BIRMINGHAM CITY University

MIDLANDS ECONOMIC FORUM

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WM and EM Outstrip UK Output Performance for a Further Month

- Latest Lloyds Bank WM PMI recorded strongest performance in UK, at 58.1 in June, up from 56.6

- Latest Lloyds Bank EM PMI eases to 55.4, from 57.9 in May, but stronger than UK average.

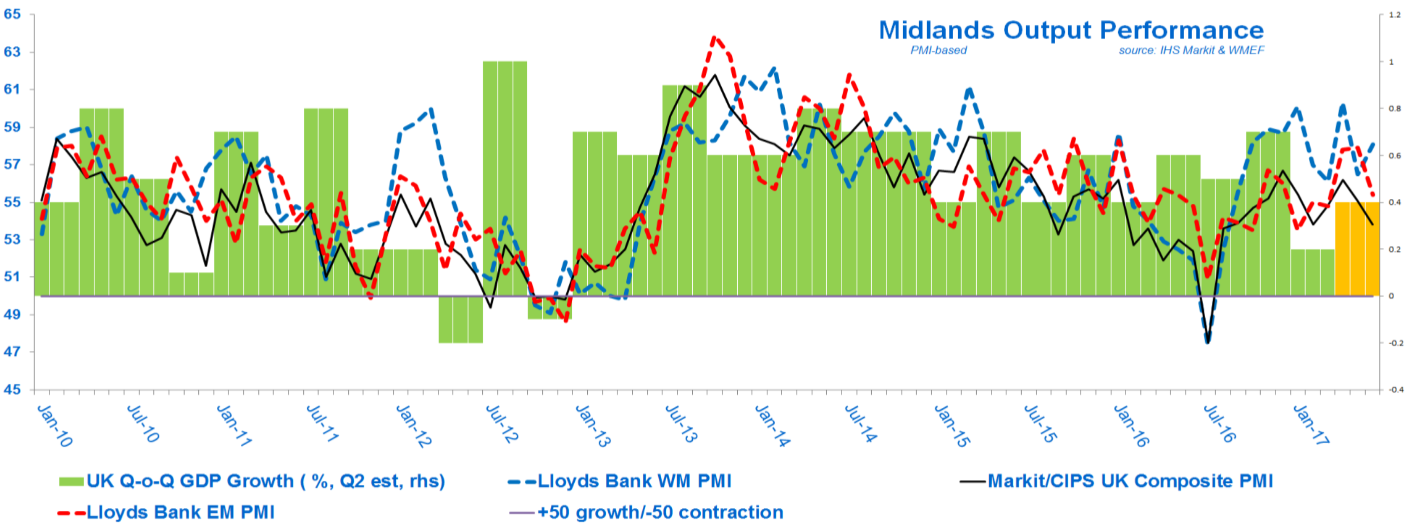
- Inflationary pressures appear to be moderating but remain robust, with relative stabilisation of £ a contributory factor.

- Demand strengthening in key export regions, with notably more vibrant growth evident in EU.

- Labour market conditions continue to prove problematic.

- New business orders at strong levels and indicate resilience current growth prospects.

- Successful Brexit negotiations may require an Asymmetric Treaty approach.



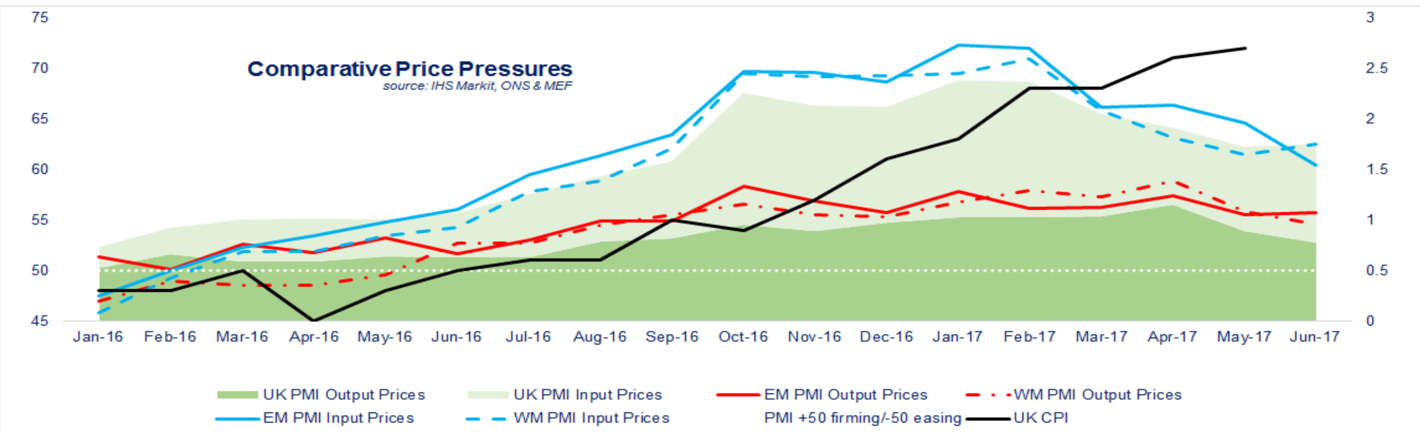
Notwithstanding some apparent easing of growth momentum at a national level, the latest Lloyds Bank PMI for the WM rose from 56.5 in May to record 58.1 in June, the strongest performance across the UK. Whilst the performance recorded for the EM declined from 57.9 previously to 55.4 in June, this was also stronger than that achieved nationally (down from 55.1 in May to 53.8 this month). This month's JPMorgan Global Manufacturing PMI indicated sustained solid global growth, particularly amongst developed economies and notably in the region's keys export markets of China, Germany, France and the

Netherlands. This may reflect sustained, if not increasing export demand, not just for the finished products such as in the automotive and aerospace sectors, but from the region's specialist precision components suppliers. On balance therefore, preliminary second quarter GDP growth can be expected to be stronger than the first quarter and is forecast to reach 0.4%.

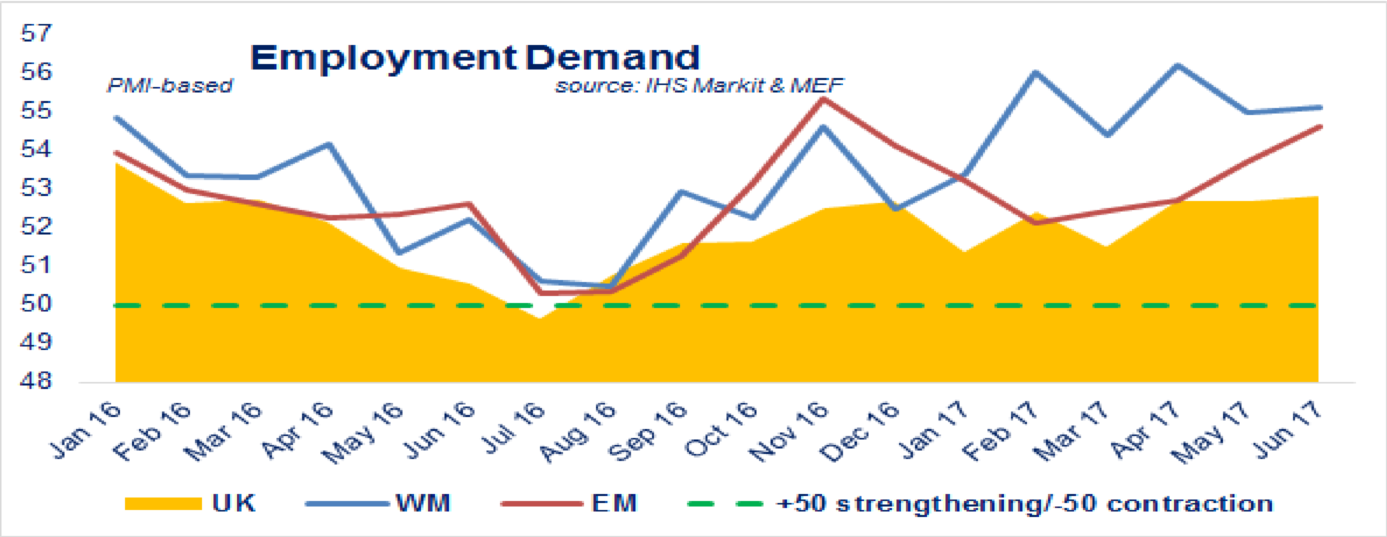
Nevertheless, the overall easing of performance registered over the past quarter at a national level does raise questions as to whether the easing is simply part of the natural evolution of a business cycle, or evidence of a more structural change. Numerous, often imperceptible, longer-term micro-business decisions, such as the securing of airport slots for low-cost airlines which usually take place 24 months in advance, could be reflected in the apparent slowdown at an aggregate level and perhaps symptomatic of the uncertainty over the Brexit negotiations. The dampening performance is also apparent in the latest domestic data, with the latest Halifax House Price Index indicating an easing of prices, which were marginally lower in the second quarter down 0.1% compared to the first, and the annualised rate dropping to 2.6%, the weakest since mid-2013.

Quotes:

***Professor Julian Beer, Deputy Vice-Chancellor at Birmingham City University**, commented: "Although nationally there is increasing evidence of some weakening of output momentum, today's Lloyds Bank PMI data release indicates the region, both EM and WM, continues to present a stronger picture than that nationally. However, local capacity constraints appear to be increasing, especially in the labour market, where pressures look increasingly acute. This may be offset somewhat by the recent stabilisation of £, but price pressures remain strong. The strength of new business orders underline the continued competiveness of the region, which remains at the apex of a range of global value-added supply chains."*



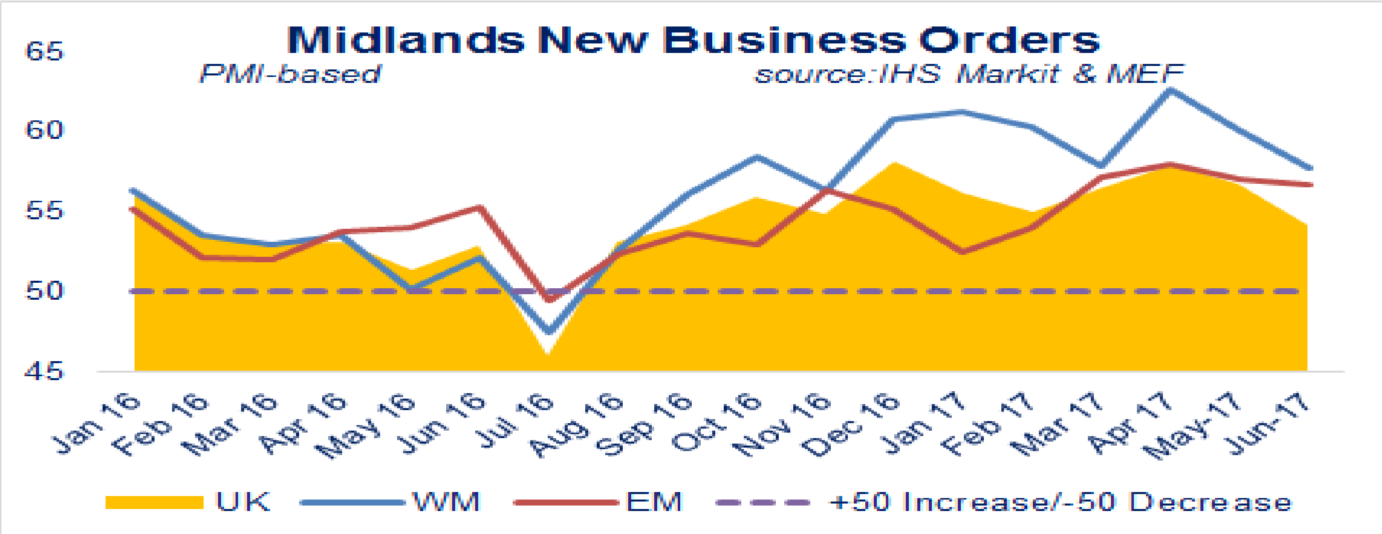
The comparative stabilisation of £ since last October, trading in a range between US$ 1.20-1.30, despite some recent strengthening toward the top end of this band, may be having a beneficial impact on price pressures. Whilst the national headline CPI figure continued to rise in May, up to an annualised 2.7%, compared to 2.6% previously, PMI data indicates easing if still robust pressures for input prices and output charges. It is evident since March that there was been a tailing off of input prices, with the previous differential between regional and national prices rapidly eroding. Output charges are still increasing slightly stronger in the region than that nationally, but the full impact of increased input costs appears to have been continued to be deferred being passed on to customers.



In contrast the sustained tightening of the regional labour market is likely to add to regional price pressures. PMI data indicates that employment demand in both the EM and WM was increasing at a significantly stronger rate than that for the UK, where demand appeared largely flat. Indeed, the present period of demand growth has been sustained for the past four years in the EM and since December 2012 in the WM. Furthermore, according to the REC Labour Market Survey for the Midlands, both permanent placements and temporary billings recorded accelerated strongly in June, with temp pay rates rising at their fastest rates for over a year. However, notwithstanding increasing pay rates, the availability of permanent and temporary workers continued to contract.

Given the current public disagreements between the EU and UK negotiators over EU citizen rights, this could intensify future labour market pressures, and unless resolved either through the negotiations or by sourcing new sources, such as through enhancements to the domestic skills base, could seriously constrain medium-term prospects. Indeed, as the Brexit negotiations unfold, it may become apparent that an

Asymmetric Treaty arrangement, proceeding sector by sector, industry by industry and securing the easiest agreements first, may prove the most practical solution and involve a protracted transition period. Securing continued participation in the EU US Open Skies agreement would seem an early potential mutual gain. However with the likely concentration of the larger sectors, such as finance, aerospace and automotive might risk ignoring some of the more esoteric industries that rely on ease of access to the Single Market and Customs Union. For instance, the Stratford Butterfly Farm, reported by the FT to supply over half of its tropical butterfly pupae exports into the EU, and any extension of transport time could seriously erode its competitiveness. Similarly, it is estimated that well over three-quarters of HGV transport movements between the UK and EU, is by continentally-owned vehicles, and any significant extension to roundtrip journey times as a result of new customs formalities and regulations, could considerably impair the capacity of the region to export to the EU.



Notwithstanding future concerns over the ultimate direction of Brexit negotiations, the level of new business orders, recorded in June, underscores the vibrancy of the regional economy. The strength of new business orders was a significant factor contributing to the strength of the overall PMI. Whilst business confidence for the year ahead decreased markedly in June, the level of future business orders indicate that the current growth period should extend well into the second half of the year, in the absence of any significant external shocks. Moreover, current outstanding work commitments continued to rise in the region, an indication of potential capacity constraints in the local economy.

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Notes:

Birmingham City University:

Birmingham City University is a dynamic, business-engaged institution. As a substantial employer with over 2,000 staff and through the provision of graduate talent, research and knowledge transfer, we contribute around £180 million to Birmingham's gross domestic product (GDP).

The university works with in excess of 5,000 businesses, regionally, nationally and internationally, with our courses informed by Industry Advisory Boards, where information about business needs are reviewed and skills challenges are discussed. In 2015 we launched Advantage, the business growth service from Birmingham City University enabling organisations and individuals to get connected with knowledge, skills and money in business, innovation and enterprise.

We have extensive sector linkages providing detailed intelligence and input into future innovation, driving thinking around smart specialisation, the creative economy, advanced manufacturing and health-related life sciences. Through our work with partners such as the GBS LEP, WMCA, Science City, and Creative City Partnership, we take a lead on cross innovation, design and climate change. Innovation is at the core of our work. Working in partnership is at the core of our approach to business.

Midlands Economic Forum:

The Midlands Economic Forum is a neutral, independent forum bringing together representatives of the public, private and voluntary sectors to evaluate real trends in the local economy. Midlands Economic Forum is part of the West Midlands Economic Forum Group.