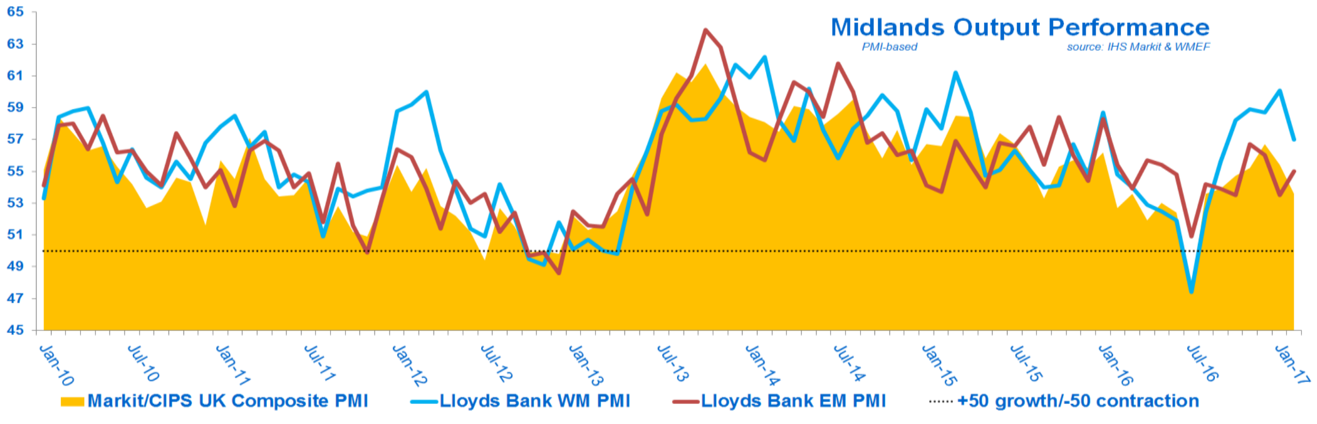
Press Release: 0900 Monday 13th March 2017

Region records strongest growth in Britain

According to the latest Lloyds Bank regional PMI for February released today:

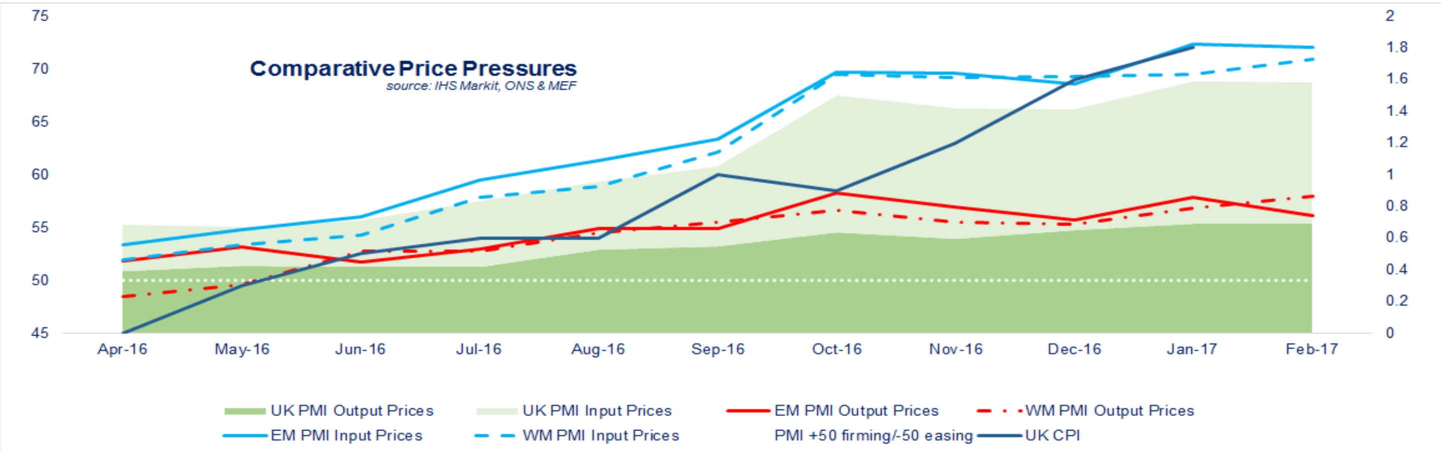
- Output growth in the WM & EM strongest in Britain at 57 (down from 60.1 previously) and 55 (up from 53.5 in January) respectively.
- Output performance eases but remains vibrant, with business activity accelerating in EM.
- Price pressures continue to strengthen in both EM & WM, above UK levels.
- Tight labour market conditions in both EM & WM persist.
- Infrastructure investment key to transforming productivity prospects
- No indication weakening performance in WM Brexit related.

The past week has been positive for the region with the launch of the Midlands Engine strategy, and the associated Midlands Connect programme, as the first concerted steps to comprehensively apply the Government's Industrial Strategy to the region. Whilst the rhetoric was positive, much will obviously depend on the investment funds made available and programme implementation over the ensuing decades. The region has fallen behind in terms of public sector investment, with for instance such transport capital investment in the region lagging London by £15 billion in the ten years to 2015.



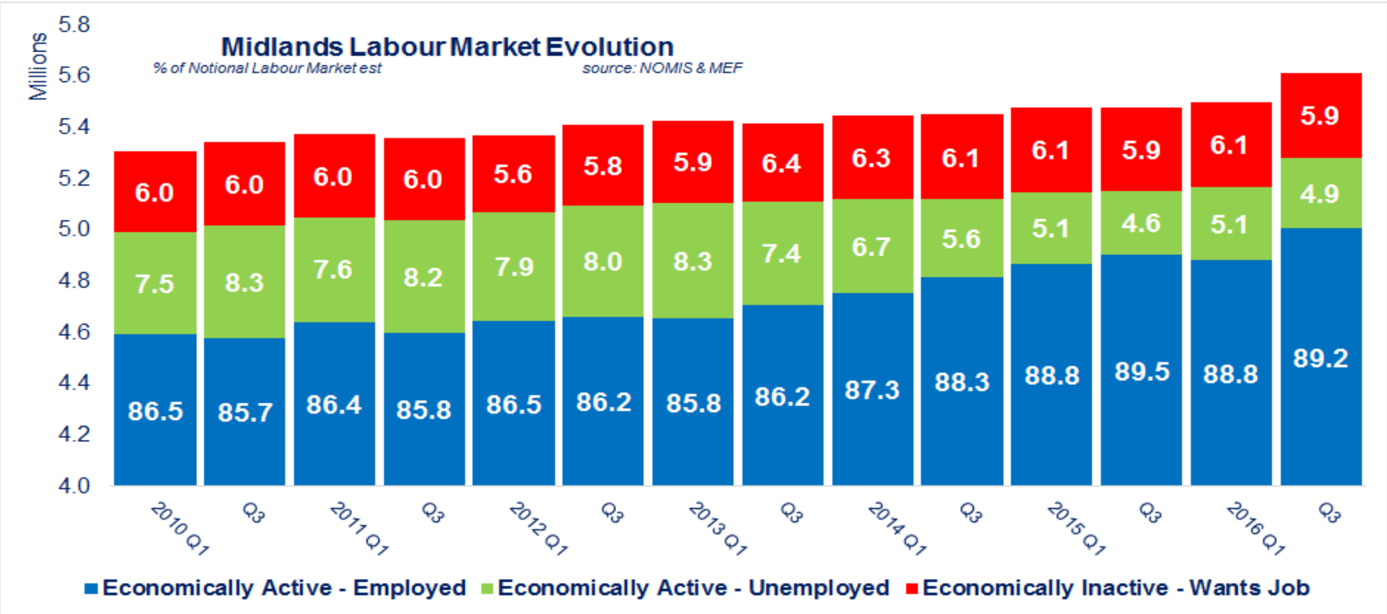
According to PMI-based analysis, since the start of the largely tentative recovery in the second half of 2009, and the more vigorous performance after 2013, both the EM and WM have tended to register stronger performance than that achieved nationally. The latest regional PMIs again record stronger growth both in the WM (despite easing in February to 57 from 60.1 previously) and the EM (55 up from 53.5 in January). The trend remains stronger than nationally and the WM in particular seems set for a period of robust growth, with the WM and EM respectively recording the strongest growth nationally.

Although the immediate response to the Brexit referendum saw the PMIs record precipitous falls, subsequently the recovery has been strong and defied most pre-referendum forecasts. This has until recently been reflected in official data. However n Negative currency market sentiment has seen £ sustain significant erosion since June, and this appears to have contributed to rising input prices. Coupled with firmer global commodity prices through 2016, the £ depreciation now appears to be feeding through into significantly higher consumer prices, despite what appears some considerable restraint on the part of producers to pass through all of the price increases. The latest PMI again recording tightening inflationary conditions in the WM input prices increased from 69.5 in January to 70.9 and remaining strong in the EM at 72 in the EM from 72.3 in the latest PMI. Moreover, price pressures in both the EM and WM for both input and output prices seem to be rising at a consistently faster pace than that nationally.



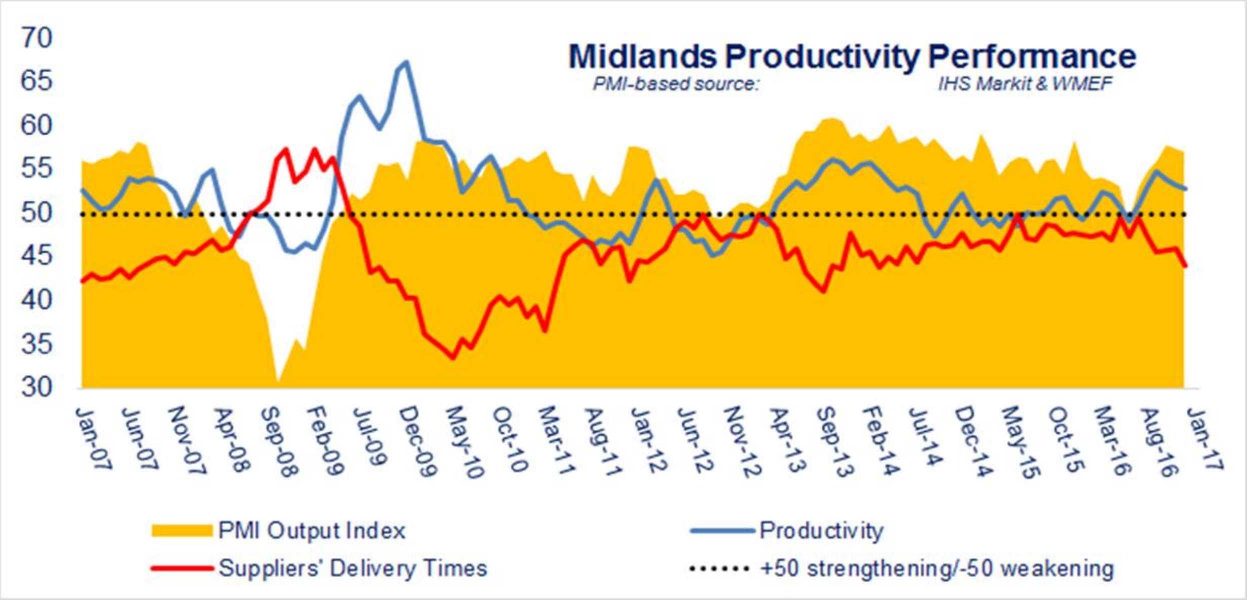
With £ expected to come under further pressure this week if as expected, Article 50 is activated and perhaps of more interest to currency and capital markets, the European Council negotiating guidelines for Brexit are published. £ could test trading levels considerably below $1.20 and €1.10. Consequently price pressure could intensify further, in January the CPI has risen to 1.8%, and lead to speculation the BoE may be forced to tighten policy – particularly given the context of forecast US Fed tightening. Whether current output performance is sufficiently robust enough to cope with a shift in monetary policy is a critical question.

The PMI provides further indication of continued tightness in the regional labour market, with the WM PMI recording employment take-up of 56 in February rising from 53.4 previously and similarly in the EM continued pressures were evident (from 53.2 in the latest PMI from 52.1 previously). Although the real level of unemployment may be close to 10-12% of the notional labour market (total economically active, employed and unemployed as well as those economically inactive but wanting to work), there has been little erosion in the proportion of those deemed economically inactive but wanting to secure employment. This is in marked contrast in what could be termed the formal labour market, where unemployment has almost halved and consequently the level of economically active has risen to almost 90% of the notional labour force. The inability to reduce the level of what could be termed the economically discouraged, such as by raising their skills and employability, poses considerable challenges, not least for the regional economy, especially given the potential limitations on inward migration post Brexit.



Indeed, the regional economy can be seen to be dependent on four types of migrants. Namely, Resident Migrants (those who seek semi-permanent/permanent residence to secure work); Students (who are technically not economically active); Seasonal Migrants (for agricultural or festival work) and Transit migrants (those staying for very short but repeated periods, such as HGV drivers). With non-British HGVs estimated to be responsible for 87% movements to the continent, any interruption or constraint on this capacity could prove problematic for the region's capacity to export.

A key focus of the Midlands Engine strategy is the need to boost regional productivity. Whilst the perceived regional deficiencies are a result of a range of factors, ranging from skills, capital investment and available labour, transport and connectivity infrastructure are additional factors that need to be considered. Indeed there seems to be a correlation between supplier delivery times (as a proxy for transport bottlenecks) and productivity performance as indicated by PMI data. Therefore it would seem that tacking infrastructure constraints would have an impact on regional productivity and providing a globally competitive infrastructure would facilitate further export growth.



<u>Quotes:</u>

Professor Julian Beer, Deputy Vice-Chancellor at Birmingham City University, said:

"The launch of the Midlands Engine strategy and its welcome focus on skills and productivity, provide the region with a crucial opportunity to tackle acute skills shortages through programme such as the STEAM initiative. Boosting productivity will be essential to ensure the region is internationally competitive. When, if as expected this week, Article 50 is triggered and Britain moves rapidly out of the EU, enhancing productivity will be essential to sustain future reginal growth in output and gains in real wages and earnings."

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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.

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