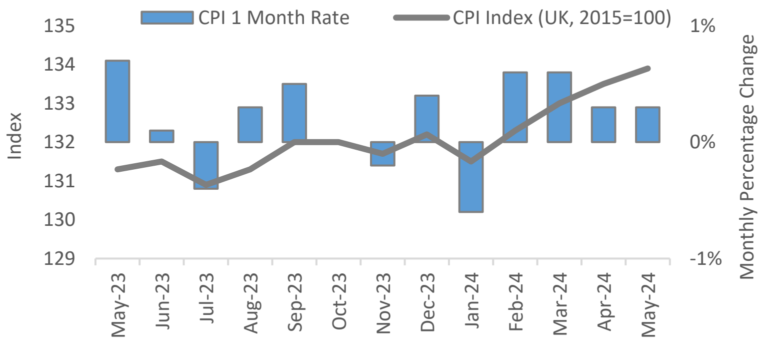
Sandwell Monthly Economic Insights, June 2024

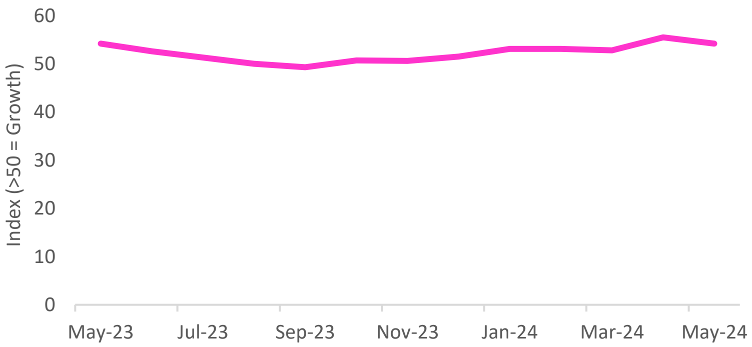
Inflation has finally reached the Bank of England's target of 2.0%, yet the Bank have held the Interest Rate at 5.25%. Business confidence in the West Midlands has decreased, and start-up rates have sharply declined, yet a surprise fall in insolvencies and increased future activity may signal economic improvement. Other recent data releases – on goods exports, emissions, salaries and productivity show change in a positive direction – giving some optimism in Sandwell, while others like FDI and claimants show major challenges remain locally and wider.

Monthly Monitoring Indicators

UK Consumer Price Index (CPI)

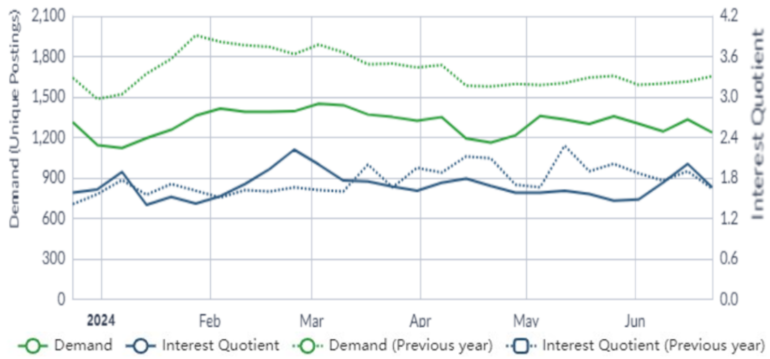


West Midlands Business Activity Index

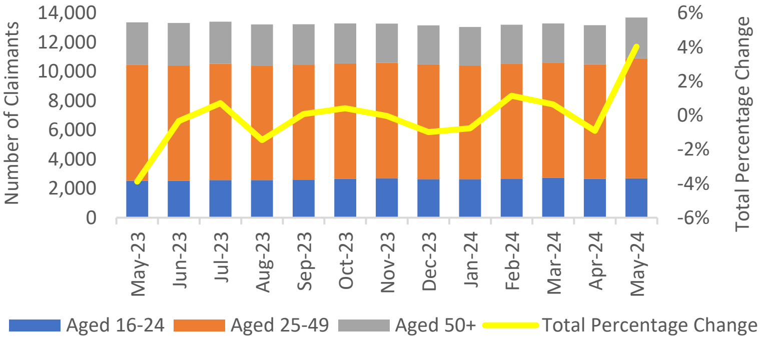


- Utilising a base year of 2015, UK **CPI was 133.9** in May 2024 – a **monthly rise of 0.3%,** an annual rise of 2.0%.
- The West Midlands **Business Activity Index decreased** from 55.5 in April 2024 to **54.2 in May 2024.**

Sandwell Job Demand and Interest Trend

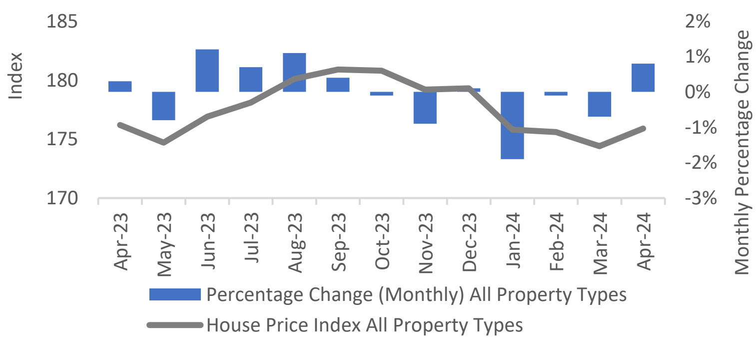


Sandwell Claimants

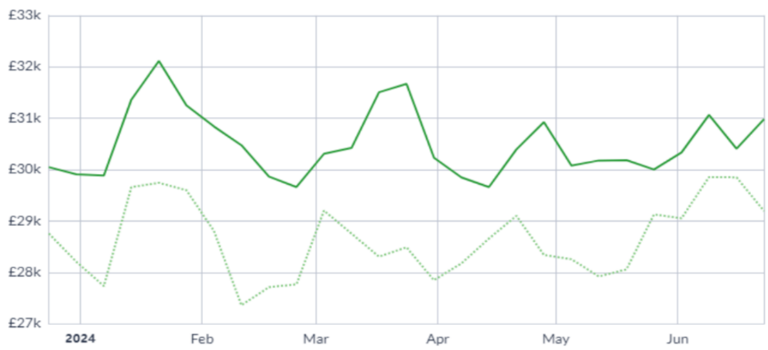


- In the past month, on Adzuna: **2,877 (average) job postings**, **-23.6% year on year.** 1.6 (high) Interest Quotient.
- In total, **13,695 claimants in May 2024**; **+150 since April 2024**, (+330 since May '23, +2,915 since Mar '20).

Sandwell House Price Index



Sandwell Salary Trend



- Sandwell's **House Price Index was 175.9 in April 2024**. The Monthly **Index increased by 0.8%.**
- In the past month, on Adzuna: **Median Salary of £30,304**, **+3.5% year on year.**

Other Recent Data Releases

- The Office for National Statistics (ONS) have released regional and subregional labour productivity data, now up to 2022. Analysis for Sandwell shows:
  - **Smoothed GVA per hour worked: £32.00** (+0.9%, BC +1.9%, UK +1.5% since 2021). Sandwell shortfall of £7.70 to UK (£39.70).
  - **Smoothed GVA per job filled £51,526** (+0.9%, BC +2.3%, UK +2.2% since 2021). Sandwell shortfall of £10,203 to UK (£61,729).

- Department for Energy Security and Net Zero and Department for Business, Energy & Industrial Strategy have released Greenhouse gas emissions for 2022, Carbon dioxide emissions analysis for Sandwell shows:
  - Produced **1,247 Kt $CO2_e$ emissions** (**-6.9%**, BC: -7.3%, National: -6.1% since 2021).

- Department for Business & Trade (DBT) have released Inward Investment Results for 2023-24, results include (Black Country data is currently unavailable):
  - **133 FDI projects into the West Midlands region**: **-26.5%** (-48), UK: -6.0% since 2022-23.
  - FDI projects delivered **7,581 new jobs in the West Midlands region**, a decrease of **8.1%** (-671), UK-10.8% since 2022-23.
    - WMCA: 70 Single Site FDI Projects creating 6,082 new jobs.

- HMRC UK Regional Trade in Goods Statistics reports that for the West Midlands in the year ending Q1 2024:
  - **Exported £35.4bn** worth of goods, an annual increase of £3.8bn (**+11.9%**, UK: -5.9%).
  - **Imported £42.1bn** worth of goods, an annual decrease of £616m (**-1.4%**, UK: -8.7%).

Economy and Business Intelligence

THEME	KEY INSIGHTS
Economic Outlook	• With a General Election imminent, the focus is firmly on the UK economy. The economy has struggled in recent years under the pressures of economic shocks such as the Covid-19 pandemic and Ukraine war. **GDP growth came in at only 0.1% over 2023, with the dual headwinds of high inflation and increased interest rates weighing on economic activity.** • The UK economy has largely flatlined following the initial stages of post-pandemic recovery. Recent data from the Office for National Statistics (ONS) reveals **monthly real GDP is estimated to have shown no growth in April 2024, following growth of 0.4% in March 2024.** Real gross domestic product is estimated to have grown by 0.7% in the three months to April 2024 compared with the three months to January 2024. • The British Chambers of Commerce forecast has **upgraded growth expectations for 2024 to 0.8%, rising to 1% in 2025**. But the overall profile remains flat, as a **poor outlook for exports acts as a drag anchor and high interest rates continue to limit investment.** This comes as BCC surveys continue to show most SMEs are still not increasing their investment. • The latest CBI economic forecast points to **encouraging signs that the UK economy is on track to gradually pick up steam over 2024 and 2025**. UK GDP growth is projected to rise to 1.0% in 2024, momentum will continue with GDP growth in 2025 anticipated to reach 1.9%. • The latest NatWest Purchasing Managers Index (PMI) reports **West Midlands business activity decreased from 55.5 in April 2024 to 54.2 in May 2024, despite falling from a 25-month high this is the eight consecutive month of business growth**. The UK Business Activity Index decreased from 54.1 in April 2024 to 53.0 in May 2024. • **The West Midlands Future Business Activity Index increased from 78.7 in April 2024 to 80.5 in May 2024 – the highest reading since May 2021.** Optimism was linked to the hope of improving economic conditions, tourism, marketing efforts and new business.
Trading Environment	• The Consumer Prices Index including owner occupiers' housing costs (CPIH) **rose by 2.8% in the 12 months to May 2024, down from 3.0% in the 12 months to April. The CPI rose by 2.0% in the 12 months to May 2024, down from 2.3% in the 12 months to April**. • While underlying price pressures have moderated somewhat, they remain uncomfortably high, with services inflation running at 5.7%. The Bank will need to see a continued fall in services inflation before it can be confident that headline inflation will stay sustainably at its 2% target in the medium term. **A slower pace of pay rises may lead to weakening services inflation, helped by a loosening labour market.** • **Interest rates have been held at 5.25% and remain at their highest level for 16 years.** The Bank of England had been widely expected to keep rates unchanged despite a further slowdown in inflation. It is the seventh time in a row that interest rates have been left unchanged. • While CPI inflation should dip below the Bank of England's 2% target this year, it is **expected to rise again to 2.3% across Q4 2024**. It is also forecast to be slightly above target in Q4 2025 at 2.1% and 2.2% in Q4 2026.

THEME	KEY INSIGHTS
	• **Energy prices continue to present a risk for the UK inflation outlook. Wholesale gas prices have risen by more than 30% since the start of April**, and if prices remain at this level into the autumn, household energy bills could potentially rise again in October. Nevertheless, the overall outlook for inflation remains broadly positive. • NIESR's measure of **underlying inflation**, which excludes 5% of the highest and lowest price changes to eliminate volatility and separate the signal from the 'noise', **fell to 2.0 per cent, reaching this rate for the first time in nearly three years**. This indicates that the fall in headline inflation is not driven by extreme price changes (e.g. energy price drops) but rather, reflects the average weighted price change in the basket – which is a good development. • New analysis from Grant Thornton finds that **labour productivity of UK mid-sized businesses, when measured as average annual revenue per employee, has surpassed that of larger and smaller companies, and the UK average**, for the past six years. However, they are not immune to the UK productivity drag, with productivity issues currently impacting almost every aspect of their business. **A lack of funding to invest and increasing levels of staff burnout are currently the most significant constraints to productivity.** • Analysis from KPMG reveals that **mid-sized UK businesses are in the best position to drive economic growth, with turnover increasing by 13.3% between 2017-2022**. Financial services companies, alongside those in wholesale and retail trade, information and communication and administrative and support services, made up the majority (62%) of firms in the top 1% of turnover growth from 2017 – 2022. **5.9% of top percentile growth firms were in the West Midlands**, 49.4% were in Greater London. • New ONS figures for mergers and acquisitions show the first quarter of the year has seen UK M&A activity perform at similar levels to the previous quarter showing there is still cautious confidence in the market. PwC comment that **macroeconomic conditions continue to stabilise making the conditions for deals more favourable.** This is evident in the volume and value overall, but we are still some way off the record-breaking levels we saw in 2021 and the level of activity we were seeing pre-pandemic. **Some sectors are proving particularly resilient however, such as energy and technology.** • However, CBRE reveal **transaction activity in the UK real estate investment market has been muted over the last 18 months, with investors challenged by higher interest rates and falling capital values.** At £43bn, total investment in 2023 was at its second lowest level for a decade. The lowest level was recorded in 2020 during the pandemic. While the amount purchased by domestic investors fell 16% year-on-year, foreign investor purchases declined by a larger 44%. • **Challenging economic conditions are beginning to impact the financial performance of social enterprises**, but they are still making significant contributions to the UK economy. 50% of social enterprises increased their turnover in the past year, compared to 65% in 2023. 30% of social enterprises made a loss in the past year - an increase from 26% in 2023. • A recent survey conducted by the Federation of Small Businesses (FSB) highlights **significant concerns among small business owners regarding energy costs** in the lead-up to the general election. **More than half (53%) of respondents expressed worries about rising energy costs over the next five years. This will be a worry to Sandwell businesses, particularly those working in energy intensive industries.** • **Small firms say the "supply chain could crumble"** unless the next Government prioritises international trade. Figures from the Federation of Small Businesses (FSB) show that **one in five (22%) small firms are worried about the costs of exports and imports over the next five years.** The research also shows how one in four (27%) would like to see a reduction in the cost and time it takes to import and export. • **There was a sharp decline in the number of businesses set up in the Midlands last month, according to insolvency and restructuring trade body R3.** • Monthly analysis of regional start-up data from business intelligence provider Creditsafe shows that there were **4,951 businesses set up in the West Midlands in May, a 41.73% decrease compared to the 8,497 new businesses registered in April. The May figure is also 23.36% lower than the 6,460 start-ups established 12 months previously in May 2023**. R3 Midlands chair explains: "The sudden and steep decline in entrepreneurship in the region is **reflected across the whole of the UK and highlights the effect that continuing economic challenges and uncertainty have on entrepreneurs as they seek to minimise their exposure.** The political uncertainty caused by the impending General Election, as well as longer term economic challenges, such as inflation, contracting economies and spiralling fuel, energy and wage costs, are all now taking effect. • However more positively **a surprise monthly fall in the number of company insolvencies in England and Wales could indicate that the tide is turning for the local economy, with an increase in business growth and prospects over coming months.** Corporate insolvencies decreased by 6.4% in May 2024 to a total of 2,006 compared to the previous month's total of 2,144, and by 21.2% against May 2023's figure of 2,547.

THEME	KEY INSIGHTS
	• The West Midlands Combined Authority has approved a **delivery plan for an Investment Zone aimed at stimulating economic growth and creating thousands of new jobs** through targeted incentives and infrastructure investments. Spanning the entire West Midlands region, the Investment Zone will concentrate on three principal sites: the **Coventry-Warwick Gigapark, the Birmingham Knowledge Quarter and the Wolverhampton Green Innovation Corridor**. Each site will benefit from financial incentives and infrastructure investments designed to attract businesses and support their expansion.
Labour Market	• There are further signs that the labour market is cooling as **vacancies continue to fall and unemployment ticks up.** However, this has yet to translate into any noticeable weakening of growth in real wages. This would suggest that competition for skills is still strong, and the substantial cost pressures of wages and interest rates will continue for longer. **The rise in the number of economically inactive is also a cause for concern.** • Payrolled employees in the UK decreased by 36,000 (0.1%) between March and April 2024, but rose by 201,000 (0.7%) between April 2023 and April 2024. The early estimate of payrolled employees for **May 2024 decreased by 3,000 (0.0%) on the month but increased by 167,000 (0.6%) on the year,** to 30.3 million. The latest (provisional) figures show that there was a monthly small rise in payrolled employees for the WM 7 Met. area (+0.01%, UK -0.01%). There were over 1.25m payrolled employees in the WM 7 Met. area in May 2024. When compared to May 2023 payrolled employees were 1.0% higher (+12,204 in the WM 7 Met. area – above the UK growth of 0.6%). • In March to May 2024, the estimated number of vacancies in the UK decreased by 12,000 on the quarter to 904,000. Vacancies decreased on the quarter for the 23rd consecutive period but are still above pre-coronavirus (COVID-19) pandemic levels. • Annual growth in employees' average regular earnings (excluding bonuses) in Great Britain was **6.0% in February to April 2024, and annual growth in total earnings (including bonuses) was 5.9%.** • PwC research reveals the **mean gender pay gap has seen a decrease of 0.4% in the past year, from 12.2% in 2022/23 to 11.8% in 2023/24**, a more modest reduction than the previous year. Almost 60% of organisations reported decreases in their pay gaps this year, albeit by modest amounts. Despite the fall, the overall gender pay gap has only reduced by 1.6% since 2017, **meaning gender pay parity remains out of sight for a 21-year-old woman entering the workforce today.** • **Permanent placements rose across the Midlands for the first time since November 2023** last month. The latest KPMG and REC UK Report on Jobs survey, compiled by S&P Global, **recorded the only rise experienced across the four monitored English regions. Temp billings also grew** in the fifth month of the year. Vacancies for permanent roles rose at a marginal but slightly quicker rate but the increase in temporary job openings lost momentum. According to the survey, **an increase in demand for staff fuelled a further rise in starting salaries and temp pay rates in May.** • FutureDotNow has worked with Lloyds Bank and the data found in the 2023 Consumer Digital Index to provide sector-specific analysis and support targeted action. **54% of UK labour force (c.21.7m people) cannot complete all twenty tasks that industry and government agree are essential for work.** However, about half of these (c.11m) are just shy of full proficiency, confident with between seventeen and nineteen of the essential tasks. This gap is seen in varying levels in every sector of UK industry. Retail is the least proficient sector, with 65% unable to do all 20 essential tasks. • "Counterproductive" government reforms to funding have led **apprenticeship numbers in England to plummet by 36% for young people and by more than a quarter in Tees Valley, Liverpool City Region and the West Midlands**, new analysis by the Leaning and Work Institute has found. • ICAEW is calling for changes to the education system that integrate essential soft skills into the curriculum and better provide students with the skills they need to succeed in business. • This comes amid a new report which suggests up to **seven million workers may lack Essential Employment Skills (EES) to do their jobs by 2035. This is largely because most workers across the labour market will need to utilise EES more intensively in their jobs in the future.** Almost 90 per cent of the 2.2 million new jobs that will be created in England between 2020 and 2035 will be professional occupations, such as scientists and engineers. **These roles will require higher levels of proficiency in these EES. Unless workers' supply of these skills rises in response, skills gaps are likely to become more prevalent and more problematic.** • **62% of desk based workers have used social media or online platforms to learn new workplace skills, with 20% doing so regularly**, according to new research by KPMG UK, which suggests employers must develop more interactive ways of delivering their own in-house learning. 61% of all workers want training in generative AI, with more than half of 18–24-year-olds already using generative AI to learn skills for the workplace. • A large-scale survey which examines UK employee engagement has found that **a third of people are distracted at work due to their personal finances; they were also more likely to report unmanageable job stress.** This will be an issue to Midland's businesses, given the pressing cost of living crisis.

The Economic Intelligence Unit

Economy and Business Intelligence – By Sector

SECTOR	KEY INSIGHTS
Manufacturing and Engineering	• **Britain's manufacturers are seeing a boost in growth prospects as output and orders pick up**, with the sector forecast to outpace the economy overall this year, according to Make UK's Q2 Manufacturing Outlook survey. It also finds that business confidence has risen to equal its highest level in the last decade, as companies look to finally emerge from a two-year slump following the post-Coronavirus rebound. West Midlands manufacturing confidence is at 7.0. • Manufacturer's expectations for average selling price inflation accelerated in June (+20%, from +15% in May), well above the long-run average of 7% according to CBI's Industrial Trends Survey. The survey also shows that output is expected to rise modestly in the three months to September (+13%). • Meanwhile a leading manufacturing boss is calling on the industry to **take control of its own destiny and to stop waiting on government to care about the sector.**

Retail, Hospitality and Tourism	• **Retail sales volumes (quantity bought) rose by 2.9% in May 2024, following a fall of 1.8% in April 2024 (revised from a fall of 2.3%). Sales volumes rose across most sectors,** with clothing retailers and furniture stores rebounding following poor weather in April. More broadly, sales volumes rose by 1.0% in the three months to May 2024 when compared with the previous three months. However, they fell by 0.2% when compared with the three months to May 2023.
	• CBRE research reveals the extent to which it has been a difficult period for pub and restaurant operators. **Rising household expenses has led to consumer cutbacks, with a 4% fall in consumer spending on restaurants, pubs, and alcoholic beverages over the past 18 months.** This has been coupled with the higher operating costs, in particular, energy and staff costs, which are in total 14% higher than pre-pandemic. **The resulting pressure on profit margins has led to the closure of over 500 pubs in 2023.**
	• **The West Midlands lost more pubs than nearly every other region during the first quarter of 2024**, research has revealed. This has led to West Midlands pub groups and breweries among those demanding immediate cuts in beer duty.
	• **England and Scotland's Euro 2024 exploits are likely to net retailers a vital spending boost.** After weak retail sales growth in May of just 0.7%, a new poll of 2,000 UK shoppers suggests that the nations' love of football will translate into additional purchases. Groceries and electronics were the big winners, as more than one-in-eight people plan to spend more on drinks and snacks, while over one-in-twenty plan to buy new screens to watch the game on. The polling found:
	  ◦ **13% of people plan to spend more** on groceries, beer, wine & spirits, and takeaways to enjoy whilst watching the Euros.
	  ◦ 9% plan to host or attend gatherings with family and friends to watch matches.
	  ◦ **6% of shoppers expect to buy a new TV or electronic device to watch and keep up with the Euros.**
	  ◦ 4% plan to purchase official merchandise**.**

Construction	• **Monthly construction output is estimated to have decreased 1.4% in volume terms in April 2024, with the monthly value in level terms at £14,940 million.** The fall in monthly output came from decreases in both new work (1.9% fall), and repair and maintenance (0.8% fall); anecdotal evidence from survey returns suggests effects of heavy rainfall and strong winds affected output in April.
Tech / Digital	• **A £1m pitching competition for West Midlands-based founders has been launched to uncover promising new tech startups in the region**. The One to Win competition was launched at London Tech Week by TechWM. • The British Chambers of Commerce has launched its Digital Revolution report outlining a framework to create a connected, dynamic and secure future for UK businesses. • **The EU will launch its AI Office, responsible for tasks such as ensuring the coherent implementation of the AI Act**, from 16 June. The AI Office will directly enforce the rules for general-purpose AI models – foundational AI models that can be used for a wide range of purposes, some of which may be unknown to the developer, such as OpenAI's GPT-4. • **The UK is number one in Europe for AI investment** according to a report from Beauhurst. • **The UK remains Europe's leading destination for Foreign Direct Investment in Digital Technology, securing over a quarter (27%)** of all European digital tech projects last year, according to figures from EY Attractiveness Survey.
Transport Technologies and Logistics	• New research from PwC UK finds that nearly **half of consumers would be interested in a subscription service for their next vehicle.** Demand for subscription offerings largely driven by younger customers, particularly for premium and luxury brands. Key factors for current and aspiring motorists considering subscription include **access to latest cars and technology, budget-friendly running costs and driver convenience.** • **The West Midlands has ranked among the most eco-minded when it comes to car choices as the region tops the list for electric vehicle registrations,** ranking in the top 5 regions for the number of plug in cars registered.

SECTOR	KEY INSIGHTS
	• **Bus fares in the West Midlands are set to rise by 6% at the end of June 2024, a**s operators grapple with escalating expenses while striving to maintain essential public transport services.

NEW INVESTMENT, DEALS AND OPPORTUNITIES			
COMPANY	**LOCATION**	**SECTOR**	**DETAIL**
TopLabs Prosthetics	Oldbury	Healthcare	TopLabs Prosthetics, a dental prosthetics manufacturer, has used a £146,000 commercial mortgage from HSBC UK to acquire a 45,000 sq. ft laboratory in **Oldbury**. The acquisition will allow TopLabs Prosthetics to refurbish the site and adjust the laboratory to its specific requirements, creating space for an additional six new technicians to join the existing team of 30 staff.
Superior Care	Tividale	Social Care	Superior Care has expanded with the multimillion-pound acquisition of a facility. Located in **Tividale**, Warrens Hall has 40 bedrooms and caters to elderly residents as well as younger individuals requiring specialised care and attention.
RMB Commercials	Oldbury	Automotive	Administrators have sold a **West Midlands**-based truck repair business after a staff exodus saw it on the verge of collapse. Begbies Traynor were appointed as joint administrators of **Oldbury** truck repair business RMB Commercials. A sale of RMB Commercials meant that all the company's 45 employees were subject to TUPE and there were no redundancies.