UNIVERSITY OF BIRMINGHAM | BIRMINGHAM BUSINESS SCHOOL

West Midlands Monthly Monitor

CITY REDI | WM REDI

March 2020

Infrastructure and Transport

There were several wins for the West Midlands and the wider region in the Chancellor's budget. Firstly, the commitment to the Midlands Rail Hub, a £2 billion rail plan to improve east-west rail connectivity, and capitalise on HS2, will provide a productivity boost via a greater and enlarged labour force. It will bring the poorly connected East Midlands into the sphere of Birmingham and the wider West Midlands. The director of City-REDI and myself have previously called for the Government to support this when the plans were first revealed.

The commitment to Midlands Rail hub is part of a wider national commitment to grow capital expenditure on infrastructure to £600 billion over the lifetime of the parliament. The Midlands Rail Hub is forecast to cost 2bn, so it is possible that further commitments to regional transport projects could be committed further in the spending review.

The Chancellor announced the Govt's plan to build on the Transforming Cities Fund. The government is providing £4.2 billion from 2022-23 for five-year funding settlements for eight Mayoral Combined Authorities, including the West Midlands Combined Authority. The responsibility will fall to the elected mayors of each combined authority to submit local transport proposals that will receive funding from the Transforming Cities Fund.

Alongside that, the government is devolving over £160 million from the Local Growth Fund to the West Midlands Combined Authority to bring forward delivery of the Eastside Metro extension and phase one of the Sprint bus rapid transit network. 3 Sprint bus rapid transport networks are planned to be ready for the Commonwealth Games. The Eastside Metro Extension goes from Birmingham to Solihull through Sparkbrook and East Birmingham and is the infrastructure spine of plans to regenerate East Birmingham.

The budget has also allocated £21.3 million for the Birmingham 2022 Commonwealth Games Trade, Tourism, and Investment Programme, with the aim of maximising the opportunities to create a lasting economic legacy for Birmingham and the wider region from the upcoming commonwealth games.

In addition, the Chancellor revealed a £12bn multi-year settlement for affordable housing. The West Midlands has already performed well in the construction of new dwellings, building a net of dwellings of 16,615 in 2018-2019, an increase of 14.7% on the previous year. In Q3 the West Midlands (7 met) had 150 housing association dwelling starts, with 110 dwelling completions, compared to 1,060 private enterprise dwelling starts and 1,270 dwelling completions. Extra funding to increase the build-out-rate of affordable housing is needed in the region.

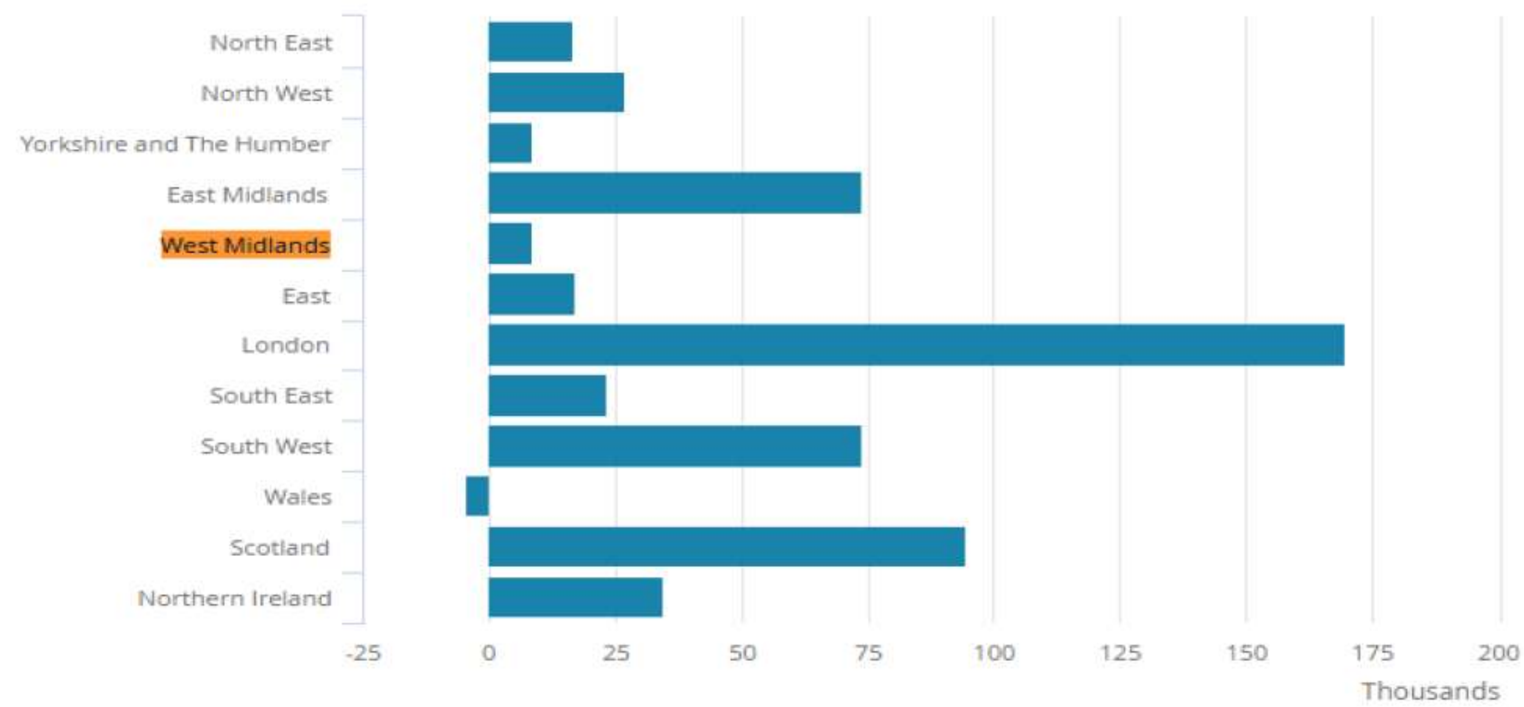
To complement this, the Budget launched a new £400 million brownfield fund for local authorities that put forward a brownfield-first policy, such as the current policy adopted by the West Midlands Combined Authority.

The aim is to create more homes by bringing more brownfield land into development, whilst the support budget document states: "The government will consider proposals from areas such as the West Midlands Combined Authority to expand their existing brownfield land fund."

Further details on the budget

Skills, employment and people

Change in workforce jobs, by UK region, seasonally adjusted, December 2018 and December 2019



Source: ONS – Workforce Jobs

In the West Midlands the employment rate for November 2019 to January 2020 was 75.2%, while the UK was 76.5%, remaining below the UK average.

From the previous quarter the West Midlands employment rate increased by 0.2pp, while the UK increased by 0.3pp. Compared to year ending January 2019, the West Midlands had the second highest increase in the employment rate by 1.3pp.

The West Midlands unemployment rate for November 2019 to January 2020 was 4.5% - no change since August to October 2019. The average unemployment rate in the UK was 3.9% which has increased by 0.2pp since the previous quarter.

The inactivity rate for November 2019 to January 2020 was 21.0%, while the UK was 20.4%, again under forming the UK average. However, from the previous quarter the West Midlands decreased by 0.4pp, matching the UK trend.

The West Midlands had 2,941,303 workforce jobs in December 2019, which is a decrease of 21,277 (-0.7%) from September 2019. However, compared to December 2018, there has been an increase of 8,484 (+0.3%) workforce jobs.

In term of claimants the WMCA area had 115,985 claimants (aged 16+) in February 2020 and this accounts for 4.5% of the population. Compared to February 2019, claimants have increased by 20,330 people.

There are 22,055 youth claimants in the WMCA area in February 2020, a 5.1% (+1,075 claimants) increase from January 2020. C

Compared to February 2019, the claimant count has increased by 23.2% (+4,160 claimants).

The WMCA area had 115,985 claimants in February 2020 and this accounts for 4.5% of the population. Compared to February 2019, claimants have increased by 20,330 people.

The West Midlands 7 Met. area had 97,770 claimants in February 2020 – accounting for 5.3% of the population. Compared to February 2019, claimants have increased by 16,180 people.

Business Sentiment

The ongoing novel coronavirus (COVID-19) pandemic is causing a historic economic fallout. It is very likely that a global recession is coming, meaning the debate has moved from not if one is going to happen to how deep the global recession will be.

Goldman Sachs predicts a weakening to 1.25%, which would not be as devastating as the 0.8% contraction in 2009, measured by the IMF. It would be worse that contraction that occurred in 2001 and the early 1990s. Investor confidence has fallen across Europe, not the epicentre of the global pandemic.

The UK isn't alone in announcing unprecedented economic measures to help mitigate the fallout. The Spanish government has announced € 100 billion of guarantees for business loans and another € 17 billion of direct aid. The UK has also announced the largest package of European nations, with £330 billion (€ 398 billion) worth of government-backed loans to support the hospitality, retail and airline sectors, currently most effected by the pandemic.

The economic impact of the pandemic could rewire further and more drastic measures in the coming weeks and months. Capital Economics has said that UK GDP could fall by 15% in Q2. This would mean the shock of the pandemic would be twice as severer as the financial crisis.

The optimistic belief is that such a shock would be shorter than the financial crisis and recover quickly. The ongoing potency and uncertain nature of the pandemic means few can make such claims with confidence.

The government's call for the labour force to work from home, where it cab, with have different impacts on different geographies across the UK.

The UK's proportion of sectors that can easily move to home-working is concentrated in London and the South-East, such as finance, or general consultancy.

For sectors in the West Midlands, with its second largest sector retail, taking a 16.7% share of sector, transition to home-working will be difficult, potentially exacerbating the spread of COVID-19 with further damage to the economy.

McKinsey reports that global supply chains are starting to recover from the initial impact due to many Chinese companies outside Hubei are back up to at least 90 percent production.

Goods movement has seen an uptick, now at 80 percent of what it was before the outbreak in Hubei. The Baltic Dry Index and the TAC index (global shipping indices) are also recovering, rising by 30 and 15 percent since early February respectively. This could change as most of Europe enters a sustained lockdown.

The last two weeks has seen growing reports of businesses seeing downturns including:

· Consumer businesses such as cinemas, tourism attractions, as the Government discourages public attendance of such venues
· Lower patronage across transport providers – airlines, buses with high fixed costs, with BA grounding most of its fleet
· Events, hospitality and conferencing locations seeing cancellations.

Lower confidence can affect business-to-business services such as design and advertising spend, especially for small businesses.

Alongside this, universities in the UK could face a cashflow issue in the hundreds of millions with fewer international students.

This week, JLR has reported a sales slump in China of 85%, and expects this slump to be reflected in other markets as they become hit by the outbreak.

Business Environment

[During February](https://) private sector output in the West Midlands continued to expand, building on the growth that began at the start of 2020 fowling the General Election.

Despite this, firms have had to weather rising cost inflationary pressures, leading to a solid uptick in output prices. Expectations of firms have weakened, but remained historically upbeat.

The headline West Midlands Business Activity Index – a seasonally adjusted index that measures changes in the combined output of the region's manufacturing and service sectors – fell slightly from 51.6 in January to 51.2 in February, to signal a moderate upturn in business activity. This is the second month of expanding output.

This higher output is attributable to an uptick in new business and the beginning of new contracts, whereas reduced travel and component shortages were marked as restrictions to on overall growth.

Alongside this, West Midland firms saw a third consecutive rise in new work in February.

It is worth noting that the rate of increase from January was reduced and only modest. The growth in this period was mainly driven by the services sector, with manufacturing demand falling further.

Current PMI data covers February and is subsequently delayed.

With ongoing global supply-chain disruption, substantially reduced domestic demand in the UK and Europe due to the pandemic, PMI figures and business confidence is expected to contract substantially.

Whilst current PMI figures show positive growth during February they are already out-of-date due the fast and potent nature of the global pandemic, particularly for an export focused region like the West Midlands.

Recent trade figures show that in 2019, the West Midlands Regional trade in goods exports was worth £31.6bn, decrease of 5.5% compared to 2018. The UK increased by 2.1% to reach an estimated £346.5bn.

In 2019, the West Midlands imported £36.4bn worth of goods, which has decreased by 3.7%. Compared to the UK, the region is underperforming as the UK increased its export by 0.3% to reach £483bn.

The West Midlands has a trade deficit of £4.8bn, whilst the UK as a whole has an overall trade deficit of £136.8bn.

Sources

Office for National Statistics. Regional Labour Market Statistics in the UK: 17th March 2020

NatWest PMI Survey West Midlands, February 2020

Source: HM Revenue & Customs, UK Regional Trade in Goods Statistics Quarter 4 2019 – Released 17th March 2020

This report was
written by

Ben Brittain
Policy and Data Analyst
B.Brittain@Bham.ac.uk

UNIVERSITY OF BIRMINGHAM | BIRMINGHAM BUSINESS SCHOOL

CITY REDI

WM REDI