



## Regional Monitor September 2018

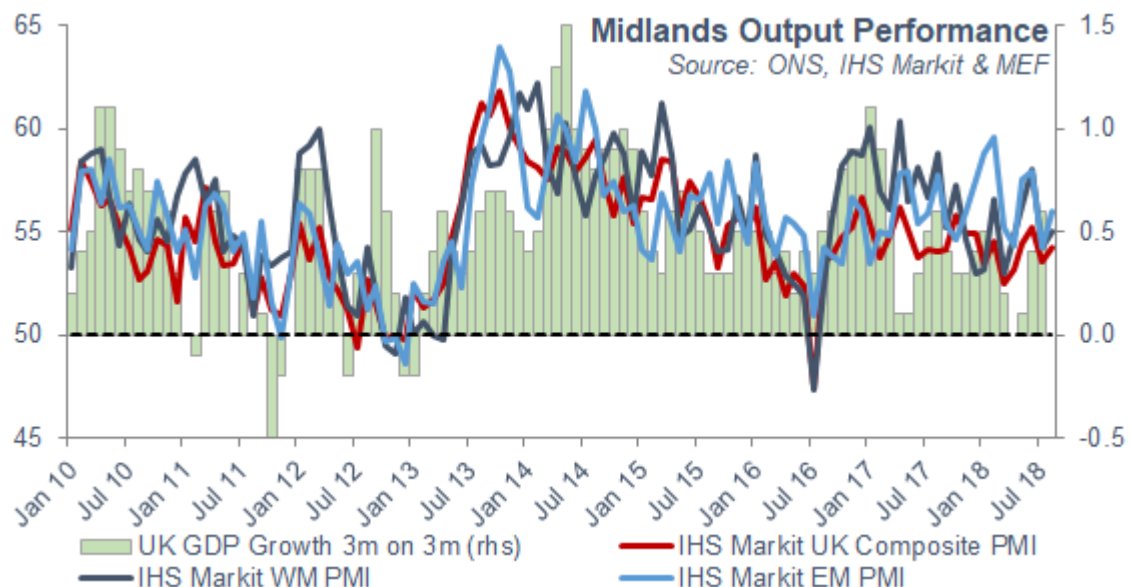
### Latest Global Trends, Regional PMI, Output Data, Trade Conditions & Brexit Update

**Days since Article 50 activation: 533**

**Conclusion of Negotiations October 2018?**

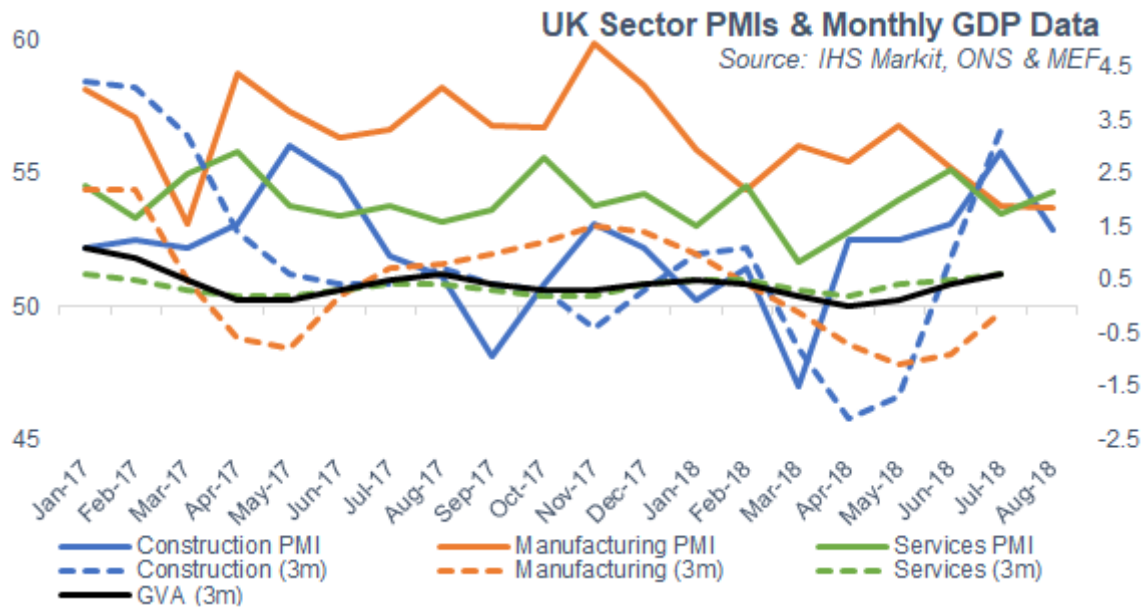
- Activity in the Midlands accelerated in August, with the EM and WM recording 56.0 and 55.0, both from 54.2 previously.
- The UK composite PMI was up from 53.5 in July to 54.2 in August.
- Labour market pressures continue to be tight, according to PMI-based data, with a more mixed picture in the regional employment statistics.
- Price pressures continue to be more acute in the Midlands than in the UK overall.
- New order growth softened in the WM, but accelerated in the EM.
- Negotiations heading to an interim conclusion?

Activity in the Midlands accelerated in August, with the EM PMI increasing to 56, from 54.2 previously, and the WM recording 55, up from 54.2 in July. The overall UK PMI was up from 53.5 in July to 54.2 in August, meaning that growth in the Midlands continues to outpace that in the country overall.

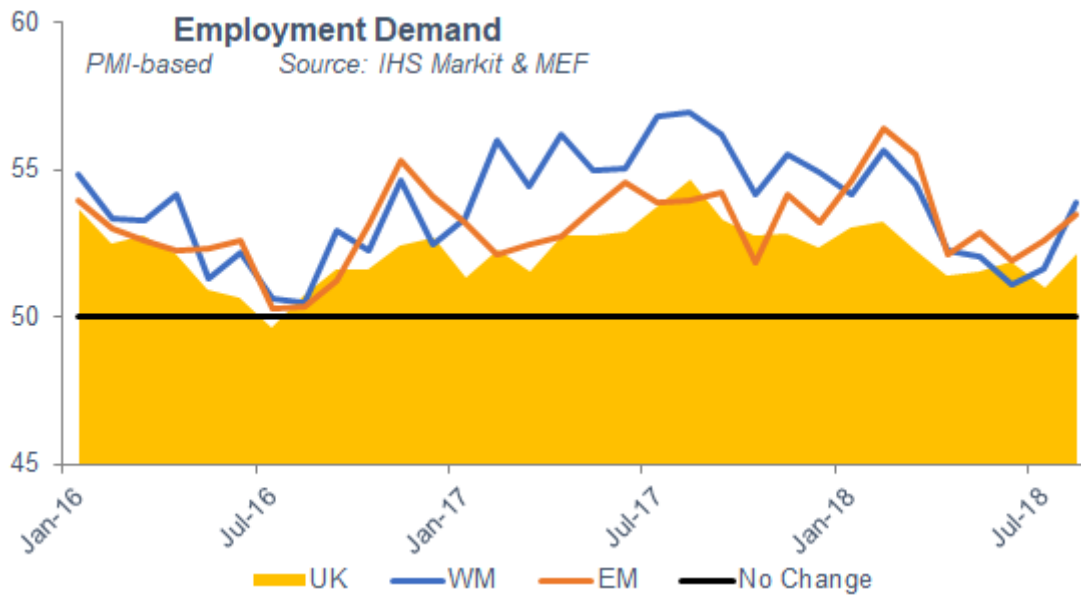




This acceleration of growth would seem to be at odds with some of the national sector PMIs, which showed softening in manufacturing and construction, although there was a slight uptick in the services sector. The contrast in growth is due to the balance of services and manufacturers across the different regions of the UK.

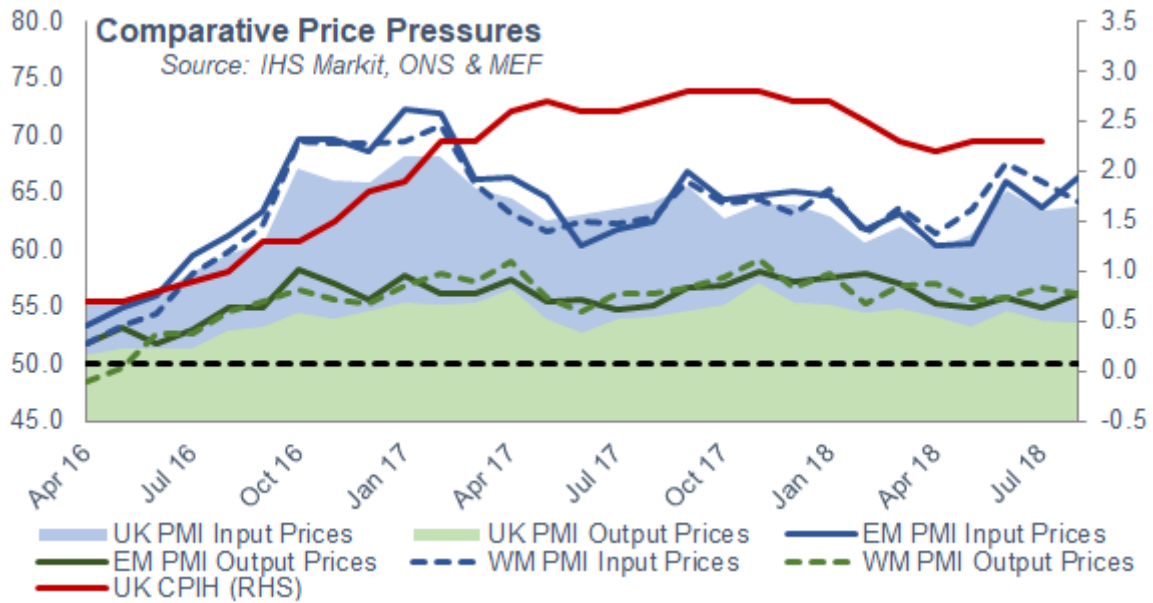


This reflects the trends seen in the monthly GDP estimates for the three months to July 2018, which showed expansion in services and construction of 0.6% and 3.3% respectively, with the services sector benefiting from growth in wholesale and retail, as well as architectural and engineering activities showing robust growth in July. The production sector grew -0.5% in the three months to July, with manufacturing growth -0.1% - heavily influenced by the volatile pharmaceuticals sector. However, eight out of the thirteen manufacturing industries showed positive growth in July. Overall, there was aggregate growth of 0.6% in the three months to July – the highest three-month growth figure since August 2017 - with growth of 0.3% in July.

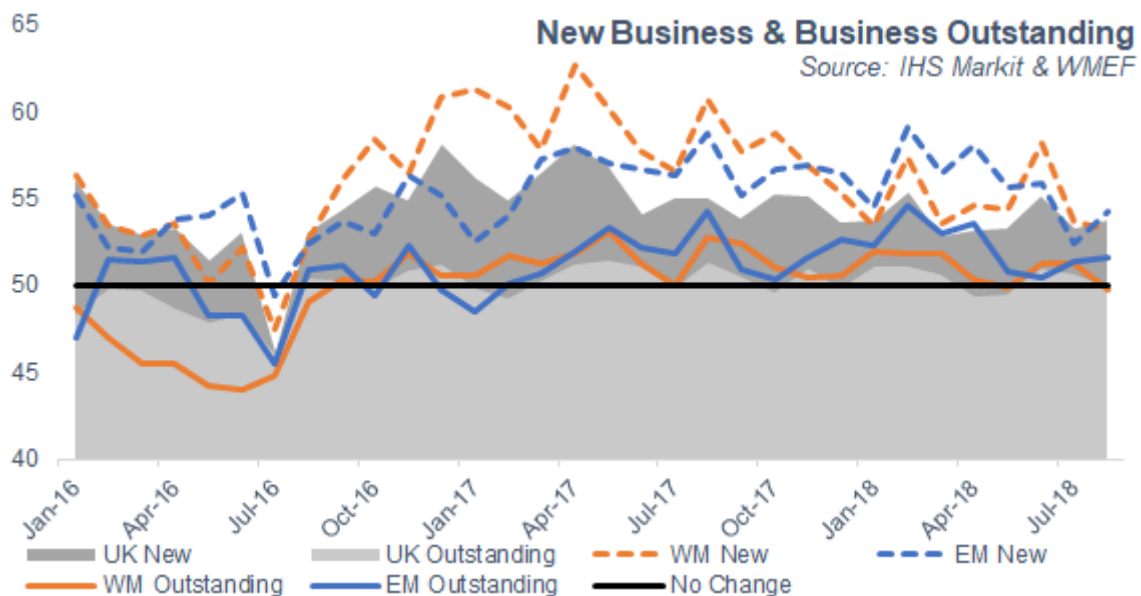


In terms of employment, there was an acceleration in job creation across the region, with firms hiring to accommodate increasing demand, and rates of job creation remaining above those for the UK overall. In the WM, there was a sectoral divide with regards to this, with manufacturers increasing payrolls, but services firms continuing to shed jobs.

Regarding the official regional employment statistics, the WM saw an increase in employment, up 0.8% to 2.1% in the three months to July, the joint second highest increase after Wales, and one of only three regions to see an increase. On the opposite scale, the EM, along with the South East, followed behind the North East with a 0.8% decrease in the employment rate over the same period. In terms of unemployment, the WM saw a fall of 0.5% in unemployment, although the region still has the second highest unemployment rate after London at 4.6%. In the EM, there was a slight increase in unemployment of 0.1%, although the overall rate remains broadly in line with UK levels, at 4.1% for the EM compared to 4.0% for the UK.



Input price inflation continued to put pressure on costs for businesses in August, with manufacturers facing higher pressures than services firms across the region. However, although inflation rates abated somewhat in the WM, in the EM they reached an 11-month high. In particular, businesses noted the increased costs of importing raw materials such as steel, fuels and food – attributed to unfavourable exchange rate movements – as well as increase labour costs. These increased costs were passed onto customers, with output prices in the Midlands rising faster than in the UK overall, in the manufacturing sector more than in the services sector.



Both the EM and the WM recorded increases in new business in August. Although the rate of increase softened in the WM - especially among manufacturers - with



businesses citing economic uncertainty as a factor in slowing order book volumes; in the EM new business rose faster than in the UK overall. In the EM, activity outstripped new orders leading to an increase in business outstanding, as well as shortages of materials causing an increase work in hand. In the WM, service sector firms reported that slower new order growth relieved capacity constraints, while manufacturers had greater work in hand, leading to a minor aggregate fall in backlogs.

## **Global Trends & Brexit Update**

With the BoE issuing warnings of the potential severe dislocation arising from a “No Deal” Brexit, and the government publishing a further tranche of documents outlining the potential impact of such an outcome, pressure is intensifying to reach some form of accommodation.

Following apparent interventions from the German and French authorities, there now appears a potential solution, or rather extension to the negotiations, to overcome the impasse between the current stances of the British and European negotiating teams. This would seem to involve a brief heads of terms agreement that will enable an orderly Brexit following a transition period up to 2020 during which a mutually acceptable trade agreement would be finalised. Such an approach is expected to be discussed informally with EU leaders later this month and the approved by EU Council of Ministers summit scheduled for 18<sup>th</sup> October (although there is talk of a November date). Seemingly intractable issues such as the border with the Republic of Ireland is expected to be deferred until the transition period and until a face-saving option is developed that avoids violating the territorial integrity of the United Kingdom and assuages the Republic’s real concerns over the negative impacts of Brexit. Not only will any border solution have to comply with EU objectives and be acceptable to the British Parliament but have to ensure that it does not fuel separatist sentiment in Scotland and perhaps (unlikely though it might appear) Wales.

Without such a favourable conclusion to the Article 50 process (on March 29<sup>th</sup>), the short-term prospects for economic growth would appear bleak. However, with a transition process in place, the economic outlook become much more benign, although prevailing global uncertainty will remain a factor.



Oil prices continued on their upward trajectory, with Brent Blend nearing US\$80 pb, although this was in part due to supply fears arising from the landfall of Hurricane Florence. Talks between China and the United States that could potentially resolve current trade disagreements helped calm markets, which also benefitted from the generally neutral stances adopted by monetary policy-makers.



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**Ends**

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**Notes to the Editor:**

**Birmingham City University: Centre for Brexit Studies**

The Centre for Brexit Studies (CBS) is an academic facility which supports and encourages the existing work on Brexit within Birmingham City University's schools and faculties. It promotes rigorous engagement with the multifaceted aspects of the "Leave" and "Remain" perspectives in order to enhance understanding of the consequences of withdrawing from the EU. Whilst CBS will have a national focus we will also specifically investigate the impact on Birmingham and the surrounding areas. The work of CBS is primarily undertaken by Birmingham City University staff and students, but we will provide collaborative opportunities with interested businesses, professional organisations and civil society. Our work will be accessible to the general public and we will hold conferences, workshops and seminars to disseminate knowledge and encourage discussion on Brexit. The Centre website will also reference member's publications on Brexit issues.

**Midlands Economic Forum:**

The Midlands Economic Forum is a neutral, independent forum bringing together representatives of the public, private and voluntary sectors to evaluate real trends in the local economy. Midlands Economic Forum is part of the West Midlands Economic Forum Group.

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