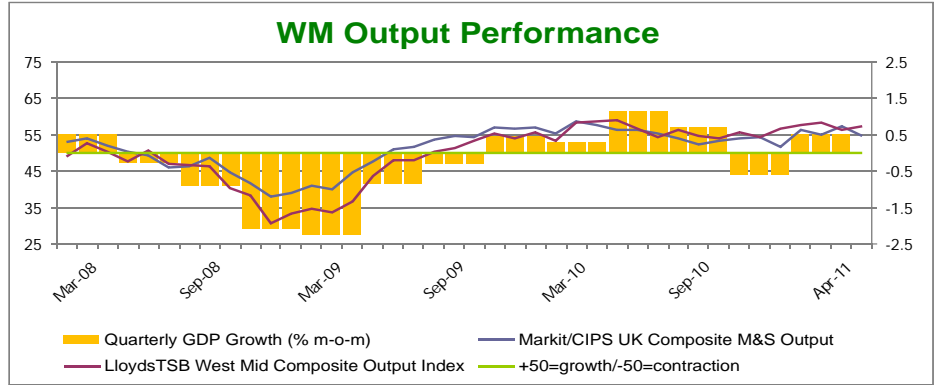


West Midlands Manufacturing Update

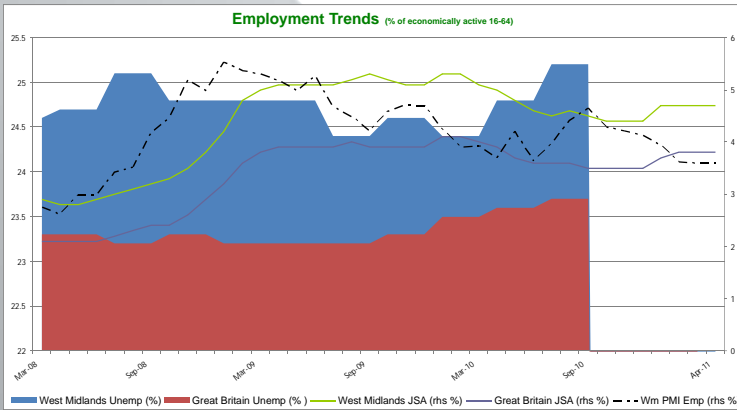
May 2011

The continued resilience of manufacturing is reflected in the PMI Output indicator, suggesting that WM economic performance remains more robust than that of the UK overall. Output growth strengthened in April, with the PMI recording 57.5, compared with 56.5 in March.

Whilst this is from an admittedly low base, with the recovery both fragile and acutely sensitive to the redirection of fiscal policy, it is indicative of the underlying dynamism of the WM economy. Lack of effective access to working capital appears to be a major constraint to successfully tapping this latent potential, as is the erosion of the skilled labour force during the recession.

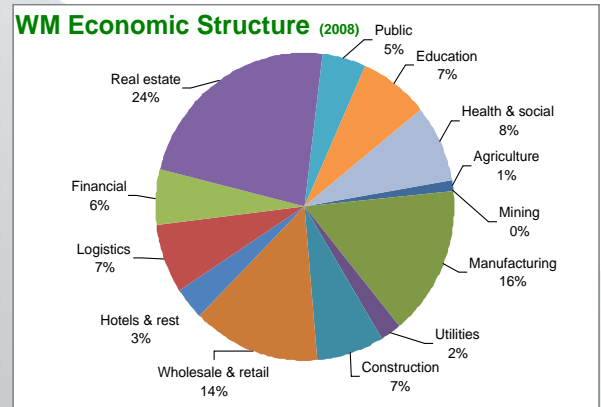
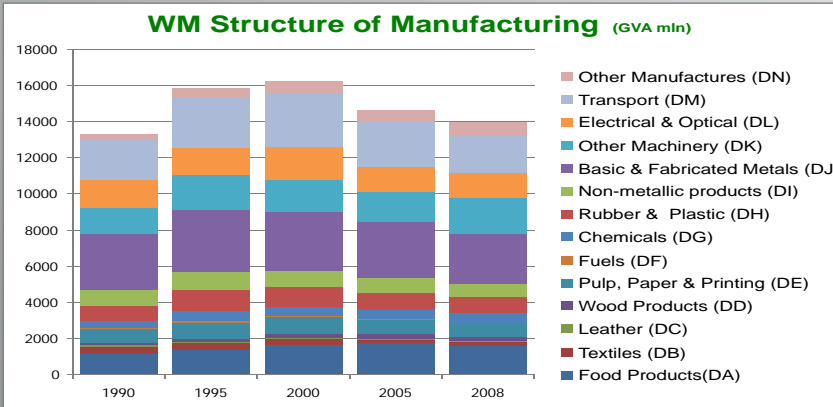


The region suffered a rapid increase in unemployment during the credit crunch, during which manufacturing and merchandise exports were particularly and acutely impacted. The lack of employment is a structural feature in a number of LEP areas. Real levels of unemployment in Stoke are over 15%, in Wolverhampton close to 17% and of a similar magnitude in Sandwell. Adoption of kurzarbeit-style counter-cyclical re-skilling programmes, prevalent in Germany, would have limited redundancies and given the manufacturing sector a more robust capacity-base with which to respond to reviving global demand. However, the latest PMI-based data available for April, indicates the continued strength of output has resulted in further firming of labour market conditions.

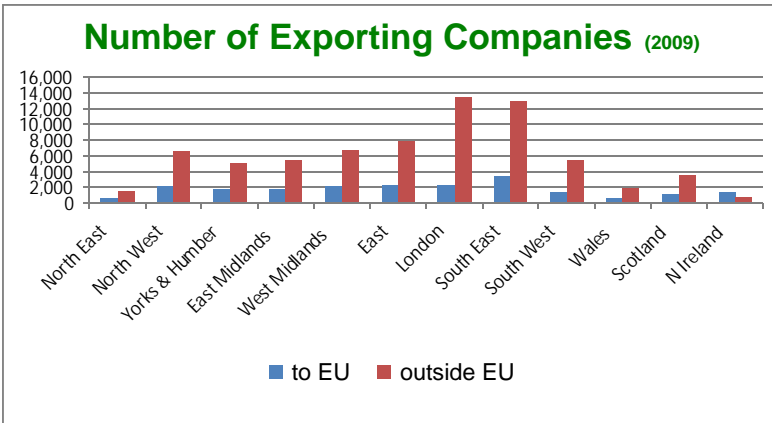


The WM provides 7% of GVA produced in the UK, and given the statistical bias toward the services sector and HQ-reporting (which predominate in London & the South-East), the real output contribution of the region is probably understated. The regional economy has however a potential output gap, which is a structural feature that has been evident for three decades. Data available prior to the crisis, records that over half of locally produced GVA was provided by three sectors: Real Estate (23%), Manufacturing 16% and Wholesale & Retail 14%. While these sectors recorded acute contractions, manufacturing has recovered more innovatively and rapidly.

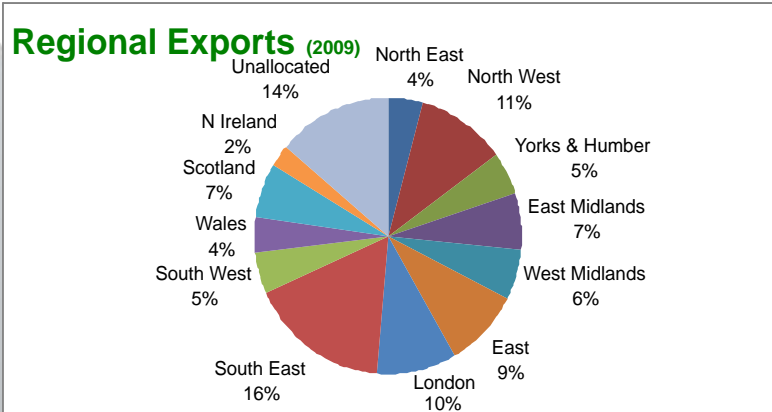
The manufacturing structure largely comprises small-scale precision-based component manufacturers coupled with traditional craft-based industries feeding into globally-ranked prestige producers including JLR, Rolls-Royce and JCB. This structure is not dissimilar from that which has provided the basis for sustained vibrant expansion in Northern Italy and Catalonia.



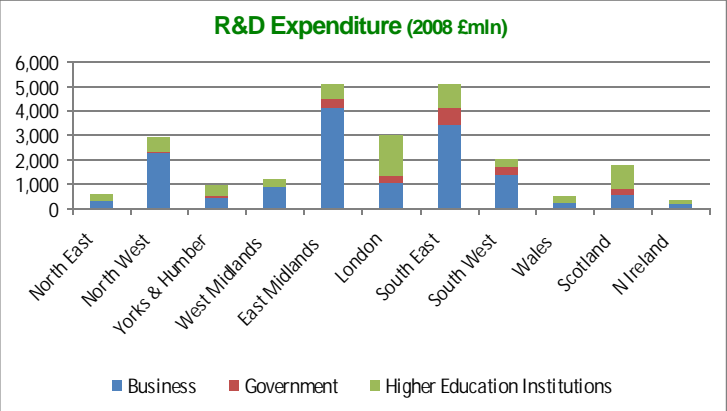
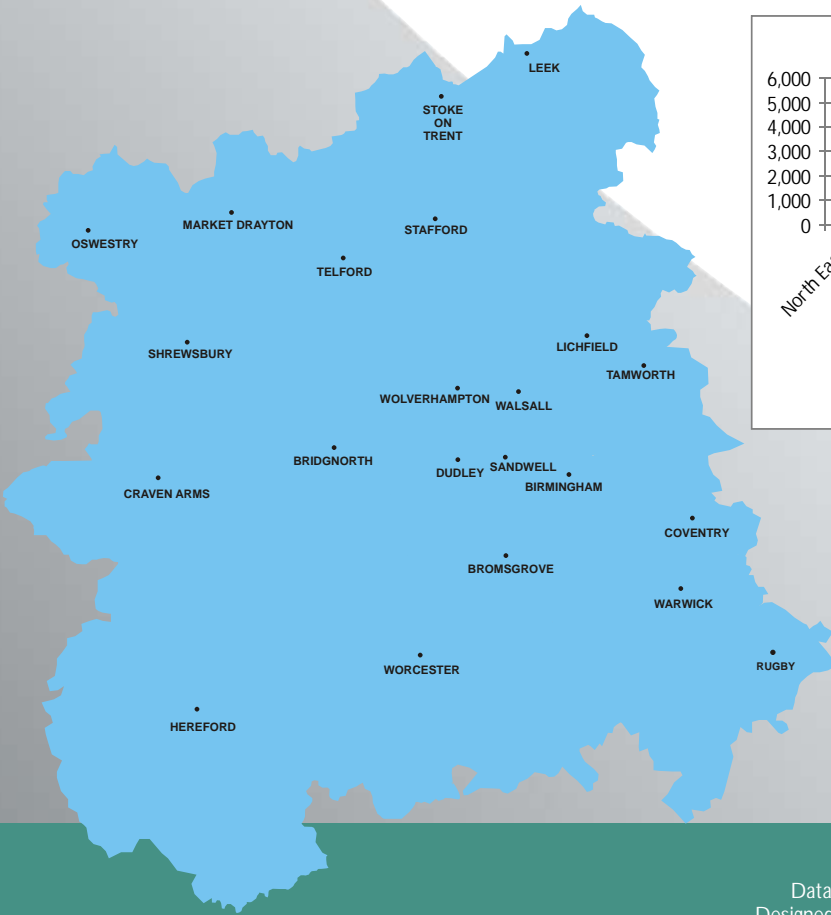
With only nominal GVA data available, a proper perspective of real economic performance is not easily possible. In nominal terms, between 1989 and 1999 manufacturing increased by 34%, but given the rate of inflation over the same period of a similar magnitude, real growth if any was marginal. Since the turn-of-the-century, output levels have steadily eroded, falling over 12% in nominal terms in the period up to 2008, probably representing a real contraction in output of over 40%. As of 2008, the core manufacturing sectors remain production of basic and fabricated metals and machinery (28%), with transport equipment (14%) and food products (rising to 14%) the next most significant.



The dynamism of the local economy is best demonstrated by the number of companies that export to EU and non-EU destinations the region's performance one of the better nationally in terms of its penetration of overseas markets. In terms of overall exports, the WM provides at least 6% of all UK exports. With extended globalised supply chains, exports should be seen as less as final products but as a series of interlocked components, in which identifying export access points in the assembly processes is critical to success. The WM seems especially suited to take advantage of these opportunities. The region is home to one of the largest concentrations of manufacturing units in Western Europe, in an national economy that continues to rank as the sixth largest in terms of manufacturing output and is the tenth largest exporter of manufactured goods. Indeed, given its comparative advantages, regional labour productivity ranks with the most dynamic of emerging markets. Moreover, with continuing supply-line interruptions, escalating energy costs and increasing preference for carbon-reducing production technologies, there is scope for further advancement.



The region lags behind others in terms of aggregate expenditure on research & development. However, this is largely the result of comparatively weak performance by governmental and higher education institutions, whereas business sourced expenditure compares favourably with other regions.



West Midlands Basic Facts 2009 e

Land Area: 12, 988 sq kms

Population: 5.43 mln

Economic Structure:
Agriculture 1%, Industry 24%, Services 75%

Employment Structure:
Agriculture 1%, Industry 19%, Services 80%

Data sources: ONS, Markit Economics, Lloyds TSB & Forrest Research.
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