

Manufacturing and the West Midlands regional economy

David Bailey, Nigel Berkeley,
David Jarvis and Jason Begley

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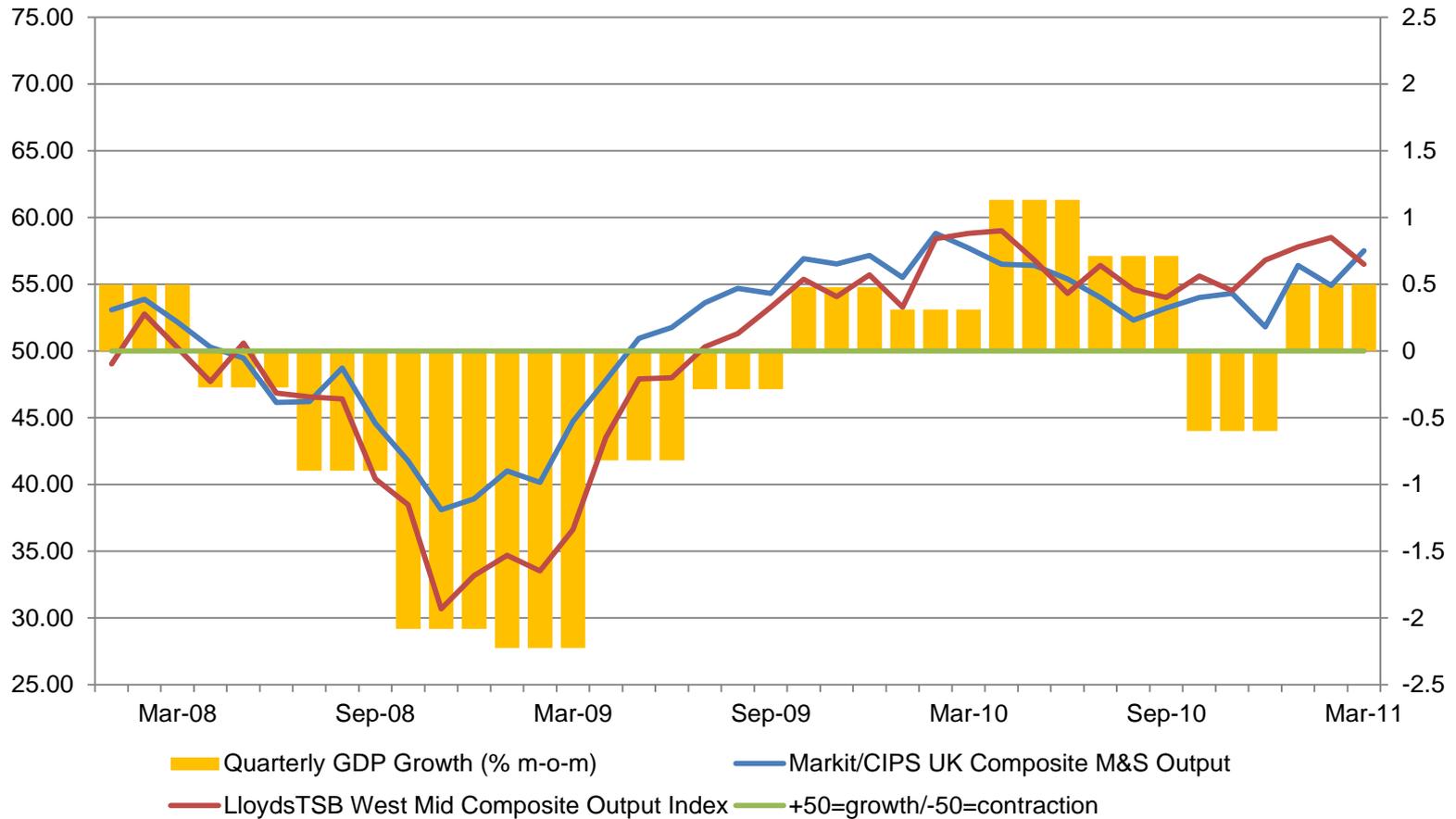
Manufacturing: a Local and Regional Perspective

- Manufacturing output contracted by 15% during the recession. Not what was forecast initially...
- Twelve months our work with Deloitte highlighted a number of important issues facing manufacturing at that time.
- **Growth in export markets, skills and credit availability** were among the top priorities for the manufacturing sector and could help trigger a mini-renaissance.
- This could help the UK rebalance its economy and export its way out of recession: **BUT** we argued what was also needed was a much more supportive economic policy framework
- **What actually happened over 2008 – 2010 ?**

Recent regional economic trends

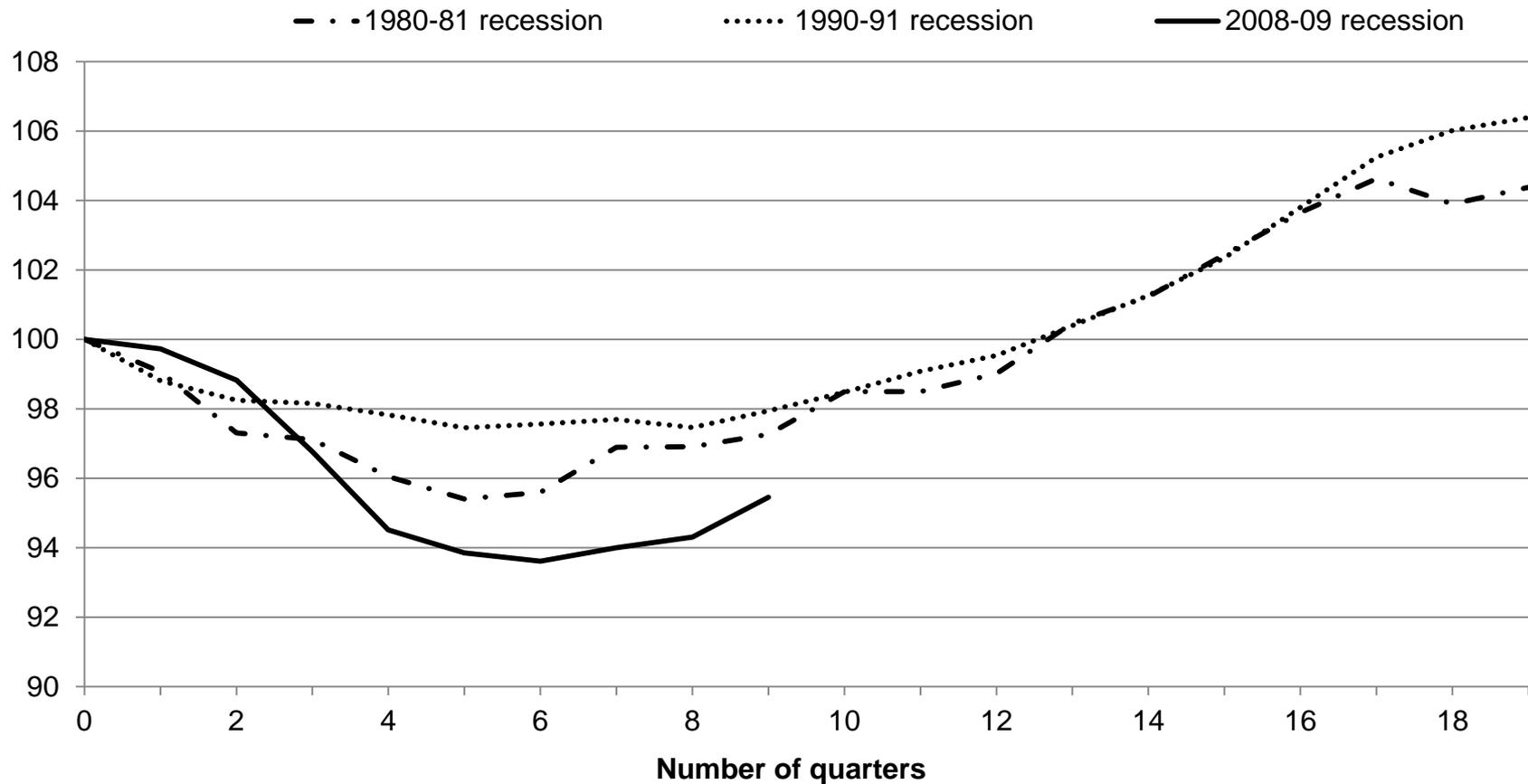
Source: Forrest Research

West Midlands Output Performance

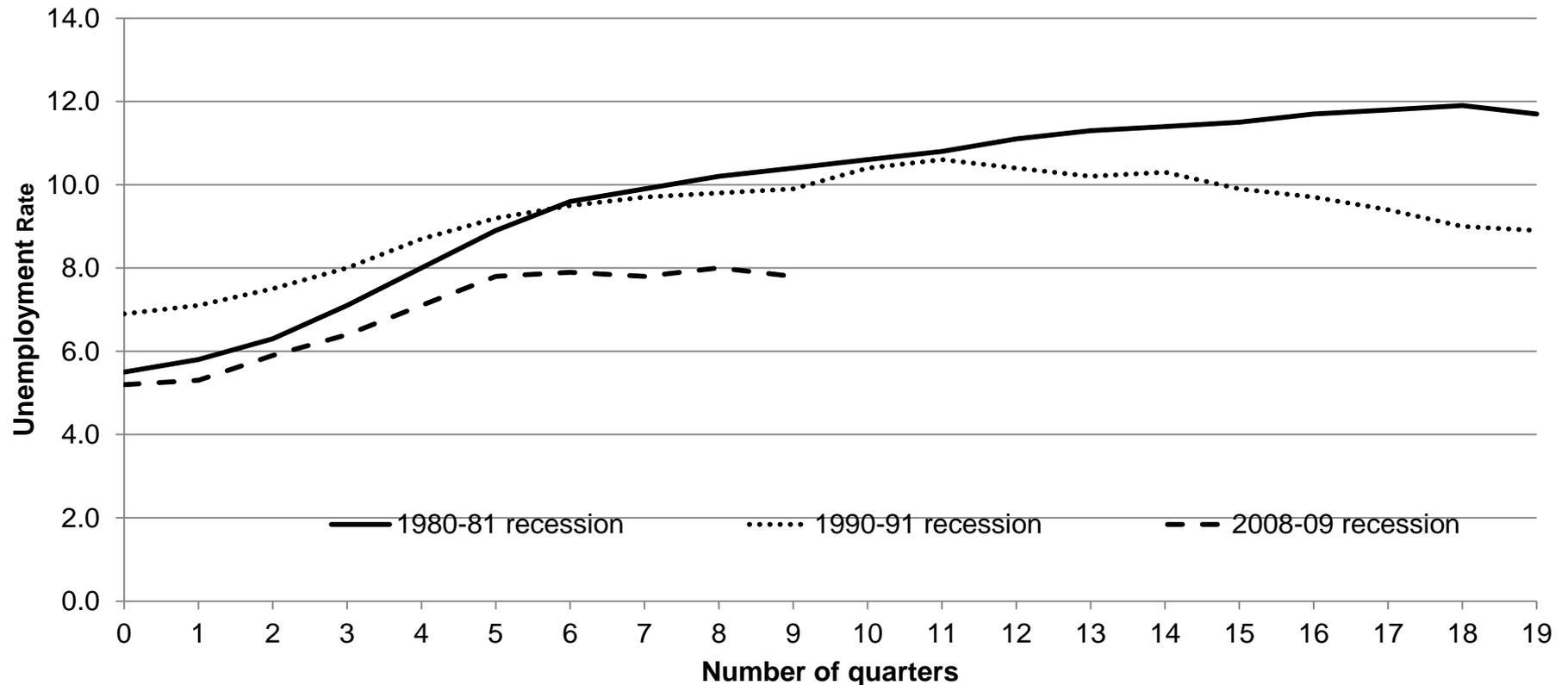


Output falls in the last 3 recessions

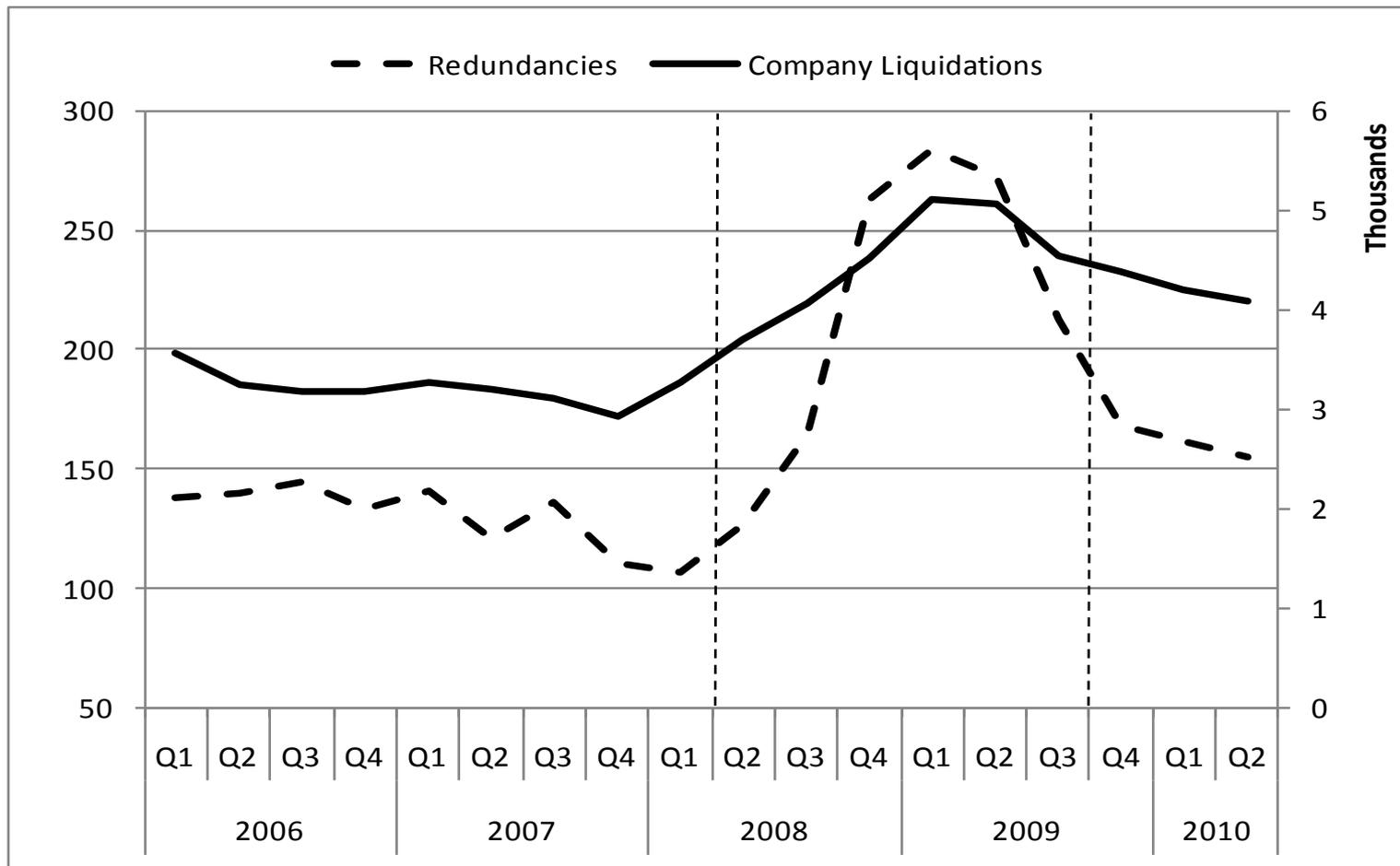
GDP Index



Unemployment rises in the last 3 recessions



Redundancies and Company Liquidations 2006-2010



What Happened?

- **Official statistics?**
- **Positive steps taken by last government, businesses and employees working together to minimise impacts.**
- **Labour market flexibility: firms retained skilled staff by cutting back on hours (part-time working), imposing wage freezes or cuts → ‘labour hoarding’.**
- **Productivity: fall of 2.4 per cent over 2008 and 2009 (output per hour worked); also influenced by a bigger fall in business investment than earlier recessions – linked to credit crunch?**
- **Credit crunch also explains depth of the recession, and the relatively slow pace of recovery in productivity following the end of the recessionary period.**

Firms' Strategic Responses to Recession

- Revenue generation; cost reduction; or asset reduction.
- Cost control BUT manifested differently to past recessions:
- **Labour hoarding, pay freezes, limits on overtime, short-time working, recruitment freezes**, banking of hours, pay cuts, reduced shift-patterns, more flexible working, and use of fixed-term, temporary and agency staff, tele/remote working where possible.
- SMEs: enhanced revenue generating activities.

Why were firms more resilient in *this* recession?

- **A supportive macro-economic environment, including depreciation of sterling.**
- **The relative health of UK firms prior to the downturn.**
- **The inherent flexibility of the UK labour market.**
- **The collective approach to addressing the impacts of recession taken by government, businesses, unions and employees.**

Manufacturing last year - 2010

- Various reports: manufacturing sector has delivered the goods, has exported its way out of trouble, and helped rebalanced the economy.
- Manufacturing growth in 2010: **3.7%**. Some regions: two-speed recovery.
- But: from a very low base. Restocking – **not going to last forever.**
- Sterling depreciation; export growth but not as much as hoped for. **Why?**

Manufacturing in 2010

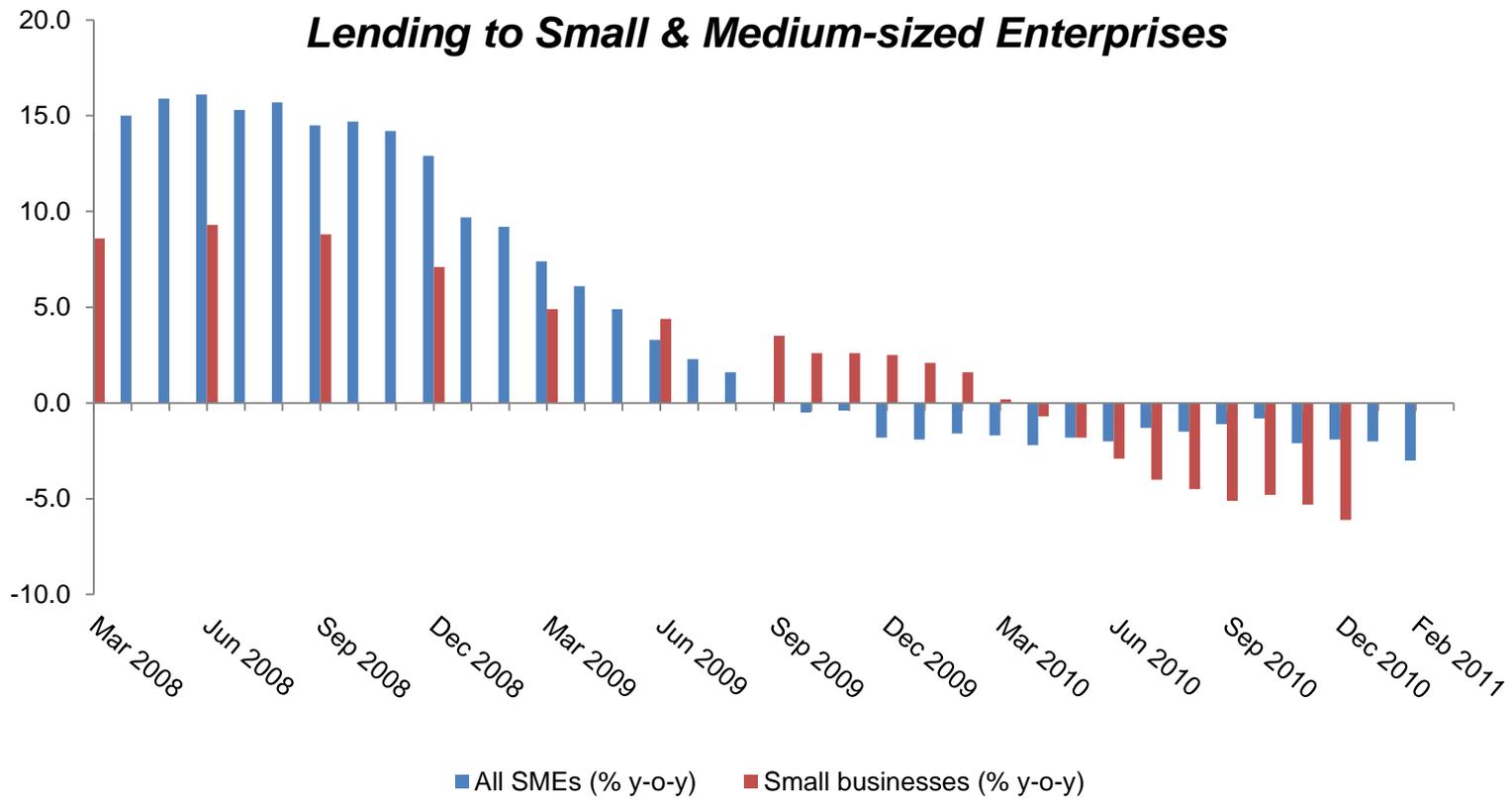
- **A more competitive manufacturing sector expanded output and took on new workers at an earlier stage of the recovery.**
- **Rapid bounce back until early 2011: around a half of the manufacturing output fall had been recovered.**
- **Confidence? PMI held up above 50. But real fears now of a slowdown.**

2011 and Beyond?

- **Manufacturing growth: running out of steam?**
- **UK: consumer confidence, squeeze in real incomes.**
- **Externally: growth in the US and the World economy?**
- **Volatility in the Eurozone – our major export market. Can exports be sustained? Need for an export push to new emerging markets further afield.**
- **AND will sterling remain low? Or appreciate against the euro as further weaknesses in Eurozone play out?**
- **AND: How will the fiscal cuts impact on the economy? Monetary policy?**
- **Cuts in support for business – RDAs. LEPs? Enterprise Zones?**

Spare Capacity?

- **Spare capacity so manufacturers able to increase output rather than prices, but for how long?**
- **How much capacity was lost or will be lost for good? If capacity loss significant then capacity limit will be hit sooner rather than later.**
- **At that point prices go up unless there is longer-term investment in capacity and productivity growth: getting the banks to lend to firms is key.**
- **Risk that prolonged weak demand will make temporary losses in output structural and permanent.**
- **GROWTH and INVESTMENT is critical (BCRS Report)**



Need for future flexibility...

- **Mucking-in' by all stakeholders.**
- **Consumer goods manufacturers: high-value end of the market – prestige autos or even whisky producers in Scotland.**
- **UK Manufacturing plc also does well in certain manufacturing sectors that are anyway more cyclical.**
- **Cycles at the luxury-end of manufacturing are generally more pronounced - high 'income elasticity of demand'**
- **Need to do more to support such highly cyclical industries during the 'downs': put a floor under capacity + retain the skills base.**
- **Contrast with Germany for example.**

If really want to rebalance the economy...

- Industrial Policy targeted at manufacturing
- Capital allowances
- Focus corporation tax cuts for manufacturing firms that increase output
- National insurance holidays for firms that take on workers
- Better R&D tax credits
- Better support for exporters (later this week?)
- Automotive / manufacturing loan fund?

Broader Economic Issues

- **Level of demand in the UK economy: impact of fiscal tightening.**
- **‘Balance Sheet’ recession? Japanese experience.**
- **Money Supply – M4 falling – need for more ‘QE’? Don’t rule it out in 2012...**
- **Bank lending and investment**
- **The level of sterling.**
- **Supporting exporters in new markets.**
- **Training and education for an increasingly high-skill and high-tech industry needs.**
- **Industrial Policy? Despite the language of localism, being re-centralised.**

West Midlands: Long Term Poor Performance

- **long-term underinvestment in infrastructure**
- **an ongoing process of deindustrialisation and a wider economic structure reliant on low growth sectors**
- **a relatively poor business and employment performance in the private sector**
- **a relatively poor education and skills record**
- **relatively poor performance in developing ‘knowledge economy’ sectors and in R&D spend**
- **pockets of high levels of unemployment and worklessness**



Thanks for listening!

David.Bailey@coventry.ac.uk