index for both sectors showed signs of recovery as local businesses were fortified by increased demand and business activity.

Despite the positives, price pressures dominated the survey data with many businesses within both sectors expecting prices to rise in the coming months which could be impactful in the coming quarter.”



Sunny Parekh
Senior Economist,
Warwickshire
County Council

Domestic Orders:

The domestic orders index in Q2 2021 had contrasting results for the service and manufacturing sectors.



Services Sector -

Domestic orders in the local service sector have risen to 59.5, which has broken the 50 barrier as hospitality started to reopen, both out and indoors. This increase has been driven by both current and overseas orders in equal amounts. Whilst a high proportion of service businesses report increased sales and orders, the majority have reported constant levels.



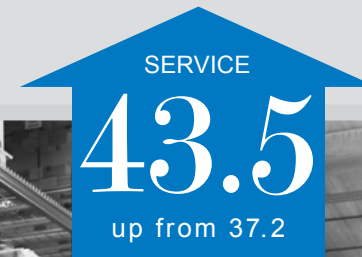
Manufacturing Sector -

The manufacturing sector has seen a drop in its domestic orders, from 56.3 to 51.3 in Q2 2021. This comes as a result of an equal drop in current and advanced orders, though it is important to note that both remain either on (advanced orders) or above (current sales) the optimistic 50 mark. This may be as a result of raw material shortages and inflation leading to increased prices, and thus less competitive prices.

Overseas Orders:

Conversely to last quarter the overseas index for the local manufacturing and service sector has risen, though the service sector still remains below the 50 mark, suggesting pessimism.

Contrastingly the Manufacturing overseas orders index has increased from 48.9 to 57.1 showing optimism, particularly towards future orders/sales. This comes as the EU transition settles and global orders start to increase given the increased clarity on the way businesses can work/trade.



Employment:

The labour force index paints for a positive picture in Q2 2021, both sectors experienced significant positive movements in their index scores. These increases undoubtedly came as the economy began to navigate its way through the steps of the government's roadmap on the easing of lockdown restrictions.

An overwhelming majority of respondents for both the service and manufacturing sectors suggest that their labour forces had either increased or remained constant when compared to the last 3 months. Further to this, the majority of respondents within both sectors also suggest that their labour forces would either increase or remain constant in the coming three months. This optimistic outlook amongst Coventry & Warwickshire businesses is translated into their labour force index scores with both sectors increasing significantly beyond the 50 mark.



Services Sector -

The service sector index rose to 55 compared to 45.4 in Q1 2021, suggesting an expansion in growth and positivity amongst local service sector businesses. This is further supported by 54% of respondents reporting attempting to recruit in Q2 of which just over half experienced recruitment difficulties.



Manufacturing Sector -

The manufacturing sector has also experienced a substantial increase moving from 43.4 in Q1 to 68.6 in Q2 2021. This revival of labour market conditions for the manufacturing sector once again can be attributed by the loosening of restrictions alongside demand for new orders particularly from overseas. This notion is evident as Q2 saw more than half of the business respondents reporting attempting to recruit.

Investment & Cashflow

The investment & cashflow index has increased for both the services and manufacturing sectors within Coventry & Warwickshire in Q2.

Service -

The service sector increased by 9 points to 52, with the cashflow component carrying the largest weight for the upsurge. The increase comes as nearly 60% of businesses suggested an increase in their cashflow in Q2 accounting for an 11.2 point increase in the cashflow index from 39.1 in Q1 to 50.3 in Q2. The investment index continued its quarterly increase jumping to 53 from 45.5 in Q1, due to a high proportion of respondents suggesting that investment levels on capital and machinery alongside training either increased or remained constant. This is unsurprising given the green light from government to gradually reduce restrictions and allow non-essential services to reopen in Q2.



Manufacturing -

The manufacturing sector continued its upsurge in its investment & cashflow index increasing from 50.7 to 60.5 in Q2 with the increase in the cashflow component driving the overall increase. This comes as equal proportions of respondents suggested that their cashflow had either increased or remained consistent in Q2. The investment component also saw an increase with the majority of respondents suggesting that investment in plant / machinery alongside training either increased or remained constant. The improvements seen in the investment and cashflow index for the local manufacturing sector stands testament to the upswings seen in its performance in Q2.



Business Confidence:

The loosening of the COVID 19 restrictions alongside the mass roll-out of the national vaccination programme have played a significant role in boosting business confidence within the sub-regional economy. Both the local services and manufacturing sectors reached significant heights in their business confidence index scores within Q2.

Services -

The local service sector business confidence index soared to 84.4 in Q2 highest on record from a previous quarter reading of 80.8, with an outstanding majority of businesses reporting that they expect their turnover and profitability to increase in the coming 12 months. This confidence comes at a time where more local businesses suggested working at full capacity than in the previous quarter, most likely as a result of national restrictions being lifted, particularly impacting non-essential services who had otherwise not been allowed to open. Despite the upbeat sentiment, many businesses indicated that they expect prices to rise in the coming 3 months, with the majority suggesting this rise to come from “other overheads”. The local service sector also eluded to interest rates, exchange rates and business rates as potential external factors which could further impact prices and costs in the future.

Manufacturing -

The manufacturing sector business confidence reached new heights with upsurge from 71.1 to 80 as of Q2. This comes as the majority of local manufacturers expect turnovers and profitability to increase in the coming 12 months.

Looking forward over the next 3 months, all of the local manufacturers that completed the survey expect price pressures to intensify, with nearly 60% of respondents expecting such pressures to come from other overheads. In addition to this many manufacturers expect corporate taxation, business rates and exchange rates to be the external factors contributing to price pressures, undoubtedly as the government aims to raise revenue to combat budget deficits due to COVID 19 related interventions.



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Data analysis by:

