West Midlands
Monthly Monitor

CITY
REDI

December 2019

UNIVERSITY OF BIRMINGHAM | BIRMINGHAM BUSINESS SCHOOL

Overview

Welcome to the December 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.

Headline West Midlands business activity—accounting for services and manufacturing—has fallen to 49.4, returning to contraction

In 2018/19 there were 1,960 additional affordable rented dwellings completed,

In 2018/19 there were 31,740 apprenticeship starts across the WMCA area, which is an increase of 8.7% or 2,540 in absolute numbers from 2017/18.

In 2018 There were 170,475 active enterprises in the WMCA in 2018 an increase of 3.3% above the UK average growth of 0.5%

The WMCA has the second highest percentage of people who work satisfactory hours at 82.9% across all city regions, this is above the UK average of 80.3% in 2018.

The WMCA (3 LEP) total GVA has increased from £101bn in 2017 to £105.1bn in 2018. This equates to a 4.0% increase which is above the UK average growth of 3.4%.

End of Year Review

As we near the end of the year and thoughts drift to mince-pies and panic Christmas-shopping, I thought it would be appropriate to review noticeable developments throughout the year that have featured in the WM monitor.

Before that, I would like to take this opportunity to thank you, the reader, for using the monthly monitor as a reference in order to note economic developments, stats and data throughout the region.

I am constantly reminded of the impact of the WM Economic Monitor, whether that be as a supporting document for use in board meetings with various City-REDI partners, or as a respected go-to source for the general public.

Throughout the noise, it is vital that public policy is always grounded in evidence, and the monitor goes someway and plays some part—however small—in ensuring that regional economic data is readily available to policy-makers each month.

Over the past few months that data has often told contradictory and conflicting stories. Since the UK failed to withdraw form the EU on March 29th, headline business activity data has fluctuated between contraction or settled barely above growth.

Whilst this would indicate that business growth is weakening—and the evidence seems to indicate that—it is not the whole story. At times, and despite weakening PMI, businesses in the West Midlands have reported as some of the most confident and optimistic in the country.

It is difficult to tease out reasons for contraction; a cause of weakening demand for goods due to an on-going global-growth slowdown; or business uncertainty related to Brexit. Regardless, the data points to one thing: the fundamentals of the West Midlands economy remain resilient.

This region is defying expectations.

The West Midlands grew faster than the UK average from Q1 2018 to Q1 2019. Unemployment is falling faster than most other regions in the UK and the employment rate is at a record high. The region is also maintaining a healthy trade surplus of £1.3bn. Public investment in transport infrastructure is fuelling private-sector confidence with the construction market at its highest level since the financial crash.

It may indeed be these reasons that are giving regional businesses confidence, despite the political uncertainty that appears to be weighing down investment.

That is not to say there are challenges. The region remains an unequal and imbalanced economy, with Birmingham GVA less than neighbouring Warwickshire. This is despite the city's GVA growth outpacing any other city except London in 2018.

Next year will bring substantial challenges and opportunities. The nation has decided its future in a general election and with a Conservative majority, Britain will be leaving the EU at the end of January.

The team at City-REDI will be diligent in monitoring developments and trends in the months to come and continue to inform policy-makers of what economic indicators are informing us via the monthly West Midlands Economic Monitor.

Finally, I would like to wish you and your loved ones a peaceful and happy Christmas.

Ben Brittain

Infrastructure and Transport

The availability of affordable housing in the West Midlands has seen a substantial increase in the past year.

In 2018/19 there were 1,960 additional affordable rented dwellings completed, an increase of 13.8% (+238). This is above the English average of 8.0% increase.

In the WM 7 met area there was a decrease of additional affordable rented dwellings, from 1,242 2017/18 to 1,122 in 2018/19 (-9.7%).

However, in the WMCA area there were 3,822 additional affordable dwellings completed in 2018/19, an increase of 10.2% (+353) from 2017/18. Over the same period England increased by 22.0%.

For the WM 7 Met. area there has been a decrease from 1,881 additional affordable dwellings completed in 2017/18 to 1,793 in 2018/19 (-4.7%).

For the WMCA area 51.3% (1,960) of the total additional affordable dwellings that were completed are for affordable rent.

This is followed by 22.9% (877) that are social rented dwellings. 22.1% (845) are for shared ownership dwelling, with 2.2% (85) for home ownership dwellings and 1.4% (55) are for intermediate rent.

Birmingham Municipal Housing Trust development in Bartley Green . Source: BM3 Architecture

In transport news, Avanti West Coast have officially taken over the franchise from Virgin Trains on the popular West Coast rail line, which runs from Glasgow Central to London Euston, via Birmingham New Street.

The first train on the West Coast Main Line, under its new operator, left Glasgow Central Station at 8:25am on the morning of December 8th. The new operator is a partnership between Aberdeen-based FirstGroup and Italian state operator, Trenitalia.

CGI of what the Hitachi 'bullet trains will look like. Source: Hitachi PA Wire

The most recent figures show that between July and September 78% of Virgin Trains on the line arrived at their final destination within 10 minutes of the timetable., a target Avanti is vowing to beat.

The transfer of operators on the line will result in no job losses, as all of the Virgin staff, including the senior management, are transferring over to Avanti, or Italian-based Trenitalia.

Avanti is promising to significantly improve the Pendolinos, previously operated by Virgin Trains, with £117 million reserved for their refurbishment and plans to replace Super Voyagers with new Japanese-built Hitachi bullet trains.

The revamped Pendolinos will have 25,000 new seats, more reliable Wi-Fi and improved catering, with refurbished rolling-stock operating by autumn 2020..

Skills, Employment and People

The number of apprenticeships in the region has risen markedly in the previous year.

In 2018/19 there were 31,740 apprenticeship starts across the WMCA area, which is an increase of 8.7% or 2,540 in absolute numbers from 2017/18.

Compared to the national figures, the number of apprenticeships increased by 17,580 from 375,800 in 2017/18 to 393,380 in 2018/19 – an increase of 4.7%.

The WMCA geography is outperforming the national average growth rate of the availability of apprenticeships for young people.

Apprenticeship starts increased in each of the three LEP areas are as follows: Black Country LEP grew by 9.5%, Coventry and Warwickshire LEP by 4.6% and Greater Birmingham and Solihull LEP grew by 10.0%.

Whilst there has been a noticeable overall increase, the number of apprenticeship starts at Intermediate Level decreased by 8.0% across the WMCA three area. This is not reserved for the West Midlands, as it reflects the national decline, which saw intermediate level apprenticeships fell by 11.0%.

Advanced Level apprenticeships across the WMCA increased by 10.3% compared to the national increase of 5.1%.

Higher Apprenticeships across the WMCA increased by 60.7% compared to 55.7% nationally.

There was a similar pattern recorded across the 7 Met. area, with Intermediate Level starts decreasing by 7.4% and Advanced and Higher Level starts increasing by 12.0% and 66.9% respectively.

Experimental data by ONS has revealed that the WMCA geography has the second highest percentage of people who work satisfactory hours.

Satisfactory hours are defined as employees who work 48 or fewer hours a week. It also takes in to consideration that employees do not wish to work more hours in their current role and not are not looking for an additional or replacement job that offers more hours.

The measure of job quality looks at hours and pay as measures of quality. It should be cautioned that the being experimental data the findings are subject to change.

Nevertheless, given this measure and current methodology, the WMCA has the second highest percentage of people who work satisfactory hours at 82.9% across all city regions, this is above the UK average of 80.3% in 2018.

In the WMCA there were 6.8% of people in low pay – matching the UK average.

Using two-thirds of the UK median pay to define the threshold of satisfactory pay, the WMCA was the third highest for residents in quality work at 74%.

Looking a the trend among the data reveals that Between 2014 and 2018, employees' satisfaction with the number of hours they work improved slightly across city regions. Specifically for the West Midlands, the region had significant improvement from 78.5% in 2014 to 83.2% in 2018

The only city-region to beat the WMCA area Liverpool City Region Combined Authroity, which had the highest percentage of people working satisfactory hours, with 83.2%. In contrast, in Aberdeen City region there were 77.6% who worked satisfactory hours followed by Greater London Authority with 77.9%.

Business Sentiment

The manufacturing sector in the West Midlands has on average reported being more prepared for Brexit compared to all other businesses and sectors. That's according to the final Brexit Health Check, conducted by Greater Chambers of Commerce.

This may suggest that manufacturing firms in the region are more active in their Brexit preparedness, especially when compared to other sectors.

The strength of preparedness was most notable in the trade related aspects of Brexit, with manufacturers scoring 3.3. on the Brexit Readiness Index compared to 2.5 for services sector firms) and people and skills (where on average manufacturers scored 3 and services sector firms scored 2.5).

Additional findings form the survey report, are that in the weeks immediately preceding the 31st October deadline, 39% of respondents had not yet completed a Brexit risk assessment for their organisation.

Before the 31st October deadline was missed, the government was pushing a Brexit preparedness campaign.

This survey found that since then the majority of participants - (56%) - reported feeling "somewhat prepared" for Brexit.

The majority of businesses did not report positively on the government's Brexit preparedness campaign.

Only 22% of respondents "somewhat" or "strongly" agreed that official Government guidance (gov.uk/Brexit) met their businesses' needs.

The majority of business—32% - "somewhat" or "strongly" disagreed that it met their business needs.

N-Power is to undergo a restructure, announcing its intention to axe 4,500 staff across the UK, with 600 at-risk in the West Midlands.

The company has a call centre in Oldbury, West Midlands, which formerly employs 450 people. It also has bases in Solihull - where 1,300 people work - and Worcester, which is the base for 600 staff.

Since the introduction of the energy price cap the company has had reduced its expected adjusted operating profit to £1.4 billion, down from £1.9 billion in previous forecasts.

This did incorporate aa £85 million reduction in its retail business, which includes Npower, recently sold to Eon.

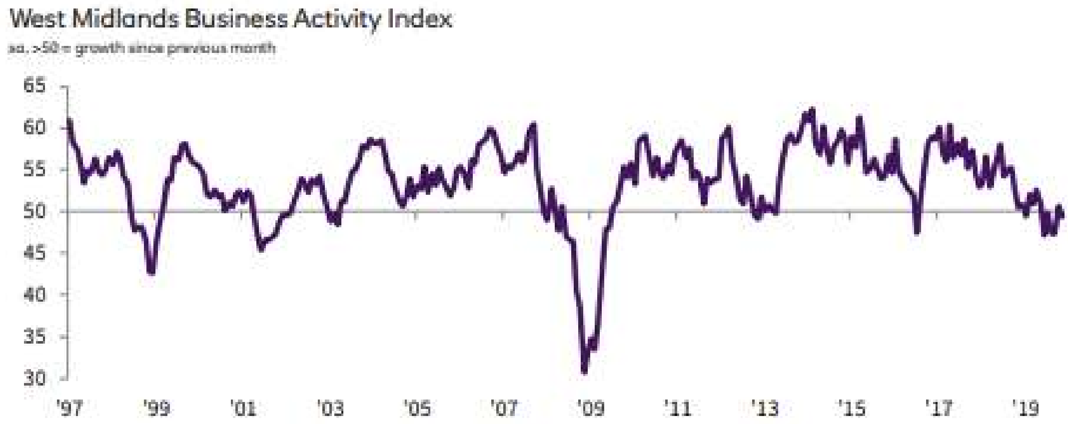
GVA

Growth figures in 2018 have revealed the region grew faster than the UK average. GVA and GDP figures vary due to GVA being a value generated by any unit engaged in production and the contributions of individual sectors or industries to gross domestic product while GDP measures the value of goods and services produced in the UK.

The WMCA region total GVA increased from £101bn in 2017 to £105.1bn in 2018. This equates to a 4.0% increase which is above the UK average growth of 3.4%. The WMCA GVA per head has increased from £24,382 in 2017 to £25,183 in 2018. This equates to a 3.3% increase which is above the UK average growth of 2.7%. However, there is a shortfall of £3,545 to the UK average (£28,729).

In GDP terms, the WMCA GDP total at current market prices in 2018 was £116.8bn, an increase of 4.0% (4.5bn) from 2017. The UK increased by 3.1% over the same period, outpacing national growth rates.

Business Environment



Business activity in the West Midlands returned to contraction in November after a brief period of minimum growth.

According to the latest PMI data, new orders continued their falling trend, albeit not at a sharper rate than previously recorded.

Again, business sentiment continued its upward trend, continuing to improve, now for the third time running. Inflation input cost settled to a 41 month low, but this was outweighed by firms raising their prices at a faster pace.

The headline West Midlands Business Activity Index – a seasonally adjusted index that measures changes in the output of the region's manufacturing and service sectors – dropped back below the 50.0 no-change mark in November, signalling a reduction in business activity in the region's private sector.

Compared 50.6 in October, the current headline figure of 49.4, reading signalled a slight fall in activity.
This is the fifth figure recorded below 50 out of the past 6 months.

The number of enterprises in the West Midlands has risen.

There were 170,475 active enterprises in the WMCA in 2018, this is an increase of 3.3% (+5,430 enterprises) – above the UK average growth of 0.5%. In the WMCA there were 24,640 enterprise births in 2018. This is an increase of 1.7% (+410) since 2017, while the UK experienced a decrease of 0.3%.

In addition to this, the West Midlands Combined Authority recently conducted an economic snapshot, which offers an up to date picture of the performance of the business via survey. The results showed ·

- Of those firms that attempted to hire staff, 52% of businesses faced recruitment difficulties – a 5% decrease compared to Q2
- 32% of businesses in both sectors combined expect the cost of their goods and services to go up over the next three months
- 16% of firms in both sectors combined reported a decrease in export sales – the highest figure on record since reporting began in Q1 2018
- Just over half of the respondents (53%) expect their profits to increase over the next 12 months a 2% rise compared to Q2

Redevelopment and Investment

Birmingham's largest residential tower has been approved by Birmingham City Council , despite initial objections by Birmingham Airport, due its height.

Initial objections, which were reported on in the WM Economic Monitor, were about how its height could disrupt flight paths. This decision was thus deferred by planning committee.

The airport recently removed its objection while council planning officers said the additional detail had provided more 'comfort' around the design and financial viability of the proposal.. This allowed council officers to suggest councillors approve the development.

The proposal to build Birmingham's tallest skyscraper at 51 storeys will cost £160m. And the tower—called One Eastside—will deliver 667-apartments on the corner of Jennens Road and James Watt Queensway.

One Eastside will also feature a gym, yoga room, cinema room as well as a rooftop 'Sky Lounge' bar and restaurant. It is set to be taller than the BT Tower.

There has been concerns about developments such as One Eastside and the small proportion of affordable housing they pertain. One Eastside will only reserve 3% of its dwellings to affordable housing

In encouraging news for developers, new research has revealed Birmingham as the council area with the most opportunities for regeneration for investment in empty residential and commercial properties.

Research conducted by fibre broadband company Glide revealed that Birmingham has 8,086 residential properties and 7,622 commercial buildings in the city and surrounding suburban sprawl were empty.

Second is Liverpool, where 15,339 buildings are currently not occupied by tenants or commercial businesses.

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