CWLEP SmartRegion

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Coventry & Warwickshire Business Intelligence

May 2022

Contents

All previous editions of the Coventry & Warwickshire Smart Region report can be accessed from our Publications page: https://www.cwgrowthhub.co.uk/publications

More economic data and indicators about the Coventry & Warwickshire economy can be found on our Smart Region Economic Recovery Dashboard: CW Smart Region Economic Recovery Dashboard

1. Executive Summary

Welcome to the May 2022 edition of the Coventry & Warwickshire Smart Region report. **This month our spotlight theme is the 'Perfect Storm – Spring 2022',** highlighting the range of potentially severe economic issues that are currently aligning and likely to have impacts on businesses across the sub-region over the coming months.

In this edition we welcome a guest contribution from Cllr Jim O'Boyle, Cabinet Member for Jobs, Regeneration, and Climate Change at Coventry City Council.

Wider recommendations and findings in this month's report are based on intelligence gathered from the CWLEP Growth Hub's contacts with local businesses, alongside survey data and information provided by Coventry City Council, CWLEP, and Warwickshire County Council.

Other sources include the Office for National Statistics, Gov.UK, and organisations such as City-REDI, WM-REDI, Bank of England, and other research bodies specialising in labour market analysis.

Key Headlines

- **There have been continued improvements to the Coventry & Warwickshire economy and labour market, with growing employment, record numbers of vacancies, and falling unemployment and redundancies.**
- **However, business confidence, which had shown some signs of slowing over the past six months amongst manufacturing companies, is now also becoming an issue for service businesses.**
- **Several negative economic impacts, such as rapidly rising costs for both businesses and households, recruitment difficulties, energy costs, delays in raw material supply, and the conflict in Ukraine, are affecting a wide range of sectors and are increasingly being felt by businesses locally. Together these have intensified the 'Perfect Storm' impacting on our local economy.**
- **In terms of households, real household disposable income (RHDI) on a per-person basis is forecast to fall by 2.2 per cent in 2022-23, the biggest fall in living standards in any single financial year since ONS records began in 1956.**
- **Local business support partners will continue to focus on minimising the negative economic impacts from our 'Perfect Storm', be they from the pandemic, EU exit, energy costs, or any other driver, to help continue the reset, reopening, and recovery of our economy, and minimise the growing number of negative impacts of the costs of doing business.**

2. Latest Economic & Labour Market Trends

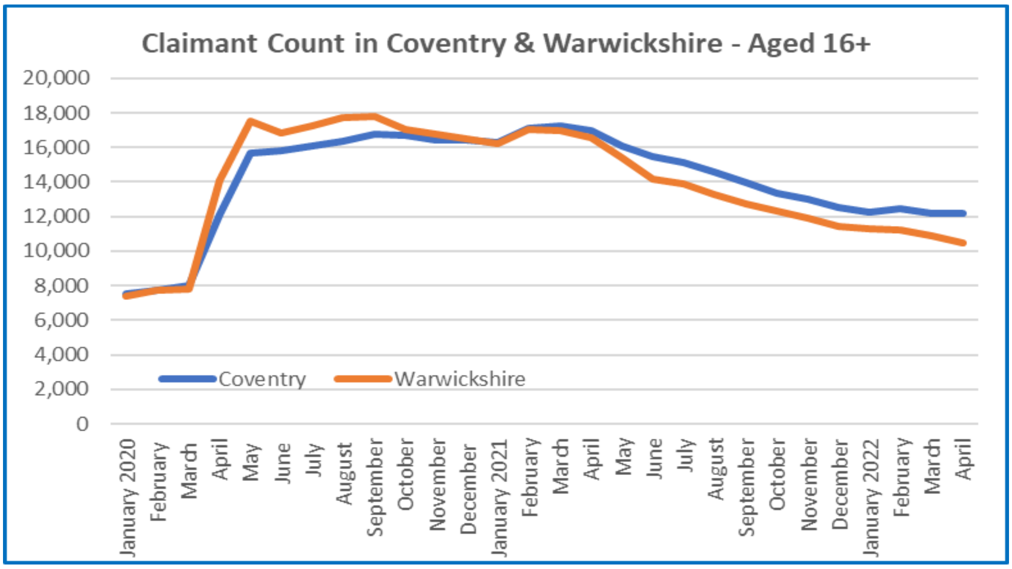
2.1 Labour Market Trends

- In April 2022, **the claimant count in Coventry & Warwickshire totalled 22,630 people.** At the start of the pandemic, in March 2020, the claimant count stood at 15,830.

Area	March 2020	April 2021		February 2022	March 2022	April 2022
Coventry	8,000	16,995		12,485	12,205	12,170
North Warwickshire	845	1,960		1,230	1,170	1,075
Nuneaton & Bedworth	2,830	4,990		3,600	3,505	3,415
Rugby	1,535	3,065		2,130	2,065	1,980
Stratford-on-Avon	1,050	2,965		1,935	1,870	1,780
Warwick	1,570	3,585		2,355	2,305	2,210
Warwickshire	7,830	16,565		11,250	10,915	10,460
CWLEP	**15,830**	**33,560**		**23,735**	**23,120**	**22,630**

Source: Office for National Statistics

- **Over the past twelve months there has been a strong fall in the claimant count across Coventry & Warwickshire**, falling from a total of 33,560 this time last year.



Source: Office for National Statistics

The Office for National Statistics (ONS) also reported for April 2022 that nationally:

- **The UK employment rate increased by 0.1 percentage points on the quarter to 75.7% but is still below pre-pandemic levels.** The increase in the employment rate was driven by the movement of people aged 16-64 years from unemployment to employment. However, there was also a record-high movement of people from economic inactivity into employment.

- **Total job-to-job moves also increased to a record high of 994,000, driven by resignations rather than dismissals,** during the January to March 2022 period.
- **The estimate of payrolled employees for April 2022 saw a further monthly increase**, up 121,000 on the March 2022 total, to a record 29.5 million.
- The unemployment rate for January to March 2022 decreased by 0.3 percentage points on the quarter to 3.7%. **For the first time since records began, there are fewer unemployed people than job vacancies.**
- The economic inactivity rate increased by 0.1 percentage points to 21.4% in January to March 2022. **Recent increases in economic inactivity have been driven by those aged 50 to 64 years.**
- **The number of job vacancies in February to April 2022 rose to a new record of 1,295,000. However, the rate of growth in vacancies continued to slow down.**

2.2 Economic Trends

Analysis from the Economic Development Team, at Coventry City Council highlights:

Economic Growth

The UK economy contracted in March 2022 as GDP fell by 0.1%. For Q1 overall the economy grew by 0.8%, thanks to growth in January, and was 0.7% larger than pre-Covid-19 levels recorded in Q4 2019.

Since January, growth in the economy has stalled. The conflict in Ukraine, rapidly increasing energy prices, and rising inflation are all dampening opportunities for growth in UK economy. The 'cost-of-living' crisis has slowed consumer spending, and with further energy price rises set to hit in the Autumn, the outlook suggests a notable contraction of the UK economy in Q4, with further shrinking to GDP in 2023.

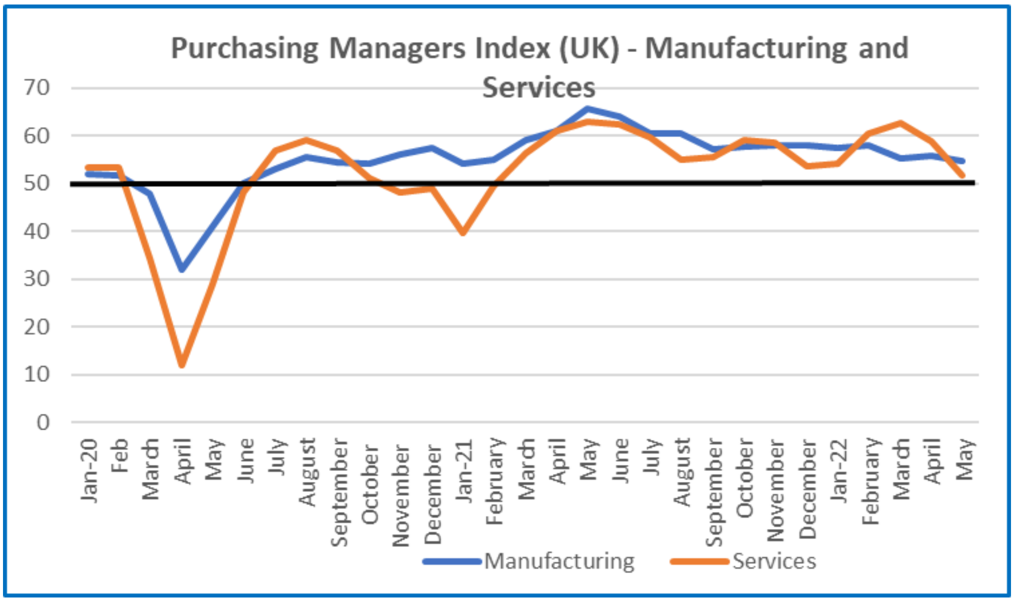
It is also notable that business investment is expected to fall in 2024 after only rising 0.5% in 2023. Given that the West Midlands experienced the highest contraction of all English regional economies during 2020, and is expected to be the slowest to return to pre-Covid levels, these forecasts should be of particular concern, especially as many Coventry & Warwickshire businesses are still rebuilding capacity to generate sufficient income to return to profit.

Whilst the UK's growth forecasts for 2022 (3.7%) still compare favourably with the United States (3.2%) and the Eurozone (2.2%), they do not compare favourably for 2023 where the US economy is expected to grow by 2.2% and the Eurozone's by 1.2%. Meanwhile growth in China is expected to outstrip the UK in both 2022 and 2023.

The Bank of England (BoE) has raised the baseline interest rate by a quarter of a percentage point to 1% to tackle the increasing inflation effects witnessed over the past 12 months. A new forecast from the BoE predicts inflation will peak at 10% later in the year, up 1% on their previous forecast. The BoE's target rate for UK inflation is 2%, which it forecasts a return to in two years' time. A large part of the rise in inflation is down to an extraordinary rise in energy and food costs, which have been exacerbated by the conflict in Ukraine. The BoE has warned that a further interest rate rise might be necessary later in the year (further of all of these impacts are detailed in Section 4).

Business Confidence

Uncertainty continues to be reflected in business confidence. The Purchasing Managers Index (PMI) for manufacturing fell further in May, to 54.6 from 55.8 in April (a figure above 50 represents growth). **For services confidence has been hit more harshly over the past two months, with the cost-of-living crisis likely to be impacting on service businesses. The services PMI showed a sharp fall, from 58.9 to 51.8 in May, now very close to a position of contraction.**



Source: The Markit/CIPS UK Services PMI (Purchasing Managers' Index)

The latest Business Barometer report from Lloyds Bank Commercial Banking shows business confidence overall in the West Midlands rose 10 points in April to 42%, the highest of any region or nation in the UK. West Midlands businesses flagged a range of growth opportunities for the next six months - although this may be in part to experiencing the sharpest economic contraction of all regions during 2020 - including investing in and expanding their teams (47%), evolving their offering to include a new product or service (37%), and entering new markets (35%).

International Trade

The government has delayed the implementation of full checks on imports from the EU for a fourth time. Physical checks on fresh food and plants from the EU were due to begin in July but have been pushed back to the end of 2023. This continues to have potential to put UK food producers at a disadvantage compared to their EU counterparts who will not have the burden of as much administration.

West Midlands export figures have showed improvement as more economies globally reopen fully. The balance score for Q1 2022 was 52% for businesses in both manufacturing and services (consistent with Q4 2021). Some 33% of manufacturers reported an increase in overseas sales, as did 20% of service firms, and 25% of all companies across the region expected their international output to go up over the next three months.

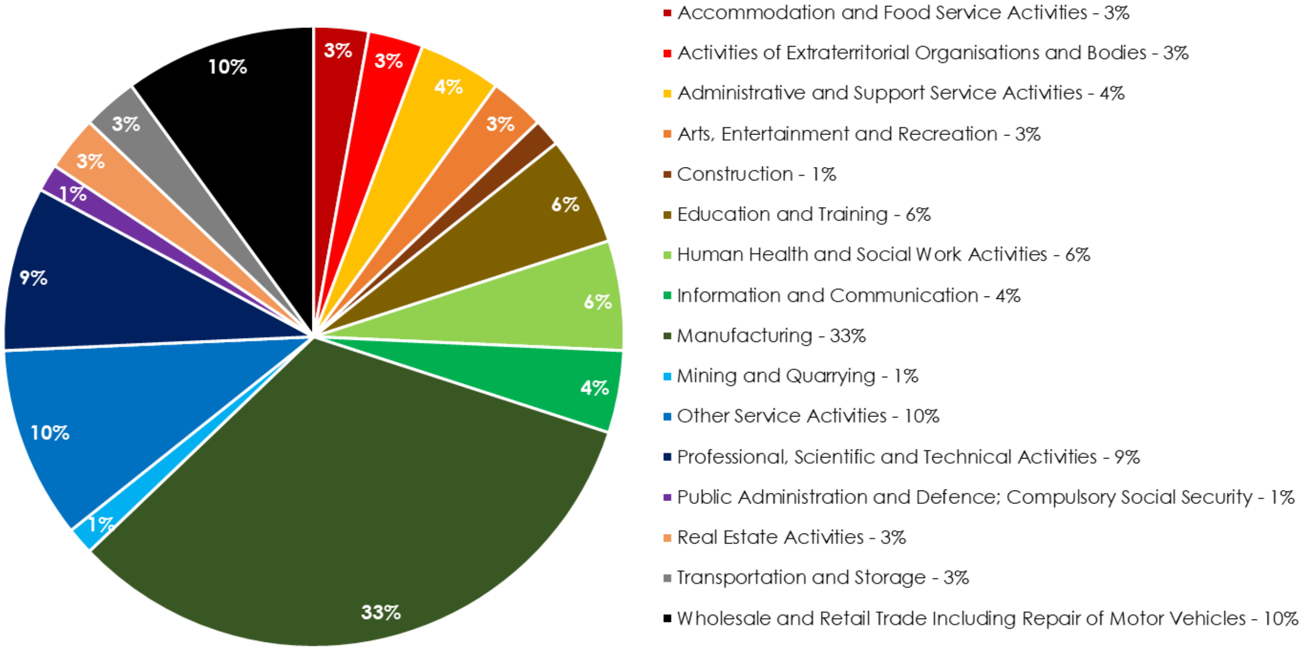
The March 2022 ONS Survey also shows that, compared to March 2021, the volume of West Midlands businesses exporting and importing more than normal is steadily increasing and half are trading internationally at normal levels. Some 17% of West Midlands internationally trading businesses reported "exporting less than normal" and 14% reported "exporting more than normal" - 13% of West Midlands businesses reported "importing but less than normal" and 17% reported "importing more than normal".

3. Latest CWLEP Growth Hub Insights

3.1 CWLEP Growth Hub – Support & Enquiries

Since the start of the pandemic in March 2020, the **CWLEP Growth Hub has supported 4,902 businesses and had substantive discussions with 1,759 businesses specifically related to Covid-19 impact and EU Exit.**

Businesses Support by Industry



This month's business insights are taken from intelligence gathered in **April 2022. Advice & Guidance** was the most popular reason for support/enquiries over the past month. There was a spread across other enquiry types too. Businesses highlighted **Access to Finance** and **Made Smarter Project** as their main requirement for support. There has been also additional help around **Start Up Support, Coventry Airport (Gigafactory Support), Property and Coronavirus.**

The size profile of businesses supported over the past month consisted of **42% Sole traders; 32% Micro businesses (2-9 employees); 20% Small businesses (10-49 employees); and 5% Medium businesses (50-249 employees)** – 59 out of 70 businesses provided their size profile.

There was an **increase in Small and Medium Enterprises** and a **decrease in Micro Enterprises** approaching the CWLEP Growth Hub compared to last month. Around 24% of respondents (16 out 66 respondents provided feedback) of came from businesses that started trading since 2020.

4. Spotlight: The Perfect Storm – Spring 2022

4.1 Context

This month, we are revisiting a topic we have covered previously, the 'Perfect Storm'. This topic highlights the current issues, challenges, and some opportunities, for the local economy and has been pulled together by a host of Coventry & Warwickshire business support providers, including:

- CWLEP Growth Hub
- Coventry City Council
- Warwickshire County Council
- Coventry & Warwickshire Chamber of Commerce
- Department for International Trade
- Federation of Small Businesses
- Coventry & Warwickshire Reinvestment Trust

The past two years have seen a host of huge economic, social, health, and political events affecting the world, including Covid-19, but more recently also including Russia's military action in Ukraine, the current 'cost of living' crisis, and rapidly rising 'costs of doing business'. In this issue we are highlighting the updated challenges that are affect businesses in our sub-region.

4.2 The 'Perfect Storm' Clouds

Currently issues arising are different to the issues flagged last year, demonstrating how volatile the economy is.

Supply Chain Difficulties - Rising costs of goods and materials

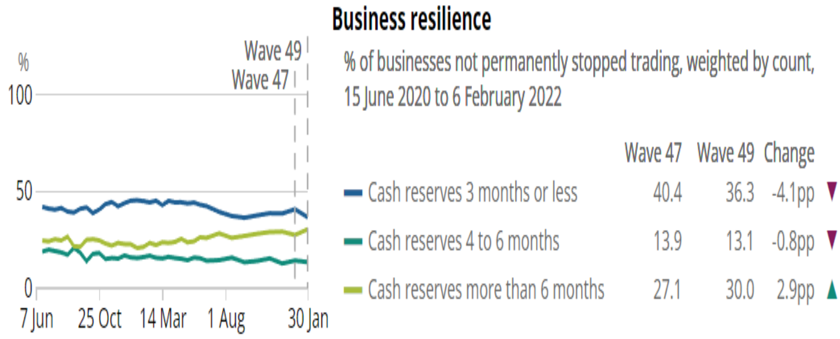
- **Steel -** Steel price increases, particularly high-grade steel, risk crippling businesses in the construction industry. Many suppliers are no longer prepared to hold quoted pricing for long, some only holding pricing for just four hours, as the wholesale cost change so frequently. Increased costs are again being passed on to the end consumer. Those that can afford it are stockpiling materials to ensure business continuality. This is having a knock-on effect on commercial property prices, in particular warehousing and storage type facilities to stockpiling this increased stock, as well as the building of other commercial properties.
- **Fertiliser & Grain –** Reports from food production businesses have stated that price increases are up to five-fold to that of a year ago, and severe shortages are appearing. Before the war, Ukraine exported 4.5m tonnes of agricultural produce per month through its ports - 12% of the world's wheat, 15% of its corn and 50% of its sunflower oil, according to the AFP news agency. The

economic shock from Russia's invasion has resulted in increasing prices of goods due to supply implications and export capacity reducing, with Russia destroying transportation infrastructure and blockading Odesa, the main port for grain exports.

Supply Chain Difficulties - Shortages and delays of goods and materials

- **Materials & Cashflow** – Many businesses are still reporting supply issues with increased delays and costs. The lack of components for some manufacturing businesses have disrupted supply chains, leading to cancelled orders. This is one of a number of contributing factors for a range of businesses struggling with cashflow issues. CWLEP Growth Hub Advisors are assisting with methods of raising short term cash, for example links into invoice factoring. Lack of other available materials are also frustrating businesses as they are unable to fulfil orders. Metals, timber, and electronics components are among short supply.

  The chart indicates that businesses are increasingly looking to cash reserves to survive. In particular, those with lower cash reserves have fared worse than those with stronger reserves to draw upon.



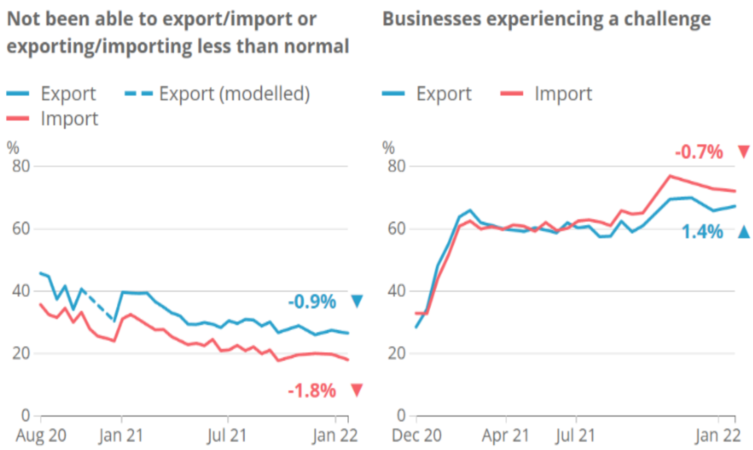
Source: *Office for National Statistics – Business Insights and Conditions Survey*

- **Goods from Russia and Ukraine** – goods from Russia becoming increasing in short supply, for example chemicals used in them are now no longer available and alternatives are hard to come by. For goods from Ukraine, there are increasing concerns about agricultural produce and products.

- **Problems of Stock from China –** This is also problematic as shipments with growing delays and which can be incomplete. Reports of serious delays, shortages and price rises ranging from phones and computers to clothing and cleaning products, due to ongoing Covid lockdowns across China.

- **Other Product Delays -** Supplies of uniforms sourced from the Republic of Ireland also seeing cross border delays, some up to five months.

- The chart shows that businesses may report that exporting or importing has not been affected but are still experiencing challenges. The result highlighted that of currently trading businesses with 10 or more employees, 67% experienced a challenge when exporting and 72% when importing in January 2022.



Source: *Office for National Statistics – Business Insights and Conditions Survey*

Labour and Skills Shortages

- **Staff Shortages** – Availability of suitably skills labour remains an issue. Recruitment agencies are highlighting how this is being contributed to by a generally low unemployment rate, alongside ongoing uncertainties related to the Covid-19 pandemic, and now the situation in Ukraine. In addition, there are fewer EU workers and high demand for those that are available to work. Furthermore, workers are increasingly looking for higher salaries, particularly as the cost of living is outpacing wages, and benefits have risen far less than rate of inflation. Hospitality and logistics are particular examples where labour market conditions, including wages, have become much tighter.
- **Permanent Vacancies** – Permanent vacancy growth continues to outpace that seen for short-term roles, as has been the case throughout the past year. This has resulted in real financial challenges for local business – starting salaries have been fast increasing to attract staff, which is putting pressure on the finances of the businesses.
- **Staff Shortages in Care Sector** – There remain difficulties finding staff to work in the care sector, with businesses saying it is now damaging their operations due to lack of staff. A general lack of skilled workers continues to be a problem across certain sectors, with employers needing to inflate salaries to both attract and retain staff.

Rising Inflation, interest rates, and energy costs

- **Inflation Rate** – The inflation rate, according to the Bank of England (BoE), is currently at 9% and is at a 30-year high, compared to 3% of inflation in Autumn 2021. There is concern that inflation is spiralling and the BoE forecast this to reach 10% by the autumn.
- **Interest Rates –** The Bank of England are now starting to raise interest rates to counter inflation, with interest rates recently rising to 1%, having risen from 0.75%. The interest rate has risen 3 times since December 2021, and the OBR

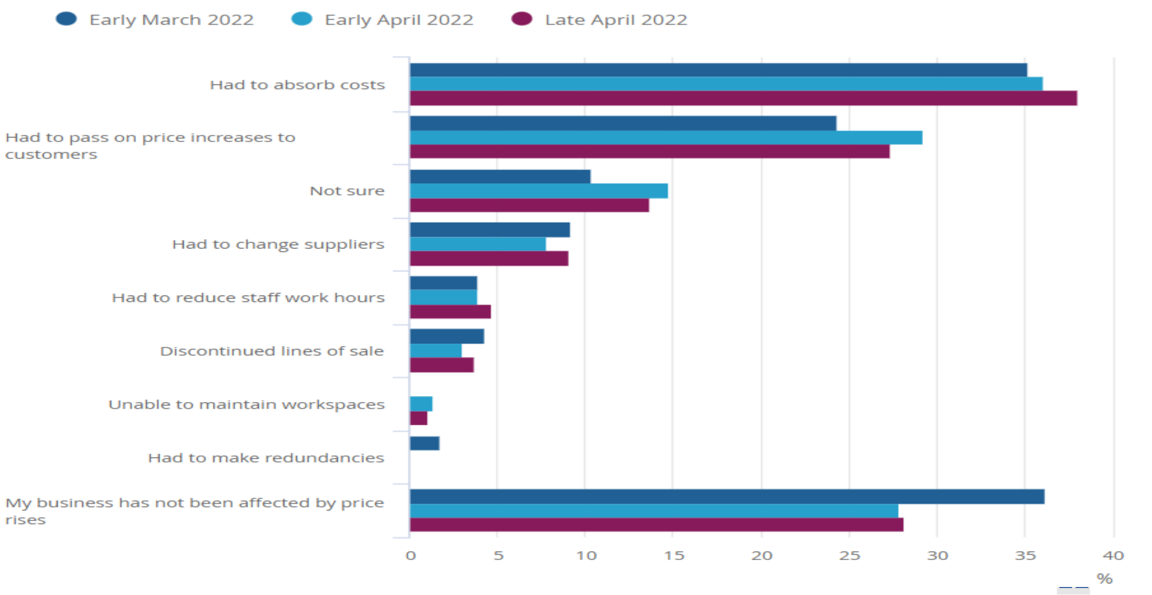
has reported that rates could hit around 3% if price rises continue unmanaged.

- **Rising Energy Costs on Businesses** – The rise in the costs of wholesale of energy are being felt by many now that they are coming to the end of fixed or capped deals. The FSB have reported that energy costs are currently the top concern for small business owners, particularly in sectors hit hardest by the Covid-19 pandemic.
- **Rising Energy Cost on Consumers** - Some businesses that have come to terms with the fact that this is a significant issue in relation to pricing models and profitability and are having to pass the increases on to their customers. However, passing these onto consumers will risks further squeezing consumer demand, and further impacting business resilience and sustainability. Consumers concerns about increasing energy bills are impacting on their spending, especially in service businesses.

Implications of Finance for Businesses

- **Pressures on Working Capital –** Insolvency firm Begbies Traynor reports a 19% rise in businesses in critical financial distress currently compared to the start of 2021.
- **Debt Levels –** With the phasing out of the scheme supported by government, there have been reports of higher debt levels including Coronavirus Business Interruption Loan Scheme (CBILS) and Bounce Back Loan Scheme (BBLS) for businesses compared to two years ago.
- The chart shows the reasons that businesses had been affected by any increased price they experienced. The result highlighted that 'had to absorb costs' and 'pass on price increase to customers' were top two reported impacts and were highest among accommodation & food service activities industry.

Impact of price rises on businesses, weighted by count, UK, 7th March to 1st May 2022



Source: *Office for National Statistics – Business Insights and Conditions Survey*

4.3 Economic Issues Relating to the Consequences of the War in Ukraine

The rising costs of living and high inflation rates combining are slowing the economic growth and are also partly due to invasion in Ukraine, with heightening geopolitical tensions.

- **Exports** – Data from the Chamber of Commerce show that there were £6.2m of known exports from Coventry & Warwickshire SMEs to Ukraine and Russia in the last year. These are now presumed to have halted whilst sanctions remain in place, with no end date in sight for the foreseeable future.

- **Jaguar Land Rover** –JLR had been exporting around 10,000 vehicles a year to Russia. The company has already announced they have stopped exports, again this is likely to be for the foreseeable future. The impact of that volume of lost sales to JLR and their supply chain is not yet known and will need to be monitored carefully. This is particularly of note within Coventry & Warwickshire due to the local supply chain into JLR from within the subregion

- **Cyber risks** – There is a history of cyber-attacks emanating from Russia, and there are believed to be risks of further cyber-attacks over the coming weeks and months. Businesses are being advised to review their cyber security. Sources of support and advice will be reviewed and promoted locally, for example Warwickshire's Police & Crime Commissioner supports regular business clinics covering cyber security and other related advice.

- **Sanctions** – Sanctions have been imposed by the UK Government and other allies, and are wide ranging. As such there will likely be impacts on the UK economy. And it seems likely that further sanctions will be imposed if the current situation continues. These will be monitored, and evidence gathered on a regular basis and reported via official channels.

- **Government 'bandwidth'** – Clearly the very serious issues arising from the crisis will focus much of the Government's attention over coming weeks and months, but this will also start to impact Local Government, for example dealing with refugees. This will compound the many other economic issues Government is already dealing with, many of them covered in the rest of this document, as the 'bandwidth' of Government comes under further pressure, which may delay and restrict their decision-making processes.

4.4 - Insolvent Businesses in Coventry & Warwickshire

There have been increasing numbers of insolvencies amongst businesses locally, resulting from issues our local Perfect Storm.

- Nationally, the number of *registered* company insolvencies in March 2022 was 2,144, more than double that of March 2021 (gov.uk).
- In **2021 some 8,120 companies closed in Coventry & Warwickshire, an increase of 43%** on 2020.
- Beauhurst data shows that **2,878 limited companies closed** between January and April 2022 in Coventry & Warwickshire alone, around 8% of the business base in the region. By comparison in the same period **3,339** businesses were **incorporated** in Coventry & Warwickshire, so this seemingly suggests some businesses are 'phoenixing'.

4.5 Q&A with Cllr Jim O'Boyle, Cabinet Member for Jobs, Regeneration, and Climate Change, at Coventry City Council.

As seen, the perfect storm encapsulates a lot of different issues which are all coming to a head, how can businesses in Coventry & Warwickshire weather this storm?

"Recent global trends that we've been witnessing, and the Bank of England's recent economic forecasts, do point to some challenges for Coventry & Warwickshire businesses, many of whom are still recovering from the impacts of the Covid-19 pandemic. During these challenging times, it is more important than ever for businesses to try and look to do new things, either to expand their revenue streams, minimise costs and try and stay profitable (especially through introducing new products or services or improving business processes). I would encourage businesses to make full use of Coventry & Warwickshire's first-class business support ecosystem, which provides a wide range of support, advice, and guidance to respond to individual business challenges."

What are the unique challenges facing businesses in Coventry & Warwickshire?

"We are aware that the West Midlands had the biggest economic shock of any region in 2020 and is expected to take longest to recover to pre-Covid levels. Our region is more dependent on exports than many other regions, so disruption to global supply chains that we're still seeing will inevitably create challenges for many of our businesses. We also have more manufacturing businesses than other regions, and the material cost increases and shortages of components (such as semi-conductors for the automotive sector), as well as delays in getting materials to businesses, will inevitably impact more on our economy."

What opportunities are there for businesses in the sub-region, and how can businesses take advantage of them?

"As I said above, it is more than important than ever for businesses to innovate, be it through introducing new products and services, or diversifying into new markets – and the Coventry & Warwickshire Innovation Programme can support businesses on this journey.

The adoption of digital technologies or selling through digital platforms is also likely to grow in importance, and this could be an important enabler for businesses to expand their reach of national and global markets, and we have strong support programmes in place to take businesses on their growth journey.

Thirdly, the drive to reach net zero also presents new opportunities for businesses, both in terms of introducing new green products, and also the development of exciting new emerging industries in our area – I am particularly excited by the opportunities for our automotive supply chain and realising the West Midland Gigafactory at Coventry Airport is vital. In the same vein, if they've yet to do so, I would encourage more businesses to join the Coventry & Warwickshire Green Business Network, which has 2,000 members and rising."

What is the Coventry & Warwickshire USP and how can we use this to our advantage?

"We have great assets in our local economy to go with a fantastic strategic location – we have brilliant high-profile brands, supply chains that are constantly innovating, a skilled and diverse labour force that enables this constant innovation to take place, and we are recognised globally as leaders in some sectors such as Advanced Engineering. Added to that two universities that have a strong history of supporting industry and one of the best business support ecosystems in the country, we are ideally placed to respond to the challenges and opportunities that we are facing."

The CWLEP Strategic Reset Framework recognises the importance of SMEs for the local economy within the sub-region. If you could suggest up to three recommendations to help businesses towards growth, what would they be?

"We have built our strong business support ecosystem over a long period of time with careful planning and co-ordination, but it is now important than ever that government invests sufficient amounts in preserving and enhancing this ecosystem to ensure we can support businesses of all sizes to respond to the challenges and opportunities we are facing.

Secondly, in order to realise Levelling Up, it is really important that we see more public investment coming into our region on supporting our supply chain to innovate. I've talked about the opportunities with Electric Vehicles and the importance of investing in support to develop that supply chain, but there is real potential in the retrofit sector and sustainable construction, and I would encourage government to back the Three Cities Retrofit Initiative that we are currently working with Birmingham and Wolverhampton Councils on.

Just finally, it is important that future business support funds and programmes invest in activities to develop the skills of the workforce, alongside measures to support businesses to grow and innovate, and ensure that Coventry & Warwickshire residents reap the full rewards of our business support activities."

5. Recommendations

May's Golden Recommendation:

The West Midlands experienced the biggest contraction to its economy in 2020, of all UK regions. With a good bounce-back underway the region was due to recover to pre-pandemic performance by the end of 2022. With a current focus on Levelling Up, we must ensure this is delivered through sustainable growth. The UKSPF and Levelling Up targeted funds need to address inequality to ensure that areas such as the West Midlands can level up at a faster rate than other areas.

The following recommendations have been derived from analysis of macro-economic and business-level data and intelligence collated from Coventry & Warwickshire stakeholders. We begin with three short term recommendations:

a. Short Term

5.1.a
Conduct **a review of the debt burden on businesses**, in particular the repayment terms of Covid-19 based loan schemes, to enable businesses to focus on investing in growth and getting through the current 'cost of doing business' crisis. Attention needs to be paid to the burden of debt in order to avoid businesses defaulting on debt during these unprecedented times.

5.1.b
Emphasis should be placed on the importance of the **Coventry & Warwickshire partnership infrastructure to ensure value for money is maximised within the local business support landscape**. An example of the kind of collaborative work is the '3 Cities Retrofit Initiative' across the cities of Birmingham, Coventry, and Wolverhampton, which will contribute to delivering the West Midlands' net zero ambitions related to housing.

5.1.c

There is a call from business for a cut to VAT and business costs – particularly on energy bills, but also within the hospitality sector to help with the immediate impacts of consumer downturn there. A 5% cut on energy, whilst bringing the rate for the Hospitality sector back down to 5% has been recommended.

b. Medium Term

Further initiatives that would help the local economy and the labour market in the medium term include the following three recommendations:

5.2.a
Increasing the pace of transitioning to a low carbon economy and building skills in low carbon jobs to be a key part of our local economy and future economic success in Coventry & Warwickshire.

5.2.b
Clarity is needed on how the government tax plan will tackle labour and skills shortages. Matching job seekers with skills requirements is increasingly important in a competitive job market, as there are more vacancies than unemployed people.

5.2.c
Continue the diversification of the local economy by supporting businesses to be better, creating jobs, successfully delivering UKSPF, developing and promoting innovative supply chains, and encouraging innovation will be critical for future success.

C. Long Term

Businesses and the economy would benefit if both central government and local stakeholders support these three long-term recommendations:

5.3.a
A fundamental change at all levels is required to guide businesses toward net zero. This will be challenging but possible with coordinated action and will require both human, financial, and political capital to make this work.

5.3.b
Levelling Up needs to work for everyone, and it is crucial that this is delivered in a sustainable way, which doesn't negatively impact on other areas and regions.

5.3.c
Investing in the business support landscape over the long term with a focus on Account Management is key to growth, resilience, and innovation. Long term strategic investment into business support means a greater return on investment.