

West Midlands: Quarterly Economic Review



**Birmingham
Patrons Club**

Spring 2013



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As a West Midlands MP I am keenly aware that most economic debate we have in the UK is held at a national level and there's a tendency to focus on a narrow set of figures from too few sources. This means that all too often we miss out on some of the regional and local nuances that are important to get a genuine picture of what is happening in our economy. The Birmingham Patrons Club's quarterly economic review, of which this is their second, is a welcome change to that trend.

In this second review we focus on the West Midlands manufacturing and export

strengths. Though we have our challenges we also have a good story to tell and we should be proud of our resilience, dynamism and resourcefulness in this region. We are continuing to increase exports not only to high valued economies like the US and Germany, but we are also making significant penetration in emerging markets in both Asia, the MENA region and Latin America. We are also seeing some improvement in the real growth rate in the region compared to the national average.

We know it has been a tough few years for all in industry, but some of the figures in this short report outline a more optimistic outlook than what we often see portrayed in the national media. What we in Westminster have been building however is a way to ensure that our government supports those who still want to produce, innovate and export and we are right to do so.

Lastly, it was with sadness that we note the passing of Baroness Thatcher last week. Her death is a timely reminder of how politicians can shape events, but only if they recognise the potential opportunities realistically available. In 1979 whilst she broke from the suffocating economic consensus, she was only able to reverse decline with her identification of the sectors that were able to respond to free market initiatives.

The economy is now in a completely different place, but once again decisive, credible action is required. Drawing on the lessons of the 1980s, we need to explore where the new impetus for economic growth is going to emerge. As the economy rebalances, will it be the sectors the West Midlands has evident strength in, namely manufacturing, logistics and business support services, such as law and accountancy?

- North Sea oil production constrains growth
- Firming local growth
- Local output performance easing
- New export market growth increasing
- Automotive & aerospace manufacturing key export drivers
- Manufacturing core provides platform for growth

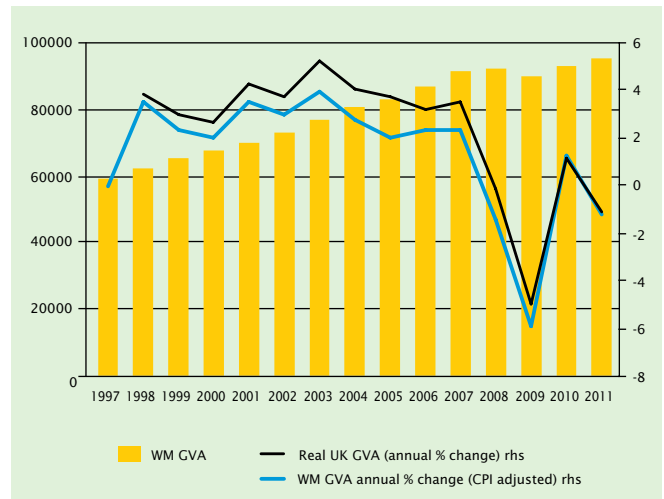
North Sea oil production constrains growth

With government policy focussed on deficit reduction, the Chancellor was limited in his ability to use fiscal tools in the Budget to facilitate stronger growth, rather he sought to stimulate business confidence in the private sector, through a range of administrative and supply-side reforms. In addition, a clear shift in monetary policy was signalled, with the new BoE Governor expected to move policy away from the narrow-focus on inflation targeting to one that encompasses broader economic factors, such as growth and employment, but nevertheless retains compression of price pressures as the cornerstone of macroeconomic strategy. The latest available data indicates real GDP growth of 0.3% was achieved last year, easing from the 1% recorded in 2011. Activity in the services sector expanded by 1.2%, whereas performance in both the manufacturing and construction sectors contracted by -1.5% and -8.1% respectively, following expansion in both sectors in the previous two years. It was however extended North Sea oil rig maintenance, causing the mining sector to contract by -10.7% over the year, that was the most significant drag on growth. This year, the OECD is projecting growth of 0.5% in the first quarter and 1.4% in the second, which would make the UK one of the stronger performers.

Firming local growth

Comprehending the economic prospects for the West Midlands is more complicated, given the structure of the local economy (Production 26%, Logistics 25%. Services 25% and Societal 24%) and the previous administration’s emphasis on service-sector led growth. While there has been some improvement in real growth rates in the West Midlands compared to that nationally, there is little evidence from official data of any step change in overall economic performance post-2009. While it is probable that local manufacturing growth in 2011 and 2012 may prove firmer, the significant depreciation of Sterling up to the end of 2012, and indeed the more accelerated depreciation since January this year, has yet to be reflected in more robust expansion of the production or export sectors overall.

West Midlands Economic Performance

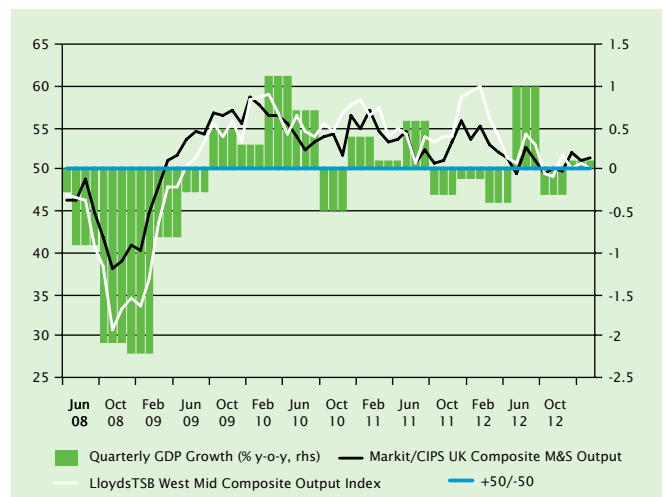


Source: ONS, IMF & WMEF

Local output performance easing

Furthermore, although the West Midlands responded more positively to the new economic conditions prevalent post-2009, the period from February last year into early 2013 has seen much weaker performance both nationally and locally. Most noticeably West Midlands activity, measured in terms of PMI data, has eased below that recorded nationally. This can be attributed to a number of factors domestically, such as constrained access to finance and the impact of structural rebalancing, however it is apparent that severe import compression in the region’s principal export market, the EU, was a significant factor contributing to the deterioration in performance. More positively, demand in the West Midlands key non-EU exports markets has strengthened, most notably to North America, China and Russia.

West Midlands Output Performance

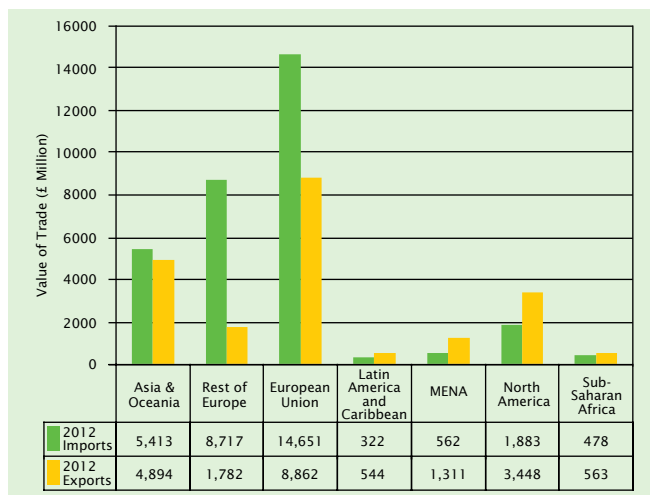


Source: WMEF, Markit & ONS

New export market growth increasing

Determining the international competitiveness of the West Midlands is complicated by a number of factors. Firstly, as a sub-national economy there is difficulty in calculating actual exports, as these are recorded only when goods or services cross a border. There is considerable intra-regional leakage in the data, reflected by the fact that HMRC usually cannot allocate a point of origin for close to a fifth of all exports. Secondly, the structure of global supply chains ensures that any final product, a car or aeroplane or printer, can comprise thousands of components, many of which may have been exported and re-exported a number of times. As a result, official trade data which is reported in gross terms does not capture the overall net export position. However, some recent analysis by the OECD, suggests that the UK, and by implication the West Midlands, performs particularly strongly in terms of increasing the value-added components in each stage of the export process. Import data is similarly compromised.

West Midlands Trade by Partner Region



Source: HMRC & WMEF

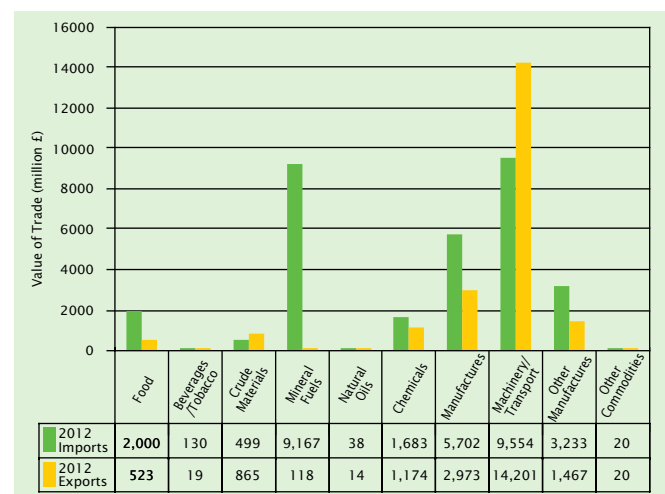
Nevertheless, the West Midlands was one of four UK regions that saw annual export value increase in 2012, with exports increasing over 6% to £21.4 billion, with the fourth quarter £5.8 billion recorded the highest figure on record. With EU trade deteriorating, this growth was attributed to compensating growth in trade to Asia, with exports to China increasing by over 40%, whilst exports to Russia also strengthened. However, imports to the

region increased almost 9% to £32 billion, the West Midlands now accounting for 10% of English imports. The top five export partners of the West Midlands are the USA, China, Germany, France and the Netherlands. While the Netherlands trade in all likelihood largely reflects transshipment of goods, those to Germany are primarily components supplies that are subsequently exported as finished goods.

Automotive & aerospace manufacturing key export drivers

The trade imbalance with the rest of Europe would appear to be due to the scale of energy imports from Norway, which is reflected in level of fuel imports. In terms of exports however, the specialisation of the West Midlands is evident with transport machinery especially robust, up 10%, and not just in terms of automotive products but also of aeronautic components. There is some strength in other manufactured products, chemicals and food products, although the performance of these sectors is not properly reflected in the gross data, as the West Midlands tends to import lower value inputs and export higher value outputs. This is reflected at a national level, in terms of industries, where the strongest growth was in road vehicles (exports to China up 52%), and in miscellaneous manufactures (exports to Switzerland increased 44% and to the USA by 24%). Overall, the West Midlands was the only English region to record an increase in exports across the majority of the 65 (SITC) industry classifications.

West Midlands Trade by SITC type



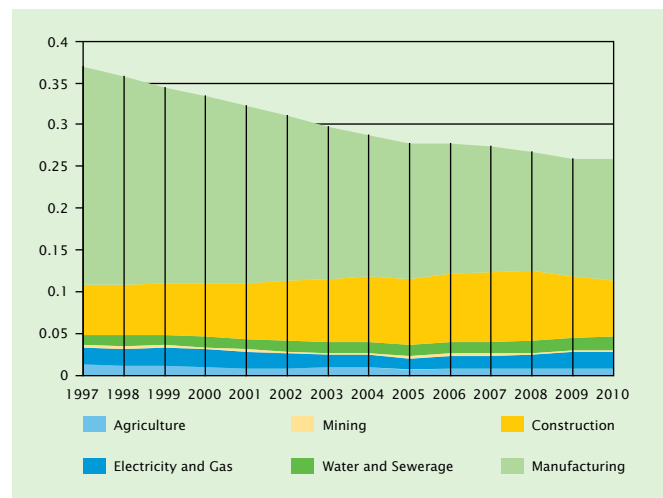
Source: HMRC & WMEF

Manufacturing core provides platform for growth

The strength of the West Midlands is in the production sector, complemented by the facilities provided in the services and logistics sectors. However, while accurate data is not readily available on the recent performance for specific industries, it is clear that capacity in the sector has been eroded. While this is in part due to outsourcing, which shifted some activities such as design from production to services, this cannot explain the overall deterioration. Most notably manufacturing has declined as a proportion of regional GVA from close to 30% in 1997 to 18% in 2010, although in absolute terms it eased from £17.18 billion to £16.64 billion. While construction ameliorated some of this decline up until 2008, since the recession this sector has also contracted sharply. Other sectors, including what used to be called utilities as well as mining and agriculture have not provided sufficient alternative stimulus. The stabilisation, if not limited recovery, post 2009, of the manufacturing sector does however give some grounds for cautious optimism. Though analysts have tended to focus on the dynamism in the financial services sector, recent studies have indicated that productivity growth in

manufacturing, over the period 1997-2007 was equivalent to 48%, in contrast to financial services productivity growth of 31%. Furthermore, since 2009, at a national level there has been significant growth in some of the broad manufacturing sectors: transport equipment (up 46%), machinery equipment (24%), with more moderate growth in electrical equipment (10%), food products (7%) and basic metal products (7%) – all sectors where the West Midlands enjoys comparative and competitive advantages.

West Midlands Manufacturing Share of GVA



Source: ONS & WMEF

The Birmingham Patrons Club

The Birmingham Patrons Club is a Conservative donors and patrons club, founded in 2011, based in Birmingham and covering the greater Birmingham area, with the Rt Hon Andrew Mitchell MP as our president. We aim to link policy-makers, parliamentarians, party activists and interested parties with the grassroots and help contribute to the political debate in Birmingham and Westminster. We hold events throughout the year for members and support the Birmingham Conservative Policy Forum.

To find out more about our activities, contact info@birminghampatrons.co.uk

You can also visit our website www.birminghampatrons.co.uk

Events

- 19th April – Mark Garnier MP dinner – Banking reform – KPMG
- 17th May – Sajid Javid dinner MP – Economic focus – KPMG
- June - Michael Fabricant MP dinner – 40/40 Campaign event – details tbc
- Summer Garden Party with our President, Andrew Mitchell – date tbc
- Early October – BPC welcome to new students with Birmingham University Conservative Future
- November 2013 – 2nd Anniversary dinner – Edgbaston Cricket Club – date tbc
- In addition to the above events there are monthly meetings of the Birmingham Policy Forum sponsored by the BPC – email info@birminghampatrons.co.uk for details.