



## Analysis of the Second Quarter 2010 Economic Survey Results

The Coventry & Warwickshire Chamber of Commerce's Quarterly Economic Survey is part of the wider British Chamber of Commerce's National Economic Survey. The results give an indication of the changes or impending changes in the local business climate. It provides an up to date picture of how Coventry & Warwickshire businesses feel about their prospects, the local economy and their views on a number of issues that they face.

Q2 2010 has proven to be a turning point quarter. The election and a new coalition government have set a new economic direction. GDP rose in Q1 to a revised 0.3% with manufacturing up by 1.2% in the quarter compared to a lacklustre (-0.7%) in distribution & hotels as a result of the cold weather and 0.7% in business services. The expectation is for a better result in Q2 but beyond that and de-politicising content, there remain a widespread number of views as to the course of the economy over the next year. The old debates about stimulus and ending the stimulus packages, sovereign debt risks and interest rates rumble on. All of this will have influenced the respondents and their attitudes in this survey. The survey suggests that Coventry & Warwickshire economy is well on the road to recovery though there is a general nervousness about the future as there are too many unanswered question and that makes for uncertainty. No doubt Q3 will see some relief from all this as the summer holidays beckon.

The Chamber of Commerce Survey during the second quarter of 2010 received responses from 179 firms – 113 in the service sector employing 4,032 employees and 66 in the manufacturing sector employing 1,950 people. The first question identifies the firm's activities and size.

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#### **Balance**

This term is used to describe the overall result of a question and represents the percentage of companies reporting an increase minus those reporting a decrease. Generally, this balance term tends to reflect the underlying trends and confidence in the local economy. Sampling variation can cause small changes in the balance figures.



# Coventry & Warwickshire Chamber of Commerce Quarterly Economic Survey – 2<sup>nd</sup> Quarter 2010

## Question 2 – UK Market Sales, Customs and bookings: Balance of increased less decreased.

### Over the last three months (blue lines.)

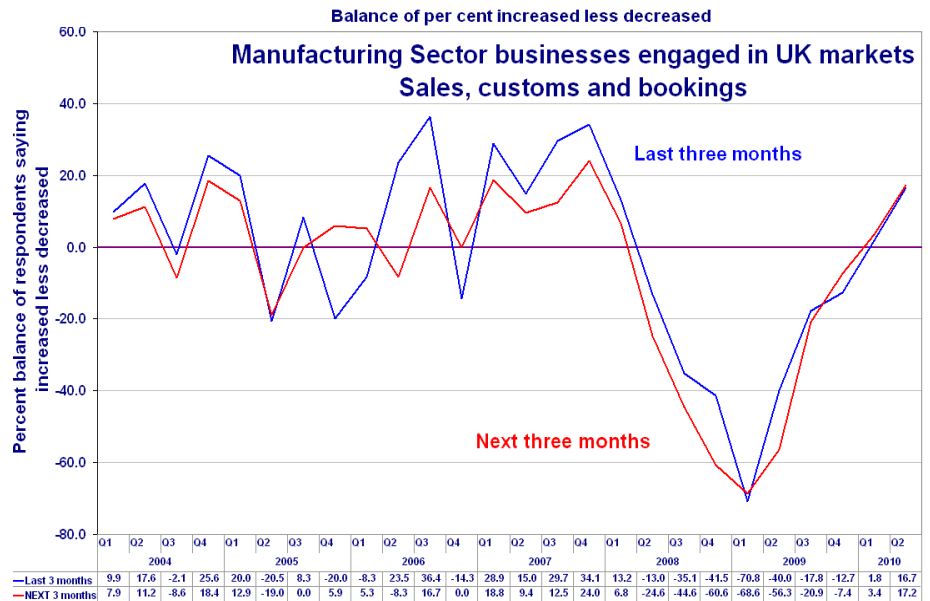
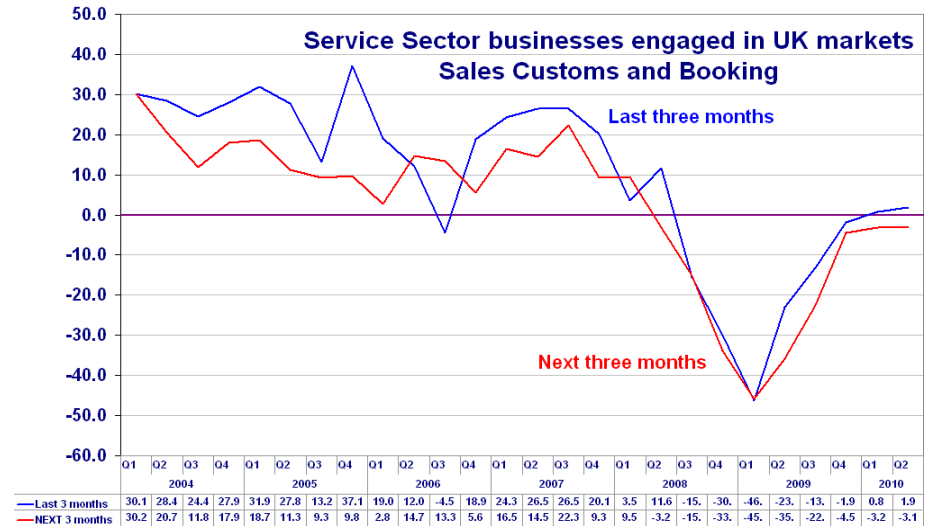
The service sector recovery seems to have stabilised in the second quarter as the balance grew by just 1% to 1.9%. 29.2% of businesses experienced an increase in sales against 27.4% experiencing a fall. 43.3% saw no change. It might have been expected that there would have been some bounce in sales after the long cold winter.

Manufacturing balance has risen to 16.7% with 39.4% of respondents reporting an increase in sales compared to 22.7% saying sales had declined. 37.9% of respondents said there had been no change. In general, manufacturing respondents seem to have had a better quarter than the service sector

### Over the next three months (red lines.)

The service sector is more cautious in its expectations for the next quarter's sales. It may well be the many reports of immediate austerity and cuts. The sector balance was (-3.1%) with 25.0% of businesses expecting a rise in sales compared to 28.1% expecting a fall. 46.9% expect no change.

The balance in the manufacturing sector grew in line with the sales reported in the last quarter suggesting that the growth dynamic is being maintained. The 17.2% balance was the best expectation since Q4 2007. 40.6% of manufacturing businesses expect an increase compared to 23.4% expecting a fall. 35.9% expect no change.



**Question 3 – Firms in overseas markets:  
Customs and bookings:  
Balance of increased less decreased.**

The coalition government forecasts show that exports and investment are expected to be key elements in the rebalancing of the economy and will sustain economic growth whilst public expenditure is cut back.

**Over the last three months (blue lines.)**

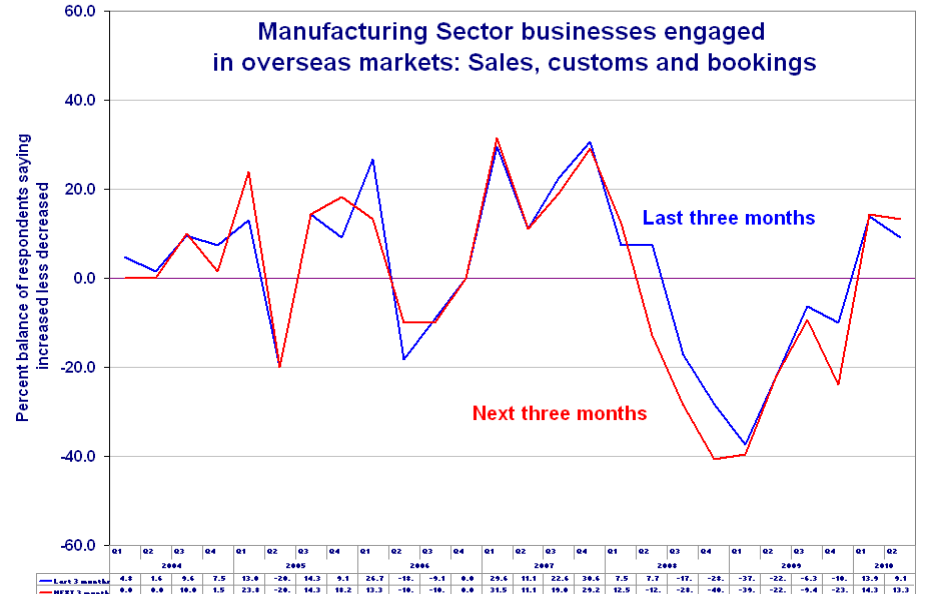
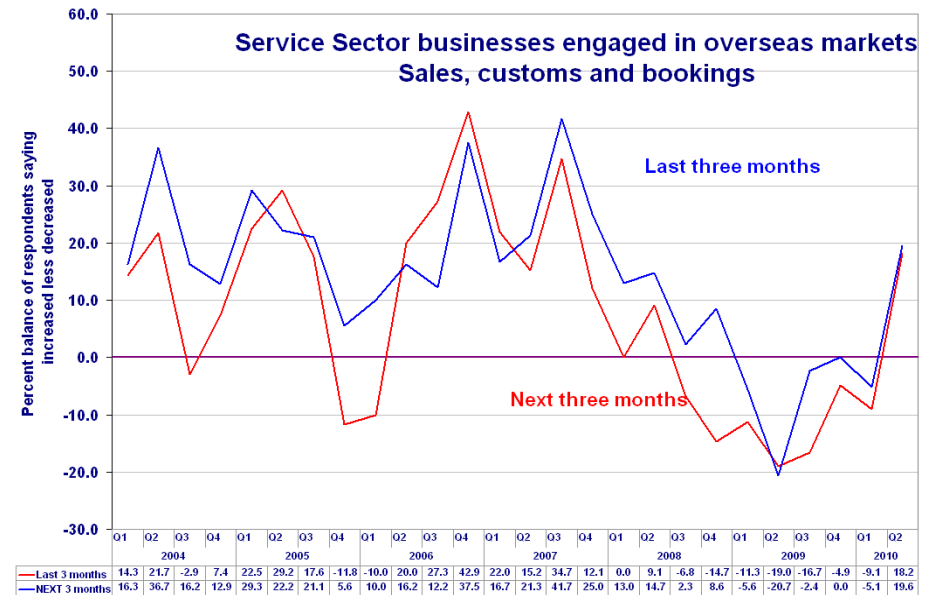
The service sector balance has risen sharply to 19.6% compared to (-5.1%) in the previous quarter. The period, during which any improvement in the balance reflected fewer firms expecting export sales to fall rather than more businesses expecting export sale to rise, has ended. In Q2, 28.3% of respondents – the highest since Q4 2008, expected export sales to rise against 8.7% expecting a fall – the lowest figure since Q4 2006.

Manufacturing has seen stronger export growth for the last two quarters and in Q2 the balance has more or less held steady at 9.1% against 13.9% in Q1. 25% of manufacturing respondents said sales had risen against 15.9% reporting a fall. 59.1% reported export sales holding steady – this latter figure is 12% up on Q1.

**Over the next three months (red lines)**

The service sector balance for the next three months showed a similar result as for the actual sales in the previous quarter suggesting a positive position. At 17.3%, the balance is at its highest since Q3 2007 with 27.3% expecting a rise with only 9.1% a fall. 63.6% expect no change.

Manufacturing sector respondents are more cautious with a balance of 13.3% - down on Q1's 14.3%. 28.9% of businesses expecting an increase but 15.6% foreseeing a fall and 55.6% seeing no change. This decline reflects a drop in businesses both expecting a significant rise and fall which suggests an element of uncertainty probably arising from the national economic crises in the Eurozone.





**Question 4**  
**Labour Market – Size of Labour Force**  
**Balance of increases over decreases**  
**Over the last three months (blue lines.)**

The service sector continued to show a positive balance for the fourth quarter in succession and at 17.0%, it is the highest since Q2 2008. However, the balance remains below the boom levels with only 21.6% of firms saying that they have recruited against the pre recession levels of well over 30%. 4.5% of respondents in the service sector reported staff decreases since Q3 2007. 73.9% are holding staff levels steady

In manufacturing, the balance was 0% - the best result since Q2 2008. 21.1% of respondents reported increasing their labour force compared to the same number reporting a decline.

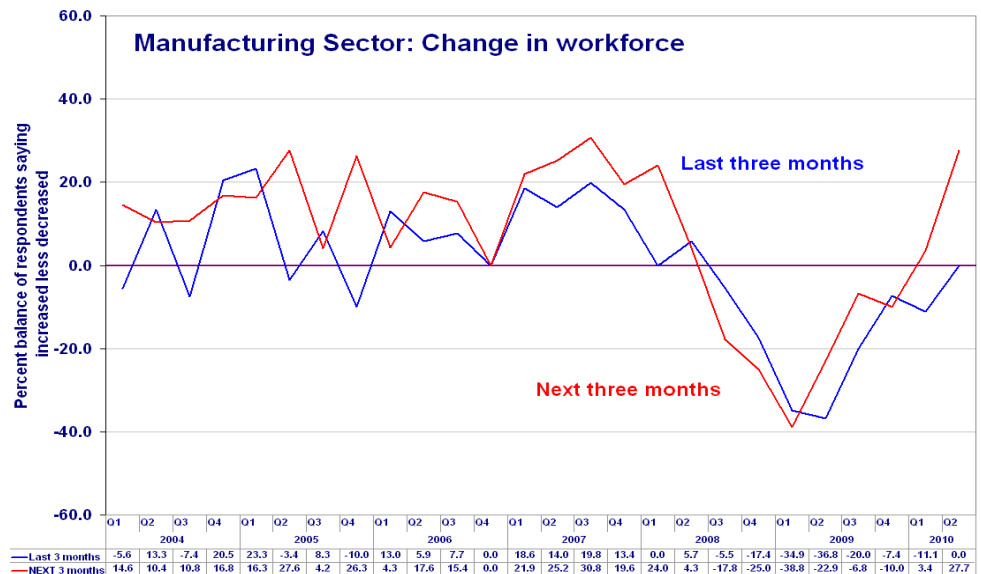
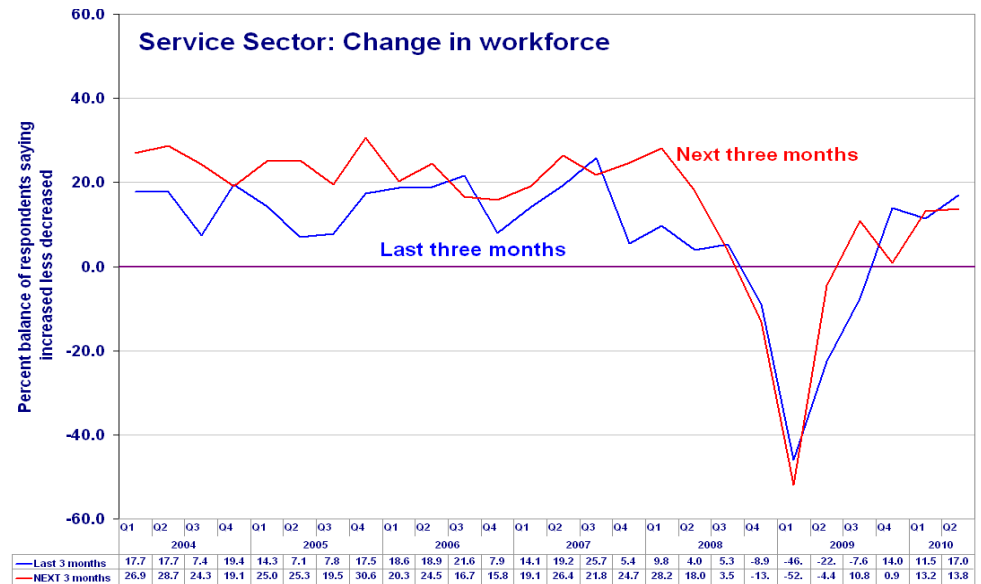
There is some anecdotal evidence which suggests that both sectors having reduced staff levels in the recession and often planned with the potential to improve productivity, businesses are now seeking to realise the productivity gains before recruiting staff.

**Over the next three months (red lines)**

The service sector expects the next quarter to be much the same as the previous quarter having a net balance of 13.8% with 24.8% of respondents expecting a rise in their labour force, 11.0% a fall and 62.4% expecting staff levels to remain steady.

Manufacturing respondents, despite their more relatively steady sales expectations for Q3, have a balance of 27.7% with 35.4% expecting their labour force to rise compared to only 7.7% expecting staff levels to fall. 56.9% are expecting no change in their staff levels.

The Manufacturing balance does not look as though it is a result of sampling variation and if confirmed in future quarters suggest that the sector is growing strongly.



**Question 4 (c) (e) & (f)**

**(c) Have you attempted to recruit staff**

**(e) Did you experience difficulties finding new staff**

**(f) If yes, for which category**

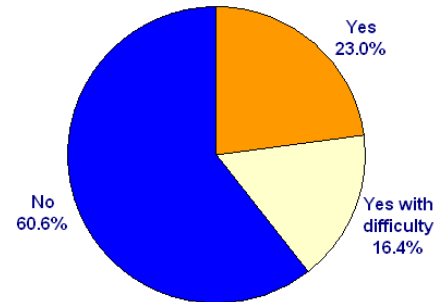
In the last few months, the number of claimants on the Jobs Seekers' Allowance (JSA) has been falling and the number of vacancies reported to Jobcentre plus has been increasing indicating a healthier labour market. Despite this the level of JSA in Coventry & Warwickshire remains high at 20,890 or 4.2% - not seasonally adjusted.

39.4% of the service sector respondents and 44.8% in manufacturing have recruited staff in the last three months. This is consistent with the survey questions concerning the size of the respondents' labour force. Rather worryingly, around 2 in every five recruiting businesses (39.4% in services and 44.8% in manufacturing) found difficulties in recruiting.

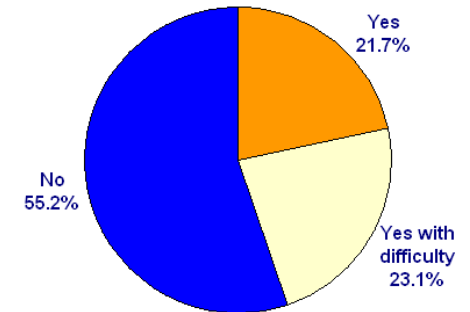
Manufacturing shed technical and skilled manual staff in the recession and are now seeking to recruit them back but unfortunately the pool of unemployed skilled and technical staff has shrunk as people out of work have been the ones more able to find new occupations. Only 1 in 10 people on the JSA count are seeking skilled or technical jobs

Almost 1 out of three people on the JSA count are seeking elementary occupations.

**Service Sector:**  
Have you attempted to recruit staff in the last three months:

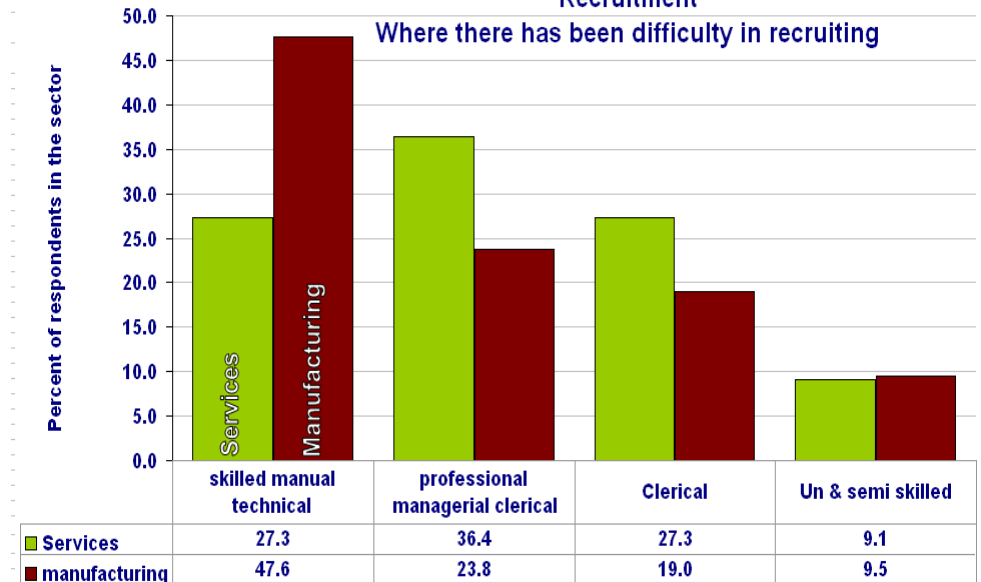


**Manufacturing Sector:**  
Have you attempted to recruit staff in the last three months:



**Recruitment**

Where there has been difficulty in recruiting





## Questions 5 Business Conditions Cashflow over the last three months

Most businesses were very quick to take evasive action during the downturn to avoid horrendous cashflow problems but nearly all businesses have suffered and the survey would suggest that cashflow for business remains tight.

Only 17.7% of service sector respondents report an improved cashflow situation in Q2 compared to 38.9% reporting deterioration in cashflow. 43.4% say there has been no change. The balance of (-21.2%) remains uncomfortable.

Manufacturing is somewhat better placed with 24.2% reporting improved cashflow but 34.8% say it has fallen giving a balance of (-10.6%) better than the service sector but is, also, uncomfortable.

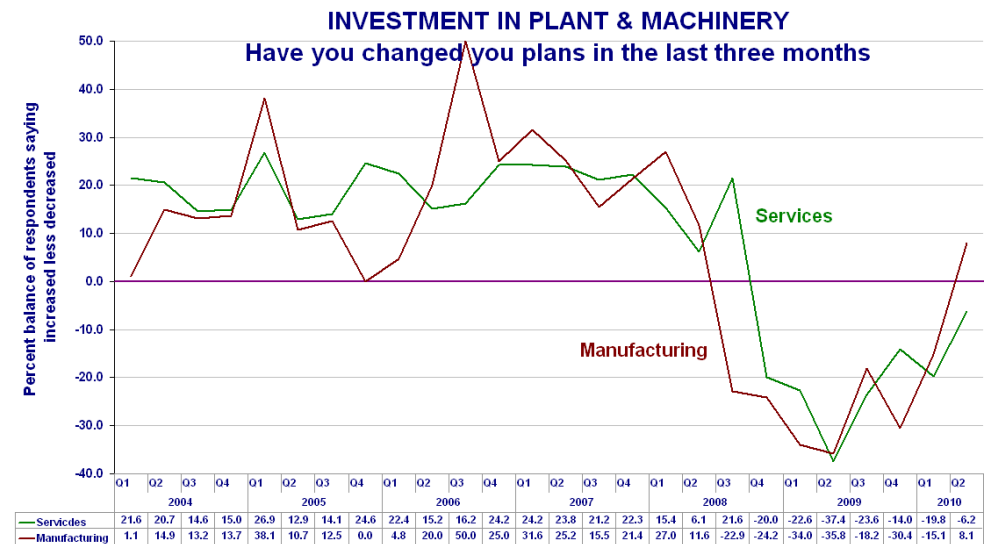
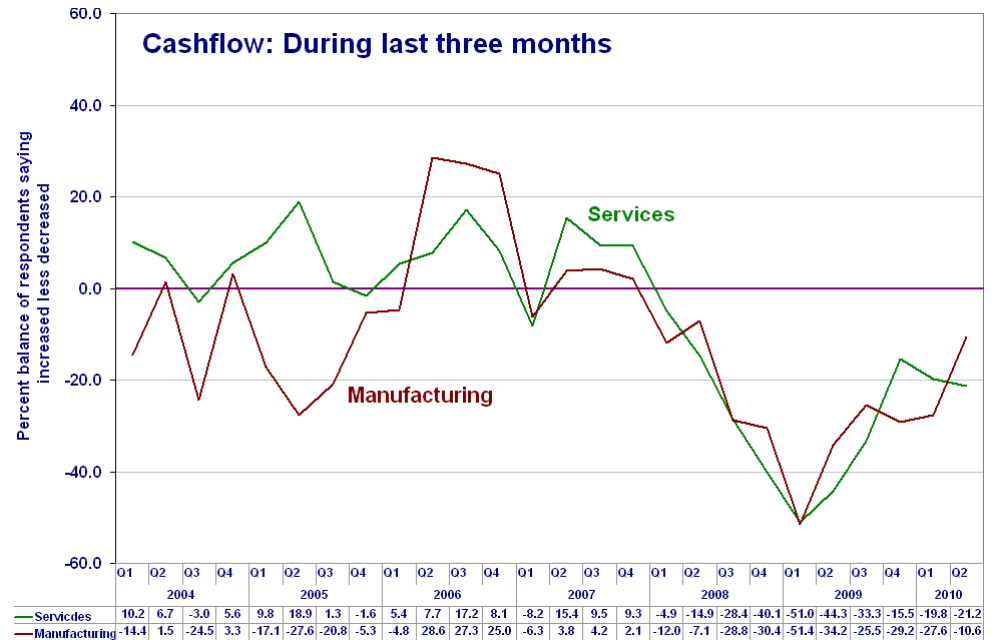
## Question 6(a) Over the last 3 months what changes have you made to your investment plans?

### *Plant, machinery & equipment*

The government expects growth to come from both exports and investment but it has been investment that has been, often, cut back in order to stabilise business finances. In addition, some firms are finding bank credit harder to get for investment than for normal business needs.

Some 17.5% of businesses in services and 24.2% in manufacturing plan to increase investment. The figure has remained fairly stable in services for the last four quarters but is up above the horrendously low levels reached during the banking crisis. Planned cuts in investment plans are falling 23.2% of services sector respondents and 16% from manufacturing have lowered investment plans. This compares to Q2 2009 figures of 44.3% in services and 47.8% in manufacturing.

The balance of increases over decreases is looking better at (-6.2%) for services and +8.1 for manufacturing but this improvement reflects that investment is a lagging indicator and it is probably too early to expect any significant investment growth but at least it is off the bottom.



### Question 6(b) Over the last 3 months what changes have you made to your investment plans? *Training*.

Like other forms of investment, training plans have been cut back as businesses fought off the impact of the downturn. The recent pattern of investment plans in training follows that for plant and machinery. Businesses in both services and manufacturing are, in the main, not increasing plans but fewer businesses are decreasing plans.

In Q2 2010, 14.9% of service sector respondents and 16.1% of manufacturing respondents planned increases compared to 21.8 in services and 21.0% in manufacturing planning decreases. Some 63% of respondents in both sectors plan no change.

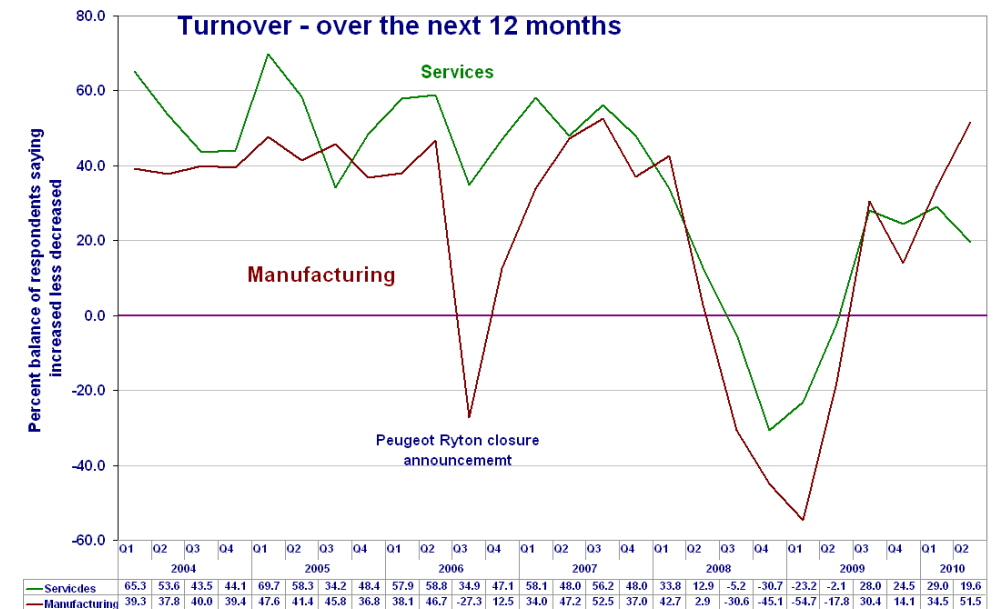
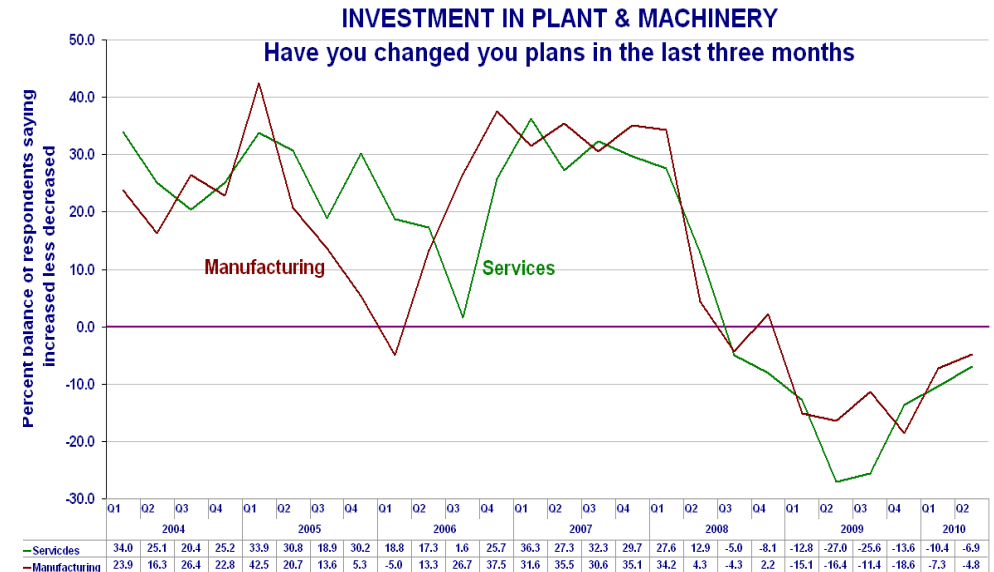
The negative balance of (-6.9%) in services and (-4.8%) in manufacturing is better than a year ago but is well down on the pre-recession levels.

### Question 7(a) Do you believe that in the next 12 months business turnover will improve / stay the same / decrease

Manufacturing sector respondents seem to be more optimistic than the service sector ones as their expectations are as good as before the recession. The survey does not look at quantitative values on the direction of change and whilst looking as good as three years ago, the experience is, unfortunately, likely to be much tougher today.

In the service sector, 42% of respondents and 63.6% in manufacturing looked forward to increasing turnover. 22.3% in services and 12.1% in manufacturing expect falling turnover leaving 35.7% in services and 24.2% in manufacturing expecting no change. This gives a balance of 19.6% in services and 51.5% in manufacturing.

These figures show that so far there has been a 'V' shaped recovery but then there remain many uncertainties.





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## Question 7(b): Do you believe that in the next 12 months business profitability will improve / stay the same / decrease?

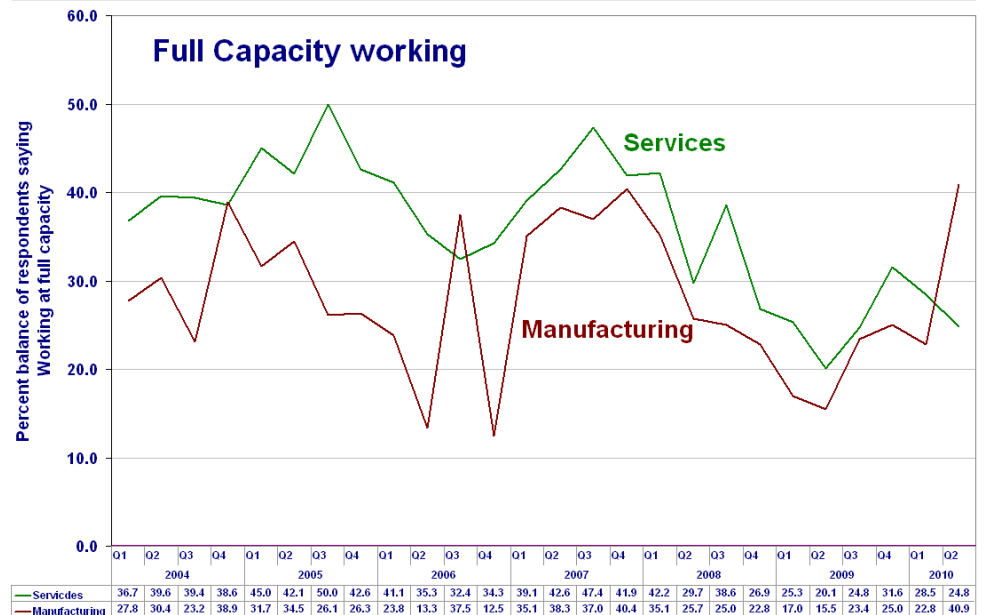
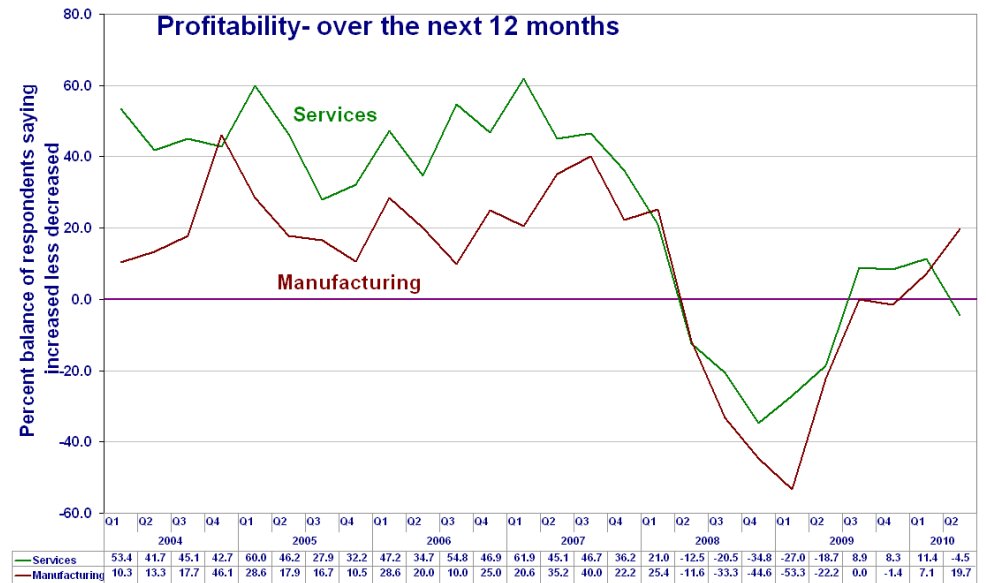
Service sector respondents are almost equally divided on whether profitability will improve at 31.5%, / stay the same at 32.4% / decrease 36.0% yielding a balance of (-4.5%). Manufacturing sector respondents are more positive with 48.5% expecting profitability to improve; 22.7% expecting stability and 28.8% anticipating a fall yielding a positive balance of 19.7%

The service sector may have expected to be hurt by the post election austerity as fewer businesses expected a rise than in the last quarter. However, both sectors' balances are well below the pre-recession levels and this gives an indication how much further the recovery has to go to sustain growth.

## Question 8 Are you working at full capacity?

During the recession businesses cut back on their staffing and reduced working capital requirements and cut investment which in turn reduced surplus capacity. The recovery is now pushing at this reduced capacity, particularly, in manufacturing which has seen 40.9% of respondents report full capacity working. The service sector 24.8% has shrunk somewhat in recent months which, some have anecdotally suggested, that mothballed capacity is being restored.

Manufacturing capacity working is at its highest for many years but it will be a while before we know whether this is a start of a new trend or short term factors affecting the sector.





# Coventry & Warwickshire Chamber of Commerce Quarterly Economic Survey – 2<sup>nd</sup> Quarter 2010

## Question 9 (a) Over the next 3 months, do you expect the price of your goods/services to increase / stay the same / decrease?

Neither sector anticipates their prices to fall over the next three months. Only 6.5% of service sector respondents and 9.4% of manufacturing respondents expect falls compared to 22.4% and 28.1% respectively to see a rise. This means that the bulk of businesses 71% in services and 62.5% in manufacturing expect no change in their prices.

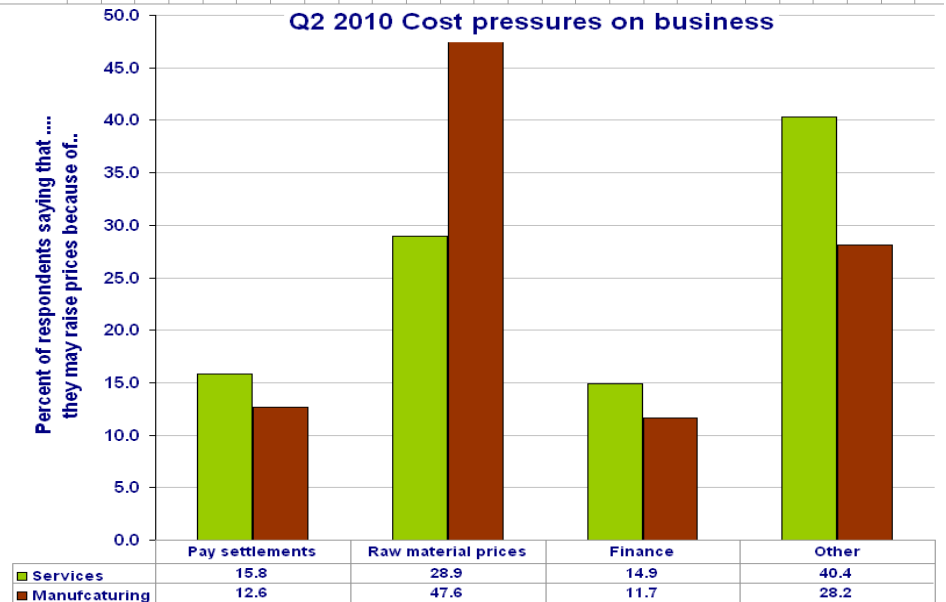
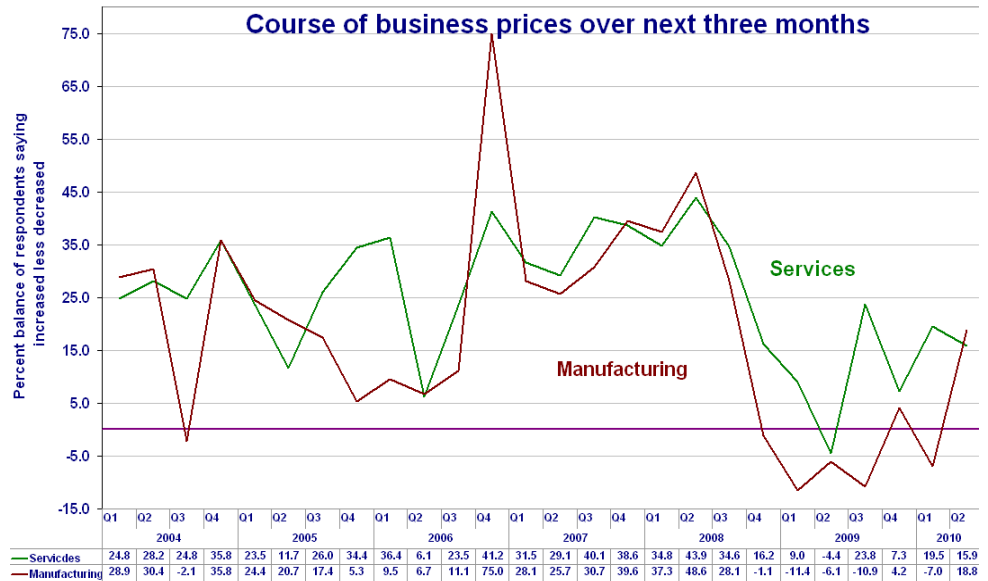
The balances of 15.9% in services and 18.8% in manufacturing remain low by historic standards and the big block of no change in prices is high. This may explain why profitability forecasts in question 7 are restrained. However, it does suggest that neither sector is contributing much to inflation.

## Question 9(b) Is your business currently suffering pressures to raise its prices

Nationally, manufacturing input prices have risen by 11.2% mostly as a result of crude oil prices and some metals. This contrasts with a 5.7% rise in output prices in manufacturing. This explains why raw material prices represent a major cost pressure in manufacturing and some service sector businesses.

Other costs impact mostly on a variety of fronts including government taxes are the second most concern particularly in the service sector.

Pay and finance costs are less of a concern that raw material prices and other costs. This has been the pattern for the last year.





**Question 10: Please indicate which of these factors are more of a concern to your business than 3 months ago.**

Competitive pressures remain the chief concern as markets in all sectors the pressures are intense. At the other extreme, industrial relations are of relatively little concern despite a number of headline strikes.

Generally, the chart shows that businesses have concerns on all fronts and with, perhaps, concern over business rates sliding a little after they have been fixed for the year. This widespread concern reflects a general uncertainty as to where the economy is going to move to next.

There are a number of uncertainties on a broad number of fronts – the Euro exchange rate, inflation as some predict crude oil prices are set to rise even more, taxation changes, banking and credit reform including talk of higher interest rates and, generally, will the coalition government mesh. But then in business it is always easy to find scenarios but it is more important and difficult to be able tackle the reality.

