West Midlands
Monthly Monitor

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November 2019

UNIVERSITY OF BIRMINGHAM | BIRMINGHAM BUSINESS SCHOOL

Overview

Welcome to the November edition of the West Midlands Economic Monitor. The purpose of this document is to provide an overview of regional data which has been released in the previous month, as well as highlight significant announcements impacting on the West Midlands. Please find below an overview of key developments. Please find below a summary of developments.

Oct

50.6

Headline West Midlands business activity—accounting for services and manufacturing—has risen to 50.6, the second highest in the country, behind London.

The West Midlands was one of the four regions with GDP growth above the UK level from 2018 Q1 to 2019 Q1 at 2.3% compared to UK average of 2.2% .

In the year ending June 2019, the employment rate in the WMCA (3-LEP area) was 71.7% (1,848,300 people) compared to 75.5% for the UK overall.

Research shows that up to 70% of Wholesale & Retail industry businesses in the WM sell goods to (non-UK) EU nations, compared 22% for the services sector as a whole

Recently released data shows that in 2019 the West Midlands area exported £16.6bn worth of goods across the world and imported £15.3bn, leading to a trade surplus of £1.3bn.

New data shows that in August the WMCA area had 3,976 households who had their Housing Benefit capped, a decrease of 27.8% (- 1,528 households) from August 2018 compared to a 25.3% decrease for Great Britain.

Infrastructure and Transport

This month plans for the [new Perry Barr station were released](), showcasing the ambition of Transport for West Midlands (TfWM) to transform the area into an integrated transport interchange, with new a new station, a new bus stop, and enhanced pedestrian access.

The proposals mean that Perry Barr's existing railway station will be replaced with a new landmark station;

Perry Barr's existing railway station will be replaced by a new landmark station near the One Stop shopping centre; and the bus interchange that currently sits in front of the One Stop will be enhanced to improve passenger experience, accessibility and relieve congestion.

Also, the plans detail how a landscaped public realm will enhance the railway station entrance, assisting passenger accessibility.

Perry Barr is set to see significant changes over the coming years in preparation for the Commonwealth Games, with more than £500m of housing, transport, and wider community investment.

In other transport news, [the Times]() recently reported on a supposed leak of the Oakervee review into HS2, with suggestions that the review has concluded that the project should go ahead in its entirety.

The Times reports that the report recommends construction of the full Y-shaped line, which would create two lines north of Birmingham: one to Manchester and the other to Leeds. After the lines would join the west and east coast main lines.

The West Midlands is set to benefit significantly from the arrival of HS2, with investment and businesses already reporting their interest in the region being heavily linked to the arrival of HS2.

Clarification of its full-delivery is likely to go some way to alleviating businesses uncertain about the project, especially around investment decisions.

AN ARTIST'S IMPRESSION

Skills, Employment and People

The employment rate has increased and the unemployment rate has fallen in the West Midlands. For the three months ending in September 2019, the West Midlands region employment rate (aged 16 – 64 years) was 75.1% while the UK was 76.0%.

Most notably from April to June 2019, the employment rate has increased by 0.7pp - the largest increase in employment rates of all UK regions. For the three months ending September 2019 the highest employments rates was in the South West (81.0%) and the lowest was in the North East (71.2%).

For the West Midlands the employment rate is at a record high.

The West Midlands region employment rate for July to September 2019 was 75.1%, while the UK was 76.0%, seeing a closure of the gap between the WM rate and the national average.

Additionally, The West Midlands region unemployment rate for July to September 2019 was 4.1%. This was the third largest decrease in the UK (-0.5pp), whilst the average unemployment rate in the UK was 3.8% which decreased by 0.1pp since the previous quarter.

This means that the West Midlands had 2,987,847 workforce jobs in June 2019, which is an increase of 26,559 from March 2019. Comparatively, between June 2019 to June 2018, there has been an increase of 16,174 workforce jobs.

Further data shows the WMCA area had 111,725 adult claimants in October 2019, accounting for 4.3% of the population. Compared to October 2018, claimants have increased by 24,095 people.

This data may seem contradictory, but the rise in claimant number is a result of the introduction of universal credit across the region, replacing different benefits and amalgamating them into claimant scheme.

Similarly, the WMCA area has saw households who had their Housing Benefit capped at August 2019 substantially decrease compared to August 2018.

The data from DWP, reveals that there were 3,976 households who had their Housing Benefit capped at August in the WMCA area. This is a decrease of 27.8% (- 1,528 households) from August 2018, whilst the decrease for Great Britain was 25.3%.

Since May 2019 the rate has decreased by 12.8% (-586 households), compared to a GB decrease of 13.2%.

All the local authorities within the WMCA area experienced a decrease in the number of households that had their Housing Benefit being capped between August 2018 to August 2019.

It is important to note that whilst reductions vary within the different local authority areas, Birmingham saw decrease of 647 households (-26.8%) to a total of 1,764 households, compared to minus 9 (-16.7%) in Lichfield (to 45 households).

Additionally, between April 2013 and August 2019, the WMCA area had 17,011 households that had Housing Benefit capped.

Further data on Universal Credit shows that the WMCA area had 2,400 household with capped UC at August 2019. Dudley, Sandwell, and Wolverhampton and Coventry, all had increases above 50%.

Business Sentiment

Research carried out monthly by Greater Birmingham Chamber of Commerce has shown there was no significant variance in average Brexit preparedness between those businesses completing the survey each month between June and October 2019.

Specifically services sector firms, (wholesale and retail industry firms) are significantly more exposed to the trade-related risks aspects of a no-deal Brexit than the average for the sector. As expected, a higher proportion of professional, scientific and technical industry firms report employing staff with professional qualifications.

In the same sample, a higher proportion of wholesale and retail industry businesses report having conducted necessary key steps to prepare for Brexit, especially when compared to the average for the services sector or all businesses.

The report reveals that 33% of wholesale and retail industry and manufacturing sector businesses report having increased their stock holdings in relation to Brexit.

Alongside the Brexit Business Healthcheck, GBCC conduct a West Midlands Quarterly Economic Snapshot, and for Q3 2019 the data shows there is a clear correlation between heightened uncertainty surrounding key Brexit deadlines—whether 29th March and 31st October - and notable declines in growth sentiment for the manufacturing sector, especially surrounding domestic and export sales.

Similarly, the business confidence in future profitability has weakened for all firms since data compiled in Q1 2018, and is most notable from the period preceding the March Brexit deadline (Q1 2019) onwards.

This again supports the notion that deadlines of EU withdrawal that are not being met are causing further uncertainty, weakening growth and business confidence.

Research by Knight Frank supports the sentiment that businesses are facing uncertainty that is impeding growth.

Their latest data shows a sharp drop in average deal size as UK institutional buyers abstain from deals, vendors wait for the business climate to change, and overseas buyers wait for new opportunities to reach the market—a result of the recent large volume of Birmingham office development.

Deals that have taken place in Q3 include Bank House, purchased by Longmead Capital for £19.1M, a net initial yield of 5.97%. 120 Edmund St. sold to Credit Suisse for £52M, a net initial yield of 5.75%.

Similarly, Topland Group completed the purchase of 60 Church St. from Catalyst Capital for £16.8, a net initial yield of 6.81%.

The average lot sizes are down from around £100M to closer to £60M, the report has said.

Whilst many domestic vendors are waiting for the market to positively shift, there are £100M of assets under offer or close to agreement. Knight Frank reports that they are aware of £500million worth of tradeable stocks in Birmingham that is currently ‘waiting in the wings’.

Kinght Frank’s message is that dormant investment will be released into the market and investment will pick up once the political confusion dissipates.

Additionally, Knight Frank expects a number of transactions to exchange in Q4 2019 and the resulting take-up will push the final close to 1m sq ft by the end of the year.

Deals conducting in Q3 bumps the total take-up in 2019 to 675,172 sq ft.

Business Environment

[PMI survey data](#) has shown that output across the West Midlands is rising for the first time in five months, with improved business confidence. The reported increase in output was marginal with the sustained decline in activity resulting in job losses. Alongside this price pressures have also subdued, whist charges for goods and services have not experienced a notable rise from the month previous.

The headline business activity index—which is a seasonally adjusted index that measures changes in the output of both services and manufacturing—has risen, registering at 50.6 in October. This is up from September's 47.3.

This reading was the second largest recorded across the country, behind London's reading of 57.7. The increase indicates growth in business output for the region. It must be noted that it is only a marginal overall registered growth rate.

Whilst output has slightly increased, there is an ongoing decline in underlying demand for the goods and services from the West Midlands, with inflows of new work entering its second month of decline. Breaking down the data by sector reveals that—again—manufacturing remains the weakest sector performer in the region.

Business outlook however, has shown a substantial increase , reaching a three month high.

[Dis-aggregated data](#) shows the West Midlands (7 met) area sustained a healthy trade surplus in 2018. In 2018 the region exported £16.6bn worth of goods across the world and imported 15.3bn, leading to a trade surplus of 1.3bn.

The West Midlands 7 has a trade surplus with 53 countries, the highest trade surplus was with the USA at +£2.9bn where £3.8bn worth of goods exported to the USA and £0.9bn imported from the USA – the largest trade surplus than any other NUTS 2 region.

The Trade by Standard International Trade Classification (SITC) section of the data reveals that the WM region has a trade surplus in machinery and transport equipment of £6.1bn.

GDP data has shown that the West Midlands was one of the four regions with GDP growth above the UK level from 2018 Q1 to 2019 at 2.3% (2.2% UK). London had the highest GDP growth with 4.2%.

The West Midlands had the second highest growth in Q4 2018, at 0.6%, double the UK average growth rate of 0.3%.

The data also shows that in Q1 2019, the construction sector increased by 4.5% (+0.28PP to GDP growth) whilst the service sector grew by 0.54pp, with decreases in agriculture of –0.04pp and –.0.36pp for production.

Redevelopment and Investment

Birmingham City Council has given the green light to the Jewellery Quarter's 'most ambitious' redevelopment project to date.

In approving the project, Birmingham City Council praised the project's architectural integrity and the permeability in opening up this gateway site.

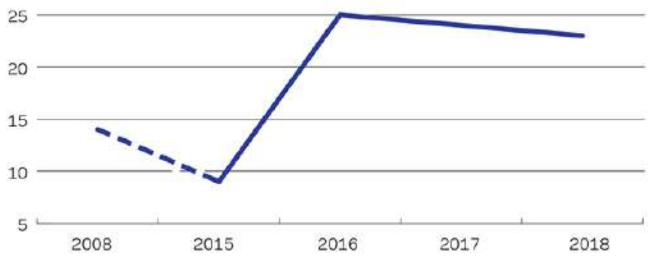
The project combines listed and new buildings, using an architectural style that is in keeping with the current listed buildings, respectful of the Jewellery Quarter's historic surroundings.

The project is a joint venture between Galliard Homes and Aspley House Capital, and will create over 300 apartments and 100,00 sq. ft. of commercial space.

It is one of the largest projects with planning permission granted within a conservation area in Birmingham and provides a mixed-use scheme, with spaces reserved for small businesses, retail, leisure and housing.

The Deloitte survey of cranes shows that the Birmingham construction sector is continuing its strong trend, with activity in construction market at its highest level since 2008.

There were 23 new schemes in 2018, only one fewer than in 2017, but above the long-term average for Birmingham.



Number of new scheme starts in Birmingham. Source: Deloitte Crane Survey

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