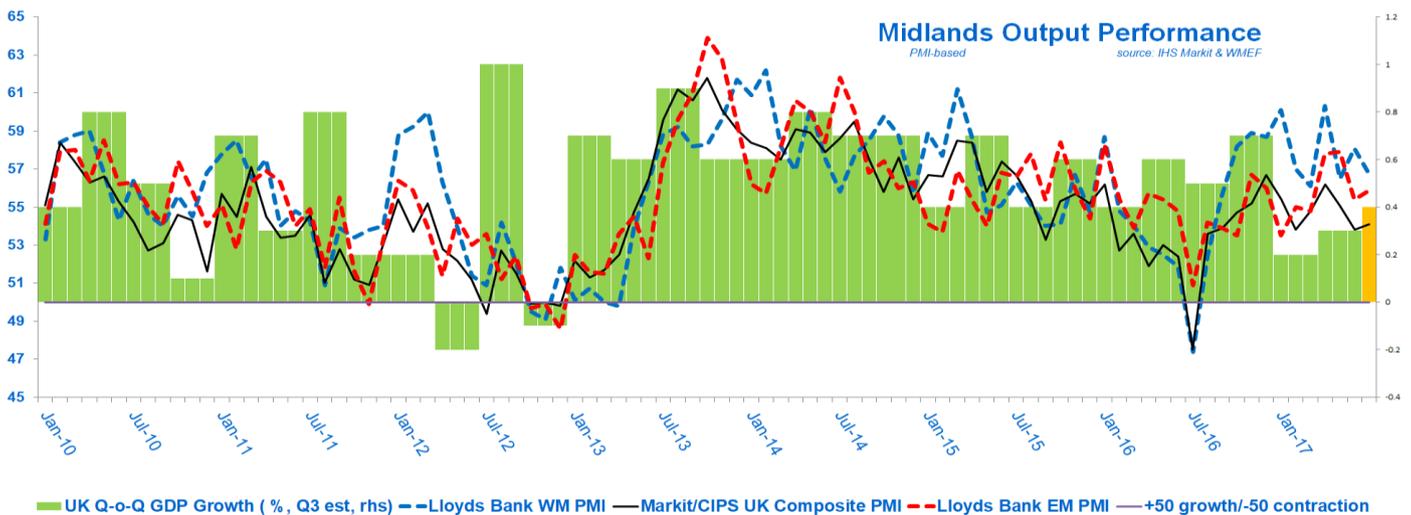


Latest Global Trends, Regional PMI, Output Data, Trade Conditions & Brexit Update

- EM and WM continue to record growth, with some strengthening evident
- WM PMI eased to 56.7 in July (from 58.1 previous) – second strongest in Britain
- EM PMI improved marginally from 55.4 in June to 55.9 in July – third strongest
- Both labour market and inflationary conditions remain tight
- Recent recruitment has boosted capacity
- Manufacturing productivity strengthened in Q2 but automotive output down
- Further deterioration in North Korea-US tensions could seriously jeopardise global (economic) prospects



According to the latest Lloyds Bank Regional PMI, business activity rose for the 12th consecutive month, with both the WM and EM amongst the top 3 performers in E&W. Although the overall WM PMI eased from 53.8 previously to 54.1 in July, it continued to record growth and was the second strongest outturn, closely followed by the EM, where the Index firmed from 55.4 in June to 55.9 last month. Following some easing across the UK in the first half of the year, August's data release suggests some strengthening in the second half, with employment and inflationary pressures remaining robust.

Notwithstanding the more optimistic prospects regionally, the global economy remains vulnerable to adverse geo-political factors, most notably the recent intensification of the war of words between North Korea and the USA. Global financial markets have not been

Latest Global Trends, Regional PMI, Output Data, Trade Conditions & Brexit Update

confronted with such a public crisis of this scale since Cuba in 1962, and it is therefore difficult to predict how the impact, other than signs of a flight to quality, will ultimately unfold. Guam, the current focus of the increasingly strident rhetoric, is not simply a remote Pacific island, but a core strategic asset, and central, along with Diego Garcia, to the US capacity to deliver a military response anywhere in the world. Moreover, the global economy itself remains fragile with the recovery since the financial crisis still muted.

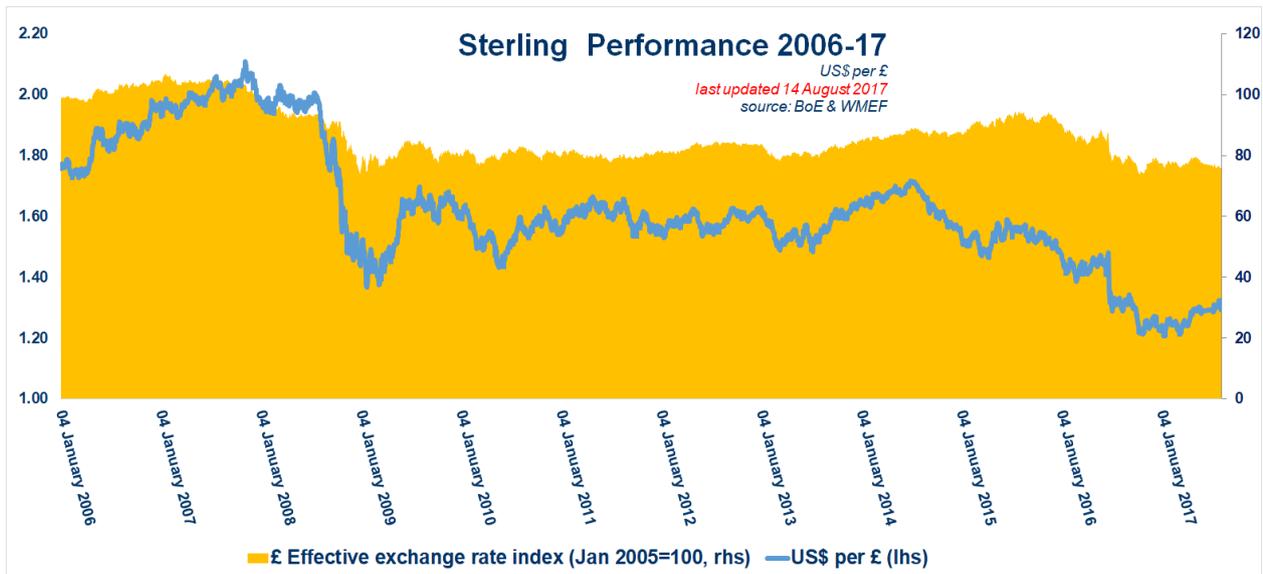
Quotes:

Professor Julian Beer, Deputy Vice-Chancellor at Birmingham City University, commented: *“This month’s Lloyds Bank Regional PMI data release continues to affirm the vibrancy of the regional economy, with business activity and employment strong. Prospects for the second half of the year appear more promising, following a less than stellar first half, with sentiment firming regarding an effective Brexit settlement. However, much ground remains to be covered, although the intention to secure a post-Brexit transitional phase will assist the reaching of a mutually acceptable agreement. Crucial will be the response of the EU to Britain’s strategy papers expected to be published this week.*

North Korea-US tensions threaten to destabilise markets and the economy, and could ultimately cloud future prospects.”

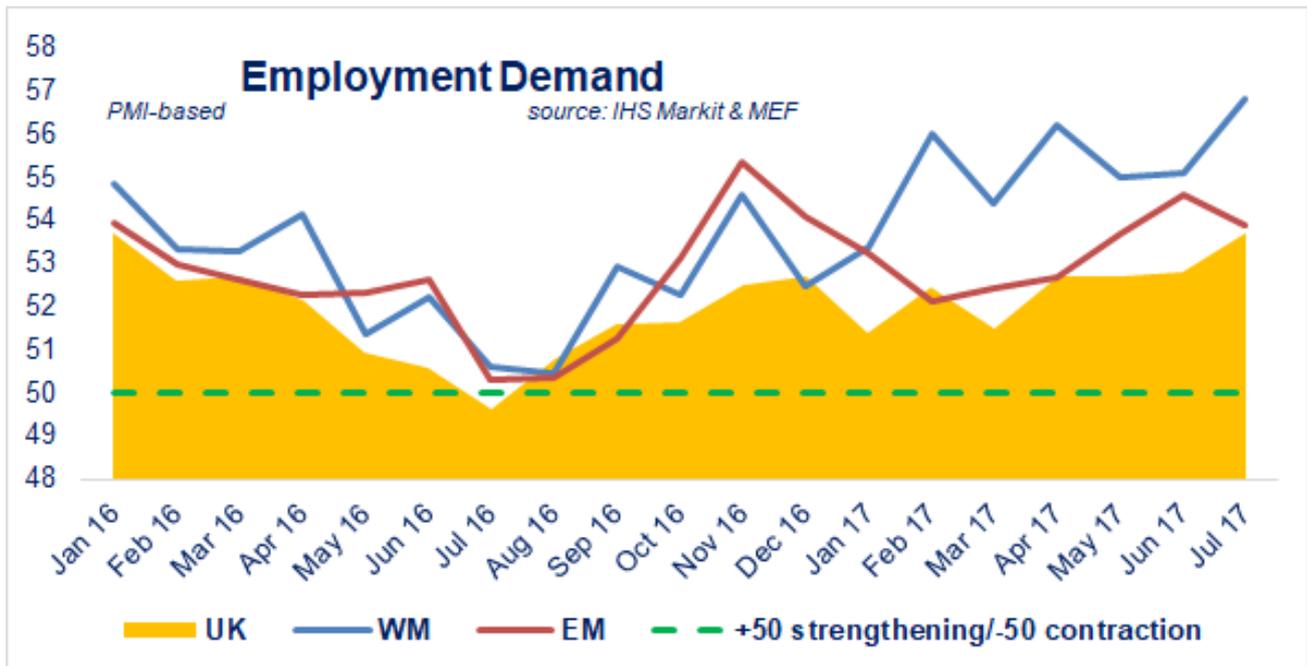
A number of economies have attempted to stimulate growth through weak monetary policy, accumulating significant debt bubbles, notably China, Norway, South Korea, Australia and Canada – all key post-Brexit target markets. Similarly, the often anticipated unwinding of Quantitative Easing, when it eventually takes place, coupled with a return to more normal monetary conditions could have unforeseen consequences. Within Britain there is also growing official concern over the rapid growth of consumer debt secured by personal contract plans, particularly to finance car purchase. In global terms, Brexit is not the forefront of attention, however with an array of official Brexit policy strategies expected to be announced later this week, £ could experience speculative pressure – it briefly breached US\$1.30 as the greenback weakened as a result of problematic political conditions in Washington for President Trump.

Latest Global Trends, Regional PMI, Output Data, Trade Conditions & Brexit Update



The comparative stability of £ has eased price pressures experienced earlier in the year, however the picture in global commodity markets is more mixed. Overall global commodity prices continued to firm in the first half of the year. In July, according to the World Bank group, energy prices increased 3.0%, while non-energy prices tightened by 2.0%. Global food and beverages indices increased 0.7% and 1.7% respectively. Whilst precious metals eased 2.3%, metals and minerals increased 5.1%. These differentials were reflected in the Midlands, where in the EM cost pressures firmed in July, with input price rises attributed to forex volatility, although output prices increased at the slowest pace since July last year. Similarly, in the WM input charges continued to accelerate but at a weaker, although still robust, rate than those recorded earlier in the year. Output prices in the WM increased at a three-month peak. According to the Halifax House Price Index, house prices in the UK rose by 0.4% in July, following a fall of 0.9% in June. With mortgage approvals falling by 0.7% between May and June, it is anticipated that home sales will be broadly flat, especially given the continuing low supply of houses on the market, which fell for the 16th month in a row in June.

Latest Global Trends, Regional PMI, Output Data, Trade Conditions & Brexit Update

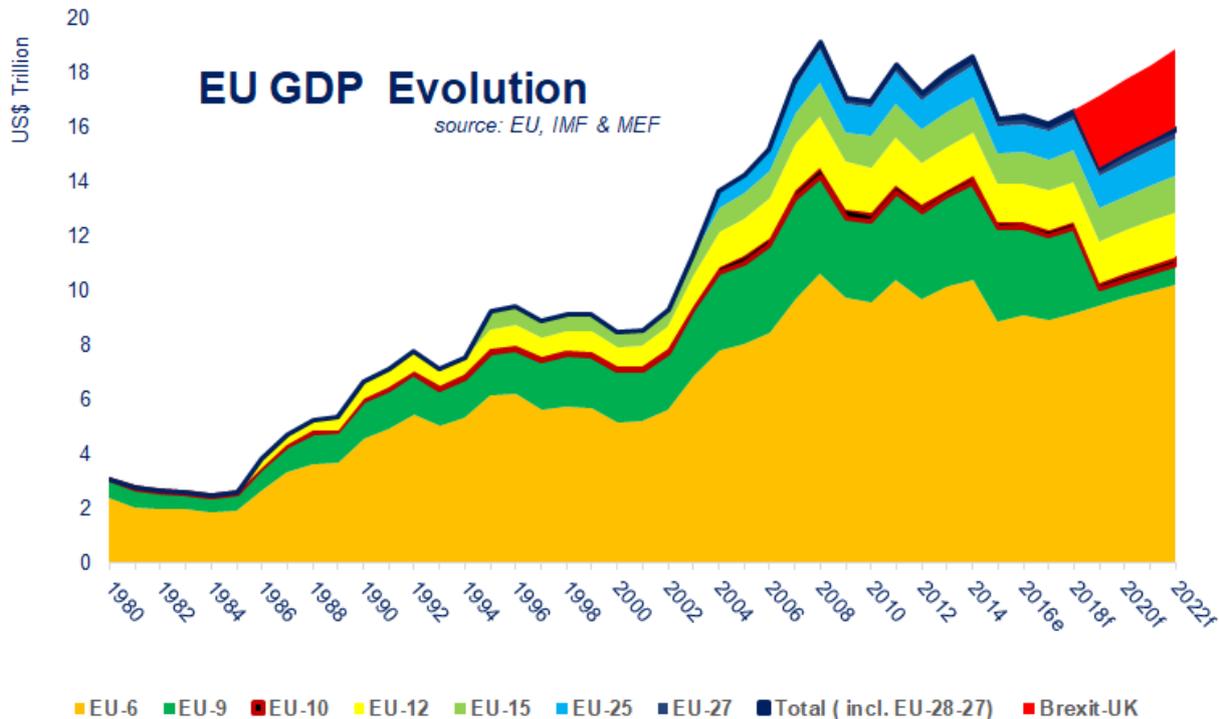


Regional labour market conditions remain tight. In the WM, as new business rose strongly enterprises increased staff establishments, with the rate of job creation the most accelerated since the first quarter of 2015 and was the most rapid of all British regions. Given the enhanced capacity, there was no increase in work backlogs, halting a ten-month build-up. A similar pattern was registered in the EM, although the rate of job creation growth was closer to the British average. Work backlogs also rose, despite increased capacity. Although national productivity eased in the first quarter, down 0.5%, productivity in the manufacturing sector increased by 0.2%, and services sector productivity continued to languish, falling 0.6%. However, overall output in the manufacturing sector, according to official data, fell 0.6% in the second quarter, and significantly for the region, the largest fall was in transport equipment manufacture which fell 2.2% over the quarter.

Brexit

Days since Article 50 activated: 139

Remaining Scheduled Negotiating Days: 75



In 1980, Britain contributed a fifth of overall EC GDP (then equivalent to US\$3 trillion), and by when it exits in March 2019, it is estimated that it will be equivalent to 15% of EU GDP (forecast to reach US\$17 trillion, including Britain).

The scale and complexity of the Brexit process, and potential consequences of leaving without any deal, seems to have contributed to a collective recognition across the Cabinet at least of the need for a transitional phase, post-Brexit, possibly up to 2022. This would provide a more extended period to secure agreements on specific issues and probably lead to an asymmetric approach, moving rapidly on areas where there is little difference and establishing more in-depth working-groups to deal with the more intractable topics. However, to secure such a transitional phase, the EU, the European Commission and the other EU member states would have to acknowledge that substantive progress has been made on the four negotiating areas: the Financial Settlement; Citizen's Rights; Other Separation Issues; and the Northern Ireland-Republic of Ireland border.

Given earlier EU expressed concerns over comprehending the British position, the form and ambition of the position papers expected to be published by the British government

Latest Global Trends, Regional PMI, Output Data, Trade Conditions & Brexit Update

this week will prove critical to accelerating progress at the forthcoming negotiating round at the end of August.

ENDS

Press Contacts:

Peter Cameron, BCU

T: 0121 331 7644

E: Peter.Cameron@bcu.ac.uk

Paul Forrest, MEF

M: 07738 324 517

E: paul.forrest@midlandseconomicforum.co.uk

Latest Global Trends, Regional PMI, Output Data, Trade Conditions & Brexit Update

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.

Disclaimers

The analysis presented in this report accurately represents the personal assessment of the analyst(s) and no part of the compensation of the analyst(s) was, or will be directly or indirectly related to the inclusion of specific views in this report. Further information is available on request. The information contained, and any views expressed, herein are based on data currently available within the public domain. The contents of this Report are not a substitute for specific advice and should not be relied on as such. Accordingly, whilst every care has been taken in the preparation of this publication, no representation or warranty is made or given in respect of its contents and no responsibility is accepted for the consequences of any reliance placed on it by any person.