

West Midlands: Quarterly Economic Review



**Birmingham
Patrons Club**



James Morris.

MP for Halesowen
and Rowley Regis.

“This first edition of a quarterly series, originated and published by the Birmingham Patrons Club, will help to brief West Midlands Conservative MPs on some of the economic issues that effect our region. As you can see below, the West Midlands has one of the most dynamic and highly skilled economies in the UK, and one of the most productive in the world. It will be in the regions like the West Midlands that Britain’s economic future, competing in an increasingly aggressive global market place, will be secured.

These quarterly papers will also help place in to context some of the challenges faced by a government looking to reduce a structural debt and face down our annual deficit and rebalance the tendency of some to talk down our economy by demonstrating some of the positive economic news we have to shout about”.

Marginal growth in 2012 & 2013

Capacity constraints limit growth potential

Continued resilience in regional economy

Local Government fiscal retrenchment takes
expenditure back to 2004–05 levels

Marginal growth in 2012 & 2013

In 2012 the UK overtook Brazil in GDP ranking, and this year is forecast to exceed France to become the fifth largest global economy, however this was due to relative currency shifts, rather than more robust economic performance. Indeed, weaker performance in the services sector during the final quarter, despite firmer performance in manufacturing and construction sectors, suggests the real GDP growth outturn will be in the region of 0.3-0.6% for 2012, and prospects for 2013 are indicative of similar growth prospects. As the Bank of England has reported this is largely a result of the gradual appreciation of sterling between mid-2011 and mid-2012. While the nominal exchange rate has remained below pre-crisis-levels, according to IMF data relative manufacturing unit labour costs are now only 10% below its level in 2007, and just 5% below its average in the decade prior to the depreciation. The data however, continues to give a mixed story, most notably whilst employment continues to rise, output continues to contract and raises questions regarding productivity performance.

Private Sector Employment & Output % change y-o-y



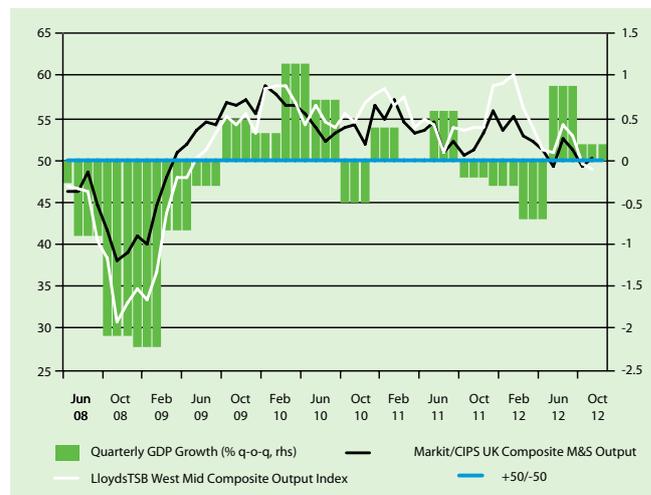
Source: WMEF & BoE

Capacity constraints limit growth potential

In the West Midlands the latest available data, the PMI for November recorded further marginal easing to 49.1, from 49.5 in the month previous (a reading below 50 indicates contraction, one above 50

expansion). Indeed, in marked contrast to performance since the first quarter of 2010, the second half of this year has seen WM output growth ease below that of the UK as a whole. While this is disappointing, it would appear to be in part due to reduce demand in the region's principal export markets, but also due to capacity constraints. In contrast to the national economy, where there is a significant output gap, that is the gap between the current level of output and the perceived potential output level, for the WM manufacturing sector it anecdotally appears to be operating close to maximum capacity. Having emerged from the recession, most enterprises were able to initially respond to increased foreign demand, stimulated by the depreciation of Sterling. To sustain this growth however, manufacturers need to fund capacity expansion, and it remains constrained access to investment and working capital that limits future growth potential.

WM Output Performance



Source: WMEF, Markit & ONS

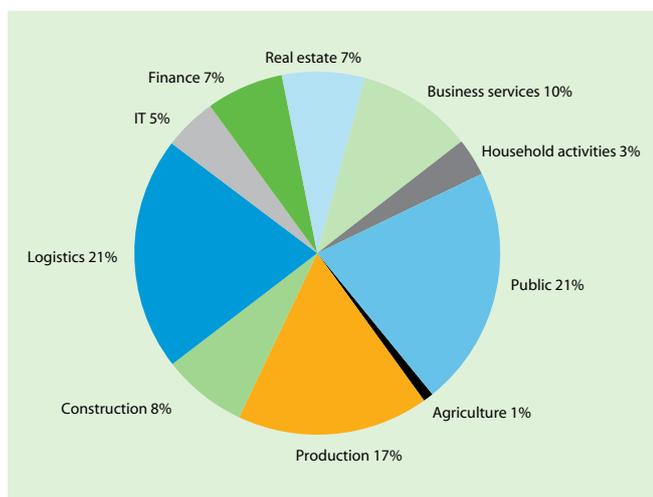
Continued resilience in regional economy

While the recorded weakening of performance was marginal, it was the lowest reading in 41 months, and despite increased new work orders and reduced backlogs. Private-sector enterprises indicated a slight improvement of incoming new business, attributed both to firmer client demand and earlier marketing campaigns bearing results. Furthermore, the services sector performed stronger than that

of manufacturing, although anecdotal evidence suggests that was concentrated in the business support and logistics sectors.

Notwithstanding the recent erosion of performance, the regions continues to be one of the more dynamic in both the UK, and the wider global economy. The economic structure is dominated by precision-based SME component manufacturers, which coupled with traditional craft-based industries feed in to globally-ranked manufacturing exporters. This dynamism is sustained by an impressive array of business support, legal and accountancy services as well as logistical facilities providing connectivity both nationally and internationally.

WM Economic Structure 2009 GVA



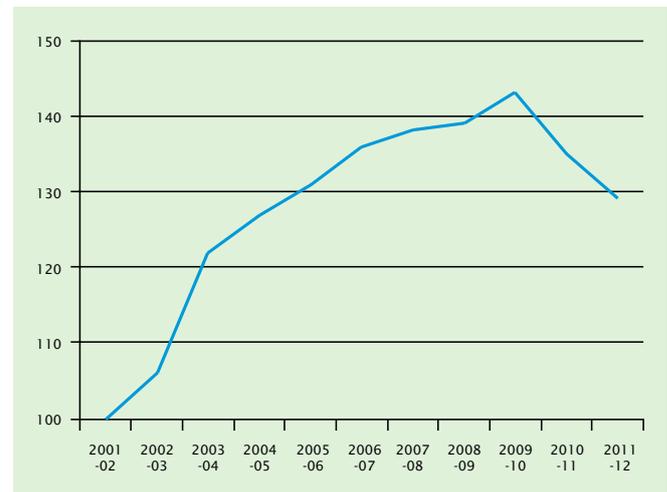
Source: WMEF & ONS

Local Government fiscal retrenchment takes expenditure back to 2004-05 levels

While the growth in the private sector has provided labour demand that has partially offset the reduction in public-sector employment, there has been considerable debate over the optimum pace of rebalancing between the public and private spheres. The Institute of Fiscal Studies suggests that to put the reduction of local government spending over the last two years into context, it is useful to consider how local government spending has evolved over recent years. Local government net current service spending increased relatively rapidly between 2001-02 and 2006-07 (by over 36% in real terms), before growing more slowly. Spending fell in

2010–11, but is forecast to remain some 29% above its 2001–02 level by 2011–12 (approximately the level of spending in 2004-05). This pattern, although less pronounced, is also found for UK public sector current service spending.

English local government Net current service expenditure 2001–02=100 (ex. Education)



source: IFS

UK public sector current service expenditure is projected to fall in real terms over the period 2012–13 to 2016–17. The 2010 Spending Review sets out significant shifts for the three years from 2012–13 to 2014–15 to central government grants that fund English local government expenditure. Cumulatively, the rate of retrenchment of local government expenditure is expected to exceed that the total cumulative rate of UK public sector current service spending as a whole to 2014–15.

Furthermore, it is likely that at least some of the cuts to overall current service spending planned for 2015–16 and 2016–17 will take the form of reduction to local government current service spending. The table below shows net current service expenditure for each service area in 2001–02 and 2009–10 and allows comparison of the average growth rate (in real terms) over that period with the retrenchment planned between 2009–10 and 2011–12. Total current service expenditure (excluding education) increased at an average annual rate of 4.5% per year in real terms in the eight years to 2009–10, with most of this increase concentrated during the early part of the period. It is planned to be reduce by an average 4.8% a year in real terms between 2009–10 and 2011–12.

Local government spending (2011–12 prices), by function

Function	Spending (£m) 2001-02	Spending (£m) 2009-10	Spending (£m) 2011-12	Average annual real spending change	
				2001-02 to 2009-10	2009-10 to 2011-12
Social care	14,713	22,090	21,201	5.20%	-2.00%
Police services	10,160	12,669	11,840	2.80%	-3.30%
Transport	3,920	6,893	5,602	7.30%	-9.90%
Environment & refuse	2,756	4,167	4,239	5.30%	0.90%
Central & other services	3,766	3,834	3,512	0.20%	-4.30%
Housing services	1,002	2,876	2,328	14.10%	-10.00%
Culture & leisure (ex. libraries)	2,250	2,642	2,200	2.00%	-8.70%
Planning & development	1,421	2,434	1,398	7.00%	-24.20%
Fire services	2,065	2,294	2,224	1.30%	-1.50%
Regulation & safety	922	1,427	1,100	5.60%	-12.20%
Libraries	904	1,009	859	1.40%	-7.70%
Total (ex. education)	43,879	62,336	56,503	4.50%	-4.80%

source: IFS

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

11th January 2013

Sajid Javid Dinner event, hosted by KPMG

25th January 2013

Birmingham Conservative Policy Forum debate on Europe, Old Joint Stock

28th February 2013

Patrick McLoughlin Dinner event, venue in central Birmingham

March 2013

House of Lords Luncheon, details tbc

19th April 2013

Mark Garnier Dinner event, hosted by KPMG

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