

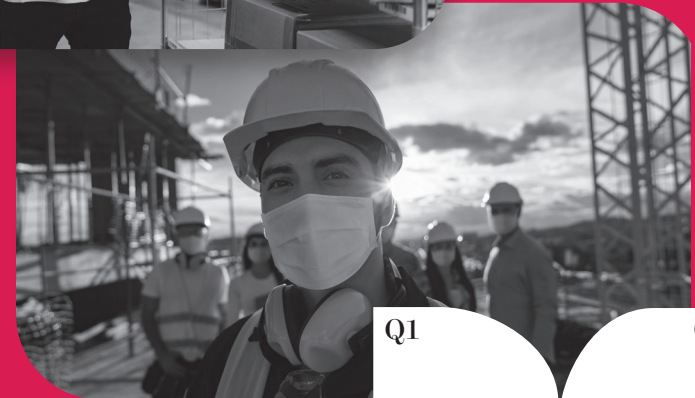


Coventry & Warwickshire
Chamber of
Commerce
The Ultimate Business Network

2020 Q3

QES Partner

prime
ACCOUNTANTS GROUP



Q1

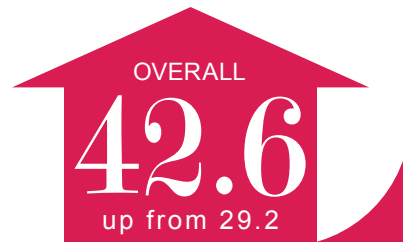
Q2

Q3

Q4

Coventry & Warwickshire Quarterly Economic Survey

Quarter 3 2020 Analysis



Economic Outlook Index, 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.

Overall Economic Outlook Index:

The Economic Outlook Index for Coventry & Warwickshire in Q3 2020 has shown an uptick from the record lows of 29.2 in Q2 2020, increasing to 42.6, but still significantly lower than the previous year of 61.0 in the same quarter of 2019.

Q3 once again reflected the extraordinary economic environment that we find ourselves, with the coronavirus pandemic still being very much amongst us. The quarter experienced significant changes in the government's approach to tackling the COVID 19 crisis. The national lockdown restrictions were relaxed with those who could not work from home encouraged to return to work alongside non-essential shops being allowed to reopen after months of closure. Further to this, social distancing rules were relaxed to "one meter plus" allowing pubs, cinemas and restaurants to re-open on the July 4th. The Chancellor of the Exchequer Rishi Sunak also announced a £30bn fiscal stimulus package aimed at mitigating the economic impact of the pandemic. This stimulus included the "Eat out to help out" scheme and temporary reductions in VAT to encourage economic demand. Alongside this, a scheme involving **£1,000 for each employee brought**

back from furlough was also announced along with a reduction in the stamp duty threshold.

The relaxation of restrictions and the restarting of business operations has been positive for the local businesses within Coventry & Warwickshire. Q3 has seen growth in the economic outlooks of both the service and manufacturing sectors. The service sector has experienced an increase to 42.4 from 28.8 in Q2. The manufacturing sector has also followed suit with a similar increase to 43.2 from 30.6 in Q2. Despite these increases in the economic outlooks, both remain below pre-crisis levels and also below the 50 mark, indicating continued pessimism in terms of the economic outlook of the businesses within both sectors.

Comparatively, the local sectors are somewhat in line with what is occurring on a national level. The latest national service sector PMI signalled a rise in business activity to 58.8 in August up from 56.5 in July. This puts the national service sector above the 50 mark and into expansion territory. This was significantly higher than the services PMI average in Q2 (29.8). This increase nationally came as a result of services experiencing pent up demand particularly in the housing sector, alongside a rise in consumer spending as a result of the "Eat out to help out"

scheme and a gradual recovery in demand for services from the low points seen in April.

A similar trend can also be seen in the national manufacturing PMI with the sector rising to 55.2 in August up from 53.3 in July. The national manufacturing PMI is also above the 50-mark indicating an industry in expansion. This comes as a result of significant production increases as manufacturers and their clients reopen their business operations.

It important to note that there has been a particularly low survey response rate from local manufacturing businesses which could skew the results for the manufacturing sector and may not give a true reflection of the overall sector. It isn't uncommon to see low response rates to surveys in times of recession.





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

“Confidence has improved but only relatively speaking. We are comparing this quarter with Q2 when the economy was, largely, in hibernation. Businesses were, to a considerable degree, in a state of shock and it’s no surprise that almost every single economic indicator dropped to a record low. The third quarter has seen many areas of the economy beginning to tentatively reopen and that has generated something of a recovery in confidence but the overall economic outlook is still short of where we were prior to the crisis. It’s also very difficult to gauge right now if the confidence that businesses are experiencing is thanks to the huge levels of Government intervention. We must also acknowledge that many businesses remain unable to operate, especially those in the leisure and events sector which have been affected by the most recent Government restrictions.

So, the final quarter of 2020 is going to remain challenging with the ongoing Coronavirus crisis coupled with the looming end to the Brexit transition. It’s vitally important that Government keeps its options open in terms of stimulating the economy and remains agile enough to support businesses as the crisis continues to evolve. As a Chamber, we will continue to feedback to Government where help is needed but will also continue to support the businesses across the patch with advice and guidance through this next phase of the crisis.”

Quarterly Economic Survey Commentary



Steve Harcourt
Director, Prime Accountants Group

“We are pleased to be partnering with the Coventry and Warwickshire Chamber of Commerce to produce the QES, as it provides us with vital and important information, about how businesses are coping within our region. The QES is now more important than ever during these on going challenges that have arisen as a result of COVID-19 and Brexit.

The UK is officially in a recession following two consecutive quarters of negative growth in 2020 and the overall effect of COVID-19 has

seen around a quarter of GDP in 2020 Q2 erased.

Economic indicators within the QES Q3 point to a recovery, however there is still significant uncertainty over the pace and path this may take. This is shown in the QES results for the region, as the overall economic outlook in the short term is still pessimistic, both in the Service and Manufacturing sectors.”



Sunny Parekh
Senior Economist, Warwickshire County Council

“The results from this quarter’s QES show early signs of recovery in comparison to the record-lows experienced in Q2. Both the local service and manufacturing sectors showed similar increases, but still remain below pre COVID 19 crisis levels. The local sectors have seen relative improvements in orders, cashflow, turnover and business confidence as the economy reignites. However, ultimately there is an air of pessimism and uncertainty amongst both local sectors with regards to the future economic landscape. Questions remain on how much of the observed uptick has been as a result of significant government interventions? And, how will the local economy react once such schemes are withdrawn? Further to this, the real prospect of a second wave (increased COVID 19 cases) and the EU transition also remain as added obstacles that businesses will need to navigate their way through in the coming months.”

Domestic Orders:

The index for domestic orders in Q3 2020 displays a considerable increase for both the services and manufacturing sectors.

Domestic orders within the service sector saw an uptick from the lows of 14.0 in Q2, increasing to 34.9 (+24.9) in Q3. Both current and advanced orders within the service sector experienced increases, rising to 36.1 and 33.5 respectively in Q3 from previous quarter readings of 14.7 and 13.3. Despite both orders seeing an increase relative to Q2, approximately half of the respondents cited a decrease in both current and advanced orders. It is likely that both businesses and consumers are still feeling the uncertainty surrounding the economic landscape.

Domestic orders for the local manufacturing sector show a considerable increase to 42.2 in Q3, doubling from the low of 20.5 seen in the previous quarter. The increase is driven by similar increases seen in both current and advanced orders. Current orders experienced an increase from 21.4 in Q2 to 41.3 in Q3 with advanced orders likewise increasing from 19.5 to 43.1. Despite significant increases, they have not yet returned to pre-crisis levels and remain below the 50 mark, this comes as a result of a mix response from local manufacturers. Some businesses reported experiencing a decrease in current and advanced orders alongside others reporting an increase. Nonetheless, with the index remaining below 50, there are signs of pessimism amongst the manufacturing businesses (albeit not as much as the service sector).

The general increase seen in current and advanced orders when compared to Q2 2020 comes as manufacturers return to business operations in Q3, however, at a reduced / limited operational capacity as a result of the social distancing measures and/or low consumer demand. This may explain why current and advanced orders have not quite bounced back above the 50 mark.

Employment

The overall employment index is made up of how the labour force has changed in the last 3 months alongside how businesses expect it to change in the coming 3 months.

Coventry & Warwickshire's services sectors employment index saw an increase of 8.4 points in Q3 rising to 49.2 from a previous quarter value of 40.8. The service sector's labour force remains fairly robust in Q3 and the sector seems to be optimistic with regards to the coming 3 months.

The employment index for Coventry & Warwickshire's manufacturing sector paints for a slightly different picture. Despite seeing a slight rise from 33.3 in Q2 to 38.6 in Q3 the value remains considerably below the 50-mark, indicating relative pessimism from the local manufacturing businesses when it comes to their labour force. When asked about the last 3 months, most of the business respondents suggested that the labour force had decreased, seen with a marginal fall in the index value from 32.1 to 31.8 in Q3.

The overall pessimistic view (lower than the 50 mark) from the local manufacturing sector on their labour force is suggestive of the continued restrictive global supply chains, limited operational capacity and overall low consumer confidence that is impacting the local manufacturing sectors productivity and output levels.

Overseas Orders:

The overseas orders index for Coventry & Warwickshire's services and manufacturing sectors has seen a rise in Q3, relative to the lows experienced in Q2.

The overseas orders index for the service sector increased by 14.6 points from 17.5 to 32.1 in Q3. With 67% of respondents being exporters, most respondents stated that both current and advanced orders had remained constant as of Q3. Similarly, the overseas orders index for the manufacturing sector also increased by 14.9 points to 38.8 in Q3 from a previous 23.9. 87% of the manufacturing sector businesses that were surveyed were exporters with most respondents stating that both current and advanced overseas orders remained constant in Q3.

Despite seeing slight increases in the overseas orders index for both the services and manufacturing sectors, the overall index levels for both continues to remain below the 50 mark. This business pessimism is likely to have occurred from the continued restriction on global travel and logistics causing supply chains to be unsettled and export demand to be reduced, in turn impacting the local exporting businesses within the manufacturing and service sectors.

MANUFACTURING
38.6
up from 33.3

SERVICE
49.2
up from 40.8

SERVICE
32.1
up from 17.5

SERVICE
38.8
up from 23.9





SERVICE
33.3
up from 25.6

Investment & Cashflow

Coventry & Warwickshire's service sector's investment and cashflow index has increased from the lows of 25.6 in Q2 to 35.5 in Q3. This was driven somewhat by equal increases from the cashflow index (22.7 Q2 to 30.4 Q3) and the investment index (27.2 Q2 to 38.1 Q3)

The cashflow index increased from 22.7 (Q2) to 30.4 (Q3), although there was an increase, just over half of the businesses surveyed reporting a worsened cashflow and just under a third reporting that their cash flow remained the same. Despite businesses returning to operations in Q3, cashflow issues remain present as businesses may struggle to generate sufficient income to cover their costs even with the various government schemes in place to stem the shock of the pandemic.

The Coventry & Warwickshire manufacturing sector's investment and cashflow index has risen from 30.2 (Q2) to 45.9 (Q3) this is heavily driven by the increase seen in the cashflow index (25.0 in Q2 to 54.5 in Q3), this comes as 45% of manufacturing respondents suggested that their cashflow had remained constant alongside over a third suggesting that it had increased. This puts the cashflow index above 50 suggesting a bounce back and a sense of optimism amongst some local manufacturing businesses as they see their incomes increase across Q3 as they return to business operations (albeit perhaps under limited working capacity due to social distancing measures / reduced demand).

MANUFACTURING
45.5
up from 30.2

Business Confidence

With Q2 experiencing the largest fall on record and neither sector index being above 50, Q3 sees somewhat of a bounce back in business confidence amongst both the local service and manufacturing sectors.

The service sector business confidence index experienced an increase from 38.3 in Q2 to 54.4 in Q3. This index is still not as high as it was in Q1 (71) but shows somewhat of a recovery in confidence in Q3 as the index surpasses the 50 mark. The main driver of the overall increase in confidence comes from a significant increase in the turnover index going from 39.3 (Q2) to 58.8 (Q3), with the majority of service sector respondents reporting an increase in their turnovers. However, this overall increased confidence within the local service sector may be somewhat of a false reality as the economy in Q3 was greatly supported by various government interventions.

The manufacturing sector has also seen an increase in business confidence but remains below the 50-mark. The business confidence index for the local sector increased from the low of 39 in Q2 to 47.7 in Q3. This increase is driven predominantly by increase seen in the turnover index (43.7 in Q2 to 54.7 in Q3) with many businesses reporting that their turnover either remained the same or increased. In the coming 3 months, the manufacturing sector expect pricing pressures to increase with the pressure mainly coming from an increase in the price of raw materials. Alongside this, in terms of external factors, it is also reported by many that they expect increased levels of competition.

SERVICE
54.4
up from 38.3

MANUFACTURING
47.7
up from 39.0



Q3 Analysis by Warwickshire County Council

The overall economic outlook for Coventry & Warwickshire has recorded an uptick, rising from a record-low of 29.2 in Q2 2020 to 42.6 in Q3 2020. Despite an increase in the overall index, it continues to remain below pre COVID 19 crisis levels and lower than Q3 2019 (61.0).

The economic outlook index also remains slightly below the 50-mark indicating continued signs of pessimism amongst local businesses. The rise comes as relative increases are seen across all major indexes for both the services and manufacturing sectors. However, these increases come predominantly due to the impacts of the lockdown restrictions on businesses becoming less severe, as economic activity is reignited and businesses re-open in Q3. The domestic and overseas orders indexes both see increases from their low points in Q2, however pessimism still remains rife in both the services and manufacturing sectors as businesses may have opened at a limited operational capacity as a result of an adherence to COVID safe workplaces and or reduced consumer demand.

The labour force continues to be somewhat compromised by the current economic landscape. The uptick seen in the employment index for the service sectors comes as many businesses report their labour force remaining constant in Q3 and anticipate it not changing much in the coming 3 months. The continued support from the government's furlough scheme has allowed many service sector businesses to maintain their workforce. Contrastingly, the manufacturing sector despite also seeing a slight rise in the index, sees many businesses reporting a decrease in their labour force in the past 3 months as a result of limited operating capacities and demand factors remaining hindered in Q3. The saving grace and the driving force behind the index increase is that many businesses do not anticipate a further decrease in their labour force in the coming 3 months.

Cashflow and investment present mixed signals despite both sectors seeing an increase in their index values. The manufacturing sector, sees improvement in cashflow levels, coming perhaps as a result of local manufacturers experiencing relative increases in income levels (albeit under limited operational circumstances). However, this is offset by their levels of investment as not many businesses reported an increased investment in capital or training, suggesting signs of continued uncertainty from some businesses within the local manufacturing sector with regards to their economic and financial futures. A similar mixed picture can be seen within the local service sector.

Business confidence experiences somewhat of a bounce back across both sectors predominantly due to increases in turnover levels as the economy returns from hiatus in Q2. The local service sector in particular, is showing signs of a resurgence with increased turnover and profitability in Q3. This may have come as a result of

government schemes such as "Eat out to help out" (which ran through August) rejuvenating consumer demand levels. Despite overall increases in confidence, both sectors anticipate price pressure increasing in the near future with increased competition potentially being an external threat to growth.

The QES this quarter shows signs of recovery relative to the record-lows experienced in Q2 as the economy reawakens from hibernation. Both local services and manufacturing sectors are showing similar rises in their individual economic outlook indexes, however they both ultimately remain pessimistic with regards to the future economic landscape. Q3 sees significant government interventions to bolster economic demand and stem the impact of the lockdown restrictions on the local economy. This has in turn translated into increased business confidence particularly within the local service sector which could be a false reality. It is difficult to recognise whether these signs of recovery have manifested as a result of significant government intervention or as a result of the economy reopening. The burning question therefore is what will happen once such government interventions are withdrawn? This unclear economic future is further peppered with the very real prospect of a second wave of increased COVID 19 cases alongside the adage of the EU transition



SERVICE
54.4
up from 38.3

MANUFACTURING
47.4
up from 39.0

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